

INDEPENDENT AUDITORS' REPORT
TO
THE SHAREHOLDERS OF SONALI BANK LIMITED

We have audited the accompanying Balance Sheet of Sonali Bank Limited, "the Bank", as of 31 December 2008 and the related Profit and Loss Account, Cash Flow Statement, Statement of Changes in Equity, Liquidity Statement together with Notes 1-46 thereto for the period from 01 January 2008 to 31 December 2008. Preparation of these Financial Statements is the responsibility of the Bank's management. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Scope:

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 the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion:

In our opinion, the financial statements, prepared in accordance with the Bank Companies Act 1991, in particular Bank Regulation and Policy Department (BRPD) Circular no. 14 (25 June 2003), other relevant Circulars of Bangladesh Bank and Bangladesh Accounting Standards (BASs), give a true and fair view of the state of the Bank's affairs as of 31 December 2008 and of the results of its operations and its cash flows for the year then ended 31 December 2008 and the financial statements comply with the Companies Act 1994, the Bank Companies Act 1991, the Rules and Regulations issued by the Bangladesh Bank and other applicable laws and regulations.

We also report that:

- 1) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;
- 2) 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 received from the branches not visited by us;
- 3) the Bank's Balance Sheet and Profit and Loss Account together with the annexed notes 1 to 46 dealt with by the report are in agreement with the books of account and returns;
- 4) the financial position of the Bank as on 31 December 2008 and the profit and loss for the period from 01 January 2008 to 31 December 2008 have been properly reflected in

- the financial statements and the financial statements have been prepared in accordance with the generally accepted accounting principles;
- 5) the financial statements have been drawn up in conformity with the provisions of Bank Companies Act, 1991 and in accordance with the accounting rules and regulations issued by the Bangladesh Bank;
 - 6) the expenditure incurred was for the purpose of bank business;
 - 7) adequate provision have been made for loans and advances and other assets, which are, in our opinion, doubtful of recovery;
 - 8) the records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;
 - 9) no benami and doubtful bank account came to our notice in course of our audit;
 - 10) the information and explanations required by us have been received and found satisfactory;
 - 11) the financial statements conform to the prescribed standards set in the accounting regulations issued by the Bangladesh Bank;
 - 12) it was revealed from our test checks, the existing rules and regulations for loan sanctioning and disbursements have been followed;
 - 13) the Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR) with Bangladesh Bank have been maintained as per rule;
 - 14) it appeared from our test checks that the internal control system was adequate and satisfactory;
 - 15) guidelines of Core Risk Management Issued by Bangladesh Bank vide BRPD Circular # 17 dated 7/10/2003 is being complied with;
 - 16) during the course of our audit done on test-check basis we did not come across any matter which was to be brought to the notice of the shareholders of the bank;
 - 17) the accounts of overseas branches were not audited by us; and
 - 18) 80% of the risk-weighted assets have been reviewed spending over 4,850 man-hours.

Date: 22 March 2009
Dhaka

AHMAD & AKHTAR
Chartered Accountants

Aziz Halim Khair Choudhury
Chartered Accountants

SONALI BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1.00 Legal Status and Background of the Bank

1.01 Status of the bank

Sonali Bank Limited was incorporated in Bangladesh on 03 June 2007 as a Public Limited Company under Companies Act, 1994 with its Head office at Dhaka and is governed by the Bank Companies Act, 1991. Subsequently on 15 November 2007 the bank took over the undertaking and business of Sonali Bank with all its assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings and obligations etc. as a going concern under a Vendor's Agreement signed between the Government of the People's Republic of Bangladesh and the Sonali Bank Ltd with a retrospective effect from 1st July 2007. It is now a fully state owned largest Commercial Bank in Bangladesh. The Bank has 1181 branches including two overseas branches at Kolkata and Siliguri in India as on 31 December 2008. During the year 1(one) branch was opened and 3 (three) branches were merged with two other branches.

1.02 Principal Activities

The principal activities of the bank are to provide a comprehensive range of financial services, personal and commercial banking, trade and services, cash management; treasury; securities and custody services and perform Government treasury functions as an agent of the Bangladesh Bank.

1.03 Subsidiary

Sonali Exchange Co. Inc. (SECI)

A subsidiary company named Sonali Exchange Co. Inc. was incorporated on 4 April 1994 under the laws of the State of New York, Department of State, licensed on 17 October 1994 by the State of New York Banking Department and commenced operation as an International Money Remitter from 12 December 1994.

1.04 Associate

Sonali Bank UK. Ltd. (SB. UK.Ltd.)

A money remitting company under the name and style of Sonali Trade and Finance (U.K) Limited was incorporated as a subsidiary under the U.K. Companies Act 1985 on 30 June 1999. Subsequently the company was allowed to commence its function as a bank from 7 December 2001 (the operational activities started on 10 December 2001) by the Financial Services Authority of U.K. changing its name as **Sonali Bank (U.K) Ltd.** and restructuring the ownership of the Company having 51% share capital in favour of the Government of the People's Republic of Bangladesh and remaining 49% by Sonali Bank Limited.

2.00 Significant Accounting Policies and Basis of Preparation of Financial Statements

2.01 Basis of Preparation of Financial Statements

The financial statements of the bank are prepared under the historical cost convention on going concern basis and in accordance with the First Schedule (Section-38) of the Bank Companies Act 1991, BRPD Circulars-14 (25 June 2003), other Bangladesh Bank Circulars, Bangladesh Accounting Standards (BAS), Companies Act 1994 and other Laws and Rules applicable in Bangladesh. All inter-branch account balances and transactions among the Head Office and the branches have been incorporated in financial statements. Investment in subsidiary companies, Sonali Exchange Co. Inc, USA has been presented under the heading of "Other Assets" as per directives of the Bank Companies Act. 1991.

2.01.01 Basis of Consolidation

A separate set of records for consolidation of the statement of affairs and income and expenditure of the branches are maintained at the Head Office of the Bank based on which these financial statements have been prepared.

The consolidated financial statements comprise of the financial statements of Sonali Bank Ltd., including overseas branches Kolkata and Siliguri as at 31 December 2008. The financial statements of Sonali Exchange Co. Inc. (SECI), USA as at 31 December 2008 have not been consolidated. However, the financial statements of Sonali Exchange Co. Inc. (SECI) are presented separately.

2.01.02 Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2.02 Foreign Currency Translation

a) Foreign Currencies Transactions

Foreign currency transactions are converted into equivalent Taka using the ruling exchange rates on the dates of respective transactions as per BAS-21: "The effective of changes in foreign exchange rates".

Monetary assets and liabilities in foreign currencies are expressed in taka at the rates of exchange ruling on the balance sheet date.

Forward foreign exchange contracts and foreign bills purchased are valued at forward rates applicable to their respective maturities.

b) Foreign Entities

The assets and liabilities of foreign entities are translated to Taka at exchange rates prevailing at the balance sheet date. The results of foreign entities are translated at the average rate of exchange for the year.

c) Commitments

Contingent liabilities /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.

d) Translation Gains and Losses

The resulting exchange translation gains and losses are included in the profit and loss account, except those arising on the translation of net investment in foreign branches, subsidiaries and associates.

2.03 Cash Flow Statement

Cash Flow statement is prepared in accordance with BAS-7 “Cash Flow statement” has been presented under direct method as prescribed by the Bangladesh Bank in BRPD Circular No. 14 dated 25 June 2003.

2.04 Liquidity Statements

The liquidity statement of assets and liabilities as on the reporting date has been prepared on residual maturity.

2.05 Assets and Basis of their Valuation

Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Bangladesh Bank and highly liquid financial assets which are subject to insignificant risk of changes in their fair value and are used by the bank management for its short term commitments.

b) Investment

All investment securities are initially recognized at cost, being fair value of the consideration given including acquisition charges associated with the investment. Premiums are amortized and discounts accredited, using the effective yield method and are taken to discount income. The valuation method of investments used are:

Held to Maturity

Investments which have fixed or determinable payments and are intended to be held to maturity other than those that meet the defined of held at amortized cost others are classified as held to maturity. These investments are subsequently measured at present value as per Bangladesh Bank Guideline. Investments in securities have been revalued as marking to market as at 31st December 2008, the gain of revaluation from the held to maturity securities has been shown in the statement in changes in equity of 31st December 2008.

Held for Trading

Investments classified in this category are acquired principally for the purpose of selling or repurchasing in short trading or if designated as such by the management. After initial recognition, investments are measured at fair value and any change in the fair value is recognized in the statement of income for the period in which it arises.

Value of investment has been enumerated as follows:

Particulars	Valuation Method
Government Securities:	
Government Treasury Bills	Present Value
Prize Bonds	Cost Price
Bangladesh Bank Bills	Cost Price
Special Treasury Bonds	Present Value
Reverse Report	Cost Price
Debentures of Govt. Corporations	Cost Price
Other Investments	Cost Price

Investment in Listed Securities (quoted)

These securities are bought and held primarily for the purpose of selling them in future or held for dividend income. These are reported at cost. Unrealized gains or losses are not recognized in the profit and loss account.

Investment in Unlisted Securities (Un-quoted)

Investment in unlisted securities is reported at cost under cost method.

Loans & Advances

Loans and advances have been stated at gross value as per requirement of The Banking Companies Act, 1991.

Provision for loans and advances are made on the basis of year-end review by the management following instructions contained in Bangladesh Bank, BCD Circular no. 34 dated 16 November 1989, BCD Circular no. 20 dated 27 December 1994, BCD Circular no 12 dated 4 September 1995, BRPD Circular no, 16 dated 6 December 1998, BRPD circular no 9 dated 14 May 2001, BRPD circular no, 2 of February 2005, BRPD circular no, 09 of August 2005 and BRPD circular no 17 dated 06 December 2005. BRPD Circular No.-5 dated June 05, 2006 Circular No.-8 dated August 07, 2007 Circular No.-10 dated September 18, 2007. General Provision on Loans & Advances Other than short term Agricultural credit & Micro Credit, provision rates are given below:

General Provision on unclassified loans and advances (other than loans under Small Enterprise, Consumer Financing and Special Mention Account).	1%
General Provision on unclassified Small Enterprise Financing	2%
General Provision on unclassified Consumer Financing for:	
i) Housing -	2%
ii) Professionals -	2%
iii) Other than Housing and Professionals	5%
General Provision on unclassified Special Mention Account	5%
Provision on sub-standard loans and advances	20%
Provision on doubtful loans and advances	50%
Provision on bad/loss loans and advances	100%
General Provision on Off Balance Sheet Exposures	1%

The provision rates for general provision on Short term Agricultural Credit & Micro Credit are given below:

Unclassified (Regular & Irregular)	5%
Substandard	5%
Doubtful	5%
Bad/Loss	100%

Security against Loans:

i) Project Loan:

Land and building are taken as security in the form of mortgage and plant & machinery are taken in the form of hypothecation.

ii) Working Capital and Trading Loan:

Goods are taken as security in the form of pledge (not less than two times covering the loan) and also goods are taken as security in the form of hypothecation along with land and building as mortgage (value not less than 1.50 times covering the loan amount).

iii) House Building Loan:

Land and building are taken as security in the form of mortgage.

iv) Overdraft:

FDRs are taken as pledge, balance in DPS/SDPS/MDS/SDS/EDS A/Cs are marked "Lien". The amount of security as Pledge as on 31.12.2008 was Taka 901.64 Crore.

v) Govt. Loan, Loan against Govt. Guarantee and Crop Loan to Agriculture Sector:

No Security is taken.

Bills Purchased and Discounted

a) Bills purchased and discounted do not include Government Treasury bills and have been classified into two sub-heads viz.,

- (i) Payable in Bangladesh and
- (ii) Payable outside Bangladesh.

b) The bills purchased and discounted have been analyzed in the form/terms as per the maturity grouping.

Property, Plant and Equipments

All Fixed Assets are stated at cost less accumulated depreciation as per BAS-16. Property, Plant & Equipment. The Cost of acquisition of an assets comprises its purchase price and any directly attributable cost of bringing the assets to its working condition for its intended use inclusive of inward freight, duties and non-refundable taxes.

The bank recognizes in the carrying amount of an item of property plant and equipments the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the bank and the cost of the item can be measured reliably. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance is normally charged off as revenue expenditure in the period in which it is incurred.

Depreciation

Depreciation is charged to operating expenses at the following rates per annum on a reducing balance method on all fixed assets other than motor vehicles and computer/software on which straight-line depreciation method is followed (20% per annum) and no depreciation on land is charged:

Building	2.5%
Library books	7.0%
Furniture and Fixture	10.0%
Electrical Installations	20.0%
Typewriters and calculating machines	20.0%
Computer/Software	20.0%
Motor car and other vehicles	20.0%

Depreciation on newly acquired assets is charged in full if the assets are acquired within 20 December and no depreciation is charged on assets acquired after 20 December. In case of assets disposed of, depreciation is charged up to the date of disposal of such assets.

Other Assets

Other assets comprise investment in Sonali Exchange Ltd. Inc USA, Prepaid Expenses, Branch adjustment and others as per Bangladesh Bank Circular.

Non-banking Assets

There are no assets acquired in exchange for loan during the period of financial statements.

2.06 Basis for Valuation of Liabilities and Provisions

Deposits and Other Accounts

Deposits and other accounts include bills payable and have been analyzed in terms of the maturity grouping showing separately other deposits and inter-bank deposits. Unclaimed deposits for 10 years or more held by the bank have been shown separately.

Provision for Taxation

Provision for current income tax has been made @ 45% as prescribed in the Finance Ordinance 2008 on the accounting profit made by the Bank. Details Income Tax assessment shown in Note 13.5 and 45.00.

Deferred Taxation

Deferred tax liabilities are the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amount of income tax recoverable in future periods in respect of deductible temporary differences. Deferred tax assets and liabilities are recognized for the future tax consequences of timing differences arising between the carrying values of assets, liabilities, income and expenditure and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date. The impact on the account of changes in the deferred tax assets and liabilities has also been recognized in the profit and loss account as per BAS-12: "Income Tax"

As per Bangladesh Accounting Standard-12, Deferred Tax Assets calculated by the Bank, which is disclosed in Note no. 10.08.02.

Statutory Reserve

Bank Companies Act 1991 requires the Bank to transfer minimum 20% of its current year's profit before tax to reserve until such reserve equals to its paid up capital.

Other Reserve

Other Reserve comprises are Balance of reserve for unforeseen losses, Investment, Revaluation Reserve and Fixed Assets Revaluation Reserve as on 31st December 2008.

Employees Benefits and Employees Retirement Benefits

Sonali Bank Limited was incorporated in Bangladesh on 03 June 2007 as a Public Limited Company and subsequently on 15 November 2007 the bank took over the undertaking and business of Sonali Bank with all its assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings and obligations etc. as a going concern. The Bank will review the present Employees benefit and Employees Retirement Benefits schemes and define it as per BAS-19 Employees Benefits and BAS-26 Accounting and Reporting by Retirement Benefits Plans respectively.

Provident fund benefits are given to the permanent employees' of the bank in accordance with Bank's Service Rules. The following are the Employees Retirement Benefits and Employees Benefit Schemes undertaken from the Sonali Bank:

i) Employees General Provident Fund:

Employees General Provident fund is operated from 13 September 1981 under which the concerned employees are required to contribute at least 10% and highest 30% (on declaration) of their basic salary with no matching contribution by the bank. This Fund relates to the employees who are availing Pension and Death-Cum-Retirement Benefit (PDCRB) Scheme.

ii) Contributory Provident Fund:

The bank operated a Provident Fund named as **Contributory Provident Fund** into which the bank contributed 10% of the basic salary of its eligible employees while the employees contributed an equal amount to the fund.

iii) Pension and Death-Cum-Retirement Benefit (PDCRB) Scheme:

The bank operated a Pension Fund named as **Pension and Death-Cum-Retirement Benefit (PDCRB) Scheme** for the employees of General Provident Fund into which the bank contributes 50% of the basic salary of its eligible employees. Payments out of this fund are made to the employees on their separation from bank's service.

iv) Gratuity.

The Bank introduced the Gratuity scheme for the member of the Employees of Contributory Provident Fund into which the Bank contributes 10% of the basic salary of its eligible employees. Payments out of this scheme are made to the members on their separation from bank's service.

v) Investment of the Pension/Gratuity Funds:

The balance of Pension/Gratuity funds are partly invested in approved securities with a view to increasing the Fund and remaining balance being utilized by the bank towards payment of retirement benefits to the employees.

vi) Administration of the Fund:

The Provident Fund, Pension Fund and Gratuity are being administered by two administrative committees each of which consists of 5 (five) members representing 3 (three) from Board of Directors, 1 (one) from officers and another from members of the staff.

vii) Benevolent Fund

This fund is mainly created for sanctioning scholarship to the meritorious students among the children of the Bank employees. The distressed employees and family member of deceased employees are also helped from this Fund.

2.07 Revenue Recognition

Interest income

In terms of the provisions of the BAS-18 "Revenue", the interest income is recognized on accrual basis. Interest on loans and advances ceases to be taken into income when such advances are classified.

- i) Interest on unclassified loans and advances is calculated on daily product basis but charged and accounted for quarterly and in some cases yearly on accrual basis.
- ii) No interest is recognized on loan classified as bad/loss.
- iii) Interest is charged on classified loans and advances as per BRPD Circular No.05 dated 05 June 2006.

- iv) Interest suspense and penal interest, if any, calculated on classified loans and advances is taken as income in the year of receipt of such interest from the defaulting borrowers.
- v) Commission and discount on Bills Purchased and Discounted are recognized at the time of realization.

Investment income

Interest income on investments is recognized on accrual basis. Capital gain on investments in shares is also included in investment income. Capital gain is recognized when it is realized.

- i) Income on investment in Treasury Bills, Bonds and Debenture etc. other than shares has been accounted for on accrual basis.
- ii) Income on investment in shares of subsidiary company-Sonali Exchange Co. Inc. USA is accounted for as and when it is received.
- iii) Govt. securities (HTM) are revalued on accrual basis and effect of such revaluation gain has been credited to Asset Revaluation Reserve account.
- iv) Dividend/Other Operating Income is recognized at the time when it is realized.
- v) Net increase in securities held to maturity during the period due to the valuation at mark to market basis has been credited to profit and loss account.

Fees and commission income

- i) Commission charged to customers on letters of credit and letters of guarantee are credited to income at the time of effecting the transactions.
- ii) Fee and Commission on bills discounted, purchased & others are recognized at the time of realization.
- iii) Foreign currency transactions are converted into BDT at prevailing on the dates of such transactions and exchange gains or losses arising out of such transactions are recognized as income or expense for the year and dealt with exchange account.

Interest paid on Deposit and Borrowing

Interest paid on deposits, borrowing and other expenses are recognized as accrual basis.

2.08 Reconciliation of inter-bank and inter-branch account

Accounts with regard to inter-bank (in Bangladesh and outside Bangladesh) are reconciled regularly and there are no material differences, which may affect the financial statements significantly.

Un-reconciled entries/balances in case of inter-branch transactions as on the reporting date are not material (Note-2.14.01).

2.09 Profit /Loss of Overseas Branches

- a) Profit/loss of the bank's overseas branches has not been reflected in this profit and loss account. As a matter of policy, such operational results are shown in the profit and loss account only after receipt of remittance of profit pending which, the losses or profits are shown in the Balance Sheet under the head "Other Assets or Other Liabilities".
- b) In consistent with the past practices the net balance of accumulated profit and loss of Tk. 26,238,614/ and (-) Tk.2,639,585 relating to Kolkata and Siliguri branches respectively at 31 December 2008 are included under other liabilities and other assets in these accounts.

2.10 Earnings per Share (EPS)

Earnings per share (EPS) have been calculated in accordance with BAS-33 'Earnings per share (EPS).

2.11 Off-balance sheet items

Off-balance sheet items have been disclosed as per BRPD Circular # 10, dated September 18, 2008. Provision @1% against total off-balance sheet exposures has been maintained by the bank.

2.12 Information about business and geographical segments

The Bank's operations are divided under the following business segments:

- a) Retail and Corporate banking operations are under the umbrella of the commercial banking. The bank has Treasury Management Division (TMD) for Treasury Management.
- b) Inter segment transactions are operated on inter branch fund transfer measures as determined by the management. Income, expenses, assets and liabilities are specially identified with individual segments. Based on such allocation, segmental information has been prepared as on 31 December 2008 and information related to Profit and Loss Account for the period ended 31 December 2008:

Particulars	Total
Operating profit before Tax & Provision	1,616,884,094
Provision against Loans & Others	-
Other provision	(280,483,707)
Profit / (Loss) before Taxes	1,336,400,387
Provision for Current Tax	(727,597,843)
Deferred Tax Assets (Increased)	1,702,311,958
Net Profit after Tax	2,311,114,502
Segment Assets	492,946,148,318
Segment Liabilities	492,946,148,318

In addition, the geographical segments of the Loan and Advances are shown separately under the Note no. 7.05.

2.13 Related party transactions

The bank generally carried out transactions in the ordinary course of its business at arm's length at commercial rate as per agreements with different related parties. The bank also renders services to the Government in various forms, which are not quantified. However, as of the date of the financial statements the Bank had no transactions with the Director of the Bank as a related party. During the year, the bank had some quantified transactions with the Government (Sponsor/Share holder) are listed below:

(Taka in Crore)

Name of the Related Party	Related by	Status with the Related Party	Transaction (outstanding Balance)	Remarks
Government (Note-18.2.a.)	Sponsor/Share holder	Concerned Department of the Government	529.34	Letter of Guarantee
Government (Note-18.2.b.)	Sponsor/Share holder	Concerned Department of the Government	3,131.43	Letter of Credit
Jatio Shanchaya Bureau (Note-10.08.)	Sponsor/Share holder	Concerned Department of the Government	328.48	PSB/BSP Encashment
Government (Note-10.08.)	Sponsor/Share holder	Concerned Department of the Government	468.51	Pension bills
Power Development Board (note 7.04)	Sponsor/Share holder	Concerned Department of the Government	417.13	Loan
Bangladesh Petroleum Corp. (note 7.04)	Sponsor/Share holder	Concerned Department of the Government	1,788.93	Loan
BJMC and its Sister Concerned (note 7.04)	Sponsor/Share holder	Concerned Department of the Government	690.63	Loan
Sonali Exchange Co. N.Y. (note10.01)	The Bank	Subsidiary Company	3.79	Investment
Sonali Exchange Co. N.Y. (note 10.01)	The Bank	Subsidiary Company	1.55	Loan
Sonali Bank (U.K.) Ltd(note 6.02)	The Bank	Associate	56.49	Investment

2.14 Reconciliation Position:

2.14.01 Inter Branch Transactions.

The Un-reconciled entries of Inter-Branch transactions as on 31-12-2008 are as follows:

(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
1997	40	0.39	-	-
1998	139	4.22	15	16.30
1999	926	12.20	43	8.34
2000	3279	188.31	723	229.68
2001	8641	238.57	2254	194.05
2002	9665	207.27	3295	161.43
2003	23123	599.75	18672	564.48
2004	33755	600.77	23093	636.12
2005	46313	688.23	28207	715.21
2006	68023	1725.40	55560	1586.50
2007	170607	5485.73	147435	4866.49
2008	231899	10910.00	229.27	10377.31
Total	596,410	20,661.05	508,324	19,354.92

A committee has been formed to monitor the settlement of the long un-reconciled entries at an early date.

2.14.02. Inter Bank Transactions

a) "NOSTRO" A/C:

The Un-reconciled entries of NOSTRO Accounts as on 31-12-2008 are as follows:

(Taka in Million)

Year	No. of entries	Debit (Payment)		No. of entries	Credit (Receipts)	
		Amount			Amount	
		(U.S.\$)	Taka		(U.S.\$)	Taka
2008	1,815	428	29,512	8,277	449	310,104

There is no outstanding debit entry over 90 days.

b) Balance held with Bangladesh Bank:

The Un-reconciled entries of **Balance held with Bangladesh Bank** as on 31-12-2008 are as follows:

Maintained by Head Office (TMD) Dhaka with Bangladesh Bank,

1. Dhaka.

**(Taka in
Crore)**

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
Before 1995	-	-	-	38.92420
1995	1	0.00083	-	-
1996	1	0.41959	-	-
1997	1	0.00020	1	0.00100
1999	2	0.06565	2	0.00918
2000	-	-	1	0.00001
2001	1	0.00851	-	-
2003	-	-	1	0.00028
2007	1	0.00006	-	-
2008	8	2.66145	16	3.42308
Total	15	3.15629	21	42.35775

2. a Maintained by Local Office, Dhaka with Bangladesh Bank, Dhaka.
(Outstanding Entries as per Statement of Bangladesh Bank)

(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
1984		0.0000	1	0.0026
1985	1	1.3000	2	0.0002
1986	1	0.0004	6	0.0008
1987	11	0.0032	3	0.0059
1988	4	0.0070	4	0.0012
1989	2	0.0003	4	0.0054
1990	4	0.0006	5	0.0009
1991	5	0.0101	-	-
1992	3	1.2495	2	0.0001
1993	2	0.8859	1	0.0002
1994	3	0.9068	1	0.0005
1995	7	0.9624	-	-
1996	9	0.7569	2	0.0009
1997	23	43.5534	10	0.2140
1998	105	88.4927	8	6.3447
1999	70	7.0533	6	0.7395

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
2000	17	8.3558	13	0.1810
2001	8	4.2702	8	0.3933
2002	21	4.3851	10	0.4667
2003	17	0.7150	6	12.6613
2004	11	10.6195	5	6.7983
2005	7	0.0350	4	0.4349
2006	12	8.8070	11	1.4803
2007	6	1.4996	81	52.1775
2008	24	119.0034	36	24.7189
Total	373	302.8731	229	106.6291

2. b Maintained by Local Office, Dhaka with Bangladesh Bank, Dhaka.
(Outstanding Entries as per Register of Sonali Bank Limited)

(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
1984	-	-	1	0.0000126
1985	-	-	-	-
1986	-	-	3	0.0004352
1987	2	0.0007	10	0.0028324
1988	1	0.0001	1	0.0000312
1989	1	0.0021	3	0.0005974
1990	1	0.0000	-	-
1991	-	-	1	0.0001312
1992	1	0.0001	-	-
1993	-	-	1	0.0005048
1994	-	-	1	-
1995	1	0.0000	-	-
1996	8	0.0028	1	0.1095914
1997	32	0.2669	6	40.4812445
1998	7	5.4886	10	80.9471699
1999	4	1.0423	2	5.0450000
2000	6	0.1661	-	-
2001	11	0.0469	-	-
2002	4	0.6856	-	-
2003	-	-	-	-
2004	-	-	-	-
2005	5	0.0068	-	-
2006	1	0.0015	-	-
2007	75	12.9590	-	-
2008	77	12.5349	2	0.0042
Total	237	33.2043	42	126.5917

3. Maintained by K.C.Dey Road Branch, with Bangladesh Bank, Chittagong.
(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
2007	1	0.3105	2	0.7212
2008	18	8.6464	29	30.1344
Total	19	8.9569	31	30.8556

4. Maintained by Rangpur Branch with Bangladesh Bank, Rangpur.
(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
2007	10	0.0052	19	0.0007
2008	8	0.4141	10	0.3449
Total	18	0.4193	29	0.3446

5. Maintained by Khulna Branch with Bangladesh Bank, Khulna.
(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
2008	11	2.58	12	15.07
Total	11	2.58	12	15.07

6. Maintained by Bogra Branch with Bangladesh Bank, Bogra.
(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
2003	2	0.0255	-	-
2007	1	0.0028	-	-
Total	3	0.0283	-	-

7. Maintained by Sylhet Branch with Bangladesh Bank, Sylhet.
(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
2008	1	0.0021	1	0.5060
Total	1	0.0021	1	0.5060

8. Maintained by Barisal Branch with Bangladesh Bank, Barisal.
(Taka in Crore)

Year	Debit		Credit	
	No. of Entries	Amount	No. of Entries	Amount
2008	3	0.0061	-	-
Total	3	0.0061	-	-

2.15 Events after the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date, which would require any adjustments or disclosure to be made in the Financial Statements.

2.16 Audit Committee:

a) Constitution of the Audit Committee:

Audit Committee of Sonali Bank Ltd is constituted by the Board of Directors of the Bank as per Bangladesh Bank BRPD circular No: 12 dated 23 December 2002.

b) Name of the members, their status with the Bank & also with the committee:

SL. No.	Name of the members	Status with the Bank	Status with the Committee	Qualification
i)	Mr. Ali Imam Majumder	Chairman of the Board	Chairman	Post Graduate
ii)	Mr. A. K. M. Nozmul Haque	Director of the Board	Member	M.Sc. M A
iii)	Mr. A. F. Nesaruddin FCA, FCS	Director of the Board	Member	B.Com. (Hons) M.Com. (Finance) Chartered Accountant Chartered Secretary
iv)	Mr. Sk. Nurul Alam	Director of the Board	Member	B.Sc

b) Number of Audit committee meetings held during the year 2008 and the issues discussed in those meetings:

During the year under review, 5 (Five) meetings of the Audit Committee of the Board were held in which, among others, the following issues were discussed:

- Review of internal audit reports submitted by internal auditors of the bank and also reviewed of actions recommended.
- Review of the inspection reports of branches conducted by the Bank's Inspection team.
- Review of Bangladesh Bank Inspection Report on Sonali Bank (UK) Ltd.
- Review of implementation position of interest remission/rescheduled cases approved by the Board of Directors.
- Review of inter-branch reconciliation and advising the branches as to their responsibilities and importance in the matter.
- Review of manpower position, the committee stressed on rationalization of manpower.

- Necessity for asset revaluation to reduce capital shortfall.
- Submission of proposal for immediate settlement of such irregularities as reported by Govt. Commercial Audit, which will not require to be put up in bi-lateral/ tripartite meeting.
- Review of recovery position of classified loan.
- Introducing on-line banking system as soon as possible in all principal /regional offices and corporate branches.
- Importance of disbursement of loans to more borrowers instead of concentration to few borrowers following Bangladesh Bank's guidelines.
- Review of overall computerization work of the Bank.
- Review of Auditors' report and Financial Statements of the Bank.
- Review of Audit Manual.
- Review of Bank's overall performance.
- Reducing unnecessary and operational Expenses.
- Increase of non-funded business with a view to increasing income.
- Imparting proper training to officers/staff with a view to increasing professional efficiency.
- Reducing classified loans by increasing recovery employing all possible efforts.

2.17 Name of the Directors and the entities in which they have interest as on 31st December, 2008.

SL. No	Name	Status with the Bank	Name of the firms/Companies in which interested as proprietor, partner, director, managing agent, guarantor, employee etc.
01.	Mr. Ali Imam Majumder	Chairman	NIL
02.	Mr. Md. Shafiqur Rahman Patwari	Director	Additional Secretary (Banking), Ministry of Finance Director as Government Representative: b) Islamic University of Technology (IUT) (Finance Committee). c) The Institute of Cost and Management Accountants of Bangladesh (ICMA). d) Bangabandhu Sheikh Mujibur Rahman Agriculture University (Finance Committee). ব) নির্যাতিত, দুস্থ মহিলা ও শিশু কল্যাণ তহবিল পরিচালনার জন্য বোর্ড অব ট্রাস্টিজ। ব) বাংলাদেশ রেশম গবেষণা ও প্রশিক্ষণ ইনস্টিটিউট।
03.	Mr. Abdul Waheed Khan	Director	NIL
04.	Mr. A. K. M. Nozmul Haque	Director	Prime Insurance Co. Ltd. (Independent Director)
05.	Mr. A. F. Nesaruddin FCA, FCS	Director	Partner, Hoda Vasi Chowdhury & Co. Chartered Accountants
06.	Dr. Nasreen Khundker	Director	NIL
07.	Mr. Sk. Nurul Alam	Director	Director: a) Modern Cold Storage Limited b) Nurani Dying & Sweaters Limited c) Daudpur Soya processing Industries d) Daudpur Rice Mills (Pvt.) Ltd.
08.	Mr. Md. Anwar Shahid	Director	Simex International Limited.
09.	Mr. A.S.M Nayeem, FCA	Director	Director: a) Karnaphuli Industries Limited. b) Karnaphuli Works Limited, c) K & T Logistics Limited. d) Karnaphuli Farms Limited, e) Karnaphuli Export Import Limited, f) Karnaphuli National Associates Limited, g) Reliable Automobiles Limited, h) Karnaphuli Farming & Fishing Limited, i) Karnaphuli Texport Limited, j) Karnaphuli Engineering Co. Limited, k) Asia Container Lines Limited, l) Karnaphuli Leasing Services Limited, m) Karnaphuli Links Limited, n) Karnaphuli Foundries Limited, o) Republic Insurance Co. Limited, p) Holy Crescent Hospital Limited, q) Finvest Services Limited, r) Sea Consortium Bangladesh Ltd., s) Desh Television Ltd., t) Grameen Fund, u) Chittagong Stock Exchange Ltd.

2.18 Risk management

Bangladesh Bank has identified 5 (Five) core risks for management of the banks and has provided the necessary guidance for implementation of the five core risks are:

Credit risks

Foreign Exchange Risks

Asset Liability/Balance Sheet Risks

Money Laundering Risks

Internal Control and Compliance Risks

The prime objective of the risk management is that the Bank takes well calculative business risk to safeguard its capital, financial resources and growth of sustainable profitability. In this context, the Bank has formed a committee (MANCOM) to overview proper implementation and regular monitoring of these critical areas. 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:

a) Credit risks Management

Credit 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 credit 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 credit risk, the Bank applies credit limits to its customers and obtains adequate collaterals. Credit risk in the Sonali Bank Ltd.'s portfolio is monitored, reviewed and analyzed by the Credit Risk Management (CRM).

CRM determines the quality of the credit portfolio and assists in minimizing potential losses. To achieve this objective, CRM formulates appropriate credit policies and procedures for the Bank to ensure building and maintaining quality credits and an efficient credit process.

Sonali Bank Ltd has 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 Loans (NPL), Sonali Bank Ltd has comprehensive remedial management policy, which includes a framework of controls to identify weak credits and monitoring of these accounts.

b) Foreign Exchange Risks Management

Foreign Exchange Risk is defined as the possibility of losses due to change in exchange rates interest rate etc. according to market forces. 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.

c) Asset Liability/Balance Sheet Risks Management

Asset Liability Committee (ALCO) of the Bank monitors Balance Sheet Risk and liquidity Risks of the Bank. The Balance Sheet Risk is determined as potential change in earnings due to change in rate of interest foreign exchange rates and regulatory instructions, which are not of trading nature. Asset Liability Committee (ALCO) reviews Liquidity requirement of the Bank, the maturity of assets and liabilities, deposits and lending, 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 Interest Income (NII), investment value and exchange earnings for the purpose of taking future action plan for better interest of the organisation.

d) Money Laundering Risks Management

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 being imparted to Executives, Officers and staff for developing awareness and skill for identifying suspicious transactions and other Money Laundering related activities.

e) Internal Control and Compliance Risks Management

Operational loss 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.

f) Guideline on Information & Communication Technology:

This IT Guideline is a systematic approach to policies required to be formulated for IT and also to ensure security of information and information systems. This guideline covers all information that is electronically generated, received, stored, printed, scanned and typed. The provisions of this guideline apply to:

- Sonali Bank Limited for all of its IT system.
- All activities and operations required to ensure 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 properly rights.

The implementation of MIS will be linked from the branches to the central database. In the 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.

2.19 Call Loan and Fixed Deposit with The ICB Islamic Bank Ltd.

The Bank has demanded payment of Call Loan and Fixed Deposit for Tk. 18.00 crore and Tk. 14.58 crore respectively together with up-to-date interest accrued thereon. Attempt is made for recovery the Call Loan and Fixed Deposit.

2.20 Approval of financial statements

The financial statements were approved by the Board of Directors on March 22, 2009.

2.21 General

- a) These financial statements are presented in Taka. Figures appearing in these financial statements have been rounded off to the nearest Taka.
- b) Figures of previous period from 03rd June 2007 to 31st December 2007 have been rearranged wherever necessary to conform to current years presentation.

2.22 The Bank complied the following Bangladesh Accounting Standards (BAS's) in preparing the financial statements:

Name of the BAS	BAS no.	Status
Presentation of Financial Statements	1	Applied
Inventories	2	Applied
Cash Flow Statements	7	Applied
Accounting policies, Changes in accounting Estimates and Errors	8	Applied
Events after the Reporting Period	10	Applied
Construction Contracts	11	N/A
Income Taxes	12	Applied
Segment Reporting (supersedes by BFRS-8)	14	Applied
Property, Plant and Equipment	16	Applied
Leases	17	Applied
Revenue	18	Applied
Employees Benefits	19	Applied
Accounting for Government Grants and Disclosure of Government Assistance	20	N/A
The Effects of Changes in Foreign Exchange Rates	21	Applied
Borrowing Costs	23	Applied
Related Party Disclosures	24	Applied
Accounting for Investment	25	Applied
Accounting and Reporting by Retirement Benefit Plans	26	Applied
Consolidated and Separate Financial Statements	27	Applied
Investment in Associates	28	Applied
Disclosures in the Financial Statements of Banks and similar Financial Institutions (supersedes by BFRS-7)	30	Applied
Interest in Joint Ventures	31	Not Applied
Financial Instruments: Presentation (supersedes by BFRS-7)	32	Applied
Earning Per Share	33	Applied
Interim Financial Reporting	34	Applied
Impairment of Assets	36	Applied
Provision, Contingent Liabilities and Contingent Assets	37	Applied
Intangible Assets	38	Applied
Financial Instruments: Recognition and Measurement (supersedes by BFRS-7)	39	Applied
Investment Property	40	Applied
Agriculture	41	N/A