

# **Sonali Bank Limited and its Subsidiaries**

## **Independent Auditors' Report and Audited Consolidated and Separate Financial Statements As at and for the year ended 31 December 2022**

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**Independent Auditors' Report  
To the Shareholders of Sonali Bank Limited**

**Report on the Audit of the Consolidated and Separate Financial Statements**

**Opinion**

We have audited the consolidated financial statements of **Sonali Bank Limited** and its subsidiaries (the “**Group**”) as well as the separate financial statements of Sonali Bank Limited (the “**Bank**”), which comprise the consolidated and separate balance sheets as at 31 December 2022, and 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 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 Bank give a true and fair view of the consolidated financial position of the Group and the separate financial position of the Bank as at 31 December 2022, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as explained in Note 2.

**Basis for Opinion**

We conducted our audit in accordance with the 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) 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 judgement, were of the 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. For each matter below our description of how our audit addressed the matter is provided in that context.



| Risk   | Our response to the risk   |
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| <b>Measurement of provision for loans and advances</b>   |  |
| <p>The process for estimating the provision for loans and advances portfolios 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 the collateral provided for credit transactions.</p> <p>For the collective analysis, these provisions that deal with voluminous databases, assumptions, and calculations for the provision estimates of complex design and implementation are manually processed.</p> <p>At year-end 2022 the Group and the Bank reported total gross loans and advances of BDT 866,038 million (2021: BDT 704,277 million) and BDT 846,430million (2021: 690,597 million) respectively and provision for loans and advances of BDT 84,654 million (2021: BDT 75,682 million) and BDT 84,654 million (2021: BDT 75,678 million) respectively.</p> <p>We have focused on the significant judgments and estimates which could give rise to material misstatement or management bias.</p> <p>Provision measurement is primarily dependent upon key assumptions relating to the probability of default, the ability to repossess collateral, and recovery rates.</p> | <p>We tested the design and operating effectiveness of key controls focusing on the following:</p> <ul style="list-style-type: none"> <li>• Tested the credit appraisal, loan disbursement procedures, monitoring and provisioning process;</li> <li>• Identification of loss events, including early warning and default warning indicators;</li> <li>• Reviewed quarterly Classification of Loans (CL); Our substantive procedures in relation to the provision for loans and advances portfolio comprised the following:</li> <li>• Reviewed the adequacy of the Bank's general and specific provisions;</li> <li>• Assessed the methodologies on which the provision amounts were based, recalculated the provisions, and tested the completeness and accuracy of the underlying information;</li> <li>• Finally assessed the appropriateness and presentation of disclosures against relevant accounting standards and Bangladesh Bank guidelines.</li> </ul> |
| See notes no. 7 and 13.01 to the financial statements  |  |

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| <b>Recognition of interest income</b>   |  |
| <p>Recognition and measurement of interest income involve a complex IT environment as well as require critical estimates and judgment. Since interest income from loans and advances is one of the key performance indicators of the Bank there is an inherent risk of fraud and error in the recognition of interest income.</p> <p>Moreover, as per Bangladesh Bank BRPD circular no. 14, dated 22 June 2022, BRPD Circular No. 51, dated 18 December 2022 and BRPD Circular No.53, dated 22 December 2022, considering future risk banks were allowed to recognize outstanding/arrear interest income on loans</p> | <p>We tested the design and operating effectiveness of key controls focusing on the following:</p> <ul style="list-style-type: none"> <li>• We performed tests of operating effectiveness on automated control in place to measure and recognise interest income.</li> <li>• Reviewed transfer of interests to income account in line with the Bangladesh Bank's guidelines and circulars;</li> <li>• Reviewed the grounds for approval for the transfer of interest to the income account.</li> </ul> |



where deferral facilities were given upon receiving partial instalments of the total receivable amount. Accordingly, this has been considered a key audit matter.

At year-end the Group and the Bank reported gross interest income of BDT 43,752 million (2021: BDT 34,313 million) and BDT 42,923 million (2021: BDT 33,744 million) respectively.

See note no. 21 to the financial statements

**Valuation of treasury bills and treasury bonds**

The classification and measurement of T-Bill and T-Bond require judgment and complex estimates.

In the absence of a quoted price in an active market, the fair value of T-Bills and T-Bonds is determined using complex valuation techniques which may take into consideration direct or indirect unobservable market data and complex pricing models which require an elevated level of judgment.

We assessed the processes and controls put in place by the Group and the Bank to identify and confirm the existence of financial instruments. We obtained an understanding, evaluated the design, and tested the operating effectiveness of the key controls over the financial instrument valuation processes, including controls over market data inputs into valuation models, model governance, and valuation adjustments.

We tested a sample of the valuation models and the inputs used in those models, using a variety of techniques, including comparing inputs to available market data.

Finally assessed the appropriateness and presentation of disclosures against relevant accounting standards and Bangladesh Bank guidelines.

See notes no. 6 and 17.1 to the financial statements

**Measurement of income tax provision and deferred tax assets**

The Group and the Bank have recognised deferred tax assets for the deductible temporary difference that it believes are recoverable. In addition, income tax provision for current and prior periods have been recognized as liabilities and the amount of income tax already paid/deducted are recognized in the balance sheet under 'Other Assets'.

There are many unsettled income tax assessments where management has used judgement to determine tax liabilities as well as carry forward balance of advance income tax.

We obtained an understanding, evaluated the design, and tested the operational effectiveness of the Group's and the Bank's key controls over the recognition and measurement of DTAs and the assumptions used in estimating the Group's and the Bank's future taxable income.

We also assessed the completeness and accuracy of the data used for the estimations of future taxable income.

We involved tax specialists to assess key assumptions, controls, recognition, and measurement of DTA's as well as advance income tax and tax deducted at source recognized under 'Other Assets'.



The recoverability of recognized deferred tax assets is in part dependent on the Bank's ability to generate future taxable profits sufficient to utilize deductible temporary differences.

We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting the amount and timing of future taxable profits and the reversal of temporary differences where significant judgement is involved.

As of 31 December 2022 the Group and the Bank report net deferred tax assets to total BDT 22,984 million (2021: 26,088 million) and BDT 22,978 million (2021: 26,078 million) respectively. and income tax deducted at source and advance payment of income tax to total BDT 28,953 million (2021: 26,525) and BDT 8,776 million (2021: 8,026) respectively.

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.

Finally, we assessed the appropriateness and presentation of disclosures against IAS 12: Income Tax.

See note no.9.08.01 to the financial statements.

**Carrying value of investments in subsidiaries and associates by the Bank**

The Bank has invested in equity shares of its subsidiaries namely Sonali Exchange Co. Inc. USA, Sonali Investment Limited, Sonali Bank (UK) Ltd., and an associate namely Sonali Intellect Limited. As at 31 December 2022, the carrying values of these investments in Sonali Exchange Co. Inc. USA is BDT 98.13 million (2021: BDT 81.51 million), Sonali Investment Limited is BDT 2,000 million (2021: BDT 2,000 million), Sonali Bank (UK) Ltd. is BDT 3,623 million (2021: BDT 3,383 million), and Sonali Intellect Limited is BDT 26.25 million (2021: BDT 26.25 million).

The Bank is required to perform an impairment test of investment in subsidiaries when an impairment indication exists. The impairment testing is considered to be a key audit matter due to the complexity and judgements required in determining the assumptions to be used to estimate the recoverable amount which is higher of fair value less costs to sell and value in use.

We have reviewed management's analysis of impairment assessment and recoverable value calculation of subsidiaries in accordance with IAS 36: Impairment of Assets.

With the investment recognition criteria as per IAS 28: Investments in Associates and Joint Ventures, we reviewed the activities and investments in the associate company as per the documentation provided by the management.

In particular, our discussions with the Management were focused on the continued appropriateness of the value in use model, the key assumption used in the model, and the reasonably possible alternative assumptions, particularly where they had the most impact on the value in use calculation.



Management has conducted an impairment assessment and calculated the recoverable value of its subsidiaries for Sonali Exchange Co. Inc. USA, Sonali Investment Limited, Sonali Bank (UK) Ltd. and associate namely Sonali Intellect Limited in accordance with IAS 36: Impairment of Assets.

See note no. 9.01 to the financial statements.

**Legal and regulatory matters**

We focused on this area because the Bank 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.

These uncertainties inherently affect the amount and timing of potential outflows with respect to the provisions which have been established and other contingent liabilities.

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.

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.

We enquired to those charged with governance to obtain their view on the status of all significant litigation and regulatory matters. 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.

We assessed the methodologies on which the provision amounts are based, recalculated the provisions, and tested the completeness and accuracy of the underlying information.

We also assessed the Group’s and the bank’s provisions and contingent liabilities disclosure.

**IT systems and controls**

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.

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.

We tested the design and operating effectiveness of the Group’s and the Bank’s IT access controls over the information systems that are critical to financial reporting. We tested IT general controls (logical access, change management, and aspects of IT operational controls).

This included testing that requests for access to systems were appropriately reviewed and authorized. We tested the Bank’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, configurations, and other application layer controls identified as key to our audit.



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|  | 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. |
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### **Other Matters**

The financial statements of the group and the Bank for the period ended 31 December 2021 were audited by ACNABIN, Chartered Accountants and Aziz Halim Khair Choudhury, Chartered Accountants who expressed an unmodified opinion on those statements on 28 April 2022.

### **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 auditors' 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 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 Bank in accordance with IFRSs as explained in Note 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. The Bank Company Act 1991 and the Bangladesh Bank Regulations require the Management to ensure effective internal audit, internal control, and risk management functions of the Bank. The Management is also required to make a self-assessment on the effectiveness of anti-fraud internal controls and report to the Bangladesh Bank on instances of fraud and forgeries.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the Bank'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 Bank 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 Bank's financial reporting process.



**Auditors' 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 auditors' 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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate 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.
- 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 Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group and the Bank 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.

