Terms of Reference (ToR) for the Engagement of an External Audit Firm

1. Preamble and Background

This Terms of Reference (ToR) outlines the scope of work and deliverables for an External Audit Firm ("the Firm") appointed to conduct a Special Audit and a Statutory Audit for First Security Islami Bank PLC ("the Bank" or "Transferring Bank").

This engagement is in accordance with the **Bank Resolution Act, 2026 (BRA 2026)** and the **Bank Resolution Scheme, 2025** and its amendments, issued by Bangladesh Bank (BB). The primary objectives are to determine the fair value of the Bank's assets and liabilities as of the Cut-Off Date, identify all contingent obligations and financial risks, and support the proposed merger with **Sammilito Islami Bank PLC** ("the Transferee Bank").

The engagement also covers the statutory audit of the Bank for the financial year ending 31 December 2025, ensuring compliance with all applicable laws, regulations, and accounting standards.

2. Definitions

- **Act / BRA 2026:** The Bank Resolution Act, 2026.
- **Cut-Off Date:** 28 December 2025.
- **Scheme / Resolution Scheme:** The Bank Resolution Scheme, 2025, and its subsequent amendments, related letters, and circulars issued by the Bank Resolution Department of Bangladesh Bank.
- **Transferring Bank:** First Security Islami Bank PLC.
- **Transferee Bank:** Sammilito Islami Bank PLC.
- **BB:** Bangladesh Bank.

3. Scope of Work

The Firm shall perform a dual engagement comprising

(A) a Special Audit as of the Cut-Off Date (28 December 2025) and

(B) a Statutory Audit for the year ended 31 December 2025.

A. Special / Closing Audit as of 28 December 2025

The objective of the Special Audit is to provide a reasonable assurance and express an opinion on the true and fair view of the "Closing Statement of Assets and Liabilities" as defined under Section 17 of the BRA 2026. The engagement shall be conducted in accordance with Section 23 of the Bank Resolution Ordinance, 2025, and Section 21 of the BRA 2026.

The scope of the Special Audit shall include, but is not limited to, a detailed review and verification of the following areas based on the Bank's financial position as of the Cut-Off Date:

3.1. Assets and Liabilities Verification:

1. **Investments (Loans & Advances):**
    - **Classification:** Review the classification of all customer investments (loans and advances) based on the actual repayment status and delinquency periods as per applicable BB guidelines (including BRPD Circulars).
    - **Provisioning:** Assess the adequacy and accuracy of required provisions and profit suspension.
    - **Valuation of Collateral:** Determine the basis for the valuation of collateral securities against classified investments to calculate the correct provision base. This must be done in accordance with BB guidelines and the latest third-party valuation reports.
    - **Forced Loans:** Identify and verify the creation of any forced loans as per BB guidelines.
2. **Off-Balance Sheet Exposures:**
    - Review all off-balance sheet items, including acceptances, confirmed Letters of Credit (LCs), guarantees, and other contingent liabilities.
    - Determine the expected funded exposure from these items that has not yet been booked and assess the required provisioning.
3. **Nostro Accounts:**
    - Perform a detailed review of Nostro accounts to identify un-reconciled entries and recommend necessary adjustments or provisioning as per BB guidelines.
4. **Fixed Assets:**
    - Verify the existence, carrying value, and valuation of fixed assets, including land, buildings, furniture, and fixtures.
    - Assess the adequacy of depreciation, impairment, and valuation. Land and buildings shall be valued with reference to the latest valuation report, suggesting necessary adjustments (increase/decrease) to fair value.
5. **Investments & Placements:**
    - Review the recoverability of placements and bonds issued by distressed counterparties.
    - Verify the existence, valuation, and recoverability of all investments (listed/unlisted shares, government securities, other bonds, and deposits with other Banks/NBFIs).
6. **Other Assets:**
    - Review the recoverability of other assets (e.g., advances, bills of entry) and assess any required provisions.
    - Identify any unadjusted bills of entry against import payments and overdue payments against export of goods.
7. **Employee Benefit Schemes:**
    - Review the status of the Provident Fund, Gratuity Fund, and any other employee benefit schemes to assess the transfer of funds and any related liabilities.
8. **Legal and Tax Compliance:**
    - **Legal Suits/Litigation:** Identify all legal suits and litigation against the Bank and determine if any future payment obligations require provisioning or disclosure.

- **Taxation:** Review all income tax and other statutory obligations (VAT, excise duty, TDS, AIT). Assess pending income tax assessments and determine whether any additional liability or provision needs to be recognized.
- **Deferred Tax:** Review the Bank's deferred tax position.

9. **Inter-Branch & Head Office Accounts:**
   - Review inter-branch accounts, Head Office suspense/general accounts, and ensure proper reconciliation. Recommend necessary accounting adjustments.
10. **Deposit & Borrowing Liabilities:**
    - Determine all deposit liabilities (as per Section 11 of the Scheme) and all borrowing liabilities (including subordinated bonds, perpetual bonds, BB facilities, and other financial liabilities as per Section 10 of the Scheme).
    - Review the impact of any haircut, bail-in, or other adjustments in accordance with the Scheme.
11. **Accruals & Other Adjustments:**
    - Review the calculation and accrual of profit/interest earned and paid.
    - Identify any Shariah prohibited income adjustments (if applicable).
    - Identify any additional accruals needed or any significant post-balance-sheet events that may affect the merger.

3.2. Valuation of Assets and Liabilities

The valuation of assets and liabilities of the Transferring Bank shall be performed using the following basis, consistent with the objectives of Section 17 of the BRA 2026 and the Resolution Scheme:

Liabilities:

- Deposit liabilities shall be determined based on Section 11 of the Bank Resolution Scheme, 2025, and its amendments, related letters, and Circulars of the Bank Resolution Department, BB.
- Paid-up Capital, Mudaraba Sub-ordinated Bonds, Mudaraba Perpetual Bonds, Loans from BB, and Other Liabilities shall be determined based on Section 10 of the Bank Resolution Scheme, 2025, its amendments, and related circulars.
- Employee benefit obligations (Provident Fund, Gratuity Fund, Pension liabilities, Leave Encashment, and other post-employment benefits) shall be reviewed following the 'crude method' or as per applicable accounting standards.

Assets:

- **Listed Shares:** Valued at the market price prevailing on the Cut-Off Date.
- **Unlisted Shares:** Valued based on the latest Net Asset Value (NAV) per share.
- **Government Securities:** Valued based on relevant circulars issued by BB.
- **Bonds (including Perpetual and Sub-ordinated):** Valued at their face value, considering counterparty default risk and repayment performance over the last 12 months.

- **Placements & Deposits (with Banks/NBFIs):** Valued based on counterparty default risk and repayment performance over the last 12 months.
- **Collateral Securities:** Valued as per BB guidelines, including the latest third-party valuation report.
- **Own Premises, Immovable Properties, and Non-Banking Assets:** Valued at market price.
- **Furniture, Fixtures, and Stationery:** Valued at written down value as per book value.
- **Intangible Assets:** Recognized and valued as per IAS 38: Intangible Assets.

3.3. Review of Liquidity, Capital Adequacy, and Miscellaneous

1. **Liquidity Review:**
    - Review the liquidity position, including the maturity profile of deposits, interbank borrowings, and other short-term obligations, to assess immediate funding needs and liquidity gaps.
    - Verify the Bank's Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) as of the Cut-Off Date and determine any shortfalls or penalties payable to BB.
2. **Capital Adequacy Assessment:**
    - Assess the Bank's capital adequacy and solvency position based on adjusted asset valuations and provisioning outcomes.
    - Determine any regulatory shortfall in capital.
    - Assess Risk Weighted Assets (RWA).

3.4. Due Diligence

The Firm shall perform a financial and regulatory due diligence, covering:

- Significant accounting issues and policies.
- Related-party transactions and connected lending/borrowing.
- Compliance with all applicable BB circulars and regulatory requirements.
- Anti-Money Laundering (AML) and trade-based money laundering compliance.
- Material contractual obligations.
- Significant operational risks.
- Identification of matters that may materially affect the merger transaction.

B. Statutory Audit for the Financial Year Ended 31 December 2025

Conduct a statutory audit of the Bank in compliance with the requirements of the following circulars, rules, and regulations:

1. The Bank Companies Act, 1991 (as amended).
2. The Companies Act, 1994.
3. The Bank-Company External Auditor Regulation, 2024 (BRPD Circular Letter No. 31 dated 09.07.2024).
4. BRPD Circular No. 14 dated 25.06.2003, and "Guidelines for Islamic Banking" (BRPD Circular No. 15 dated 09.11.2009).

Social Security Islami Bank PLC.

5. Other circulars, rules, and regulations issued by Bangladesh Bank from time to time.
6. The Securities and Exchange Rules, 2020.
7. The Securities and Exchange Ordinance, 1969.
8. The Securities and Exchange Commission Act, 1993.
9. Income Tax Act, 2023.
10. Bangladesh Chartered Accountants Order, 1973 (P.O No. 2 of 1973).

4. Deliverables

The Audit Firm shall submit the following reports and documents to Bangladesh Bank and the Transferee Bank (as applicable):

1. **Special Audit Report:** An independent auditor's report providing reasonable assurance on the Closing Statement of Assets and Liabilities as at 28 December 2025.
2. **Statutory Audit Report:** The auditor's report on the financial statements for the year ended 31 December 2025.
3. **Valuation Report on Assets and Liabilities:** A detailed report with the methodology and outcomes of the fair valuation exercise.
4. **Due Diligence Report:** A comprehensive report of the financial, regulatory, and operational due diligence findings.
5. **Statement of Adjusted Net Assets:** A statement showing the adjusted net assets of the Bank after all audit and valuation adjustments.
6. **Summary of Key Financial Risks:** A report highlighting the key financial, credit, and liquidity risks identified.
7. **List of Accounting Adjustments:** A detailed schedule of all accounting adjustments recommended.
8. **Recommendations for the Merger Process:** A report providing recommendations on financial issues to be considered during the merger process.

5. Legal and Regulatory Compliance

- **Asset Quality Review (AQR):** Where necessary, the Firm shall perform an Asset Quality Review as per the provisions of the BRA 2026 to verify the asset positions and evaluate capital adequacy.
- **Fair Value Calculation:** The Firm's valuation of assets and liabilities is crucial for the merger. The determination of the fair value of the Bank's share, as per Section 18 of the BRO 2025, shall be part of the Special Audit.
- **Legal Opinion:** The valuation report shall be prepared to serve as a basis for the court's approval of the resolution process, as per the Act.

6. Timeline

The Audit Firm is expected to complete and submit all reports within **three (3) weeks** from the date of receipt of the work order.

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7. Fee

The total fee for the services shall be Tk [Insert Amount] (Taka [Insert Amount in Words]) excluding VAT. The fee shall be payable in installments as per the engagement letter, subject to the satisfactory submission of deliverables.

8. General Provisions

- The Firm shall provide all necessary assistance and clarification to BB and the Transferee Bank regarding the audit findings.
- The Firm shall maintain the confidentiality of all information obtained during the engagement.
- The Firm must be a reputable Chartered Accountancy firm with relevant experience in the banking sector and prior experience in resolution audits or similar complex valuations.
- The Firm shall maintain professional indemnity insurance.

First Security Islami Bank PLC. FAD Head Office, Dhaka.