

**To
The Shareholders
First Security Islami Bank Limited
House # SW (I) 1/A, Road # 08
Gulshan-1, Dhaka-1212
Bangladesh**

**Independent Auditor's Report
&
Audited Financial Statements
of
First Security Islami Bank Limited
For the year ended 31 December 2018**

Hoda Vasi Chowdhury & Co

Chartered Accountants

Independent Auditor's Report To the Shareholders of First Security Islami Bank Limited Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated financial statements of First Security Islami Bank Limited (together referred to as the “**Group**”) as well as the separate financial statements of First Security Islami Bank Limited (the “**Bank**”) which comprise the consolidated and separate Balance sheets as at 31 December 2018, consolidated and separate profit and loss accounts, consolidated and separate cash flow statement, consolidated and separate statement of changes in equity for the year then ended, and notes to consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Group and separate financial statement of the Bank give a true and fair view of the consolidated balance sheet of the Group and the separate balance sheet of the Bank as at 31 December 2018 and its consolidated and separate profit and loss accounts and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the **Auditors’ Responsibilities for the Audit of the Consolidated and Separate Financial Statements** section of our report. We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Institute of Chartered Accountants of Bangladesh (ICAB) By Laws.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of key audit matters	Our response to key audit matters
Measurement of provision for investment	
<p>The process for estimating the provision for investment a portfolio associated with credit risk is significant and complex.</p> <p>For the individual analysis for large exposure, provisions calculation consider the estimates of future business performance and the market value of collateral provided for credit transactions.</p>	<p>We tested the design and operating effectiveness of key controls focusing on the following:</p> <ul style="list-style-type: none"> • Credit appraisal, loan disbursement procedures, monitoring and provisioning process; • Identification of loss events, including early warning and default warning indicators; • Reviewed quarterly Classification of Loans (CL); • Followed Bangladesh Bank’s circulars and guidelines; <p>Our substantive procedures in relation to the provision for investments and advances portfolio comprised the following:</p>



Description of key audit matters	Our response to key audit matters
<p>For the collective analysis of exposure on portfolio basis, provision calculation and reporting are manually processed that deals with voluminous databases, assumptions and estimates.</p> <p>At year-end the Bank reported total investment of BDT 311.68 billion (2017: BDT 273.59 billion) and provision for investment of BDT 9.33 billion (2017: BDT 7.10 billion).</p>	<ul style="list-style-type: none"> • Reviewed the adequacy of the general and specific provisions in line with related Bangladesh Bank guidelines; • Assessed the methodologies on which the provision amounts based, recalculated the provisions and tested the completeness and accuracy of the underlying information; • Finally assessed the appropriateness and presentation of disclosures against relevant accounting standards and Bangladesh Bank guidelines.
See note no 6 and 13.3 to the financial statements	
Impairment assessment of unquoted investments	
<p>In the absence of a quoted price in an active market, the fair value of unquoted shares and bonds, especially any impairment is calculated using valuation techniques which may take into consideration direct or indirect unobservable market data and hence requires an elevated level of judgement.</p>	<p>We have assessed the processes and controls put in place by the Bank to ensure all major investment decisions are undertaken through a proper due diligence process</p> <p>We tested a sample of investments valuation as at 31 December 2018 and compared our results to the recorded value.</p> <p>Finally, we assessed the appropriateness and presentation of disclosures against relevant accounting standards and Bangladesh Bank guidelines.</p>
See note no 5 to the financial statements	
Measurement of deferred tax assets	
<p>The Bank reports net deferred tax assets to totaling BDT 401.62 million as at 31 December 2018.</p> <p>Significant judgement is required in relation to deferred tax assets as their recoverability is dependent on forecasts of future profitability over a number of years.</p>	<p>We obtained an understanding, evaluated the design and tested the operational effectiveness of the Group's key controls over the recognition and measurement of DTAs and the assumptions used in estimating the Group's future taxable income.</p> <p>We also assessed the completeness and accuracy of the data used for the estimations of future taxable income.</p> <p>We involved tax specialists to assess key assumptions, controls, recognition and measurement of DTA's.</p> <p>Finally assessed the appropriateness and presentation of disclosures against IAS 12: Income Tax.</p>
See note no 8.3 to the financial statements	
IT systems and controls	
<p>IT systems and controls are of pervasive nature and complex in IT environment. The large volumes of transactions are processed in numerous locations daily and are relied on automated and IT dependent manual controls.</p>	<p>We tested the design and operating effectiveness of the Bank's IT access controls over the information systems that are critical to financial reporting.</p>

