

Auditor's Report & Audited Financial Statements
of
Bangladesh Industrial Finance Company Limited
Police Plaza Concord (Tower-2) Level-8,
Plot-02, Road-144, Gulshan, Dhaka-1212.
For the year ended 31 December 2022

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Independent Auditor's Report To the Shareholders of Bangladesh Industrial Finance Company Limited (BIFC) Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of Bangladesh Industrial Finance Company Limited (BIFC) (the "Company"), which comprise the balance sheet as at 31 December 2022 and profit and loss account, cash flow statement and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Adverse Opinion section of our report, the accompanying financial statements of the Company do not give a true and fair view of the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as explained in note 2.1.

Basis for Adverse Opinion

1. Going Concern Issues:

We draw attention to Note 2.2 in the financial statements, which discloses that the Company incurred an accumulated loss of BDT 13,077,250,501 for the year ended 31 December 2022, resulting in negative equity of BDT 11,519,546,621 as at 31 December 2022. Additionally, the Company reported a negative Capital Adequacy Ratio of 126.31%, significantly below the regulatory requirement of 10%. Furthermore, 97% of the Company's investments are classified, and the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements were not met throughout the year. The poor investment disbursement exacerbates these challenges. These events or conditions, along with other matters as set forth in Note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

2. Property Control and Documentation:

As disclosed in Note 9, due to the absence of mutation records, demarcation documentation, and Khazna receipts, we were unable to confirm whether the entity has control over land valued at BDT 440,000,000 situated in Motijheel.

3. Uncertainty in Loan Liability Confirmation:

As detailed in Note 11.1.2, the accurate liability status of Term Loans amounting to BDT 3,502,667,235, obtained from banks, could not be confirmed in the absence of statements and official confirmations from the relevant banks.

4. Bank Balance Verification:

Referencing Note 5, an amount of BDT 85,066,224 is reported as a balance with the bank, of which BDT 2,427,189 could not be verified due to non-response to our balance confirmation letter by the respective banks.

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5. Accounting Treatment of Term Deposits:

As noted in Note 12.1, an amount of BDT 46,19,019 is shown as a negative balance in the term deposit ledger, indicating discrepancies in the accounting treatment of term deposits.

6. Non-compliance with Regulatory Guidelines:

According to Note 8.00, BDT 180,610,575 of unapplied interest has been included among the loan balance of Teleplus New York Limited (Agreement No. 01.04.0660), contrary to the guidelines outlined in DFIM Circular No. 04 dated July 26, 2021.

7. Lack of Transparency in Deposit Interest Allocation:

As per Note 13.7, an amount of BDT 2,089,689 classified as interest on term deposits has been included under "Sundry deposit." However, BDT 878,539 is shown as a negative balance, and BDT 1,211,150 lacks proper documentation with TDR numbers, indicating unidentifiable recipients for the interest on term deposit receipts (TDR).

8. Untraceable Sundry Deposits:

According to Note 13.7, BDT 81,944,502 in sundry deposits is categorized under "Other liabilities," with BDT 39,748,968 reported as a negative balance and BDT 43,385,031 as untraceable.

9. Financial Expense Discrepancies:

Detailed in Note 13.6, BDT 344,899,564 is recorded as financial expenses payable under "Other liabilities." During verification, BDT 201,577,334 was found as a negative balance, and BDT 465,881,218 remains payable to clients without detailed information on the clients owed.

10. Non-payment of Taxes and Duties:

As indicated in Note 13, the company has not made payments totaling BDT 271,777,844 in Tax Deducted at Source (TDS) and BDT 11,007,270 in Excise Duty Payable to the Government Treasury, constituting serious non-compliance with relevant tax and excise regulations.

11. Improper Asset Valuation:

According to Note 10.5, BDT 105,603,510 is categorized as "Others" under "Other assets," of which BDT 73,289,014 represents penal interest receivable without recovery.

12. Misclassification of Interest Expenses:

Referencing Note 22, BDT 492,431,318 is reported as interest expenses on deposits, with BDT 47,557,361 being classified as prior expenses.

13. Accounting Error and Non-disclosure:

Noted in Note 8 and 13, an amount of BDT 16,793,148 is shown as interest suspense against a loan to Momenshahi Spinning Mills Ltd. This adjustment, reflecting an error in recorded interest income, has not been appropriately disclosed (refer to Note 8(a) for details).

14. Non-application of Actuarial Valuation:

As per International Accounting Standards (IAS) 19, Para 55, the company has not applied the actuarial valuation method to determine liabilities for the Gratuity Fund and Pension Fund, thereby violating compliance requirements (see Note 13 for details).



15. Non-compliance with Corporate Governance:

According to the Bangladesh Securities and Exchange Commission's Code of Corporate Governance, the Company lacks both a Chief Financial Officer (CFO) and a Head of Internal Audit and Compliance, contravening Clause 3(1)(a) of the Code (refer to Note 14.4 for details).

16. Non-transfer of Unclaimed Dividends:

Noted in Note 13.5, the Company has failed to transfer BDT 4,347,371 of unclaimed dividends to the Capital Market Stabilization Fund within the mandated period, violating regulatory requirements.

17. Non-compliance with Financial Institutions Act:

As disclosed in Note 45.3, loans, leases, and advances totaling BDT 6,223,884,398 provided to entities within the Sunman Group amount to 80% of the total outstanding balance of BDT 7,731,175,550, in contravention of Section 14 of the Financial Institutions Act 1993.

18. IFRS Compliance Issue:

The Company has not implemented IFRS 16, as disclosed in Note 3.1, which represents non-compliance with International Financial Reporting Standards (IFRS).

19. Lack of Documentation for Tax Deposits:

Referencing Note 10.4.1, BDT 288,592,479 recorded as Advanced Income Tax lacks supporting documents confirming its deposit into the government treasury, as per our audit findings.

20. Preparation and presentation of Cash flow statements:

Cash increases from repayments of loans and redemption of debt securities under the head "Investing activities" BDT 276,893,439 have not been supported with other components of Financial statements. The preparation and presentation of cash flow statements have not been followed with international Financial Reporting Standards

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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Bangladesh, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Adverse opinion.

Other Matter

The Honorable High Court has directed, via order dated 22 February 2021 under company matter no. 32, a special audit of the Company is to be carried out. The results of the special audit have not been incorporated into these financial statements.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the 'Basis for Adverse opinion' section we have determined the matters described below to be the key audit matters to be communicated in our report.

Risk	Our response to the risk
01. Measurement of provision for loans and advances	
<p>The process for estimating the provision for loans and advances portfolio associated with credit risk is significant and complex. For the individual analysis, these provisions consider the estimates of future business performance and the market value of collateral provided for credit transactions. 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. At year end the Company reported total gross loans and advances of BDT 7,731,175,550 (2021: BDT 7,906,791,256) and provision for loans and advances of BDT 6,654,780,701 (2021: BDT 6,665,478,618.00). 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 Bangladesh Bank guidelines issued from time to time;• For individually assessed provisions, the measurement of the provision could be dependent on the valuation of collateral, estimates of exit values and the timing of cash flows.• Provision measurement is primarily dependent upon key assumptions relating to probability of default, ability to repossess collateral and recovery rates.	<p>We tested the design and operating effectiveness of key controls focusing on the following:</p> <ul style="list-style-type: none">– Credit monitoring and provisioning process;– Identification of loss events, including early warning and default warning indicators;– Review of quarterly Classification of Loans (CL); <p>Our substantive procedures in relation to the provision for loans and advances portfolio comprised the following:</p> <ul style="list-style-type: none">– Reviewed the adequacy of the Company's general and specific provisions;– Assessed the methodologies on which the provision amounts based, recalculated the provisions and testing of 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 notes 3.9, 8.6(B) and 13.1 to the financial statements	
02. Impairment assessment of Unquoted Investments	
In the absence of 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 require an elevated level of judgment.	Our audit procedures in this area included, among others: Assessment of the processes and controls put in place by the Company to ensure all major investment decisions are undertaken through a proper due diligence process. Testing of a sample of investments valuation as at 31 December 2022 and compared our results to the recorded value. Finally, the assessment of the appropriateness and presentation of disclosures against relevant accounting standards and Bangladesh Bank guidelines.
See Notes No. 7.1.2 to the financial statements	
03. IT systems and controls	
Our audit procedures have a focus on IT systems and controls due to the business environment and changes to the IT environment, the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. reviewed	Our audit procedures in this area included, among others: <ul style="list-style-type: none">– Testing of the design and operating effectiveness of the Company’s IT access controls over the information systems that are critical to financial reporting.– Testing of 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.– Testing of the Company’s periodic review of access rights. We inspected requests of changes to systems for appropriate approval and authorization.– Consideration of the control environment relating to various interfaces, configuration and other application layer controls identified as key to our audit.

Other Information

Management is responsible for the other information. The other information comprises all of the information in the Annual Report other than the 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.





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Our opinion on the 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 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.

If, based on such work we perform, we conclude that there is a material misstatement of this other information, we are required to communicate the matter to those charged with governance. We have determined that that other information related to matters explained in adverse opinion section is materially misstated.

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

Management is responsible for the preparation and fair presentation of the financial statements of the Company in accordance with IFRSs as explained in note 2.1, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing 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 Company to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate 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 design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company.
- Evaluate the appropriateness 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 2020, the Financial Institutions Act, 1993 and the rules and regulations issued by Bangladesh Bank, we also report that:

- i) we have obtained all the information and explanation except as explained in the adverse opinion section which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof;



