

BRAC Bank Limited
Notes to the Financial Statements
for the year ended 31 December 2005

1.0 Formation and Status of the Bank

BRAC Bank Limited is a scheduled commercial bank established under the Banking 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 03 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 04 June 2001 and accordingly, the Bank has started operations from 04 July 2001. At present the Bank has 18 (eighteen) branches, 51 Zonal Office of SME & 292 unit office of SME.

2.0 Significant Accounting Policies

2.1 Basis of Accounting

The financial statements have been prepared on a going concern basis under the historical cost convention in accordance with International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) known as Bangladesh Accounting Standards and the forms of financial statements as prescribed by Bangladesh Bank vide BRPD circular No. 14 dt. 25 June 2003.

2.2 Loans and Advances

- a) Interest on loans and advances is calculated on daily product basis, but charged and accounted for on monthly accrual basis.
- b) Provision for loans and advances is made based on the period and review by the management and instruction contained in Bangladesh bank BRPD Circulars No. 16 of December 06, 1998, 09 May 2001, 09 & 10 of August 20, 2005 .
- c) Interest is calculated on classified loans and advances as per BRPD circular No 16 of 1998, 09 of 2001 and 09 & 10 of 2005 recognized as income on realization.

2.3 Preliminary Expenses

Preliminary expenses represent expenses incurred prior to incorporation of the bank and were written off in the last year.

2.4 Pre-operating Expenses

These represent expenses incurred in between incorporation and start of operations and were amortized in the last year.

2.5 Fixed Assets & Depreciation

- a) Fixed assets have been shown at cost less accumulated depreciations
- b) Depreciation is charged on straight-line method. Depreciation on fixed assets has been charged in the following month of the acquisition. Depreciation on fixed assets disposed off has not been charged in the month of disposal.
- c) Leasehold premises are written-off over the term of lease agreement and as such amortization has been accounted for accordingly.

2.6 Investments

Value of Investments has been shown as under:

Government Treasury bills	At Face Value
Prize Bond & Other Bonds	At Cost Price
Shares & Debentures	At Cost Price

2.7 Lease Rental

Leasehold assets have been accounted for as operating lease and accordingly lease rentals have been charged to revenue.

2.8 Foreign Currency Transactions

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

2.9 Provisions and Accrued Expenses

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

2.10 Deferred Tax

The Banks accounted for deferred tax as per Bangladesh Accounting Standard (BAS) – 12. Deferred Tax is provided using liability method for temporary timing differences arising between tax base of assets and liabilities and their carrying value for financial reporting purposes. An appropriate proportion of provision has been considered in calculating temporary timing difference. Deferred tax is computed at the prevailing tax rate as per IT ordinance 1984.

2.11 Earning per share

Earning per Share (EPS) has been computed by dividing the basic earning by the number of Ordinary Shares outstanding as on 31st December, 2005 as per BAS-33 "Earning Per Share".

Basic earnings

This represents earnings for the year attributable to ordinary shareholders. As there was no preference dividend, minority interest or extra ordinary items, the net profit after tax 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 multiplied by a time weighted factor. The time weighted factor is the number of days the specific shares are outstanding as a proportion of the total number of days in the period.

2.12 Statement of Liquidity

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

- a) Balances with other 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 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 adjustment.

2.13 Retirement Benefit to the Employees

Provident Fund

Provident fund benefits are given to the staff of the bank in accordance with the registered Provident fund rules. The commissioner of Income Tax, Large Tax Payers Unit, Dhaka has approved the Provident Fund as a recognized provident fund within the meaning of section 2(52) read with the provisions of part - B of the First Schedule of Income Tax Ordinance 1984. The recognition took effect from 1st January 2003. The fund is operated by a Board of Trustees consisting of 11 (eleven) members of the bank. All confirmed employees of the bank are contributing 10% of their basic salary as subscription to 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 get both the contribution after 03 years continuous service from the date of their membership.

Gratuity

Gratuity fund benefits are given to the staff of the bank in accordance with the approved Gratuity fund rules. The fund is operated by a Board of Trustees consisting of 6 (six) members of the bank. Employees are entitled to gratuity benefit after completion of minimum five years of service in the Company. The gratuity is calculated on the basis of last basic pay and is payable at the rate of one month's basic pay for every completed year of service. We have applied for recognition of the fund and the approval procedure is under process.

2.14 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 receivable is recognized on accrual basis. Interest in 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.

Fees & Commission Income

Fees & commission income arises on services provided by the Bank recognized on a cash basis. Commission charged to customers on letters of credit and letter of guarantee are credited to income at the time of effecting the transactions.

Dividend income on Shares

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

Interest Paid and other expenses

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

2.15 Reconciliation of interbank/books of accounts

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

2.16 Risk management

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

These objectives are accomplished by setting in place a planning, control and reporting process, the key objective of which is the co-ordinated 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. a. Credit Risk Management, b. Foreign Exchange Risk Management, c. Asset liability Management, d. Prevention of Money Laundering and e. Internal Control & Compliance.

2.16.1 Credit Risk Management

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

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

In addition to the above Sales Teams of the above-mentioned business units book the customers; the Credit Division does through assessment before approving the credit facility. The risk assessment included borrower risk analysis, financial analysis, industry analysis, and historical performance of the customer. Loan Administration Department ensures compliance with all legal formalities, completion of all documentation security of the proposed credit facility and finally disburses the amount. The Sales team reports to the DMD through their line; the Credit division reports to Managing Director, while the Loan Administration reports to the Chief Operating Officer. The above arrangement has not only ensured segregation of duties and accountability but also helps minimize the risk of compromise with quality of the credit portfolio.

2.16.2 Foreign Exchange Risk Management

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

All treasury functions are clearly demarcated between treasury front office and back office. The front office is involved only in dealing activities and the back office is responsible for all related support and monitoring functions. Treasury front and back office personnel are guided as per Bangladesh Bank 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 to ensure segregation of duties and accountability but also helps minimize the risk of compromise.

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

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

2.16.3 Asset Liability Management

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

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

2.16.4 Prevention of Money Laundering

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

2.16.5 Internal Control & 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 & Inspection team under Risk Management undertakes periodical 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 & Inspection team the Monitoring team conducts surprise inspection at the Branch, SME Unit and the Departments at Head Office as well. The Board Audit Committee reviews the reports of the Risk Management Department periodically.

2.17 Off Balance Sheet Items

Under general banking transactions, liabilities against acceptance, endorsements, and other obligations and bills against which acceptance has been given and claims exists thereagainst, have been shown as Off Balance Sheet items.

2.18 Related Party/(ies) Transactions

i) As on December 31, 2005, the bank had no transactions with the 'Related Party/(ies)' as defined in the BRPD Circulars No. 14 issued by the Bangladesh Bank on 25 June 2003.

ii) Name of Directors and the entities in which they have interest as on December 31, 2005

Sl. No.	Name of Director	Status with The Bank	Name of the firms/companies in which they have interest	Educational Qualification
01	Mr. Fazle Hasan Abed	Chairman	BRAC Concord Lands Ltd. BRAC Industries Ltd. BRAC Karnafuli Tea Co. Ltd. BRAC Kaiyacherra Tea Co. Ltd. BRAC banskhali Tea Co. Ltd. Kodala Tea Estate Ltd. Bangladesh Netting Factory Ltd.	FCMA, London
02	Mr. Syed Humayun Kabir	Director	BRAC Industries Ltd.	B. Sc (Hons), DU
03	Mr. Faruq A Chowdhury	Director	Delta Brac Housing Finance Corp. Ltd.	B.A (Hons), English
04	Mr. Quazi M. Shariful Ala, FCA	Director	Delta Brac Housing Finance Corp. Ltd.	Graduate in Economics from LSE, UK. FCA
05	Mr. Aminul Alam	Director	Bangladesh Netting Factory Ltd. BRAC Karnafuli Tea Co. Ltd. BRAC Kaiyacherra Tea Co. Ltd. BRAC banskhali Tea Co. Ltd. Kodala Tea Estate Ltd.	M. Sc (Physics), DU
06	Mr. Paul D Christensen	Director	Nil	MBA, Cornell University, USA
07	Mr. M. Ehsanul Haque	Managing Director	Nil	M. A (Economics)

- iii) Significant contracts where bank is a party and wherein Directors have interest: Nil
- iv) Shares issued to Directors and executives without consideration or exercisable at discount Nil
- v) Lending Policies to related parties:

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

- vi) Loan and advances to Directors and their related concern: Nil
- vii) Business other than Banking business with any related concern of the Directors as per Section 18(2) of the Bank Companies Act-1991. Nil
- viii) Investment in the Securities of Directors and their related concern: Nil

2.19 Audit committee

An audit committee was constituted by the Board of Directors of BRAC Bank in its 23rd meeting held on March 02, 2003. Subsequently, the Board of directors in its 44th meeting held on September 20, 2004 reconstituted the Audit Committee as under:

Sl. No.	Name of Director	Status with the Bank	Status with the Committee	Educational Qualification
01	Mr. Syed Humayun Kabir	Director	Chairman	B.Sc
02	Mr. Aminul Alam	Director	Member	M.Sc
03	Mr. M. Ehsanul Haque	Managing Director	Member	M.A.

During the period December 31, 2005, the Audit Committee of the Board conducted 3 (three) meetings in which among others, the following issues were discussed:

- Reviewing the inspection report of Bangladesh Bank on Head Office., Agrabad, Motijheel and Gulshan branches.
- Reviewing the inspection report of different Head Office departments, Branches and SME Unit Offices conducted by the Bank's internal audit team from time to time.
- Reviewing the inspection reports of Head Office, Dhanmondi, Keranigonj and Beanibazar branch conducted by BRAC Audit Team.
- Reviewing the core risk management policies of the bank.

2.20 General

- a) Figures appearing in these accounts have been rounded off to the nearest Taka.
- b) Figures of previous year have been rearranged where ever considered necessary to conform the current year's presentation.