

# **BRAC Bank Limited**

## **Notes to the Financial Statements for the year ended 31 December 2006**

### **1. The Banks and its activities**

BRAC Bank Limited is a scheduled commercial bank established under the Bank Companies Act, 1991 and incorporated as a public company limited by shares on 20 May 1999 under the Companies Act, 1994 in Bangladesh. The primary objective of the Bank is to carry on all kinds of banking businesses. The Bank could not start its operations till 3 June 2001 since the activity of the Bank was suspended by the High Court of Bangladesh. Subsequently, the judgment of the High Court was set aside and dismissed by the Appellate Division of the Supreme Court on 4 June 2001 and accordingly, the Bank started its operations from 4 July 2001. At present the Bank has 26 (twenty six) branches, 86 zonal offices and 355 unit offices of SME.

A fully operational Commercial Bank, BRAC Bank focuses on pursuing unexplored market in the Small and Medium Enterprises Business, which hitherto has remained largely untapped within the country. The Bank operates under a "double bottom line" agenda where profit and social responsibility are considered as it strives towards a poverty-free, enlightened Bangladesh.

### **2. Summary of significant accounting policies and basis of preparation of the financial statements**

#### **2.1 Basis of measurement and compliance**

The financial statements have been prepared under the historical cost convention and in accordance with the "First Schedule (sec 38)" of the Bank Companies Act 1991, BRPD Circular No. 14 dated 25 June 2003, other Bangladesh Bank Circulars, Bangladesh Accounting Standards (BAS), the Companies Act 1994, the Securities and Exchange Rules 1987 and other laws and rules applicable in Bangladesh.

The financial statements were approved by the Board of Directors on 19 March 2007.

#### **2.2 Functional and presentation currency**

These financial statements are presented in Taka, which is the Bank's functional currency. Except as indicated figures have been rounded to the nearest Taka.

#### **2.3 Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

#### **2.4 Loans and advances**

**2.4.1** Interest on loans and advances is calculated on daily product basis, but charged and accounted for monthly and quarterly on accrual basis.

**2.4.2** Provision for loans and advances is made based on the arrear equivalent year and review by the management and instruction contained in Bangladesh Bank BRPD Circulars No. 16 of 6 December 1998, 09 of 14 May 2001, 09 and 10

of 20 August 2005, 05 of 5 June 2006 respectively.

- 2.4.3** Interest is calculated on classified loans and advances as per BRPD circular No. 16 of 1998, 09 of 2001 and 10 of 2005 and recognized as income on realization.

The classification rates are given below:

<u>Particulars</u>	<u>Rate</u>
General provision on:	
Unclassified loans & advances	1%
Small enterprise	2%
Consumer finance for house building loan and loan for professional setup	2%
Consumer finance other than house building loan and loan for professional setup	5%
Special mention account	5%
Specific provision on:	
Substandard loans and advances	20%
Doubtful loans and advances	50%
Bad/loss loans and advances	100%

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

## **2.5 Fixed assets and depreciation**

- 2.5.1** Fixed assets have been accounted for at cost less accumulated depreciation.

- 2.5.2** Depreciation is charged on straight-line method. In case of acquisition of fixed assets, depreciation has been charged in the following month of acquisition, whereas depreciation on fixed assets disposed off has been charged upto the month prior to the month of disposal. Asset category-wise depreciation rates are as follows:

<u>Category of assets</u>	<u>Rate of depreciation</u>
Furniture and fixture	10.00%
Office equipments	20.00%
Office machineries	20.00%
Computer hardware	33.33%
Computer software	10.00%
Motor vehicles	20.00%

- 2.5.3** As per Bangladesh Accounting Standards (BAS) - 17 "Lease", all fixed assets other than premises taken on lease has been accounted for as finance lease from this year whereas those were being recognised as operating lease in the earlier years. Details of leased assets have been shown in "Annexure - F" to the financial statements. Assets held under finance leases are depreciated on the basis of lease term.

## **2.6 Investments**

Value of Investments has been shown as under:

Government treasury bill (HFT)	Marking to market
Government treasury bill (HTM)	At present value
Government treasury bonds (HTM)	At present value
Zero coupon bond	At present value
Prize bond and other bonds	At cost price
Debentures	At cost price

Un quoted shares	At cost price
Quoted shares	At cost or market price whichever is lower at balance sheet date

## **2.7 Leases**

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.

### **2.7.1 The bank as lessor**

Amount due from lessees under finance lease are recorded as receivables at the amount of the Bank's net investment in the leases (Note 7.2). Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

### **2.7.2 The bank as lessee**

In compliance with the Bangladesh Accounting Standard (BAS) - 17 "Lease", cost of assets acquired under finance lease along with obligation there against have been accounted for as assets & liabilities respectively of the company, and the interest elements has been charged as expenses.

## **2.8 Foreign currency translations**

Assets and liabilities in foreign currencies are translated into Taka at mid rates prevailing on the balance sheet date, except bills for collection, stock of travelers cheque and import bills for which the buying rate is used on the date of the transaction. Gains or losses arising from normal fluctuation of exchange rate are charged to revenue.

## **2.9 Provisions and accrued expenses**

Provisions and accrued expenses are recognized in the financial statement when the Company has a legal or constructive obligation as a result of past event, it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## **2.10 Taxation**

### **2.10.1 Current tax**

Provision for current income tax has been made @ 45% as prescribed in the Finance Act 2006 on the taxable income for the year.

### **2.10.2 Deferred tax**

The Bank accounted for deferred tax as per Bangladesh Accounting Standard (BAS) - 12. Deferred tax is provided using the balance sheet method for temporary timing differences arising between tax base of assets and liabilities and their carrying value for financial reporting purposes. Deferred tax is computed at the prevailing tax rate as per Finance Act 2006.

## **2.11 Earning per share**

Earning per Share (EPS) has been computed by dividing the basic earning by the weighted average number of Ordinary Shares outstanding as on 31 December 2006 as per Bangladesh Accounting Standard (BAS) - 33 "Earning Per Share" .

### **2.11.1 Basic earnings**

This represents earnings for the year attributable to ordinary shareholders. Net profit after tax less preference dividend has been considered as fully attributable to the ordinary shareholders.

### **2.11.2 Weighted average number of ordinary shares outstanding during the year**

This represents the number of ordinary shares outstanding at the beginning of the year plus the number of ordinary shares issued during the year multiplied by a time weighted factor. The time weighting factor is the number of days the specific shares are outstanding as a proportion of the total number of days in the year. ( Note - 31)

### **2.12 Statement of liquidity**

The liquidity statement of assets and liabilities as on the reporting date has been prepared on residual maturity term as per the following basis:

- a) Balances with other banks and financial institutions, money at call and short notice etc. are on the basis of their maturity term.
- b) Investments are on the basis of their residual maturity term.
- c) Loans and advances are on the basis of their repayment/ maturity schedule.
- d) Fixed assets are on the basis of their useful life.
- e) Other assets are on the basis of their adjustment.
- f) Borrowing from other banks, financial institutions and agents as per their maturity/ repayment term
- g) Deposits and other accounts are on the basis of their maturity term and behavioral past trend.
- h) Other long term liability on the basis of their maturity term.
- i) Provisions and other liabilities are on the basis of their settlement.

### **2.13 Retirement benefit to the employees**

#### **2.13.1 Provident fund**

Provident fund benefits are given to the staff of the bank in accordance with the registered Provident fund rules. The commissioner of Income Tax, Large Tax Payers Unit, Dhaka has approved the Provident Fund as a recognized fund within the meaning of section 2(52) read with the provisions of part - B of the First Schedule of Income Tax Ordinance 1984. The recognition took effect from 1st January 2003. The fund is operated by a Board of Trustees consisting of 11 (eleven) members of the bank. All confirmed employees of the bank are contributing 10% of their basic salary as subscription of the fund. The bank also contributes equal amount to the fund. Contributions made by the bank are charged as expense. Interest earned from the investments is credited to the members' account on half yearly basis.

#### **2.13.2 Gratuity**

Gratuity fund benefits are given to the staff of the bank in accordance with the approved Gratuity fund rules. National Board of Revenue has approved the gratuity fund as a recognized gratuity fund on March 06, 2006. The fund is operated by a Board of Trustees consisting of 7 (seven) members of the bank. Employees are entitled to gratuity benefit after completion of minimum 05 (five) years of service in the Company. The gratuity is calculated on the basis of last basic pay and is payable at the rate of one month's basic pay for every completed year of service. Gratuity so calculated are transferred to the fund and charged to expenses of the bank.

### **2.14 Revenue recognition**

#### **2.14.1 Interest income**

In terms of provision of Bangladesh Accounting Standard (BAS 18) on revenue and disclosures in the financial statements of the Bank, the interest receivable is recognized on accrual basis. Interest in loans and advances ceases to be taken into income when such advances are classified and such interest is kept in interest suspense account. Interest on classified advances is accounted for on a receipt basis.

#### **2.14.2 Investment income**

Income on investments is recognized on accrual basis.

### **2.14.3 Fees and commission income**

Fees and commission income arises on services rendered by the Bank recognized on a cash basis. Commission charged to customers on letters of credit and letters of guarantee are recognised as revenue on time proportion basis over the commitment period.

### **2.14.4 Dividend income on shares**

Dividend income from shares is recognized when right to receive the payment is established.

### **2.14.5 Interest paid and other expenses**

In terms of provision of the Bangladesh Accounting Standard (BAS) -1 "Presentation of Financial Statements", interest paid and other expenses are recognized on accrual basis.

### **2.15 Reconciliation of inter-bank/inter-branch account**

Books of accounts with regard to interbank (in Bangladesh and outside Bangladesh) are reconciled on monthly basis and there are no material differences which may affect the financial statements significantly.

Unmatched entries in case of inter-branch transactions as on the reporting date are not material.

### **2.16 Risk management**

The possibility of losses, financial or otherwise is defined as risk. The assets and liabilities of BRAC Bank Ltd. is managed so as to minimize, to the degree prudently possible, the Bank's exposure to risk, while at the same time attempting to provide a stable and steadily increasing flow of net interest income, an attractive rate of return on an appropriate level of capital and a level of liquidity adequate to respond to the needs of depositors and borrowers and earnings enhancement opportunities.

These objectives are accomplished by setting in place a planning, control and reporting process, the key objective of which is the coordinated management of the Bank's assets and liabilities, current banking laws and regulations, as well as as prudent and generally acceptable banking practices.

The risk management of the bank covers 5 (five) Core risk areas of banking i.e. (i) Credit Risk Management, (ii) Foreign Exchange Risk Management, (iii) Asset liability Management, (iv) Prevention of Money Laundering and (v) Internal Control and Compliance as per BRPD Circular No. 17 of 7 October 2003.

#### **2.16.1 Credit risk management**

Credit risk is the risk to an institution's earnings and capital when an obligator or customer fails to meet the terms of any contract or otherwise fails to perform as agreed. It is one of the major risks faced by the bank.

Considering the key elements of Credit risk the bank has segregated duties of the officers /executives involved in credit related activities. Separate division for Corporate, SME and Retail has been formed which are entrusted with the duties of maintaining effective relationship with the customers, marketing of credit products, exploring new business opportunities etc. For transparency in the operations during the entire credit year i. Credit Approval Committee, ii. Loan Administration Department, iii. Recovery Unit, and iv. Impaired Asset Management have been set up.

In addition to the above Sales Teams of the above-mentioned business units book the customers; the Credit Division does thorough assessment before approving the credit facility. The risk assessment included borrower risk analysis, financial analysis, industry analysis, and historical performance of the customer. Loan Administration Department ensures compliance of all legal formalities, completion of all documentation security of the proposed credit facility and finally disburses the amount. The Sales team reports to the DMD through their line; the Credit division reports to the Managing Director, while the Loan Administration reports to the Chief Operating Officer. The above arrangement has

not only ensured segregation of duties and accountability but also helps minimize the risk of compromise with quality of the credit portfolio.

#### **2.16.2 Foreign exchange risk management**

Foreign exchange risk is defined as the potential change in profit/loss due to change in market prices. Today's financial institutions engage in activities starting from imports, exports and remittances involving basic foreign exchange and money market to complex structured products. Within the Bank, Treasury department is vested with the responsibility to measure and minimize the risk associated with bank's assets and liabilities.

All treasury functions are clearly demarcated between treasury front office and back office. The front office is involved only in dealing activities and the back office is responsible for all related support and monitoring functions. Treasury front and back office personnel are guided as per BB core risk management and their job description. They are barred from performing each other's job. As mentioned in the previous section, 'Treasury Front Office' and 'Treasury Back Offices' has separate and independent reporting lines to ensure segregation of duties and accountability but also helps minimize the risk of compromise.

Dealing room is equipped with Reuter's information, a voice screens recorder for recording deals taking place over phone. Counter party limit is set by the Credit Committee and monitored by Head of treasury. Trigger levels are set for the dealers, Chief Dealer and head of Treasury. Any increase to trigger limit of the head of Treasury requires approval from the MANCOM.

Before entering into any deal with counter party, a dealer ensures about the counter party's dealing style, product mix and assess whether the customer is dealing in an appropriate manner.

#### **2.16.3 Asset liability management**

Changes in market liquidity and or interest rate exposes Bank's business to the risk of loss, which may, in extreme cases, threaten the survival of the institution. As such emphasize has given so that the level of balance sheet risks are effectively managed, appropriate policies and procedures are established to control and limit these risks and proper resources are available for evaluating and controlling these risks. The Asset Liability Committee (ALCO) of the bank monitors Balance Sheet risk and liquidity risks of the Bank.

Asset liability Committee (ALCO) reviews country's over all economic position, Bank's Liquidity position, ALM Ratios, Interest Rate Risk, Capital Adequacy, Deposit Advanced Growth, Cost of Deposit & yield on Advance, F.E. Gap, Market Interest Rate, Loan loss provision adequacy and deposit and lending pricing strategy.

#### **2.16.4 Prevention of money laundering**

In recognition of the fact that financial institutions are particularly vulnerable to be used by money launderers. BRAC Bank has established Anti Money Laundering Policy. The purpose of the Anti Money Laundering Policy is to provide a guide line within which to comply with the laws and regulations regarding money laundering both at country and international levels and thereby to safeguard the bank from potential compliance, financial and reputation risk. KYC procedure has been set up with address verification. As apart of monitoring account transaction-the estimated transaction profile and high value transactions are being reviewed electronically. Training has been taken as a continuous process for creating/developing awareness among the officers.

#### **2.16.5 Internal control and compliance**

Internal Control is the mechanism in place on a permanent basis to control the activities in an organization, both at a central and at a departmental/divisional level. Management through Risk Management Department controls operational procedure of the bank. Internal Audit and Inspection team under Risk Management undertakes year-end and special audit of the branches, SME Unit Offices and Departments at Head Office for review of the operation and compliance of statutory requirement. In addition to the Internal Audit and Inspection team the Monitoring team conducts surprise inspection at the Branch, SME Unit and the Departments at Head Office as well. The Board Audit Committee reviews the reports of the Risk Management Department annually.

### 2.16.6 Information and communication technology

BRAC Bank follows the guideline stated in BRPD Circular No. 14 dated 23 October 2005 regarding "Guideline on Information and Communication Technology for Scheduled Banks".

IT management deals with IT policy documentation, internal IT audit, training and insurance.

IT operation management covers the dynamics of technology operation management including change management, asset management, operating environment procedures management. The objective is to achieve the highest levels of technology service quality by minimum operational risks.

Physical security involves providing environmental safeguards as well as controlling physical access to equipment and data.

In order to ensure that information assets are protected against risk, there are controls over:

- a) Password control
- b) User ID maintenance
- c) Input control
- d) Network security
- e) Data encryption
- f) Virus protection
- g) Internet and e-mail

The Business Continuity Plan (BCP) is formulated to cover operational risks and taking into account the potential for wide area disasters, data center disasters and the recovery plan. The BCP takes into account the backup and recovery process. Keeping this into consideration this covers BCP, Disaster Recovery Plan and Backup/Restore Plan.

### 2.16.7 Enterprise risk management

BRAC Bank Limited, the fastest growing bank in Bangladesh, is concerned regarding risky areas, which are being identified by the Risk Management department.

The Management under the guidance of the Board of Directors has developed an Enterprise Risk Management Policy for submission of a formal report to the Board Audit Committee on quarterly basis.

#### **Primary objectives:**

Maximize earnings and return on capital within acceptable and controllable levels of the key risk areas.

Provide for growth that is sound, profitable and balanced without sacrificing the quality of service.

Manage and maintain a policy and procedures that are consistent with the short and long term strategic goals of the Board of Directors.

#### **Development of ERM policy**

The MANCOM approved the ERM policy, which contains the guidelines for reporting to Risk Management Committee. The ERM has twelve members. Head of Risk Management, the Managing Director, COO, Head of Retail, Head of SME, Head of Credit, Head of Treasury, Head of Financial Administration, Head of HR, Head of Corporate Banking, Head of SRS, Head of External Affairs and Head of Impaired Assets Management. Head of Risk Management chairs the committee.

The policy provides guideline and templates to the respective departments and units for providing the information, which are considered as risky and vulnerable areas for the organization. ERM scrutinize and analyze the provided information and parameterize it according to the sensitivity and vulnerability.

The ERM meet on 15th of every month. The committee discuss about the various issues raised relating to previous

month and updates the same provided by units reported to Risk Management department in the prescribed formats by 7th of the current month. The units qualify the specific risk according to the matrix provided by Bangladesh Bank. The meeting minutes are reviewed by the Board Audit Committee on quarterly basis.

**Outcome of ERM:**

Vulnerable areas of the Bank are being identified

Appropriate plan and initiatives are taken to mitigate and minimize the risk.

Follow up and monitoring are being done on the overall position of the bank regarding mitigation and minimization of risky areas.

Upgrading the “Leading Key Risk Indicator” and DCFCLs are developing gradually through inclusion and exclusion item.

**2.17 Off balance sheet items**

Under general banking transactions, liabilities against acceptance, endorsements, and other obligations and bills against which acceptance has been given and claims exists there against, have been shown as off balance sheet items.

**3. Cash**

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
In hand:		
Local currency	357,099,608	153,957,910
Foreign currencies	8,864,028	6,550,197
	365,963,636	160,508,107
Balance with Bangladesh Bank:		
Local currency (statutory deposit)	1,113,370,103	660,341,133
Foreign currencies	693,053,700	190,621,638
	1,806,423,803	850,962,771
	2,172,387,439	1,011,470,878

**3.1** Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) have been calculated and maintained in accordance with section 33 of Bank Companies Act, 1991 and BRPD circular nos. 11 and 12 dated 25 August 2005.

The statutory Cash Reserve Requirement on the Bank's time and demand liabilities at the rate 5% has been calculated and maintained with Bangladesh Bank in current account and 18% Statutory Liquidity Requirement, including CRR, on the same liabilities has also been maintained in the form of treasury bills, bonds and debentures including FC balance with Bangladesh Bank. Both the reserves maintained by the Bank, are shown below:

**3.1.1** Cash Reserve Requirement (CRR):

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
5% of Average Demand and Time Liabilities:		
Required reserve	1,120,511,667	650,193,000
Actual reserve held	1,126,122,000	682,048,000
Surplus	5,610,333	31,855,000

**3.1.2** Statutory Liquidity Requirement (SLR):

13% of Average Demand and Time Liabilities:



Required reserve	2,913,330,333	1,690,503,000
Actual reserve held	<u>2,907,720,000</u>	<u>1,871,965,000</u>
Surplus	<u>(5,610,333)</u>	<u>181,462,000</u>
Total surplus	<u>-</u>	<u>213,317,000</u>

#### 4. Balance with other banks and financial institutions

Inside Bangladesh (Note 4.1)	2,274,811,764	1,140,010,459
Outside Bangladesh (Note 4.2)	<u>60,389,066</u>	<u>22,515,829</u>
	<u>2,335,200,830</u>	<u>1,162,526,288</u>

##### 4.1 Inside Bangladesh

###### On demand deposit accounts

Standard Chartered Bank - Current account	829,128	-
Southeast Bank Ltd - Current account	<u>3,052</u>	<u>3,052</u>
	<u>832,180</u>	<u>3,052</u>

###### On Short Term Deposit (STD) accounts

Southeast Bank Ltd.	728,872	5,677,599
ONE Bank Limited	434,207	18,128,350
Prime Bank Limited	1,000	1,000
Bank Asia Limited	-	67,736
Pubali Bank Limited	207,952,679	209,480,467
Janata Bank	151,000,920	101,548,636
Bangladesh Krishi Bank	132,009,651	139,853,145
The City Bank Limited	25,307,117	13,884,391
Agrani Bank	103,714,409	30,556,432
Islami Bank (BD) Ltd.	20,500,440	3,238,836
United Commercial Bank Limited	541,487	2,019,568
National Bank Limited	319,203	1,060,356
Sonali Bank	68,731,391	2,344,042
The Oriental Bank Limited	359,359	995,753
Arab Bangladesh Bank Limited	560,927	250,000
Rupali Bank Limited	31,817,922	6,670,784
Uttara Bank Limited	-	10,000
	<u>743,979,584</u>	<u>535,787,095</u>

2006

Taka

2005

Taka

###### On fixed deposit accounts

###### With banks:

Arab Bangladesh Bank Ltd.	100,000,000	-
Habib Bank Ltd.	100,000,000	-
Jamuna Bank Ltd.	200,000,000	-
First Security Bank Ltd.	100,000,000	-
Bank Asia Ltd.	-	50,000,000

###### With financial institutions:

Industrial & Infrastructure Development Finance Co. Ltd.	100,000,000	50,000,000
International Leasing & Financial Services Ltd.	150,000,000	100,000,000
Uttara Finance & Investment Limited	150,000,000	104,220,312
Far East Finance & Investment Limited	30,000,000	30,000,000

Union Capital Limited	50,000,000	20,000,000
Industrial Development Leasing Company of Bangladesh Ltd.	-	150,000,000
National Housing Finance Company Ltd.	-	100,000,000
Prime Finance & Investment Co. Ltd.	100,000,000	-
Phoenix Leasing Company Ltd.	50,000,000	-
Industrial Promotion & Development Co. of Bangladesh Ltd.	100,000,000	-
United Leasing Co. Ltd.	100,000,000	-
Delta Brac Housing Finance Corporation Ltd.	150,000,000	-
Lanka Bangla Finance Co. Ltd.	50,000,000	-
	<u>1,530,000,000</u>	<u>604,220,312</u>
	<u>2,274,811,764</u>	<u>1,140,010,459</u>

**4.2 Balance with other banks and financial institutions  
(outside Bangladesh on demand deposit accounts )**

**On demand deposit accounts (Non interest bearing) with:**

Standard Chartered Bank-NY (USD)	1,715,906	666,490
Mashreq Bank NY (USD)	204,949	10,483
The Bank of Nova Scotia- Canada (CAD)	138,670	288,336
Citibank NA (USD)	3,381,874	131,004
AB Bank Mumbai (ACU Dollar)	74,583	6,705
Crescent Comm. Bank Karachi (ACU Dollar)	-	50,451
ICICI Mumbai (ACU Dollar)	1,181,410	5,650,457
Standard Chartered Bank-UK (GBP)	121,556	65,614
Hypovereins Bank Germany (EURO)	3,907,920	3,182,010
HSBC - NY (USD)	40,467,744	11,360,514
HSBC - UK (GBP)	7,285,997	468,387
HSBC - AUS (AUD)	459,596	241,771
HSBC - Pakistan (ACU)	250,374	-
HSBC - India (ACU)	232,195	-
Union DE Banques Arabes ET Francaises (JPY)	40,414	111,102
Westpack Banking Corporation, (AUD)	925,878	282,505
	<u>60,389,066</u>	<u>22,515,829</u>

Details are shown in Annexure - C.

**4.3 Maturity grouping of balance with other banks and financial institutions**

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Upto one month	135,619,205	22,518,881
More than one month but not more than three months	669,581,625	535,787,095
More than three months but not more than one year	1,530,000,000	604,220,312
More than one year but not more than five years	-	-
More than five years	-	-
	<u>2,335,200,830</u>	<u>1,162,526,288</u>

**5. Money at call and on short notice**

<b>Banking company</b>	-	-
<b>Non-banking financial institutions:</b>		
Industrial Promotion and Development Co. of Bangladesh Ltd.	100,000,000	50,000,000
Delta Brac Housing Finance Corporation Ltd.	-	30,000,000
Fareast Finance & Investment Ltd.	30,000,000	-

United Leasing Company Ltd.	20,000,000	-
Investment Corporation of Bangladesh Limited	200,000,000	-
Phoenix Leasing Company Ltd.	80,000,000	-
International Leasing & Financial Services Ltd.	150,000,000	-
Industrial & Infrastructure Development Finance Co. Ltd.	20,000,000	-
	<u>600,000,000</u>	<u>80,000,000</u>

## 6. Investments

Government securities (Note 6.1)	3,554,997,837	1,873,314,600
Other investments (Note 6.2)	213,014,234	290,500,000
	<u>3,768,012,071</u>	<u>2,163,814,600</u>

Investments in securities are classified as follows:

Held for trading (HFT)	1,048,959,050	-
Held to maturity (HTM)	2,505,385,787	-
Other securities	213,667,234	-
	<u>3,768,012,071</u>	<u>-</u>

### 6.1 Government securities

Treasury Bills (Note 6.1.2)	1,342,527,229	842,600,000
Treasury Bonds (3 years TNT)	19,635,298	-
Treasury Bonds (5 years BGTB)	49,518,447	-
Treasury Bonds (10 years BGTB)	2,142,663,863	1,030,000,000
Prize Bond	653,000	714,600
	<u>3,554,997,837</u>	<u>1,873,314,600</u>

#### 6.1.2 Treasury bills

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
28 days Treasury bills	799,160,150	70,000,000
30 days Treasury bills	249,798,900	-
2 Years Treasury bills	19,152,304	40,000,000
5 Years Treasury bills	274,415,875	290,000,000
6 months reverse REPO	-	442,600,000
	<u>1,342,527,229</u>	<u>842,600,000</u>

### 6.2 Other investments

**Ordinary shares** (details are shown in Annexure - D)

Industrial and Infrastructure Development Finance Co. Ltd.  
(100,000 ordinary shares of Tk. 100 each )

Bank Asia Limited  
(2,300 ordinary shares of Tk. 100 each fully paid)

Mercantile Bank Limited  
(2,700 ordinary shares of Tk. 100 each fully paid)

Central Depository Bangladesh Ltd.  
(40,000 ordinary shares of Tk. 100 each fully paid)

10,000,000	10,000,000
230,000	230,000
270,000	270,000
4,000,000	4,000,000

	14,500,000	14,500,000
<b>Preference shares</b>		
United Cement Industries Ltd. (200 preference shares of Tk. 100 each at a premium of Tk. 99,900 per share at a fixed dividend of Tk. 110,000 per share redeemable after 5 years )	-	20,000,000
<b>Debentures</b>		
United Leasing Company Ltd.	100,000,000	100,000,000
<b>Bonds</b>		
Dutch Bangla Bank Ltd. Bonds	30,000,000	30,000,000
<b>Zero Coupon Bonds</b>		
Industrial and Infrastructure Development Finance Co. Ltd.	44,965,030	66,000,000
Industrial Development and Leasing Co. of Bangladesh Ltd.	18,374,875	50,000,000
United Leasing Company Ltd.	5,174,329	10,000,000
	68,514,234	126,000,000
	213,014,234	290,500,000

### 6.3 Maturity-wise grouping

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Upto one month	1,049,612,050	70,714,600
More than one month but not more than three months	213,014,234	442,600,000
More than three months but not more than one year	-	-
More than one year but not more than five years	362,721,924	456,000,000
More than five years	2,142,663,863	1,194,500,000
	<u>3,768,012,071</u>	<u>2,163,814,600</u>

## 7. Loans and advances

Overdrafts	1,622,104,860	1,300,948,646
Demand loans	993,364,955	965,503,471
Term loans	6,537,569,949	4,278,213,605
Lease finance (Note 7.2)	353,257,694	339,148,317
Small and medium enterprises	9,937,018,916	4,852,960,094
Credit cards	1,229,884	-
Staff loans	97,194,773	52,344,311
	<u>19,541,741,031</u>	<u>11,789,118,444</u>
Bills purchased and discounted (Note 7.12)	15,424,349	2,194,078
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

### 7.1 Maturity-wise grouping

Upto one month	92,951,763	1,127,324,795
More than one month but not more than three months	404,242,161	555,690,003
More than three months but not more than one year	2,016,426,274	2,703,883,776
More than one year but not more than five years	13,700,432,989	7,274,148,048
More than five years	3,343,112,193	130,265,900
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

### 7.2 Lease finance

Lease finance receivables within 1 year	190,281,648	8,862,532
Lease finance receivables within 5 years	162,976,046	330,285,785
	<u>353,257,694</u>	<u>339,148,317</u>

### 7.3 Loans and advances under the following broad categories

#### Inside Bangladesh:

Loans	17,935,060,520	10,490,363,876
Overdrafts	1,622,104,860	1,300,948,646
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

#### Outside Bangladesh

	-	-
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

### 7.4 Geographical location-wise grouping

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
<b>Inside Bangladesh:</b>		
Dhaka Division	12,817,231,916	7,884,679,821
Chittagong Division	3,437,994,762	2,044,006,962
Khulna Division	752,951,373	662,762,391
Sylhet Division	374,121,541	182,244,954
Barisal Division	572,399,054	336,867,661
Rajshahi Division	1,602,466,734	680,750,733
	<u>19,557,165,380</u>	<u>11,791,312,522</u>
<b>Outside Bangladesh</b>	-	-
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

### 7.5 Significant concentration-wise grouping

Directors and others	-	-
Managing Director and CEO	5,768,819	1,434,865
Consumers	5,384,070,799	10,554,033,210
Industries	14,075,899,808	1,183,500,135
Other advances (staff)	91,425,954	52,344,312
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

### 7.6 Details of large loan

Number of clients with amount of outstanding and classified loans to whom loans and advances sanctioned exceeds 10% of the total capital of the Bank. Total capital of the Bank was Tk 2,496.29 million as at 31 December 2006 (Tk 988.89 million in 2005). For more details please refer to Annexure - E.

### 7.7 Grouping as per classification rules

Unclassified	18,407,463,044	11,399,949,927
Special mention account	554,917,526	126,183,658
Sub-standard	276,063,082	98,633,410
Doubtful	176,663,839	104,738,534
Bad/loss	142,057,889	61,806,993
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

### 7.8 Sector-wise allocation of loans and advances

Agriculture, fishing, forestry and dairy firm	1,001,916,113	471,634,345
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Industry (jute, textiles, garments, chemicals, cements, etc.)	803,394,480	498,123,343
Working capital financing	1,845,968,883	452,225,832
Export credit	-	303,413
Commercial credit	9,845,341,742	5,890,511,616
Small and cottage industries	579,278,590	233,101,451
Miscellaneous	5,481,265,572	4,245,412,522
	<u>19,557,165,380</u>	<u>11,791,312,522</u>

#### 7.9 Particulars of required provisions for loans and advances

<u>Status</u>	<u>Base for provision</u>	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>	<u>Taka</u>
Unclassified - General provision	18,310,268,282	361,474,865	195,581,933
Special mentioned account (SMA)	525,888,602	26,294,430	5,956,711
Classified - Specific provision:			
Sub-standard	250,111,904	50,022,381	18,033,709
Doubtful	160,681,534	80,340,767	44,908,592
Bad/loss	116,554,342	116,554,342	48,677,371
		<u>246,917,490</u>	<u>111,619,672</u>
Required provision for loans and advances		634,686,785	313,158,316
Total provision maintained (Note 12.1)		<u>646,426,378</u>	<u>340,020,211</u>
Excess/(short) provision at 31 December		<u>11,739,593</u>	<u>26,861,895</u>

#### 7.10 Particulars of loans and advances

i) Debts considered good in respect of which the bank is fully secured;	2,805,360,805	1,864,409,722
ii) Debts considered good for which the bank holds no other security than the debtors' personal security;	7,134,312,650	472,068,013
iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors;	9,617,491,925	9,454,834,787
iv) Debts considered doubtful or bad, not provided for	-	-
	<u>19,557,165,380</u>	<u>11,791,312,522</u>
v) Debts due by directors or officers of the bank or any of them either severally or jointly with any other persons;	97,194,773	52,344,311
vi) Debts due by companies or firms in which the directors or officers of the bank are interested as directors, partners or managing agents or, in case of private companies, as members;	-	-
vii) Maximum total amount of advances, including temporary advances made any time during the year to directors or managers or officers of the bank or any of them either severally or jointly with any other persons;	-	-
viii) Maximum total amount of advances, including temporary advances granted during the year to companies or		

firms in which the directors of the bank are interested as directors, partners or managing agents or, in case of private companies, as members;

	-	-
ix) Due from banking companies;	-	-
	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
x) Classified loan for which interest/profit not charged		
(a) Increase/decrease of provision (specific)	133,266,164	47,073,751
Amount of debts written off	48,963,124	58,368,332
Amount realised against the debts previously written off	2,688,086	818,253
(b) Provision against the debt classified as bad/loss at the date of balance sheet	142,057,889	61,806,993
(c) Amount of interest charged in suspense account	117,853,867	56,602,970
xi) Cumulative amount of the written off loan and the amount written off during the current year should be shown separately. The amount of written off loan for which law suit has been filed should also be mentioned		
- Current year	48,963,124	58,368,332
- Cumulative to date	107,331,456	58,368,332
The amount of written off loans for which law suit filed	92,960,000	58,368,332

**7.11** The directors of the Bank have not taken any loan from the Bank during the year or there is no outstanding loan balances with any director of the Bank.

**7.12 Bills purchased and discounted**

Inside Bangladesh	15,424,349	2,194,078
Outside Bangladesh	-	-
	<u>15,424,349</u>	<u>2,194,078</u>

**7.13 Maturity wise grouping of bills purchased and discounted**

Upto one month	440,290	979,365
More than one month but not more than three months	9,761,420	1,214,713
More than three months but not more than one year	5,222,639	-
More than one year but not more than five years	-	-
More than five years	-	-
	<u>15,424,349</u>	<u>2,194,078</u>

**8. Fixed assets including premises and furniture and fixtures**

Cost:

Furniture and fixtures	118,705,566	62,133,833
Office equipments	57,091,077	24,385,164
Office machineries	22,206,685	11,163,269
Computer hardware	183,728,748	54,057,058
Computer software	65,693,414	17,960,538
Motor vehicles	10,207,061	9,104,795
Leased assets	99,996,639	-
	<u>557,629,190</u>	<u>178,804,657</u>

Less: Accumulated depreciation and impairment	168,254,058	22,449,166
Net book value at the end of the year	<u>389,375,132</u>	<u>156,355,491</u>

Details are shown in Annexure - F.

## 9. Other assets

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Stock of stamps	69,062	176,558
Interest receivables	93,585,455	63,909,198
Other receivables	32,909,476	4,664,647
Stock of security stationery	2,827,566	2,470,561
Stock of printing stationery	7,919,282	4,662,997
Advance to staff and supplier	8,765,981	9,241,253
Prepaid interest expenses on IFFD	233,954,532	69,023,584
Deferred expenditure	10,236,147	6,946,513
Advance payment of income tax	453,381,603	221,751,459
Advance to staff for mobile phone purchase	246,560	251,560
Advance to staff for motor cycle purchase	51,671,137	33,048,490
Advance against branches	59,241,644	33,851,177
Advance against rent	50,691,395	31,461,106
Advance security deposit	1,181,000	520,090
Advance against SWIFT	1,917,919	2,157,655
Advance for software migration	123,596,956	-
Advance to BRAC AFGAN Bank	252,196	-
Advance cash to Group-4 for ATM replenishment	16,000,000	-
Sanchayapatra	11,259,682	3,853,775
Travelers cheque	2,753,258	1,495,786
Frauds, forgeries and operating loss	110,000	55,000
Interbranch account	22,936,037	16,776,285
* Leased assets - Premises	4,167,333	4,211,666
	<u>1,189,674,221</u>	<u>510,529,360</u>

\* The Bank has taken lease an office premises under operating lease for a period of 99 years started from 2002 with an option to renew the lease after that date. Lease rentals paid Tk 4,389,000 at the time of lease (2002) are amortised over the term of the lease.

### 9.1 Non income generating other assets

Stock of stamps	69,062	176,558
Other receivables (Note 9.1.1)	32,909,476	4,664,647
Stock of security stationery	2,827,566	2,470,561
Stock of printing stationery	7,919,282	4,662,997
Advance to staff and supplier	8,765,981	78,264,837
Deferred revenue expenditure	10,236,147	6,946,513
Advance payment of income tax	453,381,603	221,751,459
Advance to staff for mobile phone purchase	246,560	251,560
Advance to staff for motor cycle purchase	51,671,137	33,048,490
Advance against branches	59,241,644	33,851,177
Advance against office rent	50,691,395	31,461,106
Advance security deposit	1,181,000	520,090
Advance against - SWIFT	1,917,919	2,157,655
Advance for software migration	123,596,956	-
Advance to BRAC AFGAN Bank	252,196	-
Advance cash to Group-4 for ATM replenishment	16,000,000	-



Frauds, forgeries and operating loss	110,000	55,000
Leased assets - Premises	4,167,333	4,211,666
Interbranch account (Note 9.1.2)	22,936,037	16,776,285
	<u>848,121,294</u>	<u>441,270,601</u>

#### 9.1.1 Other receivables

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Remittance in transit	12,196,912	1,979,513
Receivable against remittance	20,399,469	2,414,504
Receivable against bills pay	30,000	-
Account receivable - FCY (Unclaimed) - USD	151,888	-
Loan penal interest receivable	131,207	130,207
Others	-	140,423
	<u>32,909,476</u>	<u>4,664,647</u>

#### 9.1.2 Interbranch account

Interbranch account - BDT (Note 9.1.2.1)	1,594,900	4,327,344
Interbranch account - FCY	(34,520)	1,023,479
Interdivision account	16,115,323	9,430,313
Spot exchange - BDT	(85,460,212)	(18,103,502)
Spot exchange - FCY	85,446,949	18,103,502
Forward exchange - BDT	77,876	48,088
Asset for distribution	5,500,000	3,400,000
Liability for distribution	-	(1,424,803)
Merchant POS settlement account	(304,279)	(28,136)
	<u>22,936,037</u>	<u>16,776,285</u>

#### 9.1.2.1 Interbranch account - BDT

Interbranch account - Debit	10,267,380,276	6,599,809,117
Interbranch account - Credit	(10,265,785,376)	(6,595,481,773)
	<u>1,594,900</u>	<u>4,327,344</u>

Branch adjustment accounts represent outstanding inter-branch and head office transactions (net) which are originated but not to be responded by the counter transaction at the balance sheet date. However, the unresponded entries of 31 December 2006 are given below:

	No. of unresponded entries		Unresponded Balances (Taka)		
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
Less than 3 months	129	18	2,297,741	259,520	2,038,221
3 months to less than 6 months	29	43	255,815	665,503	(409,688)
6 months to less than 1 year	10	7	17,257	19,007	(1,750)
1 year and more	24	23	459,808	491,692	(31,883)
	<u>192</u>	<u>91</u>	<u>3,030,621</u>	<u>1,435,722</u>	<u>1,594,900</u>

## 10. Borrowing from other banks, financial institutions and agents:

### In Bangladesh

	<u>Interest rate</u>	<u>Tenure</u>	<u>2006</u>	<u>2005</u>
			<u>Taka</u>	<u>Taka</u>
<b>Secured</b>				
Refinance from Bangladesh Bank	5 % - 6%	3-5 years	432,974,167	763,391,667

**Un secured**

Uttara Bank Limited	-	100,000,000
One Bank Limited	-	100,000,000
Commercial Bank of Ceylon Limited	-	100,000,000
United Commercial Bank Limited	-	100,000,000
	-	400,000,000

**Money at call and on short notice**

The City Bank Limited	100,000,000	100,000,000
Bangladesh Commerce Bank Limited	50,000,000	-
Pubali Bank Limited	130,000,000	100,000,000
Uttara Bank Limited	50,000,000	-
Agrani Bank	150,000,000	100,000,000
Mutual Trust Bank Limited	50,000,000	-
State Bank of India	200,000,000	-
Premier Bank Limited	130,000,000	10,000,000
Infrastructure Development Company Limited	40,000,000	-
	900,000,000	310,000,000
	1,332,974,167	1,473,391,667

**10.1 Maturity wise grouping**

Upto one month	954,574,000	510,000,000
More than one month but not more than three months	-	200,000,000
More than three months but not more than one year	-	-
More than one year but not more than five years	378,400,167	763,391,667
More than five years	-	-
	1,332,974,167	1,473,391,667

**11. Deposit and other accounts**

Current deposit and other accounts	3,060,293,660	3,288,528,993
Bills payable (Note 11.2)	113,744,828	122,593,253
Saving deposits	2,936,582,930	1,863,763,753
Fixed deposits	16,742,577,461	8,051,558,273
Other deposits (Note 11.3)	148,722,810	82,566,118
	23,001,921,689	13,409,010,390

**11.1 Maturity-wise grouping**

Payable on demand	1,917,628,229	865,759,745
Payable within 1 month	4,156,406,387	3,005,838,102
Over 1 month but within 6 months	8,939,450,712	4,033,855,977
Over 6 month but within 1 year	6,287,334,041	3,654,408,081
Over 1 year but within 5 years	1,205,191,686	1,636,837,195
Over 5 years but within 10 years	495,910,634	212,311,290
	23,001,921,689	13,409,010,390

**11.2 Bills payable**

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
Local drafts issued and payable	70,042	70,000
Stamp charges realised from loan clients	1,554,182	755,234
Insurance premium collected from SME loan clients	26,147,231	5,835,312
Payment orders issued	70,512,654	110,653,374

Sundry creditors	67,721	73,752
Payment orders to be issued	13,155,333	4,353,529
Security deposits	1,900,088	852,052
Payable - cards	337,577	-
	<u>113,744,828</u>	<u>122,593,253</u>

### 11.3 Other deposits

Foreign currency deposit	12,006,854	1,737,932
Sundry deposit (Note 11.3.1)	136,715,956	80,828,186
	<u>148,722,810</u>	<u>82,566,118</u>

#### 11.3.1 Sundry deposit

Margin on FCC	7,124	-
Security money	3,561,503	1,837,216
SME loan installment and charges recovery	518,328	411,993
Margin on retail clients loans and advances	29,102,968	-
Non-resident non-convertible taka account	75,184,047	47,937,599
Non-resident foreign currency account	13,195,465	16,295,641
Sundry deposits against client's lease finance	9,593,078	12,569,714
Other foreign currency liability	5,553,443	1,776,023
	<u>136,715,956</u>	<u>80,828,186</u>

## 12. Other liabilities

	<u>Notes</u>		
Provisions for loans and advances	12.1	646,426,378	340,020,211
Provisions for others		191,472	544,313
Interest suspense	12.2	117,853,867	56,602,970
Withholding tax payable	12.3	30,211,355	6,716,350
Provision for taxation (Including deferred tax)	12.4	542,593,774	254,192,158
Interest payable		404,036,335	221,083,768
Accrued expenses		82,909,684	38,289,771
Excise duty		28,475,735	13,984,965
VAT payable		12,374,862	2,971,061
Obligation under finance lease	12.5	22,290,815	-
Others		35,015,071	19,967,560
Share subscription - IPO (refund warrant)		1,561,242,801	-
Other bank cheque clearing account		21,649,606	5,471,910
Un-earned interest on treasury bill		-	37,879,564
Un-earned interest on treasury bond		-	63,509,756
Un earned interest on Zero Coupon Bond		-	6,218,287
Margin on L/C		53,393,078	47,487,118
Margin on L/G		1,061,347	3,135,410
REPO with Bangladesh Bank and other banks		-	92,600,000
		<u>3,559,726,180</u>	<u>1,210,675,172</u>

### 12.1 Provision for loans and advances

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
A. Specific		
Balance at the beginning of the year	134,061,420	86,987,669
Add: Provision made during the year	171,780,596	93,497,121
	<u>305,842,016</u>	<u>180,484,790</u>

Less: Write off during the year	38,514,432	46,423,370
Balance at the end of the year	<u>267,327,584</u>	<u>134,061,420</u>

<b>B. General</b>		
Balance at the beginning of the year	205,958,790	60,042,313
Add: Provision made during the year	<u>173,140,004</u>	<u>145,916,478</u>
Balance at the end of the year	<u>379,098,794</u>	<u>205,958,791</u>

Net actual provision at the end of year (A+B)	<u>646,426,378</u>	<u>340,020,211</u>
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## 12.2 Interest suspense

Balance at the beginning of the year	56,602,970	13,657,843
Add: Transferred during the year	<u>221,420,602</u>	<u>185,484,260</u>
	278,023,572	199,142,103
Less: Amount of interest suspense recovered	<u>149,721,014</u>	<u>130,594,171</u>
	128,302,558	68,547,932
Less: Write off during the year	<u>10,448,691</u>	<u>11,944,962</u>
Balance at the end of the year	<u>117,853,867</u>	<u>56,602,970</u>

## 12.3 Withholding tax payable

Withholding tax payable on interest	19,553,809	6,249,776
Withholding tax payable (suppliers)	3,905,107	22,611
Withholding tax payable (contractors and consultants)	3,021,227	253,705
Withholding tax payable (staff salaries and allowance)	2,964,076	13,635
Withholding tax payable (rent)	173,558	176,623
Withholding tax payable (export on knitwear)	96,738	-
Withholding tax payable on commission or fees paid	221,740	-
Withholding tax payable on export cash subsidy	<u>275,100</u>	<u>-</u>
	<u>30,211,355</u>	<u>6,716,350</u>

## 12.4 Provision for taxation

Current (Note 12.4.1)	498,511,560	246,289,944
Deferred (Note 12.4.2)	<u>44,082,214</u>	<u>7,902,214</u>
	<u>542,593,774</u>	<u>254,192,158</u>

### 12.4.1 Provision for current taxation

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Balance at the beginning of the year	246,289,944	110,552,935
Add: Provision made during the year	<u>334,920,000</u>	<u>139,777,786</u>
	581,209,944	250,330,721
Less: Adjustment of tax provision for previous years	<u>82,698,384</u>	<u>4,040,777</u>
Balance at the end of the year	<u>498,511,560</u>	<u>246,289,944</u>

Assessment upto the income year ended 31 December 2004 corresponding to the assessment year 2005-2006 has been completed.

Assessment for the year 2001 (assessment year 2002-2003) is under appeal with the High Court preferred by the bank against tax department's demand for additional tax of Tk 3,367,206 which has been shown as contingent liability.

#### 12.4.2 Provision for deferred taxation

Balance at the beginning of the year	7,902,214	-
Add: Provision made during the year	36,180,000	7,902,214
Balance at the end of the year	<u>44,082,214</u>	<u>7,902,214</u>

#### 12.5 Obligation under finance lease

Furniture and fixture	11,986,942	-
Office equipments	1,469,933	-
Office machineries	1,523,445	-
Computer hardware	5,310,007	-
Computer software	1,397,564	-
Motor vehicles	602,924	-
	<u>22,290,815</u>	<u>-</u>

### 13. Ordinary share capital

#### 13.1 Authorized capital:

20,000,000 (2005: 10,000,000) ordinary shares of Tk. 100 each	<u>2,000,000,000</u>	<u>1,000,000,000</u>
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Authorized share capital of the bank was Tk 2,000,000,000 (20,000,000 ordinary shares of Tk 100 each) at the time of incorporation of the bank in May 1999.

The authorized share capital was reduced from Tk 2,000,000,000 to Tk 1,000,000,000 through an Extra-ordinary General Meeting held on 24 June 2001. Authorized share capital was shown as Tk 1,000,000,000 in the accounts since then. The resolution to reduce the authorized share capital taken in June 2001 has been vacated through an EGM held on 26 May 2006 as the legal formalities in regard to the original resolution taken in June 2001 for reducing authorized capital were not met.

#### 13.2 Issued, subscribed and paid up capital:

	<u>2006</u> <u>Taka</u>	<u>2005</u> <u>Taka</u>
10,000,000 (2005: 5,000,000) ordinary shares of Tk. 100 each	<u>1,000,000,000</u>	<u>500,000,000</u>

Shareholding position was as follows:

	<u>Number</u>	<u>Face value (Taka)</u>	
		<u>2006</u>	<u>2005</u>
BRAC	3,173,900	317,390,000	317,390,000
ShoreCap International Ltd.	875,700	87,570,000	87,570,000
International Finance Corporation (IFC)	949,800	94,980,000	94,980,000
Non-resident Bangladeshis	500,000	50,000,000	-
Mutual Funds	500,000	50,000,000	-
General public	4,000,000	400,000,000	-
Others	600	60,000	60,000
	<u>10,000,000</u>	<u>1,000,000,000</u>	<u>500,000,000</u>

Classification of shareholders by holding:

	<u>No. of</u> <u>shareholders</u>	<u>No. of shares</u>	<u>Percentage of</u> <u>holding of shares</u>
Less than 500 shares	89,974	4,446,000	44.46
501 to 5,000 shares	31	41,000	0.41

5,001 to 10,000 shares	6	42,600	0.43
10,001 to 20,000 shares	4	57,500	0.57
20,001 to 30,000 shares	2	45,250	0.45
30,001 to 40,000 shares	-	-	-
40,001 to 50,000 shares	1	35,600	0.36
50,001 to 100,000 shares	1	98,250	0.98
100,001 to 1,000,000 shares	4	2,059,900	20.60
Over 1,000,000 shares	1	3,173,900	31.74
	<u>90,024</u>	<u>10,000,000</u>	<u>100.00</u>

### 13.3 Initial Public Offering (IPO)

Out of the total issued, subscribed, and fully paid up capital of the bank 5,000,000 ordinary shares of Tk. 100.00 each amounting to Tk 500,000,000 was raised through Initial public offering of shares held in 2006 at a premium of Tk 70 per share.

### 14. Redeemable preference share capital

	<u>2006</u> Taka	<u>2005</u> Taka
1,500,000 preference shares (9%, 5 years cumulative redeemable) of Tk 100 each	<u>150,000,000</u>	<u>-</u>

Breakup of shareholders are given below:

	<u>No. of shares</u>		
IDLC of Bangladesh Ltd.	500,000	50,000,000	-
United Leasing Company Ltd.	500,000	50,000,000	-
Green Delta Insurance Co. Ltd.	500,000	50,000,000	-
		<u>150,000,000</u>	<u>-</u>

### 14.1 Capital Adequacy Ratio

Calculated as per BRPD Circular No. 10 issued by Bangladesh Bank on 25 November 2002.

	<u>2006</u> Taka	<u>2005</u> Taka
<b>Tier - I (core capital)</b>		
Paid up capital	1,000,000,000	500,000,000
Share premium	350,000,000	-
Statutory reserve	251,204,796	58,396,570
Retained earnings	365,943,241	224,490,340
	<u>1,967,148,037</u>	<u>782,886,910</u>
<b>Tier - II (supplementary capital)</b>		
General provision	379,098,794	205,958,790
Preference share	150,000,000	-
Exchange equalization fund	45,000	45,000
	<u>529,143,794</u>	<u>206,003,790</u>
Total capital	<u>2,496,291,831</u>	<u>988,890,700</u>
Total Risk Weighted Assets	<u>18,451,509,000</u>	<u>10,534,864,000</u>
Required Assets based on Risk Weighted Assets (9%)	<u>1,660,635,810</u>	<u>948,137,760</u>
Surplus	<u>835,656,021</u>	<u>40,752,940</u>
Capital Adequacy Ratio:		
On core capital (against standard of minimum 4.5%)	10.66%	7.43%

On total capital (against standard of minimum 9.0%)	13.53%	9.39%
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## 15. Share premium

5,000,000 ordinary shares @ Tk 70 per share	<u>350,000,000</u>	<u>-</u>
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Particulars of share premium as on 31 December:

	<u>Number</u>	
Non-resident Bangladeshis	500,000	35,000,000
Mutual funds	500,000	35,000,000
General public	4,000,000	280,000,000
	<u>5,000,000</u>	<u>350,000,000</u>

## 16. Statutory reserve

Balance at the beginning of the year	58,396,570	19,860,550
Add: Adjustment in respect of earlier years	<u>51,736,000</u>	<u>-</u>
Restated balance at the beginning of the year	110,132,570	19,860,550
Add: Transferred from profit during the year	<u>141,072,226</u>	<u>38,536,020</u>
Balance at the end of the year	<u>251,204,796</u>	<u>58,396,570</u>

## 17. Retained earnings

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Balance at the beginning of the year	224,490,340	70,346,259
Less: Adjustment in respect of earlier years:		
For 2004	<u>22,200,000</u>	<u>-</u>
For 2005	<u>29,536,000</u>	<u>-</u>
	<u>51,736,000</u>	<u>-</u>
Restated balance at the beginning of the year	172,754,340	70,346,259
Add: Unappropriated profit for the year	193,188,901	154,144,081
Balance at the end of the year	<u>365,943,241</u>	<u>224,490,340</u>

Adjustment of Tk 51,736,000 has been made in the opening retained earnings in order to cover up the shortfall in statutory reserve resulted in previous years due to transferring 20% of net profit after tax to statutory reserve instead of transferring 20% of net profit before tax. Comparative information has not been restated as it was impracticable to do so.

## 18. Income statement

Income:		
Interest, discount and similar income	3,189,776,361	1,747,627,486
Dividend income	2,559,909	2,500,000
Fees, commission and brokerage	355,854,613	179,823,587
Gains less losses arising from dealing securities	-	-
Gains less losses arising from investment securities	-	-
Gains less losses arising from dealing in foreign currencies	159,549,578	91,249,436
Income from non-banking assets	-	-

Other operating income	4,325,882	2,846,359
Profit less losses on interest rate changes	-	-
Nominal value of bonus share received	-	-
	<u>3,712,066,343</u>	<u>2,024,046,868</u>
Expenses:		
Interest, fees and commission	1,634,640,822	850,729,209
Losses on loans and advances	-	-
Administrative expenses	778,611,019	495,944,472
Other operating expenses	155,559,931	77,940,198
Depreciation on banking assets	92,847,544	19,114,977
	<u>2,661,659,316</u>	<u>1,443,728,856</u>
Income over expenditure	<u>1,050,407,027</u>	<u>580,318,012</u>

## 19. Interest income

Interest on loans and advances:		
Retail	643,523,534	290,619,137
Corporate	575,372,015	291,491,605
Lease finance	47,760,928	29,413,346
SME	1,520,110,900	844,159,210
Credit cards	1,127	-
Staff	5,487,755	2,377,030
	<u>2,792,256,259</u>	<u>1,458,060,328</u>

## 20. Interest paid on deposits and borrowing etc.

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Interest on deposits	1,547,102,491	788,875,084
Interest on money at call and on short notice	58,041,836	22,882,014
Interest on refinance from Bangladesh Bank	29,496,495	38,972,111
	<u>1,634,640,822</u>	<u>850,729,209</u>

## 21. Income from investment

Interest on treasury bills and bonds	243,258,512	129,648,597
Interest on debenture	10,000,000	12,922,222
Interest on money at call and on short notice	19,255,556	18,219,751
Dividend on shares	2,559,909	2,500,000
Interest on fixed deposits with other banks	97,494,029	109,769,174
Interest on balance with other banks	19,773,579	9,282,123
Interest on zero coupon bond	7,738,426	9,725,291
	<u>400,080,011</u>	<u>292,067,158</u>

## 22. Commission, exchange and brokerage

Commission from sale of sanchaya patra	1,798,437	789,435
Commission from issue of payment orders	2,039,233	1,481,823
Commission from issue of letter of guarantee	4,537,710	811,161
Commission from issue of letters of credit (Import & Export)	16,464,931	12,564,777
Commission on underwriting contract	-	20,000
Commission on visa processing	5,781,404	2,121,658
Commission from remittances	-	29,754
Account activity fees	17,657,503	7,823,755
Import and export related fees	3,238,457	2,312,090



Fees and commission - Cards	71,071	-
Other fees (Note 22.1)	120,288,478	47,766,035
Foreign exchange earnings	159,549,579	91,249,436
Cancellation fees	125,493	61,900
Cheque collection fees	801,072	373,929
Fees on incoming remittances	28,130,934	4,145,139
Loan processing fees	154,919,890	99,522,131
	<u>515,404,192</u>	<u>271,073,023</u>

## 22.1 Other fees

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Passport endorsement fees	598,230	222,228
Relationship fees	52,367,670	27,212,550
Minimum balance fees	486,353	-
Charges for locker	1,284,419	686,878
Postage	118,180	37,335
Loan penal fees	18,566,714	10,378,901
Loan early settlement fees	1,568,972	675,245
DPS penal fees	658,788	358,151
DPS early settlement fees	618,800	275,800
Service charges for ATM card	29,816,272	7,519,026
Fund collection/ transfer fees	67,362	13,068
Merchant service fee	240,926	10,353
Student service center fees	2,697,650	372,000
Service charges realization	351,595	4,500
IOM service charge	933,100	-
Annual membership fees - Premium banking	619,500	-
Early settlement fees - SME loan	1,387,342	-
Syndication arrangement fees	7,761,605	-
Service charge for - BIZNESS account - BDT	145,000	-
	<u>120,288,478</u>	<u>47,766,035</u>

## 23. Rent, taxes, insurance, lighting etc.

Rent, rates and taxes	41,727,634	55,185,059
Insurance	12,275,985	13,602,592
Power and electricity	10,262,987	7,472,840
WASA and sewerage	919,530	945,730
	<u>65,186,136</u>	<u>77,206,221</u>

## 24. Postage, stamp, telegram and telephone

Postage	11,668,053	7,453,374
Telegram, telex, fax and e-mail	17,097,996	8,899,268
Court fees and stamps	216,115	291,152
Telephone - Office	41,990,118	26,086,904
Telephone - Residence	13,711	26,070
	<u>70,985,993</u>	<u>42,756,768</u>

## 25. Stationery, printing, advertisement etc.

Stationery and Printing	41,773,822	26,849,495
Security stationery	8,153,458	4,399,832

Advertisement	<u>50,273,749</u>	<u>25,370,928</u>
	<u>100,201,029</u>	<u>56,620,255</u>

## 26. Directors' fees and expenses

Director's fees represent fees paid for attending board meeting @ Tk. 2,500 upto April 2006 and @ Tk. 4,000 from May 2006 to December 2006 per board meeting and travel & hotel accommodation expenses of foreign Director for attending the Board meeting.

Breakup of directors fees and expenses are:

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Directors fees	255,000	134,485
Travelling and others	<u>536,093</u>	<u>619,985</u>
	<u>791,093</u>	<u>754,470</u>

## 27. Depreciation on and repairs to bank's property

Depreciation		
Furniture and fixture	8,514,304	3,715,141
Office equipment	8,910,814	3,889,954
Office machinery	2,666,297	1,598,678
Computer hardware	33,819,408	7,833,134
Computer software	13,640,818	1,351,555
Motor vehicles	1,950,434	726,515
Leased assets	<u>23,345,469</u>	<u>-</u>
	<u>92,847,544</u>	<u>19,114,977</u>
Maintenance		
Transport	9,758,842	5,682,700
Equipment	2,314,751	1,864,594
Machinery	16,443	306,328
Computer	10,972,974	3,580,112
Premises	<u>5,083,552</u>	<u>2,957,688</u>
	<u>28,146,562</u>	<u>14,391,422</u>
	<u>120,994,106</u>	<u>33,506,399</u>

## 28. Other expenses

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Transportation and conveyance	28,533,847	17,991,075
Fuel expenses	5,043,941	2,122,026
Travelling	14,874,557	11,573,654
Professional fees	2,530,055	2,902,358
Entertainment	899,305	798,010
Staff welfare	17,515,913	8,624,245
SWIFT	1,808,635	2,022,638
Branch development	6,400,144	7,275,066
Books, news papers and periodicals	1,120,937	1,159,374
Donation and subscription	1,622,656	1,602,836
VAT and excise duty	145,112	182,792
Fraud, forgeries and operating loss	3,213,500	6,322
Staff training	11,763,054	5,988,376
Staff liveries	778,928	615,672

Staff recruitment	1,601,934	492,473
Bank charges	32,169,765	14,067,361
Finance charge on leased assets	5,329,515	-
Crockeries	561,577	357,267
IPO expenses	14,380,914	-
Documentation charges - CIB	3,211,240	-
Data verification charge	1,077,440	-
Miscellaneous	976,962	158,653
	<u>155,559,931</u>	<u>77,940,198</u>

## 29. Provision for loans and advances

For classified loans and advances	171,780,596	93,497,121
For unclassified loans and advances	173,140,004	145,916,477
	<u>344,920,600</u>	<u>239,413,598</u>

## 30. Income tax

### 30.1 Provision for Income tax

#### Current tax

Provision for Income Tax has been made according to the Income Tax Ordinance 1984. During the year under review, an amount of Tk. 334,920,000 (2005 : 139,777,786) has been provided for current income tax. Assessment up to the accounting year 2004, corresponding assessment year 2005-2006 has been completed.

#### Deferred tax

Deferred tax is provided using the liability method for timing differences arising between the tax base of assets and liabilities and their carrying values for reporting purposes as per Bangladesh Accounting Standard (BAS) - 12. During the year under review, an amount of Tk. 36,180,000 (2005 : 7,902,214) has been adjusted for deferred tax.

### 30.2 Contingent liabilities (taxation)

Pre-operating expenses were shown as allowable expenses in the return for the Income year 2001 (assessment year 2002-2003). After filing of the return, the Tax Authority disallowed these expenses. BRAC Bank Ltd. Filed an appeal against order of the Tax Authority to the Additional Commissioner of Taxes (Appeal) who allowed these expenses. In response, the Tax Authority filed a further appeal against the order of the Additional Commissioner of Taxes (Appeal) to the Taxes Appellate Tribunal who again disallowed these expenses. BRAC Bank Ltd. filled an appeal to The Supreme Court of Bangladesh, High Court Division for revision in this matter and it is under process.

## 31. Weighted average earnings per share

	<u>2006</u>	<u>2005</u>
	<u>Taka</u>	<u>Taka</u>
Profit after taxation	334,295,236	192,680,101
Less: Preference dividend	13,500,000	-
Profit attributable for distribution to ordinary shareholders	<u>320,795,236</u>	<u>192,680,101</u>
Weighted average number of shares (Note 31.1)	<u>5,067,204</u>	<u>5,000,000</u>
Weighted average earnings per share	<u>63.31</u>	<u>38.54</u>

### 31.1 Weighted average number of shares

5,000,000 shares held from 1 January 2006 to 25 December 2006	4,932,796
10,000,000 shares held from 26 December 2006 to 31 December 2006	134,408
	<u>5,067,204</u>

**32. Cash and cash equivalent**

Cash in hand (including foreign currency)	365,963,636	160,508,107
Balance with Bangladesh Bank and its agents banks ( including foreign currency)	1,806,423,803	850,962,771
Balance with other banks and financial institutions	2,335,200,830	1,162,526,288
Money at call and on short notice	600,000,000	80,000,000
	<u>5,107,588,269</u>	<u>2,253,997,166</u>

**33. Contingent liabilities**

Import letters of credit - Sight	851,845,400	1,112,043,100
Import letters of credit - Usance	21,766,900	10,608,100
Guarantees issued	216,575,186	66,154,551
Tax liability	3,367,206	3,367,206
Forward contracts	207,388,200	134,505,000
Stock of travelers cheques (TC)	5,433,448	3,282,723
Stock of Govt. sanchaya patra	12,851,000	12,851,000
	<u>1,319,227,340</u>	<u>1,342,811,680</u>