

Company Overview

The City Bank Limited, one of the first generation scheduled commercial banks, started its operation in March 1983. The principal activities of the Bank are to provide a comprehensive range of financial services including commercial banking, consumer banking, trade services, SME, retail, custody and clearing services to its customers. At present, the bank is operating with 132 branches, 20 SME unit offices, 7 Priority Centers and 154 Agent Banking Outlets as of December 2018.

The Bank has three subsidiary companies – City Brokerage Limited (99.99% ownership), City Bank Capital Resources Limited (99.99% ownership) and CBL Money Transfer Sdn. Bhd. (CBLMT) (100.0% ownership). The main activities of these companies are to carry on the business of stock brokerage, merchant banking operations and engaged in inbound and outbound remittance service provider to cater the diverse needs of the customers.

Composition and Growth of Consolidated Operating Income:

(BDT mn)	2015	2016	2017	2018	2019 (HY)
Interest Income	15,228	16,057	16,819	22,971	12,841
Interest Expense	9,823	9,546	9,280	13,741	7,585
Net Interest Income	5,405	6,511	7,539	9,230	5,255
Net Interest Margin*	4.2%	4.1%	4.0%	4.3%	4.3%
Operating Income	13,087	14,889	15,189	16,605	9,277
Growth*	21.6%	13.8%	2.0%	9.3%	18.9%
As % of Operating Income					
Net interest income	41%	44%	50%	56%	57%
Investment income	35%	33%	20%	13%	12%
Commission and brokerage income	16%	16%	22%	22%	18%
Other op. income	8%	7%	9%	10%	13%
Growth*					
Net interest income	7%	20%	16%	22%	25%
Investment income	58%	8%	-38%	-29%	10%
Commission and brokerage income	9%	13%	36%	9%	4%
Other op. income	16%	4%	25%	23%	27%

*Growth for 2019 is calculated for 6 months over the same period of the last year.

*Net Interest Margin (approx.): Net interest income/last 2-year average of loans & advances

Historical Loans & Advances and Term Deposits:

(BDT bn)	2015	2016	2017	2018	2019 (HY)	5 Year CAGR
Loans & Advances	143	176	197	232	259	--
% of Total Asset	67%	68%	71%	71%	74%	--
Growth (YoY)	23%	23%	12%	18%	12%	20.6%
Term Deposits	143	174	183	205	231	--
% of Total Asset	67%	67%	66%	63%	66%	--
Growth (YoY)	21%	22%	5%	12%	13%	13.9%
AD* Ratio	79.2%	80.4%	84.9%	82.5%	82.9%	--

*Source: Half Yearly Earnings Disclosures of the Bank, June 2019

Shareholding Structure:

The Bank was enlisted with the DSE and CSE in 1986 and 1995 respectively.

As on	Sponsor	Govt.	Instt.	Foreign	Public
30-Jun-19	30.29%	0.00%	22.10%	11.69%	35.92%
31-Dec-18	30.29%	0.00%	21.89%	12.43%	35.39%
31-Dec-17	30.23%	0.00%	18.45%	15.02%	36.30%
31-Dec-16	28.88%	0.00%	23.38%	2.66%	45.08%

Company Fundamentals

Market Cap (BDT mn)	28,662.1
Market weight (Based on Mkt Cap)	0.9%
No. of Share Outstanding (in mn)	1,016.4
Free-float (Public +Inst.+Foreign)	69.7%
Paid-up Capital (BDT mn)	10,163.9
3 Months Daily Average Turnover (BDT mn)	24.9
3 Months Return	16.2%
Current Price (BDT)	29.6
52-week price range (BDT)	22.5 - 36.3
Sector Forward P/E	8.2

	2016	2017	2018	2019 (6M Ann)
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Financial Information (BDT mn):

Operating Income	14,889	15,189	16,605	18,553
Operating Profit	7,780	6,802	6,994	8,150
Profit Before Tax	5,633	5,114	4,683	6,710
Profit After Tax	4,063	3,459	2,225	3,691
Shareholder's Equity	24,504	26,179	24,917	25,902
Deposit	174,418	182,903	204,860	230,983
Loans and Advances	176,046	197,073	231,875	258,836
Investment	27,896	31,932	33,488	33,324
Total Asset	259,402	278,067	326,940	349,803

Margin:

Operating Profit	52.3%	44.8%	42.1%	43.9%
Pretax Profit	37.8%	33.7%	28.2%	36.2%
Net Profit	27.3%	22.8%	13.4%	19.9%

Growth:

Loans & Advances	23.1%	11.9%	17.7%	11.6%
Deposits	21.6%	4.9%	12.0%	12.8%
Equity	-0.3%	6.8%	-4.8%	4.0%
Operating Income	13.8%	2.0%	9.3%	11.7%
Operating Profit	14.9%	-12.6%	2.8%	16.5%
Net Profit	13.1%	-14.9%	-35.7%	65.9%

Financial Indicators:

Credit/Deposit	80.4%	84.9%	82.5%	82.9%
Asset/Equity	10.6	10.6	13.1	13.5
Capital Adequacy	13.2%	14.7%	13.4%	--
NPL	6.0%	5.4%	5.3%	--
Cost to Income	47.6%	53.9%	58.0%	--

Profitability:

ROE	33.2%	26.4%	17.9%	28.5%
ROA	3.1%	2.5%	1.4%	2.1%

Dividend History:

Dividend % (C/B)	24/-	19/5	6/5	-/-
Dividend Yield	8.8%	3.6%	2.0%	--
Dividend Payout	60.0%	55.8%	27.4%	--

Valuation:

Price/Earnings	7.3	8.5	13.2	8.0
Price/BV	1.2	1.1	1.2	1.1
EPS (BDT)	4.0	3.4	2.2	3.6
NAVPS (BDT)	24.1	25.8	24.5	25.5

Industry Overview

The banking sector in Bangladesh comprises four categories of scheduled banks- state-owned commercial banks (SCBs), state-owned development financial institutions (DFIs), private commercial banks (PCBs) and foreign commercial banks (FCBs).

Number of Banks: At present, there are 59 scheduled banks that operate in Bangladesh under full control and supervision of Bangladesh Bank. There are 6 State Owned Commercial Banks (SOCB), 3 Specialized Banks, 33 Conventional Private Commercial Banks, 8 Islami Shariah based Private Commercial Banks and 9 Foreign Commercial Banks. As per the annual report of the Bangladesh Bank, at the end of December 2018, total number of bank branches increased to 10,254 from 10,034 in December 2017.

Loans and Advances: The asset structure of the banking industry continued to be dominated by loans and advances, which secured 66.49 percent share in 2018 while it was 64.99 percent in 2017. This increase was due to the growth in loans and advances by 14.1 percent in 2018 compared to 18.9 percent in 2017. Total loans and advances of the banking system stood at BDT 9,685.0 billion as of December 2018.

Deposits: Deposits served as the main sources of funds for the banking industry. According to the financial stability report 2018, total deposits of the bank sector was BDT 11,186 billion as of December 2018 which was BDT 10,119.3 billion in last year, registering 10.5% year over year (YoY) growth.

Advance-Deposit Ratio (ADR): The ADR of all banks has been re-fixed at 83.50 percent for conventional banks and at 89 percent for Shariah-based Islamic banks. The earlier ratios were 85 percent and 90 percent respectively. The revised limit of ADR came into effect from June 2018. The ADR of the banking industry increased to 77.6 percent at end-December 2018 from 75.9 percent at end- December 2017 and 71.9 percent at end-December 2016 as the growth of loans and advances continued to outpace the deposits growth during the review year. However, the ADR of the banking industry remained below the allowable limit set by BB.

Private Sector Credit: Private sector credit growth hit 6-year low in June 2019 amid rising liquidity crisis in the country's banking sector due to soaring non-performing loans and poor deposit growth. As per the latest Bangladesh Bank data, the private sector credit growth slumped to 11.29 per cent in June, well below the BB target to reach 16.5 per cent credit growth by the month. The growth rate in June was the lowest since June, 2013 when it was 11.04 per cent. The government's heavy borrowing from banking sector in June, the last month of the previous financial year 2018-2019, to complete its annual development programme also affected loan disbursement to private sector.

CRR & SLR: Currently, the scheduled commercial banks have to maintain a CRR (cash reserve ratio) averaging 5.5% daily on a biweekly basis against average total demand and time liabilities (ATDTL) of the second preceding month. The current rate of SLR (statutory liquidity reserve) for conventional banks is 13.0% and for islami shariah based banks is 5.5% of ATDTL.

Liquid Assets: As of December 2018, the market share of liquid assets declined for the PCBs and increased for the SCBs. In particular, SCBs' share increased by 2.3 percentage points, while the share of PCBs reduced by 7.2 percentage points. It appears

that PCBs are reducing their liquid asset holdings while focusing more on earning assets. However, the substantial reduction in liquid asset holdings along with a very high ADR might trigger liquidity stress in some of the PCBs. To avoid such problem, Bangladesh Bank has already instructed the banks to bring down their ADR within allowable limit by September 2019.

Non-Performing Loans (NPLs): Gross nonperforming loan (NPL) ratio showed an upward trend throughout 2018. Particularly, rising NPL ratio in the SCBs appeared to be a concern as these banks had dragged down the overall asset quality of the banking sector. Despite close monitoring by the central bank, the amount of non-performing loans (NPLs) jumped by over 26 percent in 2018 over December 2017. The volume of NPLs rose to BDT 939.11 billion as of December 2018 from BDT 743.03 billion as of December 2017. The NPLs now accounted for 10.30 percent of the banking sector's total loans, up from 9.31 percent in 2017, according to the central bank's latest statistics. (The Daily Star, 27 February 2019). In 2018, the banking sector experienced a decline in net profit due mainly to higher provision requirement. As of March 2019, percentage share of classified loan to total outstanding further increased to 11.87%.

Agent Banking: Agent banking, which takes banking services to the unbanked people, is going from strength to strength, with both deposit collection and loan disbursement on the rise. According to the quarterly data of January-March, 2019 of Bangladesh Bank (BB), deposit collection through the agent banking was BDT 37.35 billion, which was 20 percent higher from BDT 31.12 billion in the October to December 2018. Besides, the number of agent banking accounts across the country also increased by 18 percent or around 450,000 compared to the previous quarter. A total of 21 commercial banks have already taken licenses from Bangladesh Bank while 19 banks are running their activities across the country.

Islamic Banking: A total of eight (8) full-fledged Islamic banks with 1189 branches are currently operating in the banking system of Bangladesh. In addition, seven (7) conventional banks with seventeen (17) Islamic banking branches and six (6) conventional banks with 40 Islamic banking windows are providing Islamic banking services. In 2018, Islamic banking assets increased by 10.5 percent (17.3 percent in 2017); investments (loans and advances) grew by 14.6 percent (27.3 percent in 2017); liabilities grew by 10.9 percent (18.2 percent in 2017), and deposit base increased by 9.1 percent (15.6 percent in 2017). As of December 2018, Islamic banks possessed 19.1 percent of total assets, 15.6 percent of equity and 19.4 percent of liabilities of the overall banking system; whereas the investments (loans and advances) and deposits shares were 23.1 and 19.8 percent respectively in CY18, almost same as CY17.

Investment Positives

- **In December 2018, the balance-sheet size of the bank stood at BDT 326.94 billion increased by 17.57% over last year and 5-year CAGR (Compound Annual Growth Rate) was 17.25%. As of June 2019, it stood at BDT 349.80 billion grew by 6.99% over December 2018 and 11.22% over June 2018. This was attributed to the growth in loans and advances. Loans and advances was 74% of total assets as of June 2019 while it was 71% in December 2018.**

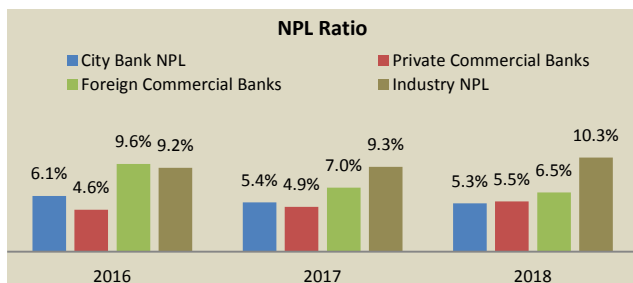
- Despite liquidity pressure in the sector, the Bank was able to register **17.66% growth in loan portfolio to BDT 231.87 billion as of December 2018 over last year and 5-year CAGR was 20.61%**. As of June 2019, it stood at BDT 258.84 billion grew by 11.63% over December 2018. The Bank has designed its products basket to create a well-balanced and diversified portfolio. **As on December 31, 2018, loan diversification was ensured as corporate portfolio got 48% of loan portfolio followed by retail portfolio (22%) and SME portfolio (12%)**. The Bank will give more concentration in retail and SME banking and embrace a cautious approach to growth in corporate and commercial banking.

Portfolio Composition

Segment	Loans & Advances (BDT bn)	Contribution		Growth	
		2017	2018	2017	2018
Corporate	111.9	52.1%	48.3%	5.6%	9.2%
SME	27.9	20.0%	12.0%	-0.6%	-29.2%
OBU	36.8	10.9%	15.9%	45.4%	71.1%
Retail	51.1	15.1%	22.1%	45.5%	71.5%
Staff Loan	43.8	1.8%	1.6%	11.7%	7.3%
Total	231.4	--	--	12.3%	17.7%

Source: The Bank Annual Report 2018

- The Bank has been giving special emphasis to improve the asset quality. Considering the overall industry scenario, the Bank's NPL has improved marginally by 10 bps to 5.3% in 2018 as compared to 5.4% in 2017. **The Bank will give special emphasis on controlling the slippage further in 2019 and beyond**. The NPL of corporate banking, commercial banking and retail banking was 3.1%, 8.0% & 2.3% respectively as of December 2018.



Source: The Bank Annual Report 2018

- Deposit portfolio stood at BDT 230.98 billion which was 12.75% higher over December 2018 where 5-year CAGR was 13.86%. As of June 2019, it stood at BDT 230.98 billion grew by 12.75% over December 2018. Deposit portfolio of corporate and retail banking division increased by 6.2% & 5.2% respectively in 2018 over last year.

Deposit Contribution (% of Total Deposits)

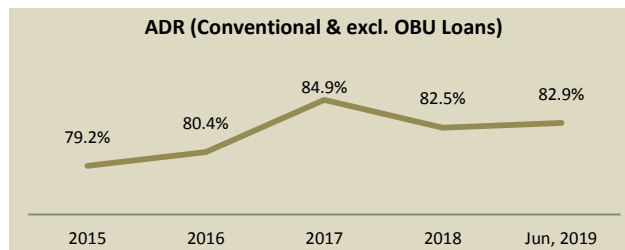
Division	2016	2017	2018
Corporate Banking	20.6%	17.8%	16.9%
Commercial Banking	0.7%	0.9%	0.6%
Retail Banking	50.7%	48.7%	47.4%

Source: The Bank Annual Report 2018

- The Bank is providing modern, luxurious and experience-driven services to high net worth individual (HNI) customers through 7 priority centers. The Citygem portfolio accounts for 19% of the Bank's total retail deposits, a cumulative deposit balance of BDT 23,340 million. The

Bank has the plan to establish 3 new centers in 2019 to achieve further market expansion and penetration. In 2018, total number base grew by 14%, loan portfolio by 41% and total deposit grew by 30% yoy.

- Net interest income (NII) of the Bank maintained a steady growth over the years. **NII grew by 22.8% in 2018 over last year and 5-year CAGR of the NII was 13.97%**. This was due to the robust growth in loan portfolio and focus on achieving a better product mix. **Interest income of corporate, commercial and retail banking grew by 40.5%, 26.2% & 41.2% respectively during 2018 over last year**.
- In July 2019, the Company has decided to raise **BDT 4,000.00 million through issuance of Perpetual Bonds** as Additional Tire -1 (AT-1) capital to support bank's Basel-III compliance in line with Bangladesh Bank Guidelines on Risk Based Capital Adequacy dated December 2014, subject to approval from regulatory requirements. Meanwhile, in May 2019, the Company has decided to raise **BDT 3,000.00 million through issuance of Zero Coupon Bonds** to support the company's continuous business growth subject to approval from the regulatory authorities.
- The Bank was able to maintain the advance-deposit ratio within the regulatory limit of 83% from June 2018. The Bank has to rationalize the rate of interest on deposits to collect more deposit and strategy to cherry-pick the best client for loan disbursement though the banking sector are facing stern liquidity crisis from the beginning of 2018 which was fueled up with the central bank revision of the advance-deposit ratio (ADR) with effect from June 2018.



Source: Half Yearly Earnings Disclosures of the Bank, June 2019

- In September 2018, the Company has decided to invest in share capital as against the offer of City Brokerage Ltd., a 100% owned subsidiary of the Bank for an amount of BDT 1,300.00 million (equivalent shares of 130,000,000 @ BDT 10 each) subject to obtaining approval from regulatory bodies and comply with the rules and regulations.
 - City Brokerage intends to introduce Order Management System (OMS) software with a view to facilitating efficient and real time trading to increase and solidify its retail market share, leveraging 131 branches of the City Bank Limited.
 - City Brokerage looks forward to penetrating non-resident Bangladeshi (NRB) investors to bring them on board into the capital market of Bangladesh, leveraging custodian license of The City Bank Limited.
- CBL Money Transfer Sdn. Bhd. (CBLMT) currently has a network of 11 branches including Head Office which will be increased to 19 across Malaysia by the year 2019 subject to regulator's approval. It has plans to launch Mobile Remittance Services for customers in Malaysia. CBLMT is also getting ready to obtain regulator's approval to become an International Money Transfer Operator so that other remittance companies across the world can use CBLMT

channel to remit money. Net profit of the CBLMT has increased by 1,813% over last year to BDT MYR 1,016,047 against MYR 53,104 in 2017.

- The Bank's long term target is to create its presence in settlement accounts by venturing into the mobile wallet business, leveraging financial ecosystems which will bring the organized banking to the masses.
- The Bank achieved awards like Best Bank in Bangladesh, Best Investment bank in Bangladesh in 2018 by FinanceAsia. It also awarded Best Consumer Digital Bank in Bangladesh 2018 by Global Finance and Best for Premium Banking Services 2019 by Asiamoney.

Investment Negatives

- The intense competitive pressure and liquidity challenges in the bank sector from last year, raised the weighted average cost of borrowings while weighted average lending rate remained fairly stable are pressurizing the net interest margin during the year. Meanwhile, the sustained pressure on banks for reducing interest rates from the regulator could further narrow-down the spread in future. Historical net interest margin of the Bank are shown in the following table:

Particulars	2014	2015	2016	2017	2018
Net Interest Margin	6.1%	4.8%	4.4%	4.3%	4.1%

Source: The Bank's Annual Report of 2018

- Due to an overall lower interest regime, yet with the government's NSC deposits bearing structurally higher interest rates caused mobilization challenges with liquidity available only at relatively higher interest rates. **Liquidity shortage in the money market instigated banks to collect deposit at higher costs which raise interest rates by 1.0% - 1.5% during first half of 2019.** Moreover, the central bank's pressure to the schedule banks to bring down the interest rates on both lending and deposit at 9.0 per cent and 6.0 per cent respectively might have negative impact on the net interest margin of the Bank.
- **As of June 2019, 63.12% of its total deposits are sourced from costly fixed deposits.** As of June 2019, CASA ratio (CASA ratio of a bank is the ratio of deposits in current and saving accounts to total deposits) of the Bank stood at 36.88%. Meanwhile, the bank has given more emphasis to improve the CASA ratio.
- **The consolidated net profit of the Bank has declined by 35.68% in 2018 over last year due to the increase in provisioning for loans and advances/investments and other provision.** Total provision of the Bank was BDT 2,311 million in 2018 which was 36.93% higher over 2017.
- The Bank's cost-income ratio has been in increasing trend due to higher operating expenses. Operating expenses is attributable to expansion of Agent Banking network, demarcated SMEs operations with the resultant creation of infrastructure with dedicated service centers and also invested in technology, principally digital. Furthermore, rise in salaries and allowances, rent, taxes, electricity and other general expenses.

Particulars	2014	2015	2016	2017	2018	2019 (HY)
Cost-Income Ratio	51.2%	47.6%	47.6%	53.9%	58.0%	56.1%

Source: The Bank Annual Report 2018

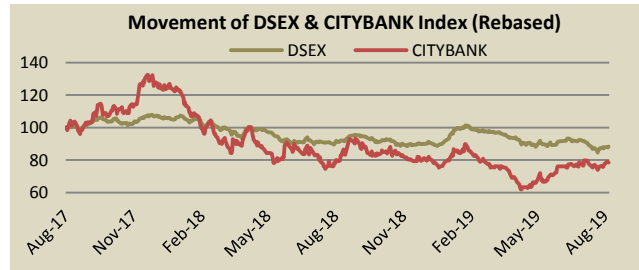
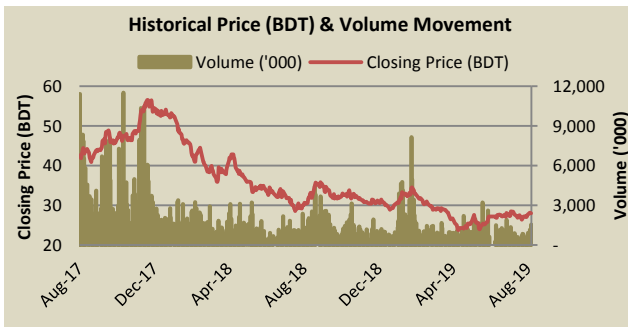
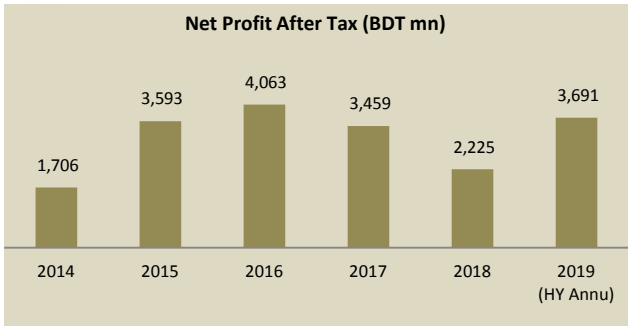
- **Private sector credit growth is in declining trend since February 2018. In June 2019, it dropped to 11.29% which was 18.5% in February 2018.** Meanwhile, the recent monetary policy for the FY 2019-20 has lowered the private sector credit growth target to 14.8% which was 16.5% in last fiscal year. **The liquidity crisis in the banking sector along with reluctance of the entrepreneurs in making further investment may cause to the lower growth of lending portfolio.**
- Most of the classified loans of the Bank are concentrated to 'Bad/Loss' segment for which it has to maintain 100% provision. **In 2018, 'Bad/Loss' loan amount was BDT 10.48 billion or 85.00% of total classified loan, which was 88.30% in 2017.**

Consolidated Latest Quarter Update – Q2 2019

Particulars (BDT mn)	Jan-Jun 2019	Jan-Jun 2018	Apr-Jun 2019	Apr-Jun 2018
Interest Income	12,841	10,546	6,751	5,840
Interest Expense	7,585	6,346	4,015	3,615
Net Interest Income	5,255	4,200	2,736	2,225
Growth	25.1%	--	23.0%	--
Investment Income	1,135	1,028	401	354
Growth	10.4%	--	13.4%	--
Commission, Exchange and Brokerage Income	1,711	1,650	814	897
Growth	3.7%	--	-9.2%	--
Other Operating income	1,176	927	646	476
Growth	26.9%	--	35.8%	--
Total Operating Income	9,277	7,805	4,598	3,951
Growth	18.9%	--	16.4%	--
Operating Profit	4,075	2,883	1,901	1,453
Growth	41.3%	--	30.9%	--
Net Profit	1,846	1,390	1,081	1,021
Growth	32.8%	--	5.9%	--

Particulars (BDT bn)	Dec '18	Mar '19	Jun '19
Loans and advances	231.87	253.82	258.84
Addition over December 2018	--	21.95	26.97
Deposits	204.86	216.20	230.98
Addition over December 2018	--	11.34	26.12

- Net interest income of the Bank has registered 25% growth during the reported period than that of last year due to the 12% growth in loan portfolio over December 2018 and emphasis on high yield loan segment. Net interest income contributed 56.6% to the total operating income during the period which was 53.8% over the same period of last year.
- Operating income and operating profit of the Bank increased by 19% & 41% respectively during the first half of 2019 over the same period of last year amid competitive pressures and liquidity challenges. This was because of increase in all the income segments against lower increase of operating expenses by 6%.
- Net profit has increased by 32.8% during the first half of 2019 over the same period of last year due to increase in operating income and operating profit. Meanwhile, in Apr-Jun quarter net profit increased by 5.9% than that of last year because of increase in operating expenses and higher provision.



Pricing* Based on Relative Valuation:

	Multiple	Value (BDT)
Sector Forward P/E	8.2	30.0
Market Forward P/E	14.3	52.1
Sector P/B	0.9	21.8
Market P/B	1.7	44.1

*Based on latest Quarter Financial Statements (June 2019)

Concluding Remark

City Bank is one of the oldest and a next-generation private Commercial Banks operating in Bangladesh catering to almost 1.70 million customers. The Bank's overall business achieved healthy growth in recent periods despite various external challenges and is expected to grow in the coming years as the Bank is focusing more on SME financing and retail business and concentrate on improving the risk assets portfolio.

Source: Annual Reports, Bangladesh Bank, DSE Website, the Financial Express, the Daily Star, ILSL Research, City bank website.

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