## Notes to the Financial Statements

**Bangladesh Bank:** As per BRPD Circular # 03, dated 21 April 2019,BRPD Circular # 01, dated 20 February 2018, BRPD Circular # 15, dated 27 September 2017,BRPD Circular # 08, dated 02 August 2015, BRPD Circular # 16, dated 18 November 2014,BRPD Circular # 05, dated 29 May 2013,BRPD Circular # 19, dated 27 December 2012,BRPD Circular # 14, dated 23 September 2012, and a general provision at 0.25% to 5% under different categories of unclassified loans (standard and SMA loans) has to be maintained regardless of objective evidence of impairment. Also provision for sub-standard loan, doubtful loans and bad losses, should be provided at 20%, 50% and 100% respectively for loans and advances depending on the duration of overdue. Again as per BRPD Circular # 10, dated 18 September 2007,BRPD Circular # 01, dated 03 January 2018,BRPD Circular # 07, dated 21 June 2018,and BRPD Circular # 13 dated 18 October 2018 a general provision at 1% should be provided for all off-balance sheet exposures except general provision against the LC for First Track Power Supply Projects, 'bills for collection' and 'guarantees' where the counter guarantees have been issued by Multilateral Development Bank (MDB)/International Bank having BB rating grade '1' equivalent outlined in the Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III). Such provision policies are not specifically in line with those prescribed by IFRS 9.

**v) Recognition of interest in suspense**
**IFRS:** Loans and advances to customers are generally classified at amortized cost as per IFRS 9: Financial Instruments and interest income is recognized by using the effective interest rate method to thegross carrying amount over the term of the loan. Once a loan subsequently become credit-impaired, the entity shall apply the effective interest rate to the amortized cost of these loans and advances.

**Bangladesh Bank:** As per BRPD circular # 14, dated 23 September 2012, once a loan is classified as impaired, interest on such loans are not allowed to be recognized as income, rather the corresponding amount needs to be credited to an interest in suspense account, which is presented as a liability in the balance sheet.

**vi) Other comprehensive income**
**IFRS:** As per IAS 1 Other Comprehensive Income (OCI) is a component of financial statements or the elements of OCI are to be included in a single other comprehensive income statement.

**Bangladesh Bank:** Bangladesh Bank has issued templates for financial statements which will strictly be followed by all banks. The templates of financial statements issued by Bangladesh Bank neither include other Comprehensive Income nor are the elements of Other Comprehensive Income allowed to be included in a single Other Comprehensive Income (OCI) Statement. However, elements of OCI, if any, are shown in the statement of changes in equity.

**vii) Financial instruments - presentation and disclosure**
In several cases Bangladesh Bank guidelines categories, recognize, measure and present financial instruments differently from those prescribed in IFRS 9: Financial Instruments. As such full disclosure and presentation requirements of "IFRS7: Financial Instrument-Disclosures" and "IAS32: Financial Instruments-Presentation" cannot be made in the accounts.

**viii) Repo and reverse repo transactions**
**IFRS:**As per IFRS 9: Financial Instruments,When an entity sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (REPO), the arrangement is treated as a loan and the underlying asset continues to be recognized at amortized cost in the entity's financial statements. The difference between selling price and repurchase price will be treated as interest expense. The same rule applies to the opposite side of the transaction (reverse repo).

**Bangladesh Bank:** As per BRPD guidelines, when a bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (REPO or stock lending), the arrangement is accounted for as normal sales transactions and the financial assets are derecognized in the seller's book and recognized in the buyer's book.

**ix) Financial guarantees**
**IFRS:** As per IFRS 9: Financial Instruments,financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value plus transaction cost that are directly attributable to the issue of the financial liabilities. The financial guarantee liability is subsequently measured at the higher of the amount of loss allowance for expected credit losses as per impairment requirement and the amount initially recognized less, income recognized in accordance with the principles of IFRS 15. Financial guarantees are included within other liabilities.

**Bangladesh Bank:** As per BRPD circular # 14, dated 25 June 2003 a financial guarantees such as L/C, L/G will be treated as off balance sheet items. No liability is recognized for the guarantee except the cash margin.

**x) Cash and cash equivalents**
**IFRS:** Cash and cash equivalents items should be reported as cash item as per "IAS 7:Statement of Cash Flows".

**Bangladesh Bank:** Some cash and cash equivalent items such as money at call and on short notice, treasury bills, Bangladesh Bank bills and prize bond are not shown as cash and cash equivalents. Money at call and on short notice presented on the face of the balance sheet, and treasury bills, prize bonds are shown in investments.

**xi) Non-banking assets**
**IFRS:** No indication of non-banking assets is found in any IFRS.

**Bangladesh Bank:** As per BRPD circular # 14, dated 25 June 2003, there should exist a face item named non-banking assets.

**xii) Cash flow statement**
**IFRS:** Cash flow statement can be prepared using either the direct method or the indirect method. The presentation is selected to present these cash flows in a manner that is most appropriate for the business or industry. The method selected is applied consistently.

**Bangladesh Bank:** As per BRPD circular # 14, dated 25 June 2003, cash flow should be a mixture of direct and indirect method.

**xiii) Balance with Bangladesh Bank: (CRR)**
**IFRS:** Balance with Bangladesh Bank should be treated as other assets as it is not available for use in day to day operations as per "IAS 7: Statement of Cash Flows.

**Bangladesh Bank:** Balance with Bangladesh Bank should be treated as cash and cash equivalents.

**xiv) Presentation of intangible assets**
**IFRS:** Intangible assets must be identified and recognized, and the disclosure must be given as per "IAS 38: Intangible Assets".

**Bangladesh Bank:** There is no regulation for intangible assets in BRPD circular # 14, dated 25 June 2003.

**xv) Off-balance sheet items**
**IFRS:** As per IFRS, there is no requirement for disclosure of off-balance sheet items on the face of the balance sheet.

**Bangladesh Bank:** As per BRPD circular # 14, dated 25 June 2003, off balance sheet items (e,g. Letter of credit, Letter of guarantee etc.) must be disclosed separately on the face of the balance sheet.

**xvi) Disclosure of appropriation of profit**
**IFRS:** There is no requirement to show appropriation of profit on the face of statement of comprehensive Income.

**Bangladesh Bank:**As per BRPD circular # 14 dated 25 June 2003 provision on loans and advances are Presented separately as liability and cannot be netted off against loans and advances.

**xvii) Loans and advance net of provision**
**IFRS:** Loans and advances should be presented net of provisions.

**Bangladesh Bank:** As per BRPD circular # 14, dated 25 June2003, provision on loans and advances should be presented separately as liability and cannot be netted off against loans and advances.
[Also refer to Note 2.17 Compliance of International Accounting Standards (IAS) and InternationalFinancial Reporting Standards (IFRS)]

**xviii) Provision on undrawn loan commitments**
**IFRS:** As per IFRS 9 bank shall recognize credit losses on undrawn loan commitments such as Letter of Credit
(L/C), Letter of guarantee (L/G) etc. as the present value of the difference between the contractual cash flow that are due by the customer if the commitment is drawn down and the cash flows that bank expects to receive.

**Bangladesh Bank:**As per BRPD Circular # 07 dated 21 June 2018 and BRPD Circular # 14 dated 23 September 2012, the Bank is required to maintain provision at 1% rate against off-balance sheet exposures (which includes all types of undrawn loan commitments).

**xix) Uniform Accounting Policy**
In several case Bangladesh Bank and Bangladesh Securities and Exchange Commission guidelines categorize,
Recognize, measure and present financial instruments differently from those prescribed in IFRS 10. As such some disclosure, presentation and measurement requirements of IFRS 10 cannot be made in financial statements. (Also refer to note 2.17 Compliance of IFRSs)

[Also refer to (note 2.17) Compliance of International Financial Reporting Standards (IFRSs)].

### 2.1.2 Basis of consolidation

The financial statements of the Company and its subsidiaries, as mentioned in note No.2.05 has been consolidated in accordance with IAS 27: Separate Financial Statements and IFRS10: Consolidated Financial Statements. The Consolidation of the Financial Statement has been made after eliminating all material intercompany balance, income and expenses arising from intercompany transactions.

The total profit of the Company and its subsidiaries are shown in the consolidated profit & Loss Account with the proportion of profit after taxation. All assets and liabilities of the Company and of its subsidiaries are shown in the consolidated Balance Sheet. The consolidated financial statements are prepared to a common financial year ended 31 December 2019.

**Conversion Policy**
The conversion policy of Off-shore Banking unit (OBU) and MTB Exchange (UK) Limited is given below.

| Details | Price | Rate of GBP for MTBUK | Rate of USD for OBU |
|---|---|---|---|
| For assets & liabilities | Closing price | 111.0300 | 84.9000 |
| For income & expenses | Average price | 107.9304 | 84.4875 |

**Transactions eliminated on consolidation**
All intra-group transactions, balances, income and expenses are eliminated on consolidation. Profit and losses resulting from transactions between groups are also eliminated on consolidation.

### 2.1.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items:
a) Government Treasury Bills and Bonds designated as 'Held for Trading (HFT)' at present value using marking to market concept with gain credited to revaluation reserve but loss charged to income statement.
b) Government Treasury Bills and Bonds designated as 'Held to Maturity (HTM)' at present value using amortization concept.
c) Land & Buildings is recognized at cost at the time of acquisition and subsequently measured at fair value as per IAS 16: Property, Plant & Equipment.
The accounting policies, unless otherwise stated have been consistently applied by the company and consistent with those of the previous year.

### 2.1.4 Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

### 2.1.5 Functional and presentation currency

The financial statements are presented in Bangladeshi Taka (BDT) currency, which is the Bank's functional currency. All financial information presented in BDT has been rounded to the nearest BDT.

### 2.1.6 Use of estimates and judgments

The preparation of financial statements in conformity with International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. It also requires disclosures of contingent assets and liabilities at the date of the financial statements.

The most perilous estimates and judgments are applied to the Provision for impairment of loans & investments and Employees benefits.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. However, the estimates and underlying assumptions are reviewed on an ongoing basis and the revision is recognized in the period in which the estimates are revised.

### 2.1.7 Materiality, aggregation and off setting

Each material item as considered by management significant has been displayed separately in the financial statements. No amount has been set off unless the Bank has a legal right to set off the amounts and intends to settle on net basis. Income and expenses are presented on a net basis only when permitted by the relevant accounting standards.

The values of any asset or liability as shown in the balance sheet are not off -set by way of deduction from another liability or asset unless there exist a legal right therefore. No such incident existed during the period.

### 2.1.8 Comparative information

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year. Comparative information is reclassified and rearranged wherever necessary to conform to the current presentation.

### 2.1.9 Foreign currency transaction and Commitments

a) **Foreign currency**
Items included in the financial statements of each entity in the group are measured using the currency of the primary economic environment in which the entity operates, i.e. the functional currency. The financial statements of the group and the Bank are presented in BDT which is the Bank's functional and presented currency.

b) **Foreign currencies translation**
Foreign currency transactions are converted into equivalent Taka using the ruling exchange rates on the dates of respective transactions as per IAS 21: The Effects of Changes in Foreign Exchange Rates. Foreign currency balances held in US Dollar are converted into Taka at weighted average rate of inter-bank market as determined by Bangladesh Bank on the closing date of every month. Balances held in foreign currencies other than US Dollar are converted into equivalent US Dollar at buying rates of New York closing of the previous day and converted into Taka equivalent. The resulting exchange transaction gains and losses are included in the profit and loss account.

c) **Commitments**
Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Taka terms at the rates of exchange ruling on the balance sheet date.

### 2.1.10 Statement of cash flows

Statement of cash flows has been prepared in accordance with IAS 7: Statement of Cash Flowsand under the guideline of Bangladesh Bank BRPD Circular # 14, dated 25 June 2003. The Statement shows the Structure of Changes in cash and cash equivalents during the financial period.

### 2.1.11 Statement of changes in equity

The statement of changes in equity reflects information about the increase or decrease in net assets or wealth. Statement of changes in equity has been prepared in accordance withIAS 1: Presentation of Financial Statementsand relevant guidelines of Bangladesh Bank.

### 2.1.12 Liquidity statement

The liquidity statement has been prepared in accordance with remaining maturity grouping of Assets and Liabilities as of the close of the period as per following basis.
a) Balance with other banks and financial institutions, money at call and short notice etc. are on the basis of their maturity term.
b) Investments are on the basis of their repayment schedule.
c) Loans and advances/investments are on the basis of their repayment schedule.
d) Fixed assets are on the basis of their useful lives.
e) Other assets are on the basis of their realization/amortization.
f) Borrowing from other banks, financial institutions and agents etc. are as per their maturity/repayment terms.
g) Deposits and other accounts are on the basis of their maturity term and past trend of withdrawal by the depositors.
h) Provision and other liabilities are on the basis of their payments/adjustments schedule.

### 2.1.13 Accounting for contingent liabilities and contingent assets

The bank recognized provisions only when it has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the obligation can be made. No provision is recognized for:
a) Any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future event not wholly within the control of the bank; or
b) Any present obligation that arises from past events but is not recognized because
  - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - A reliable estimate of the amount of obligation cannot be made.

### 2.1.14 Reporting period

These financial statements of the bank and its subsidiaries cover the period from 01 January to 31 December 2019.

### 2.2 Assets and basis of their valuation

### 2.2.1 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bangladesh Bank and highly liquid financial assets which are subject to insignificant risk of changes in their fair value, and are used by the Bank management for its short-term commitments.

### 2.2.2 Investments

All investment in securities is initially recognized at cost, being fair value of the consideration given, including acquisition charges associated with the investment. Premiums are amortized and discounts accredited, using the effective yield method and are taken to discount income. The valuation methods of investments used are:

a) **Held to maturity (HTM)**
Investments which have 'fixed or determinable payments' and are intended to be 'held to maturity' other than those that meet the defined of 'held at amortized cost', are classified as held to maturity (HTM). These investments are subsequently measured at present value as per Bangladesh Bank guideline.

b) **Held for trading (HFT)**
Investments classified in this category are acquired principally for the purpose of selling or repurchasing in short trading or if designated as such by the management. After initial recognition, investments are measured at fair value and any change in the fair value is recognized in the statement of income for the period in which it arises.

c) **Revaluation**
As per the DOS Circular letter # 05, dated 26 May2008 & subsequent amendment DOS Circular #05, dated 28 January2009 and DOS Circular # 21, dated 27 October2009. HFT securities are revalued on weekly basis and HTM securities are amortized on yearly basis. The HTM securities are also revalued if they are reclassified to HFT category with the Board's approval. Any gain or loss on revaluation of HTM securities is recognized in the statement of changes in equity. Gain/loss on revaluation of HFT securities is recognized in the profit and loss account on weekly basis and gain on revaluation is transferred to statement of changes in equity on monthly basis.

Valuation of investments has been shown as under Government treasury bills and bonds (HTM) at present value (using amortization concept), Government treasury bills and bonds (HFT) at present value (using making to market concept).

c) **Value of investments has been shown as under:**

| Investment class | Initial recognition | Measurement after recognition | Recording of change |
|---|---|---|---|
| Government treasury bills (HFT) | Cost | Marking to market/fair value | Loss transferred to profit and loss account and income transferred to revaluation reserve. |
| Government treasury bills (HTM) | Cost | Amortized cost | Loss transferred to profit and loss account and gain transferred to revaluation reserve. |
| Government treasury bonds (HFT) | Cost | Marking to market/fair value | Loss transferred to profit and loss account and income transferred to revaluation reserve. |
| Government treasury bonds (HTM) | Cost | Amortized cost | Amortized gain/loss transferred to revaluation reserve. |
| Zero coupon bond | Cost | Amortized cost | None |
| Prize bond | Cost | None | None |
| Debentures | Cost | At cost price | None |
| Unquoted shares and debenture | Cost | None | Loss transferred to profit and loss account but no unrealized gain recorded. |
| Quoted shares | Cost | Cost | Loss transferred to profit and loss account but no unrealized gain recorded. |

### 2.2.3 Loans, advances and provisions

Loans and advances are stated at gross amount. General provisions on unclassified loans & off balance sheet exposures, specific provisions for classified loans and interest suspense account thereon are shown under other liabilities. Provision against classified loans and advances is made on the basis of quarter end review by the management and instruction contained in BRPD Circular # 14, 19, 5, 16, 8, 15, 01& 07 dated 23 September2012, 27 December2012,29 May2013, 18 November 2014,02 August 2015, 27 September 2017, 20 February 2018,21 June 2018& 21 April 2019.

**Interest on loans and advances**
Interest is calculated on daily product basis but debited to the party's loan account quarterly. No interest is charged on loans and advances which are classified as bad and loss. Interest is calculated on unclassified loans and advances (only standard) and recognized as income during the period. Interest calculated on classified loans and advances (including special mention accounts) as per Bangladesh Bank circulars is kept in interest suspense account and credited to income on realization. Interest suspense and penal interest (if any) calculated on classified loans and advances are taken into income in the period of its receipt from the defaulting borrowers.
Commission and discounts on bills purchased and discounted are recognized at the time of realization. Recovery of written off loans and advances are taken into income in the period of its receipts from the defaulting borrowers.

**Provision for loans and advances**
Provision for loans and advances are made on the basis of quarter as well as year-end review by the management following instructions contained in BRPD Circular # 14, dated 23 September2012 and subsequent changes of Bangladesh Bank. The percentage of provision on loans and advance are given below:

**Rate of provision**

| Particulars | | Short term Agri. Credit | Consumer financing | | | SMEF | Loans to BHs/MBs/ SDs | All other Credit |
|---|---|---|---|---|---|---|---|---|
| | | | Other than HF, LP | HF | LP | | | |
| UC | Standard | 2.5% | 5% | 2% | 2% | 0.25% | 2% | 1% |
| | SMA | 0% | 5% | 2% | 2% | 0.25% | 2% | 1% |
| Classified | SS | 5% | 20% | 20% | 20% | 20% | 20% | 20% |
| | DF | 5% | 50% | 50% | 50% | 50% | 50% | 50% |
| | B/L | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

**Presentation of loans and advances**
Loans and advances are shown at gross amount as assets while interest suspense and loan loss provision against classified loans &advances are shown as liabilities in the Balance Sheet.

**Security against Loans**
a. Project loan: Project land and building are taken as security in the form of mortgage and plant & machinery are taken in the form of hypothecation.
b. Working Capital: Goods are taken as security in the form of hypothecation along with land and building mortgage. Listed securities of stock exchange, fixed deposits, assignments of receivables etc. are also taken as security.

**Bills Purchased and Discounted**
a. Bills purchased and discounted do not include Government Treasury bills and have been classified into two sub-heads viz.:
  i. Payable in Bangladesh;
  ii. Payable outside Bangladesh.
b. The bills purchased and discounted have been analyzed as per the maturity grouping.

**Written off loans and advances**
Loans and advances are written off to the extent that (i) there is no realistic prospect of recovery, (ii) and against which legal cases are filed and classified as bad loss more than five years as per guidelines of Bangladesh Bank and (iii) special permission of Bangladesh Bank. These write off however, will not undermine/affect that claim amount against the borrowers. Detailed memorandum records for all such write off accounts are meticulously maintained and followed up.

### 2.2.4 Property, plant and equipment

**a) Recognition**
The cost of an item of property, plant and equipment's (Fixed assets) shall be recognized as an asset, if and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Property, plant and equipment's have been accounted for at cost or revalued amount less accumulated depreciation (except land) as per IAS-16: Property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent cost of enhancement of an existing asset is recognized as a separate asset, only when it is probable that future economic benefits associated with the item can be measured reliably. All other repairs and maintenance are charged to the profit & loss account during the financial periods which are incurred.

**b) Depreciation**

| Category of Fixed Assets | Method of Depreciation | Rate of Depreciation |
|---|---|---|
| Land | N/A | N/A |
| Immovable Property | Reducing balance method | 2.50% |
| Furniture & Fixtures | Reducing balance method | 10% |
| Office Equipment | Reducing balance method | 20% |
| Motor Vehicles | Straight line method | 20% |
| Books & Periodicals | Reducing balance method | 10% |
| Intangible Assets | Reducing balance method | 20% |

## Notes to the Financial Statements

**c) Disposal of fixed assets**
On disposal of fixed assets, the cost and accumulated depreciation are eliminated from the fixed assets schedule and gains or losses on such disposal are reflected in the profit and loss accountas per provision of IAS 16: Property, Plant and Equipment.

**d) Capital Work-in-Progress**
Capital Work-in-Progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of building, system development, awaiting capitalization.

**e) Borrowing costs**
Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets have been capitalized as part of the cost of the assets.

**f) Impairment**
If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the assets should be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss is recognized as an expense in the profit and loss account.

### 2.2.5 Intangible assets

Software represents the value of computer application software licensed use of the Bank, other than software applied to the operation software system of computers. Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses. Expenditure incurred on software is capitalized only when it enhances and extends the economic benefits of computer software beyond their original specifications and lives and such cost is recognized as capital improvement and added to the original cost of software. Software is amortized using the reducing balance method at the rate of 20%.

### 2.2.6 Other assets

Other assets include all assets not covered specifically in other areas of the supervisory activity and such accounts may be quite insignificant in the overall financial condition of the bank.

**Provision for other assets**
Other assets have been classified as per BRPD Circular # 14, dated 25 June 2001 of Bangladesh Bank and necessary provisions made thereon accordingly and for items not covered under the circular adequate provisions have been made considering their reliability.

### 2.2.7 Receivables

Receivables are recognized when there is a contractual right to receive cash or another financial asset from another entity.

### 2.2.8 Leases

MTB has applied IFRS-16: Leases for the first time with the date of initial application of 01 January 2019. As IFRS 16 supersedes IAS 17: Leases, the bank has made recognition, measurement and disclosure in the financial statements of 2019 both as Lessee and Lessor as per IFRS 16.

**The Bank as Lessee**
The bank assesses at initiation of a contract whether the contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange of consideration, then the bank consider the contract as a lease contract.

The bank as a lessee applies a single recognition and measurement approach for all leases, except for short-term leases, or, and lease of low value of assets. The bank recognises lease liabilities to make lease payment and right-of-use assets representing the right to use the underlying assets.

If tenor of a lease contract does not exceed twelve months from the date of initiation/application, the bank considers the lease period as short term in line with the recognition threshold of ROU assets as per Fixed Asset policy of the bank. In case of low value of lease assets, the bank has set a materiality threshold which is 0.10% of Total capital of the Bank. However, as it's adopted for the first time, the bank used a flat threshold of BDT 20 million and above' which is 0.084% of total capital of the bank as of 31 December 2019. The reason behind considering the materiality threshold of BDT 20 million and above is that the bank operates many ATM booths, sub-branches with short and single contracts; recording of which as ROU assets would inflate the balance sheet both in assets and liabilities. Moreover, frequent changes of those establishments would create misreporting as well as complexity in recording.

**Right-of-use assets (ROU):**
The bank recognises the right-of-use assets (ROU) at the commencement date of the lease (i.e. the date the underlying asset is available for use). ROU assets are measured at cost less any accumulated depreciation and impairment of losses and adjusted for any measurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct cost incurred, and lease payment made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term, or remaining period of the lease term.

The bank assessed all lease contracts live in 2019 and recognised as RoU assets of all leases, except short term and low value of assets as parameter guided by Bangladesh Bank and Banks' own policy set as per IAS 16 and IFRS 16. As leases under IFRS 16 has been first time adopted by the bank, the bank has followed modified retrospective approach of adoption with the date of initial application of 01 January 2019. Therefore, the bank considered a cut-off date beginning of the year 2019 and reassessed unadjusted advance payment and remaining lease period of each contract, and recognised those in the financial statements for the year ended 31 December 2019 without giving retrospective impact in earlier presentation. The ROU assets are presented in the note - 8 of these financial statements.

**Lease Liabilities (Bank as a lessee):**
At the commencement of the lease, the bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed and variable lease payment (less any adjustment for initial payment), and amount is expected to be paid under residual value of guarantees. The lease payments also include the exercise price of purchase option reasonably certain to be exercised by the bank and payment of penalties for terminating the lease.

In 2019, the bank reassessed all lease payment of existing contracts for remaining period considering a cut-off date i.e. 01 January 2019. The lease liabilities are presented in the note 12.a.7 of these financial statements.

**The Bank as Lessor**
Amount due from lessees under finance leases are recorded as receivables at the amount of the Bank's net investment in the leases (Note-7.03). Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

### 2.2.9 Non-Banking Assets

Non-banking assets are acquired on account of the failure of a borrower to repay the loan in time after receiving the decree from the court regarding the right and title of the mortgaged property. However, the bank has no non-banking assets.

### 2.3 Liabilities and provision

### 2.3.1 Borrowings from other banks, financial institutions and agents

Borrowings from other banks, financial institutions and agents include interest bearing borrowing redeemable at call, on-demand and short term deposits lodged for periods of less than 6 months. These items are brought to account at the gross value of the outstanding balance. Interest paid or payable on these borrowings is charged to the profit and loss account.

### 2.3.2 Deposits and other accounts

Depositsand other accounts include non-interest bearing current deposit redeemable at call, interests bearing on demand and short term deposits, savings deposit, term deposit, margin, bills payable etc. These items are brought to account at the gross value of the outstanding balances.

### 2.3.3 Otherliability

Other liability is recognized in the balance sheet according to the guideline of Bangladesh Bank and Income-tax Ordinance,1984, IAS-37 and internal policy of the banks. Provisions and accrued expenses are recognized in the financial statements when the bank has a legal or constructive obligation as a result of past event, it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### 2.3.4 Employee benefit scheme

The retirement benefits accrued for the employees of the Bank as on reporting date have been accounted for in accordance with provisions of IAS - 19, "Employee Benefits". Bases of enumerating the retirement benefit schemes operated by the Bank are outlined below:

**a) Provident Fund**
Provident fund benefits are given to the permanent employees' of the Bank in accordance with Bank's service rules. Accordingly a trust deed and provident fund rules were prepared. The Commissioner of Income Tax, Taxes Zone 3, Dhaka has approved the Provident Fund as a recognized provident fund within the meaning of section 2(52), read with the provisions of part-B of the First Schedule of Income-tax Ordinance, 1984. The recognition took effect from 30 April 2001. The Fund is operated by a Board of Trustees consisting of 5 (five) members. All confirmed employees of the Bank contribute 10% of their basic salary as a subscription to the fund. The Bank also contributes equal amount of the employees' contribution. Interest earned from the investment is credited to the members' account on yearly basis.

**b) Gratuity**
The Bank operates a funded gratuity scheme approved by the National Board of Revenue. The Gratuity Fund is managed separately by "MTBL Employees Gratuity Fund" and any investment decision out of this fund is also made by this trust.

As per gratuity scheme every permanent employee will get gratuity benefit as per following policy that rendering their service without break:

| Completed years of Service | Payment of Gratuity |
|---|---|
| 8 years& above | 2.00 basic for each year of service in MTB |
| 7 years | 1.70 basic for each year of service in MTB |
| 6 years | 1.35 basic for each year of service in MTB |
| 5 years | 1.00basic for each year of service in MTB |

**c) MTB Employees' Welfare Fund**
The welfare fund is subscribed by monthly contribution of the employees. The Bank also contributes to the fund from time to time. The fund has been established to provide a token of appreciation or financial assistance to the employees and their family members for education, funeral function etc. The fund is governed and administered by the Board of trustees consisting of four (04) members.

**d) MTB Employees' Medical Assistance Fund**
Medical Assistance fund is subscribed by monthly contribution of the employees as per policy. The Bank also contributes to the fund from time to time. The fund has been established to provide medical assistance to the employees with dependents. The fund is governed and administered by the Board of trustees consisting of four (04) members.

**e) MTB Employees' Hospitalization and Group Life Policy**
The Bank, as an adherence to the best practice in the banking industry and to strengthen its corporate culture, introduced the Group Life and Hospitalization policy for its employees and their dependents (spouse and kids) effective from 01 January 2019.

**f) MTB Employees' Death Benefit Plan**
The plan has been formed to provide financial benefit to the bereaved family of a deceased employee. The Bank contributes to the fund from the annual profit of the Bank on requirement basis. The fund is governed and administered by the Board of trustees consisting of four (04) members.

In case of death of an employee while in active service, financial benefit is paid to the nominee of the deceased employee at a prescribed amount ranging from 3 (three) lacs to 10 (ten) lacs.

**g) MTB Foundation**
The Bank, as part of corporate social responsibility, has established MTB Foundation for the benefit of the community in which it operates and as part of its said responsibility it commits itself to human development, poverty alleviation and overall national economic development. The Bank contributes to the fund from the annual profit of the Bank on requirement basis. The fund is governed and administered by the Board of trustees consisting of nine (09) members.

**h) Incentive Bonus**
Mutual Trust Bank Limited has started an incentive bonus scheme for its employees. This bonus amount is distributed among the employees based on their performance. The bonus amount is paid annuallyand costs are accounted for the period to which it relates.

### 2.3.5 Taxation

**a. Current tax**
The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other period or are never taxable or deductible. Bank's liability for current tax is calculated using tax rates that have been enacted the reporting period.

**b. Deferred tax**
The Bank recognizes the current and deferred tax in the financial statements using the provisions of the prevailing tax laws applicable in Bangladesh and as per IAS-12 Income Taxes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which such differences can be utilized. Deferred Tax liabilities are also recognized for taxable temporary differences arising on investments and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates, which are expected to apply in the period when the liability is settled or the asset is realized.

### 2.3.6 Provision for Nostro Accounts

As per instructions contained in the circular Letter # FEPD (FEMO)/01/2005-677, dated 13 September 2005 issued by Foreign Exchange Policy Department of Bangladesh Bank, the Bank is not required to make a provision regarding the un-reconciled debit balance of Nostro accounts as on the reporting date in these financials as there are no un-reconciled entries which are outstanding more than 3 months.

### 2.4 Capital and shareholders' equity

### 2.4.1 Capital management

The bank has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. This capital management process aims to achieve four major objectives; exceed regulatory thresholds and meet longer-term internal capital targets, maintain strong credit rating, manage capital levels commensurate with the risk profile of the bank and provide the banks shareholders with acceptable returns.

Capital is managed in accordance with the board approved capital management planning from time to time. Senior management develops the capital strategy and oversees the capital management planning of the bank. The bank's finance and risk management department are key to implementing the bank's capital strategy and managing capital. Capital is managed by using both regulatory control measure and internal matrix.

### 2.4.2 Paid-up capital

Paid-up capital represents total amount of shareholder capital that has been paid in full by the ordinary shareholders. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at shareholders meetings. In the event of a winding-up of the company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any residual proceeds of liquidation.

### 2.4.3 Statutory reserve

The Statutory reserve has been maintained @ 20% of profit before tax in accordance with provisions of section 24 of the Bank Companies Act, 1991 as amended 2013.

### 2.4.4 Share Premium

Share premium is the capital that the bank raise upon issuing shares that is in excess of the nominal value of the shares. The share premium shall be utilized in accordance with provisions of section 57 of the Companies Act, 1994 and as directed by Bangladesh Securities and Exchange Commission in this respect.

### 2.4.5 Revaluation Reserve on Govt. Securities

Revaluation reserve represent revaluation on Treasury bond (HFT and HTM) in accordance with the DOS Circular # 05, dated 26 May 2008.

### 2.4.6 Minority interest

Minority interest (MI) in business is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

### 2.5 Off Balance Sheet items

Under general banking transactions, liabilities against acceptance, endorsements and other obligations and bills against which acceptance has been given and claims exists there against, have been shown as Off Balance Sheet items. Provision for off balance sheet items is made as per BRPD Circular #14, dated23 September 2012 and BRPD Circular # 01, dated 03 January 2018.

### 2.6 Memorandum items

Memorandum items are maintained for those items for which the Bank has only a business responsibility and no legal commitment.

### 2.7 Revenue recognition

The Revenue during the period has been recognized according to the provision of IFRS-15 Revenue from contracts with customers,as well as Bangladesh Bank guidelines.

### 2.7.1 Interest income

In terms of the provisions of the IFRS-15Revenue from contracts with customers, the interest income is recognized on accrual basis. Interest on loans and advances ceases to be taken into income when such advances are classified.
a) Interest on unclassified loans and advances (except SMA) has been accounted for as income on accrual basis and calculated on daily product basis but charged and accounted for quarterly and in some cases yearly;
b) Interest on classified loans and advances has been credited to interest suspense account with actual receipt of interest there from having credited to income as and when received as per Instruction of Bangladesh Bank;
c) No interest is changed on loans and advances on classified as bad/loss;
d) Commission and discount on bills purchased and discounted are recognized at the time of realization; and
e) Recovery of written off loans and advances are taken into income in the period of its receipts from the defaulting borrowers.

### 2.7.2 Investment income

Interest income on investments is recognized on accrual basis. Capital gain on investments in shares is also included in investment income. Capital gain is recognized when it is realized.
- Income on investment in treasury bills, bonds, preference shares and debenture etc. other than equity shares has been accounted for on accrual basis.
- Govt. securities (HTM) are revalued on accrual basis and effect of such revaluation gain has been credited to Asset Revaluation Reserve account.
- Dividend on equity shares is recognized during the period in which it is declared and duly approved.
- Net increase in securities held to maturity during the period due to the valuation at market to market basis has been credited to income statement.

### 2.7.3 Fees and commission income

- Commission charged to customers on letters of credit and letters of guarantee are credited toincome at the time of effecting the transactions.
- Fees and Commissions on bills discounted, purchased & others are recognized at the time of realization.
- Foreign currency transactions are converted into BDT at prevailing on the dates of such transactions and exchange gains or losses arising out of such transactions are recognized as income or expense for the period and dealt with exchange account.

### 2.7.4 Dividend Income on Shares

Dividend income on shares is recognized during the period in which it is declared and ascertained.

### 2.7.5 Other operating income

Other operating income is recognized at the time when it is realized.

### 2.7.6 Interest paid on deposits and borrowings

Interest paid on deposits, borrowing and other expenses are recognized on accrual basis.

### 2.7.7 Operating expenses

Expenses incurred by the bank are recognized on accrual basis. Expenses incurred by the bank shown in these financial statements are inclusive of VAT where applicable as per the Value Added Tax Act, 2012.

### 2.7.8 Other comprehensive income

Other comprehensive income is not prepared in accordance withIAS-1: Presentation of Financial Statements. However, elements of other comprehensive income, if any, are shown in the statement of changes in equity.

### 2.8 Earnings per share

**Basic earnings per share**
Basic earnings per share has been calculated in accordance with IAS- 33: Earnings per Share which has been shown on the face of statement of profit and loss account. This has been calculated by dividing the basic earnings by the weighted average number of ordinary shares outstanding during the period.

**Weighted average number of ordinary shares**
This represent the number of ordinary shares outstanding at the beginning of the year plus the number of ordinary shares issued during the year. The basis of computation of number of shares is in line with the provision of IAS- 33: Earnings per share.

**Diluted earnings per share**
No diluted earnings per share is required to calculated for the year as there was no scope for dilution during the year under review.

### 2.9 Reconciliation of inter-bank/inter-branch account

Accounts with regard to inter-bank (in Bangladesh and outside Bangladesh) are reconciled regularly and there are no material differences which may affect the financial statements significantly. Un-reconciled entries/balances in the case of inter-branch transactions as on the reporting date are not material.

### 2.10 Proposed dividend

Proposed dividend has not been recognized as a liability in the statement of financial position in accordance with IAS 10: Events after the Reporting Period.

## Notes to the Financial Statements

### 2.11 Operating segment

As perIFRS- 8: Operating Segments the bank has five reportable business segment and the five business segments are comprised of Main operation (On shore- conventional banking), Off-shore Banking Unit, MTB Securities Ltd., MTB Capital Ltd. and MTB Exchange (UK) Ltd.

### 2.12 Litigation

The bank is not a party to any lawsuits except those arising in the normal course of business, which were filed against the default clients for non-performance in loans repayment and against various level of tax authority regarding some disputed tax issues. The bank, however, provides adequate provisions as per guidelines of IAS- 37: Provisions, Contingent Liabilities and Contingent Assets.

### 2.13 Written Off

Write-off describes a reduction in recognized value. It refers to recognition of the reduced or zero value of an asset. Generally, it refers to loan for which a return on the loan is now impossible or unlikely. The item's potential return is thus canceled and removed from ("written off") the bank's statement of financial position. Recovery against debts written off/provided for is credited to revenue. Income is recognized where amounts are either recovered and/or adjusted against securities/properties or advances there-against or are considered recoverable.

### 2.14 Accounting for changes in policy, Accounting Estimates and Errors

According to IAS- 8 Accounting policies, changes in accounting estimates and errors, states that the effect of a change in accounting policy and correction of error if material is to be applied retrospectively and change in an accounting estimate is to be applied prospectively. The carrying amount of assets, liabilities, or equity may be changed following a change in accounting estimates in the period of the change. The Bank followed the same accordingly.

### 2.15 Events after the reporting period

Where necessary, all the material events after the reporting period have been considered and appropriate adjustment/disclosures have been made in the financial statements.

### 2.16 Related Party disclosures

A party is related to the company if:
i) directly or indirectly through one or more intermediaries, the party control, is controlled by, or is under common control with, the company; has an interest in the company that gives it significant influence over the company; or has joint control over the company;
ii) the party is an associate;
iii) the party is a joint venture;
iv) the party is a member of the key management personnel of the company or its parent;
v) the party is a close member of the family of any individual referred to in (i) or (iv);
vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
vii) the party is a post-employment benefit plan for the benefit of employees of the company, or of any entity that is a related party of the company.

### 2.17 Compliance report on International Accounting Standards (IASs) and InternationalFinancial Reporting Standards (IFRSs)

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for approval of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as the financial reporting council is yet to issue any financial reporting standards. MutualTrust Bank Limited has applied all the applicable IAS and IFRS as approved by ICAB while preparing the financial statements. Details are given below:

| Name of the International Accounting Standards (IAS) | IAS No. | Status |
|---|---|---|
| Presentation of Financial Statements | 1 | Applied* |
| Inventories | 2 | N/A |
| Statement of Cash Flows | 7 | Applied* |
| Accounting policies, Changes in accounting Estimates & Errors | 8 | Applied |
| Events after the Reporting Period | 10 | Applied |
| Construction Contracts | 11 | N/A |
| Income Taxes | 12 | Applied |
| Property, Plant and Equipment | 16 | Applied |
| Revenue | 18 | N/A |
| Employees Benefits | 19 | Applied |
| Accounting for Government Grants and Disclosure of Government Assistance | 20 | N/A |
| The Effects of Changes in Foreign Exchange Rates | 21 | Applied |
| Borrowing Costs | 23 | Applied |
| Related Party Disclosures | 24 | Applied |
| Accounting and Reporting by Retirement Benefit Plans | 26 | N/A |
| Consolidated and Separate Financial Statements | 27 | Applied |
| Investment in Associates | 28 | N/A |
| Interest in Joint Ventures | 31 | N/A |
| Financial Instruments: Presentation | 32 | Applied* |
| Earnings per share | 33 | Applied |
| Interim Financial Reporting | 34 | Applied |
| Impairment of Assets | 36 | Applied |
| Provision, Contingent Liabilities and Contingent Assets | 37 | Applied* |
| Intangible Assets | 38 | Applied |
| Financial Instruments: Recognition and Measurement | 39 | Applied* |
| Investment Property | 40 | N/A |
| Agriculture | 41 | N/A |
| **International Financial Reporting Standards (IFRS)** | **IFRS No.** | **Status** |
| First-time Adoption of Bangladesh Financial Reporting Standard | 1 | N/A |
| Shares Based Payment | 2 | N/A |
| Business Combination | 3 | Applied |
| Insurance Contracts | 4 | N/A |
| Non-current Assets Held for Sale and Discontinued Operation | 5 | N/A |
| Exploration for and Evaluation of Mineral Resources | 6 | N/A |
| Financial Instruments: Disclosures | 7 | Applied* |
| Operating Segments | 8 | Applied |
| Financial Instruments | 9 | Applied* |
| Consolidated Financial Statements | 10 | Applied |
| Joint Arrangements | 11 | N/A |
| Disclosure of Interests in other Entities | 12 | N/A |
| Fair Value Measurement | 13 | Applied* |
| Regulatory Deferral Accounts | 14 | N/A |
| Revenue from contracts with customers | 15 | Applied |
| Leases | 16 | Applied* |

* Bangladesh Bank is the prime regulatory body for banks in Bangladesh. Some requirements of Bangladesh Bank's rules and regulations contradict with the provision of IAS/IFRS as marked above and described in **note 2.01**. As such the bank has departed from those contradictory requirements of IAS/IFRS in order to comply with the rules and regulations of Bangladesh Bank.

### 2.18 Risk Management

Risk is an integral part of banking business, and MTB aims at delivering superior shareholder value by achieving an appropriate trade-off between risks and return. The policies and procedures established for this purpose are continuously reviewed in our quest to benefit from a blend of local and international practices.MTB conducts its risk management activities following six core risk guidelines of Bangladesh Bank and Basel norms. At the directives of Bangladesh Bank, MTB has established a separate Risk Management Division (RMD) to identify, measure, monitor and manage risks more effectively and efficiently. MTB's Risk management process is accomplished at strategic level, managerial level and at operational level. At strategic level, MTB Board of Directors (BOD), through Board Risk Management Committee (BRMC) & senior management, sets up risk governance structure & risk philosophy, endorses risk strategies, reviews & approves risk policies as well as the threshold limits of risks that may be taken in line with bank's risk appetite. These limits are continuously monitored by an experienced risk management team and overseen by BRMC. At managerial level, policies and strategies formulated by BOD are implemented by middle management or divisions/departments/units devoted to risk reviews. RMD reports high-risk related matters, identified by the management-level risk committee to the BRMC. RMD also submits periodic stress testing results to the BOD as well. Operational level encompasses on-the-line risk management, where risks are actually created at front office or at credit desk of the bank.

MTB's risk management in the following areas, among others, is mentioned briefly:

**(a) Credit Risk Management**
Credit risk is the risk due to a borrower's inability to meet its financial obligations to the lender. The credit risk is generally made up of transaction risk or default risk and portfolio risk. We have standardized credit approval processes. Credit risk is controlled through segmental exposure limits to various industries and sectors, prudential exposure and substantial exposure ceiling and risk mitigation by obtaining collateral and guarantees.

The Bank has put in place a well-structured Credit Risk Management Policy duly approved by the Board. In addition to Credit Risk Management Policy, the Bank has also framed Board approved credit policy and ensures compliance with regulatory requirements, more particularly in respect of Exposures norms, Assets Classification guidelines, Capital Adequacy guideline, etc of Bangladesh Bank/other Statutory Authorities.

Credit Risk is monitored by the Bank account wise and compliance with the risk limits/exposure cap approved by the Board is ensured. The quality of internal control system is also monitored and in-house expertise has been built up to tackle all the facets of Credit Risk.

The Bank follows a well-defined multi layered discretionary power structure for sanction of loans. Credit Grid has been constituted at Head office level for considering fresh/enhancements proposals. The Bank assesses various risk factors for new products prior to its introduction.

**(b) Market Risk**
Marketrisk is the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity and commodity prices.

**i. Foreign Exchange Risk Management**
Foreign Exchange Risk is a measure by the variance of the domestic currency value of an asset, liability or operating income that is attributable to unanticipated change in the exchange rates. Simply, it is the risk that relates to gains/losses that arise due to fluctuations in the exchange rates.

In view of the significance of the market risk and in order to aggregate all such risks at a single department and to bring expertise in such functions, the concept of treasury has evolved. Today's financial institutions engage in activities from import, export and remittance to complex derivatives involving basic foreign exchange and money market to complex structured products. All these require a high degree of expertise that is difficult to achieve in the transactions originating from departments and as such the expertise in housed in a separate department i.e. Treasury.

MTB has already segregated Treasury functions in three separate wings i.e. Front office, Back office and Mid office.

In compliance with the requirement of Bangladesh Bank's Foreign Exchange Risk Management guidelines, Treasury department is performing the foreign exchange dealing in an appropriate manner and managing risks of the organization's overall balance sheet as well as the capital of the Bank.

**ii.Interest Rate Risk**
MTB's focus is mainly on interest rate risk arising from conduct of normal business. Failure to identify the risks associated with business and failure to take timely measures in giving a sense of direction threatens the very existence of the institutions. It is therefore, imperative for the bank to form a "Asset Liability Management Committee (ALCO)" with the senior management as its members to control and better manage its Balance Sheet Risk.

In compliance with the requirement of Bangladesh Bank's Asset Liability Management guidelines, MTB has formed "Asset Liability Management Committee" (ALCO) with the senior executives. The Committee meets once every month to set and review strategies on Asset Liability Management (ALM).

MTB ALM desk performs Money Market activities, manages liquidity and interest rate risk of the bank and understands market dynamics i.e. competition, potential target markets etc., updates the balance sheet movements and complies with the statutory obligations as well as the risk elements involved with the business.

**iii.Equity Risk**
Equity risk arises from movement in market value of securities. The investment committee monitors the risks under a well-designed policy framework.

**(c) Operational Risk**
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks in the Bank are managed through a comprehensive and well-articulated internal control framework. Material losses are regularly analyzed by cause and actions are taken to improve system and controls to prevent recurrence in the future.

MTB has restructured Internal Control and Compliance Department (ICCD) headed by a senior level executive in light of Core Risk guidelines of Bangladesh Bank. The Department is comprised of three divisions; Audit and Inspection Division, Compliance Division and Monitoring Division. The Bank has developed Internal Control and Compliance Policy duly approved by the Board of Directors, complying with the directives of the revised guidelines of Bangladesh Bank on ICC in Banks.

As a tool of Internal Control, the Audit and inspection teams undertake periodic and special audit and inspection on the branches and departments/divisions of Head Office in order to sort out the weaknesses and defects in the control process and report to the management for taking corrective measures to protect the interests of the Bank.

The Compliance and Monitoring Divisions of this department ensure timely and proper compliance of all regulatory instructions and internal policies and procedures in the day-to-day operation of the Bank by way of using various control tools. They assess the operational risk and take appropriate measures to mitigate the same for smooth operation of the Bank. ICCD reports serious non-compliances detected by internal and external auditors with up-to-date compliance position thereto, large financial risk exposures, control weaknesses etc. to the Audit Committee of the Board for review and taking appropriate measures.

The ICCD also ensures clear definition of organizational structure, appropriate assignment, accountability and delegation of authorities to functional management to create control and compliance culture within the organization with active guidance and supervision of senior management and Board of Directors.

Business entities today exist in a highly competitive world. They are constantly innovating to meet their business objectives providing essential and unique services to their customers. Technology advances have enabled them to achieve their varied strategies. And yet, the threats of disaster, on account of business interruption, are not extinct. In fact, they have also evolved along with the technology. Keeping that in mind MTB has taken up its Business Continuity Planning (BCP) as the most significant challenges working out a way to prevent, if possible, and manage the consequences of a disaster, limiting it to the extent that a business can afford. Besides BCP, the Bank is also focusing on combating security threats as well. In keeping with our centralized management model, each branch within the Bank has its own ICT systems. Actions taken include the updating of software and analyzing new software, enhancing ICT related controls, training of staff in system knowledge and sharing of best practices between branch users.

**(d) Money Laundering Risk**
Money Laundering risk of Financial Institutions lies with the involvement in any single transaction or series of transactions that assists a criminal in keeping, concealing or disposing of proceeds derived from illegal activities. So it is a major threat to the banks and non-bank financial institutions.

Mutual Trust Bank (MTB), as a compliant bank, is firmly determined not to let money launderers and terrorists or perpetrators to use it as a channel to launder money or finance terrorism in any possible way. Hence, MTB has its own Anti Money Laundering (AML) & Combating Financing of Terrorism (CFT) compliance program which is designed considering the size & range of activities, complexity of operations and the nature & degree of Money Laundering & Terrorist Financing risks faced by the bank. Certainly, it is designed as per the prevailing laws (i.e. Money Laundering Prevention Act, 2012 (Amendment 2015), The Anti-Terrorism Act, 2009 (Amended-2012 & 2013), rules (i.e. Money Laundering Prevention Rules, 2013, Anti-Terrorism Rules, 2013), BFIU guidelines (i.e. Money Laundering and Terrorist Financing Risk Management Guidelines), circulars & instruction and international standards. MTB applies risk sensitive Customer Due Diligence (CDD) measures, monitors business relationships and records suspicious transactions pursuant to the national regulations and international standards.

MTB has developed its own Money Laundering (ML) & Terrorist Financing (TF) Risk Management Guideline entailing the customer acceptance policy and the ML & TF Risk Assessment Guideline. The customer acceptance policy incorporates the detail customer due diligence procedure for acceptance/rejection of customer, procedures to open & operate different types of account. The ML & TF Risk Assessment Guideline incorporates the risk register in line with BFIU guideline. Department has been reformed as 'Central Compliance Unit (CCU)' under the direct supervision of the MD & CEO which consists of 8 (eight) members having expertise in the field of general banking and information technology. Every year, the MD & CEO of the bank makes statement of commitment in writing to all employees that clearly sets forth MTB's policy against Money Laundering, Terrorist Financing & Proliferation Financing.

**(e) Fraud and Forgeries**
Fraud Detection and Management Process: The bank has its board approved Fraud Management Policy. Internal Audit (IA) team conducts surprise audit on all MTB branches and offices of the Head Office at least once in a year (high risk branches are audited half-yearly basis). While auditing branches and offices, the Internal Audit (IA) teams thoroughly check the operational activities of the branches/offices including transactions in various accounts and search for any irregularities occurred in those accounts. IA teams also monitor the staff accounts and if necessary investigate the suspicious transactions and report the same to the management. IA teams also conduct investigation into specific allegations and submits reports to the management for action. Senior management of the bank also conducts regular visit to MTB branches and advises the branch officials to comply with all the regulatory instructions, policies and procedures of the bank.

### 2.19 Audit Committee

In compliance to Bangladesh Bank's circular, the Board of Directors has formed an Audit Committee comprising of the following 5 (Five) Directors of the Board.

| Sl. No. | Name of the Director | Status with the Bank | Status with the Committee | EducationalQualification |
|---|---|---|---|---|
| 01. | Ms. Nasreen Sattar | Independent Director | Chairman | Graduate |
| 02. | Mrs. Khwaja Nargis Hossain | Vice Chairman | Member | MA in Islamic History from University of Dhaka |
| 03. | Mr. Rashed Ahmed Chowdhury | Director (Former Chairman) | Member | Higher National Diploma in Business Studies from West London College, UK and Post Graduate Degree in Business Management from Kingston University, UK and also member of the Chartered Management Institute, UK |
| 04. | Mr. Herbert Ludwig Jaeger | Member | Member | Mr. Jaeger obtained his MBA in International Financial Management from the University of Trier, Germany and completed his Bachelor of Economics from the University of Konstanz, Germany. He is a Graduate member of the Thai Institute of Directors and has completed Bank Training at Volksbank eG, Überlingen, Germany. |
| 05. | Mr. M. Mokammel Haque | Independent Director | Member | M. A. in Political Science from the University of Dhaka in 1957 and completed his Bachelor of Honours (BA) in Political Science from the University of Dhaka in 1956. He completed his CFS exam in 1959 and Diploma in Development Administration, London School of Economics, London, UK. |

During the period, 04 (Four) meetings of the audit committee were held.

Audit committee reviews various audit/inspection reports at regular intervals. Upon scrutiny of the audit objections and compliance, the committee advised the management to remain within the policy guidelines and directives of the regulatory authorities.

As per circular, the committee places their report regularly to the board meetings of the Bank mentioning their activities & recommendations of the internal control system, compliance of rules and regulations and establishment of good governance within the organization.

### 2.20 Directors responsibility on statements

The Board of Directors takes the responsibility for the preparation and presentation of these financial statements.

### 2.21 Events after the reporting period

The global outbreak of COVID 19 pandemic is considered a non-adjusting post balance sheet event for the Bank. While the overall effect on the Bank's business in the period subsequent to the balance sheet date relating to the COVID 19 global pandemic is still evolving at this point, there has been limited impact on the business since the outbreak. The directors and management are regularly monitoring the potential impact of the pandemic on the Bank as the situation continues to deteriorate but are confident that any foreseeable negative impact can be reasonably managed and have various scenario plans in place.

All other material events after the reporting period have been considered and appropriate adjustments/disclosures have been made in the financial statements as per IAS 10 Events after the Reporting Period. Board's recommendation for dividend distribution is a common item presented in the note 49.00.

### 2.22 Approval of Financial Statements

The financial statements were approved by the Board of Directors on **30June 2020**.

### 2.23 General

a) These financial statements are presented in BDT, which is the Bank's functional currency. Figure appearing in these financial statements have been rounded off to the nearest BDT.

b) The expenses, irrespective of capital or revenue nature, accrued/due but not paid have been provided for in the books of the Bank.

c) Figures of previous year have been rearranged whenever necessary to conform to current period's presentation.

d) No Asset has been set off against any Liability except MTB General Account.

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