

Surveillance Rating Report (Half Yearly) AB Bank Limited

Ratings

Long Term : **AA₃**
 Short Term : **ST-1**
 Date of Rating : 29 September 2009
 Validity : 23 May 2010

Previous Ratings

Long Term : **A₁**
 Short Term : **ST-2**
 Date of Rating : 24 May 2009

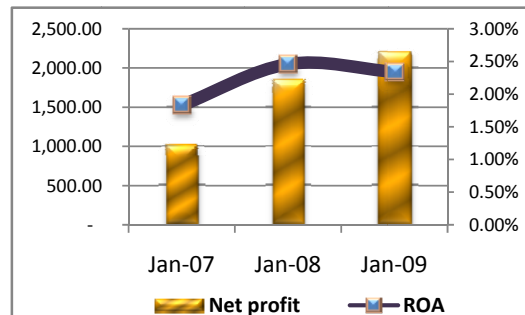
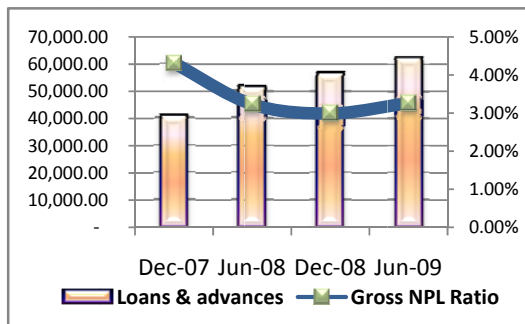
(Based on unaudited financials- June 2009)

Analyst:

Razib Ahmed
 Financial Analyst
 Razib.ahmed@crab.com.bd

Highlights:

	BDT in million	
	June 2009	Dec. 2008
Loans & Advances	62,822.27	56,708.77
Non Performing Loan	2,050.35	1,695.38
Deposits	75,477.52	68,560.47
Investment	14,366.20	11,408.54
Net Profit After Tax	1,516.41	2,300.62
Return on Asset	2.34%	4.28%
Capital Adequacy Ratio (Under Basel I)	13.49%	12.84%
Gross NPL Ratio	3.26%	2.99%
Net NPL Ratio	1.26%	1.28%
NPL Coverage Ratio	98.41%	98.56%
Loan to Deposit Ratio	83.23%	82.71%
Liquid assets to Total Deposits & Borrowing	21.27%	20.55%


01. RATING DETAILS
Rating Rationale

Credit Rating Agency of Bangladesh Limited (hereinafter referred to as CRAB) has upgraded the long-term rating to “**AA₃**” (pronounced **Double A Three**) and short term rating to “**ST-1**” of AB Bank Limited (hereinafter referred to as ABBL of the Bank). CRAB performed the present rating based on unaudited financial statements of 30 June 2009 and other relevant information.

The rating takes into account both qualitative and quantitative indicators. Such rating is supported by good portfolio quality in terms of asset performance and diversification, sound profitability level, adequate capital base as well as strong liquidity position. The rating also draw comfort from the fact that, financial and risk management practices are in place to protect the quality of the portfolio. The shareholding and organizational structure, composition of Board with the ability and willingness of the Board of Directors to bailout the Bank in case of need, consistency of the management team, level of delegation of authority, experience top level management in terms of building up solid business mix, maintaining operating efficiency, technology oriented institution, and strengthening the ABBL’s market positions are also key drives to deriving the rating.

The rating analysis has concern over some areas of the Bank’s performance. Although,

Bank's earning shows upward trend, its volatility is relatively higher than earning volatility of other commercial banks. Bank's major portion of income comes from capital market, which is also volatile in nature. ABBL's fund generation is dependent on high cost fixed deposits and call borrowing which is increasing every year. Such high cost fund increases Bank's overall cost of fund, which ultimately creates pressure on Banks spread.

Bank's Non-performing loans also are in increasing trend. Gross NPL reached to BDT 2,050.35 million in 30 June 2009 from BDT 1,695.38 million in 31 December 2008. However, NPL ratios of ABBL are comparatively lower than its peer banks median.

RWCAR of the Bank under Basel I reached to 13.49% in June 2009 from 12.84% in December 2008. ABBL has launched an intensive program for ensuring Basel II compliance in the line of Bangladesh Bank roadmap and subsequent guidelines issued from time to time. A committee for implementation of the Basel II has been formed. Further, a working committee has been formed involving employees from HO and branched for coherence in efforts. Emphasis has been given on basic training on Basel II concept focusing on the implementation aspects as well.

Commercial Bank rated '**AA₃**' in the long term is adjudged to be of very high quality and subject to very low credit risk. The Bank has very strong capacity to meet its financial commitments. Bank rated '**ST-1**' in the short term is characterized with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds is outstanding.

Rating History

AB Bank Limited (ABBL) was assigned **A₁** rating in the long term and **ST-2** in the short term by CRAB on 24 May 2009 which had a validity of 1 (one) year from the date of rating award. The last rating based on the audited financial statements of 31 December 2008.

02. INDUSTRY¹

The Bangladesh economy managed to avoid the first-round shocks of the global financial meltdown due to limited, regulated openness of its economy. The financial sector in Bangladesh remained stable and liquidity conditions remained normal. As the global financial crisis transformed into a global recession, the economy was affected relatively lightly by the global economic slowdown with estimated 5.9 percent real GDP growth in 2008-09 following the 6.2 percent growth of 2007-08. Despite slowing growth, Bangladesh performed better than most other Asian countries.

In the first quarter (Q1) of 2009, output activities for export demand weakened as exports declined for most items other than apparels and textiles, which also faced some growth slowdown. The economy also experienced some slackening in investment momentum as evidenced by lingering weakness in growth of capital machinery imports. Imports declined 3.6 percent year on year in Q1 2009. The slowdown import growth resulting from decline in need for food grain import, slack in capital machinery import

¹ Bangladesh Bank Quarterly, January-March 2009. Bangladesh Bank Economic Trend, June 2009. Financial Position Scheduled Banks by BB, April 2009. ADB Quarterly Economic Update, 2009.

