## ফার্স্ট সিকিউরিটি ইসলামী ব্যাংক লি:

ـ FIRST SECURITY ISLAMI BANK LTD فاربست سيكيوريتي اسلامي بنك ليميتد

## FINANCIAL STATEMENTS

For the year ended 31 December 2010

## Auditors' Report to the shareholders' of First Security Islami Bank Limited We have audited the accompanying financial statements of First Security Islami Bank Limited which comprise the balance sheet as at 31 December 2010, profit and loss account, statement of changes in equity and cash Management's Responsibility for the Financial Statements Management is responsible for the preparation and fair presentation of the financial statements of the Bank in accordance with Bangladesh Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements of the Bank that are free from material misstatement, whether due to fraud or error Auditor's Responsibility Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements of the Bank, whether due to fraud or error. In making those isk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements of the Bank 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our In our opinion, the financial statements of the Bank prepared in accordance with the Bangladesh Financial Reporting Standards (BFRS), give a true and fair view of the financial position of the Bank as at 31 December 2010 and the results of its financial performance and its cash flows for the year ended 31 December 2010 and comply with the Bank Companies Act, 1991, the rules and regulations issued by Bangladesh Bank, the Companies Act, 1994, the Securities and Exchange Rules, 1987 and other applicable laws and regulations. i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and made due verification thereof; ii) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appeared from our examination of those books and proper returns adequate for the purposes of our audit have been iii) the balance sheet and profit and loss account of the Bank dealt with by the report are in agreement with the iv) the expenditure incurred was for the purposes of the Bank's business; v) the financial position of the Bank as at 31 December 2010 and the profit for the year then ended have been properly reflected in the financial statements, and the financial statements have been prepared in accordance with the generally accepted accounting principles: vi) the financial statements have been drawn up in conformity with the Bank Companies Act, 1991 and in accordance with the accounting rules and regulations issued by Bangladesh Bank; vii) adequate provisions have been made for investments (loans and advances) which are, in our opinion, viii) the financial statements of the Bank conform to the prescribe standards set in the accounting regulations issued by Bangladesh Bank after consultation with the professional accounting bodies of Bangladesh; ix) the records and statements submitted by the branches have been properly maintained and consolidated in x) the information and explanations required by us have been received and found satisfactory; xi) we have reviewed over 80% of the risk weighted assets of the Bank and we have spent around 2,600 person hours for the audit of the books and accounts of the Bank; and xii) the capital adequacy ratio (CAR) as required by law, (BASEL-II) has been maintained adequately during the Dhaka, Bangladesh SYFUL SHAMSUL ALAM & CO. Date: 10 May 2011 CHARTERED ACCOUNTANTS FIRST SECURITY ISLAMI BANK LIMITED BALANCE SHEET AS AT 31 DECEMBER 2010 Particulars PROPERTY AND ASSETS In hand (Including foreign currencies) Balance with Bangladesh Bank and its agent bank(s) 4,600,624,708 (Including foreign currencies) Balance with other Banks and Financial Institution: Outside Bangladesh 110,117,741 237,100,103 Investments in Shares & Securities 528,220,461 241,352,032 Others 52,123,903,164 47,640,238,696 38,725,874,774 General Investment (Bai-Murabaha, Bai-Muajjal, HPSM) etc 4,483,664,468 3,109,424,281 Bills Purchased and Discounted 573,610,332 376,477,387 Fixed Assets Including Premises, Furniture and Fixtures 2,169,188,462 1,259,491,999 Non Banking Asset 63,619,797,799 47,978,552,952 LIABILITIES AND CAPITAL Placement from Banks & other Financial Institutions Deposits and Other Accounts Al-Wadia Current Accounts and Other Deposit Accounts 7.043,747,274 Bills Payable 545.866.334 561,376,373 Mudaraba Savings Bank Deposits 3,987,763,459 10.3 2,441,458,467 Mudaraba Term Deposits including other Banks 10.4 33,076,189,284 26,684,564,624 Bearer Certificates of Deposits Mudaraba Deposits under Scheme 11,691,392,816 8,777,183,002 Other Liabilities 45,113,142,197 **Total Liabilities** 3.036.000.000 2.300.000.000 Statutory Reserve 460,169,845 263,449,699 Other Reserve 24,000,000 24.000,000 399,841,641 277,961,056 Retained Earnings ,865,410,755 Total Liabilities and Shareholders' Equity 63,619,797,799 47,978,552,952 These Financial Statements should be read in conjunction with the annexed notes 1 to 42 - The bu Director Managing Director Director Chairman Auditors' Report to the Shareholders see annexed report of date Syful Shamsul Alam & Co. Date: 10 May 2011 FIRST SECURITY ISLAMI BANK LIMITED **Particulars OFF- BALANCE SHEET ITEMS Contingent Liabilities** 4,044,833,066 2,677,420,553 Acceptances and Endorsements Letters of Guarantee 1,303,508,613 1,102,699,021 16 3,351,761,128 Irrevocable Letters of Credit 2,021,847,014 159,565,533 17 169,706,478 Bills for Collection Other Contingent Liabilities 8,859,668,340 Other Commitments Documentary credits and short term trade related transactions Forward assets purchased and forward deposits placed Undrawn note issuance and revolving underwriting facilities Undrawn formal standby facilities, credit lines and other commitments Claims against the bank not acknowledged as debt **Total Off -Balance Sheet Items Including Contingent Liabilities** 5,971,673,066 8,859,668,340 These Financial Statements should be read in conjunction with the annexed notes 1 to 42 - Carre **Managing Director** Director Chairman Director Auditors' Report to the Shareholders see annexed report of date Dhaka, Bangladesh Syful Shamsul Alam & Co. Date: 10 May 2011 Chartered Accountants FIRST SECURITY ISLAMI BANK LIMITED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2010 **Amount in Taka Particulars** Notes 2009 2010 4,348,674,553 Investments Income 5,547,047,795 Profit Paid on Deposits 19 (4,125,826,500) (3,333,800,367) 1,014,874,186 1,421,221,295 Income from Investment in shares and securities 53.510.527 264,208,027 Commission, Exchange and Brokerage 21 194,631,419 282,561,956 Other Operating Income 22 117,216,660 64,617,576 663,986,643 312,759,522 **Total Operating Income** 2,085,207,938 1,327,633,708 **Less: Operating Expenses** 23 418,301,777 255,480,982 Rent, Taxes, Insurances, Electricity etc. 24 107,050,007 74,824,450 25 Legal Expenses 963,915 2,534,474 Postage, Stamps, Telecommunication etc. 26 27 28 9,127,540 7.810.243 Stationery, Printings, Advertisements etc. 58,551,363 43,387,247 Managing Director's Salary and Fees 9,916,130 8,700,000 Auditors' Fees 410,000 400,000 2,188,870 29 2,174,709 Directors' Fees Sharlah Committee's Fees 30 175,850 46,000 Depreciation and Repair of Bank's Assets 31 72,915,674 50,143,692 15,117,438 Zakat Expenses 4,979,720 Other Expenses 32 197,156,211 116,046,874 576,795,959 **Total Operating Expenses** 881,607,207 750,837,749 Profit before Provision and Tax 1,203,600,731 Provisions for Classified Investments 35,200,000 Provisions for Unclassified Investments Including off-B/S Items 11.2 100,000,000 150,000,000 Provisions for diminution in value of Investment in Shares **Total Provisions** 220,000,000 104,000,000 **Total Profit before Taxes** 983,600,731 646,837,749 Deferred Tax (320,000,000) Net Profit after tax for the year 548,600,731 326,837,749 Retained Earnings Brought Forward from Previous Year 826,561,787 407,328,606 Appropriations: 196,720,146 129,367,550 Statutory Reserve Bonus Share Issued 230,000,000 426,720,146 129,367,550 277,961,056 Retained Earnings Carried Forward 399,841,641 Earning Per Share (EPS) These Financial Statements should be read in conjunction with the annexed notes 1 to 42 - Carlon **Managing Director** Director Director Auditors' Report to the Shareholders see annexed report of date Syful Shamsul Alam & Co. Dhaka, Bangladesh Date: 10 May 2011 **Chartered Accountants** FIRST SECURITY ISLAMI BANK LIMITED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010 Particulars 2009 A. Cash Flow from Operating Activities 5,608,998,811 4,402,185,080 (3,333,800,367) Commission, exchange & brokerage received (416,067,907 (69,079,445) (51,986,113) Payment to suppliers Income tax paid Received from other operating activities (38,970,747) 59,874,314 (239.928.969) 117,216,660

Operating Profit before changes in Operating Assets & Liabilities

(13,398,028,390)

13,921,866,445

659,907,586

(259,520,537)

736,000,000

736,000,000

129,518,620

612,173,146

These financial statements should be read in conjunction with the annexed notes 1 to 42

- Alen

Director

(1,006,868,429)

(1,266,388,966)

(13,631,216,697)

(26,753,095) 16,568,551,222

3,709,020,558

(582,328,430)

(235,410,819)

(811,238,949)

2,267,781,609

W

Chairman

3,497,575,151 5,765,356,760

432,907,731

2.3 Assets and their basis of valuation

6,500,300

Increase / Decrease in Operating Assets & Liabilitie

Net Cash Inflow from Operating Activities

Net Cash Inflow from Investing Activities

Effect of Exchange Rate on Cash & Cash Equivalent

E. Opening Cash & Cash Equivalent

Cash in hand (Including Foreign Currencles)

Net Cash Inflow/(Outflow) from Financing Activities

min

Director

D. Net Increase/Decrease of Cash & Cash Equivalent (A+B+C)

Investments to Customers

B. Cash Flow from Investing Activities

C. Cash Flow from Financing Activities

F. Closing Cash & Cash Equivalent (D+E)

Dhaka, Bangladesh

Date: 10 May 2011

Investment in Shares and Securities

Sale of Property, Plant and Equipment

Increase/(Decrease) in Share Capital

Other Assets Deposits from Customers

	FIRST SECURITY ISLAMI BANK LIMITED	2. 3.2 Investments
	STATEMENT OF CHANGES IN EQUITY	a) Investments are stated in the balance Sheet net off unearned income and profit receivable.
	Pald-up Statutory Other Reserve Retained	b) Income on investment calculated on daily product basis and charged yearly.
Particulars	Capital reserve Earnings	Total c) Provision for Investments Impairment:  Take  As per instructions contained in Sangtadesh Bank BCD circular on 34 dated November 16 1989, BCD circular on 20 dated 27 December 1994, BCD circular on 12
Balance as on 01 January 2010		As per instructions contained in Bangladesh Bank BCD circular no 34, dated November 16 1989, BCD circular no 20, dated 27 December 1994, BCD circular no 12, dated September 4, 1995, BRPD circular no 16, dated December 6, 1998, BRPD circular no 09, dated May 2001 and BRPD circular no 5, dated June 5, 2006, specific
Changes in Accounting Policy Restated Balance	200 M 100 M	provisions are made against non performing investments at the following rate:
Surplus/Deficit on account of	2,300,000,000	Provision on Substandard Investments 20%
Revaluation of Properties	Sec. 85 8	Provision on Doubtful Investments 50% Provision on Bad & Loss Investments 100%
Surplus/Deficit on account of Revaluation of Investments		Provision on Bad & Loss Investments 100%  As per instruction of BRPD circular no 16, 09, 08 and 05 dated December 6, 1998, May 14, 2001, October 2005 and June 5, 2006 respectively an amount has been set
Revaluation of Investments  Currency Translation Differences		aside up of the total unclassified investments as on the balance sheet date at the following rates:
Net Gains and Losses not Recognized		General Provision on:
In the Income Statement	12 12 12 12 12 12 12 12 12 12 12 12 12 1	Unclassified (Standard) Investments (other than Loans under Small Enterprise and
Net Profit for the year	548,600,731 5	consumer Financing and Special Mention Account.) 1%
Dividends		- Small Enterprise Financing 2%
Transfer to Statutory Reserve	- 196,720,146 - (196,720,146)	Consumer Finance Scheme (CFS) Investments
Issue of Share Capital during the year		(other than Housing Finance and Investment for Professionals
Balance as on 31 December 2010 Balance as on 31 December 2009	3,036,000,000 460,169,845 24,000,000 399,841,641 3,92	to set up business under Consumer Financing Scheme.) 5% Housing Finance and Investment for Professionals
1		to set up business under Consumer Financing Scheme 2%
Name of the Prince of the Prin	Andre Director	Special Mention Account (SMA) Investments 5%
Managing Director	Director Director Chairman	Off-Balance Sheet Exposure 1%
Dhaka, Bangladesh		d) When an investment is deemed to be uncollectible, it is written off against the related provision for impairments. Subsequent recoveries of such loans are credited to
Date: 10 May 2011		the income statement.  e) Investments are written off to the extent that there is no realistic prospect of recovery and against which legal cases are pending for more than 5 years as per
	FIRST SECURITY ISLAMI BANK LIMITED	guidelines of Bangladesh Bank. However, the write off will not reduce the claim against the borrower. Detailed memorandum records of such write off accounts are
84	LIQUIDITY STATEMENT (ASSETS AND LIABILITY MATURITY ANALYSIS)	maintained.
	AS AT 31 DECEMBER 2010	2. 3.3 Fixed Assets
Particulare	Upto 01 01-03 03-12 01-05 More than	All property and equipment are classified and grouped on the basis of their nature as required in paragraph 75 (a) of BAS 1 Presentation of Financial Statements.  The major categories of property and equipment held by the bank are furniture and fixtures, office equipments, motor vehicles and books.
Particulars	Month Months Months Years 05 years Take Take Take Take	The major categories of property and equipment held by the bank are furniture and fixtures, office equipments, motor vehicles and books.  As guided in paragraph 30 of BAS 16 Property Plant and Equipment; all property and equipment are stated at historical cost less accumulated depreciation. The
Assets		opening and closing carrying amounts of all property and equipment are presented including the amount of additions, disposals and depreciation charged during the
Cash in Hand Balance with other Banks and Financial Institutions	4,857,542,203	4,857,542,203 1,036,199,077  year as required by paragraph 73 (a-e)of BAS 16. Maintenance expenses that does not increase the value of assets is charged to profit & loss account.
Investments in Shares and Securities	524,937,861 2,330,000,000 4,416,700	2,859,354,563 Depreciation on Fixed Assets
Investments Flood Assets including Premises, Furniture and Fixtures	3,776,850,529 13,121,003,071 11,374,391,790 16,272,067,796 7,579,589,978 573,610,332	52,123,903,164 As required in paragraph 43 of BAS 16 Property Plant and Equipment depreciation has been charged on property and equipment at the following rates using reducing balance method, except on office equipment, motor vehicles and building on which straight-line method is applied.
Other Assets Non-banking Assets	715,710,347 123,150,974 - 1,240,035,598 90,291,543	2,169,188,462 balance method, except on office equipment, motor venicles and building on which straight-line method is applied.  Nature of Assets Rate of Depreciation Method of Depreciation
Total Assets	10,161,240,017 13,644,154,045 11,724,391,790 19,842,103,394 8,247,908,553	63,619,797,799  Building  2.5%  Straight Line Method
Liabilities	CONTRACTOR AND ADMINISTRAL PROPERTY OF THE PRO	Furniture and Fixtures 10% Reducing Balance Method
Placement from Banks & Other		Office Equipments 20% Straight Line Method except Computer Equipment where used Reducing Balance Method.
Financial Institutions	and the second s	Vehicles 20% Straight Line Method  Straight Line Method  Reducing Balance Method
Deposits and other Accounts Other Liabilities	5,964,428,775 18,897,707,195 23,567,250,603 5,990,061,318 1,925,511,276 1,211,119,553 2,047,350 138,637,194 887,810,278 1,115,212,771	56,344,959,167 Books 20% Reducing Balance Method  3,354,827,145 Depreciation on addition to fixed assets is charged in the year of acquisition, while no depreciation is charged in the year of disposal as per policy of FSIBL.
Total Liabilities	Control of the Contro	59,699,786,313  2. 3.4 Investments
Net Liquidity Gap	2,985,691,689 (5,255,600,500) (11,981,496,007) 12,964,231,798 5,207,184,506	3,920,011,486 Value of investments is stated as follows:
1	A S	Bangladesh Government Islamic Investment Bonds Cost price
6	Andre July	Prize bonds Cost price Shares Cost price
Managing Director		Shares Cost price  2.4 Liabilities and provisions
Dhaka, Bangladesh		2. 4.1 Retirement benefits of employees
Date: 10 May 2011		a) Provident Fund
	FIRST SECURITY ISLAMI BANK LIMITED	Provident Fund Provident Fund Provident Fund Provident Fund Rules. The employees' provident fund is administered by a
	NOTES TO THE FINANCIAL STATEMENTS	Board of Trustees and is funded by contributions by employees and by the Bank at predetermined rates in equal proportion. These contributions are invested
	FOR THE YEAR ENDED 31 DECEMBER 2010	separately from the assets of FSIBL and the profit on such contributions credited to the members' account. The Fund recognized by the National Board of Revenue.
1.1 Status of the Bank		b) Gratuity Scheme  The Company operates an unfunded gratuity scheme for its permanent employees, under which an employee is entitled to the benefits if his length of service is eight
	ncorporated in Bangladesh on 29 August 1999 as a banking company under Companies Act 1994 to c sh Bank on 22 September 1999 to commence its business. The Bank went for public issue on 20 Ju	carry on banking
[10] (10] [10] [10] [10] [10] [10] [10] [10] [	sh Bank on 22 September 1999 to commence its business. The Bank went for public issue on 20 Ju DSE) and Chittagong Stock Exchange (CSE). Presently the Bank carries banking activities through i	its sixty six (66) the liabilities provided for the scheme as per BAS-19 "Employee Benefits".
branches in the country. The Bank had no overs	seas branches as at December 31, 2010. The Bank converted its banking operation into Islamic Ba	2.4.2 Social Security Benevolent Fund  The Bank operates a social security benevolent fund by all employees' contribution for the sake of death and disability of employees.
	n on 01 January 2009 after obtaining approval from honorable High Court, Ministry of Finance and Bang	110 both opinion a soval according activation land by an employees continuous for an elegistrost.
The registered office of the Bank is located at 23.	Pillumba CIA Dhoka 1000	Provision for corporate income tax has been made on taxable profit at the rate applicable (42.50%) for the Bank.
The regional of the same a second to an	Direction Circ., Diseas-1000.	2.4.4 Deferred Tax
1.1.1 Principal activities		Deferred tax asset are the amounts of income taxes recoverable in future periods in respect of taxable temporary differences. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets and liabilities are recognized for the future tax consequences of
The principal activities of the Bank are to provide all kinds of commercial banking services to its customers through its branches in Bangladesh.		timing differences arising between the carrying values of assets, liabilities, income and expenditure and their respective tax bases. Deferred tax is provided using the
The principal activities of the sank are to provide all killos of commercial banking services to its customers all cought its triancises in banglaces.		liability method for all temporary difference arising between the tax base of assets and liabilities and their carrying value for financial reporting purposes. The tax rate
1.1.2 First Security Islami Capital & Investment	rt Ltd.	(42.50%) prevailing at the balance sheet date is used to determine deferred tax. The impact on the account of charges in the deferred tax assets and liabilities has also
First Security Islami Capital & Investment Ltd. a p	private company limited by shares has been formed and registered under the Companies Act, 1994 with	
	incorporation no. C-88567/10 dated 02/12/2010. The Securities and Exchange Commission vide its cer	NOTE NOTE NOTE NOTE NOTE NOTE NOTE NOTE
	al to the bank for a full fledged Merchant Banking operation under the Securities and Exchange Commi- s and 49% shares are held by other individuals. Financial Statements of First Security Islami Capital &	CASAN UPON VIOLE CHOLOGO VIOLES CHOLOGO VIOLENCE
has not been drawn up due to operation of the cor		In case of investments, Mudaraba fund gets preference over cost free fund. The investment income earned through deployment of Mudaraba fund is shared by the
1.1.3 First Security Islami Exchange Ltd., Cana		bank and the Mudaraba depositors at the pre-determined ratio fixed by the bank.
		2.5.1 Zakat
Randariach Bank viria their Latter No. RRPD/MY00/17/2000.05 dated 08 September 2000 has accorded annoying to the hank for opening a fully owned exhaintion.		<ul> <li>Zakar is paid by the dank at the rate of 2,56% (instead of 2,56% as the bank maintains its account following Gregorian year) on the closing balances of statutory</li> </ul>

1.2 Significant Accounting Policies and Basis of Preparation of the Financial Statement 1.2.1 Basis of Accounting

2.1 Revenue Recognition

The financial statements, namely, Balance Sheet, Profit and Loss Statement, Cash Flow Statement of Changes in Equity, Statement of Liquidity Analysis and relevant notes and disclosures thereto, of FSIBL are prepared on a going concern basis under historical cost convention, and in accordance with First Schedule (Scetion-38) of Banking Companies Act 1991, BRPD Circular no. 14 dated 25 June, 2003, BRPD Circular no. 15, dated 09 November 2009 and other Bangladesh Bank (central bank of Bangladesh) circulars, Bangladesh Accounting Standards (BAS) and Bangladesh Financial Reporting Standards (BFRS), including those that have been so far adopted by the Institute of Chartered Accountants of Bangladesh, Companies Act 1994, the listing regulations of the stock exchanges, the Securities and Exchange Rules 1967 and other laws and rules applicable in Bangladesh wherever appropriate, such principles are explained in succeeding notes. 1.2.2 Consolidation of Branches

The main activities of the exchange house are to carry on the remittance business and to undertake and participate in transactions, activities and operations commonly

carried on or undertaken by remittance and exchange houses. Separate Financial Statements of First Security Islami Exchange Ltd., Canada has not been drawn up as

The Financial Statements of FSIBL represent consolidated Statement of Affairs and Statement of Profit and Loss of all branches. All significant inter-branches transactions are eliminated on consolidation.

some legal formalities for incorporation as a subsidiary company of the bank is yet to be completed.

1.2.3 Use of estimates and Judgments In the preparation of the financial statements management required to make judgments, estimates and assumptions that affect the application of accounting policies

and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognized in the period in which the estimate is

revised and in any future periods affected. 1.2.4 Foreign Currency Transactions a) Foreign Currency

Items included in the financial statements of each entity of the bank are measured using the currency of the primary economic environment in which entity operates i.e. functional currency. The financial statements of the bank are presented in Taka which is bank's functional and presentation currency. b) Foreign Currency Translations

Foreign currency transactions are converted into equivalent Taka currency at the ruling exchange rates on the respective dates of such transactions as per BAS-21. Assets and liabilities in foreign currencies as at 31 December 2010 have been converted into Taka currency at the average of the prevailing buying and selling rates of the concerned foreign currencies at that date except "balances with other banks and financial institutions" which have been converted as per directives of Bangladesh Bank vide its circular no BRPD(R) 717/2004-959 dated 21 November 2004.

The resulting exchange transaction gains and losses arising through foreign currency buying and selling transactions effected on different dates of the year have been adjusted by debiting /crediting exchange gain or loss account. Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at contracted rates. Contingent liabilities a

commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in Taka terms at the rates of exchange ruling on the balance sheet date. The outstanding balances for the same as at 31 December 2010 have been shown in the Balance Sheet under Off-Balance Sheet items Exchange rates with major foreign currencies as on 31 December 2010 were as: Exchange rate

> US\$ 70.7497 GBP 109,7328 EURO 93.5877 JPY YEN 0.8680 ACU 70.7497 CHF 75.0262 SGD 54.7556 AUD 71.9383 CAD 70.7639

The revenues during the year are recognized following guidelines of revenue recognition as provided in BAS 18 "Revenue". (i) Income from investments has been accounted for on accrual basis except investment under Musharaka, Mudaraba and Bai-Salam. Income in case of Musharaka is

accounted for on realization basis. The bank does not charge any rent during the gestation/interim period of investment under hire purchase, but it fixes the sale price of the assets at a higher price in such a way to cover its expected rate of return. Such income is recognized on realization basis. (ii) Income was calculated on daily product basis and charged yearly. 2.1.2. Investment in shares and securities

(i) Investment in shares and securities are stated at cost. Provisions have been made against probable losses on the basis of year end reviewed by the management and in compliance with Bangladesh Bank circulars. (ii) Dividend income on shares of joint stock companies is accounted for when it is received.

(iii) Gain on sale of shares transferred to other income on realization basis.

(iv) Profit on investment in Bangladesh Govt. Islamic Investment Bond is recognized on accrual basis.

Commission and discount on Bills Purchased and Discounted are recognized at the time of realization. Commission charged to customers on letter of credit and guarantees are credited to income at the time of effecting the transactions.

2.1.4 Profit/Rent/Compensation/Suspense account and irregular income Profit/rent/compensation accrued on classified investments are suspended and accounted for as per circulars issued by the Bangladesh Bank. Moreover, income which

are irregular (doubtful) as per Shariah are not included in the distributable income of the Bank. Compensation on unclassified overdue Bai-Murabaha investments is charged. As per Islamic Shariah such compensation is not shown as income of the Bank. Profit received from the balances held with foreign banks and foreign currency charging account with Bangladesh Bank are also not credited to regular income since it

is not permissible as per Shariah 2.1.5 Profit paid and other expenses In terms of the provision of BAS 1 Presentation of Financial Statements, profit paid on deposits and other expenses are recognized on accrual basis.

Interim dividend is recognized when they are paid to shareholders. Final dividend is recognized when it is approved by the shareholders. The proposed dividend for the year 2010 has not been recognized as a liability in the balance sheet in accordance with the BAS-10: Events After the Balance Sheet

Dividend payable to the Bank's shareholders is recognized as a liability and deducted from the shareholders' equity in the period in which the shareholders' right to receive payment is established.

In the ordinary course of business, the bank is exposed to a variety of risks the most important of which are investments risk, liquidity risk, market risk, operational risk, legal risk, and profit rate risk. These risks should be identified, measured and monitored through various control mechanisms across the bank in order to price its products and services on a risk-adjusted basis and to prevent undesirable concentrations. The policies and procedures for managing these risks are outlined in the notes below. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks, which are as follows:

Investments risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of investments risk arises when a number of counter parties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. To manage investments risk, the bank applies credit limits to its customers and obtains adequate collaterals, Investments risk in the First Security Islami Bank's portfolio is monitored, reviewed and analyzed by the Investments Risk Management (IRM).

IRM determines the quality of the investments portfolio and assists in minimizing potential losses. To achieve this objective, IRM formulates appropriate investments policies and procedures for the bank to ensure building and maintaining quality investments and an efficient investments process. First Security Islami Bank Ltd. established Asset-Liability Management Committee (ALCO) to screen out the banks/financial institutions and determine the maximum

risk exposure on each of them. ALCO also assesses recommends and controls cross border/country risk. To manage the Non-Performing Investments (NPI), First Security Islami Bank Ltd. has in place comprehensive remedial management policy, which includes a framework of controls to identify weak investments and monitoring of these accounts.

Since Foreign Exchange Risk involves purchase and sale of any national currency against other national currency, thus Foreign Exchange Risk is the chance of loss due to unexpected movement of market price of the currencies of different countries or the price of the assets denominated by foreign currencies. The Foreign

Exchange Risk of the bank is minimal as all the transactions are carried out on behalf of the customers against underlying Foreign Exchange transactions. Treasury Division independently conducts the transactions and the Back Office of treasury is responsible for verification of the deals and passing of their entries in the books of account. All foreign exchange transactions are revalued at Mark-to-Market rate as determined by Bangladesh Bank at the month end. All Nostro accounts are

reconciled on daily basis and outstanding entries beyond 30 days are reviewed by the Management for their settlement. 2. 2.3 Asset Liability Management Asset Liability Management is the key success of any financial intermediary especially for Banks. Asset Liability Committee (ALCO) of the Bank monitors Balance Sheet Risk and liquidity risks of the bank. The Balance Sheet Risk encompasses most part of the Asset Liability risk and deal with change in earnings due to change in rate of

profit, foreign exchange rates which are not of trading nature on the other hand, liquidity risk can be defined as the risk or chance of failure to meet up any withdrawal /disbursement request by a counterparty/customer. Asset Liability Committee (ALCO) reviews Liquidity requirement of the bank, the maturity of assets and liabilities, deposits and investments pricing strategy and the Liquidity contingency plan. The primary objective of the Asset Liability Committee (ALCO) is to monitor and avert significant volatility in Net Investments Income (NII), investment value and exchange earnings for the purpose of taking future action plan for better interest of the organization. 2. 2.4 Prevention of Money Laundering Money laundering risk is defined as the loss of reputation and expenses incurred as penalty for being negligent in prevention of money laundering. For mitigating the

risk the bank has designated Chief Compliance Officer at Head Office and Compliance Officer at branches, who independently review the transactions of the accounts to verify suspicious transactions. Manuals for Prevention of Money Laundering, KYC and Transaction profile have been introduced. Training has been imparted to Executives, Officers and staff for developing awareness and skill for identifying suspicious transactions and other Money Laundering related activities.

Operational loss/risk may arise from errors and fraud due to lack of Internal Control and Compliance. Inspection and Audit Division controls operational procedure of the bank and undertakes periodical and special audit of the branches and departments at Head Office for review of the operation and compliance of the statutory requirement. The Audit Committee of the board subsequently reviews the report of the Audit and Inspection Division as well as other related division, as and when required. 2. 2.6 Guideline on Information & Communication Technology:

information systems. This guideline covers all information that is electronically generated, received, stored, printed, scanned and typed. The provisions of this guideline apply to: - First Security Islami Bank Ltd. for all of its IT system.

The Information Technology (IT) Guideline is a systematic approach to policies required to be formulated for IT and also to ensure security of information and

- All activities and operations required ensuring data security including facility design, physical security, network security, disaster recovery and business continuity planning, use of hardware and software, data disposal and protection of copy rights and other intellectual property rights. The implementation of Management Information System (MIS) will be linked from the branches to the central database. In future the information will be easily accessible by senior management and is expected to be important source of information of strategic decision-making process based on a comprehensive database. It is to be declared that the bank is fully compliant according to the guideline of Central Bank's IT policy.

2. 3.1 Cash and Cash Equivalents As guided in paragraph 7 of BAS 7 Cash Flow Statements of Banks and Similar Financial Institutions for the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills, and other eligible bills, amounts due from other banks and dealing securities other than those which are not available to finance the FSIBL day to day operations.

Zakat is paid by the bank at the rate of 2.58% (instead of 2.50% as the bank maintains its account following Gregorian year) on the closing balances of statutory reserve, general reserve and exchange equalization account. Payment of zakat on paid up capital and deposits is the responsibility of the shareholders and depositor's

2.5.1 Exchange Equalization Account This represents the amount arose from exchange gain upto 30.05.2003 due to de-valuation of Bangladesh taka with foreign currencies and the system has been discontinued from 31.05.2003 on introduction of floating exchange rate. The amount has accounted for as per instruction issued by the Bangladesh Bank from time to

time. As per instruction from Bangladesh Bank vide BRPD circular # 15, dated 26 April 2010, this amount transferred to income account named 'Extra Ordinary Gain'. 2.7 Cash Flow Statements Paragraph 102 of BAS 1 presentation of Financial Statements requires that a cash flow statement is to be prepared as it provides information about cash flows of the

enterprise which is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. Cash flow statement has been prepared under the direct method for the period, classified by operating, investing and financing activities as prescribed in paragraph 10 and 18 (a) of BAS 7 Cash Flow Statements.

The liquidity statement of assets and liabilities as on the reporting date has been prepared on residual maturity term as per the following basis. i) Balance with other Banks and financial institutions, money at call and short notice, etc. are on the basis of their maturity term;

ii) Investments are on the basis of their respective maturity;

iii) Investments are on the basis of their repayment schedule. iv) Fixed assets are on the basis of their useful lives v) Other assets are on the basis of their realization / amortization;

vi) Borrowing from other Banks, financial institutions and agents, etc. are as per their maturity / repayment term; vii) Deposits and other accounts are on the basis of their maturity term and past trend of withdrawal by the depositors; viii) Provisions and other liabilities are on the basis of their payment / adjustments schedule.

2.9 Contingent Liabilities, Commitments and Other off-balance sheet items Provisions, Contingent Liabilities and Contingent Assets and Commitments are presented in the financial statements in line with paragraph 86 of BAS 37: Provisions,

Contingent Liabilities and Contingent Assets. As guided in paragraph 36 and 36 of BAS 1 Presentation of Financial Statements, comparative information in respect of the previous year have been presented in all

numerical information in the financial statements and the narrative and descriptive information where, it is relevant for understanding of the current year's financial 2.11 Operating Segments A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of

other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments. As on reporting date FSBIL has no reportable segments. 2.12 Earning Per Share

Earning per share has been calculated in accordance with BAS 33 "Earning Per Share" (EPS) which has been shown on the face of profit and loss account. This has been calculated by dividing the basic earnings by the weighted average number of ordinary shares outstanding during the year.

The bonus shares issued during the year 2010 were treated as if they had been in issue in previous year also (declared for 2009 result). Hence in computing the basic earning per share of 2009, the total number of shares including the said bonus shares has been considered as the weighted average number of shares outstanding

during the 2009 as per BAS 33 \* Earning per Share." b) Diluted Earning per Share No diluted earning per share is required to be calculated for the year as there was no scope for dilution during the year under review.

(i) Wherever considered necessary, previous year's figures have been rearranged for the purpose of comparison;

(ii) Figures appearing in these Financial Statements have been rounded off to the nearest Taka. Amount in Taka 31.12.2010 31.12.2009

3 CASH 3.1 Cash in Hand In Local Currency 607,438,083 419,071,005 4,735,063 In Foreign Currencies 13,836,726 612,173,146 432,907,731 3.2 Balance with Bangladesh Bank and its Agent Bank In Local Currency 4,174,559,477 4,587,712,268 In Foreign Currencies 70,809,580 12,912,440 4,245,369,057 4,600,624,708 4,857,542,203 5,033,532,439

Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) have been calculated and maintained in

3.3 Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

accordance with the Section 25 & 33 of the Bank Companies Act. 1991 and subsequent BCD Circular No. 13 dated May 24, 1992; BRPD Circular No. 12 dated September 06, 1998, BRPD Circular No.12, dated September 20, 1999, BRPD Circular No. 22 dated November 06, 2003, BRPD Circular No. 03 dated 17 February, 2005 and BRPD Circular No. 11 & 12 dated 25 August 2005, Bangladesh Bank Letter # DOS (SR) 1153/120-A/2009-46 dated 22 March 2009, MPD circular # 01 dated 04 May 2010 & MPD circular # 04 & 05 dated 01 December 2010.

3.3 Cash Reserve Ratio (CRR): 6.00% of Average Demand and Time Liabilities:

1,782,100,000

Required Reserve 2,933,100,000 Actual Reserve maintained 4,052,000,000

1,118,900,000 1,639,500,000 Surplus/(Short) 3.4 Statutory Liquidity Ratio (SLR): 11.50% of Average **Demand and Time Liabilities:** 

Required Reserve (including CRR)

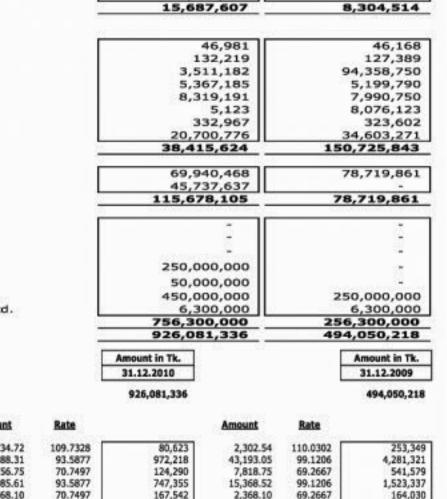
5,622,000,000 3,564,130,000 Actual Reserve held (including CRR) 7,108,000,000 7,210,967,000 3,646,837,000 1,486,000,000 Surplus/(Short) 4 BALANCE WITH OTHER BANKS AND FINANCIAL INSTITUTIONS

A. Inside Bangladesh **Current Accounts** Dutch-Bangla Bank Ltd. 14,027,036

Brac Bank Ltd. Others Accounts **Mudaraba Short Notice Deposits** National Bank Ltd Mercantile Bank Ltd. Southeast Bank Ltd. (Islamic Branch) Social Islami Bank Ltd. Dhaka Bank Ltd. (Islamic Branch) Bangladesh Commerce Bank Ltd. AB Bank Ltd. (Islamic Branch) Islami Bank (BD) Ltd.

Fakhrul Islam Securities Ltd. Times Securities Ltd. **Mudaraba Term Deposits** Bangladesh Industrial Finance Company Ltd. Bangladesh Finance and Investment Ltd.

National Housing Finance and Investment Ltd. Export Import Bank of Bangladesh Limited Hajj Finance Co. Limited Reliance Finance Limited International Leasing and Financial Services Ltd.



1,660,571 15,687,607



Mashreg Bank, PSC, London

Wachovia Bank, NY,USA

Habib Bank, Zuric, Switzerland

Habib Metropalitan Bank Limited, Karachi, Pakistan

734.72 10.388.31 1.756.75 7,985.61 2,368.10 14,944.40 3,056.75 400,732.00 3,800.00 48,888.33 232,317.38 45,160.00 9,501.73 23,627.27 464,661,14 604,499.88 193.22 42,731,87 3,387,98 1.652.11 26,200.00

USD

USD

ACU\$

70.7497 70.7497 93.5877 70.7497 70.7497 70.7497 70.7497 70.7497 70,7497 70.7497 70,7497 70,7497 70,7497 75.0262

1,057,312 285,074 3,458,835 16,436,385 3,195,056 672,245 1,671,622 32,874,636 42,768,185 13,670 3.023.267 239,699 123,952

1,036,199,077

14,944.40 499,832.00 30,509.02 33,022.81 97,472.26 302,262,70 2,537,473.07

1,035,149 69.2667 99.1206 1,015,068 375,574 2,855 0.7514 (1,321,665) 69.2667 2,113,259 3,128,084 69.2667 2,287,381 69.2667 6,751,582 69,2667 20,936,740 69.2667 175,762,386 566.97 69.2667 39,272 (4.159.24)69.2667 (288.097) 3,387,98 69,2667 234,674 15,459.00 66,6410 1,030,203 69,2667 248,806,71 248,806,71 69.2667

731,150,321

3,421,600,000

8,304,514