Internship Report
on
Financial Statement Analysis of Sonali Bank Limited

Submitted
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Submitted
To
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Acknowledgement

In the name of ALLAH, the most kind and most merciful.

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Executive Summary

Common Size Financial Statement discloses the internal structure of the firm. It indicates the existing relationship between sales and each income statement account. It shows the mix of assets that produce income and the mix of the sources of capital, whether by current or long-term debt or by equity funding.

The primary objective of financial analysis is to forecast or determine the actual financial status and performance of a project.

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Introduction

Financial statements for banks present a different analytical problem than manufacturing and service companies. As a result, analysis of a bank's financial statements requires a distinct approach that recognizes a bank's somewhat unique risks. Banks take deposits from savers, paying interest on some of these accounts. They pass these funds on to borrowers, receiving interest on the loans. Their profits are derived from the spread between the rate they pay for funds and the rate they receive from borrowers. By managing this flow of funds, banks generate profits, acting as the intermediary of interest paid and interest received and taking on the risks of offering credit. As one of the most highly regulated banking industries in the world, investors have some level of assurance in the soundness of the banking system. As a result, investors can focus most of their efforts on how a bank will perform in different economic environments. In this project, I am trying to provide assistance to the investors, by showing them the performance of two banks underlying the same functions.

1.1 Background of the study

Financial Statement Analysis is a method used by interested parties such as investors, creditors, and management to evaluate the past, current, and projected conditions and performance of the firm. Ratio analysis is the most common form of financial analysis. It provides relative measures of the firm's conditions and performance. Horizontal Analysis and Vertical Analysis are also popular forms. Horizontal analysis is used to evaluate the trend in the accounts over the years, while vertical analysis, also called a Common Size Financial Statement discloses the internal structure of the firm. It indicates the existing relationship between sales and each income statement account. It shows the mix of assets that produce income and the mix of the sources of capital, whether by current or long term debt or by equity funding. When using the financial ratios, a financial analyst makes two types of comparisons.

Financial ratio analysis is an important topic and is covered in all mainstream corporate finance textbooks. It is also a popular agenda item in investment club meetings. It is widely used to summarize the information in a company's financial statements in assessing its financial health. In today's information technology world, real time financial data are readily available via the Internet. Performing financial ratio analysis using publications, such as Robert Morris Associates' Annual Statement Studies, Dun & Bradstreet's Key Business Ratios, Moody's Manuals, Standard & Poor's Corporation Records, Value Line Investment Survey, etc., is no longer efficient. Since students and investors now have easy access to on-line databases, the assignments on financial ratio analysis can be modified accordingly to enhance learning. In the current scenario where financial instability is rife and financial intuitions are becoming popular, when it comes to investing, the sound analysis of financial statements is one of the most important elements in the fundamental analysis process. At the same time, the massive amount of numbers in a company's financial statements can be bewildering and intimidating to many investors. However, through financial ratio analysis, we shall be able to work with these numbers in an organized fashion and present them in a concise form easily understandable to both the management and interested investors.

1.2 Significance of the project

Financial statements provide an overview of a business' financial condition in both short and long term. All the relevant financial information of a business enterprise presented in a structured manner and in a form easy to understand, is called the financial statements. Therefore these financial statements are very useful for the stake holder, as they obtain all insight information. In assessing the significance of various financial data, experts engage in ratio analyses, the process of determining and evaluating financial ratios. A financial ratio is a relationship that indicates something about a company's activities, such as the ratio between the company's current assets, current liabilities or between its accounts receivable and its annual sales. The basic source for these ratios is the company's financial statements that contain figures on assets, liabilities, profits, or losses. Financial ratios are only meaningful when compared with other information. Since they are most often compared with industry data, ratios help an individual understand a company's performance relative to that of competitors; they are often used to trace performance over time.

Ratio analysis can reveal much about a company and its operations. However, there are several points to keep in mind about ratios. First, financial statement ratios are "flags" indicating areas of strength or weakness. One or even several ratios might be misleading, but when combined with other knowledge of a company's management and economic circumstances, ratio analysis can tell much about a corporation. Second, there is no single correct value for a ratio. The observation that the value of a particular ratio is too high, too low, or just right depends on the perspective of the analyst and on the company's competitive strategy. Third, a ratio is meaningful only when it is compared with some standard, such as an industry trend, ratio trend, a ratio trend for the specific company being analyzed, or a stated management objective.

The significance of my internship stems from the very nature of the financial statements i.e. they are usually lengthy, bulky documents which have a huge array of numbers not readily understandable. Financial statement analysis is the process of examining relationships among financial statement elements and making comparisons with relevant information. It is a valuable tool used by investors and creditors, financial analysts, and others in their decision-making processes related to stocks, bonds, and other financial instruments. The goal in analyzing financial statements is to assess past performance and current financial position and to make predictions about the future performance of a company. Investors who buy stock are primarily interested in a company's profitability and their prospects for earning a return on their investment by receiving dividends and/or increasing the market value of their stock holdings. Creditors and investors who buy debt securities, such as bonds, are more interested in liquidity and solvency: the company's short-and long-run ability to pay its debts. Financial analysts, who frequently specialize in following certain industries, routinely assess the profitability, liquidity, and solvency of companies in order to make recommendations about the purchase or sale of securities, such as stocks and bonds. Analysts can obtain useful information by comparing a company's most recent financial statements with its results in previous years and with the results of other companies in the same industry. My aim is to summarize all that data into a form which is easily understood by all the relevant parties.

1.3 Objectives of the study

The objective of this study is to provide insight into how the banks work, what are the strengths and weakness of the bank. The ratios will be compared of both the banks within the industry to see where the banks stand. To give the stock holder a clear view about the financial feasibility of both the banks so that they can take the appropriate decision. And most significantly it will provide a good understanding of the business cycle and the yield curve - both of which have a major impact on the economic performance of the bank.

The primary objective of financial analysis is to forecast and/or determine the actual financial status and performance of a project and, where appropriate, of the EAs. This is to enable ADB to combine that information with all other pertinent data (technical, economic, social, etc.) to assess the feasibility, viability, and potential economic benefits, of a proposed or continuing lending operation. Secondary objective is the provision of Technical Assistance to a borrower and an EA to enable them to make similar assessments for the project and to apply the techniques to other non-ADB investments.

A tertiary objective is to encourage borrowers to make any necessary changes to their institutional and financial management systems to facilitate the generation of appropriate data to support good financial analysis. The objectives of financial analysis as set out above are intended to measure the achievement of financial objectives of a borrower, the project to be (or being) financed. The financial performance of a public and private sector EA should normally be measured by the use of at least one indicator selected from the range of the following groups of indicators derived from the financial analysis of a project and its EA: (i) operation; (ii) capital structure, and (iii) liquidity. This means that, if only one indicator from one of the three categories of indicators above would be the subject of a loan covenant, the remaining indicator or indicators from each group above recommended by the financial analyst should be the subject of periodic reporting. The efficient allocation of resources is an important consideration in pricing policy, particularly for REEA services. Financial analysis is used to describe the impact of such a policy. I worked on the financial statements of the bank i.e. Balance sheet of the bank and make some essential calculations in order to give you an idea about the financial stability of the bank.

1.4 Methodology

We can use several tools to evaluate a company, but I will use one of the most valuable tool that is "**financial ratios**". Ratios are an analyst's microscope; they allow us get a better view of the firm's financial health than just looking at the raw financial statements. Ratios are useful both to internal and external analysts of the firm. **For internal purposes:** ratios can be useful in planning for the future, setting goals, and evaluating the performance of managers. **External analysts use ratios** to decide whether to grant credit, to monitor financial performance, to forecast financial performance, and to decide whether to invest in the company. I will use Microsoft Word and Microsoft Excel work sheets to compute the different ratios and analysis.

1.4.1 Sources of data

All the necessary information to prepare this report is collected from both primary and secondary sources of data.

Primary data sources: It includes the fresh or completely new data sources collected for a specified purpose, such as:

- Focus group meetings
- Direct observation
- Informal discussion

Secondary data sources: It includes sources of existing/published data, such as:

- Operational manual
- Official Website
- Banking journals
- BBL newsletters
- Research papers
- Account statement

1.4.2 Methods of data collection: I have used following methods and tools to gather our necessary data or information (both the primary & secondary)

Primary Data: all the necessary primary data are collected by using the following methods or tools:

- Observation while working in different desks
- Informal discussion with professionals
- Interview of risk management officers
-

Secondary Data: I have used following tools to gather our necessary secondary data:

- Account statement
- Journal of BBL
- Net browsing
- Annual report (2007-08)

1.6 Limitations

The study has suffered from some barriers;

- Lack of structured and current information as the Bank's policy does not permit to disclose various data related to my study and this is the major problem among all the problems, I have encountered with.
- Time is also a big constraint for my study. I have to submit a broader deal in a shorter form of outcome.
- As I am an employer of SBL, I have to go under my day to day job responsibility that I am supposed to do so. So I have tried my level best to get few more time to spend in collecting data for preparing my internship report.

Chapter 2

Overview Of Sonali Bank Limited

Soon after independence of the country Sonali Bank emerged as the largest and leading Nationalized Commercial Bank by proclamation of the Banks' Nationalization Order 1972 (Presidential Order-26) liquidating the then National Bank of Pakistan, Premier Bank and Bank of Bhwalpur. As a fully state owned institution, the bank had been discharging its nation-building responsibilities by undertaking government entrusted different socio-economic schemes as well as money market activities of its own volition, covering all spheres of the economy.

The bank has been converted to a Public Limited Company with 100% ownership of the government and started functioning as Sonali Bank Limited from November 15 2007 taking over all assets, liabilities and business of Sonali Bank. After corporatization, the management of the bank has been given required autonomy to make the bank competitive & to run its business effectively.

Sonali Bank Limited is governed by a Board of Directors consisting of 11(Eleven) members. The Bank is headed by the Chief Executive Officer & Managing Director, who is a well-known Banker and a reputed professional. The corporate head quarter of the bank is located at Motijheel, Dhaka, Bangladesh, the main commercial center of the capital.

Some notable features of the Bank are as follows:

Capital Structure:

Authorised Capital	: Tk. 2000.00 Core.
Paid up Capital	: Tk. 1125.00 Core

Branches & Subsidiaries:

1	Total No of Branches	**1200**
	a. No of Foreign branches	**22**
	b. No of Local branches	**1198** **8**
	i) No of Rural Branches	**8544**
	ii) No of Urban Branches	**3422**
2	No of Regional Offices	**199**
3	No of Principal Office	**422**
4	No of G.M. Offices	**100**

Subsidiaries	: **3**
	: 1.Sonali Bank (UK) Limited having 1(one) branch and 6 (sixn) booth offices in UK. 2.Sonali Exchange Company Incorporated (SECI) having 10 (ten) branches in USA. 3.Sonali Investment Limited (Merchant Banking) having 4 (four) branches at Motijheel,Paltan,Uttara,Mirpur in Dhaka, Bangladesh.
Representative Office	: **3**
	: 1(one) in Jeddah, KSA; 1 (one) in Riyadh, KSA and 1 (one) in Kuwait.
Correspondent	: **581**

Our Vision :

Socially committed leading banking institution with global presence.

Chapter 3

Financial Statement Analysis

3.1 Ratio Analysis

Financial ratios are useful indicators of a firm's performance and financial situation. Financial ratios can be used to analyze trends and to compare the firm's financials to those of other firms. Ratio analysis is the calculation and comparison of ratios which are derived from the information in a company's financial statements. Financial ratios are usually expressed as a percent or as times per period. Ratio analysis is a widely used tool of financial analysis. It is defined as the systematic use of ratio to interpret the financial statements so that the strength and weaknesses of a firm as well as its historical performance and current financial condition can be determined. The term ratio refers to the numerical or quantitative relationship between two variables. With the help of ratio analysis conclusion can be drawn regarding several aspects such as financial health, profitability and operational efficiency of the undertaking. Ratio points out the operating efficiency of the firm i.e. whether the management has utilized the firm’s assets correctly, to increase the investor’s wealth. It ensures a fair return to its owners and secures optimum utilization of firm’s assets. Ratio analysis helps in inter-firm comparison by providing necessary data. An inter firm comparison indicates relative position. It provides the relevant data for the comparison of the performance of different departments. If comparison shows a variance, the possible reasons of variations may be identified and if results are negative, the action may be initiated immediately to bring them in line. Yet another dimension of usefulness or ratio analysis, relevant from the View point of management is that it throws light on the degree efficiency in the various activity ratios measures this kind of operational efficiency.

a) Liquidity Ratios
b) Leverage Ratios
c) Profitability Ratios
d) Activity Ratios
e) Market Ratios
f) Statements of Cash Flow

3.1.1 Liquidity Ratios

Liquidity ratios measure a firm's ability to meet its current obligations. These include:
Current Ratio:
Current Ratio = Current Assets / Current Liabilities
This ratio indicates the extent to which current liabilities are covered by those assets expected to be converted to cash in the near future. Current assets normally include cash, marketable securities, accounts receivables, and inventories. Current liabilities consist of accounts payable, short-term notes payable, current maturities of long-term debt, accrued taxes, and other accrued expenses. Current assets are important to businesses because they are the assets that are used to fund day-to-day operations and pay ongoing expenses.

Year	2006	2007	2008
Current Assets	575611106	671597594	731954693
Current Liabilities	480455832	566659483	631948038
Current Ratio	**1.20**	**1.19**	**1.16**

Interpretation
The current ratio for the year 2006, 2007 & 2008 is 1.20, 1.19 & 1.16 respectively, compared to standard ratio 2:1 this ratio is lower which shows low short term liquidity efficiency at the same time holding less than sufficient current assets mean inefficient use of resources.

Sales to Working Capital:
Sales to Working Capital = Sales / Working Capital
Sales to working capital give an indication of the turnover in working capital per year. A low working capital indicates an unprofitable use of working capital.

Year	2006	2007	2008
Sales	43685740	43685740	63305033
Working capital	95155274	104938111	100006655

Sales to Working	**0.5 times**	**0.5 times**	**0.6 times**

Interpretation
This liquidity ratio for the years 2006, 2007 & 2008 is 0.5,0.5 & 0.6 times respectively, compared to standard ratio 2:1 this ratio is lower which shows low short term liquidity efficiency at the same time holding less than sufficient current assets mean inefficient use of resources.

Working Capital:
Working Capital = Current Assets – Current Liabilities
A measure of both a company's efficiency and its short-term financial health. Positive working capital means that the company is able to pay off its short-term liabilities. Negative working capital means that a company currently is unable to meet its short-term liabilities with its current assets (cash, accounts receivable and inventory). Also known as "net working capital", or the "working capital ratio".

Year	2006	2007	2008
Current Assets	575611106	671597594	731954693
Current Liabilities	480455832	566659483	631948038
Working capital	**95155274**	**104938111**	**100006655**

Interpretation
It is very clear from the above calculations that the working capital of the bank is gradually increasing over the years, which shows good short term liquidity efficiency.

3.1.2 Leverage Ratios
By using a combination of assets, debt, equity, and interest payments, leverage ratio's are used to understand a company's ability to meet it long term financial obligations.

Leverage ratios measure the degree of protection of suppliers of long term funds. The level of leverage depends on a lot of factors such as availability of collateral, strength of operating cash flow and tax treatments. Thus, investors should be careful about comparing financial leverage between companies from different industries. For example companies in the banking industry naturally operates with a high leverage as collateral their assets are easily collateralized. These include:

Time Interest Earned:
TIE Ratio = EBIT / Interest Charges
The interest coverage ratio tells us how easily a company is able to pay interest expenses associated to the debt they currently have. The ratio is designed to understand the amount of interest due as a function of company’s earnings before interest and taxes (EBIT). This ratio measures the extent to which operating income can decline before the firm is unable to meet its annual interest cost.

Year	2006	2007	2008

EBIT	32044524	34298574	48559935
Interest Charges	13204037	19153957	19153957
TIE ratio	**2.43**	**1.79**	**1.83**

Interpretation
We can see from this ratio analysis that, this company has covered their interest expenses 2.43 times in 2006, 1.79 times in 2007 and 1.8 times in 2008. It means they have performed pretty much same in 2007 and 2008, but has taken a different look in 2006. As in 2006 they issued a little high number of long-term loans and does not have good liquidity position, their EBIT became high thus making TIE a little high as well.

Debt Ratio:
Debt Ratio = Total Debt / Total Assets
The ratio of total debt to total assets, generally called the debt ratio, measures the percentage of funds provided by the creditors. The proportion of a firm's total assets that are being financed with borrowed funds. The debt ratio is calculated by dividing total long-term and short-term liabilities by total assets. The higher the ratio, the more leverage the company is using and the more risk it is assuming. Assets and liabilities are found on a company's balance sheet.

Year	2006	2007	2008
Total Debt	536848102	628754092	682747953
Total Assets	590291468	691991521	757928,89
Debt Ratio	**0.91**	**0.91**	**0.9**

Interpretation

Calculating the debt ratio, we came to see that this company is highly leveraged one.

Debt to Equity Ratio:
Debt to Equity Ratio = Total debt / Total Equity
The debt to equity ratio is the most popular leverage ratio and it provides detail around the amount of leverage (liabilities assumed) that a company has in relation to the monies provided by shareholders. As you can see through the formula below, the lower the number, the less leverage that a company is using. The debt to equity ratio gives the proportion of a company (or person's) assets that are financed by debt versus equity. It is a common measure of the long-term viability of a company's business and, along with current ratio, a measure of its liquidity, or its ability to cover its expenses. As a result, debt to equity calculations often only includes long-term debt rather than a company's total liabilities. A high debt to equity ratio implies that the company has been aggressively financing its activities through debt and therefore must pay interest on this financing.

Year	2006	2007	2008

Total debt	536848102	628754092	682747953
Total Equity	45177664	55063125	71280902
Debt to Equity Ratio	**11.88**	**11.42**	**9.58**

Interpretation
We can see from the above calculations that this ratios continuously decreasing in the last three years.

Current Worth / Net worth Ratio:
Current Worth to Net worth Ratio= Current Worth / Net worth Ratio
We can calculate current worth and net worth by using following formulas:
Current Worth = Total Current Assets – Total Current Liabilities
Net Worth = Total Assets - Total Liabilities

Year	2006	2007	2008
Current Worth	95155274	104938111	100006655
Net worth	53443366	63237429	75180436
Current Worth to Net worth Ratio	**1.78**	**1.66**	**1.33**

Interpretation

We can see from the above calculations that this ratios continuously decreasing in the last three years. In 2006 it was 1.78, in 2007 it was 1.66 and in 2008 it was 1.33.

Total Capitalization Ratio:
Total Capitalization Ratio = Long-term debt / long-term debt + shareholders' equity

The capitalization ratio measures the debt component of a company's capital structure, or capitalization (i.e., the sum of long-term debt liabilities and shareholders' equity) to support a company's operations and growth. Long-term debt is divided by the sum of long-term debt and shareholders' equity. This ratio is considered to be one of the more meaningful of the "debt" ratios - it delivers the key insight into a company's use of leverage.

Year	2006	2007	2008
Long-term debt	56392270	62094609	50799915
long-term debt + equity	101569934	117157734	122080817
Total Capitalization Ratio	**0.56**	**0.53**	**0.42**

It is obvious from the above calculations that there is a gradual fall in this ratio over the years.

3.1.3 Profitability Ratios

Profitability is the net result of a number of policies and decisions. This section of the discusses the different measures of corporate profitability and financial performance. These ratios, much like the operational performance ratios, give users a good understanding of how well the company utilized its resources in generating profit and shareholder value. The long-term profitability of a company is vital for both the survivability of the company as well as the benefit received by shareholders. It is these ratios that can give insight into the all important "profit". Profitability ratios show the combined effects of liquidity, asset management and debt on operating results. These ratios examine the profit made by the firm and compare these figures with the size of the firm, the assets employed by the firm or its level of sales. There are four important profitability ratios that I am going to analyze:

Net Profit Margin:
Net Profit margin = Net Profit / Sales x 100

Net Profit Margin gives us the net profit that the business is earning per dollar of sales. This margin indicates the profit after all the costs have been incurred it shows that what % of turnover is represented by the net profit. An increase in the ratios indicates that a firm is producing higher net profit of sales than before.

Year	2006	2007	2008
Net Profit	12700315	10084037	15614020
Sales	43685740	50481021	63305033
Net Profit Margin	**29.07%**	**19.97%**	**24.66%**

Interpretation
Therefore, the Net Profit Margin was 8.31% in 2006, increase to 12.1% in 2007 and then decrease to 4% in 2008

Operating Income Margin:
Operating Income Margin = Operating Income x 100
Net Sales
Operating Income Margin =
Net mark-up / interest income after provisions + Mark-up / return / interest expensed - Total non mark-up / interest expenses

Year	2006	2007	2008
Operating Income	25278799	24275410	37738818

Net Sales	43685740	50481021	63305033
Operating Income Margin	**57.9%**	**48%**	**59.6%**

Return on Assets:

Return on Assets (ROA) = Profit after Taxation / Average Total assets x 100

ROA, A measure of a company's profitability, equal to a fiscal year's earnings divided by its total assets, expressed as a percentage. This is an important ratio for companies deciding whether or not to initiate a new project. The basis of this ratio is that if a company is going to start a project they expect to earn a return on it, ROA is the return they would receive. Simply put, if ROA is above the rate that the company borrows at then the project should be accepted, if not then it is rejected.

Year	2006	2007	2008
Net income	12700315	10084037	15614020
Total Average assets	559592686.5	641141494.5	724959955
ROA	**2.27%**	**1.57%**	**2.15%**

Interpretation

Return on assets decreased in 2007 and 2008 and it was maximum in year 2006. This may have occurred because Square used more debt financing in 2006 compared to 2007 and 2008 which resulted in more interest cost and brought the Net income down.

Return on Equity (ROE):

Return on Total Equity = Profit after taxation x 10

Total Equity

Return on Equity measures the amount of Net Income earned by utilizing each dollar of Total common equity. It is the most important of the “Bottom line” ratio. By this, we can find out how much the shareholders are going to get for their shares. This ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity. The return on equity ratio (ROE) measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

Year	2006	2007	2008
Net income	12700315	10084037	15614020
Total Equity	45177664	55063125	71280902
ROE	**28.11%**	**18.31%**	**21.9%**

The Return on Equity was maximum in 2006 but decreased in 2007 and went down more in 2008. This again may have happened due to the issue of more long-term debt in 2007 and 2008.

3.1.4 Activity Ratios

Activity ratio are sometimes are called efficiency ratios. Activity ratios are concerned with how efficiency the assets of the firm are managed. These ratios express relationship between level of sales and the investment in various assets inventories, receivables, fixed assets etc.

Total Asset Turnover:

Total Asset Turnover = Total Sales / Total Assets

The amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets in dollars. Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue - the higher the number the better. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

Year	2006	2007	2008
Total Sales	43685740	50481021	63305033
Total Assets	590291468	691991521	757928389
Total Asset Turnover	**0.07**	**0.07**	**0.08**

Interpretation

The Return on Equity was maximum in 2006 but decreased in 2007 and went down more in 2008. This again may have happened due to the issue of more long-term debt in 2007 and 2008.

3.1.5 Market Ratios

Market Value Ratios relate an observable market value, the stock price, to book values obtained from the firm's financial statements.

Earning Per Share- EPS:

Earning Per Share = Profit after Taxation/Number of Shares

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. Earnings per share are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Year	2006	2007	2008
Profit after Taxation	12700315	10084037	15614020
Number of Shares	690000	690000	759000

Earning Per Share	**18.41**	**14.61**	**20.57**

Price / Earning Ratio:
Price / Earning Ratio = Stock Price Per Share/Earning Per Shares

The Price-Earnings Ratio is calculated by dividing the current market price per share of the stock by earnings per share (EPS). (Earnings per share are calculated by dividing net income by the number of shares outstanding.)

The P/E Ratio indicates how much investors are willing to pay per dollar of current earnings. As such, high P/E Ratios are associated with growth stocks. (Investors who are willing to pay a high price for a dollar of current earnings obviously expect high earnings in the future.) In this manner, the P/E Ratio also indicates how expensive a particular stock is. This ratio is not meaningful, however, if the firm has very little or negative earnings. The Price-Earnings Ratio is calculated by dividing the current market price per share of the stock by earnings per share (EPS). (Earnings per share are calculated by dividing net income by the number of shares outstanding.) The P/E Ratio indicates how much investors are willing to pay per dollar of current earnings. As such, high P/E Ratios are associated with growth stocks. (Investors who are willing to pay a high price for a dollar of current earnings obviously expect high earnings in the future.) In this manner, the P/E Ratio also indicates how expensive a particular stock is. This ratio is not meaningful, however, if the firm has very little or negative earnings.

Year	2006	2007	2008
Stock Price Per Share	10	10	10
EPS	18.41	14.61	20.57
Price-Earning Ratio	**0.54**	**0.68**	**0.49**

Interpretation
The P/E ratio was 0.54 times in 2006 and increased further to as high as 0.68 times in the following year. However, in 2008 it declined to 0.49 times which is an alarming signal for the potential investors.

3.1.6 Statement of cash flow
Cash flow ratios indicate liquidity, borrowing capacity or profitability. This section of the financial ratio looks at cash flow indicators, which focus on the cash being generated in terms of how much is being generated and the safety net that it provides to the company. These ratios can give users another look at the financial health and performance of a company.

Operating Cash Flow to Total Debt:
Operating Cash Flow to Total Debt = Operating Cash Flow/Total Debt

This coverage ratio compares a company's operating cash flow to its total debt, which, for purposes of this ratio, is defined as the sum of short-term borrowings, the current portion of long-term debt and long-term debt. This ratio provides an indication of a company's ability to cover total debt with its yearly cash flow from operations. The higher the percentage ratio, the better the company's ability to carry its total debt.

Year	2006	2007	2008
Operating Cash Flow	17851517	56224065	18231677
Total Debt	536848102	628754092	682747953
Operating Cash Flow to Total Debt	**0.033**	**0.089**	**0.027**

3.2 Common Size Analysis

The term "trend analysis" refers to the concept of collecting information and attempting to spot a pattern, or *trend*, in the information. In some fields of study, the term "trend analysis" has more formally-defined meanings. Although trend analysis is often used to predict future events, it could be used to estimate uncertain events in the past. Financial statement information is used by both external and internal users, including investors, creditors, managers, and executives. These users must analyze the information in order to make business decisions, so understanding financial statements is of great importance. Several methods of performing financial statement analysis exist. I will discuss two of these methods: horizontal analysis and vertical analysis.

3.2.1 Horizontal Analysis

Methods of financial statement analysis generally involve comparing certain information. The horizontal analysis compares specific items over a number of accounting periods. For example, accounts payable may be compared over a period of months within a fiscal year, or revenue may be compared over a period of several years. It is a procedure in fundamental analysis in which an analyst compares ratios or line items in a company's financial statements over a certain period of time. The analyst will use his or her discretion when choosing a particular timeline; however, the decision is often based on the investing time horizon under consideration.

HORIZONTALANALYSIS
SONALIBANKLIMITED
BALANCESHEET
ASON DEC31 2008, 2007&2006

(Taka in'000')	2008	2007	2006	Horizontal Analysis		
ASSETS				**2008**	**2007**	**2006**
Cash and balances with treasury banks	56533134	55487664	46310478	122.07	119.8	100
Balances with other banks	39307321	27020704	35965048	109.29	75.13	100
Lending to Financial institutions	6193787	1628130	6550128	94.56	24.86	100
Investments	13814592	177942251	119587476	11.552	148.8	100
Advances	456355507	382172734	349432685	130.6	109.4	100
Other assets	35419252	27346111	17765291	199.37	153.9	100
Operating fixed assets	14751252	13780555	11954876	123.39	115.3	100
Deferred tax asset	11222444	6613372	2725486	411.7	242.6	100
TOTAL ASSETS	**757928389**	**691991521**	**590291468**	**128.4**	**117.2**	**100**
LIABILITIES						
Bills payable	9944257	15418230	5737457	173.32	268.7	100
Borrowings from Financial institutions	46844890	58994609	56392270	83.07	104.6	100
Deposits and other accounts	597090545	531298127	459140198	130.05	115.7	100

Sub-ordinate loans	3954925	3100000	0	0	0	0
Other liabilities	24913236	19943126	15578177	159.92	128	100
Deferred tax						
Liability	-------	-----------	---------			
TOTAL						
LIABILITIES	**682747953**	**628754092**	**536848102**	127.18	117.1	100
NET ASSETS	**75180436**	**63237429**	**53443366**	**140.67**	**118.3**	**100**
REPRESENTED BY						
Shareholders Equity						
Share capital	7590000	6900000	6900000	110	100	100
Reserves	24243254	19821455	17802584	136.18	111.3	100
Un appropriated						
profit	39447648	28341670	475,0801	59.92	128	100
Total equity						
Attributable to the						
equity holders of						
the Bank	71280902	55063125	45177664	157.78	121.9	100
Minority interest	890099	965642	913317	97.458	105.7	100
Surplus on						
revaluation of						
assets-net of tax	3009435	7208662	7352385	**40.931**	**98.05**	**100**
TOTAL EQUITY	**75180436**	**63237429**	**53443366**	140.67	118.3	100

HORIZONTALANALYSIS
SONALIBANKLIMITED
CONSOLIDATED PROFIT & LOSS ACCOUNT
AS ON DEC 31 2008, 2007&2006

(Taka in '000')	2008	2007	2006	Horizontal Analysis		
				2008	**2007**	**2006**
Mark-up/return/						
Interest earned	63,305,033	50,481,021	43,685,740	144.91	115.6	100
Mark-up/return/						
interest expensed	26,525,55	19,153,957	13,204,037	200.89	145.1	100
Net mark-up /						
Interest income	36,779,477	31,327,064	30,481,703	120.66	102.8	100
Provision against						
non-performing						
Loans and						
advances-net	6,904,919	8,238,227	2,863,207	241	287.7	100
Charge/(reversal)						
Against off balance Sheet						
obligations	372,598	(54,626)	(45,438)	-820.01	120.2	100
Charge/(reversal)						
Of provision						
against diminution	1,909,887	(84,310)	(13,697)	13944	615.5	100
In the value of						
Investments						
Bad debts written						
Off directly	9,187,404	8,099,291	2,804,072	………	…….	……
Netmark-up/						
Interestincome						
afterprovisions	**27,592,073**	**23,227,773**	**27,677,631**	**99.691**	**83.92**	**100**
Fee commission						

and brokerage income	4,518,408	3,420,051	3,931,710	114.92	86.99	100
Income/gain on Investments	2,369,233	2,472,663	1,219,623	194.26	202.7	100
Income from dealing in foreign currencies	2,374,318	1,487,374	1,102,358	215.39	134.9	100
Gain on Investments in associate	4,000,330	------- 0	0	0	0	
other income	3,116,522	2,643,076	2,235,805	139.39	118.2	100
Total non-mark-up /interest income	16,378,811	10,023,164	8,489,496	192.93	118.1	100
Nonmark-up/ Interestexpense	43,970,884	33,250,937	36,167,127	121.58	91.94	100
Administrative Expenses	21,348,016	18,297,279	15,425,461	138.39	118.6	100
Other provisions/ write offs-net	200,163	276,111	122,510	163.39	225.4	100
Other charges	64,751	85,152	54,898	117.95	155.1	100
Workers welfare Fund	323,575	--	--	0	0	0
Total non mark-up /interest expenses	21,936,505	18,106,32	15,602,869	140.59	0	100

Profitbefore						
taxation	**22,034,379**	**15,144,617**	**18,840,487**	**116.95**	**80.38**	**100**
Taxation						
-Current	8,661,15	7,220,717	7,144,846	0	101.1	100
-Prioryears	233,100	1,668,562	(39,067)	-596.67	-4271	100
-Deferred	(2,473,891)	(3,828,699)	(965,607)	256.2	396.5	100
	6,420,359	10,084,037	12,700,315	50.553	79.4	100
Profit after						
taxation	**15,614,020**	**10,084,037**	**12,700,315**	**122.94**	**79.4**	**100**
Attributable to:						
Equity holders of						
the Bank	15,535,011	10,000,231	12,630,259	123 .79	18	100
Minority interest	79,009	83,806	70,056	112.78	119.6	100
	15,614,020	10,084,037	12,700,315	122.94	79.4	100
Basic and diluted						
Earnings per share	20.47	13.18	18.30	111.86	72.02	100

3.2.2 Vertical Analysis

It is a method of financial statement analysis in which each entry for each of the three major categories of accounts (assets, liabilities and equities) in a balance sheet is represented as a proportion of the total account. The main advantages of analyzing a balance sheet in this manner are that the balance sheets of businesses of all sizes can easily be compared. It also makes it easy to see relative annual changes in one business. When using vertical analysis, the analyst calculates each item on a single financial statement as a percentage of a total. The term vertical analysis applies because each year's figures are listed vertically on a financial statement. The total used by the analyst on the income statement is net sales revenue, while on the balance sheet it is total assets. This approach to financial statement analysis, also known as *component percentages*, produces *common-size financial statements*. Common-size balance sheets and income statements can be more easily compared, whether across the years for a single company or across different companies.

VERTICAL ANALYSIS
SONALIBANKLIMITED
BALANCESHEET
ASON DEC31 2008, 2007&2006

(Taka in'000')				**Vertical Analysis**		
	2008	**2007**	**2006**			
ASSETS				**2008**	**2007**	**2006**
Cash and balances with treasury banks	56533134	55487664	46310478	7.4589	8.019	7.8454
Balances with other banks	39307321	27020704	35965048	5.1862	3.905	6.0928
Lending to Financial institutions	6193787	1628130	6550128	0.8172	0.235	1.1096
Investments	13814592	177942251	119587476	1.8227	25.71	20.259
Advances	456355507	382172734	349432685	60.211	55.23	59.197
Other assets	35419252	27346111	17765291	4.6732	3.952	3.0096
Operating fixed assets	14751252	13780555	11954876	1.9463	1.991	2.0252
Deferred tax asset	11222444	6613372	2725486	1.4807	0.956	0.4617
TOTAL ASSETS	**757928389**	**691991521**	**590291468**	**100**	**100**	**100**
LIABILITIES						
Bills payable	9944257	15418230	5737457	1.312	2.228	0.972

Borrowings from Financial institutions	46844890	58994609	56392270	6.1806	8.525	9.5533
Deposits and other accounts	597090545	531298127	459140198	78.779	76.78	77.782
Sub-ordinate loans	3954925	3100000	0	0	0.5218	0.448
Liabilities against assets subject to finance lease						
Other liabilities	24913236	19943126	15578177	3.287	2.882	2.6391
Deferred tax Liability	-------	-----------	---------			
TOTAL LIABILITIES	**682747953**	**628754092**	**536848102**	90.081	90.86	90.946
NET ASSETS	**75180436**	**63237429**	**53443366**	**9.919**	**9.14**	**9.054**
REPRESENTED BY						
Shareholders Equity						
Share capital	7590000	6900000	6900000	10.09	10.9	13
Reserves	24243254	19821455	17802584	32.25	31.34	33.31
Un appropriated profit	39447648	28341670	30150801	52.4	45	56.42
Total equity						

Attributable to the equity holders of the Bank	71280902	55063125	45177664	95 87	87.07	84.53
Minority interest	890099	965642	913317	1.18	1.52	1.71
Surplus on revaluation of assets-net of tax	3009435	7208662	7352385	**4**	**11.4**	**13.75**
TOTAL EQUITY	**75180436**	**63237429**	**53443366**	100	100	100

VERTICAL ANALYSIS
SONALIBANKLIMITED
CONSOLIDATED PROFIT & LOSS ACCOUNT
AS ON DEC 31 2008, 2007&2006

(Taka in '000')				**Vertical Analysis**		
	2008	**2007**	**2006**			
				2008	**2007**	**2006**
Mark-up/return/ Interest earned	63,305,033	50,481,021	43,685,740	100	100	100
Mark-up/return/ interest expensed	26,525,556	19,153,957	13,204,037	41.901	37.94	30.225
Net mark-up / Interest income	36,779,477	31,327,064	30,481,703	58.099	62.06	69.775
Provision against non-performing Loans and advances-net	6,904,919	8,238,227	2,863,207	10.907	16.32	6.5541
Charge/(reversal)						

Against off balance Sheet obligations	372,598	(54,626)	(45,438)	0.5886	-0.108	-0.104
Charge/(reversal) Of provision against diminution In the value of Investments	1,909,887	(84,310)	(13,697)	3.017	-0.167	-0.031
Bad debts written Off directly	………	…….	……	0	0	0
Netmark-up/ Interestincome afterprovisions	**27,592,073**	**23,227,773**	**27,677,631**	**43.586**	**46.01**	**63.356**
Fee commission and brokerage income	4,518,408	3,420,051	3,931,710	7.1375	6.775	9
Income/gain on Investments	2,369,233	2,472,663	1,219,623	3.7426	4.898	2.7918
Income from dealing in foreign currencies	2,374,318	1,487,374	1,102,358	215.39	134.9	100
Gain on Investments in associate	4,000,330	-------	0	0	0	0

other income	3,116,522	2,643,076	2,235,805	3.7506	2.946	2.5234
Total non-mark-up /interest income	16,378,811	10,023,164	8,489,496	4.923	5.236	5.1179
Nonmark-up/ Interestexpense	43,970,884	33,250,937	36,167,127	25.873	19.86	19.433
Administrative Expenses	21,348,016	18,297,279	15,425,461	69.459	65.87	82.789
Other provisions/ write offs-net	200,163	276,111	122,510	163.39	225.4	100
Other charges	64,751	85,152	54,898	33.722	36.25	35.31
Workers welfare Fund	323575			0.5111	0	0
Total non mark-up /interest expenses	21,936,505	18,106,32	15,602,869	34.652	0	35.716
Profit before taxation	**22,034,379**	**15,144,617**	**18,840,487**	**34.807**	**30**	**43.127**
Taxation						
-Current	8,661,15	7,220,717	7,144,846	0	14.3	16.355
-Prioryears	233,100	1,668,562	(39,067)	0.3682	3.305	-0.089
-Deferred	(2,473,891)	(3,828,699)	(965,607)	-3.908	-7.584	-2.21
	6,420,359	10,084,037	12,700,315	10.142	19.98	29.072
Profit after taxation	**15,614,020**	**10,084,037**	**12,700,315**	**24.665**	**19.98**	**29.072**
Attributable to:						

Equityholdersof						
theBank	15,535,011	10,000,231	12,630,259	24.54	19.81	28.912
Minority interest	79,009	83,806	70,056	0.125	0.17	0.16
	15,614,020	10,084,037	12,700,315	24.66	20	29.07
Basic and diluted						
Earnings per share	20.47	13.18	18.30	3.23	2.61	4.189

Comparisons

Financial trend analysis is an applied, practical approach for monitoring the financial condition of any company through the use of financial indicators. I shall use technique to compare previous three-year period data and observes how they change. This would permit an assessment of the current financial condition.

3.2.3 Trend Analysis

A firm's present ratio is compared with its past and expected future ratios to determine whether the company's financial condition is improving or deteriorating over time. Trend analysis studies the financial history of a firm for comparison. By looking at the trend of a particular ratio, one sees whether the ratio is falling, rising, or remaining relatively constant. This helps to detect problems or observe good management.

TRENDANALYSIS
SONALI BANK LIMITED
FOR THE YEARS 2006, 2007 & 2008

Performance Area	2006	2007	2008	Trend
a) Liquidity Ratios				
CurrentRatio	1.20	1.19	1.16	Lower liquidity In 2008
Sales to Working Capital	0.5 times	0.5 times	0.6 times	Increase in 2008
WorkingCapital	95155274	104938111	100006655	Lower

				liquidity in 2008
b) Leverage Ratios				
Time Interest Earned	2.43	1.79	1.83	Lower since 2008
Debt Ratio	0.91	0.91	0.9	Leverage remain Same
Debt to Equity Ratio	11.88	11.42	9.58	Drops in leverage In 2008
Current Worth/Net worth Ratio	1.78	1.66	1.33	Higher in 2006
Total Capitalization Ratio	0.56	0.53	0.42	Lower during 2008
Long term Assets Versus Long term Debt	0.26	0.33	0.51	Drops in leverage In 2006
Debt Coverage Ratio	0.02	0.008	0.0083	Lower coverage In 2006
c) Profitability Ratios				
Net Profit Margin	29.07%	19.97%	24.66%	Lower profitability during 2007
Operating Income Margin	57.9%	48%	59.6%	Increased Profitability since 2008
Return on Assets	2.27%	1.57%	2.15%	Lower ROA during 2007
Operating Assets Turnover	192.7%	192.7%	174.70%	Lower efficiency since2008

Return on Operating Assets	13.48%	10.37%	11.19%	Lower efficiency In 2007
Sales to Fixed Assets	3.65times	3.66times	3.66 times	No change in last 3years
d) Activity Ratios:				
Total Asset Turnover	0.07	0.07	0.08	Higher efficiency Since 2008
e) Market Ratios:				
Earning Per Share-EPS	18.41	14.61	20.57	Higher In 2008
Price/Earning Ratio	0.54	0.68	0.49	Lower in2008
f) Statement of cash flow				
Operating Cash Flow to Total Debt	0.033	0.089	0.027	Lower in2006
Operating Cash Flow per Share	25.87	81.48	24.02	Increased during 2007

Summary

Financial Statement Analysis is a method used by interested parties such as investors, creditors, and management to evaluate the past, current, and projected conditions and performance of the firm. This report mainly deals with the insight information of Sonali Bank LImited. In the current picture where financial volatility is endemic and financial intuition is becoming popular, when it comes to investing, the sound analysis of financial statements is one of the most important elements in the fundamental analysis process. At the same time, the massive amount of numbers in a company's financial statements can be bewildering and intimidating to many investors. However, through financial ratio analysis, I tried to work with these numbers in an organized fashion and presented them in a summarizing form easily understandable to both the management and interested investors. It is required by law that all private and public limited companies must prepare the financial statements like, income statement, balance sheet and cash flow statement of the particular accounting period. The management and financial analyst of the company analyze the financial statements for making any further financial and administrative decisions for the betterment of the company. Therefore, I select this topic, so that I have done some financial analysis that will certainly help the management of review their performance and also assist the interested people like investors and creditors. That as a financial analyst how can I make any important financial decision by analyzing the financial statements of the company. Because, it is the primary responsibility of the financial managers or financial analyst to manage the financial matters of the company by evaluating the financial statements. I am also providing some important suggestions and opinions about the financial matters of the business.

Chapter 4

Conclusion / Findings

I analysis the financial statements of Sonali Bank Limited and found some findings;

 Liquidity position of SBL is not up to standard. Working capital of Sonali Bank is good.

.

- Leverage ratios indicate the high risk associated with the company's generally leverage ratios, measures the percentage of funds provided by the creditors. The proportion of a firm's total assets is being financed with high percentage of borrowed funds.

- Profitability ratios of Sonali Bank Limited is up to the mark.

- Earning per Share and Operating cash flow of SBL is also good.

Habib Bank Limited

Consolidated Balance Sheet

As at December 31, 2008

2008 (US $ in '000)	2007 (US $ in '000)		Note	2008 (Rupees in '000)	2007 (Rupees in '000)
		ASSETS			
714,718	701,501	Cash and balances with treasury banks	5	**56,533,134**	55,487,664
496,941	341,608	Balances with other banks	6	**39,307,321**	27,020,704
78,305	20,584	Lendings to financial institutions	7	**6,193,787**	1,628,130
1,746,502	2,249,629	Investments	8	**138,145,692**	177,942,251
5,769,458	4,831,605	Advances	9	**456,355,507**	382,172,734
447,787	345,722	Other assets	10	**35,419,252**	27,346,111
186,492	174,220	Operating fixed assets	11	**14,751,252**	13,780,555
141,879	83,609	Deferred tax asset	12	**11,222,444**	6,613,372
9,582,082	8,748,478			**757,928,389**	691,991,521
		LIABILITIES			
125,720	194,924	Bills payable	13	**9,944,257**	15,418,230
592,236	745,837	Borrowings from financial institutions	14	**46,844,990**	58,994,609
7,548,696	6,706,110	Deposits and other accounts	15	**597,090,545**	531,298,127
50,000	50,000	Sub-ordinated loans	16	**3,954,925**	3,100,000
-	-	Liabilities against assets subject to finance lease		-	-
314,964	252,130	Other liabilities	17	**24,913,236**	19,943,126
-	-	Deferred tax liability		-	-
8,631,616	7,949,001			**682,747,953**	628,754,092
950,466	799,477	**NET ASSETS**		**75,180,436**	63,237,429
		REPRESENTED BY:			
		areholders' equity			
		are capital	18	**7,590,000**	6,900,000
306,486	250,592	Reserves		**24,243,254**	19,821,455
498,724	358,309	Unappropriated profit		**39,447,648**	28,341,670
901,166	696,134	Total equity attributable to the equity holders of the Bank		**71,280,902**	55,063,125
11,255	12,208	Minority interest		[illegible]	[illegible]65,642
38,045	91,135	Surplus on revaluation of assets - net of deferred tax	19	**3,**[illegible]	[illegible]8,662
950,466	799,477			**75,180,436**	63,237,429

Sonali Bank Limited

(Taka's in '000)

CONTINGENCIES AND COMMITMENTS 20

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President and Chief Executive Officer **Director** **Director** **Director**

Sonali Bank Limited

Consolidated Profit and Loss Account

For the year ended December 31, 2008

2008 (US $ in '000)	2007 (US $ in '000)		Note	2008 (Taka's in '000)	2007 (Taka's in '000)
800,332	638,205	Mark-up / return / interest earned	22	**63,305,033**	50,481,021
335,348	242,153	Mark-up / return / interest expensed	23	**26,525,556**	19,153,957
464,984	396,052	Net mark-up / interest income		**36,779,477**	31,327,064
87,295	104,151	Provision against non-performing loans and advances - net	9.4 / 9.4.1	**6,904,919**	8,238,227
4,711	(691)	Charge / (reversal) against off-balance sheet obligations	17.1	**372,598**	(54,626)
24,146	(1,066)	Charge / (reversal) of provision against diminution in the value of investments	8.8	**1,909,887**	(84,310)
-	-	Bad debts written off directly		**-**	-
116,152	102,394			**9,187,404**	8,099,291
348,832	293,658	Net mark-up / interest income after provisions		**27,592,073**	23,227,773
		Non mark-up / interest income			
57,124	43,238	Fee, commission and brokerage income		**4,518,408**	3,420,051
29,953	31,261	Income / gain on investments	24	**2,369,233**	2,472,663
30,017	18,804	Income from dealing in foreign currencies		**2,374,318**	1,487,374
50,574	-	Gain on investments in associate	8.5.1	**4,000,330**	-
39,401	33,415	Other income	25	**3,116,522**	2,643,076
207,069	126,718	Total non-mark-up / interest income		**16,378,811**	10,023,164
555,901	420,376			**43,970,884**	33,250,937
		Non mark-up / interest expense			
269,892	231,323	Administrative expenses	26	**21,348,016**	18,297,279
2,531	(3,491)	Other provisions / write offs - net		**200,163**	(276,111)
819	1,077	Other charges	27	**64,751**	85,152
4,091	-	Workers welfare fund	28	**323,575**	-
277,333	228,909	Total non mark-up / interest expenses		**21,936,505**	18,106,320
278,568	191,467	**Profit before taxation**		**22,034,379**	15,144,617
		Taxation	29		
109,498	91,288	- current		**8,661,150**	7,220,717
2,947	21,095	- prior years		**233,100**	1,668,562
(31,276)	(48,404)	- deferred		**(2,473,891)**	(3,828,699)
81,169	63,979			**6,420,359**	5,060,580
197,399	127,488	**Profit after taxation**		**15,614,020**	10,084,037
		Attributable to:			
196,400	126,428	Equity holders of the Bank		**15,535,011**	10,000,231
999	1,060	Minority interest		**79,009**	83,806
197,400	127,488			**15,614,020**	10,084,037
0.259	0.167	Basic and diluted earnings per share	30	**20.47**	13.18

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President and Chief Executive Officer **Director** **Director** **Director**

Sonali Bank Limited

Consolidated Cash Flow Statement

For the year ended December 31, 2008

2008	2007		Note	2008	2007
(US $ in '000)				(Taka's in '000)	
		CASH FLOWS FROM OPERATING ACTIVITIES			
278,568	191,467	Profit before taxation		22,034,379	15,144,617
(27,580)	(27,442)	Dividend income and share of profit of associates and joint venture company		(2,181,535)	(2,170,631)
(2,373)	(3,818)	Gain on sale of investments - net		(187,698)	(302,032)
(29,953)	(31,260)			(2,369,233)	(2,472,663)
248,615	160,207			19,665,146	12,671,954
		Adjustment for:			
20,556	14,877	Depreciation / amortisation / adjustments		1,625,943	1,176,762
24,146	(1,066)	Charge / (reversal) against diminution in the value of investments		1,909,887	(84,310)
87,295	104,151	Provision against non-performing loans and advances - net of reversals		6,904,919	8,238,227
10,808	-	Exchange loss on sub-ordinated loans		854,925	-
(529)	(656)	Gain on sale of property and equipment - net		(41,840)	(51,913)
7,241	(4,181)	Miscellaneous provisions		572,761	(330,737)
149,517	113,125			11,826,595	8,948,029
398,132	273,332			31,491,741	21,619,983
		(Increase) / decrease in operating assets			
(57,721)	62,226	Lendings to financial institutions		(4,565,657)	4,921,998
(1,025,148)	(518,066)	Loans and advances		(81,087,692)	(40,978,276)
(67,089)	(91,219)	Other assets - net		(5,306,665)	(7,215,251)
(1,149,958)	(547,059)			(90,960,014)	(43,271,529)
		Increase / (decrease) in operating liabilities			
831,778	912,254	Deposits and other accounts		65,792,418	72,157,929
(153,601)	32,900	Borrowings from financial institutions		(12,149,619)	2,602,339
(69,205)	74,724	Bills payable		(5,473,973)	5,910,593
63,479	50,155	Other liabilities - net		5,021,099	3,967,219
672,451	1,070,033			53,189,925	84,638,080
(79,375)	796,306			(6,278,348)	62,986,534
(151,120)	(85,494)	Income tax paid - net		(11,953,329)	(6,762,469)
(230,495)	710,812	**Net cash flows (used in) / from operating activities**		(18,231,677)	56,224,065
		CASH FLOWS FROM INVESTING ACTIVITIES			
426,693	(713,051)	Net investments in securities, associates and joint ventures company		33,750,772	(56,401,273)
(1,714)	6,088	Dividend income received		(135,537)	481,567
(33,665)	(38,703)	Fixed capital expenditure		(2,662,833)	(3,061,361)
1,366	1,401	Proceeds from sale of fixed assets		108,033	110,853
42,834	15,063	Exchange adjustment on translation of balances in foreign branches, subsidiaries, joint venture and associates		3,388,132	1,191,472
435,514	(729,202)	**Net cash flow from / (used in) investing activities**		34,448,567	(57,678,742)
		CASH FLOWS FROM FINANCING ACTIVITIES			
-	39,192	Sub-ordinated loans		-	3,100,000
(226)	(587)	Dividend paid to minority interest by Modaraba		(17,868)	(46,457)
(518)	179	Minority interest impact of exchange adjustment on translation of balances in subsidiaries etc.		(41,000)	14,166
(1,210)	10	Minority share of deficit on revaluation of securities of subsidiaries / modaraba		(95,684)	810
(34,515)	(17,459)	Dividend paid		(2,730,251)	(1,381,000)
(36,469)	21,335	**Net cash flows (used in) / from financing activities**		(2,884,803)	1,687,519
168,550	2,945	Increase in cash and cash equivalents during the year		13,332,087	232,842
950,436	1,011,353	Cash and cash equivalents at beginning of the year		75,178,048	79,996,643
92,673	28,811	Effects of exchange rate changes on cash and cash equivalents		7,330,320	2,278,883
1,043,109	1,040,164			82,508,368	82,275,526
1,211,659	1,043,109	Cash and cash equivalents at end of the year	*31*	95,840,455	82,508,368

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President and Chief Executive Officer **Director** **Director** **Director**

Sonali Bank Limited

Consolidated Statement of Changes in Equity
For the year ended December 31, 2008

	Attributable to shareholders of the Group							Minority interest	Total
		Reserves							
			Statutory		Other reserves				
	Share capital	Exchange translation reserve	Statutory requirement of joint venture and subsidiaries	Bank	General	Unappropriated profit	Sub Total		
	(Taka's in '000)								
Balance as at December 31, 2006	6,900,000	2,381,560	132,505	9,214,707	6,073,812	20,475,080	45,177,664	913,317	46,090,981
Profit for the year ended December 31, 2007	-	-	-	-	-	10,000,231	10,000,231	83,806	10,084,037
Exchange translation released on disposal of investment	-	(229,620)	-	-	-	-	(229,620)	-	(229,620)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	73,766	73,766	-	73,766
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	1,421,084	-	-	-	-	1,421,084	14,166	1,435,250
Total recognised income and expense for the year	-	1,191,464	-	-	-	10,073,997	11,265,461	97,972	11,363,433
Transferred to statutory reserve	-	-	23,265	804,142	-	(827,407)	-	-	-
Cash dividend paid at Rs. 2 per share	-	-	-	-	-	(1,380,000)	(1,380,000)	-	(1,380,000)
Cash dividend paid at Rs. 1.3 per certificate by modaraba	-	-	-	-	-	-	-	(46,457)	(46,457)
Minority share of surplus on revaluation of securities of Modaraba	-	-	-	-	-	-	-	810	810
Balance as at December 31, 2007	6,900,000	3,573,024	155,770	10,018,849	6,073,812	28,341,670	55,063,125	965,642	56,028,767
Profit for the year ended December 31, 2008	-	-	-	-	-	15,535,011	15,535,011	79,009	15,614,020
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	54,634	54,634	-	54,634
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	3,388,132	-	-	-	-	3,388,132	(41,000)	3,347,132
Total recognised income and expense for the year	-	3,388,132	-	-	-	15,589,645	18,977,777	38,009	19,015,786
Transferred to statutory reserve	-	-	33,569	1,000,098	-	(1,033,667)	-	-	-
Cash dividend paid at Rs. 4 per share	-	-	-	-	-	(2,760,000)	(2,760,000)	-	(2,760,000)
Issue of bonus shares	690,000	-	-	-	-	(690,000)	-	-	-
Cash dividend paid at Rs. 0.50 per certificate by modaraba	-	-	-	-	-	-	-	(17,868)	(17,868)
Minority share of deficit on revaluation of securities of subsidiaries	-	-	-	-	-	-	-	(95,684)	(95,684)
Balance as at December 31, 2008	**7,590,000**	**6,961,156**	**189,339**	**11,018,947**	**6,073,812**	**39,447,648**	**71,280,902**	**890,099**	**72,171,001**

The annexed notes 1 to 50 and annexures I to III form an integral part of these consolidated financial statements.

President and Chief Executive Officer **Director** **Director** **Director**

Consolidated Balance Sheet

As at December 31, 2007

2007	2006		Note	2007	2006
(US $ in '000)				(Taka's in '000)	
		ASSETS			
894,962	746,943	Cash and balances with treasury banks	5	55,487,664	46,310,478
435,818	580,081	Balances with other banks	6	27,020,704	35,965,048
26,260	105,647	Lendings to financial institutions	7	1,628,130	6,550,128
2,870,036	1,928,830	Investments	8	177,942,251	119,587,476
6,164,076	5,636,011	Advances	9	382,172,734	349,432,685
441,066	347,346	Other assets	10	27,346,111	21,535,471
222,267	192,821	Operating fixed assets	11	13,780,555	11,954,876
106,667	43,959	Deferred tax asset	12	6,613,372	2,725,486
11,161,152	9,581,638			691,991,521	594,061,648
		LIABILITIES			
248,681	153,349	Bills payable	13	15,418,230	9,507,637
951,526	909,553	Borrowings from financial institutions	14	58,994,609	56,392,270
8,569,325	7,405,487	Deposits and other accounts	15	531,298,127	459,140,198
50,000	-	Sub-ordinated loans	16	3,100,000	-
-	-	Liabilities against assets subject to finance lease		-	-
321,663	251,261	Other liabilities	17	19,943,126	15,578,177
-	-	Deferred tax liability		-	-
10,141,195	8,719,650			628,754,092	540,618,282
1,019,957	861,988	**NET ASSETS**		63,237,429	53,443,366
		REPRESENTED BY:			
		Shareholders' equity			
111,290	111,290	Share capital	18	6,900,000	6,900,000
319,701	287,138	Reserves		19,821,455	17,802,584
457,124	330,243	Unappropriated profit		28,341,670	20,475,080
888,115	728,671	Total equity attributable to the equity holders of the Bank		55,063,125	45,177,664
15,574	14,731	Minority interest		965,642	913,317
116,268	118,586	Surplus on revaluation of assets - net of tax	19	7,208,662	7,352,385
1,019,957	861,988			63,237,429	53,443,366

CONTINGENCIES AND COMMITMENTS 20

The annexed notes 1 to 48 and annexures I to III form an integral part of these Consolidated Financial Statements.

President and Chief Executive Officer **Director** **Director** **Director**

Consolidated Profit and Loss Account

For the Year Ended December 31, 2007

2007 (US $ in '000)	2006 (US $ in '000)		Note	2007 (Taka's in '000)	2006 (Taka's in '000)
814,210	704,609	Mark-up / return / interest earned	21	50,481,021	43,685,740
308,935	212,968	Mark-up / return / interest expensed	22	19,153,957	13,204,037
505,275	491,641	Net mark-up / interest income		31,327,064	30,481,703
132,875	46,181	Provision against Non-Performing loans and advances-net	9.6/9.6.1	8,238,227	2,863,207
(881)	(733)	(Reversal) / provision against off-balance sheet obligations	17.1	(54,626)	(45,438)
(1,360)	(221)	Reversal of provision against diminution in value of investments	8.8	(84,310)	(13,697)
-	-	Bad debts written off directly		-	-
130,634	45,227			8,099,291	2,804,072
374,641	446,414	Net mark-up / interest income after provisions		23,227,773	27,677,631
		Non mark-up / interest income			
55,162	63,415	Fee, commission and brokerage income		3,420,051	3,931,710
39,882	19,671	Income / gain on investments	23	2,472,663	1,219,623
23,990	17,780	Income from dealing in foreign currencies		1,487,374	1,102,358
42,630	36,061	Other income	24	2,643,076	2,235,805
161,664	136,927	Total non-mark-up / interest income		10,023,164	8,489,496
536,305	583,341			33,250,937	36,167,127
		Non mark-up / interest expense			
295,117	276,601	Administrative expenses	25	18,297,279	17,149,232
(4,453)	1,976	Other provisions / write offs-net		(276,111)	122,510
1,373	885	Other charges	26	85,152	54,898
292,037	279,462	Total non mark-up / interest expenses		18,106,320	17,326,640
244,268	303,879	**Profit before taxation**		15,144,617	18,840,487
		Taxation	27		
116,463	115,239	-current		7,220,717	7,144,846
26,912	(630)	-prior years		1,668,562	(39,067)
(61,753)	(15,574)	-deferred		(3,828,699)	(965,607)
81,622	99,035			5,060,580	6,140,172
162,646	204,844	**Profit after taxation**		10,084,037	12,700,315
		Attributable to:			
161,294	203,714	Equity holders of the Bank		10,000,231	12,630,259
1,353	1,130	Minority interest		83,806	70,056
162,647	204,844			10,084,037	12,700,315
0.234	0.295	Basic and diluted earnings per share	28	14.49	18.30

The annexed notes 1 to 48 and annexures I to III form an integral part of these Consolidated Financial Statements.

President and Chief Executive Officer **Director** **Director** **Director**

Consolidated Cash Flow Statement

For the Year Ended December 31, 2007

2007 (US $ in '000)	2006 (US $ in '000)		Note	2007 (Taka's in '000)	2006 (Taka's in '000)
		CASH FLOWS FROM OPERATING ACTIVITIES			
244,268	303,879	**Profit before taxation**		15,144,617	18,840,487
		Less: Dividend income and share of profit of associated and			
(35,010)	(19,229)	joint venture companies		(2,170,631)	(1,192,213)
(4,871)	(442)	Gain on sale of investments - net		(302,032)	(27,410)
(39,881)	(19,671)			(2,472,663)	(1,219,623)
204,387	284,208			12,671,954	17,620,864
		Adjustment for:			
18,980	15,645	Depreciation / amortisation / adjustments		1,176,762	969,983
(1,360)	(221)	Reversal against diminution in the value of investments		(84,310)	(13,697)
132,875	46,181	Provision against Non-Performing loans and advances-net of reversals		8,238,227	2,863,207
5,164	5,835	Amortisation of premium on investments		320,166	361,750
(837)	(1,185)	Gain on sale of property and equipment - net		(51,913)	(73,441)
(7,495)	(1,153)	Miscellaneous provisions		(464,718)	(71,469)
147,327	65,102			9,134,214	4,036,333
351,714	349,310			21,806,168	21,657,197
		(Increase) / decrease in operating assets			
(753,690)	(215,361)	Government securities		(46,728,771)	(13,352,383)
79,387	92,292	Lendings to financial institutions		4,921,998	5,722,120
(660,940)	(571,198)	Loans and advances		(40,978,276)	(35,414,257)
(121,932)	(30,562)	Other assets - net		(7,559,795)	(1,894,864)
(1,457,175)	(724,829)			(90,344,844)	(44,939,384)
		Increase / (decrease) in operating liabilities			
1,163,838	428,952	Deposits and other accounts		72,157,929	26,595,033
41,973	346,579	Borrowings from financial institutions		2,602,339	21,487,918
95,332	(627)	Bills payable		5,910,593	(38,868)
85,454	30,556	Other liabilities - net		4,391,497	1,894,448
1,386,597	805,460			85,062,358	49,938,531
281,136	429,941			16,523,682	26,656,344
(123,696)	(142,013)	Income tax paid-net		(6,762,469)	(8,804,827)
157,440	287,928	**Net cash flows from operating activities**		9,761,213	17,851,517
		CASH FLOWS FROM INVESTING ACTIVITIES			
(164,508)	9,502	Net investments in securities, associated and joint venture companies		(10,199,514)	589,141
7,767	11,629	Dividend income received		481,567	720,998
(49,377)	(26,816)	Fixed capital expenditure		(3,061,361)	(1,662,596)
1,788	2,482	Proceeds from sale of fixed assets		110,853	153,904
22,921	7,248	Exchange adjustments on translation of balances in foreign branches, subsidiaries and joint venture		1,421,084	449,350
(181,409)	4,045	**Net cash flows (used in) / from investing activities**		(11,247,371)	250,797
		CASH FLOWS FROM FINANCING ACTIVITIES			
50,000	-	Sub-ordinated Loans		3,100,000	-
(22,275)	(11,152)	Dividend paid		(1,381,000)	(691,350)
27,725	(11,152)	**Net cash flows (used in) / from financing activities**		1,719,000	(691,350)
3,756	280,821	Increase in cash and cash equivalents during the year		232,842	17,410,964
1,290,268	990,604	Cash and cash equivalents at beginning of the year		79,996,643	61,417,428
36,756	55,599	Effects of exchange rate changes on cash and cash equivalents		2,278,883	3,447,134
1,327,024	1,046,203			82,275,526	64,864,562
1,330,780	1,327,024	Cash and cash equivalents at end of the year	29	82,508,368	82,275,526

The annexed notes 1 to 48 and annexures I to III form an integral part of these Consolidated Financial Statements.

President and Chief Executive Officer **Director** **Director** **Director**

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2007

(Taka's in '000)

	Attributable to shareholders of the Group							Minority interest	Total
		RESERVES							
			Statutory		Other Reserves				
	Share Capital	Exchange Translation Reserve	Statutory requirement of Joint Venture and Subsidiaries	Bank	General	Unappropriated profit	Sub Total		
Balance as at December 31, 2005	6,900,000	1,932,210	119,161	7,787,094	6,073,812	9,908,920	32,721,197	846,801	33,567,998
Profit for the year ended December 31, 2006	-	-	-	-	-	12,630,259	12,630,259	70,056	12,700,315
Exchange translation released on disposal of investment	-	(55,709)	-	-	-	-	(55,709)	-	(55,709)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	66,858	66,858	-	66,858
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	505,059	-	-	-	-	505,059	43,665	548,724
Total recognised income and expense for the year		449,350	-	-	-	12,697,117	13,146,467	113,721	13,260,188
Transferred to statutory reserve	-	-	13,344	1,427,613	-	(1,440,957)	-	-	-
Cash dividend paid at Rs. 1 per share	-	-	-	-	-	(690,000)	(690,000)	(42,885)	(732,885)
Minority share of surplus on revaluation of securities of modaraba	-	-	-	-	-	-	-	(4,320)	(4,320)
Balance as at December 31, 2006	6,900,000	2,381,560	132,505	9,214,707	6,073,812	20,475,080	45,177,664	913,317	46,090,981
Profit for the year ended December 31, 2007	-	-	-	-	-	10,000,231	10,000,231	83,806	10,084,037
Exchange translation released on disposal of investment	-	(229,620)	-	-	-	-	(229,620)	-	(229,620)
Transferred from surplus on revaluation of fixed assets	-	-	-	-	-	73,766	73,766	-	73,766
Effect of translation of net investment in foreign branches, subsidiaries, joint venture and associates	-	1,421,084	-	-	-	-	1,421,084	14,166	1,435,250
Total recognised income and expense for the year		1,191,464	-	-	-	10,073,997	11,265,461	97,972	11,.363,433
Transferred to statutory reserve	-	-	23,265	804,142	-	(827,407)	-	-	-
Cash dividend paid at Rs. 2 per share	-	-	-	-	-	(1,380,000)	(1,380,000)	-	(1,380,000)
Cash dividend paid at Rs. 1.3 per certificate by modaraba	-	-	-	-	-	-	-	(46,457)	(46,457)
Minority share of deficit on revaluation of securities of modaraba	-	-	-	-	-	-	-	810	810
Balance as at December 31, 2007	6,900,000	3,573,024	155,770	10,018,849	6,073,812	28,341,670	55,063,125	965,642	56,028,767

The annexed notes 1 to 48 and annexures I to III form an integral part of these Consolidated Financial Statements.

President and Chief Executive Officer **Director** **Director** **Director**

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