

Auditors' report to the shareholders of
Southeast Bank Limited

We have audited the accompanying balance sheet of Southeast Bank Limited as of 31 December 2004 and the related profit and loss account, statement of cash flow, statement of changes in equity and statement of liquidity for the year then ended. These financial statements are the responsibility of the Bank's management. 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 (BSA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

- i) On the basis of qualitative judgement, we have identified a number of loans and advances which we consider to be non-performing. According to our observations, provision of Tk 252 million is required against such loans and advances. Further, a number of loans and advances for which the Bank has specific provision of Tk 91 million but based on our judgement, such provision should have been for Tk 246 million.
- ii) There are underprovisions for tax for an aggregate amount of Tk 40 million in respect of assessments which have already been completed. In addition, the disputed tax of Tk 37 million under appeal to the High Court mainly represents tax on 1% general provision on unclassified loans and advances.
- iii) The Bank has not provided for deferred tax in these financial statements. Provision for deferred tax is required by Bangladesh Accounting Standards-12: Income Taxes. No estimate of the deferred tax liability or asset has been made by the Bank.
- iv) The Bank has not accounted for its leased assets in accordance with BAS 17: Leases.
- v) The Bank has not accounted for the liabilities for its employees gratuity scheme as is required under Bangladesh Accounting Standard-19: Employee Benefits. On the basis of those employees who are eligible for gratuity, the accrued liability of the Bank, based on latest salary of such employees is estimated at Tk 39,343,000 as at 31 December 2004 which has, however, been provided for.

In our opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements prepared in accordance with Bangladesh Accounting Standards (BAS) give a true and fair view of the state of the Bank's affairs as of 31 December 2004 and of the results of its operations and its cash flow for the year then ended and comply with the Bank Company Act 1991, the rules and regulations issued by the Bangladesh Bank, the Companies Act 1994, the Securities and Exchange Rules 1987 and other applicable laws and regulations.

We also report that subject to the observations noted in paragraphs (i) to (v) above:

- 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;
- iii) the Bank's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns;
- iv) the expenditure incurred was for the purposes of the Bank's business;
- v) the financial position of the Bank at 31 December 2004 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 Company Act 1991 and in accordance with the accounting rules and regulations issued by the Bangladesh Bank;
- vii) adequate provisions have been made for advances which are, in our opinion, doubtful of recovery;
- viii) the financial statements conform to the prescribed standards set in the accounting regulations issued by the 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 the financial statements; and
- x) the information and explanations required by us have been received and found satisfactory.

Dhaka, 18 July 2005