

Notes to the Financial Statements

4.7.2 Investments

Investments in Treasury bills, T&T bonds and Government bonds are accounted for in accordance with DOS Circular Letter No. 5, dated 26 May 2008 subsequently amended by DOS Circular Letter No. 5, dated 28 January 2009, which allow banks to use both Held to Maturity (HTM) and Held for Trading (HFT) securities for fulfillment of Statutory Liquidity Ratio (SLR) requirements.

In accordance with the requirements of the aforementioned circulars, amortised discount on HTM securities is recognised directly in equity as opposed to the profit and loss account previously. However, coupon interest on HTM securities continues to be recognised in the profit and loss account. Interest on HFT securities, including amortisation of discount, continues to be recognised in the profit and loss account.

Gain/(loss) arising from valuation of securities on 'Marking to Market' basis has been recognised as follows:

- i) Held to Maturity (HTM) securities - recognised in statement of changes in equity
- ii) Held for Trading (HFT) securities - recognised in Revaluation Reserve Account

All other investments are recorded at cost and income thereon is accounted for on accrual basis.

Reverse repo

When the Bank enters into a "reverse repo" arrangement, the arrangement is accounted for as an investment, and the underlying asset is not recognised in the Bank's financial statements.

4.8 Fixed assets including premises, furniture and fixtures

Items of fixed assets, other than land, are measured at cost less accumulated depreciation and impairment losses, as per BAS 16 Property, Plant and Equipment. Cost includes expenditures that are directly attributable to the acquisition of the asset. Land is carried at cost.

Subsequent costs

The cost of replacing part of an item of fixed assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The cost of day-to-day servicing of fixed assets are expensed when incurred.

Depreciation

Depreciation on premises other than freehold land, and other fixed assets, is recognised in profit or loss on a straight line basis over the expected useful economic life of the assets based on cost, or in the case of assets which have been revalued, on the revalued amount. The estimated useful lives for the current and comparative periods are as follows:

Freehold premises	50 years
Fixed equipment	3 to 15 years
Computer and office equipment	3 to 5 years
Furniture and fittings	3 to 15 years
Motor vehicles	5 years

Depreciation on additions to fixed assets is charged from the month in which such assets are capitalised, and adjustments to accumulated depreciation for disposals/write offs are made upto the month in which the relevant assets are disposed/written off.

4.9 Leased assets

In accordance with BAS 17 Leases, leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

4.10 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with Bangladesh Bank and balances held with other banks and financial institutions.

4.11 Deposits

Deposits are the Bank's principal source of debt funding. Deposits are initially measured at fair value and subsequently measured at amortised cost.

Repo

When the Bank enters into a "repo" agreement, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

4.12 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

4.13 Employee benefits

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under performance bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans - Provident fund

The Bank contributes to a locally registered provident fund scheme (defined contribution plan) for employees of the Bank eligible to be members of the fund in accordance with the rules of the provident fund constituted under an irrevocable trust. The fund is recognised by the National Board of Revenue (NBR).

Obligations for contributions to the provident fund are recognised as an expense in profit or loss when they are due.

Defined benefit plans - Gratuity fund

The Bank operates a funded gratuity scheme, which is of the nature of a defined benefits scheme, for its permanent employees. The fund has been formed under an irrevocable trust deed and is approved by the National Board of Revenue. It is managed by a Board of Trustees comprising of employees of the bank. Gratuity is payable at the rate of one month's salary last drawn for each completed year of service or any part thereof in excess of six months.

In accordance with the requirements of BAS 19 Employee Benefits, the Bank's net obligation in respect of its gratuity fund is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit method.

In respect of actuarial gains and losses that arise in calculating the Bank's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 percent of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the profit and loss account on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the profit and loss account.

When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

4.14 Cash flow statement

Cash flow statement has been prepared in accordance with the BAS 7 Cash Flow Statements under direct method as recommended in the BRPD circular No. 14 dated 25 June 2003 issued by the Banking Regulation & Policy Department of Bangladesh Bank.

5. Capital

In terms of the section 13(4) of the Banking Companies Act 1991 and Bangladesh Bank circular no. 10 dated 30 March 2003, the required value of the capital and reserves of the bank at the close of the business on 31 December 2008 is Tk 2,000,000,000 or 10% of risk weighted assets whichever is higher. Accordingly, the required value of the capital and reserves of the Bank at the close of the business on 31 December 2008 was Tk 7,439,589,804 (2007: Tk 6,393,601,188). The Bank's capital was greater than the amount required as above. The details of the capital as on 31 December 2008 are as follows:

	2008 Taka	2007 Taka
Total risk weighted assets	74,395,898,038	63,936,011,883
10% of risk weighted assets	7,439,589,804	6,393,601,188
Total capital held:		
Core capital (Tier - 1)		
Fund deposited with Bangladesh Bank	1,836,608,545	1,829,052,728
Profit and loss account balance	9,951,211,817	8,422,954,892
Actuarial gain	2,806,650	2,806,650
General reserve	735,905	735,905
	11,791,362,917	10,255,550,175
Supplementary capital (Tier - 2)		
General provision maintained against unclassified loans and advances	1,675,171,000	1,256,245,000
Exchange equalization account	48,592,024	48,592,024
Equity reserve - amortised discount on HTM securities	106,147,871	-
MTM gain / (loss) for HTM securities	19,794,923	155,842,183
	1,849,705,818	1,460,679,207
Total capital held	13,641,068,735	11,716,229,382
Surplus capital	6,201,478,931	5,322,628,194

5.1 Fund deposited with Bangladesh Bank (representing capital)

	2008 Taka	2007 Taka
The composition of head office assigned capital is as follows:		
Capital maintained in FCY (USD 22,222,950)	1,531,608,545	1,524,052,728
Amount transferred from retained profit in:		
1998	220,000,000	220,000,000
1999	85,000,000	85,000,000
	305,000,000	305,000,000
	1,836,608,545	1,829,052,728
6. Cash		
Cash in hand	1,114,490,750	1,173,399,820
Foreign currencies in hand	191,625,916	238,695,197
	1,306,116,666	1,412,095,017
Cash with Bangladesh Bank:		
Local currency	4,150,477,572	4,066,056,173
Foreign currencies	4,417,184,693	3,482,108,589
Foreign currency capital	1,531,608,545	1,524,052,728
	10,099,270,810	9,072,217,490
	11,405,387,476	10,484,312,507

As at 31 December 2008, an amount of Tk. 4,380,429,000 was held with Bangladesh Bank to meet the Cash Reserve Ratio (CRR) requirement which was included in cash.

7. Balances with other banks and financial institutions

	2008 Taka	2007 Taka
Inside Bangladesh:		
Current accounts - Sonali Bank Ltd.	202,357,884	144,786,808
Short term deposit accounts - Sonali Bank Ltd.	-	-
Fixed Deposit-The Hongkong and Shanghai Banking Corporation Ltd.	-	-
Fixed Deposit-Dhaka Bank Ltd.	120,000,000	100,000,000
Fixed Deposit-Sonali Bank Ltd.	-	1,000,000,000
Fixed Deposit-Standard Bank Ltd.	140,000,000	-
Fixed Deposit-Mutual Trust Bank Ltd.	150,000,000	-
Fixed Deposit-One Bank Ltd.	50,000,000	-
Fixed Deposit-BRAC Bank Ltd.	150,000,000	-
	812,357,884	1,244,786,808
Outside Bangladesh:		
Current accounts:		
Royal Bank of Canada, Toronto - CAD	719,453	1,437,231
Sevenska Handles, Stockholm - SEK	328,766	301,550
Nordea Bank Denmark A/S, Copenhagen - DKK	88,108	51,936
ANZ Banking Group, Melbourne - AUD	-	-
National Australia Bank Ltd., Melbourne - AUD	-	2,997,091
Union Bank of Switzerland - CHF	807,470	497,556
Nordea Bank Norge, Oslo - NOK	55,267	171,310
	1,999,064	5,456,674
	814,356,948	1,250,243,482

Please refer to Annexure - B for currency wise balances.

7.1 Residual maturity analysis of balance with other banks and financial institutions

	2008	2007
Maturity upto 1 month	204,356,948	150,243,482
Maturity within 1 to 3 months	610,000,000	1,100,000,000
Maturity within 3 to 12 months	-	-
Maturity within 1 to 5 years	-	-
Maturity over 5 years	-	-
	814,356,948	1,250,243,482

8. Money at call and short notice

	2008	2007
Eastern Bank Ltd.	50,000,000	-
Bank Asia Ltd.	50,000,000	-
	100,000,000	-

8.1 Money at call and short notice (Tenor-wise)

	2008	2007
Maturity on demand	100,000,000	-
Maturity upto 1 month	-	-
Maturity within 1 to 3 months	-	-
Maturity within 3 to 12 months	-	-
Maturity within 1 to 5 years	-	-
Maturity over 5 years	-	-
	100,000,000	-

9. Investments

	2008	2007
Government securities:		
Treasury bills	9,474,774,841	2,416,781,326
Bangladesh Bank bills	-	-
T&T Bonds	346,348,367	787,843,267
Bangladesh Government Treasury Bonds	6,569,474,173	8,051,836,946
	16,389,597,381	11,256,460,639
Prize bonds	2,613,500	2,194,400
Reverse repo:		
Reverse REPO-Mercantile Bank Ltd	-	500,000,000
Reverse REPO-South East Bank Ltd	-	500,000,000
	-	1,000,000,000
Shares of Central Depository Bangladesh Limited	18,000,000	18,000,000
	16,410,210,881	12,276,655,039

9.1 Classification of treasury bills, T&T bonds and Government bonds

	2008	2007
Held to Maturity (HTM)		
Treasury bills	2,016,820,355	1,374,981,692
Bangladesh Bank bills	-	-
T&T Bonds	346,348,367	738,491,225
Bangladesh Government Treasury Bonds	3,335,150,404	6,064,934,205
	5,698,319,126	8,178,407,122
Held for Trading (HFT)		
Treasury bills	7,457,954,486	1,041,799,634
Bangladesh Bank bills	-	-
T&T Bonds	-	49,352,042
Bangladesh Government Treasury Bonds	3,233,323,769	1,986,901,841
	10,691,278,255	3,078,053,517
	16,389,597,381	11,256,460,639

9.2 Tenor wise grouping of treasury bills, T&T bonds and Government bonds

	2008	2007
Treasury Bills (HTM)		
30 Days Bangladesh Bank Bills	-	-
28 Days Treasury Bills	-	877,570,439
91 Days Treasury Bills	706,140,275	147,817,542
182 Days Treasury Bills	-	323,617,638
1 Year Treasury Bills	1,310,680,080	25,976,073
2 Years Treasury Bills	-	-
	2,016,820,355	1,374,981,692
Treasury Bills (HFT)		
30 Days Bangladesh Bank Bills	-	-
28 Days Treasury Bills	-	316,897,220
91 Days Treasury Bills	4,864,497,921	147,832,150
182 Days Treasury Bills	2,078,495,987	107,262,983
1 Year Treasury Bills	514,960,578	469,807,281
2 Years Treasury Bills	-	-
	7,457,954,486	1,041,799,634
	9,474,774,841	2,416,781,326
Government Bonds (HTM)		
1 Year Bond	-	-
3 Years Bond	346,348,367	738,491,226
5 Years Bond	3,335,150,404	6,064,934,205
	3,681,498,771	6,803,425,431
Government Bonds (HFT)		
1 Year Bond	-	49,352,041
3 Years Bond	-	-
5 Years Bond	3,233,323,769	1,986,901,841
	3,233,323,769	2,036,253,882
	6,914,822,540	8,839,679,313
	16,389,597,381	11,256,460,639

9.3 Residual maturity grouping of treasury bills, T&T bonds and Government bonds

	2008	2007
On demand	-	-
Up to 1 month	7,862,145,289	1,813,734,989
Over 1 month but not more than 3 months	984,520,320	657,451,698
Over 3 months but not more than 1 year	1,464,876,988	396,242,502
Over 1 year but not more than 5 years	6,078,054,784	8,389,031,450
Over 5 years	-	-
	16,389,597,381	11,256,460,639

9.4 Treasury Bills and Government bonds

	2008 Taka	2007 Taka
Face value of Treasury Bill (including Bangladesh Bank bills)	9,520,000,000	2,425,000,000
Less : Unamortised amount of Treasury Bills	(44,247,852)	(8,915,886)
Add/(Less): MTM gain/(loss) from Treasury Bill - HFT	(709,331)	618,909
Add/(Less): MTM gain/(loss) from Treasury Bill - HTM	(267,975)	78,303
	9,474,774,842	2,416,781,326
Face value of Government Bond (Note 9.5)	7,300,000,000	9,411,070,000
Less : Unamortised amount of Government Bonds	(479,478,850)	(763,348,447)
Add/(Less): MTM gain/(loss) from Government Bond - HFT	54,443,569	36,193,880
Add/(Less): MTM gain/(loss) from Government Bond - HTM	39,857,820	155,763,880
	6,914,822,539	8,839,679,313
	16,389,597,381	11,256,460,639

9.5 Government bonds

Name of the bonds (Face value)	Coupon rate	2008	2007
3 Years T & T Bond	7.00	350,000,000	350,000,000
3 Years T & T Bond	7.00	-	-
3 Years T & T Bond	7.00	-	400,000,000
1 Year T&T Bond	7.00	-	50,000,000
5 Years Bangladesh Government Treasury Bond	10.82	-	120,000,000
5 Years Bangladesh Government Treasury Bond	10.65	-	200,000,000
5 Years Bangladesh Government Treasury Bond	10.65	-	100,000,000
5 Years Bangladesh Government Treasury Bond	10.69	-	36,000,000
5 Years Bangladesh Government Treasury Bond	10.65	-	200,000,000
5 Years Bangladesh Government Treasury Bond	7.50	-	250,000,000
5 Years Bangladesh Government Treasury Bond	7.50	-	250,000,000
5 Years Bangladesh Government Treasury Bond	7.50	-	250,000,000
5 Years Bangladesh Government Treasury Bond	7.50	250,000,000	250,000,000