

## RATING REPORT (Surveillance) Pubali Bank Limited

### Ratings

Long Term : **AA<sub>3</sub>**  
 Short Term : **ST-1**  
 Date of Rating: **April 06, 2010**  
 Valid Till : **June, 2011**

### Previous Ratings

Long Term : **A<sub>1</sub>**  
 Short Term : **ST-2**

Date of Rating : **April 16, 2009**

### Analyst:

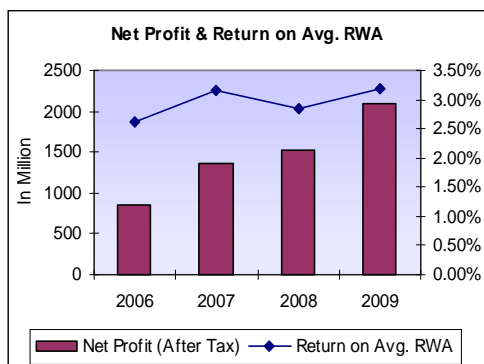
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### Exhibit: Financial Highlights

Particulars	2009	2008
ROAA (After Tax)	2.12%	1.88%
Return on Avg. RWA*	3.18%	2.85%
RWCAR	13.63%	13.53%
Cost to Income Ratio	44.34%	44.32%
Gross NPL Ratio	2.96%	3.59%
SMA to Total Loans	0.36%	1.44%
Loans to Deposit Ratio	83.88%	84.62%

\* After Tax

### Exhibit: Return on Avg. RWA



### 1. Rationale

Credit Rating Agency of Bangladesh (CRAB) Limited has upgraded the credit rating of Pubali Bank Limited to **AA<sub>3</sub>** (Pronounced Double A Three) in the long term and **ST-1** rating in the short term based on audited financials up to 31<sup>st</sup> December 2009 and other relevant information.

Commercial banks rated in the long term **AA<sub>3</sub>** belong to 'Very Strong Capacity & Very High Quality' cohort. Banks rated '**AA<sub>3</sub>**' have very strong capacity to meet their financial commitments. **AA<sub>3</sub>** is judged to be of very high quality and is subject to very low 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.

Pubali Bank Limited (PBL), the largest private sector commercial bank in Bangladesh, was privatised in 1983 and went into IPO in 1984. The bank's paid-up capital as of 31<sup>st</sup> December 2009 stood at BDT 3,822 million. PBL offers both corporate and retail banking services with a strong trade finance focus. PBL

had wide range of branch network across the country with 386 branches in 2009.

Net interest income strongly dominated the revenue stream with 62.21% of total income in 2009 (2008: 64.37%) followed by investment income (16%). PBL's operating income grew by 11.46% and reached BDT 6,898.27 million on the back of higher growth (146.75%) in investment income. Cost to income ratio of the bank increased marginally and stood at 44.34%. However, employee benefits are not in line with PCBs.

Both after tax ROAA and ROAE of the bank returned to rising trend in 2009. ROAA increased by 0.24 percentage points whereas ROAE grew by 2.05 percentage points. Although net interest margin in 2009 dropped by 0.80 percentage points, PBL managed to increase its profitability ratios on the back of higher profit margin resulted from investment income. PBL's after tax return on average risk weighted assets (RWA) also witnessed an upsurge in 2009.

The bank is mainly funded by customer deposit and internal capital generation. About 47% of total deposits of the bank comprised current and savings deposits reflecting the stable deposit base of the bank. PBL maintained satisfactory liquidity position in 2009. Average monthly Loans and advances to deposit ratio of the bank was 82.61% in 2009. The bank was a net lender throughout 2009 except for the month of August and September.

PBL experienced moderate growth (20.09%) in loans and advances portfolio and reached BDT 74,203.3 million by the end of 2009. The bank's credit portfolio was reasonably diversified in terms of intrinsic and concentration risk. PBL's top 50 funded loan portfolio in 2009 hold 43.08% (2008: 48.71%) of total loan portfolio.

Credit quality of PBL has an improving trend in the last couple of years. The bank managed to reduce gross non-performing loan (NPL) ratio to 2.96% in 2009 from 3.59% in 2008. Gross NPL ratio reduced mainly because of rescheduling and cash recovery. In 2009, PBL had BDT 27.37 million excess provisions against non-performing loans. Special Mention Accounts (SMA) to total loans & advances ratio of the bank also reduced to 0.36% in 2009 (2008: 1.44%).

The bank was well capitalized with risk weighted capital adequacy ratio of 13.63% by the end of 2009 (2008:13.53%) against regulatory requirement 10%. Capital adequacy ratio under Basel II was also above 10% by the end of 2009. Investment income of PBL increased by 146.75% on the back of 45.29% increase in investment portfolio. Investment in quoted shares accounted for 20.64% of total investment in 2009 (2008: 2.68%).

The rating reflects the bank's strength in capital adequacy as well as improving credit quality. The rating also factors the satisfactory liquidity position and the size of the bank having 386 branches all over the country. The rating however, is constrained by dependency on net interest income, higher cost to income ratio and lack of specialized investment wing.