

## Rating Report (Surveillance)

# Mutual Trust Bank Limited

**Ratings**

Long Term : A<sub>1</sub>  
 Short Term : ST-2  
 Date of Rating : 30 May, 2010  
 Valid till : 30 June, 2011

**Previous Ratings**

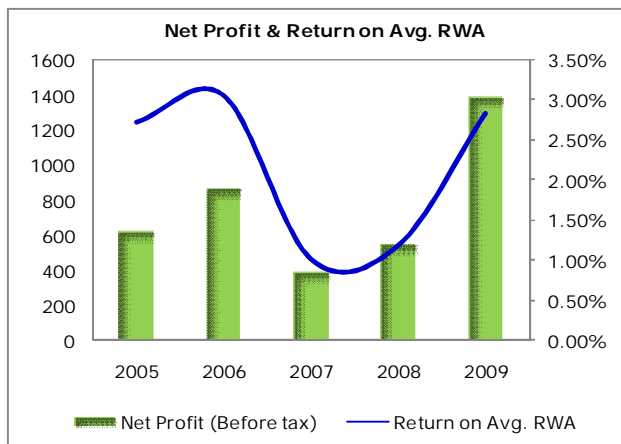
Long Term : A<sub>1</sub>  
 Short Term : ST-2  
 Date of Rating : 26 October, 2009

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**Exhibit 1: Financial Highlights**

Particulars	2009	2008
ROAA (Before Tax)	3.03%	1.57%
Return on Average RWA*	2.83%	1.19%
RWCAR	13.16%	10.39%
Cost to Income Ratio	36.05%	35.03%
Gross NPL Ratio	2.81%	4.92%
Loans to Deposit Ratio	80.00%	84.36%


**1. RATIONALE**

Credit Rating Agency of Bangladesh (CRAB) Limited has retained **A<sub>1</sub>** (Pronounced Single A one) rating in the long term and **ST-2** rating in the short term of Mutual Trust Bank Limited based on audited financials up to 31 December 2009 and other relevant information.

Commercial Banks rated A<sub>1</sub> in the long term belong to “strong capacity & High Quality” cohort. Banks rated “A<sub>1</sub>” have strong capacity to meet their financial commitments but are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than Commercial Banks in higher-rated categories. A<sub>1</sub> is judged to be of high quality and is subject to low credit risk.

Commercial Banks rated in the short term “ST-2” category are considered to have strong capacity for timely repayment of obligations. Commercial Banks rated in this category are characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

Mutual Trust Bank Ltd. (MTB), one of the third generation private sector banks in Bangladesh, commenced its operation in October 1999 and the paid up capital reached BDT 1,766.32 million as of 31 December 2009. In 2009 MTB opened 8 new branches, 10 SME service centers and 8 brokerage outlets across the country to provide service.



CRAB assigned A<sub>2</sub> in the Long Term to the Mutual Trust Bank Limited in 21 June, 2009 based on audited financial statement of 2008. Based on the financials of 2009, CRAB upgraded the rating considering year on year high profit growth (profit after tax reached BDT 820.61 million in 2009 from BDT 305.03 million in 2008, registering a growth of 169.02% which was 44.70% in the previous year); high asset growth (growth in 2009 was only 35.44% compared to previous year 21.08% growth); improvement in asset quality (gross NPL reduced to 2.81% in 2009 from 4.92% in 2008).

The revenue of the Bank is reasonably diversified having 34.20% revenue from net interest income followed by investment income (in 2009: 33.71% of total operating income) and income from commission & exchanges (in 2009: 26.07% of total operating income). Comparatively lower growth of net interest income in 2009 from that of 2008 resulted in low growth of revenue which affected the net interest margin (NIM) marginally (2.59% in 2009 compared to 2.72% in 2008). However, higher investment income helped the Bank to offset the lower growth in interest income in 2009. Therefore, Return on Average Asset (ROAA), Return on Average Equity (ROAE) as well as Return on Average RWA increased in 2009.

The cost to income ratio of the Bank reached to 36.05% in 2009 from 35.03% in 2008 resulted from higher expense in branch expansion as well as higher staff cost.

The Bank was mainly funded by customer deposit. Around 27.42% of total deposit of the Bank comprised of current and savings deposits. Average loans to deposit ratio of the Bank was 80.40%. The Bank was net lender to the call market throughout the year except in December.

MTB experienced moderate growth (18.77%) in loans and advances and reached BDT 33,883.92 million by the end of 2009. The Bank's loan portfolio was reasonably diversified in terms of concentration risk. The Bank's top 50 funded loans in 2009 hold 34.49% of total loan portfolio (3.48% of core capital).

The asset quality trend of MTB was positive as the Bank's total non-performing loans (NPL) decreased to BDT 952.76 million in 2009 (2008: 1,402.85 million). The gross NPL ratio reduced to 2.81% in 2009 (2008: 4.92%) resulted from BDT 516.08 million rescheduling. The Bank also made writes off BDT 368.38 million in 2009. Cash Recovery in 2009 was only BDT 3.87 million which was only 0.19% of total loan portfolio. CRAB views that low recovery was the outcome of weak monitoring process of the Bank and world economic meltdown. MTB fulfilled the regulatory requirement of provision.

The Bank was well capitalized in terms of risk weighted capital adequacy ratio (13.16%) by the end of 2009 against regulatory requirement of 10%. However, the ratio was 9.20% under Basel II which was running parallel of Basel I in 2009.

The Bank has its strength in earning diversity and capital generation. On the other hand, principal concern of the Bank is low recovery of classified assets and higher cost of deposit & borrowing.