

Syful Shamsul Alam & Co. Chartered Accountants					Hoda Vasi Chowdhury & Co. Chartered Accountants

**AUDITORS' REPORT
TO THE SHAREHOLDERS
OF
Sonali Bank Limited**

We have audited the accompanying financial statements of Sonali Bank Limited (SBL) which comprises the balance sheet as at 31 December 2010 and the income statement, statement of changes in equity, liquidity statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Bangladesh Financial Reporting Standards (BFRS), Bank Companies Act 1991, the rules and regulations issued by the Bangladesh Bank, the Companies Act 1994, the Securities and Exchanges Rules 1987 and other applicable laws and regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Bangladesh Standards on Auditing (BSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements prepared in accordance with Bangladesh Financial Reporting Standards, give a true and fair view of the state of the bank's affairs as on 31 December 2010 and the results of its operations and its cash flows for the period then ended and comply with the Bank Companies Act 1991, the rules and regulations issued by the Bangladesh Bank, the Companies Act 1994, the Securities and Exchanges Rules 1987 and other applicable laws and regulations.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note no. - 9.6.2 to the financial statements which describes a shortfall of provision regarding un-responded branch adjusting debit balance for which SBL has described their position.

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Further to our opinion in the above paragraph, we state that:

- (i) 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;
- (ii) in our opinion, proper books of account as required by law have been kept by SBL so far as it appeared from our examination of those books and proper returns adequate for the purpose of our audit have been received from branches not visited by us;
- (iii) the SBL's Balance Sheet and Profit and Loss Account together with the annexed notes 1 to 48 dealt with by the report are in agreement with the books of account and returns;
- (iv) the expenditures incurred was for the purpose of the SBL's business;
- (v) the financial position of SBL as on 31 December 2010 and the profit for the year then ended have been properly reflected in the financial statements and the financial statements have been prepared in accordance with the generally accepted accounting principles;
- (vi) the financial statements have been drawn up in conformity with the Bank Companies Act, 1991 and in accordance with the accounting rules and regulations issued by the Bangladesh Bank;
- (vii) the financial statements conform to the prescribed standards set in the accounting regulations issued by the Bangladesh Bank after consultation with the professional accounting bodies of Bangladesh;
- (viii) the records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;
- (ix) subject to basis for emphasis paragraph (**Note no. - 9.6.2**), adequate provisions have been made for advances and other assets which are, in our opinion, doubtful of recovery;
- (x) the information and explanations required by us have been received and found satisfactory;
- (xi) the Bank has two (2) overseas branches;
- (xii) 80% of the risk- weighted assets have been audited; and
- (xiii) we have spent approximately 6,240 man hours for the audit of the books and accounts of the Bank.

Syful Shamsul Alam & Co.

Chartered Accountants

Hoda Vasi Chowdhury & Co.

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Sonali Bank Limited
Balance Sheet
As at December 31, 2010

<u>Property and Assets</u>	Note	2010 BDT	<u>Restated</u> 2009 BDT
Cash	3	33,230,634,571	28,415,953,542
In Hand (Including Foreign Currency)		5,138,688,934	3,812,680,606
With Bangladesh Bank and its agent Bank (including Foreign Currency)		28,091,945,637	24,603,272,936
Balance with other Banks & Financial Institutions	4	40,099,345,277	10,614,726,092
In Bangladesh		28,555,819,000	3,696,316,284
Outside Bangladesh		11,543,526,277	6,918,409,808
Money at Call on Short Notice	5	5,547,312,900	3,079,323,200
Investments	6	111,745,095,461	113,479,966,309
Government		96,838,566,107	109,499,844,618
Others		14,906,529,354	3,980,121,691
Loans and Advances	7	286,098,070,161	254,022,504,699
Loans, Cash Credit, Overdrafts, etc.		256,717,951,354	230,711,422,965
Bills Purchased and Discounted		29,380,118,807	23,311,081,734
Fixed Asset including Premises, Furniture & Fixture	8	10,594,092,052	10,047,274,621
Other Asset	9	161,953,372,664	131,197,680,686
Non-Banking Asset	10	-	-
Total Property and Asset		649,267,923,086	550,857,429,148
<u>Liabilities and Capital</u>			
Borrowing from other Banks, Financial Institutions & Agents	11	26,385,637	60,124,599
Deposit and Other Accounts	12	478,134,084,948	406,151,569,403
Current Deposit & Other Accounts		118,947,874,651	101,642,717,814
Bills Payable		8,643,731,434	7,073,473,848
Savings Deposit		153,685,198,818	130,335,050,836
Fixed Deposit		196,857,280,045	167,100,326,905
Other Deposit		-	-
Other Liabilities	13	125,333,593,203	107,383,753,943
Total Liabilities		603,494,063,788	513,595,447,946

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Capital/Shareholders' Equity:

Paid up Capital	14	9,000,000,000	9,000,000,000
Statutory Reserve	15	3,956,476,533	3,566,476,533
Retained Earnings	16	13,169,218,188	10,821,607,786
Other Reserve	17	19,648,164,577	13,873,896,883
Total Shareholders' Equity		45,773,859,298	37,261,981,202
Total Liabilities and Shareholders' Equity		649,267,923,086	550,857,429,148

Off-Balance Sheet Items	Note	2010 BDT	2009 BDT
Contingent Liabilities	18		
Letter of Guarantee		6,790,367,716	7,200,576,788
Irrevocable Letter of Credit		114,168,814,894	52,586,680,961
Bills for Collection		10,094,319,715	8,012,045,054
Other Contingent Liabilities		-	-
		131,053,502,325	67,799,302,803
Other Commitments			
Documentary credits and short term trade related transactions		-	-
Forward asset purchased and forward deposit placed		-	-
Undrawn note issuance and revolving underwriting facilities		-	-
Undrawn formal standby facilities, credit lines and other commitments		-	-
Claim against the bank not acknowledged as debt		-	-
Litigation pending against Bank		-	-
Other Memorandum Items			
Value of 'Travelers' Cheque on Hand		-	-
Value of Bangladesh Sanchoy Patra on Hand		-	-
Total Off Balance Sheet Items including Contingent Liabilities		131,053,502,325	67,799,302,803

The annexed notes form an integral part of these accounts

Chairman

Director

Director

Managing Director & CEO

Signed as per annexed report on even date

Syful Shamsul Alam & Co.
Chartered Accountants

Hoda Vasi Chowdhury & Co.
Chartered Accountants

Dhaka, 23 May, 2011

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Sonali Bank Limited
Profit and Loss Account
For the year ended December 31, 2010

<u>Particulars</u>	Note	2010 BDT	<u>Restated</u> 2009 BDT
Interest Income	20	22,841,408,729	17,683,108,223
Less: Interest Paid on Deposit and Borrowing, etc.	21	19,131,795,895	15,800,026,939
Net Interest Income		3,709,612,834	1,883,081,284
Income from Investments	22	5,896,206,997	7,709,248,980
Commission, Exchange and Brokerage	23	9,546,277,030	6,889,922,752
Other Operating Income	24	1,436,254,869	283,667,424
		16,878,738,896	14,882,839,156
Total Operating Income		20,588,351,730	16,765,920,440
Less: Operating Expenditure:			
Salary and Allowances	25	9,345,557,066	7,374,257,001
Rent, Tax, Insurance, Electricity	26	500,713,404	410,285,295
Legal Expense	27	30,380,407	38,782,497
Postage, Stamps and Telephone	28	80,898,613	70,943,693
Printing, Stationery, Advertisement	29	153,953,292	138,374,104
Chief Executive's salary and fees	30	3,651,612	9,600,000
Directors' Fee	31	,998,772	1,729,240
Audit Fee	32	2,150,000	855,000
Charges on loan loss		-	-
Depreciation on and Repair to Bank's Property	33	334,754,923	196,779,377
Other Expenditure	35	1,643,103,897	1,213,847,018
Amortization of Intangible Assets	34	2,862,200,000	5,000,000,000
Total Operating Expenses		14,962,361,986	14,455,453,225
Profit Before Provision		5,625,989,744	2,310,467,215
Less: Provision against Loans & Advances	36	3,001,447,059	-
Less: Provision against Investment in Quoted Shares	37	-	11,200,000
Less Other Provision	38	1,004,184,181	5,000,000
Total Provision		4,005,631,240	66,200,000
Profit Before Tax		1,620,358,504	2,244,267,215
Less: Provision for Tax		(1,117,251,898)	(1,245,931,127)

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Current Tax	13.5	1,070,000,000	981,948,567
Deferred Tax	9.8.2	(2,187,251,898)	(2,227,879,694)
Net Profit After Tax		2,737,610,402	3,490,198,342
Retained Surplus Brought Forward		10,821,607,786	7,781,409,444
		13,559,218,188	11,271,607,786
<u>Appropriation:</u>			
Transferred to General Reserve		-	-
Transferred to Statutory Reserve		390,000,000	450,000,000
Dividend etc.		-	-
		390,000,000	450,000,000
Retained Surplus, Carried Forward		13,169,218,188	10,821,607,786
		8	6
Earnings Per Share	44	30.42	38.78

The annexed notes form an integral part of these accounts

Chairman

Director

Director

Managing Director & CEO

Signed as per annexed report on even date

Syful Shamsul Alam & Co.
Chartered Accountants

Hoda Vasi Chowdhury & Co.
Chartered Accountants

Dhaka, 23 May, 2011

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Sonali Bank Limited
Statement of Cash Flow
For the year ended December 31, 2010

	Note	2010 BDT	2009 BDT
A. Cash flows from operating activities			
Interest receipts in cash		29,365,776,798	26,628,298,732
Interest payments	21	(19,131,795,895)	(15,800,026,939)
Dividends receipts	22	37,944,995	93,906,222
Fee and commission receipts in cash		6,949,167,514	4,874,412,462
Recoveries on loans previously written off		-	-
Cash payments to employees		9,053,757,372)	(7,386,464,846)
Cash payments to Suppliers		(203,901,321)	(186,672,604)
Income taxes paid		-	-
Receipts from other operating activities (item-wise)	39	3,100,396,987	2,427,929,473
Payments for other operating activities (item-wise)	40	(5,435,910,555)	(6,883,796,346)
Operating profit before changes in operating assets and liabilities		5,627,921,151	3,767,586,154
Statutory deposits		-	-
Purchase/sale of trading securities		-	-
Loans & advances to other banks		-	-
Loans & advances to customers		(32,075,565,462)	(22,855,925,234)
Other assets (item-wise)	41	(27,871,735,034)	(748,644,068)
Deposits from other banks		4,430,439,105	(1,023,981,253)
Deposits from customers		67,552,076,440	42,789,579,724
Other liabilities account of customers		-	-
Trading liabilities		-	-
Other liabilities (item-wise)	42	17,949,839,259	3,787,246,384
Net cash from operating activities		29,985,054,308	21,948,275,553
B. Cash flows from investing activities			
Proceeds from sale of securities		-	-
Payments for purchase of securities		(8,952,508,896)	(4,142,428,642)
Purchase/sale of property, plant & equipment		(546,817,431)	(126,346,957)
Purchase/sale of subsidiary		-	-
Net cash from investing activities		(9,499,326,327)	(4,268,775,599)
C.			
Receipts from issue of loan capital & debt security		-	-
Payments for redemption of loan capital & debt security		(33,738,962)	(485,831,092)
Receipts from issue of ordinary share		-	-
Dividends paid		-	-
Net cash from financing activities		(33,738,962)	485,831,092)

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Chartered Accountants					Chartered Accountants

D.	6,079,910,170	20,961,255,016			
E.	-	-			
F.	<u>60,568,454,728</u>	<u>9,607,199,711</u>			
G.	Cash and cash-equivalents at end of the year/period		43	<u>86,648,364,898</u>	<u>60,568,454,728</u>

The annexed notes form an integral part of these accounts

Chairman

Director

CEO

Director

Managing Director &

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Sonali Bank Limited
Notes to the Financial Statements
For the year ended 31 December 2010

1. The Bank and its activities

Status of the Bank

Sonali Bank Limited was incorporated in Bangladesh on 03 June 2007 as a Public Limited Company under Companies Act 1994. Formally this bank was incorporated as a nationalized commercial bank named as Sonali Bank established by The Bangladesh Bank Order 1972 (Presidential Order no. 26 of 1972) and was fully owned by the Government of the People's Republic of Bangladesh. Subsequently after incorporation dated 15 November 2007 Sonali Bank Limited has taken over the undertaking and business of Sonali Bank with all its assets, benefits, rights, powers, authorities, privileges, liabilities, borrowings, 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.

Principal Activities of the Bank

The Bank has 1185 branches including two overseas branches at Kolkata and Siliguri in India as on 31 December 2010. 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.

Islamic Banking window

The bank operates Islamic Banking window in five branches designated in compliance with the rules of Islamic Shariah.

1.2. 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.

1.3. 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 an associate 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. had changed its name as **Sonali Bank (U.K) Ltd.** and restructured 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. Summary of significant accounting policies and basis of preparation of the financial statements

2.1 Basis of preparation of the Financial Statements

The financial statements of the Bank, comprising Balance Sheet, Profit and Loss Account, Cash Flow Statement, Statement of Changes in Equity, and relevant Notes and Disclosures have been prepared as at 31 December 2010 in accordance with First Schedule of the Bank Companies Act 1991, as amended, BRPD circular No. 14 of 25 June 2003, other Bangladesh Bank circulars, International Accounting Standards and International Financial Reporting Standards adopted in Bangladesh as Bangladesh Accounting Standards (BAS), and Bangladesh Financial Reporting Standards (BFRS), the Companies Act 1994, the Securities and Exchange Rules 1987 and other rules and regulations applicable in Bangladesh on a going concern basis. 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 and

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associate Sonali Bank UK Ltd. has been presented under the heading of "Other Assets" as per directives of the Bank Companies Act. 1991.

2.2 Functional and presentation currency

These financial statements are presented in Taka, which is the Bank's functional currency except as indicated figures have been rounded to the nearest taka.

2.3 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 2010. The financial statements of Sonali Exchange Co. Inc. (SECI), USA as at 31 December 2010 have not been consolidated. However, the financial statements of Sonali Exchange Co. Inc. (SECI) are presented separately.

2.4 Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

2.5 Foreign currency conversion

Transactions in foreign currencies are translated into Bangladeshi Taka and recorded at the ruling exchange rates applicable on the date of transaction.

- i) Assets and liabilities denominated in foreign currency are translated into Taka at the weighted average rates at the balance sheet date.
- ii) Transactions in foreign currencies are converted into Taka currency at the rate of exchange prevailing on the dates of such transactions and any gains or losses thereon are adjusted to revenue through foreign exchange trading account.

2.6 Comparative Information

Presentation of Financial Statements, comparative information in respect of the previous year have been presented in all numerical information in the financial statements and the narrative and descriptive information where, it is relevant for understanding of the current year's financial statements.

2.7 Reporting period

These financial statements cover one calendar year from 1 January to 31 December 2010.

2.8 Cash flow statement

Presentation of financial statements requires that a cash flow statement is to be prepared as it provides information about cash flows of the enterprise which is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. Cash flow statement has been prepared under the direct method for the period, classified by operating, investing and financing activities as prescribed in BAS 7 "Cash Flow Statements".

2.9 Statement of Changes in Equity

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The Statement of changes in Equity reflects information about the increase or decrease in net assets or wealth.

2.10 Liquidity Statement (Asset & Liabilities Maturity Analysis)

The liquidity statement of assets and liabilities as on the reporting date has been prepared on residual maturity term as per the following basis:

- Balances with other bank & financial institution, money at call & short notice etc are on the basis of their maturity term.
- Investments are on the basis of their residual maturity term.
- Loans & advances are on the basis of their repayment/maturity schedule.
- Fixed assets are on the basis of their useful life.
- Other assets are on the basis of their adjustment.
- Borrowing from other banks, financial institutions and agents as per their maturity/repayment term.
- Deposits & other accounts are on the basis of their maturity/repayment term
- Provisions & other liabilities are on the basis of their settlement.

2.11 Assets and basis of their valuation

2.11.1 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.

2.11.2 Loans, Advances/Investments and provision

a) Loans and advances of conventional Banking / Investments of Islamic Banking branches are stated in the Balance Sheet on gross value.

b) Provision for loans and advances is made on the basis of periodical review by the management and 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:	
Housing –	2%
Professionals –	2%
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%

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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%

Loans and advances are written off to the extent that

- i) there is no realistic prospect of recovery, and
- ii) against which legal cases are filed and classified as bad loss for more than five years as per guidelines of Bangladesh Bank.

These write off however will not undermine/affect the claim amount against the borrower. Detailed memorandum records for all such write off accounts are maintained and followed up.

2.11.3 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.

2.11.4 Investments

All investment in securities is 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 taking to discount income. The valuation of investment has been enumerated as follows:

Held to maturity (HTM)

Investments which have fixed or determinable payments and are intended to be held to maturity, are classified as held to maturity. These investments are subsequently measured at amortized cost, less any provision for impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired as per IAS 39 'Financial Instruments: Recognition and Measurement'.

Held for trading (HFT)

The securities under this category are the securities acquired by the bank with the intention to trade by taking advantages of short term price/interest movement, and the securities those are classified as HFT by the Bank held in excess of SLR (net of CRR) at a minimum level. Investments classified in this category are principally for the purpose of selling or repurchasing on short trading or if designated as such by the management. In this category, investments are measured in fair value and any change in the fair value i.e. profit or loss on sale of securities in HFT category is recognized in the statement of income.

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Value of investments is stated as per the following bases:

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 Repo	Cost Price
Debentures of Govt. Corporations	Cost Price
Other Investments (Quoted Shares)	Market Price
Other Investments (Other than Quoted Shares)	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 market price. 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.

2.11.5 Recognition of Fixed Assets

All Property and equipment are classified and grouped on the basis of their nature as required in BAS-1-“Presentation of Financial Statements”. The major categories of Property and equipment held by the bank are property (Premises & Buildings), Library Book, Furniture and fixtures, electrical Installations, Typewriters and calculating machines, Computer/Software, Motor Car and other vehicles. As per Para 31 of BAS 16 after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assets acquired under own finance

All Fixed Assets are stated at cost less accumulated depreciation as per BAS-16. Property, Plant & Equipment. The Cost of acquisition of an asset 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.

As guided in paragraph 30 of BAS-16 Property Plant and equipment these are capitalized at cost of acquisition and subsequently stated at cost less accumulated depreciation. The cost of acquisition of an asset comprises its purchase price and directly attributable cost of bringing the assets to its working condition for its intended use inclusive of inward fright, duties and refundable taxes. The opening and closing carrying amounts of all property and equipment are presented including the amount of additions, disposals and depreciation charged during the year as required by paragraph 73(a-e) of BAS-16, Maintenance expenses that does not increase in the future economic benefit of assets is charged to profit & loss account.

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2.11.6 Depreciation on Fixed assets

As required in paragraph 43 of BAS-16 property Plant and equipment depreciation has been charged at the following rates on reducing balance method on all fixed assets other than motor vehicles and computer software which are depreciated on straight line basis and no depreciation on land is charged.

Category of the assets	Rate of depreciation
Land	Nil
Building	2.50%
Library Book	7%
Furniture and fixtures	10%
Electrical Installation	20%
Typewriters and Calculating machines	20%
Computer/ Software	20%
Motor Car and other vehicles	20%

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. During the year overseas branches shown BDT 5, 05,962 as depreciation on fixed assets and certified by the local independent auditors.

2.11.7 Other Assets

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

2.11.8 Non- banking Assets

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

2.12 Liabilities and basis of their valuation

2.12.1 Statutory reserve

As per section 24 of the Bank Companies Act 1991, 20% of the net profit i.e, profit before tax require to transfer to statutory reserve until such reserve equals to its paid up capital.

2.12.2 Other Reserve

Other Reserve comprises are Balance of reserve for unforeseen losses, investment, Revaluation reserve and fixed assets revaluation reserve as on 31st December 2010

2.12.3 Exchange equalization fund

This represents the amount arise from exchange gain due to devaluation of Bangladesh taka with foreign currencies and is accounted for as per instruction issued by the Bangladesh bank from time to time.

2.12.4 Retirement benefit schemes

Accounting recognition & measurement, as well as the disclosures requirements for different benefit schemes for employees are the following:

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2.12.4.1 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.

2.12.4.2 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.

2.12.4.3 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.

2.12.4.4 Gratuity.

The Bank introduced the Gratuity scheme for the member of the Employees of Contributory Provident Fund into which the Bank contributes 50% 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.

2.12.4.5 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.

2.12.4.6 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.

2.12.4.7 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.

2.12.5 Deposits and Other Accounts

Deposits and other accounts include bills payable 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.

2.12.6 Taxation

Income tax represents the sum of the current tax and deferred tax payable.

2.12.6.1 Current tax

Provision for current income tax has been made @ 42.5% as prescribed in the Finance Act 2010 on the accounting Profit made after considering some of the taxable add back income and disallowance of expenditure in compliance with BAS-12.

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2.12.6.2 Deferred taxation

The Bank has adopted deferred tax accounting policy as per Bangladesh Accounting Standard (BAS) 12.

Deferred tax liabilities are the amounts of Income tax payable in future periods in respect of taxable temporary difference.

Deferred tax assets are the amount of income tax recoverable in future periods in respect of

- deductible temporary differences
- the carry forward of unused tax losses and
- Carry forward of unused tax credits

Deferred tax is computed at the prevailing tax rate as per Finance Act 2010.

2.12.7 Provisions and accrued expenses

In compliance with BAS-37, Provisions and accrued expenses are recognized in the financial statements when the bank has a legal or constructive obligation as a result of past event, it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.12.8 Provision for Off-Balance Sheet Exposures

In compliance with Bangladesh Bank guidelines Off-Balance Sheet items have been disclose under contingent liabilities. As per BRPD Circular No.10 dated September 18, 2007, Banks are required to maintain provision @ 1% against Off-Balance Sheet Exposures (L/C, Guarantee and Bills for Collection).

2.12.9 Provision for Nostro Accounts

According to guideline of Foreign Exchange Policy Department of Bangladesh Bank, Circular no. FEOD(FEMO)/01/2005-677 dated 13 September, 2005, Bank is not required to make provision regarding the un-reconciled debit balance as at Balance Sheet date since there was no debit entries more than three month.

2.13 Revenue recognition

Moment of recognition, amount to be recognized and disclosure requirements of revenue has been made as per BAS-18

2.13.1 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.

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2.13.2 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 are recognized at the time when it is realized.
- v) et 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.

2.13.3 Fees and commission income

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

2.13.4 Interest paid on Deposit and Borrowing

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

2.13.5 Dividend income on shares

Dividend income from shares is recognized during the period in which they are declared and actually received.

2.14 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 that may affect the financial statements significantly.

2.15 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 BDT. 27,473,281 relating to Kolkata and Siliguri (India) branches respectively at 31 December 2010 are included under other liabilities in these accounts.

2.16 Risk Management

Bangladesh Bank has identified 6 (Six) core risks for management of the banks and has provided the necessary guidance for implementation of the six risks are:

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:

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a) Credit Risk 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 Risk 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 Risk 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 organization.

d) Money Laundering Risk 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 & Compliance Risk 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.

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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:

1. Sonali Bank Limited for all of its IT system.
2. 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.

2.17 Call Loan and Fixed Deposit with the ICB Islamic Bank Ltd.

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

2.18 Credit Rating of the Bank

As per the BRPD instruction circular No.6 dated July 5, 2006, the has done its credit rating by Credit Rating Information and Services Limited (CRISL) based on the financial statements dated 31 December 2009.

Particulars	Date of Rating	Long term	Short term
As Government supported entity	24 November 2010	AAA (Highest Safety)	ST-1 (Highest Grade)
Stand Alone Rating		A- (Adequate Safety)	ST-2 (Good Grade)

2.19 Compliance report on Bangladesh Accounting Standards (BAS) and Bangladesh

Financial Reporting Standards (BFRS)

The Institute of Chartered Accountants of Bangladesh (ICAB) is the sole authority for adoption of International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). While preparing the financial statements, Sonali Bank Limited applied most of IAS and IFRS as adopted by ICAB. Details are given below:

Bangladesh Financial Reporting Standard (BFRSs)	BFRS No.	Status
Shares Based Payment	2	Not Applicable
Business Combination	3	Applied
Insurance Contracts	4	Applied
Non Current Assets Held for Sale and Discounted Operation	5	Applied
Exploration for and Evaluation of Mineral Resources	6	Applied
Financial Instruments: Disclosures	7	Applied
Operating Segments	8	Applied

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Name of the BAS	BAS no.	Status
Presentation of Financial Statements	1	Applied
Inventories	2	Applied
Statement of Cash Flows	7	Applied
Accounting policies, Changes in accounting Estimates and Errors	8	Applied
Events after the Reporting Period	10	Applied
Construction Contracts	11	Not Applied
Income Taxes	12	Applied
Property, Plant and Equipment	16	Applied
Leases	17	Applied
Revenue	18	Applied
Employees Benefits	19	Not Applied
Accounting for Government Grants and Disclosure of Government Assistance	20	Not Applied
The Effects of Changes in Foreign Exchange Rates	21	Applied
Borrowing Costs	23	Applied
Related Party Disclosures	24	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	Not Applied

2.20 Off-balance sheet items

Under general banking transactions, liabilities against acceptance, endorsements, and other obligations and bills against which acceptance has been given and claims exists there against, have been shown as off balance sheet items.

Off Balance Sheet items have been disclosed under contingent liabilities and other commitments as per Bangladesh Bank guidelines.

As per BRPD circular #10, dt 18 Sep 2007, 1% provision should be maintained against off- balance sheet items.

2.21 Earning per share (EPS)

The Company calculates Earning per Share (EPS) in accordance with BAS 33: Earning Per Share, which has been shown on the face of profit & loss account, and the computation of EPS is stated in Note 44.

2.22 Approval of financial statements

The financial statements were approved by the Board of Directors on 23 May, 2011

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2.23 Information about business and geographical segments

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

Retail and Corporate banking operations are under the umbrella of the commercial banking. The bank has Treasury Management Division (TMD) for Treasury Management.

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 2010 and information related to Profit and Loss Account for the period ended 31 December 2010:

Particulars	Total Taka
Operating profit before Tax & Provision	5,625,989,744
Provision against Investment	-
Other provision	(1,004,184,181)
Profit/(Loss) before Taxes	1,620,358,504
Provision for Current Tax	1,070,000,000
Deferred Tax Assets	(2,187,251,898)
Net Profit after Tax	2,737,610,402
Segment Assets	649,267,923,086
Segment Liabilities	649,267,923,086

In addition, the geographical segments of the Loan and Advances are shown separately under the Note no. 7.8.

2.24 Implementation of BASEL-II

To comply with International best practices and to make the Bank's capital more risk-sensitive as well as to build the Banking industry more shock absorbent and stable, Bangladesh Bank provides revised regulatory capital framework "Risk Based Capital Adequacy for Banks" which is effective from 1st January 2009. According to the BRPD Circular no-09 dated 31st December 2008, following specific approaches are suggested for implementing BASEL-II:

- Standardized Approach for calculating Risk Weighted Assets (RWA) against Credit Risk;
- Standardized (Rule Based) Approach for calculating RWA against Market Risk; and
- Basic Indicator Approach for calculating RWA against Operational Risk

Under the Standardized Approach of the Risk Based Capital Adequacy Framework (Basel II), Credit Rating is to be determined on the basis of risk profile assessed by the External Credit Assessment Institutions (ECAIs) duly recognized by Bangladesh Bank.

Along with the existing capital adequacy rules and reporting Bangladesh Bank (ref. BRPD Circular no.10 dated 25.11.2002) Banks will start quarterly reporting as per the set of the reporting formats provided by Bangladesh Bank. For the purpose of statutory compliance during the period of parallel run i.e. 2010, the computation of capital adequacy requirement under existing rules will prevail.

Sonali Bank Ltd. Management is aware about guideline of Bangladesh Bank and prepared for implementing new capital Accord BASEL-II.

2.25 General

- These financial statements are presented in Taka. Figures appearing in these financial statements have been rounded off to the nearest Taka.
- Figures of previous period from 01 January 2009 to 31st December 2009 have been rearranged wherever necessary to confirm current year's presentation.