INTERNSHIP REPORT

On

Financial Performance Evaluation of Sonali Bank Limited.

This Report is Submitted to the Department of Accounting, Faculty of Post Graduate, Hajee Mohammad Danesh Science and Technology University for the Fulfillment of Degree of Master of Business Administration.

(MBA Program- 2016)

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Department of Accounting

HAJEE MOHAMMAD DANESH SCIENCE AND TECHNOLOGY UNIVERSITY, DINAJPUR.

July-2016

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Department of Accounting,
HAJEE MOHAMMAD DANESH SCIENCE AND TECHNOLOGY UNIVERSITY, DINAJPUR.

July- 2016

Dedicated to My Beloved Parents and my Honorable Teachers.

Letter of Transmittal

July, 2016

To
Saiful Islam
Assistant Professor
Department of Accounting
Faculty of Business Studies,
Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200

Subject: Submission of Internship Report on "Financial Performance Evaluation of Sonali Bank Limited".

Dear Sir,

This a great pleasure to submit my internship report on **"Financial Performance Evaluation of Sonali Bank Limited"** which is a part of MBA program. To you for your kind consideration, I made sincere effort to study related documents, materials, observe operations, examine related records, and collect primary data regarding attitude for preparation the report.

Within the time, I have tried my best to complete the pertinent information as comprehensive as possible.

Therefore, I will be very glad to hear from you for further clarification.

Sincerely yours,

Md. Showqat Hossain
Student Id.**1505134**
MBA major in Accounting and Information systems
Department of Accounting
HSTU, Dinajpur**.**

Student's Declaration

I, am **Md. Showqat Hossain, Student ID No. 1505134**, MBA major in Accounting and Information systems, Department of Accounting, submitted my internship report entitled **"Financial Performance Evaluation of Sonali Bank Limited"** after completing my internship program. I have tried my level best to get together as much information as possible to enrich the report. I believe that it was a great experience and it has enriched both my knowledge and experience.

This report has been submitted in partial fulfillment of the requirement for the degree of Master of Business Administration (MBA) major in Accounting and Information systems at Hajee Mohammad Danesh Science and Technology University, Dinajpur.

Md. Showqat Hossain
Student Id.**1505134**
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Department of Accounting
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Certificate of Supervisor

I hereby declare that the internship report entitled **“Financial Performance Evaluation of Sonali Bank Limited”.** is a useful record of the internship work done by **Md. Showqat Hossain, Student ID No. 1505134**, MBA major in Accounting and Information systems, Department of Accounting, Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200. This report represents an independent and original work prepared on the basis of primary and secondary data collected and analyzed by the candidate. This report has not been accepted for any other degree and is not concurrently submitted in candidature of any other degree.

This entire work has been planned and carried out by the candidate with my supervision and guidance. In my opinion, this report is sufficient in terms of scope and quality for the award of the degree of Master of Business Administration (MBA) major in Accounting and Information systems from Hajee Mohammad Danesh Science and Technology University, Dinajpur.

SUPERVISOR
Saiful Islam
Assistant Professor,
Department of Accounting,
Faculty of Business Studies,
HSTU, Dinajpur.

Certificate of Co-Supervisor

I hereby declare that the internship report entitled **“Financial Performance Evaluation of Sonali Bank Limited”.** is a useful record of the internship work done by **Md. Showqat Hossain, Student ID No. 1505134**, MBA major in Accounting and Information systems, Department of Accounting, Hajee Mohammad Danesh Science and Technology University, Dinajpur-5200. This report represents an independent and original work prepared on the basis of primary and secondary data collected and analyzed by the candidate. This report has not been accepted for any other degree and is not concurrently submitted in candidature of any other degree.

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CO-SUPERVISOR

Md. Mamunar Rashid

Associate Professor,

Department of Accounting,

Faculty of Business Studies,

HSTU, Dinajpur.

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Acknowledgement

At first, I would like to express my gratefulness and harmony to the ALLMIGHTY the supreme authority of the Universe, without whom we would be nothing. Next I would like to express my kindness to my Beloved Parent whose continuous inspiration enrages me to make a right move in my life.

I am grateful towards some respected persons for their advice, suggestions, direction and co-operation which have enabled me to have an experienced in the dynamic environment such like in banking sector. I would like to thank my honorable supervisor **Saiful Islam,** Assistant Professor, Department of Accounting, Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur, whose help, suggestions and co-operations, in preparing the report. I would like to thank my honorable co-supervisor **Md. Mamunar Rashid,** Associate Professor, Department of Accounting, Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur, whose help, suggestion and co-operation in preparing the report.

I would like to thank from the deep of my heart to those people who are related with making of this report and make it a success.

I would like to express my indebtedness to my report all the teachers, Department of Accounting, Faculty of Business Studies, Hajee Mohammad Danesh Science and Technology University, Dinajpur, for helping me and giving assistance in preparing the report.

Md. Showqat Hossain
July- 2016

Abstract

The report has been prepared based on primary and secondary data collected from the different SBL officials of Dinajpur Court Building Branch and the experience gathered by myself during my working term in this Bank. The key parts of the report are ratio analysis, methods of financial statement analysis, advantages and limitations, performance evaluation in theoretical aspects, groups of financial ratios analysis, performance evaluation in quantitative analysis, findings, recommendations and conclusion. The discussion in the report discloses some problems and I tried my best to recommend some ways according to me as well as the employees of different banks and creditors and depositors. The financial performance evaluation process of Sonali Bank Limited is quite commendable. Systematic and timely monitoring and appropriate documentation are tried to be maintained. Informal conversation with some customers reveals that they approve the performance evaluation and management process of Sonali Bank Ltd. Filing procedure is not maintained in a definite and clear manner. It is difficult to locate the documents in a chronological and sequential manner. In the light of the above findings, some recommendations are proposed such as an uninterrupted network system has to be ensured. It will save the officials from much hassle and will save time. The financial performance evaluation should be made quicker since competition is very hard in today's business world. The limitations of the study includes as the performance evaluation in the respect of quantitative analysis of SBL are of confidential nature and thus it is difficult to collect the necessary relevant data and information within this short time. The bank officials though helpful in every respect do not have much time to explain the internal procedures.

TABLE OF CONTENTS

Chapter-1

Introduction

Banking system is considered as the heart of an economy because of its contribution towards the mobilization of savings and thus to the utilization of this country's resources.

Performance evaluation of a bank is usually related to how well a bank can use it assets, share holders equity and liability, revenue and expenses. Financial ratio analysis is one of the best tools of performance evaluation of any bank. In order to determine the financial position of the Sonali Bank Ltd to make a judgment of how well this bank efficiency, its operation and management and how well the company has been able to utilize its assets and earn profit.

Here ratio analysis is used for easily measurement of liquidity position, asset management condition, profitability and debt coverage situation of this bank. It determines the greater the coverage of liquid assets to short-term liabilities. It measures bank overall efficiency and performance. It determines of share market condition of bank. It also used graphical presentation to analysis the bank past and present financial performance.

Since, banking activity affects the overall economic performance; incessant measurement of performance of these financial institutions has been indispensable. Banking system occupies an important place in a nation's economy. In times the banking performance over the world has been undergoing a lot of changes due to deregulation, technological innovation, globalization etc. Bangladesh banking sector is lagging for behind in adopting these changes. So, it is an important aspect to evaluate the banking performance of our country. This report is made on the basis of Sonali Bank Limited.

Objectives of the study:

The primary objective of this report is –

"Financial performance evaluation of Sonali Bank Ltd."

Specific objective are-

- To calculate the financial ratios and identify the areas of concern.
- To identify and assess the present financial performance of sonali bank limited.
- To understand the implications in analyzing and interpreting the financial ratios.
- To identify the findings and raise possible recommendations for sonali bank limited.

Methodology of the study:

Methodology is the set of procedure. The study is performed based on the information extracted from different sources collected by using a specific methodology.

Sources of Data Collection:

To fulfill the objectives of the report, two sources of data collection is needed. These are given below:

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

- Practical desk work
- Face to face conversations with the officers & clients
- Direct observations

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

- Annual reports of SBL (2012-2015)
- Files & folders
- Various reports & articles related to study
- Websites

I mainly used secondary data. Besides this I also collected some information by taking expert opinion from the officers and direct observations while I was doing the internship program at the bank.

Limitation of the Study:

To prepare a report on the topic like this in a short duration is not easy task. From the beginning to end, the study has been conducted with the intention of making it as a complete and truthful one. In preparing this report some problems and limitations have encountered which are as follows:

- Since the bank personnel were very busy, they could not provide enough time.
- Due to time limitation, many of the aspects could not be discussed in the present report.
- As the data, in most cases, are not in organized way, the bank failed to provide all information.
- Lack of opportunity to access to internal data.
- Much confidential information was not disclosed by respective personnel of the department.
- Legal action related information was not available.

Chapter-2

An Overview of Sonali Bank Limited

Historical Background

Sonali Bank Limited is a state-owned leading commercial bank in Bangladesh. It is the largest bank of the country.Sonali Bank was established in 1972 under the Bangladesh Banks (Nationalisation) Order, through the amalgamation and nationalisation of the branches of National Bank of Pakistan, Bank of Bhowalpur and Premier Bank branches located in East Pakistan until the 1971 Bangladesh Liberation War. As a fully state owned institution, the bank had been discharging its nation-building responsibilities by undertaking government entrusted different socio-economic schemes as well as money market activities of its own volition, covering all spheres of the economy.

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

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

Vision

Socially committed leading banking institution with global presence.

Mission

Dedicated to extend a whole range of quality products that support divergent needs of people aiming at enriching their lives, creating value for the stakeholders and contributing towards socio-economic development of the country.

Slogan

Your trusted partner in innovating banking.

Branches

Sonali Bank has a total of 1207 branches. Out of them, 343 are located in urban areas, 862 in rural areas, and 2 are located overseas. It also operates the Sonali Exchange Company Inc. in USA and Sonali Bank (UK) Ltd., United Kingdom, to facilitate foreign exchange remittances. Sonali Bank UK remits up to 14 destinations across Bangladesh directly, these include Dhaka, Chittagong, Sylhet, Maulvibazar, Beanibazar, Balaganj, Biswanath, Jagannathpur, Sunamganj, Golapganj, Nabigonj, Habigonj, Kulaura or Tajpur. There are currently three branches in the UK, one located in Osborn Street, London, another in Small Heath; Birmingham and in Manchester.

Core business of bank

Sonali Bank Limited operates the following services-

- Corporate Banking
- Project Finance
- SME Finance
- Consumer Credit
- International Trade
- Trade Finance
- Loan Syndication
- Foreign Exchange Dealing
- Rural and Micro credit
- NGO-Linkage Loan
- Investment
- Government Treasury Function
- Money Market Operation
- Capital Market Operation
- Remittance

Subsidiaries:

1. Sonali Exchange Company Incorporated (SECI) having 10 (Ten) branches in USA.
2. Sonali Investment Limited (Merchant Banking) having 4 (Four) branches at Motijheel, Paltan, Uttara, Mirpur in Dhaka and 1 (One) branch in Khulna, Bangladesh.

Associates:

1. Sonali Bank (UK) Limited having 6 (Six) branches in UK.
2. Sonali Polaris FT Limited

Corporate Profile

Name of the Company	:	**Sonali Bank Limited**
Chairman	:	Mr. Mohammad Muslim Chowdhury, Acting Chairman
Managing Director & CEO	:	Mr. Dider Md. Abdur Rob (additional charge)
Company Secretary	:	Mr. A.K.M Sajedur Rahman Khan
Legal Status	:	Public Limited Company
Genesis	:	Emerged as Nationalised Commercial Bank in 1972, following the Bangladesh Bank (Nationlisation) Order No. 1972 (PO No.26 of 1972)
Date of Incorporation	:	03 June, 2007
Date of Vendor's Agreement	:	15 November, 2007
Registered Office	:	35-42, 44 Motijheel Commercial Area, Dhaka, Bangladesh
Authorised Capital	:	Taka 6000.00 Crore
Paid-up Capital	:	Taka 3830.00 Crore
Number of Employee	:	22,446
Number of Branches	:	1208
Phone-PABX	:	9550426-31, 33, 34, 9552924
FAX	:	88-02-9561410, 9552007
SWIFT	:	BSONBDDH
Website	:	www.sonalibank.com.bd
E-mail	:	itd@sonalibank.co

Hierarchy of Sonali Bank Limited:

Board of Directors

Managing Director

Deputy Managing Directors

General managers

Deputy General managers

Assistant General managers

Senior Principle Officers

Principle Officers

Senior Officers

Officers

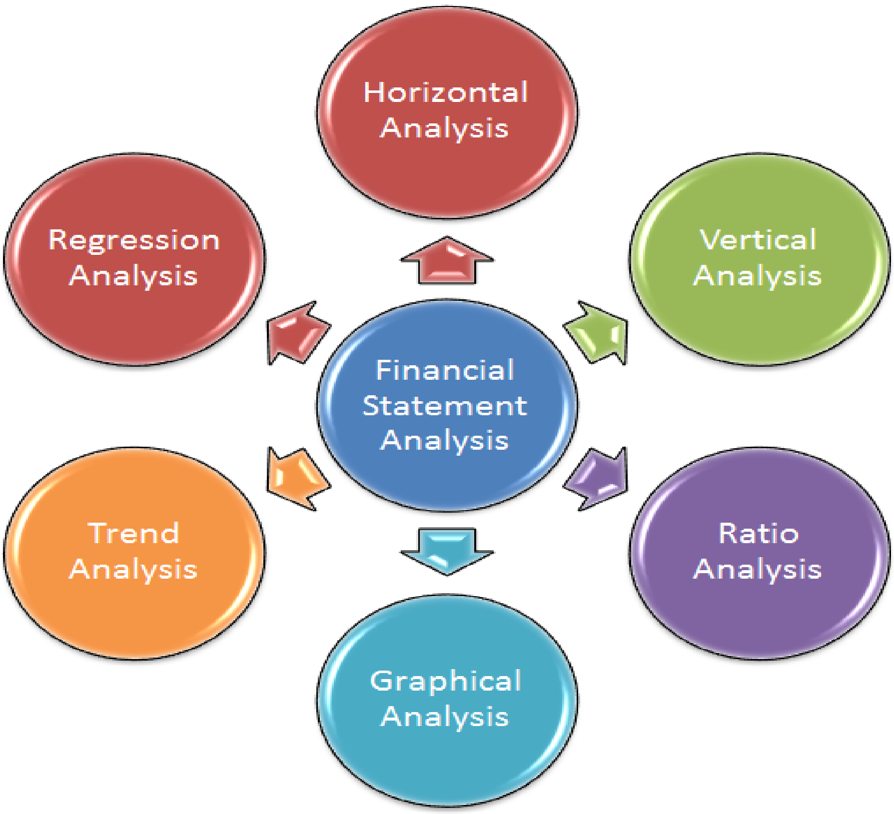
Chapter-3

Financial Performance Evaluation: A Theoretical Aspect

The analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's financial position and performance. The first task of the financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statements. The second step is to arrange the information in a way to highlight significant relationships. The final step is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation and evaluation.

Tools and Techniques of Financial Statement Analysis

Financial Statement Analysis is done in different ways using various tools and techniques. The various tools and techniques available for financial statement are mentioned below.



1. Comparative Financial Statement Analysis (Horizontal Analysis): As the name suggests, comparative analysis provides a year-on-year review of the various financial statements. For example, in the Income Statement, the Sales figure may be compared over a period of consecutive years to understand how the sales figures have grown (or declined) over the year. It should be noted that horizontal analysis compares the internal performance of the company.

2. Common-size Financial Statement Analysis (Vertical Analysis): Vertical analysis is applicable for internal performance review as well as for comparison to peers and bench-marking. In vertical analysis all the items in a particular statement are represented as a percentage of a particular item. For example, Operating Expenses, Depreciation, Amortization, Profit before tax, Tax, Profit after tax etc. may be represented as a percentage of Sales in the Income Statement. Common standard base can easily reveal the internal make-up of financial statements and any proportionate increase and decrease of the same.

Vertical analysis is also put to use for comparison across companies as financial statements are converted to common-size format, which can then be used to compare with competitor or industry averages, highlighting key differences which can then be analyzed.

3. Ratio Analysis: Ratio analysis is the most widely used tool of financial statement analysis. A ratio gives relationship between two numbers, in this case items in the financial statements. Ratios are popular because they readily allow internal evaluation as well as comparison across firms. The ratios are categorized according to activities or functions they perform or the information they provide. For example, profitability ratios measure the profit making capability of the company.

Ratio analysis is a systematic use of ratios to interpret the performance and status of the firm. Ratio analysis involves methods of calculating and interpreting financial ratios to assess the performance and status of an entity. The basic inputs to ratio analysis are the income statement and balance sheet.

Ratio analysis is a useful management tool that will improve your understanding of financial results and trends over time, and provide key indicators of organizational performance. Managers will use *ratio analysis* to pinpoint strengths and weaknesses from which strategies and initiatives can be formed.

4. Graphical Analysis: Graphs provide visual representation of the performance that can be easily compared over time. The graphs may be line graphs, column graphs or pie charts.

5. Trend Analysis: Trend analysis is used to reveal the trend of items with the passage of time and is generally used as a statistical tool. Trend analysis is used in conjunction with ratio analysis, horizontal and vertical analysis to spot a particular trend, explore the causes of the same and if required prepare future projections.

6. Regression Analysis: Regression analysis is a statistical tool used to establish and estimate relationship among variables. Generally, the dependent variable is related to one or more independent variables.

The various tools and techniques are there to enable the decision making. It should be understood that any particular technique should not be viewed in isolation. Different companies may have different accounting methods and hence, comparison with peers has to be done carefully. Moreover, a holistic use of various techniques should be done to arrive at any conclusion.

Among the six tools of financial statement analysis ratio analysis is widely used for evaluating the financial performance of any business.

Advantages and Limitations of Ratio Analysis:

Financial ratio analysis is a useful tool for users of financial statement. It has following advantages:

Advantages

1. It simplifies the financial statements.
2. It helps in comparing companies of different size with each other.
3. It helps in trend analysis which involves comparing a single company over a period.
4. It highlights important information in simple form quickly. A user can judge a company by just looking at few numbers instead of reading the whole financial statements.

Limitations

Despite usefulness, financial ratio analysis has some disadvantages. Some key demerits of financial ratio analysis are:

1. Different companies operate in different industries each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two companies from different industries might be misleading.
2. Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations.
3. Ratio analysis explains relationships between past information while users are more concerned about current and future information.

The analysis of financial statement is a process evaluating the relationship between component parts of financial statement to obtain understanding of the firm's position and performance. By profitability, liquidity and solvency analysis, we can obtain the firm's position and performance. Financial Performance Evaluation is very important to get an overall view about an organization. It generally consists of interpretation of balance sheet and interpretation of income statement. The financial performance is easily evaluated by analyzing the profitability, liquidity, activity & leverage ratios effectively into the firm.

Groups of Financial Ratios:

Financial ratios can be divided into the followings four categories. These are given below:

- Liquidity Ratios
- Activity Ratios
- Leverage Ratios
- Profitability Ratios

Liquidity, activity, and debt ratios primarily measure risk, profitability ratios measure return. In the near term, the important categories are liquidity, activity, and profitability, because these provide the information that is critical to the short-run operation of the firm. Debt ratios are useful primarily when the analyst is sure that the firm will successfully weather the short run.

A) <u>Liquidity Ratios:</u>

The Liquidity ratios measure the ability of a firm to meet its short-term obligations and reflect the short-term financial strength/solvency of a firm. The three basic measures of liquidity are:

1. Net Working Capital:

Net Working Capital, although not actually a ratio is a common measure of a firm's overall liquidity. A measure of liquidity is calculated by subtracting total current liabilities from total current assets. The grater is the amount of net working capital, the grater the liquidity of the firm. On the other hand, inadequate working capital is the first sign of financial problems for a firm.

Net Working Capital = Total Current Assets – Total Current Liabilities

2. Current Ratio:

The current ratio is calculated by dividing current assets by current liabilities. Current asset that are easily converted into cash within a short period of time, normally not exceeding one year and includes inventory, trade debtors, advances, deposits and repayment, investment in marketable securities in short term loan, cash and cash equivalents etc. On the other hands, current liabilities are comprised short term banks loan, long term loans-current portion, trade creditor's liabilities for other finance etc. The current ratio of a firm measures its short-term solvency ,that is its ability to meet short term obligations. It is a measure of margin of safety to the creditors.

The formula is shown as below:

Current Ratio = Current Asset / Current Liabilities

3. **Quick/Acid test Ratio:**

The quick ratio is a measure of liquidity designed to overcome this defect of the current ratio. This ratio is a measurement of a firm`s ability to converts its current asset quickly into cash in order to meet its current liabilities. It is the ratio between quick current assets and current liabilities. The term quick assets refers to current assets which can be converted into cash immediately or at a short notice without diminution of value. The formula of quick ratio or acid test ratio is as follow as:

Quick ratio = (Current asset – inventories – Prepaid exp.) / Current liabilities

4. **Operating Cost to Income Ratio:**

It measures a particular Bank's operating efficiency by measuring the percent of the total operating income that the Bank spends to operate its daily activities. It is calculated as follows:

Cost Income Ratio = Total Operating Expenses / Total Operating Income

B) Activity Ratios:

Activity ratios are concerned with measuring the efficiency in asset management. It is also called efficiency ratios or asset utilization ratios. It also measures the speed with which accounts are converted into sale or cash.

A number of ratios are available for measuring the activity of the important current accounts which includes inventory, accounts receivable, and account payable. The activity (efficiency of utilization) of total assets can also be assessed.

1. **Total asset turnover ratio**

The total asset turnover ratio measures the ability of an organization to use its assets to generate sales. This ratio is also known as the investment turnover ratio. It considers all assets including property ,plant and equipment, capital working in process, investment –long term, inventories, trade debtors, advances, deposit and prepayment, investment in market securities, short term loan, cash and cash equivalents etc. In these criteria a high ratio means the organization is achieving more profit.

The formula is following as:

Total asset turnover = Sales / Total asset

2. **Investment to Deposit Ratio**

Investment to Deposit Ratio shows the operating efficiency of a particular organization in promoting its investment product by measuring the percentage of the total deposit disbursed by the organization as long & advance or as investment. The ratio is calculated as follows:

Investment to Deposit Ratio = Total Investments / Total Deposits

C) Leverage/Capital Structure Ratio:

The Leverage/Capital structure ratios may be defined as financial ratios which throw light on the long term solvency of a firm as reflected in its ability to repay the principal when due, and regular payment of the interest.

1. **Debt to Assets**

Debt to Assets (DTA) is important tools for measuring the leverage of an organization. The higher portion of DTA, the greater is the degree of risk because creditors must be satisfied before in the bankruptcy. The lower ratio of DTA provides to mitigate of protection for the supplier of debt.

2. **Equity Capital Ratio**

The ratio shows the position of the organization owner's equity by measuring the portion of total asset financed by the shareholders invested funds and it is calculated as follows:

Equity Capital Ratio = Total Shareholder's Equity / Total Assets

3. Time Interest Earned/ Interest Coverage Ratio

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

Time Interest Earned Ratio = EBIT / Interest Charges

D) Profitability Ratios:

These measures evaluate the bank's earnings with respect to a given level of sales, a certain level of assets, the owner's investment, or share value. Without profits, a firm could not attract outside capital. Moreover, present owners and creditors would become concerned about the company's future and attempt to recover their funds. Owners, creditors, and management pay close attention to boosting profits due to the great importance placed on earnings in the marketplace. Profitability ratios can be determined on the basis of either sales or investments.

Profitability related to Sales:

1. Gross Profit Margin :

Gross Profit Margin is also known as gross margin. It measures the percentage of each sales dollar remaining after the firm has paid for its goods. It is the result of the relationship between prices, sale volume and costs. The gross profit margin can also be used in determining the extent of loss caused by theft, spoilage, damage, and so on. A high ratio of gross profit to sales is a sign of good management that implies the cost of production of the firm is relatively low. On the other hands, a relatively low gross margin is definitely a danger signal. So, a firm should have a reasonable gross margin to ensure adequate coverage for operating expenses of the firm and sufficient return to the owners of the business.

The gross profit margin ratio formula as following as;

Gross profit margin = (Gross profit/sales) *100

2. **Net profit Margin:**

The net profit margin measures the percentage of each sales dollar remaining after all the costs and expenses including interest and taxes have been deducted. The ratio of net profit to sales essentially expresses the cost price effectiveness of the operation. A high net profit margin would ensure adequate return to the owners. So, the higher net profit margin is better. The net profit margin is calculated as follows:

Net Profit Margin = (Net Profit after Taxes / Sales) *100

Profitability related to Investments:

3. **Return on Asset (ROA):**

Return on asset (ROA), which is often called the firms return on total assets, measures the overall effectiveness of management in generating profits with its available assets. The higher ratio is better.

Return on Asset (ROA) = Net Profit after Taxes / Total Assets

4. **Return on Equity (ROE):**

The Return on Equity (ROE) measures the return earned on the owners (both preferred and common stockholders) investment. Generally, the higher this return, the better of the owners.

Return on Equity (ROE) = Net Profit after Taxes / Shareholders' Equity

5. **Price Earnings Ratio (P/E Ratio):**

The Price Earnings ratio (price-to-earnings ratio) of a stock is a measure of the price paid for a share relative to the income or profit earned by the firm per share. The price-to-earnings ratio is widely used valuation multiple used for measuring the relative valuation of companies. A higher P/E ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with a lower P/E ratio.

P/E Ratio = Market Price of Share / Earnings per Share

Chapter-4

Financial Performance Evaluation: A Quantitative Analysis

Sonali Bank:Performance Analysis(2012-2015)

Ratio Analysis:

Calculation of Liquidity Ratios:

The basic measures of liquidity of Sonali Bank Limited are:

Net Working Capital:

Net Working Capital = Total Current Assets – Total Current Liabilities

Year	2012	2013	2014	2015
Total Current Assets	441,108,368,762	417,918,931,300	442,505,299,886	452,231,906,825
Total Current Liabilities	333,662,600,277	330,951,071,787	365,715,529,952	403,609,551,510
Net Working Capital	107,445,768,485	86,967,859,513	76,789,769,934	48,622,355,315

Table 1: Calculating Net Working Capital

Graphical Presentation:

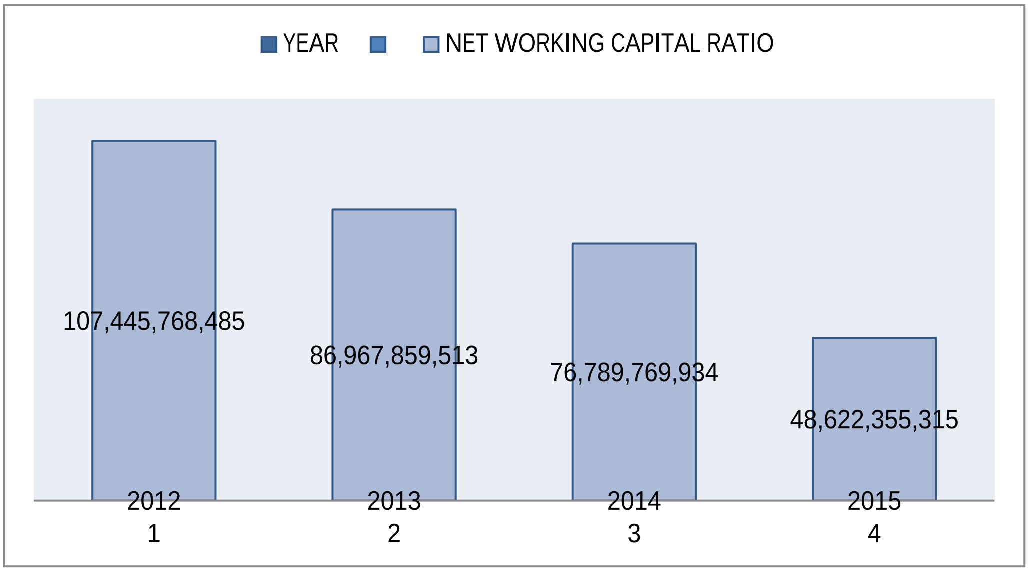


Figure 1: Net Working Capital

Interpretation: Net working capital of SBL is decreasing 2012 to 2015 in yearly basis. That indicates the negative sign in case the improvement of the SBL. So, this bank is not performing very well to meet up its current obligations.

Current Ratio:

Current Ratio = Total Current Assets / Total Current Liabilities

Year	2012	2013	2014	2015
Total Current Asset	441,108,368,762	417,918,931,300	442,505,299,886	452,231,906,825
Total Current Liabilities	333,662,600,277	330,951,071,787	365,715,529,952	403,609,551,510
Current Ratio	1.32	1.26	1.21	1.12

Table 2: Calculating Current Ratio

Graphical Presentation:

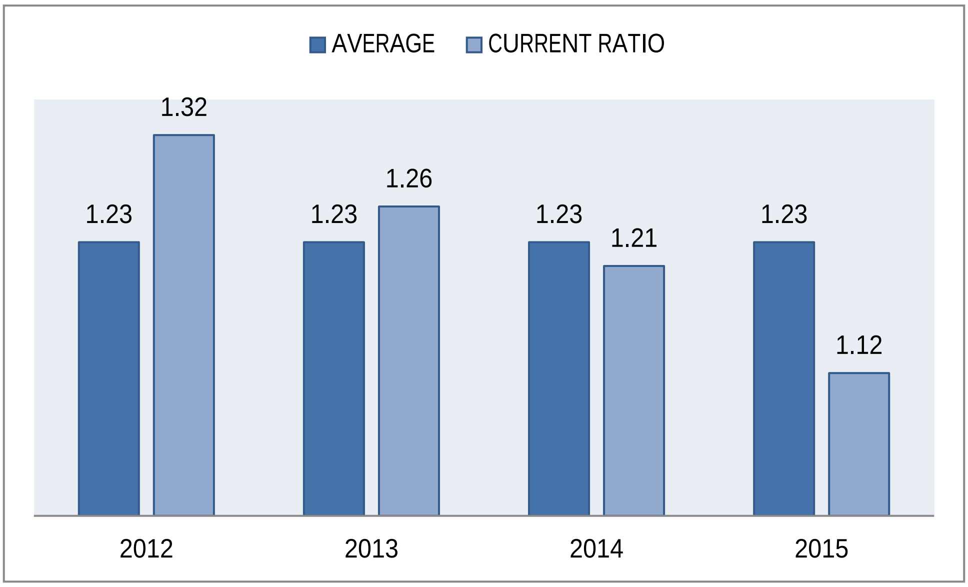


Figure 2: Current Ratio

Interpretation:

In this analysis it has seen that SBL current ratio is decreasing 1.32 to 1.12 from 2012 to 2015 respectively. Normally company's standard current ratio is 2:1. The average current ratio of SBL is 1.23. If we compare the average with the ratio of each year then we can see the current ratio of 2012 and 2013 are greater than average but it has declined in 2014 and 2015. It indicates that SBL liquidity position is not so good in the case of ability to meet current obligations and generate funds. So, the bank should have to maintain a balance of current asset.

Quick Ratio or Acid-test Ratio:

Quick Ratio = (Cash + Government Securities + Receivable) / Total Current Liabilities

Year	2012	2013	2014	2015
Quick Asset	49,439,218,071	53,953,088,792	62,607,656,145	74,999,338,670
Total Current Liabilities	333,662,600,277	330,951,071,787	365,715,529,952	403,609,551,510
Quick Ratio	0.15	0.16	0.17	0.18

Table 3: Calculating Quick Ratio

Graphical Presentation:

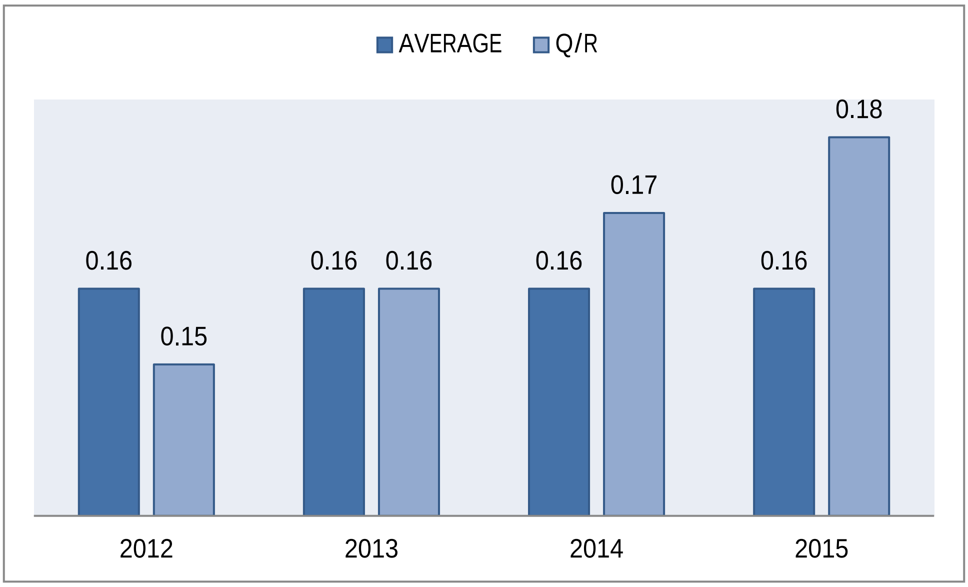


Figure 3: Quick Ratio

Interpretation:

The acid test ratio is superior to the current ratio. The acid test ratio is increasing 0.15 to 0.18 from 2012 to 2015 respectively. The average quick ratio of SBL is 0.16. If we compare the average with the ratio of each year then we can see that the quick ratio of 2012 is less than the average ratio and the last two years it is greater than the average ratio. But an acid test ratio of 1:1 is considered satisfactory as a firm can easily meet all current claims. After analyzing that the ratio of SBL is very poor to meet the debt serving capacity or current obligations.

Operating Cost to Income Ratio:

Cost Income Ratio = Total Operating Expenses / Total Operating Income

Year	2012	2013	2014	2015
Total Operating Expenses	11,556,897,345	12,154,359,104	13,112,853,735	14,257,372,363
Total Operating Income	22,620,415,897	15,177,625,068	21,723,682,892	22,937,014,019
Cost Income Ratio	0.51	0.80	0.60	0.62

Table 4: Calculating Operating Cost to Income Ratio

Graphical Presentation:

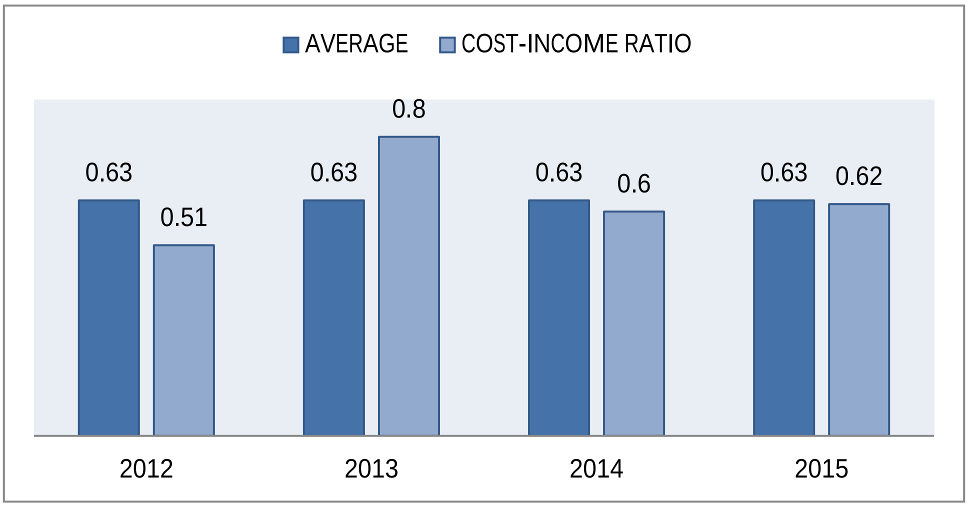


Figure 4: Operating Cost to Income Ratio

Interpretation:

We know that this ratio measures the operating efficiency of the bank by measuring the portion if the total operating costs relative to the total operating income of that bank and the higher the ratio, the lower the operating efficiency. In 2012 the operating cost of SBL is 0.51 but in 2013 it increases to 0.80. Then it decreases the next two years. The ratio fluctuates over time. The average cost to income ratio of SBL is 0.63. If we compare the average with the ratio of each year then we can see that the cost to income ratio of 2012, 2014 and 2015 are less than the average ratio but 2013 it is greater than the average ratio. So it can be said that the efficiency of the SBL increase its operating cost during this time period. That indicates poor sign of operating efficiency of SBL.

Calculation of Activity Ratios:

Total Asset Turnover Ratio/Investment turnover Ratio:

Total Asset Turnover = Sales / Total Asset

Year	2012	2013	2014	2015
Sales	22,620,415,897	15,177,625,068	21,723,682,892	22,937,014,019
Total Asset	754,616,070,853	852,852,201,418	935,286,250,642	1,026,859,553,027
Total Asset Turnover	0.0299 Times	0.0178 Times	0.0232 Times	0.0223 Times

Table 5: Calculating Total Asset Turnover Ratio

Graphical Presentation:

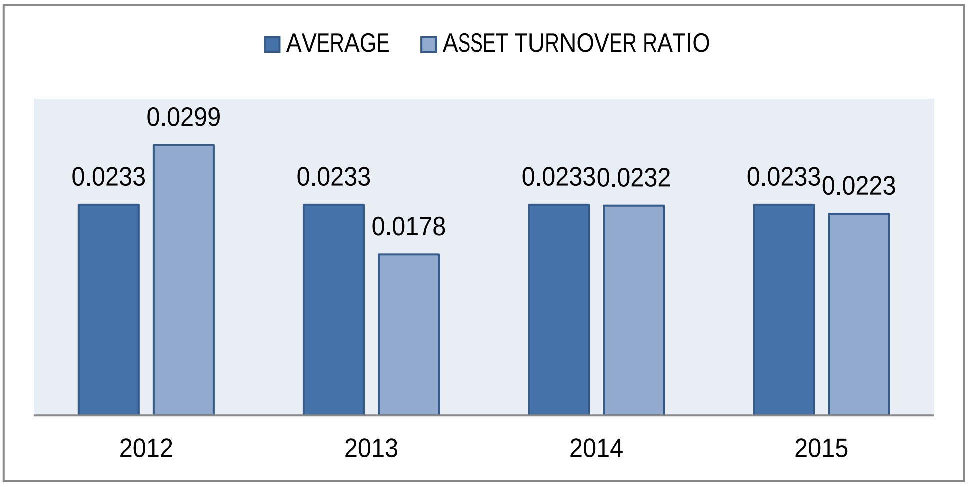


Figure 5: Total Asset Turnover Ratio

Interpretation:

The bank's total asset turnover continuously decreases from 0.0299 in 2012 to 0.0223 times in 2015. On the other hand, the average asset turnover ratio is 0.0233. If we compare it from each year than we can see that the 2012 is greater than it but in the last three years the asset turnover ratio is less than the average. We know the higher the total asset turnover ratio, the more efficient is the management and utilization of the assets while low turnover ratios are indicative of under utilization of available resources and presence of idle capacity. So it can be said that the current performance of SBL is performing not so good in Asset Turnover.

Investment to Deposit Ratio:

Investment to Deposit Ratio = Total Investments / Total Deposits

Year	2012	2013	2014	2015
Total Investments	147,018,999,055	270,411,184,260	323,023,445,173	408,430,082,439
Total Deposits	589,305,095,331	677,325,245,702	765,298,441,136	856,982,544,424
Investment to Deposit Ratio	24.95%	39.92%	42.21%	47.66%

Table 6: Calculating Investment to Deposit Ratio

Graphical Presentation:

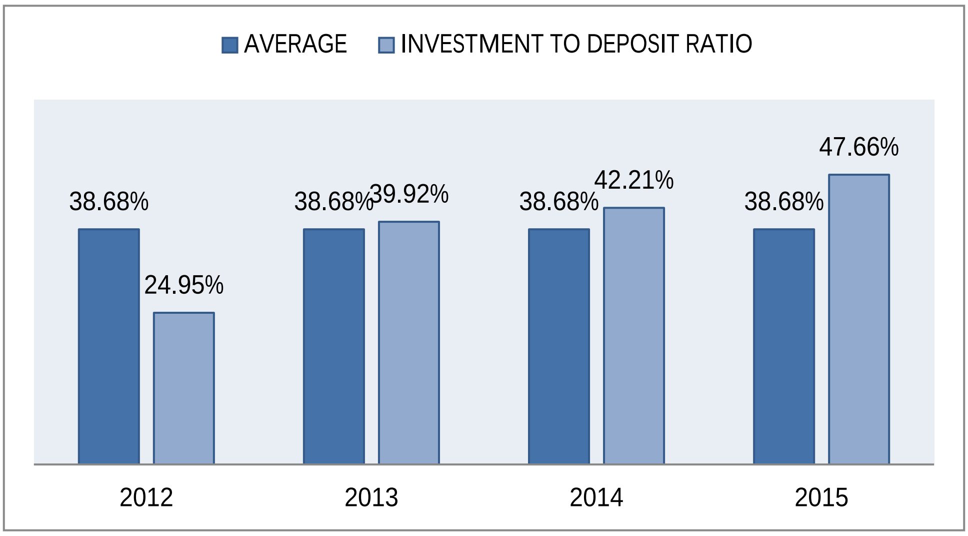


Figure 6: Investment to Deposit Ratio

Interpretation:

Investment to deposit ratio shows that which amount of deposit is used as investment. SBL's investment to deposit ratio is continuously increasing during the year 2012 to 2015 at 24.95% to 47.66% which conveys positive signal for the bank. On the other hand, the average ratio is 38.68%. That is greater than the 2012 but less than the last three years consecutively.

Calculation of Leverage/Capital Structure Ratios:

Debt to Asset Ratio:

Debt Ratio = Total Liabilities / Total Assets

Year	2012	2013	2014	2015
Total Liabilities	732,215,654,882	802,966,449,246	875,906,413,535	968,713,495,307
Total Asset	754,616,070,853	852,852,201,418	935,286,250,642	1,026,859,553,027
Debt Ratio	97.03%	94.15%	93.65%	94.34%

Table 7: Calculating Debt Ratio

Graphical Presentation:

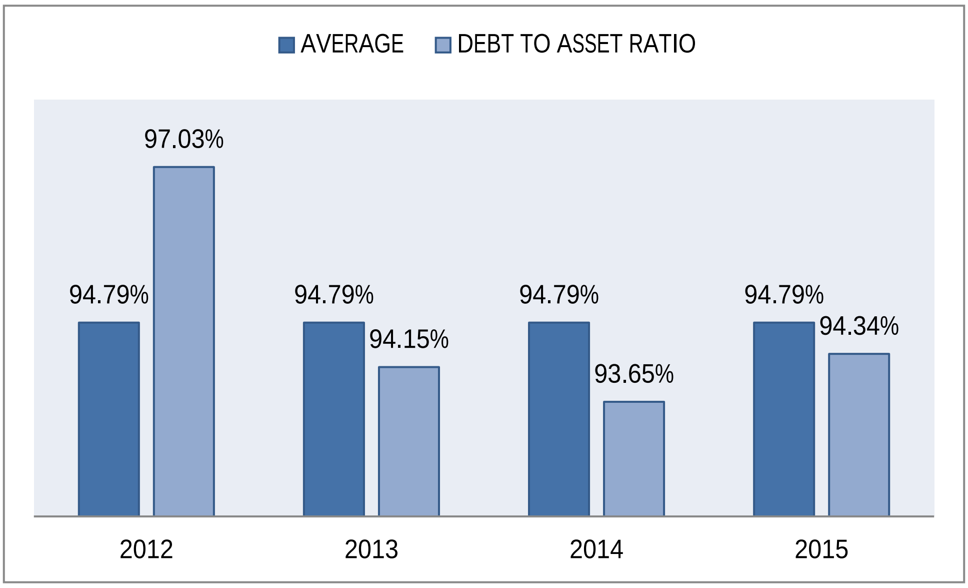


Figure 7: Debt Ratio

Interpretation:

Debt ratio indicates how much portion of total assets is financed by the debt. When debt capital increases the cost of capital also increases and which decreases the firm's value. In case of decreasing debt capital the situation is vice versa. So every organization should give more emphasize on equity capital than debt capital. So lower the ratio, it is less risky. The debt ratio of SBL is decreasing from 97.03% to 94.34% from 2012 to 2015. So the debt position of SBL is less risky. The average debt ratio of SBL is 94.79% which is less than 2012 but greater than the last three years.

Equity Capital Ratio:

Equity Capital Ratio = Total Shareholders' Equity / Total Assets

Year	2012	2013	2014	2015
Total Shareholders' Equity	22,400,415,970	49,885,752,172	59,379,837,107	58,146,057,719
Total Assets	754,616,070,853	852,852,201,418	935,286,250,642	1,026,859,553,027
Equity Capital Ratio	2.97%	5.85%	6.35%	5.66%

Table 8: Calculating Equity Capital Ratio

Graphical Presentation:

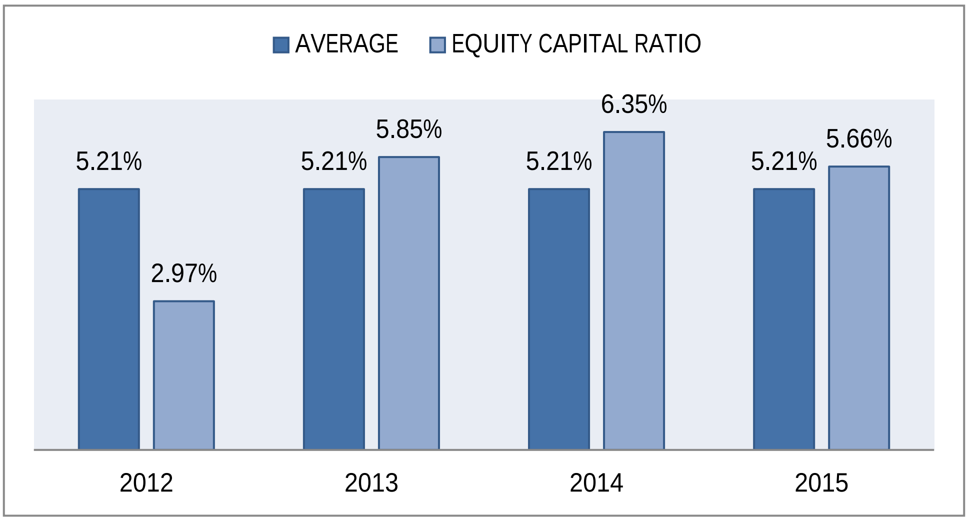


Figure 8: Equity Capital Ratio

Interpretation:

We know this ratio shows the position of the bank's owner's equity by measuring the portion of total asset financed by the shareholders invested funds. We see that Equity Capital Ratio of SBL is increasing from 2.97% to 6.35% in the year 2012 to the year 2014, than decreasing 5.66% in 2015. The average equity capital ratio is 5.21% which is greater than 2012 but less than the next three years. So, in the previous time its position is so good but in the current equity capital position of SBL is not so good.

Interest Coverage /Time Interest Earned Ratio:

Interest Coverage Ratio = Earnings before Interest and Taxes (EBIT)/Interest or Fixed interest charges on loans

Year	2012	2013	2014	2015
EBIT	(34,854,001,353)	2,423,815,961	5,781,713,412	(2,303,941,030)
Interest	32,966,090,058	38,838,603,825	43,311,198,254	46,727,224,061
Interest Coverage Ratio	(105.73%)	6.24%	13.35%	(4.93)%

Table 9: Calculating Interest Coverage Ratio

Graphical Presentation:

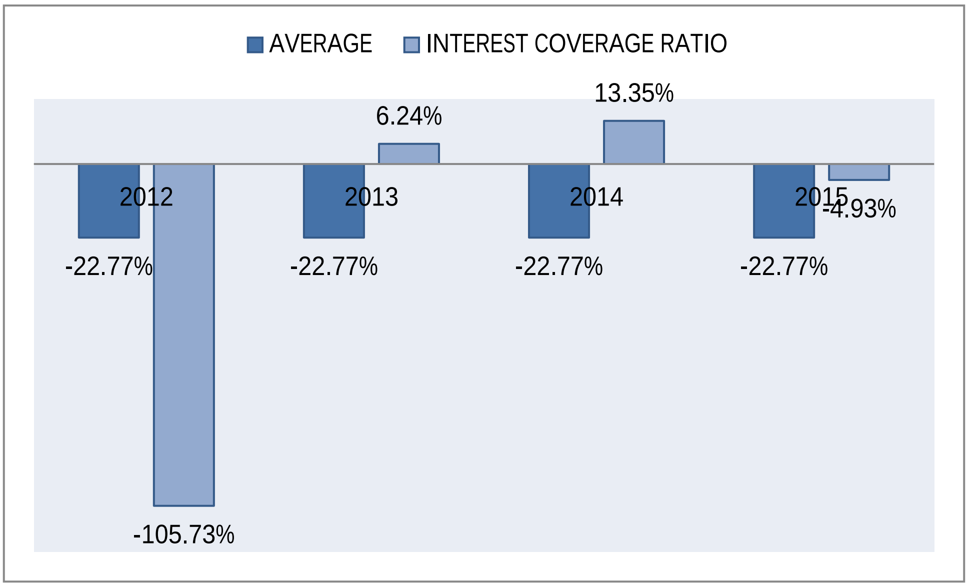


Figure 9: Interest Coverage Ratio

Interpretation:

This ratio measures the firm's ability to make contractual interest payments. In this figure we see that from the year 2012 to 2015 it shows negative and positive sign. The average interest coverage ratio is -22.77% which also represents the negative sign. The ratio is fluctuated over the period. We know too high a ratio may imply unused debt capacity. In contrast, a low ratio is a danger signal that the firm is using excessive debt and does not have the ability to offer assured payment of interest to the lenders. So, in the previous two year its position was so good but the current year performance is not well to overcome the payment of interest to the lenders.

Calculation of Profitability Ratios:

Profitability related to Sales:

Operating Profit Margin:

Operating Profit Margin = (Operating Profit / Sales)100

Year	2012	2013	2014	2015
Operating Profit	1 1,063,518,552	3,023,265,964	8,610,829,157	8,679,641,656
Sales	22,620,415,897	15,177,625,068	21,723,682,892	22,937,014,019
Operating Profit Margin	48.90%	19.92%	39.64%	37.84%

Table 10: Calculating Operating Profit Margin

Graphical Presentation:

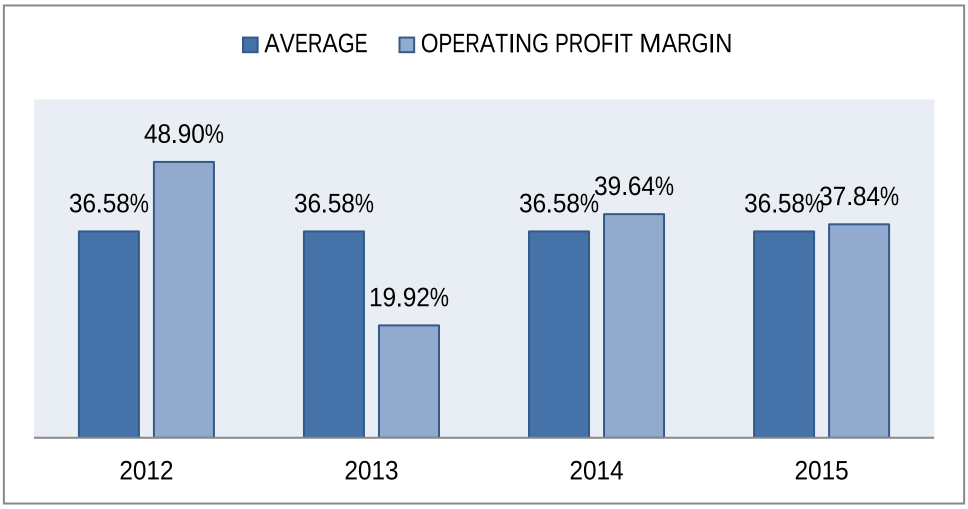


Figure 10: Operating Profit Margin

Interpretation:

In the year 2012 to 2015 of SBL Operating Profit Margin is decreasing from 48.90%to 37.84% On the other hand, the average profit margin is 36.58% which is greater than 2013 but less than others year. Which indicates that the firms operating result is a sign of bad management system as it implies that the cost of production of the bank is relatively high.

Net Profit Margin:

Net Profit Margin = (Net Profit after Taxes / Sales)100

Year	2012	2013	2014	2015
Net Profit after Taxes	(31,554,094,150)	3,446,803,502	5,978,338,561	548,423,887
Sales	22,620,415,897	15,177,625,068	21,723,682,892	22,937,014,019
Net Profit Margin	(139.49%)	22.71%	27.52%	2.39%

Table 11: Calculating Net Profit Margin

Graphical Presentation:

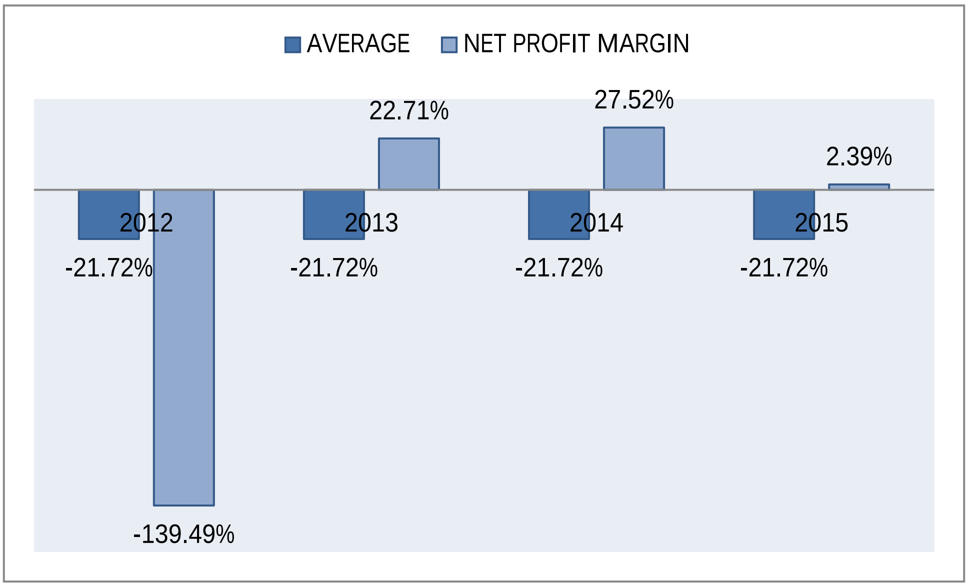


Figure 11: Net Profit Margin

Interpretation:

In the year 2012 Net Profit Margin of SBL shows negative result of -139.49% but the next two years it is increasing by 22.71%to 27.52% which indicates that Net profit margin of the firms would ensure adequate return to the owners as well as enable a firm to withstand adverse economic condition when selling price is declining ,cost of production is raising and demand for the production is falling. But 2015 the net profit margin ratio decreasing at 2.39% that bears a high rate of return on investments. The average net profit margin is -21.72% which is greater than 2012 but less than last three years.

Profitability related to Investments:

Return on Asset (ROA):

Return on Asset (ROA) = Net Profit after Taxes / Total Assets

Year	2012	2013	2014	2015
Net Profit after Taxes	(31,554,094,150)	3,446,803,502	5,978,338,561	548,423,887
Total Asset	754,616,070,853	852,852,201,418	935,286,250,642	1,026,859,553,027
Return on Asset	(4.18%)	0.40%	0.64%	0.05%

Table 12: Calculating Return on Asset (ROA)

Graphical Presentation:

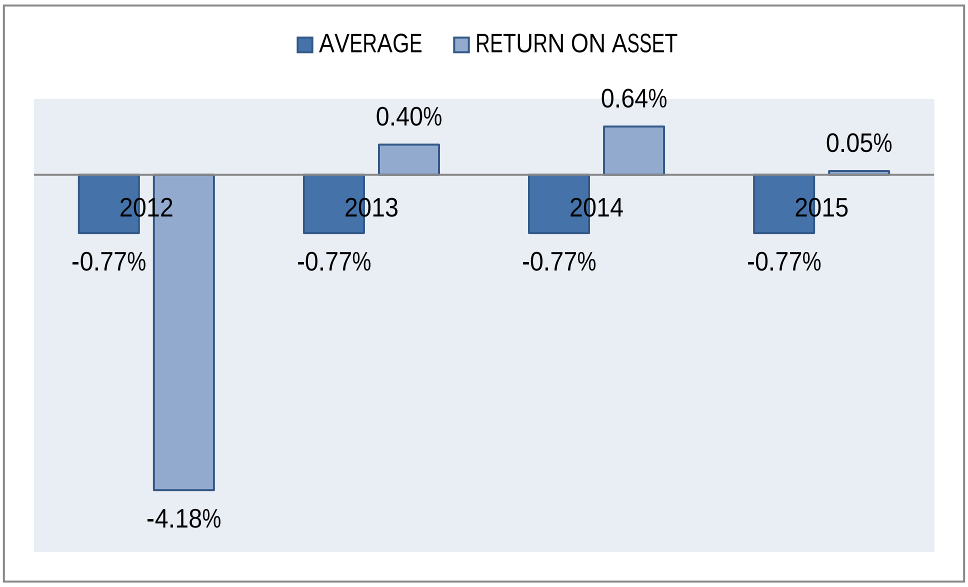


Figure 12: Return on Asset (ROA)

Interpretation:

From the analysis it has seen that SBL's Return on Asset increased 0.40% to 0.64% from the year 2013 to 2014. That means that during year 2013 to 2014 the bank utilized their assets properly but in the year 2015 it falls to 0.05% that implies the bad use of asset. The average ROA is -0.7725% which is greater than 2012 but less than next three years.

Return on Equity (ROE):

Return on Equity (ROE) = Net Profit after Taxes / Shareholders' Equity

Year	2012	2013	2014	2015
Net Profit after Taxes	(31,554,094,150)	3,446,803,502	5,978,338,561	548,423,887
Shareholders' Equity	22,400,415,970	49,885,752,172	59,379,837,107	58,146,057,719
Return on Equity	(140.86%)	6.91%	10.07%	0.94%

Table 13: Calculating Return on Equity (ROE)

Graphical Presentation:

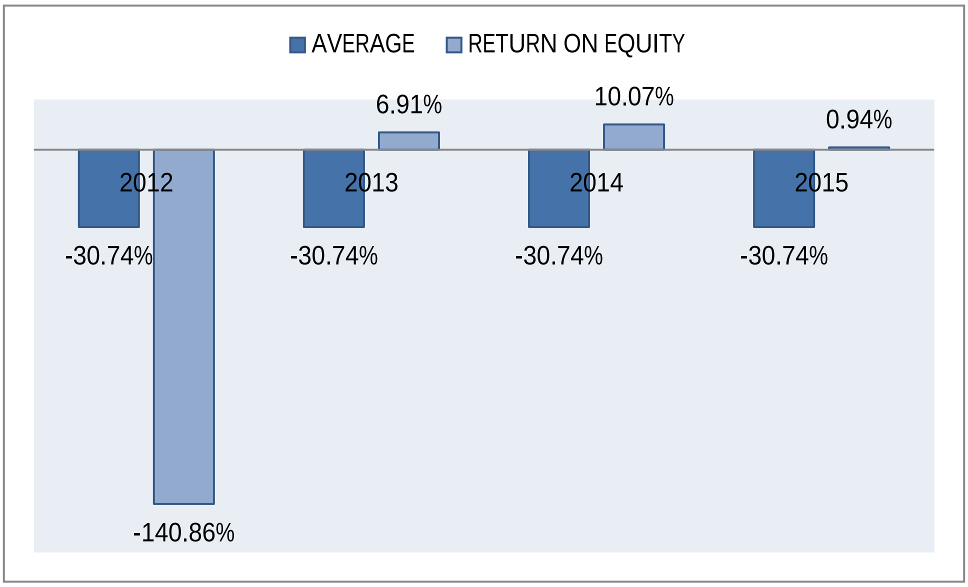


Figure 13: Return on Equity (ROE)

Interpretation:

From the above graph, it is seen that the ROE of SBL increased from year 2013 to year 2014 which is good sign but then decreased to 0.94% in year 2015 that implies the return of the owners fund is relatively low. The average ROE is -30.735% which is greater than 2012 but less than others year.

Price Earnings Ratio (P/E Ratio):

P/E Ratio = Market Price of Share / Earnings per Share

Year	2012	2013	2014	2015
Market Price of Share	(222.04)	443.43	190.32	151.82
Earnings per Share	(280.48)	30.64	31.72	1.43
P/E Ratio	0.79	14.47	6.00	106.17

Table 14: Calculating Price Earnings Ratio (P/E Ratio)

Graphical Presentation:

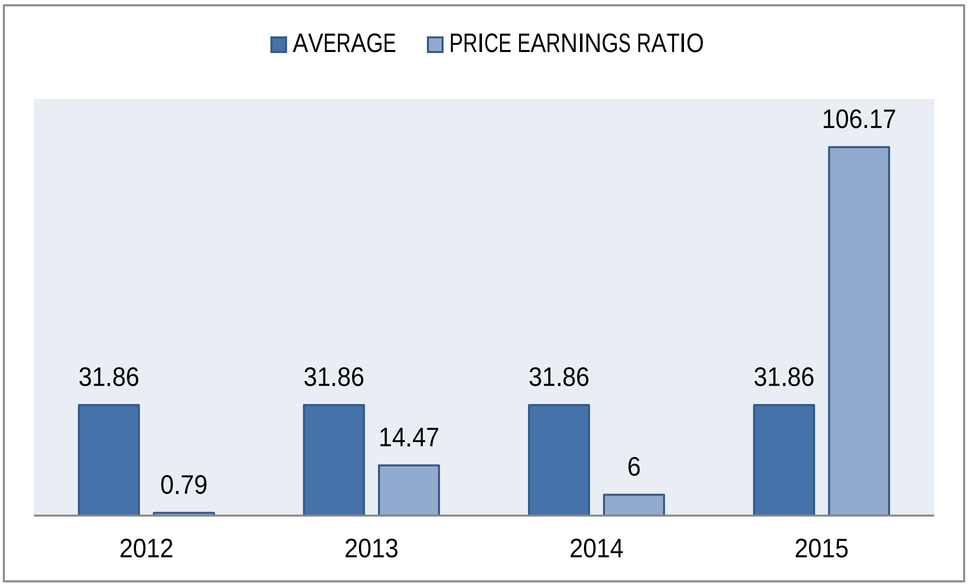


Figure 14: Price Earnings Ratio (P/E Ratio)

Interpretation:

In the above figure we can see that the P/E Ratio of SBL for DSE is upward at the optimum level of 106.17. It is a positive sign for the Bank. This ratio measures investor expectation and the market appraisal of a Bank. The average price earnings ratio is 31.86 which is greater than the first three years but less than the last year.

Chapter 5

Findings, Recommendations & Conclusion

Findings:

Some major findings are:

1. During analyzing the Net Working Capital of SBL we have seen that the Net Working Capital decreased from the year 2012 to 2015 which indicates the bank is facing some financial problem that case the liquidity of this bank is low.
2. In the analysis we have seen that in 2012 SBL's Current Ratio is highest and continuously it is decreasing at the stage of 2015 at 1.12 that represents the ability to pay the claim is consistently low.
3. During the year 2012 to 2015 Operating Cost to Income Ratio of SBL increases which indicates negative sign. We know that the higher the ratio, the lower the operating efficiency.
4. The greater the Total Asset Turnover Ratio, it is considered for more efficiency. From the analysis it has seen that the Total Asset Turnover Ratio of SBL is continuously decreasing which indicates SBL's bad efficiency.
5. SBL's Investment to Deposit Ratio is continuously increasing in years 2012 to 2015 which conveys positive signal for the bank.
6. From the analysis it has also seen that SBL's Debt Ratio is continuously decreasing which is good sign or less risky for the bank.
7. The Equity Capital Ratio which shows the position of the bank's owner's equity by measuring the portion of total asset financed by the shareholders invested funds. We see that Equity Capital Ratio of SBL is increasing continuously from the year 2012 to the year 2014 but in 2015 it is declining which the bank should investigate further.

8. During the year 2012 to 2015 SBL's Net profit Margin is decreasing year by year which indicates that the bank's operating result is negative.
9. From the analysis it has seen that SBL's Returns on Asset Ratio (ROA) is gradually increasing from 2013 to 2014 that means that year bank utilize their assets properly but in the year 2015 it decreases to .05 times which is a warning to the bank.
10. The bank's Return on Equity (ROE) first increases during the year 2013 to 2014 and then decreased to 0 .94% in year 2015.
11. It has also seen that SBL's Price Earnings Ratios (P/E Ratios) is increasing trend. It indicates bank's market price of share is too high, and it is risky. Investor confidence is high.

Recommendations:

It is not unexpected to have problems in any organization. There must be problems to operate an organization. But there must be remedies to follow. The following commendations can be suggested to solve the above mentioned problems:

1. From the analysis, we see that Net working capital of SBL is decreasing every year that is not so good for this bank. So, the bank should have maintained a required amount of current asset.
2. As we have seen that Current Ratios of SBL from 2012 to 2015 is not so satisfactory range so our first recommendation is, SBL should maintain this for smooth operations.
3. SBL's Operating Cost to Income Ratio increased from 2012 to 2015 which shows the operating cost is increasing more than the income. So the bank should find a way to minimize their operating costs efficiently for earning profits.
4. As, Total Asset Turnover Ratios show the efficiency of the organization, SBL should maintain their current progress.
5. As Investment to Deposit Ratio shows that which amount of deposit is used as investment SBL should maintain the growth for greater profit.
6. The debt ratio of SBL is decreasing from 97.03% to 93.65%.Then the last year 2015 it is increased at 94.35%. So, the bank needs to emphasize more on equity capital than debt capital.

7. We see that Equity Capital Ratio of SBL is increasing continuously from the year 2012 to the year 2015. But in 2015 it is decreased which bank should pay attention.
8. The Operating Profit Margin and The Net Profit Marginof SBL both are decreasing trend and this is alarming. The bank should take many steps to increase their operating efficiency.
9. From the analysis we have seen that the ROA & ROE of SBL first increased from 2013 to 2014 but then decreased in 2015. They should try improving these.
10. The P/E Ratio of SBL both for DSE and CSE ups from 2012 to 2015. It is a positive sign. The bank should take initiatives to retain their P/E Ratio.

Conclusion:

Overall performance of Sonali Bank Limited may be called satisfactory. Here four groups of parameters have been used to measure liquidity level, profitability level, activity level and capital structure of this bank. The liquidity, profitability, activity and capital structure ratio of Sonali Bank Ltd is better than except liquidity ratio. So, we can say that the Sonali Bank Ltd strategies are clear and concise and the return is attractive. If the Sonali Bank Ltd goes this way, one can expect that In future Sonali Bank Ltd may become one of the top performers in the banking sector. From the discussion it can be concluded that Sonali Bank Ltd playing an important role in the economic development of the country and it has a prospect future to have a very good position in the Banking sector. But Sonali bank has some unrecovered loan that occurs negative impact on their goodwill, liquidity, profitability and leverage level. To recover this problem this bank should provide loan on the basis on background check of an organization or individual and appropriate security against loan. So, for better performance this bank needs to take corrective action against drawback.

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