

Independent Auditor's Report to The Shareholders of LankaBangla Finance Limited Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated financial statements of LankaBangla Finance Limited and its subsidiaries (the "Group") as well as the separate financial statements of LankaBangla Finance Limited (the "Company"), which comprise the consolidated and separate balance sheets as at 31 December 2018 and the consolidated and separate profit and loss accounts, consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and separate financial statements of the Company give a true and fair view of the consolidated balance sheet of the Group and the separate balance sheet of the Company as at 31 December 2018, and of 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 notes 1 to 42.

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 Company 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) Bye 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 judgment, were of most significance in our audit of the consolidated and separate financial statements for the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. 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.

Key Audit Matter	How our audit addressed the key audit matter
<p>Leases, Loans and Advances and Measurement of provisions</p> <p>The process for estimating the provision for leases, loans and advances portfolio associated with credit risk is significant and complex.</p> <p>For the individual analysis, these provisions consider the estimates of future business performance and the market value of collateral provided for credit transactions.</p> <p>For the collective analysis, these provisions are manually processed that deals with voluminous databases, assumptions and calculations for the provision estimates of complex design and implementation.</p> <p>At year end 2018 the Group reported total gross leases, loans and advances of BDT 68,676.03 million (2017: BDT 66,544.36 million) and provision for leases, loans and advances of BDT 1,598.35 million (2017: BDT 1,434.42 million). The total provision for leases, loans and advances shown in the profit and loss for this year stands BDT 629.85 million (2017: BDT 285.21 million).</p> <p>We have focused on the following significant judgments and estimates which could give rise to material misstatement or management bias:</p> <ul style="list-style-type: none"> Completeness and timing of recognition of loss events in accordance with criteria set out in FID circular No. 08 dated 03 August 2002, FID circular No. 03, dated 03 May 2006 and FID circular No. 03, dated 29 April 2013; For individually assessed provisions, the measurement of the provision may be dependent on the valuation of collateral, estimates of exit values and the timing of cash flows. <p>Provision measurement is primarily dependent upon key assumptions relating to probability of default, ability to repossess collateral and recovery rates;</p> <p>See note no 12.4 to the financial statements</p>	<p>We tested the design and operating effectiveness of key controls focusing on the following:</p> <ul style="list-style-type: none"> Tested the 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); <p>Our substantive procedures in relation to the provision for leases, loans and advances portfolio comprised the following:</p> <ul style="list-style-type: none"> Reviewed the adequacy of the companies general and specific provisions; 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. <p>These uncertainties inherently affect the amount and timing of potential outflows with respect to the provisions which have been established and other contingent liabilities.</p> <p>Overall, the legal provision represents the Group's best estimate for existing legal matters that have a probable and estimable impact on the Group's financial position.</p> <p>See note no 1 to the financial statements</p>
<p>Carrying value of investments in subsidiary(s) by LankaBangla Finance Limited</p> <p>The LankaBangla Finance Limited (the "Company") has invested in equity shares of its subsidiaries LankaBangla Securities Limited, LankaBangla Asset Management Company Limited and LankaBangla Investment Limited. As at 31 December 2018 the carrying value of this investment is BDT 4,630.94 million.</p> <p>At the time of conducting our audit of the separate financial statements of the LankaBangla Finance Limited we have considered the recoverable value of the LankaBangla Finance Limited's investments in LankaBangla Securities Limited, LankaBangla Asset Management Company Limited and LankaBangla Investment Limited stated at cost.</p> <p>Management has conducted impairment assessment and calculated recoverable value of its subsidiaries LankaBangla Securities Limited, LankaBangla Asset Management Company Limited and LankaBangla Investment Limited in accordance with IAS 36.</p> <p>See note no 9 to the financial statements</p>	<p>We have reviewed Management's analysis of impairment assessment and recoverable value calculation of subsidiaries in accordance with IAS 36.</p> <p>In particular, our discussion with the Management were focused on the continued appropriateness of the value in use model, the key assumptions used in the model, the reasonably possible alternative assumptions, particularly where they had the most impact on the value in use calculation.</p> <p>We also checked mathematical accuracy of the model, recalculated discount rate used within the model, inputs used in the determination of assumptions within the model were challenged and corroborating information was obtained with reference to external market information, third-party sources.</p>
<p>Investment and provision for diminution in value of investment</p> <p>Group investments comprise of marketable ordinary shares of BDT 5,283.07 million, non marketable ordinary shares of BDT 230.52 million and commercial papers of BDT 200 million.</p> <p>Group investments in securities and commercial papers are valued at BDT 5,713.59 million and represent 7% of total assets. This was an area of focus for our audit and significant audit effort was directed.</p> <p>The investment portfolio of the LankaBangla Finance Limited comprises investments in marketable ordinary shares of BDT 2,085.74 million, non marketable ordinary shares of BDT 123.57 million and commercial papers of BDT 200 million.</p> <p>Investments in quoted shares and unquoted shares are valued at average cost. However, the company made provision for diminution in value of investment as per FID circular no. 8 dated 3 August 2002 and DFIM circular no. 02 dated 31 January 2012.</p> <p>We focused on this area because of the significance of the investments in the financial statements, and departure from the recognition and presentation criteria of IFRS 9, IFRS 7 & IAS 32 to comply the above circular of Bangladesh Bank for determining the valuation methodology and presentation to be applied by the management of the company.</p> <p>See notes 2.16, 6 and 32 to the financial statements.</p>	<p>Our audit procedures included updating our understanding of the business processes employed by the Company for accounting for, and valuing, their investment portfolio.</p> <p>Our audit approach was a combination of test of internal control and substantive procedures.</p> <p>We obtained sufficient audit evidence to conclude that the inputs and methodologies used for the valuation of the investments are within a reasonable range and that valuation policies were consistently applied by the management of the company.</p> <p>We assessed the design and operating effectiveness of the Group's key controls supporting the identification, measurement and oversight of valuation risk of financial assets.</p> <p>We verified the existence and legal ownership of equity investments and commercial paper by confirming investment holdings with CDBL statement, Trust deed and record from the Registrar of Joint Stock Companies & Firm appropriate.</p> <p>We tested the calculations of provision for diminution in value of investment and checked the presentation and disclosure of investment in compliance with FID circular no. 8 dated 3 August 2002 and DFIM circular no. 2 dated 31 January 2012 issued by Bangladesh Bank.</p>
<p>Key Audit Matter</p> <p>Measurement of deferred tax assets</p> <p>LankaBangla Finance Limited has unrecognised deferred tax assets in respect of unabsorbed tax losses, unabsorbed capital allowance, and other timing differences.</p> <p>There is inherent uncertainty involved in forecasting future taxable profits, which determines the extent to which deferred tax assets are or are not recognised.</p> <p>LankaBangla Finance Limited reports net deferred tax assets totalling to BDT 20.67 million as at 31 December 2018.</p> <p>Significant judgment 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>See note no 2.37b and 9.1.1.1 to the financial statements</p>	<p>How our audit addressed the key audit matter</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 Deferred Tax Assets and the assumptions used in estimating the LankaBangla Finance Limited'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 evaluated the reasonableness of key assumptions, timing of reversal of temporary differences and expiration of tax loss carry forwards, recognition and measurement of Deferred Tax Assets.</p> <p>We assessed the adequacy of the company's disclosures setting out the basis of deferred tax asset balances and the level of estimation involved.</p> <p>We also assisted in evaluating the tax implications, the reasonableness of estimates and calculations determined by management.</p> <p>Finally assessed the appropriateness and presentation of disclosures against IAS 12 Income Tax.</p>
<p>Key Audit Matter</p> <p>Valuation of defined benefits plan</p> <p>The Company operates an funded gratuity scheme. In accordance with the rules of the Gratuity Fund, a benefit becomes due when a member ceases to be a member of the Fund. These results in the Fund having a constructive obligation to pay the benefit. Consequently, the Fund is required to recognize the liability related to such benefits. At year end the Group reported a net funded gratuity liability of BDT 72.76 million (2017: BDT 70.68 million).</p> <p>The benefits payable to members are calculated in terms of section-4 of the rules of the Fund. Methodologies applied in the calculation of the benefits payable to members as disclosed in note 2.36.2 and 12.1 of the financial statements which include:</p> <p>Liability for gratuity is provisioning on the presumption that all the employees are retiring on the balance sheet date rather than actuarial calculation of the gratuity. Therefore, valuation of the benefits payable provision is considered as a key audit matter.</p>	<p>How our audit addressed the key audit matter</p> <p>Our audit procedures included updating our understanding of the business processes employed by the Company for accounting for, and valuing, their defined benefit plan.</p> <p>We obtained sufficient audit evidence to conclude that the inputs and methodologies used to determine the liability for defined benefit plan.</p> <p>We assessed the design and operating effectiveness of the Group's key controls supporting the identification, measurement and oversight of valuation of the defined benefits payable provision.</p> <p>We examined the basis on which gratuity is payable to the employee and is worked out the liability for gratuity on the presumption that all employees retire on the balance sheet date.</p> <p>We ensured that the basis of computing gratuity is valid; verify the computation of liability on aggregate basis.</p> <p>We checked the amount of gratuity paid to employees who retired during the year with reference to the number of years of service rendered by them.</p> <p>We tested the employees data used in calculating obligation.</p> <p>We assessed the appropriateness and presentation of disclosures against IAS 19 Employee Benefits.</p>
<p>Key Audit Matter</p> <p>Legal and regulatory matters</p> <p>We focused on this area because the LankaBangla Finance Limited and its subsidiaries (the "Group") operate in a legal and regulatory environment that is exposed to significant litigation and similar risks arising from disputes and regulatory proceedings. Such matters are subject to many uncertainties and the outcome may be difficult to predict.</p> <p>These uncertainties inherently affect the amount and timing of potential outflows with respect to the provisions which have been established and other contingent liabilities.</p> <p>Overall, the legal provision represents the Group's best estimate for existing legal matters that have a probable and estimable impact on the Group's financial position.</p> <p>See note no 1 to the financial statements</p>	<p>How our audit addressed the key audit matter</p> <p>We obtained an understanding, evaluated the design and tested the operational effectiveness of the Group's key controls over the legal provision and contingencies process.</p> <p>We enquired to those charged with governance to obtain their view on the status of all significant litigation and regulatory matters.</p> <p>We enquired of the Group's internal legal counsel for all significant litigation and regulatory matters and inspected internal notes and reports. We also received formal confirmations from external counsel.</p> <p>We assessed the methodologies on which the provision amounts are based, recalculated the provisions, and tested the completeness and accuracy of the underlying information.</p> <p>We also assessed the Group's provisions and contingent liabilities disclosure.</p>
<p>Key Audit Matter</p> <p>IT systems and controls</p> <p>Our audit procedures have a focus on IT systems and controls due to the pervasive nature and complexity of the IT environment, the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls.</p> <p>Our areas of audit focus included user access management, developer access to the production environment and changes to the IT environment. These are key to ensuring IT dependent and application based controls are operating effectively.</p>	<p>How our audit addressed the key audit matter</p> <p>We tested the design and operating effectiveness of the Group's IT access controls over the information systems that are critical to financial reporting. We also assessed the total IT security over its operation in accordance with the Guideline on ICT Security For Banks and Non-Bank Financial Institutions dated May, 2015 Version 3.0. We tested IT general controls (logical access, changes management and aspects of IT operational controls). This included testing that requests for access to systems were appropriately reviewed and authorized.</p> <p>We tested the Group's periodic review of access rights. We inspected requests of changes to systems for appropriate approval and authorization. We considered the control environment relating to various interfaces, configuration and other application layer controls identified as key to our audit.</p> <p>Where deficiencies were identified, we tested compensating controls or performed alternate procedures. In addition, we understood where relevant, changes were made to the IT landscape during the audit period and tested those changes that had a significant impact on financial reporting.</p>
<p>Key Audit Matter</p> <p>Accuracy and completeness of revenue recognised</p> <p>The Group reported revenue of BDT 9,095 million from lease finance, term finance, credit cards, term deposit receipts, investment income and related activities.</p> <p>The application of revenue recognition accounting standards is complex and involves a number of key judgments and estimates, including those applied on revenue arrangements with multiple elements and those contracts where there is existence of principal and agent relationship.</p> <p>Due to the estimates and judgment involved in the application of the revenue recognition accounting standards and the degree of complexity of IT systems and processes used, we have considered this matter as a key audit matter.</p> <p>The Group's accounting policies relating to revenue recognition are presented in note 2.33 to the consolidated financial statements.</p> <p>See note no 17 to the financial statements</p>	<p>How our audit addressed the key audit matter</p> <p>Our audit approach included a combination of controls testing, data analytics and substantive procedures covering the following:</p> <ul style="list-style-type: none"> we understood the significant revenue processes including performance of an end to end walkthrough of the revenue assurance process and identifying the relevant controls (including IT systems, interfaces and reports); we tested the design and operating effectiveness of the relevant controls; we involved our internal IT specialists to test IT general controls, system interfaces, data/information reporting and application specific controls surrounding relevant revenue systems; we reviewed significant new contracts and regulatory determinations, the accounting treatments opted and testing the related revenues recognised during the period; we performed data analysis and analytical reviews of significant revenue streams; we reviewed key reconciliations performed by the Revenue Assurance team; we performed specific procedures to test the accuracy and completeness of adjustments relating to multiple element arrangements and grossing up certain revenue and costs; and we performed procedures to ensure that the revenue recognition criteria adopted by each group entity for all major revenue streams is appropriate and in line with the Group's accounting policies. <p>Through our instructions, supervision and review, the auditors of the Group's significant entities performed consistent audit procedures on revenue.</p>

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other Information

Management is responsible for the other information. The other information comprises all of the information in the Annual Report other than the consolidated and separate financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements and Internal Controls

Management is responsible for the preparation and fair presentation of the consolidated financial statements of the Group and also separate financial statements of the Company in accordance with IFRSs as explained in note no 2, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and measure the risks of material misstatement in the consolidated and separate financial statements, whether due to fraud or error, develop and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and relevant to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate in the circumstances but not to express an opinion on the effectiveness of the group's internal control.
- Assess the adequacy of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

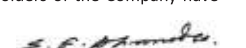
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other Legal and Regulatory Requirements

In accordance with the Companies Act, 1994, the Securities and Exchange Rules 1987, the Financial Institutions Act, 1993 and the rules and regulations issued by Bangladesh Bank, we also report that:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;
- in our opinion, proper books of accounts as required by law have been kept by the Company so far as it appeared from our examination of those books;
- the consolidated balance sheet and consolidated profit and loss account together with the annexed notes dealt with by the report are in agreement with the books of account and returns;
- the expenditures incurred were for the purpose of the Company's business for the year;
- the financial statements of the Company have been drawn up in conformity with the Financial Institutions Act, 1993 and in accordance with the accounting rules and regulations which were issued by Bangladesh Bank to the extent applicable to the Company;
- adequate provisions have been made for loans, advances, leases, investment and other assets which are, in our opinion, doubtful of recovery and Bangladesh Bank's instructions in this regard have been followed properly;
- the financial statements of the Company conform to the prescribed standards set in the accounting regulations which were issued by Bangladesh Bank after consultation with the professional accounting bodies of Bangladesh;
- the records and statements which were submitted by the branches have been properly maintained and recorded in the financial statements;
- statements sent to Bangladesh Bank have been checked on sample basis and no inaccuracy has come to our attention;
- taxes and other duties were collected and deposited in the Government treasury by the Company as per Government instructions found satisfactory based on test checking;
- nothing has come to our attention that the Company has adopted any unethical means i.e. 'window dressing' to inflate the profit and mismatch between the maturity of assets and liabilities;
- proper measures have been taken to eliminate the irregularities mentioned in the inspection report of Bangladesh Bank and the instructions which were issued by Bangladesh Bank and other regulatory authorities have been complied properly as disclosed to us by management;
- based on our work as mentioned above under the auditor's responsibility section, the internal control and the compliance of the Company is satisfactory, and effective measures have been taken to prevent possible material fraud, forgery and internal policies are being followed appropriately;
- the Company has complied with relevant laws pertaining to capital, reserve and net worth, cash and liquid assets and procedure for sanctioning and disbursing loans/leases found satisfactory;
- we have reviewed over 80% of the risk weighted assets of the Company and we have spent around 1875 person hours for the audit of the books and accounts of the Company;
- the Company has complied with relevant instructions which were issued by Bangladesh Bank relevant to classification, provisioning and calculation of interest suspense;
- the Company has complied with the 'First Schedule' of Bank Companies Act, 1991 in preparing these financial statements in accordance with DFIM circular no. 11, dated 23 December 2009; and
- all other issues which in our opinion are important for the stakeholders of the Company have been adequately disclosed in the audit report.

Dhaka, 12 February 2019


S. F. Ahmed & Co.
Chartered Accountants

