

RATING REPORT (Surveillance) The Hongkong and Shanghai Banking Corporation Limited, Bangladesh Branches

Ratings

Long Term : **AAA**
Short Term : **ST-1**
Date of Rating: **February 16, 2010**
Valid Till : **June, 2011**

Previous Ratings

Long Term : **AAA**
Short Term : **ST-1**
Date of Rating : **September 02, 2009**

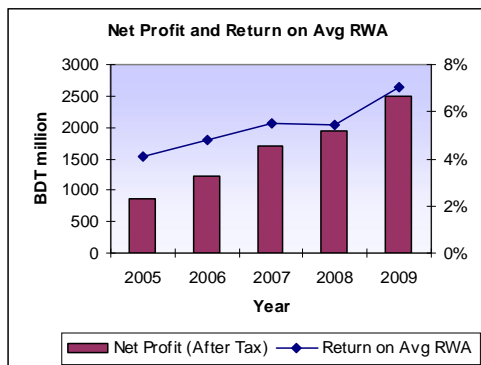
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Exhibit: Financial Highlights

Particulars	2009	2008
ROAA (After Tax)	3.76%	3.23%
Return on Avg. RWA (After Tax)	7.48%	5.42%
ROAE (After Tax)	29.16%	26.44%
Cost to Income Ratio	22.82%	21.80%
RWCAR	38.33%	25.54%
Gross NPL Ratio	1.46%	2.04%
Loans to Deposit Ratio	56.94%	67.04%



1. Rationale

Credit Rating Agency of Bangladesh (CRAB) Limited has affirmed **AAA** (Pronounced Triple A) rating in the long term and **ST-1** rating in the short term to The Hongkong and Shanghai Banking Corporation Limited, Bangladesh Branches (the Bank) based on audited financials as at 31st December 2009.

Commercial banks rated in the long term 'AAA' belong to 'Extremely Strong Capacity & Highest Quality' cohort. Banks rated 'AAA' have extremely strong capacity to meet their financial commitments. 'AAA' is the highest issuer credit rating assigned by CRAB. 'AAA' is judged to be of the highest quality, with minimal credit risk.

Commercial Banks rated in the short term 'ST-1' category are considered to have the highest capacity for timely repayment of obligations. Banks rated in this category are characterised with excellent position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

The Hongkong and Shanghai Banking Corporation Limited, Bangladesh Branches (the Bank) commenced its banking operation in Bangladesh on 3 December 1996 as a branch of a foreign bank.

The Bank's revenue sources were reasonably diversified having 43% revenue from net interest income followed by commission and exchange income (41%) and income from investment (16%). The Bank's ability to generate non interest income had placed the bank in more comfortable position in the global recession period. However, if present asset structure remains unchanged, the Bank's income may be affected. The Bank maintained one of the better cost efficient operations in the country having cost to income ratio 22.82% in 2009.

Net profit margin of the Bank continued to increase in the last couple of years and hence the return on average assets (ROAA) also experienced a rising trend. Return on average risk weighted assets (RWA) of the Bank witnessed a sharp rise having a positive trend in the last few years justifying the Bank's better performance in risk return trade off. Return on average equity (ROAE) after tax also increased even after reducing the leverage multiplier.

The Bank enjoyed low cost of deposits with its better brand value. The Bank enjoyed higher liquidity during 2009 mainly because of lower advance to deposit ratio (56.94%). Liquid assets to total deposits and borrowings ratio soared up to 52.55% in 2009. However, the Bank's largest 10 depositors hold about 28.46% of its total deposits in 2009.

The Bank's loans and advances portfolio reduced by 7.68% in 2009 and stood at BDT 31,668.31 million. The Bank's credit portfolio was reasonably well managed in terms of intrinsic and concentration risk. About 35.57% of Bank's total loans and advances belonged to the top 50 funded large loans in 2009.

Total non performing loans also reduced to BDT 463.09 million and gross non-performing loan (NPL) ratio of the Bank also declined to 1.46% in 2009 (2008: 2.04%). The Bank did not reschedule any loan. Special mention accounts (SMA) to total loans and advances ratio of the Bank was 0.93% in 2009 (2008: 0.20%).

The Bank is well capitalized with risk weighted capital adequacy ratio 38.33% by the end of 2009 against regulatory requirement 10%. However, capital adequacy ratio of the bank under Basel II was 21.79%¹. It is to be mentioned that in Bangladesh, Basel II was running parallel of Basel I in 2009. Higher capital also increased its single borrower exposure limit.

As a foreign bank having operating experience in the developed market, the Bank has competitive advantage in the local market. With its presence in 86 countries, the Bank enjoys vast network around the world. Hence the Bank is in advantageous position with its brand value as well as groups' support. The Bank's competitive advantage was also reflected in its cost of deposit as well as cost to income ratio.

¹ Loans are considered unrated (125% risk weight)