

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Name of IASs/IFRSs	IAS / IFRS	No.	Status
Presentation of Financial Statements	IAS	1	Applied
Inventories	IAS	2	N/A
Statement of Cash Flows	IAS	7	Applied
Accounting Policies, Changes in Accounting Estimates and Errors	IAS	8	Applied
Events after the Reporting Period	IAS	10	Applied
Income Taxes	IAS	12	Applied
Property, Plant and Equipment	IAS	16	Applied
Employee Benefits	IAS	19	Applied
Accounting for Government Grants and Disclosure of Government Ass	IAS	20	N/A
The Effects of Changes in Foreign Exchange Rates	IAS	21	Applied
Borrowing Costs	IAS	23	N/A
Related Party Disclosures	IAS	24	Applied
Accounting and Reporting by Retirement Benefit Plans	IAS	26	N/A
Separate Financial Statements	IAS	27	N/A
Investments in Associates	IAS	28	N/A
Interests in Joint Ventures	IAS	31	N/A
Earnings per share	IAS	33	Applied
Interim Financial Reporting	IAS	34	Applied
Impairment of Assets	IAS	36	Applied
Provisions, Contingent Liabilities and Contingent Assets	IAS	37	Applied
Intangible Assets	IAS	38	Applied
Financial Instruments: Recognition and Measurement	IAS	39	Applied
Investment Property	IAS	40	N/A
Agriculture	IAS	41	N/A
First-time Adoption of International Financial Reporting Standards	IFRS	1	N/A
Share-based Payment	IFRS	2	N/A
Business Combinations	IFRS	3	N/A
Insurance Contracts	IFRS	4	N/A
Non-current Assets Held for Sale and Discontinued Operations	IFRS	5	Applied
Exploration for and Evaluation of Mineral Resources	IFRS	6	N/A
Financial Instruments: Disclosures	IFRS	7	N/A
Operating Segments	IFRS	8	Applied
Financial Instruments	IFRS	9	Applied
Consolidated Financial Statements	IFRS	10	N/A
Joint Arrangements	IFRS	11	N/A
Disclosure of Interests in Other Entities	IFRS	12	Applied
Fair Value Measurement	IFRS	13	Applied
Regulatory Deferral Accounts	IFRS	14	N/A
Revenue from Contracts with Customers	IFRS	15	Applied
Leases*	IFRS	16	Not applied

N/A = Not Applicable

In order to comply with certain specific rules and regulations of Bangladesh Bank which are different to IASs/IFRSs, some of the requirements specified in these IASs/IFRSs are not applied. Refer below (note-2.17) for such recognition and measurement differences that are most relevant and material to the Bank.

2.17 Departures from IASs/IFRSs

In case the requirement of provisions and circulars issued by Bangladesh Bank differs with those of other regulatory authorities and accounting standards, the provisions and circulars issued by Bangladesh Bank shall prevail. Bank have departed from certain contradictory requirements of IFRSs in order to comply with the rules and regulations of Bangladesh Bank which are disclosed below:

i) Presentation of financial statements

IFRS: As per IAS 1, a complete set of financial statements comprises a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity, a statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information and comparative information. IAS 1 has also stated the entity to disclose assets and liabilities under current and non-current classification separately in its statement of financial position.

Bangladesh Bank: A format of financial statements (i.e. balance sheet, profit and loss account, cash flows statement, changes in equity, liquidity statement) is prescribed in the "First Schedule" of section 38 of the Bank Company Act 1991 (as amended up to date) and BRPD circular no. 14 dated 25 June 2003 of Bangladesh Bank. Assets and liabilities are not classified under current and non-current heading in the prescribed format of financial statements.

ii) Investment in shares and Securities

IFRS: As per requirements of IFRS 9 investment in shares and securities generally falls under "Amortized cost", "fair value through profit or loss" or "fair value through other comprehensive income" where any change in the fair value at the year-end is taken to profit or loss account or other comprehensive income/valuation reserve respectively.

Bangladesh Bank: 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. As per DOS circular letter no. 03 dated March 12, 2015, investment in Mutual Fund (close-end) is revalued at lower of cost and (higher of market value and 85% of NAV). Being provision is made for any loss arising from diminution in value of investment; otherwise investments are recognized at costs.

iii) Revaluation gain/loss on Government securities

IFRS: As per requirement of IFRS 9 where T-bills and T-bonds will fall under the category of "held for trading", any change in the fair value of held for trading assets is recognized through profit and loss account.

T-bills/bonds designated as "held to maturity" are measured at amortized cost method and interest income is recognized through the profit and loss account.

Bangladesh Bank: According to DOS circular no. 05 dated 26 May 2008 and subsequent clarification in DOS circular no. 05 dated 29 January 2009 loss on revaluation of Government securities (T-bill/T-bond) which are categorized as held for trading will be charged through profit and loss account, but any gain on such revaluation should be recorded under Revaluation Reserve account. T-bills designated as held to maturity are measured at amortized cost method but interest income/gain is recognized through reserve.

iv) Provision on loans and advances

IFRS: As per IFRS 9 an entity should start the impairment assessment by considering whether objective evidence of impairment exists for financial assets that are individually significant. For financial assets which are not individually significant, the assessment can be performed on an individual or collective (portfolio) basis.

Bangladesh Bank: As per BRPD circular no. 16 dated 18 November 2014, BRPD Circular 14 dated 23 September 2012, BRPD Circular no. 19 dated 27 December 2012 and BRPD Circular no. 05 dated 29 May 2013, provision for sub-standard loans, doubtful loans and bad losses has to be provided at 20%, 50% and 100% respectively for loans and advances depending on the duration of overdue. Provision for unclassified loan was made at the specified rate i.e. 0.25% to 5% based on different categories of loans and advances. Such provision policies are not specifically in line with those prescribed by IFRS 9. Also, a general provision @ 1% should be provided for off-balance sheet exposures.

v) Other comprehensive income

IFRS: As per IAS 1 Other Comprehensive Income is a component of financial statements or the elements of Other Comprehensive Income are to be included in a Single Comprehensive Income (OCI) Statement.

Bangladesh Bank: Bangladesh Bank has issued templates for financial statements which will strictly be followed by all banks. The templates of financial statements issued by Bangladesh Bank do not include Other Comprehensive Income nor are the elements of Other Comprehensive Income allowed to include in a Single Comprehensive Income (OCI) Statement. As such the company does not prepare the other comprehensive income statement. However elements of OCI, if any, are shown in the statements of changes in equity.

vi) Financial instruments-presentation and disclosure

In several cases Bangladesh Bank guidelines categorize, recognize, measure and present financial instruments differently from those prescribed in IFRS 9. As such some disclosure and presentation requirements of IFRS 7 and IAS 32 cannot be made in the accounts.

vii) Repo transactions

IFRS: When an entity sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repo or stock lending), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the entity's financial statements. This transaction will be treated as loan and the difference between selling price and repurchase price will be treated as interest expense.

Bangladesh Bank: As per DOS Circular letter no. 06 dated 15 July 2010 and subsequent clarification in DOS Circular No. 02 dated 23 June 2013, when a bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (repo or stock lending), the arrangement is accounted for as a normal sales transactions and the financial assets are derecognized in the seller's book and recognized in the buyer's book.

viii) Financial guarantees

IFRS: As per IFRS 9, financial guarantees are contracts that require an entity to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

Bangladesh Bank: As per BRPD circular no. 14 dated 25 June 2003 financial guarantees such as L/C, L/G will be treated as Off-Balance Sheet items. No liability is recognized for the guarantee except the cash margin and 1% general provision for all contingent liabilities.

ix) Cash and cash equivalent

IFRS: Cash and cash equivalent items should be reported as cash item as per IAS 7.

Bangladesh Bank: As per BRPD Circular 14 dated 25 June 2003, Cash and cash-equivalents consist of cash with Bangladesh Bank, with its agent bank(s), government securities (prize bond) and deposits with other banks.

x) Non-banking asset

IFRS: No indication of Non-banking asset is found in any IFRS.

Bangladesh Bank: As per BRPD circular no. 14 dated 25 June 2003 there must exist a face item named Non-banking asset.

xi) Cash flow statement

IFRS: Cash flow statement can be prepared either in direct method or in indirect method as per IAS 7 of Statement of Cash Flows. The presentation is selected to present these cash flows in a manner that is most appropriate for the business or industry. The method selected is applied consistently.

Bangladesh Bank: As per BRPD circular no. 14 dated 25 June 2003 cash flow is the mixture of direct and indirect method.

xii) Balance with Bangladesh Bank: (CRR)

IFRS: Balance with Bangladesh Bank should be treated as other asset as it is not available for use in day to day operations as per IAS 7.

Bangladesh Bank: Balance with Bangladesh Bank is treated as cash and cash equivalents.

xiii) Presentation of intangible asset

IFRS: Intangible asset must be identified and recognized, and the disclosure must be given as per IAS 38.

Bangladesh Bank: There is no requirement for regulation of intangible assets in BRPD circular no. 14 dated 25 June 2003.

xiv) Off-balance sheet items

IFRS: There is no concept of off-balance sheet items in any IFRS; hence there is no requirement of disclosure of off-balance sheet items.

Bangladesh Bank: As per BRPD circular no. 14 dated 25 June 2003 off balance sheet items must be disclosed separately in face of balance sheet. Accordingly the Bank has recognized the following off balance sheet items:

- Acceptances and endorsements
- Letters of guarantee
- Irrevocable letters of credit
- Bills for collection
- Foreign exchange contracts

xv) Disclosure of appropriation of profit

IFRS: There is no requirement to show appropriation of profit in the face of statement of comprehensive income.

Bangladesh Bank: As per BRPD circular no. 14 dated 25 June 2003, an appropriation of profit should be disclosed in the face of profit and loss account.

xvi) Loans and advance net of provision

IFRS: Loans and advances should be presented net of provisions.

Bangladesh Bank: As per BRPD circular no. 14 dated 25 June 2003 provision on loans and advances are presented separately as liability and cannot be netted off against loans and advances.

xvii) Recognition of Interest in Suspense

IFRS: Loans and advances to customers are generally classified as "loans and receivables" as per IFRS 9 and interest income is recognised through effective interest rate method over the term of the loan. Once a loan is impaired, interest income is recognised in profit and loss account on the same basis based on revised carrying amount.

Bangladesh Bank: As per BRPD Circular No. 14 dated 23 September 2012, once a loan is classified , interest on such loans are not allowed to be recognised as income, rather the corresponding amount needs to be credited to an interest in suspense account, which is presented as liability in balance sheet.

xviii) Accounting for leases for office rent (IFRS 16)

IFRS: According to IFRS-16 the following requirements are recommended with effect from 01 January 2019 related to office rent as per IFRS 16.

i) It requires a lessee to recognize a right-of-use assets (ROU) representing its right to use the underlying leased assets (office premises) and a lease liability representing its obligation to make lease payment;

ii) Assets & liabilities will have to be recognized at Net Present Value in the financial statements considering incremental borrowing rate;

iii) Expenses are divided as a) Depreciation and b) Financial cost.

Financial or presentation effect of the departure: As per section 5 of the paragraph B3-B8 of the IFRS-16, A lessee may elect not to apply the requirements a) Short term leases; and b) leases for which the underlying assets is of low value. According to this condition (b) total right-of-use assets (ROU) are low values. Required guidelines on this issue from Bangladesh bank still remains pending. However, during this year, there is immaterial impact in the financial statements due to the departure as the total right-of-use assets (ROU) are low values.

Bangladesh Bank: To incorporate "IFRS 16 Leases" while complying with Bangladesh Bank reporting guideline, the Bank needs guidance from Bangladesh Bank. In that context the issue was discussed in the tripartite meeting among external auditor, management and Bangladesh Bank representatives before finalizing the Financial Statements. In addition the Bank sent a letter to Bangladesh Bank by highlighting some issues and seeking guidance to incorporate "IFRS 16 Leases" while producing the Financial Statements, a response from Bangladesh bank on this subject remains pending.

2.18 The Bank's compliance with related pronouncements by Bangladesh Bank

i) Internal Control

The objective of internal control is to ensure that management has reasonable assurance that (i) operations are effective, efficient and aligned with strategy, (ii) financial reporting and management information is reliable, complete and timely accessible, (iii) the entity is in compliance with applicable laws and regulations as well as its internal policies and ethical values including sustainability, and (iv) assets of the company are safeguarded and frauds or errors are prevented or detected.

Community Bank Bangladesh Limited has established an effective internal control system whose primary aim is to ensure the overall control of risks and provide reasonable assurance that the objectives set by the Bank will be met. It has designed to develop a high level risk culture among the personnel of the Bank, establish efficient and qualified operating model of the Bank, ensure reliability of internal and external information including accounting and financial information, secure the Banks operations and assets, and comply with laws, regulatory requirements and internal policies.

The Board of Directors of Community Bank, through its Audit Committee, periodically reviews the effectiveness of Bank's internal control system covering all the material controls, including financial, operational and compliance controls, risk management systems, the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, training programs, budget, etc. Audit Committee of the Board reviews the actions taken on internal control issues identified by the Internal & External Auditors and Regulatory Authorities. It has active oversight on the internal audit's independence, scope of work and resources and it also reviews the functions of Internal Control and Compliance Division of Head Office, particularly the scope of the annual audit plan and frequency of the internal audit activities.

ii) Internal Audit

Internal Audit is the continuous and systematic process of examining and reporting on the activities of an organization undertaken by the specially assigned staff(s). Internal Auditor works as the Eyes and Ears of the management. It may therefore be used to bridge the gap between management and shop floor. It can ensure the management that the Internal Controls are adequate and in operations, the policies and systems laid down are being adhered to and accounting records provided by the lower level are correct.

Internal Audit Mechanism is used as an important element to ensure good governance of CBBL. Internal Audit Activity of CBBL is effective and it provides senior management with a number of important services. These include detecting and preventing fraud, testing internal control, and monitoring compliance with own policies and procedures, applicable rules and regulations, instructions/ guidelines of regulatory authority etc.

iii) Fraud and Forgeries

The increasing wave of fraud and forgery cases in the banking sector in recent time calls for concerted steps in identifying ways for reducing or preventing frauds and forgeries by analysing the causes and effect of frauds and forgeries, and prescribing effective control strategies for salvaging frauds in the banking sector. CBBL does always pay due attention on anti-fraud internal controls for prevention of fraud and forgery. The Bank has already implemented some strategies like Financial Control Strategy, Accounting Control Strategy, Credit Control Strategy, Administrative Control strategy, Process Control Strategy etc. in order to strengthening the control system further. Although it is not possible to eliminate all frauds because of the inherent limitations of Internal Control system, the Board of Directors and Management have taken all the measures to keep the operational risk in a very minimum level. Internal Control and Compliance Division (ICCD) assesses and evaluates the effectiveness of Bank's anti-fraud internal control measures, recommends for further improvement in implementation of aforesaid strategies and reports to the Bangladesh Bank on effectiveness of controls at the end of each quarter following their prescribed format.

2.19 The financial statements were approved by the Board of Directors on 29 February 2020.

2.20 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.

Notes to the financial statements

For the year ended 31 December 2019

Particulars	Note	2019 Taka	2018 Taka
3 Cash			
A. Cash in hand		430,576,682	-
Local currency		-	-
Foreign currency		430,576,682	-
B. Balance with Bangladesh Bank and its agent bank(s):		160,063,424	-
Local currency		-	-
Foreign currency		160,063,424	-
Sonali Bank as agent of Bangladesh Bank (local currency)		-	-
		160,063,424	-
		590,640,106	-
3.1 Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR)			
Cash Reserve Requirement and Statutory Liquidity Ratio have been calculated and maintained in accordance with section 33 of Bank Companies Act, 1991 and MPD circular nos. 1 & 2, dated June 23, 2014 and December 10, 2013 & DOS circular no. 1 dated 19 January 2014 and MPD Circular no. 1 dated April 03, 2018.			
The Cash Reserve Requirement is calculated on the Bank's weekly average total demand and time liabilities of a base month which is two months back of the reporting month (i.e. CRR of December 2019 is maintained on the basis of weekly ATDTL of October 2019) at the rate of 5% CRR on daily basis and 5.5% on bi-weekly basis and 13% Statutory Liquidity Ratio excluding CRR, on the same liabilities has also been maintained in the form of cash in hand, balance with Bangladesh Bank and its agent bank, treasury bills, bonds and debentures. Both the reserves maintained by the Bank are in excess of the statutory requirements, as shown below:			
Average total demand and time liabilities of October 2019		809,250,000	-
3.1.1 Cash Reserve Requirement (CRR) :			
Daily basis		40,462,500	-
Required reserve @ 5% of ATDTL		157,411,040	-
Actual reserve held (as per Bangladesh Bank statement)		116,948,540	-
Surplus		-	-
Bi-weekly basis:			
The bank maintained excess cash reserve of BDT 1,420,94 million in the last fortnight of 2019 calculated by summing up mentioned cash reserve maintained over required CRR on daily basis.			
3.1.2 Statutory Liquidity Ratio (SLR) :			
Required reserve @ 13% of ATDTL		105,202,500	-
Actual reserve held	(Note: 3.1.1,3)	765,698,317	-
Surplus		660,495,817	-
Total Surplus	(Note: 3.1.1+3.1.2)	777,444,357	-

Particulars	Note	2019 Taka	2018 Taka
3.1.3 Actual reserve held			
Cash in hand	(Note:3)	430,576,682	-
Balance with Bangladesh Bank as per statement		157,411,040	-
Balance with Sonali Bank as per statement		-	-
Unencumbered approved securities (HFT)	(Note:6)	97,386,058	-
Unencumbered approved securities (HTM)	(Note:6)	80,319,537	-
Other eligible securities		5,000	-
		765,698,317	-
4 Balance with Other Banks and Financial Institutions			
A. Inside Bangladesh	(Note:4.1)	4,481,501,232	-
B. Outside Bangladesh		-	-
		4,481,501,232	-
4.1 Balance with Other Banks and Financial Institutions (Inside Bangladesh)			
Current accounts			
Eastern Bank Limited		9,788,845	-
Mercantile Bank Limited		10,000	-
Trust Bank Limited		12,344,238	-
		22,143,133	-
Short notice deposit (SND) Accounts			
Eastern Bank Limited		32,223	-
Mercantile Bank Limited		2,938,376	-
		2,970,599	-
Fixed Deposit with Banks			
Eastern Bank Limited		1,781,387,500	-
Jamuna Bank Limited		500,000,000	-
Mudhumoti Bank Limited		100,000,000	-
Mercantile Bank Limited		1,875,000,000	-
		4,256,387,500	-
Fixed Deposit with Financial Institutions			
IPDC Finance Limited		200,000,000	-
		200,000,000	-
		4,481,501,232	-
4.2 Maturity grouping of balance with other banks and financial institutions			
Up to 1 months		3,203,501,232	-
More than 1 months to 3 months		1,248,000,000	-
More than 3 months to 1 Year		30,000,000	-
More than 1 year to 5 years		-	-
More than 5 years		-	-
		4,481,501,232	-
5 Money at Call on Short Notice			
IPDC Finance Limited		50,000,000	-
		50,000,000	-
5.1 Maturity grouping of Money at Call and Short Notice			
Up to 1 month		50,000,000	-
More than 1 month to 3 month		-	-
More than 3 month to 1 Year		-	-
More than 1 year to 5 years		-	-
More than 5 years		-	-
		50,000,000	-
6 Investments			
Government Securities	(Note:6.1)	177,710,595	-
Other Investments	(Note:6.2)	400,000,000	-
		577,710,595	-
Investment in securities are classified as follows:			
Held for trading (Treasury Bills & Bond)		9	