2014

Financial Reporting Practices in Private Sector Commercial Banks of Bangladesh

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University of Rajshahi

M. Phil.
Thesis

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June
2014

FINANCIAL REPORTING PRACTICES IN PRIVATE SECTOR COMMERCIAL BANKS OF BANGLADESH

A thesis submitted to the Department of Accounting and Information Systems, University of Rajshahi in partial satisfaction of the requirements for the Degree of

Master of Philosophy

By

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June, 2014

Financial Reporting Practices in Private Sector Commercial Banks of Bangladesh

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DECLARATION

I do hereby declare that the dissertation entitled "Financial Reporting Practices in Private Sector Commercial Banks of Bangladesh" submitted to the Department of Accounting and Information Systems, University of Rajshahi for the Degree of Master of Philosophy, is exclusively my own and original work. No part of it in any form has been submitted to any other university or institute for any degree, diploma or for other similar purposes.

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CERTIFICATE

I am pleased to certify that the dissertation entitled "Financial Reporting Practices in Private Sector Commercial Banks of Bangladesh" is the original work of Md. Tahidur Rahman. At the best of my knowledge, this is the researcher's own achievement and is not a conjoint work. He has completed this dissertation under my direct supervision and guidance.

I also certify that I have gone through the final version of the dissertation and found it satisfactory for submission to the Department of Accounting and Information Systems, University of Rajshahi for the Degree of Master of Philosophy.

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Dedicated

to my

Father Md. Abdul Aziz Mullik

and

Mother Mst. Sazeda Begum

ACKNOWLEDGEMENTS

First of all I am grateful to Almighty Allah, as without special blessing of Allah it would not be possible to complete the dissertation in time. The completion of this dissertation would not have been possible without the cooperation, assistance and encouragement of many individuals, which I would like to put on record here with deep gratitude and great pleasure.

To whom my debts are unlimited is my supervisor, Professor Dr. Mohammad Main Uddin, Department of Accounting and Information Systems, University of Rajshahi, for his active supervision and proper guidance. His affectionate encouragement and continuous support have been instrumental to complete this study in time. I must say that without his inspiration, my work would not have seen the light of the day.

I express my special indebtedness to Professor Dr. Syed Zabid Hossain, Department of Accounting and Information Systems, University of Rajshahi, who helped me in selecting my supervisor. He has also given me many important suggestions and encouragement to complete the research successfully. He played such an important role throughout the research work as an influential mentor can do.

I am also thankful to Professor Dr. Md. Amzad Hossain, Dean, Faculty of Business Studies, University of Rajshahi, for his spontaneous guidelines and support in many aspects in conducting this research.

I shall never forget Professor Dr. Md. Ayub Ali, Department of Statistics, University of Rajshahi who taught me many statistical techniques which became very helpful in analyzing data used in this study.

It is very difficult to forget Professor Dr. Md. Nazrul Islam, Department of Accounting and Information Systems, for his inspiration and guidelines which were much needed in conducting such a difficult research work.

I am also thankful to Professor Dr. Md. Humayun Kabir, Chairman, Department of Accounting and Information Systems, University of Rajshahi for extending his generous and cooperative hand in completing the dissertation.

I also thank Dr. Md. Anwarul Haque, Associate Professor, Department of Accounting and Information Systems, Professor Dr. Md. Tazul Islam, and Professor Dr. Monzur Morshed Abedin of the same Department for their guidelines and cooperation in different steps of my work.

I am also indebted to Professor Dr. Madan Mohan Dey, Professor Mohd. Abdullah-Al Harun, Prof. Md. Abaydur Rahman Pramanik, Prof. Dr. Subash Chandr Sil, Prof. Dr. Salma Banu, Prof. Dr. Dil-Ara Hossain, Professor Dr. Abdul Mazed Chowdhury, Prof. Mrs. Fahima Khatun, Dr. Md. Ahsan Habib, Mst. Hasna Banu and all my respected teachers of

Department of Accounting and Information System for their valuable suggestion, encouragement and helps in different stages of the study.

Special thanks should be given to Mr. Anwarul Kamal Chowdhury, Assistant Professor, Department of Business Administration, Northern University Bangladesh for his wholehearted cooperation.

Mr. Md. Robiul Islam, Assistant Professor, Department of Business Administration, Bangladesh Islamic University, Dhaka and Mr. Md. Abu Sufian, Assistant Professor, Pabna University of Science and Technology, deserve many thanks for supporting me by providing many suggestions and reading materials.

I am obliged to my father in law Mr. Md. Rezaul Karim, and Mother in law Mst. Hosneara Begum, for their consistent inspiration, cooperating and sacrifice.

I specially owe to my wife Mst. Rezwana Karim, who is the key inspiration behind this research. Without her inspiration and heartiest cooperation and sacrifice, it would not be possible to provide continuous efforts in conducting the research work successfully. She encouraged me in every moment and sacrificed a lot for the successful completing of the research. Finally, I should not forget my little daughter Takia Tazmeen who has sacrificed my affection also for the success of the work.

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LIST OF ABBREVIATIONS

AAA	Australian Accounting Board
AAOIFI	Accounting and Auditing Organization of Islamic Financial Institutions
AGM	Annual General Meeting
AIBL	Al-Arafah Islami Bank Limited
APB	Accounting Principles Board
BAS	Bangladesh Accounting Standards
BB	Bangladesh Bank
BFRS	Bangladesh Financial Reporting Standards
BLE	Balance Sheet Items Related to Liabilities and Equity
BPS	Basis of Preparation of the Financial Statements
BRA	Balance Sheet Items Related to Assets
BRPD	Banking Regulation and Policy Department
BSA	Bangladesh Standards of Auditing
BSEC	Bangladesh Securities and Exchange Commission
CAR	Capital Adequacy Ratio
CDBL	Central Depository of Bangladesh Limited
CDR	Credit Deposit Ratio
CFR	Corporate Financial Reporting
CSR	Corporate Social Responsibility
DER	Debt Equity Ratio
DSE	Dhaka Stock Exchange
EPS	Earnings Per Share
EU	European Union
EXIM	Export Import Bank of Bank of Bangladesh Limited
FASB	Financial Accounting Standards Board
FCB	Foreign Commercial Banks
FS	Financial Statements
FSO	Financial Statistical and Others
GAAP	Generally Accepted Accounting Principle
GCI	General Corporate Information

GOB	Government of Bangladesh
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IBBL	Islami Bank Bangladesh Limited
ICAB	Institute of Chartered Accountants of Bangladesh
ICMAB	Institute of Cost and Management Accountants of Bangladesh
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Service Board
ISA	Income Statement Items
LSH	Log of Shareholders
LTA	Log Total Assets
NCB	Nationalized Commercial Bank
SH	Number of Shareholders
PAT	Positive Accounting Theory
PBL	Prime Bank Limited
PCB	Private Commercial Banks
RMO	Report of Management and Others
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SAFA	South Asian Federation of Accountants
SAP	Significant Accounting Policies
SB	Specialized Banks
SEC	Securities and Exchange Commission
SER	Securities and Exchange Rules
SFAC	Statement of Financial Accounting Concepts
SPSS	Statistical Package for the Social Sciences
TA	Total Assets
TDI	Total Disclosure Index
UCBL	United Commercial Bank Limited
UDI	Unweighted Disclosure Index

ABSTRACT

Banks as the most important functionary of the financial system play a dynamic role in the economic development of a nation through mobilization of savings and allocation of credit to productive sectors. Most individuals and organization make use of banks either as depositor or borrow or investor. Hence, there is a considerable and wide-spread interest in the well-being of banks and in particular their risks, solvency, liquidity and profitability. It is expected that these aspects of banks will be disclosed fairly and timely basis through financial and other reports prepared by the management of the banks so that the users of these reports can make wile decisions. The present study on Financial Reporting Practices in Private Sector Commercial Banks of Bangladesh has been conducted to evaluate the accounting and reporting practices of the banking sector in private sector. Accounting and reporting practices are guided by a multiplicity of rules, regulations, and professional requirement and also depends on the willingness of management.

The objectives of the study were: to identify the reporting requirements of private sector commercial banks in Bangladesh; examine the extent of disclosure in the financial reporting by private sector commercial banks in Bangladesh; examine the consistency of disclosure among different categories of information; examine the difference between the reporting practices of Islamic and Conventional Private Commercial Banks; determine the factors influencing the extent of disclosure in the annual reports of listed Commercial Banks in Bangladesh; and provide constructive suggestion for better financial reporting of the Banking sector on the basis of the findings of the study.

In examine the legal requirements of financial reporting; it has been found that The Companies Act, 1994 and The Bank Companies Act, 1991 plays the most vital role in

financial disclosure of banking companies in Bangladesh. In addition, banks in Bangladesh are bound to follow the circulars issued by Banking Regulation and Policy Departments (BRPD) of Bangladesh Bank (BB) and The Bangladesh Securities and Exchange Commission from time to time. Securities and Exchange Rules, 1987 requires compliance with IASs/IFRSs as adopted in Bangladesh (these are known as Bangladesh Financial Reporting Standards and Bangladesh Accounting Standards). Among the IASs/BASs and IFRSs/BFRSs IAS-1: Presentation of Financial Statements" and "IFRS-7: Financial Instruments: Disclosure" are the widely followed standard in financial reporting of private sector commercial banks in Bangladesh.
To examine the extent of disclosure in financial reporting by private commercial banks, five years' annual reports of six sample banks that cover about 27.5% of the eligible population were studied by using a researcher developed Unweighted Disclosure Index (UDI) that contains 247 disclosure items and follows the dichotomous method where one (1) is given for any disclosed item and zero (0) is given for any undisclosed item of information incorporated in the disclosure index.

Empirical findings from the analysis of the annual reports, on the basis of disclosure index, reveal that the mean disclosure of five years is 76.18 percent which was 67 percent in 2008 and 84.6 percent in 2012. The trend shows that the mean disclosure score of the banking sector is increasing. However, the rate of its increase from year to year is very high with a yearly average rate of increase 6.02 percent. The average size of annual report in terms of number of pages was increasing from year to year to a significant extent. The average number of pages in the annual reports of the sample banks was 155.2 pages in 2008 which became 330.6 pages in 2012. On the other hand, it has been observed that in 2008 about 66.67% of the banks used Bengali version beside the English version which was constant in 2009 and it gradually decreased to only 16.67% in 2012. The ranking of the banks on the basis of overall disclosure level features three banks topping the list, they are: Prime Bank Limited with a score of 87.85 percent followed by Islami Bank Bangladesh Limited with a score of 81.86% and then Bank Asia Limited with a score of 77.81 percent. But still there are some mandatory items undisclosed by the banks in Bangladesh and the mean disclosure percentage is 76.18% which implies that there are still some scopes of improving disclosure percentage in private sector commercial banks in Bangladesh. Paired sample t-test rejects the null hypothesis-1 (H_{O1}) that there is no significant difference in the level of disclosure among the Private Sector Commercial Banks in Bangladesh.

The paired sample t-test among the disclosure of different years, especially the years before and after 2010, rejects the null hypothesis-2 (H_{O2}) at 5% level and accepts alternative hypothesis that says "There is a significant difference between the disclosure percentages between the periods before and after the supersession of BAS-30 by BFRS-7 in 2010"

Among the ten categories of disclosures, a very high degree of consistency was found in the disclosure categories related to basic financial statements of which the highest consistency was seen in "Income Statement Items and Appropriation of Profit (ISA)" category. The minimum percentage of this category is 92% and the maximum is 100% while the average of this part is the highest 96.8% the standard deviation was the lowest 2.44. On the other hand, the highest standard deviation (24.29) was seen in Financial Statements (FS) category; therefore, it was the most inconsistent part of the annual reports of banking sector.

Next to this the inconsistent part is General Corporate Information (GCI) category having the minimum 40.63%, maximum 100%, mean 74.79% and standard deviation of 17.11%. The paired sample test among disclosure percentage of different parts of annual report shows that 36 pairs (80%) are statistically significant difference at 95% level of confidence among the pairs. It rejects the null hypothesis-3 (H_{O3}) and concludes that there is a significant difference among the different categories of information disclosed in the annual report of the Private Sector Commercial Banks in Bangladesh.

The descriptive statistics of both the Conventional and Islamic banks indicates that Conventional banks had the higher percentage of disclosure 78.41% which was 73.95 in Islamic banks. In order to test hypothesis four, independent samples test of different disclosure categories between Islamic and Conventional banks were conducted. The test accepts null hypothesis-4: "There is no significant difference between the financial reporting practices of Islamic Commercial Banks and that of Conventional Commercial Banks in Bangladesh" at 95% confidence level.

In the regression model Overall Disclosure Index (ODI) was the only dependent variable and there were eight independent variables. The model summary in Table-6.19 shows the F-Statistics 12.647 at $p < 0.001$ which indicates the model as a whole was well specified. The t-statistics were positive for log total asset (LTA), Earnings per Share (EPS), Debt equity ratio (DE), and Capital adequacy ratio (CAR) and negative for Log shareholders (LSH), Return on Equity (ROE), Credit deposit ratio (CD) and Listing age (LA). Log total asset (a size variable) and the listing age were the only two variables that were significantly associated with accounting disclosures at $p < 0.01$. The other variables, LSH, ROE, CD, DE, and CAR were not found to have explanatory power. Therefore, the null hypothesis-5 is rejected and the alternative hypothesis is accepted that there is a significant association between the extent of disclosure and some selected corporate attributes of Private Sector Commercial Banks in Bangladesh. Though, the impacts of all the variables are not equally significant.

The study recommends that adequate steps should be taken by regulatory bodies to ensure full compliance with relevant accounting disclosure requirements applicable in Bangladesh; The Institute of Chartered Accountants of Bangladesh (ICAB), should be given the regulatory power that may results in compliance of reporting and quality disclosure in annual report of the companies; Those who abide by the regulatory and other reporting requirements should be awarded, whereas stern actions should be taken against the culprits in order to ensure that all listed companies comply with the mandatory accounting standards in Bangladesh; the high degree of compliance and disclosure can be related to low disclosure costs which could have resulted by giving tax shield on printing cost of annual reports. All the banks should disclose the compliance status of both the National and International Standards that will in turn enhance the confidence among international users of financial reporting. This will make the financial statements comparable and will, therefore, enhance global competition, inflow of foreign direct and indirect investment, and international listings.

In order to enhance the quality and transparency of financial reporting, which is imperative to build up the confidence of a large variety of users (like investors, depositors, regulators etc.); banks should disclose all the necessary information fairly. Besides mandatory disclosure requirements, additional information should be disclosed voluntarily so that the users can take prudent decisions. The study will at least give an idea of how the banking sector of Bangladesh specially the listed private sector commercial banks are disclosing their financial information. The scope of the study can be expanded by including unlisted banks, nonbank financial institutions, manufacturing companies etc.

CHAPTER 1

INTRODUCTION

Chapter Highlights

CHAPTER 1
INTRODUCTION

1.1. Background of The Study

1.1.1. Banking Sector in Bangladesh

Banks as the most important functionary of the financial system play a dynamic role in the economic development of a nation through mobilization of savings and allocation of credit to productive sectors. Bangladesh, a developing country with enormous potentiality, has sufficient number of banks which are important partners to accelerate the development of this country. We inherited an enriched Public Sector Commercial Banks or Nationalized Commercial Banks (NCBs), namely Sonali Bank, Rupali Bank[1], Janata Bank, and Agrani Bank. To ensure smooth competition, to provide better quality services, to make finance available to the individual entrepreneurs as well as to the businessmen, and thus to accelerate the growth of national economy as a whole, government allowed the establishment of banks in the private sector from 1983. Consequently, we see many new banks in the private sector in the late 1980s and 1990s (Bhuiyan & Kamal, 2003).

Most individuals and organizations make use of banks either as depositor or borrower or investor. Hence, there is a considerable and wide-spread interest in the well-being of banks and in particular their risks, solvency, liquidity and profitability. These aspects of banks are expected from the information disclosed in their financial reports and other reports (Islam, 1997).

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[1]Rupali bank is in the process of privatization and about 10% of the bank's shares are currently held by general investors.

Both private sector and public sector commercial banks are working alongside in this country under the supervision of Bangladesh Bank (BB). Government is the sole provider of capital and the sole proprietor of public sector commercial banks in Bangladesh and is generally interested in day-to-day activities and in the ultimate result of these activities of public sector commercial banks. But a large variety of stakeholders including shareholders, governments, depositors, regulatory authorities and others are interested to know the financial performances of the private sector commercial banks. Banks convey the financial activities and the results thereof to the interested parties through preparation and presentation of financial statements via different conventional and modern media of communication.

1.1.2. Financial Reporting as Means of Communication

Financial statements are usually referred to as the ultimate output of accounting process and presentation of these financial statements is known as financial reporting. Financial reporting in broader terms not only includes financial statements but also other means of communicating information relating directly or indirectly to the information provided by the accounting system. A comprehensive financial report may typically include corporate annual reports, various statutory annual information filling with regulatory commissions and registration statements for new securities to be sold publicly (FASB, 1978). Information disclosure is a major responsibility of the financial reporting system of the business and could be in terms of financial or non financial disclosures either of which is well captured by legislative and regulatory provisions (Adekunle and Taiwo 2013). Financial reporting is synonymous to Disclosure and the terms are alternatively used.

1.1.3. Full Disclosure in Financial Reporting

Hendriksen (1992) states that "Three concepts of disclosure generally proposed are adequate, fair and full disclosure. Adequate disclosure means a minimum amount of disclosure so that the financial statements are not misleading. Fair disclosure would imply that the accounting and other information is unbiased and impartial. The ethical objective requires that there is equal treatment for all potential readers. Full disclosure means the presentation of all relevant information. It also means that the users of financial statements should be provided with all the significant and relevant information, keeping in view the objectives of financial reporting, while the information, which is immaterial, irrelevant or insignificant, should be omitted to make the presentation meaningful and understandable. In actual practice, it has been noticed that companies are generally reluctant to disclose more information that what they are required to do under the law of the land or under professional pressure."

According to Chasteen, *et al.*, as referred by Porwal (2002), "Full disclosure means the published financial statements and related notes should include any economic information related to the accounting entity that is significant enough to affect the decisions of an informed and prudent user of financial statements……. Full disclosure is aimed at improving the clarity, quality, and quantity of economic data disclosed by the accounting entity. It increases the relevance and reliability of accounting information."

According to Kieso, Weygandt and Warfield (2005), Full disclosure means the presentation of all relevant information. According to them, the convention of full disclosure suggests that every financial statement should fully disclose all pertinent information that has a bearing on the figures in the statements and that will make possible a reasonable interpretation of their meaning. The different aspects of Full Disclosure, according to them, are exhibited in the following page:

Full Disclosure in Financial Reporting				
Full Disclosure Principles	**Notes to Financial Statements**	**Disclosure Issues**	**Auditor's and Management's Reports**	**Current Reporting Issues**
• Increase in reporting requirements • Differential disclosure	• Accounting policies • Common notes	• Special transactions or events • Post balance sheet events • Diversified companies • Interim reports	• Auditor's reports • Management's reports	• Reporting on forecast and projections • Internet financial reporting • Fraudulent financial reporting • Criteria for accounting and reporting choices

Source: Kieso, *et al.* (2005)

The characteristics of information that make it a desirable commodity can be viewed as a hierarchy of qualities, with usefulness for decision making of most importance. Without usefulness, there would be no benefits from information to set against its costs. The burden of the costs and the incidence of benefits fall quite unevenly throughout the economy, and it has been rightly observed that "----- the matter of establishing disclosure requirements becomes not only a matter of judgment but also a complex balancing of many factors so that all costs and benefits receive the consideration they merit. For example, a simple rule that any information useful in making investment decisions should be disclosed fails as completely as a rule that says disclosure should not be required if competitive disadvantage results." It is obligatory for all publicly listed companies in Bangladesh to follow the 'Full Disclosure Principle' of accounting.

1.1.4. The Main Objective of Financial Reporting

Financial Accounting Standards Board (1978), in its Concept Statement No.1, states that Corporate Financial Reporting (CFR) should not only include financial statements, but also other media for disseminating information about the company, such as stock exchange documents and news releases. It considers that the main objective of CFR is to provide information useful for making business and economic decisions. It is expected that the user of financial statement would be given the fairest view of the performance and state of affairs of an individual company by allowing accountants to use judgment, in the context of that particular company, to select and present accounting figures. Financial reporting is the process of presenting financial data about a company's financial position, the company's operating performance, and its flow of funds for an accounting period. It is largely an effort to assess financial performance, that is, how well or how poorly the management of an entity has performed with money entrusted to them and also considered a part of management's accountability. Though different types of reports can be generated for the purpose of evaluating financial performance of a business, a considerable amount of attention is given to the quantitative financial statements, which includes Statement of Comprehensive Income (Income Statement), Statement of Financial Position

(Balance Sheet), Statement of Cash Flows, Statement of Changes in Equity, Statement of Liquidity and Explanatory notes to the financial statements. In this sense all the quantitative as well as qualitative statements and reports fall under the orbit of financial reporting.

1.2. Statement of the Problem

Disclosure of financial information in corporate annual reports and their determinants have attracted considerable research attention in the developed countries than developing ones. Discoveries in the developed countries most especially in the European Union (EU) have aided the government to revamp the compliance mechanisms. They have also assisted the government in issuing out directives that facilitate the harmonization process and invariably bring all community companies up to a reasonable level of disclosure. Compare to the developed countries, only a few studies have been carried out in developing countries relating to issues of disclosure and the corporate attributes influencing it (Akhtaruddin, 2005; Barako, 2007).

The global economic crisis that came to light in 2008 led to the collapse of many enterprises worldwide including some banks. The global financial recession which was ignited by situations in the United States posed serious questions about transparency and accountability of financial reporting. It is widely believed that the lack of proper use of accounting standards hinders "transparency" in the financial statements of corporations and ultimately financial statements fail to provide useful information, on a timely basis. It is often alleged, however, that listed companies do not fully comply with the disclosure requirements stipulated by the regulatory agencies (Akhtaruddin, 2005). According to Ali, Ahmed, and Henry (2004), the government regulatory bodies and the accountancy profession of emerging nations suffer from structural weaknesses and often take a lenient attitude towards default of accounting regulations. Consequently private and institutional investors (local and foreign) are hesitant in investing in such emerging economies due to lack of transparency and, therefore, emerging nations have been under pressure to improve their quality of corporate financial reporting. Overhauling the age-old company legislations and developing accounting and reporting regulations acceptable and understandable to users have become an important policy issue confronting emerging nations including Bangladesh.

Financial Reporting practices of Bangladeshi companies have been found to be deficient over, in the sense that they lack vital information that will enable stakeholders make informed decisions. A study of Malek (2005) showed that foreign banks working in Bangladesh outperformed the local private banks regarding disclosure. Belal (2000) has asserted that the disclosure practices in Bangladesh are very poor and inadequate in many respects and hence, need to be improved. Apart from these, financial reporting practices by Bangladeshi companies had been empirically investigated by Hye (1989), Alam (1990), and Dutta & Bose (2007). Their observations are quite similar in that they all have observed inadequacy of disclosure by the public companies in Bangladesh. Some scholars and researchers (Azizuddin, 2001; Khan and Kumar, 2001; Saha and Rahman, 2000; Ahmed, 2000; and Chowdhury, 2004) have identified the deficiencies of our commercial banks' financial reporting. But most of these studies were conducted more than a decade ago and since then many additional local and international reporting standards have been adopted and a lot of changes occurred in legislation, securities exchange rules, and business and reporting environment. Incessant changes in the business and reporting environment; new developments and updates in the local and international accounting standards; and changes in corporate structure and legislation call for a continuous update in the research in financial reporting.

Additional empirical evidence on financial reporting enhances the quality of literatures in this field of study which makes a research of this nature of paramount interest. In order to generate proper idea, a large number of related literatures have been reviewed. Some of the researches have been conducted on the overall disclosure practices of Bangladesh and some research have been conducted on the disclosure practices in overall banking sector of Bangladesh. But from the viewpoint management and objectives private and public sector commercial banks are different and the present growing rate of private sector commercial bank has drawn the special attention. But any research has not been found regarding the financial reporting practices covering only the private sector commercial banks in Bangladesh. Moreover, in private sector, the Islamic Banks (Islamic Shariah based banks) are growing fast in our country and the customers of Islamic banking are growing fast as well. To cater the customers' need some Conventional Banks (interest based banks) have also open Islamic banking window beside their Conventional banking activities. Even two Conventional Banks (First Security Bank[2] and EXIM Bank[3]) have been converted into fully Islamic bank. It is assumed that there will be differences in

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[2] On January 01, 2009 the bank changed its name and mode of business to Islamic Shariah Based Banking and renamed as First Security Islami Bank Ltd.

[3] The Bank has migrated all of its conventional banking operation into Shariah Based Islami Banking in July 2004.

financial reporting between Conventional banks and Islamic banks. But no research has been undertaken yet to identify whether there is any significance difference between the financial reporting practices between Conventional banks and Islamic banks in Bangladesh. The aforesaid discussion clearly identifies gaps which need to be filled up by further research in this area.

1.3. Objectives of the Study

The main objective of the study is to draw an overall picture of the financial reporting practices in private sector commercial banks of Bangladesh. Other related objectives of the study are:

1. To identify the reporting requirements of private sector commercial banks in Bangladesh.
2. To examine the extent of disclosure in the financial reporting by private sector commercial banks in Bangladesh.
3. To examine the consistency among different categories of information disclosed in the annual reports of Private Sector Commercial Banks in Bangladesh.
4. To examine whether there is any significant difference between the reporting practices of Islamic Private Commercial Banks and Conventional Private Commercial Banks in Bangladesh.
5. To determine the factors influencing the extent of disclosure in the annual reports of listed private Commercial Banks in Bangladesh; and
6. To provide constructive suggestion for better financial reporting of the banking sector on the basis of the findings of the study.

1.4. Research Questions

The research objectives of the study are guided by the following research questions:

1. Is there any significant difference in the extent of disclosure among the Private Sector Commercial Banks in Bangladesh?
2. Is there any significant difference between the periods before and after the supersession of BAS-30[4] by BFRS-7 in 2010?
3. Is there any significant difference among the different categories of information disclosed in the annual report of the Private Sector Commercial Banks in Bangladesh?
4. Is there any difference between the disclosure of Islamic Commercial Banks and that of Conventional Commercial Banks in Bangladesh?
5. What are the primary factors attributable to the overall levels of disclosure?

1.5. Research Hypothesis

In this study, five following hypotheses have been formulated on the corresponding five questions to achieve the research objectives. The hypotheses are hereby stated in the null and alternative form as follows:

Hypothesis 1

H_o: There is no significant difference in the level of disclosure among the Private Sector Commercial Banks in Bangladesh.

H_1: There is a significant difference in the level of disclosure among the Private Sector Commercial Banks in Bangladesh.

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[4] 'Bangladesh Accounting Standard-30 (BAS-30): Disclosure in the Financial Statements of Banks and Similar Financial Institutions' was one of the important standards which was being followed by Bangladeshi banks in preparing their financial statements. The standard was superseded by 'Bangladesh Financial Reporting Standard-7 (BFRS-7): Financial Instruments: Disclosure' in 2010. Since then banking companies in Bangladesh have been following BFRS-7 in preparing their financial statements.

Hypothesis 2

H_o: There is no significant difference in disclosure percentages between the periods before and after the supersession of BAS-30 by BFRS-7 in 2010.

H_1: There is a significant difference in disclosure percentages between the periods before and after the supersession of BAS-30 by BFRS-7 in 2010.

Hypothesis 3

H_o: There is no significant difference among the different categories of information disclosed in the annual report of Private Sector Commercial Banks in Bangladesh.

H_1: There is a significant difference among the different categories of information disclosed in the annual report of Private Sector Commercial Banks in Bangladesh.

Hypothesis 4

H_o: There is no significant difference between the financial reporting practices of Islamic Commercial Banks and that of Conventional Commercial Banks in Bangladesh.

H_1: There is a significant difference between the financial reporting practices of Islamic Commercial Banks and that of Conventional Commercial Banks in Bangladesh.

Hypothesis 5

H_o: There is no significant association between the extent of disclosure and some selected corporate attributes [such as Company size (Total assets and Number of shareholders), Profitability (EPS and ROE), Solvency (Debt Equity Ratio, Credit Deposit Ratio, and CAR) and Listing Age of Private Sector Commercial Banks in Bangladesh.

H_1: There is a significant association between the extent of disclosure and some selected corporate attributes [such as Company size (Total assets and Number of shareholders), Profitability (EPS and ROE), Solvency (Debt Equity Ratio, Credit Deposit Ratio, and CAR) and Listing Age of Private Sector Commercial Banks in Bangladesh.

1.6. Significance of the Study

Fair and timely corporate financial reporting is a necessary tool for the short and long term survival of an economy especially for the banking sector. The FASB (2006) concluded that the objectives of financial reporting are to provide information that: (1) is useful to those making investment and credit decisions, (2) is helpful in assessing future cash flows, and (3) Identifies the economic resources (assets), the claims to those resources (liabilities) and the changes in those resources and claims. But, evidence have been found by the researchers that companies are not interested in disclosure, and sometimes they provide misleading information and ultimately the users become loser. Disclosure practices by Bangladeshi banking companies were empirically investigated by Islam (1997), Azizuddin (2001), Khan and Kumar (2001), Saha and Rahman, (2000), Ahmed (2000), Chowdhury (2004), and Ahmed (2009) in the past, and they all discovered that corporate reporting practices in banking sector of Bangladesh is deficient. However, the following have been identified as the existing gap in knowledge:

i. Most of these studies were conducted more than a decade ago and since then there have been many changes in local and international reporting standards, legislation, business and reporting environment and securities reporting rules.

ii. The analysis of previous researchers was based on the reporting requirements during the period of their study. But reporting requirements are being changed perpetually and there is a need to keep pace with these changes.

iii. The rapidly changing global economic and financial environment calls for a constant update in this area of study.

iv. There is no comprehensive research showing the difference in disclosure between Islamic commercial banks and Conventional commercial banks in Bangladesh.

This study intends to fill the currently observed gap by considering:

i. the latest available version of annual reports (up to 2012);

ii. the latest reporting requirements operational at the time of study like 'BFRS-7';

iii. the contemporary voluntary disclosures issues;

iv. two categories of banks: Conventional and Islamic; and

v. the 'corporate attributes to disclosure' used in previous studies to examine whether they are still relevant and significant or not.

Research on financial reporting practices in a country like Bangladesh will enable the related parties to have a thorough understanding of the nature of corporate financial reporting in other developing countries. Moreover, the outcome of this research is significant to regulators, professional bodies, investors, management, accountants, auditors, researchers, educators and students in this field. With the outcome of this research, the regulatory and professional bodies would be able to ascertain the extent of disclosure by the private sector commercial Banks. This will help them to issue out necessary compliance directives and improve the compliance mechanisms to ensure a reasonable level of compliance by all companies. Quality corporate disclosure influences the quality decisions of investors. Adequate corporate disclosure will raise confidence of current and potential investors. The managers of listed banks who are entrusted to prepare user-friendly financial reports will be able to assess and develop their present level of compliance using the disclosure index generated for this research. Accountants (preparers of financial statements) and auditors of banking sector will also be able to utilize the disclosure index developed in this study to assess their extent of disclosure. This research will particularly enhance the quality of literature in the field of financial reporting in Bangladesh. Researchers in this field would be benefited from the study because it would serve as a benchmark for future research on corporate financial reporting. It throws more light and adds to understanding on the corporate disclosure practices which would be of advantage to educators and students.

1.7. Scope and Limitations of the Study

At December 31, 2012 there were a total of 30 listed private commercial banks in the Dhaka Stock Exchange (DSE). The study covers the analysis of five years' annual reports of six sample private commercial banks listed in the Dhaka Stock Exchange (DSE) all of which were in "A-Category" company for the period of 2008 to 2012. A researcher-developed checklist was constructed containing 247 unweighted disclosure items. The annual report study was restricted to the 'A Category' bank listed on the Dhaka Stock Exchange (DSE) because it is of paramount interest to investors. Based on previous studies, availability of data and its relevance to the socio-economic environment of Bangladesh, only eight independent variables categorized into four were selected as proxies for corporate attributes. The variables are: Company size (Total assets and Number of shareholders), Profitability (EPS, and ROE), Solvency (Debt equity ratio, Credit deposit ratio, and Capital Adequacy ratio), and Listing age. The present study has some limitations which should be taken into consideration in using the findings of this research. The limitations are as follows:

- The annual report study was restricted to the "A- Category" private commercial banks listed in DSE, therefore, the "Z-Category" banks and government owned listed and unlisted bank were subtracted in selecting the sample. The results would have been different if all the banks were included in the study.
- The study was conducted covering a period of 5 years from 2008-2012 in which a number of regulatory requirements were adopted. And at the middle of the study period BAS/IAS-30 was superseded by BFRS/IFRS-7, but banks were supposed to follow IAS-30 before its supersession in 2010.
- The study was based on secondary data and therefore, no primary data were incorporated which could give different view.
- The analysis and interpretation of the research was based on sample of six banks (about 27.5% of the population) which were selected on judgmental sampling approach. The results could have been different if the number of sample would increase or any probability sampling technique was applied.
- The study considered both mandatory and voluntary information in developing the disclosure index but did not classify them in analyzing and comparing the results.
- The study was conducted on the basis of 247 unweighted disclosure items of information and the results would be different if weighted disclosure index were used or items were increased or decreased.

- Based on previous studies, availability of data and its relevance to the socio-economic environment of Bangladesh, only eight independent variables were selected as proxies for corporate attributes to disclosure. Whereas some other variables could be considered.

1.8. Profile of the Sample Banks

The banking sector of Bangladesh comprises of four categories of scheduled banks such as Nationalized Commercial Banks, Nationalized Specialized Bank, Private Commercial Banks and Foreign Commercial Banks (Ahmed, 2009). According to Bangladesh Bank (BB)[5], up to 2013, there were 57 (Appendix-A) scheduled banks in Bangladesh who operate under full control and supervision of Bangladesh Bank. Out of the 57 banks, 4 are Nationalized Commercial Banks (NCBs), 31 Conventional Private Commercial Banks, 8 Islamic Commercial Banks, 9 Foreign Commercial Banks and the rest 5 are Specialized Banks. For the purpose of this study a total of six banks have been taken as sample with three Conventional banks and three Islamic banks. A short profile of the sample banks are presented here for the purpose of gaining the primary knowledge about the banks.

1.8.1. Islami Bank Bangladesh Limited(IBBL)

Islami Bank Bangladesh Limited is a Joint Venture Public Limited Company engaged in commercial banking business based on Islamic Shari'ah with 63.09% foreign shareholding having a network of total 286 Branches. It was established on the 13th

[5] Bangladesh Bank is the central bank of Bangladesh that supervises the financial institutions in Bangladesh especially the banking sector.

March 1983 as the first Islamic Bank in the South East Asia. It is listed with both the Dhaka Stock Exchange Limited and Chittagong Stock Exchange Limited. Authorized Capital of the Bank is Tk. 20,000.00 million and Paid-up Capital is Tk. 14,636.28 million with 33,686 shareholders as on 31st December 2013. The address of head office of the bank is: Islami Bank Tower, 40, Dilkusha Commercial Area, Dhaka-1000, Bangladesh. The Chairman of the Board of Directors is Professor Abu Nasser Muhammad Abduz Zaher and the Managing Director & CEO of the bank is Mohammad Abdul Mannan.

1.8.2. United Commercial Bank Limited (UCB)

United Commercial Bank Limited (UCB) started its journey in mid 1983 and is one of the first generation banks in the country. The bank has a vast network of 139 branches providing banking services like Retail banking, SME banking, Corporate banking, and Off-shore banking with the help of 3,374 employees (31.12.2012). The bank has around 40,000 card holders. The Bank also provides its clients with both incoming and outgoing remittance services. The bank currently has 21 directors. The chairman of the bank is Mr. M. A. Hashem and the name of the managing director is Mr. Muhammed Ali. The address of the registered office is: Bulus Center, Plot - CWS-(A)-1, Road No – 34, Gulshan Avenue, Dhaka-1212. The Authorized Capital and Paid-up Capital of the Bank are Tk. 15,000 million and Tk. 8,366 million respectively. The bank became listed in Dhaka Stock Exchange Limited on the 30th November 1986 and Chittagong Stock Exchange Limited on the 15th November 1995.

1.8.3. Al-Arafah Isami Bank Limited

Al-Arafah Islami Bank Limited was established and registered as a private limited company on 18 June 1995. The authorized capital of the Bank is Tk.10,000 million and the paid up capital is Tk. 7,130 million as on 31.12.2012. The manpower is 2,110 and the number of shareholders is 52,739. It has 100 branches of which 21 are AD throughout the country. The vision of the bank is to be a pioneer in Islami Banking in Bangladesh and contribute significantly to the growth of the national economy. There are 20 directors in the bank including the chairman Badiur Rahman. The managing director of the bank is Md. Habibur Rahman. The address of the head office of the bank is: 36, Dilkusha(6-9 Floor) C/A, Dhaka-1000, Bangladesh. In 1998 it became listed in the Dhaka Stock Exchange Limited.

1.8.4. Prime Bank Limited (PBL)

Prime Bank Limited was established on the 17th April 1995 with the vision "To be the best Private Commercial Bank in Bangladesh in terms of efficiency, capital adequacy, asset quality, sound management and profitability having strong liquidity." Besides the Conventional banks the bank has Islamic Banking window. The bank became listed with Chittagong Stock Exchange Limited on 15.11.1999 and with Dhaka Stock Exchange Limited on 27.03.2000. There are twenty one directors of the bank including its chairman Azam J Chowdhury. Up to December 2012 the bank had 70 branches and 1,551 employees and six subsidiaries. The address of corporate head office of the bank is: Adamjee Court, Annex Building-2, 119-120, Motijheel C/A, Dhaka-1000. The authorized and paid up capital of the bank are Tk. 25,000 million and Tk. 10,293 million respectively.

1.8.5. Bank Asia Limited

Bank Asia Limited was incorporated on 28.09.1999 and the bank got certificate of commencement on the same date. It is one of the third generation banks in Bangladesh that provides Islamic banking service in addition to Conventional banking services. Up to December 31, 2012 the bank had 13 directors, 73 branches and 1485 employees. The address of the registered office of the bank is: Rangs Tower (2nd to 6th Floor), 68, Purana Paltan, Dhaka-1000. The authorized capital and paid up capital of the bank are Tk. 15,000 million and Tk. 7,630 million respectively. The bank became listed in the Dhaka Stock Exchange in 2004.

1.8.6. Export Import Bank of Bangladesh Limited (EXIM)

Export Import Bank of Bangladesh Limited was established as a Conventional bank in the year 1999 under the leadership of Late Mr. Shahjahan Kabir, Founder Chairman. The Bank starts functioning from 3rd August, 1999 with its name as Bengal Export Import Bank Limited. On 16th November 1999, it was renamed as Export Import Bank of Bangladesh Limited. The Bank has migrated all of its conventional banking operation into Shariah Based Islami Banking in July 2004. Dr. Mohammed Haider Ali Miah is the Managing director and CEO of the Bank. The board of directors consists of 15 directors including the chairman Mr. Md. Nazrul Islam Mazumder. Up to December 31, 2012 the bank had 72 branches, 1,909 employees and 1,39,482 shareholders, paid-up capital 10,414 million, and authorized capital of Tk.20,000 million. It became listed with the Dhaka Stock Exchange and the Chittagong Stock Exchange on September 26, 2004 and September 04, 2004 respectively.

1.9. Structure of the Thesis

This thesis is divided into six chapters. Chapter I is the introduction chapter. The contents of the chapter include the introduction, background of the study, statement of the problem, objectives of the study, research questions, research hypothesis, justification of the study, scope and limitations of the study and definition of the used terms. Chapter II includes the review of related literature and finding the research gap. Chapter III is related to the Methodology of the study. It points out the important concepts and assumptions used in the study, followed by the methods of collection of data, analysis framework and interpretation thereof. Chapter IV describes the theoretical framework. This chapter is devoted to the development of conceptual framework for the development and the nature of financial reporting practices of private sector commercial banks in Bangladesh. Chapter V explores the legal, regulatory and professional requirements regarding disclosure of banking sector in Bangladesh. Chapter VI is the main chapter and is related to the presentation and analysis of the collected data through various statistical techniques and also testing the hypotheses. Chapter VII, the final chapter of the research, contains the summary of the findings, conclusion, policy implication and recommendations for further studies.

1.10. Definition of the Terms

- **Accounting Standards** are policy documents or rules that guide the preparation and presentation of financial information.
- **Bangladesh Accounting Standards** (**BASs)** are the International Accounting Standards adopted in Bangladesh by the Institute of Chartered Accountants of Bangladesh (ICAB).
- **Bangladesh Financial Reporting Standards** (**BFRSs)** are the latest International Financial Reporting Standards adopted in Bangladesh by the Institute of Chartered Accountants of Bangladesh (ICAB).
- **Convergence** refers to the process of narrowing differences between IFRS and the accounting standards of countries that retain their own standards.
- **Corporate Attributes** are company characteristics that can influence the extent of corporate disclosure.
- **Disclosure** is the appearance of quantitative or qualitative economic information relating to a business enterprise in the annual reports.
- **GAAP** is a set of accounting principles developed by the accounting profession which are generally accepted and universally practiced in accounting.
- **International Accounting Standard (IAS)** is an accounting standard issued by the International Accounting Standards Committee (IASC) now known as International Accounting Standards Board (IASB).
- **International Accounting Standards Board (IASB)** is the international standard setting body responsible for issuing International Financial Reporting Standards.

- **International Financial Reporting Standard (IFRS)** is the accounting and financial reporting standard promulgated by the IASB; it includes standards and interpretations adopted by the IASB.
- **Islamic Commercial Banks** are the banks that follow the Islamic Sharia'h in banking activities.
- **Mandatory disclosure** refers to the information companies are obliged to disclose by the legal, regulatory and professional bodies.
- **The Institute of Chartered Accountants of Bangladesh (ICAB)** is the regulatory authority of the accountancy profession in Bangladesh.
- **Conventional Commercial Banks** are the common interest based bank prevailing all over the world.
- **Voluntary disclosure** refers to the discretionary release of financial and or other information over and above the mandatory disclosure.

CHAPTER 2

LITERATURE REVIEW

Chapter Highlights

CHAPTER 2

LITERATURE REVIEW

2.1. Introduction

This chapter deals with reviewing the relevant research works on financial reporting practices or disclosure practices in national and international level. But a special concentration is given on the financial reporting practices or the disclosure practices of the banking sector in Bangladesh. A brief summary of these is presented in the following four sections to rationalize the current study.

2.2. The Pioneering Research in Developed Countries

Accounting research on financial reporting was started in the decade of 1960 and **Fremgen (1964)** became the pioneer by his work on "Corporate Reporting and Investment Decisions". In his research he showed the relationship between extent of corporate disclosure and company attributes. He utilized a random sample of 527 listed and unlisted corporate organizations for evidence of compliance with certain minimal standards of disclosure. He considered twelve explanatory variables for possible correlation with superiority of disclosure. The independent variables are profitability, asset size, method of trading shares, stock ownership, industry, frequency of external financing, stability of growth in earnings and dividends, product, degree of competition, association with CPA firms and management characteristics. Only the first four of these variables were tested. A disclosure index was made showing thirty one information items each weighted by importance. A percentage score was given to each company by dividing the number of points achieved by the total points possible for all items applicable to the company. Fremgen found that there was a positive relation between disclosure and asset size, profitability, and shareholder number. He also discovered that there was lack of disclosure of some techniques such as depreciation, inventories, recognition of income on long term contracts and income tax allocation. He found that specific items required by shareholders were not adequately disclosed. Among them were sales breakdown, research and development (current and planned), capital expenditure (current and planned), and information on management and their policies.

Singhvi and Desai (1971) acknowledged Fremgen's work as very fascinating since it was the first of its kind to show interdependence between companies attributes. Their study was to improve on Fremgen's work by examining additional variables such as earnings margin and influence of audit firms which was previously neglected by Fremgen and also to test the statistical significance of the relationship between variables. They evaluated the quality of information for fiscal year 1965-1966. Their sampling involved 100 listed and 55 unlisted corporations in the U.S. They also used weighted index of disclosure method with 34 items similar to Fremgen's. Weights were assigned to the information items based on their relative importance as indicated by committee members on corporate disclosure and security analysts. They proposed that there was a conceptual relationship between the index of disclosure (I) and the specified explanatory variables, which were asset size (A), number of shareholders (N), listing status (L), CPA firms (C), rate of return (R) and earning margin (E), modeled as : I = f(A,N,L,C,R,E). Their result revealed that listing status was the primary explanatory variable. That was in variance to Fremgen s' which showed asset size rather than listing status as the key explanatory variable. Singhvi and Desai (1971) concluded that corporations that disclose inadequate information were likely to be small in size, free from listing requirement, audited by small CPA firms and less profitable. The major limitation of the study was that its time period was only one year.

Buzby (1975) examined the relationship between adequate disclosure and the two company characteristics, asset size and listing status. A disclosure index was constructed based on information acquired from financial analysts. It is defined in terms of 39 selected types of information appearing in the annual report. Weights were assigned based on the analyst ranking in order to recognize differences in their relative importance. Eighty eight samples of companies were used, 44 were listed on either the New York (NYSE) or American (AMEX) exchanges, while the other 44 were unlisted. To test the listing status effect, Wilcoxon matched-pairs sign-ranked test was conducted and it was discovered that there was a low level of statistical significance at 0.64. To test the asset size effect that is to know if there is an association between the extent of disclosure and asset size, he conducted a Kendall rank correlation coefficient test. The results of the statistical tests reveal that the extent of disclosure is positively associated with asset size and not listing status. He finds that the extent of disclosure is positively associated with company size but not with listing status. This result is consistent with Fremgen and inconsistent with the result of Singhvi and Desai. One of the limitations of the study is that the measure of disclosure is based on only the information needs of financial analyst. Users of corporate accounts are numerous and the result based on only this user group may not adequately relate to the needs of the other users.

Barrett (1976) examined the extent and quality of corporate financial disclosure in seven countries over a ten-year period from 1963 to 1972. The countries examined were United States, United Kingdom, France, Japan, Sweden, Netherlands and West Germany. Based on the previous experiences of others, that is, Singhvi and Desai (1971) and Buzby (1975) carried out in the United States; Barrett wants to know if the American reports are superior. Fifteen large companies from each country, measured in terms of market capitalization are used as samples. To measure disclosures, seventeen disclosure items are considered, in which twelve are substantially the same as those used in earlier studies of Fremgen , Singhvi and Desai and Buzby (Barrett, 1976). To allow the comparison of the overall extent and quality of disclosure the seventeen information items are used to construct a weighted index of disclosure. The result shows that there is only a little difference in the extent of disclosure of large British and American firms. He noted that British and American firms exhibit more annual report disclosure than the firms of the other five nationals. The result of this study indicates that the extent and quality of the disclosures in American firms might not be superior to others based on the size of samples.

McNally et al (1982) extended previous studies in the United States (Singhvi and Desai, 1971 and Buzby, 1975) by examining the quality of disclosure with corporate characteristics in a different environmental setting, New Zealand. They examined 103 non-financial and non retail listed companies with 54 voluntary items using size, rate of return, growth, audit firm and industry as their independent variables. Rank order correlations are computed for the first three company attributes and quality of disclosure. The only significant relationship is found between size and information quality. One way analysis of variance test is employed to test industry group and audit size, but no significant difference is found.

Chow and Wong-Boren, (1987) provided some proofs that there may be no significant difference between weighted and unweighted disclosure indexes. Earlier studies (e.g., Singhvi and Desai, 1971; Buzby, 1975) used the matched-pair statistical procedures to test the difference between mean disclosure indexes of two or more groups of sample firms. Chow and Wong-Boren used for the first time the multiple regression procedure and the sophistication and rigorous of analysis of the regression methodology which are improving with time. Overall, the findings regarding the compliance level of companies and the relationship between the level of disclosure and various corporate attributes are mixed.

Cooke (1989) examined the annual reports of 90 Swedish firms to assess whether there was a significant relationship between some corporate attributes and the extent of disclosure. The study is different from prior studies, firstly, because it relates listed and unlisted firms with 38 unlisted, 33 listed on the Swedish Stock

Exchange, and 19 listed on both the Swedish and at least one foreign stock exchange during the year 1985. Secondly, the disclosure items are constructed based on the entirety of the annual report not just the financial statement. The disclosure index used in this study contains 224 items made up of financial statements, measurement and valuation methods, ratios, projections, financial history and social responsibility. He developed a scoring scheme to capture the level of disclosure by using a dichotomous procedure in which an item scores one if disclosed, and zero if not disclosed. When an item is not mentioned in the annual report, it is assumed that it is not relevant and the company is not scored at all. On the contrary, if it is apparent that the item is relevant, such a company will be scored zero. The method is unweighted based on the fact that each item is equally important. The index of disclosure is the ratio of the actual score to the expected score. Descriptive statistics including Chi-square, Cramer's V, Contingency coefficient, lambda and one-way analysis of variance was used in analyzing the data and it was discovered that there was a high degree of association between the listing status and disclosure indexes. In order to identify which independent variable determined the extent of disclosure, multiple regression procedure was adopted. The independent variables selected are quotation status, parent company relationship, annual sales, total assets, and number of shareholders. It is found that listing status and size are major explanatory variables for voluntary disclosure.

Cooke (1992) went further to examine the Japanese financial reporting on the premise that findings in one country may not be applicable to Japan because of its unique culture and business environment. He examines the impact of size, stock market listing and industry type on both voluntary and mandatory disclosures in the annual reports of Japanese listed corporations. Size is considered using eight variables, viz, capital stock, turnover, number of shareholders, total assets, current assets, shareholders' fund and bank borrowing. An extensive list of 165 items (65% voluntary and 35% mandatory), included in these items are disclosure recommendations by IASC and other relevant laws and accounting standards. He uses the modified dichotomous approach. Descriptive statistics reveals that mean scores for mandatory disclosure are quite high. The mandatory disclosures range from 88% to 100% while the voluntary disclosures range from 7% to 41%. A linear regression model is used to test the hypothesis. The problem of multicollinearity between the size variables is resolved by using Factor analysis by principal components. In the result, Cooke, found that manufacturing firms disclose more information than non-manufacturing firms. In conclusion, he discovers that disclosure increases with size, industry type and multiple listings.

Wallace et al (1994) investigated the impact of firm characteristics on disclosure in annual reports and accounts of Spanish firms. They also aimed at knowing whether the firm characteristics found relevant in previous study were also implicated in Spain or not. They investigate 30 listed and 20 unlisted firms in Spain for the year 1991. They construct an index of comprehensive disclosure of mandatory items as a proxy for disclosure quality for each Spanish company. Their score is based on the density (fullness) of information in their annual report. The list of information items is restricted to 16 mandatory items in order not to penalize a company for not disclosing any item. The scoring rewarded both qualitative and quantitative information. Qualitative information is scored on the basis of the number of words describing the item. The indexes vary between range 29% to 80%. They classify their independent variable into three categories, structure related (total assets, total sales and gearing), performance-related (liquidity ratio, earnings return and profit margin) and market-related variables (auditor type, industry type, listing status). Regression analysis finds the index of disclosure varies significantly positive with firm size. The coefficient of liquidity is found to be significantly negative, which implies that the Spanish firms with low liquidity disclose less information. The result also indicates that comprehensive disclosure increases with listing status. The research provides evidence that the amount of detail in Spanish corporate annual reports and accounts is increasing in firm size and stock exchange listing, and decreasing in liquidity. The limitations noticed about this study are as follows: firstly, using 50 firms may not give a stable regression equation, to achieve stability the number of firms could be increased to 100 or more. Secondly, the study focused only on 16 disclosure items, the result might be different if more items are considered and lastly the study excluded the financial sector perhaps the result might be better if this sector is included.

Wallace and Naser (1995) investigated the multivariate impact of selected firm characteristics on corporate annual reports in Hong Kong. The principal objective of the study is to provide additional insight to the corporate reporting and accounting practices of the newly industrialized nation at that time. Eighty firms listed on the

Stock Exchange of Hong Kong are utilized for the study with annual year end 1991. Eleven variables are selected as explanatory variables which are broken down into performance-related, structure-related and market-related. This is in line with the previous studies of Wallace et al. (1994). Wallace and Naser utilize a scoring scheme and researcher-created indexes similar to Wallace et al. A set of eleven characteristics are examined as determinants of researcher constructed indexes of the comprehensiveness of disclosure in the annual reports. Some variables are transformed using natural logarithmic conversion to reduce their skewness and the potential size effects of these variables on the regression equations. They used two regression models the unranked OLS and the ranked OLS procedures which gave the same results. Their findings give evidence that the disclosure indexes vary positively with asset size and in line with the results from previous research (e.g., Fremgen 1961; Singhvi and Desai 1971; and McNally et al. 1982). The scope of business operations is also significantly positive. Profit margin is significantly negative suggesting that HK firms with higher profit margins tend to provide less detailed information in their CARs. The variable representing conglomerate status (scope) is also significantly negative, suggesting that HK firms which are not conglomerates tend to provide less detail in their annual reports. They also find that market capitalization, liquidity ratios, earnings return on equity, and outside shareholders' interests are less useful in explaining variation in disclosure indexes. The study is criticised for evaluation of mandatory items only, thus ignoring voluntary disclosure items. Perhaps the disclosure indexes on non-mandatory items may reveal a profile different from the one reported in this study.

Xiao (1999) investigated the corporate disclosure requirements placed upon Chinese listed companies and the level of compliance with them. China operated a planned economic system until the late 1970s when it started its economic reform programme and adopted an open door policy. Under the old system, all enterprises were either state-owned run directly by the government, with little room for market mechanisms. Economic reforms of the 1970s and the adoption of the open door policy, however, have resulted in dramatic changes to the disclosure environment. Xiao uses descriptive analysis on 10 categories of information in annual reports of 13 companies. The ten informative items are, brief introduction of the company, three-year summary of accounting and operations data, Chairman or managing director's statement, Directors' report, Financial statements, Statement of material events, Description of related companies, Notice of the AGM, Other information and Reference information. Although this study was not statistically analyzed, it was reported that the general level of compliance appeared to be high.

Taylor and Jones (1999) investigated where and how companies that purport to be using International Accounting Standards (IAS) are referring to IAS in their financial statements. One hundred and twenty-four financial statements from a total of 26 developed and developing countries are examined and classified. Virtually all firms surveyed refer to IAS in the footnotes but refer to IAS in the audit report just under 50% of the time. The country with the largest number of IAS references is Switzerland, followed by Canada, France and Sweden.

Street and Bryant (2000) tried to examine the overall level of disclosure and the level of compliance of companies preparing IAS based financial statements. They utilize the methodology adopted by Cooke (1989, 1992) and develop hypothesis based on prior literature. Their findings reveal the overall level of compliance for the entire sample is less than or equal to 75% of several IASs. For IAS 17, 71% is observed, for IAS 19, Employee benefits, 69% is observed, for IAS 14, Segment reporting 60% is observed while 50% is observed for IAS 23 Borrowing Costs and IAS 29 Financial Reporting for Hyperinflationary economies. It is discovered that the overall level of disclosure is greater for companies with U.S. listings. Additionally, higher level of compliance is associated with an audit opinion that states the financial statements are in accordance with IASs and the accounting policies footnote that specifically states that the financial statements are prepared in accordance with IASs.

Chau and Gray (2002) examined of the association between ownership structure and voluntary disclosure of listed companies in two Asian Countries of Hong Kong and Singapore. A linear multiple regression analysis is used to test the association between the dependent variable of voluntary disclosure and the independent variable of ownership structure. In addition to the ownership structure, a number of control variables are also included in the model to test the hypotheses. They find that the extent of outside ownership is positively associated with voluntary disclosures. In particular, the results also indicate that the level of information disclosure is likely to be less in family businesses.

Glaum and Street (2003) investigated the extent to which German companies comply with both the International Accounting Standards and United States Generally Accepted Accounting Principles (GAAP), the two predominant internationally accepted sets of standards. Using financial statements of a sample of 200 companies in the year 2000, they discover that compliance ranges from 41.6% to 100%. The average compliance is 83.7% but significantly low for companies that apply IAS. They report that the overall level of disclosure is positively related to firms audited by Big 5 auditing firms and firms having cross-listings on US exchanges. Their findings further reveal that industry, country of origin, profitability, multinationality, ownership structure, firm age, and growth has no significant impact on the companies' disclosure practices.

Owusu-Ansah and Yeao (2005) studied New Zealand companies. They investigate the effect of the Financial Reporting Act of 1993 (FRA) on mandatory disclosure practices of companies listed on the New Zealand Exchange Limited. The study covers a four-year period, two consecutive years immediately before and after the effective date of the FRA. To quantify the mandatory disclosure practices of each company, a scoring template developed for each year under investigation is used to derive an index of mandatory disclosure. They use both univariate and multivariate analyses to examine the association between the levels of compliance with mandatory disclosure by the selected companies before and after the implementation of the FRA. They find that mean corporate disclosure compliance levels in the periods after the enactment of the FRA are significantly higher than those in the periods before the enactment of the legislation. They control only for the effects of seven company-specific characteristics which are company size, company age, liquidity, profitability, management equity holding, auditor-type, and industry-type. Three of the variables are found to be statistically significant; these are company size, auditor type, and profitability except for the auditor type they all have their expected signs. In the final analysis, the overall findings suggest *ceteris paribus*, that minimum corporate disclosure compliance levels between the pre- and post-FRA periods increased as a result of the implementation of the FRA.

Daske and Gebhardt (2006) evaluated the quality of the annual financial statements of firms in three European countries: Austria, Germany and Switzerland. The period covered was 1998 when the IAS/IFRS standards were revised considerably. The selected firms had already adopted internationally recognized standards (IAS/IFRS or U.S. GAAP) during the period of study. Both univariate and multivariate tests are performed using average, median, mean, t-test, spearman correlation and rank regression. Their multivariate analyses utilize a very similar set of control variables to prior research. These variables are firm size proxied by log of market capitalization or log of total assets, the number of analysts following a firm, its financing needs proxied by leverage, free float, capital intensity and performance measured by return on assets. Their evidence shows that disclosure quality has increased significantly with the adoption of IFRS in the three countries studied, even when controlling firm characteristics.

Iatridis (2008) examined the disclosure of accounting information in the financial statements of UK firms. The study also examines the financial attributes of firms that disclose key accounting issues such as risk exposure, changes in accounting policies, use of international financial reporting standards and hedging practices. Their evidence reveals that firms that provide informative accounting disclosures appear to display higher size, growth, profitability and leverage measures. His findings also reveal that the implementation of international financial reporting standards promotes consistency and reliability of financial reports, enhances the quality and the comparability of financial statements and also facilitates companies raising capital internationally.

2.3. Studies in Developing Countries Beyond Bangladesh

Some research works have also been done on financial reporting or disclosure practices in developing countries. Only a few of this works are summarized below:

Wallace (1988) empirically examined Nigerian financial reporting environment. His work is one of the pioneer studies on the Nigerian corporate reporting. His study won international recognition and award since this is the first work to show a detailed analysis of this subject empirically. Wallace investigates the extent of disclosure using statutory and voluntary item, similar to some other studies. Wallace's choice of information items was relevant to the user group - accountants, top civil servants, managers, investors and other professionals. He uses a sample of

47 companies, 54% of the total population of listed firms quoted at the Nigerian Stock Exchange during 1982 and 1986. Disclosure is treated as a dichotomous item, 1 for an item disclosed and 0 for those not disclosed. The scoring system is informed by its intensity. Two types of disclosure indexes are constructed, unweighted and weighted. The weighted disclosure index reflects the preferences of the six-user groups. The result of the analysis reveals that companies which publish annual reports do not adequately comply with the disclosure regime. The overall disclosure index reveals the weakness in the disclosure practice in Nigeria, ranging from 37.55% to 43.11%. There is a high level of disclosure relating to balance sheet, historical items and valuation methods, whereas there are apparent weaknesses in status data, social reporting, income statement items and projections. Among the disclosure list 26 items were not disclosed by any company in this Nigerian study.

Watts and Zimmerman (1990) argue that larger companies are likely to show more information in order to improve the confidence of stakeholders and to reduce political costs. Generally, large firms disclose more information than smaller ones (Meek et al, 1995). On the other hand, it can also be argued that large firms are visible and susceptible to political attacks, in the form of pressure for the exercise of social responsibility, greater regulation such as price control and higher corporate taxes. Firms may react to this political action by avoiding attention which disclosure of some significant facts could have brought to them. Therefore, large firms disclose less detailed information in their annual reports to avoid attention (Wallace et al 1994; Wallace and Naser, 1995)

Owusu-Ansah (1998) empirically investigates the degree of influence of eight corporate attributes on the extent of mandatory disclosure and reporting of 49 listed companies in Zimbabwe. Owusu-Ansah used an unweighted relative disclosure index method which consists of 32 disclosure items from the three regulatory sources in Zimbabwe (i.e., the adopted IAS, the Companies Act, and the listing rules of the ZSE). To capture the intensity of the disclosure of these items, they were disaggregated into 214 sub-items. Using multivariate regression models, he discovers that company size, ownership structure, company age, multinational corporation alienation, and profitability have statistically significant positive effect on mandatory disclosure while the quality of external audit, industry-type and liquidity were statistically insignificant. Some of the results were consistent with prior studies.

Chamisa (2000) also examined the compliance of listed companies with the IASC standard in Zimbabwe. His results reveal high significance for both the compliance level and the impact of the IASC standards on the corporate reporting practices. He concludes that the IASC standards are relevant to Zimbabwe and similar capitalistic developing countries.

Naser et al (2002) investigated the changes in the disclosure practices of Jordan after introducing IASs and the relationship between fifteen corporate attributes and depth of information. The outcome of the analysis reveals there is a slight increase in information disclosure after the introduction of the IASs. He also finds that the depth of disclosure is associated with profitability, size, liquidity, gearing and audit firm status.

Ahmed (2005) investigated the extent of voluntary reporting practices of listed non-financial companies with 12 disclosure items for 100 companies in India. He also relates the extent of voluntary reporting practices to industry type. An unweighted disclosure index was applied to the corporate annual reports for the year ending between June 30, 2002 and December 31, 2002. He finds that the level of reporting voluntary information items is low and the variability in the level of reporting among the companies is wide. Sector wise comparison of voluntary reporting shows little fluctuations among the sectors that indicate a great deal of similarity among them in respect of reporting voluntary information items.

Ofoegbu and Okoye (2006) investigate the extent to which Statement of Accounting standards are complied within Nigeria. Using a sample of seven standards (SAS 3, 7, 8, 10, 11, 18 and 19) conveniently chosen, they analyzed the annual reports of 41 companies publicly quoted at the Nigerian Stock Exchange. It is discovered that there is a mixed result of compliance with disclosure requirements. Notably, full compliance (100%) is recorded for items such as: bases of determining book value of assets, cash flow presentations, disclosure of various forms of tax and movements of taxes and assets during the year. Partial compliance (ranging from 2% to 90%) is recorded for items such as: frequency of revaluation policy, amount of foreign exchange gain or loss, maturity profile of risk asset of banks, and commission paid/received.

Dahawy and Conover (2007) conducted a detailed analysis of the disclosures of the financial statements of listed companies in the Egyptian Stock Exchange. They use the disclosure check list already designed by the Egyptian Capital Market Authority to measure compliance of the companies to disclosure requirement of the standards. The findings reveal that not all the companies comply fully with the international standard. The compliance rate is between 52% and 76% with an average disclosure level of 62%. The lowest level of compliance is noticed for consolidated financial statements, leasing and treatment of intangible assets.

Hossain (2008) empirically investigated the extent of both mandatory and voluntary disclosure by listed banking companies in India. It reports the results of the association between company-specific attributes and total disclosure, i.e., mandatory and voluntary, of the sample companies. A total of 184 items were selected of which 101 were mandatory and 81 were voluntary. The study used Ordinary Least Square (OLS) regression model for all variables and revealed that that size, profitability, board composition, and market discipline variables are significant, and other variables such as age, complexity of business and asset-in-place are insignificant in explaining the level of disclosure. Results also indicate that Indian banks are very compliant with the rules regarding mandatory disclosure. In contrast, they are far behind in disclosing voluntary items.

Adekunle and Taiwo (2013) examined financial reporting practices among post consolidation banks in Nigeria and the subsequent stability of the banks. The study relied on secondary data collected through in-depth content analysis of published annual reports and accounts of 13 out of the 21 banks quoted on the Nigerian Stock Exchange between 2005 and 2009. Reporting practices by the banks were predicated on scores obtained from a Composite Disclosure Index (CDI) computed from a checklist from SASs and Prudential Guidelines' requirements. The results indicated a high level of compliance with the mandatory disclosure requirements for banks. In addition, the regression results showed that disclosure has a positive and significant influence on banks stability (as defined by ROA and liquidity). The study found that the existing mandatory information disclosure requirements were inadequate and require to be strengthened.

2.4. Previous Studies in Bangladesh

Financial Reporting practices or disclosure practices in Bangladesh were investigated by a number of researchers. Summary of some of the notable literatures on this field is shown in this section of literature review.

Islam (1997) evaluated the financial reporting of the commercial banks in Bangladesh. In this study he analyzed 10 years' annual reports of 14 commercial banks working in Bangladesh dividing them into three categories such as Nationalized Commercial Banks, Foreign commercial Banks and Native commercial banks and excluded the banks aged less than five years for better comparison of data. This is one of the pioneering researches in the field of financial reporting in the banking sector of Bangladesh. In this study, he used only few items in the disclosure checklist based on IAS-30 and also used very simple statistical techniques. He didn't try to include and analyze the corporate attributes influencing financial reporting.

Rahman (1999) in his study highlighted the nature of mandatory and voluntary disclosure practices of 20 listed manufacturing companies in Bangladesh. This study was based on secondary data. A survey of accountants was undertaken which consists of an analysis of the annual reports of the sample companies on the basis of 375 disclosure items. The results show that disclosure varies widely within the sample companies, and the extent of disclosure is significantly related to industry types. Companies of the Textile sector are found to disclose significantly less information than what disclosed by companies of other sectors. The findings also indicate that the compliance with voluntary disclosure equipments is much lower compared to the compliance with mandatory discourse requiems and that no company disclosed all mandatory information items in its annual report. The paper has shown that disclosure is very changeable, and that there is a significant association between the extent of disclosure and industry type. Disclosure by Pharmaceuticals and Chemicals is higher than that of companies with other industry type. The limitation of the study is that no hypothesis has been tested empirically.

Haque (2002) in his study set the objective as to evaluate the degree of compliance with IAS adopted by ICAB and some other good governance practice in other countries. The study was based on both primary and secondary data. In the survey references were made to better quality annual reports from multinationals companies in Bangladesh and some other countries, such as Sri Lanka, India and UK. Annual reports from these countries covered issues such as corporate strategies, human resource and environmental concerns more elaborately and understandable for readers of annual accounting reports. The major findings of the study are that the high magnitude of the crisis faced in USA, UK and other countries corporate governance and accounting related matters have been receiving due attention from all concerned so that workable solutions are found out within the legal and administrative systems. The survey found various inadequacies in annual accounting reports and there was lack of uniformity in several required disclosures. The limitation of the study is that no hypothesis was developed and tested empirically.

Karim and Ahmed (2005) in their study empirically examined the level of disclosure of financial information upon adoption of International Accounting Standards (IASs) in Bangladesh and the association between a number of corporate attributes and levels of disclosure in corporate annual reports in Bangladesh. An unweighted disclosure index comprising 411 items was prepared and applied to 188 corporate annual reports for years ending between January and December 2003. The association between the extent of disclosure and various corporate characteristics was examined using multiple linear regression models. It was found that corporate size, profitability, stock exchange security category (Z category or not), size and international link of company's auditor, and multinational subsidiary are all significantly associated with the extent of disclosure. The results were consistent with some previous studies while they contradict with the findings of some other studies.

Haque and Islam (2005) examined compliance status of IAS-30 by the banking companies in Bangladesh and tried to find out whether there were statistical differences in compliance of IAS- 30 between publicly Traded Banks and Nationalized Banks. This study revealed that the banks of our county follow the IAS-30 requirements as far as possible. This study also found that there was no significant difference in terms of compliance of IAS-30 between the publicly traded and nationalized banks. The limitation of their study is that the findings do not provide any support for significant influence on the disclosure index.

Akhtaruddin (2005) investigates the extent of mandatory disclosure by 94 Company listed both on the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). He asserted the relationship between company specific characteristics (age, size, status, profitability) and mandatory disclosure of the sample companies. The disclosure index employed in this study is based mainly on the three regulatory sources namely, the Companies Act 1994, disclosure requirements of the stock exchanges, and the approved IASs. Using unweighted disclosure index and OLS regression analysis, they find that companies, on average, disclose 44% of the items of information. In addition they find that company age, profitability and status have no significant effect on disclosure however; there is little support for industry size as a predictor of mandatory disclosure.

Hasan et al. (2010) in their study entitled "Corporate Governance and Financial Reporting Disclosures: Bangladesh Perspective" tried to investigate the influence of corporate governance on financial reporting disclosures in non-financial companies.

They found that corporate governance is significantly associated with the extent of financial reporting disclosures. External auditor, multi-listing and profitability were also found significantly associated with overall financial reporting disclosures index at 5 percent level. In selecting the sample they followed Stratified sampling technique and categorized under four stratums and purposively selected five companies from each stratum that is 25 percent from each stratum. In the development of disclosure index they followed unweighted disclosure index with dichotomous scoring system. The study concluded with the remark "The level of financial disclosures in Bangladesh is increasing gradually but it is still below the level of expectation. Besides, the reliability and transparency level of financial disclosures is very low and hence the confidence level of external users' is also at a very low stage".

Ahmed et al. (2011) explored the disclosure or reporting practices of accounting changes in the annual report of 37 companies from various industries listed on the Dhaka Stock Exchange (DSE) for the period of ten years from the year 2000 to 2008. Simple Random sampling technique was used in this study and companies are selected randomly by using random number table. A number of 365 annual reports were scrutinized and used to analyze the practice of the DSE listed companies. This study also discusses the relationship between reporting accounting changes and earnings per share, firm size and audit firm. Lastly, the research finding shows that accounting changes were done every year and the most obvious changes were evident from the year 2001 to 2003. Only at 2004, there was a significant relationship between reporting accounting changes and audit firm.

Ullah (2013) analyzed the financial reporting practices of Islamic Banks in Bangladesh considering all the seven full phased Islamic banks in Bangladesh. He observed that legal and regulatory framework for Islamic Banks in Bangladesh were complicated. Using an un-weighted disclosure index containing 144 items of information was used in this study to examine the extent of disclosure over a five year period from 2006 to 2010. The regression model used in this study found the size variable proxied by Total Assets, Gross Revenue, and Number of Branches is the only influential variables that contribute to disclosure of Islamic banks in Bangladesh. The main limitation of the study is that it has not compare the disclosure of Islamic Banks with the Conventional Banks.

2.5. Conclusion

During the last few decades, a lot of researches have been conducted in national and international levels on different issues of accounting like financial Reporting or disclosure practice, multidimensional aspects of financial reporting, disclosure policy, harmonization of International Accounting Standard and so forth. But "Financial reporting practices in private sector commercial banks" is still a matter of expectation in Bangladesh. Because, in the past, only a few research were conducted in this field most of which were conducted more than a decade ago.

CHAPTER 3

THEORETICAL FRAMEWORK

Chapter Highlights

3.1. Introduction

3.2. IASB's Conceptual Framework for Financial Reporting

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CHAPTER 3
THEORETICAL FRAMEWORK

3.1. Introduction

Accounting research on financial reporting or disclosure is governed by a theoretical framework. Researchers of this field have been using different theoretical framework and models in their studies related to financial reporting, such as Positive Accounting Theory, The Agency Theory, Economic Models, and the Business Molels etc. But "there is no generally accepted theory governing financial reporting disclosure (Al-Shammari, 2005; Schipper, 2007)." In this chapter we shall discuss different conceptual frameworks, theories, and models and finally develop our own model for corporate financial reporting practices in Private Sector Commercial Banks of Bangladesh.

3.2. IASB's Conceptual Framework for Financial Reporting

An exposure draft entitled "Conceptual Framework for Financial Reporting: The Reporting Entity" was published by the International Accounting Standards Board (IASB) in March 2010. The proposal in the exposure draft was subject to modification in the light of the comments received before being issued in final form. The main focus of this paper was given on the conceptual matters relating to the reporting entity. Other active phases were considering many conceptual matters, such as: the objective of financial reporting and the qualitative characteristics of financial reporting information, the elements of financial statements, and measurement. Some important concepts of this paper are worth mentionable in the research field of Financial Reporting. A summary of this framework is as follows:

Introduction: The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided. The reporting entity concept is intended to further this objective.

The Reporting Entity: The exposure draft explained the Reporting Entity in the summary section as follows:

"A reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided.

An entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. If an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements.

A portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished objectively from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity."

Consolidated financial statements: This paper introduced the necessity of preparing and presenting the Consolidated Financial Statements in the following words:

"An entity controls another entity when it has the power to direct the activities of that other entity to generate benefits for (or limit losses to) itself. If one entity controls another entity, the cash flows and other benefits flowing from the controlling entity to its equity investors, lenders and other creditors often depend significantly on the cash flows and other benefits obtained from the entities it controls, which in turn depend on those entities' activities and the controlling entity's direction of those activities. Accordingly, if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements. Consolidated financial statements are most likely to provide useful information to the greatest number of users.

Two or more entities may share the power to direct the activities of another entity to generate benefits for (or limit losses to) themselves. In this case, none of the entities that share the power to direct the activities of this other entity individually controls this other entity. Accordingly, none of these entities would present information about itself and this other entity on a consolidated basis. If one entity has significant influence over another entity, it does not control that other entity. The entity's ability to influence the activities of another entity without actually being able to direct those activities does not constitute power over that other entity."

Parent-only financial statements: A controlling entity may present financial statements that provide information about its investments in the entities it controls, and the returns on those investments, rather than the economic resources and claims, and changes in those economic resources and claims, of those entities it controls. Such 'parent-only' financial statements might provide useful information if they are presented together with consolidated financial statements.

Combined financial statements: Combined financial statements include information about two or more commonly controlled entities. Combined financial statements do not include information about the controlling entity and are often prepared when the controlling entity does not prepare financial reports. Combined financial statements might provide useful information about the commonly controlled entities as a group.

3.3. FASB's Conceptual Framework for Financial Reporting

Financial Accounting Standards Board (FASB), the U.S based regulatory body of accounting, issued another exposure draft for comment explaining some concept which are very relevant and important to any research in the field of accounting. The summary concepts of this paper are as follows (FASB, 2010):

Introduction to the Framework: The Conceptual Framework for Financial Reporting establishes the concepts that underlie financial reporting. The framework is a coherent system of concepts that flow from an objective. The objective identifies the purpose of financial reporting. The other concepts provide guidance on identifying the boundaries of financial reporting, selecting the transactions, other events, and circumstances to be represented, how they should be recognized and measured (or disclosed), and how they should be summarized and reported.

CHAPTER 1: The Objective of Financial Reporting:

In the chapter one of the framework the following objectives of financial reporting have been identified:

Providing Information Useful in Making Investment and Credit Decisions: The objective of general purpose external financial reporting is to provide information that is useful to present and potential investors and creditors and others in making investment, credit, and similar resource allocation decisions.

Information Useful in Assessing Cash Flow Prospects: To help achieve its objective, financial reporting should provide information to help present and potential investors and creditors and others to assess the amounts, timing, and uncertainty of the entity's future cash inflows and outflows (the entity's future cash flows). That information is essential in assessing an entity's ability to generate net cash inflows and thus, to provide returns to investors and creditors.

Information about an Entity's Resources, Claims to Those Resources, and Changes in Resources and Claims: To help present and potential investors and creditors and others in assessing an entity's ability to generate net cash inflows, financial reporting should provide information about the economic resources of the entity(its assets) and the claims to those resources (its liabilities and equity). Information about the effects of transactions and other events and circum stances that change resources and claims to them is also essential.

CHAPTER 2: Qualitative Characteristics of Decision-Useful Financial Reporting

Users and Preparers of Financial Information

In developing financial reporting standards, standard setters presume that those who use the resulting information will have a reasonable knowledge of business and economic activities and be able to read a financial report. Standard setters also presume that users of financial reporting information will review and analyze the information with reasonable diligence. Standard setters also presume that preparers of financial reports will exercise due care in implementing a financial reporting requirement. Exercising due care includes comprehending the reporting requirements for a transaction or other event and applying them properly, as well as presenting the resulting information clearly and concisely.

The Qualitative Characteristics

Relevance: To be useful in making investment, credit, and similar resource allocation decisions, information must be relevant to those decisions. Relevant information is capable of making a difference in the decisions of users by helping them to evaluate the potential effects of past, present, or future transactions or other events on future cash flows (predictive value) or to confirm or correct their previous evaluations (confirmatory value). Timeliness—making information available to decision makers before it loses its capacity to influence decisions—is another aspect of relevance.

Faithful Representation: To be useful in making investment, credit, and similar resource allocation decisions, information must be a faithful representation of the real-world economic phenomena that it purports to represent. The phenomena represented in financial reports are economic resources and obligations and the transactions and other events and circum stances that change them. To be a faithful representation of those economic phenomena, information must be verifiable, neutral, and complete. (The qualitative characteristic of faithful representation would replace the qualitative characteristic of reliability that appears in the Boards' existing frameworks. To assure users that information faithfully represents the economic phenomena that it purports to represent, the information must be verifiable. Verifiability implies that different knowledgeable and independent observers would reach general consensus, although not necessarily complete agreement, either: (a) that the information represents the economic phenomena that it purports to represent without material error or bias (by direct verification); or (b) That the chosen recognition or measurement method has been applied without material error or bias (by indirect verification).

To be verifiable, information need not be a single point estimate. A range of possible amounts and the related probabilities can also be verified. Neutrality is the absence of bias intended to attain a predetermined result or to induce a particular behavior. Neutrality is an essential aspect of faithful representation because biased financial reporting information cannot faithfully represent economic phenomena.

Completeness means including in financial reporting all information that is necessary for faithful representation of the economic phenomena that the information purports to represent. Therefore, completeness, within the bounds of what is material and feasible, considering the cost, is an essential component of faithful representation.

Comparability (Including Consistency): Comparability, including consistency, enhances the usefulness of financial reporting information in making investment, credit, and similar resource allocation decisions. Comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena. Consistency refers to use of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities. Comparability is the goal; consistency is a means to an end that helps in achieving that goal.

Understandability: Understandability is the quality of information that enables users who have a reasonable knowledge of business and economic activities and financial accounting, and who study the information with reasonable diligence, to comprehend its meaning. Relevant information should not be excluded solely because it may be too complex or difficult for some users to understand. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely.

Constraints on Financial Reporting

Materiality: Information is material if its omission or misstatement could influence the resource allocation decisions that users make on the basis of an entity's financial report.

Materiality depends on the nature and amount of the item judged in the particular circumstances of its omission or misstatement. A financial report should include all information that is material in relation to a particular entity—information that is not material may, and probably should, be omitted. To clutter a financial report with immaterial information risks obscuring more important information, thus making the report less decision useful.

Benefits and Costs: The benefits of financial reporting information should justify the costs of providing and using it. The benefits of financial reporting information include better investment, credit, and similar resource allocation decisions, which in turn result in more efficient functioning of the capital markets and lower costs of capital for the economy as a whole. However, financial reporting and financial reporting standards impose direct and indirect costs on both preparers and users of financial reports, as well as on others such as auditors and regulators. Thus, standard setters seek information from preparers, users, and other constituents about what they expect the nature and quantity of the benefits and costs of proposed standards to be and consider in their deliberations the information they obtain.

3.4. AASB'S Conceptual Framework for Financial Reporting

The Australian Accounting Standards Board (AASB) has developed some building blocks for conceptual framework for financial reporting which are relevant to our research in a significant manner. The building blocks of the framework are as follows:

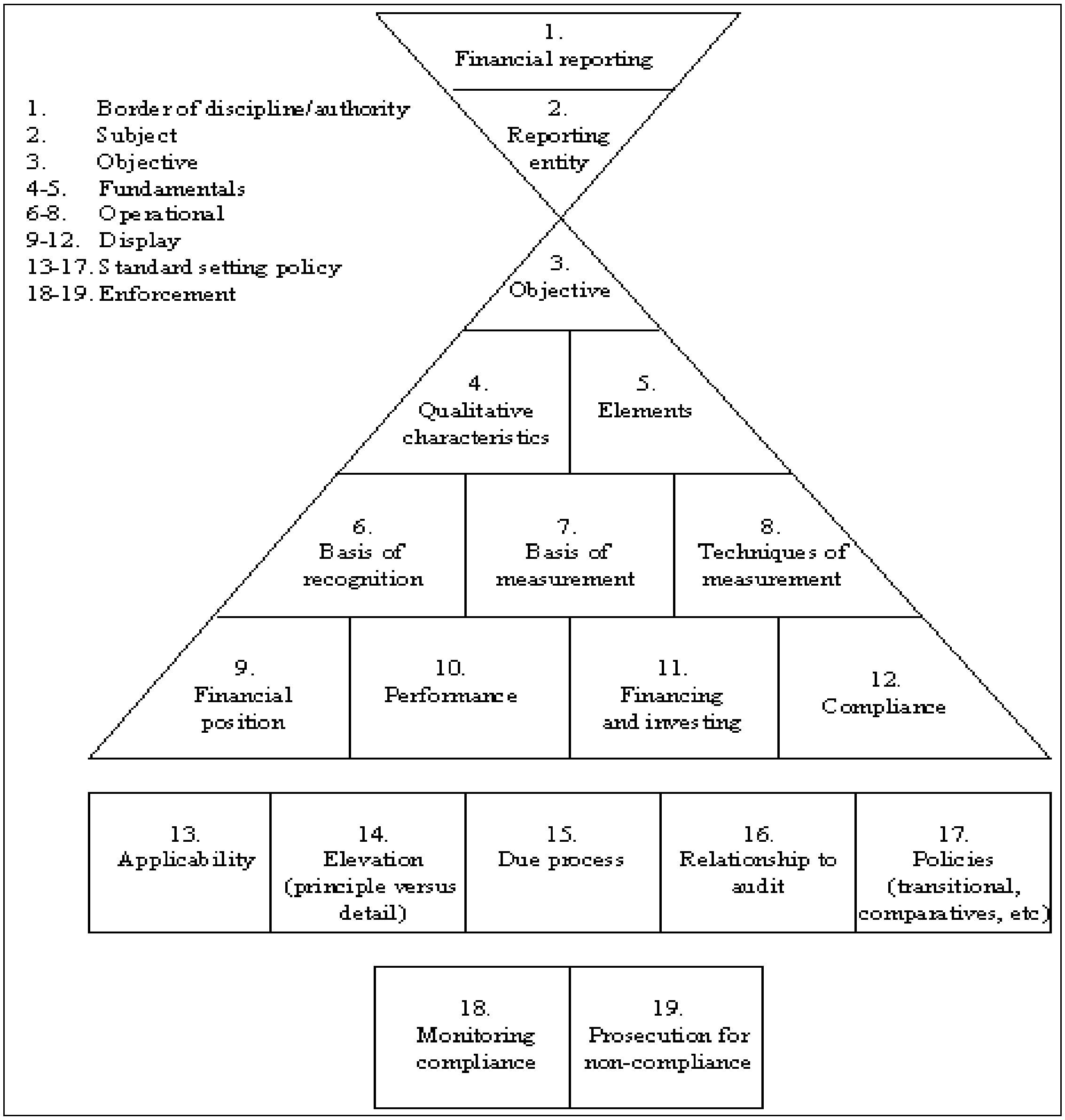
Explanation of Conceptual Framework for Financial Reporting

1. **Financial Reporting:** This part of the Framework is concerned with defining the discipline of financial reporting and is relevant for determining the borders of the domain to which accounting requirements apply.

2. **Reporting Entity:** The reporting entity is the entity (for example, economic entity, legal entity etc.) that is to be subject to financial reporting requirements. Its borders also need to be defined and this definition will then help determine the characteristics of the elements (see below) used to compile financial statements.

3. **Objective of Financial Reporting:** This building block is concerned with specifying the basic reason for financial reporting to occur (eg usefulness for the allocation of scarce economic resources) and for whose benefit it is intended (eg external users) and the types of information that they will need. This block again shapes the definition of the elements of financial reports and indeed the measurement and display aspects of the Framework.

4. **Qualitative Characteristics of Financial Information:** This part of the framework establishes that hierarchy of characteristics that financial information should have to be able to serve the objective of financial reporting.



Source: Re-produced from the Australian Accounting Research Foundation[1]

The Framework specifies that relevance and reliability are the primary characteristics for inclusion of financial information in financial reports. These characteristics are supported by those relating to the preparation and

[1] *Australian Government the Treasury:* www.treasury.gov.au/documents/169.

presentation of financial information: comparability, understandability, timeliness, and cost versus benefit. *Materiality* is used as a filter of relevant and reliable information so that only information which could alter the decision-making of users in the context of a particular reporting entity is required to be reported.

Relevance and reliability are fundamental drivers for when the elements of financial reports need to be recognized. Materiality also limits the applicability of requirements.

5. **Elements:** This is a critical part of the Framework. It is concerned with defining the economic phenomena to be reported; equity, assets, liabilities, revenues and expenses. An economic objective (see above) demands an economic definition (e.g. assets are future economic benefits controlled by the entity). The border of the reporting entity likewise must relate to net assets controlled (as opposed to owned).

6. **Basis of Recognition:** Having decided what to include in financial statements, this part of the Framework is concerned with when to recognize those elements. The recognition criteria established revolve around probability of existence of the elements (e. g. probability of enjoyment of future economic benefits in the case of an asset) and the ability to reliably measure their stock or flow.

7. **7-8. Basis of Measurement/Techniques of Measurement:** Having decided what to include in financial reports (elements) and when (basis of recognition), it remains to specify the basis and techniques of measurement. An economic objective, for example, may suggest a current value based measurement system. This part of the Framework is not complete.

8. 9-12. Display: In the presentation of financial statements categories of information are needed to serve the objective of financial reporting. The structure of financial statements and the type and level of disclosure flow from that objective.

9. 13-17. Standard-setting Policy: These are the guiding rules/policies for the development of financial reporting requirements.

10. 18-19. Standards Monitoring/Regulation: Application of standards need to be monitored both for the sake of future development of requirements and to facilitate compliance activity.

3.5. The Positive Accounting Theory

Positive Accounting Theory (PAT) is used by previous researchers as a framework that relates company attributes to the extent of financial disclosure. Positive Accounting Theory (PAT) came into being in the mid 1960s. It stemmed from the works of the popular theorist Fama in the 1960s, particularly the work that related to the Efficient Markets Hypothesis (Deegan, 2004). 'Positive' Accounting theory was popularized with the works of Gordon (1964). He argued that senior management was likely to manipulate the information in the financial statements in its own favor by selecting accounting procedures that maximize their own utility. Afterwards several attempts had been made to provide a positive theory of financial reporting (Jenson and Meckling, 1976; Watts, 1977; Watts and Zimmerman, 1978). They tried to explain why accountants do, what they do and its effect on people and resource allocation.

Watts and Zimmerman (1990) defines Positive accounting theory as a Positive theory of accounting that seeks to explain and predict accounting practice. They distinguished it from 'Normative' theories of accounting that are meant for prescriptive purposes. In their works they identified three key hypotheses that are often used in positive accounting literature. These are the bonus plan hypothesis, the debt hypothesis and the political cost hypothesis. They explained the hypotheses as follows:

The bonus plan hypothesis is that managers of firms with bonus plans are more likely to use accounting methods that increase current period reported income. Such selection will presumably increase the present value of bonuses if the compensation committee of the board of directors does not adjust for the method chosen (Watts and Zimmerman, 1990).

The debt/equity hypothesis predicts the higher the firm's debt/equity ratio, the more likely managers use accounting methods that increase income. The higher the debt/equity ratio, the closer (i.e., "tighter") the firm is to the constraints in the debt covenants (Kalay 1982). The tighter the covenant constraint, the greater the probability of a covenant violation and of incurring costs from technical default. Managers exercising discretion by choosing income increasing accounting methods relax debt constraints and reduce the costs of technical default (Watts and Zimmerman, 1990).

The political cost hypothesis predicts that large firms rather than small firms are more likely to use accounting choices that reduce reported profits. Size is a proxy variable for political attention. Underlying this hypothesis is the assumption that it is costly for individuals to become informed about whether accounting profits really represent monopoly profits and to "contract" with others in the political process to enact laws and regulations that enhance their welfare. Thus, rational individuals are less than fully informed. The political process is no different from the market process in that respect. Given the cost of information and monitoring, managers have incentive to exercise discretion over accounting profits and the parties in the political process settle for a rational amount of ex post opportunism (Watts and Zimmerman, 1990).

Several researchers had built their work using positive accounting theory. For example Ali et al. (2004) state that larger organizations have a greater tendency to disclose more financial information in their annual reports than smaller ones. This enhances their agency costs, reputation, public image and government intervention. This is consistent with the findings of Watts and Zimmerman (1986) and Chow and Wong-Boren (1987). They also argued that organizations with higher debts ratios might disclose less information in order to disguise the level of the organization's risk. Large audit firms are susceptible to agency costs. They have a greater incentive to disclose the adequacy of the accounting systems than smaller firms.

3.6. The Positive Agency Theory

The Positive Agency theory was developed and utilized by Jensen and Meckling (1976) to analyze the relationship between the owners of the organization and the managers within the nexus of contract. Positive Agency theory is concerned with resolving the problems that can occur in agency relationships (Jensen and Meckling, 1976). They defined agency relationship as a contract under which the owners of the organization (principal(s)) engage the manager (agent) to perform some service on their behalf. Under this arrangement, the owners delegate some decision making authority to the manager. It is presumed that both parties are utility maximizers, with varying philosophies and this could result in divergent and misaligned interest between them. Owners would want to maximize net present value of firm while the managers would want to maximize utility, of which income is part. Most cases, the agent would not act in the best interests of the principal. The agents could also hide information for selfish purpose by non-disclosure of important facts about the organization (Barako et al., 2006). Owners face moral dilemmas because most times they cannot ascertain or evaluate the decision made by their agents (Barako, 2007). This conflict of interest results to "agency problem" or "principal-agent problem" whose resolution incurs agency costs (Al-Shammari, 2005). Jenson and Meckling (1976) and Jenson (1983) acknowledge that agency problem is common to all organizations and it exists in all corporative efforts at each level of management in firms. This includes public organizations, private organizations, and not-for-profit organizations such as schools, hospitals, and foundations, and even governmental enterprises and bodies such as the federal, state and local government. Jenson and Meckling (1976) focused exclusively on the positive aspects of the agency relationship as it applies to corporations. That is how to structure the contractual relation between the owner and manager to induce the manager to make choices which will maximize the owner's welfare, given that uncertainty and imperfect monitoring exist.

Agency cost is a summation of the monitoring costs, bonding costs and residual loss. The owners limit the abnormal activities of the managers, by incurring monitoring costs. They establish appropriate incentives such as management compensation policies to ensure that the managers' behavior aligns with the owners' interest. The managers compensate the owners in return, by incurring "bonding costs" to assure the owners' that their actions will not be injurious (e. g. provision of adequate information in financial reports). Residual loss is the loss incurred by the owners if the manager's decisions do not serve its interests. Agency costs can be reduced by disclosing more information in the financial statements which enable the owners to have access to appropriate, relevant and reliable information. Jenson and Meckling (1976) assert that the magnitude of the agency costs vary from firm to firm. Agency costs depend on the tastes of managers, the ease with which they can exercise their own preferences and the costs of monitoring and bonding activities. They emphasize that agency costs may increase or decrease based on the extent of separation and control within a corporation. For instance widely-held share ownership could result to greater conflicts between the owners and managers. In order to remedy the situation, managers disclose more information than their counterparts managing closely-held organizations. These information disclosures are signals to the owners that the managers are acting in their interest. This allows the owners to monitor their interests more effectively.

3.7. The Enterprise Theory

Kam (1986) as referred to Suojanen (1954) stated that taking a cue from the writings of Peter Drucker, who observed that the large corporation is an institution with social responsibilities, Suojanen formulated the enterprise theory. The enterprise is seen as a social institution where decisions are made that affect a number of interested parties. These are stockholders, employees, creditors, customers, various governmental agencies, and the public. Management today does not consider itself simply as the representative of the stockholders, but as the guardian of the company, responsible for its survival and growth. As such, managers perform a mediative function among the various interested parties. Although stockholders have legal rights as owners, from the point of view of the enterprise their rights are subsidiary to the organization and its survival. Those who receive an income from their contact with the enterprise, namely, stockholders, creditors, employees and the government have an important stake in the well-being of the company, and thus the company has a responsibility towards them, not just the stockholders. Considering these, Suojanen proposed the production value added statement as an appropriate accounting for the situation. The idea of Suojanen is similar to the findings of (Singhvi and Desai, 1971; Cooke, 1989; and Wallace et al, 1994).

Corporations with large number of shareholders tend to be on the public eye and are subject to their multiple users for detailed disclosure (Singhvi and Desai, 1971). These large companies are watched by the various government agencies and they tend to disclose more information to avoid pressure from them. Large firms are visible and generally exposed to political attack such as pressure for social responsibility, price control and corporate taxes (Wallace et al, 1994). Cooke (1989) is of the view that political lobbying may be undertaken to increase regulation in a particular industry.

3.8. The Investor Theory

Referring to Staubus (1961), Kam (1986) stated that based on the accounting objective of providing information to suppliers of capital, accounting functions and financial statements should take the point of view of investors. Investors are stockholders and creditors. The accounting equitation under this theory is: Assets = Specific Equities + Residual Equity

Specific equities are the liabilities and preferred stock. In most cases, for a corporation, the residual equity is equivalent to common stock equity. Only in the event that common stock equity is wiped out would preferred stock equity become the residual equity. This accounting equation reveals the dependency of residual equity on the values of assets and specific equities. Investors want information in order to predict future cash receipts as a result of their relationship with a particular firm. Stabus (1961) states that the future cash receipts of investors depend on: (1) the firm's monetary capacity to disburse cash, (2) the management's willingness to pay investors, and (3) the legal priority of the investor's claim. Information on the third factor can be obtained by investors outside of the financial statements. Information on the second factor can be derived indirectly by knowledge of the cash needs of the company for replacement or expansion, debt retirement etc. Financial statements can provide a basis for predicting future cash amounts.

The investor theory emphasized the needs of external users, in particular, stockholders. This theory sees stockholders as investors with little power to determine what is happening in the company, and therefore, must rely on financial statements. Because of the focus on investors, the need for information about cash flows is pinpointed. The influence of this viewpoint is seen in Concept No. 1 of the FASB where the investor's need for information, in order to predict future cash flows, is explicitly recognized.

3.9. The Business Model

The term "Business Model" is relatively new and was used for the first time in the accounting standard "Financial Instruments" issued by the IASB in 2009. Australian Accounting Standards Board (2013), in its Review of the IASB's Conceptual Framework for Financial Reporting, mentioned: "(a) Business model is the chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term. (b) Business model would reflect: (i) the configuration of the business; (ii) activities of the business; (iii) how the business adds value including the generation of its cash flows; and (iv) customers of the products or services."

A reference to the business model was also included in the IASB's (2008) Exposure Draft of the Conceptual Framework but not maintained in the final version. According to this, financial reporting is meant to provide the basis for assessing the financial position and performance of an entity. It assesses and understands how the entity is 'making money', how it provides capital providers with appropriate returns on the resources invested in the entity, and how it is exposed to risks and organized to mitigate those risks. The need to understand an entity's business model is further increased by development of integrated reporting, which suggests that investors need to rely on a cohesive set of information, encompassing more than only financial statements. One of the elements to be disclosed under the proposed framework is the business model. If financial reporting is not consistent with an entity's business model, the required level of cohesiveness in integrated reporting would not be achieved.

3.10. The Conceptual Model

This research, Financial Reporting Practices in the Private Sector Commercial Banks, presents an excellent opportunity to apply positive agency theory. This is premised on the fact that managers (agents) who have better access to companies' information can make credible and reliable communication to the market to optimize the value of the firm. Through financial reporting they communicate to the users of financial reports information that is useful in choosing the best among the alternatives. On the other hand, these managers may, because of their selfish interests, fail to make proper disclosure or nondisclosure of important information to the users. Such practices will not be in the interests of shareholders (principal). Consequently, this may result in a higher cost of capital and lower value of shareholders' investments.

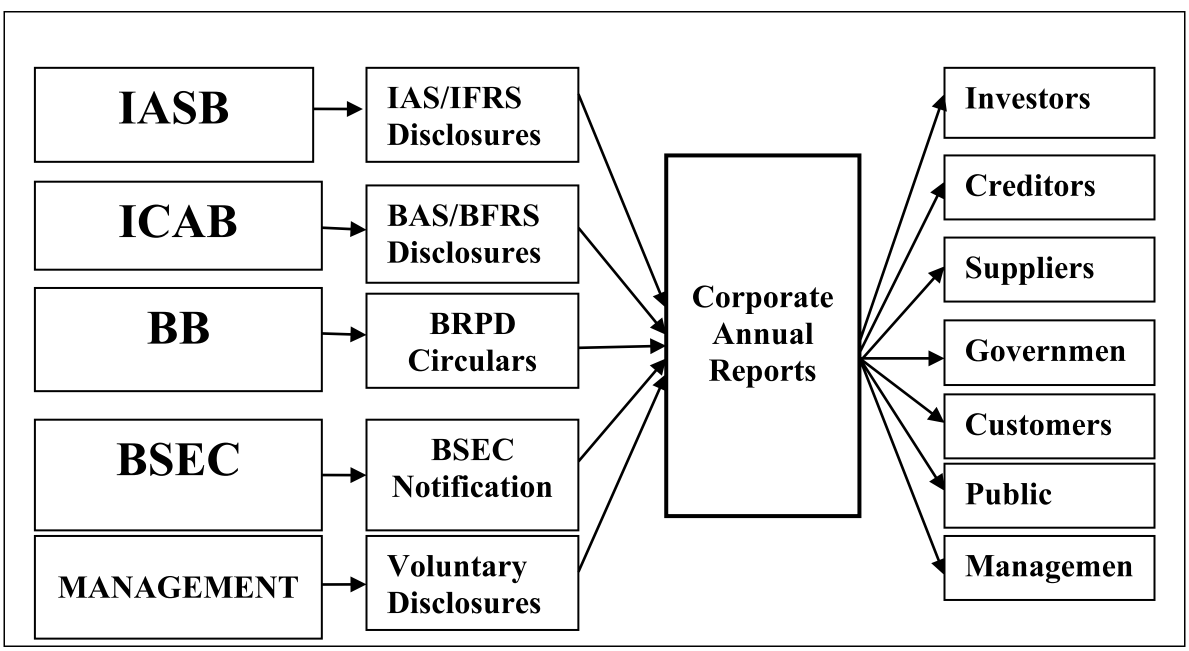
According to IASC (1988), the primary objective of financial reporting is considered to be that of providing information for economic decision making by the users. Published financial statements and related notes should include any economic information related to the accounting entry that is significant enough to affect the decisions of an informed and prudent user of financial statements.

Financial statements of public limited companies in Bangladesh are prepared following the IASs and IFRSs adopted as BAS and BFRSs in Bangladesh by the ICAB. The disclosure requirements of these Standards (BAS/BFRS) define the way accounting information should be presented in financial statements. Other voluntary disclosures, which are discretionary accounting information, are also provided by management. The financial statements provide valuable information for different stakeholders. The major objective of financial statements is that they provide information about the financial position, performance and changes in the financial position of an enterprise (Elliot and

Elliot, 2005). According to Meigs and Meigs (1993), financial statements are the principal means of reporting general-purpose financial information to users. There are several users–managers, investors, suppliers, customers, lenders, employee, government and the general public - who have vested interest in these financial statements (Glautier and Underdown, 1997, Lewis and Pendrill, 2000; Werner and Jones, 2003; Sutton, 2004; Elliot and Elliot, 2005; IASB, 2006).

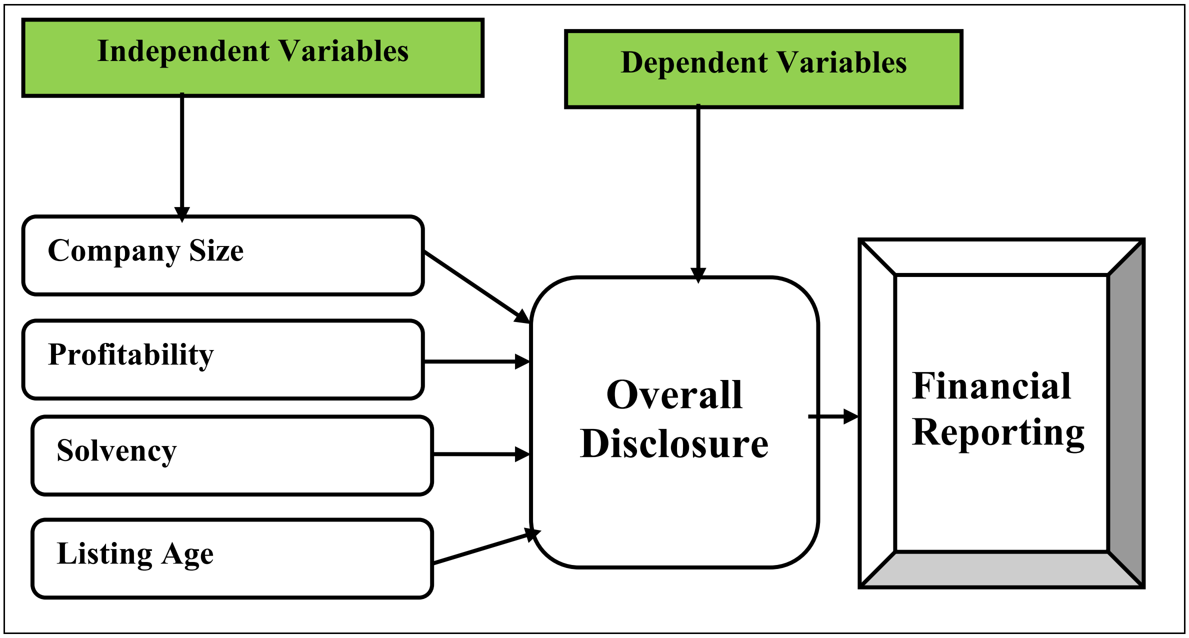
Considering the above things, a conceptual model has been developed in this study which is illustrated in **Figure 3.1.** With the literature review in this chapter, a conceptual framework for this study is developed by exploring the relationship between the dependent variable, overall disclosure index (ODI) and explanatory variables company size (Total assets, total number of shareholders, profitability(EPS, ROE) Solvency (Debt equity ratio, Credit deposit ration, and CAR) and Listing age. The six independent variables under four categories are stated in Figure: 3.02 below:

Figure 3.1: Conceptual Model of Financial Reporting



Source: Developed by Researcher (2014)

Figure 3.2: Framework for Financial Reporting and the Corporate Attributes



Source: Developed by Researcher (2014)

3.11. Conclusion

Researchers of this field have been using different theoretical framework and models in their studies related to financial reporting, such as the Positive accounting theory, the positive agency theory, the Agency cost theory, the Political cost theory, and the Business Model. This research on financial reporting presents an excellent opportunity to apply positive agency theory. This is premised on the fact that managers (agents) who have better access to companies' information can make credible and reliable communication to the market to optimize the value of the firm. Through financial reporting they communicate information to the users of financial reports that is useful in choosing the best among the alternatives. Financial statements of public limited companies in Bangladesh are prepared following the IASs and IFRSs adopted as BAS and BFRSs in Bangladesh by the ICAB. The disclosure requirements of these Standards (BAS/BFRS) define the way accounting information should be presented in financial statements. Bangladesh Securities and Exchange Commission (BSEC) and the Bangladesh Bank (BB) also issue requirements to some extent. Other voluntary disclosures, which are discretionary accounting information, are also provided by management. With the literature review in this chapter, a conceptual framework for this study is developed by exploring the relationship between the dependent variable, overall disclosure index (ODI) and explanatory variables such as Company size (Total assets, Total number of shareholders), Profitability(EPS, ROE), Solvency (Debt equity ratio, Credit deposit ration, and CAR) and Listing age.

CHAPTER 4

RESEARCH METHODOLOGY

Chapter Highlights

CHAPTER 4
RESEARCH METHODOLOGY

4.1. Introduction

This chapter explains the research methodology of the present study which has been used to achieve the research objectives. The main objective of this chapter is to set up the foundation of the statistical analysis. Para-4.2 highlights the research design, basically, the content analysis methods. Para-4.3 focuses on the research methods used in this research study. It includes the description of the population, sampling technique, data collection method, disclosure checklist, scoring technique, validity test, and model development. The data analysis methods are enumerated in Para-4.4, while the instrument for data analysis is highlighted in Para-4.5.

4.2. Research Design

There are different approaches that can be applied to determine financial reporting status of private sector commercial banks in Bangladesh and to examine the factors that influence the extent of financial reporting or disclosures in the annual reports of the listed private commercial banks in Bangladesh. Some researchers determine disclosure using a survey of annual report users, preparers, auditors and regulators, while some others construct a check list for evaluating the content of the annual report. In some other cases, researchers combine the two methods. In this research the extent of disclosure has been determined by a content analysis of annual financial reports of the sample private commercial banks listed in the Dhaka Stock Exchange (DSE).

In content analysis, five years' annual reports of six listed commercial banks each, from 2008 to 2012, have been examined. Each annual report was carefully scrutinized and scored as a disclosure index based on a researcher-developed checklist. The disclosure index method was seen by researchers (Ahmed, 2009) in time past as an adequate model for financial disclosure and have been used over time. Multivariate regression and cluster analysis have been utilized to explain relationships and patterns derived from each of the thirty annual reports.

4.3. Research Methods

The research methods of this study are explained in the following section of this chapter:

4.3.1. Population of the Study

At December, 2012, a total of thirty banks (DSE, 2012)[1] were quoted at the Dhaka Stock Exchange. Out of the 30 banks, 29 banks were in 'A' category and only one bank, ICB Islamic Bank Limited, was in 'Z' category. Out of these thirty banks, eight banks were primarily excluded due to some reasonable grounds. Rupali Bank Limited, about 90% of which shares were held by the government; was also in 'Z' category up to 2011, was subtracted from the population because of its government ownership. ICB Islamic Bank Limited was excluded from the population because it was identified as the troubled bank by the Bangladesh bank

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[1] www.dse.org.bd

and was the only loosing bank from the very inception of its listing on the DSE in 1990 to 2012. The bank is still in 'Z' category and has never paid dividend in any form (cash or stock). Four banks namely Shahjalal Islami Bank Limited, Trust Bank Limited, Brac Bank Limited, and Premier Bank Limited became listed in 2007 whereas First Security Islami Bank Limited and Jamuna Bank Limited became listed in 2008, and 2006 respectively. These six banks were excluded because for better comparison of reporting practices we thought, from the very beginning of the study, to select only those banks that had a listing age of at least five years when the study period started. After the exclusion the above banks the population size became 22.

4.3.2. Sample Size and Sampling Technique

For the purpose of the study, samples were drawn from private commercial banks in Bangladesh listed on the DSE as 'A' category company.

Table 4.1: List of the Sample Banks

S.L	Name of Banks	Acronyms	Listing year	Period
1.	Islami Bank Bangladesh Ltd.	**IBBL**	**1985**	**Up to 1990**
2.	United Commercial Bank Ltd.	**UCBL**	**1986**	
3.	Al-Arafah Islami Bank Ltd.	**AIBL**	**1998**	**1991 - 2000**
4.	Prime Bank Ltd.	**PBL**	**2000**	
5.	Bank Asia Ltd.	**ASIA**	**2004**	**2001 - 2010**
6.	Export Import Bank of Bangladesh Ltd.	**EXIM**	**2004**	

Source: Developed by the Researcher (2014)

All the banks were stratified, firstly into Islamic and Conventional Banks Category then six banks (three from each category) were selected applying the judgmental sampling method which was based on advance commencement of business as banking companies in Bangladesh, (viz., the banks are old according to the year of listing) and the availability of annual reports. The banks that follow Islamic banking system fully were classified into 'Islamic' category and those who do their banking mainly or fully under interest based system were classified under 'Conventional' category. In all, six (6) listed companies were selected based on judgmental basis. The sample size represents about 287.5% of population. The banks included in the study are shown in Table-4.1.

4.3.3. Selection of the Period

In the survey of annual reports, the five years period from 2008-2012 had been selected because of two reasons. The first reason was that a period of five years was assumed sufficient to draw a picture of changes in disclosure quantity over the years and a single year period was insufficient because it could not eliminate the challenges of economic fluctuations. The second reason was that among the five years period the middle year was 2010 in which "IAS/BAS- 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions" was superseded by "IFRS/BFRS- 7: Disclosure of Financial Instruments" and our interest was to make a comparison between the disclosure quantum before and after the implementation of BFRS-7.

4.3.4. Data Gathering Method

The data gathering method includes: sources of data, instrument of data collection, disclosure checklist, selection of accounting standards, and scoring procedure.

4.3.4.1. Sources of Data

For the purpose of this study, secondary sources of data have been utilized. The secondary sources of data consist of annual reports of the sample banks, bruisers and online materials of the sample banks, and the ICAB publications containing the BASs/BFRSs. Hard and soft copies of annual reports of the sample banks from 2008 to 2012 (five years' of each sample) were collected from the Corporate Head office of the sample banks as well as from the DSE during 2013. Some annual report not found at the DSE and the corporate head offices were collected from the websites of the banks. In order to extract the information items, all areas (financial and non–financial) of the annual reports such as chairman's statement, reports of directors, report of auditors, audit committee's report, corporate governance report, statement of accounting policies, profit and loss account, balance sheet, statement of cash flows, liquidity statement, note to the financial statements, statement of value added, five year financial summary, graphic illustrations, financial ratios and other notes were considered.

4.3.4.2. Instrument of Data Collection

The instrument used for collection of the secondary data is a researcher designed checklist (Appendix-B). There are ten parts in the disclosure checklist which are shown in Table 4.2. The overall disclosure checklist is the combination of the ten categories of checklists. The checklist is explained in the following section.

4.3.4.3. The Disclosure Checklist

The disclosure index method was seen by researchers in time past (Singhvi and Desai, 1971) as an adequate model for financial disclosure and was used by various researchers. There are different methods that can be employed to construct disclosure checklist in order to measure the information disclosed in annual reports. Methods vary considerably among different studies. In some studies an exhaustive list of financial and/or non-financial voluntary information items are quantified, in some others only mandatory items are quantified (Akhtaruddin, 2005), whilst others consider both voluntary and mandatory items. There are also differences in the number of information items in the checklist.

Table 4.2: Disclosure Index Category and their respective Acronyms

S.L.	Head of Disclosure Items	Acr.	Score
A.	Disclosure about General Corporate Information	GCI	32
B.	Disclosure about Financial Statistical and Other Analysis	FSO	31
C.	Disclosure about Report from Management and Others	RMO	25
D.	Disclosure about Financial Statements	FS	24
E.	Disclosure about Balance Sheet Items Related to Assets	BRA	24
F.	Disclosure about Balance Sheet Items Related to Liabilities and Equity	BLE	21
G.	Disclosure about Income Statement Items & Appropriation of Profit	ISA	25
H.	Disclosure about Statement of Cash Flows and Other Statements	CFO	21
I.	Disclosure about Basis of Preparation of the Statements	BPS	21
J.	Disclosure about Significant Accounting Policies	SAP	23
	Total-		**247**

Source: Developed by the Researcher (2014)

There is no agreed theory on the number and the selection of the items to include in a disclosure checklist (Wallace et al, 1994). This study takes a comprehensive approach by focusing on both mandatory and voluntary items, using a researcher-constructed un-weighted disclosure checklist. The disclosure checklist is designed in line with the relevant disclosure requirements of the IASs/IFRSs, BASs/BFRSs, BSEC requirements, BB circulars, and other relevant voluntary disclosure. The disclosure index was constructed using a researcher-developed checklist containing 247 information disclosure items (General Corporate Information (GCI) 32, Financial, Statistical and Other Analysis(FSO) 31, Report from Management and Others (RMO) 25, Financial Statements (FS) 24, Balance Sheet Items Related to Assets (BRA) 24, Balance Sheet Items Related to Liabilities and Equity (BLE) 21, Income Statement Items & Appropriation of Profit (ISA) 25, Cash Flows and Other Statements (CFO) 21, Basis of Preparation of the Statements (BPS) 21, and Significant Accounting Policies (SAP) 23 items).

4.3.4.4. Selection of BASs/BFRSs

Accounting standards effective up to the ending period of study (December 2012) were utilized for the study. The accounting standards were selected based on its relevance to financial companies especially for the banking companies in Bangladesh. Exclusion of standards was based on (i) irrelevance to annual reports, (ii) industry-specific, (iii) replaced by another standard and (iv) outside the period of the study. A list of the accounting standards followed in preparing the disclosure checklist is shown in Table 4.3.

- **Relevant to Banking Sector:** Among the thirty five (35) BASs/BFRSs applicable in Bangladesh twenty five (24) standards were found relevant to the banks which was the specific area of this study. They were: BAS 1 - Presentation of Financial Statements; BAS 2- Inventories; BAS 7 - Statement of Cash Flows; BAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors; BAS 10 - Events after the Reporting Period; BAS 12 - Income Taxes; BAS 16 - Property, Plant & Equipment; BAS 17 - Leases; BAS 18 - Revenue; BAS 19 - Employee Benefits; BAS 21 - The Effects of Changes in Foreign Exchange Rates; BAS 23 - Borrowing Costs; BAS 24 - Related Party Disclosures; BAS 27- Consolidated and Separate Financial Statements; BAS 28- Investment in Associates; BAS 32 Financial Instruments: Presentation; BAS 33- Earnings per Share; BAS 34 - Interim Financial Reporting; BAS 36- Impairment of Assets; Provisions, BAS 37 - Contingent Liabilities and Contingent Assets; BAS 38-Intangible Assets; BAS 39 Financial Instruments: Recognition and Measurement; BFRS 7 - Financial Instruments: Disclosures; BFRS 8- Operating Segments.

Table 4.3: Reasons for Inclusion or Exclusion of BASs/BFRSs

Standards	**Reasons for inclusion and exclusion**	**Included or Excluded**
BAS 1, BAS 2, BAS 7 , BAS 8 , BAS 10, BAS 12 , BAS 16, BAS 17 , BAS 18, BAS 19, BAS 21, BAS 23, BAS 24 , BAS 27, BAS 28, BAS 32, BAS 33, BAS 34, BAS 36, BAS 37, BAS 38, BAS 39, BFRS 7, and BFRS 8	Relevant to Banks	Included
IAS 11, IAS 20, IAS 26, IAS 31, IAS 40, IAS 41, BFRS 2, BFRS 3, BFRS 5, BFRS 6	Industry-specific	Excluded
IAS 30	Replaced by another standard, IFRS 7	Excluded
BFRS 10, BFRS 11, BFRS 12, BFRS 13,	Outside the period of the study	Excluded

Source: Field Study (2014)

- **Industry-specific:** Standards that apply to all listed companies have been considered in the study, therefore standards that apply to specific industries have not been considered. These are IAS 11 - Construction Contracts; IAS 20 - Accounting of Government Grants and Disclosure of Government Assistance; IAS 26 - Accounting and Reporting by Retirement Benefit Plans; IAS 31 - Interest in Joint Ventures; IAS 40 - Investment Property; and IAS 41- Agriculture, BFRS 2 – Share Based Payment; BFRS 3 -Business Combinations; BFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, and BFRS 6 - Exploration for and Evaluation of Mineral Resources.
- **Replaced by another Standard:** Due to global developments and the need to broaden, IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions was revised and replaced by IFRS 7 – Financial Instruments: Disclosure.
- **Outside the period of the Study:** Four standards were excluded from the study because they were applicable from January 1, 2013 but our study period ends at December 31, 2012. These are: BFRS 10 - Consolidated Financial Statements; BFRS 11 - Joint Arrangements; BFRS 12- Disclosure of Interests in other Entities; and BFRS 13 - Fair Value Measurement.

4.3.4.5. The Scoring Procedure for Disclosure Indexes

There are two important and contentious issues in previous researches on the scoring of disclosure items. The issues are whether the disclosure items should be weighted or unweighted. Both approaches have their own limitations and have been criticized. The weighted approach may introduce a bias towards a particular user-orientation. The unweighted approach assumes that all items are equally important, which may not necessarily be true. The unweighted approach of scoring has been used in this research for the purpose of attaining the objectives. Cooke (1989) is the first to propose the unweighted model and therefore, this model is generally referred to as Cooke index. Unweighted approach is preferred because it is based on the assumption that each item of disclosure is equally important, it reduces subjectivity and it provides a neutral assessment of items. This approach uses a dichotomous procedure to develop a scoring scheme that captures the level of disclosure. Complete annual report for each bank is reviewed in order to understand the nature and complexity of each bank's operation and to form an opinion about the bank before scoring the items.

For scoring purpose of our study, each disclosure item on the checklist is assigned a value of '1' if it is disclosed and '0' if the item is assumed relevant but not disclosed and items obviously not applicable are coded not applicable (N/A). The score (index) for each category is the ratio of actual disclosure divided by applicable disclosure. It excludes not applicable disclosures.

The extent of disclosure is measured by 10 indices, such as: GCI index, FSO index, RMO index, FS index, BRA index, BLE index, ISA index, CFO index, BPS index, and SAP index. The aggregate of the ten is a primary index labeled overall disclosure index (ODI). The elaboration and respective acronyms are shown in Table (4.2). Thus the equation of disclosure index will be:

Overall disclosure index (ODI) = GCI index + FSO index + RMO index + FS index+ BRA index+ BLE index+ ISA index+ CFO index+ BPS index+ SAP index.

Or, ODI = $\sum_{i=1}^{n} di$

Where, d= 1 if the item di is disclosed, d=0 if the item di is not disclosed, n= number of items

4.3.5. Validity of Content Analysis Instrument

The validity of an instrument is vital in the content analysis research. The checklist developed by the researcher was reviewed by the supervisor of this researcher, a renowned Professor of the Department of Accounting and Information Systems, University of Rajshah. On the basis of this review a few changes are made to some of the contents. This validated template is applied to the annual reports of the thirty reports of the six selected banks, thereafter. The scores for each company are re-confirmed by the researcher in order to ensure consistency. The scores for each item are added to get a final disclosure score for each company.

4.3.6. Explanation of Variables

In this Study the dependent variable is Overall Disclosure Index (ODI), which consists of both the mandatory and voluntary items that may be financial or non-financial as applicable in Bangladesh. The overall disclosure index is further broken down into ten constituent parts, thereby giving us eleven dependent variables namely: Overall disclosure index, GCI disclosure index, FSO disclosure index, RMO disclosure index, FS disclosure index, BRA disclosure index, BLE disclosure index, ISA disclosure index, CFO disclosure index, BPS disclosure index, and SAP disclosure index.

And there are four broad independent variables which are: Company size, Profitability, Solvency, and Listing age. Based on previous studies, availability of data and its relevance, four independent variables above are selected for corporate attributes. Table 4.4 summarizes the company attributes, their proxies, code, and expected signs. In this study, disclosure of banks have been taken into consideration because the financial sector is highly regulated in Bangladesh due to its overall contribution to the economy and it is expected that disclose of banks will be more detailed than the disclosure of other industries. It is expected that:

higher the SIZE, the higher the disclosure indexes

higher the PRO, the higher the disclosure indexes

higher the SOL, the higher the disclosure indexes

higher the AGE, the lower the disclosure indexes

Table 4.4: Summary of Independent and Dependent Variables

Serial number	Independent& Dependent Variables	Proxy	Code	Expected signs
1	COMPANY SIZE	Factor variable (total assets, total number of shareholders)	SIZE	+
2	PROFITABILITY	Factor variable (Return on equity, EPS)	PRO	+
3	SOLVENCY	Factor variable (Debt equity ratio, Credit deposit ratio, and CAR)	SOL	+
4	LISTING AGE	Average age of listing during the study	AGE	+
5	OVERALL DISCLOSURE INDEX	Addition of all the ten sub index	ODI	?

Source: Field Study (2013).

4.3.7. Model Specification

The empirical model is specified as follows:

ODI = f (SIZE, PRO, SOL, AGE)…………………………(1)

The dependent variable ODI is further broken down into ten sub-models as below:

GCI	=	f (SIZE, PRO, SOL, AGE)	……………………………(2)
FSO	=	f (SIZE, PRO, SOL, AGE)	……………………………(3)
RMO	=	f (SIZE, PRO, SOL, AGE)	……………………………(4)
FS	=	f (SIZE, PRO, SOL, AGE)	……………………………(5)
BRA	=	f (SIZE, PRO, SOL, AGE)	……………………………(6)
BLE	=	f (SIZE, PRO, SOL, AGE)	……………………………(7)
ISA	=	f (SIZE, PRO, SOL, AGE)	……………………………(8)
CFO	=	f (SIZE, PRO, SOL, AGE)	……………………………(9)
BPS	=	f (SIZE, PRO, SOL, AGE)	……………………………(10)
SAP	=	f (SIZE, PRO, SOL, AGE)	……………………………(11)

4.4. Method of Analysis

The methods that have been adopted for data presentation include tables and graphs. Univariate, Bivariate and Multivariate analysis have also also employed in analyzing the secondary data. Univariate statistics of percentages, mean, standard deviation, minimum, and maximum are used to describe the patterns of data. Bivariate relationships among the independent variables are explored using correlation analysis and paired sample test. The Multivariate analysis comprised of multiple regression analysis.

All the hypotheses developed in this study have been tested using secondary data. The test of Hypotheses one, two and three have been achieved using the paired sample t-test. The test of Hypothesis four has been achieved using Independent samples t-test. But to test the last Hypothesis five, multiple Regression analysis has been used. Pearson's correlation matrix of the independent variables has been employed to measure the linear relationship among the independent variables. The significance coefficient of the F-statistics has been used in determining if there is any collinearity problem.

4.5. Instruments for Data Analysis

Data for the dependent and independent variables were captured from the annual reports and collate with the help of Microsoft Office Excel 2007. The gathered data have been scrutinized and analyzed by employing a variety of quantitative techniques using SPSS 15.1 evaluation version.

4.6 Conclusion

This chapter summarizes the ways followed in conducting this research. The secondary sources of data basically five years' annual reports of sample banks were examined in this research. The sample banks constitute six banks covering three Conventional banks and three Islamic banks which were selected on judgmental basis. For scoring purpose, Unweighted Disclosure Index (UDI) that follows dichotomous scoring was used. In dichotomous system, each disclosure item on the checklist is assigned a value of '1' if it is disclosed and '0' if the item is assumed relevant but not disclosed. The information items in disclosure index were divided into ten categories. The score (index) for each category was the ratio of actual disclosure divided by applicable disclosure. Collected data were analyzed using the SPSS software where Univariate, Bivariate, and Multivariate techniques were applied. In Multiple regression analysis, the independent variable was the Overall Disclosure Index (ODI) and there were eight independent variables which were categorized under four broad categories namely Size, Profitability, Solvency and the Listing Age.

CHAPTER 5

THE REPORTING REQUIREMENTS

Chapter Highlights

CHAPTER 5
THE REPORTING REQUIREMENTS

5.1. Introduction

Accounting and financial reporting requirements of banking companies in Bangladesh are guided by a multiplicity of laws and bodies. In order to achieve objective one, this chapter outlines the legal, regulatory, and professional requirements of financial reporting in the banking companies of Bangladesh. Most of requirements identified in chapter are also applicable in other non-banking financial institutions as well as non-financial companies in the country.

5.2. The Legal Requirements

A country's legal system may influence financial reporting disclosure and may create an environment to increase disclosure to meet the increased demand of the stockholders. The Companies Act 1994 provides the basic legal requirements for financial reporting by all companies in Bangladesh including the banking companies. Banking Companies Act 1991 provides additional legal requirements for the banking sector in Bangladesh. There are some other legal requirements set by the different laws. A brief description of different legal requirements is summarized in the following sections of this chapter:

5.2.1. The Companies Act , 1994

The Companies Act 1994 outlines the legal framework for companies in Bangladesh and provides the basic requirements for financial reporting by all companies in Bangladesh. There are different provisions laid down in the said Act for ensuring better disclosure of financial and non-financial health of the companies. The important provisions of Companies Act, 1994 regarding the financial reports have provided under Sections 181 to 185 and 192 (see Table 5.1). Section 183(1) provides the requirement to maintain the proper books of accounts. Section 183(1) provides the requirements to report audited balance sheet, and profit and loss account in the Annual General Meeting (AGM) and Section 184 (1) gives the requirements for directors' report. Although Section 181 of the Companies Act, 1994 presents the responsibilities to maintain the proper books of accounts but does not give any specific list of accounts to be maintained. Section 183 (2) provided that the maximum time limit to report a balance sheet and profit and loss account at the AGM. Section 185 (1) provides the balance sheet must contain a summary of the property and assets and of the capital and liabilities of the company giving true and fair view of affairs at the end of the financial year. Section 185 (2) states that every profit and loss account of a company shall give a true and fair view of the profit and or loss of the company for the financial year and shall, subject as aforesaid, comply with the requirement of Part II of Schedule XI so far as applicable thereto. Part II of Schedule XI contains two forms of Balance Sheet – Form A and Form B. Figure of the previous year and those for the current year are to provide the Balance sheet in both the forms. In addition, the section also states that in preparing the balance sheet due regard shall be had, as far as may be, to the general instructions for preparation of balance sheet under the heading "Notes" at the end of the Part. This notes if carefully examine will show that they are in accordance with the applicable IASs/BASs. Part II of the Schedule XI also provides the list of incomes and expenditures relating to the period covered by the account.

Table 5.1: Important Disclosure Provisions in Companies Act, 1994

Sections	Contents
181(1)	Provisions for keeping books of accounts for recording all received and expended
183(1& 2)	Directors' report to the shareholders, time for holding annual general meeting, etc.
183(3)	Provisions for accounts and statements to be prepared for auditing, e.g. balance sheet and profit and loss statement/ income and expenditure, etc.
183(4)	Financial year
183(5)	Penalty for directors in default
184(1)	Contents of the directors' report
184(2)	Contents of the directors' report in any material changes of the company's position
184(3)	Contents of the directors' report regarding the auditor's observations, etc.
185	Format and content of the Balance Sheet and Profit and Loss Account
185 (7)	Punishment in complying the Section 185
186	Particulars of the subsidiary companies be the holding companies
190	Submission of the audited accounts to the Registrar of the Joint Stock Companies
192	Statement to be published by Banking and Certain other Companies
212&213	Powers and duties of auditors

Source: Summarized by the researcher from Companies Act, 1994

In addition Section 184(1) of the Companies Act 1994 states that there shall be attached to every balance sheet laid before a company in general meeting a report by its Board of Directors, with respect to – (a) the state of the company's affairs; (b) the amount, if any, which the Board proposes to carry to any reserve in such balance Sheet; (c) the amount, if any, which the Board recommends should be paid by way of dividend; (d) material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance sheet related and the date of the report.

Furthermore, section 185(5) provides that the directors' in their repot shall be obliged to make out full information and explanations regarding the comments made in the auditors' report. More specifically, Section 192 provides that every company being a Limited Banking company or an insurance company has to prepare the statements in accordance with Schedule XII, or as near thereto. All the companies including the banking companies are bound to follow these rules of Companies Act, 1994 regarding financial reporting.

5.2.2. The Banking Companies Act, 1991

This is the new version of the previous Banking Companies Ordinance 1962. All local and foreign banks operating in Bangladesh are regulated under this Act. The important provisions of the Banking Companies Act, 1991 regarding accounting and reporting have provided in section 18 and 36 to 43 (Table–5.2). Section 36(1) provides that every banking company shall submit every half year, on the thirty-first day of December and the thirtieth day of June, a report showing its assets and liabilities in Bangladesh in the prescribed form and manner to the Bangladesh Bank. Section 38 states that the accounts and Balance sheet of banking companies will be prepared based on updated instructions of Bangladesh Bank (BRPD Circular 14/2003) and the provision of the Companies Act 1994. Section 39 (1) provides that the profit and loss account and financial report of a banking company shall be audited in accordance with the balance sheet prepared under section 38 by a person qualified under the Bangladesh Chartered Accountants Order, 1973. As per Section 40, audited financial statements shall be submitted to Bangladesh Bank within the three months of the closure of the period to which those account, balance sheets and reports relate. When the bank is a private company, at the same time it needs to send also to the registrar three copies of the balance sheet, account and report as per Section 41. Section 42 provides that every banking company incorporated outside Bangladesh shall display a copy of the last balance sheet and profit and loss account prepared under section 38 at any day proceeding the first Monday of February of the year which follows the year that balance sheet and account relates to in a conspicuous place in its principal office and every branch office in Bangladesh and shall keep it uninterruptedly displayed until its subsequent balance sheet and account are displayed in the same manner.

Table 5.2: Important Provisions regarding Disclosure in Banking Companies Act, 1991

Sections	Contents
18	Transactions related to directors should be disclosed
36	Half yearly reports
37	Power for publishing information
38	Accounts and Balance Sheets
39	Audit procedure
40	Report submission
40	Sending Balance sheet etc. to Registrar
42	Display of audited Balance sheet by the banking company incorporated outside Bangladesh
43	Accounting provisions not retrospective

Source: Summarized by the researcher from Banking Companies Act, 1991

5.2.3. The Securities and Exchange Rules, 1987

Until 1987, there was no separate authority to enforce the Securities and Exchange Rules in Bangladesh. The government of Bangladesh created a separate authority in 1987 with this rules which provides important guidelines regarding corporate financial reporting.

Rule 8 of the Schedule of Securities and Exchange Rules, 1987 states that every member shall prepare and maintain, as required by sub-section (1) of section 6, the following books of accounts and other documents in a manner that will disclose a true, accurate and up to date position of business, namely:- (a) journal (or other comparable record), cash bills and any other books of original entry forming the basis of entries into any ledger, the books of record of all orders for purchase or sale of securities, all purchases and sales of securities, all receipts and deliveries of securities and all other debts and credits; (b) ledgers (or other comparable records) reflecting asset, liability, reserve capital, income and expense account; (c) ledgers (or other comparable records) reflecting securities in transfers, securities borrowed and securities loaned and securities bought or sold of which the delivery is delayed; (d) record of all balance of all ledger account in the form of trial balances to be prepared at least once at the end of the six months of every year of account; (e) records of transaction with the banks; (f) contract books showing details of all contracts entered into by a member with other members o the exchange or counterfoils or duplicates or memos of confirmation issued to such other members; and (g) duplicates or counterfoils of memos of confirmation issued to customers.

Table 5.3: Disclosure Provisions in the SEC Rules, 1987

Sections	Contents
8	Maintenance of books of accounts, etc. by members
11	Listing of a security on a stock exchange
12	Submission of Annual Report by the issuers, the names of the statements, the provisions for auditing, time frame for submission etc.
13	Submission of half-yearly report by issuers to the stock exchanges on which its securities are listed
13A	Adaptation or amendment of forms – Forms prescribed for the purpose of preparing the financial statements and the audit report
14	Mode of filling or submission of report/ reports, etc.
15	Risk based capital adequacy requirements

Source: Summarized by the researcher from The Securities and Exchange Rules, 1987

As per part 1 of the Schedule of Securities and Exchange Rules, 1987, the assets and liabilities shall be classified under the headings appropriate to the company's business, distinguishing as regards assets between fixed assets, long-term prepayments and deferred costs, investments, loans and advances and current assets, and as regards liabilities between share capital and reserves, long-term loans and deferred liabilities and current liabilities and provisions. As per part II of the schedule of Securities and Exchange Rules, 1987, the profit and loss account shall be so made out as to disclose clearly the result of the working of the company during the period covered by the account and shall show or arrange under the most convenient heads, the gross income and the gross expenditure of the company during the period, disclosing every material feature. Part III of the Schedule says that the cash flows statement shall be so made out as to disclose clearly the cash flows of the company from its operating, investing and financing activities, disclosing every material feature.

Rule 13 states that every issuer shall, within one month of close of the first half-year, transmit to the stock exchange in which its securities are listed, to the security holders and to the Commission half-yearly financial statements which shall be prepared in the same manner and form as the annual financial statements. Rule 13(A) depicts that forms prescribed for the purpose of preparing the financial statements and the audit report may b adapted or amended, it deemed necessary, for compliance with the International Accounting Standards (IAS) and International Standards on Auditing (ISA).

5.2.4. The Securities and Exchange Ordinance, 1969

The Securities and Exchange Ordinance, 1969 was expedient to provide for the protection of investors, regulation of capital markets and issue and dealings in securities and for matters ancillary thereto. Section 6(1) of the Securities and Exchange Ordinance, 1969 states that every Stock Exchange and every director, officer and member thereof shall prepare and maintain such books of accounts and other documents in such manner as may b prescribed, and every such book of accounts or documents shall be subject to inspection at all reasonable times by any reason authorized by the commission in this behalf. Section 18 of the ordinance states that No person shall, in any document, paper, accounts, information or explanation which he is, by or under this Ordinance, required to furnish, or in any application made under this Ordinance, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular. Section 11(1) states that an issuer of a listed security shall furnish to the Stock Exchange, to the security holders and to the Commission an annual report of its affairs and such statements and other reports as may be prescribed. Section 11 (2) provides that Without prejudice to the provisions of sub-section (1), an issuer of a listed security shall furnish to the Commission such other documents, information or explanation relating to its affairs as the Commission may, at any time, by order in writing, require. Section 12 requires that every director or officer of an issuer who is or has been the beneficial owner of any class of its listed equity securities and every person who is directly or indirectly the beneficial owner of more than ten per cent of any class of such securities shall submit to the Commission such returns pertaining to the beneficial ownership of such securities in such form and at such times or at such intervals as may be prescribed.

5.2.5. Income Tax Ordinance, 1984

Although Income Tax Ordinance, 1984 has significant influences on the financial disclosure practices of Bangladesh, this is not primarily intended to provide guidelines for punished accounts to the company. The income Tax Authority gains reasonable power to obtain required financial information about the companies. However, normally, the authority of taxes does not disclose information obtained by them. One important point is that companies need to keep and produce information to the tax authority so that they recognize their information for the tax purposes. On the basis of that information, the tax, exemptions, allowable deductions etc. are calculated. The important provisions related to financial reporting are shown in Table-5.4.

Table 5.4: Disclosure Provisions in the Income Tax Ordinance, 1984

Section	Contents
20-34	Heads of income and their calculations
35,43-45	Method of accounting, Computation of Total Income, exemption, exemption of income of an industrial undertakings
79	Production of accounts and documents
80	Statement of assets and liabilities
83	Self assessment
108-110	Information regarding payment of salary, interest and dividend
114	Power to inspect registers of companies

Source: Summarized by the Researcher from Income Tax Ordinance, 1984

5.2.6. Other Legal Requirements

In addition to the legal requirement outlined in the laws mentioned in 5.1, there are some other laws that guide accounting and reporting practices include: (1)The Securities and Exchange Commission (Public Issues) Rules, 2006; (2)The Value Added Tax (VAT) 1991 and Rules

5.3. The Regulatory Requirements

Regulators created under different Act or Ordinance also influence in shaping the financial reporting practices of country. In Bangladesh, a number of regulatory guidelines issued by different regulators are followed in practicing accounting as well as in reporting such as Circulars issued by Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank (BB). Regulatory guidelines which are followed in financial reporting practices by private sector commercial banks in Bangladesh are briefly analyzed in the following sections:

5.3.1. The SEC Notifications

Through the directive SEC/CMRRCD/ 2009-193/09, Dated: January 17, 2010, SEC asked the listed companies to make available the detailed quarterly financial statements (whose abridged form is published in the newspapers) in their respective websites and listed companies are required to submit their periodic financial statements (financial statements for the first quarter (Q1), first half-year (Q2), and third quarter (Q3)), prepared in accordance with BAS- 34, particularly comparative financial statements in accordance with Para 20 of BAS -34.

In the notification SEC/CMRRCD/2008-181/53/Admin/03/28, dated: June 04, 2008, SEC suggested that the issuer companies shall include the following statements/explanations in its yearly and periodical financial statements: (a) A clear and unambiguous statement of the reporting framework on which the accounting policies are based; (b) A clear statement of the company's accounting policies on all material accounting areas; (c) An explanation of where the accounting standards that underpin the policies can be found; (d) A statement that explains that the financial statements are in compliance with International Financial Reporting Standard (IFRS) issued by the International Accounting Standard Board (IASB), if this is the case; and (e) A statement that explains in what regard the standards and the reporting framework used differs from IFRS, as issued by the IASB, if this is the case.

As per notification SEC/CMRRCD/2006-158/Admin/02-08, dated: February 20, 2006, SEC imposed some conditions on order to enhance corporate governance I the interest o investors and the capital market and these conditions are imposed on 'comply or explain' basis. That means, the companies listed with any stock exchange in Bangladesh should comply with these conditions or shall explain the reasons for non-compliance in accordance with the condition no 5. The corporate governance guidelines of SEC are shown in Appendix-C.

As per order SEC/CFD/2001/Admin/02-03, dated: October 04, 2001, SEC stated that (a) Financial statements shall be prepared in accordance with all applicable International Accounting Standards (IAS0 and the audit thereof shall be conducted in accordance with the applicable International Standards on Auditing (ISA). the financial statements shall be audited within 120 days from the date on which the company's financial year end; (b) A copy of such audited financial statements and a copy of annual report and the minutes of the annual general meeting shall be submitted to the commission within fourteen days of the completion of the audit or, as the case may be, holding of the annual general meeting.

Another order SEC/CFD/12:20/99, dated: February 23, 2000, states that all public listed companies after dispatching half yearly accounts concerned to the Shareholders and the Stock Exchange(s) shall publish, within 7 days, in at least 2 (two) widely circulated daily newspapers, one in Bangla and the other in English, confirming the fact that the company has dispatched such half-yearly accounts to all shareholders and the Stock Exchange(s) mentioning period of the said accounts and the date of dispatch.

5.3.2. Bangladesh Bank Circulars (BRPD Circulars)

The Banking Regulation and Policy Department of Bangladesh Bank from time to time issues different circulars regarding accounting and reporting of the banking companies in Bangladesh. The important circular relevant to the reporting of financial statements of banking companies in Bangladesh is BPRD Circulars 14 issued in June 25, 2003, which is the replacement of the earlier Circular BRPD Circular 3 issued on April 18, 2000. BRPD Circular 14 was basically issued for the amendment of the First Schedule of the Banking Companies Act 1991. As per this circular, banking companies have been preparing their Balance Sheet, Profit and Loss ACCOUNT, Cash Flow Statement, Statement of Changes in Equity and Liquidity Statement for the year 2004. This circular provided 28 instructions on notes to the financial statements and 22 general instructions regarding preparation and presentations of the financial statements. Basically this circular is the detailed guidelines regarding measurement, valuation, accounting and reporting of the financial statements of the banking companies in Bangladesh and banks are also compelled to follow each and every instruction of this circular. To ensure good corporate governance in bank management Bangladesh Bank issued BRPD Circular no. 16 dated July 24, 2003, titled 'Restrictions in respect of responsibilities and accountabilities of the board of directors and the CEO of private bank'. But this circular was replaced issuing another circular on February 4, 2010 (BRPD Circular – 6) for making some changes. Appendix-E has outlined the Bangladesh Bank (BB) Guidelines for corporate governance applicable in private commercial banks in Bangladesh

5.3.3. Listing Requirements of DSE and CSE

Dhaka Stock Exchange and Chittagong Stock Exchange also regulate the accounting and reporting practices of the banking companies in Bangladesh. The provisions for reporting financial statements of the listed companies as required by DSE and CSE are similar. As per the approval of SEC, DSE issued a notification no. SEC/Member – II dated April: 08, 1996, named 'Listing Regulations of Dhaka Stock Exchange Limited' in exercise of the powers given in section 34(1) of Securities and Exchange Ordinance 1969. As per the listing regulation no. 6, statement of audited accounts for the last 5 years or for a shorter number of years, if the company is in operation only for such shorter period, statement showing the cost of project and means of finance shall be submitted to DSE at eh time of application for listing or any time on demand by DSE. A li9sted company shall hold its annual general meeting and lay before the said meetings balance sheet, profit and loss account and cash flows statement within 9 months following the closure of its financial year and in keeping with the provisions of ACT (listing regulations 190. According to listing regulation 36(8), when a dividend (interim or final) is declared after the close of the financial year, such announcement to DSE shall be accompanied by a statement showing comparative figure of the Turnover figure/Gross operating profit; Gross profit; Income from other sources; Provisions for taxation and Net profit after Taxation. As per listing regulation 36(9) the listed companies shall submit it financial statements before the expiry of 3 months for the end of its financial year if the figure are provisional and such financial statements shall be signed by the Chairman or Chief Executive Officer and /or the Finance Director or in his absence the Chief Accountant.

5.4. The Professional Requirements

Professional requirements are basically the standards and principles or rules developed and issued by national and international professional bodies in national and international levels. International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) are most powerful bodies among the professional bodies all over the worlds. The Institute of Chartered Accountants of Bangladesh (ICAB), the apex professional body in Bangladesh responsible for adopting International Accounting Standards (IASs) and International Financial Reporting standards (IFRSs). The professional requirements related to financial reporting practices in the Banking Sector of Bangladesh promulgated by different bodies are briefly analyzed in the following sections:

5.4.1. International/Bangladesh Accounting Standards (I/BASs)

Accounting standards are the norms of accenting policies and practices issued by the accounting bodies, national and international, for the guidance of their members regarding the treatment of the items which made the financial statements and their disclosure therein (Aaizuddin, 1991 as referred by Ullah, 2013). The accounting standards developed by the Board of International Accounting Standards Committee (IASC), an independent organization based in London, United Kingdom, from 1973 to 2001 are known as IASs. These accounting standards play an important guiding role in corporate financial reporting. The Institute of Chartered Accountants of Bangladesh (ICAB), the apex accounting professional body in Bangladesh, adopts the IASs as BASs in the country without any modification. As per the notification SEC/Section-7/SER/03/132 dated: October 22, 1997, of Securities and Exchange Commission (SEC) all the listed companies are required to abide by Bangladesh Accounting Standard (BASs). Up to December 2012, 28 International Accounting Standards (IASs), excluding the suspended standards, were adopted by the ICAB which were applicable to financial reporting practices in Bangladesh. Among the standards BAS-1, BAS-32, and BAS-39, and are the most influential standards in financial reporting of banking companies in Bangladesh. Another standard 'BAS-30: Financial Statements of Banks and Similar Financial Institutions' was a vital standard up to 2010 since its adaption in January 1, 1999 which was replaced by BFRS-7: Financial Instruments: Disclosures and became effective from January 1, 2010. A list of the applicable IASs or BASs is shown in Appendix-E.

5.4.2. International/Bangladesh Financial Reporting Standards (I/BFRSs)

On 1, April 2001, IASC was transformed to the International Accounting Standards Board (IASB) with the responsibility for setting International Accounting Standards. And the standards issued by this body are known International Financial Reporting Standards (IFRS). The Institute of Chartered Accountants of Bangladesh (ICAB) also adopts the IFRSs as BFRSs in the country without any modification. Up to December 2012, 8 Financial Reporting Standards including the amended standard, as adopted by the ICAB which were applicable in Bangladesh as regard to financial reporting.

Table 5.5: IFRSs adopted by ICAB as BFRSs

	IFRS / BFRS	Title	Effective Date on or after
1	BFRS 1	First-time adoption of International financial Reporting Standards	1 January 2009
2	BFRS 2	Share-based Payment	1 January 2007
3	BFRS 3	Business Combinations	1 January 2010
4	BFRS 4	Insurance Contracts	1 January 2010
5	BFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2007
6	BFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2007
7	BFRS 7	Financial Instruments: Disclosures	1 January 2010
8	BFRS 8	Operating Segments	1 January 2010
9	BFRS 10	Consolidated Financial Statements	1 January 2013
10	BFRS 11	Joint Arrangements	1 January 2013
11	BFRS 12	Disclosure of Interests in other Entities	1 January 2013
12	BFRS 13	Fair Value Measurement	1 January 2013

Source: www.icab.org.bd/bas/php, cited on December 31, 2013

Among the IFRSs, IFRS-7, and is the most influential standards in financial reporting of banking companies in Bangladesh. BAS-30: Financial Statements of Banks and Similar Financial Institutions was a vital standard up to 2010 since its adaption in January 1, 1999 which was replaced by BFRS-7: Financial Instruments: Disclosures and became effective from January 1, 2010. A list of the applicable IFRSs in Bangladesh is given in Table-5.5.

5.4.3. Major Disclosure Requirements in IAS -1

"IAS 1: Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

Para IAS-1.2 says IAS-1 applies to all general purpose financial statements that are prepared and presented in accordance with International Financial Reporting Standards (IFRSs). General purpose financial statements are those intended to serve users who are not in a position to require financial reports tailored to their particular information needs.

According to Para IAS-1.9 the objective of general purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions. To meet that objective, financial statements provide information about an entity's: assets, liabilities, equity, income and expenses including gains and losses, contributions by and distributions to owners (in their capacity as owners), and Cash flows. That information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Para IAS-1.10 identifies the Components of financial statements. A complete set of financial statements includes: (a) a statement of financial position (balance sheet) at the end of the period (b) a statement of profit or loss and other comprehensive income for the period (presented as a single statement, or by presenting the profit or loss section in a separate statement of profit or loss, immediately followed by a statement presenting comprehensive income beginning with profit or loss) (c) a statement of changes in equity for the period (d) a statement of cash flows for the period (e) notes, comprising a summary of significant accounting policies and other explanatory notes and (f) comparative information prescribed by the standard.

Para IAS-1.15 tells about Fair presentation. According to this paragraph the financial statements must "present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

Going Concern: A direction about going concern is found in Para IAS-1.25. It requires management to make an assessment of an entity's ability to continue as a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed.

Accrual Basis Accounting: IAS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting (IAS 1.27).

Consistency of presentation: The presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new IFRS. (IAS 1.45)

Materiality and aggregation: Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial (IAS 1.29).

Offsetting: Assets and liabilities, and income and expenses, may not be offset unless required or permitted by an IFRS (IAS 1.32).

Comparative information: IAS-1.38 requires that comparative information to be disclosed in respect of the previous period for all amounts reported in the financial statements, both on the face of the financial statements and in the notes, unless another Standard requires otherwise. Comparative information is provided for narrative and descriptive where it is relevant to understanding the financial statements of the current period. An entity is required to present at least two of each of the following primary financial statements: (a) statement of financial position; (b) statement of profit or loss and other comprehensive income; (c) separate statements of profit or loss (where presented); (d) statement of cash flows; (e) statement of changes in equity; and (f) related notes for each of the above items.

Reporting period: There is a presumption that financial statements will be prepared at least annually. If the annual reporting period changes and financial statements are prepared for a different period, the entity must disclose the reason for the change and state that amounts are not entirely comparable (IAS 1.36).

Minimum Line Items in the Asset Section of Balance Sheet: According to (IAS 1.54), the minimum line items to be included on the face of the statement of financial position are: (a) property, plant and equipment; (b) investment property (c) intangible assets (d) financial assets (excluding amounts shown under (e), (h), and (i)); (e) investments accounted for using the equity method; (f) biological assets; (g) inventories; (h) trade and other receivables (i) cash and cash equivalents; (j) assets held for sale; (k) assets held for sale; () trade and other payables ; (l) financial liabilities (excluding amounts shown under (k) and (l)) ; (m) current tax liabilities and current tax assets, as defined in IAS 12 ; (n) deferred tax liabilities and deferred tax assets, as defined in IAS 12; (o) liabilities included in disposal groups ; (p) non-controlling interests, presented within equity ; (q) issued capital and reserves attributable to owners of the parent

Share Capital and Reserves: IAS 1.79 gives the instruction regarding issued share capital and reserves, the following disclosures are required: numbers of shares authorized, issued and fully paid, and issued but not fully paid: (1) par value (or that shares do not have a par value) ; (2) a reconciliation of the number of shares outstanding at the beginning and the end of the period ; (3) description of rights, preferences, and restrictions ; (4) treasury shares, including shares held by subsidiaries and associates ; (5) shares reserved for issuance under options and contracts ; (6) description of the nature and purpose of each reserve within equity.

Profit or loss section or statement: According to Para IAS 1.82, the minimum line items that must be presented in the profit or loss section are: (1) revenue; (2) gains and losses from the de-recognition of financial assets measured at amortized cost; (3)finance costs ; (4)share of the profit or loss of associates and joint ventures accounted for using the equity method; (5) certain gains or losses associated with the reclassification of financial assets; (6)tax expense; (7) a single amount for the total of discontinued items

IAS 1.98 implies that certain items must be disclosed separately either in the statement of comprehensive income or in the notes, if material, including: (a) write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs ; (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring; (c) disposals of items of property, plant and equipment ; (d) disposals of investments; (e) discontinuing operations ; (f) litigation settlements ; and (g) other reversals of provisions.

Statement of changes in equity: IAS-1.106 requires an entity to present a separate statement of changes in equity. The statement must show: (1) total comprehensive income for the period, showing separately amounts attributable to owners of the parent and to non-controlling interests; (2) the effects of any retrospective application of accounting policies or restatements made in accordance with IAS 8, separately for each component of other comprehensive income; (3) reconciliations between the carrying amounts at the beginning and the end of the period for each component of equity. IAS 1.107 indicates that the amounts may also be presented on the face of the statement of changes in equity, or they may be presented in the notes are: amount of dividends recognized as distributions and he related amount per share.

Notes to the financial statements: According to IAS 1.112, the notes must: (a) present information about the basis of preparation of the financial statements and the specific accounting policies used; (b) disclose any information required by IFRSs that is not presented elsewhere in the financial statements and; (c) provide additional information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them. Notes are presented in a systematic manner and cross-referenced from the face of the financial statements to the relevant note (IAS 1.113).

IAS 1.114 suggests that the notes should normally be presented in the following order:

- a statement of compliance with IFRSs
- a summary of significant accounting policies applied, including: (1) the measurement basis (or bases) used in preparing the financial statements and (2) the other accounting policies used that are relevant to an understanding of the financial statements
- supporting information for items presented on the face of the statement of financial position (balance sheet), statement(s) of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows, in the order in which each statement and each line item is presented
- other disclosures, including: (1) contingent liabilities and unrecognized contractual commitments and (2) non-financial disclosures, such as the entity's financial risk management objectives and policies (see IFRS 7 *Financial Instruments: Disclosures*)

Judgments and key assumptions: According to IAS 1.122, an entity must disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements. An entity must also disclose, in the notes, information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. (IAS 1.125) These disclosures do not involve disclosing budgets or forecasts. (IAS 1.130)

Dividends: In addition to the distributions information in the statement of changes in equity (see above), the items must be disclosed in the notes are (IAS 1.137): (1) the amount of dividends proposed or declared before the financial statements were authorized for issue but which were not recognized as a distribution to owners during the period, and the related amount per share, (2) the amount of any cumulative preference dividends not recognized.

Capital disclosures: An entity discloses information about its objectives, policies and processes for managing capital (IAS 1.134). To comply with this, the disclosures include (IAS 1.135): (1) qualitative information about the entity's objectives, policies and processes for managing capital, including: description of capital it manages; nature of external capital requirements, if any; and how it is meeting its objectives; (2) quantitative data about what the entity regards as capital; (3) changes from one period to another; (4) whether the entity has complied with any external capital requirements; and (5)if it has not complied, the consequences of such non-compliance.

Other information: The following other note disclosures are required by IAS 1 if not disclosed elsewhere in information published with the financial statements (IAS 1.138) : (1) domicile and legal form of the entity ;(2) country of incorporation ;(3) address of registered office or principal place of business;()description of the entity's operations and principal activities;(4)if it is part of a group, the name of its parent and the ultimate parent of the group;(5)if it is a limited life entity, information regarding the length of the life.

5.4.4. Major Disclosure Provisions under BFRS -7

IASB issued IFRS 7 in August 2005 that supersedes IAS 30 (IFRS 7). In Bangladesh, ICAB adopted it as BFRS 7 and made it effective from on or after January 1, 2010. Bangladesh Bank did not issue any circular requiring compliance with BFRS 7.Therefore, it is mandatory for listed banking companies to comply with BFRS 7 but not mandatory for all schedule banks. Table-5.6 presents the summary of major disclosure requirements under BFRS 7. The objective of this IFRS-7 is to require entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity’s financial position and performance and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. And entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance.

Paragraph 6 requires and entity to group financial instrument into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. IFRS-7 requires and entity to disclose certain specified items of income, expense, gains, or losses, either on the face of the financial statements or in the notes. These disclosures help users assess the performance of an entity's financial instruments and activities. The required disclosures include: (a) income statement net gains or net losses for each of the categories of financial assets and financial liabilities in IAS-39; (b) Total interest income an total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss; (c) Fees income and expense (other than amounts included in determining the effective interest rate) arising from financial assets or financial liabilities that are not at fair value through profit or loss; and trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions; (d) Interest income on impaired financial assets accrued in accordance with IAS-39 and (e) The amount of any impairment loss for each class of financial asset.

Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

Para 34(a) and 36(a) requires disclosures of summary quantitative data about an entity's exposure to liquidity risks and credit risks base on the information provided internally to key management personnel of the entity. Para 34(c) requires disclosures about concentrations of risk. Concentrations of risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic and other conditions.

Para 39(a) and (b) require an entity to disclose maturity analysis for financial liabilities that show the remaining contractual maturities for some financial liabilities. In preparing the maturity analysis require by the paragraphs and entity uses its judgment to determine an appropriate number of time bands. For example, an entity might determine that the following time bases as appropriate: (a) not later than one month; (b) later than one month and not later the three months; (c) later than three months and not later than one year; (d) later than one year and not later than five years.

Para-39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed I the quantitative disclosures required in Para 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (e.g. financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. Other factors that an entity might consider in providing the disclosure required in Para 39(c) include, but are not limited to, whether the entity: (a) has committed borrowing facilities (e.g. commercial paper facilities) or other lines of credit (e. g. stand-by credit facilities) that it can access to meet liquidity needs; (b;) holds deposits at central bank to meet liquidity needs; (c) has very diverse finding sources; (d) has significant concentrations of liquidity risk in either its assets or its funding sources; (e) has internal control processes an contingency plans for managing liquidity risk; (f) has instruments that include accelerate repayment terms (e.g. on the downgrade of the entity's credit rating); (g) has instruments that could require the posting of collateral (e.g. margin calls for derivatives); ; (h) has instruments that allows the entity to choose whether it settles it financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or (i) has instruments that are subject to master netting agreements.

Table 5.6: Major Disclosure Requirements under BFRS-7

7.7	Disclosure provisions of statement of financial position
7.8	Disclosure of financial instruments into classes that are appropriate to the nature of information disclosed
7.9	Categorized financial assets and liabilities either in the statement of financial position or in the notes
7.9-11	Financial assets or financial liabilities at fair value through profit or loss
7.12	Reclassification of financial assets and reason for that reclassification
7.14-15	information about financial assets pledged as collateral and about financial or non-financial assets held as collateral
7.16	Allowance account for credit losses rather than directly reducing the carrying amount of the asset
7.16	reconciliation of the allowance account for credit losses (bad debts) by class of financial assets
7.20	Disclosure of items of income, expense, gains or losses in the statement of comprehensive income separately from some specific items
7.21	Disclosure regarding Accounting policies for financial instruments
7.22	Disclosure separately for each type of hedge
7.25-30	Disclosure of the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount
7.33	qualitative and quantitative disclosure of different types of risks: credit risk, liquidity risk and market risk
7.39	Disclosure about management of risk

Source: Summarized by the Researcher from IFRS-7 (2014)

5.4.5. AAOIFI Standards

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), a Bahrain based organization, was established in 1990.

Table 5.7: Disclosure Requirement under AAOIFI

A	**Financial Accounting Statements**
1	Objective of financial account for Islamic bans and financial Institutions
2	Concepts of Financial Accounting for Islamic Banks and Financial Institutions
B	**Financial Accounting Standards**
1	Objective of financial accounting for Islamic banks and financial institution
2	Concept of financial accounting for IFIs
3	General presentation and disclosure in the financial statements of IFIs
4	Murayama and Murayama to the purchase ordered
5	Mudaraba financing
6	Musharaka financing
7	Disclosure of bases for profit allocation between owners' equity and investment account holders
8	Equity of investment account holders and their equivalent
9	Salam and Parallel Salam
10	Ijarah and Ijarah Muntahia Bittamleek
11	Zakah
12	Istisna'a and Parallel Istisna'a
13	Provisions and Reserves
14	General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies
15	Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies
16	Investment Funds
17	Provisions and Reserves in Islamic Insurance Companies
18	Foreign Currency Transactions and Foreign Operation
19	Investments
20	Islamic Financial Services Offered by Conventional Financial Institutions
21	Contributions in Islamic Insurance Companies
22	Deferred Payment Sale
23	Disclosure on Transfer of Assets
24	Segment Reporting
25	Consolidation
26	Investment in Associates

Source:www.islamicbanker.com/education/aaoifi-standards (2013)

It is an international Islamic autonomous non-profit organization which sets accounting, auditing and governance standards for Islamic financial institutions. AAOIFI has already developed two financial accounting statements, twenty six financial accounting standards, five auditing standards, seven governance standards, two ethics standards and forty five Shari'ah standards (AAOIFI, 2003). Financial Accounting Standard No 1: General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions, is the most important for accounting and reporting of financial aspects of Islamic banks. Islami Bank Bangladesh Limited is the only associate member of this organization in Bangladesh.

5.4.6. The Islamic Financial Services Board (IFSB) Standards

The Islamic Financial Services Board (IFSB) **is** an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The IFSB also conducts research and coordinates initiatives on industry related issues, as well as organizes roundtables, seminars and conferences for regulators and industry stakeholders (www.ifsb.org). In Bangladesh, only Bangladesh Bank attained the full membership of IFSB and Islami Bank Bangladesh Limited got the observer membership of the organization (Ullah 2013). Till today, IFSB developed eleven guiding principles, five guidance notes and one technical note out of which guiding principle, IFSB-4 (Disclosure to promote Transparency and Market Discipline for Institutions offering only Islamic Financial Services) is the most important basis for preparation and presentation of financial statements of Islamic banks. Although none of the standards promulgated by IFSB is followed by any Islamic banks in Bangladesh.

5.5. Conclusion

Most the aforesaid Legal, regulatory and professional requirements render guidelines towards a common objective which can be expressed as "to present fairly, the financial position, results of operations and other changes in financial position". The Companies Act, 1994 plays the most vital role in disclosure for banking and other companies in Bangladesh. Besides, it is mandatory for all banks to abide by the provisions of the Banking Companies Act, 1991. This Act has given necessary power to the Central Bank to control the Commercial Banks and Specialized Banks in line with its monetary policy. In addition banks in Bangladesh are bound to follow the circulars issued by the Banking Regulation and Policy Departments (BRPD) of Bangladesh Bank from time to time. The Bangladesh Securities and Exchange Commission (BAEC) also regulates financial reporting by listed companies. Securities and Exchange Rules, 1987 requires compliance with IASs/IFRSs as adopted in Bangladesh as Bangladesh Financial Reporting Standards (BFRSs) and Bangladesh Accounting Standards (BASs). Moreover, it is also mandatory for all publicly listed companies including the listed commercial banks in the stock exchanges of Bangladesh to follow direction of the listing regulations of DSE and CSE. In addition, as regard to the preparation and presentation of financial statements and reports, banks follow the direction promulgated in Bangladesh Standards on Auditing (BSA). Among the IASs and IFRSs, IAS-1: Presentation of Financial Statements" and "IFRS-7: Financial Instruments: Disclosure" are two widely followed standard in financial reporting of private sector commercial banks in Bangladesh.

CHAPTER 6

ANALYSIS AND INTERPRETATION

Chapter Highlights

CHAPTER 6
ANALYSIS AND INTERPRETATION

6.1. Introduction

This chapter focuses on the presentation, measurement, analysis, and interpretation of data relating to financial reporting practices in private sector commercial banks of Bangladesh. Thirty annual reports of six sample banks (five years' annual report of each bank) were collected, for the period 2008-2012. A comprehensive Overall Disclosure Index (ODI) containing 247 items of information, which were again categorized into 10 sub-disclosure index, was constructed for the purpose of attaining the objectives of the study. The 247 items included both financial and non-financial information. The annual reports of the sample banks were analyzed to determine the magnitude of existence of information contained in the disclosure index. For the purpose of scoring, dichotomous system was used for each of the 247 score items where 1 (one) was given for disclosure and 0 (zero) was given for non-disclosure. Thus, an aggregated value of ODI had been obtained on the basis of which presentation, analysis, and interpretations have been performed in this chapter. Therefore, the maximum possible score attainable by a bank was 247 with a minimum theoretical score of Zero (0). As noted earlier the 30 annual reports were collected from private sector commercial banks, which were all listed on both the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE), and all of these banks were also in A-Category Company.

6.2. Descriptive Statistics of Disclosure Items of Sample Banks

To achieve the goals of the study, five years' annual reports of six sample banks have been examined and the total number of disclosure items (out of 247) attained by the sample banks has been assembled in Table 6.1 in the form of a matrix.

Table 6.1: Total Disclosure Score of the Sample Banks

Sample / Year	S-1	S-2	S-3	S-4	S-5	S-6	Mean	Mini.	Max.	St. Dev.
2008	164	147	145	207	173	157	**165.5**	**145**	**207**	**22.87**
2009	187	150	163	211	180	163	**175.6**	**150**	**211**	**21.79**
2010	212	174	178	217	184	177	**190.3**	**174**	**217**	**19.06**
2011	219	191	180	222	205	185	**200.3**	**180**	**222**	**17.75**
2012	229	197	187	228	219	194	**209.0**	**187**	**229**	**18.51**
Mean	**202.2**	**171.8**	**170.6**	**217**	**192.2**	**175.2**		**-**	**-**	**-**
Mini.	**164**	**147**	**145**	**207**	**173**	**157**	**-**		**-**	**-**
Maxi.	**229**	**197**	**187**	**228**	**219**	**194**	**-**	**-**		**-**
S. Dev.	**26.4**	**22.9**	**16.8**	**8.4**	**19.1**	**15.3**	**-**	**-**	**-**	

Source: Compiled by the Researcher (2014)

The above table gives an elementary idea about the overall pattern of disclosure of sample banks from year to year. Among the sample banks the highest mean disclosure score was 217 in sample-4, whereas the lowest mean score was 170.6 in sample-3. In relation to the maximum disclosure index of sample banks, sample-1 showed the highest score of 229 followed by sample-4 with a score of 228. As regard to standard deviation, it was clear that sample-4 (Prime Bank) showed the lowest standard deviation which indicated that there was a high degree of consistency among different years' disclosure of the bank, whereas the highest inconsistency was found in Sample-1 because its standard deviation among different years was the highest. In comparing the disclosure index from year to year it was found that the last year of study (2012) showed the highest overall disclosure index and also the highest mean disclosure. But none of the standard deviations was found low which meant that there was a significant variation among the samples in terms of disclosure quantity from year to year.

6.3. Sample-wise Descriptive Statistics of Disclosure Percentages

Table-6.2 shows the sample-wise descriptive statistics of the six sample banks. It has been observed in the table that the mean percentage of disclosure was the highest in sample - 4 (87.85%), which was lowest in sample-3 (69.06%). Sample four also showed the lowest standard deviation (3.39) and variance (11.55). On the other hand, the standard deviation and the variance were the highest in sample-1, which were 10.68 and 114.139 respectively. It indicates that disclosure index percentage in sample-4 was very consistent which was very inconsistent in sample-1.

Table 6.2: Sample-wise Descriptive Statistics of Disclosure Percentages

	Minimum	Maximum	Mean	Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic
S_1	66.40	92.71	81.86	10.683	114.139
S_2	59.51	79.76	69.55	9.275	86.044
S_3	58.70	75.71	69.06	6.791	46.123
S_4	83.81	92.31	87.85	3.398	11.548
S_5	70.04	88.66	77.81	7.753	60.114
S_6	63.56	78.54	70.93	6.183	38.232

Source: Compiled by the Researcher (2014)

6.4. Year-wise Descriptive Statistics of Disclosure Percentages

In analyzing the year-wise descriptive statistics of disclosure percentages among the sample banks it has been seen in Table 6.3 that the disclosure percentage of last year under study (2012) was the highest (84.61%) which was lowest in the first year of study (2008). The table also shows that there was a little consistency in disclosure among the sample banks from year to year. However, the disclosure practices in last three years were a little bit consistent than first two years.

Table 6.3: Year-wise Descriptive Statistics of Disclosure Percentages

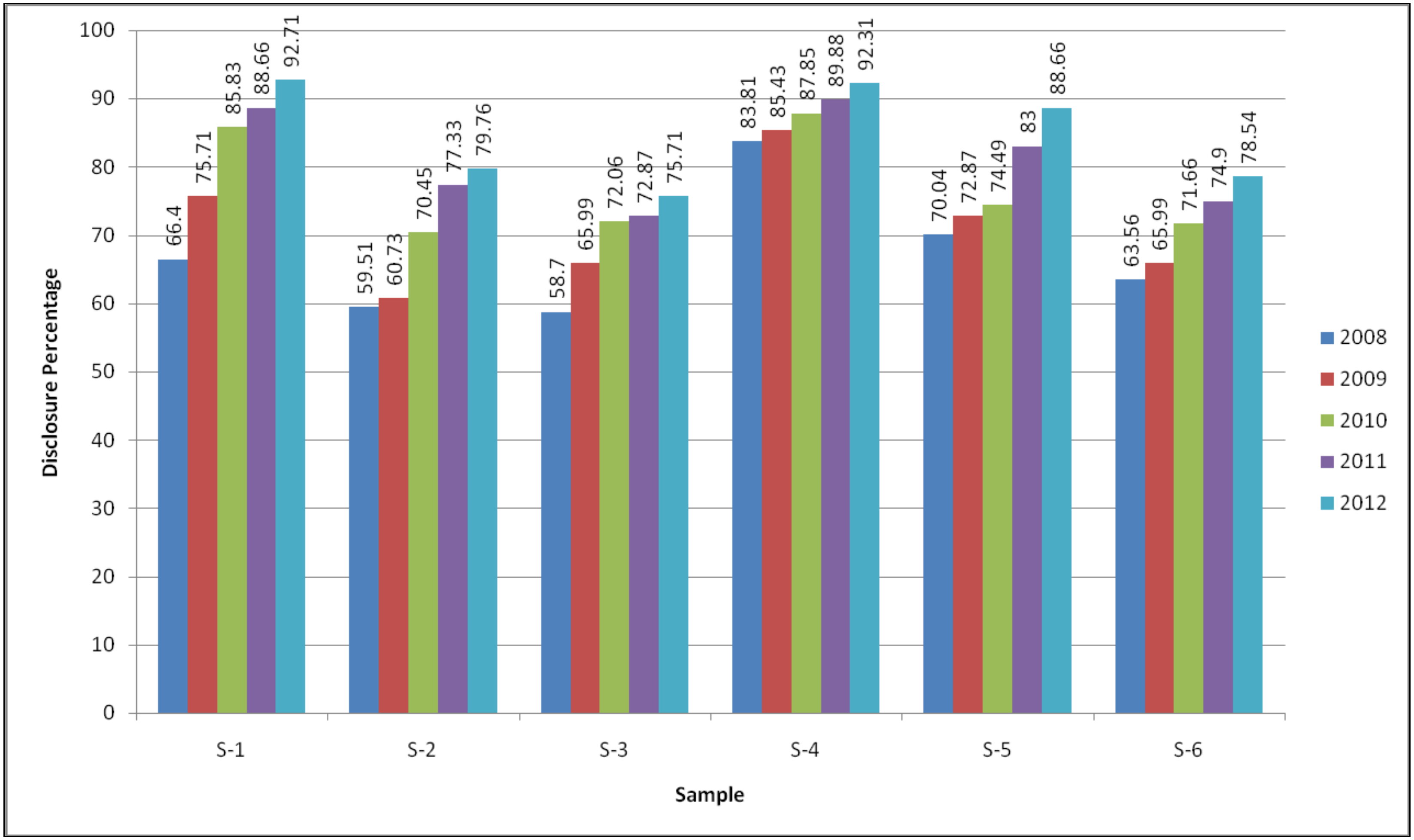
Year	Minimum	Maximum	Mean	Std. Deviation	Variance
2008	58.70	83.81	67.0040	9.25967	85.741
2009	60.73	85.43	71.1201	8.82430	77.868
2010	70.45	87.85	77.0580	7.71854	59.576
2011	72.87	89.88	81.1066	7.18628	51.643
2012	75.71	92.71	84.6154	7.49589	56.188

Source: Compiled by the Researcher (2014)

6.5. Graphical Presentation of Disclosure Percentages

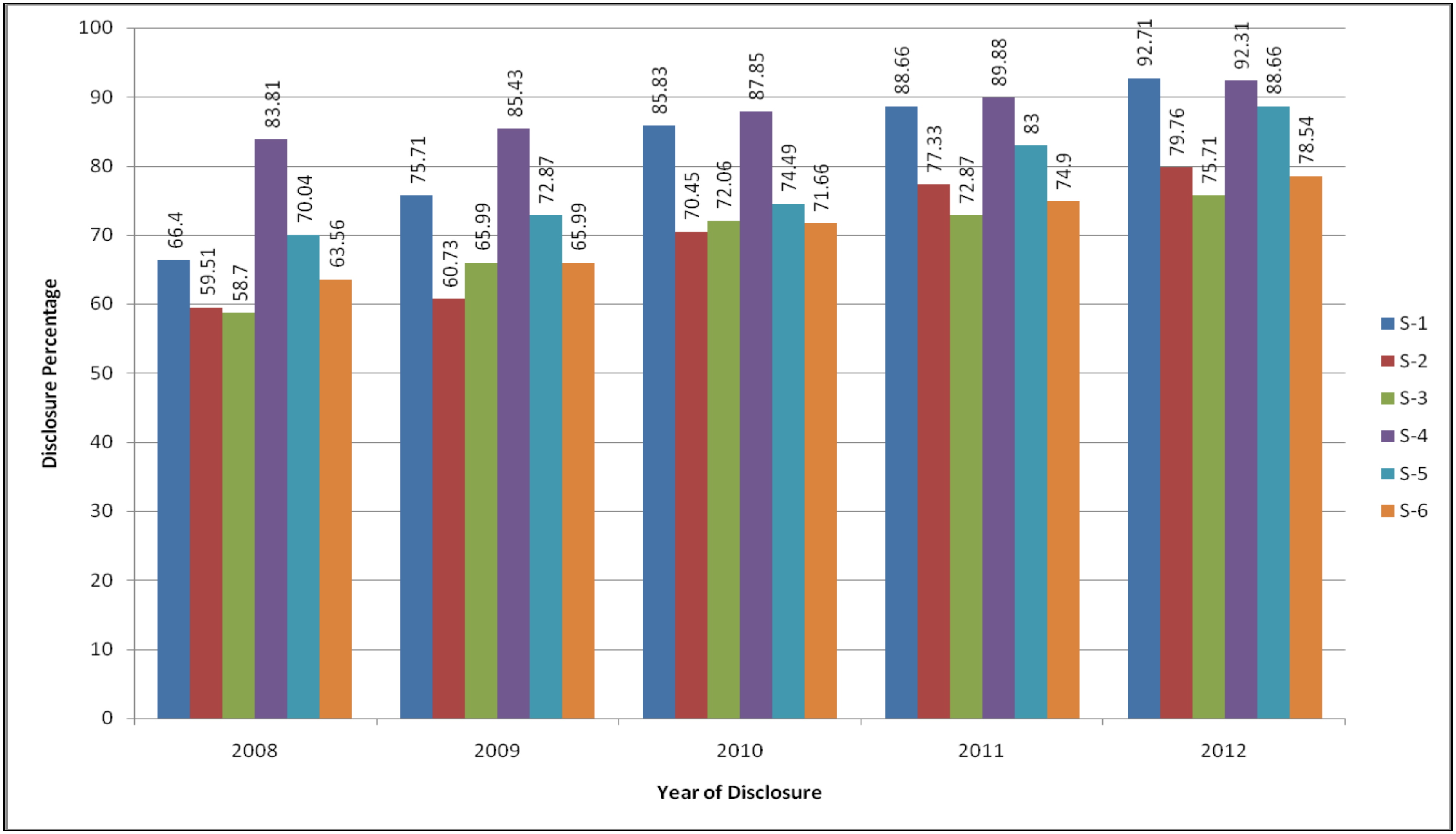
Graph 6.1 has shown the sample-wise percentage of disclosure scores where sample-4 showed consistent growth in disclosure from year to year and in the last year 2012 all the samples showed their highest disclosure percentage. Graph 6.2 has shown the year-wise percentage of disclosure scores. In this year-wise disclosure, mixed results were seen where some banks showed higher scores and some banks showed lower scores. In most of the years, sample-4 showed higher percentage of disclosure and ample-1 showed the highest percentage of disclosure in 2012.

Graph 6.1: Sample-wise Disclosure in Different Years



Source: Compiled by the Researcher (2014)

Graph 6.2 :Year-wise Disclosure Percentages of Sample Banks

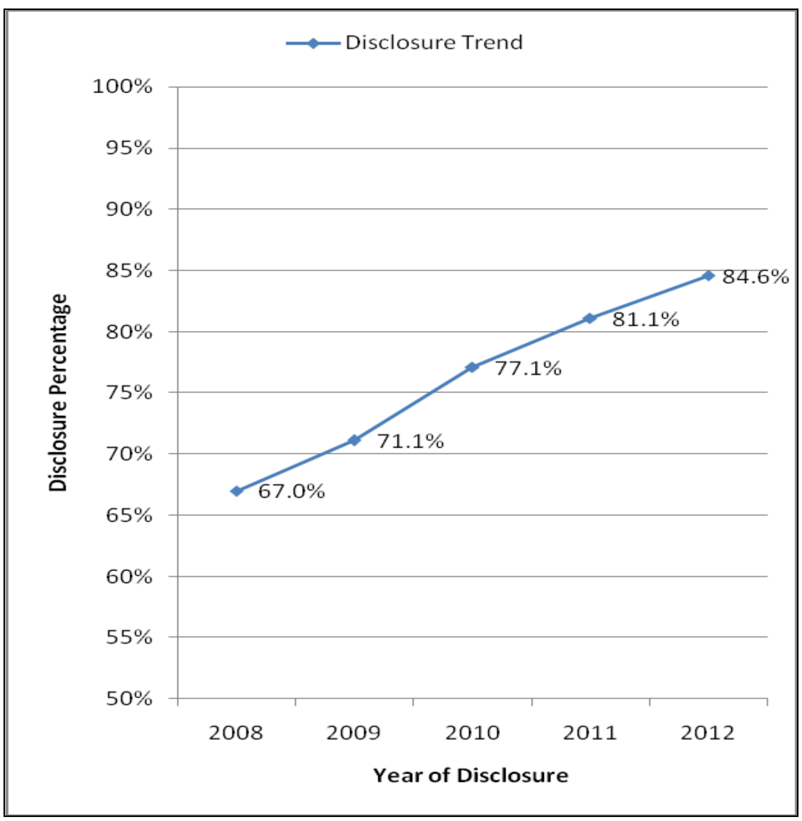


Source: Compiled by the Researcher (2014)

6.6. Graphical Presentation of Disclosure Trend

The mean score of the periods in Graph 6.3 has shown that highest disclosure level was found in 2012 and the lowest disclosure level was observed in 2008. Overall mean disclosure score of all sample banks was 67.0 percent in 2008 which was 84.6 percent in 2012. The trend has shown that the mean disclosure score of the sample banks were increasing. However, the percentage of its increase over the study period was very high. Again, yearly average rate of increase was 6.02 percent, whereas the lowest change from the previous year was 4.33 percent in 2012 and the highest change was 8.43 percent in 2010.

Graph 6.3: Trend of Disclosure Percentage

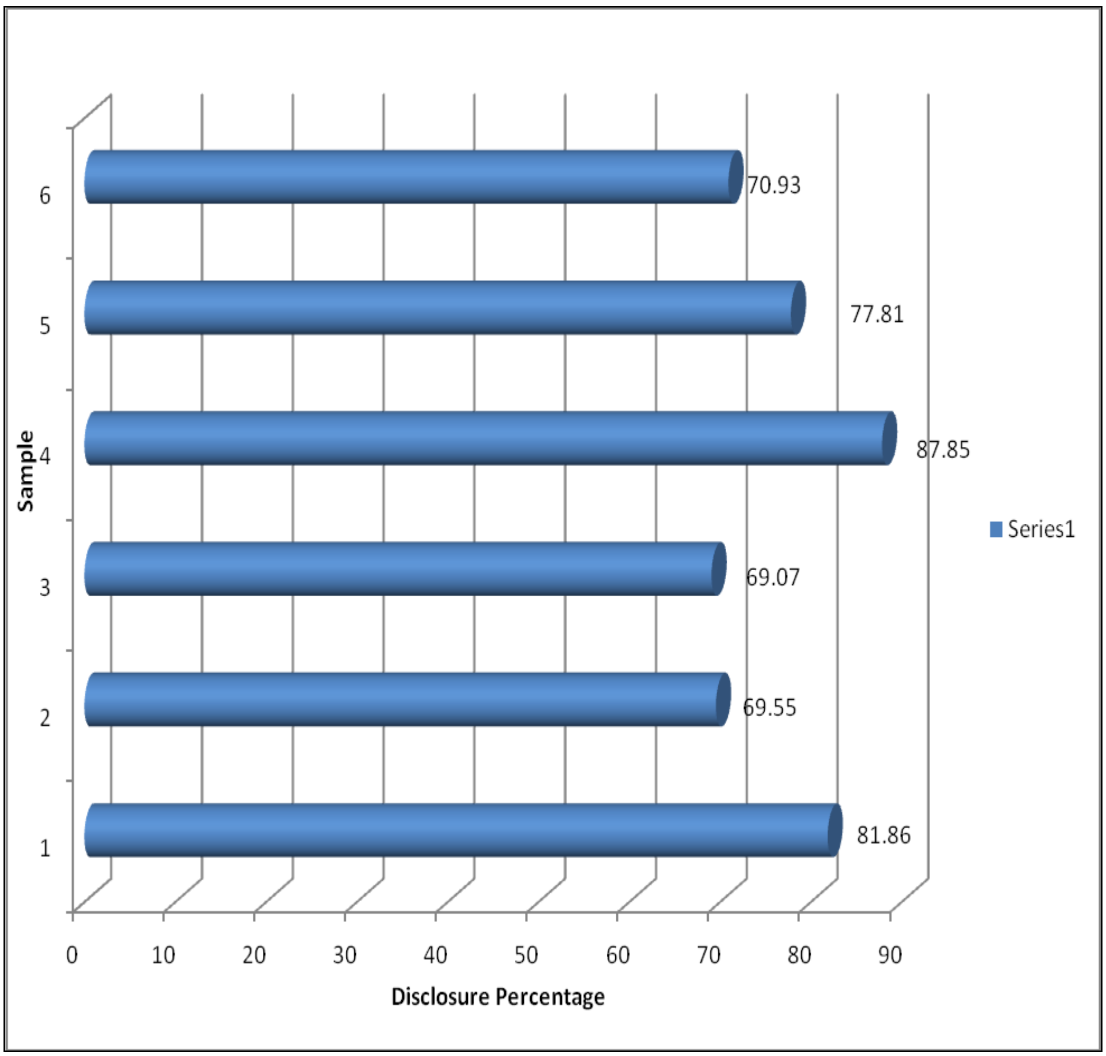


Source: Compiled by the Researcher (2014)

6.7. Graphical Presentation of Sample-wise Average Disclosrue

Graph 6.4 shows the mean disclosure percentage of sample banks where sample-4 (Prime Bank) showed the highest mean disclosure percentage of 87.85, followed by sample-1(Islami Bank) with the disclosiure percentage of 81. 86. The lowest mean disclosure percentage was seen in sample-3 (69.07%) followed by sample-2 (69.55%).

Graph 6.4: Percentage of Five Years' Average Disclosure of Each Sample

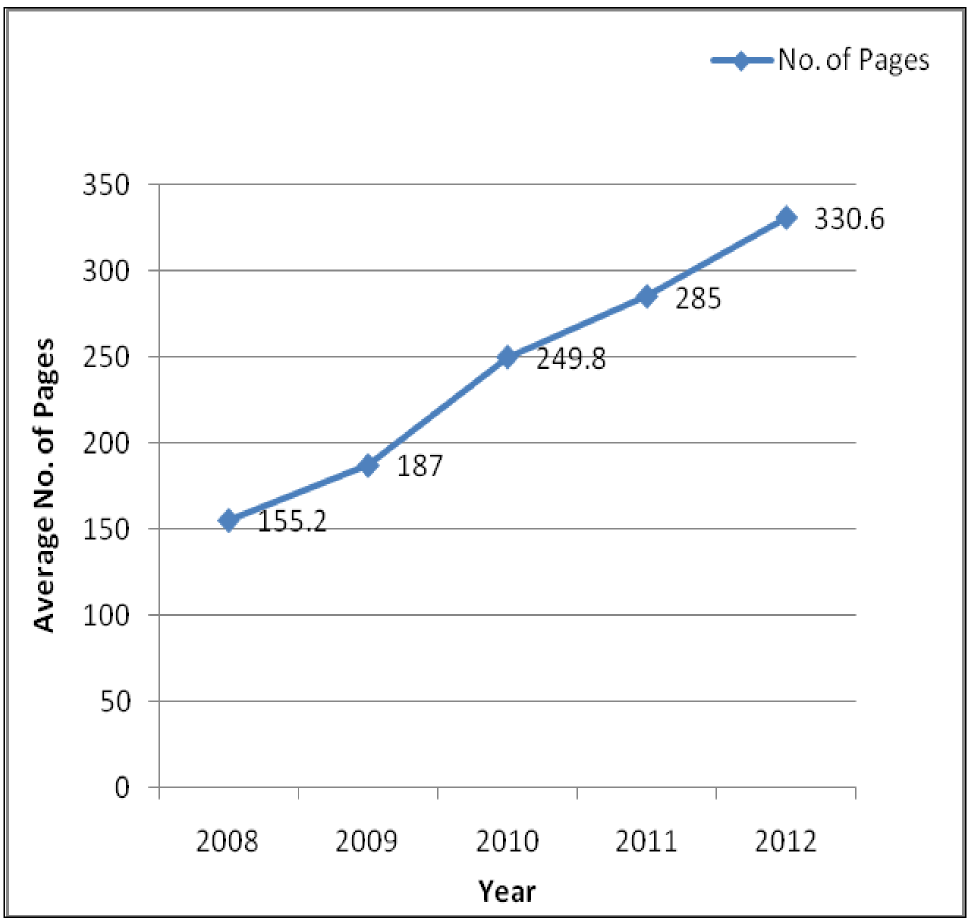


Source: Compiled by the Researcher (2014)

6.8. Average Size of the Annual Report of Sample Banks

It has been found from Graph-6.5 that the size of annual reports of private commercial banks in Bangladesh in terms of number of pages was increasing from year to year. The average number of pages in the annual reports was the lowest in 2008, 155.2 pages and the highest was in 2012, 330.6 pages. This means the growth rate in number of pages in annual report of private sector banks was consistently very high.

Graph 6. 5: Trend of the Size of Annual Reports in terms of Average Number of Pages

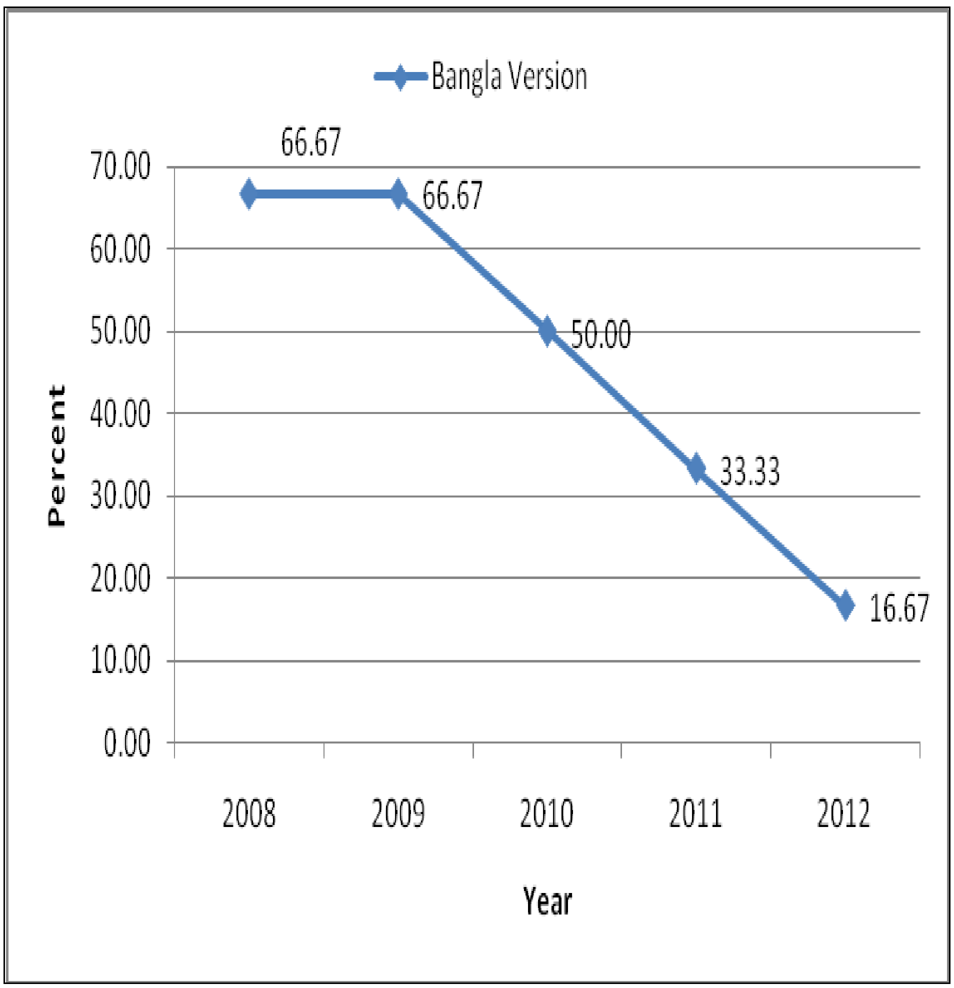


Source: Compiled by the Researcher (2014)

6.9. Language Used in the Annual Reports of Sample Banks

Because of demand from different users and suggestions from researchers (Islam, 1997) both the Bengali and English version had been used in the annual report of the private sector commercial banks of Bangladesh. It has been observed in Graph-6.6 that in 2008 about 66.67% of the banks used Bengali version beside the English version which was constant in 2009 and then gradually decreased to only 16.67% in 2012.

Graph *6. 6:* Trend showing the percentage of Banks Using Bengali Version in Annual Reports



Source: Compiled by the Researcher (2014)

6.10. Variation of Disclosure among the Sample Banks and Test of Hypothesis-1 (H_{01})

Evidence has been found from Table-6.4, that p-values of the 67 percent pairs (9 pairs out of 15 pairs) were significant at 5% level. It indicated that 64 percent of sample companies had shown a significant difference in the disclosure scores in their annual reports whereas an insignificant difference had been revealed in only 33 percent sample companies. The results reject Null Hypothesis-1(H_{O1}): There is no significant difference in the level of disclosure among the Private Sector Commercial Banks in Bangladesh. And the alternative hypothesis is accepted and a conclusion can be drawn in the way that there are significant differences in the extents of disclosure among the sample banks.

Table 6.4: Variation of Disclosure among the Sample Banks

		Paired Differences							
		95% Confidence Interval of the Difference							
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	**Sig. (2-tailed)**
Pair 1	IBBL - UCB	30.400	8.503	3.803	19.842	40.958	7.994	4	**.001**
Pair 2	IBBL - AIB	31.600	9.813	4.389	19.415	43.785	7.200	4	**.002**
Pair 3	IBBL - PBL	-14.800	18.472	8.261	-37.736	8.136	-1.792	4	.148
Pair 4	IBBL - ABL	10.000	13.323	5.958	-6.543	26.543	1.678	4	.169
Pair 5	IBBL - EXIM	27.000	12.104	5.413	11.971	42.029	4.988	4	**.008**
Pair 6	UCB - AIB	1.200	10.035	4.488	-11.260	13.660	.267	4	.802
Pair 7	UCB - PBL	-45.200	14.805	6.621	-63.583	-26.817	-6.827	4	**.002**
Pair 8	UCB - ABL	-20.400	8.295	3.709	-30.699	-10.101	-5.499	4	**.005**
Pair 9	UCB - EXIM	-3.400	8.142	3.641	-13.510	6.710	-.934	4	.403
Pair 10	AIB - PBL	-46.400	9.343	4.179	-58.001	-34.799	-11.104	4	**.000**
Pair 11	AIB - ABL	-21.600	10.310	4.611	-34.402	-8.798	-4.685	4	**.009**
Pair 12	AIB - EXIM	-4.600	5.320	2.379	-11.205	2.005	-1.934	4	.125
Pair 13	PBL - ABL	24.800	11.189	5.004	10.907	38.693	4.956	4	**.008**
Pair 14	PBL - EXIM	41.800	6.943	3.105	33.180	50.420	13.463	4	**.000**
Pair 15	ABL - EXIM	17.000	6.595	2.950	8.811	25.189	5.764	4	**.004**

Source: Compiled by the Researcher (2014)

6.11. Variation of Disclosure over the Years and Test of Hypothesis-2 (H_{02})

The variation of disclosure percentage among the years has been shown in Table-6.5 with 10 pairs of comparison. The table has been used to test the **Null Hypothesis-2 (H_{02})** which assumes that there is no significant difference in disclosure percentages between the periods before and after the supersession of BAS-30 by IFRS-7 in 2010.

Table 6.5: Variation of Disclosure over the Years

		Paired Differences					t	df	Sig. (2-tailed)
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	2008 - 2009	-10.167	8.280	3.380	-18.857	-1.477	-3.007	5	.030
Pair 2	2009 - 2010	-14.667	8.756	3.575	-23.855	-5.478	-4.103	5	.009
Pair 3	2010 - 2011	-10.000	7.376	3.011	-17.740	-2.260	-3.321	5	.021
Pair 4	2011 - 2012	-8.667	3.077	1.256	-11.896	-5.438	-6.900	5	.001
Pair 5	2008 - 2010	-24.833	14.442	5.896	-39.989	-9.678	-4.212	5	.008
Pair 6	2008 - 2011	-34.833	13.703	5.594	-49.214	-20.453	-6.227	5	.002
Pair 7	2008 - 2012	-43.500	14.571	5.948	-58.791	-28.209	-7.313	5	.001
Pair 8	2009 - 2011	-24.667	10.708	4.372	-35.904	-13.429	-5.642	5	.002
Pair 9	2009 - 2012	-33.333	11.431	4.667	-45.329	-21.337	-7.143	5	.001
Pair 10	2010 - 2012	-18.667	9.416	3.844	-28.548	-8.785	-4.856	5	.005

Source: Compiled by the Researcher (2014)

Table 6.5 shows that all the pairs are significant at 5% level because all the pairs have p-value less than .05. Since the p-values of all the pairs are less than .05, it can be concluded that the fitness program is effective at 5% significant level. In all the above cases a statistically significant difference in disclosure scores in their annual reports has been found over the period which tells the null hypothesis-2 is rejected at 5% level. Thus, it can be said that there was a significant difference in the un-weighted disclosure score among the banks during the period under study.

6.12. Ranking of Sample Banks

The sample banks have been ranked on the basis of overall disclosure percentage to show their relative positions in terms of Overall Disclosure Index (ODI). Among the sample banks the highest ranked bank was Prime Bank Limited with a score of 87.85 percent followed by Islami Bank Bangladesh Limited with a score of 81.86% and then Bank Asia Limited with a score of 77.81 percent.

Table 6.6: Ranking of Sample Banks on the Basis of Disclosure Percentage

Sample Bank	Average Disclosure Percentage	Rank
Sample-4(Prime Bank Ltd.)	87.854	1
Sample-1(Islami Bank Bangladesh Ltd.)	81.862	2
Sample-5(Bank Asia)	77.814	3
Sample-6(Exim Bank Ltd.)	70.931	4
Sample-2(United Commercial Bank Ltd.)	69.555	5
Sample-3(Al-arafah Islami Bank Ltd.)	69.069	6

Source: Compiled by the Researcher (2014)

The ranking of the sample banks in Table 6.6 has shown that the lowest score of disclosure percentage was 69.07 in Al-arafah Islami Bank limited which was followed by the United Commercial Bank Limited with nearly same percent of disclosure of 69.56.

6.13. Distribution of Disclosure Items into Different Parts of Annual Report

Table 6.7 has shows the distribution of total Overall Disclosure Index (ODI) among different parts of the annual reports of banks. All the disclosure items have been categorized into ten. The names of the categories, their acronyms, base items and the percentage of each category have also been shown in the table. Graph 6.7 has shown the percentage of disclosure index allocated in each category with the help of a pie chart. In the pie chart the acronyms of each category and the rounded percentage of each category were also shown for better visualization.

Table 6.7: Distribution of Disclosure Score among Different Parts

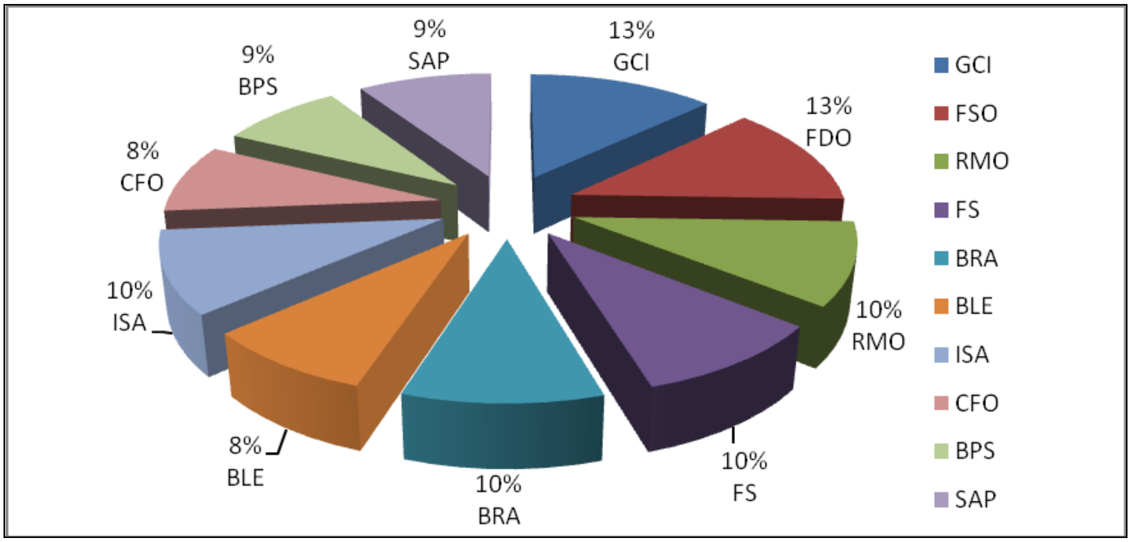
S.L	Disclosure Category	Acro.	Items	%
A	General Corporate Information	GCI	32	12.96%
B	Financial Statistical and other analysis	FSO	31	12.55%
C	Report from Management and others	RMO	25	10.12%
D	Financial Statements	FS	24	9.72%
E	Balance Sheet Items Related to Assets	BRA	24	9.72%
F	Balance Sheet Items Related to Liabilities and Equity	BLE	21	8.50%
G	Income Statement Items & Appro. of Profit	ISA	25	10.12%
H	Statement of Cash Flows and Other Statements	CFO	21	8.50%
I	Basis of Preparation of the Statements	BPS	21	8.50%
J	Significant Accounting Policies	SAP	23	9.31%
		Total-	**247**	**100%**

Source: Compiled by the Researcher (2014)

6.14. Part-wise Disclosure Percentages and Descriptive Statistics

Table 6.8 has demonstrated the average percentage of part-wise disclosure scores of the sample banks during the period under study. As regard to mean percentages of the study period 2008-2012, it has been found that the highest mean percentage of disclosure was 96.80% in Income Statement Items and its Appropriations (ISA) category, and the lowest percentage of disclosure was 59.89% in Financial Statistical and other analysis (FSO) category.

Graph 6.7: Distribution of Disclosure Items into Different Categories



Source: Compiled by the Researcher (2014)

The mean percentage of disclosure was also low in FS, RMO, and BPS, the percentages of which were 63.61, 69.73 and 72.70 respectively. Further, on the basis of maximum level and minimum level of disclosure percentage of the sample banks, the highest disclosure percentage 100 percent was found in Income Statement Items and its Appropriations (ISA) category, and the minimum disclosure percentage was 43.87 percent in Statistical and other analysis (FSO) category. In terms of coefficient of variation, FSO category showed the highest percentage of variation in disclosure among the samples and the General Corporate Information (GCI) category was also high in terms of standard deviation. These meant that the degree of variability was higher in GCI and FSO category among the sample banks. Both the standard deviation and coefficient of variation were the lowest in ISA category which were 2.21 and 2.28 respectively. It meant that there was a significant consistency in the disclosure of this category among the samples under study.

Table 6.8: Disclosure Percentages of Different Parts and their Descriptive Statistics

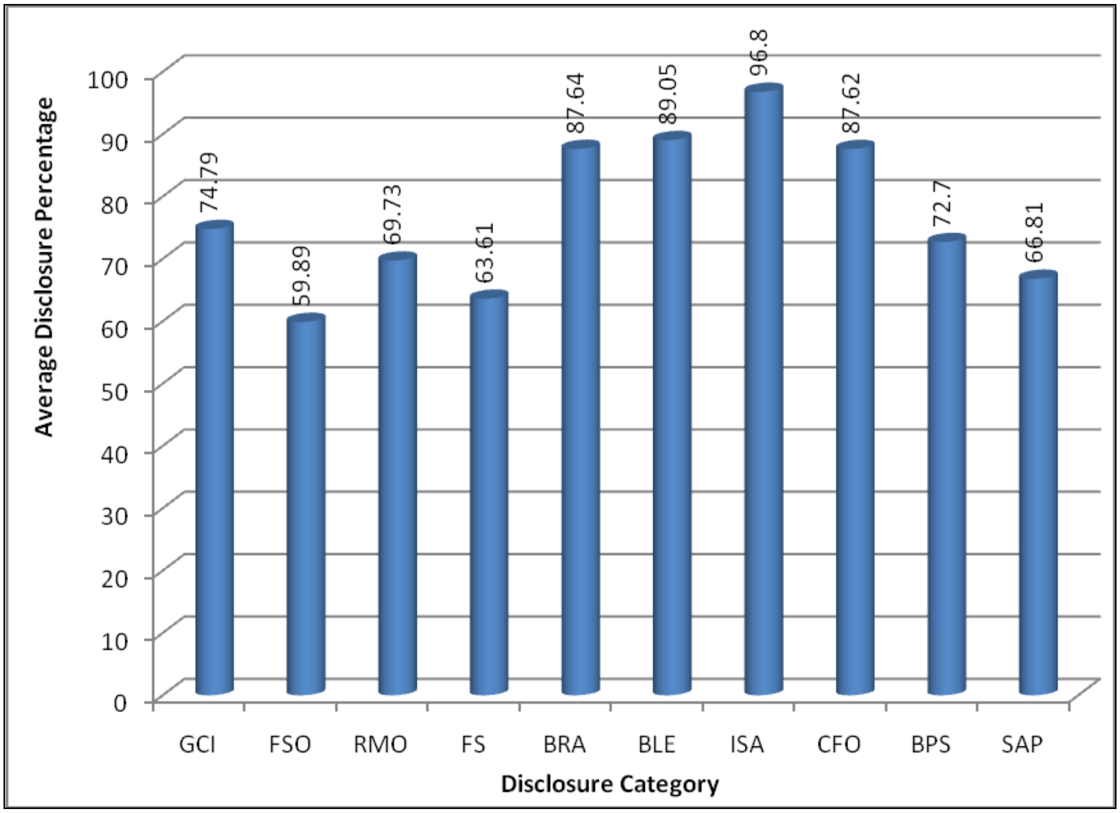
	GCI	FSO	RMO	FS	BRA	BLE	ISA	CFO	BPS	SAP
S-1	92.50	73.55	79.20	58.33	77.50	92.38	99.20	90.48	78.10	77.39
S-2	57.50	46.45	60.00	64.17	87.50	85.71	96.00	95.24	67.62	49.57
S-3	61.25	58.06	58.40	54.17	80.83	81.90	95.20	82.86	69.52	56.52
S-4	91.88	79.35	87.20	84.17	95.83	93.33	100.00	85.71	82.86	78.26
S-5	79.38	58.06	68.00	63.33	91.67	93.33	95.20	85.71	77.14	73.91
S-6	66.25	43.87	65.60	57.50	92.50	87.62	95.20	85.71	60.95	65.22
Mini.	**57.50**	**43.87**	**58.40**	**54.17**	**77.50**	**81.90**	**95.20**	**82.86**	**60.95**	**49.57**
Maxi.	**92.50**	**79.35**	**87.20**	**84.17**	**95.83**	**93.33**	**100.00**	**95.24**	**82.86**	**78.26**
Mean	**74.79**	**59.89**	**69.73**	**63.61**	**87.64**	**89.05**	**96.80**	**87.62**	**72.70**	**66.81**
STDEV	**15.37**	**14.21**	**11.30**	**10.75**	**7.16**	**4.73**	**2.21**	**4.47**	**8.07**	**11.83**
C.Var.	**20.56**	**23.72**	**16.20**	**16.89**	**8.17**	**5.32**	**2.28**	**5.10**	**11.11**	**17.70**

Source: Compiled by the Researcher (2014)

6.15. Graphical Presentation of Disclosure Percentage of Different Parts

Graph 6.8 has demonstrated the average disclosure percentage of different sections of disclosure index. The highest percentage of disclosure 96.8% was found in Income Statement Items and Appropriation of Profit (ISA) followed by the Balance Sheet Items Related to Equity (BLE) 89.05%. On the other hand, the average disclosure percentage was the lowest in Financial Statistical and Other Category. If 70% disclosure has been considered the benchmark disclosure index, six items have the disclosure percentage above the standard. Therefore, it can be said that the disclosure percentage of different category is satisfactory.

Graph 6.8: Disclosure Percentage of Different Parts



Source: Compiled by the Researcher (2014)

6.16. Year-wise Disclosure Percentage of Different Parts and Descriptive Statistics

Table 6.9 has shown the year-wise average disclosure percentages of different categories for the study period 2008-2012. On the basis of mean, minimum, and maximum, the highest disclosure was observed in the last year 2012. The standard deviation and the coefficient of variation were also the lowest in the same year. It indicated that year 2012 disclosed the highest amount of information and the disclosure percentages among different categories were consistent. On the other hand, the minimum, maximum, and mean values were the lowest in the first year of the study period 2008. The standard deviation and the coefficient of variation were also the highest in that year. This meant that the first year of study period showed less disclosure percentage and the variation was also high in 2008 among the years under study.

Table 6.9: Year-wise Average Disclosure Percentage of Different Parts

	2008	2009	2010	2011	2012
GCI	65.1	68.75	75	80.72	84.37
FSO	51.07	54.83	58.6	65.05	69.89
RMO	60	64	68.66	72.66	83.33
FS	39.58	40.97	70.83	83.33	83.33
BRA	84.02	86.8	87.5	88.88	90.97
BLE	83.33	86.5	90.47	92.06	92.85
ISA	94.66	97.33	97.33	97.33	97.33
CFO	85.71	88.09	88.09	88.09	88.09
BPS	61.9	69.84	73.8	75.39	82.53
SAP	52.17	62.31	68.11	73.18	78.26
Min	**39.58**	**40.97**	**58.6**	**65.05**	**69.89**
Max	**94.66**	**97.33**	**97.33**	**97.33**	**97.33**
Mean	**67.0**	**71.1**	**77.1**	**81.10**	**84.60**
S.DEV	**18.166**	**17.514**	**12.295**	**10.105**	**7.77864**
C.VAR	**26.008**	**23.386**	**15.416**	**12.119**	**9.14113**

Source: Compiled by the Researcher (2014)

6.17. Descriptive Statistics of Disclosure Percentage of Different Parts

The descriptive statistics of different parts have been shown in Table 6.10 encompassing the minimum, maximum, standard deviation and variance of panel data. The table has indicated that among the different parts of annual reports of banks

Income Statement Items and Appropriation of Profit (ISA) was the most consistent part. The minimum percentage of this part was 92% and the maximum was 100% while the average of this part was also the highest 96.8% and the standard deviation was the lowest 2.44. Therefore, it could be concluded that ISA was the most consistent part from the viewpoint of disclosure percentage. The second highest consistency has been observed in Cash Flow and Other (CFO) category which has the minimum, maximum, mean, and standard deviation of disclosure percentage 71.41, 95.24, 87.62 and 4.78 respectively. On the other hand the highest standard deviation (24.29) has been seen in Financial Statements (FS) category. Therefore, it can be argued that FS was the most inconsistent part of the annual reports of banking sector. Next to FS the inconsistent part was General Corporate Information (GCI) having the disclosure percentages of minimum 40.63%, maximum 100%, mean 74.79% and standard deviation of 17.11%.

Table 6.10: Descriptive Statistics of Disclosure Percentage of Different Parts

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
GCI	30	40.63	100.00	74.7917	17.11502	292.924
FSO	30	35.48	87.10	59.8925	15.99911	255.971
RMO	30	44.00	96.00	69.7333	13.76385	189.444
FS	30	29.17	87.50	63.6111	24.29399	590.198
BRA	30	70.83	95.83	87.6389	7.77461	60.445
BLE	30	71.43	100.00	89.0476	6.27142	39.331
ISA	30	92.00	100.00	96.8000	2.44103	5.959
CFO	30	71.43	95.24	87.6190	4.77830	22.832
BPS	30	47.62	100.00	72.6984	11.45682	131.259
SAP	30	34.78	95.65	66.8116	15.42410	237.903

Source: Compiled by the Researcher (2014)

6.18. Items Disclosed by All The Sample Banks, by Only One Bank and by None of the Sample Banks

The study has found 105 disclosure items (shown in appendix-F) which were universally disclosed by all the sample banks in all the five years under study. Most of these items were mandatory items. The study also found seven items which were disclosed by only one sample bank whereas five items were found not disclosed by any of the sample banks as shown in Table-6.11 most of which are voluntary disclosure items.

Table 6. 11: Items not Disclosed by any of the Sample Banks and Items Disclosed by Only One Sample Banks

	Items Not Disclosed by Any of the Sample Banks		**Items Disclosed by Only One Sample Bank**
1.	Debt to total assets ratio	**1.**	Quick ratio
2.	Interest (profit) coverage ratio	**2.**	Liquidity Statement of subsidiary
3.	Financial statement of bank foundation	**3.**	Accumulated depreciation figure of fixed asset in the balance sheet
4.	Net operating cash flow per share in body of cash flow statement	**4.**	Comparative liquidity statement of two years
5.	Disclosure about significant non-cash activity	**5.**	Departure from standards in preparing statements
		6.	Capital work in process
		7.	Rectification policy for any error in accounting

Source: Compiled by the Researcher (2014)

6.19. Variation of Disclosure Percentage among different Categories and Test of Hypothesis-3 (H_{03})

The paired sample test among disclosure percentage of different categories in Table-6.12 has shown that 20% of the pairs (9 pairs out of 45 pairs) showed insignificant difference whereas 80% of the pairs (36 pairs out of 45 pairs) showed statistically significant difference among the pairs at 95% level of confidence.

Table 6.12: Paired Samples Test among different Disclosure Categories

		Paired Differences							
					95% Confidence Interval of the Difference				
S. N.	**Pair**	**Mean**	**Std. Deviation**	**Std. Error Mean**	**Upper**	**Lower**	**t**	**df**	**Sig. (2-tailed)**
Pair 1	GCI - FSO	14.89919	8.27089	1.51005	11.81079	17.98760	9.867	29	**.000**
Pair 2	FSO - RMO	-9.84086	8.32605	1.52012	-12.94986	-6.73186	-6.474	29	**.000**
Pair 3	RMO - FS	6.12222	17.99600	3.28561	-.59760	12.84204	1.863	29	.073
Pair 4	FS - BRA	-24.02778	21.93041	4.00393	-32.21673	-15.83883	-6.001	29	**.000**
Pair 5	BRA - BLE	-1.40873	7.72543	1.41046	-4.29345	1.47599	-.999	29	.326
Pair 6	BLE - ISA	-7.75238	5.21164	.95151	-9.69844	-5.80632	-8.147	29	**.000**
Pair 7	ISA - CFO	9.18095	4.76949	.87079	7.39999	10.96191	10.543	29	**.000**
Pair 8	CFO - BPS	14.92063	12.10720	2.21046	10.39973	19.44154	6.750	29	**.000**
Pair 9	BPS - SAP	5.88682	8.81948	1.61021	2.59357	9.18007	3.656	29	**.001**
Pair 10	GCI - RMO	5.05833	7.96975	1.45507	2.08238	8.03429	3.476	29	**.002**
Pair 11	GCI - FS	11.18056	20.07777	3.66568	3.68339	18.67772	3.050	29	**.005**
Pair 12	GCI - BRA	-12.84722	18.09052	3.30286	-19.60233	-6.09211	-3.890	29	**.001**
Pair 13	GCI - BLE	-14.25595	13.56690	2.47697	-19.32192	-9.18999	-5.755	29	**.000**
Pair 14	GCI - ISA	-22.00833	15.48925	2.82794	-27.79212	-16.22455	-7.782	29	**.000**
Pair 15	GCI - CFO	-12.82738	18.03324	3.29240	-19.56110	-6.09366	-3.896	29	**.001**
Pair 16	GCI - BPS	2.09325	11.76144	2.14733	-2.29854	6.48505	.975	29	.338
Pair 17	GCI - SAP	7.98007	9.42325	1.72044	4.46137	11.49877	4.638	29	**.000**
Pair 18	FSO - FS	-3.71864	20.45508	3.73457	-11.35669	3.91941	-.996	29	.328
Pair 19	FSO - BRA	-27.74642	18.03563	3.29284	-34.48103	-21.01180	-8.426	29	**.000**
Pair 20	FSO - BLE	-29.15515	13.48491	2.46200	-34.19049	-24.11980	-11.842	29	**.000**
Pair 21	FSO - ISA	-36.90753	14.32947	2.61619	-42.25824	-31.55681	-14.107	29	**.000**
Pair 22	FSO - CFO	-27.72657	17.19133	3.13869	-34.14592	-21.30723	-8.834	29	**.000**
Pair 23	FSO - BPS	-12.80594	9.26673	1.69187	-16.26619	-9.34569	-7.569	29	**.000**
Pair 24	FSO - SAP	-6.91912	11.37732	2.07721	-11.16748	-2.67076	-3.331	29	**.002**
Pair 25	RMO - BRA	-17.90556	13.84795	2.52828	-23.07646	-12.73465	-7.082	29	**.000**
Pair 26	RMO - BLE	-19.31429	10.33142	1.88625	-23.17210	-15.45647	-10.240	29	**.000**
Pair 27	RMO - ISA	-27.06667	12.09997	2.20914	-31.58487	-22.54846	-12.252	29	**.000**
Pair 28	RMO - CFO	-17.88571	14.53358	2.65346	-23.31264	-12.45879	-6.741	29	**.000**
Pair 29	RMO - BPS	-2.96508	8.77385	1.60188	-6.24129	.31113	-1.851	29	.074
Pair 30	RMO - SAP	2.92174	8.83409	1.61288	-.37696	6.22044	1.812	29	.080
Pair 31	FS - BLE	-25.43651	21.39944	3.90698	-33.42719	-17.44583	-6.511	29	**.000**
Pair 32	FS - ISA	-33.18889	23.24918	4.24470	-41.87028	-24.50750	-7.819	29	**.000**
Pair 33	FS - CFO	-24.00794	24.20612	4.41941	-33.04665	-14.96922	-5.432	29	**.000**
Pair 34	FS - BPS	-9.08730	19.09178	3.48567	-16.21629	-1.95831	-2.607	29	**.014**
Pair 35	FS - SAP	-3.20048	18.72848	3.41934	-10.19381	3.79285	-.936	29	.357
Pair 36	BRA - ISA	-9.16111	7.80295	1.42462	-12.07478	-6.24744	-6.431	29	**.000**
Pair 37	BRA - CFO	.01984	9.15555	1.67157	-3.39890	3.43858	.012	29	.991
Pair 38	BRA - BPS	14.94048	12.99253	2.37210	10.08898	19.79197	6.298	29	**.000**
Pair 39	BRA - SAP	20.82729	15.25086	2.78441	15.13253	26.52206	7.480	29	**.000**
Pair 40	BLE - CFO	1.42857	7.09067	1.29457	-1.21913	4.07627	1.104	29	.279
Pair 41	BLE - BPS	16.34921	8.45231	1.54317	13.19306	19.50535	10.595	29	**.000**
Pair 42	BLE - SAP	22.23602	10.94261	1.99784	18.14999	26.32206	11.130	29	**.000**
Pair 43	ISA - BPS	24.10159	9.99551	1.82492	20.36920	27.83397	13.207	29	**.000**
Pair 44	ISA - SAP	29.98841	13.96159	2.54903	24.77506	35.20175	11.765	29	**.000**
Pair 45	CFO - SAP	20.80745	16.38430	2.99135	14.68945	26.92545	6.956	29	**.000**

Source: Compiled by the Researcher (2014)

This rejects the Null Hypothesis 3: There is no significant difference among the different categories of information disclosed in the annual report of the Private Sector Commercial Banks in Bangladesh. Rejection of Null Hypothesis means acceptance of Alternative hypothesis 3: There is a significant difference among the different categories of information disclosed in the annual report of the Private Sector Commercial Banks in Bangladesh.

6.20. Correlations among Different Parts of Disclosure Index

Table 6.13 has shows the degree of correlations among different categories of disclosure index. It has been found from the table that a large majority of the relationship was significantly positive where the highest degree of positive correlation .889 was found between GCI and RMO which meant that if there was an increase in GCI, RMO would also increase.

Table 6.13: Correlations among the Different Parts of Disclosure Index

	GCI	FSO	RMO	FS	BRA	BLE	ISA	CFO	BPS	SAP
GCI	1									
FSO	**.877(**)**	1								
RMO	**.889(**)**	**.854(**)**	1							
FS	.577(**)	.550(**)	.682(**)	1						
BRA	.098	-.036	.272	.449(*)	1					
BLE	.690(**)	.565(**)	.707(**)	.563(**)	.411(*)	1				
ISA	.706(**)	.725(**)	.729(**)	.469(**)	.145	.592(**)	1			
CFO	-.058	-.109	.008	.117	-.007	.198	.259	1		
BPS	.729(**)	**.822(**)**	.773(**)	.641(**)	.129	.690(**)	.667(**)	.069	1	
SAP	**.837(**)**	.738(**)	.823(**)	.637(**)	.274	**.814(**)**	.650(**)	-.052	**.824(**)**	1

***Correlation is significant at the 0.01 level (2-tailed), *Correlation is significant at the 0.05 level (2-tailed).*

Source: Compiled by the Researcher (2014)

Other significant relationships among the categories above .80 were GCI and FSO .877, RMO and FSO .854, SAP and GCI .837, SAP and BPS .824, FSO and BPS

.822, SAP and BLE .814. The table also showed some negative relationships which were not so significant.

6.21. Comparison of Disclosure Percentage between Islamic and Conventional and Test of Hypothesis-4 (H_{04})

The descriptive statistics of disclosure percentages of both the Conventional and Islamic categories have been revealed in Table-6.14. It has been found from the table that the Conventional banks had the higher percentage of disclosure 78.40% which were 73.95 in Islamic banks.

Table 6.14: Year-wise Descriptive Statistics of Disclosure Percentage: Islamic and Conventional

Year	Category	Mean	Standard Deviation	Minimum	Maximum
2008	Islamic	62.888	3.89029	58.7	66.4
	Conventional	71.1201	12.18168	59.51	83.81
2009	Islamic	69.2308	5.60988	65.99	75.71
	Conventional	73.0094	12.34873	60.73	85.43
2010	Islamic	76.5182	8.06674	71.66	85.83
	Conventional	77.5978	9.11006	70.45	87.85
2011	Islamic	78.8124	8.59152	72.87	88.66
	Conventional	83.4008	6.28509	77.33	89.88
2012	Islamic	82.3212	9.11006	75.71	92.71
	Conventional	86.9096	6.45661	79.76	92.31
2008-2012	**Islamic**	**73.9541**	**7.82552**	**62.89**	**82.32**
	Conventional	**78.4076**	**6.71042**	**71.12**	**86.91**

Source: Compiled by the Researcher (2014)

But the standard deviations of both the banks were more or less similar which were 7.825 in Islamic Banks and 6.71 in Conventional banks. It indicated that the disclosure percentages among the Conventional banks were more consistent than Islamic banks. Table-6.15 has shown the difference in disclosure between Conventional commercial banks and Islamic Commercial banks on the basis of different disclosure categories. It has also been observed from the table that in each disclosure category Conventional banks showed higher percentages as compared to the Islamic banks.

Table 6.15:Part-wise Descriptive Statistics of Disclosure Percentage: Islamic and Conventional

Year	Category	Mean	Standard Deviation	Variance	Minimum	Maximum
GCI	Islamic	73.3333	243.955	15.6191	56.25	100
	Conventional	76.25	358.259	18.9277	40.63	100
FSO	Islamic	58.4946	224.27	14.9757	41.94	87.1
	Conventional	61.2903	301.769	17.3715	35.48	87.1
RMO	Islamic	67.7333	165.638	12.8701	52	96
	Conventional	71.7333	218.21	14.7719	44	96
FS	Islamic	56.6667	579.861	24.0803	29.17	83.33
	Conventional	70.5556	539.352	23.224	29.17	87.5
BRA	Islamic	83.6111	75.562	8.69265	70.83	95.83
	Conventional	91.6667	14.881	3.85758	87.5	95.83
BLE	Islamic	87.3016	41.032	6.40564	71.43	95.24
	Conventional	90.7937	33.906	5.82285	85.71	100
ISA	Islamic	96.5333	6.552	2.55976	92	100
	Conventional	97.0667	5.638	2.37447	92	100
CFO	Islamic	86.3492	22.244	4.71634	71.43	90.48
	Conventional	88.8889	21.596	4.64714	85.71	95.24
BPS	Islamic	69.5238	177.519	13.3236	47.62	100
	Conventional	75.873	72.778	8.53102	61.9	90.48
SAP	Islamic	66.3768	271.312	16.4715	34.78	95.65
	Conventional	67.2464	221.082	14.8688	39.13	86.96

Source: Compiled by the Researcher (2014)

Table 6. 16: Independent Samples Test of Different Disclosure Categories between Islamic and Conventional Banks and Test of Hypothesis-4 (H_{04})

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
GCI	Equal variances assumed	.302	.587	-.460	28	.649	-2.916	6.33621
FSO	Equal variances assumed	.714	.405	-.472	28	.641	-2.795	5.92193
RMO	Equal variances assumed	.726	.401	-.791	28	.436	-4.000	5.05864
FS	Equal variances assumed	.255	.617	-1.608	28	.119	-13.888	8.63795
BRA	Equal variances assumed	15.391	**.001**	-3.281	28	**.003**	-8.055	2.45551
BLE	Equal variances assumed	.000	1.000	-1.562	28	.129	-3.492	2.23514
ISA	Equal variances assumed	.039	.846	-.592	28	.559	-.533	.90150
CFO	Equal variances assumed	1.991	.169	-1.486	28	.149	-2.539	1.70958
BPS	Equal variances assumed	2.145	.154	-1.554	28	.131	-6.349	4.08491
SAP	Equal variances assumed	.032	.859	-.152	28	.880	-.869	5.72942

Source: Compiled by the Researcher (2014)

In order to test hypothesis four, independent samples test of different disclosure categories between Islamic and Conventional banks were conducted. Tble-6.16 has shown that p values of all the categories except Balance sheet items related to assets (BRA) were insignificant at 95% confidence level. Therefore, the null hypothesis-4: “There is no significant difference between the financial reporting practices of Islamic Commercial Banks and that of Conventional Commercial Banks in Bangladesh” is accepted at 95% confidence level.

6.22. Corporate Attributes to Disclosure and Test of Hypothesis-5(H_{05})

The current section of this chapter examines the association between extent of corporate financial reporting (overall disclosure percentage) and some selective corporate attributes where the percentage of Overall Disclosure Index (ODI) is the only dependent variable and there are four independent variables which are proxied by seven variables. That is there are eight independent variables in total. The association between the extent of disclosure and some corporate attributes has been examined by the test of the following hypothesis:

H_o: There is no significant association between the extent of disclosure and some selected corporate attributes [such as Company size (Total assets and Number of shareholders), Profitability (EPS and ROE), Solvency (Debt Equity Ratio, Credit Deposit Ratio, and CAR) and Listing Age of Private Sector Commercial Banks in Bangladesh.

H_1: There is a significant association between the extent of disclosure and some selected corporate attributes [such as Company size (Total assets and Number of shareholders), Profitability (EPS and ROE), Solvency (Debt Equity Ratio, Credit Deposit Ratio, and CAR) and Listing Age of Private Sector Commercial Banks in Bangladesh.

6.22.1. Description of Dependent and Independent Variables

The unweighted Overall Disclosure Index (ODI) score is the only dependent variable in this study which is obtained by using a dichotomous procedure whereby the total score received by a company is equal to the number of items disclosed in its annual report divided by the number of items applicable to each company. The independent variables are company size (proxied by total assets and number of shareholders), profitability (proxied by EPS and ROE), Solvency (proxied by Debt Equity Ratio, Credit Deposit ratio and CAR) and Listing age. A brief description of the independent variables used in the regression analysis is outlined in the following paragraphs:

Size: The size of the reporting company has been a major variable in most studies examining disclosure variability. Without the findings of Spero (1979) and Stanga (1976), all the studies have found that corporate size significantly explains disclosure levels and variability. Corporate size can be measured in a number of different ways and there is no overriding reason to prefer one to the other(s) (Cooke, 1991). Several measures of size were available to this researcher including: total assets, fixed assets, paid up capital, shareholders' equity, number of shareholders, and number of branches. Most of the size variables were highly correlated among each other. The problem of collinearity of the size variables was averted and Total assets and Total numbers of shareholders were selected on the basis of correlation coefficients with the dependent variable. Thus, two sub-hypothesis, related to size variable were developed as follows:

$H_{1\ (a)}$: There is a significant positive association between the extent of disclosure and Total assets of Private Sector Commercial Banks in Bangladesh.

$H_{1(b)}$: There is a significant positive association between the extent of disclosure and Total numbers of shareholders of Private Sector Commercial Banks in Bangladesh.

Profitability: Banking companies having higher profitability may disclose more information in their corporate annual reports than the banks with lower profitability (or losses) for a number of reasons. If the profitability of a bank is low, management may disclose less information in order to cover up the reasons for losses or lower profits. On the other hand, if profitability is high, management may disclose more detailed information in the corporate annual report in order to experience the comfort of communicating it as it is good news (Ahmed, 2009). For profitable banks if the EPS, ROA, ROE, ROI, or Net Profit Margin (NPM) is more than the bank average, the management of a bank has an incentive to communicate more information which is favorable to it as the basis of explanations of good news and is likely to disclose more information in their corporate annual reports as a result. Profitability was used by a number of researchers as an independent variable for fluctuations in disclosure level. Among these researchers Hossain (1998), Walles and Naser (1995) and Singhvi and Desai (1971) found a positive association between profitability and the extent of disclosure whereas Belkaoui and Kahl (1978) found a negative association between the variables. In the present study EPS and ROE have been used as the measurement scale of profitability. Thus, two sub-hypothesis, related to profitability variable were developed as follows:

$H_{1(c)}$: There is a significant positive association between the extent of disclosure and EPS of Private Sector Commercial Banks in Bangladesh.

$H_{1\,(d)}$: There is a significant positive association between the extent of disclosure and ROE of Private Sector Commercial Banks in Bangladesh.

Solvency: Solvency refers to an enterprise's state of financial health and also refers to an enterprise's capacity to meet its long-term financial commitments. A solvent company is one that owns more than it owes; in other words, it has a positive net worth and a manageable debt load. A bank's solvency is of very important to depositors, shareholders, management as well as the regulators and it is expected that the solvent companies disclose more information because they want to convey their financial strength to the related parties as compare to those whose solvency is not satisfactory. A number of financial ratios are used to measure a company's solvency such as Debt equity ratio, Credit deposit ratio, Capital Adequacy Ratio (CAR), Debt to total assets ratio etc. **Debt equity ratio** has been studied empirically by several researchers to assess whether it bears any relationship to disclosure level, Chow and Wong-Boren (1987), Ahmed and Nicholls (1994), Walles and Naser (1995), Inchausti, (1997) and (Ahmed, 2009) found no significant association between debt equity ratio and the level of disclosure. Belkaoui and Kahl (1978) found a significant negative relationship between the variables. **Credit Deposit Ratio** is the ratio of how much a bank lends out of the deposits it has mobilized. A higher ratio indicates more reliance on deposits for lending and vice-versa. This ratio gives the first indication of the health of a bank. A very high ratio is considered alarming because, in addition to indicating pressure on resources, it may also hint at capital adequacy issues, forcing banks to raise more capital. Moreover, the balance sheet would also be unhealthy with asset-liability mismatches. Therefore, it is assumed that the banks that have high debt equity ratio are reluctant to disclose this information. On the other hand banks with lower credit deposit ratio try to disclose more to show up their strength or solvency. Ahmed (2009) used this ratio as an independent variable in his study and found insignificant relationship between disclosure and credit deposit ratio of a bank. **Capital Adequacy Ratio (CAR)** is the percentage of a bank's capital funds in relation to the risk weighted assets of the bank. It is a measure of capital and also a mandatory disclosure requirement in the annual report of a bank. It gives an overall idea about the financial strength of a bank. Higher capital adequacy ratio (is related to lower risk), leads to a more stable and balanced banking system reducing the overall financial institution failure rate. Therefore, it can be assumed that banks with higher capital adequacy ratio disclose financial information to a greater extent than the banks with lower capital adequacy ratio. Ahmed (2009) used capital adequacy ratio as an independent variable in his study and found insignificant positive relationship between disclosure and capital adequacy ratio of a bank. Thus, three sub-hypothesis, related to solvency variable were developed as follows:

$H_{1\,(e)}$: There is a significant negative association between the extent of disclosure and Debt Equity Ratio of Private Sector Commercial Banks in Bangladesh.

$H_{1\,(f)}$: There is a significant negative association between the extent of disclosure and Credit Deposit Ratio of Private Sector Commercial Banks in Bangladesh.

$H_{1\,(g)}$: There is a significant positive association between the extent of disclosure and Capital Adequacy Ratio (CAR) of Private Sector Commercial Banks in Bangladesh.

Listing Age: Generally it seems that long-established banks disclose more information then newly listed banks as they enjoys some advantages such as adequate capital , brand name, reputation etc. Age of listing in the stock exchange has been identified as a significant explanatory factor among disclosure studies by Arif and Tuhin (2013), Prencipe (2004), and Owusu-Ansah(1998). Arif and Tuhin (2013), Akhtaruddin (2005), Prencipe (2004), and Owusu-Ansah(1998) found significant relationship between disclosure index and the listing age whereas Akhtaruddin (2005) found no relationship between the variables. Therefore, it can be assumed that there is a significant positive relationship between overall disclosure of bank and the listing age in the stock exchange. Thus, the hypothesis related to Listing age variable was developed as follows:

$H_{1\ (h)}$: There is a significant positive association between the extent of disclosure and the Listing age (LA) of Private Sector Commercial Banks in Bangladesh.

6.22.2. Descriptive Statistics of the Independent Variables

- **Statistics of Company Size Variable:** The company size is proxied by two variables: Total assets and Number of shareholders. Since all other variables used in this model were small in digit, natural log of these two variables were taken into consideration for the purpose of comparability. Table 6.17 has shown the descriptive statistics of these two variables and their log forms. Each of these variables varied greatly, the total assets ranged from 37,177 million to 4,82,536 million, with a mean of 1,55,504 million. The range of number of shareholders during the period under study was between 8,318 and 1,39,482, with a mean of 45,937 while the standard deviation was the highest in this variable which was 41,448.

Table 6.17: Descriptive Statistics of the Variables

Variables	Mini.	Maxi.	Mean	Std. Deviation
Total assets in Million (TA)	37177	482536	155504.30	103750.88
Total Shareholders (SH)	8318	139482	45936.77	41448.38
Log Total Assets (LTA)	10.52	13.09	11.7680	.61712
Log total no of Shareholders (LSH)	9.03	11.85	10.3379	.92213
Earnings Per Share (EPS)	.91	7.83	3.5650	1.61
Return on Equity (ROE)	7.11	32.12	19.9157	6.28
Debt Equity Ratio (DE)	4.74	15.01	10.2380	2.80
Credit Deposit Ratio (CD)	79.37	98.26	88.4553	4.85
Capital Adequacy Ratio (CAR)	6.31	14.88	11.4237	1.85
Listing Age (LA)	4	27	13.833	8.10
Overall Disclosure Index(ODI)%	.59	.93	.7618	.099

Source: Compiled by the Researcher (2014)

Statistics of Solvency Variable: The solvency variable is proxied by Debt to equity (DE) ratio, Credit deposit ratio and Capital Adequacy Ratio. The DE ratio during the period under study ranged from 4.74 to 15.01, with a mean of 10.24 (Table 6.17). In terms of Credit Deposit ratio (CD), the minimum was 79.37 percent with the maximum of 98.26 percent and the mean percentage of 88.45, and standard deviation of 4.85. On the other hand, in terms of Capital Adequacy Ratio (CAR), a range of 6.13 percent to 14.88 percent was found with a mean percentage of 11.42 and standard deviation of 1.85.

• **Statistics of Listing Age Variable:** Listing age of the companies indicate the listing age at the Dhaka Stock Exchange (DSE) from 2008 to December 2012. Table 6.17 has shown that the lowest age of listing at the beginning of our study period was 4 years and the highest age in the last year of the study was 27 years with a mean age of 13.83 years.

6.22.3. Correlation Analysis Among the Independent Variables

In order to identify the correlation between the dependent variable and independent variables and also among the independent variables Pearson's correlation coefficients (r) were calculated. Taking the five years' average of six sample banks a correlation matrix has been developed as shown in Table 6.18.

Table 6.18: Correlation Matrix of Independent Variables

	LTA	LSH	EPS	ROE	CD	DE	CAR	LA
LTA	1							
LSH	.560(**)	1						
	.001							
EPS	-.042	-.262	1					
	.825	.162						
ROE	-.464(**)	-.395(*)	.687(**)	1				
	.010	.031	.000					
CD	-.353	-.084	.335	.448(*)	1			
	.055	.660	.070	.013				
DE	-.367(*)	-.125	.041	.262	.142	1		
	.046	.510	.829	.161	.454			
CAR	.197	-.064	.213	-.304	.040	-.274	1	
	.296	.737	.258	.103	.832	.143		
LA	.596(**)	.394(*)	-.402(*)	-.385(*)	-.581(**)	-.293	-.120	1
	.001	.031	.028	.036	.001	.116	.529	

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The table has shown a significant relationship at 1% level ($p < .01$) among some variables .687 between ROE and EPS, -.581 between credit deposit and listing age,

.596 between listing age and log total assets and .560 between log shareholders and log total assets. Some relations are significant at 5% level ($p < .05$) and all other relations are relatively weaker. But none of the values is greater than .80 which signifies that there is no collinearity problem among the independent variables.

6.22.4. Explanation of the Results of Multiple Regression

Multiple linear regression technique has been used to test the impact of independent variables on dependent variable (ODI). Variance Inflation Factor (VIF) has also been used to test the multicollinearity in the regression model. If VIF is greater than 10, it should be considered an indication of harmful multicollinearity (Arif & Tuhin, 2013).

To simplify the model and to make the panel data comparable natural log of two independent variables such as total assets and total number of shareholders were taken. In the analysis the VIFs of all the independent variables were below 10 even all the VIFs of all the variables are less than 5 except two variables (Table 5.19). Therefore, it can be confirmed that collinearity is not a problem for this model and there is only a little possibility of creating serious problem in the interpretation of the results of the multiple regression analysis. The results of the multiple regression analysis of the association between the corporate attributes and the extent of disclosure in the annual reports of sample banks show that the R value is 0.906, which represents the simple correlation. It indicates a high degree of correlation. The R^2 value indicates how much of the dependent variable, "ODI", can be explained by the independent variables. In this case, 82% can be explained, which is very large.

Table 6.19: **Result of Linear Regression Including Collinearity diagnostics**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Variance Inflation Factor (VIF)
	B	Std. Error	Beta			
(Constant)	-.494	.379		-1.304	.206	3.685
LTA	.142	.029	.877	4.935	**.000**	1.841
LSH	-.015	.014	-.136	-1.085	.290	5.305
EPS	.020	.013	.318	1.494	.150	6.592
ROE	-.004	.004	-.247	-1.041	.310	2.004
CD	-.003	.003	-.150	-1.147	.264	1.274
DE	.001	.004	.038	.359	.723	2.136
CAR	.007	.007	.122	.898	.379	3.108
LA	-.005	.002	-.398	-2.439	**.024**	3.685
Model Summary→			**R**	**.906**		
			R Square	**.820**		
			F-value	**11.960**		
			P-value (Sig.)	**.000**		

Source: Compiled by the Researcher (2014)

ANOVA table indicates that the regression model predicts the outcome variable significantly well. Here, *p* = 0.000, which is less than 0.05, and indicates that, overall, the model applied can statistically significantly predict the outcome variable. Thus the regression model will now be:

ODI= α + β Log TA + β Log SH + β EPS + β ROE + β CD + β DE + β CAR + β LA

Where, ODI = Unweighted Disclosure Index, α = the constant, β = the error term, LTA = Log Total Assets, LSH = Log Number of Shareholders, EPS = Earnings Per Share, ROE = Return on Equity, CD = Credit Deposit Ratio, DE= Debt Equity Ration, CAR= Capital Adequacy Ratio, and LA = Listing Age.

6.22.5. Explanation of the Result of Multiple Regression Excluding Collinearity

Table 6.20: Multiple Regression Excluding Collinearity Problem

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-1.096	.220		-4.991	.000		
LTA	.151	.021	.936	7.272	.000	.571	1.751
LA	-.005	.002	-.429	-3.377	.002	.586	1.707
CAR	.013	.006	.241	2.319	.029	.874	1.145
			R .868 **R Square .754** **F-value 26.542** **P-value (Sig.) .000**				

- *Predictors: (Constant), LTA, LA, CAR*
- *Dependent Variable: ADP*

Allison (2012) described that VIF has a lower bound of 1 but no upper bound and authorities differ on how high the VIF has to be to constitute a problem. According to him it is a matter of concerned when a VIF is greater than 2.50. Table 6.19 shows that there are two VIFs more than 5. To set more satisfactory regression model, and to eliminate insignificant variables 'Forwarded' method of SPSS was applied and thus three variables were found significant and all the VIFs of these three variables became below 2.50 as shown in Table 6.20. Thus, the alternative model was drawn as: ODI= α + β Log TA+ β CAR + β LT

The results obtained through the multiple regression analysis suggest that Log total asset and CAR provide a satisfactory basis for explaining the attitude of listed private sector commercial banks regarding disclosure of information. Whereas the listing age significantly and negatively influences the disclosure of information. The remaining variables (log shareholders, return on equity, earnings per share, credit deposit ratio, and debt equity ratio) made no significant contribution. Therefore, the null hypothesis-5 is rejected and the alternative hypothesis is accepted that there is a significant association between the extent of disclosure and some selected corporate attributes of Private Sector Commercial Banks in Bangladesh.

Table 6. 21: Summary Results of Hypothesis-5

Independent Variable	Expected Sign	Reported Sign	Significant or Not Significant	H_A Accepted/Rejected
LTA	+	+	Sig	Accepted
LSH	+	-	NSig	Rejected
EPS	+	+	NSig	Rejected
ROE	+	-	NSig	Rejected
CD	-	-	NSig	Rejected
DE	-	+	NSig	Rejected
CAR	+	+	Sig	Accepted
LA	+	-	Sig	Rejected

Source: Field Study (2009)

6.23. Conclusion

This is the main chapter that presents the collected data in the forms of graph, table, and charts and also analyzes collected data using the Univariate, Bivariate, and Multivariate techniques of SPSS software. Bivariate and multivariate techniques were applied to test the hypotheses. The mean score of the period under study in Graph 6.3 indicates that the highest disclosure level was found in 2012 and the lowest disclosure level was observed in 2008. Overall mean disclosure score of sample banks was 67.0 percent in 2008 which is 84.6 percent in 2012. The trend shows that the mean disclosure score of the sample banks were increasing. However, the percentage of its increase over the study period was very high, which was 6.02 percent per year. The ranking of sample banks on the basis of average disclosure percentage found Prime Bank Limited the leader of disclosure with an average of 87.85 percent whereas Al-Arafah Islami Bank Limited was in the lowest position among the sample banks with an average of 69.07 percent. The paired sample tests found significant difference in disclosure among the sample banks, among different years, and among different disclosure categories but found no significant difference between the disclosure percentage of Conventional banks and that of Islamic banks. The regression analysis found Log Total assets and Credit Deposit ratio as positively associated to disclosure where listing age was found negatively associated to disclosure. It has also been found that the use of Bengali version in the annual report was decreasing from year to year and in 2012 only one bank used Bengali version in addition to English version but interestingly the average number of pages in the annual report was increasing from year to year which was 155.2 pages in 2008 and it became 330.6 pages in 2012.

CHAPTER 7

FINDINGS, RECOMMENDATIONS AND CONCLUSION

Chapter Highlights

CHAPTER 7

FINDINGS, RECOMMENDATIONS AND CONCLUSION

7.1. Introduction

This chapter accumulates the summary of major theoretical and empirical findings of the study as well as draws the conclusion. The main theoretical and empirical findings of the study have been summarized first. After that, the contribution to knowledge has been outlined, recommendations for the further research have been focused, and an overall conclusion is drawn finally.

7.2. Summary of Theoretical Findings

The Companies Act 1994 provides the basic structure of financial reporting by banking and other companies in Bangladesh. Besides, it is mandatory for all banks to abide by the provisions of the Bank Companies Act, 1991 that has given necessary power to the Central Bank to control the Commercial Banks and Specialized Banks in Bangladesh. In addition, banks in Bangladesh are bound to follow the circulars issued by Banking Regulation and Policy Departments (BRPD) from time to time. The Bangladesh Securities and Exchange Commission regulates financial reporting by listed companies. Securities and Exchange Rules, 1987 requires compliance with IASs/IFRSs as adopted in Bangladesh. Moreover, as regard to the preparation and presentation of financial statements and reports, banks follow the direction promulgated in International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) as Bangladesh Accounting Standards (BAS). The newly issued International Financial Reporting Standards which are adopted as Bangladesh Financial Reporting Standard (BFRS) are also the guiding elements for financial reporting of Banks in Bangladesh. Among the applicable standards, IAS-1: Presentation of Financial Statements" and "IFRS-7: Financial Instruments: Disclosure" are the widely followed standard in financial reporting of private sector commercial banks in Bangladesh.

Company size is the most consistently reported significant corporate attribute in previous empirical studies (Karim and Ahmed 2005; Street and Bryant, 2000). According to Watts and Zimmerman (1990), larger companies are likely to show more information in order to improve the confidence of stakeholders and to reduce political costs. They argue that in order to curb political interference and the associated costs, large organizations will attempt to disclose more information to somehow fool those involved in the political process.

Profitability has been found as an important factor in disclosure of a company. Non-profitable firms may disclose less information in order to cover up losses and declining profits (Singhvi and Desai, 1971). The signaling theory states that due to better performance of companies, management is more likely to disclose detailed information to the public than management with poor performance in order to avoid undervaluation of company's shares (Inchausti, 1997).

Solvent or financially healthy banks usually disclose more especially the credit rating information to exhibit their strengths. But, firms that provide extensive accounting disclosures tend to use more debt than equity to finance their operations (Iatridis, 2008). Ahmed (2004), with reference to Myer (1977), states that firms with high debt tend to disclose more information to assure creditors that shareholders and management are less likely to bypass their covenant claims.

Listing age is found to be an influential factory in financial reporting or disclosure of financial and related information. The older and well-established companies with more experience are likely to include more information in their annual reports in order to enhance their reputation and image in the market (Akhtaruddin, 2005). Owusu-Ansah (1998) argues that newly-established companies may suffer competitive disadvantage if they disclose certain information items such as product development, which can be used to their detriment by the other competitors.

7.3. Summary of Empirical Findings

Empirical findings from the analysis of the annual reports, on the basis of disclosure index, revealed that the mean disclosure of five years period from 2008-2012 was 76.18 percent which was 67 percent in 2008 and 84.6 percent in 2012 (Para-6.6). The trend shows that the mean disclosure score of the banking sector was increasing. However, the rate of its increase from year to year was very high with a yearly average rate of increase 6.02 percent. The average size of annual report (Para 6.8) in terms of number of pages was increasing from year to year to a significant extent. The average number of pages in the annual reports of the sample banks was 155.2 pages in 2008 which became 330.6 pages in 2012. On the other hand, it has been observed in Graph-6.6 that in 2008 about 66.67% of the banks used Bengali version beside the English version which was constant in 2009 and it gradually decreased to only 16.67% in 2012. The ranking of the banks on the basis of overall disclosure level features three banks topping the list, they were: Prime Bank Limited with a score of 87.85 percent followed by Islami Bank Bangladesh Limited with a score of 81.86 percent and Bank Asia Limited with a score of 77.81 percent. This implies that the banking sector in Bangladesh has maintained a satisfactory level of information disclosure. But still there are some mandatory items undisclosed by the banks in Bangladesh and the mean disclosure percentage was 76.18% which implies that there are still some scopes of improving disclosure percentage in private sector commercial banks in Bangladesh.

Question One: Paired sample t-test was conducted to compare variations among the disclosure percentages of banks. It is evident from Table-6.4, that *p*-values of the 67 percent pairs that mean 10 pairs out of 15 pairs are significant at 5% level. It means that 67 percent of sample companies have shown a significant difference in the disclosure scores in their annual reports whereas an insignificant difference has been revealed in only 33 percent sample companies and therefore, the alternative hypothesis can be accepted in 67 percent cases. The results reject the **Null Hypothesis-1(H_{O1}):** There is no significant difference in the level of disclosure among the Private Sector Commercial Banks in Bangladesh.

Question Two: The empirical results of paired sample t-test (Table-6.5) among the disclosure of different years, especially the years before and after 2010, show that the level of disclosure of all the pairs are significant at 5% level because all the pairs have p-value less than .05. Since there is a statistically significant difference among the disclosure percentage of different years, especially the pairs composed of before and after 2010, it can be concluded that the fitness of the program is effective at 5% level. Therefore, the null hypothesis-2 (H_{O2}) is rejected and the alternative hypothesis is accepted that says "There is a significant difference between the disclosure percentages between the periods before and after the supersession of BAS-30 by BFRS-7 in 2010"

Question Three: A very high degree of consistency was found in the disclosure categories related to basic financial statements of which the highest consistency was seen in "Income Statement Items and Appropriation of Profit (ISA)" category. The minimum percentage of this category was 92% and the maximum was 100% while the average of this part was the highest 96.8% and the standard deviation was the lowest 2.44. On the other hand, the highest standard deviation 24.29 was seen in Financial Statements (FS) category; therefore, it was the most inconsistent part of the annual reports of banking sector. Next to this the inconsistent part was General Corporate Information (GCI) category having the minimum 40.63%, maximum 100%, mean 74.79% and standard deviation of 17.11.

The paired sample test among disclosure percentage of different categories in Table-6.12 shows that 80% of the pairs (36 pairs out of 45 pairs) showed statistically significant difference whereas 20% of the pairs (9 pairs out of 45 pairs) were statistically insignificant at 95% level of confidence. It certifies that there was a significant difference among different categories in terms of disclosure percentage. Thus, the null hypothesis-3 (H_{O3}) is rejected and the alternative hypothesis can be accepted with the concluding remark that there is a significant difference among the different categories of information disclosed in the annual report of the Private Sector Commercial Banks in Bangladesh.

Question Four: The descriptive statistics of both the Conventional and Islamic banks indicated that Conventional banks had the higher percentage of disclosure 78.41% which was 73.95% in Islamic banks. But the standard deviations of both the banks were more or less similar which were 7.825 in Islamic Banks and 6.71 in Conventional banks. These indicate that the disclosure percentages among the Conventional banks were more consistent than Islamic banks. In order to test hypothesis-4 (H_{O4}), independent samples test of different disclosure categories between Islamic and Conventional banks were conducted. Tble-6.16 shows that p values of all the categories except Balance sheet items related to assets (BRA) are insignificant at 95% confidence level. Therefore, the null hypothesis-4 (H_{O4}): "There is no significant difference between the financial reporting practices of Islamic Commercial Banks and Conventional Commercial Banks in Bangladesh" is accepted at 95% confidence level.

Question Five: The overall disclosure percentage for the five year period of the banking sector was 76.18 percent which was 67 percent in 2008 and 84.6 percent in 2012. A regression model was developed to identify what factors contributed to the disclosure of private sector banks in Bangladesh. In the regression model Overall

Disclosure Index (ODI) was the only dependent variable and there were eight independent variables. The model summary in Table-6.19 shows the F-Statistics 12.647 at $p < 0.001$ which indicates the model as a whole was well specified. The t-statistics were positive for log total asset (LTA), Earnings per Share (EPS), Debt equity ratio (DE), and Capital adequacy ratio (CAR) and negative for Log shareholders (LSH), Return on Equity (ROE), Credit deposit ratio (CD) and Listing age (LA). Log total asset (a size variable) and the listing age were the only two variables that were significantly associated with accounting disclosures at $p < 0.01$. The other variables, LSH, ROE, CD, DE, and CAR were not found to have explanatory power.

Log total asset (LTA), a size variable, was found to be significantly and positively associated with disclosure which suggests that large companies disclose more information in their annual report. The positive and significant association between company size and disclosure is consistent with prior findings of Wallace et al., (1994), Ali et al. (2004), Barako, (2007) and Karim and Ahmed (2005). However, the result contradicts Glaum and Street (2003), who found a negative association that was not significantly related to disclosure. On the positive, it can be argued that since large banks usually operate over wide geographical area and deal with several branches and multiple products, they are likely to have the "state-of-art" information system that can generate all necessary and essential accounting information for internal and external purposes. This enables them disclose more accounting information than their smaller counterparts.

Profitability variables such as EPS and ROE were not found to be significant which indicates that profitability has no impact on disclosure. This result contradicts the prior empirical studies (Owusu-Ansah, 1998; Ali et al, 2004) and the signaling theory. The signaling theory asserts that companies use financial statement as a signaling tool to express their expectations and intentions. According to Singhvi and Desai (1971), the corporation may disclose more information when its profitability is above industry average in order to inform the shareholders and other stakeholders about the corporation's strong position to survive.

Solvency variables (CD, DE, and CAR) were not significantly associated with the overall disclosure level. The non significance of these variables is related to the works of Chau and Gray (2002) and Ali et al. (2004). Contrary to this, debt equity ratio (DE) was found to be significance in the works of Prencipe (2004). Our result contradicts agency theory in which Jenson and Meckling (1976), found that agency costs are higher for companies with more debt and disclosures are expected to increase with leverage.

The results reveal that the company listing age is a significant variable for both overall disclosures but it is negatively associated. This finding is contradictory to the findings of Akhtarudin (2005) and Glaum and Street (2003) who found no significant association between listing age and disclosure level. The result confirms that there was a significant negative relationship between company listing age and accounting disclosures. This is not in line with the findings of Owusu Ansah (1998) and Prencipe (2004) who found significant positive association.

In summary, the estimation results obtained through the multiple regression analysis suggest that company size especially the total asset which is related to positive accounting theory, provides a satisfactory basis for explaining the attitude of listed private sector commercial banks regarding disclosure of information. Whereas the listing age significantly and negatively influences the disclosure of information. The remaining variables (shareholders, return on equity, earnings per share, credit deposit ratio, debt equity ratio and capital adequacy ratio) made no significant contribution. Therefore, the null hypothesis-5 (H_{05}) is rejected and the alternative hypothesis is accepted that there is a significant association between the extent of disclosure and some selected corporate attributes of Private Sector Commercial Banks in Bangladesh. Though, the impacts of all the variables are not equally significant.

Taking the opinion of Allison (2012) into consideration that it is a matter of concerned when a VIF is greater than 2.50, an alternative regression model was developed (Table-6.20) applying the 'Forward' technique of SPSS. This model found CAR as significantly and positively associated with disclosure level. Thus, the alternative model was drawn as: $ODI= \alpha + \beta \text{ Log TA} + \beta \text{ CAR} + \beta \text{ LT}$.

7.4. Recommendations

On the basis of the current study the following recommendations are offered which are expected to be useful to a large variety of stakeholders such as accountants, auditors, company managers, investors, financial analysts, stock exchanges, standard setters, and other regulatory bodies like Bangladesh Securities and Exchange Commission (BSEC) and the Bangladesh Bank.

i. Adequate steps should be taken by the Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Bank, Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE) and other regulatory bodies to ensure full compliance with relevant accounting disclosure requirements applicable in Bangladesh. An increase in the quality of information disclosure will help the users make informed predictions and aid the evaluation of the company's progress which invariably would contribute the total economic development.

ii. Institute of Chartered Accountants of Bangladesh (ICAB), the apex professional accounting body in Bangladesh, should be given the regulatory power that may results in compliance of reporting and quality disclosure in annual report of the banking companies in Bangladesh.

iii. Effective enforcement programs should be adopted to protect the interest of the diverse user groups. Those who abide by the regulatory and other reporting requirements should be awarded, whereas stern actions should be taken against the culprits in order to ensure that all listed companies comply with the mandatory accounting standards in Bangladesh.

iv. The high degree of compliance and disclosure can be related to low disclosure costs which could have resulted by giving tax shield on printing cost of annual reports. This will reduce cost of information disclosure and encourage the disclosure of adequate information in the annual reports of the Banking companies in Bangladesh.

v. The Institute of Chartered Accountants of Bangladesh only adopts the IASs and IFRSs in Bangladesh as BASs and BFRSs without any change which are sometimes irrelevant from Bangladeshi context whereas some relevant international standards are still absent in Bangladesh. Therefore, all the BASs and BFRSs should be overhauled by incorporating all relevant sections and paragraphs.

vi. All Bangladeshi listed companies including banks should disclose the compliance status of both the National and International Standards that will in turn enhance the confidence among international users of financial reporting. This will make the financial statements comparable and will, therefore, enhance global competition, inflow of foreign direct and indirect investment, and international listings.

vii. Both the Conventional and Islamic banks in Bangladesh are regulated by the same authorities that sometimes create problems and ambiguity. Therefore, a separate regulatory body should be established that will look after the reporting systems of Islamic Commercial Banks.

7.5. Contribution to Knowledge

This study throws more light and adds to understanding on the financial reporting practices of listed companies especially the banking companies in Bangladesh. It will enhance the quality of literature on financial reporting or disclosures and the factors influencing them. This study will facilitate the improvement of disclosure practices in Bangladesh and also serves as benchmark for future researches on corporate disclosures. This study has the following implications:

(i) This study has implications for the regulators and enforcement agencies such as the Bangladesh Securities Exchange Commission (BSEC), Dhaka Stock Exchange (DSE), Chittagong Stock Exchange (CSE), and Bangladesh Bank (BB). It provides evidence for compliance levels of listed companies and outlines factors influencing the levels of disclosure. It will enable the regulatory agencies to aim at greater compliance with the local and international standards and will also enable them to enforce penalties for non-compliance.

(ii) The disclosure index developed for this study can be utilized by preparers of financial statements in preparing the statements and auditors in assessing the extent of compliance by their companies.

(iii) The findings offer current and prospective, local and foreign investors an objective assessment of the degree of compliance with BASs/IASs and BFRSs/IFRSs by listed companies in Bangladesh.

(iv) This study also provides useful information to international organizations interested in spreading of IFRSs in developing countries like Bangladesh.

7.6. Suggestions for Further Study

In view of the limitations of this research, the following suggestions are recommended for further study:

i. This research did not accommodate any opinion survey in any form. Therefore, opinion survey of accountants, creditors, stockbrokers, auditors, regulators, financial analysts, and investors, could be used in further study. This will provide additional evidence on disclosure practices in Bangladesh.

ii. This study explores only 27.5% of the banks listed on DSE as at December 31, 2012. Future research could investigate the financial reporting practices by incorporating all the listed banks and also unlisted banks.

iii. The period of the study for this research was for a five-year period. Future studies can consider a longitudinal study of annual reports for more than five years. This could be used to assess the trends of disclosure in order to confirm if there had been any improvement with time.

iv. The study explores only eight independent corporate variables, other factors influencing disclosure such as number of foreign shareholders, number of audit firms, and size and number of subsidiaries could be used in further studies.

v. The study has shown that the number of pages in the annual report was increasing whereas the use of Bengali version was decreasing drastically. Further study can be conducted to identify the reasons behind these.

vi. The study has also found that there was no significant difference between the disclosure of Islamic private commercial banks and that of Conventional private commercial banks in Bangladesh. Further study can be conducted in this regard to recheck the fact by expanding the sample size or a study can be conducted to identify the reasons.

7.7. Conclusion

Findings of empirical studies on financial reporting practices in the private sector commercial banks of Bangladesh are mixed and conflicting. Variations have been found in the financial reporting practices among the banks and from year to year, the numerous factors influencing the practices, the overall fit of the model, the coefficient of determinants, the t- statistics of independent variables, and the significance or non-significance of the model. It is obvious that studies on disclosure practices are more common in developed countries than developing ones. In Bangladesh, relatively few attempts were made to investigate the extent of information disclosure and the factors influencing disclosures of private sector commercial banks. In this study, the result of the multivariate regression analysis suggests that the listed companies with huge assets are the leader in disclosures and the listing age negatively influences disclosure.

In order to enhance the quality and transparency of financial reporting, which is imperative to build up the confidence of a large variety of users (like investors, depositors, regulators etc.), banks should disclose all the necessary information fairly and timely. Beside the mandatory requirements, additional information should be disclosed voluntarily so that the users can take prudent decisions. The study will at least give an idea of how the banking sector of Bangladesh specially the listed private sector commercial banks are disclosing their financial information. The scope of the study can be expanded by including unlisted banks, nonbank financial institutions, manufacturing companies etc.

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Appendices

Appendix-A

List of Banks in Bangladesh

State Owned Commercial Banks (4)

1. Again Bank Limited
2. Sonali Bank Limited
3. Rupali Bank Limited
4. Janata Bank Limited

Private Commercial Banks: Conventional (31)

1. Uttara Bank Limited
2. Mutual Trust Bank Limited
3. Dhaka Bank Limited
4. Eastern Bank Limited
5. Dutch Bangla Bank Limited
6. Pubali Bank Limited
7. IFIC Bank Limited
8. National Bank Limited
9. The City Bank Limited
10. NCC Bank Limited
11. Mercantile Bank Limited
12. Prime Bank Limited
13. Southeast Bank Limited
14. Standard Bank Limited
15. One Bank Limited
16. The Premier Bank Limited
17. Bank Asia Limited
18. Trust Bank Limited
19. Jamuna Bank Limited
20. AB Bank Limited
21. United Commercial Bank Ltd
22. BRAC Bank Limited
23. Bangladesh Commerce Bank Ltd.
24. NRB Commercial Bank Limited
25. NRB Bank Limited
26. Meghna Bank Limited
27. Farmers Bank Limited
28. Modhumoti Bank Limited
29. South Bangla Agriculture and Commerce Bank Ltd
30. Midland Bank Limited
31. NRB Global Bank Ltd

Private Commercial Banks: Islamic (8)

1. Islami Bank Bangladesh Limited
2. Shahjalal islami bank Limited
3. First Security Islami Bank Limited
4. Export Import Bank of Bangladesh Ltd.
5. Al-Arafah Islami Bank Limited
6. Social Islami Bank Limited
7. ICB Islamic Bank
8. Union Bank Limited

Foreign Commercial Banks (9)

1. Citibank NA
2. HSBC
3. Standard Chartered Bank
4. Commercial Bank of Ceylon
5. State Bank of India
6. Habib Bank Limited
7. National Bank of Pakistan
8. Woori Bank
9. Bank Alfalah

Specialized Banks (5)

1. Bangladesh Krishi Bank
2. Rajshahi Krishi Unnayan Bank
3. Bangladesh Development Bank Ltd
4. BASIC Bank Limited
5. Probashi Kallyan Bank

Appendix-B

Unweighted Disclosure Index

This Financial Disclosure Index containing 247 items has been developed in compliance with Companies Act 1994, Securities and Exchange Commission Rules 1987, Notifications of SEC, Listing Regulation of Stock Exchanges , Circulars of Bangladesh Bank, BASs & BFRSs adopted by ICAB, and Voluntary disclosures by management as applicable in the private sector commercial Banks in Bangladesh

S.L.	Head of Disclosure Items	Acronyms	Score
A.	Disclosure about General Corporate Information	GCI	32
B.	Disclosure about Financial Statistical and Other Analysis	FSO	31
C.	Disclosure about Report from Management and Others	RMO	25
D.	Disclosure about Financial Statements	FS	24
E.	Disclosure about Balance Sheet Items Related to Assets	BRA	24
F.	Disclosure about Balance Sheet Items Related to Liabilities and Equity	BLE	21
G.	Disclosure about Income Statement Items & Appropriation of Profit	ISA	25
H.	Disclosure about Statement of Cash Flows and Other Statements	CFO	21
I.	Disclosure about Basis of Preparation of the Statements	BPS	21
J.	Disclosure about Significant Accounting Policies	SAP	23

A.	**Disclosure about General Corporate Information**	
1	Vision, Mission and Strategic objectives	1
2	Core values	1
3	Commitments	1
4	Code of conduct and ethical principles	1
	Corporate profile:	1
5	*Name of the Banking Company*	1
6	*Registered Office*	1
7	*Date of Incorporation*	1
8	*Authorized and Paid-up Capital*	1
9	*Listing Status on the DSE and CSE*	1
10	*Chairman of the Bank*	1
11	*Managing Director/CEO*	1
12	*Company Secretary*	1
13	*Chief Financial officer(CFO)*	1
14	*Name of the Audit Firm(s)*	1
15	*Credit Rating Agency*	1

16	*Basics Related to Share Market*	1
17	*TIN and VAT Registration Number*	1
18	*Number of Branches and Employees*	1
19	*Number of Shareholders*	1
20	*Investor's Inquiry Desk*	1
21	Milestones	1
22	Sponsors	1
23	Board of directors	1
24	Short profile of directors	1
25	Committees of Board of Directors	1
26	Shariah supervisory committee	1
27	Management committee	1
28	Name and designation of top executives	1
29	Corporate structure	1
30	Product and services	1
31	Stakeholder's information	1
32	Branch and ATM Network	1
	Sub Total-	**32**
B.	**Disclosure about Financial, Statistical and Other Analysis**	
1	Graphical presentation of important financial information	1
2	Segment reporting of performances	1
3	Horizontal and vertical analysis of financial statements	1
	Disclosure of Important ratios:	
4	*Return on Investment(ROI)*	1
5	*Return on Assets(ROA)*	1
6	*Return on Equity(ROE)*	1
7	*Earnings Per Share (EPS)*	1
8	*Dividend Per Share (DPS) in percentage*	1
9	*Dividend payout ratio*	1
10	*Dividend yield*	1
11	Net Asset Value(NAV) per share	1
12	*Loan (Investment) deposit ratio*	1
13	*Classified loan ratio*	1
14	*Debt-equity ratio*	1
15	*Debt to total capital ratio*	1
16	*Debt to total assets ratio*	1
17	*Current ratio*	1
18	*Quick ratio*	1
19	*Interest(profit) coverage ratio*	1

20	*Dividend coverage ratio*	1
21	*Price Earnings(P/E) ratio*	1
22	*Net operating Cash flow per share*	1
23	*Cost of fund ratio*	1
24	*Cost to income ratio*	1
25	*Capital Adequacy Ratio(CAR)*	1
26	Value added Statement	1
27	Economic Value Added Statement	1
28	Market Value Added Statement	1
29	Financial highlights	1
30	Five years' performance at a glance	1
31	Comparative income statement and balance sheet of at least two years	1
	Sub Total-	**31**
C.	**Disclosure about Reports of Management and Others**	
1	Chairman's message	1
2	Managing director's/CEO's message (Round up)	1
3	Management report and analysis	1
4	Report of the Board of directors	1
5	Review of the current year's performance by board of directors	1
6	Prospects for the future and forecast of next year's earnings	1
7	Director's report on Corporate governance	1
8	Compliance status of BSEC Guidelines for Corporate Governance	1
9	Compliance status of BB Guidelines for Corporate Governance	1
10	Certification of CEO/ CFO/Auditors about Corporate Governance	1
11	CEO and CFO's Statement of Responsibilities	1
12	Report on Directors' Meeting	1
13	Report on Share Holdings by Directors and Top Executives	1
14	Sustainability Report	1
15	Report on Risk Based Capital (Basel II)	1
16	Report on Credit Rating	1
17	Report on Related party disclosure	1
18	Report on Pilot Project (Case study)	1
19	Report on Green Banking	1
20	Report on Corporate Social Responsibility (CSR)	1
21	Report on Risk Management	1
22	Report about Bank Foundation	1
23	Report on Audit Committee	1
24	Report on Going Concern	1
25	Report of Shariah supervisory committee	1

	Sub Total-	**25**
D.	**Disclosure about Financial Statements**	
1	Auditor's Report	1
2	Consolidated Balance Sheet	1
3	Consolidated Profit and Loss Statement/ Income Statement	1
4	Consolidated Cash Flow Statement	1
5	Consolidated Statement of Changes in Equity	1
6	Consolidated Liquidity Statement	1
7	Balance Sheet	1
8	Profit and Loss Statement/ Income Statement	1
9	Cash Flow Statement	1
10	Statement of Changes in Equity	1
11	Liquidity Statement	1
12	Notes to the Financial Statements	1
13	Balance Sheet of Off-shore Banking Unit	1
14	Profit and Loss Statement/ Income Statement of Off-shore Banking Unit	1
15	Cash Flow Statement of Off-shore Banking Unit	1
16	Notes to the Financial Statements of Off-shore Banking Unit	1
17	Balance Sheet of Subsidiary	1
18	Profit and Loss Statement/ Income Statement of Subsidiary	1
19	Cash Flow Statement of Subsidiary	1
20	Statement of Changes in Equity of Subsidiary	1
21	Liquidity Statement of subsidiary	1
22	Notes to the Financial Statements of Subsidiary	1
23	Separate Financial Statement for Islamic Banking Unit	1
24	Financial Statement of Bank Foundation	1
	Sub Total-	**24**
E.	**Disclosure about Balance Sheet Items Related to Assets**	1
1	Details of Cash in hand	1
2	Details of CRR and SLR	1
3	Details of Balance with other Banks and other Financial Institutions	1
4	Maturity-wise classification of Balance with other B&FI	1
5	Details of Balance with other Banks - Outside Bangladesh (Nostrum Accounts)	1
6	Money at call and shot notice/Placement with banks& other financial institutions	1
7	Details about investment in shares and securities	1
8	Cost and Market value of Investment in shares and securities	1
9	Loans, cash credit and advances(Investment) to customers	1
10	Details of loans /investment to customer group (10% of equity or above)	1

11	Categorization of Loans/Investment according to industry	1
12	Categorization of loans/investment from other viewpoints	1
13	Classification status of loans / investments	1
14	Particulars of Advances / investment	1
15	Bills purchased and discounted -Consolidated amount and its subdivision	1
16	Maturity-wise classification of bills purchased and discounted	1
17	Details about types of fixed assets	1
18	Cost or revalued amount of fixed assets less accumulated depreciation (net)	1
19	Accumulated Depreciation figure of fixed asset in the balance sheet	1
20	Basis for valuation fixed assets	1
21	Details of other assets	1
22	Details of non-banking assets	1
23	Information as to Intangible assets and their amortization policy	1
24	Details of Fictitious Assets	1
	Sub Total-	**24**
F.	**Disclosure about Balance Sheet Items Related to Liabilities & Equity**	
	Balance Sheet Items Related to Liabilities	
1	Borrowing(placement) from other banks, financial institutions and agents	1
2	Maturity Grouping of Borrowing(placement) from other BFI&A	1
3	Deposits and other accounts	1
4	Category of deposits and other accounts	1
5	Amount of fixed deposit	1
6	Details of other deposit accounts	1
7	Maturity-wise classification of deposits	1
8	Bond payable/ Perpetual bond	1
9	Details of other liabilities	1
10	Details of provisions	1
11	Details about deferred tax liabilities	1
	Balance Sheet Items Related to Shareholders' Equity:	
12	Details about share capital	1
13	Share premium	1
14	Retained earnings	1
15	Statutory reserve	1
16	General reserve	1
17	Details of other reserve	1
18	Minority Interests/Non-controlling interest	1
19	Details of capital adequacy as per Basel -II	1

	Off-Balance Sheet Items:	
20	Details of Contingent liabilities	1
21	Details of Other Commitments	1
	Sub Total-	**21**
G.	**Disclosure about Income Statement Items & Appropriation of Profit**	
	Operating Income	
1	Interest (investment) income	1
2	Interest (profit)paid on deposits, borrowings, etc.	1
3	Net interest (investment) income	1
4	Income from investments in shares and securities	1
5	Commission, exchange and brokerage income	1
6	Details of other operating income	1
	Operating Expenses:	
7	Details of salary and allowances to employees	1
8	Rent, taxes, electricity, insurance, etc.	1
9	Legal expenses	1
10	Postage, Stamp and telecommunication etc.	1
11	Printing, Stationary, advertisement, etc	1
12	Managing Director’s (CEO’s) salary and allowances	1
13	Shariah supervisory board’s fees and expenses	1
14	Directors’ fees and other benefits	1
15	Audit fees	1
16	Charges on loan(investment) losses	1
17	Depreciation and repair to bank’s assets	1
18	Details of other expenses	1
19	Detail of provision	1
20	Profit before taxes	1
21	Details about tax	1
22	Net profit after tax	1
23	Appropriations of profit to statutory reserve, general reserve and dividend	1
24	Retained earnings carried forwarded	1
25	Earnings Per Share (EPS) on the body of the statement	1
	Sub Total-	**25**
H.	**Disclosure in Statement of Cash Flows and Other Statements**	
	Disclosure about Statement of Cash Flows:	
1	Disclosure about Cash inflows and outflows from operating activities	1
2	Disclosure about Cash inflows and outflows from investing activities	1
3	Disclosure about Cash inflows and outflows from financing activities	1

4	Information as to Net increase/(decrease) in cash and equivalent	1
5	Effects of exchange rate change on cash and cash equivalent	1
6	Information as to beginning and ending cash and cash equivalent	1
7	Net operating cash flow per share in body of cash flow statement	1
8	Disclosure about significant non-cash activity	1
	Disclosure about Changes in Equity:	
9	Balance of different equity items at the beginning	1
10	Adjustment of changes in accounting policy	1
11	Surplus/(deficit) on account of Revaluation	1
12	Currency translation differences	1
13	Net gain/loss not recognized in the income statement	1
14	Net profit/loss for the period	1
15	Stock dividend/ bonus share	1
16	General provision for unclassified investments & OBS items	1
17	Balance of different equity items at the end of the year	1
	Disclosure in Liquidity Statement	
18	Total assets and its sub-grouping	1
19	Total liabilities and its sub-grouping	1
20	Net liquidity gap	1
21	Comparative liquidity statement of two years	1
	Sub Total-	**21**
I.	**Disclosure on Basis of Preparation of the Statements**	
1	Statement of compliance	1
2	Authorization (Approval) of the financial statements for issue	1
3	Basis of consolidation	1
4	Basis of Revenue recognition	1
5	Basis of Expense recognition	1
6	Basis of Measurement- Historical or current	1
7	Use of judgments, estimates and assumptions	1
8	Basis for calculating EPS	1
9	Functional and presentation currency	1
10	Foreign operation and foreign currency transactions policy	1
11	Reporting other comprehensive income	1
12	Basis of preparation of cash flow statement	1
13	Basis of preparation of statement of changes in equity	1
14	Basis of preparation of liquidity statement	1
15	Compliance of Bangladesh Bank Guidelines and Circulars	1
16	Status of compliance with IAS and IFRS (as applied in BD as BAS and BFRS)	1
17	Regulatory and Legal compliance (list)	1

18	Adoption of New and Revised Standards	1
19	New standards adopted but not yet effective	1
20	Departure from standards in preparing statements	1
21	Reporting period	1
	Sub Total-	**21**
J.	**Disclosure about Significant Accounting Policies**	
1	Accounting policy for investment in subsidiary	1
2	Policy about valuation of different assets	1
3	Policy about valuation of different liabilities and provisions	1
4	Policy about major revenue items	1
5	Policy about major expense items	1
6	Recognition and valuation of fixed assets	1
7	Policy about subsequent cost of fixed assets	1
8	Policy about depreciation	1
9	Capital work in process	1
10	De-recognition of fixed assets / Impairment	1
11	Policy about Lease	1
12	Employee benefits policy	1
13	Policies related to long term bond and other liabilities	1
14	Reporting contingent liability and other off-balance sheet items	1
15	Policy about risk management	1
16	Segment reporting policy	1
17	Off-setting policy	1
18	Materiality and aggregation policy	1
19	Policy about Inter branch transitions	1
20	Events after the reporting period	1
21	Internal control and compliance	1
22	Changes in accounting estimates	1
23	Rectification policy for any error in accounting	1
	Sub Total-	**23**
	Grand Total-	**247**

Appendix-C

SEC Guidelines on Corporate Governance

Disclosure Requirements of Corporate Governance Guidelines, 2006

1.00 **Board of Directors:**

1.1. **Board's Size**

The number of the board members of the company should not be less than 5 (five) and more than 20 (twenty):

1.2. **Independent Directors**

All companies should encourage effective representation of independent directors on their Board of Directors so that the Board, as a group, includes core competencies considered relevant in the context of each company. For this purpose, the companies should comply with the following:-

(i) At least one tenth (1/10) of the total number of the company's board of directors, subject to a minimum of one, should be independent directors.

(ii) The independent director(s) should be appointed by the elected directors.

1.3. **Chairman of the Board and Chief Executive**

The positions of the Chairman of the Board and the Chief Executive Officer of the companies should preferably be filled by different individuals. The Chairman of the company should be elected from among the directors of the company. The Board of Directors should clearly define respective roles and responsibilities of the Chairman and the Chief Executive Officer.

1.4. **The Director's Report to Shareholders**

The directors of the companies should include following additional statements in the Directors' Report prepared under section 184 of the Companies Act, 1994:-

(a) The financial statements prepared by the management of the issuer company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

(b) Proper books of account of the issuer company have been maintained.

(c) Appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment.

(d) International Accounting Standards, as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed.

(e) The system of internal control is sound in design and has been effectively implemented and monitored.

(f) There are no significant doubts upon the issuer company's ability to continue as a going concern. If the issuer company is not considered to be a going concern, the fact along with reasons thereof should be disclosed.

(g) Significant deviations from last year in operating results of the issuer company should be highlighted and reasons thereof should be explained.

(h) Key operating and financial data of at least preceding three years should be summarized.

(i) If the issuer company has not declared dividend (cash or stock) for the year, the reasons thereof should be given.

(j) The number of Board meetings held during the year and attendance by each director should be disclosed.

(k) The pattern of shareholding should be reported to disclose the aggregate number of shares (along with name wise details where stated below) held by:-

(i) Parent/Subsidiary/Associated companies and other related parties (name wise details); (ii) Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children (name wise details);(iii) Executives; and (iv) Shareholders holding ten percent (10%) or more voting interest in the company (name wise details).

<u>2.00</u> Chief Financial Officer (CFO), Head of Internal Audit, And Company Secretary

<u>2.1</u> Appointment

The company should appoint a Chief Financial Officer (CFO), a Head of Internal Audit and a Company Secretary. The Board of Directors should clearly define respective roles, responsibilities and duties of the CFO, the Head of Internal Audit and the Company Secretary.

<u>2.2</u> Requirement to Attend Board Meetings

The CFO and the Company Secretary of the companies should attend meetings of the Board of Directors, provided that the CFO and/or the Company Secretary should not attend such part of a meeting of the Board of Directors which involves consideration of an agenda item relating to the CFO and/or the Company Secretary.

<u>3.00</u> Audit Committee:

The company should have an Audit Committee as a sub-committee of the Board of Directors.

The Audit Committee should assist the Board of Directors in ensuring that the financial statements reflect true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business.

The Audit Committee shall be responsible to the Board of Directors. The duties of the Audit Committee should be clearly set forth in writing.

3.1 Constitution of Audit Committee

(i) The Audit Committee should be composed of at least 3 (three) members.

(ii) The Board of Directors should appoint members of the Audit Committee who should be directors of the company and should include at least one independent director.

(iii) When the term of service of the Committee members expires or there is any circumstance causing any Committee member to be unable to hold office until expiration of the term of service, thus making the number of the Committee members to be lower than the prescribed number of 3 (three) persons, the Board of Directors should appoint the new Committee member(s) to fill up the vacancy(ies) immediately or not later than 1 (one) month from the date of vacancy(ies) in the Committee to ensure continuity of the performance of work of the Audit Committee.

3.2 **Chairman of the Audit Committee**

(i) The Board of Directors should select 1 (one) member of the Audit Committee to be Chairman of the Audit Committee.

(ii) The Chairman of the audit committee should have a professional qualification or knowledge, understanding and experience in accounting or finance.

3.3 **Reporting of the Audit Committee**

3.3.1 Reporting to the Board of Directors

(i) The Audit Committee should report on its activities to the Board of Directors.

(ii) The Audit Committee should immediately report to the Board of Directors on the following findings, if any:-

(a) Report on conflicts of interests;

(b) Suspected or presumed fraud or irregularity or material defect in the internal control system;

(c) Suspected infringement of laws, including securities related laws, rules and regulations; and

(d) Any other matter which should be disclosed to the Board of Directors immediately.

3.3.2 **Reporting to the Authorities**

If the Audit Committee has reported to the Board of Directors about anything which has material impact on the financial condition and results of operation and has discussed with the Board of Directors and the management that any rectification is necessary and if the Audit Committee finds that such rectification has been unreasonably ignored, the Audit Committee should report such finding to the Commission, upon reporting of such matters to the Board of Directors for three times or completion of a period of 9 (nine) months from the date of first reporting to the Board of Directors, whichever is earlier.

3.4 **Reporting to the Shareholders and General Investors**

Report on activities carried out by the Audit Committee, including any report made to the Board of Directors under condition 3.3.1 (ii) above during the year, should be signed by the Chairman of the Audit Committee and disclosed in the annual report of the issuer company.

4.00 **External / Statutory Auditors**

The issuer company should not engage its external/statutory auditors to perform the following services of the company; namely:-

(i) Appraisal or valuation services or fairness opinions;

(ii) Financial information systems design and implementation;

(iii) Book-keeping or other services related to the accounting records or financial statements;

(iv) Broker-dealer services;

(v) Actuarial services;

(vi) Internal audit services; and

(vii) Any other service that the Audit Committee determines.

5.00 **Reporting the Compliance in the Director's Report**

The directors of the company shall state, in accordance with the annexure attached, in the directors' report whether the company has complied with these conditions.

Appendix-D

Bangladesh Bank's Guidelines for Corporate Governance

Sl. No.	Particulars		
1	**Responsibilities and authorities of the Board of Directors:**		
	a.	**Work Planning and Strategic Management:**	
		i.	The board shall determine the objectives and goals and to this end shall chalk out strategies and works plan on annual basis. It shall specially engage itself in the affairs of making strategies consistent with the determined objectives and goals and in the issues relating to structural change and reorganization for enhancement of institutional efficiency and other relevant policy matters. It shall analyze/monitor at quarterly basis the development of implementation of the work-plans.
		ii.	The Board shall have its analytical review incorporated in the Annual Report on the success/failure in achieving the business and other targets as set out in its annual work-plan and shall apprise the shareholders of its opinions/recommendations on future plans and strategies. It shall set the Key Performance Indicators (KPIs) for the CEO and other senior executives and have it evaluated at times.
	b.	**Lending and risk Management:**	
		i.	The policies, strategies, procedures etc. in respect or appraisal of loan/investment proposal,, sanction, disbursement, recovery, reschedulement and write-off thereof shall be made with the board's approval under the purview of the existing laws, rules and regulations. The Board shall specifically distribute the power of sanction of loan/investment and such distribution should desirably be made among the CEO and his subordinate executives as much as possible. No director, however, shall interfere, directly or indirectly, in the process of loan approval.
		ii.	The Board shall frame policies for risk management and get them complied with and shall monitor at quarterly resets the compliance thereof.
	c.	**Internal control management:**	
	The Board shall be vigilant on the internal control system of the bank to attain and maintain satisfactory qualitative standard of its loan/investment portfolio. It shall review quarterly the reports submitted by its audit committee regarding compliance of recommendations made in internal and external audit reports and the Bangladesh Bank inspection reports.		
	d.	**Human Resources Management and Development:**	
		i.	Policies relating to recruitment, promotion, transfer, disciplinary and punitive measures, human resource development etc. and service rules shall be framed and approved by the Board. The chairman or the directors shall in no way involve themselves or interfere in or influence over any administrative affairs including recruitment, promotion, transfer and disciplinary measures an executed under the set service rules. No member of the Board of Directors shall be included in the selection committees for recruitment and promotion at

			different levels. . Recruitment and promotion to the immediate two tiers below the CEO shall, however, rest upon the board. Such recruitment and promotion shall have to be carried out complying with the service rules i.e., policies for recruitment and promotion.
		ii.	The board shall focus its special attention to the development of skills of Bank's complied staff in different fields of its business activities including prudent appraisal of loan/investment proposals, and to the adoption of modern electronic an information technologies and the introduction of effective Management Information System (MIS). The board shall get these programs orated in its annual work plan.
	e.	**Financial Management:**	
		i.	The annual budget and the statutory financial statements be prepared with the approval of the Board. it shall at quarterly rests review / monitor the positions in respect of Bank's income, expenditure, liquidity, non-performing asset, capital base and adequacy, maintenance of loan loss provision and steps taken for recovery of defaulted loans including legal measures.
		ii.	The Board shall frame the policies and procedures for Bank's purchase and procurement activities and shall accordingly approve the distribution of power for making such expenditures. The maximum possible delegation of such power shall rest on the CEO and his subordinates. The decision on matters relating to infrastructure development and purchase of land, building, vehicles etc. for the purpose of the Bank's business shall, however, be adopted with the approval of the board.
	f.	**Formation of Supporting Committees:**	
		For decision on urgent matters, an executive committee, whatever name called, may be formed with the directors. There shall be no committee or sub-committee of the Board other than the executive committee and the audit committee. No alternative director shall be included on these committees.	
	g.	**Appointment of CEO:**	
		The Board shall appoint a competent CEO for the bank with the approval of the Bangladesh Bank	
	h.	The Board shall ensure fulfilling any other responsibility(ies) appropriately assigned by the central bank (Bangladesh Bank)	
2	Responsibilities of the Chairman of the Board of Directors:		
	a.	As the chairman of the board of directors (or chairman of any committee formed by the board or any director) does not personally possess the jurisdiction to apply policymaking or the executive authority, he shall not participate in or interfere into the administrative or operational and routine affairs of the bank.	
	b.	The chairman may conduct on-site inspection of any bank branch or financing activities under the purview of the oversight responsibilities of the board. He may call for any information relating to bank's operation or ask for investigation into any such affairs; he may submit such information or investigation report to the meeting of the board or executive committee and if deemed necessary, with the approval of the board, he shall effect necessary action thereon in accordance with the set rules through the CEO. However, any complaint against the CEO shall have to be apprised to Bangladesh Bank through the board along with the statement of CEO.	
	c.	The Chairman may be offered an office room, a personal secretary/assistant, a	

		telephone at the office and a vehicle in the business interest of the bank to the approval of the board.
3	**Responsibilities of the Adviser:** The adviser, whatever name called, shall advice the Board of directors or the CEO on such issues only for which he is engaged in terms of the conditions of his appointment. He shall neither have access to the process of decision making nor shall have the scope of effecting executive authority in any matters of the bank including financial, administrative or operational affairs.	
4	**Responsibilities and Authorities of the CEO:** The CEO of the bank, whatever name called, shall discharge the responsibilities and effect the authorities as follows:	
	a.	In terms of the financial, business and administrative authorities vested upon him by the board, the CEO shall discharge his own responsibilities. He shall remain accountable for achievement of financial and other business targets by means of business plan, efficient implementation thereof and prudent administrative and financial management.
	b.	The CEO shall ensure compliance of the Bank Companies Act, 1991/or other relevant laws and regulations in discharge of routine functions of the bank.
	c.	The CEO shall report to Bangladesh Bank of issues violative of the Bank Companies Act, 1991 or of other laws/regulations and, if required, may appraise the board post facto.
	d.	The recruitment and promotion of all staff of the bank except those in the two tiers below him shall rest on the CEO. He shall act in such cases in accordance with the approved service rules on the basis of the human resources policy and sanctioned strength of employees as approved by the board. The board or the chairman of any committee of the board or any director shall not get involved or interfere in such affairs. The authority relating to transfer of and disciplinary measures against the staff, except those at one tier below the CEO shall rest on him, which he shall apply in accordance with the approved service rules. Besides, under the purview of human resources policy as approved by the board, he shall nominate officers for training etc.
5	**Meetings of the Board of Directors:** One meeting of the Board of directors per month can be held usually but it can be more than one upon necessity. No less than one meeting of the Board in three months is to be held.	
6	**Number of Members of Executive Committee(EC) of the Board:** Number of members of the EC cannot exceed 7 members as per BB BRPD Circular Letter No 2 Dated 15 February 2010 and more than one member from one family shall not be included on the EC as per BB Circular Letter No 4 Dated 14 March 2010.	
7	**Training of the Directors:** The directors of the Board will acquire appropriate knowledge of the Banking laws and other relevant laws, rules and regulations to effectively discharge the responsibilities as a director of the bank.	

Appendix-E

List of Bangladesh Accounting Standards (BASs) Applicable in Bangladesh

	BAS No.	BAS Title	BAS Effective Date
1	1	Presentation of Financial Statements	on or after 1 Jan 2010
2	2	Inventories	on or after 1 January 2007
3	7	Statement of Cash Flows	on or after 1 January 1999
4	8	Accounting Policies, Changes in Accounting Estimates and Errors	on or after 1 January 2007
5	10	Events after the Reporting Period	on or after 1 January 1999
6	11	*Construction Contracts*	on or after 1 January 1999
7	12	Income Taxes	on or after 1 January 1999
8	16	Property, Plant & Equipment	on or after 1 January 2007
9	17	Leases	on or after 1 January 2007
10	18	Revenue	on or after 1 January 2007
11	19	Employee Benefits	on or after 1 January 2013
12	20	*Accounting of Government Grants and Disclosure of Government Assistance*	on or after 1 January 1999
13	21	The Effects of Changes in Foreign Exchange Rates	on or after 1 January 2007
14	23	Borrowing Costs	on or after 1 January 2010
15	24	Related Party Disclosures	on or after 1 January 2007
16	26	*Accounting and Reporting by Retirement Benefit Plans*	on or after 1 January 2007
17	27	Consolidated and Separate Financial Statements	on or after 1 January 2010
18	28	Investment in Associates	on or after 1 January 2010
19	31	*Interest in Joint Ventures*	on or after 1 January 2007
20	32	Financial Instruments: Presentation	on or after 1 January 2010
21	33	Earnings per Share	on or after 1 January 2007
22	34	Interim Financial Reporting	on or after 1 January 1999
23	36	Impairment of Assets	on or after 1st January 2005
24	37	Provisions, Contingent Liabilities and Contingent Assets	on or after 1 January 2007
25	38	Intangible Assets	on or after 1 January 2005
26	39	Financial Instruments: Recognition and Measurement	on or after 1 January 2010
28	40	*Investment Property*	on or after 1 January 2007
28	41	*Agriculture*	on or after 1 January 2007
		Total 28 applicable now	

Source: ICAB Website (*www.**icab**.org.bd)*

APPENDIX-F

105 Items Disclosed by All the Sample Banks

General Corporate Information (GCI)			
1	Name of the Banking Company	6	Managing Director/CEO
2	Registered Office	7	Number of Branches and Employees
3	Date of Incorporation	8	Number of Shareholders
4	Authorized and Paid-up Capital	9	Board of directors
5	Chairman of the Bank	10	Branch and ATM Network
Financial Statistical and Other Analysis (FSO)			
1	Return on Assets(ROA)	5	Financial highlights
2	Earnings Per Share (EPS)	6	Five years' performance at a glance
3	Loan (Investment) deposit ratio	7	Comparative income statement and balance sheet of at least two years
4	Price Earnings(P/E) ratio		
Report from Management and Others (RMO)			
1	Report of the Board of directors	5	Report on Related party disclosure
2	Compliance status of BSEC Guidelines for Corporate Governance	6	Report on Corporate Social Responsibility (CSR)
3	Report on Directors' Meeting	7	Auditor's Report
4	Report on Share Holdings by Directors and Top Executives		
Financial Statements (FS)			
1	Balance Sheet	3	Cash Flow Statement
2	Profit and Loss Statement/ Income Statement	4	Statement of Changes in Equity
		5	Notes to the Financial Statements
Balance Sheet Items Related to Assets(BRA)			
1	Details of Cash in hand	9	Classification status of loans / investments
2	Details of CRR and SLR	10	Particulars of Advances / investment
3	Details of Balance with other Banks and other Financial Institutions	11	Bills purchased and discounted - Consolidated amount and its subdivision
4	Maturity-wise classification of Balance with other B&FI	12	Maturity-wise classification of bills purchased and discounted
5	Details about investment in shares and securities	13	Details about types of fixed assets
6	Loans, cash credit and advances(Investment) to customers	14	Cost or revalued amount of fixed assets less accumulated depreciation (net)
7	Categorization of Loans/Investment according to industry	15	Details of other assets
8	Categorization of loans/investment from other viewpoints		
Balance Sheet Items Related to Liabilities and Equity(BLE)			
1	Borrowing(placement) from other banks, financial institutions and agents	8	Details about deferred tax liabilities
2	Deposits and other accounts	9	Details about share capital
3	Category of deposits and other accounts	10	Retained earnings
4	Amount of fixed deposit	11	Statutory reserve
5	Maturity-wise classification of deposits	12	General reserve
6	Details of other liabilities	13	Details of Contingent liabilities
7	Details of provisions		

Income Statement Items & Appropriation of Profit (ISA)			
1	Interest (investment) income	12	Audit fees
2	Interest (profit)paid on deposits, borrowings, etc.	13	Depreciation and repair to bank's assets
3	Net interest (investment) income	14	Details of other expenses
4	Income from investments in shares and securities	15	Detail of provision
5	Commission, exchange and brokerage income	16	Profit before taxes
6	Details of other operating income	17	Details about tax
7	Details of salary and allowances to employees	18	Net profit after tax
8	Rent, taxes, electricity, insurance, etc.	19	Appropriations of profit to statutory reserve, general reserve and dividend
9	Legal expenses	20	Retained earnings carried forwarded
10	Postage, Stamp and telecommunication etc.	21	Earnings Per Share (EPS) on the body of the statement
11	Directors' fees and other benefits		
Statement of Cash Flows and Other Statements (CFO)			
1	Disclosure about Cash inflows and outflows from operating activities	7	Adjustment of changes in accounting policy
2	Disclosure about Cash inflows and outflows from investing activities	8	Surplus/(deficit) on account of Revaluation
3	Disclosure about Cash inflows and outflows from financing activities	9	Currency translation differences
4	Information as to Net increase/(decrease) in cash and equivalent	10	Net profit/loss for the period
5	Information as to beginning and ending cash and cash equivalent	11	Stock dividend/ bonus share
6	Balance of different equity items at the beginning	12	Balance of different equity items at the end of the year
Basis of Preparation of the Statements (BPS)			
1	Total assets and its sub-grouping	5	Basis of consolidation
2	Total liabilities and its sub-grouping	6	Basis of Revenue recognition
3	Net liquidity gap	7	Basis of Measurement- Historical or current
4	Statement of compliance		
Significant Accounting Policies (SAP)			
1	Functional and presentation currency	5	Policy about valuation of different liabilities and provisions
2	Foreign operation and foreign currency transactions policy	6	Policy about depreciation
3	Compliance of Bangladesh Bank Guidelines and Circulars	7	Policy about risk management
4	Policy about valuation of different assets	8	Internal control and compliance

Source: Compiled by the Researcher (2014)