



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

1.10.1 Credit risk

It arises mainly from lending, trade finance, leasing and treasury businesses. This can be described as potential loss arising from the failure of a counter party to perform as per contractual agreement with the Bank. The failure may result from unwillingness of the counter party or decline in his / her financial condition. Therefore, the Bank's credit risk management activities have been designed to address all these issues.

The Bank has segregated duties of the officers / executives involved in credit related activities. A separate Corporate Division has been formed at Head Office which is entrusted with the duties of maintaining effective relationship with the customers, marketing of credit products, exploring new business opportunities, etc. Moreover, credit approval, administration, monitoring and recovery functions have been segregated. A separate credit division has been formed at head office since the inception of the Bank, which is assigned with duties of marketing and assessment of credit products, maintaining effective relationship with the customer and exploring new business opportunities. Another division naming Credit Administration Division (CAD) has also been established to oversee mainly documentation facilities. In line with Bangladesh Bank guidelines the Bank has segregated marketing, approval and monitoring/recovery functions. The credit risk management includes borrower risk analysis, financial statement analysis, industrial analysis, historical performance of the customer, security of the proposed credit facility and market reputation of the borrower etc.

The Bank takes its lending decision based on the credit risk assessment report by appraisal team. In determining Single borrower / Large loan limit, the instructions of Bangladesh Bank are strictly followed. Internal audit is conducted at periodical intervals to ensure compliance of Bank's and Regulatory policies. Loans are classified as per Bangladesh Bank's guidelines. Concentration of single borrower / large loan limit is shown in the notes to the financial statements.

1.10.2 Liquidity risk

The object of liquidity risk management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. To this end, the Bank is maintaining a diversified and stable funding base comprising of core retail and corporate deposits and institutional balance. Management of liquidity and funding is carried out by Treasury Department under approved policy guidelines. Treasury front office is supported by a very structured Mid office and Back office. The Liquidity management is monitored by Asset Liability Committee (ALCO) on a regular basis. A written contingency plan is in place to manage extreme situation.

1.10.3 Market risk

The exposure of market risk of the Bank is restricted to foreign exchange risk, interest rate risk and equity risk.

Foreign exchange risk

Foreign exchange risk is defined as the potential change in earnings due to change in market prices. The foreign exchange risk of the Bank is minimal as all the transactions are carried out on behalf of the customers against underlying L/C commitments and other remittance requirements. No foreign exchange dealing on Bank's account was conducted during the year.

Treasury Department independently conducts the transactions and the back office of treasury is responsible for verification of the deals and passing of their entries in the books of account. All foreign exchange transactions are revalued at Mark-to-Market rate as determined by the bank as mid rate at the month end and the mid rate is being published by the treasury division of the bank as per approved policy. All Nostro accounts are reconciled on a monthly basis and outstanding entry beyond 30 days is reviewed by the management for its settlement. The position maintained by the bank at the end of day was within the stipulated limit prescribed by the Bangladesh Bank.

Interest rate risk

Interest rate risk may arise either from trading portfolio or non-trading portfolio. The short-term movement in interest rate is negligible or nil. Interest rate risk of non-trading business arises from mismatches between the future yield of an asset and its funding cost. Asset Liability Committee (ALCO) monitors the interest rate movement on a regular basis.

Equity risk

Equity risk arises from movement in market value of equities held. The risks are monitored by Investment Committee under a well designed policy framework. The market value of equities held was however higher than the cost price at the balance sheet date.

1.10.4 Reputation risk arising from money laundering incidences

Money laundering risk is defined as the loss of reputation and expenses incurred as penalty for being negligent in prevention of money laundering. Money laundering has been identified as a major threat to the financial services community. The management of the Banks have taken prevention of money laundering as part of their risk management strategies. Anti-Money laundering Guideline of the Bank was approved by the board of directors of the Bank in its 188th meeting held on 31 January 2006 and subsequently revised and got approved by the Board of Directors of the bank in its 298 meeting dated 11 October 2011. For mitigating the risks, the Bank has established a Central Anti-Money Laundering Compliance Unit (CCU). Deputy Managing Director is acting as Chief Anti-Money Laundering Compliance Officer (CAMCO) and Deputy General Manager of Establishment Division is working as a head of CCU who works under direct supervision CAMCO. CCU continuously monitoring and reviewing all anti-money laundering issues. A senior level executive from each branch is working as a Branch Anti-Money Laundering Compliance Officer (BAMCO). Sound Know Your Customer (KYC) and Transaction Monitoring Policies are in place to recognize the risk associated with accounts.

Bank has completed KYC procedures for the accounts opened prior 30 April 2002. It is the requirement of Bangladesh Bank to report cash transaction of BDT 7 Lac in a single day in a single account and suspicious transaction as and when detected. ICT division of the Bank has developed software to report the check to Bangladesh Bank. Internal Control and Compliance policies have been implemented to ensure that an effective Anti-Money Laundering system is in force. Training is continuously given to all the category of Officers and Executives for developing awareness and skill for identifying suspicious activities / transactions.

1.10.5 Operational risk

Operational risk may arise from error and fraud due to lack of internal control and compliance. Management through Internal Control and Compliance Division controls operational procedure of the Bank. Internal Control and Compliance Division undertakes periodical and special audit of the branches and departments at the Head Office for review of the operation and compliance of statutory requirements. The Audit Committee of the Board subsequently reviews the reports of the Internal Control and Compliance Division.

Asset Liability management

"Asset Liability Management (ALM) is a risk management technique designed to earn an adequate return while maintaining a comfortable surplus of assets beyond liabilities. The scope of ALM function can be described as liquidity risk management, management of market risks, trading risk management, funding and capital planning and profit planning and growth projection etc. Risks in ALM are:"

Interest Rate Risk: It is the risk of having a negative impact on a bank's future earnings and on the market value of its equity due to changes in interest rates.

Liquidity Risk: It is the risk of having insufficient liquid assets to meet the liabilities at a given time.

Foreign Exchange Risk: It is the risk of having losses in foreign exchange assets and liabilities due to exchanges in exchange rates among multi-currencies under consideration.

The ALM committee usually makes decisions on financial direction of the Bank. The ALCO's goal is to manage the sources and uses of funds, identify balance sheet management issues like balance sheet gap, interest rate gap etc. ALCO also reviews liquidity contingency plan and implements liability pricing strategy for the Bank.

1.11 ICT Risk Management

ICT risk refers to the potential of ensuring harmful effects that an organization might suffer from intentional or unintentional threats to information and information technology systems. Managing ICT risk is part of running regular operation of the Bank now a day. Failure to manage ICT risk may lead to serious security breaches, financial losses and even business discontinuity. Hence, it is imperative that there should be a mechanism to identify, assess and mitigate ICT risk. BASIC Bank Limited, with the approval of the board, has adopted an ICT policy covering various aspects of ICT risk management. Based on the policy the Bank has taken necessary measures for mitigating ICT risk and impending hazards through implementing proper strategies and processes of identifying, appreciating, analyzing and assessing the same.

1.12 Earnings per share

Basic earnings per share

Basic earnings per share has been calculated in accordance with BAS 33 "Earnings per Share" which has been shown on the face of the profit and loss account. This has been calculated by dividing the basic earnings by the weighted average number of ordinary shares outstanding during the year.

Calculation of weighted earnings per share

The Bank issued bonus shares to existing shareholders. In order to reflect the bonus element, the number to be used in calculating basic earnings per share, for all periods prior to the bonus issue, is the number of ordinary shares outstanding prior to the bonus issue (time apportioned if necessary) and multiplied by adjusting factor.

1.13 Events after the balance sheet date

Where necessary, all the material events after the reporting period have been considered and appropriate adjustment / disclosures have been made in the financial statements.

1.14 Directors' responsibility on statement

The board of directors takes the responsibility for the preparation and presentation of these financial statements.

Memorandum items

Memorandum items are maintained to have control over all items of importance and for such transactions where the Bank has only a business responsibility and no legal commitment. Stock of travelers cheques, savings certificates, wage earners bonds and other fall under the memorandum items.

Capital Expenditure Commitment

There was no capital expenditure contracted but incurred or provided for at 31 December 2011 besides, there was no material capital expenditure authorized by the board but not contracted for at 31 December 2011.

1.15 Subsequent Events

There is no other significant event occurred between the Balance Sheet date and the date when the financial statements were authorized for issue by the Board of Directors.

1.16 Related party transaction

Related party transaction is a transfer of resources, services or obligation between related parties, regardless of whether a price is charged.

1.17 Audit Committee

Members of the Audit Committee of the Board of Directors:

Name	Status with the Committee	Educational Qualification
Mr. Shakhawat Hossain	Convener	M.A in Economics
Mr. Jahangir Akhand Salim	Member	M.A (Political Science), LL.B
Mr. Shubhashish Bose	Member	M.Com, MBA
Prof. Dr. Kazi Akhtar Hossain	Member	M.Com in Accounting, PHD
Mr. Md. Anwarul Islam, FCMA	Member	M.Com, MBA, FCMA

Audit Committee Meeting held during 2011

37th Meeting of Audit Committee held on 26 January 2011
38th Meeting of Audit Committee held on 27 April 2011
39th Meeting of Audit Committee held on 05 October 2011

Steps Have Been Taken

As per guidelines enunciated in BRPD Circular No. 12 dated 23 December 2002 of Bangladesh Bank the Audit Committee of the Board of Directors of the Bank has been playing an important role with regard to the process of publication of financial statements and development of internal control systems for conducting banking operations efficiently and in a disciplined manner. Besides, pursuant to the instructions of the said circular the audit committee is placing its report to the board of directors of the bank on its findings and recommendations acknowledging the background and purpose of constitution of the committee.

1.18 Compliance report on Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS)

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, BASIC Bank applied all the applicable of IAS and IFRS as adopted by ICAB. Details are given below:

Name of the BAS	BAS no	Status
Presentation of Financial Statements	1	Applied
Inventories	2	Applied
Statement of Cash Flows	7	Applied
Accounting Policies, Changes in Accounting Estimates and Errors	8	Applied
Events after the balance sheet date	10	Applied
Construction Contracts	11	N/A
Income Taxes	12	Applied
Property, Plant and Equipment	16	Applied
Leases	17	Applied
Revenue	18	Applied
Employee Benefits	19	Applied
Accounting for Government Grants and Disclosure of	20	N/A
The Effects of Changes in Foreign Exchange Rates	21	Applied
Borrowing Costs	23	N/A
Related Party Disclosures	24	Applied
Accounting and Reporting by Retirement Benefit Plans	26	Applied
Consolidated and Separate Financial Statements	27	N/A
Investments in Associates	28	N/A
Interests in Joint Ventures	31	N/A
Earnings per share	33	Applied
Interim Financial Reporting	34	Applied
Impairment of Assets	36	Applied
Provisions, Contingent Liabilities and Contingent Assets	37	Applied
Intangible Assets	38	Applied
Financial Instruments: Recognition and Measurement	39	N/A
Investment Property	40	N/A
Agriculture	41	N/A

We followed Bangladesh Bank Guidelines instead of BAS-39

Name of the BFRS	BFRS no.	Status
Share Based Payment	2	N/A
Business Combinations	3	N/A
Non-current Assets Held for Sale and Discontinued Operations	5	N/A
Exploration for and Evaluation of Mineral Resources	6	N/A
Financial Instruments: Disclosure	7	Applied
Operating Segments	8	Applied

1.20 Approval of financial statements

The financial statements were approved by the Board of directors on 28 March 2012.

2.00 General

a) These financial statements are presented in Taka, which is the Bank's functional currency. Figures appearing in these financial statements have been rounded off to the nearest Taka.

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

c) Figures of previous year have been rearranged whenever necessary to conform to current years presentation.

	Amount in Taka	
	31.12.2011	31.12.2010
3. Cash		
Cash in hand (including foreign currencies) (note 3.1)	420,532,562	344,012,334
Balance with Bangladesh Bank (note 3.2)	4,261,584,101	2,731,360,447
	4,682,116,663	3,075,372,781
3.1 Cash in hand (including foreign currencies)		
In local currency	414,582,230	341,115,137
In foreign currencies	5,950,332	2,897,197
	420,532,562	344,012,334
3.2 Balance with Bangladesh Bank and its agent bank (s)		
In local currency (note 3.2.1)	3,892,588,270	2,687,277,987
In foreign currency (note 3.2.2)	368,995,831	44,082,460
	4,261,584,101	2,731,360,447
3.2.1 In Local currency		
Bangladesh Bank	3,765,242,249	2,595,609,918
Sonali Bank (acting as agent of Bangladesh Bank)	127,346,021	91,668,069
	3,892,588,270	2,687,277,987
3.2.2 In foreign currency		
Bangladesh Bank - US\$	360,784,586	37,520,761
Bangladesh Bank - GBP	6,411,409	5,043,495
Bangladesh Bank -EURO	1,799,836	1,518,204
	368,995,831	44,082,460
3.2.2.1 Balance with Bangladesh Bank as per DB -5	3,782,498,000	2,689,323,000

Reason of difference between balance with Bangladesh Bank and DB-5 :

The reason of difference between balance with Bangladesh Bank and DB-5 is that the balance of foreign currency clearing account is not shown in DB-5 statement. There were some entries passed by Bangladesh Bank on year ending date but we passed corresponding entries on later date after receiving advice from Bangladesh Bank.

3.3 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 of instructions contained in BRPD circular no. 11 and 12 dated 25 August 2005 and MPD circular no. 04 dated 1st December 2010 issued by Bangladesh Bank.

The cash reserve requirement of the Bank calculated @6% of total time and demand liabilities and maintained with Bangladesh Bank in current account 19% statutory liquidity ratio, including CRR on the same liabilities has also been maintained with Bangladesh Bank in the form of treasury bills, bonds and debentures including foreign currency balances with Bangladesh Bank. Both the reserve maintained by the Bank are in excess of the statutory requirements as shown below:

3.3.1 Cash Reserve Ratio (CRR)

(6% of average demand & time liabilities)		
Required Reserve	3,573,313,000	2,708,759,000
Actual reserve held	3,644,729,000	2,740,225,000
Surplus or (Deficit)	71,416,000	31,466,000

3.3.2 Statutory Liquidity Reserve (SLR)

(13% of average demand & time liabilities)		
Required reserve	7,742,178,000	5,868,978,000
Actual reserve held	8,670,513,000	6,867,263,000
Surplus or (Deficit)	928,335,000	998,285,000

3.3.3 Total required reserve

Actual reserve held	11,315,491,000	8,577,737,000
Surplus or (Deficit)	999,751,000	1,029,751,000

4.00 Balance with other banks & financial institutions

In Bangladesh (note 4.1)	1,723,297,815	1,992,010,143
Outside Bangladesh (Nostro Accounts) (Annexure -A)	303,445,719	635,432,021
	2,026,743,534	2,627,442,164

4.01 In Bangladesh

a. Current account

Sonali Bank Limited	5,482,776	26,934,326
Agrani Bank Limited	5,020,867	14,521,858
Rupali Bank Limited	539,749	620,349
Janata Bank Limited	104,350	2,002,775
	11,147,742	44,079,307

b. STD account

Sonali Bank Limited	25,427,306	25,871,020
Bangladesh Krishi Bank	4,005	526,712
Trust Bank Limited	1,591,919	3,578,289
Rupali Bank Limited	10,142,588	12,314,069
Agrani Bank Limited	6,173	7,663
	37,171,991	42,297,753

c. Other deposits

Receivable from ICB Islami Bank	154,978,082	155,633,082
d. Fixed deposits account		
Bangladesh Commerce Bank Limited	350,000,000	-
IFIC Bank	320,000,000	-
BFIC	-	100,000,000
Premier Leasing	100,000,000	-
Prime Finance and Investment	100,000,000	-
First Lease Finance and Investment Limited	200,000,000	-
BIFC	150,000,000	100,000,000
Hajji Finance Company Limited	-	50,000,000
Uttara Finance and Investment	-	100,000,000
Lanka Bangla Finance	-	100,000,000
Peoples Leasing	200,000,000	150,000,000
Phonix Leasing and Finance	-	200,000,000
NHFI Limited	-	50,000,000
Union Capital	-	50,000,000
International Leasing and Finance	100,000,000	150,000,000
Jamuna Bank Limited	-	400,000,000
BRAC Bank Limited	-	300,000,000
	1,520,000,000	1,750,000,000
Total (a+b+c+d)	1,723,297,815	1,992,010,143

Most of the fixed deposits are placed for short term maturities up to a period of 3 months and some fixed deposits are for the period of 6 months and 1 year at the approximate market rate.

4.02 Outside Bangladesh (Nostro accounts and term Placement)

a. Interest-bearing accounts

Bank of Tokyo-Mitsubishi London	5,611,352	3,094,589
Bank of Tokyo Mitsubishi Japan	287,476	21,197,036
Mashreq Bank New York	17,458,439	61,206,806
Mashreq Bank India	452,970	10,064,753
CITI Bank Mumbai	87,155	304,180
Sonali Bank Kolkata	18,946,371	47,162,876
Sonali Bank Kolkata-EURO	230,811	641,133
Sonali Bank London	456,588	7,048,519
Sonali bank London-USD	733,911	-
Sonali Bank London(UKP)	3,334,034	4,255,423
Bank of Ceylon	10,531,186	3,759,917
CITI Bank New York (Export)	77,895,043	298,878,420
Standard Chartered Import New York	19,501,970	10,823,668
Standard Chartered Bank Mumbai	14,998,409	12,233,973
Standard Chartered Bank Frankfurt	4,707,593	40,394,836
ICICI Bank Ltd.	9,802,872	12,118,510
HSBC New York	33,089,097	52,563,811
Banque de Commerce, Geneva	1,695,071	1,323,321
Wachovia Bank N.Y.	-	954,569
Arif Habib Rupali Bank	449,600	311,112
	220,269,948	588,337,452

b. Term Placement

Citi bank N A New York-Term	-	14,149,940
Commercial Bank of Ceylon-Dhaka-Term	-	11,719,720
Eastern Bank Term(USD)	13,772,052	-
Eastern Bank Term(USD)	26,658,560	-
Eastern Bank Term(USD)	18,189,288	-
Eastern Bank Term(USD)	8,185,290	-
Commercial Bank of Ceylon-Term	16,370,580	21,224,910
	83,175,770	47,094,570
Total (a+b)	303,445,718	635,432,021

(Annexure - A may kindly be seen for details)

4.03 Maturity grouping of balances with other banks & financial institutions

On demand	231,417,691	632,416,759
Over one month	1,257,171,990	732,444,924
Over one month but not more than three months	194,847,848	59,852,829
Over three months but not more than one year	188,327,923	547,094,570
Over one year but not more than five years	154,978,082	155,633,082
Over five years	-	-
	2,026,743,534	2,627,442,164

5.00 Money at call and short notice

	2,240,000,000	250,000,000
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5.01 Classification of money at call & short notice

Commercial Banks (note 5.1.1)	2,040,000,000	250,000,000
Financial Institutions (note 5.1.2)	200,000,000	-
	2,240,000,000	250,000,000