# A STUDY ON DISCLOSURE IN FINANCIAL STATEMENTS OF BANK UNDER BANK COMPANY ACT 1991 AND IAS 30



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# Declaration

This is to certify that the thesis titled "A Study on disclosure in financial statements of banks under Bank Company Act 1991 & IAS 30" is a record of bonafide research carried out by Ms. Vanesa Rodrigues under my direct supervision and close monitoring. All the material part of it is original and has not been submitted elsewhere for any other degree or diploma. In my opinion the thesis is worthy of consideration for the reward of M.Phil Degree.



28/6/2005

Dr. M. Shamsul Haque
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# Abstract

Business of bank companies is described in Bank Company Act 1991 that shows why disclosure of banks' activities to all is so important. Besides traditional banking of accepting deposit and lending money, banks are now engaged in various activities like dealing with bills of exchange, promissory notes, letter of credit, agency business, guarantee, undertaking, issuance of shares, underwriting and many other items. So bank's performance in terms of its daily activities or business should be transparent to all interest groups. So each bank incorporated in Bangladesh, must prepare two financial statements i.e. a balance sheet and profit and loss account in respect of all business transacted through its branches in Bangladesh as per Section 38 (1) of Bank Company Act 1991. But this provision has got some limitations to disclose relevant and timely information on bank's business.

Bangladesh Bank issued a circular entitled "Amendment of First Schedule Forms of the Bank Companies Act, 1991 (BRPD Circular No. 03 dated 18 April, 2000)" by which newly amended forms have been made mandatory for all concerned banks and financial institutions since March 30, 2000 in Bangladesh. This new forms have been introduced with a view to ensuring the financial discipline in the banking sector, to reduce risk, to provide relevant and reliable information to all stakeholders and to make the disclosure practice in compliance with the international standard.

The status of disclosure in financial statements of banks before adoption of IAS 30 is found in this study by examining the annual reports of banks in 1999, which is not satisfactory for our banking industry. Then the status of disclosure in 2000 after adoption of IAS 30 by banks in Bangladesh is pointed out and it is found quite satisfactory than before. Then the disclosure nature in our banking industry gradually improves within few years after adoption of IAS 30.

Proper implementation of IAS 30 in banking of Bangladesh ensures fair disclosure, transparency and accountability in the operation and management of banks. Now the stakeholders can evaluate the bank's performance in terms of liquidity, solvency and other potential risks and can take decision to invest in a sound bank. The positive effects of fair disclosure of information also influence the share market. Banks, which are providing better disclosure than others, experience high market value in the capital market. This indicates that there is a positive relationship between disclosure of information by banks and market value of bank's share.

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# Introduction

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# Introduction

## 1.1 Background of the study:

Banks play an influential and significant part in the economy of a country. Most individuals and organizations make use of banks either as depositors or borrowers. People also invest in capital market by buying shares of banks registered in Stock Exchange Commission. This implies that banks should be highly regulated and accountable for their activities. So banks keep a close relationship with regulatory body and government and follow those guidelines imposed on them by the government or the regulatory body. The banks in Bangladesh operate their banking business as per the guidelines of Bangladesh Bank and the laws related with the banking financial institutions. According to section 38(1) of Banking Companies Act 1991 "at the expiration of each financial year every banking company incorporated in Bangladesh, in respect of all business transacted through its branches in Bangladesh, shall prepare with reference to that year a balance sheet and a profit and loss account as on the last working day of the year in the forms set out in the first schedule or as near that to as circumstance admit." This necessitates the disclosure of the financial information of banks. In publishing financial statements that are balance sheet and profit and loss account, banks followed the prescribed formats A and B of the First Schedule of Section 38 of the Banking Companies Act, 1991. But the prescribed formats of the Banking Companies Act, 1991 have been proved as inadequate in the course of changing global condition. So the guidelines of IAS (International Accounting Standards)-30 have been made mandatory for the banks' financial statements.

Before the circulation of following IAS-30 banks had to follow the instructions of the Banking Companies Act, 1991 to prepare their financial statements. But there were at least two sections in the Act, which allowed the banks not to disclose some sensitive information in the statements. For example section 44(7) of the Act states that "Notwithstanding anything contained in law for the time being in force, a banking company unless it is directed by any court or Bangladesh Bank, shall not be compelled by any other authority to furnish or disclose any information or statement, doing which, if the banking company claims, would involve disclosure of information of confidential nature relating to –

1) Any reserve fund not shown as such in published balance sheet; or
2) Any particulars in respect of bad and doubtful debts which have not been shown in its published balance sheet."

Formats A and B of the First Schedule of Section 38 of Banking Companies Act, 1991 have also forbidden the banks to disclose the amount of bad debt and provision kept out of income for bad debt. So the banks had enjoyed the privilege of not disclosing important components of the affairs like volume of uncollectable assets, required amount of bad debt provision, and net amount of capital after adjusting provision shortfall etc. As a result the real financial position of a bank was never fairly reported in the statements. So it was difficult for the users to assess the asset quality of a bank and its impact on the bank's liquidity and profitability.

But in the present free market economy the users of banks cannot be satisfied with the traditional concepts of limited disclosure. Now the sponsors, the shareholders, the depositors, the central bank and other users of bank's financial statements are interested to know all about a bank's financial position. So the users of the financial statements of banks increasingly demand adequate disclosure. Moreover the financial statements of banks should be in compliance with the International Accounting Standard (IAS).

It is central bank's responsibility to safeguard the interest of depositors. So central bank plays the role of watchdog in regulating the affairs of banks. But the traditional form of financial statements makes it difficult to evaluate the overall performance of a bank. For example, Bangladesh Bank does a rating on the bank's performance, which is known as CAMEL rating. But the traditional financial statements of banks with inadequate information about capital, asset, liquidity and profitability makes it difficult for the Bangladesh Bank to assess a bank's performance accurately.

Thus the banking sector of Bangladesh witnessed a conservative approach in the disclosure of their operations by following the prescribed formats of financial statements vide section 38 of the Banking Company Act 1991. Various domestic and international agencies stressed from time to time on the improvement of the accounting standards of bank and financial institutions in Bangladesh through adoption of IAS-30, which recognizes the special needs of disclosure of financial information of the banking sector.

IAS became operative for the financial statements of banks covering periods beginning on or after January 1, 1991. Meanwhile IAS-30 has been made mandatory in a number of countries including India, Pakistan and Sri Lanka. Though late by a decade, Bangladesh Bank deserves appreciation for issuing circular entitled Amendment of First Schedule forms of the Banking Companies Act, 1991(BRPD Circular No. 03, dated 18 April, 2000) and making implementation of the new formats of the financial statements mandatory for all concerned banks and financial institutions in Bangladesh since 30 March 2000. After this amendment the financial statements of the banks of Bangladesh as on 31-12-2000 should be prepared under the changed system, which is expected to ensure the financial discipline in the banking sector, minimize the unforeseeable risk and provide true information to the depositors and shareholders. The new forms also make the financial statements of banks in compliance with the international accounting standards. The special features of the newly introduced formats are described below:

a. Providing vertical form of financial statements with the heads or items same as those of the previous formats.
b. Stating assets and liabilities according to their relative liquidity.
c. Disclosing the required provisions on securities investments in case of declining value of investments under the new system.
d. Providing the relevant policies for practicing to disclose gross loans and advances and bills discounted and purchased after charging the necessary provisions thereon.
e. Showing the loan loss provisions on the Profit and Loss Account separately.

f. Mentioning Earning Per Share of the bank in the Profit and Loss Account.
g. Describing the Contingent and contra items (i.e. off-balance sheet items) on a separate statement and enclose with the balance sheet.
h. For making comparison between the performances of two financial statement years, the immediate previous year's financial statements are furnished along with the current year's financial statements in the annual report.
i. Preparing one additional statement i.e. Cash Flow Statement as pre International Accounting Standard.

## 1.2 Objectives of the study:

All the banking and non-banking financial institutions have liabilities to the investors, specially those, which have been enlisted or registered in the Stock Exchanges or offered shares to the public. These institutions should be more accountable for what they do.

The broader objective of the research is to study the disclosure in financial reports of the private commercial banks that are enlisted in the Stock Exchanges with limited liability to the shareholders.

The broader objective of the study can be divided into some specific objectives, which are:

1. To study the sample banks' financial statements in the annual reports to find whether it follows the structure recommended in the Banking Companies Act 1991 and IAS-30.

2. To see the disclosure status of banks after adoption of IAS 30.

3. To compare the newly introduced format of financial reporting practices after adoption of IAS 30 with the previous practice of financial reporting before adoption of IAS 30.

4. To explore the association between accounting disclosure and market value of shares of banks.

## 1.3 Hypotheses:

For this research hypotheses are stated following:

**Null hypothesis:** No significant improvement has happened in the disclosure practices in financial statements of banks after adoption of IAS 30.

**Alternate hypothesis:** A significant improvement has happened in the disclosure practices in financial statements of banks after adoption of IAS 30.

## 1.4 Scope of the study:

The instruction in the IAS-30 should be applied to the financial statements of banks and similar financial institutions. For the purposes of this Standard, the term "banks" mean those financial institutions one of whose principal activities is to take deposits and borrow with the objective of lending and investing and which are within the scope of banking or similar legislation.

The amendment of following the standards of IAS-30 is made in the year 2000. For the study, the financial statements in the annual reports of banks in year 1999 to 2002 are taken to see the trend or improvement of disclosure practice after adoption of IAS 30. But the question is about the reliability of the information presented in these reports. For the convenience of the study the focus is given to the annual reports of those banks that are enlisted in the Stock Exchanges to find the relevance of the items given there with the requirements of Banking Companies Act 1991 and IAS-30. Thus in the study, these banks are assumed as the representative of the banking industry in our country.

### 1.5 Rational of the study:

Disclosure in financial statements of banks is important for the users to take decision. Those who are interested to invest in share market can use this information to take decision about a bank's performance as per their annual reports. The regulatory body of banking industry also can use the information to assess a bank's performance. The general public or deposit holders of a bank can know about their bank's position from their financial disclosure. The general employees of a bank can be informed about the financial position of their bank. A bank itself can use the research findings to evaluate its competitive position in the market and thus can take necessary steps to improve its own performance. The information can also help in the assessment process of the commercial banks in respect of other government banks and multi national or foreign banks operating in Bangladesh.

The objectives of the financial reporting are as follows:

i. To provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions;
ii. To provide information to potential investors and creditors and other users in assessing the amounts, timings and uncertainty of prospective cash receipts from dividends or interests and the proceeds from the sale, redemption or maturing of securities or loans;
iii. To provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transaction, events and circumstances that change resources and claims to those resources;
iv. To provide information about an enterprise's financial performance during a period;
v. To present information about how management of an enterprise has discharged its stewardship responsibility to owners for the use of enterprise resources entrusted to it;
vi. To provide information about how an enterprise obtains and spend cash, about its borrowing and repayment of borrowing, about its capital transaction, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency;

vii. To provide information that is useful to managers and director in making decisions in the interest of owners

User groups of information in financial reporting are:

a) Equity investors groups,
b) Loan creditor groups,
c) Employee group,
d) Analyst adviser group,
e) Business contact group,
f) Government and
g) The public.

To fulfill the basic objectives reports should include only that information which has usefulness in decision-making. All information is not useful. To be useful, the information must fulfill certain qualitative characteristics. These characteristics are:

i. Timeliness,
ii. Understandability,
iii. Completeness,
iv. Consistency,
v. Reliability,
vi. Comparability, and
vii. Relevance

In the context of the commercial banks, financial reporting or annual reporting is necessary to fulfill legal requirements and to enable the controlling ministry and Bangladesh Bank to evaluate the performance of the banks. Through this process the banks discharge their accountability to the people. In view of this the Government of People's Republic of Bangladesh made it mandatory for the banks to furnish to the Government and Bangladesh Bank a copy of the audited balance sheet and a copy of the profit and loss account for the year and a report on the working of bank and to publish the same in the prescribed manner as soon as possible after the end of every financial year. In view of the importance of the financial reporting. Banking Companies Act, 1991 (amended in 1993) which was made effective from 24th February, 1991, makes it mandatory for private sector commercial banks to furnish to Bangladesh Bank and Register of Joint Stock Companies, copies of the audited balance sheet and profit and loss account together with auditors' report.

## 1.6 Methodology of the Study:

The following methodology has been used for the study:

a. **Information is a source of value:** As expected that this piece of work will contribute to banking information provided through financial statements of commercial banks that may be used by all stakeholders in making decision about investment and financing.

b. **Sample Design:** The study is designed for listed private commercial banks in Bangladesh, whose shares listed in Stock Exchanges and operating under Bank Companies Act, 1991. There are thirty private commercial banks operating in Bangladesh. Among these banks there are local and foreign banks. At present twenty-three private commercial banks are listed under two Stock Exchanges (Dhaka Stock Exchange and Chittagong Stock Exchange). The study includes fourteen (14) private commercial banks listed in Dhaka Stock Exchange (DSE) as samples for the research.

c. **Sources of Data:** The required information and data for the purpose of the study are collected from the secondary sources i.e. the sample banks' published annual reports in year 1999, 2000, 2001 and 2002.

d. **Checklist:** A checklist following a similar study by ICAB (Institute of Chartered Accountants of Bangladesh) was prepared for collecting data from the annual reports of banks. This has been used to form a new checklist for this research. Another checklist is also prepared to develop a priority index for qualities of information in the financial statements of banks.

e. **Analysis:** Statistical Package for Social Sciences (SPSS) program is used to find the correlation between variables in the study. Microsoft Excel is used to prepare the checklists and analyze the checklist data. The questions in the checklist (Appendix-5) are close ended and have to follow any one of two possible responses. Then frequency of responses is marked for each sample bank during year 1999 to 2002 and shown as percentage in chapter seven. The compliance of accounting standard and format prescribed by Bank Company Act 1991 and IAS 30 by banks is found by the percentage points determined from the checklist data.

f. **Literature review:** Literature review is prepared on the subject of this study and it is presented in chapter two.

# Chapter – Two

# Literature Review

# Chapter Two

# Literature Review

## 2.1 Introduction

International Accounting Standard (IAS) and other literature review regarding the disclosure in financial statements are described in this chapter. Then short history of banking in Bangladesh, description of IAS 30, effective date of IAS, types of financial statements i.e. balance sheet, income statements and their contents, disclosure of risk management, contingencies and commitments, trust activities, status of disclosure before adoption of IAS 30, Disclosure practice in Pakistan, status of disclosure after IAS 30 adoption, comparison between Bank Company Act 1991 and IAS 30, disclosure as corporate social responsibility and corporate governance reporting all these are highlighted based on related literature study.

## 2.2 History of Banking in Bangladesh

Before liberalization of Bangladesh in 1971 the total banking system was private owned, urban based and profit oriented. But after the liberalization, the government of Bangladesh nationalized all the banks operating in Bangladesh in 1972, excepting a few foreign bank branches. Government also reorganized the then existing commercial banks into six (6) distinct new banks in the following manner in terms of Bangladesh Bank (Nationalization) Order, 1972.

Commercial banks of Bangladesh in 1972:

| Existing banks | Reorganized banks |
|---|---|
| 1. The National Bank of Pakistan<br>2. The Bank of Bahawalpur Ltd. | Sonali Bank |
| 3. The Premier Bank Ltd.<br>4. The Habib Bank Ltd.<br>5. The Commerce Bank Ltd. | Agrani Bank |
| 6. The United Bank Ltd.<br>7. The Union Bank Ltd. | Janata Bank |
| 8. The Muslim Commercial Bank Ltd.<br>9. The Standard Bank Ltd. | Rupali Bank |
| 10. The Australasia Bank Ltd.<br>11. The Eastern Mercantile Bank Ltd. | Pubali Bank |
| 12. The Eastern Banking Corporation Ltd. | Uttara Bank |

Source: Khan, Mohammed Khalid, "Banking System in Bangladesh: 1972-1982". The Bangladesh Times, March 20, 1982.

By December 1986, 2 out of 6 Nationalized Commercial Banks mentioned above have been denationalized and 6 newly formed private commercial banks have been allowed to operate in the banking sector of Bangladesh. Then by 2003, the total number of private commercial banks has become 30 in Bangladesh. The present trend in the banking arena of Bangladesh is that the most of the private commercial banks have been opening their branches in the urban areas and confining themselves largely with the financing of trade and commerce.

## 2.3 International Accounting Standard - 30

International Accounting Standard IAS 30 deals with the disclosures in the financial statements of banks and similar financial institutions. It is set out in paragraphs 1 to 59. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. This Standard should be applied in the financial statements of banks and similar financial institutions. Here banks mean all financial institutions, one of whose principal activities is to take deposits and borrow with the objective of lending and investing and which are within the scope of banking or similar legislation.

IAS 30 commentary on accounting policies to prepare financial statements of banks is aimed at harmonization of all methods used by banks. It directs to comply with IAS 1 Presentation of Financial Statements and to disclose the accounting policies dealing with the following items:

a) the recognition of the principal types of income;
b) the valuation of investment and dealing securities;
c) the distinction between those transactions and other events that result in the recognition of assets and liabilities on the balance sheet and those transactions and other events that only give rise to contingencies and commitments;

d) the basis for the determination of losses on loans and advances and for writing off uncollectable loans and advances and;
e) the basis for the determination of charges for general banking risks and the accounting treatment of such charges;

## 2.4 Effective date:

The International Accounting Standard becomes operative for the financial statements of banks covering periods beginning on or after 1 January 1991. Following the recommendations of the Basle Supervision Committee and International Accounting Standard Committee to make public disclosure and transparency in the banking institutions, Central Bank of Bangladesh came forward to introduce IAS-30 in the banking arena. Bangladesh Bank issued a circular (BRPD Circular No. 3/2000 dated 18/04/2000) to prepare financial statements with effect from 31.12.2000 of all banks in Bangladesh following the recommendations of IAS-30.A positive support for implementation of IAS also came from concerned agencies like the Board of Investment, Securities Exchange Commission, Institute of Chartered Accountants of Bangladesh (ICAB), Stock Exchanges, chamber bodies, investment forums and international entities like the World Bank and the Asian Development Bank.

## 2.5 Income Statement:

Saha and Rahman (2000) finds that as per IAS-30 financial statements should include a balance sheet, a profit and loss account or income statement and a cash flow statement with their supporting notes. IAS 30 states that banks should disclose the principal types of income and expenses according to their nature and amount. The disclosures in the income statement or statement of profit and loss account and the notes to the financial statements should include, but are not limited to, the following items of income and expenses:

- Interest and similar income
- Interest expense and similar charges
- Dividend income
- Fee and commission income
- Fee and commission expense
- Gains less losses arising from dealing securities
- Gains less losses arising from investment securities
- Gains less losses arising from dealing in foreign currencies
- Other operating income
- Losses on loans and advances
- General administrative expenses and
- Other operating expenses

Each type of income and expense arising from the operations of a bank should be disclosed separately so that the users can assess the performance of a bank. Income and expense items should not be offset except for those relating to hedges and to assets and liabilities, which have been offset. Gains and losses arising from each of the following should normally be reported on a net basis:

a) disposals and changes in the carrying amount of dealing securities;
b) disposals of investment securities; and
c) dealings in foreign currencies

The separate disclosure of interest income and interest expense gives a better understanding of the composition of, and reasons for changes in, net interest. Net interest is a product of both interest rates and the amounts of borrowing and lending. The management can provide a commentary on average interest rates, average interest earning assets and average interest-bearing liabilities for the reporting period.

## 2.6 Balance Sheet:

Balance sheet is the important financial statement that presents assets and liabilities as well as the financial health of a bank or financial institution. The disclosures in the balance sheet or the notes to the accounts or notes to the financial statements should include, but not limited to, the following assets and liabilities:

- Assets
  - Cash and balances with the central bank;
  - Treasury bills and other bills eligible for rediscounting with the central bank;
  - Government and other securities held for dealing purposes;
  - Placements with, and loans and advances to, other banks;
  - Other money market placements;
  - Loans and advances to customers; and
  - Investment securities.

- Liabilities
    - Deposits from other banks;
    - Other money market deposits;
    - Amounts owed to other depositors;
    - Certificates of deposits;
    - Promissory notes and other liabilities evidenced by paper; and
    - Other borrowed funds.

To classify its assets and liabilities, a bank can group them by their nature and list them in the approximate order of their liquidity or maturity. The information of cash holding by a bank itself or with other banks or financial institution is important to understand a bank's relations with, and dependence on, other banks or financial institutions. This is why a bank should disclose separately the following items:

a) Balances with the central bank;
b) Placements with other banks;
c) Other money market placements
d) Deposits from other banks
e) Other money market deposits; and
f) Other deposits

Azizuddin (2001) appreciates the standards of IAS 30 for disclosing assets and liabilities as per their maturity groupings. Because he continues to say that information about maturities of assets and liabilities give concise picture of the bank's liquidity. Maturities can be expressed in more than one way, for instance, by remaining period to the repayment date or by the original period to repayment date. IAS 30 recommends that the maturity analysis of assets and liabilities be presented by the remaining period to repayment date, as this provides the best basis to evaluate the liquidity of the bank. It is important that the maturity periods adopted by a bank are the same for assets and liabilities. Because the mismatch between assets and liabilities, not only raises a liquidity or solvency problem, but also in periods of changing interest rates it places the bank at risk of having its normal "spread" (the difference between interest earned and interest paid) become diminished or turn negative.

## 2.7 Contingencies and Commitments:

Azizuddin (2001) again comments that a bank is exposed not only to liquidity risks but to many other risks arising from currency fluctuations, interest rates movements, changes in market prices, and counterparty failure etc. Those risks are associated not only with assets and liabilities, which are recognized on a bank's balance sheet, but also with off-balance sheet items. IAS 30 includes certain disclosure requirements relating to off balance sheet items. Because the contingencies and commitments bear risk and can't be withdrawn at the discretion of the bank without incurring significant penalty or expense. The nature and amount of contingent liabilities and commitments arising from off balance sheet items including those relating to:

i. direct credit substitutes including general guarantees of indebtedness, bank acceptance guarantees and stand by letters of credit serving as financial guarantees for loans and securities;

ii. certain transaction-related contingent liabilities including performance bonds, bid bonds, warranties and stand by letters of credit related to particular transactions;

iii. short-term self-liquidating trade-related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security;

iv. those sale and repurchase agreements not recognized in the balance sheet;

v. interest and foreign exchange rate related items including swaps, options and futures; and

vi. other commitments, note issuance facilities and revolving underwriting facilities.

## 2.8 Maturities of assets and liabilities:

The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors for assessing the liquidity position of a bank and its risk exposure to changes in interest rates and exchange rates. So a bank should disclose an analysis of assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The maturity groupings applied to different assets and liabilities differ between banks. Examples periods used include the followings:

a) up to 1 month
b) from 1 month to 3 months
c) from 3 months to 1 years
d) from 1 year to 5 years and
e) from 5 years and over.

Maturities of assets and liabilities could also be expressed in terms of:

a) the remaining period to the repayment date;
b) the original period to the repayment date; or
c) the remaining period to the next date at which interest rates may be changed.

The analysis of assets and liabilities by their remaining periods to the repayment dates provides the best basis to evaluate the liquidity of a bank. A bank may also use any one from the rest two methods. Bank management can also provide information about interest rates exposure and about the way it manages and controls such exposures.

Some assets of a bank do not have a contractual maturity date. The period in which these assets are assumed to mature is usually taken as the expected date on which the assets will be realized. But the users evaluate a bank's liquidity not only based on the disclosure of maturity groupings as found in the financial reporting but also the context of local banking practices including the availability of funds to the bank.

## 2.9 Losses on Loans and Advances:

In the ordinary course of business, banks may suffer form losses on loans, advances and other credit facilities. The assessment of these losses depends on the judgment of management and sometimes central bank may also classify some particular loan. Then central bank regulation or bank's own judgment may require bank to set aside amounts for losses on loans and advances in addition to those losses which have been specifically identified and those potential losses which experience indicates, are present in the portfolio of loans and advances. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining net profit or loss for the period. Similarly any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

Banks should disclose information on the amount of losses on loans and advance in their financial statements so that users can assess the impact of these losses on the bank's financial position. This leads a bank to disclose the aggregate amount of provision for losses on loans and advances at the balance sheet date and the movements in the provision during the period. The movements in the provision, including the amounts previously written off that have been recovered during the period, are shown separately.

A bank needs to disclose the following points in the financial disclosures:

a) the accounting policy that describes the basis on which uncollectable loans and advances are recognized as an expense and written off;
b) details of the movements in the provision for losses on loans and advances during the period;
c) the aggregate amount of the provision for losses on loans and advances at the balance sheet date; and
d) the aggregate amount included in the balance sheet for loans and advances on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances.

IAS 30 suggests the following procedures for dealing with losses on loans and advances:

- The amount of losses which has been specifically identified is recognized as an expense and deducted from the carrying amount of the appropriate category of loans and advances as a provision for losses on loans and advances- this is sometimes referred to as "specific provision".
- The amount of potential losses not specifically identified but which experience indicates are present in the portfolio of loans and advances is also recognized as an expense and deducted from the total carrying amount of loans and advances as a provision for losses or loans and advances- this is sometimes referred to as "general provision" and
- When loans and advances cannot be recovered, they are written off and charged against the provision for losses.

## 2.10 Disclosing general banking risks:

A bank may set aside amounts for general banking risks, including future losses or other unforeseeable risks, in addition to the charges for losses on loans and advances. A bank may also set aside amounts for contingencies. Such amounts for general banking risks and contingencies do not qualify for recognition as provisions IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Therefore bank should recognize such amounts as appropriations of retained earnings and take care not to overstate the liabilities, understate the assets and undisclosed accruals and provisions in the balance sheet. In our country, Statutory Reserve as required to be maintained by banks in accordance with Section 24 of the Bank Company Act, 1991 is a reserve for "General Banking Risks" and is created by appropriation of profit.

## 2.11 Assets pledged as security:

The aggregate amount of secured liabilities and the nature and carrying amount of the assets pledged, as security should be disclosed as per Standard 53 of IAS 30 as this may have significant impact on the financial position of a banks.

## 2.12 Trust activities:

Banks may act as trustees that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Disclosure of such trust activities in bank's financial statements is important because of the potential liability if it fails in its fiduciary duties.

## 2.13 Related party transactions:

When related party transactions arise in the ordinary course of a bank's business, information about such transactions is relevant to the needs of users and IAS 24 requires its disclosure. The elements that would normally be disclosed to conform to IAS 24 include a bank's lending policy to related parties and, in respect of related party transactions, the amount included in or the proportion of:

a) Each of loans and advances, deposits and acceptances and promissory notes;
b) Each of the principal types of income, interest expense and commissions paid;
c) The amount of the expense recognized in the period for losses on loans and advances and the amount of the provision at the balance sheet date; and
d) Irrevocable commitments and contingencies and commitments arising from off balance sheet items.

## 2.14 Disclosure of risk management:

Schilder (2002) comments, "Without an appropriate environment of sound corporate governance and risk management, accounting standards resemble a safe car without a qualified driver." He thinks accounting standards need to be adapted to changes in corporate practices and financial markets. To address this, there is a constructive dialogue between accounting standard setters, like

IASB, and regulators, such as the Basel Committee on Banking Supervision. Then Shilder (2002) turns to transparency, as it is a prerequisite for effective market discipline. In theory, the rationale for greater transparency is that companies, particularly financial institutions, present information asymmetries to the markets. Simply speaking any company is better informed about its own operations than outsiders are. If the company publishes more information to facilitate the assessment of its assets and liabilities, its strategies and risk profile, markets can function more effectively, at least in theory. Markets contain disciplinary mechanisms, which stimulate sound management and adequate financial performance. For companies, which are well run, well financed, and transparent, costs of raising capital will tend to decline. The reverse goes for ill-managed firms. More generally, well-run firms, by being transparent, can obtain better terms and conditions in transactions with informed and rationally behaving market counter parties. In essence, this is market discipline.

Market discipline, however, works only if market participants have sufficient information, which enables them to assess companies' activities and their inherent risks. But more disclosure as such does not necessarily result in greater transparency. On the contrary, rather than just expanding their disclosures, firms should pay attention to the quality of information as well. In short, information disclosure needs to be timely, reliable, relevant and sufficient. Importantly, public disclosure of high quality information contributes to corporate governance. That is to say, the information can be used to hold directors and managers accountable for their decisions and the firm's performance. Transparency, in other words, serves the accountability of companies to their stakeholders. One aspect of public disclosure, which should not be overlooked, is the costs involved. Information is not a free good. On the contrary, developing, implementing and maintaining up to standard information systems is costly and takes time. For that reason, accounting standards, should, above all, require relevant information. However, there is a professional risk of an overdose of information, which must be heeded by both standards setters and regulators.

Disclosure of negative information like amount of loan loss provision is must after the adoption of IAS 30 in bank's financial reporting. Ahmed and Karim (2005) thinks that in the long run, a transparent disclosure in annual financial reports is beneficial, even if some problems are created in the short run, because the cost to the financial system of not being transparent is ultimately higher than the cost of being transparent. Then we get the idea of creating an environment where information on existing conditions, decisions and actions are made accessible, visible, and understandable to all market participants for ensuring transparency. This leads us to accountability, which means the need for market participants, including the authorities to justify management's action and accept responsibility for the results. So central bank including other market participants realizes that transparency (that is, the openness of policy) improves the predictability and the efficiency of policy decisions. Moreover transparency forces a firm to face up to the reality of a firm's financial position and makes officials more responsible, as they know they will have to justify their views, decisions, and actions afterwards.

## 2.15 Inadequate Disclosure Practice before Adoption of IAS 30:

Haque (2003) throws light on the inadequacies of disclosure practice, lack of social and environmental concerns and weak corporate governance policies by banks of Bangladesh, in his survey report by using data of ten sample banks listed in Dhaka Stock Exchange. There he finds only few banks are presenting chairman's report in their annual financial disclosure and in other cases, chairman signs directors' report. There is also no statement on corporate strategies, mission, vision, values and objectives of banks in their annual report. Absence of such core information in the annual report indicates the weakness of management's future policy and affects present performance of banks.

On the other hands, banks' annual report hardly reflects their social and environmental concerns. There is no mention of banking activities directed towards reduction of environmental hazards that is threatening the ecological balance in the country. Banks interest is not found also in helping the unemployed youth to invest by providing them loans or small credits. A small number of banks found to support some sport and cultural activities concentrated in urban areas mostly. The descriptive reviews on financial instruments marketed by banks are found in their annual reports, which is satisfactory. But the annual report states no corporate planning function in local banks of Bangladesh to diversify investment portfolio in terms of size, sector geographical area, economic purpose etc. So is the case with mission research and development functions by local banks, which reflect that they are least, concerned with doing new and innovative banking. This void has been captured by the foreign banks operating in Bangladesh by introducing better financial service through a small number of branches and thus earning a huge profits.

In disclosing information on distribution of loans and advance, banks do not follow the way of breaking down the amounts in terms of geographical areas, business sectors, rural-urban divisions etc. Reporting of the collection of deposits is not descriptive also in terms of geographical concentration. Three banks out of ten are found to report capital adequacy ratio and they are above the 8% required as minimum. Others do not report because the ratio is below the minimum standard may be. Then ownership of these banks if found highly concentrated in a few families, like the Chinese hia quas in ASEAN. Such high debt-equity ratios in banks create reckless lending that results in high loan defaults averaging close to 20% of assets in private commercial banks. Including the national commercial banks this ratio is above 32% in March, 2002. Two-three years back it was above 40%. In March, 2002 classified loans amounted to Tk. 24,343 crore, out of which Tk. 21,049 crore is classified as bad loans. This shows a substantial part of depositors money has been siphoned away by the private commercial banks as bad loans and it is clear that many banks are operating without minimum required capital as prescribed. But all these phenomena are not fairly disclosed by the banks in Bangladesh.

## 2.16 Disclosure practice in Pakistan:

In Pakistan, banking business and other financial services are subject to follow the best international standards and practices of financial disclosures. To ensure better disclosure, instructions have been issued in the forms of various sections of the Companies Ordinance, 1984, Banking Companies Ordinance (BCO), 1962, listing requirements of the stock exchanges, Code of Corporate Governance of the SECP and the circulars issued by State Bank of Pakistan (SBP).

In order to guide Pakistan banking industry to ensure compliance of statutory requirements regarding financial disclosure, it has been decided to issue the Master Circular containing consolidated instructions on the subject. All banks and Development Financial Institutions, listed or non listed – including branches of foreign banks and those which have peculiar shareholding structure, are advised to follow the instruction as given bellow:

- At the end of each accounting year, all banks are required to prepare their annual financial statements in the prescribed manner, as on the last working day of that year. These financial statements together with the auditor's report, as passed in the Annual General Meeting, shall be published and circulated as well as furnished, as returns, to the SBP as prescribed in the BCO, 1962.
- For 1st and 3rd quarter, quarterly un-audited financial statements, along with director's review, shall be prepared by al banks and DFIs, including the branches of foreign banks, within 45 days of the close of the quarter to which they relate. Domestic banks and DFIs shall circulate these quarterly financial statements to their shareholders. Furthermore an abridged version of the quarterly financial statements shall be published in the newspaper(s) by all banks and DFIs, including branches of foreign banks, within the aforesaid time.
- Half yearly (2nd quarter) financial statements, with limited scope review by the statutory auditors, shall be prepared by all banks and DFIs, including the branches of foreign banks, within two months of the close of the half year (2nd quarter). These half yearly statements shall be circulated to the shareholders by domestic banks and DFIs. Furthermore

an abridged version of the half yearly financial statements shall be published in the newspaper(s) by all banks and DFIs, including branches of foreign banks, within the aforesaid time.

Beside above, other requirements of Code of Corporate Governance regarding financial disclosure shall remain applicable, provided they are not inconsistent with the SBP's instructions. Moreover, Quarterly Report of Condition, and other reports shall continue to be submitted as required.

Not only Pakistan, several other countries including India, Srilanka, Kenya, Nigeria, Zimbabwe, Bangladesh are using International Accounting Standards as bases to develop their national accounting standards. It is noteworthy that most of the developing countries do not have the economic and technological capacity and capability to develop their accounting and reporting standards. So they follow accounting standards issued by a developed country or the accounting standards issued by the IASC. The desire to ensure flow of fund through international investment may be a reason for such adoption or adaptation. However, the process has improved the reporting standard and brought a harmony in the disclosure practice.

## 2.17 Benefits of adoption of IAS 30:

Saha and Rahman (2002) observe that IAS 30 is a strongest vehicle for good governance as it ensures effective accounting and control system by generating necessary information for the stakeholders. Due to the implementation of IAS 30, banks are getting no scope now for hiding any weaknesses in the operating side. So problems or weaknesses are timely identified by all and management takes corrective measures. The new disclosure ensures information on insider lending which may refrain the directors, managing director or other top executives from taking unauthorized loans. In the international environment, the banks disclosure status becomes more acceptable than before. Implementation of IAS 30 may not drive out all problems instantaneously, but the disclosure in terms of segregation of the loan portfolio under different sub heads would reveal the true state of affairs to the users of bank's financial statements. There might be some discomfort by banks to disclose prevailing limping state i.e. problem ridden state in financial statements, in fear of losing confidence among the depositors or stakeholders. However the reality is that it will take time for the majority of stakeholders to understand the intricacies involved in interpretation of the financial statements. Meanwhile the ailing banks can speeded up their corrective measures on the basis of disclosure to avoid further deterioration.

Werner (2003) finds that in Bangladesh banks and financial institutions are main source of funds for commercial purposes rather than equity or capital market products. The capital market does not have the depth necessary to serve as an enforcer of corporate governance standards. The debt market is non-existent and insurance market is not the major force in the financial sector. Therefore the primary stakeholders in corporate governance are creditors, particularly lenders. Banking sector can serve as a motivation for better corporate governance. Beginning from calendar year 2001, banks are required to follow IAS 30 to classify their loans (sub-standard, doubtful or bad) based on the default activity and make a loan loss provision specially for classified loans, as well as make a general provision for loans that are unclassified.

Accurate compliance with the requirements of IAS 30 will provide more information to bank stakeholders and create a consensus for reform.

## 2.18 Disclosure As Corporate Social Responsibility:

Mahmud (2003) states that a number of high profile corporate failures emphasize the need for transparency and efficiency in corporate governance practice by the business entities in recent time. It is also noted that to raise external finance, disclosure of true financial information of a firm to the market is important. Now a days corporate reporting is not only restricted to information on financial performance only, but also the environmental and social welfare policy used by a firm or business entity to evaluate the full impact of its activities in the society. A relatively new and rapidly growing issue in developing countries and more widely practiced in the developed nations, Corporate Social Responsibility (CSR), is the initiative by business firms to invest a part of their profit earned for the welfare of the society to create a public image and educated consumer base. Many companies operating in Bangladesh are trying to play the role of "responsible corporate citizens" by the commitment of working for sustainable economic growth as well as the development of society.

## 2.19 Evaluation of IAS-30 with Bank Company Act 1991:

Chowdhury (1997) comments that Contents and presentation of the Income Statement and Balance Sheet illustrated in IAS 30 are not drastically different- rather generally in agreement with that shown in Form B and A respectively of the First Schedule under Section 38 to Bank Company Act 1991. Both BCA and IAS-30 follow accrual basis accounting. As per BCA the income items are stated in the income statement after deducting necessary provision for bad and doubtful debts and other provision while income items as per IAS 30 are stated at the actual amount of revenue recognized against that item without any reduction for provisions. Provision for losses on advances is added (debited) to interest expense as per BCA. But all provisions against advances are disclosed separately on the income statement as per IAS 30. Both BCA and IAS 30 disclose a comprehensive coverage of assets on balance sheet marshalled in terms of liquidity. Under BCA, loans and advances are stated on the Form A Balance Sheet as a "net" amount of "advances", after deduction of relevant provisions. This often helps to serve as a "facade" for non-disclosure of the actual amount of loans and advances considered bad and doubtful. On the other hand IAS 30 provides more transparent disclosure of all items on the balance sheet. So in the context of Bangladesh, IAS 30 is particularly relevant to all National Commercial Banks (NCB), Private Commercial Banks (PCB) and Foreign Banks reporting in Bangladesh and generally to Development Financial Institutions (DFI) and other specialized financial institutions as well.

## 2.20 Corporate Governance Reporting:

Mirza (2002) attempts to show that corporate governance reporting is important for the shareholders and other stakeholders to assess the true nature of the risk and uncertainties in the reporting period of financial statements. He points out that reporting of non-compliance with accounting standards is part of corporate governance reporting. He finds as per International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), a complete set of financial statements includes:

a. a balance sheet
b. an income statement
c. a cash flow statement
d. a statement showing either ass changes in equity or changes in equity other than those arising from capital transactions with owners and distributions to owners
e. accounting policies and other explanatory notes to the financial statements

If any firm do not present all the statements mentioned above or if any firm's footnotes (explanatory notes) do not have all disclosures prescribed by the Accounting Standards, such non compliance should be reported as part of corporate governance reporting. Then a special committee constituted by the board should monitor presentation of financial statements and compliance with Accounting Standards.

## 2.21 Timely Release of Financial Information:

Karim (2003) emphasizes the need for timely provision of financial information in Bangladesh. He finds that recognizing the significance of timely release of financial information, regulatory agencies of financial disclosure around the world have set statutory maximum tile limit within which public companies are required to issue audited financial statements to share holders and other external users. In Bangladesh the long audit delay leads to an even longer publication delay as companies are reluctant in arranging AGMs in years of poor financial performance or low or no dividend announcement prospects. Although the Companies Act 1994 requires all companies, listed and unlisted to furnish their annual reports before the AGM within nine months of expiry of their respective accounting years, many firms do not comply with this requirement. But it can be expected that the efficiency of regulatory bodies will create pressure on timely financial reporting, gradual adoption of International Accounting Standards and timely audit by the auditors.

## 2.22 Conclusion

Thus in all literature review we find the need for adequate disclosure of information by banks to ensure credit risk management, corporate governance and market discipline. We also find the background of forming International Accounting Standard (IAS) and provisions under IAS 30 for disclosure on bank's assets, liabilities, losses on loans, general banking risks, trust activities and related party transactions. Some researcher that leads us to realize the importance of adequate and transparent disclosure practice for ensuring corporate governance as well as market discipline also highlights inadequacy of disclosure by banks in Bangladesh before adoption of IAS 30. So many countries including Bangladesh have adopted IAS 30 provisions for preparing financial statements. Then we have seen a comparison between provisions of IAS 30 and Bank Company Act 1991 in terms of disclosure in bank's financial statements. In many cases IAS 30 acts as complimentary to Bank Company Act 1991. Adoption of IAS 30 with Bank Company Act 1999 presents proper guidelines for bank's information disclosure. In next chapter we will see the importance of information disclosure that will clear the need for adoption of IAS 30 for banking sector.

Thus in all literature review we find the need for adequate disclosure of information by banks to ensure credit risk management, corporate governance and market discipline. We also find the background of forming International Accounting Standard (IAS) and provisions under IAS 30 for disclosure on bank's assets, liabilities, losses on loans, general banking risks, trust activities and related party transactions. Some researcher also highlights inadequacy of disclosure by banks in Bangladesh before adoption of IAS 30. This leads us to realize the importance of adequate and transparent disclosure practice for ensuring corporate governance as well as market discipline. So many countries including Bangladesh have adopted IAS 30 provisions for preparing financial statements. Then we have seen a comparison between provisions of IAS 30 and Bank Company Act 1991 in terms of disclosure in bank's financial statements. In many cases IAS 30 acts as complimentary to Bank Company Act 1991. Adoption of IAS 30 with Bank Company Act 1999 presents proper guidelines for bank's information disclosure. In next chapter we will see the importance of information disclosure that will clear the need for adoption of IAS 30 for banking sector.

# Chapter - Three

# Methodology

# Chapter Three
# Methodology

## 3.1 Introduction:

The description of methodology is presented in this chapter. Here we will see the number of banks operating in Bangladesh, the names of fourteen sample banks, reference period, type and source of data, source of checklist used for this research.

## 3.2 Number of banks:

The number of banks operating in Bangladesh during years 1999 to 2002 is shown in the table below. The number of private commercial banks has been increased from 19 to 30 during year 1999 to 2003. Among these 30 banks 5 banks are operating based on Islamic Shariah. 14 banks are chosen as sample banks from the group of private commercial banks.

**Table 1: Banking industry in Bangladesh**

| Types of Banks | No of banks as on 30.06.99 | No of banks as on 30.06.00 | No of banks as on 30.06.01 | No of banks as on 30.06.02 | No of banks as on 30.06.03 |
|---|---|---|---|---|---|
| Nationalized Commercial Banks | 4 | 4 | 4 | 4 | 4 |

| | | | | | |
|---|---|---|---|---|---|
| Private Commercial Banks | 19 | 27 | 29 | 30 | 30 |
| Specialized Banks | 5 | 5 | 5 | 5 | 5 |
| Foreign Banks | 13 | 13 | 13 | 12 | 10 |
| Total | 41 | 49 | 51 | 51 | 49 |

The sample banks are:

1) Arab Bangladesh Bank Limited
2) City Bank Limited
3) IFIC Bank Limited
4) National Bank Limited
5) Pubali Bank Limited
6) United Commercial Bank Limited
7) Uttara Bank Limited
8) Eastern Bank Limited
9) Prime Bank Limited
10) Southeast Bank Limited
11) Dhaka Bank Limited
12) National Credit and Commerce Bank Limited
13) Dutch Bangla Bank Limited
14) Mercantile Bank Limited

All the Islamic Banks are excluded from the sample size. Because these banks' operating systems are based on Islamic Shariah which is quite different from other private commercial banks. The accounting policy of these banks is also different than other banks. Foreign commercial banks and Nationalized banks are also exempted from the study, as their financial reports are not easily accessible.

## 3.3 Reference period:

The study is concentrated on the disclosure of financial statements of banks during 1999 to 2002. The trend of disclosure by banks in these 4 (four) years has been analyzed. This study period has been divided into 2 (two) sub-periods:

a) Disclosure practice in the period before adoption of IAS 30 by banks i.e period before 2000
b) Disclosure practice after adoption of IAS 30 by banks i.e period after 2000

## 3.4 Data type and source:

The data collected for the study is secondary data. A checklist (Appendix-5) has been prepared to collect secondary data from annual reports of sample banks for the years 1999, 2000, 2001 and 2002 to find the extent of disclosure by banks. Another checklist is used (Appendix-6) to develop a priority index on the qualities of information found in the bank's disclosure. Some relevant data have also been collected from Bangladesh Bank Report, BRPD Circular, Security and Exchange Commission, Bangladesh Bank Bulletin, ICAB etc. The sources of data are mentioned at the end of each table.

## 3.5 Source of checklist:

In ICAB a checklist is prepared by Professor Dr. M. Shamsul Haque of IBA for a report titled "Survey of Published Annual Reports of Listed Companies (Financial) for the Year 1999" for a project titled "Development of Accounting and Auditing Standards in Bangladesh" funded by the World Bank. Following this checklist a new checklist is prepared for the present research to collect data from private commercial bank's published annual reports in year 1999 to 2002. Another checklist is also prepared to set a priority index for the qualities of information found in bank's annual reports. In chapter seven the findings of the two checklists are presented in tabular form with comments.

## 3.6 Calculation:

After taking into account the disclosure by banks, the association of disclosure and market value to book value ratio has been traced out. The sample banks have been rated based on the extent of information disclosure and market value to book value ratio. Then both the ratings have been compared to see whether there is consistency in two types of rating of banks or not. The two ratings are compared by using SPSS program to find the correlation between them. The closing price of bank's share as on the last working day of the year is taken as market value and bank's published annual report data in the balance sheet is used to calculate book value of bank. The book value and market value of bank's share are calculated in the following way:

Book value of share = Net worth ÷ No of ordinary shares

Market value of share = Bank's share price in the market

## 3.7 Developing Priority Index:

A priority index is developed for the qualities of bank's information disclosed in the annual reports. For this, a separate questionnaire (Appendix-6) has been prepared and filled up using 14 sample banks' annual report in year 2000. Value has been assigned to each answers in the checklist and five qualities i.e. understandability, relevance, reliability, timeliness and comparability are rated based on the value calculated from the checklist. This rating shows priority or preference for the quality of information disclosed by banks in their annual report.

## 3.8 Conclusion:

After getting the description of methodology in this chapter, we will see the importance of disclosing information by banks and the problems caused in absence of fair disclosure in next chapter.

# Chapter - Four

# Importance of Disclosure for Banks

# Chapter Four

# Importance of Disclosure for Banks

## 4.1 Introduction

The importance of disclosure for banks to ensure market discipline is the main theme of this chapter. Then benefits of disclosure, supervisor's role and review in disclosure, supervisory need for information, sound loan accounting disclosure, problem of asymmetric information and moral hazard, principal agent problem, financial crisis for lack of information, credit risk disclosure, qualitative natures of disclosure and some key areas of bank's disclosure are the discussion points of this chapter.

## 4.2 Disclosure in banking:

In banking, transparent disclosure of information is of great importance. Lack of transparency in disclosure is one of the general causes of financial crisis, experienced by the East Asian countries. It is well accepted that the banking system weaknesses is the driving force behind the Asian crises. In a situation where banks incur both interest rate and liquidity risk through funding medium or long term lending with short term funds, especially with weak capital position, they (banks) become exposed to a collapse of confidence. When banks are the major source of financial intermediation, their breakdown definitely has large effects on real activity. Moral hazard also plays a role in causing crises since interest rate and currency risk taking, excessive leverage, weak capital positions, and excessive access to international interbank funding are all encouraged by the perception that the authorities would come to rescue failing institutions. For these reasons, enhancing bank transparency and market discipline is the concern of the supervisory authority.

The report issued by Basle Committee on Banking Supervision, discusses the role of transparency and disclosure of information in effective market discipline and banking supervision. It recommends that banks should publicly disclose information regarding their activities and risk exposures to foster market discipline and strengthen financial stability. It suggests a number of core principles including accounting to be observed by the banks for ensuring an effective banking supervision system. The relevant principles are:

1. Banks establish and adhere to adequate policies and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and loan loss reserves.
2. Banks maintain adequate records drawn up in accordance with consistent accounting policies and practices that enable supervisors to obtain a true and fair view of the financial condition of the banks and the profitability of business.
3. Banks publish on a regular basis financial statements that fairly reflect their conditions.

Effective banking supervision requires collection and analysis of information to assess the condition of individual banks and banking systems as a whole. Supervisors must obtain information that enables them to detect potential problems at an early stage and identify trends not only for particular bank, but also for entire banking systems. Moreover in the present context of globalization and financial liberalization, bank's activities comprising deposit mobilization, lending, opening of letter of credit, leasing, providing guarantees, purchasing bill of exchange, forward booking of foreign exchange, providing acceptance service etc have increased both in domestic and international areas. This increased fields of business for banks requires transparent disclosure of all activities that associate risks for banks.

## 4.3 Market discipline and disclosure:

Banks collect deposits and invest these funds in risky assets (loans). To safeguard against insolvency, banks hold capital buffers against adverse outcomes in their investments in risky assets (loan default). But the bank's private solvency target may not take into account the interests of depositors, nor of society as a whole. As a result, banks may engage in excessive risk-taking. Market discipline is a mechanism that can potentially curb the incentive to take excessive risk, by making risk-taking more costly for banks.

A sound and well-managed bank should, in theory, benefit when it provides comprehensive, accurate relevant and timely information on its financial condition, performance, and ability to manage and control risks. Such a bank should be able to access capital markets more efficiently than similar institutions that do not provide adequate disclosures.

On the other hand, markets participants benefit form disclosure if they can use the information as a basis for making various types of economic decision. High quality public disclosure improves their capability to make informed decisions by-

1. Allowing them to more accurately assess a bank's financial strength and performance;

2. Increasing the credibility of information disclosed by a bank;

3. Demonstrating a bank's ability to monitor and manage its risk exposures, e.g. by the disclosure of quantitative and qualitative information about its risk measurement methodologies.

Apart from being a prerequisite for effective market discipline, there are other benefits of financial disclosure to stability of the economy. Market disruptions in an economy are likely to be greater if the flow of information is irregular, with long periods of good or no news and sudden releases of negative information. If disclosure is ongoing, the mechanisms of market discipline can work earlier and more effectively. Timely public disclosure can reduce the severity of market disturbances because market participants are informed on a more ongoing basis and therefore not as likely to overreact to information about current conditions.

## 4.4 Supervisors' role in disclosure:

To achieve the maximum benefit of public disclosure, it is in the interest of supervisors and other public policy makers to pursue policies that promote comparability, relevance, reliability and timeliness of the information disclosed. Ongoing, high-quality disclosure improves market participants' ability to distinguish banks with high risk from those that are fundamentally safe and sound, and enables market discipline to work earlier and more effectively.

In many regulatory frameworks, banks transmit to supervisory authorities, on the basis of a relationship covered by professional secrecy laws and rules, a larger amount of accounting data and other information than they are legally required to make public (e.g. annual reports) or that they publish voluntarily (e.g. in the press). Supervisory authorities can use this important stock of information not only to perform the tasks entrusted to them by law, but also to enrich the information available to the public. Confidentiality obligations mean that information usually has to be released in aggregate form. The way in which supervisory authorities make the data available to the public can be chosen form a range of options. For example, they can use more sophisticated treatments involving balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operation (balance sheet structure, capital ratios, income earning capacity, risk profiles, etc).

A key means of ensuring reliable information within banks is sound and comprehensive internal control and risk management systems. In addition, independent external auditors can enhance assurance about the reliability of disclosed information through audit. Therefore, supervisors should, in addition to measures to promote strong internal controls and risk management practices within banks, encourage ongoing improvement in auditing standards, ethics and practices.

## 4.5 Problem of Asymmetric Information and Moral Hazard:

In financial market's transactions, one party often does not know all that he or she needs to know about the other party to make correct decisions. This inequality of information that each party has is called asymmetric information. This can create problem in the financial system. Moral hazard is the problem created by asymmetric information after the transaction occurs. In financial market moral hazard occurs when the lender is subjected to the hazard that the borrower has incentives to engage in activities that are undesirable (immoral) from the lender's point of view, because these activities make it less likely that the loan will be paid back.

The problem of asymmetric information and moral hazard problem in banking industry thus helps explain why banks are among the most heavily regulated sectors in the economy. Government regulation to increase information and disclosure by banks is needed to reduce asymmetric information and moral hazard problem, which interferes with the efficient functioning of bank's securities in the market.

## 4.6 Principal Agent-Problem:

Equity contracts are claims to a share in the profits and assets of a business firm such as a bank. Equity contracts are subject to a particular example of moral hazard called the principal-agent problem. This problem occurs when managers own only a small fraction of the firm they work for, the stockholders who own most of the firm's equity (called the principals) are separate from the managers of the firm who are the agents of the owners. The separation of ownership and control leads to moral hazard in which the managers in control (the agents) may act in their own interest rather than in the interest of the stockholders-owners (the principals) because the managers have less incentive to maximize profits than the stockholders-owners do.

The principal-agent problem would not arise if the owners of a firm had complete information about what the managers were doing with the fund and could prevent wasteful expenditures or fraud. One way for stockholders to reduce this moral hazard problem is to engage in information production, the monitoring of the firm's activities, auditing the firm frequently and checking on what the management is doing. On the other hand, Government can reduce the Principal-agent problem by enforcing the firms to follow standard accounting principals and provide adequate information on the books of accounts.

## 4.7 Financial Crisis for lack of Information:

Lack of information gives rise to moral hazard as well as principal-agent problem. Financial crisis occurs when moral hazard and principal-agent problems in financial markets become much worse, so that financial markets become unable to efficiently channel funds from savers to those who have productive investment opportunities. As a result of the inability of financial markets to function efficiently, there is a sharp contraction in economic activity. In economic environment, five factors can create financial crisis: (1) increases in interest rates, (2) stock market declines, (3) unanticipated declines in the aggregate price level, (4) increases in uncertainty, and (5) bank panics.

From the above five factors, point five is our concern as it is related to the bank. We know banks perform an important financial intermediation role by engaging in information-producing activities that facilitate productive investment for the economy. Thus a financial crisis in which many banks go out of business (called a bank panic) reduces the amount of financial intermediation undertaken by banks and so leads to a decline in investment and aggregate economic activity. A decrease in number of banks during a financial crisis also decreases the supply of funds to borrowers, which in turn leads to higher interest rates. Since a rise in interest rates also increases adverse selection in credit markets, bank panics further intensify the decrease in economic activity through this way as well.

### 4.8 Qualitative characteristics of transparent information:

Transparency in public disclosure means reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, its business activities, and the risks related to those activities. Critical qualitative characteristics of information contribute to bank transparency. The four principal qualitative characteristics are understandability, relevance, reliability and comparability. However the following qualitative characteristics are important for transparent disclosure.

#### 4.8.1 Understandability:

An essential quality of the information provided in financial statements in that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.

#### 4.8.2 Relevance:

To be useful information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting their past evaluations. Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the enterprise to meet its commitments as they fall due.

### 4.8.3 Materiality:

The relevance of information is affected by its nature and materiality. In some cases the nature of information alone is sufficient to determine its relevance. For instance, the reporting of a new product or service developed by a bank may affect the assessment of the risks and opportunities facing that bank irrespective of the materiality of the results achieved by the new product service in the reporting period.

### 4.8.4 Reliability:

Information is reliable when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. An important aspect of reliability is that transactions and other events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

To be reliable, information must represent faithfully the transactions and other events. For instance, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the bank at the reporting date which meet the recognition criteria.

### 4.8.5 Timeliness

Information should be relevant to the decision-making needs of users. Information is relevant to market participants when it helps them assess the expected risks and returns of investing in, lending to, or having other exposures to a bank and its future financial performance and position. Information is relevant to supervisors when it helps them assess the safety and soundness of a bank's operation. To be relevant, information also needs to be timely.

### 4.8.6 Comparability

Comparability is another essential characteristic of information. Supervisors, market participants and other users need information that can be compared across institutions and countries and over time. So a bank should use consistent accounting policies and procedures from period to period, and uniform measurement concepts and procedures for related items. When any accounting policy is changed, the change and its effects should be disclosed. Comparability in information across banks and across countries enables users to assess the relative financial position and performance of banks against other banks.

## 4.9 Corporate governance information

Fundamental information about the bank's business management and corporate governance is required to evaluate a bank's disclosures about its financial position and financial performance, its risks and risk management strategies. Such information can help provide the appropriate perspective and context to understand a bank's activities. It is also appropriate to disclose information about the Board structure (e.g. the size of the Board, Board committees, and membership), senior management structure (responsibilities, reporting lines), and the basic organizational structure (line of business structure, legal entity structure). In addition, information should be provided about the qualifications and experience of the Board and senior executives. This information may be helpful in assessing how an institution may perform in times of stress or how it may react to changes in the economic or competitive environment.

## 4.10 Conclusion

After general discussion on importance of disclosure of information, we can sum up to say that it is more important for banks as it involves not only the soundness of our banking industry but also the soundness of our economy as well. Bank's transparent disclosure is crucial for supervisor, market participants and all stakeholders. True and timely disclosure can eliminate problems like asymmetric information, moral hazard, principal agent problem, financial crisis and many others. This is why supervisors play significant role to regulate and guide the banks in compliance of principles of disclosures. In chapter seven a priority index is presented for the five important qualities discussed in this chapter. From that we will see which quality of information gets priority by banks. In next chapter we will see the disclosure status of our banking industry before adoption of IAS 30 that will clarify the importance of proper guidelines regarding disclosure.

# Chapter - Five

## Disclosure Practice before Adoption of IAS 30

# Chapter Five

# Disclosure practice before adoption of IAS 30

## 5.1 Introduction

This chapter presents the definition of disclosure and financial statement, components of financial statements, reporting period, description of users and objectives of financial statements, status of disclosure practice in Bangladesh before adoption of IAS 30 and benefits of disclosure.

## 5.2 Meaning of Disclosure:

As per Oxford Advanced Learner's dictionary the word 'disclosure' means the act of making something known or public that was previously secret or private.

## 5.3 Financial statement:

Financial statement means a report presenting the financial information to the users in a structured way.

## 5.4 Components of Financial Statements

A complete set of financial statements should include: [IAS 1.7]

- A balance sheet,
- Income statement,
- Statement showing changes in equity,
- Cash flow statement, and
- Accounting policies and explanatory notes.

Enterprises are also encouraged to present a financial review by management or report by directors or statement by chairman, outside the financial statements, that describes and explains the main factors and influences of the enterprise's financial performance, its sources of funding, risk management policies, and strengths and resources whose value is not reflected in the balance sheet under IAS [IAS 1.8]

## 5.5 Reporting Period

There is a presumption that financial statements will be prepared at least annually. If the annual reporting period changes and financial statements are prepared for a different period, the enterprise must disclose the reason for the change and a warning about problems of comparability. [IAS 1.49]

## 5.6 Users of the financial statements:

The users of financial statements of banks are present and potential investors, depositors, lenders, employees, directors, customers, governments and other agencies and the public. They use financial statements to satisfy different needs for information. Their needs include the following:

(a) **Investors:** The risk capital provider and their advisers are naturally concerned with the risk inherent in, and return provided by their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information, which enables them to assess the ability of the enterprise to pay dividends.

(b) **Depositors:** Depositors are the provider of the fund by which bank invest to earn profit. Depositors are interested to know whether their fund is safe with a bank and the return from the deposits is satisfactory or not.

(c) **Lenders:** Lenders are interested in information that enables them to determine whether their loans and the interest attaching to them, will be paid when due.

(d) **Employees:** Employees and their representative groups are interested in information about the stability and profitability of their employers. They are also interested in information, which enables them to assess the ability of the enterprise to provide remuneration, retirement benefits and employment opportunities.

(e) **Directors:** Directors need information in their decision making process to operate a bank profitably and by following regulations of the central authority. They need regular and true information regarding the financial statements of banks to make a policy or change a policy to safeguard bank's interest.

(f) **Customers:** Customers have an interest in information about the continuance of an enterprise especially when they have a long-term involvement with or are dependent on the enterprise.

(g) **Government and their agencies:** Governments and their agencies like Central banks as regulators are interested in the allocation of resources and therefore the activities of banks.

(h) **Public:** Enterprises affect members of the public in a variety of ways. For example banks may make a substantial contribution to the local economy in many ways including the number of people they employ and their patronage to many social works. Financial statements may assist the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

While providing information through financial statements can't satisfy all of the information needs of these users, there are some needs which are common to all users. As depositors and investors are main providers of fund to the bank, the provision of financial statements that meet their needs will also meet most of the needs of other users also.

The primary responsibility of preparation and presentation of financial statements of banks lies on the top management of the bank. Management concentrates in the information contained in the financial statements of banks even though it has access to additional management and financial information that helps it carry out its planning, decision making and control responsibilities. Management has the ability to determine the form and content of such additional information in order to meet its own needs.

## 5.7 The objectives of Financial Statements:

The objectives of financial statements of banks should be the followings:

- To provide information about the financial position, performance and changes in financial position of a bank.
- To show the results of the stewardship of management or the accountability of management for the resources entrusted to it.

## 5.8 Financial position, performance and changes in financial position:

To make economic decision, the users of financial statements need an evaluation of the capacity of a bank to generate profit. This ultimately shows the capacity of a bank to pay its employees and debtors, meet interest payments, repay loans and make distributions to its owners. If adequate information is provided through the financial statements, users are better able to evaluate bank's financial position, performance and changes in financial position.

The financial position of a bank refers to its liquidity and solvency. Information about liquidity and solvency is useful in predicting the ability of a bank to meet its financial commitments as they fall due. Liquidity refers to the availability of cash in the near future after taking account of financial commitments over this period. Solvency refers to the availability of cash over the longer term to meet financial commitments as they fall due.

Information regarding the performance of a bank is useful in predicting the capacity of bank to generate cash flows from its existing resource base. It is also useful in forming judgments regarding the effectiveness with which the bank might employ its additional resources.

Information concerning changes in the financial position of a bank is useful in order to assess its investing, financing and operating activities during the reporting period.

Information about the financial position is primarily provided in a balance sheet. Information about performance is primarily provided in an income statement. Information about changes in financial position is provided in the financial statements by means of a separate statement.

The component parts of the bank's financial statements are interrelated as they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, an income statement provides an incomplete picture of performance unless it its used in conjunction with the balance sheet and the statement of changes in financial position.

### 5.9 Disclosure practice before adoption of IAS 30:

In publishing their financial statements, banks were following the guidelines prescribed under Bank Companies Act 1991. The formats were A & B of the First Schedule of Section 38 of the Bank Companies Act, 1991 (Appendix-1 & 2). These formats allowed banks not to disclose the amount of bad debt and provision kept out of income for that bad debt. So banks had enjoyed privilege of not disclosing important components of the affairs like volume of uncollectable assets, amount of bad debt provision (if any), net amount of capital after adjusting provision shortfall, etc. Thus the general users of banks financial statements did not know the asset quality of a bank and its impact on liquidity as well as profitability.

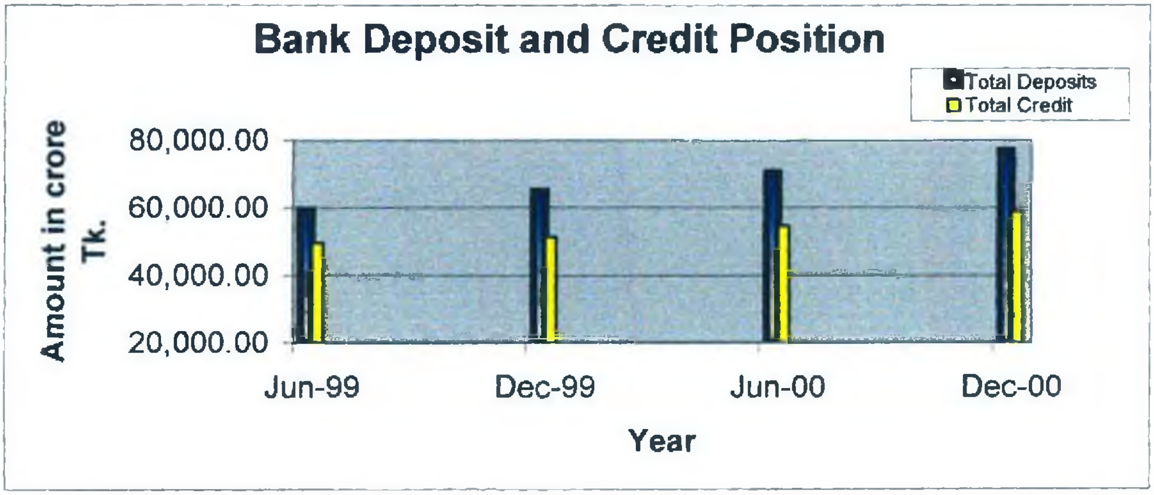
**Table 2: Deposits in Banks of Bangladesh**

(Amount is in Crore Taka)

| As on | Total Deposits | Total Credit | Credit as % of deposits |
|---|---|---|---|
| 30-Jun-99 | 59,234.00 | 49,522.80 | 84% |
| 31-Dec-99 | 64,895.70 | 51,458.20 | 79% |
| 30-Jun-00 | 70,278.70 | 54,646.10 | 78% |
| 31-Dec-00 | 76,637.40 | 58,793.70 | 77% |

Source: Bangladesh Bank Annual Report 1999-2000
Bangladesh Bank Annual Report 2000-2001

**Figure - 1**



The total amount of deposits in the banking sector as on 31.12.2000 was more than Tk. 76 thousand crore. But in absence of fair disclosure of policy of banks asset liability management the general depositors were unable to know how far this huge amount of money is safe in our banking system. A financial statement with adequate information of banks might help them a lot to choose safest place of deposit.

The total amount of bank credit as on 31.12.2000 is more than 58 thousand crore, which is 77% of total bank deposit. So the lending policy and risk management system of the banks are important to disclose in the financial statements. The credit deposit ratio of banks declines from 0.79 as on 31 December 1999 to 0.76 as on 31 December 2000.

The cash reserve requirement (CRR) of the scheduled banks with the Bangladesh Bank becomes 4% of banks total demand and time liabilities (excluding inter bank items) from 5% with effect from 1 October 1999. This increases liquidity or more free cash to banks for investments and earning. Statutory liquidity ratio (SLR) of the scheduled banks, except banks operating under the Islamic Shariah and the specialized banks, remained unchanged at 20 percent of their total liabilities. SLR for the Islamic banks remained unchanged at 10 percent of their total liabilities. On the other hand, the specialized banks continued to remain exempt from maintaining the SLR. This requirement of maintaining cash reserve with central bank has an effect on the cash management of banks. Fair disclosure of a bank's cash position should be presented in the annual report so that users can be able to know the expertise of management's cash handling to generate profit by investing them in viable projects.

## 5.10 Status of disclosure:

Before adoption of IAS 30 in the preparation of financial statements of banks in Bangladesh, the disclosure status in year 1999 can be well understood from the table below. Here the data are found from the checklist (Appendix-) by using sample banks' annual reports in year 1999.

**Table – 3: Disclosure in financial statements of banks in year 1999**

| Description of items | No of banks that disclose information | Percentage of disclosure |
|---|---|---|
| 1. Depreciation method | 11 | 79% |
| 2. Investment according to their type | 14 | 100% |
| 3. Mode of valuation of investment | 10 | 71% |
| 4. Components of cash holdings | 13 | 93% |
| 5. Loans and advance under different heads of loans, cash credit & overdrafts | 5 | 36% |
| 6. Loans and advance under on the basis of maturity | 0 | 0% |
| 7. Loans and advance on the basis of geographical territory | 11 | 79% |
| 8. Loans and advance on the basis of classification status | 1 | 7% |
| 9. Loans to the Managing director, directors and other executives | 12 | 86% |
| 10 Share capital shown as issued and paid up capital | 12 | 86% |
| 11. Value of each class of share | 12 | 86% |
| 12. Reserve fund | 13 | 93% |
| 13. Deposit amount as fixed, savings, current | 14 | 100% |
| 14. Contingent liabilities under different heads | 3 | 21% |
| 15. Actual amount of Interest income in income statement | 0 | 0% |
| 16. Investment income | 8 | 57% |
| 17. Provision for bad and doubtful debt | 0 | 0% |
| 18. Earning per share in the income statement | 0 | 0% |
| 19. Cash flow statement | 12 | 86% |
| 20. Statement of changes in equity | 0 | 0% |
| 21. Mission or vision statement | 0 | 0% |
| 22. Statistics for five years | 10 | 71% |
| 23. Information on top management | 1 | 7% |
| 24. Information on social concern | 4 | 29% |
| **Average** | **7** | **49.46** |

In table-3 the range of compliance is found between 0 to 100% on the various points of disclosure (24 items). In 8 out of 24 points the percentage (%) of disclosure is between 0% to 7%. On average the disclosure score for all banks in the sample is 49.46% only. Therefore the status of disclosure of information as per the checklist is found very poor. This indicates the disclosure status in year 1999 i.e. before adoption of IAS 30, is not well enough in the banking industry of Bangladesh. It is noticeable that no banks are providing information on provision for bad loans in the income statement, actual amount of interest income before deducting any provision thereon, statement of changes in equity, earning per share under the income statement and loans and advance on the basis of maturity.

## 5.11 Conclusion

Here we can conclude that the traditional style of disclosing information in financial statements of banks before adoption of IAS 30 was not satisfactory for using by the stakeholders. The traditional format cannot serve the purpose of an investor in his or her decision making process. For instance the Income statement or profit or loss statement of the traditional format does not show the Earning per share (EPS) at the end of the statement. Thus there are other limitations also in the traditional style of disclosure in banking industry of Bangladesh. In next chapter we will see the changes in the disclosure nature in our banking industry after adoption of IAS 30 in preparation of financial statements.

# Chapter - Six

# Disclosure Status after IAS 30

# Chapter Six

# Disclosure Status After IAS 30

## 6.1 Introduction:

This chapter presents the nature of disclosure practice by banks in Bangladesh after adoption of IAS 30. It also deals with preparation and presentation of financial statements, features of new format of disclosure, comparison between disclosure before and after adoption of IAS 30 and impact of implementing IAS 30 in Bangladesh.

## 6.2 Preparation and Presentation of Financial Statements:

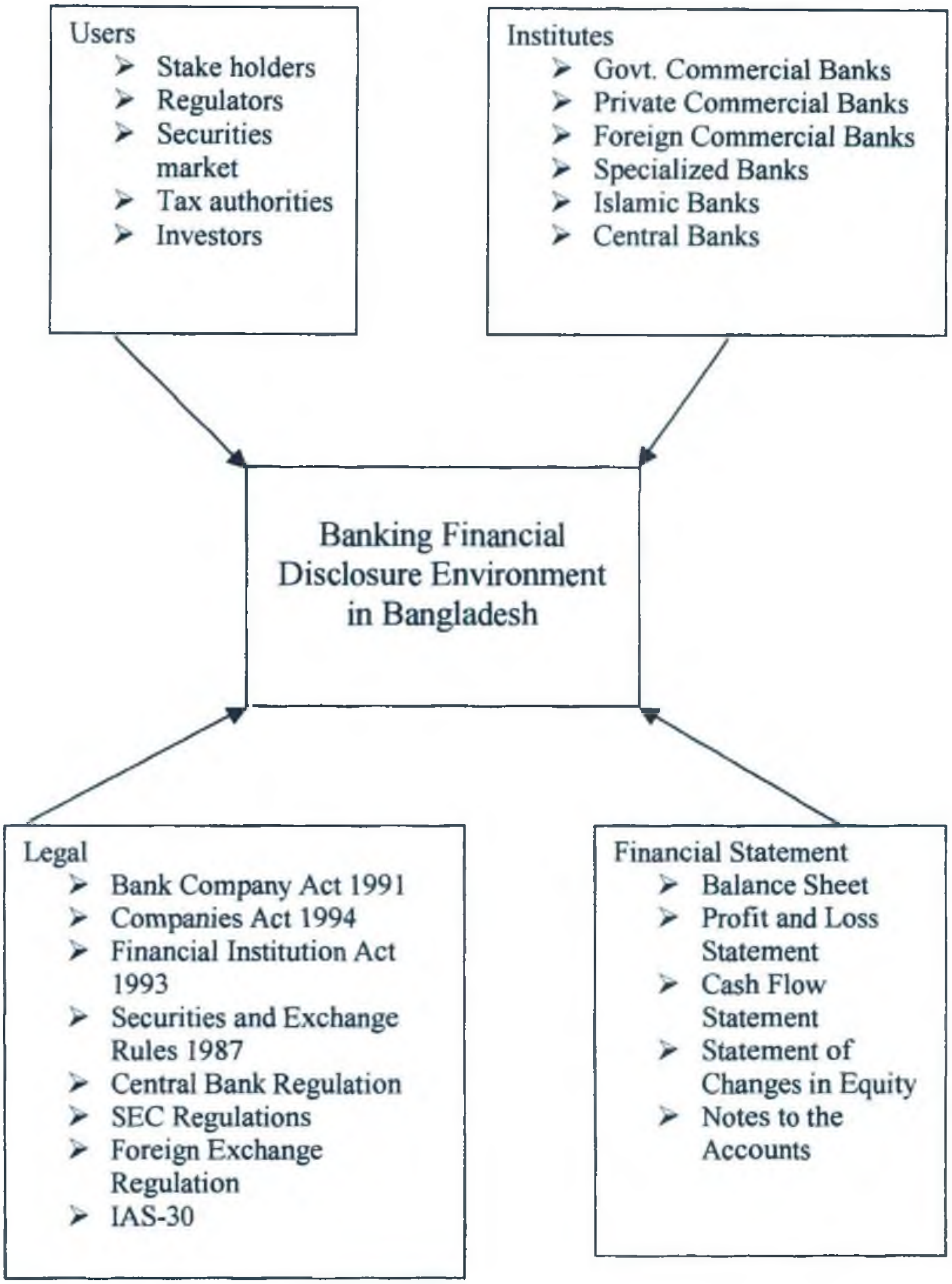
Financial statements are prepared and presented for external users by many enterprises around the world. Although such financial statements may appear as similar from country to country, there are differences in the presentation. This is because of the differences in the social, economic and legal circumstances in different countries. These different circumstances have led to the use of a variety of definitions of the elements of financial statements like assets, liabilities, equity, income and expenses. These also resulted in the use of different criteria for the recognition of items in the financial statements and in a preference for different bases of measurement

## 6.3 Features of newly introduced disclosure format:

After the Bangladesh Bank circular entitled "Amendment of First Schedule Forms of the Bank Companies Act, 1991 (BRPD Circular No. 03 dated 18 April, 2000) newly amended formats of financial statements are made mandatory for all concerned banks and financial institutions since March 30, 2000 in Bangladesh. The annual reports of banks for the year 2000 reflect the change in disclosure nature following the Bangladesh Bank circular. The special features of the newly introduced formats of disclosure are as follows:

a) vertical form of financial statements (balance sheet, profit and loss accounts etc)
b) disclosure of assets and liabilities according to relevant maturity
c) disclosure of provision kept for the diminution in the value of security investment
d) amount of provision against loan loss in the profit and loss account
e) amount of loans to the directors
f) Earning per share (EPS) at the end of profit and loss account
g) Showing amount of gross income in the profit and loss account before deduction on any interest from thereon
h) Showing the investment income and income from commission under separate heads in the profit and loss account
i) Showing the contingent and contra items under different heads at the end of balance sheet
j) Comparing the financial performance between two consecutive years in the financial reporting by presenting immediate previous year's financial statements along with the current year's financial statements in the annual reports,
k) Preparing cash flow statement as per international accounting standard
l) Showing notes to the accounts or explanations of some accounting policies used to measure certain items

**Figure - 2**


Users
Stake holders
Regulators
Securities market
Tax authorities
Investors
Institutes
Govt. Commercial Banks
Private Commercial Banks
Foreign Commercial Banks
Specialized Banks
Islamic Banks
Central Banks
Banking Financial Disclosure Environment in Bangladesh
Legal
Bank Company Act 1991
Companies Act 1994
Financial Institution Act 1993
Securities and Exchange Rules 1987
Central Bank Regulation
SEC Regulations
Foreign Exchange Regulation
IAS-30
Financial Statement
Balance Sheet
Profit and Loss Statement
Cash Flow Statement
Statement of Changes in Equity
Notes to the Accounts

## 6.4 Comparison of disclosure:

A significant change has happened in our banking industry's disclosure practice after adoption of IAS 30. The comparison between the disclosure nature before and after adoption IAS 30 is presented in a table below to draw our attention to the changes in bank's disclosure for IAS 30.

**Table – 4: Comparison between two disclosure practices**

| Sl No. | Items | Before IAS 30 adoption | After IAS 30 adoption |
|---|---|---|---|
| 1. | Format of balance sheet and income statement | The shape of balance sheet and profit and loss account was horizontal or T-Form. Form-A required to prepare balance sheet with 'capital and liabilities' marshalled on the left hand side in order of performance and 'property and assets' placed on the right hand side in order of liquidity. Form-B provided for preparing the profit and loss account showing income on the right hand side and expenses on the left hand side. | The shape of balance sheet and profit and loss account becomes vertical form. |
| 2. | Interest income | Interest income is shown | Gross interest income is |

| | | | |
|---|---|---|---|
| | | after charging provisions for bad and doubtful debts. Actual amount of revenue realized against interest and discount was not carried to the financial statement though the auditors had access to the figures for their satisfaction and reporting. | shown in the income statement before charging any provision on them. |
| 3. | Earning from investment, brokerage service, commission received | It is not shown separately. | It is shown under separate heads. |
| 4 | Spread between interest income and interest expense | Spread is not shown | Spread is shown. |
| 5 | Provision for bad debts | It is not shown in the income statement. | It is shown in the income statement. |
| 6 | Provision for diminution in the value of investment | The detailed notes for the basis of creation of loan loss provision, provisioning for declining value of investment in securities etc. and their accounting entries against income on profit and | It is shown in the income statement. |

| | | | |
|---|---|---|---|
| | | loss account against assets on the balance sheet were not required as per previous accounting practices. | |
| 7. | Presentation of contingent liabilities or off balance sheet items | Under Bank Company Act, the off-balance sheet items viz. bills for collection, acceptance, endorsement, and other obligations were carried in the balance sheet as contra items. But their nature and amount of commitments to the extent of credit and other general banking facilities were not shown separately. Thus it was difficult to know the risk of general banking and other commitments. | These off balance sheet items are disclosed in a separate statement after adoption of IAS-30, which help measuring the risk related to off balance sheet items other than general banking. |
| 8. | Classification of loans and advance | Loans and advance are not classified according to their aging status. | Loans and advances are classified according to their aging status like sub standard, doubtful, bad and loss. |
| 9. | Classification of investment | Investment amount and their valuation policy are not reported always in the | IAS 30 segregates the total investment into two forms, viz. government securities |

| | | | |
|---|---|---|---|
| | | balance sheet | and other security investments. Accounting policy is also disclosed regarding the valuation and reporting of securities in the balance sheet. |
| 10. | Balance sheet-liabilities | Previous system discloses the amount of liabilities in the balance sheet. | IAS 30 requires disclosing the secured and unsecured borrowings with the nature of securities. |
| 11. | Format of balance sheet | The horizontal format of balance sheet shows the assets and liabilities items. | The vertical format of balance sheet shows assets and liabilities items, which is easy to understand. |
| 12. | Classification of assets based on their maturity | Classification of assets i.e. loans and advances are not always done based on their maturity periods. | Classification of loans and advances based on their maturity periods like loan repayable on demand, repayable not more than, over 3 months but not more than 1 year, over 1 year but not more than 5 years. |
| 13. | Statement of changes in equity | It is not disclosed always in the annual report. | It is found in the annual report. |
| 14. | Cash Flow Statement and | These are not disclosed always. | These are introduced as per International |

| | | | |
|---|---|---|---|
| | statement of changes in equity | | Accounting Standard. |
| 15. | Advances to directors | Before adoption of IAS-30 the loans and advances were stated in such a way that it was not possible to find out the advances to directors, managing director, and other forms of insider lending, advances to customer group, maturity status of advances, classified status etc. | After adoption of IAS-30 information on loans and advance to the directors, managing directors etc can be known from the balance sheet. |

## 6.5 Impact of implementation of IAS 30:

Banking sector of Bangladesh had enjoyed some kinds of privilege of not disclosing some important affairs like volume of uncollectible assets, required amount of provision for bad and doubtful debts, net amount of capital after adjusting provisioning shortfall, etc. before adoption of IAS-30. So the real picture of a bank's financial health had never been properly disclosed in the financial statement and it was difficult for the users to assess the asset quality of a bank and its impact on liquidity, profitability and overall performance.

Adoption of IAS 30 in the preparation of financial statements from the year 2000, ensures more transparency and accountability in the operation of banking sector in Bangladesh. It enables the users of bank's information to evaluate a bank's performance in terms of liquidity, solvency and other potential risks. It helps the investors to take economic decision on a rational basis and use their fund. Depositors can decide now where to keep their money and enjoy more returns. Bank itself can be benefited now to find out its strength, weakness, opportunity and threats based on its disclosure in the financial statements and thus can enjoy competitive advantage by providing quality services in the market. It can also determine its future business target based on the data provided in the financial disclosure. On the other hand, the bank compiles the information disclosure required by the regulation of central bank and other legislation authority that increases its acceptability than before in respect of transparency.

Adoption of IAS-30 ensures a sound governance system in our banking sector. The banks and non-bank financial institutions through following IAS-30 rules can perform better and produce necessary results. The adoption of IAS-30 is considered to be one of the strongest vehicles for good governance as it facilitates effective accounting as well as control systems and generates a lot paramount information to the stakeholders on a timely basis.

The benefits to the stakeholders due to the implementation of IAS-30 in the disclosure practice by banks may be enumerated as follows:

a. As there is no scope of hiding any weak point in the areas of performances, disclosure practice following IAS-30 brings out the real picture of a bank's financial performance throughout the reporting period. On the other hand, as the weak points are timely identified, the management in conformity with the prescribed regulations takes corrective measures.

b. The disclosure in IAS reveals loan exposure to the directors, managing director, other executives, etc. This regulatory provision would refrain the directors, managing director or other executives from taking unauthorized loan from the banks.

c. As the adoption of IAS-30 provides adequate and more transparent disclosure in the operation and management of banks, the stakeholders e.g. depositors, borrowers and other related parties can assess more accurately a bank's financial strength an evaluate the bank's performance in terms of liquidity, solvency and other potential risks and hence, can select the banks for taking deposit, investment and credit decisions on a rational basis.

d. The banks can earn more acceptability than before in international arena, in respect of their transparency in disclosure of financial position.

## 6.6 Status of Disclosure:

The financial statements of banks from year 2000 are prepared following the provisions of IAS 30. In the table below we will see the status of disclosure in banking industry after adoption of IAS 30 by using the checklist (Appendix-5) for the sample banks annual reports in year 2000.

**Table – 5: Disclosure in financial statements of banks in year 2000**

| Items | No of banks that disclose information | Percentage of disclosure |
|---|---|---|
| Depreciation method | 11 | 79% |
| Investment according to their type | 14 | 100% |
| Mode of valuation of investment | 5 | 36% |
| Components of cash holdings | 14 | 100% |
| Loans and advance under different heads of loans, cash credit & overdrafts | 13 | 93% |
| Loans and advance under on the basis of maturity | 14 | 100% |
| Loans and advance on the basis of geographical territory | 11 | 79% |
| Loans and advance on the basis of classification status | 14 | 100% |
| Loans to the Managing director, directors and other executives | 14 | 100% |
| Share capital shown as issued and paid up capital | 14 | 100% |
| Value of each class of share | 12 | 86% |
| Reserve fund | 14 | 100% |
| Deposit amount as fixed, savings, current | 13 | 93% |
| Contingent liabilities under different heads | 12 | 86% |
| Actual amount of Interest income in income statement | 14 | 100% |
| Investment income | 14 | 100% |
| Provision for bad and doubtful debt | 14 | 100% |
| Earning per share in the income statement | 14 | 100% |
| Cash flow statement | 13 | 93% |
| Statement of changes in equity | 13 | 93% |
| Mission or vision statement | 0 | 0% |
| Statistics for five years | 11 | 85% |
| Information on top management | 1 | 7% |
| Information on social concern | 8 | 57% |
| **Average** | **11.54** | **82.79** |

Here we see almost every bank is disclosing information on the items mentioned in the Table-5. The percentage of disclosure is also satisfactory as it is more than 80%. In chapter five we have seen the percentage of disclosure is below 50% before adoption of IAS 30 and in present chapter we find that it has been improved significantly. There are only two instances where the disclosure remains between 0 and 7%. On eleven items disclosure is found 100% i.e. by all banks.

## 6.7 Conclusion

From the contents of this chapter, we can sum up to say that the disclosure of bank's information following IAS 30 provisions presents more transparency and accountability. This is why our central bank has approved the introduction of this accounting standard for our banking sector. In next chapter we will see the gradual improvements in the disclosure by our banks and the effects of bank's disclosure in the capital market. The qualitative nature of information in bank's annual reports will also be examined in next chapter to reach the final outcome of the study.

# Chapter - Seven

# Findings of The Study

# Chapter Seven
# Findings of the Study

## 7.1 Introduction:

In this chapter we will see the status of disclosure by banks in Bangladesh, comments on the findings of the status of disclosure, graphical presentation of disclosure in different financial statements, development of index for the qualities of information found in bank's annual report and effects of bank's disclosure in capital market.

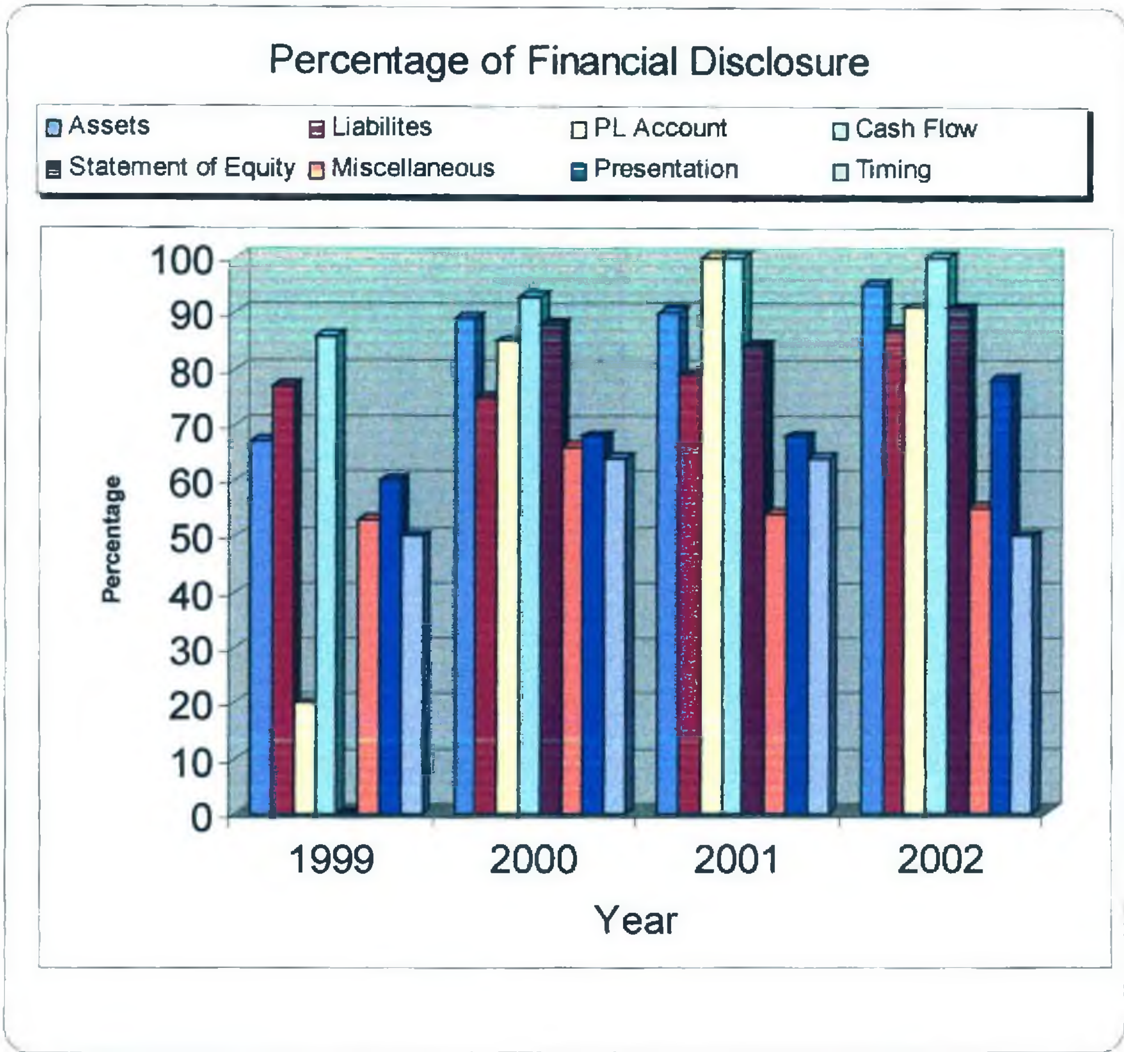
## 7.2 Status of Disclosure:

The disclosure practice of local private commercial banks as found in their annual reports has been analyzed on the basis of answers collected by using a checklist (Appendix-5). The checklist is prepared based on the disclosure requirements for banks as found in the Banking Companies Act 1991 and International Accounting Standards (IAS) 30. The rules and regulations framed by Securities and Exchange Commission (SEC) and Bangladesh Bank are also incorporated in the checklist. Annual reports of year 1999, 2000, 2001 and 2002 are used to fill up the checklist. The reporting practice or disclosure of information in the financial statements of banks is expressed in the table below as percentage for four different years:

**Table-6: Percentage of Disclosure in Financial Statements**

| SL | Items | % in 1999 | % in 2000 | % in 2001 | % in 2002 |
|---|---|---|---|---|---|
| 1 | Assets | 67 | 89 | 90 | 95 |
| 2 | Liabilities & Owners Equity | 77 | 75 | 79 | 87 |
| 3 | PL Accounts | 20 | 85 | 100 | 91 |
| 4 | Cash Flow Statement | 86 | 93 | 100 | 100 |
| 5 | Statement of changes in equity | 0 | 88 | 84 | 91 |
| 6 | Miscellaneous | 53 | 58 | 54 | 55 |
| 7 | Presentation | 60 | 68 | 68 | 78 |
| 8 | Timing | 50 | 64 | 64 | 50 |

**Figure - 3**



## 7.3 Comments on the findings of the table:

The table shows that disclosure of information on assets and liabilities in the balance sheet is improved through the reporting period from 1999 to 2002. The banks have increased disclosure on items under assets from 65% in 1999 to 95% in 2002. The disclosure on liabilities and owners equity has also increased from 77% in 1999 to 87% in 2002. Disclosure in Income statement or Profit and Loss Account Statement shows significant improvement as it is increased sharply from 20% in 1999 to 91% in 2002. Cash Flow Statement disclosure also shows more disclosure in the year 2001 and 2002 i.e. 100% than the previous two years which was 86% and 93% respectively. Then we find that banks start the practice of disclosing Statement of Changes in Equity from year 2000 and the disclosure is better in year 2002 i.e. 91% than before. But the banks are found less interest in disclosing miscellaneous information in their annual report and so improvement in this field is somewhat slow i.e. from 53% disclosure in 1999 to 55% in 2002. In terms of presentation of information, banks' concern is proved from 60% disclosure in 1999 to 78% in 2002. Finally we find the fluctuation of timing of presenting the report by banks. In 1999 only 50% banks are publishing their report within 5 months of book closure. Then in 2000 and 2001 64% banks are publishing report within due time. But again in 2002 only 50% banks are publishing reports timely for the users. This shows inconsistency of presenting the timely information by banks, which is a threat to sustain market efficiency and soundness in our banking sector.

**Figure - 4**

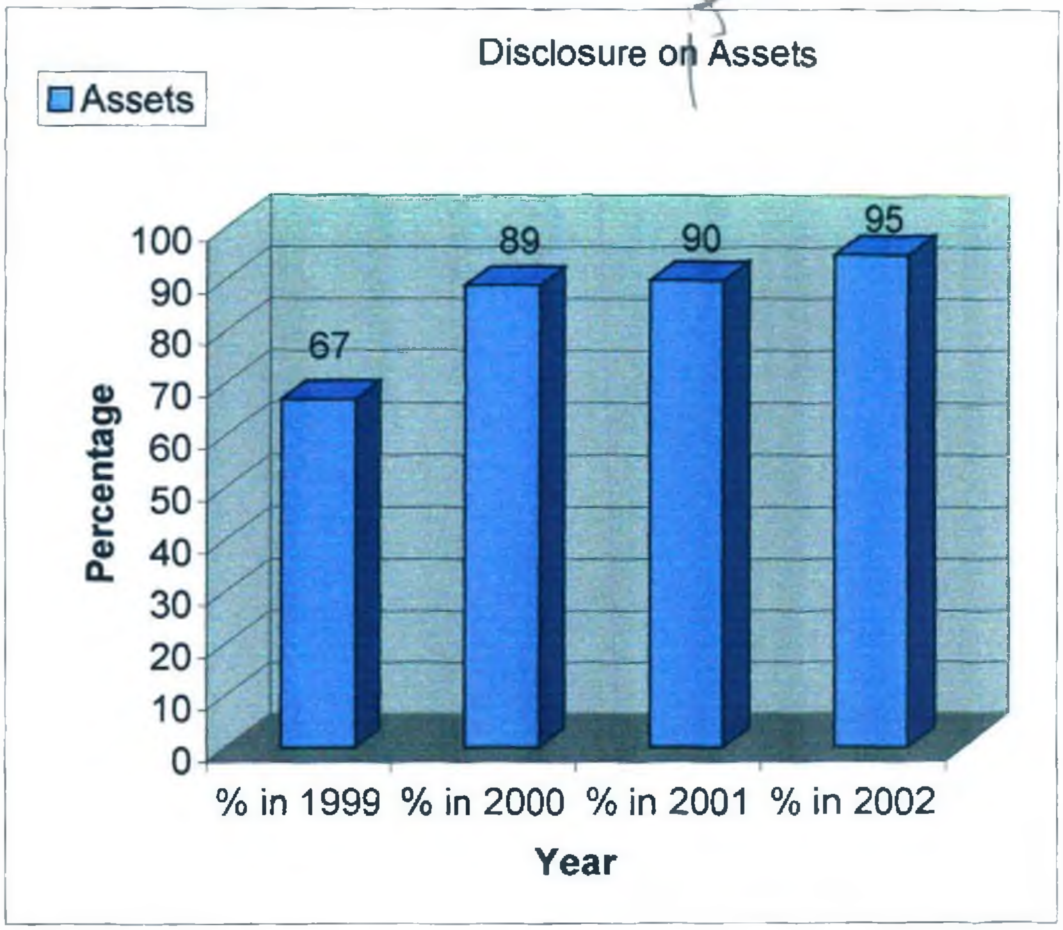

Disclosure on Assets
Assets
100
90
80
70
60
50
40
30
20
10
0
Percentage
67
89
90
95
% in 1999
% in 2000
% in 2001
% in 2002
Year

**Figure-5**

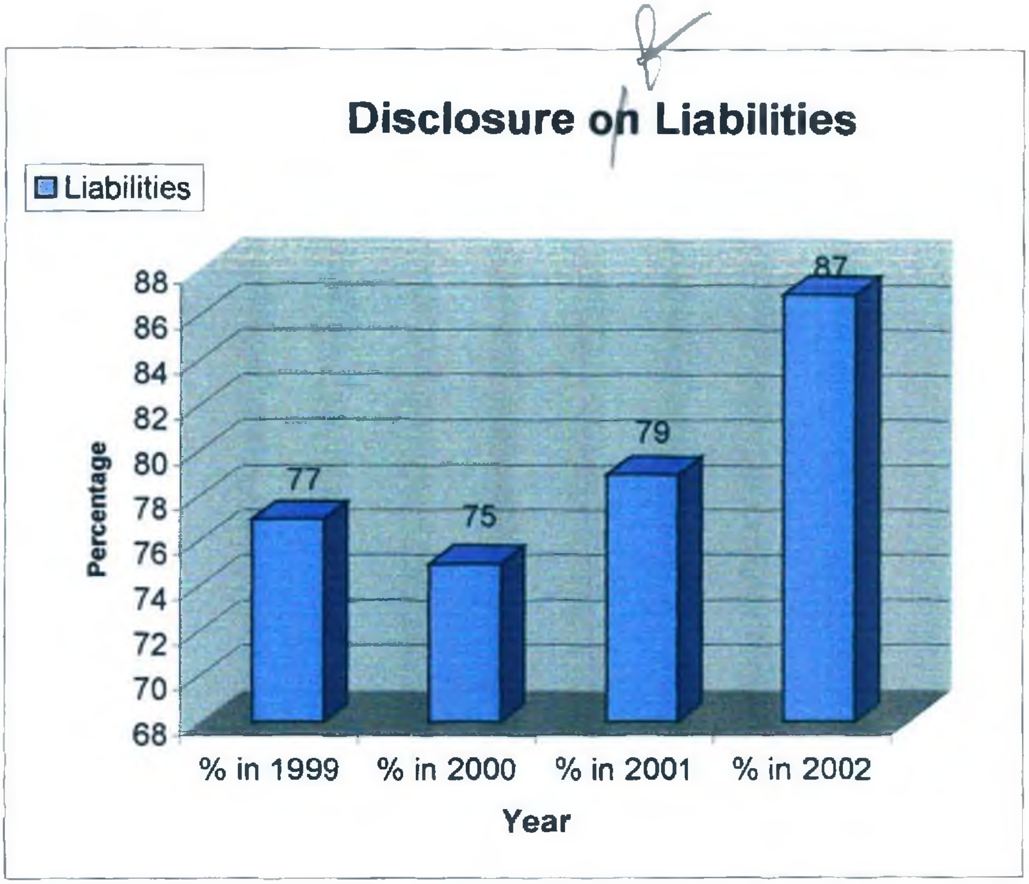

Disclosure on Liabilities
Liabilities
88
86
84
82
80
78
76
74
72
70
68
Percentage
77
75
79
87
% in 1999
% in 2000
% in 2001
% in 2002
Year

**Figure- 6**

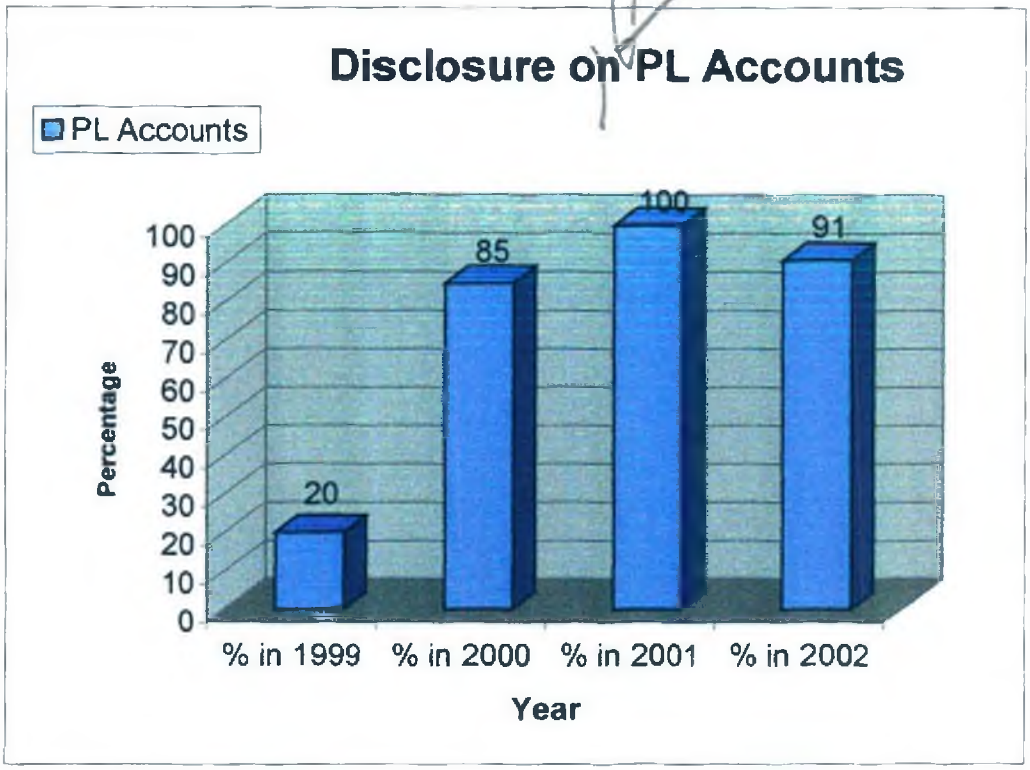

Disclosure on PL Accounts
PL Accounts
Percentage
100
90
80
70
60
50
40
30
20
10
0
20
85
100
91
% in 1999
% in 2000
% in 2001
% in 2002
Year

**Figure-7**

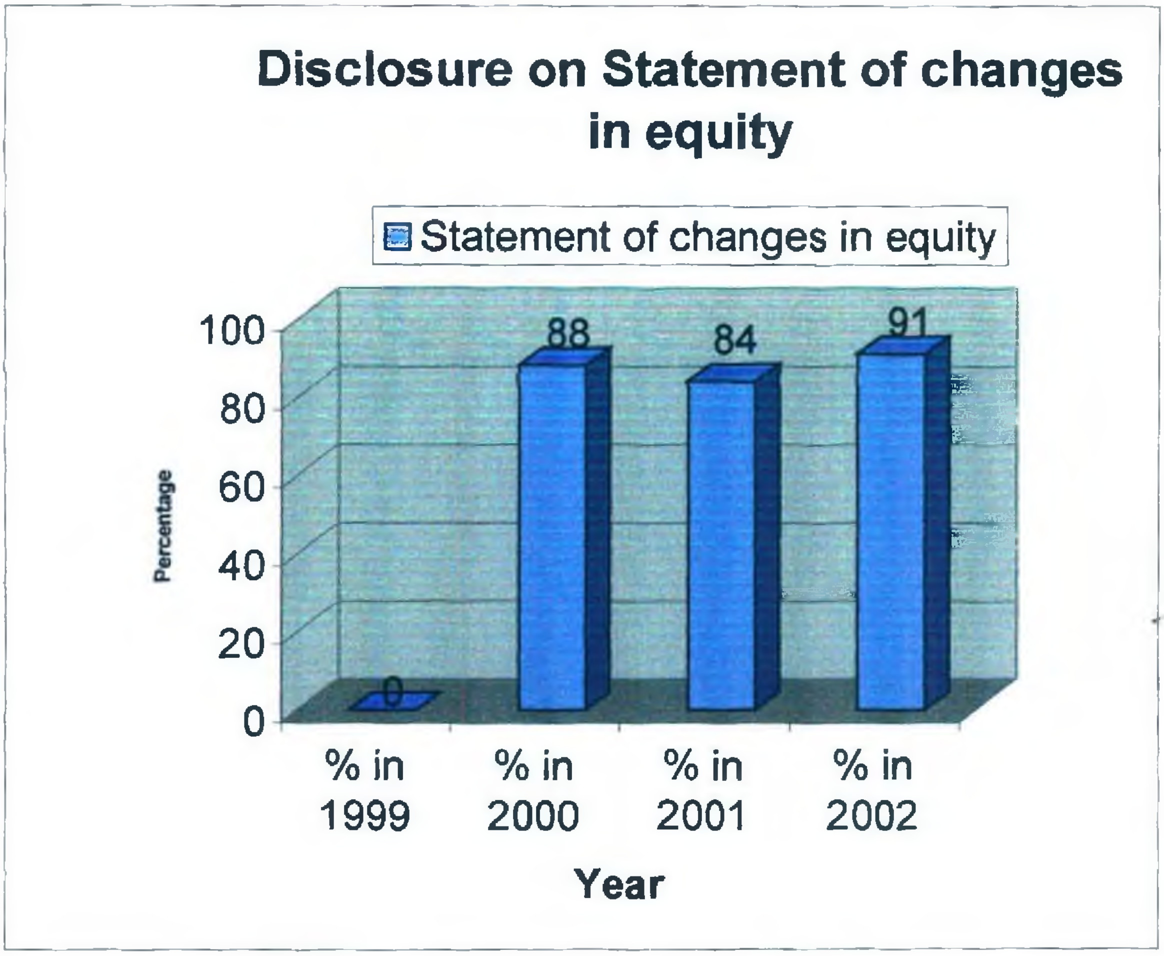

Disclosure on Statement of changes in equity
Statement of changes in equity
100
80
60
40
20
0
Percentage
0
88
84
91
% in 1999
% in 2000
% in 2001
% in 2002
Year

Figure-8

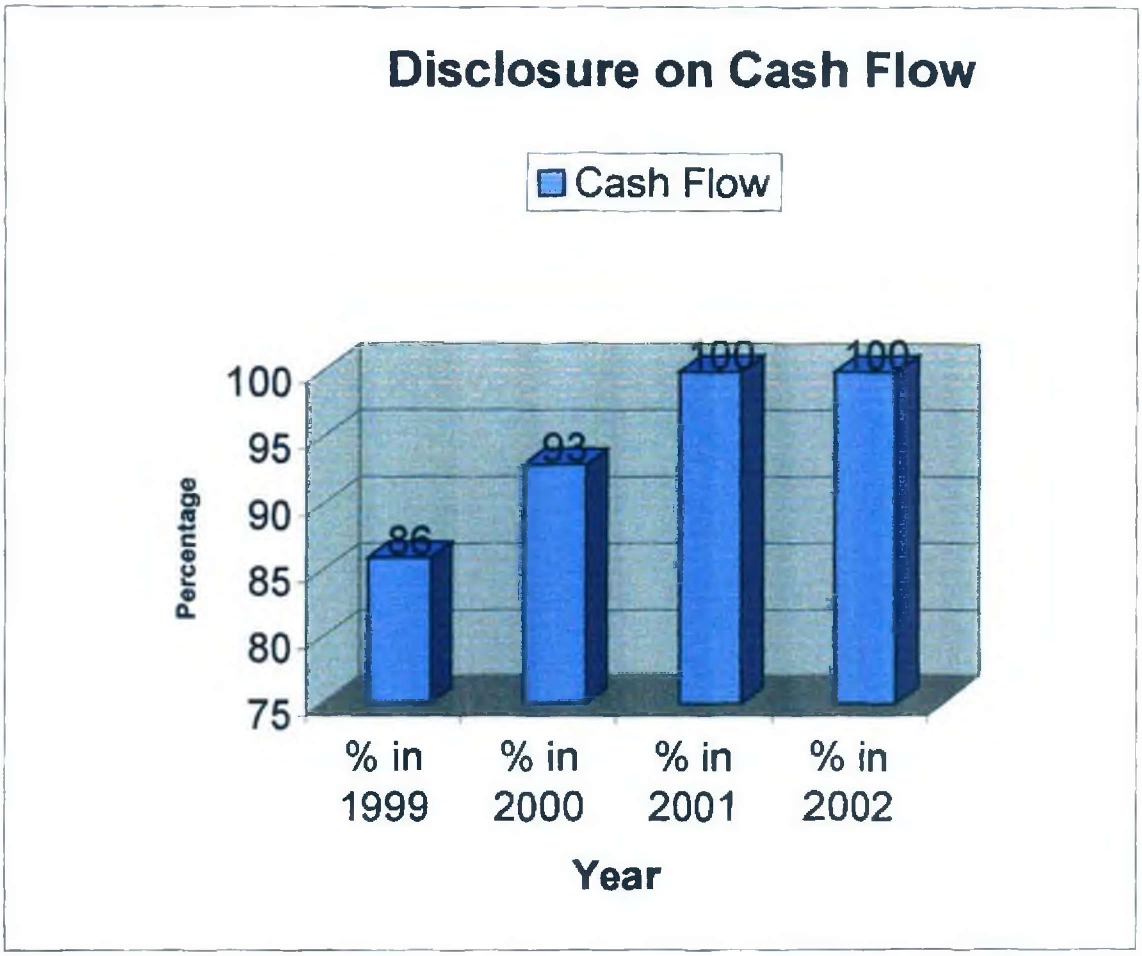

Disclosure on Cash Flow
Cash Flow
Percentage
100
95
90
85
80
75
86
93
100
100
% in 1999
% in 2000
% in 2001
% in 2002
Year

**Figure-9**

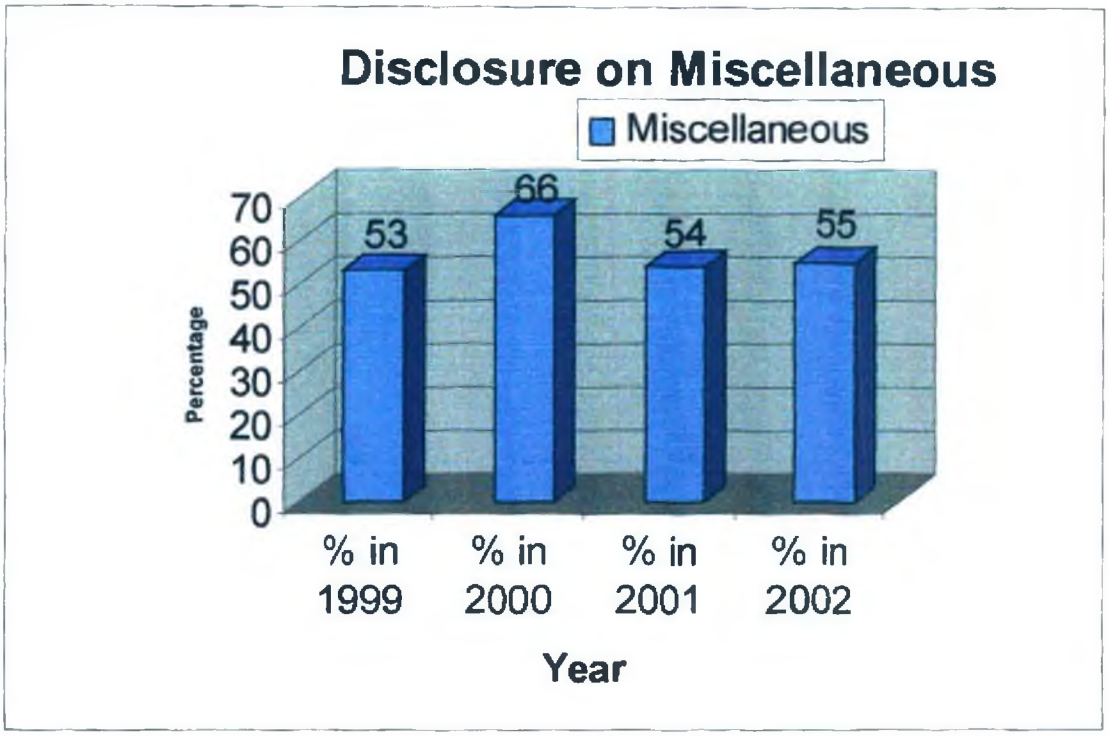

Disclosure on Miscellaneous
Miscellaneous
Percentage
70
60
50
40
30
20
10
0
53
66
54
55
% in 1999
% in 2000
% in 2001
% in 2002
Year

**Figure-10**

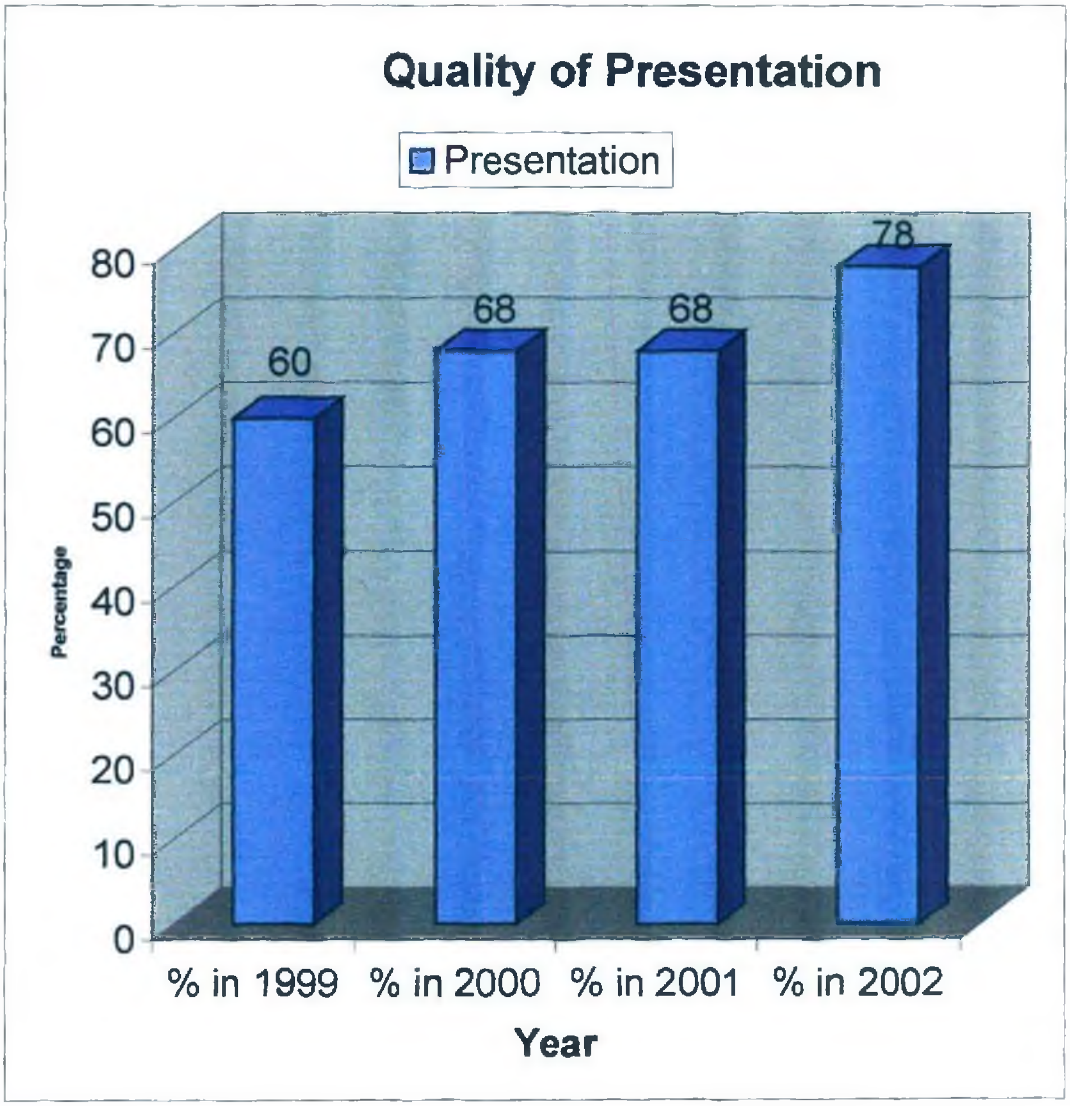
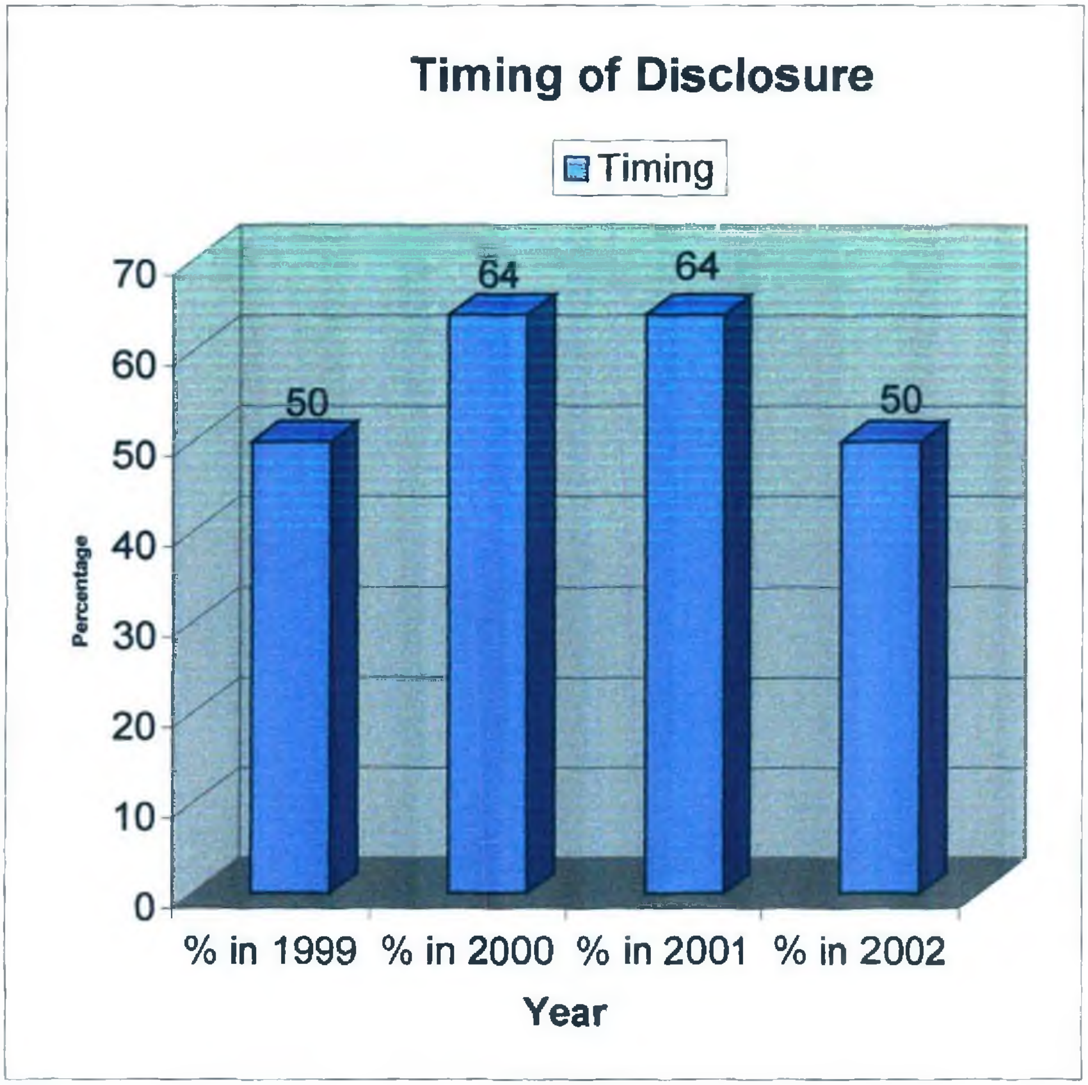

Quality of Presentation
Presentation
80
70
60
50
40
30
20
10
0
Percentage
60
68
68
78
% in 1999
% in 2000
% in 2001
% in 2002
Year

**Figure-11**


Timing of Disclosure
Timing
70
60
50
40
30
20
10
0
Percentage
50
64
64
50
% in 1999
% in 2000
% in 2001
% in 2002
Year

## 7.4 Testing the Quality of Information:

The priority of five important qualities of information i.e. understandability, relevance, reliability, timeliness and comparability is tested by using a checklist (Appendix-∩). Each question contains five responses and five different values are used to rating the responses like the followings:

| 1st | 2nd | 3rd | 4th | 5th |
|---|---|---|---|---|

1.00-----------0.75-------------0.50-------------0.25-------------0

Annual reports of year 2000 of 14 sample banks are used to fill up the checklist and the findings are given in the following table:

**Table – 7: Table of Qualities**

| Response | Value | Frequency of responses against different quality of information | | | | |
|---|---|---|---|---|---|---|
| | | Understandability | Relevance | Reliability | Timeliness | Comparability |
| 1st | 1 | 1 | 0 | 4 | 6 | 6 |
| 2nd | 0.75 | 6 | 0 | 7 | 7 | 7 |
| 3rd | 0.5 | 3 | 14 | 3 | 0 | 1 |
| 4th | 0.25 | 4 | 0 | 0 | 1 | 0 |
| 5th | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | | 14 | 14 | 14 | 14 | 14 |

**Table-8: Priority Index for Quality**

| Index | Value | Rating |
|---|---|---|
| Understandability Index | 8 | 4 |
| Relevance Index | 7 | 5 |
| Reliability | 10.75 | 3 |
| Timeliness Index | 11.5 | 2 |
| Comparability Index | 11.75 | 1 |

In the table above we see among the five different quality index comparability is rated highest and relevance is rated as lowest. This indicates that banks give priority to comparable data in their annual report or financial disclosures and give less concentration to provide relevant data to the users of information.

## 7.5 Effects of Disclosure in Capital Market:

The percentage of information disclosure by 12 sample banks in year 1999 to 2001 is found from the checklist study. Based on the average disclosure during these three years 12 banks have been rated. Then average market value to book value ratios of 12 sample banks for year 1999, 2000, 2001 are used to rating them. Thus two types of rating one based on disclosure of information and another based on market value to book value ratio are compared to see the correlation between them. Here disclosure is independent variable and market value to book value ratio is dependent variable.

**Table-9: Percentage of Disclosure & Rating**

| SL | Banks | Percentages of disclosure | | | | | Disclosure Rating |
|---|---|---|---|---|---|---|---|
| | | 1999 | 2000 | 2001 | 2002 | Average | |
| 1 | AB Bank | 57% | 72% | 80% | 84% | 73.25% | 4 |
| 2 | City Bank Ltd | 50% | 77% | 75% | 84% | 71.50% | 5 |
| 3 | IFIC Bank Ltd | 43% | 72% | 77% | 80% | 68.00% | 10 |
| 4 | National Bank Ltd | 48% | 77% | 77% | 77% | 69.75% | 8 |
| 5 | Pubali Bank Ltd | 50% | 68% | 75% | 66% | 64.75% | 11 |
| 6 | United Commercial Bank Ltd | 55% | 75% | 73% | 77% | 70.00% | 7 |
| 7 | Uttara Bank Ltd | 48% | 70% | 68% | 72% | 64.50% | 12 |
| 8 | Eastern Bank Ltd | 50% | 79% | 73% | 80% | 70.50% | 6 |
| 9 | Prime Bank Ltd | 50% | 80% | 82% | 86% | 74.50% | 1 |
| 10 | Southeast Bank Ltd | 50% | 71% | 80% | 77% | 69.50% | 9 |
| 11 | Dhaka Bank Ltd | 52% | 70% | 84% | 91% | 74.25% | 2 |
| 12 | N C C Bank Ltd | 55% | 82% | 75% | 82% | 73.50% | 3 |

## Table-10: MV to BV Ratio & Rating

| SL | Banks | MV to BV Ratio | | | | Valuation Rating |
|---|---|---|---|---|---|---|
| | | 2002 | 2001 | 2000 | Average | |
| 1 | AB Bank Ltd | 1.00 | 1.01 | 0.55 | 0.85 | 7 |
| 2 | City Bank Ltd | 0.92 | 0.85 | 0.47 | 0.75 | 8 |
| 3 | IFIC Bank Ltd | 0.87 | 1.04 | 0.69 | 0.87 | 6 |
| 4 | National Bank Ltd | 0.63 | 0.78 | 0.60 | 0.67 | 9 |
| 5 | Pubali Bank Ltd | 0.35 | 0.39 | 0.19 | 0.31 | 11 |
| 6 | United Commercial Bank Ltd | 0.60 | 0.32 | 0.34 | 0.42 | 10 |
| 7 | Uttara Bank Ltd | 0.31 | 0.17 | 0.17 | 0.22 | 12 |
| 8 | Eastern Bank Ltd | 1.32 | 1.09 | 0.66 | 1.02 | 4 |
| 9 | Prime Bank Ltd | 1.20 | 1.63 | 1.61 | 1.48 | 1 |
| 10 | Southeast Bank Ltd | 0.94 | 1.43 | 0.88 | 1.08 | 3 |
| 11 | Dhaka Bank Ltd | 1.12 | 1.90 | 1.35 | 1.46 | 2 |
| 12 | N C C Bank Ltd | 0.95 | 1.10 | 0.74 | 0.93 | 5 |

## Table- 11: Comparison between two ratings

| SL | Banks | Rating of Disclosure | Rating of Valuation |
|---|---|---|---|
| 1 | Prime Bank Ltd | 1 | 1 |
| 2 | Dhaka Bank Ltd | 2 | 2 |
| 3 | NCC Bank Ltd | 3 | 5 |
| 4 | AB Bank Ltd | 4 | 7 |
| 5 | City Bank Ltd | 5 | 8 |
| 6 | Eastern Bank Ltd | 6 | 4 |
| 7 | United Commercial Bank Ltd | 7 | 10 |
| 8 | National Bank Ltd | 8 | 9 |
| 9 | Southeast Bank Ltd | 9 | 3 |
| 10 | IFIC Ltd | 10 | 6 |
| 11 | Pubali Bank Ltd | 11 | 11 |
| 12 | Uttara Bank Ltd | 12 | 12 |

*Notes:* Mercantile Bank Ltd. and Dutch Bangla Bank Ltd were not enlisted in share market in year 2000. So these two banks are not used here to find the association between two variables i.e. disclosure and market value of bank's share.

**Table- 12: Comparison between Disclosure and Market Value:**

| SL | Name of Banks | Disclosure Rating in 2000 | Valuation Rating in 2000 | Disclosure Rating in 2001 | Valuation Rating in 2001 | Disclosure Rating in 2002 | Valuation Rating in 2002 |
|---|---|---|---|---|---|---|---|
| 1 | AB Bank | 3 | 8 | 5 | 7 | 2 | 4 |
| 2 | City Bank Ltd | 8 | 9 | 2 | 8 | 3 | 7 |
| 3 | IFIC Bank Ltd | 5 | 5 | 6 | 6 | 8 | 8 |
| 4 | National Bank Ltd | 6 | 7 | 8 | 9 | 10 | 9 |
| 5 | Pubali Bank Ltd | 9 | 11 | 10 | 10 | 12 | 11 |
| 6 | United Commercial Bank Ltd | 7 | 10 | 11 | 11 | 7 | 10 |
| 7 | Uttara Bank Ltd | 10 | 12 | 12 | 12 | 11 | 12 |
| 8 | Eastern Bank Ltd | 1 | 6 | 1 | 5 | 6 | 1 |
| 9 | Prime Bank Ltd | 4 | 1 | 4 | 2 | 1 | 2 |
| 10 | Southeast Bank Ltd | 12 | 3 | 7 | 3 | 9 | 6 |
| 11 | Dhaka Bank Ltd | 11 | 2 | 3 | 1 | 4 | 3 |
| 12 | N C C Bank Ltd | 2 | 4 | 9 | 4 | 5 | 5 |

**Table-13: Correlation**

| Correlation in different years | | | |
|---|---|---|---|
| 2000 | 2001 | 2002 | Average |
| 0.649 | 0.629 | 0.76 | 0.692 |

We take rating based on disclosure as independent and rating based on market value to book value ratio as dependent variable. Then by using SPSS program, we get the correlation between dependent variable and independent variable. Using ratings based on average data (Table-9) we get correlation between disclosure and market value to book value ratio is 0.692 at 0.01 level of significance. Then using ratings in year 2000 to 2002 we get significant correlations between the variables (Table-11). This indicates there is a significant relationship between disclosure of information and market value to book value ratio. True and fair disclosure by banks can influence the market price of banks share. From the rating we see banks, which are presenting better disclosure of information, have experienced good market price. Prime Bank Limited is rated top among all the sample banks for both disclosure practice and higher market value to book value ratio. It is also noticeable that throughout the year 2000 to 2002 the market value to book value ratio of banks has improved for most of the sample banks. This proves the fact that after adoption of IAS 30 in the preparation of financial statements by banks from the year 2000, the market value to book value ratio of banks has been raised as percentage of disclosure of information in the annual report has been increased. So we can sum up to say that both disclosure of information and market value of bank's share are interrelated. If disclosure in bank's financial statements increases, market value of bank's share increases too.

## 7.6 Conclusion

To conclude this chapter it can be said that the disclosure in financial statements of banks has improved in terms of disclosure on assets and liabilities of banks after adoption of IAS 30 by our banking sector. But in terms of timing of publishing the annual report and presentation of relevant information in the annual report banks need to take care in future. Banks should also consider the significant relation between disclosure practice by banks and the market value of bank's share. In next chapter we will give the recommendations and final comments on the disclosure in financial statements of banks under Bank Company Act 1991 and IAS 30.

# Chapter - Eight

# Conclusion and Recommendations

# Chapter Eight

# Conclusion and Recommendations

## 8.1 Need for high quality accounting standards:

Investors require relevant and timely information to make investment decision and this can be delivered by a high quality accounting standard like IAS 30. Following the regulation of central bank in preparing financial statements with the help of IAS 30 provisions is critical to maintain market discipline. Because it is firmly believed that the success of capital markets is directly dependent on the quality of accounting standards and disclosure nature. Disclosure based on high standards give investors confidence in the credibility of financial reporting and without investors confidence market cannot survive.

Initial steps have been taken to improve disclosure practice by introducing IAS 30 in the disclosure of bank's financial statements, though many challenges still remain. Only compliance of IAS 30 and Bank Company Act 1991 in preparing financial statements does not ensure the soundness in banking industry. Beside disclosing information to ensure transparency and accountability, banks should ensure sound corporate governance to ensure shareholders interest.

## 8.2 Findings of the study:

In general the study shows that banks have increased presentation of information in their financial statements after adoption of IAS 30. The IAS 30 prescribed format is followed by most of the banks in preparing financial statements after 1999. In 1999 banks do not present the statement of changes in equity, which we find from year 2000 i.e. period after adoption of IAS 30. The published annual reports of banks are satisfactory in terms of format, item wise presentation, break up of figures in notes to the accounts etc. But still banks have great scope for disclosing more information to satisfy the users need by giving an accurate image of bank's financial health.

The null hypothesis that no significant improvement has happened in the disclosure practice in financial statements of banks after adoption of IAS 30 is rejected after analyzing the data found from the banks annual reports for four years. Because we have seen the percentage of information disclosure by banks is increased from year 1999 to 2002 after adoption of IAS 30.

## 8.3 Recommendations:

The study of four years annual reports of banks leads to the following recommendations:



- **<u>Directors Report:</u>** The director's report is an important area where disclosure can be improved. This can include additional information like explanations of financial and operating results, risk factors and risk minimization measures, post balance sheet development plan and future prospects for the bank's business etc. It can show the figures indicating bank's current year performance and improvement than last year performance, as many general users of annual report do not bother to go through the whole report carefully and in many cases they do not understand even the calculation method of important figures reported in the financial statement

- **Mission or vision statement:** The disclosure of bank's performance can't be analyzed in absence of a mission or vision or objective of a bank. In the annual reports banks should state their mission or vision statement, which guide them to formulate strategic business plan. Users of bank's information need to know about the events that are going to be happened and the events that have already been happened. Some examples of vision and mission statement are followings:

**Vision statement:**

- To provide quality services to the customers.
- To become the best bank in terms of service excellence and efficiency.

**Mission statement:**

- Innovative banking with a competitive price.
- Cost reduction through integration of technology at all level.

- **Presentation of data:** Banks important performance indicators can be shown in the annual reports graphically. For example, percentage of banks bad loans to total loans ratio can be shown graphically for five years or more. Bank's position in the industry in terms of deposit mobilization, credit disbursement, foreign exchange transactions etc can be presented graphically or in a pie chart. Thus users can compare a bank's performance with other banks in the market and find who are the market leaders.

- **Information about top management:** The study of sample banks annual reports shows that most of the banks do not publish background information regarding the members of the board, which is relevant to a bank's disclosure. Because the members of the board take major decisions for operating a bank. So the previous knowledge and experience of board members regarding banking business is important to run a bank effectively and efficiently. Banks can disclose the background information of the board members including managing director and also the present information regarding the entities or institutes where the board members have any interest as owners or as advisors should also be disclosed in bank's annual report. This can help users of bank's data in assessing the ability of its management to operate the bank profitably and building confidence on them.

- **Performance at a glance:** To present a summary performance of banks throughout the year can be a good practice. From a summary statement or statement of performance at a glance, users can get the idea about main items of a bank like total asset, total capital, total deposit, percentage of classified loans to total loans, return on assets, earning per share, cost of fund etc in short time without reading the whole annual report and notes to the accounts. Banks have already been instructed to disclose some specific items in their annual reports under 'Bank's Highlights at a Glance' as per General Instruction No. 20, Section 38 (First Schedule) of the Bank Company Act 1991 (Amended upto 2003).

- **Future Plan and Social Concern:** Banks can disclose their future business plan and implementation techniques. Banks can also identify all types of its business related risk and mitigating factors in its annual reports to show its risk management ability. The corporate social responsibility of a bank should also be highlighted in its disclosure, as only profit earning can't be the only concern of a modern bank. Banks activities for the development of society should be reflected in its annual disclosure to make it vivid and useful.

- **Value Added Statement:** Banks can include value added statement in the annual disclosure of information. IAS also supports provision of such statement in the annual report that can show the amount and sources of value addition during a specified period along with its distribution in various heads.

- **Statement of fixed assets:** A statement of fixed assets can be presented in the banks annual report showing the types of fixed assets along with their present value and depreciation during the reporting period. This can help users to understand easily the fixed assets mix and process of depreciation used by the banks.

- **Description of the products:** Though some banks found to disclose information regarding the services or products offered by them, all the banks can give a presentation of product description in their annual reports. Adequate information about the new products and services given in the annual report can help users to have the idea of different product services and businesses of banks.

Disclosure in the financial statements of banks and similar financial institutions following IAS 30 is timely and appropriate step towards the transparency and accountability of banking sector in Bangladesh. It has long term and far reaching beneficial implications for publishing banking operations more accurately to all.

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**APPENDIX - 1**

THE FIRST SCHEDULE
(Sec Section 38)
FORM-A

| Capital and Liabilities | Form of the Balance Sheet Tk. Ps. Tk. Ps. | Property Asset | Tk. Ps. Tk. Ps. |
|---|---|---|---|
| 1. Capital<br>(a) Authorised Capital..<br>Share of Tk. each........<br>Issued capital............<br>shares of Tk. each<br>Subscribed Capital..........Share of Tk........each<br>Amlunt called up at Tk........per shares<br>Less calls unpaid<br>Add forfeited shar.........<br><br>2. RESERVE FUND & OTHER RESERVE.................<br><br>3. DEPOSITS AND OTHER ACCOUNT:<br>Deposits.............<br>Savng Bank Deposits..<br>Current Accounts<br>Contingency---------<br>Accounts etc..........<br><br>4. BORROWINGS FROM OTHER BANKING COMPANIES AGENTS ETC...........<br>i) In Bangladesh.......<br>ii) Outside Bangladesh..<br>Particulars :<br>i) secured (Stating the nature of securites)<br>ii) Unsecured..........<br><br>5. BILLS PAYABLE | | 1. CASH:<br>In hand and with Bangladesh Bank and Sonali Bank (including foreign currency notes)..........<br><br>2. BALANCE WITH OTHER BANKS (showing whether on deposit or current account) :<br>i) in Bangladesh....<br>ii) Outside Bangladesh<br><br>3. MONEY AT CALL & SHORT NOTICE.........<br><br>4. INVESTMENTS (stating mode of valuatioon. e.g.cost or market value (d)<br>(i) Securites of the Government and other trustee Securities, including teasury Bills of the Government.<br>(ii) Shares (classifying into preference ordinay. defered and other classes of shares and showing separately shares fully paid-up and partly paid-up)<br>iii) Debenture of Bonds...........<br>iv) Other investments (to be classified under proper heads).<br>v) Gold..........<br><br>5. ADVANCE :<br>(Other than bad and doubtful debts fo which provision has been made to the satisfaction of the auditors)<br>a) Loans, Cash Credits, Overdraft, etc<br>i) In Bangladesh<br>ii) Outside Bangladesh | |

| Capital and Liabilities | Form of the Balance Sheet Tk. Ps. Tk. Ps. | Property Asset | Tk. Ps. Tk. Ps. |
|---|---|---|---|
| 6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE AS PER CONTRA:<br>i) Payable in Bangladesh<br>ii) Payable outside Bangladesh.......... | | b) Bill Discounted and purchased (execluding treasury Bills of the Government)<br>i) Payable in Bangladesh<br>ii) Payable outside Bangladesh.<br>i) Debts considered good in respect of which the banking company is fully secured. | |
| 7. OTHER LIABILITIES (B) | | ii) Debts considered good secured by the personal security. | |
| 8. ACCEPTENCE ENDORSEMENTS AND OTHER OBLIGATION PER CONTRA : | | iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors. | |
| 9. PROFIT AND LOSS:<br>Profit as per last balance sheet<br>Less appropriate........<br>Add profit for the year brought from the profit & loss Account......... | | iv) Debts considered doubtful or bad, not provided for..........<br>v) Debt due by directors or officers of the banking company or any of these severally or joint with any other persons. | |
| 10. CONTIGENT LIABILITIES (C) | | vi) Debts due by companies or firms in which the directors of Banking company are interested as directors partners or managing agents or in case of private companies, as members..........<br>vii) Maximum total amount of advances including temporary advances made at any time during the year to directors or managers or officers of the banking company or any of them either severally or jointly with any other person : (e) | |

| Capital and Liabilities | Form of the Balance Sheet<br>Tk. Ps. Tk. Ps. | Property Asset | Tk. Ps. Tk. Ps. |
|---|---|---|---|
| | | viii) Maximum total amount of advance including temporary advances granted during the year to the companies or firms in which the directors of the directors of the banking company are interested as directors, partners or managing agents or in the case of private companies, as members : (e)....<br>ix) Due from baning companies........<br><br>6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION AS PER CONTRA.<br>i) Payable in Bangladesh<br>ii) payable outside Bangladesh...<br><br>7. CONSTRITENTS LIABILITIES FOR ACCEPTANCE, ENDORSEMENTS AND OTHER OBLIGATIONS PER CONTRA.<br><br>8. PREMISE LESS DEPRECIATION (f)<br><br>9. FURNITURE AND FIXTURES LESS DEPRECIATION (f)<br><br>10. OTHER ASSETS, INCLUDING SILVER (to be specified) : (g)<br><br>11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAMS (Standing mode of valuation): (h)<br><br>12. PROFIT AND LOSS. | |
| | Total........................ | | |

FORM B

FORM OF PROFIT AND LOSS ACCOUNT

Profit and loss Account for the year ended

| Expenditure | Tk. Ps. Tk. Ps. | June<br>Incoming (Less Provisions Made During the year for Bad & Doubtful Debts and other jUsual or necessary Provisions) |
|---|---|---|
| 1. Interest paid on deposits, borrowing etc. | | 1. Interest and discount |
| 2. Salaries and Allowances and Provident Fund (Showing separately salaries and allowances t managing director, manager or chief executive offier) | | 2. Commission, Exchange and Brokerage<br>3. Rents |
| 3. Directors and local Committee Members fee and allowances. | | 4. Net profit on sale of investment, gold and silver land, premises and other assets (not credited to reserves or any particular fund or account). |
| 4. Rent, Taxes, insurance, Lighting etc. | | |
| 5. Law charges | | 5. Income from non-banking assets, and profit from sale of or dealing with such assets. |
| 6. Postage, Telegram and Stamps | | |
| 7. Auditors' fees | | 6. Other receipts |
| 8. Depreciation on and repairs to the banking company's property. | | 7. Loss (if any) |
| 9. Stationery, Printing, Advertisement, etc. | | |
| 10. Loss from sale of or dealing with non-banking assets. | | |
| 11. Other expenditure. | | |
| 12 Balance of Profit | | |
| | Total------------ | Total------------ |

Appendix - 3

# FIRST SCHEDULE

(Sec. 38)

**Form of Balance Sheet**

**Balance Sheet**

Based on ---------------20 ------------------

| | Note | Current year (Taka) | Previous year (Taka) |
|---|---|---|---|
| PROPERTY AND ASSETS | | | |
| CASH DEPOSIT | 01 | | |
| To Bank Company itself ( with foreign Currency) | | | |
| Balance with Bangladesh Bank and its agent bank ( in foreign currency) | | | |
| **Amount deposited with other banks and financial institutons** | 02 | | |
| In Bangladesh | | | |
| Out side Bangladesh | | | |
| **Amount payable on short time notice Investment** | 03 | | |
| Government | 04 | | |
| Others | | | |
| **Loan and Advance** | | | |
| Loan, Cash Loan, Over draft etc.. | 05 | | |
| Discounted and purchased bill | 06 | | |
| **Permanent assets including land building, furniture and fixtures** | 07 | | |
| **Other assets** | 08 | | |
| **Non banking assets** | 09 | | |
| | | | |
| **Total Assets** | | | |
| **Liability and Capital** | | | |
| | | | |
| **Liabilities:** Debt form financial institutions including bank company and agent | 10 | | |

| | Note | Current year (Taka) | Previous year (Taka) |
|---|---|---|---|
| **Deposit and other accounts** | 11 | | |
| Current deposit and other accounts etc.. | | | |
| Payale bills | | | |
| Saing Bank Deposit | | | |
| Fexed deposit | | | |
| Bearer Certificate of deposit | | | |
| Other Deposit | 12 | | |
| **Other Liabilities** | | | |
| **Total liabilitties** | | | |
| | | | |
| **Capital/Equity of Share Holders** | | | |
| Paid up Capital | 13 | | |
| Statutory reserve | 14 | | |
| Other Reserve | 15 | | |
| Surplus in profit loss account | 16 | | |
| Equity of total share holder * * | | | |
| **Total liability and equity of share holders** | | | |

* See attached cash flow statement

* See attached statement on change of capital

**Items excluded Balance Sheet**

| | Note | Current year (Taka) | Previous year (Taka) |
|---|---|---|---|
| **Liabilities subject to incidence** | 17 | | |
| Accepted and endorsed liabilities | | | |
| Letter of Guarantee | | | |
| Irrevocable letter of credit | | | |
| Received bill for collection | | | |
| Liabilitties subject to other incidence | | | |
| **Total** | | | |
| **Other commitments** | | | |
| Documentary credit and transaction regarding short time business | | | |
| Advance purchased asset and settled advanced deposit | | | |
| Issuance of nonmarked notes and facilities of revolving underwriting | | | |
| Current formal nonmarked facilities, Loan | | | |
| facilities and other commitments | | | |
| **Total** | | | |
| Total items excluded from balance sheet with liabilities subject to incidence | | | |

Appendix - 4

## FIRST SCHEDULE

(Sec. 38)

## Form of Profit -Loss accounts

Profit-Loss accounts of the year ended
on ---------------20

| | Note | Current Year (Taka) | Previous year (Taka) |
|---|---|---|---|
| Accrued interest | 19 | | |
| Interest paid on deposit and borrowng etc | 20 | | |
| **Net interest accrued** | | | |
| Income form investment | 21 | | |
| Comission, exchange brokerage | 22 | | |
| Other management income | 23 | | |
| **Total management income** | | | |
| Pay and allowances | | | |
| Expenses of rent, Tax, INsurance, electricity etc. | | | |
| Expenses of legal proceedings | | | |
| Expenses of Postage Stamp, Stamp, Telecommunication etc. | | | |
| Expenses of stationery, Printing and advertisement etc. | | | |
| Fees of the Managing Director or Chief Executive | | | |
| Director's fee | 24 | | |
| Auditors fee | | | |
| Expenses of debt loss | | | |
| Expenses of maintenance of assets of Bank Company and due to devaluation | | | |
| Other expenses | | | |
| **Total management expenses** | | | |
| **Benefit/Loss before assignment** | | | |
| Assignment against loan | 25 | | |
| Assignmnt against assets due to decrease in value of investment | 26 | | |
| Other assignment | 27 | | |
| **Total assignments** | | | |
| Total profit/loss beore payment of tax | | | |
| Assignment for tax | | | |
| **Total profit after payment of tax** | | | |
| **Allocation:** | 28 | | |
| Statutory reserve | | | |
| General reserve | | | |
| Profit etc. | | | |
| **Surplus** | | | |
| Income per geneal share | | | |

Appendix - 5

## Checklist for collecting data from private commercial bank's annual report

| | Description | Name of Banks | | | | | | | | | | | | | | Frequency | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | | | | |
| | | AB Bank Ltd | City Bank Ltd | IFIC Bank Ltd | National Bank Ltd | Pubali Bank Ltd | United Commercial Bank Ltd | Uttara Bank Ltd | Eastern Bank Ltd | Prime Bank Ltd | Southeast Bank Ltd | Dhaka Bank Ltd | N C C Bank Ltd | Dutch Bangla Bank Ltd | Mercantile Bank Ltd | Frequency of Yes | Frequency of No | Percentage of Yes | Percentage of No |
| **1.** | **Balance Sheet: Assets** | | | | | | | | | | | | | | | | | | |
| I | Is the depreciation method shown in the report? | | | | | | | | | | | | | | | | | | |
| II | Is the investment classified according to their type? | | | | | | | | | | | | | | | | | | |
| III | Is the mode of valuation of investment shown? | | | | | | | | | | | | | | | | | | |
| IV | Are the components of cash holding by banks shown separately? | | | | | | | | | | | | | | | | | | |
| V | Is the balance with other banks shown separately under the head of-<br>-inside Bangladesh<br>-outside Bangladesh | | | | | | | | | | | | | | | | | | |
| VI | Is there any head as money at call and short notice? | | | | | | | | | | | | | | | | | | |
| VII | Are the loans and advances divided on the basis of their nature I.e. loans, cash credit, overdraft etc? | | | | | | | | | | | | | | | | | | |
| VIII | Are the loans and advances divided on the basis of maturity like loan repayable on demand, repayable not more than 3 months, over 3 months but not more than 1 year, over 1 year but not more than 5 years and over 5 years? | | | | | | | | | | | | | | | | | | |
| IX | Are the loans and advances including bills discounted and purchased presented by nature of geographical territory of loans namely in Bangladesh and outside Bangladesh? | | | | | | | | | | | | | | | | | | |
| X | Are the loans and advances divided according to their aging status like-unclassified, substandard, doubtful, bad and loss? | | | | | | | | | | | | | | | | | | |
| XI | Does the report show loans and advances to directors and other, managing director, other executives and officers of the bank, customers, industrial loans and advances and others? | | | | | | | | | | | | | | | | | | |

## Checklist for collecting data from private commercial bank's annual report

| | Description | 1 AB Bank Ltd | 2 City Bank Ltd | 3 IFIC Bank Ltd | 4 National Bank Ltd | 5 Pubali Bank Ltd | 6 United Commercial Bank Ltd | 7 Uttara Bank Ltd | 8 Eastern Bank Ltd | 9 Prime Bank Ltd | 10 Southeast Bank Ltd | 11 Dhaka Bank Ltd | 12 N C C Bank Ltd | 13 Dutch Bangla Bank Ltd | 14 Mercantile Bank Ltd | Frequency of Yes | Frequency of No | Percentage of Yes | Percentage of No |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2. Liabilities and Owners equity** | | | | | | | | | | | | | | | | | | | |
| I | Is the share capital shown separately under issued capital and paid up capital ? | | | | | | | | | | | | | | | | | | |
| II | Is the per value of each class of shares shown? | | | | | | | | | | | | | | | | | | |
| III | Is the reserve fund shown? | | | | | | | | | | | | | | | | | | |
| IV | Is the borrowing (if any) from other banking companies shown under the following heads:<br>-In Bangladesh<br>-Outside Bangladesh | | | | | | | | | | | | | | | | | | |
| V | Are the deposits shown as:<br>-Fixed deposit<br>-Saving bank deposit<br>-Current account, continuing account etc? | | | | | | | | | | | | | | | | | | |
| VI | Are the bills for collection being bills receiving as per contra shown as:<br>-Payable in Bangladesh<br>-Payable outside Bangladesh<br>-Other liabilities | | | | | | | | | | | | | | | | | | |
| VII | Are the contingent liabilities shown under different heads? | | | | | | | | | | | | | | | | | | |

## Checklist for collecting data from private commercial bank's annual report

| | | Name of Banks | | | | | | | | | | | | | | Frequency | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | | | | |
| | | AB Bank Ltd | City Bank Ltd | IFIC Bank Ltd | National Bank Ltd | Pubali Bank Ltd | United Commercial Bank Ltd | Uttara Bank Ltd | Eastern Bank Ltd | Prime Bank Ltd | Southeast Bank Ltd | Dhaka Bank Ltd | N C C Bank Ltd | Dutch Bangla Bank Ltd | Mercantile Bank Ltd | Frequency of Yes | Frequency of No | Percentage of Yes | Percentage of No |
| **3. Profit and loss account** | | | | | | | | | | | | | | | | | | | |
| I | Does the P/L account shows the actual amount of interest income against which no reduction for provision is made? | | | | | | | | | | | | | | | | | | |
| II | Is the income statement or P/L account is multiple step statement in the shape of I-From or vertical form which facilitates the computation? | | | | | | | | | | | | | | | | | | |
| III | Is there separate disclosure of investment incomes which includes dividend on shares, interest secured from treasury bills and debentures, gains (or losses) arising form disposals and changes in the carrying amount of dialing and investment securities, ga | | | | | | | | | | | | | | | | | | |
| IV | Is there disclosure on commission received from rendering various remittance services and other services, exchange receipts, brokerage receipts etc. under separate head on the P/L account? | | | | | | | | | | | | | | | | | | |
| V | Is the provision for bad and doubtful debts shown in the P/L account ? | | | | | | | | | | | | | | | | | | |
| VI | Is their provision for the diminution ( if any) in the value of investment? | | | | | | | | | | | | | | | | | | |
| VII | Are there other provisions i.e. provision against deferred expenses that are shown as other assets in the balance sheet? | | | | | | | | | | | | | | | | | | |
| VIII | Is the earning per share reported at the bottom of the P/L account? | | | | | | | | | | | | | | | | | | |
| **4. Cash flow statement:** | | | | | | | | | | | | | | | | | | | |
| I | Does the annual report discloses the cash flow statement to describe the nature and amount of cash flows form operating activities, investing activities and financing activities? | | | | | | | | | | | | | | | | | | |

## Checklist for collecting data from private commercial bank's annual report

| | Checklist | Name of Banks: 1 AB Bank Ltd | 2 City Bank Ltd | 3 IFIC Bank Ltd | 4 National Bank Ltd | 5 Pubali Bank Ltd | 6 United Commercial Bank Ltd | 7 Uttara Bank Ltd | 8 Eastern Bank Ltd | 9 Prime Bank Ltd | 10 Southeast Bank Ltd | 11 Dhaka Bank Ltd | 12 N C C Bank Ltd | 13 Dutch Bangla Bank Ltd | 14 Mercantile Bank Ltd | Frequency: Frequency of Yes | Frequency of No | Percentage of Yes | Percentage of No |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **5. Statement of changes in equity** | | | | | | | | | | | | | | | | | | | |
| I | Is there a statement of changes in equity? | | | | | | | | | | | | | | | | | | |
| II | Are there adjustments against the shareholders equity like addition to paid up capital, funds transferred to other reserve during the year and dividend paid during the year in cash and issue of bonus shares etc. | | | | | | | | | | | | | | | | | | |
| III | Does the balance of shareholders' equity in the statement of changes in equity comply with the figure reported on the balance sheet? | | | | | | | | | | | | | | | | | | |
| **6. Miscellaneous** | | | | | | | | | | | | | | | | | | | |
| I | Is there any mission or vision statement? | | | | | | | | | | | | | | | | | | |
| II | Does the report depict the bank's current year's business target? | | | | | | | | | | | | | | | | | | |
| III | Does the statement present comparative figures of two years? | | | | | | | | | | | | | | | | | | |
| IV | Is there review of current year performance? | | | | | | | | | | | | | | | | | | |
| V | Is there presentation of future prospects? | | | | | | | | | | | | | | | | | | |
| VI | Does the report show the bank's market share in the industry? | | | | | | | | | | | | | | | | | | |
| VII | Does the report reflects social concern of the bank? | | | | | | | | | | | | | | | | | | |
| VIII | Does it show adequate information about the bank? | | | | | | | | | | | | | | | | | | |
| IX | Does the report highlight yearly performance? | | | | | | | | | | | | | | | | | | |
| X | Does the report show significant ratio or statistics for 5 years? | | | | | | | | | | | | | | | | | | |
| XI | Is there background information about members of the top management or governing Board of Directors? | | | | | | | | | | | | | | | | | | |
| **7. Presentation :** | | | | | | | | | | | | | | | | | | | |
| I | Is the report published in both Bengali and English? | | | | | | | | | | | | | | | | | | |
| II | Does the report contains graphical or pictorial presentation of significant accounts? | | | | | | | | | | | | | | | | | | |
| **8. Timing of the report** | | | | | | | | | | | | | | | | | | | |
| I | Is the report within 5 months of closing? | | | | | | | | | | | | | | | | | | |

Appendix - 6

## Checklist for qualitative natures of information in bank's financial statements

| Descriptions | | 1 AB Bank Ltd | 2 City Bank Ltd | 3 IFIC Bank Ltd | 4 National Bank Ltd | 5 Pubali Bank Ltd | 6 United Commercial Bank Ltd | 7 Uttara Bank Ltd | 8 Eastern Bank Ltd | 9 Prime Bank Ltd | 10 Southeast Bank Ltd | 11 Dhaka Bank Ltd | 12 N C C Bank Ltd | 13 Dutch Bangla Bank Ltd | 14 Mercantile Bank Ltd |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Understandability** | | | | | | | | | | | | | | | |
| Q.The report shows which qualities to make the information understandable? | 1. is published in both Bengali and English, explains the infamiliar terms like use of some financial ratios or meaning of value added statement etc, contains a chairman's report, a director's report showing economic review,significant information on bank like earning after all provision, deposit position, amount of classified loan and provision, capital adequacy ratioetc, shows highlights of important accounts or performance at a glance. | | | | | | | | | | | | | | |
| | 2. is published mainly in English or in English and Bengali both, contains chairman's report,director's report having economic review and no disclosure on bank's classified loans, earning after provision, deposit, cost of fund etc, inadequate notes to the accounts, shows performance at a glance. | | | | | | | | | | | | | | |
| | 3. is published in English, shows no chairman's report, contians director's report showing no economic review and bank's performance in terms of classified loan, deposit etc, inadequate notes to the accounts, shows performance at a glance. | | | | | | | | | | | | | | |
| | 4. is published in Bengali showing director's report with economic review and bank's performance in terms of classified loan and deposit, contains no chairman's report, shows no performance at a glance | | | | | | | | | | | | | | |
| | 5. is published in English or Bengali, shows no chairman's or director's report, inadequate notes to the accounts. no highlights or prformance at a glance | | | | | | | | | | | | | | |

## Checklist for qualitative natures of information in bank's financial statements

| | Descriptions | Name of Banks | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| | | AB Bank Ltd | City Bank Ltd | IFIC Bank Ltd | National Bank Ltd | Pubali Bank Ltd | United Commercial Bank Ltd | Uttara Bank Ltd | Eastern Bank Ltd | Prime Bank Ltd | Southeast Bank Ltd | Dhaka Bank Ltd | N C C Bank Ltd | Dutch Bangla Bank Ltd | Mercantile Bank Ltd |
| **Relevance** | | | | | | | | | | | | | | | |
| Q. The report shows what relevant information? | 1. Mission or vision statement, target profit and operating profit, amount of bad loan and provision, background information on the members of board, managing director, deputy managing director, disclosure on the firms or entities where members of the board have interest, corporate social responsibility of the bank, information on risk management, portfolio analysis. | | | | | | | | | | | | | | |
| | 2. Amount of bad loans and provision, names of members of the board and names of entities where they have interest, background information on managing director and deputy managing director, corporate social responsibility, but no portfolio analysis or information on risk management. | | | | | | | | | | | | | | |
| | 3. Amount of bad loans and provision , no information of entities where board members have interest, no information on background of managing director or deputy managing director, corporate social responsibility, but no portfolio analysis or risk management. | | | | | | | | | | | | | | |
| | 4. No bad loans but amount of provision, no information on members of the board, managing director or deputy managing director, no corporate social responsibility, no portfolio analysis, no risk management. | | | | | | | | | | | | | | |
| | 5. No information on amount of bad loans and provision, members of the board, managing director or deputy managing director, social responsibility, portfolio analysis, risk management. | | | | | | | | | | | | | | |

## Checklist for qualitative natures of information in bank's financial statements

| | Descriptions | Name of Banks | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| | | AB Bank Ltd | City Bank Ltd | IFIC Bank Ltd | National Bank Ltd | Pubali Bank Ltd | United Commercial Bank Ltd | Uttara Bank Ltd | Eastern Bank Ltd | Prime Bank Ltd | Southeast Bank Ltd | Dhaka Bank Ltd | N C C Bank Ltd | Dutch Bangla Bank Ltd | Mercantile Bank Ltd |
| **Reliability** | | | | | | | | | | | | | | | |
| Q The report shows what reliable information? | 1. No mismatch between figures reported in financial statements of last year and current year, moderate change in the figures of current year, satisfactory auditor's report, adequate explanations on change in figures reported under current year, figures reported in the notes to the accounts match with the figure reported in financial statements. | | | | | | | | | | | | | | |
| | 2. No mismatch between figures reported in last year and present year, Extreme change between figures reported in last year and present year but proper explanation is there. Satisfactory auditor's report and no mismatch between figures in notes to the accounts and figures in financial statements. | | | | | | | | | | | | | | |
| | 3. Mismatch between last year figures and present year or abnormal increase or decrease of income or classified loan found in the financial statement, but explanation is given. | | | | | | | | | | | | | | |
| | 4. Same auditor's report for more than two years and satisfactory for current year, abnormal change in the figures in current year than last year and no explanation is given, figures in the notes do not match with figures in the financial statements. | | | | | | | | | | | | | | |
| | 5. Auditor's report is not satisfactory, significant mismatch between last year figures and current figures, no explanation is there for increase or decrease in figures, figures found in notes to the accounts do not match with figures in financial statements. | | | | | | | | | | | | | | |

| Descriptions | | Name of Banks 1 AB Bank Ltd | 2 City Bank Ltd | 3 IFIC Bank Ltd | 4 National Bank Ltd | 5 Pubali Bank Ltd | 6 United Commercial Bank Ltd | 7 Uttara Bank Ltd | 8 Eastern Bank Ltd | 9 Prime Bank Ltd | 10 Southeast Bank Ltd | 11 Dhaka Bank Ltd | 12 N C C Bank Ltd | 13 Dutch Bangla Bank Ltd | 14 Mercantile Bank Ltd |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Timing** | | | | | | | | | | | | | | | |
| Q. When the report is published after book closure? | 1. Within 5 months of book closure | | | | | | | | | | | | | | |
| | 2. Within 8 months of book closure | | | | | | | | | | | | | | |
| | 3 Within 10 months | | | | | | | | | | | | | | |
| | 3 Within 12 months | | | | | | | | | | | | | | |
| | 4. Within 15 months | | | | | | | | | | | | | | |
| | 5. More than 15 months | | | | | | | | | | | | | | |
| **Comparability** | | | | | | | | | | | | | | | |
| Q. Is the report shows figure | 1. For two years in the financial statements,statictics for 5 years, important financial ratios, graphical presentation of important accounts, market share of bank in terms of credit or deposit, percantage of classified loan to total loans. | | | | | | | | | | | | | | |
| | 2. For two years in the financial statements, statistics for 5 years, significant ratios, graphical presentation of significant accounts,but no figures at a glance, no market share or percentage of classified loans to total loans. | | | | | | | | | | | | | | |
| | 3. For two years in the financial statements, statistics for less than 5 years, no significant ratio analysis, graphical presentation of significant accounts,but no figures at a glance, no market share or percentage of classified loans to total loans. | | | | | | | | | | | | | | |
| | 4. For two years in the financial statements, graphical presentation of significant accounts,but no figures at a glance, no market share or percentage of classified loans to total loans. | | | | | | | | | | | | | | |
| | 5. For two years in the financial statements, but no graphical presentation of significant accounts, no figures at a glance, no market share or percentage of classified loans to total loans. | | | | | | | | | | | | | | |

# Correlations: Using three years average data (Table-11)



**Correlations**

| | | VAR00001 | VAR00002 |
|---|---|---|---|
| Pearson Correlation | VAR00001 | 1.000 | .692** |
| | VAR00002 | .692** | 1.000 |
| Sig. (1-tailed) | VAR00001 | . | .006 |
| | VAR00002 | .006 | . |
| N | VAR00001 | 12 | 12 |
| | VAR00002 | 12 | 12 |

**. Correlation is significant at the 0.01 level (1-tailed).

# Correlations:Using two ratings for year 2000 (Table-12)



**Correlations**

| | | VAR00001 | VAR00002 |
|---|---|---|---|
| Pearson Correlation | VAR00001 | 1.000 | .147 |
| | VAR00002 | .147 | 1.000 |
| Sig. (2-tailed) | VAR00001 | . | .649 |
| | VAR00002 | .649 | . |
| N | VAR00001 | 12 | 12 |
| | VAR00002 | 12 | 12 |

# Correlations:Using two ratings for year 2001(Table-12)

**Correlations**

| | | VAR00004 | VAR00005 |
|---|---|---|---|
| Pearson Correlation | VAR00004 | 1.000 | .629* |
| | VAR00005 | .629* | 1.000 |
| Sig. (2-tailed) | VAR00004 | . | .028 |
| | VAR00005 | .028 | . |
| N | VAR00004 | 12 | 12 |
| | VAR00005 | 12 | 12 |

*. Correlation is significant at the 0.05 level (2-tailed).

# Correlations: Using two ratings for year 2002 (Table-12)

**Correlations**

| | | VAR00007 | VAR00008 |
|---|---|---|---|
| Pearson Correlation | VAR00007 | 1.000 | .762** |
| | VAR00008 | .762** | 1.000 |
| Sig. (2-tailed) | VAR00007 | . | .004 |
| | VAR00008 | .004 | . |
| N | VAR00007 | 12 | 12 |
| | VAR00008 | 12 | 12 |

**. Correlation is significant at the 0.01 level (2-tailed).