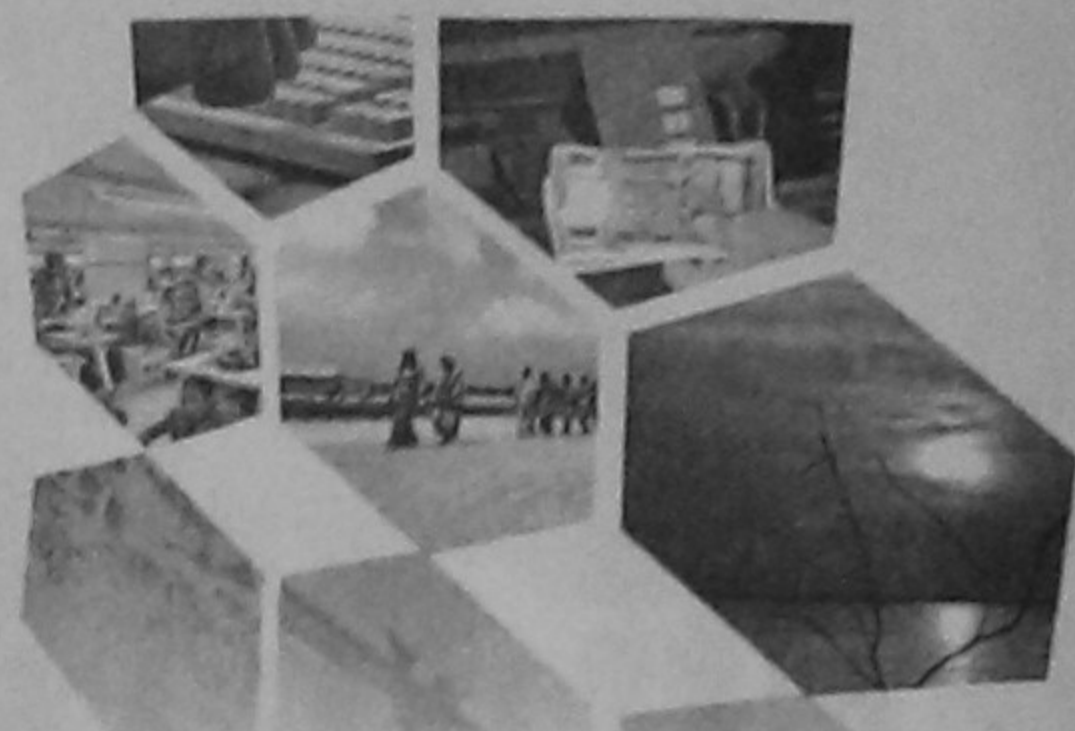




# Financial Statements 2008

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### 3.17 Risk management

Bangladesh Bank has identified 5 (five) core risks for management of the banks and has provided the necessary guidelines for implementation. The five core risks are:

- Credit risk
- Foreign exchange risk
- Asset liability risk
- Money laundering risk
- Internal control and compliance risk

The prime objective of the risk management is that the Bank takes calculated business risk to safeguard its capital, financial resources and growth of sustainable profitability. In this context, the Bank has formed a committee (MANCOM) to oversee proper implementation and regular monitoring of these critical areas.

### 3.18 Credit risk

Credit risk is one of the major risks faced by the Bank. This can be described as potential loss arising from the failure of a counter party to perform with agreed terms with the Bank. To assess and to mitigate the credit risk, the management has implemented Credit Risk Manual, which is considered an important tool for retaining the quality performance of the assets. Accordingly, Bank's credit risk management functions have been designed to address all these issues including risk that arises from global changes in banking, finance and related issues.

### 3.19 Foreign exchange risk

Foreign exchange risk is defined as the potential change in earnings arising due to unfavorable change in exchange rates. The foreign exchange risk of the Bank is minimal as all the transactions are carried out on behalf of the customers against LC, remittances and other remittance requirements. No speculative dealing on Bank's account was conducted during the year. Treasury front office conducts deal for commercial purpose and back office of treasury keeps record and passes entries in books of account. The main risk in treasury and foreign exchange business are exchange rates risk, fund management and liquidity risk. As per Bangladesh Bank's guidelines, the Treasury Department was operationally and physically divided into front office and back office to mitigate the risk. Separate telephone and fax lines were installed in the dealing room to meet Bangladesh Bank's guidelines.

### 3.20 Asset liability balance sheet risk

The Bank has an Asset Liability Committee (ALCO) which is responsible for managing short-term and long-term liquidity and ensuring that the Bank has adequate liquidity at all times at the most appropriate funding cost. ALCO reviews liquidity requirements of the Bank, maturity of assets and liabilities, deposit and lending pricing strategy and the liquidity contingency plan. The Asset Liability Committee also monitors Balance Sheet Risk. The Balance Sheet risk is defined as potential changes in earnings due to changes in rate of interest and exchange rates which are not of trading nature.

### 3.21 Money laundering risk

Money laundering risk is defined as the loss of reputation and expenses incurred as penalty for being negligent in prevention of money laundering. For mitigating the risks, the Bank has nominated a Chief Compliance Officer at Corporate Office and Branch Compliance Officers at branches, who independently review the accountancy transactions to locate and verify suspicious transactions. Know Your Customer (KYC) policy and Transaction Profile (TP) format have been introduced. The regulatory requirements are being complied with and the guidelines in respect of KYC are being followed for opening of new accounts. Training is being provided continuously to all the categories of executives and officers for developing awareness and skill for identifying suspicious activities.

### 3.22 Internal control and compliance risk

Operational loss may arise from errors, omissions, frauds and forgery due to lack of proper internal control and compliance culture. Management, through the Internal Control and Compliance Department, ensures controls over all operational areas of the Bank. Internal Control and Compliance Department undertakes periodical and special audit and inspection of the branches and departments at Corporate Office for identifying and reviewing the operational lapses and compliance of statutory requirements as well as Bank's own guidelines. The Audit Committee of the Board also reviews the Audit and Inspection reports of the Internal Control and Compliance Department. The Bank has introduced Risk Based Internal Audit (RIA) and audit rating over its branches from 2008 and prepared a comprehensive audit manual which has been approved for implementation by the Board of Directors.

### 3.23 Compliance with Bangladesh Accounting standard (BAS) and Bangladesh Financial Reporting Standard (BFRS)

Name of the standards	Ref.	Status
Presentation of Financial Statements	BAS-1	Applied
Inventories	BAS-2	Not Applicable
Statement of Cash Flows	BAS-7	Applied
Accounting policies, Changes in Accounting Estimates and Errors	BAS-8	Applied
Events after the Reporting Period	BAS-10	Applied
Construction Contracts	BAS-11	Not Applicable
Income taxes	BAS-12	Applied
Segment Reporting	BAS-14	Applied
Property, Plant and Equipment	BAS-16	Applied
Leases	BAS-17	Applied
Revenue	BAS-18	Applied
Employee Benefits	BAS-19	Applied
Accounting for Government Grants and Disclosure of Government Assistance	BAS-20	Not Applicable
The Effect of Changes in Foreign Exchange Rates	BAS-21	Applied
Borrowing cost	BAS-23	Applied
Related party Disclosures	BAS-24	Applied
Accounting and reporting by retirement benefit plans	BAS-26	Not Applicable
Consolidated and Separate Financial Statements	BAS-27	Not Applicable
Investment in Associates	BAS-28	Not Applicable
Disclosure in the financial statements of Banks and Similar Financial Institutions	BAS-30	Applied
Financial Instruments: Interest in Joint Ventures	BAS-31	Not Applicable
Earnings Per Share	BAS-33	Applied
Interim Financial Reporting	BAS-34	Not Applicable
Impairments of Assets	BAS-36	Applied
Provisions, Contingent Liabilities and Contingent Assets	BAS-37	Applied
Intangible Assets	BAS-38	Not Applicable
Investment property	BAS-40	Not Applicable
Agriculture	BAS-41	Not Applicable
First-time adoption of Bangladesh Financial Reporting Standards	BFRS-1	Applied
Shares Based Payment	BFRS-2	Not applicable
Business combination	BFRS-3	Not applicable
Non-current assets Held for Sale and Discontinued operations	BFRS-5	Not applicable
Exploration for and Evaluation of Mineral Resources	BFRS-6	Not applicable

### 3.24 Approval of financial statements

The financial statements were approved by the board of directors on 12 April 2009.

### 4 Cash

	2008 Taka	2007 Taka
<b>4.1 In hand</b>		
Conventional and Islamic banking:		
Local currency	272,894,568	210,245,464
Foreign currencies	6,839,430	9,469,240
Off-shore banking unit	279,733,998	219,714,704
<b>4.2 Balance with Bangladesh Bank and its agent bank</b>		
Conventional and Islamic banking:		
Balance with Bangladesh Bank (Local currency (statutory deposit))	2,048,283,837	1,591,130,818
Foreign currencies	594,818,711	399,688,818
Balance with agent bank (Sonal Bank Ltd.)	2,643,102,548	1,890,819,634
Local currency	45,572,587	-
Foreign currencies	45,572,587	-
Off-shore banking unit	2,688,675,135	1,890,819,634
	2,688,675,135	1,890,819,634
	2,963,408,133	2,101,534,338

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

### 4.3 Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR)

Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR) have been calculated and maintained in accordance with section 33 of Bank Companies Act, 1991 and BIRD 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 and its agent bank in local currency and 10% Statutory Liquidity Requirement, including CRR, on the same liabilities has also been maintained in the form of cash in hand, treasury bills, bonds and debentures. CRR and SLR reserves maintained by the Bank are shown below:

### 4.3.1 Cash Reserve Requirement (CRR):

5% of Average Demand and Time Liabilities:

	2008 Taka	2007 Taka
Required reserve	2,144,024,000	1,179,269,000
Actual reserve maintained	2,152,463,999	1,580,389,431
Surplus	8,439,999	401,120,431

### 4.3.2 Statutory Liquidity Ratio (SLR):

10% of Average Demand and Time Liabilities including 5% CRR:

	2008 Taka	2007 Taka
Required reserve (including CRR)	7,718,488,000	5,306,708,000
Actual reserve maintained (including CRR)	8,117,524,750	5,787,955,151
Surplus	399,036,750	481,247,151

### 4.3.3 Held for Statutory Liquidity Ratio

	2008 Taka	2007 Taka
Cash in hand	279,733,998	219,714,704
Balance with Bangladesh Bank and its agent bank(s) as per statement	2,152,463,999	1,580,389,431
Government securities	2,456,890,634	1,006,930,000
Government bonds	2,379,824,174	2,490,271,000
Other securities	850,807,385	471,807,000
	8,117,524,750	5,787,955,151

### 5 Balance with other banks and financial institutions

Conventional and Islamic banking (Note 5.1.1)

	2008 Taka	2007 Taka
Off-shore banking unit	1,094,542,411	853,807,924
Outside Bangladesh (Note 5.2)	301,474,087	278,856,222
Conventional and Islamic banking (Note 5.2.1)	8,827,000	-
Off-shore banking unit	310,301,087	278,856,222
	1,404,843,498	1,132,664,146

### 5.1 In Bangladesh

	2008 Taka	2007 Taka
<b>5.1.1 Conventional and Islamic banking</b>		
<b>Credit facilities</b>		
Agrani Bank Ltd.	6,109,831	3,658,424
National Bank Ltd.	5,023,332	44,903,794
NCC Bank Ltd.	1,650	2,800
United Commercial Bank Ltd.	9,092,446	8,087,564
The City Bank Ltd.	17,752,290	5,678,432
Sonal Bank Ltd.	500,000	-
Standard Chartered Bank	3,291,209	-
	41,767,758	62,332,034
<b>Short-term deposit accounts</b>		
Uttara Bank Ltd.	2,930,720	2,455,974
Mercantile Bank Ltd.	71,655	25,446
Jamuna Bank Ltd.	7,084,949	-
Islami Bank Bangladesh Ltd.	584,256	584,256
Dutch Bangla Bank Ltd.	2,153,073	-
	12,774,653	3,065,676

### Fixed deposit accounts

	2008 Taka	2007 Taka
<b>With banks</b>		
Win financial institutions:		
Industrial and Infrastructure Development Finance Company Ltd.	250,000,000	208,410,214
National Housing Finance and Investments Ltd.	100,000,000	150,000,000
Union Capital Ltd.	50,000,000	120,000,000
Phoenix Leasing Company Ltd.	200,000,000	100,000,000
Linka Bangla Finance Ltd.	100,000,000	100,000,000
Bangladesh Industrial Finance Company Ltd.	60,000,000	30,000,000
Oman Bangladesh Lease Finance	-	30,000,000
Bay Leasing & Investment Ltd.	60,000,000	-
International Leasing and Financial Services Ltd.	200,000,000	50,000,000
	1,040,000,000	788,410,214
	1,094,542,411	853,807,924

### 5.2 Outside Bangladesh

	2008 Taka	2007 Taka
<b>5.2.1 Conventional and Islamic banking</b>		
<b>Current account</b>		
Interest bearing:		
Standard Chartered Bank, New York	53,070,732	71,490,317
Citibank NA, London	888,805	83,303
Citibank NA, New York	568,851	29,691,634
Citibank NA, London	244,979	5,958,328
Maheshbank psc, New York	1,548,954	1,009,905
National Westminster Bank plc, London	3,399,484	437,900
Habib American Bank, New York	43,182,020	8,718,727
Standard Chartered Bank, Mumbai	25,579,881	11,570,799
	128,481,766	128,966,913
Non-Interest bearing:		
AB Bank Ltd., Mumbai	27,675,435	5,651,253
American Express Bank Ltd., New York	1,218,008	33,443,736
Credit Suisse First Boston, Zurich	68,323	317,660
Bank of Nova Scotia, Zurich	325,833	219,832
Commerzbank AG, Frankfurt	545,852	15,681,057
Habib Metropolitan Bank Ltd, Karachi	4,408,504	440,964
Hypo Vereinsbank, Munich	147,646	70,957
HSBC, New York	26,876,849	56,895,863
HSBC Australia Ltd, Sydney	278,821	218,304
ICICI Bank Ltd, Mumbai	74,060,732	1,254,672
Bhutan National Bank Ltd, Thimphu	8,428,000	2,989,500
Muslim Commercial Bank Ltd, Colombo	2,723,542	24,697,593
Muslim Commercial Bank Ltd, Karachi	9,724,800	6,991,600
Nepal Bangladesh Bank, Kathmandu	6,638,422	-
Wachovia Bank N.A, New York	2,816,621	-
UBAF, Tokyo	1,064,227	806,318
	172,992,321	149,589,309
	301,474,087	278,856,222

### 5.3 Maturity-wise grouping

	2008 Taka	2007 Taka
Up to 1 month	364,843,498	212,046,789
More than 1 month but not more than 3 months	-	132,007,143
More than 3 months but not more than 6 months	-	-
More than 6 months but not more than 1 year	1,040,000,000	788,410,214
More than 1 year but not more than 5 years	-	-
More than 5 years	1,404,843,498	1,132,464,146

### 6 Money at call and on short notice

	2008 Taka	2007 Taka
Banking company	-	307,646,799
Non-banking financial institutions:		
Industrial Development Leasing Company of Bangladesh Ltd.	-	27,504,543
International Leasing and Financial Services Ltd.	-	335,151,342

### 7 Investments

	2008 Taka	2007 Taka
Government (Note 7.1)	5,669,954,393	4,139,060,920
Others (Note 7.2)	463,859,956	64,128,955
	6,133,814,349	4,203,189,875

### 7.1 Government:

	2008 Taka	2007 Taka
Treasury bills (Note 7.1.1)	497,990,634	1,060,713,000
Treasury bonds (Note 7.1.2)	5,170,431,559	3,077,109,620
Price bond	1,532,200	1,184,300
	5,669,954,393	4,139,060,920

### 7.1.1 Treasury bills

	2008 Taka	2007 Taka
364 days treasury bills	497,990,634	471,651,207
2 years treasury bills	-	589,061,793
	497,990,634	1,060,713,000

### 7.1.2 Treasury bonds

	2008 Taka	2007 Taka
3 years T & T digital treasury bonds	454,022,175	96,880,150
3 years T & T mobile treasury bonds	379,075,110	382,130,305
5 years Bangladesh Government treasury bonds	2,314,835,222	636,720,124
10 years Bangladesh Government treasury bonds	1,731,088,952	1,654,602,702
15 years Bangladesh Government treasury bonds	291,400,000	306,776,339
	5,170,431,559	3,077,109,620

### 7.2 Others investments

Ordinary shares (Details are shown in Annexure-D)

	2008 Taka	2007 Taka
Quoted		
IFC Bank Limited	250,002,000	-
Unquoted		
Industrial and Infrastructure Development Finance Company Ltd.	10,000,000	10,000,000
Central Depository Bangladesh Limited (CDBL)	2,000,000	2,000,000
Era-Intellec Ltd	383,700	W383,700
	12,383,700	12,383,700
	262,385,700	12,383,700

### Debtentures

	2008 Taka	2007 Taka
Debtentures (10 years)		
Beimco Denims Ltd	15,327,628	15,872,627
Beimco Textiles Ltd	15,327,628	15,872,627
	30,655,256	31,745,254
Debtentures of House Building Finance Corporation	17,500,000	20,000,000
Membership of Dhaka stock exchange	153,219,000	-
	463,859,956	64,128,955

\*Stock dividend had previously been debited to investment account. An aggregate amount of Tk 8,216,000 has been adjusted with previous year's figure as per BAS-8

### 7.3 Investments classified as per Bangladesh Bank Circular:

	2008 Taka	2007 Taka
Held for trading (HFT)	2,877,614,808	589,061,793
Held to maturity (HTM)	2,808,307,385	3,548,780,826
Other securities	447,892,156	65,313,256
	6,133,814,349	4,203,189,875

### 7.4 Maturity-wise grouping