



# BASIC Bank Limited

*Serving people for progress*

A STATE OWNED SCHEDULED BANK

# Financial Statements 2011

## Note to the Financial Statements for the year ended 31 December 2011

### 1.1 Status of the Bank

The BASIC Bank Limited ("the Bank") was incorporated as a banking company under the Companies Act, 1913. In 2001 the Bank changed its earlier name ' Bank of Small Industries and Commerce Bangladesh Limited' and registered the new name with the Registrar of Joint Stock Companies. Initially the Bank started its operation as a joint venture enterprise of then BCC foundation, a welfare trust in Bangladesh and the Government of People's Republic of Bangladesh. On 4 June 1992 the Government of Bangladesh took over 70% shares held by the then BCC Foundation and became the sole owner of the bank. It operates with 45 branches in Bangladesh. The registered office of the company is located at 73 Motijheel C/A, Dhaka-1000.

#### 1.1.1 Objectives

The principal activities of the Bank is unique in blending development financing and commercial banking. The Memorandum and Articles of Association of BASIC Bank Limited stipulate that at least fifty percent of its loan able fund shall be used for financing Small and Medium Scale Industries.

### 1.2 Significant accounting policies and basis of preparation of financial statements

#### 1.2.1 Basis of accounting

##### Statement of compliance

The financial statements of the Bank are made up to 31 December 2011 and are prepared under the historical cost basis, except for the assets and liabilities which are stated at fair value and in accordance with the "First Schedule (Sec-38) of the Bank Companies Act, 1991, BRPD Circular # 14 dated 25 June 2003, BRPD Circular # 15 dated 09 November 2009 and DFIM Circular # 11 dated 23 December 2009, other Bangladesh Bank Circulars, International Accounting Standards and International Financial Reporting Standards adopted by the Institute of Chartered Accountants of Bangladesh titled as "BAS", Companies Act, 1994, the Securities and Exchange Rules 1987, Dhaka & Chittagong Stock Exchanges' listing regulations and other laws and rules applicable in Bangladesh. All Inter-branch account balances and transactions among the head office and the branch have been taken into accounts.

The accounting policies and methods of computation used in the preparation of the financial statements for the year ended 31 December 2011 are consistent with those adopted in Bangladesh.

#### 1.2.2 Use of estimates and judgments

In the preparation of the financial statements management required to make judgments, 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 on going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

#### 1.2.3 Foreign currency transaction

##### a) Foreign currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates, i.e. the functional currency. The financial statements of the Bank are presented in Taka which is the Bank's functional and presentation currency.

##### b) Foreign currencies translation

Foreign currency transactions are converted into equivalent Taka using the ruling exchange rates on the dates of respective transactions as per BAS-21" The Effects of Changes in Foreign Exchange Rates". Foreign currency balances held in US Dollar are converted into taka at weighted average rate of inter bank market as determined by Bangladesh Bank on the closing date of every month. Balances held in foreign currencies other than US Dollar are converted into equivalent US Dollar at buying rates of New York closing of the previous day and converted into Taka equivalent.

##### c) Commitments

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Taka terms at the rate of exchange ruling on the date of giving commitment or taking liability.

##### d) Translation gains and losses

The resulting exchange transaction gains and losses are included in the profit and loss account.

#### 1.2.4 Statement of cash flows

Statement of cash flows has been prepared in accordance with the Bangladesh Accounting Standard 7 " Statement of Cash Flows" 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.

#### 1.2.5 Liquidity statement

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

- Balance with other Banks and financial institutions, money at call and short notice, etc. are on the basis of their maturity term;
- Investments are on the basis of their respective maturity;
- Loans and advances / investments are on the basis of their repayment schedule;
- Fixed assets are on the basis of their useful lives;
- Other assets are on the basis of their realization / amortization;
- Borrowing from other Banks, financial institutions and agents, etc are as per their maturity / repayment terms;
- Deposits and other accounts are on the basis of their maturity term and past trend of withdrawal by the depositors;
- Provisions and other liabilities are on the basis of their payment / adjustments schedule.

#### 1.2.6 Reporting period

These financial statements cover one calendar year from 01 January 2011 to 31 December 2011.

#### 1.2.7 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### 1.3 Assets and basis of their valuation

#### 1.3.1 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bangladesh Bank and highly liquid financial assets which are subject to insignificant risk of changes in their fair value, and are used by the Bank management for its short term commitments.

#### 1.3.2 Loans, advances and lease / investments

a) Loans and advances are stated in the balance sheet on gross basis.

b) Interest is calculated on a daily product basis but charged and accounted for on accrual basis. Interest on classified loans and advances is kept in suspense account as per Bangladesh Bank instructions and such interest is not accounted for as income until realized from borrowers. Interest is not charged on bad and loss loans as per guidelines of Bangladesh Bank. Records of such interest amount are kept in separate memorandum accounts.

c) Commission and discounts on bills purchased and discounted are recognized at the time of realization.

d) Provision for loans and advances is made on the basis of year-end review by the management following instructions contained in Bangladesh Bank BCD Circular no. 34 dated 16 November 1989, BCD Circular no. 20 dated 27 December 1994, BCD Circular no. 12 dated 4 September 1995, BRPD Circular no. 16 dated 6 December 1998, BRPD Circular no. 9 dated 14 May 2001, BRPD Circular no. 02 of 15 February 2005, BRPD Circular no. 09 of 20 August 2005, BRPD Circular no. 17 dated 06 December 2005 and BRPD circular no. 32 dated 27 October 2010. The provision rates are given below:

Particulars	Rate
General provision on unclassified general loans and advances	1%
General provision on unclassified small enterprise financing	1%
General provision on unclassified loans for housing finance, loans for professional to set-up business and loans to share business	2%
General provision on unclassified consumer financing other than housing finance, loan for professionals and loans to share business	5%
General provision on special mention account	5%
Specific provision on substandard loans and advances	20%
Specific provision on doubtful loans and advances	50%
Specific provision on bad / loss loans and advances	100%

e) Loans and advances are written off to the extent that (i) there is no realistic prospect of recovery, (ii) and which have been classified as bad & loss for the last 05 years and for which 100 % provision have been kept as per BRPD circular # 02, dated January 13, 2003 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.

f) Amounts receivable on credit cards are included in advances to customers at the amounts expected to be recovered.

g) As per BRPD circular no. 5 dated 5 June 2006 & BRPD circular # 32, dated October 27, 2010 a general provision at 1% to 5% under different categories of unclassified loans (good/standard loans) has to be maintained. However such general provision cannot satisfy the conditions of provision as per IAS 37. At the year end the company has recognized an accumulated general provision of Tk. 596.17 million in the balance sheet under liabilities as per Bangladesh Bank's requirement.

#### 1.3.3 Investments

All investment securities are initially recognized at cost, being fair value of the consideration given, including acquisition charges associated with the investment. Premiums are amortized and discounts accreted, using the effective yield method and are taken to discount income. The valuation method of investments used are:

##### Held to Maturity (HTM)

Investments which have 'fixed or determinable payments', and are intended to be 'held to maturity', other than those that meet the definition of 'held at amortized cost-others' are classified as held to maturity. Investment (HTM)-BHBFC is shown in the financial statements at cost price.

##### Held for Trading (HFT)

Investments 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 fair value and any change in the fair value is recognized in the statement of income for the period in which it arises. These investments are subsequently revalued at current market value on weekly basis as per Bangladesh Bank Guideline. Revaluation gain has been shown in revaluation reserve account & revaluation loss has been shown in Profit & Loss account.

Value of investments has been enumerated as per DOS Circular no. 05 dated 26 May 2008 as follows:

Items	Applicable accounting value
Government treasury bonds-HTM	Amortized value
Government treasury bonds-HFT	Market value
Prize bond	At cost
House Building Finance Corporation Debenture	At redeemable value
Shares (private)	At cost or market value at the Balance Sheet date whichever is lower

##### Investment in listed securities

These securities are bought and held primarily for the purpose of selling them in future or hold for dividend income. These are reported at cost. Unrealized gains are not recognized in the profit and loss account. But provision for diminution in value of investment has been made properly.

##### Investment in unquoted securities

Investment in unlisted securities is reported at cost under cost method.

##### Other Investments

Other investments like HBFC debenture & prize bond are also eligible for SLR, HBFC debentures are valued at redeemed value & prize bond are shown at purchase value or face value.

As per BRPD circular no. 14 dated 25 June 2003 investments in quoted shares and unquoted shares are revalued at the year end at market price and as per book value of last audited balance sheet respectively. Provision should be made for any loss arising from diminution in value of investment as per DOS Circular # 04, dated 20 November 2011 of Bangladesh Bank, banks are allowed to kept provision by netting off unrealized gain or loss on the basic of market value of shares. As such the company measures and recognizes investment in quoted and unquoted shares at cost if the year end market value (for quoted shares) and book value (for unquoted shares) are higher than the cost. At the year-end the company's market value and book value of quoted and unquoted shares was higher than cost price by Tk. 22.55 crore. However as per requirements of BAS 39 investment in shares falls either under "at fair value through profit and loss account" or under "available for sale" where any change in the fair value at the year-end is taken to profit and loss account or revaluation reserve respectively.

According to DOS circular no. 05 dated 26 May 2008 and subsequent clarification in DOS circular no. 05 dated 28 January 2009 loss on revaluation of Government securities (T-bill/T-bond) should be charged in profit and loss account, and gain on such revaluation should be recorded under Revaluation Reserve Account. At the year end the company has accumulated revaluation gain for T-bonds. However as per requirement of BAS 39, such T-bills and T-bonds will fall under the category of "held for trading" and "held to maturity" where any change in the fair value of held for trading is recognized in profit and loss account, and amortized cost method is applicable for held to maturity using an effective interest rate.

#### 1.3.4 Property, plant and equipment

Property, plant & equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Bank and the cost of the assets can be reliably measured.

a) All fixed assets are stated at cost less accumulated depreciation as per BAS-16 " Property, Plant and Equipment". The cost of acquisition of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition.

b) The Bank recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company.

c) Depreciation is charged for the year at the following rates on reducing balance method on all fixed assets other than vehicles, software and all fixed assets of ATM related on which straight line depreciation method is followed:

Category of fixed assets	Rate	Method of Depreciation
Furniture and fixtures	10%	Reducing balance method
Machinery and Equipment	20%	Reducing balance method
Computer and Copier	20%	Straight line method
Vehicles (straight line)	25%	Straight line method
Leasehold buildings		Straight line method over the lease hold period

d) For additions during the year, depreciation is charged for the remaining days of the year and for disposal depreciation is charged up to the date of disposal.

e) On disposal of fixed assets, the cost and accumulated depreciation are eliminated from the fixed assets schedule and gain or loss on such disposal is reflected in the income statement, which is determined with reference to the net book value of the assets and net sale proceeds.

g) Leasehold floor area in Sholoshahar, Chittagong are treated as operating lease as the legal title of the floor area will not pass to the Bank at the end of the lease term thus the Bank has charged rentals to the income statement on a straight line basis over the lease term as per BAS 17.

#### 1.3.5 Intangible assets

a) An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably.

b) Software represents the value of computer application software licensed for use of the Bank, other than software applied to the operation software system of computers. Intangible assets are carried at its cost, less accumulated amortization and any impairment losses.

Initial cost comprises license fees paid at the time of purchase and other directly attributable expenditure that are incurred in customizing the software for its intended use.

c) Expenditure incurred on software is capitalized only when it enhances and extends the economic benefits of computer software beyond their original specifications and lives and such cost is recognized as capital improvement and added to the original cost of software.

d) Software is amortized using the straight line method over the estimated useful life of 5 (five) years commencing from the date of the application software is available for use over the best estimate of its useful economic life.

#### 1.3.6 Other assets

Other assets include all balance sheet accounts not covered specifically in other areas of the supervisory activity and such accounts may be quite insignificant in the overall financial condition of the Bank.

#### 1.3.7 Receivables

Receivables are recognized when there is a contractual right to receive cash or another financial asset from another entity.

#### 1.3.8 Inventories

Inventories measured at the lower of cost and net realizable value.

#### 1.3.9 Leasing

Leases are classified as finance leases whenever the 'terms of the lease' transfer substantially all the risks and rewards of ownership to the lessee as per BAS-17 " Leases". All other leases are classified as operating leases as per BAS-17 "Leases". Operating lease are rental agreements and all installments are charged to the income statement.

#### 1.3.10 Non-banking assets:

There are no assets acquired in exchange for loan during the period of financial statements.

#### 1.3.11 Reconciliation of inter-bank and inter-branch account

Accounts with regard to inter-bank (in Bangladesh and outside Bangladesh) are reconciled regularly and there are no material differences which may affect the financial statements significantly.

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

#### 1.4 Share capital

Ordinary shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

#### 1.5 Statutory reserve

Bank Companies Act, 1991 requires the Bank to transfer 20% of its current year's profit before tax to reserve until such reserve equals to its paid up capital.

#### 1.6 Deposits and other accounts

Deposits by customers and banks are recognized when the Bank enters into contractual provisions of the arrangements with the counterparties, which is generally on trade date, and initially measured at the consideration received.

#### 1.7 Borrowings from other banks, financial institutions and agents

Borrowed funds include call money deposits, borrowings, re-finance borrowings and other term borrowings from banks. They are stated in the balance sheet at amounts payable. Interest paid / payable on these borrowings is charged to the income statements.

#### 1.8 Basis for valuation of liabilities and provisions

##### 1.8.1 Provision for current taxation

Provision for current income tax has been made as per prescribed rate in the Finance Ordinance, 2011 on the accounting profit made by the Bank after considering some of the add backs to income and disallowances of expenditure as per income tax laws in compliance with BAS-12 " Income Taxes".

##### 1.8.2 Provision for deferred taxation

Deferred tax liabilities are the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amount of income taxes recoverable in future periods in respect of deductible temporary differences.

##### 1.8.3 Benefits to the employees

The retirement benefits accrued for the employees of the Bank as on reporting date have been accounted for in accordance with the provisions of Bangladesh Accounting Standard-19, "Employee Benefit". Bases of enumerating the retirement benefit schemes operated by the Bank are outlined below:

##### a) Provident fund

Provident fund benefits are given to the permanent employees of the Bank in accordance with Bank's service rules. Accordingly a trust deed and provident fund rules were prepared. The Commissioner of Income Tax, Taxes Zone - 8, 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 30 September 1995. The Fund is operated by a Board of Trustees consisting at least five members. 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. Interest earned from the investments is credited to the members' account on yearly basis.

##### b) Gratuity fund

The Bank made a provision of gratuity fund at the discretion of the management to provide an employee with financial benefit on his ceasing the Bank's service or in the event of his death to his legal heirs/nominees or successors, in respect of which provision is made annually covering all its permanent eligible employees.

##### c) Benevolent Fund

The benevolent fund is subscribed by monthly contribution of the employees. The Bank also contributes to the fund @ 0.5% of profit at the end of the year. The fund is established to sanction grant in the event of death on duty, permanent disabilities of the employees and to provide financial assistance for marriage of his/her dependants.

##### d) Superannuation Fund

The Bank operates a contributory superannuation fund to give benefit to employees at the time of retirement and also cover group term life insurance. Employees are contributing to the fund monthly and the Bank also contributes a lump sum amount from the profit at the end of the year.

##### e) Welfare fund

The Bank has been maintaining a welfare fund from profit each year. This fund is utilized for various social activities as part of corporate social responsibility of the Bank.

#### 1.8.4 Provision for liabilities

A provision is recognized in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligations, in accordance with the BAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

#### 1.8.5 Provision for Off-balance sheet exposures

Off-balance sheet items have been disclosed under contingent liabilities and other commitments as per Bangladesh Bank guidelines. As per BRPD Circular # 10 dated 18 September 2007, banks are advised to maintain provision @1% against off-balance sheet exposures (L/C and Guarantee) in addition to the existing provisioning arrangement.

#### 1.8.6 Provision for nostro accounts

As per instructions contained in the circular letter no. FEPD (FEMO) / 01 / 2005-677 dated 13 September 2005 issued by Foreign Exchange Policy Department of Bangladesh Bank, Banks are required to make provision regarding the un-reconciled debit balance of nostro account for more than 3 months as on the reporting date in these financials. Since there is no unreconciled entries which are outstanding more than 3 months then Bank's are not required to make provision.

### 1.9 Revenue recognition

#### 1.9.1 Interest income

In terms of the provisions of the BAS-18 "Revenue", the interest income is recognized on accrual basis. Interest on loans and advances ceases to be taken into income when such advances are classified. It is then kept in interest suspense. After the loans is classified as bad, interest ceases to apply and recorded in a memorandum account. Interest on classified advances is accounted for on a cash receipt basis.

#### 1.9.2 Investment income

Interest income on investments is recognized on accrual basis. Capital gain on investments in shares is also included in investment income. Capital gain is recognized when it is realized.

#### 1.9.3 Fees and commission income

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

#### 1.9.4 Dividend income on shares

Dividend income on shares is recognized during the period in which it is declared and ascertained.

#### 1.9.5 Interest paid and other expenses

In terms of the provisions of BAS-1 "Presentation of Financial Statements" interest and other expenses are recognized on accrual basis.

#### 1.9.6 Dividend payments

The proposed dividend for the year 2011 has not been recognized as a liability in the balance sheet in accordance with the BAS-10 : Events After the Balance Sheet Date.

Dividend payable to the Bank's shareholders is recognized as a liability and deducted from the shareholders' equity in the period in which the shareholders' right to receive payment is established.

#### 1.10 Risk management

The risk of BASIC Bank Limited is defined as the possibility of losses, financial or otherwise. The risk management of the Bank covers core risk areas of banking viz. credit risk, liquidity risk, market risk that includes foreign exchange risk, interest rate risk, equity risk, operational risk and reputation risk arising from money laundering incidences. The prime objective of the risk management is that the Bank evaluates and takes well calculative business risks and thereby safeguards the Bank's capital, its financial resources and profitability from various business risks through its own measures and through implementing Bangladesh Bank's guidelines and following some of the best practices as under: