

RATING REPORT (Surveillance) National Bank Limited

Ratings

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

Previous Ratings

Long Term : **A₁**
 Short Term : **ST-2**
 Date of Rating : **March 29, 2009**

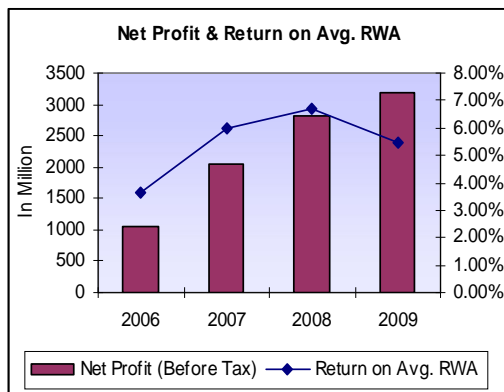
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Exhibit: Financial Highlights

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



1. Rationale

Credit Rating Agency of Bangladesh (CRAB) Limited has affirmed **A₁** (Pronounced A one) rating in the long term and **ST-2** rating in the short term to National Bank Limited based on audited financials as at 31st December 2009 and other relevant information.

Commercial banks rated in the long term **A₁** belong to 'Strong Capacity & High Quality' cohort. Banks rated '**A₁**' have strong capacity to meet their financial commitments but are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions. **A₁** 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 the strong capacity for timely repayment of obligations. Banks rated in this category are characterised with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

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. NBL had wide range of branch network across the country with 121 branches and 10 SME service centres in 2009.

Net interest income of NBL dominated the revenue stream in 2009 with 37% of total income (2008: 41%) followed by investment income (27%) and commission & exchange (22%). Higher investment income helped the bank to offset the lower growth in interest income in 2009. NBL's cost to income ratio shot up by 6.93 percentage points and stood at 47.96% resulted from higher expenses in branch expansion and automation as well as higher staff cost.

All the profitability ratios (before tax) of the bank dropped in 2009 after having an increasing trend in the last few years. NBL's return on average assets (ROAA) before tax in 2009 reduced by 0.52 percentage points resulted from reduced net profit margin whereas ROAA after tax in 2009 increased marginally by 0.14 percentage points on the back of lower tax rate as well as income from offshore unit. Net interest margin (NIM) also reduced by 0.79 percentage points in 2009.

The bank was mainly funded by customer deposit and internal capital generation. About 29% of total deposits of the bank comprised current and savings deposits. In 2009, advances to deposit ratio of the bank was 81.34% (monthly average). The bank was the net lender to the call money market throughout in 2009.

NBL experienced substantial growth (28.22%) in loans and advances portfolio considering the industry scenario and reached BDT 64,962.31 million by the end of 2009. But higher loan growth may deteriorate loan quality in future. The bank's credit portfolio was reasonably diversified in terms of intrinsic and concentration risk. However, NBL's top 50 funded loans hold 30.13% of total loan portfolio.

NBL's total non-performing loans (NPL) increased to BDT 3880.30 million and gross NPL ratio also increased to 5.97% in 2009 (2008: 5.50%) resulted from fresh NPL generation of BDT 2,470.50 million. The bank also wrote off BDT 974.1 BDT million in 2009. However, special mention accounts (SMA) to total loans & advances ratio of the Bank reduced to 1% in 2009 (2008: 1.93%).

The bank was reasonably capitalised in terms of capital adequacy ratio (13.56%) by the end of 2009 against regulatory requirement 10%. However, this ratio was 8.61% under Basel II which was running parallel of Basel I in 2009.

NBL has its strength in liquidity position and capital generation. On the other hand, principal concern of the bank is higher growth in non performing loans.