

RATING REPORT

Subordinated Bonds (BDT 2500 million) of National Bank Limited (NBL)

Bonds Rating

Long Term : **A₂**
 Date of Rating: **June 24, 2010**
 Valid Till : **January 2011**

Entity Ratings

Long Term : **A₁**
 Short Term : **ST-2**
 Date of Rating : **March 03, 2010**
 Valid Till : **June 2011**

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Rationale

Credit Rating Agency of Bangladesh (CRAB) Limited has assigned **A₂** (Pronounced A Two) rating to subordinate bonds (BDT 2,500 million) of National Bank Limited (NBL) based on latest financials, past trend and other relevant information.

Debt instruments rated A₂ 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.

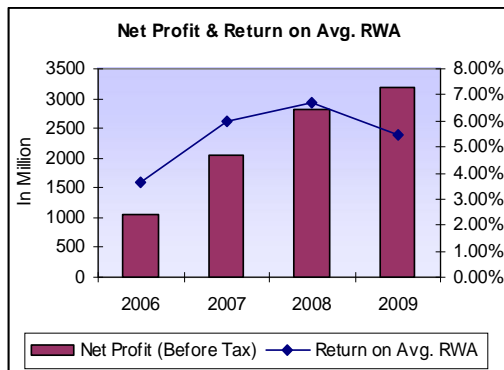
CRAB has rated the proposed instrument at one notch lower than the entity rating of NBL as the status of the proposed bond is subordinated and unsecured. The rating reflects the Bank's strength in profitability and capital generation. Rating also have taken into account the satisfactory liquidity position, lower cost of deposits and borrowings as well as improved 2010 1st quarter financials of the Bank. The rating however, is constrained by non-performing loans over the years and higher cost to income ratio.

The objective of the proposed BDT 2,500 million subordinated bonds is

Exhibit: Financial Highlights

Particulars	2009	2008
ROAA (Before Tax)	3.87%	4.39%
Return on Avg. RWA*	5.48%	6.69%
RWCAR	13.56%	13.42%
Cost to Income Ratio	47.96%	41.03%
Gross NPL Ratio	5.97%	5.50%
New NPL Ratio	3.80%	3.90%
Loans to Deposit Ratio	84.57%	84.18%

* Before Tax



to increase the tier II capital and hence the overall capital adequacy ratio of the issuer (NBL).

NBL will issue coupon bonds worth BDT 2500 million having denomination of each BDT 10,00,000 with 14 coupons. Coupons will be paid semi-annually @ 11.50% on outstanding principal. The principal on the Bonds will be amortized and paid annually on a pro rata basis to the Bondholder in instalments of 20% per year commencing at the third anniversary of the Bonds from the Issue Date (6th coupon 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.

National Bank Limited (NBL), one of the first generation private sector banks in Bangladesh, commenced its commercial operations from March 1983 with paid-up capital of BDT 44.00 million. Bank's paid-up capital as of 31 December 2009 stood at BDT 2,846.54 million. NBL offers both corporate and retail banking services with a strong trade finance focus through its wide range of branch network across the country.

During the 1st quarter (Q1) of 2010 NBL achieved 51.98% growth in net interest income compared to 1st quarter of 2009 resulted from 2.60% reduction in interest expense. On the other hand, investment and other income registered 113.06% growth mainly driven by investment income. Investment income of the bank soared by 282.81% in Q1 compared to same period of previous year. Hence total operating income increased by 86.39%. Operating expense surged by 191.51% on the back of BDT 700.00 million charges on loan losses. Profit before tax of NBL grew by 23.36% compared to Q1 of 2009.

NBL's balance sheet also experienced reasonable growth during the Q1 of 2010. Total deposit of the Bank grew by 4.52% and reached BDT 80,314.38 million whereas loans and advances portfolio (BDT 67,777.54 million) increased by 4.07% compared to December 2009. NBL increased its investment portfolio substantially (29.79%) mostly in quoted shares. However, the Bank's non-performing loans reduced by 16.90% on the back of written off loans.

NBL's risk weighted capital adequacy ratio under Basel II marginally reduced to 8.56% by the end of March 2010. The Bank managed to reduce gross NPL ratio (4.76%) by 1.20 percentage points from 5.96% as of 31st December 2009.