

Report
on
“Application of the International Accounting Standards (IAS)
in Bangladesh: A Study on Habib Bank Limited, Bangladesh”

By

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An internship report submitted to BRAC Business School in partial fulfillment of the
requirements for the degree of
Bachelor of Business Administration

BRAC Business School
BRAC University
November, 2022

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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I/We have acknowledged all main sources of help.

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BRAC University

Letter of Transmittal

Faruk Bhuiyan, PhD
Assistant Professor,
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of internship report

Dear Sir,

I, Muhammad Salah Uddin, is delighted to submit my internship report titled “Application of the International Accounting Standards (IAS) in Bangladesh: A Study on Habib Bank Limited” prepared under your guidance.

The report has been completed with the guideline provided by BRAC Business school and the updated research proposal with your approval. In the report the agendas represented in the research proposal has been addressed. I believe, your honor would be kind enough to accept the report and provide feedbacks.

I truly believe that the report will meet your expectation.

Sincerely yours,

Muhammad Salah Uddin

18304073

BRAC Business School

BRAC University

November 10, 2022

Acknowledgement

It is a great pleasure to me that I can make a successful investigatory project at last. This has been easier for some people who has given their hard work, patience, cooperation to make this project successful. I am really thankful to those people & would like to extend my humble respect to them. To Those following people who gave their valuable information's & time to make this investigatory project successful.

Firstly, I would like to show my gratitude towards the almighty Allah for all the great things in life and blessings. After that, I am really grateful to my parents for providing me with such privilege over the years and also for their frequent support.

Secondly, I am thankful to my internship supervisor Dr. Faruk Bhuiyan, Assistant professor of BRAC Business school, BRAC University, for all the guidance he has provided me. I, also thankful to my co supervisor Dr. Md. Kausar Alam, Assistant Professor at BRAC Business School, for the support he has provided. My supervisor has always responded, to my queries and supported me all the time.

In performing the report, I had to take data and interview from HBL Bangladesh. I am especially thankful to ASM Sakhawat Hossain Khan, Head-Country Operations at HBL Bangladesh for giving me valuable information. I want to show my earnest gratefulness to Nazmul Haque Bhuiyan, FCA, Head of Finance at HBL Bangladesh for providing relevant information.

Throughout the journey of undergraduate study many friends' classmate and teachers have given me their utmost support, I am really grateful for their constant support. I believe, without their support it would not have been possible. Finally, I am thankful to all those people we helped me directly & indirectly.

Executive Summary

The following report focuses on Habib Bank Limited Bangladesh's operations and their compliance with the International Accounting Standards. In the first chapter of the report provide basic information regarding the students learning and experience. Chapter two solely focuses on the sampled corporation including its operations, leadership style and Financial Analysis of the last 5 years. The financial analysis can provide the reader an in-depth overview about the organization and its performance throughout the tenure. Chapter 3, the project part describes different aspects of compliance with IAS/IFRS in order to keep the financial reporting transparent and standardized. Through the study it has been disclosed that the bank abides by the IFRS while preparing their financial reports by applying the specific portion applicable in IFRS9/IAS32 which are the applicable guidelines for banks to create a standardized financial analysis and also how the bank applies internal control system to strengthen its operation However, for future study more bank's data can be examined in order to represent the banking industry of Bangladesh under the criteria of IAS and IFRS.

Keywords: IFRS, IAS, HBL, Compliance, Bank, Financial Analysis

Table of Contents

Declaration	2
Letter of Transmittal	3
Acknowledgement	4
Executive Summary	5
List of Figures	10
List of Acronyms	11
Glossary	13
CHAPTER 01: Internship Overview at HBL Bangladesh.....	14
1.1 Student Information	15
1.2 Internship Information	15
1.2.1 Company Information:.....	15
1.2.2 On-site Internship Supervisor Information:	15
1.2.3 Job Scope	15
1.3 Internship Outcome.....	15
1.3.1 Student’s contribution to the company:	15
1.3.2 Benefits to the Student	17
1.3.3 Difficulties faced during the Internship Period.....	17
1.3.4 Recommendations.....	17
CHAPTER 02: Organization Part.....	19
2.2 Overview of the Company	20
2.2.1 History.....	20

2.2.2 Mission.....	20
2.2.3 Vision.....	21
2.2.4 Values	21
2.2.5 Achievements.....	21
2.3 Management.....	21
2.3.1 Leadership Style:	21
2.3.2 Human Resource Practices	21
2.3.3 Recruitment & Selection.....	22
2.3.4 Compensation System.....	22
2.3.5 Management team.....	23
2.4 Marketing Practices	23
2.5 Financial Performance and Accounting Practices	23
2.5.1 Financial Performance	23
Net Profit Margin.....	24
Efficiency Ratio	25
Net Interest Margin.....	26
Return on Assets	27
Return on Equity.....	28
Credit Deposit Ratio	29
Cost of Fund.....	30
Advances Growth Ratio.....	31

Debt to Equity Ratio	32
2.5.2 Accounting Practices	33
2.6 Operations Management and Information System	33
2.6.1 Trade Operations.....	33
2.6.2 Central Operations	34
2.6.3 Admin	34
2.6.4 Treasury operations.....	34
2.6.5 Branch Operations	34
2.7 Industry and Competitive Analysis.....	34
2.7.1 SWOT Analysis:	34
2.7.2 Porter’s Five Forces Analysis:	35
2.8 Summary and Conclusions	36
2.9 Recommendations.....	36
CHAPTER 03: Project Part	38
3.1 Introduction.....	39
3.1.1 Literature Review.....	39
3.1.2 Objective	40
3.1.3 Significance.....	40
3.2 Methodology	41
3.3 Finding and Analysis	41
3.3.1 Primary IAS standards applicable for the sampled Bank’s operating in Bangladesh.....	42

3.3.2 What extent and which IAS the sampled banks are not currently complying with.	42
3.3.3 Factors behind the non-compliance of the banks with IAS.	Error!
Bookmark not defined.	
3.3.4 Ways to motivate the banks to follow IAS	43
3.3.5 Strength of the internal control systems applies in the bank	44
3.4 Summary and Conclusions	44
3.5 Recommendations.....	44
References.....	45
Appendix A.....	46

List of Figures

Figure 1: Management team of HBL Bangladesh	23
Figure 2: Net Profit Margin over the past 5 years	24
Figure 3: Efficiency Ratio over the past 5 years.....	25
Figure 4: Net Interest Margin over the past 5 years.....	26
Figure 5: Return on Assets over the past 5 years.....	27
Figure 6: Return on Equity over the past 5 years.....	28
Figure 7: Credit Deposit Ratio over the past 5 years	29
Figure 8: Cost of Fund over the past 5 years	30
Figure 9: Advances Growth Ratio over the past 5 years	31
Figure 10: Debt to Equity Ratio over the past 5 years.....	32
Figure 11: Operations at HBL Bangladesh.....	33
Figure 12: IFRS compliance in annual report 2021 of HBL Bangladesh	Error! Bookmark not defined.

List of Acronyms

HBL	Habib Bank Limited
UCP	Uniform Custom Practices
IPO	Import Policy Order
L/C	Letter of Credit
IMP	Import Permission
B/L	Bill of Lading
B/E	Bill of Entry
FDD	Foreign Demand Draft
SWIFT	Society for Worldwide Interbank Financial Telecommunications
BB	Bangladesh bank
FDR	Fixed Deposit Receipt
RTGS	Real Time Gross Settlement
BFIU	Bangladesh Financial Intelligence Unit
CAMLCO	Chief Anti Money Laundering Compliance Office
NITA	Non-Residence Investors Taka Account
EFT	National Basketball Association
FID	Financial Intelligence Department
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IASB	International Accounting Standard Board
HTM	Held to Maturity
HFT	High Frequency Trading
CRAR	Capital to Risk-Weighted Asset Ratio
SEC	Stock Exchange Commission
FI	Financial Institutions
CSR	Corporate Social Responsibility
PI	Proforma Invoice

CI	Commercial Invoice
LFA	Leave Fare Assistance
AKFED	Aga Khan Foundation for Economic Development
ATM	Automated Teller Machine
SME	Small and Medium Enterprise
LCAF	Letter of Credit Authorization Form
MFS	Mobile Financial Services
FDI	Foreign Direct Investment
FX	Foreign Exchange
HSBC	Hong Kong and Shanghai Banking Corporation

Glossary

RTGS	Real Time Gross Settlement, is a tool by Bangladesh bank which allows interbank fund transfer to happen in real time. It also allows foreign fund transfer too.
UCP	Uniform Custom Practices are set of acceptable guidelines in international trade. Which defines different roles of banks, different guidelines. This is not a law, so the violation of the practices may not result in any fine but a country can implement these as laws too.

CHAPTER 01: Internship Overview at HBL Bangladesh

1.1 Student Information

Student Name: Muhammad Salah Uddin
Student ID: 18304073
Program: Bachelor of Business Administration (BBA)
Department /School: Brac Business School
Major/ Specialization: Accounting
Minor: Marketing

1.2 Internship Information

1.2.1 Company Information:

Period: 12 weeks (June 01, 2022 to August 31, 2022)
Company name: Habib Bank Limited Bangladesh
Department: Country Operations
Address: 9-B, Moyeen Centre, Road-3, Gulshan-1, Dhaka-1212

1.2.2 On-site Internship Supervisor Information:

Name: ASM Sakhawat Hossain Khan
Position: Head of Country Operations
Email: sakhawat.khan@hbl.com
Phone: +8801709632604

1.2.3 Job Scope

Duties/Responsibilities:

- Checking and sorting daily swift messages for the department
- Record management for Trade and Central operation department
- Scrutinizing L/C documents
- FDD Sorting and record keeping
- Writing IMP form
- Reporting discrepancies found in L/C Documentation
- Reading Import Policy Order (IPO), UCP600, BFIU-26, FID Circular-1
- Report writing on the scope of Inward remittance in Bangladesh.

1.3 Internship Outcome

1.3.1 Student's contribution to the company:

Before starting my internship in HBL Bangladesh, I only had surface level knowledge about the banking industry which I had acquired from reading news articles and journal articles but

working in HBL gave me a better insight about a Bank. During my tenure in the company the followings are my learning

- **Checking and Sorting SWIFT:** Everyday my day at work would start with checking Swift messages from all the other banks which are meant for all the departments of the bank. There are certain code numbers with each message which normally indicates for which department, with which purpose the message has been sent. It is very important document for the bank as upon the receipt of this message a lot of activities and international transaction takes place.
- **Record management:** Both trade and central operations are part of operations department. Both the department deals with most of the paper work and documentation of the bank hence record management is indeed a very important and strong point for both the department. I have taken participation in record management during my time, where I filed different documents in their dedicated slot, sorted out old documents to be sent to warehouse, kept record of the files being missing, sent and created.
- **Scrutinizing L/C documents:** On my second week I have been taught about the necessary documents and their role in a letter of credit document and what are the flaws and scope of improvement. Based on my basic understanding and the help of my seniors I scrutinized and marked where I could find discrepancies based on the checklist given.
- **FDD Sorting and record keeping:** This was a bi-weekly work given by one of my seniors where, I would file FDD from different banks in their dedicated file or sometimes create new file for them and keep record of the banks and amount of the FDDs.
- **Writing IMP form:** As an obligation of the central bank whenever a payment is made against an import a form called IMP form must be filled up with the necessary information and to be kept in the document file as a proof. During my tenure I have written IMP form and checked whether the documentation aligns with the given information.
- **Reporting discrepancies:** Reporting discrepancies is another part of my daily routine as I had to go through several LC files and check if they are according to the checklist and if all the documents are in the file and if they are in order. If I find any incomplete document, I had to report it to my senior to take action.
- **Reading Materials:** studying about the practices in the banking sector was also an important part of my job. I have read UCP600 which is a clause of custom practices, I learned about the Import Policy order 2022-2023, BFIU-26 and also FID-1. which are really important and related to the banking industry as a whole. I had to come up with question if there is something that I do not understand and also there was several mock tests where my senior would ask me to explain them regarding something from my reading materials.
- **Checking CI and PI:** Commercial Invoice and Pro forma invoice are really important and considered as the proof of sale in international trade. All the

information given in the invoices are important and has to align with the L/C issue document. As a result, checking the invoices are very important.

- **Presentations:** I had to take part in two different presentations during my internship which I believe is really unique. In my first presentation I had to write a report on inward remittances of Bangladesh and there was a supporting report which I had to write too.

1.3.2 Benefits to the Student

This internship has given me opportunity to hone my existing skills and also helped me to be more analytical, hardworking and empathetic.

- **Firstly**, while working in the organization getting too much work in my department made me work hard in order to finish them which taught me the importance of hard work.
- **Secondly**, during my tenure working on Excel and PowerPoint gave me opportunity to hone my soft skills.
- **Thirdly**, working with a big team of over 40 people gave me chance to learn team building and also how to become a team player especially where all the team member are important in the work procedure. Along with the team building, I learned how to become more empathetic in a work place as many of my seniors used to get sick and where others help them in their work.
- **Moreover**, working in the heart of a bank gave me better insights on how a bank operates and which department carry away which roles. For example, what are the roles of IT, what does treasury do, what are the functions of branch operations etc.

1.3.3 Difficulties faced during the Internship Period

There are a few difficulties I faced during my internship, the most notable one I would like to point out are as follows

Transportation: Due to the geographic location of my home and due to no transportation services available by the organization, it was a little tiring for me to commute to such distance every day.

1.3.4 Recommendations

During my internship, I was allocated in two department under country operations, firstly, Trade operations and Central operations. My tenure was 45days each. However, due to my first 45 days in one single department, it took a while for me to grasp the second department as constant work was coming up from the previous department. I believe, if I were appointed in the both departments simultaneously it would have been more effective for me to learn everything.

IMP form writing can be automated, due to its manual writing there is a possibility that mistakes may happen and writing IMP requires a lot of time which I think can be invested in other works.

CHAPTER 02: Organization Part

2.1 Introduction

Habib Bank Limited is a multinational bank operating in Bangladesh since 1976. They are headquartered in Pakistan. The bank has its operations in 30 Countries including USA, China, Switzerland, Maldives etc. Currently Habib Bank is owned by the Aga Khan foundation. Habib bank operation in Bangladesh is very limited due to their catering clients. HBL maintains a corporate client portfolio and has a specific goal while operating in Bangladesh. Worldwide HBL has been recognized due to their corporate investments. Sequentially, HBL has been awarded as the Asia's best bank Transformation in 2020 by Euromoney. It has also been awarded safest bank in Pakistan.

HBL Bangladesh aims to cater the corporate houses to fulfill their need of financing needs and grow as a whole.

2.2 Overview of the Company

2.2.1 History

Founded by one of the most influential Muslim family in then India, the Habib family was the pioneer of starting a bank for the Muslim in Bombay, in 1941. It was an initiative boost up the economy of the undivided Indian continent. Starting with only 25000 rupees in 1941 Habib bank started its journey. Historically it has funded the Muslim league and also funded the Muslim community of the continent who were gravely affected in communal riot.

In 1947, after the division of two country Habib bank moved to Pakistan to serve solely the Muslim community. It's the first commercial bank of then Pakistan. After the liberation war of Bangladesh, Habib bank's branches operating in Bangladesh were acquired by the government and started operating as Agrani bank, a government owned bank. Till 1974, Habib bank was operated under the supervision and ownership of the Habib family. In 1974 the Pakistan government crisis made the Pakistan government to nationalize Habib bank as a government entity, however, corruption and poor management brought great losses to the bank.

Due to poor management the bank was on the brink of collapse, when Aga Khan foundation for economic development showed interest in buying the bank in 2001 and the government transferred the ownership to AKFED in 2002 with 51% shares.

As of, 2021 HBL has branch operations in 25 countries around the world. It is the only Asian bank to have branch in China. Previously it has served as the central bank of Maldives

2.2.2 Mission

The mission statement of HBL is: "To make our customers prosper, our staff excel and create value for shareholders."

2.2.3 Vision

The vision statement of HBL has been taken from their official website, which is:

“Enabling people to advance with confidence and success.”

2.2.4 Values

The values of HBL have been given in their official website and which are given below:

- Integrity
- Customer Centric
- Value People
- Progressive
- Excellence

2.2.5 Achievements

HBL has achieved certain awards over the years a few notable achievements are as follows:

- Best Mobile Banking & Payment Initiative of the year – HBL Mobile – Asian Banking & Finance Retail Banking Awards 2021
- Best Customer Franchise - Pakistan Banking Awards 2020
- Best Investment Bank - Pakistan Banking Awards 2020
- Best Bank for Small and Medium Businesses - Pakistan Banking Awards 2020
- Best Domestic Bank - Asiamoney Awards 2021
- Best Bank in Pakistan - Euromoney Awards 2018
- Best Influencer Marketing Campaign - HBLPSL6 - Effie Awards
- Best Digital Payment Processor - Pakistan Digital Awards

2.3 Management

2.3.1 Leadership Style:

HBL motivates a democratic leadership in its organization globally. In Bangladesh the culture and practices are same. To inspire the democratic leadership HBL has a unique program called reverse mentorship. In reverse mentorship where senior or management committee listens to the subordinates in order to give thought to their concerns too.

From my observation any sort of operational decision which are going to affect the employees are taken based on the employee feedbacks. And all the managerial decisions are taken on voting system. The company practices are really good from the point of view of an employee as they get to say something in certain agendas and which helps them to come up with solutions or assist them to take leadership roles.

2.3.2 Human Resource Practices

Human resource is one of the very important departments of an organization because they are responsible for employee wellbeing, their compensation package, any dispute, work force efficiency, selection etc. HR helps an organization to work smoothly by ensure maximum utilization of its employees.

Due to the limited operation scale in Bangladesh the HR department is consisted of very few people in HBL Bangladesh. In HBL Bangladesh the HR team is consisted of 3 people only. However, the HR is handling everything really well. The HR always communicates with employees and takes their constant feedbacks in order to make their experience better. The HR sends push email to the organization domain email about positive workplace, awareness and etc. in order to keep the employees in a working spirit.

2.3.3 Recruitment & Selection

The recruitment criteria in HBL Bangladesh are set by the headquarters. However, the practices are maintained based on Bangladeshi corporate culture. The process either starts with job ads in portals or referrals. In the first case 3 steps are followed, they are:

- **CV Screening:** In this phase, the CV received from job portals get screened initially and the potential candidates are called
- **Final Interview:** An interview gets conducted based on the screened CV candidates. A rubric and a set of questionnaires carrying marks are used in the interview. The interview is conducted by HR head and expert from the department for which the candidate had applied for.
- **Written assessment:** after the interview a small written assessment get passed on to the candidates which holds certain marks too.

If a candidate scores higher than other he gets selected and is offered the position.

However, for the referral candidates initial screening does not applies and which goes with only Interview.

2.3.4 Compensation System

The compensation package of HBL is classified. The income heads are

1. Basic Salary
2. House Allowance
3. Medical Allowance
4. Conveyance
5. LFA (Leave Fare Assistance)

A classified compensation package helps employees to exempt taxes.

2.3.5 Management team

The Management team of HBL Bangladesh is as follows:

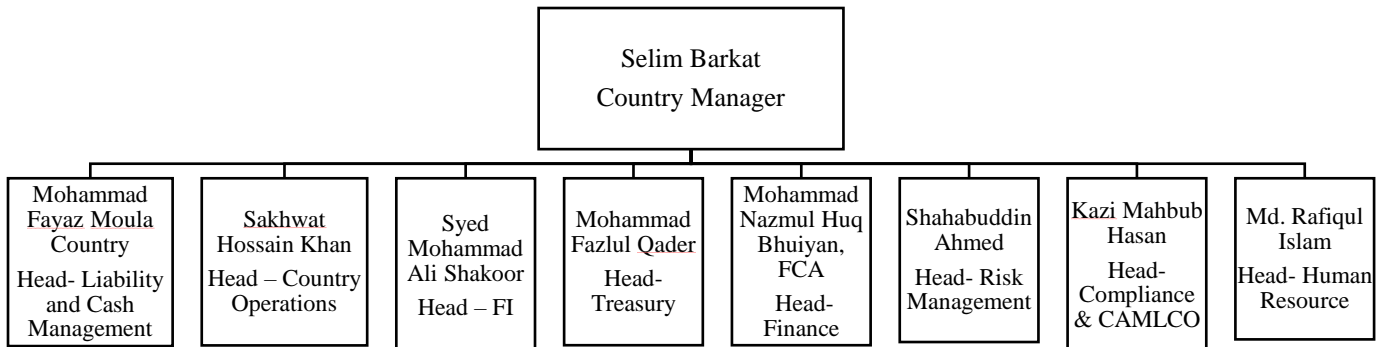


Figure 1: Management team of HBL Bangladesh

2.4 Marketing Practices

HBL Bangladesh has very little marketing visibility due to its organization goal here in Bangladesh. A company normally sets its marketing and advertisement goal based on its need of catering customers and reach. However, the target market HBL Bangladesh wants to acquire focuses less on marketing and more into offerings. To explain, marketing and branding campaigns are more frequently used on retail banking with different alluring products, however HBL Bangladesh mostly cater business entities which need less marketing expenditure and more focus on its financial performance and client catering. As a result, the marketing practices of HBL Bangladesh is not extensive. However, very few CSR activities are notable of HBL Bangladesh which allows them to do a little marketing for their brand presence reminder only.

2.5 Financial Performance and Accounting Practices

2.5.1 Financial Performance

Financial analysis helps to measure and examine the overall financial performance of a company or a financial institution by meticulously assessing the past and present data from its financial reports. This can help to understand how effectively and efficiently a company is operating. By calculating and discovering a company's profitability, liquidity, efficiency and solvency ratios, a stakeholder can make an informed decision and be aware of the overall business's financial state. With the help of comparative analysis, an establishment can evaluate its position in the market and with the aid of times series analysis it can compare its performance throughout the years. This can help the company to understand its stand in the industry and take any corrective measures and formulate strategies to achieve its financial goals

and objectives. The financial analysis of Habib Bank Limited – Bangladesh Branches (the “bank”) is as follows:

Net Profit Margin

This ratio helps to measure the overall profitability of a business. This is calculated by dividing net profit after taxation with the revenue of the bank. This ratio tells us how much profit is generated by paying all its expenses and provisions. The Net Profit Margin of Habib Bank Limited – Bangladesh Branches (the “bank”) is illustrated below:



Figure 2: Net Profit Margin over the past 5 years

Source: Data has been collected from the Bank’s financial reports

It can be seen that the Net Profit Margin fluctuated over the years. In 2017 it was 10%. However, it fell sharply in 2018 to -10%. In 2019, the ratio improved and became 6%. Again, it plummeted to -13%. In 2021, the Net Profit Margin was -12%. It can be seen that the bank is facing trouble in managing its revenue and expenses.

Efficiency Ratio

This is a key ratio to understand how efficiently a bank is handling its non-interest expenses. This is also known as Cost to Income ratio. This is measured by dividing the operating expenses by its revenue. A lower efficiency ratio is desirable as it indicates that a bank or a financial institution is able to take good care of its operating expenses. The efficiency ratio of Habib Bank Limited – Bangladesh Branches (the “bank”) is as follows:

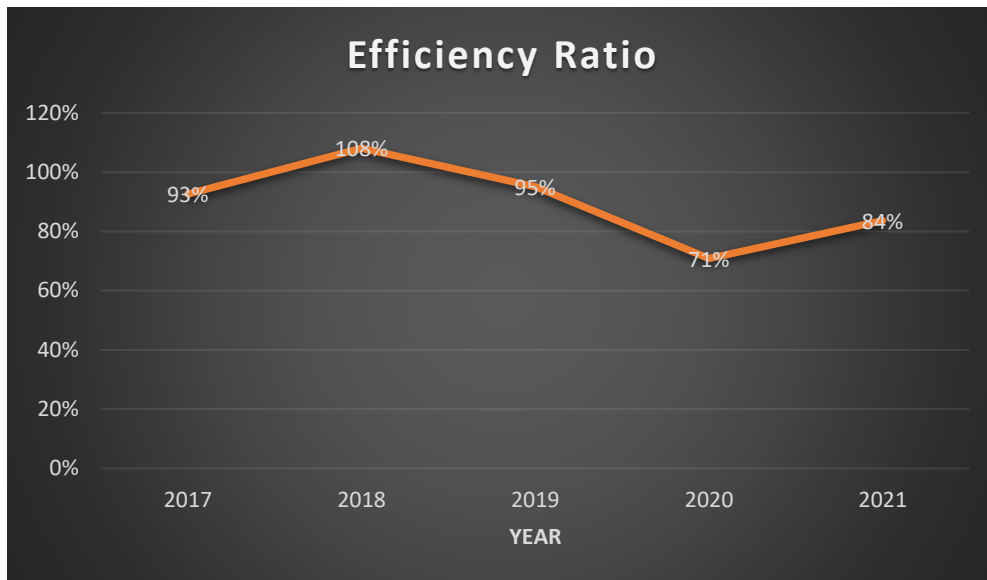


Figure 3: Efficiency Ratio over the past 5 years

Source: Data has been collected from the Bank's financial report

By deducting the above data, it is safe to say that the efficiency ratio of the bank varied significantly over the past 5 years. In 2017 the Efficiency Ratio was 93%. However, it rose to 108% in 2018. In 2019 and 2020, the Efficiency ratio was 95% and 71% respectively. The Efficiency Ratio was 84% in 2021. It seems that the bank facing difficulties in handling its non-interest expenses and revenue. In other words, the operating costs are increasing at a higher rate than its revenue.

Net Interest Margin

This is a profitability measure for any financial institutions like banks etc. It tells us how well a bank or any financial institutions are making its investment decisions. It is calculated by dividing the net interest income with advances provided. A positive net interest margin indicates that a bank is making good investment decisions and a negative margin indicates poor investment decisions. The Net Interest Margin of Habib Bank Limited – Bangladesh Branches (the “bank”) is as follows:

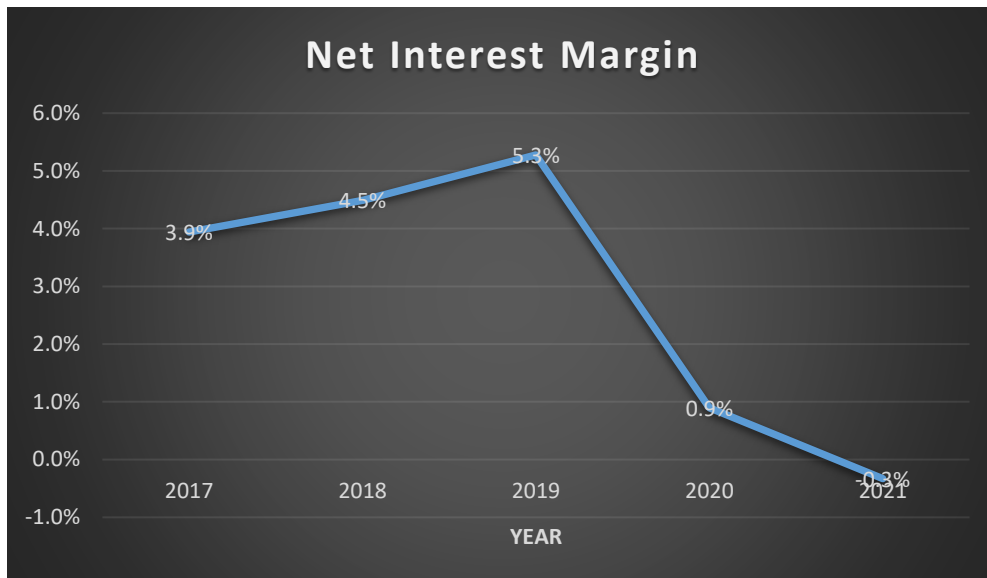


Figure 4: Net Interest Margin over the past 5 years

Source: Data has been collected from the Bank's financial report

By observing the figure provided, it can be seen that in 2017 the Net Interest Margin was 3.9%. The Net Interest Margin improved in 2018 and 2019 impressively to 4.5% and 5.3% respectively. However, the ratio dropped significantly in 2020 to 0.9% and in 2021, the ratio was -0.3%. The bank should take immediate actions to remedy the situation or else it might face some severe consequences in the future.

Return on Assets

This ratio also measures the profitability of a company. It is measured by dividing the company's net profit after taxation by its average assets. It tells us how much profit a company is generating by using its assets. The return on assets of Habib Bank Limited – Bangladesh Branches (the “bank”) is shown below:



Figure 5: Return on Assets over the past 5 years

Source: Data has been collected from the Bank's financial report

By observing the above graph, it can be deduced that the Return on Assets shifted greatly over the years. In 2017, the Return on Assets was 0.28% and it fell sharply in 2018 to -0.24%. The Return on Assets improved impressively in 2019 and became 0.15%. In 2020 and 2021, the ratio was -0.50% and -0.43% respectively. This signals that the bank is not being able to efficiently use its assets to generate its profits.

Return on Equity

Return on Equity is a similar type of ratio as the Return on Assets. Both of them evaluates the profitability of the company. This is calculated by dividing net profit after taxation with average shareholder's equity. This measures how efficiently a company is generating profit from its shareholder's investments. The Return on Equity of Habib Bank Limited – Bangladesh Branches (the “bank”) is as follows:

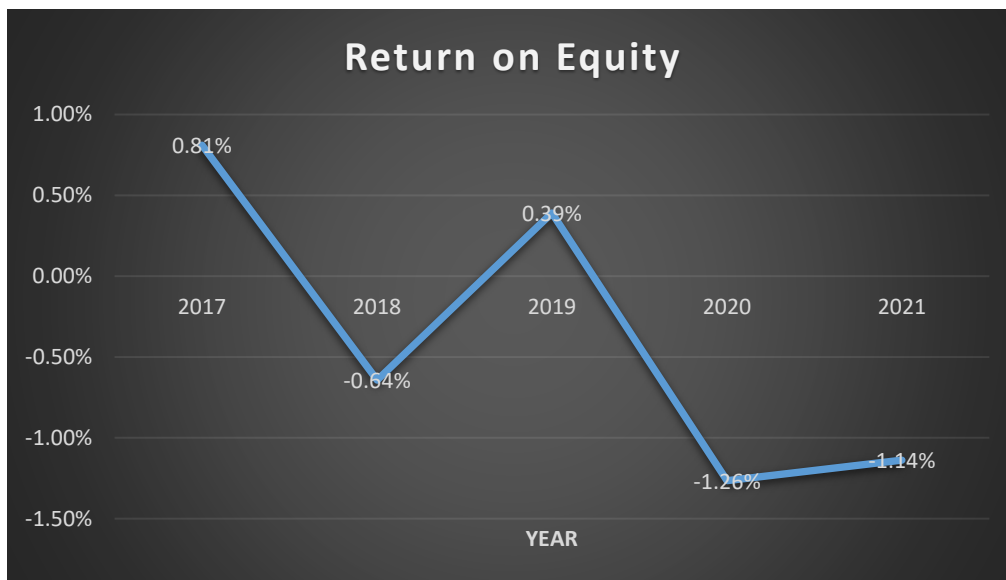


Figure 6: Return on Equity over the past 5 years

Source: Data has been collected from the Bank's financial report

By analyzing the above figure, it can be seen the Return on Equity fluctuated over the 5 years. The Return on Equity was 0.81% in 2017. On the other hand, it fell drastically in 2018 to -0.64%. In 2019, the ratio improved to 0.39%. Again, it fell sharply in 2020 to -1.26% and in 2021 the Return on Equity was -1.14%. This signals that the bank is not being able to make sufficient profit by utilizing its shareholder's investments.

Credit Deposit Ratio

This is a key ratio of a bank. This ratio shows how much a bank lends out from its deposits received. It is calculated by dividing total bank credit by aggregate deposits. A lower ratio indicates that the bank is not dependent on its deposits and a higher ratio indicates that the bank depends on providing loan from its main source of income i.e., its deposits received. The Credit Deposits Ratio of Habib Bank Limited – Bangladesh Branches (the “bank”) is given below:

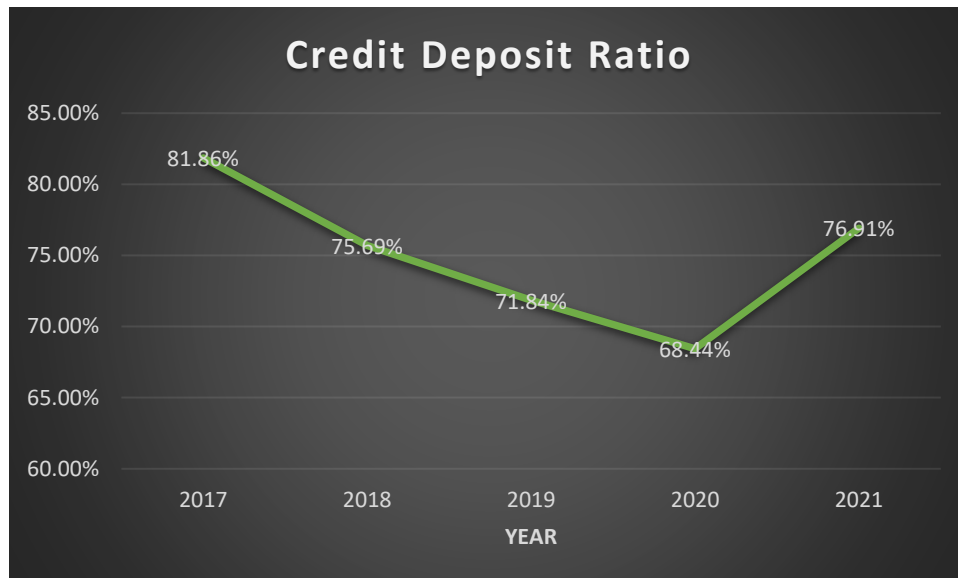


Figure 7: Credit Deposit Ratio over the past 5 years

Source: Data has been collected from the Bank's financial report

From the given graph, it can be seen that in 2017 the Credit Deposit Ratio was 81.86%. Although it fell in 2018 to 75.69% and continued to fall in 2019 and 2020 to 71.84% and 68.44% accordingly. In 2021, the Credit Deposit ratio of Habib Bank Limited was 76.91%.

Cost of Fund

This measures how much a bank or any financial institutions have to pay in order to receive funds. In other words, it is the interest rate paid by the banks to the central bank for borrowing money. The gap between the interest rate charged to borrowers and cost of fund is where the banks make profit. A low cost of fund is desirable as it generates better returns for the banks and also can be used to lend money as loan to its borrowers at a lower rate of interest. The Cost of Fund of Habib Bank Limited – Bangladesh Branches (the “bank”) is illustrated below:

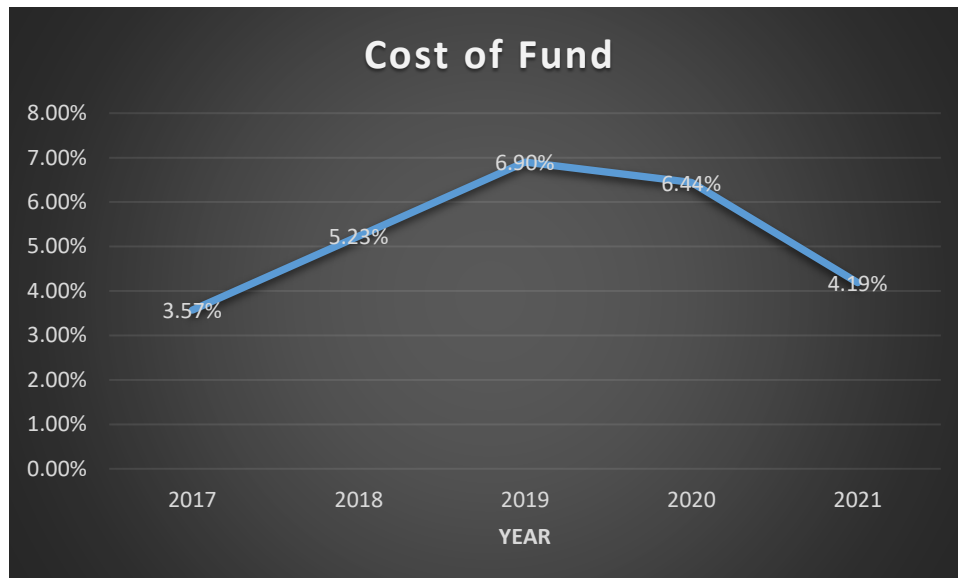


Figure 8: Cost of Fund over the past 5 years

Source: Data has been collected from the Bank's financial report

From the given diagram, it can be assessed that the Cost of Fund was 3.57% in 2017. It had an upward trend between 2018 and 2019 and was 5.23% and 6.90% respectively. In 2020, the Cost of Fund fell to 6.44% and in 2021, the Cost of Fund was 4.19%.

Advances Growth Ratio

Advances means the amount of money that the bank has lent out as loans. Advances growth ratio tells us how much the advances of a bank have increased on a yearly basis. It is an important ratio in banking and financial industry since advances are a crucial asset for the banks. It is calculated by deducting current year's advance amount with the previous year's advance amount and then dividing it by the previous year's advance amount. This ratio indicates the management performance of any company. A positive ratio is often seen as a good sign of management of the company. The advance Growth ratio Habib Bank Limited – Bangladesh Branches (the “bank”) is shown below:

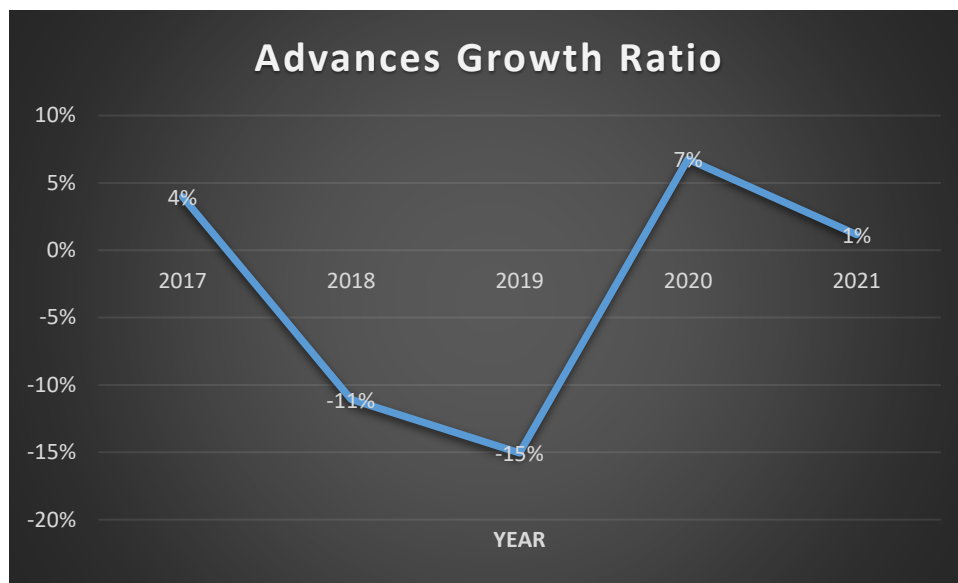


Figure 9: Advances Growth Ratio over the past 5 years

Source: Data has been collected from the Bank's financial report

By deducing the above chart, it can be seen that the Advance Growth Ratio for Habib Bank Limited was 4% in 2017. However, between 2018 and 2019 there was a downward trend and the advances fell to -11% and -15%. But in 2020, the Advances Growth ratio of the bank improved to 7% and finally in 2021 it was 1%.

Debt to Equity Ratio

This ratio measures the solvency of a company. It is measured by dividing all the liabilities of a company by its shareholder's equity. This measures the degree of how much a company is borrowing from its investors to fund for its operations. The Debt-to-Equity ratio of Habib Bank Limited – Bangladesh Branches (the “bank”) is as follows:

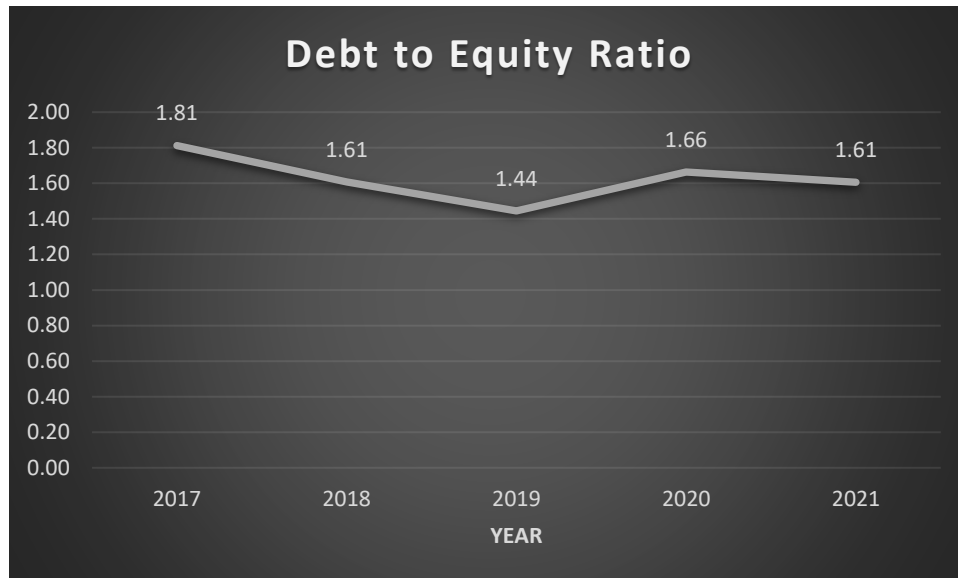


Figure 10: Debt to Equity Ratio over the past 5 years

Source: Data has been collected from the Bank's annual report

By assessing the above graph, it is safe to say that the Debt-to-Equity ratio varied over the years at a lower rate compared to the other ratios. In 2017, the Debt-to-Equity ratio of the bank was 1.81 and it fell by 11% to 1.61 in 2018. It continued to fall in 2019 to 1.44. However, the Debt-to-Equity ratio rose in 2020 to 1.66. In 2021, the Debt-to-Equity ratio for Habib bank was 1.61. It seems that the bank is not that dependent on its shareholders for funds.

2.5.2 Accounting Practices

The financial statement of Habib Bank Limited – Bangladesh Branches (‘The Bank’) consists of statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flow. Using going concern basis, the statements provide a true and fair representation by maintaining proper books of account, sufficient notes and complete disclosures of all its income, expenditures, assets, liabilities, provisions etc. The financial report is made in accordance with the Company Act, 1994, the Bank Company Act, 1991 and the rules and regulations issued by Bangladesh Bank. On accrual basis using historical cost measure, the statements have been prepared except for government treasury bills and bonds designated as ‘Hield for Trading (HFT)’ and ‘Hield to Maturity (HTM)’, which are measured at present value using mark to market and premeasured at present value using amortization concept as per DOS circular 05 dated 26 May 2008 and DOS circular 05 dated 28 January 2009 respectively. The records and evidences submitted by the bank’s branches have been maintained and consolidated in the financial statements impressively. All the financial statements are prepared in Bangladeshi Taka, BDT. The financial institution has been able to use its accounting policies consistently. It is to be noted that Habib Bank Limited – Bangladesh Branches (‘The Bank’) has sufficient provisions for its loans and advances and other assets in case of any unforeseen predicaments and also the bank was successful in maintaining Capital to Risk-weighted Asset Ratio (CRAR) as per Bangladesh Bank’s requirement.

2.6 Operations Management and Information System

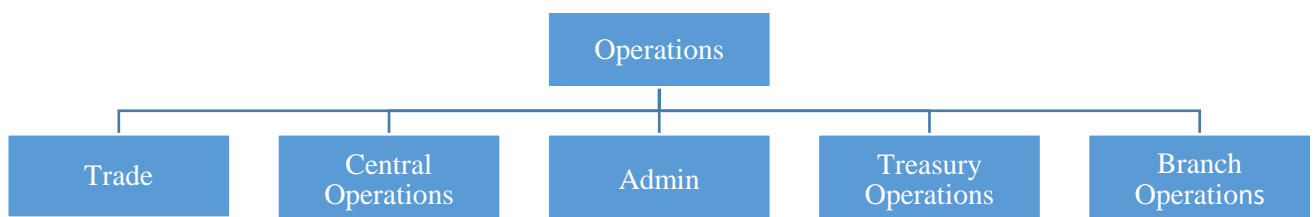


Figure 11: Operations at HBL Bangladesh

2.6.1 Trade Operations

HBL Bangladesh cater to different corporate houses with their trade operations. Trade operations in HBL Bangladesh is mostly consist of LCs, Guarantees and document credit. The trade operations in HBL are limited to corporate clients only.

2.6.2 Central Operations

The Central operations in HBL plays a vital role which includes activities such as account opening, closing, issuing FDR, doing RTGS, JRC, NITA etc.

2.6.3 Admin

The admin department at HBL Bangladesh is responsible for day-to-day activity, organizing office events, observing important days, managing office supplies, coordinating with IT department and also responsible to cater to employee needs and office maintenance.

2.6.4 Treasury operations

Treasury is one of the important parts of any bank as it is responsible for the cash inflows and outflows. In HBL Bangladesh the treasury department has two parts of which one part is handled by the operations department which is communicating with Bangladesh bank document sending, cash receiving and etc. these are the work which are completed by the operations department to help the treasury department runs smooth.

2.6.5 Branch Operations

Bank always require bank for their other day to day activities. Currently HBL Bangladesh has 6 branches around the country of which 4 are in Dhaka. the branches operating is guided by the operations department. Branch operations include, record keeping, cash collection, cash disbursement, customer handling etc.

2.7 Industry and Competitive Analysis

2.7.1 SWOT Analysis:

The applicable SWOT analysis for HBL Bangladesh is given below

Strengths:

- **Experience:** Founded in the 40s, HBL has a lot of banking experience which helps it to operate more efficiently. Through the experience it has gathered over the years it is operating till day.
- **Multinational Entity:** being a multinational, HBL has branches over 25 countries and in 10 countries they have subsidy or offices. Which gives it a leverage to deal with international trades easily.
- **Brand value:** Through the successful operations over the year HBL has gathered brand value that helps it in trade operations. And due to the parent organization AKFED it has better backing. In 2021 the profit the bank earned was \$125.

Weakness

- **Small manpower:** Since HBL Bangladesh has certain specific goals, the operation of it is small in Bangladesh as a result the manpower is low. Which forbid it from onboarding big corporates.
- **Less branches:** As the operation is small there are too few branches of HBL in Bangladesh. There are only 5 branches of HBL in Bangladesh which is a weakness.

- **Less ATM booths:** Due to small number of ATM booth, the bank is not being able to give the retail customer a good banking experience.
- **Loan confirmation process:** The loan confirmation process of HBL is lengthy than other banks, which makes a weak point for the bank in terms of competition.

Opportunities

- **Foreign Remittance:** Foreign remittance collection is a sector that HBL Bangladesh can explore as it has international branches through which they can attain the services.
- **SME loans:** HBL Bangladesh can also explore the SME loans industry which can generate quick profit for the bank.
- **Digital foreign banking:** Digital foreign banking is another tool the bank can explore, and has leverage due to the multinational operations.

Threats

- **Competitor Banks:** The banking industry in Bangladesh is very competitive as there are many banks who are looking for opportunities. So, competitors bank can acquire clients if the bank is not giving good enough services to the clients.
- **Loan default:** Currently in Bangladesh the biggest threat not only for HBL but the whole banking industry is loan default. Currently all the bank in Bangladesh has a total loan of 1.3 trillion BDT defaulted and in this the government has the majority share. So, banks have to be very careful while dealing with loan disbursement.
- **Economic slowdown:** Due to the covid-19 and Russia-Ukraine war, there are several economic crises around the world, due to the reserve shortage in Bangladesh bank there are trade barriers and guidelines which may slow down economy and the bank may lose opportunists.

2.7.2 Porter's Five Forces Analysis:

- **Power of Buyers (4/5):** In banking business the loans, trade services are normally the product offered by banks. In the case of HBL Bangladesh the customers are mostly businesses. As a result, businesses mostly refer to banks for loans and international trade settlements, as a result the buyers have more bargaining power. Normally in banking industry the power of buyers is differentiated based on the category of the accounts or customers. For example, retail banking clients have less bargain power than the corporate banking clients.
- **Power of Suppliers (3/5):** Normally in banking industry the threat of suppliers is of two kinds. One is the depositors and the internal suppliers are the employees. A bank need money flowing all the time in order to keep its operations running and making profit. The threat of depositors as individuals are minimum. However, if the depositors are businesses and large group of depositors it will become a big threat.
- **Threat of Substitutes (4/5):** Previously the threat of substitutes was not much high in the banking industry. However, in Bangladesh due to the vast number of banks

in Bangladesh. However, the threat has increased very much over the years due the other financial getaway than banks such as MFS like Bkash, Nagad, Ucash, internet banking etc.

- **Threat of new Entrants (2/5):** The threat of new entrants in the banking industry is very less comparative to other industry. As in Bangladesh a bank cannot be formed without a paid-up capital of no less than 5 billion Taka and also the permission of Bangladesh bank is required. So, in the banking industry the threat of new entrants is very low due to the barriers by government.
- **Competitive Rivalry (4.5/5):** In the financial industry the strongest threat is the competitive rivalry. The effect of the force is very intensive in thus industry. Currently there are 60 banks in Bangladesh including international banks such as Standard Chartered (SCB), HSBC, Citi N.A. etc. as a result the group of buyers have more options in banks and due the very low switching costs from one bank to another the competitive rivalry is even more to onboard new clients and retain old clients.

2.8 Summary and Conclusions

The overview of the organization focused on different aspect of the organization such as leadership, certain policies, financial analysis etc. In the overview it can be seen that the strategic analysis where SWOT and Porters five forces were described shows that there are certain strengths of the organization which competitors does not have in the market however, there are certain weaknesses such as less focus on digitization is a drawback for the organization in the industry. In the financial analysis it can be seen that the bank was not doing very well in their years of 2017, 2018 however, there is a steady growth from 2019 which can be expected to grow even further, the steady growth can be seen in the financial book that even in 2020 during the pandemic the bank performed comparatively well and till day is performing better than before. The ratio also indicates that certain obstacles are being overcome over the years and since the bank has certain specific goals to achieve in the coming years the growth only will support the achievements. HBL Bangladesh currently have a very experienced set of management team who are very dedicated towards achieving the organizations long term goal and develop it.

2.9 Recommendations

While over the few years the Operations of HBL Bangladesh has improved significantly according to company personnel, I believe there are several aspects of the organization that can be improved. Some the recommendations are already in the process of implication. I believe from my observation the following part will be helpful for the organization in order to proceed and achieve its future goals efficiently.

- As HBL is focusing on more advanced technologies, I believe changing their current backend software will be really add a value to both the customer and employees as the software are not efficient and automated enough.

- There are certain manual entries and paperwork, which can be automated. I believe automating this system will be very effective as it will help employees to use resources in another important task
- From my point of view, adding a portion for refreshment of the employees in the office will add value in employee satisfaction.
- Engaging employees into more interactive activity will help create more team building abilities.

CHAPTER 03: Project Part

3.1 Introduction

In the era of globalization and business expansion transactions of business have become more and more complex and with globalization investors of business as spread over the world. In order to keep transparency in business transactions certain rules and guidelines have been implemented in order to organize the financial data for users. International Accounting standard currently known as IFRS, is a certain set of guidelines that supports organization to reach the standard financial reporting system. In implication of IFRS, Bank applications of IFRS is different than other organization (Silvia, 2015). Bangladesh has adopted IFRS as an accounting standard for its listed and domestic companies. However, there may be deviation and modification based on special needs. However, for the foreign listed companies or banks IFRS is must as it will create an equal standard of reporting with the domestic companies and provide a better view.

In the banking sector of Bangladesh, the IFRS is not often followed which leads to different misstatement. In 2021, the Janata bank hid 377 crore taka loss through window dressing, treating the losses as expenses in their annual report which has been identified by the external auditors (Alo & Prince, 2022). The news indicates there are possibilities of misstatement if the guidelines are not followed.

3.1.1 Literature Review

International Accounting Standards (IAS) is an accounting standard set by the International Accounting Standards Board (IASB). Although, IAS were replaced by International Financial Reporting Standards (IFRS) in 2001. Although, they were replaced, the terms are seemed to be same between IAS and IFRS. The only difference they contain is IFRS16 represents Leases and IAS17 represents leases (Barhamzaid, 2018). Issued by International Accounting Standards Committee (IASC), Now IASB in 1973, International Accounting Standards (IAS) were the first international accounting standards, that was to be followed by countries and organizations in order to make businesses easier around the world and keep the record keeping unified, increase transparency with bringing trust in financial reporting of businesses, and lastly to boost up global investment and Trade (Kenton, 2022). Countries willing to adopt the IFRS had six proposed dimension of measure they are wealth and societal prosperity, relevant information inclusion around the economy, strength, accountability, Stability, adaptive economic environment (Sundar, 2010).

In the reporting process of IFRS, organization must disclose an extensive amount of financial information to its users ((Aussenegg, Inwinkl, & Schneider, 2008). Sequentially, another research has found that the usage of IFRS can make the financial reporting inefficient in some organization due its extensive data disclosure and certain guidelines which requires adequate changes in long practiced transaction model (Ahmed et al. 2013). According to Jacob & Madu, 2009, IFRS is a certain set of standards which helps organization to prepare its financial reports efficiently in order to increase comparability of the reports and help the users of the reports to take decisions properly.

According to the official site of IASB 2022, following IFRS bring Transparency, Quality and Accountability to international standards and that makes the foreign investors and international trade easier. IFRS/IAS has different standards for different organizations based on their type and work portfolio. According to KPMG, a CA firm, IAS30/IFRS9 is a regulatory objection that to be followed by banks in order to comply with the regulation. The main objective of IAS 30 is to give proper presentation and actual disclosure standards for the financial institutions and Banks that will suffice the requirement of other standards. Although, the strict adaptation of International Accounting Standards by developing countries may lead to problems and the cultures, environment and from other aspect the needs of the developing countries are different than of a developed country (Larson, 1993, p. 2).

Following the IFRS helps bank from committing material misstatement, improper asset valuation, increase inherent risk, poor internal control (Siddiqui & Podder, 2022). In a study, after a careful scrutiny of the annual reports of 4 specialized banks it has come to light that the banks are not presenting their data or complying properly with the guidelines of the IAS-30 (Zahirul Islam & Bhattacharjee, 2009). The business community has accepted that accounting is the language of business and on the other hand, financial information is a form of language. In Bangladesh, the IASs adoption process was initiated in August 1999 after the World Bank grant to the Bangladeshi Government for the development of Accounting and Auditing Standards in Bangladesh. Although it appears like the adoption of IASs was kicked off by SEC, actually effort was initiated by the international agencies and the whole process eventually transformed into a political exertion (Mir et al., 2005, p. 826).

3.1.2 Objective

The general objective of the study is to examine the application of IAS in the context of Habib Bank Limited. In order to fulfill the broad objective of the study, the study deals with the follows specific objectives:

- To identify primary IAS applicable for the sampled Bank operating in Bangladesh.
- To pinpoint to the extent to which the sampled bank is not currently complying with IAS.
- To identify the factors behind the non-compliance of the bank with IAS.
- To find out the ways to motivate the bank to follow IAS.
- To find out the strength of the internal control systems applies in the bank.

3.1.3 Significance

Foreign Banks in Bangladesh must follow the IAS/IFRS standard to keep their financial reporting transparent to its users according to the global IFRS jurisdiction. If the jurisdiction is not followed and maintained, questions may arise regarding the credibility of the activities of such financial Institutions. The study intends to point out whether HBL Bangladesh is following the IFRS/IAS requirements or not.

3.2 Methodology

The research will include both the qualitative and quantitative data which collected through semi structured interviews and from Habib Bank Limited, Bangladesh annual reports and other archival data.

For qualitative data collection, semi-structured interview has been taken into account. To get a better insight and understanding semi structured face to face interview are very much suitable as they give freedom to the respondent to discuss every aspect of the topic or question that has been asked. The main reason for choosing semi structured interview over structured interview is that it offers sufficient flexibility and can offer the respondents freedom to express their thought and information as they want (Noor, 2008). During the interview, a mixed approach of questions has been taken including few closed and open questions. During the interview no double barrel questions were asked. The questions were prepared beforehand with the intent of not influencing the answers with bias.

For quantitative data collection and analysis, the Annual reports of the companies have been analyzed. Through the secondary data collection from the annual reports the paper will be able to analyze the trend over the years in the subject matter.

The following questions were asked to the interviewee:

- Does HBL Bangladesh follow the guidelines of IFRS while preparing financial reporting?
- What are the specific IAS/IFRS standard bank follows?
- On How many aspects does the bank follow the guidelines?
- How do they treat the aspect of financial instruments?
- Does Habib bank comply with IAS/IFRS standards while preparing its financial reports?
- Do they follow basic accounting standards while record keeping?
- What are the activities the bank performs in order to maintain a strong internal control system?
- Do you think, it is possible for banks in Bangladesh to comply with all the necessary accounting standards?
- What are the improvements you think is necessary for the bank in order to create a better internal control environment?

3.3 Finding and Analysis

After accessing the data, obtained through the interviews, there are certain findings which are very answer specific to the questions asked to the interviewee. The research aimed to find out whether HBL Bangladesh is following the standard procedure of recording organizing and presenting financial data or not. The analysis will lead the to the conclusion consequently.

To begin with, according to the interviewee, as HBL has branches over 25 countries and its operations is very widespread to keep consistency in its operations HBL as a whole follows the IFRS to keep its financial books consistent throughout all the countries. It follows the IAS39, IAS32/IFRS9 for most of its financial activities, which includes its financial instrument handling. Foreign banks in Bangladesh are obliged to follow the guidelines and global standards and are more accountable than the local banks. The interview disclosed, banks mostly consider the IFRS in 3 aspect or matter. Which are consecutively, financial instruments, Financial Report presentation and Consolidation. In these three aspect banks focuses more about the standards.

3.3.1 Primary IAS standards applicable for the sampled Bank's operating in Bangladesh.

In response for an elaboration, the interviewee gave an overview regarding the three aspects where the standard plays a vital role and follows mostly. Financial Instrument are a part and parcel of a bank not to mention that Money or cash itself is a financial instrument. It is one of the most important parts of a bank. The financial instrument requires lot of attentions and consideration while dealing with. This includes, impairment of financial assets, distinguish between liability and equity. IFRS9/IAS32 is followed in this part. Secondly, comes the Presentation of financial statements, include the statement of financial position in a bank, profit and loss statement, equity statement which is given in IAS1. The IAS1 gives a certain acceptable guideline from where banks or organization can derive a suitable reporting format. In this part, IFRS7 is considered as well as it gives the obligation of certain disclosure for the user of financial reports. Lastly, the consolidation of HBL is done following the IFRS10 and IFRS12. However, HBL Bangladesh does not deal with this aspect as it does not have any other special purpose entity in Bangladesh apart from its bank operations. According to the interviewee, HBL Bangladesh does not have disclosure obligation as it is not listed in Dhaka stock exchange however, the Bangladesh bank guidelines are there which supports the IFRS7, for which the bank provide disclosures in its financial statement.

3.3.2 The extent to which the sampled bank is not currently complying with IAS.

According to the interview, in response to compliance of HBL Bangladesh while preparing its financial statements are affirmative. He mentioned more, that there are 4 audit teams who monitor the financial transactions or activities of HBL Bangladesh. Firstly, there is internal audit team in finance department. Secondly, the corporate head office of HBL has their set of internal auditors to monitor other country operations. Thirdly, the audit of Bangladesh bank often monitors and check books of HBL, for any kind of misstatement. Lastly, every year end there is external auditors who checks the book of HBL Bangladesh. With this extensive process, it has to be ensured that the bank is following all the necessary guidelines to meet global standard too.

According to the interviewee, HBL Bangladesh follows all the basic accounting standard properly and the finance department ensures it. Moreover, commenting on the overall banking industry of Bangladesh, it has been described that following all the guidelines of IFRS or IAS

in banks can be tough at times too. Certain modification is allowed by the Bangladesh bank for the local banks which gives them a leverage in their financial activities. However, the banking practices in Bangladesh is very poor comparative to other countries, which is a reason that often there are financial misstatement.

Apart from the interview, after analyzing the previous 5 years financial statement of HBL Bangladesh it can be seen in all five-audit opinion by external auditors, the bank has complied with IFRS and BFRS accordingly in their statement. In the 2021 statement it is mentioned clearly too, in the section of compliance with IFRS. The section provides a broad table which shows the certain implication and compliance with the IFRS guidelines.

2.9 Compliance with International Financial Reporting Standards (IFRS)

Name of the standards	IFRS Ref.	Implementation status by the Bank
First-time Adoption of International Financial Reporting Standards	IFRS-1	Not applicable
Share-based Payment	IFRS-2	Not applicable
Business Combinations	IFRS-3	Not applicable
Insurance Contracts	IFRS-4	Not applicable
Non-current Assets Held for Sale and Discontinued Operations	IFRS-5	Not applicable
Exploration for and Evaluation of Mineral Resources	IFRS-6	Not applicable
Financial Instruments: Disclosures	IFRS-7	Applied with some departures (note 2.1)
Operating Segments	IFRS-8	Not applicable
Financial Instruments	IFRS-9	Applied with some departures (note 2.1)
Consolidated Financial Statements	IFRS-10	Not applicable
Joint Arrangements	IFRS-11	Not applicable
Disclosure of Interest in Other Entities	IFRS-12	Not applicable
Fair Value Measurement	IFRS-13	Applied with some departures (note 2.1)
Regulatory Deferral Accounts	IFRS-14	Not applicable
Revenue from contract with customers	IFRS-15	Applied
Leases	IFRS-16	Applied
Presentation of Financial Statements	IAS-1	Applied with some departures (note 2.1)
Inventories	IAS-2	Not applicable
Statement of Cash Flows	IAS-7	Applied with some departures (note 2.1)
Accounting Policies, Changes in Accounting Estimates and Errors	IAS-8	Applied
Events After the Reporting Period	IAS-10	Applied
Construction Contracts	IAS-11	Not applicable
Income Taxes	IAS-12	Applied
Property, Plant and Equipment	IAS-16	Applied
Employee Benefits	IAS-19	Applied
Accounting for Government Grants and Disclosure of Government Assistance	IAS-20	Not applicable
The Effects of Changes in Foreign Exchange Rates	IAS-21	Applied
Borrowing Costs	IAS-23	Applied
Related Party Disclosures	IAS-24	Applied
Accounting and Reporting by Retirement Benefit Plans	IAS-26	Not applicable
Separate Financial Statements	IAS-27	Not applicable
Investments in Associates and Joint Ventures	IAS-28	Not applicable
Financial Reporting in Hyperinflationary Economies	IAS-29	Not applicable
Financial Instruments: Presentation	IAS-32	Applied with some departures (note 2.1)
Earnings Per Share	IAS-33	Not applicable
Interim Financial Reporting	IAS-34	Not applicable
Impairment of Assets	IAS-36	Applied
Provisions, Contingent Liabilities and Contingent Assets	IAS-37	Applied
Intangible Assets	IAS-38	Applied
Investment Property	IAS-40	Not applicable
Agriculture	IAS-41	Not applicable

In order to comply with certain specific rules and regulations of Bangladesh Bank which are different to IAS/IFRSs, some of the requirements specified in these IAS/IFRSs are not applied. Refer to note 2.1 for such recognition and measurement differences that are most relevant and material to the Bank.

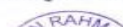


Figure 12: IFRS compliance in annual report 2021 of HBL Bangladesh

In the aforementioned figure it can be seen that apart from the specified IFRS9/ IAS32, other IFRS are in compliance and applied where it was needed based on the component of financial reporting.

3.3.3 Ways to motivate the banks to follow IAS

The interviewee added that banks in Bangladesh often take exemption in the IAS while operations due to many reasons such as faster processing, high end client support etc. However, due to this certain operating event there raises audit objection and which often scars the bank

reputation. He believes that the government regulations as well as enlightening the clients regarding the regulations can motivate both the parties into cooperation and create better operations for the bank.

3.3.4 Strength of the internal control systems applies in the bank

Referring to the question related to the internal control system, the interviewee responded with certain principles of internal control system, which are crucial and are maintained in HBL Bangladesh. The material risk recognition and assessment, segregation of duties, strong technological support, Compliance department and monitoring the internal control system constantly are the activities that are in check and which ensures that HBL Bangladesh has a strong internal control system. The interviewee added in his point that, while preparing budget of the organization and during financial decision making, the compliance with different accounting rules is taken into consideration.

Internal Control system ensures the mitigation of risk in the company and also the managing committee always oversee the measures taken to apply a strong internal control system. In HBL Bangladesh in order to make the payment secure there is a certain department named as PSU (Payment Screening Unit) which oversee all sort of transaction made by the employees to clients account and ensures transparency.

3.4 Summary and Conclusions

In a nutshell, the research focused on the proper application of International Accounting standard by HBL Bangladesh. Throughout the report it has been described that there is different aspect of the application of IAS in a bank's operation. The guidelines are being followed by HBL Bangladesh accordingly to keep their financial reporting standard and up to par. Throughout the report it has also been discussed that the importance of IFRS/IAS in financial reporting plays a vital role, however, there are certain exemption local companies can take but foreign organization has to comply with the standards due to their audit obligations and country requirement.

3.5 Recommendations

In recommendation, this paper looks into the application of IAS and its aspect mentioned for banks and whether HBL Bangladesh is following the standard or not. It has been seen that the organization is following the standard while preparing their financial reports. However, the internal control system of the organization can be improved through more internal control mechanism in order to create a stronger internal control system.

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Appendix A.

HBL Bangladesh Annual Reports Retrieve:

<https://www.hbl.com/bangladesh/information/financial-position>

Questions for Interview

- Does Habib bank comply with IAS/IFRS standards while preparing its financial reports?
- Do they follow basic accounting standards while record keeping?
- What are the activities the bank performs in order to maintain a strong internal control system?
- Do you think, it is possible for banks in Bangladesh to comply with all the necessary accounting standards?
- What are the improvements you think is necessary for the bank in order to create a better internal control environment?