

CREDIT RATING REPORT ON ARAB BANGLADESH BANK LIMITED



REPORT: RR/133/07

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Entity Rating:

Long term: **BBB+**

Short term: **ST-4**

**ARAB BANGLADESH
BANK LIMITED**

PRINCIPAL ACTIVITY

Private Commercial
Banking

INCORPORATED ON

31 December, 1981

BOARD CHAIRMAN

Mr. Faisal M. Khan

MANAGING DIRECTOR

Mr. Kaiser A. Chowdhury

EQUITY

TK. 2,582.76 Million

LOAN & ADVANCE

TK. 31,289.25 Million

DEPOSITS

TK. 42,076.99 Million

INVESTMENTS

TK. 6,301.29 Million

ASSETS

TK. 47,989.34 Million

This is a credit rating report as per the provisions of the Credit Rating Companies Rules 1996. CRISL long-term rating is valid for only one year and short term rating for six months. After the above periods, these ratings will not carry any validity unless the bank goes for rating surveillance.

	Long Term	Short Term
Entity Rating 2006	BBB+	ST -4
Previous Rating 2005	BBB	ST -4
Date of Rating	30 June 2007	

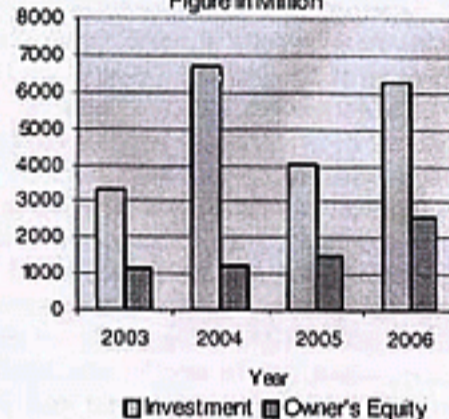
1.0 RATIONALE

CRISL upgrades and assigns Arab Bangladesh Bank Limited to BBB+ (pronounced as triple B plus) from BBB (pronounced as triple BBB) in the long term and reaffirmed ST-4 in the short term. The above has been done on the basis of satisfactory market share, satisfactory non-funded business, diversified product base and stable sources of fund. However, the above rating is moderated to a great extent by Poor Corporate Governance, marginal capital adequacy, moderate financial performance etc. These ratings have been carried out on the basis of financials as on 31 December 2006. Financial Institutions rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a bank is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are, however, considered to have the capability to overcome the above-mentioned limitations. The short term rating indicates satisfactory liquidity position and good access to alternative sources of financing. Risk factors are subject to more variation.

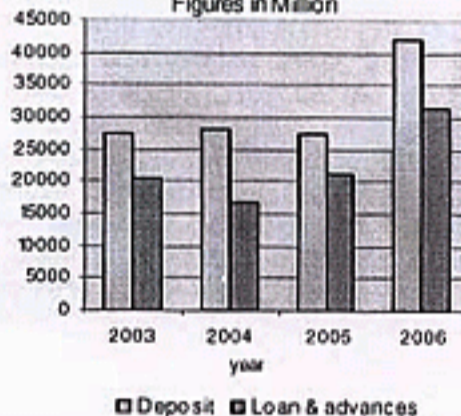
2.0 CRISL PREVIOUS RATING

Credit Rating Information and Services Limited (CRISL) assigned 'BBB' (Triple B) rating to Arab Bangladesh Bank Limited in the long term and ST-4 in the short term in consideration of its fundamentals such as diversified product lines, adequate branch network, stable source of fund, low cost of fund, experienced top management etc on the basis of financials as on 31 December 2005. This level of rating indicates that a bank is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above mentioned limitations.

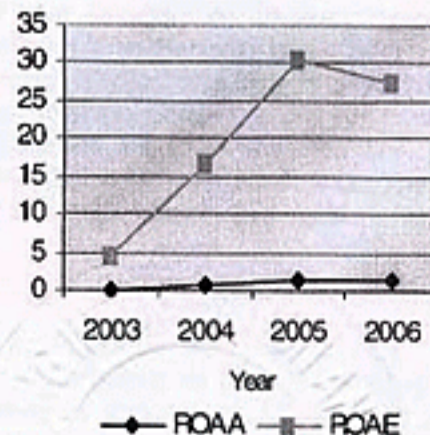
Investment vs. Owner's Equity
Figure in Million



Deposit vs. Loan & Advances
Figures in Million



ROAA vs. ROAE



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First Generation Private
Commercial Bank

Diversified Ownership
Pattern

Adequate Branch
Network

The short term rating indicates moderate liquidity position and other protection factors qualify issues as to investment grade. Risk factors are larger and subject to more variation.

3.0 CORPORATE PROFILE

3.1 Genesis

Arab Bangladesh Bank Limited (ABBL), the first private commercial bank in the banking sector of Bangladesh under Joint Venture with Dubai Bank Limited, UAE incorporated in Bangladesh on 31 December, 1981 as a public limited company under the Companies Act 1913, subsequently replaced by the Companies Act 1994 has been operating under the Banking Companies Act 1991. ABBL started its business operation with effect from April 12, 1982 with a paid up capital of Taka 80 million. The bank went for public offering of its shares on 28 December 1984 and raised its paid up capital to Tk 100.00 Million. In early part of 1987 Dubai Bank Limited sold its shares to Bangladeshi Sponsor Shareholders. Its shares are listed with both the stock exchanges of the country. The bank has been operating with 67 branches including 1 Islami banking branch all over Bangladesh. The ABBL has expanded its network outside the country by setting 1 overseas branch in Mumbai, India and 2 representative offices each in London and Myanmar. In addition, the bank has also set up a 100% owned subsidiary finance company, AB International Finance Ltd. incorporated in Hong Kong. The Bank has correspondent relationship with over 220 international banks of repute across 58 countries of the world to facilitate cross border trade and payment related services. The Bank expanded its investment banking activities including custodial services to its customers and started Merchant Banking operation in 2003 and its brokerage functions also started under AB Bank Foundation in 2006. The ABBL was sponsored by the directors of Pacific Group of Companies headed by Mr. Morshed Khan, Beximco Group of Companies headed by Mr. ASF Rahman and Elite Group headed by Mr. Sajedur Seraj. Mr. Faisal Morshed Khan, son of one of the main sponsors Mr. Morshed Khan, is now the Chairman of the Bank. The bank has been operating with the vision "To be the Trendsetter for Innovating Banking with Excellence & Perfection" and the Mission "To be the best performing Bank in the country." The total employees of the Bank were 1,592 as on 31 December 2006.

3.2 Ownership Pattern

ABBL is a public limited banking company having a total 5,717,400 ordinary shares of TK. 100.00 each as on December 31, 2006 owned by 6,911 shareholders and among them 94.85% of the shares were held by 6,555 shareholders holding upto 500 shares. Out of the above total outstanding shares, 4 Sponsors were holding 11.40%, 5 directors excluding one government nominated director 3.15%, Pacific Group 24.93%, Elite Group 10.75% Beximco Group 8.75% General Public 33.34%, Govt. of Bangladesh 0.57%, Financial Institutions (ICB& Banks) 1.21% and Others 5.90% shares as on December 31, 2006. However no shareholder was holding more than 5% shares except Mr. M. Morshed Khan who was holding 5.05% shares and no sponsor shareholder together with his family was holding more than 10% of the total shares.

3.3 Branch Network

3.3.1 Conventional Banking

AB Bank has 68 branches including 1 overseas branch at Mumbai in India. The 67 branches (including 1 Islami banking branch) are located in different commercially important areas of Bangladesh. Among the branches mentioned above, 27 are located in Dhaka Division, 20 in Chittagong Division, 6 in Khulna, 6 in Rajshahi, 7 in Sylhet and 1 in Barisal. In addition, there is a Regional Office at Chittagong, one overseas branch in Mumbai, India, one subsidiary company viz. AB International Finance Ltd. in Hong Kong and 2 Representative Offices - one in U. K and the other in Myanmar. The bank has 13 rural branches in different areas in the country. Out of 67 branches 3 branches are headed by SVP, 6 by VP, 25 SAVP, 26 AVP and 7 by SPO. The bank has the plan to open 4 more branches in 2007. In respect of branch network, the ABBL is appeared to be at par with other first generation banks.

3.3.2 Islami Banking

ABBL has obtained permission for Islami Banking from Bangladesh Bank on 8 July, 2004 and started operation from 23 December, 2004. The Bank initially started its Islami banking operation at Dilkusha commercial area and subsequently it was shifted to Kakrail on 15 October 2006. The branch operates on Islamic Shariah principle under a Shariah Council consisting of 9 members,

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Diversified Product
Base

headed by Shah Abdul Hannan as Chairman. The Bank maintains separate books of accounts. The Shraiah Council conducted 2 meetings in 2006. The total operating profit of the Islami branch in 2006 was TK. 19.88 million in 2006 against TK.1.05 million in 2005 with a growth of 893.33%. The net profit during the YE 2006 was Tk 14.52 million against the loss of Tk 2.90 million in 2005.

3.4 Products and Services

3.4.1 Conventional Banking Products & Services

In order to accommodate its goal of meeting customer's expectations, the ABBL has introduced a good number of innovative financial products and services to meet ever increasing demands of its clientele. Bank has a good number of liability products such as Savings Deposits, Special Notice Deposits (STD), Security Deposit Receipts (SDR), Call Deposit, NFCD, RFCD, Fixed Deposit (Time Deposits) and various monthly deposit schemes. The bank has also introduced deposit products namely MSDS, MIDS and DDS. The fund collected through the above products are channeled through some asset products such as providing Working Capital, Term Loan, Trade Finance, Trust Receipt Facility, etc. Consumer banking consists of products like Personal Loan (secured), Personal Overdraft (secured), Personal Loan (unsecured), Q-Cash Staff Overdraft (unsecured); Q-Cash Customer Overdraft (unsecured), Auto Loan etc. In addition, ABBL provide other facilities like Consumer Credit, PC Loan, Women Entrepreneur Loan etc. To uplift the social personal life of the people the bank has introduced Education Loan, Décor Loan and Home Loan. and to boost up economic activities Small Enterprise loan has also been introduced. The bank has also the plan to launch the products namely Dealer Finance, Vendor Finance, Cash & Payroll Management Services. The above products are appeared to be satisfactory to maintain the growth rate of the bank.

3.4.2 Islami Banking Products

ABBL has been offering the following assets and liability products under Islamic banking operation. Under the liability products the bank has Al-Wadia Current Deposit, Mudaraba Savings Deposits, Mudaraba Short-term Deposits, and Mudaraba Term Deposit. The assets products as offered by the bank include Bai- Murabaha (Pledge), Bai- muazzal(Hypothecation), Hire- Purchase under Sirkatul Melk (HPSM) and Quard against Mudarabaha Term Deposit etc.

4.0 INDUSTRY ANALYSIS

4.1 Bangladesh Banking Sector

Keeping pace with the global changes in the sector, the banking sector of the country has been undergoing a remarkable change during the last couple of years. In order to bring the sector in line with the international norms, the central bank has taken a number of steps under the Financial Sector Reform Program. During the last couple of years the central bank of the country has taken a number of steps through prudential circulars and best practice guidelines to improve the governance practice of the sector. Some of the worth mentioning steps were, limiting the percentage of family shareholding and directorship from the same family, limiting the number of directors in the board, obtaining prior permission of the central bank in appointment and termination of the services of CEO, issuance of best practice guidelines for core risk management, mandatory requirement of Risk grading system in order to minimize risk of credit etc. Most recently the central bank introduced the mandatory requirement annual credit rating of all schedule banks. The Bank for International Settlement (BIS) has finalized the Basel-II Accord after issuing several consultative papers and impact studies and published the same under the title "International Convergence of Capital Measurements and Capital Standards" in June 2004 to be effective from 2006. Most of the developed and developing countries have drawn up the implementation plan. The neighboring countries are now implementing Basel -II accord. Although the Basel Accord is not mandatory for the banks but international convergence and market forces will force the banks to adopt the same within next couple of years. The Bangladesh Bank has also decided to go for adoption of Basel-II with effect from January 2009 and formed two committees to explore the various aspects of its implementation.

Bangladesh banking sector has 48 banks consisting of 4 NCBs, 5 specialized banks, 9 foreign banks, 30 private sector commercial banks including 6 banks operating on Islami Shariah principles. Total number of branches of 48 banks is 6,562. Total number of branches of 4 NCBs is 3,386. Although there are branches all over the country the market share of the NCBs is reducing gradually. As on YE 2006 market share of deposits is occupied by NCBs 35%, private sector commercial banks 51%, foreign banks 8% and specialized banks 6%. The market share of private sector banks is in increasing trend. The Government has the plan to ultimately privatize the NCBs.

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CRISL expects a paradigm shift in the management pattern of the entire banking system on implementation of Basel Capital Accord. In the New Capital Accord the risk emphasis has been expanded to both credit risk, market risk and operational risk. In order to assess the risk our neighboring countries like India and Pakistan have adopted standardized approach for Credit Risk and Basic Indicator Approach for operational risk which is considered to be easy for the banks at the initial stage. In order to operate bank under Basel-II regime, banks will be required more capital. Bangladesh Bank has already initiated Basel-II implementation ground work, formed high powered national Implementation Committee, carrying out quantitative study in order to finalize the road map of Basel-II implementation. In the meantime Bangladesh Bank has increased the minimum requirement of capital adequacy to 10% of risk weighted assets from 9%. It may even be raised up to 12% to create caution for the supervisors' discretionary capital under Pillar -II of the Basel. Under the Standardized Approach, the banks will be required to determine capital adequacy on the basis of the rating of the counter parties which may also ask for additional capital. This may be more important for the NCBs as the credit portfolio of the banks are wide and diversified covering many sectors and counter parties that may not carry good credit rating. In addition, 15% of the gross income of the banks will be applied in determining the capital base for operational risk. The above would warrant the financial institution to invest more in IT infrastructure systems and Human resources. The business operation will be more sensitive to risk and capital and in this connection; the supervisory oversight will be stronger. Under the above backdrop CRISL believes that the AB Bank management will devise its operational strategy to comply accordingly.

4.2 Market Share

The AB Bank has considerable market share of banking industry. The banking industry had total deposits of TK1,825.21 billion and loans and advance of TK.1,557.06 billion as on 31 December 2006. The total deposits of AB Bank was TK.42.08. billion representing 2.31% of the total industry's deposits and loans and loans and advances was TK. 31.29 billion representing 2.02% of industry's loans and advances as on 31 December 2006. The growth of banking industry was 18.22% and 17.99% in respect of deposits and loans and advances respectively during 2006 against which the growth rates of ABBL were 53.80% and 46.35% of the deposits and loans and advances respectively. ABBL achieved a significant growth, much higher than industry's growth during 2006.

4.3 Non-funded Business

The AB Bank has been earning significant amount of revenue from non- funded business. The import business of the bank has increased to TK. 42.86 billion in 2006 against TK. 23.15 billion in YE 2005 having a growth of 98.10%. Similarly, its export business has also increased considerably and stood at TK. 17.88 billion in YE 2006 from TK. 12.59 billion in YE 2005 representing a growth of 42.02%. The flow of remittance has also improved which stood at TK.9.12 billion in 2006 compared to TK.7.69 billion in 2005 with a growth of 18.60%. The income from non- funded business has increased to TK0.74 billion in 2006 from TK.0.49 billion in 2005 and the growth is 52.25%. The non-funded income of the bank consists of 27.95% of total operating income. It appears from the above that the non- funded business has been in increasing trend.

4.4 Merchant Banking Wing (MBW)

AB Bank commenced its merchant banking operations in early 2003. MBW offers various services such as Portfolio Management, Issue Management, Corporate Advisory and Underwriting. The profit of MBW has declined during the year 2006. It earned a net profit of TK. 112.16 million in 2006 against TK. 137.83 million during the year 2005 i.e. declined 18.62% over the year 2005 due to increase of cost of fund and adverse impact on the secondary market for political turmoil in the country in 2006. The bank has launched operations of MBW at Chittagong under investment banking and has the plan to provide such services also at Mohakhali, Uttara in Dhaka and Sylhet soon. The Bank has already received license of Custodial Services from the SEC and is taking steps to lunch the service shortly. The bank is also making efforts to obtain Asset Management license to lunch and manage Mutual Funds.

4.5 AB Bank Foundation

Arab Bangladesh Bank Foundation (ABBF) is a subsidiary company of AB Bank Ltd. and its 99.60% shares are held by the Bank. The company had been operating as a company limited by guarantee and incorporated on 3 November, 2003 under Companies Act 1994. Subsequently the company was changed into a company limited by share on 23 March 2006. The objects of the company are to set up, manage and operate multi specialized hospital to elevate the sufferings of the poor in the country. Moreover, the ABBF is to act as securities broker house of both the stock exchanges to

*Satisfactory Market
Share*

*Satisfactory Non-funded
Business*

*Merchant Banking
Operation*

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provide services to its clients. The foundation earned net profit after tax of Tk 1.95 million in 2006 against a loss of Tk 0.82 million in 2005.

5.0 CORPORATE GOVERNANCE

Corporate governance is a blend of law, regulations, enforcement and appropriate voluntary practice by the organizations that permit a corporate to attract capital, perform efficiently and generate long term economic value for its shareholders while respecting the interest of its stakeholders and society as a whole. The specific areas covered are composition of Board, formation of Committees, transparency in disclosure of relevant, reliable financial and operational information, information on ownership and control, information on internal processing of management, use of information technology and system etc. The present practice of corporate governance in AB Bank may be delineated below:

5.1 Board

The Board of ABBL consists of 8 Directors including President & Managing Director (Ex-officio Director). The Directors other than President and Managing Director, are elected through AGM. But the election of the Directors has been postponed, as two Directors of the Bank filed suits in the High Court Division and got an injunction on the election of the Board of Directors. The Board is headed by Mr. Faisal M. Khan. The Board conducted 17 and 21 meetings during the year 2006 and 2005 respectively. In order to achieve objectives of the bank, the Board approves annual plan at the beginning of the year and review / examine the progress on quarterly basis. It provides guidelines to evaluate the loan proposals, loan sanction, recovery performances, rescheduling and write-offs etc. The Board formed two Committees namely Executive Committee (EC) and Audit Committee for performing the business effectively. The Board after apprising the operational results approves the decisions taken in the Executive Committee and Board Audit Committee meetings and provides necessary guidance to the management for operating business more effectively.

5.2 Executive Committee

The Executive Committee is constituted with all the members of the Board. The Committee is headed by Mr. Sajedur Seraj, Vice-Chairman of the Board. The formation of Executive Committee with all the Board members does not represent good corporate practice which needs restructuring. The Committee looks after the administration, reviews the projects, loan re-scheduling, investment aspects, development and expansion of business, opening of new branches, purchase of bank's property etc. The Executive Committee held 6 meetings in 2006 and 11 meetings in 2005.

5.3 Board Audit Committee

The Board Audit Committee (AC) comprises of 3 board members. The Committee is headed by the Chairman of the Board. Among the other two members one is the chairman of the Executive Committee (EC) and other is the member of the EC. The formation of Audit Committee though is as per BB's requirement but is not in compliant with the condition imposed by the Securities and Exchange Commission. As per SEC the Audit Committee should have at least one independent director. The duties and responsibilities of the Audit Committee are to evaluate the compliance culture, to review the measures taken for creation of suitable MIS, to see whether the recommendations made by the internal and external auditors are properly implemented, to review the existing Risk Management System and fraud and forgeries and weakness etc.

5.4 Delegation of Power

The delegation of power of AB Bank is limited. It delegated operational and approving power to the Executive Committee which is composed of all the Board members. The in-charge of branches and Regional Offices are empowered to sanction credit facilities up to a certain limit only against cash collateral and also against the acceptance of discount bills of other banks. Though the Head Office Credit Committee, CRM Division and Chittagong Regional Office are empowered to sanction both funded and non funded credit facilities but it is up to a certain limit. CRISL believes that the existing delegation and management practice needs review to ensure reasonable growth and efficiency of the bank in the present competitive business environment.

5.5 Management Committee

The management committee (MANCOM) of ABBL consists of 10 members headed by its President & Managing Director, Mr. Kaiser A. Chowdhury, a career banker having 25 years of working experience in various international and local banks including 4 years in ABBL. Mr. Chowdhury is

Eight Members Board

EC with all Board Members

Same Chairman in Board & AC

Limited Delegation of Power

Experienced Top Management

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Moderate HR Quality

*Training Facility to
Improve HR Quality*

*Moderate Credit Risk
Management*

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assisted by 2 SEVPs, 7 EVPs and 1 VP. These professionals are well experienced having modern banking knowledge, aware of Bank's mission and are able to achieve the same and compete with other banks. The Committee conducts business in a competitive and profitable manner, discusses various management issues and takes appropriate actions according to the power delegated to the President & Managing Director. The MANCOM conducted 19 meetings during the year 2006.

5.6 Human Resources Management

The quality of the human resources of ABBL is moderate. The ABBL follows structured service rules and offers average compensation package compared to the PCBs having other benefits such as Incentive Bonus Gratuity, Contributory Provident Fund and Superannuation Fund. The total number of employees of the bank was 1592 in 2006 against 1518 in 2005. The bank recruited 151 and 45 officers during the year 2006 and 2005 respectively and promoted 153 officials during 2005 and 397 during 2006. 89 officers left the bank during 2006 and 91 employees during 2005 with turnover was 5.59% during 2006. AB Bank has qualified and experienced successors in its succession plan as per guidelines of Bangladesh Bank. The 67 Branches are headed by 1 EVP, 16 VP, 26 SAVP, 23 AVP and 1 SPO.

5.7 Training

ABBL has been imparting training to its officers through its own Training Academy and other institutes both at home and abroad for their improvement of professional efficiency and quality. ABBL, during 2006, arranged training, workshops and seminars for 1329 officers in 72 different courses of which 1,105 participants attended in AB Bank Training Academy, 112 in its different Regions and branches, 32 in BIBM, 2 in Bangladesh Bank, 5 in BAFEDA, 34 participated in seminars and conferences in foreign countries and remaining 39 in other Institutes in the country. The training courses were on Credit Risk Management, Credit Risk Grading, Implementation of CTR/STR, Project Appraisal and Management, Combating AML, Internal Control and Bank Supervision, Orientation Course for Newly Recruited Officers, Basics of Banking Operation, Misys Trg. for EBA, customer Relationship Management, Islami Banking, Emerging Trends in the Banking and Financial Services Sector etc.

5.8 Management Information System


The use of MIS in ABBL is moderate and gradually improving. AB Bank is using internationally reputed banking application software 'EQUATION' from Misys to handle its day to day business and to meet its MIS report requirements. It has the capability to handle all the areas of banking needs. The bank has connected its 66 branches with Head Office and running banking application centrally from March 2007. However, the lone Islamic banking branch has been using Pc Bank 2000(LEADS) for its lone Islamic Banking Branch. Different divisions, departments and branches of the Bank are running their banking business and producing MIS reports for Management, Board and the Govt. Equation banking application software has got the various kinds of facilities to produce reports relating to G/L, P&L, Accrued Interest, Value dating interest calculation, Transactions reports, Deal reports etc. AB Bank has already purchased internet banking module from Misys and expected to commence its implementation soon. AB Bank is a member of Shared ATM Network where 69 ATMs located in different areas of the country are in operation. The Bank has got the plan for SWIFT operation, Clean payment etc. through the banking application which will satisfy global standard. AB Bank has also purchased modules to automate Treasury, AML-KYC functions which is expected to be implemented phase wise.

6.0 RISK MANAGEMENT

Risk management system and its application in practice is a critical part of the bank management. In order to implement the system-based banking through appropriate risk management system, the Bangladesh Bank has circulated Five Core Risks Management best practice Guidelines which consist of Internal Control Compliances, Credit Risk Management, Foreign Exchange Risk Management, Asset Liability Management and Prevention of Money Laundering. The compliance status of AB Bank is delineated below:

6.1 Credit Risk Management

Credit risk management is one of the main functions of Bank/FI management. The ABBL addresses all the credit risk through credit policy guidelines, which needs to be in pursuant to the Credit Risk Management (CRM) guidelines of Bangladesh Bank. However, ABBL follows credit policy of 2004 and imposed discretionary limit at different levels while receiving, processing and sanctioning of


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President and CEO
Credit Rating Information and Services Ltd.

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credits proposals. Branch and zonal offices dispose of the investment proposals up to their discretionary limits. Credit proposals exceeding the discretionary limits of the zones are sent to Head Office for approval. The Head office follows its own system of appraisal including Risk Grading Matrix and if approved, the branches/zonal offices are advised to issue the sanction letters. All investment proposals which do not fall within the discretionary power of the President & Managing Director are placed before the MC, EC and Board for final approval.

6.2 Asset Liability Management (ALM)

The AB Bank has been following the Manual of Asset Liability Management (ALM) prepared in accordance with the guidelines of Bangladesh Bank with effect from 31.May 2004. The main responsibilities of the Asset Liability Committee (ALCO) are to assume overall responsibilities of Money Market activities, manage liquidity and interest rate risk of the bank, comply central bank regulations in respect of bank's statutory obligations and understanding of the risk elements involved in the business & market dynamics i.e. competition, potential target markets etc. provide information to the Treasurer regarding market views & update the balance sheet movement, deal within the dealer's authorised limit and money market process flow chart. In this connection, ALCO analyze, review reports on liquidity risk, market risk and capital management, deposit- pricing strategy for the local market, the maturity of assets and liabilities, balance sheet gaps, interest rate gap and the liquidity contingency plan. The ALCO consists of 7 members headed by President & Managing Director. The committee conducted 12 meetings during 2006 and 13 meetings in 2005 against minimum 12 meetings per year as per guideline of Bangladesh Bank. The key agenda of the meetings were liquidity risk related to the Balance Sheet, economic and market status and outlook, review of the price and interest rate structure, FX rates, investment rate changing, deposit mobilization or Asset growth in right buckets, Cash flow plan etc.

6.3 Balance Sheet Gap

The maturity structure of assets and liabilities of AB Bank improved substantially during 2006 compared to 2005. It shows minimal gap under the different time framework of assets and liabilities as on 31 December 2006. In less than one month time bucket, the short term assets covers 91.36% of the liabilities while in the one to three months category it covers 97.70% of the liabilities. In three months to twelve months bucket, one to five years buckets and above five years bucket, the assets covers liabilities by 7.48%, 13.69% and 228.47% respectively. It appears from the above that the bank will face liquidity problems within the time bucket of up to one month and one to three months for which the bank may be required to go to money market to borrow money at higher rate.

6.4 Operational Risk Management

6.4.1 Internal Control and Compliance

Operational risk may arise from lapses, deficiencies in documentation and fraud due to lack of effective internal control and compliance. In order to ensure effective Internal Control and Compliance, its organizational structure, reporting line and management systems have been brought in line with the Bangladesh Bank guidelines. The Bank has developed Risk Based Audit Format and as per this format the branches are being audited from 2007. Internal control and compliance division reviews loan documents, checklist and documents for sanctioning credit facilities to safeguard bank's fund lent to borrowers and reports to the management if there is any deficiency. ICCD reviews the Quarterly Operations Report on bank activities and to see whether regulatory compliance, guidelines and instructions are properly implemented and report to the President & Managing Director about the lapses and deficiencies are found. It also makes comprehensive and special audit of the Branches and report to the Board's Audit Committee and President & Managing Director about the irregularities detected for their review and taking appropriate actions for early regularization. The ICCD completed auditing of all 67 branches during 2006 and 65 branches during 2005.

6.4.2 Prevention of Money Laundering

Money laundering risk is related to the loss of reputation and expenses incurred as penalty for being negligent in prevention of money laundering. The bank formulated its "Operational Manual on Prevention of Money Laundering" in June 2004 to mitigate the risk. A three members working group headed by Compliance Officer was formed in every branch in June 2004 for updating KYC of legacy accounts and completion of updating KYC procedure by 31 January 2010. The Branches were advised by the bank to monitor the transactions in order to find out the suspicious/irregular transactions as per MLPA 2002. The bank has already detected 26 cases of suspicious transactions in 2004 and 3 cases in 2005 and forwarded the cases to Bangladesh Bank. But the bank has not yet

Improved Balance Sheet
Gap

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received any instruction in this respect from Bangladesh Bank. However, no case of suspicious transaction has been detected in 2006. The bank has been forwarding Cash Transactions Report & Suspicious Transaction Reports (STR) to Bangladesh Bank every month. Moreover, the bank has been providing training to its employees of all levels for creating their awareness to combat money laundering.

6.5 Market Risk

The major market risks are arising from Interest Rate Risk, Foreign Exchange Risk, Commodity Risk and Equity Investment Risk. CRISL reviews the above risks as follows:

6.5.1 Interest Rate Risk

The banks and FIs while determining the interest rate in the product considers market volatility. However, due to many reasons beyond control, interest rate fluctuates in the market which ultimately poses risk for the banks/ FIs. The increasing trend of interest rate in the market creates substantial interest rate risk for the banks. Being a scheduled bank with significant market share ABL, although following flexible interest rate in product pricing carries interest rate risk.

6.5.2 Equity and Commodity Financing Risk

AB Bank has equity risk as it has investment in shares 46 different companies in country's share market. The bank has a total investment of Tk 1331.91 million in 2006 and Tk 614.24 million in 2005. Market prices of quoted shares surged to Tk 1,500.87 million in 2006 against the cost price of Tk 1301.99 million. The bank is exposed to equity risk if market prices of shares go down than the cost price. The bank also holds commodity financing risk since it has investment in commodity based industries like Agriculture (0.72%) RMG & Textile (9.54%), Food (0.02%), Paper, Paper products and Metal (0.02%) etc as on December 31 2006.

6.5.3 Foreign Exchange Risk

Foreign exchange risk is defined as the potential change in earnings arising due to change in market prices. Foreign Exchange Risk may also arise from forward and future options. In the recent past, some of the local banks sustained a huge amount of loss in Foreign Exchange dealings. In view of the above, Bangladesh Bank imposed restrictions on forward dealings and issued guidelines on foreign exchange risk management. As per guidelines of Bangladesh Bank, ABL has been conducting the Foreign Exchange Risk through the "Manual of Foreign Exchange Risk Management." prepared on the basis of Bangladesh Bank guidelines since April 2004. ABL has developed different strategies of handling foreign currency risk and sets different limits. Bank maintains various nostro accounts in order to conduct operations in different currencies including Bangladeshi Taka. The senior management of the bank set limits for handling nostro accounts transactions that include time and amount limits. During the year 2005 the bank had 3 unreconciled debit entries for more than 3 months amounting to US\$ 2800.00 as on 31 December 2006. It has been reported that the bank has reconciled all the entries up to 31 December 2006 except one credit entry for ACUD 1,150.00. It has also been observed that the import business of by the bank is quite higher(37%) than the export and remittances for which the bank is to purchase the hard currency from inter bank market which is to be realized from the clients.

7.0 PERFORMANCE

The overall performance of ABL is moderate. CRISL reviews the performances of a bank in terms of financial performance and operating efficiency. The performances of ABL has been reviewed as follows:

7.1 Financial Performance

The financial performance of ABL is moderate. The evaluation of financial performance of a bank can be measured in terms of Net Profit Before Tax (NPBT), Return on Average Assets (ROAA), Return on Average Equity (ROAE) and Earnings Per Shares (EPS). The NPBT of AB Bank has increased to TK.532.19 million in 2006 from TK.407.45 million in 2005 with a growth of 30.61%. The ROAA in 2006 has increased to 1.31% from 1.24% over previous year against the peer average of 2.24% in 2006. However, both the ROAE and NIM have decreased in 2006. The return on equity (ROAE) was 25.90% in 2006 against 29.41% in 2005 and peer average of 39.36% in 2006. Similarly the net income margin (NIM) of the bank has been reduced to 2.22% in 2006 compared to 3.39% of the previous year and 3.30 % of peer average (2006). The earning per share (EPS) of the bank has increased considerably to TK.93.08 during 2006 in view of non provision of taxes.

Moderate Financial
Performance

CREDIT RATING REPORT ON ARAB BANGLADESH BANK LIMITED



Moderate Operating
Efficiency

Average Asset Quality

Diversified Loan
Portfolio

Increasing Large Loan

7.2 Operating Efficiency

The operating efficiency of ABBL is moderate compared to other first generation banks. CRISL evaluates operating efficiency in terms of operating income, operating expenses, cost-to-income ratio, and yield per staff cost. The total operating income stood at TK.2,650.17 million during 2006 compared to TK.1,577.50 million over the previous year with a growth rate of 68.00%. One of the main reasons for such increase is the gain from the sale of shares as stated above. The total operating expenses during 2006 was TK.1,939.48 million against TK.822.47 million of 2005 and the percentage of increase was 135.81% mainly due to write off of un-reconciled entries in foreign exchange dealings for TK. 950.74 million. The cost to income ratio of the bank deteriorated significantly and stood at 73.18 % in 2006 compared to 52.14% in 2005 against the peer average of 49.05%. The yield per 100 Taka staff cost of ABBL is also low and decreased to only Tk 124.97 in 2006 against TK. TK.160.28 in 2005 and peer average of Tk 217.00 in 2006. The personal expenses to total average assets decreased to 1.40% during 2006 compared to 1.44% in 2005. The other operating expenses has increased substantially from TK.101.28 million to TK. 1109.81 million in 2006. The operating expense to average assets was 4.79% during 2006 compared to 2.51% in 2005.

8.0 ASSET MANAGEMENT

The overall asset quality of the bank is average. ABBL's total assets increased to Tk.47.99 billion on December 31, 2006 against TK. 33.06 billion in 2005 with a growth rate of 45.16%. The above asset footing is financed by shareholders' equity (5.38%), customer deposits (77.49 %) and 17.13% by other sources.

8.1 Non-performing Loan (NPL)

The total net loans and advances of ABBL was TK. 30.68 billion as on 31 December 2006 which was 63.93 % of its assets. Against the above net loans and advances, the bank had a gross non-performing loan of Tk1.26 billion indicating NPL ratio of 4.02% in 2006 which was lower than the peer average of 5.10%. The gross NPL was reduced to TK. 1.26 billion in 2006 from TK. 1.76 billion in 2005 mainly due to write off of loans and advances and recovery of classified loans & advances during the YE 2006 (Write off of Tk 126.41 million and Recovery of Tk 485.77 million). In view of the above the Gross NPL ratio reduced to 4.02% in 2006 from 8.21% in 2005. (Gross NPL ration stood at 4.41% without write off) The NPL coverage ratio of the bank has also improved to 72.41% in 2006 from 38.20% in 2005 against the peer average of 100.89% in 2006. The Bank's 20 defaulted loans stood at TK. 973.60 million representing 77.26% of total classified loans and advances. It is worth mentioning here that the Bank has filed law suits for TK. 3856.37 million against written off loans.

8.2 Sectoral Concentration

The loan portfolio of ABBL during 2006 was well diversified and covers various sectors every year after considering macro economic condition of the country and profitability of the bank. The loan composition of the bank during 2006 revealed that 45.08% loans are for commercial lending, 15.83% loans are for working capital finance, 8.32% large and medium scale industry, agriculture 0.68%, export 2.78% and 27.18% are for others. ABBL does not have any outstanding loan in government sector. Considering the macro economic environment of the country, impact of globalization and future prospects the bank has decided to increase its exposure in RMG, large and medium scale industry, Export and commercial lending.

8.3 Large and Director's Loan

The total number of large loans more than 10% of Bank's total capital increased in 2006 covering 71 clients and stood at TK. 10,578.70 million(funded) representing 35.88% of total loans & advances compared to TK. 6,204 20 million covering 47 clients in 2005. No director and their related parties were found in the defaulting list as on 31 December 2006. The total outstanding amount including interest of one Ex-Director, Beximco Holdings Ltd. (previously, Beximco Investment Company Ltd) of the bank was TK. 2,214.61 million of which TK. 1827.60 million was written off in December 2004 as per Bangladesh Bank's guidelines and approval leaving a balance of TK. 387.10 million as on 31 December 2006 which was fully covered by eligible securities. Subsequently as per client's approach the suit was disposed off by Artha Rin Adalat awarding a decree on 12 October 2006 and accordingly the client would pay TK.210.00 million by 12 April 2007 and TK. 177.10 million by 12 April 2008. The client has paid TK.198.60 million up to 15-February 2007. A significant portion of the bad loans (TK973.60 million) are with the top twenty defaulters.

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Marginal Capital
Adequacy

Stable Sources of Fund

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8.4 Rescheduled Loans and Advances

AB Bank follows Bangladesh Bank guidelines on rescheduling of loans and advances. The ABL has rescheduled a considerable amount of loans and advances in YE 2006. Bank has total rescheduled loans of TK. 936.34 million concentrated on 193 accounts in YE 2006 while this was Tk. 800.60 million concentrated on 158 clients as on 31 December 2005. During 2006 the bank recovered TK. 485.77 million out of which 421.79 million was the principal amount. However, it is observed that the rescheduled amount has been reduced to TK. 489.88 million concentrated on 62 accounts as on 31 May 2007.

8.5 Off-Balance Sheet Exposure

Off-Balance Sheet Exposure of ABL has increased considerably during 2006. The contingent liabilities of the bank has increased to TK. 21,112.28 million from TK. 14,527.06 million showing an increase of 45.33%. Total contingent liabilities holds 30.55% of total footings (assets with contra) and 43.99% of the total assets base. The contingent liabilities of the bank consist of 36.96% Letter of credit, 13.83 % Letter of Guarantee, 14.09% Acceptance & Endorsement, 12.18 % Bills for collection and 22.94% other contingent liabilities. The Off-Balance Sheet Risk Weighted Assets to total risk-weighted assets of the bank was 9.17% as on 31 December 2006.

9.0 CAPITAL ADEQUACY

The capital adequacy of bank is at the minimum requirement for last few years. The total risk weighted assets of the bank stood at Tk.28.85 billion during YE 2006 from Tk.18.83 billion with a growth of 53.21%. Based on the above the risk weighted capital adequacy ratio (RWCAR) of the bank at YE 2006 stood at 9.23% against the minimum requirement of 9.00%. The bank has been maintaining the required ratio for last several years and it was 9.17% and 9.09% in YE2005 and YE 2004 respectively. The Tier-I ratio stood at 6.73% and 7.44% in YE 2006 and YE 2005 respectively against the requirement of 4.5%. The core and supplementary capital growth of the bank increased to 54.22% in YE 2006 over YE 2005. The shareholders' funds to total assets have further improved during the year 2006 which stood at 5.38%, 4.62% and 3.82% in YE 2006, YE 2005 and YE 2004 respectively against peer average of 5.80% in YE 2006. However, Tier-II capital include an amount of Tk 316.71 million as Asset Revaluation Reserve, a non cash transaction as a part of the capital. If the above is excluded, the CAR stands at 8.14 of the total risk weighted asset. Therefore CRISL considers that the bank has deficiency in capital adequacy although the Bangladesh Banks Rules permits such adjustment of Revaluation Reserve. The shareholders funds to deposits and borrowing were 5.95% and 5.22% during the year 2006 and 2005 respectively. The internal capital generation of the bank increased to 32.10% in YE 2006 compared to 13.89% in YE 2005 and against peer average 23.65% of YE 2006. The leverage ratio came down to 17.58% in 2006 from 20.66 % in 2005 and the peer average of 17.12 %.

10.0 LIQUIDITY AND FUNDING

10.1 Liquidity

The liquid assets of the bank has increased to TK.9,854.73 million in 2006 from TK.6,141.41 million in 2005 and the growth is 60.46%. The cash reserve of the bank is TK.1,787.53 million against the required reserve of TK.1,776.42 million having a surplus of TK. 11.11 million. The statutory liquid reserve of the bank is TK. 5,010.13 million against the requirement of TK. 4,618.70 million and thus there is a surplus of TK.391.43 million. The total surplus is TK.402.54 million in 2006 compared to TK.305.76 million in 2005. The cash reserve ratio and statutory liquidity ratios have increased to 22.72% in YE 2006 compared to 20.98% in YE 2005 against 18% requirement of SLR as set by the Bangladesh Bank. The loans to deposits ratio of the bank has increased significantly and stood at 84.14% in YE 2006 compared to 78.59% in YE 2005 and peer average of 80.74% in YE 2006.

10.2 Fund Management

The Bank has been enjoying stable source of funding over the years. The major source of funding of the bank is the customers' deposits which was 88.37% of the total deposits compared to the peer average of 97.39% in YE 2006. The total deposits of ABL increased significantly by 53.78% in YE 2006 over the previous year and customers' deposits were increased by 36.65% during the same period. The total cost of fund has increased to 10.04% in YE 2006 from 8.60% in YE 2005 and 8.53 % in YE 2004.

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ABBL for its funding base largely depends on term deposits. The total deposits comprised of term deposits 55.53%, savings deposits 19.44 % and other deposits 25.03% during 2006. The growth of term deposits was 92.66% , savings deposits 17.69% and other deposits 27.15% in YE 2006 over YE 2005

11.0 SWOC ANALYSIS

<p>Strengths</p> <ul style="list-style-type: none"> <input type="checkbox"/> Stable sources of fund. <input type="checkbox"/> Adequate branch network. <input type="checkbox"/> Diversified product base. <input type="checkbox"/> Experienced top management. <input type="checkbox"/> Minimal maturity gap. <input type="checkbox"/> Satisfactory market share <input type="checkbox"/> Satisfactory non-funded business <input type="checkbox"/> Merchant banking operation 	<p>Weaknesses</p> <ul style="list-style-type: none"> <input type="checkbox"/> Poor corporate governance <input type="checkbox"/> Moderate human resources quality <input type="checkbox"/> Moderate credit risk management <input type="checkbox"/> Marginal capital adequacy <input type="checkbox"/> Moderate financial performance and operating efficiency <input type="checkbox"/> Moderate MIS <input type="checkbox"/> Average asset quality
<p>Opportunities</p> <ul style="list-style-type: none"> <input type="checkbox"/> SME and Agro based industry loan. <input type="checkbox"/> Basel-II compliance to tap advantages from risk management system. 	<p>Challenges</p> <ul style="list-style-type: none"> <input type="checkbox"/> Competitive deposit market <input type="checkbox"/> Market pressure for increasing the SLR <input type="checkbox"/> Implementation of Basel-II <input type="checkbox"/> Unstable commodity market

12.0 PROSPECTS

The financial sector of Bangladesh is now considered to be the most regulated sector compared to other sectors. As many as 48 banks are now in operation in a small economy like Bangladesh. Consequently, the financial institutions have been facing tough competition in grabbing market share and increased 45% tax to the Government.

Macroeconomic indicators of Bangladesh were volatile during the last ten months of the fiscal year 2005-06. The economy is facing high inflation and turmoil in the money market due to exorbitant rate of imported oil and several times devaluation of local currency against foreign currency. In order to ease the inflationary pressure and to control excessive credit, Bangladesh Bank has been following contractionary monetary policy since beginning of the year 2005. Banks are being encouraged to increase interest rate, both deposit and lending sides and BB itself increased CRR from 4.00% to 5.00% from March 2005. As a result, the inter bank money market has been facing severe liquidity shortage and the inter bank borrowing rate has been showing upward trend.

Despite the above setbacks, the macro-economy outlook for fiscal year 2005-06 remained favorable due to anticipated robust harvest of the aman crop, enhanced remittances from abroad, strong performance in the ready made garments industry and overall growth in the industrial and service sectors. After reviewing the favorable state of the economy, the Government and development partners envisage a 6% to 6.8% GDP growth in the fiscal year 2005-06 which is still, however, lower than the 7%, required to achieve the Millennium Development goals. Industrial production continues to register strong performances reflecting steady growth despite the earlier concerns about the adverse effect on the industrial sector on account of the ending of MFA quotas. Overall growth in the industrial sector, during the year 2005, increased to 8.6%, which is reasonably higher than last year's 7.6%.

Amid many predictions about the open trade regime after the post-MFA era, export earnings during the first nine months of 2005 reached a record high of US\$ 6.7 billion compared to US\$ 6.4 billion

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in the same period of last year. Import during the first tenth months of 2005 witnessed a growth of around 21% which dented the foreign exchange reserve. Foreign exchange reserves which stood at US\$ 2.8 billion, at the end of 2005, lower by 11% against last year's US\$ 3.2 billion, has become one of the major concerns during the year 2005.


Bank for International Settlement (BIS) has issued Basel-II Capital Accord, which is in the process of implementation globally. Under this framework, capital adequacy will be determined in either Standardized Approach or Internal Rating Based Approach. Most of the developed and developing countries even our neighboring countries have already taken initiatives to implement Basel-II beginning of 2007. Realizing the importance, Bangladesh Bank has already declared the implementation strategy of Basel-II by the beginning of 2009 as said earlier.

AB Bank has been making strong customers' confidence since its inception, which has brought satisfactory business growth, good performance trend and wide branch network. Best banking depends on comprehensive risk management, modern banking knowledge and swift customer services through real time on line banking.

In order to maintain the accelerated business growth, AB Bank will have to invest money for the development of IT infrastructure, HR quality and research. However, the present President & Managing Director, Mr. Kaiser A. Chowdhury along with management team is aware of the banks' objectives, strengths and weaknesses. The Management team has the potential to overcome the weaknesses and to make the bank as one of the best bank in the country. However, the success of the bank will depend on improvement of corporate governance, proper implementation of Core Risk Management, achieving good profitability and at the same time maintaining good asset quality.

END OF THE REPORT

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Muzaffar Ahmed, FCMA, FCS
President and CEO
Credit Rating Information and Services Ltd.



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CORPORATE INFORMATION:

Date of incorporation: December 31, 1981
Date of commencement of Business: February 27, 1982
Date of Listing: DSE December 28, 1983
 CSE January 1996

Board of Directors:

Mr. Faisal M. Khan	Chairman
Mr. Sajedur Seraj	Vice - Chairman
Mr. Syed Golam Kibria	Government nominated Director
Mr. Golam Sarwar	Director
Mr. S.M. Salahuddin	Director
Mr. Mohammad Tipu Sultan, FCA	Director
Mr. D.S. Faisal Hyder	Director
Mr. Kaiser A. Chowdhury	President & Managing Director

Company Secretary: Mr. Badrul Haque Khan, FCA

Auditors: S.F.Ahmed & Co., Chartered Accountants.

Management committee:

Name of the In-Charge	Designation	Division/ Department
Mr. Kaiser A. Chowdhury	President & Managing Director	
Mr. R.Q. M. Forkan	SEVP	Head of Operation
Mr. Ghulam Rabbani	SEVP	Head of Business Banking
Mr. Akter Hamid Khan	EVP	Head of ID
Mr. Mohammad Fazlur Rahman	EVP	Head of Finance / CFO
Mr. Badrul Haque Khan	EVP	Company Secretary
Mr. Faruq Mayeenuddin Ahmed	EVP	Head of CRM
Mrs. Shamshia I. Mutasim	EVP	Head of HRD
Mr. Abu Hena Mustafa Kamal	EVP	Head of Treasury
Mr. Mufakhkharul Islam	EVP	Head of Merchant Banking Wing
Mr. Amzad Hossain	VP	Head of ICC

Capital History:

Year	Authorized Capital (Million Tk.)	Issued, Subscribed and Paid-up Capital (Million Tk.)	Rate of Increase (%)	Source of Paid-up Capital
1982	200.00	80.00		Cash (sponsors)
1983	200.00	85.00	6.25	Govt.'s Shares
1984 - 1990	200.00	100.00	17.65	IPO
1991	200.00	150.00	50.00	Right Shares
1992	800.00	171.43	14.29	Bonus Shares
1993	800.00	200.00	16.66	Bonus Shares
1994	800.00	220.00	10.00	Bonus Shares
1995	800.00	256.67	16.67	Bonus Shares
1996	800.00	282.33	10.00	Bonus Shares
1997	800.00	338.80	20.00	Bonus Shares
1998	800.00	372.68	10.00	Bonus Shares
1999 - 2002	800.00	409.95	10.00	Bonus Shares
2003	800.00	471.44	15.00	Bonus Shares
2004	800.00	495.01	5.00	Bonus shares
2005	800.00	519.76	5.00	Bonus Shares
2006	2000.00	571.74	10.00	Bonus Shares

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FINANCIALS A: Balance Sheets

Figures in Million Tk.

Particulars	2006	2005	2004	2003
Cash in Hand	519.83	447.61	424.56	351.82
Cash with BB & Other Banks/FIs	2727.24	1487.81	2485.69	3067.81
Cash with Other Banks/FIs	1273.35	540.80	994.14	805.62
Money at Call & Short Notice	517.15	389.84	437.50	795.23
Total Cash	5037.57	2866.06	4341.90	5020.47
Investment in Securities (Govt.)	4817.15	3275.36	6379.12	2903.04
Investment in Others Securities	1484.14	785.59	359.03	432.83
Total Investment	6301.29	4060.95	6738.15	3335.87
Total Loans, Adv. & Bills	31289.25	21384.63	17008.50	20435.24
Fixed Assets	1148.46	370.06	276.67	285.20
Other Asset	4212.76	4383.71	4148.27	3892.68
Total Assets	47989.34	33065.40	32513.48	32969.45
Inter-Bank Borrowing	1297.38	1910.53	761.46	681.04
Current A/Cs & Others A/Cs	9854.14	4828.49	4539.35	4912.35
Bills Payable	538.58	545.67	573.56	0
Savings Bank Deposits	8179.51	9208.64	8414.64	8061.97
Bearer Certificates of Deposits	140.86	127.49	126.41	111.46
Term Deposits	23363.90	12127.31	13802.70	14174.39
Deposits under Schemes	0	523.83	842.56	0
Deposits & Other A/C	42077	27361.44	28299.23	27260.16
Other Liabilities	2032.20	2266.55	2209.21	3892.27
Total Outside Liabilities	45406.57	31538.52	31269.90	31833.47
Paid Up Capital	571.74	519.76	495.01	471.44
Reserves & Others	2011.02	1007.12	748.56	664.54
Shareholders' Equity	2582.76	1526.88	1243.58	1135.98
Total Liab. & SHs' Equity	47989.34	33065.40	32513.48	32969.45

B: Income Statements

Figures in Million Tk

Particulars	2006	2005	2004	2003
Interest Income	3378.34	2262.95	2051.74	2198.91
Int. Paid on Depo. & Borrowings	2762.83	1571.54	1540.84	1691.93
Net Interest Income	615.50	691.41	510.90	506.98
Investment Income	974.52	317.47	408.40	229.00
Fee, Comm., Exchange & Brokerage	740.61	486.44	436.43	492.85
Other Non Int. Income	319.54	82.18	104.63	64.39
Total Non Int. Income	2034.66	886.09	949.45	786.23
Total Operating Income	2650.17	1577.50	1460.36	1293.22
Salary, Allowance & PF	568.68	471.07	419.95	400.27
Other Operating Expenses	1370.80	351.41	680.34	729.59
Total Operating Expenditure	1939.48	822.47	1100.29	1129.87
Profit/Loss before Provisions	710.69	755.03	360.07	163.35
Prov. for Unclassified Loans	127.50	30.00	0	0
Prov. For Classified Loans	35.00	182.11	170.00	105.00
Prov. For Investments & Others	16.00	135.46	0	11.23
Total Provisions	178.50	347.57	170.00	116.23
Net P/L before Taxes	532.19	407.45	190.07	47.12
Provisions for Tax	0	245.00	100.00	30.00
Net P/L after Tax	532.19	162.45	90.07	17.12

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CRISL RATING SCALES AND DEFINITIONS LONG-TERM - FINANCIAL INSTITUTIONS

RATING	DEFINITION
AAA Triple A (Highest Safety)	Financial Institutions rated in this category are adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of banks.
AA+, AA, AA- (Double A) (High Safety)	Financial Institutions rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- Single A (Adequate Safety)	Financial Institutions rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Financial Institutions rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a bank is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above-mentioned limitations.
BB+, BB, BB- Double B (Inadequate Safety)	Financial Institutions rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates a bank as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (High Risk)	Financial Institutions rated in this category are adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems, which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support.
C (Very High Risk)	Financial Institutions rated in this category are adjudged to be with very high risk of timely repayment of financial obligations. This level of rating indicates entities with very serious problems and unless external support is provided, they would be unable to meet obligations in a timely fashion.
D (Default)	Financial Institutions rated in this category are adjudged to be either currently in default or expected to be in default. This level of rating indicates that the entities are unlikely to meet maturing financial obligations and calls for immediate external support of a high order.

SHORT-TERM - FINANCIAL INSTITUTIONS

ST-1	Highest Grade Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding. Safety is almost like risk free Government short-term obligations.
ST-2	High Grade High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.
ST-3	Good Grade Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.
ST-4	Satisfactory Grade Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.
ST-5	Non-Investment Grade Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.
ST-6	Default Issuer failed to meet scheduled principal and/or interest payments.