

FINANCIAL REPORT AS ON DECEMBER 31, 2011



Independent Auditors' Report To The Shareholders Of BRAC Bank Limited

We Also Report That

We have audited the accompanying consolidated financial statements of BRAC Bank Limited ("the Bank") which comprise consolidated balance sheet as at 31 December 2011 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and also financial statements of BRAC Bank Limited ("the Bank"), which comprise the balance sheet as at 31 December 2011 and the Profit and Loss Account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements prepared in accordance with Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS) give a true and fair view of the consolidated financial position of BRAC Bank Limited as at 31 December 2011, and results of its financial performance and its cash flows for the year then ended and comply with the Bank Companies Act 1991, the rules and regulations issued by the Bangladesh Bank, the Companies Act 1994, the Securities and Exchange Rules 1997 and other applicable laws and regulations.

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;
- In our opinion, proper books of account as required by law have been kept by the Bank so far as it appeared from our examination of those books and proper returns adequate for the purpose of our audit have been received from branches not visited by us;
- The Bank's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns;
- The expenditure incurred was for the purpose of the bank's business;
- The financial position of the Bank as at 31 December 2011 and the profit and loss account for the year then ended have been properly reflected in the financial statements and the financial statements have been prepared in accordance with generally accepted accounting principles;
- The financial statements have been drawn up in conformity with the Bank Companies Act 1991 and in accordance with the accounting rules and regulations issued by Bangladesh Bank;
- Adequate provisions have been made for advances which are, in our opinion doubtful of recovery;
- The financial statements conform to the prescribed standards set in accounting regulations issued by the Bangladesh Bank after consultation with the professional accounting bodies of Bangladesh;
- The records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;
- The information and explanations required by us have been received and found satisfactory;
- We have reviewed over 80% of the risk weighted assets of the Bank and we have spent around 3,380 persons hours for the audit of books and accounts of the Bank and
- regarding capital adequacy ratio (CAR) as required by law, we draw the reader's attention to Note 18.10 to the financial statements.

Dated, Dhaka,
February 22, 2012

S. F. Ahmed & Co.
Chartered Accountants

BRAC Bank Limited

Consolidated Balance Sheet as on December 31, 2011

Note	2011 Taka	2010 Taka
PROPERTY AND ASSETS		
Cash	11,979,216,969	9,853,046,262
Cash in hand (including foreign currency)	3,646,779,497	3,578,604,502
Balance with Bangladesh Bank and its agent Banks (including foreign currency)	8,330,437,102	6,274,441,763
Balance with other Banks and Financial Institutions (including foreign currency)	3,746,866,187	3,887,254,779
Inside Bangladesh	3,138,856,331	3,036,615,263
Outside Bangladesh	608,009,856	850,639,516
Money at call and short notice	480,000,000	-
Investments	14,674,963,791	13,125,495,806
Government	10,291,953,253	9,667,938,634
Others	4,383,030,537	3,457,557,172
Loans and advances	97,478,384,517	86,873,913,596
Loans, cash credit, overdrafts etc.	97,048,550,903	86,529,822,222
Bills purchased & discounted	39,813,615	24,084,374
Fixed assets including premises, furniture and fixtures	2,599,931,447	1,854,245,194
Other assets	8,953,122,866	7,196,307,035
Non-banking assets	1,409,637,597	311,889,515
Goodwill	-	-
Total Property and Assets	140,929,127,974	122,801,151,189
LIABILITIES AND CAPITAL		
Liabilities		
Borrowings from other banks, financial institutions & agents	12.2	5,720,180,198
Borrowings from Central Bank	13.2	1,533,371,184
Convertible Subordinate Bonds	14.2	3,000,000,000
Money at Call and Short notice	15.2	550,000,000
Deposits and other accounts	16.2	103,648,725,771
Current accounts & other accounts	16.2	32,360,000,116
Bills payable	16.2	768,394,517
Savings deposits	16.2	18,421,267,314
Fixed deposits	16.2	51,763,212,319
Other deposits	16.2	326,261,506
Other liabilities	17.2	16,538,198,965
Total Liabilities	130,440,477,104	112,249,831,364
Capital and Shareholders' Equity		
Paid up share capital	18.2	3,212,352,000
Preference share capital	18.2	590,000,000
Share premium	18.2	1,553,052,103
Statutory reserve	20.2	2,536,431,462
Revaluation reserve	20.2	352,080,754
Share money deposit	20.2	62,333,542
Surplus in profit and loss account/Retained Earnings	21.2	2,282,951,075
Total BRAC Bank Limited Shareholders' Equity	10,460,209,836	9,850,519,851
Minority Interest	22	321,435,935
Total equity	10,481,645,870	10,551,339,825
Total Liabilities and Shareholders' Equity	140,929,127,974	122,801,151,189

Contingent Liabilities

Note	2011 Taka	2010 Taka
Contingent Liabilities		
Acceptances and endorsements	160,105,738	140,191,600
Letter of guarantee	4,537,278,981	3,818,035,880
Irrevocable letter of credits	16,201,080,847	18,616,476,381
Bills for collection	626,523,955	110,582,929
Tax liability	115,398,757	249,485,368
Other contingent liabilities	753,151,898	16,596,320
Total Contingent Liabilities	23	22,393,640,175
Other Commitments		
Documentary credits and short term trade related transactions	-	-
Forward assets purchased and forward deposits placed	-	-
Indrain note issuance and revolving underwriting facilities	23.2	405,759,290
Undrawn formal standby facilities, credit lines and other commitments-lease hold assets	-	-
Total Other Commitments	405,759,290	824,637,000
Total Off-Balance Sheet Items including contingent liabilities	22,399,399,465	23,975,985,479

Managing Director & CEO

Dated, Dhaka,
February 22, 2012

S. F. Ahmed & Co.
Chartered Accountants

BRAC Bank Limited

Consolidated Off Balance Sheet Items as on December 31, 2011

Note	2011 Taka	2010 Taka
PROPERTY AND ASSETS		
Cash	3	11,979,846,296
Cash in hand (including foreign currency)	3	3,646,779,497
Balance with Bangladesh Bank and its agent Banks (including foreign currency)	4	8,330,437,102
Balance with other Banks and Financial Institutions (including foreign currency)	4	3,746,866,187
Inside Bangladesh	4	3,138,856,331
Outside Bangladesh	4	608,009,856
Money at call and short notice	5	480,000,000
Investments	6	14,598,827,511
Government	6	10,291,953,253
Others	6	3,906,874,257
Loans and advances	7	90,822,174,665
Loans, cash credit, overdrafts etc.	7	90,427,381,050
Bills purchased & discounted	7	39,813,615
Fixed assets including premises, furniture and fixtures	8	2,340,154,750
Other assets	9	15,160,887,211
Non-banking assets	10	-
Total Property and Assets	133,201,048,438	117,297,555,748
LIABILITIES AND CAPITAL		
Liabilities		
Borrowings from other banks, financial institutions & agents	12	650,000,000
Borrowings from Central Bank	13	461,882,617
Convertible Subordinate Bonds	14	3,000,000,000
Money at Call and Short notice	15	550,000,000
Deposits and other accounts	16	103,725,529,225
Current accounts & other accounts	16	32,339,880,108
Bills payable	16	768,394,517
Savings deposits	16	18,421,267,314
Fixed deposits	16	51,763,212,319
Other deposits	16	326,261,506
Other liabilities	17	16,538,198,965
Total Liabilities	123,598,443,600	107,819,683,647
Capital and Shareholders' Equity		
Paid up share capital	18.2	3,212,352,000
Preference share capital	18.2	590,000,000
Share premium	18.2	1,553,052,103
Statutory reserve	20.2	2,536,431,462
Revaluation reserve	20.2	352,080,754
Share money deposit	20.2	62,333,542
Surplus in profit and loss account/Retained Earnings	21.2	2,282,951,075
Total BRAC Bank Limited Shareholders' Equity	10,460,209,836	9,850,519,851
Minority Interest	22	321,435,935
Total equity	10,481,645,870	10,551,339,825
Total Liabilities and Shareholders' Equity	133,201,048,438	117,297,555,748

BRAC Bank Limited

Off Balance Sheet Items as on December 31, 2011

Note	2011 Taka	2010 Taka
Contingent Liabilities		
Acceptances and endorsements	160,105,738	140,191,600
Letter of guarantee	4,537,278,981	3,818,035,880
Irrevocable letter of credits	16,201,080,847	18,616,476,381
Bills for collection	626,523,955	110,582,929
Tax liability	115,398,757	249,485,368
Other contingent liabilities	753,151,898	16,596,320
Total Contingent Liabilities	23	22,393,640,175
Other Commitments		
Documentary credits and short term trade related transactions	-	-
Forward assets purchased and forward deposits placed	-	-
Undrawn note issuance and revolving underwriting facilities	-	-
Undrawn formal standby facilities, credit lines and other commitments-lease hold assets	-	-
Total Other Commitments	405,759,290	824,637,000
Total Off-Balance Sheet Items including contingent liabilities	22,399,399,465	23,151,348,479

Managing Director & CEO

Director

Chairman

Dated, Dhaka,
February 22, 2012

S. F. Ahmed & Co.
Chartered Accountants

Consolidated Profit and Loss Account for the year ended 31 December 2011

Note	2011 Taka	2010 Taka
Particulars		
Interest income	26.1	14,283,148,334
Interest paid on deposits and borrowing etc.	26.2	8,645,101,681
Net interest income	5,638,046,653	5,638,046,653
Investment income	27.1	1,640,318,565
Commission, exchange and brokerage	28.1	3,151,441,516
Other operating income	29.1	965,380,122
Total operating income	10,795,786,834	10,399,476,002
Salaries and allowances	30.0	2,001,563,705
Rent, taxes, insurance, electricity etc.	31.1	829,938,192
Legal expenses	32.0	31,265,680
Postage, stamps, telecommunication etc.	33.2	208,114,022
Stationery, printing, advertisement etc.	34.1	349,075,219
Chief Executive's salary & fees	35.1	1,146,417
Directors' fees & expenses	36.1	3,796,156
Auditors' fee	36.2	2,040,680
Depreciation on and repairs to bank's assets	37.1	838,480,869
Other expenses	38.1	1,021,787,620
Total operating expenses	8,997,004,619	8,997,004,619
Profit/(loss) before provisions	1,798,782,215	1,402,471,383
Provision for:		
Loans and advances	39.1	1,536,497,958
Diminution in value of investments	40.1	444,213,413
Off balance sheet items	41.1	4,000,000
Others	42.1	1,984,711,371
Total provision	3,214,070,845	3,466,062,699
Profit/(loss) after taxes	1,575,602,322	1,558,995,482
Deferred tax expense/(income)	40.2	(174,023,897)
Total provision for Tax	1,401,578,425	1,384,971,585
Total profit/(loss) after taxes	1,812,444,190	2,073,069,067
Statutory reserve	40.3	615,832,590
General reserve	40.4	615,832,590
Dividend etc.	40.5	1,196,611,600
Retained earnings	1,196,611,600	1,489,940,088
Attributable to:		
Equity holders of BRAC Bank Ltd.	41.1	1,210,473,401
Minority Interest	41.2	(13,861,801)
Total	1,196,611,600	1,489,940,088
Basic earnings per share	5.54	5.68

Dated, Dhaka,
February 22, 2012

S. F. Ahmed & Co.
Chartered Accountants

Profit and Loss Account for the year ended 31 December 2011

Note	2011 Taka	2010 Taka
Particulars		
Interest income	26	13,610,278,427
Interest paid on deposits and borrowing etc.	26	8,164,158,813
Net interest income	5,446,119,614	5,453,119,614
Investment income	27	1,704,955,227
Commission, exchange and brokerage	28	2,722,651,074
Other operating income	29	202,207,507
Total operating income	10,134,733,422	9,927,577,194
Salaries and allowances	31	2,235,371,717
Rent, taxes, insurance, electricity etc.	31	566,123,413
Legal expenses	32	21,523,613
Postage, stamps, telecommunication etc.	33	184,315,961
Stationery, printing, advertisement etc.	34	328,303,823
Chief Executive's salary & fees	35	1,146,417
Directors' fees & expenses	36	3,796,156
Auditors' fee	36	2,040,680
Depreciation on and repairs to bank's assets	37	792,535,843
Other expenses	38	923,922,846
Total operating expenses	6,114,822,289	6,114,822,289
Profit/(loss) before provisions	4,019,911,133	3,813,754,905
Provision for:		
Loans and advances	39	1,514,315,870
Diminution in value of investments	40	444,213,413
Off balance sheet items	41	4,000,000
Others	42	1,984,711,371
Total provision	3,947,240,654	3,947,240,654
Profit/(loss) after taxes	1,072,670,479	1,072,670,479
Deferred tax expense/(income)	40	(146,000,000)
Total provision for Tax	1,218,670,479	1,218,670,479
Total profit/(loss) after taxes	1,072,670,479	1,072,670,479
Statutory reserve	40.3	615,832,590
General reserve	40.4	615,832,590
Dividend etc.	40.5	1,072,670,479
Retained earnings	1,072,670,479	1,072,670,479
Basic earnings per share	41	5.15

Dated, Dhaka,
February 22, 2012

S. F. Ahmed & Co.
Chartered Accountants

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2.9.2 Preference Share Capital

Preference Shares are those share which give their holders an entitlement to a fixed dividend but which do not usually carry voting rights.

2.9.3 Share Premium

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

2.9.4 Statutory Reserve

Transfer to the Statutory reserve has been maintained @ 20% of Profit Before Tax in accordance with provisions of section 24 of the Bank Companies Act, 1991. This is mandatory until such reserve is equal to the paid up capital together with amount in the share premium account, after this is paid.

2.9.5 Revaluation Reserve

Revaluation reserve represents revaluation on Treasury Bond (HTF & HTM) in accordance with the DOS Circular No.-05, dated 26th May 2008.

2.9.6 Employee Benefits

Provident Fund (Defined Contribution Plan)

A "Defined Contribution Plan" is a post employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal contractual obligation to pay further amounts. Provident fund benefits are given to staff of the bank in accordance with the regulated Provident fund rules. The provisions of Income Tax, Large Tax Payers Unit, Dhaka has approved the Provident Fund as a recognized fund within the meaning of section (252) read with the commission of part - 9 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 of the employees' contribution to the fund. Interest earned from the investments is credited to the members' account on half yearly basis. Members are eligible to be both the contributors after 03 (three) years of continuous service from the date of their membership.

Gratuity Fund (Defined Benefit Plan)

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 6th March 2006. The fund is operated by a Board of Trustees consisting of 7 (seven) members of the bank. Employees are entitled to Gratuity benefits after minimum 25 (twenty five) years of service to 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 Fund is a "Defined Benefit" plan controlled by Gratuity Fund Management Board through the result of actuarial valuation of the fund. "BRAC Bank Employee Gratuity Fund" is a funded Gratuity Fund.

2.9.6.2 Other Employee Benefits

Security Fund

The objective of the fund to provide death or permanent disability benefits to its confirmed employees and on their families with a sum equal to 36 times of the last drawn basic salary to the nominee. The bank has contributed to this fund at a predetermined rate which is equal to the contribution of the employee. The bank pays staff per staff per year. There shall be at least 7 (seven) members of Management Committee to manage the fund. The Managing Director & CEO of the Bank will be the chairperson of this committee and other 6 members are nominated from the regular category staff.

Welfare Fund

The objective of the Employees' Welfare Fund is to provide regular category employees from Junior Officer to Senior Principal Officer of the BRAC Bank financial severe accidents during official job, extended illness (not less than 3 months), Education for Children, Marriage of children whose costs would not be affordable by the employee and which are not covered by any other means. All regular confirmed employees of the bank shall contribute monthly to the fund according to the designation. The sum subscribed monthly from salaries of employees shall be credited separately in an "Employee Welfare Fund" as a liability of the Bank. There shall be at least 7 (seven) Members Management Committee to manage the fund. The Managing Director & CEO of the Bank will be the chairperson of this committee and other 6 members are nominated from the regular category staff.

Hospitalization Insurance

The Bank has introduced a health insurance scheme to its confirmed employees and their respective dependants at rates provided in the health insurance coverage policy.

Incentive Bonus

BRAC Bank started an incentive bonus scheme for its employees. 3% of net profit before tax is given to the employees in every year as incentive bonus. This bonus amount is being distributed among the employees based on their performance. The bonus amount is paid annually, normally 1st quarter of the every following year and the costs are accounted for in the period to which it relates.

Annual leave

The provision for leave here represents the current outstanding liability to employees at the Balance Sheet date. Leave Pay Assistance is a non-recurring benefit for all permanent employees of the Bank who are entitled to annual leave. According to Bangladesh Bank policy all permanent employees have to avail 15 consecutive days of mandatory leave and LPA will be given in this leave period.

Subsidized Scheme - Staff Loan

Personal, house building and car loan is provided to the permanent staff at a subsidized rate. Criteria and details of these staff loan is given below:

Personal Loan: A permanent staff completing 1 year of service can avail personal loan taking approval from department head and head of HR.

House building Loan: A permanent staff completing 5 year of service can avail house building loan taking approval from department head and head of HR.

Car Loan: All staff at job grade from PO can avail staff car loan taking approval from department head and head of Credit.

2.11 Revenue Recognition

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 revenue is recognized on an accruals basis. Interest on loans and advances ceases to be taken into income when such advances are classified, kept in interest suspense account. Interest on classified advances is accounted for on a receipt basis.

Investment Income

Income on investments is recognized on an accruals basis. Investment income includes interest on Treasury bills, treasury bonds, zero coupon, shares, debentures and fixed deposit with other banks.

Income on Bills purchased & Discounted

Income on bills purchased & Discounted is recognized upon realization since there is no uncertainty as to its realization and accrued on a monthly basis.

Interest & fees receivable on credit cards

Interest & fees receivable on credit cards are recognized on an accruals basis. Interest and fees cease to be taken into income when the recovery of interest & fees is in error for over three months. Thereafter, interest & fees are accounted for on a cash basis.

Fees & Commission Income

The Bank earn fees & commission from a diverse range of services provided to its customers. This include fees & commission income arising from financial and other services provided by the bank including interest free credit cards, debit cards, passport endorsement, loan processing, student service, loan processing, loan syndication, locker facilities and SMS banking etc. Fees, & commission income arises on services rendered by the Bank are recognized on a realization basis.

Dividend Income on Shares

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

Gain or loss on sale of property, plant and equipment

The gain or loss on the disposal of premises and equipment is determined as the difference between the carrying amount of the assets at the time of disposal and the proceeds of disposal, and is recognized as an item of other income in the year in which the significant risks and rewards of ownership are transferred to the buyer.

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 an accruals basis.

2.12 Earning Per Share

Earning per Share (EPS) has been computed by dividing the basic earnings by the weighted average number of Ordinary Shares outstanding as on 31st December, 2011 as per Bangladesh Accounting Standard (BAS)-33 "Earning Per Share".

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.

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.

The basis of computation of number of shares is in line with the provision of BAS 33 "Earnings per share". The logic behind this basis is, that the bonus shares are issued to the existing shareholders without any consideration, and therefore, the number of shares outstanding is increased without an increase in resources generating new earnings. In contrast, other shares were issued against consideration in cash or in kind, and accordingly there is an increase in resources generating new earnings. Therefore, the total number of shares issued in 2011 has been multiplied by a time weighting factor which is the number of days the specific shares were outstanding as a proportion of total number of days in the period.

Diluted earnings per share

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

2.13 Statement of Liquidity

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

- a) Balances with other bank & financial institutions, money at call & short notice etc. are on the basis of their maturity term.
- b) Investments are on the basis of their residual maturity term.
- c) Loans & 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 & 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 & other liabilities are on the basis of their settlement.

2.14 Dividend

Dividend on ordinary shares are recognised as a liability and deducted from retained earnings when they are approved by the shareholders in the annual general meeting. Dividend on ordinary shares for the year that is recommended by the directors after the balance sheet date for approval of the shareholders at the Annual General meeting are disclosed in note 45-6 (a) to the Financial statements.

5.15 Reconciliation of Inter-bank/Inter-branch account
Books of accounts with regard to interbank (in Bangladesh and outside Bangladesh) are reconciled on a monthly basis and there are no material differences which may affect the financial statements significantly.

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

2.16 Compliance of Bangladesh Accounting Standard (BAS) and Bangladesh Accounting Standard (BFRS)

Accounting Standard (BAS)	Ref.	Status
Preparation of Financial Statements	BS-1	Applied
Cost of Sales	BS-2	Applied
Goodwill and Intangible Assets	BS-3	Applied
Events after Balance Sheet Date	BS-4	Applied
Income Taxes	BS-5	Applied
Investments	BS-6	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-7	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-8	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-9	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-10	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-11	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-12	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-13	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-14	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-15	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-16	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-17	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-18	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-19	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-20	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-21	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-22	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-23	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-24	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-25	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-26	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-27	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-28	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-29	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-30	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-31	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-32	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-33	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-34	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-35	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-36	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-37	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-38	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-39	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-40	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-41	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-42	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-43	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-44	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-45	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-46	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-47	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-48	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-49	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-50	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-51	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-52	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-53	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-54	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-55	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-56	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-57	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-58	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-59	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-60	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-61	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-62	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-63	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-64	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-65	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-66	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-67	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-68	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-69	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-70	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-71	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-72	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-73	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-74	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-75	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-76	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-77	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-78	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-79	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-80	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-81	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-82	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-83	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-84	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-85	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-86	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-87	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-88	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-89	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-90	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-91	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-92	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-93	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-94	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-95	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-96	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-97	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-98	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-99	Applied
Provision for Contingent Liabilities and Contingent Assets	BS-100	Applied

Reason for departure of BAS / BFRS:

The Bank management has followed the principles of BAS & BFRS consistently in the preparation of the financial statements to the extent as applicable to the bank. Some of these standards have not been complied with, as it is considered not applicable to or as what Bangladesh Bank has special guideline.

2.17 Regulatory & Legal Compliance
The Bank complied with the requirements of following regulatory & legal authorities:

- a) The Bank Complied Act, 1991
- b) The Companies Act, 1994
- c) Rules & Regulations issued by Bangladesh Bank.
- d) Securities and Exchange Rules 1997, Securities & Exchange Ordinance 1999, Securities & Exchange Act 1993, Securities and Exchange Commission IPO Rules 2006
- e) The Income Tax Ordinance, 1984
- f) The Value Added Tax Act, 1991

2.18 Risk Management

The possibility of losses, financial or otherwise is defined as risk. The assets and liabilities of BRAC Bank Limited 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. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. 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, Retail and Credit Cards have been formed which are entrusted with the duties of maintaining effective relationship with the customers, marketing of credit facilities, exploring new business opportunities etc. For transparency in the operations during the entire credit cycle, I. Credit Approval Team, II. Asset Operations Department, III. Recovery Unit, and IV. Asset Management have been set up.

In credit management process, 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. Asset Operations Department ensures compliance of all legal formalities, completion of all documentation, security of the proposed credit facility and fresh disburses the amount. The Sales Team reports to the Managing Director & CEO through their line; the Credit Division reports to the Managing Director & CEO, while the Asset Operations Department reports to the Deputy Managing Director & CEO. The above arrangement has not only ensured segregation of duties and accountability but also helps in minimizing the risk of compromise with quality of the credit portfolio.

2.18.1 Credit Risk Management

Credit risk is most simply defined as the potential that a bank borrower or counterpart will fail to meet its obligations in accordance with agreed terms and conditions. The goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. 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, Retail and Credit Cards have been formed which are entrusted with the duties of maintaining effective relationship with the customers, marketing of credit facilities, exploring new business opportunities etc. For transparency in the operations during the entire credit cycle, I. Credit Approval Team, II. Asset Operations Department, III. Recovery Unit, and IV. Asset Management have been set up.

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2.18.2 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, the 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 180 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 Office 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 Reuters' information, a voice screens recorder for recording deals taking place over the telephone. 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 a counter party, a dealer ensures they have knowledge about the counter party's dealing style, product mix and assess whether the customer is dealing in an appropriate manner.

2.18.3 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. Thus it is essential 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 the Bank's risk. The Asset Liability Committee (ALCO) of the bank monitors Balance Sheet risk and liquidity risks of the Bank.

Asset liability committee (ALCO) reviews the country's overall economic scenario, Bank's Liquidity position, ALM Rates, Interest Rate Risk, Capital Adequacy, Deposit Adequacy, Government Securities, F.E. Gap, Market Interest Rate, Loan loss provision adequacy and deposit and lending pricing strategy.

2.18.4 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 a Anti Money Laundering Policy. The purpose of the Anti Money Laundering Policy is to provide a guideline 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 reputational risks.

KYC procedures have 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.

2.18.5 Internal Control & 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. BRAC Bank follows the guideline stated in BRPD Circular No. 14 dated 23 October 2009 regarding "Guideline on Information and Communication Technology for Scheduled Banks" and BRPD Circular No. 21 dated 20 May 2010 "Guideline on 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 risk.

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 disaster 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 Business/Restore Plan.

2.18.7 Enterprise Risk Management (ERM)

BRAC Bank Limited, the fastest growing bank in Bangladesh, is concerned regarding the risks it faces, 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 the 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 SIS, Head of External Affairs and Head of Impaired Assets Management. Head of Risk Management chairs the committee.

The policy provides guidelines & templates to the respective departments and units for producing the information on risky and vulnerable areas for the organization. ERM scrutinize and analyze the information and parameterize it according to the sensitivity and vulnerability.

The ERM meet on 15th of every month. The committee discusses the various issues related to the monthly and quarterly reports and data center disaster units reports to Risk Management department in the prescribed forms by 7th of the current month. The units qualify the specific risk according to the matrix provided by Bangladesh Bank. The meeting is minuted, which is 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 being 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 risk areas.

Regarding the "Leading Key Risk Indicator" and DCFRA are developing gradually through inclusion and exclusion item.

2.19 Implementation of BASEL-III

To comply with international best practices and to make the Bank's capital more risk-sensitive as well as to make the Banking industry more sound and robust, Bangladesh Bank provided revised regulatory capital framework "Risk Based Capital Adequacy for Banks" which is effective from January 2009. According to the BRPD circular no-09 dated 31st December 2008 and subsequent updates on BRPD circular no-10, 12, 24, 35 dated 10th March 2010, 29th March 2010, 3rd August 2010 and 29th December 2010 following specific approaches are suggested for implementing BASEL-III:

- a) Standardized Approach for calculating Risk Weighted Assets (RWA) against Credit Risk;
- b) Standardized (Rule Based) Approach for calculating RWA against Market Risk; and

- c) Basic Indicator Approach for calculating RWA against Operational Risk.

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Section -Four :
Notes To Cash Flow Statement

