

**RATING REPORT**  
**Subordinated Bonds (BDT 2000 million) of Dhaka Bank Limited (DBL)**

**Bonds Rating**

Long Term : **A<sub>2</sub>**  
Date of Rating: **June 30, 2010**  
Valid Till : **January 2011**

**Entity Ratings**

Long Term : **A<sub>1</sub>**  
Short Term : **ST-2**  
Date of Rating : **March 07, 2010**  
Valid Till : **June 2011**

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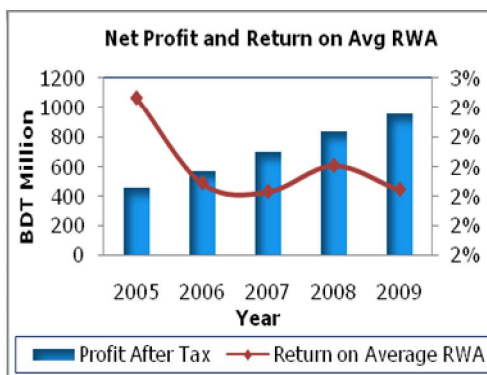
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**Exhibit: Financial Highlights**

Particulars	2009	2008
ROAA*	1.29%	1.30%
Return on Avg. RWA*	2.12%	2.20%
RWCAR	11.31%	11.84%
Cost to Income Ratio	33.64%	34.82%
Gross NPL Ratio	5.57%	3.84%
SMA to Total Loans	0.11%	0.10%
Loans to Deposit Ratio	86.85%	87.21%

\* Before Tax



**Rationale**

Credit Rating Agency of Bangladesh (CRAB) Limited has assigned **A<sub>2</sub>** (Pronounced A Two) rating to subordinate bonds (BDT 2,000 million) of Dhaka Bank Limited (DBL) based on latest financials, past trend and other relevant information.

Debt instruments rated A<sub>2</sub> belong to 'Strong Capacity' cohort. These instruments have strong capacity to meet financial commitments, but susceptible to the adverse effects of changes in circumstances and economic conditions. These are judged to be of high quality, subject to low credit risk.

CRAB has rated the proposed instrument at one notch lower than the entity rating of DBL as the status of the proposed bond is subordinated and unsecured. The rating reflects the Bank's strength in operational efficiency (cost to income ratio) and previous trend of profitability. Rating also has taken into account the lower SMA to Total Loans ratio and future strategic plan of the Bank. The rating however, is constrained by increasing trend of non-performing loans in the last few years and relatively lower capital adequacy.

The objective of the proposed BDT 2,000 million subordinated bonds is to increase the tier II capital and

hence to increase the overall capital adequacy ratio of the issuer (DBL).

DBL will issue coupon bonds worth BDT 2000 million having denomination of each BDT 10,00,000 with 14 coupons. Coupons will be paid semi-annually @ 11.65% on outstanding principal. The principal on the Bonds will be redeemed in 3 annual instalments at 30% at the end of fifth year (10<sup>th</sup> coupon date), 30% at the end sixth year and remaining 40% at the end of seventh year from Settlement Date. The final maturity of the Bonds will be at the end of seventh year of the Bonds from the Issue Date.

The proposed bonds will be privately placed. Yield of the bond may be affected by interest rate movement of the country considering the long term nature of the bond. Last 18 months 5-years T-bond yield shows that highest yield was 10.60% and this figure was 7.80% in December 2009. Interest rate of the country is less likely to move upward in near future as there is cap on lending rate for corporate loans.

Dhaka Bank Limited (DBL), one of the second generation private sector banks in Bangladesh, commenced its commercial operations from July 1995. Bank's paid-up capital as of 31 December 2009 reached BDT 2,127.68 million. DBL offers both corporate and retail banking services.

During the 1<sup>st</sup> quarter (Q1) of 2010 DBL achieved 54.73% growth in net interest income compared to 1<sup>st</sup> quarter of 2009. Although interest income of the Bank reduced by 8.36% resulted from reduction in lending rate and increase in non-performing loans, interest expense reduced by 27.39% on the back of reduction in cost of deposit reflecting the bank's better performance in asset liability management. Investment and other income registered 27.55% growth mainly driven by investment income. Hence, total operating income increased by 41.19%. On the other hand, operating expense increased by only 11.78%. Although pre provision profit of the Bank increased 59.42%, growth of profit before tax was 44.44% mainly because of 111.06% growth in provision expense.

DBL's balance sheet experienced marginal reduction during the Q1 of 2010. Total deposits of the Bank decreased by 1.40% whereas loans and advances portfolio increased by 1.13% compared to December 2009. DBL reduced its investment portfolio by 8.07% mostly in government securities. However, the Bank's non-performing loans surged by 23.80%.

DBL's risk weighted capital adequacy ratio under Basel II increased to 8.06% by the end of March 2010 against regulatory requirement 8% upto June 2010. Gross NPL ratio (6.82%) of the Bank increased by 1.25 percentage points during the 1<sup>st</sup> quarter of 2010. Stress test of the bank showed that the Bank was in better position for market risk but more exposed to credit risk.