

BRAC Bank Limited
Notes to the Financial Statements
as at and for the year ended 31 December 2007

1. The Bank 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 36 branches, 91 zonal offices and 392 unit offices of SME.

The registered address of the Bank is 1 Gulshan Avenue, Gulshan 1, Dhaka 1212, Bangladesh.

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

The accounting policies set out below have been applied consistently (otherwise as stated) to all periods presented in these 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, related Bangladesh Bank Circulars, Bangladesh Accounting Standards (BAS), Bangladesh Financial Reporting Standards (BFRS), 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 28 January 2008.

2.2 Going concern

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

2.3 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 off to the nearest Taka.

2.4 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 recognized in the period in which the estimate is revised and in any future periods affected.

2.5 Materiality and aggregation

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

2.6 Foreign currency translations

Assets and liabilities in foreign currencies are translated into Taka at mid rates prevailing on the balance sheet date, excepts bill for collection, stock of travellers cheque and import bills for which the buying rates are used on the date of transactions.

Gains or losses arising from fluctuation of exchange rates are recognised in profit and loss account.

2.7 Accounting for provisions, contingent liabilities and contingent assets

As per BAS 37 "Provisions, Contingent Liabilities and Contingent assets", the Bank recognizes provisions only when it has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made

No provision is recognized for any possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank; or any present obligation that arises from past events and it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or a reliable estimate of the amount of obligation cannot be made.

Such obligations are recorded as Contingent Liabilities. These are assessed continually and only that part of the obligation for which an outflow of resources embodying economic benefits is probable, is provided for except in the extremely rare circumstances where no reliable estimate can be made.

Certain provisions on assets and liabilities are maintained in accordance with relevant Bangladesh Bank Circulars issued from time to time.

2.8 Taxation

2.8.1 Current tax

Provision for current income tax has been made @ 45% as prescribed in the Finance Ordinance 2007 on the taxable profit.

2.8.2 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 values for financial reporting purposes.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized (Note 12.5.2).

2.9 Cash and cash equivalents

For the purpose of presentation in the Cash flow statements, cash and cash equivalents includes cash in hand and cash at bank, highly liquid interest bearing investment/securities with original maturities of less than three months.

Cash flow statement is prepared in accordance with BAS-7 titled "Cash Flow Statements". Cash flows from operating activities have been presented at "Direct Method".

2.10 Investments

All investment securities are initially recognised at cost, including acquisition charges associated with the investment. Premiums are amortised and discount accredited, using the effective yield method.

Held to Maturity (HTM)

Investments which have "fixed or determinable payments" and are intended to be held to maturity are classified as "Held to Maturity". These investments are subsequently measured at amortised cost, less any provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium in acquisition. Any gain or loss on such investments is recognised in the profit and loss account when the investment is derecognised or impaired.

Held for Trading (HFT)

Investment classified in this category are acquired principally for the purpose of selling or repurchasing in short trading or if designated as such by the management. After initial recognition, investments are measured at present value and any change in the present value is recognised in the profit and loss account for the year in which it arises.

Value of Investments has been shown as under:

Government treasury bills (HFT)	At present value
Government treasury bills (HTM)	At present value
Government treasury bonds (HTM)	At present value
Zero coupon bonds	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

2.11 Loans and advances

2.11.1 Interest on loans and advances is calculated on daily product basis and charged and accounted for monthly and quarterly on accrual basis.

2.11.2 Provision for loans and advances is made based on the arrear equivalent month and reviewed by the management and instructions contained in Bangladesh Bank BRPD Circulars no. 16 dated 6 December 1998, 9 dated 14 May 2001, 9 and 10 dated 20 August 2005, 5 dated 5 June 2006, 8 dated 7 August 2007 and 10 dated 18 September 2007 respectively.

2.11.3 Interest is calculated on classified loans and advances as per BRPD Circular no. 16 of 1998, 9 of 2001 and 10 of 2005 and recognized as income on realization.

The classification rates are given below:

<u>Particulars</u>	<u>Rates</u>
General provision on:	
Unclassified loans & advances	1.00%
Small enterprise	2.00%
Consumer finance for house building loan and loan for professional setup	2.00%
Consumer finance other than house building loan and loan for professional setup including credit cards	5.00%
Special mention account	5.00%
Off balance sheet exposure	0.50%
Specific provision on:	
Substandard loans and advances	20.00%
Doubtful loans and advances	50.00%
Bad/loss loans and advances	100.00%

2.11.4 Loans and advances are written off to the extent that (i) there is no realistic prospect of recovery, and (ii) 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.

2.12 Leases

Leases, except lease of office premises, are classified as finance lease whenever, according to the terms of the lease, the lessor transfers substantially all the risks and rewards of ownership to the lessee.

2.12.1 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 7.3). 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.

2.12.2 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 are accounted for as assets & liabilities respectively of the company, and the interest elements are charged as expenses.

2.13 Fixed assets and depreciation

2.13.1 Fixed assets including premises, furniture and fixtures are presented at cost less accumulated depreciation.

2.13.2 Depreciation is charged on straight-line method. In case of acquisition of fixed assets, depreciation is charged in the following month of acquisition, whereas depreciation on fixed assets disposed off is charged up to 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%
IT equipments	20.00%
Motor vehicles	20.00%

Upto 31 December 2006, computer hardware and software were depreciated @ 33.33% and 10.00% respectively. Management of the Bank has decided to reclassify computer hardware and software as IT equipments and based on the useful life rate of depreciation has been fixed at 20.00%. Consequent to such reclassification and revision of rates of depreciation, there is a net incremental effect on the current year's profit and the carrying amount of fixed assets by Tk 23,875,053.

2.13.3 Gain or loss on sale of assets are recognized in profit and loss account.

2.13.4 Useful life and method of depreciation of fixed assets are reviewed periodically. If useful lives of assets do not differ significantly as it was previously estimated, bank management does not consider to revalue its assets by the meantime.

2.14 Retirement benefits to the employees

2.14.1 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 Taxpayers Unit (LTU), 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 1 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 to the fund. The bank also contributes equal amount to the fund. Contributions made by the bank are charged as expenses.

2.17 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 at 31 December 2007 as per Bangladesh Accounting Standard (BAS) - 33 "Earning Per Share" (Note 32).

2.17.1 Basic earnings

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

2.17.2 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 32.1).

2.17.3 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 audit.

2.18 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) Balance with other banks and financial institutions, money at call and on 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 lives.
- e) Other assets are on the basis of their adjustment.
- f) Borrowings 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.

2.19 Segment reporting

The bank has only one reportable business segments and the operation of the Bank is within the geographical territory of Bangladesh. Hence segment reporting in accordance with BAS-14 "Segment Reporting" is not applicable.

2.20 Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Bank's position at the balance sheet date are reflected in the financial statements. Events after the balance sheet date that are not adjusting event are disclosed in the notes when material.

2.21 Reconciliation of inter-bank/inter-branch account

Books of accounts with regard to inter-bank (in Bangladesh and outside Bangladesh) are reconciled on monthly basis. Material differences which may affect the financial statements significantly, are adjusted.

Unreconciled entries in case of inter-branch transactions as on the reporting date are not material (Note 9.3).

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BRAC Bank Limited
Details of Large Loan
as at 31 December 2007

Number of clients 18
Amount of outstanding advances (Taka) 3,364,237,984
Amount of classified advances (Taka) NIL
Measures taken for recovery (Taka) NIL

Client-wise breakup is as follows:

Sl. No.	Name of clients	Sanction (Taka)		Total	Outstanding (Taka) 2007			Outstanding (Taka) 2006
		Funded	Non Funded		Funded	Non Funded	Total	
1	Sufia Cotton Mills Limited	170,000,000	85,000,000	255,000,000	47,043,914	-	47,043,914	173,336,290
2	Yasmin Spinning Mills Limited	170,000,000	85,000,000	255,000,000	46,554,239	-	46,554,239	168,001,795
3	Aegis Cotton Mills Limited	125,000,000	130,000,000	255,000,000	43,269,941	-	43,269,941	120,420,891
4	Buro, Tangail	240,000,000	-	240,000,000	171,838,316	-	171,838,316	106,988,454
5	A M Energy Limited	50,000,000	-	50,000,000	48,417,765	9,429,200	57,846,965	68,408,483
6	International Leasing and Financial Services Limited (ILFS)	153,300,000	30,000,000	183,300,000	116,123,825	19,190,900	135,314,725	70,707,599
7	PHP NOF Continuous Galvanizing Mills Limited	300,000,000	160,000,000	460,000,000	170,519,293	-	170,519,293	10,149,923
8	Rising Spinning Mills Limited	147,000,000	200,000,000	347,000,000	48,115,692	150,135,500	198,251,192	142,715,545
9	Pran Food Ltd.	170,000,000	45,000,000	215,000,000	41,105,548	21,724,800	62,830,348	90,053,293
10	Industrial and Infrastructure Development Finance Company Limited (IIDFCL)	200,000,000	200,000,000	400,000,000	159,957,028	51,518,500	211,475,528	201,011,111
11	Navana Ltd.	50,000,000	-	50,000,000	17,957,847	-	17,957,847	27,504,875
12	Uttara Finance and Investments Limited	256,100,000	150,000,000	406,100,000	208,083,478	-	208,083,478	-
13	IDLC Finance Ltd.	370,000,000	50,000,000	420,000,000	237,028,027	-	237,028,027	-
14	T. K. Oil Refinery Limited & Shabnam Vegetable Oil Industries Ltd.	350,000,000	-	350,000,000	358,370,280	-	358,370,280	-
15	TM International (Bangladesh) Limited	340,000,000	500,000,000	840,000,000	420,797,054	-	420,797,054	-
16	Baizid Steel Industries Limited	170,000,000	150,000,000	320,000,000	100,935,840	29,566,100	130,501,940	-
17	GrameenPhone Ltd.	420,000,000	990,000,000	1,410,000,000	408,555,991	352,638,700	761,194,691	-
18	BSRM Steels Limited	100,000,000	-	100,000,000	85,360,206	-	85,360,206	-
	Total	3,781,400,000	2,775,000,000	6,556,400,000	2,730,034,284	634,203,700	3,364,237,984	1,179,298,259

2.22 Compliance of Bangladesh Accounting standard (BAS) and Bangladesh Financial Reporting Standard (BFRS)

Name of the BAS	BAS no.	Status
Presentation of financial statements	1	Applied
Inventories	2	Not applicable
Cash flow statements	7	Applied
Accounting policies, changes in accounting estimates and errors	8	Applied
Events after the balance sheet date	10	Applied
Construction contracts	11	Not applicable
Income taxes	12	Applied
Segment reporting	14	Not applicable
Property, plant and equipments	16	Applied
Leases	17	Applied
Revenue	18	Applied
Employee benefits	19	Applied
Accounting for Government grants and disclosure of Government assistance	20	Not applicable
The effect of changes in foreign exchanges rates	21	Applied
Borrowing costs	23	Not applicable
Related party disclosures	24	Applied
Accounting for investments	25	Applied
Accounting and reporting by retirement benefit plans	26	Not applicable
Consolidated and separate financial statements	27	Not applicable
Investments in associates	28	Not applicable
Disclosures in the financial statements of banks and similar financial institutions	30	Applied
Interest in joint ventures	31	Not applicable
Earnings per share	33	Applied
Interim financial reporting	34	Applied
Impairments of assets	36	Applied
Provisions, contingent liabilities and contingent assets	37	Applied
Intangible assets	38	Not applicable
Investment property	40	Not applicable
Agriculture	41	Not applicable

Name of the BFRS	BFRS no.	Status
Share based payment	2	Not applicable
Business combinations	3	Not applicable
Non-current assets held for sale and discontinued operations	5	Not applicable
Exploration for and evaluation of mineral resources	6	Not applicable

2.23 Regulatory and legal compliance

The bank complied with the requirements of following regulatory and legal authorities:

- a) The Bank Companies Act, 1991.
- b) The Companies Act, 1994.
- c) Rules and Regulations issued by Bangladesh Bank.
- d) The Securities and Exchange Rules 1987, The Securities and Exchange Ordinance 1969, The Securities and Exchange Commission Act 1993, The Securities and Exchange Commission (Public Issue) Rules 2006.
- e) The Income Tax Ordinance, 1984.
- f) The VAT Act, 1991.

2.24 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 objectives of which are the coordinated management of the Bank's assets and liabilities, current banking laws and regulations, as well 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.

2.24.1 Credit risk management

Credit risk is most simply defined as the potential that a bank borrower or counterparty 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 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 (i) Credit Approval team (ii) Asset Operations Department, (iii) Recovery Unit, and (iv) Impaired Asset Management have been set up.

In credit management process, sales teams of the above-mentioned business units inputs the details of customer into the system; 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 finally disburses the amount. The Sales team reports to the Managing Director and CEO through their line; the Credit division reports to the Managing Director and CEO, while the Asset Operations Department reports to the Deputy Managing Director. 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.

2.24.2 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' have separate and independent reporting lines not only to ensure segregation of duties and accountability but also to minimize the risk of the deal.

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.

2.24.3 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 emphasis has been 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, Foreign. Exchange gap, Market Interest Rate, Loan loss provision adequacy and deposit and lending pricing strategy.

2.24.4 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 a part of monitoring the 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.

2.24.5 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 Branches, SME Units and the Departments at Head Office as well. The Board Audit Committee reviews the reports of the Risk Management Department annually.

2.24.6 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 and 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
- b) User ID maintenance
- c) Input
- 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.

2.24.7 Enterprise risk management

BRAC Bank Ltd., one of the fastest growing banks in Bangladesh, is concerned regarding risky areas, which are being identified by the Risk Management department through Enterprise Risk Management Committee (ERMC).

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.

To identify vulnerable areas of the Bank

Appropriate planning to mitigate and minimize the risk.

To follow up and monitor on the overall position of the bank regarding mitigation and minimization of risky areas.

To upgrade the "Leading Key Risk Indicator" and Departmental Control Function Checklists (DCFCLs) to develop gradually through inclusion and exclusion of item.

Development of ERMC policy

The MANCOM approved the ERMC policy, which contains the guidelines for reporting to Risk Management Committee. The ERMC has twelve members: (i) Head of Risk Management, (ii) Managing Director & COO, (iii) Head of Retail, (iv) Head of SME, (v) Head of Credit, (vi) Head of Treasury, (vii) Head of Financial Administration, (viii) Head of HR, (ix) Head of Corporate Banking, (x) Head of SRS, (xi) Head of External Affairs, and (xii) Head of Impaired Assets Management. Head of Risk Management chairs the committee.

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

The ERMC 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.

2.25 Off balance sheet items

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

3. Cash

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
In hand:		
Local currency	488,755,091	357,099,608
Foreign currencies	22,974,920	8,864,028
	511,730,011	365,963,636
Balance with Bangladesh Bank and its agent bank:		
Local currency (statutory deposit)	2,247,676,941	1,113,370,103
Foreign currencies	333,654,194	693,053,700
	2,581,331,135	1,806,423,803
	<u>3,093,061,146</u>	<u>2,172,387,439</u>

- 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 Foreign Currency balances with Bangladesh Bank. CRR and SLR reserves maintained by the Bank are shown below:

3.1.1 Cash Reserve Requirement (CRR):	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
5% of Average Demand and Time Liabilities:		
Required reserve	1,593,369,150	1,120,511,667
Actual reserve held	<u>2,052,695,467</u>	<u>1,126,122,000</u>
Surplus/(deficit)	<u>459,326,317</u>	<u>5,610,333</u>

3.1.2 Statutory Liquidity Requirement (SLR):

13% of Average Demand and Time Liabilities:

Required reserve	4,142,759,790	2,913,330,333
Actual reserve held	<u>3,683,433,473</u>	<u>2,907,720,000</u>
Surplus/(deficit)	<u>(459,326,317)</u>	<u>(5,610,333)</u>
Total surplus/(deficit)	<u>-</u>	<u>-</u>

3.1.3 Held for Statutory Liquidity Ratio

Cash in hand	511,730,011	365,963,636
Balance with Bangladesh Bank and its agent bank(s) as per statement	2,093,533,814	1,163,620,000
Government securities	98,543,690	290,788,000
Government bonds	3,032,267,225	2,210,233,000
FC used in BDT	<u>54,200</u>	<u>3,237,364</u>
	<u>5,736,128,940</u>	<u>4,033,842,000</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

4. Balance with other banks and financial institutions

In Bangladesh (Note 4.1)	2,915,623,486	2,274,811,764
Outside Bangladesh (Note 4.2)	<u>170,449,420</u>	<u>60,389,066</u>
	<u>3,086,072,906</u>	<u>2,335,200,830</u>

4.1 In Bangladesh

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
On Demand Deposit accounts		
Standard Chartered Bank - Current account	25,000,172	829,128
Southeast Bank Ltd - Current account	3,052	3,052
	<u>25,003,224</u>	<u>832,180</u>
On Short Term Deposit (STD) accounts		
Southeast Bank Ltd.	196,068	728,872
ONE Bank Ltd.	906,749	434,207
Prime Bank Ltd.	1,000	1,000
Pubali Bank Ltd.	51,890,544	207,952,679
Janata Bank Ltd.	197,364,141	151,000,920
Bangladesh Krishi Bank	102,018,023	132,009,651
The City Bank Ltd.	16,925,637	25,307,117
Agrani Bank Ltd.	111,364,033	103,714,409
Islami Bank (BD) Ltd.	75,439,860	20,500,440
United Commercial Bank Ltd.	5,451,313	541,487
National Bank Ltd.	3,138,860	319,203
Sonali Bank Ltd.	54,736,897	68,731,391
The Oriental Bank Ltd.	89	359,359
AB Bank Ltd.	1,358	560,927
Rupali Bank Ltd.	34,613,720	31,817,922
Dhaka Bank Ltd.	5,571,970	-
First Security Bank Ltd.	1,000,000	-
	<u>660,620,262</u>	<u>743,979,584</u>
On Fixed Deposit accounts		
With banks:		
AB Bank Ltd.	-	100,000,000
Habib Bank Ltd.	100,000,000	100,000,000
Dhaka Bank Ltd.	200,000,000	-
Jamuna Bank Ltd.	-	200,000,000
First Security Bank Ltd.	70,000,000	100,000,000
Trust Bank Ltd.	100,000,000	-
Southeast Bank Ltd.	100,000,000	-
With financial institutions:		
Industrial & Infrastructure Development Finance Co. Ltd.	190,000,000	100,000,000
International Leasing & Financial Services Ltd.	100,000,000	150,000,000
Uttara Finance & Investment Ltd.	50,000,000	150,000,000
Fareast Finance & Investment Ltd.	110,000,000	30,000,000
Union Capital Ltd.	80,000,000	50,000,000
National Housing Finance Company Ltd.	50,000,000	-
Prime Finance & Investment Co. Ltd.	100,000,000	100,000,000
Premier Leasing & Financial Services Ltd.	100,000,000	-
Phoenix Leasing Company Ltd.	250,000,000	50,000,000
Industrial Promotion & Development Co. of Bangladesh Ltd.	-	100,000,000
Bangladesh Industrial Finance Company Ltd.	80,000,000	-
United Leasing Co. Ltd.	400,000,000	100,000,000
Delta Brac Housing Finance Corporation Ltd.	-	150,000,000
Lanka Bangla Finance Co. Ltd.	150,000,000	50,000,000
	<u>2,230,000,000</u>	<u>1,530,000,000</u>
	<u>2,915,623,486</u>	<u>2,274,811,764</u>

4.2 Outside Bangladesh

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
On Demand Deposit accounts (Non-interest bearing):		
Standard Chartered Bank-NY (USD)	10,230,935	1,715,906
Mashreq Bank NY (USD)	45,809	204,949
The Bank of Nova Scotia- Canada (CAD)	1,143,431	138,670
Citibank, NA (USD)	1,640,928	3,381,874
AB Bank Mumbai (ACU Dollar)	116,892	74,583
ICICI Mumbai (ACU Dollar)	736,873	1,181,410
Standard Chartered Bank-UK (GBP)	727,747	121,556
Hypo Vereins Bank Germany (EURO)	8,010,179	3,907,920
HSBC - NY (USD)	132,545,922	40,467,744
HSBC - UK (GBP)	10,792,494	7,285,997
HSBC - AUS (AUD)	439,850	459,596
HSBC - Pakistan (ACU)	44,957	250,374
HSBC - India (ACU)	107,249	232,195
Union DE Banques Arabes ET Francaises (JPY)	57,398	40,414
Westpack Banking Corporation, (AUD)	2,027,482	925,878
Zuercher Kantonal Bank, Zurich (CHF)	473,980	-
ING Belgium NV/SA (EURO)	397,701	-
Unicredito Italiano SPA (EURO)	700,832	-
Standard Chartered Bank -UK (EURO)	208,761	-
	<u>170,449,420</u>	<u>60,389,066</u>

Details are shown in Annexure - B.

4.3 Maturity grouping of balance with other banks and financial institutions

Up to one month	1,056,072,906	135,619,205
More than one month but not more than three months	550,000,000	669,581,625
More than three months but not more than one year	1,380,000,000	1,530,000,000
More than one year but not more than five years	100,000,000	-
More than five years	-	-
	<u>3,086,072,906</u>	<u>2,335,200,830</u>

5. Money at call and on short notice

Banking company	-	-
Non-banking financial institutions:		
Industrial Promotion and Development Co. of Bangladesh Ltd.	-	100,000,000
Fareast Finance & Investment Ltd.	-	30,000,000
Bangladesh Finance & Investment Co. Ltd.	50,000,000	-
United Leasing Company Ltd.	-	20,000,000
Investment Corporation of Bangladesh Ltd.	-	200,000,000
Phoenix Leasing Company Ltd.	-	80,000,000
International Leasing & Financial Services Ltd.	-	150,000,000
Industrial & Infrastructure Development Finance Co. Ltd.	50,000,000	20,000,000
	<u>100,000,000</u>	<u>600,000,000</u>

6. Investments	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Government securities (Note 6.1)	4,893,785,452	3,554,997,837
Others (Note 6.2)	103,071,265	213,014,234
	<u>4,996,856,717</u>	<u>3,768,012,071</u>
Investments in securities are classified as follows:		
Held for trading (HFT)	1,762,974,962	1,048,959,050
Held to maturity (HTM)	3,130,810,490	2,505,385,787
Other securities	103,071,265	213,667,234
	<u>4,996,856,717</u>	<u>3,768,012,071</u>
6.1 Government securities		
Treasury Bills (Note 6.1.1)	848,242,240	1,342,527,229
Treasury Bonds (Note 6.1.2)	4,045,314,912	2,211,817,608
Prize Bonds	228,300	653,000
	<u>4,893,785,452</u>	<u>3,554,997,837</u>
6.1.1 Treasury Bills		
28 days Treasury Bills	-	799,160,150
30 days Bangladesh Bank Bills	749,698,550	249,798,900
2 years Treasury Bills	-	19,152,304
5 years Treasury Bills	98,543,690	274,415,875
	<u>848,242,240</u>	<u>1,342,527,229</u>
6.1.2 Treasury Bonds		
Treasury Bonds (3 years TNT)	19,136,142	19,635,298
Treasury Bonds (5 years BGTB)	90,325,296	49,518,447
Treasury Bonds (10 years BGTB)	3,238,953,474	2,142,663,863
Treasury Bonds (15 years BGTB)	490,000,000	-
Treasury Bonds (20 years BGTB)	206,900,000	-
	<u>4,045,314,912</u>	<u>2,211,817,608</u>
6.2 Other investments		
Ordinary shares (Details are shown in Annexure - C)		
Industrial and Infrastructure Development Finance Co. Ltd.	10,000,000	10,000,000
Bank Asia Ltd.	230,000	230,000
Mercantile Bank Ltd.	270,000	270,000
Central Depository Bangladesh Ltd.	4,000,000	4,000,000
	14,500,000	14,500,000
Preference shares (Details are shown in Annexure - C)		
STS Holdings Ltd.	50,000,000	-
Debentures		
United Leasing Company Ltd.	-	100,000,000
Bonds		
Dutch Banqla Bank Ltd.	30,000,000	30,000,000
Zero Coupon Bonds		
Industrial and Infrastructure Development Finance Co. Ltd.	-	44,965,030
IDLC Finance Limited	6,273,895	18,374,875
United Leasing Company Ltd.	2,297,370	5,174,329
	<u>8,571,265</u>	<u>68,514,234</u>
	<u>103,071,265</u>	<u>213,014,234</u>

6.3 Maturity-wise grouping	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Up to one month	769,893,296	1,049,612,050
More than one month but not more than three months	49,444,488	213,014,234
More than three months but not more than one year	62,302,298	-
More than one year but not more than five years	175,382,818	362,721,924
More than five years	3,939,833,817	2,142,663,863
	<u>4,996,856,717</u>	<u>3,768,012,071</u>
 7. Loans and advances		
 Loans, cash credits, overdrafts, etc.:		
Overdrafts	1,893,173,564	1,622,104,860
Demand loans	2,421,193,520	993,364,955
Term loans	7,231,601,248	6,537,569,949
Lease finance (Note 7.3)	442,641,544	353,257,694
Small and medium enterprises	19,718,168,870	9,937,018,916
Credit cards	590,336,603	1,229,884
Staff loans	149,008,029	97,194,773
	<u>32,446,123,378</u>	<u>19,541,741,031</u>
Bills discounted and purchased (Note 7.14)	14,978,802	15,424,349
	<u>32,461,102,180</u>	<u>19,557,165,380</u>
 7.1 Net loans and advances		
Gross loans and advances	32,461,102,180	19,557,165,380
Less: Non-performing loans and advances (Note 7.8)	1,444,777,530	594,784,810
Interest suspense (Note 12.2)	236,131,399	117,853,867
Provision for loans and advances (Note 7.11)	1,315,076,042	646,426,378
	<u>2,995,984,971</u>	<u>1,359,065,055</u>
	<u>29,465,117,209</u>	<u>18,198,100,325</u>
 7.2 Maturity-wise grouping		
Repayable on demand	3,239,223,130	92,951,763
More than one month but not more than three months	4,918,858,256	404,242,161
More than three months but not more than one year	13,901,552,281	2,016,426,274
More than one year but not more than five years	10,314,818,765	13,700,432,989
More than five years	86,649,748	3,343,112,193
	<u>32,461,102,180</u>	<u>19,557,165,380</u>
 7.3 Lease finance		
Lease finance receivables within 1 year	232,032,407	190,281,648
Lease finance receivables within 1 to 5 years	210,609,137	162,976,046
	<u>442,641,544</u>	<u>353,257,694</u>
 7.4 Loans and advances under the following broad categories		
In Bangladesh:		
Loans	30,567,928,616	17,935,060,520
Overdrafts	1,893,173,564	1,622,104,860
	<u>32,461,102,180</u>	<u>19,557,165,380</u>
Outside Bangladesh	-	-
	<u>32,461,102,180</u>	<u>19,557,165,380</u>

7.5 Geographical location-wise grouping

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
In Bangladesh:		
Dhaka Division	20,396,894,258	12,817,231,916
Chittagong Division	5,745,692,989	3,437,994,762
Khulna Division	2,446,338,417	752,951,373
Sylhet Division	738,307,946	374,121,541
Barishal Division	718,926,857	572,399,054
Rajshahi Division	2,414,941,713	1,602,466,734
	<u>32,461,102,180</u>	<u>19,557,165,380</u>
Outside Bangladesh	-	-
	<u><u>32,461,102,180</u></u>	<u><u>19,557,165,380</u></u>

7.6 Significant concentration-wise grouping

Directors and others	-	-
Managing Director and CEO	5,500,929	5,768,819
Consumers	8,971,085,980	5,384,070,799
Industries:		
Agricultural loan	1,185,292,004	1,001,916,113
Large and medium enterprises	1,175,076,093	803,398,480
Commercial	20,738,740,007	11,691,306,625
Small and cottage	241,900,067	579,278,590
	23,341,008,171	14,075,899,808
Other advances (staff)	143,507,100	91,425,954
	<u>32,461,102,180</u>	<u>19,557,165,380</u>

7.7 Details of large loan

As at 31 December 2007 there was eighteen (2006: eleven) clients with whom amount of outstanding and classified loans and advances sanctioned exceeded 10% of the total capital of the Bank. Total capital of the Bank was Tk 3,792.47 million as at 31 December 2007 (Tk 2,496.29 million in 2006).

Details are shown in Annexure - D.

7.8 Grouping as per classification rules

Unclassified :		
Standard including staff loan	30,001,002,686	18,407,463,044
Special Mention Account	1,015,321,964	554,917,526
	31,016,324,650	18,962,380,570
Classified :		
Sub-standard	646,601,996	276,063,082
Doubtful	317,048,692	176,663,839
Bad/loss	481,126,842	142,057,889
	1,444,777,530	594,784,810
	<u>32,461,102,180</u>	<u>19,557,165,380</u>

7.9 Sector-wise allocation of loans and advances

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Government	-	-
Private:		
Agriculture, fishing, forestry and dairy firm	1,185,292,004	1,001,916,113
Industry (jute, textiles, garments, chemicals, cements, etc.)	1,175,076,093	803,394,480
Working capital financing	5,324,841,258	1,845,968,883
Export credit	1,691,032	-
Commercial credit	15,412,207,717	9,845,341,742
Small and cottage industries	241,900,066	579,278,590
Miscellaneous	9,120,094,010	5,481,265,572
	<u>32,461,102,180</u>	<u>19,557,165,380</u>

7.10 Securities against loans /advances including bills discounted and purchases

Collateral of moveable/immoveable assets	204,590,418	143,213,293
Local banks' and financial institutions' guarantee	-	-
Government guarantee	-	-
Foreign banks' guarantee	-	-
Export documents	-	-
Fixed deposit receipts (FDR)	2,939,385,923	2,396,196,223
FDR of other banks	-	-
Government bonds	-	-
Personal guarantee	29,297,262,197	17,002,858,132
Other securities	19,863,642	14,897,732
	<u>32,461,102,180</u>	<u>19,557,165,380</u>

7.11 Particulars of required provision for loans and advances

Status	<u>Base for provision</u> <u>Taka</u>		
For loans and advances:			
Unclassified - General provision			
Standard	30,001,002,686	604,473,802	361,474,865
Special Mention Account (SMA)	997,339,078	49,866,954	26,294,430
		654,340,756	387,769,295
Classified - Specific provision:			
Sub-standard	588,263,848	117,652,770	50,022,381
Doubtful	256,188,893	128,094,446	80,340,767
Bad/loss	372,416,575	372,416,575	116,554,342
		618,163,791	246,917,490
For off balance sheet items- General provision	1,999,393,721	9,996,969	-
Required provision for loans and advances and off balance sheet items		<u>1,282,501,516</u>	<u>634,686,785</u>
Total provision maintained (Note 12.1):			
For loans and advances		1,315,076,042	646,426,378
For off balance sheet items		12,500,000	-
		<u>1,327,576,042</u>	<u>646,426,378</u>
Excess provision		<u>45,074,526</u>	<u>11,739,593</u>

7.12 Particulars of loans and advances

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
i) Debts considered good in respect of which the bank is fully secured	2,939,385,923	2,805,360,805
ii) Debts considered good for which the bank holds no other security than the debtors' personal security	9,395,738,865	7,134,312,650
iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors	20,125,977,392	9,617,491,925
iv) Debts considered doubtful or bad, not provided for	-	-
	<u>32,461,102,180</u>	<u>19,557,165,380</u>
v) Debts due by directors or officers of the bank or any of them either severally or jointly with any other persons	149,008,029	97,194,773
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	211,475,528	-
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	149,008,029	97,194,773
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	211,475,528	-
ix) Due from banking companies	-	-
x) Classified loan for which interest/profit not charged		
(a) Increase/decrease of provision (specific)	339,802,202	133,266,164
Amount of debts written off	-	48,963,123
Amount realized against the debts previously written off	5,104,283	2,688,086
(b) Provision against the debt classified as bad/loss at the date of balance sheet	481,126,842	142,057,889
(c) Amount of interest charged in suspense account	236,131,399	117,853,867
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	-	48,963,123
- Cumulative to date	107,331,456	107,331,456
The amount of written off loans for which law suit filed	107,331,456	92,960,000

7.13 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.

7.14 Bills discounted and purchased

	<u>2007</u>	<u>2006</u>
	Taka	Taka
Payable in Bangladesh	14,978,802	15,424,349
Outside Bangladesh	-	-
	<u>14,978,802</u>	<u>15,424,349</u>

7.15 Maturity wise grouping of bills discounted and purchased

Up to one month	2,105,778	440,290
More than one month but not more than three months	3,127,924	9,761,420
More than three months but not more than one year	9,745,100	5,222,639
More than one year but not more than five years	-	-
More than five years	-	-
	<u>14,978,802</u>	<u>15,424,349</u>

8. Fixed assets including premises, furniture and fixtures

Cost:

Furniture and fixtures	270,229,512	118,705,566
Office equipments	161,405,055	79,297,762
IT equipments	691,167,957	249,422,162
Motor vehicles	17,597,061	10,207,061
Leased assets	99,996,639	99,996,639
	<u>1,240,396,224</u>	<u>557,629,190</u>
Less: Accumulated depreciation and impairment	297,466,938	168,254,058
Written down value at the end of the year	<u>942,929,286</u>	<u>389,375,132</u>

Details are shown in Annexure - E.

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

9. Other assets

Income generating other assets :

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Interest receivable (Note 9.1)	492,166,703	93,716,662
Prepaid interest expenses on Interest First Fixed Deposit (IFFD)	192,627,701	233,954,532
Receivable against Sanchaya Patra	2,811,653	11,259,682
Stock of travelers' cheque	5,721,141	2,753,258
Receivable from Omnibus	14,791,372	-
	708,118,570	341,684,134

Non income generating other assets

Stock of stamps	106,759	69,062
Other receivables (Note 9.2)	47,942,520	32,778,269
Stock of security stationery	6,676,310	2,827,566
Stock of printing stationery	12,401,040	7,919,282
Advance to staff and supplier	8,683,574	8,765,981
Deferred revenue expenditure	4,252,140	10,236,147
Advance payment of income tax	665,967,600	453,381,603
Advance to staff for mobile phone purchase	-	246,560
Advance to staff for motor cycle purchase	79,067,002	51,671,137
Advance to SME unit offices	1,444,000	-
Advance against fixed assets	9,590,170	59,241,644
Advance against office rent	145,811,379	50,691,395
Advance security deposit	5,855,500	1,181,000
Advance against - SWIFT	-	1,917,919
Advance for software migration	-	123,596,956
Advance to BRAC AFGAN Bank	-	252,196
Advance cash to Group-4 for ATM replenishment	2,000,000	16,000,000
Frauds, forgeries and operating loss	56,000	110,000
Interbranch account (Note 9.3)	477,619	22,936,037
* Leased assets - Premises	4,123,000	4,167,333
	994,454,613	847,990,087
	1,702,573,183	1,189,674,221

* 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 amortized over the term of the lease.

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

9.1 Interest receivable

Interest receivable consists of interest receivable on loans and investment.

9.2 Other receivables

Remittance in transit	6,536,733	12,196,912
Receivable against remittance	22,230,705	20,399,469
Receivable against bills pay	30,000	30,000
Receivable against DD	1,710,000	-
Receivable against Cheques	441,800	-
Account receivable - FCY (Unclaimed)	150,838	151,888
Receivable from Merchant	12,135,643	-
Reimbursement receivable	4,576,747	-
Receivable from member bank - Omnibus	129,531	-
Miscellaneous account	523	-
	47,942,520	32,778,269

9.3 Interbranch account

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Interbranch account - BDT (Note 9.3.1)	10,000	1,594,900
Interbranch account - FCY	-	(34,520)
Interdivision account	467,619	16,115,323
Spot exchange - BDT	-	(85,460,212)
Spot exchange - FCY	-	85,446,949
Forward exchange - BDT	-	77,876
Asset for distribution	-	5,500,000
Merchant POS settlement account	-	(304,279)
	<u>477,619</u>	<u>22,936,037</u>

9.3.1 Interbranch account - BDT

Interbranch account - Debit	10,000	10,267,380,276
Interbranch account - Credit	-	(10,265,785,376)
	<u>10,000</u>	<u>1,594,900</u>

Branch adjustment accounts represent outstanding inter-branch and head office transactions (net) which are originated but not responded by the counter transaction at the balance sheet date. The unresponded entries of 31 December 2007 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	-	-	-	-	-
3 months to less than 6 months	-	-	-	-	-
6 months to less than 1 year	1	-	10,000	-	10,000
1 year and more	-	-	-	-	-
	<u>1</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>

10. Borrowings from other banks, financial institutions and agents

	<u>Interest rate</u>	<u>Tenure</u>	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
In Bangladesh:				
Secured				
Refinance from Bangladesh Bank	5 % - 6%	3-5 years	-	432,974,167
Un secured				
Money at call and on short notice:				
Banking company:				
The City Bank Ltd.			-	100,000,000
Bangladesh Commerce Bank Ltd.			-	50,000,000
Pubali Bank Ltd.			-	130,000,000
Uttara Bank Ltd.			-	50,000,000
Agrani Bank Ltd.			-	150,000,000
Mutual Trust Bank Ltd.			-	50,000,000
State Bank of India			-	200,000,000
Premier Bank Ltd.			-	130,000,000
			-	860,000,000
Non banking financial institutions:				
Infrastructure Development Company Ltd.			-	40,000,000
			-	900,000,000
Term borrowing:				
Banking company:				
Trust Bank Ltd.			300,000,000	-
The City Bank Ltd.			500,000,000	-
Eastern Bank Ltd.			390,000,000	-
Janata Bank Ltd.			200,000,000	-
BASIC Bank Ltd.			200,000,000	-
Dutch Bangla Bank Ltd.			300,000,000	-
Mutual Trust Bank Ltd.			300,000,000	-
Premier Bank Ltd.			50,000,000	-
			2,240,000,000	-
			2,240,000,000	1,332,974,167
Outside Bangladesh				
			-	-
			2,240,000,000	1,332,974,167

10.1 Maturity wise grouping

Upto one month	1,240,000,000	954,574,000
More than one month but not more than three months	500,000,000	-
More than three months but not more than one year	500,000,000	-
More than one year but not more than five years	-	378,400,167
More than five years	-	-
	2,240,000,000	1,332,974,167

11. Deposits and other accounts

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Current deposits and other accounts	5,543,600,799	3,060,293,660
Bills payable (Note 11.2)	464,648,880	113,744,828
Savings bank deposits	3,985,564,159	2,936,582,930
Fixed deposits	27,307,976,282	16,742,577,461
Other deposits (Note 11.3)	66,617,653	148,722,810
	<u>37,368,407,773</u>	<u>23,001,921,689</u>

11.1 Maturity-wise grouping

Repayable on demand	1,549,331,168	1,917,628,229
Payable within one month	4,247,487,806	4,156,406,387
Over one month but within six months	13,964,393,523	8,939,450,712
Over six months but within one year	9,781,413,260	6,287,334,041
Over one year but within five years	6,882,081,634	1,205,191,686
Over five years but within ten years	943,700,382	495,910,634
	<u>37,368,407,773</u>	<u>23,001,921,689</u>

11.2 Bills payable

Local drafts issued and payable	-	70,042
Stamp charges realized from loan clients	5,194,207	1,554,182
Insurance premium collected from SME loan clients	60,596,311	26,147,231
Payment orders issued	327,961,901	83,667,987
Sundry creditors	2,435	67,721
Security deposits	55,633,344	1,900,088
Payable - cards	15,260,682	337,577
	<u>464,648,880</u>	<u>113,744,828</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

11.3 Other deposits

Foreign currency deposit	17,690,197	12,006,854
Sundry deposit (Note 11.3.1)	48,927,456	136,715,956
	<u>66,617,653</u>	<u>148,722,810</u>

11.3.1 Sundry deposit

Margin on FCC	-	7,124
Security money	8,971,162	3,561,503
SME loan installment and charges recovery	580,580	518,328
Margin on retail clients loans and advances	27,715,859	29,102,968
Non-resident non-convertible taka account	-	75,184,047
Non-resident foreign currency account	-	13,195,465
Merchant POS settlement account	239,046	-
Sundry deposits against client's lease finance	8,344,627	9,593,078
Other foreign currency liability	3,076,182	5,553,443
	<u>48,927,456</u>	<u>136,715,956</u>

12. Other liabilities

	<u>Notes</u>	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Provision for loans and advances	12.1	1,327,576,042	646,426,378
Provision for others		198,697	191,472
Interest suspense	12.2	236,131,399	117,853,867
Withholding tax payable	12.3	39,356,319	30,211,355
VAT payable	12.4	24,583,666	12,374,862
Provision for tax (including deferred tax)	12.5	1,046,088,132	542,593,774
Interest payable		722,329,667	404,036,335
Accrued expenses		157,990,261	82,909,684
Excise duty payable		20,447,207	28,475,735
Obligation under finance lease	12.6	4,485,369	22,290,815
Others		20,719,577	35,015,071
Share subscription - IPO (refund warrant)		(277,159)	1,561,242,801
Other bank cheque clearing account		19,335,721	21,649,606
Margin on L/C		76,244,081	53,393,078
Margin on L/G		6,949,992	1,061,347
		<u>3,702,158,971</u>	<u>3,559,726,180</u>

12.1 Provision for loans and advances

A. Specific			
Balance at the beginning of the year		267,327,584	134,061,420
Add: Provision made during the year		339,802,202	171,780,596
		<u>607,129,786</u>	<u>305,842,016</u>
Less: Write off during the year		-	38,514,432
Balance at the end of the year		<u>607,129,786</u>	<u>267,327,584</u>
B. General			
Balance at the beginning of the year		379,098,794	205,958,790
Add: Provision made during the year		328,847,462	173,140,004
Balance at the end of the year		<u>707,946,256</u>	<u>379,098,794</u>
C. Total provision on loans and advances (A+B)		1,315,076,042	646,426,378
D. General - Off balance sheet items			
Balance at the beginning of the year		-	-
Add: Provision made during the year		12,500,000	-
Balance at the end of the year		<u>12,500,000</u>	<u>-</u>
Total actual provision at the end of year (C+D)		<u>1,327,576,042</u>	<u>646,426,378</u>

12.2 Interest suspense

Balance at the beginning of the year	117,853,867	56,602,970
Add: Transferred during the year	452,016,112	221,420,602
	<u>569,869,979</u>	<u>278,023,572</u>
Less: Amount of interest suspense recovered	333,738,580	149,721,014
	<u>236,131,399</u>	<u>128,302,558</u>
Less: Write off during the year	-	10,448,691
Balance at the end of the year	<u>236,131,399</u>	<u>117,853,867</u>

12.3 Withholding tax payable

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Withholding tax payable on:		
Interest	33,019,991	19,553,809
Suppliers	2,719,688	3,905,107
Contractors and consultants	750,357	3,021,227
Staff salaries and allowance	2,356,481	2,964,076
Rent	91,928	173,558
Export on knitwear	111,288	96,738
Commission or fees paid	306,586	221,740
Export cash subsidy	-	275,100
	<u>39,356,319</u>	<u>30,211,355</u>

12.4 VAT payable

VAT payable on:		
L/C commission	233,115	178,129
Commission for remittance	79,220	862,292
Loan processing fees	5,773,241	2,636,630
Credit cards	1,878,580	150
Others	16,619,510	8,697,661
	<u>24,583,666</u>	<u>12,374,862</u>

12.5 Provision for tax

Current (Note 12.5.1)	1,122,005,918	498,511,560
Deferred (Note 12.5.2)	(75,917,786)	44,082,214
	<u>1,046,088,132</u>	<u>542,593,774</u>

12.5.1 Provision for current tax

Balance at the beginning of the year	498,511,560	246,289,944
Add: Provision for the year	<u>766,000,000</u>	<u>334,920,000</u>
	1,264,511,560	581,209,944
Less: Adjustment of tax provision for previous years	<u>142,505,642</u>	<u>82,698,384</u>
Balance at the end of the year	<u>1,122,005,918</u>	<u>498,511,560</u>

Assessment up to the income year ended 31 December 2006 corresponding to the assessment year 2007-2008 has been completed except for the year 2001 (assessment year 2002-2003). It 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.

Provision for current tax for the year 2007 includes tax provision of Tk 14,458,044 which falls short for the year 2006.

12.5.2 Provision for deferred tax

Balance at the beginning of the year	44,082,214	7,902,214
Add: Provision for deferred tax liability	<u>100,000,000</u>	<u>36,180,000</u>
	144,082,214	44,082,214
Less: Provision for deferred tax asset	<u>220,000,000</u>	<u>-</u>
Balance at the end of the year	<u>(75,917,786)</u>	<u>44,082,214</u>

During the year under review, an amount of Tk 120,000,000 (2006: Tk 36,180,000 deferred tax liability) has been adjusted as deferred tax asset.

12.6 Obligation under finance lease

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Furniture and fixture	2,875,882	11,986,942
Office equipments	429,867	2,993,378
IT equipments	1,179,620	6,707,571
Motor vehicles	-	602,924
	<u>4,485,369</u>	<u>22,290,815</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

13. Ordinary share capital

13.1 Authorized

20,000,000 ordinary shares of Tk. 100 each	<u>2,000,000,000</u>	<u>2,000,000,000</u>
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13.2 Issued, subscribed and paid up

10,000,000 ordinary shares of Tk 100 each	1,000,000,000	1,000,000,000
2,000,000 ordinary shares of Tk 100 each issued as bonus shares (1 : 5)	200,000,000	-
	<u>1,200,000,000</u>	<u>1,000,000,000</u>

Shareholding position was as follows:

	<u>2007</u>	<u>2006</u>
	No. of shares	Face value (Taka)
Sponsor		Face value (Taka)
BRAC	3,808,680	380,868,000
ShoreCap International Ltd.	1,050,840	105,084,000
International Finance Corporation (IFC)	1,139,760	113,976,000
Others	720	72,000
Non Sponsor		
Non Resident Bangladeshi	56,885	5,688,500
Mutual Funds	289,980	28,998,000
Institutions and general public	5,653,135	565,313,500
	<u>12,000,000</u>	<u>1,200,000,000</u>

Classification of shareholders by holding:

	No. of shareholders	No. of shares	Percentage of holding of shares
Less than 500 shares	17,932	1,482,660	12.36%
501 to 5,000 shares	1,029	1,117,390	9.32%
5,001 to 10,000 shares	42	274,640	2.29%
10,001 to 20,000 shares	19	271,090	2.26%
20,001 to 30,000 shares	4	104,700	0.87%
30,001 to 40,000 shares	2	72,110	0.60%
40,001 to 50,000 shares	2	86,760	0.72%
50,001 to 100,000 shares	3	205,440	1.71%
100,001 to 1,000,000 shares	10	2,385,930	19.88%
Over 1,000,000 shares	3	5,999,280	49.99%
	<u>19,046</u>	<u>12,000,000</u>	<u>100.00%</u>

14. Redeemable preference share capital

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
5,000,000 preference shares (9%, 5 years cumulative redeemable) of Tk 100 each	500,000,000	150,000,000

Breakup of shareholders are given below:

	<u>2007</u>		<u>2006</u>
	<u>No. of shares</u>	<u>Face value (Taka)</u>	<u>Face value (Taka)</u>
IDLC Finance Limited	500,000	50,000,000	50,000,000
United Leasing Company Ltd.	500,000	50,000,000	50,000,000
Green Delta Insurance Co. Ltd.	500,000	50,000,000	50,000,000
Trust Bank Ltd.	1,000,000	100,000,000	-
Prime Bank Ltd.	1,000,000	100,000,000	-
Bank Al-Falah Ltd.	1,000,000	100,000,000	-
Bangladesh Shilpa Bank	500,000	50,000,000	-
	<u>5,000,000</u>	<u>500,000,000</u>	<u>150,000,000</u>

14.1 Capital Adequacy Ratio

Calculated as per BRPD Circular no. 10 dated 24 November 2002, 1 dated 19 February 2007 and 5 dated 14 May 2007 issued by Bangladesh Bank.

Tier - I (core capital)		
Paid up capital	1,200,000,000	1,000,000,000
Share premium	350,000,000	350,000,000
Statutory reserve	504,071,923	251,204,796
Retained earnings	517,911,751	365,943,241
	<u>2,571,983,674</u>	<u>1,967,148,037</u>
Tier - II (supplementary capital)		
General provision maintained for:		
Unclassified loans and advances	707,946,256	379,098,794
Off Balance Sheet items	12,500,000	-
Redeemable preference share capital	500,000,000	150,000,000
Exchange equalization reserve	45,000	45,000
	<u>1,220,491,256</u>	<u>529,143,794</u>
Total capital	<u>3,792,474,930</u>	<u>2,496,291,831</u>
Total Risk Weighted Assets	<u>30,880,678,643</u>	<u>18,451,509,000</u>
Required Assets based on Risk Weighted Assets - 10% (2006: 9%)	<u>3,088,067,864</u>	<u>1,660,635,810</u>
Surplus	<u>704,407,066</u>	<u>835,656,021</u>
Capital Adequacy Ratio:		
On core capital - against standard of minimum 5% (2006: 4.5%)	8.33%	10.66%
On total capital - against standard of minimum 10% (2006: 9%)	12.28%	13.53%

14.2 Computation of Risk Weighted Assets

Particulars	Balance as at 31.12.07	Risk weighted factor	Risk weighted balance as at 31.12.07
Cash in hand and at banks :	(Taka in '000)		(Taka in '000)
a) Cash in hand and balance with banks	4,519,134	0%	-
a) Balances with other financial institutions - Private	1,660,000	20%	332,000
Money at call and on short notice	100,000	20%	20,000
Import and inland bills	14,979	100%	14,979
Advances:			-
a) Government	-	0%	-
b) Deposit money banks	-	20%	-
c) Other financial institutions - Private	1,217,834	50%	608,917
d) Major non-financial public enterprises	-	50%	-
e) Other non-financial public enterprises	-	50%	-
f) Local authorities	-	20%	-
g) Private sector	27,417,927	100%	27,417,927
Investment:			-
a) Presidency, PM's office, Parliament, etc.			-
i) Treasury Bills	4,893,557	0%	-
ii) Bangladesh Sanchaya Patra/DSC etc.	-	0%	-
iii) Prize Bonds	228	0%	-
iv) Other securities of Government	-	0%	-
b) Autonomous and Semi Autonomous Bodies	-	20%	-
c) Other financial institutions - Private	22,571	50%	11,286
d) Major non-financial public enterprises	-	50%	-
e) Other non-financial public enterprises	-	50%	-
f) Local authorities	-	20%	-
g) Private sector	50,000	100%	50,000
h) Deposit money banks	30,500	20%	6,100
i) Negotiable certificates of deposits	-	20%	-
j) 91 Days BB Bill	-	0%	-
Head office and interbranch adjustment	-	0%	-
Other Assets:			-
a) Contingent assets as per contra	494,988	50%	247,494
b) Fixed assets	947,052	50%	473,526
c) Valuation adjustments	-	50%	-
d) Expenditure account	-	0%	-
e) Others	1,698,450	100%	1,698,450
	<u>43,067,220</u>		<u>30,880,679</u>

15. Share premium

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
5,000,000 ordinary shares @ Tk 70 per share	<u>350,000,000</u>	<u>350,000,000</u>

Particulars of share premium as at 31 December:

	<u>2007</u>	<u>2006</u>
	<u>No. of shares</u>	<u>Value (Taka)</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

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Balance at the beginning of the year	251,204,796	58,396,570
Add: Adjustment in respect of earlier years	-	51,736,000
Restated balance at the beginning of the year	251,204,796	110,132,570
Add: Transferred from profit during the year	252,867,127	141,072,226
Balance at the end of the year	<u>504,071,923</u>	<u>251,204,796</u>

17. Retained earnings

Balance at the beginning of the year	365,943,241	224,490,340
Less: Adjustment in respect of earlier years:		
For 2004	-	22,200,000
For 2005	-	29,536,000
	-	51,736,000
Restated balance at the beginning of the year	<u>365,943,241</u>	<u>172,754,340</u>
Add: Net profit for the year	365,468,510	193,188,901
Less: Dividend on preference share	13,500,000	-
Less: Issue of bonus share	200,000,000	-
Balance at the end of the year	<u>517,911,751</u>	<u>365,943,241</u>

18. Income statement

Income:		
Interest, discount and similar income	5,321,401,584	3,189,776,361
Dividend income	5,087,381	2,559,909
Fees, commission and brokerage	615,150,562	355,854,613
Gains less losses arising from dealing in securities	-	-
Gains less losses arising from investment in securities	-	-
Gains less losses arising from dealing in foreign currencies	159,237,403	159,549,578
Income from non-banking assets	-	-
Other operating income	16,605,838	4,325,882
Profit less losses on interest rate changes	-	-
Nominal value of bonus share received	-	-
	<u>6,117,482,768</u>	<u>3,712,066,343</u>
Expenses:		
Interest, fees and commission	2,571,236,238	1,634,640,822
Losses on loans and advances	-	-
Administrative expenses	1,196,736,776	778,611,019
Other operating expenses	274,343,794	155,559,931
Depreciation and impairment on banking assets	129,673,434	92,847,544
	<u>4,171,990,242</u>	<u>2,661,659,316</u>
	<u>1,945,492,526</u>	<u>1,050,407,027</u>

19. Interest income

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Interest on loans and advances:		
Retail	805,959,899	643,523,534
Corporate	712,097,870	575,372,015
Lease finance	51,511,899	47,760,928
SME	2,952,692,810	1,520,110,900
Credit cards	24,874,544	1,127
Staff	8,096,006	5,487,755
Interest on money at call and on short notice	36,367,868	19,255,556
Interest on balance with other banks	41,745,682	19,773,579
	<u>4,633,346,578</u>	<u>2,831,285,394</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

20. Interest paid on deposits, borrowings, etc.

Interest on deposits	2,379,973,748	1,547,102,491
Interest on money at call and on short notice	51,387,078	58,041,836
Interest on local bank accounts	136,057,271	-
Interest on refinance from Bangladesh Bank	3,818,141	29,496,495
	<u>2,571,236,238</u>	<u>1,634,640,822</u>

21. Income from investment

Interest on treasury bills and bonds	436,067,916	243,258,512
Interest on debenture	7,416,667	10,000,000
Dividend on shares	5,087,381	2,559,909
Interest on fixed deposits with other banks	242,363,673	97,494,029
Interest on zero coupon bond	2,206,750	7,738,426
	<u>693,142,387</u>	<u>361,050,876</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

22. Commission, exchange and brokerage

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Commission from sale of Sanchaya Patra	856,789	616,604
Commission from issue of payment orders, DD & TT	4,610,762	2,039,233
Commission from issue of letter of guarantee	4,336,637	4,537,710
Commission from issue of letters of credit (Import & Export)	20,387,304	16,464,931
Commission on visa processing	6,746,932	5,781,404
Commission on Travelers Cheques	1,312,338	1,181,833
Commission on remittance	81,542,936	28,130,934
Other commission	671,478	-
Account activity fees	20,356,106	18,143,856
Import and export related fees	3,923,380	3,238,457
Fees and commission - Cards	27,252,102	71,071
Other fees (Note : 22.1)	10,371,531	13,185,143
Foreign exchange earnings	159,237,403	159,549,579
Relationship fees	68,331,031	52,367,670
Loan early settlement fees	28,274,769	2,956,314
Loan penal fees	7,060,495	18,566,714
Service charges for ATM card	54,288,917	29,816,272
Fund collection/transfer fees	4,281,844	67,362
Student service center fees	4,403,431	2,697,650
Service charge for - BUSINESS account - BDT	5,528,724	145,000
Cancellation fees	209,831	125,493
Cheque collection fees	942,076	801,072
Loan processing fees	259,461,149	154,919,890
	<u>774,387,965</u>	<u>515,404,192</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

22.1 Other fees

Passport endorsement fees	560,530	598,230
Charges for locker	2,482,025	1,284,419
Postage	394,090	118,180
DPS penal fees	266,863	1,277,588
Merchant service fees	-	240,926
Service charges realization	1,456,131	351,595
IOM service charge	2,206,925	933,100
Annual membership fees - Premium banking	684,400	619,500
Annual fees - SMS banking	57,510	-
Syndication arrangement fees	2,243,500	7,761,605
Omnibus fees	19,557	-
	<u>10,371,531</u>	<u>13,185,143</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

23. Rent, taxes, insurance, electricity etc.

Rent, rates and taxes	75,858,495	41,727,634
Insurance	14,939,443	12,275,985
Power and electricity	16,977,624	10,262,987
WASA and sewerage	1,676,822	919,530
	<u>109,452,384</u>	<u>65,186,136</u>

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
24. Postage, stamps, telecommunication, etc.		
Postage	16,399,404	11,668,053
Telegram, telex, fax and e-mail	20,527,292	17,111,707
Court fees and stamps	147,271	216,115
Telephone - Office	62,346,862	41,990,118
	<u>99,420,829</u>	<u>70,985,993</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

25. Stationery, printing, advertisement etc.

Stationery and printing	60,365,128	41,773,822
Security stationery	9,966,118	8,153,458
Advertisement	64,649,691	50,273,749
	<u>134,980,937</u>	<u>100,201,029</u>

26. Directors' fees and expenses

Directors' fees represent fees paid for attending board meetings, board audit committee meetings, board recruitment committee meetings @ Tk. 4,000 per director per meeting and travel and hotel accommodation expenses of foreign Director for attending the Board meetings.

Breakup of directors fees and expenses are:

Directors' fees	312,000	255,000
Traveling and others	87,144	536,093
	<u>399,144</u>	<u>791,093</u>

27. Depreciation on and repairs to bank's assets

Depreciation		
Furniture and fixture	14,224,865	8,514,304
Office equipment	21,531,027	11,577,111
IT equipments	73,687,634	47,460,226
Motor vehicles	2,424,462	1,950,434
Leased assets	17,805,446	23,345,469
	<u>129,673,434</u>	<u>92,847,544</u>
Repairs		
Transport	10,966,064	9,758,842
Office equipment	6,603,944	2,331,194
Computers	22,138,331	10,972,974
Premises	8,799,226	5,083,552
	<u>48,507,565</u>	<u>28,146,562</u>
	<u>178,180,999</u>	<u>120,994,106</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

28. Other expenses	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Transportation and conveyance	41,835,346	28,533,847
Fuel expenses	6,546,263	5,043,941
Traveling	30,440,431	14,874,557
Professional fees	4,807,018	2,530,055
Entertainment	1,189,887	899,305
Staff welfare	21,672,546	17,515,913
SWIFT	3,043,058	1,808,635
Business development	5,866,821	6,400,144
Books, news papers and periodicals	1,175,418	1,120,937
Donation and subscription	4,731,964	1,622,656
VAT and excise duty	14,540,674	145,112
Fraud, forgeries and operating loss	110,000	3,213,500
Staff training	2,954,471	11,763,054
Staff liveries	347,250	778,928
Staff recruitment	590,590	1,601,934
Bank charges	96,399,436	32,169,765
Finance charge on leased assets	4,736,384	5,329,515
Crockeries	552,388	561,577
IPO expenses	1,447,116	14,380,914
Documentation charges - CIB	8,116,245	3,211,240
Data verification charge	1,953,298	1,077,440
Credit card expenses	6,117,410	-
AGM expenses	4,959,456	-
Cash carrying charge	8,633,249	4,758,190
Miscellaneous	1,577,075	976,962
	<u>274,343,794</u>	<u>160,318,121</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

29. Provision for loans and advances

For classified loans and advances	339,802,202	171,780,596
For unclassified loans and advances	328,847,462	173,140,004
	<u>668,649,664</u>	<u>344,920,600</u>

30. Provision for off balance sheet items

As per BRPD Circular no. 10 dated 18 September 2007, general provision @ 0.5% is required to be maintained against off balance sheet exposures, converted into funded facilities. Hence Tk 12,500,000 has been provided as provision for off balance sheet items.

31. Provision for tax

31.1 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 766,000,000 (2006: 334,920,000) has been provided for as current income tax. Assessment up to the accounting year 2006 (assessment year 2007-2008) has been completed.

31.2 Deferred tax

Deferred tax is provided using the balance sheet method for timing differences arising between the tax base of assets and liabilities and their carrying values for reporting purposes as per Bangladesh Accounting Standards (BAS) 12. During the year under review, an amount of Tk 120,000,000 (2006: 36,180,000 deferred tax liability) has been recognised as net deferred tax assets.

32. Earnings per share

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
Profit after tax	618,335,637	334,295,236
Less: Preference dividend	18,431,507	13,500,000
Profit attributable for distribution to ordinary shareholders	599,904,130	320,795,236
Weighted average number of shares (Note 32.1)	10,916,667	10,916,667
Weighted average/adjusted earnings per share	<u>54.95</u>	<u>29.39</u>

32.1 Weighted average number of shares

10,000,000 shares held from 1 January 2007 to 15 July 2007	5,416,667	5,416,667
12,000,000 shares held from 16 July 2007 to 31 December 2007	5,500,000	5,500,000
	<u>10,916,667</u>	<u>10,916,667</u>

Earnings per share (EPS) for the previous year have been restated as per BAS 33: "Earnings per share". Since the bonus issue is an issue without consideration of cash, it is treated as if it had occurred prior to the beginning of 2007, the earliest period reported. Actual EPS for 2006 was Tk 63.31.

33. Contingent liabilities

Acceptances and endorsements	222,882,782	-
Import letters of credit - Sight	1,100,243,227	812,141,800
Import letters of credit - Usance	294,496,219	21,766,900
Import letters of credit - Back to Back	42,574,855	39,703,600
Letter of guarantee (Note 33.1)	269,968,985	216,575,186
FX deals	137,125,000	207,388,200
Bills for collection (Note 33.2)	69,227,653	-
Tax liability (Note 33.4)	3,367,206	3,367,206
Stock of travelers cheques (TC)	3,626,956	5,433,448
Stock of Govt. Sanchaya Patra	13,033,150	12,851,000
	<u>2,156,546,033</u>	<u>1,319,227,340</u>

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.

33.1 Letter of guarantee

Letter of guarantee (Local)	269,968,985	216,575,186
Letter of guarantee (Foreign)	-	-
Foreign counter guarantee	-	-
	269,968,985	216,575,186
Less: Margin	6,949,992	1,061,347
	<u>263,018,993</u>	<u>215,513,839</u>

Balance for which the Bank is contingently liable in respect of guarantee issued favouring:

Directors	-	-
Government	-	-
Banks and other financial institutions	-	-
Others	269,968,985	216,575,186
	269,968,985	216,575,186
Less : Margin	6,949,992	1,061,347
	<u>263,018,993</u>	<u>215,513,839</u>

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
33.2 Bills for collection		
Outward local bills for collection	25,025,300	-
Outward foreign bills for collection	44,202,353	-
Inward local bills for collection	-	-
Inward foreign bills for collection	-	-
	<u>69,227,653</u>	<u>-</u>

33.3 Irrevocable letter of credit

Letter of credit (Inland)	72,987,803	66,059,000
Letter of credit (General)	1,321,751,643	767,849,700
Back to Back L/C	42,574,855	39,703,600
	<u>1,437,314,301</u>	<u>873,612,300</u>
Less: Margin	<u>76,244,081</u>	<u>53,393,078</u>
	<u>1,361,070,220</u>	<u>820,219,222</u>

33.4 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 the 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. filed an appeal to the Supreme Court of Bangladesh, High Court Division for revision in this regard which is under process.

33.5 Significant concentration wise grouping

i) Documentary credits and short term trade related transactions	-	-
ii) Forward asset purchased and forward deposits placed	-	-
iii) Undrawn formal standby facilities, credit lines and other commitments		
Under one year	-	-
One year and over	-	-
iv) Other exchange contracts	-	-
v) Others	-	-
	<u>-</u>	<u>-</u>

34. General

34.1 Audit Committee

An audit committee was constituted by the Board of Directors of BRAC Bank in its 23rd meeting held on 2 March 2003. Subsequently, the Board of directors in its 74th meeting held on 15 January 2007 reconstituted the Audit Committee as under:

Sl. no.	Name	Status with the bank	Status with the committee	Educational qualification
1)	Mr. Muhammad A (Rumee) Ali	Director	Chairman	M.A. in Economics
2)	Mr. Md. Aminul Alam	Director	Member	M.Sc. in Physics
3)	Mr. Imran Rahman	Managing Director & CEO	Member	M.S.S. in Public Administration

During the period 31 December 2007, the Audit Committee of the Board conducted 6 (six) meetings in which among others, the following issues were discussed:

- Inspection report of Bangladesh Bank on Head office & Branch (Regarding AML).
- Inspection report of different Head Office departments, branches and SME Unit Offices conducted by the Bank's internal audit team from time to time.
- Inspection reports of Head Office, Motijheel Agrabad Branch conducted by BRAC Audit Team.
- IT policies of the Bank
- Small Enterprise Credit Policy.
- Impaired Asset Management policy
- Corporate Credit policy.
- Core risk management policies of the bank.

34.2 Related Party/(ies) Transactions

The bank carried out transactions with related parties in the normal course of business on an arm's length basis. As at 31 December 2007, the bank had following transactions with the 'Related Party/(ies)' as defined in the BRPD Circular no. 14 issued by the Bangladesh Bank on 25 June 2003:

Name of the Related Parties	Relationship	Nature of Transaction	Balance at year end (Taka)
BRAC	Enterprise in which directors have interest.	Deposits made with the bank	6,242,337,215
Delta Brac Housing Finance Corporation Ltd.	-do-	Deposits made with the bank	50,116,589
Industrial & Infrastructure Development Finance Co. Ltd.	Enterprise in which director has interest.	Loans and advances	211,475,528
		Money at call and on short notice	50,000,000

34.2.1 Name of Directors and the entities in which they have interest as director as at 31 December 2007:

Sl.	Name of directors	Status with the Bank	Name of the firms/companies in which they have interest	Educational qualification
1	Mr. Fazle Hasan Abed	Chairman	BRAC Industries Ltd. BRAC Karnafuli Tea Co. Ltd. BRAC Kaiyacherra Tea Co. Ltd. BRAC Banskhali Tea Co. Ltd. BRAC Kodala Tea Estate Ltd. Bangladesh Netting Factory Ltd. Industrial & Infrastructure Development Finance Company Ltd.	FCMA, London
2	Mr. Syed Humayun Kabir	Director	BRAC Industries Ltd. Renata Limited	B. Sc (Hons), DU
3	Mr. Quazi Md. Shariful Ala, FCA	Director	Delta Brac Housing Finance Corp. Ltd. Mobil Jamuna Lubricants Ltd.	Graduate in Economics from LSE. UK. FCA
4	Mr. Md. Aminul Alam	Director	Bangladesh Netting Factory Ltd. BRAC Karnafuli Tea Co. Ltd. BRAC Kaiyacherra Tea Co. Ltd. BRAC Banskhali Tea Co. Ltd. Delta Brac Housing Finance Corp. Ltd. BRAC Kodala Tea Estate Ltd.	M. Sc (Physics), DU
5	Mr. Muhammad A(Rume) Ali	Director	BRAC BDMail Network Ltd. Delta Brac Housing Finance Corp. Ltd. Palli Karma Sahayak Foundation	MA (Economics)
6	Mr. Mark A. Coffey	Director	Nil	Master of Business & Public Management. Brigham Young University, USA
7	Mr. Imran Rahman	Managing Director & CEO	Nil	M.S.S. in Public Administration

34.2.2 Significant contracts where bank is a party and wherein Directors have interest

Taka
Nil

34.2.3 Shares issued to Directors and executives without consideration or exercisable at discount

Nil

34.2.4 Lending Policies to related parties:

Lending to related parties is effected as per requirement of section 27(1) of the Bank Companies Act -1991.

Nil

34.2.5 Loan and advances to Directors and their related concerns:

Industrial & Infrastructure Development Finance Company Ltd.
Classification status

211,475,528
Unclassified

34.2.6 Business other than Banking business with any related concern of the Directors as per Section 18(2) of the Bank Companies Act 1991

Nil

34.2.7 Investment in the Securities of Directors and their related concern

34.3 Non banking assets

Nil

There is no non banking assets under the possession of the bank.

34.4 Capital expenditure commitments

The bank has capital expenditure amounting to Tk 10,858,210 contracted but not incurred or provided for as at 31 December 2007.

34.5 Claim not Acknowledged as Debt

There was no claim against the bank acknowledged as debt as at 31.12.2007.

34.6 Number of employees

The number of employees including contractually engaged for the whole year or part thereof who received a total remuneration of Tk. 36,000 per year and/or Tk 3,000 per month or above were 4,428 (2006: 3,047).

34.7 Post balance sheet events

The Board of Directors in its 87th meeting held on 28 January 2008 has recommended for bonus share at the ratio of 1:10 (one bonus share for every ten shares held) subject to the approval of the shareholders at the next Annual General Meeting.

The Board has also recommended to issue right share at the ratio of 1:5 (one right share for every five shares held) with premium of Tk 400 per share subject to the approval of the shareholders in the next Extra-Ordinary General Meeting and of the regulatory authorities.

34.8 Coverage of external audit

The external auditor of the Bank, M/s Rahman Rahman Huq, Chartered Accountants worked about 2,550 man hour. They have reviewed more than 80% of the Bank's risk weighted assets as at the Balance Sheet date.

34.9 Share trading

The bank started trading its ordinary shares in CDBL through DSE and CSE on 31 January 2007. The closing market price as at 31 December 2007 was Tk 1,612 at DSE and Tk 1,613 at CSE.

34.10 General

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

34.10.2 Highlights on the overall activities of the bank have been furnished in Annexure A.

BRAC Bank Limited
Highlights on the overall activities
as at 31 December 2007

Annexure - A

	<u>2007</u> <u>Taka</u>	<u>2006</u> <u>Taka</u>
1 Paid up capital	1,200,000,000	1,000,000,000
2 Total capital (core + supplementary)	3,792,474,930	2,496,291,831
3 Capital surplus/(deficit)	704,407,066	835,656,021
4 Total assets	46,382,595,418	30,011,815,073
5 Total deposits	37,368,407,773	23,001,921,689
6 Total loans and advances	32,461,102,180	19,557,165,380
7 Total contingent liabilities and commitments	2,156,546,033	1,319,227,340
8 Credit deposit ratio (%)	86.87%	85.02%
9 Percentage of classified loans against total loans and advances	4.45%	3.04%
10 Profit after tax and provisions	618,335,637	334,261,127
11 Amount of classified loans during the year	1,444,777,530	594,784,810
12 Provisions kept against classified loans	607,129,786	267,327,584
13 Provision surplus	45,074,526	11,739,593
14 Cost of fund	8.91%	8.47%
15 Interest earning assets	44,445,211,520	28,774,449,855
16 Non-interest earning assets	1,937,383,898	1,237,365,218
17 Return on investment (ROI) [PAT / (Shareholders equity + Borrowings)]	11.64%	9.69%
18 Return on assets (ROA) [PAT / Average assets]	1.62%	1.42%
19 Income from investment	693,142,387	361,050,876
20 Weighted average earning per share	54.95	29.39
21 Net income per share [PAT - Dividend on preference share) / No. of ordinary shares]	49.99	32.08
22 Price earning ratio (MPS / EPS)	29.33	-

Annexure - B

BRAC Bank Limited

Balance with other banks and financial institutions (Outside Bangladesh on Demand Deposit Accounts)
As at 31 December 2007

Name of Bank	A/C Type	2007			2006		
		FC amount	Exchange rate	Equivalent Taka	FC amount	Exchange rate	Equivalent Taka
Standard Chartered Bank - NY (USD)	CD	149,220.57	68.5625	10,230,935	24,844.76	69.065	1,715,906
Mashreq Bank - NY (USD)	CD	668.14	68.5625	45,809	2,967.46	69.065	204,949
The Bank of Nova Scotia - Canada (CAD)	CD	16,368.68	69.8548	1,143,431	2,339.11	59.283	138,670
Citibank, NA (USD)	CD	23,933.32	68.5625	1,640,928	48,966.46	69.065	3,381,874
AB Bank - Mumbai (ACU Dollar)	CD	1,704.90	68.5625	116,892	1,079.90	69.065	74,583
ICICI Mumbai (ACU Dollar)	CD	10,747.47	68.5625	736,873	17,105.74	69.065	1,181,410
Standard Chartered Bank-UK (GBP)	CD	5,345.00	136.1548	727,747	899.00	135.212	121,556
Hypo Vereins Bank Germany (EURO)	CD	80,578.17	99.4088	8,010,179	42,866.03	91.166	3,907,920
HSBC - NY (USD)	CD	1,933,213.08	68.5625	132,545,922	585,936.22	69.065	40,467,744
HSBC - UK (GBP)	CD	79,266.35	136.1548	10,792,494	53,885.61	135.212	7,285,997
HSBC - AUS (AUD)	CD	7,324.25	60.0539	439,850	8,472.80	54.244	459,596
Union DE Banques Arabes ET Francaises (JPY)	CD	95,680.00	0.5999	57,398	69,620.00	0.581	40,414
Westpack Banking Corporation, (AUD)	CD	33,761.04	60.0539	2,027,482	17,068.86	54.244	925,878
HSBC - Pakistan (ACU Dollar)	CD	655.71	68.5625	44,957	3,625.19	69.065	250,374
HSBC - India (ACU Dollar)	CD	1,564.25	68.5625	107,249	3,361.98	69.065	232,195
Mashreq Bank - UK (GBP)	CD	-	136.1550	-	-	54.244	-
Mashreq Bank - UK (EURO)	CD	-	99.4088	-	-	91.133	-
Standard Chartered Bank - UK (EURO)	CD	2100.00	99.4090	208,761	-	91.133	-
Zuercher Kantonal Bank, Zurich (CHF)	CD	7,952.50	59.6010	473,980	-	-	-
ING Belgium NV/SA (EURO)	CD	4,000.66	99.4090	397,701	-	91.133	-
Unicredito Italiano SPA (EURO)	CD	7,050.00	99.4090	700,832	-	91.133	-
Total				170,449,420			60,389,066

BRAC Bank Limited
Investment in Shares
as at 31 December 2007

Annexure - C

Sl. no.	Name of the company	Type of shares	Face value	No. of shares including bonus shares	Cost of holding	Average cost	Quoted rate per share as at 31.12.2007	Total market value as at 31.12.2007
<u>Quoted</u>								
1	Bank Asia Ltd.	A	100	5,347	230,000	43.01	521.75	2,789,797
2	Mercantile Bank Ltd.	A	100	6,326	270,000	42.68	419	2,650,594
<u>Unquoted</u>								
3	Industrial and Infrastructure Development Finance Co. Ltd.		100	182,160	10,000,000	54.90	-	-
4	Central Depository Bangladesh Ltd.		1,000,000	4	4,000,000	1,000,000	-	-
5	STS Holdings Ltd		10	5,000,000	50,000,000	10.00		
				5,193,837	64,500,000	1,000,151		5,440,391

BRAC Bank Limited
Schedule of fixed assets including premises, furniture and fixtures
as at 31 December 2007

Particulars	Cost			Rate of Dep. (%)	Depreciation and impairment				Written down value 31.12.2007
	Balance as at 01.01.07	Additions during the year	Disposal/ adjustment during the year		Balance as at 31.12.2007	Charged during the year	Disposal/ adjustment during the year	Balance as at 31.12.2007	
<u>Own assets</u>									
Furniture and fixture	118,705,566	153,785,056	2,261,110	10	12,936,620	14,224,865	452,222	26,709,263	243,520,249
Office equipments	79,297,762	82,207,293	100,000	20	17,972,961	21,531,027	8,333	39,495,655	121,909,400
IT equipments	249,422,163	441,745,794	-	20	56,961,705	73,687,634	-	130,649,339	560,518,618
Motor vehicles	10,207,061	7,390,000	-	20	2,676,949	2,424,462	-	5,101,411	12,495,650
	457,632,552	685,128,143	2,361,110	585	90,548,235	111,867,988	460,555	201,955,668	938,443,917
<u>Leased assets</u>									
Furniture and fixture	43,068,868	-	-	868	31,081,926	9,111,060	-	40,192,986	2,875,882
Office equipments	13,257,920	-	-	920	10,264,542	2,563,511	-	12,828,053	429,867
IT equipments	36,197,151	-	-	151	29,489,580	5,527,951	-	35,017,531	1,179,620
Motor vehicles	7,472,700	-	-	700	6,869,776	602,924	-	7,472,700	-
	99,996,639	-	-	639	77,705,824	17,805,446	-	95,511,270	4,485,369
As at 31 December 2007	557,629,191	685,128,143	2,361,110	224	168,254,059	129,673,434	460,555	297,466,938	942,929,286
As at 31 December 2006	278,801,296	284,037,361	5,209,467	190	76,809,521.00	92,847,544	1,403,006	168,254,058	389,375,132

Office equipment includes telephone sets which were depreciated @ 50% instead of 20% on other office equipments.

During the year 2006, the bank reconsidered their future requirements in relation to core banking software and have recognised an impairment in line with its planned replacement in the near term. The impairment loss worked out at Tk 22,214,367 out of which Tk 10,548,016 charged in 2006 and Tk 11,666,351 charged during the year.

An amount of Tk 22,541,830 paid as lease rental during the year. Principal amount of lease rental Tk 17,805,466 shown as depreciation and interest Tk 4,736,384 charged to profit and loss account.

Figures of previous year have been rearranged, wherever considered necessary, to conform the current year's presentation.