

EMIRATES GLOBAL ISLAMIC BANK LIMITED (EGIBL)

RATINGS (JUNE 2008)
EMIRATES GLOBAL ISLAMIC BANK LIMITED

	NEW	PREVIOUS
ENTITY		
LONG TERM	A-	A-
SHORT TERM	A2	A2

FINANCIAL DATA

(PKR MLN)

	31-MAR-08*	31-DEC-07
Total Assets	9,348.4	8,941.5
Equity**	4,271.9	3,819.6
Net (Loss)	(40.4)	(57.5)
Equity / Total Assets (%)	45.70	42.72

* Based on un-audited results for 3-months.

**Including share subscription money.

ANALYSTS

 Aisha Khalid
 +92 42 5869504
 aisha@pacra.com

 Moin Khalid
 +92 42 5869504
 moin@pacra.com

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect the bank's experienced management team, and reasonable progress made towards establishing a sound banking infrastructure and operating platform. While confronting the challenges of being a bank which has recently been set up, the management has designed a business plan for strengthening its relative positioning through network expansion, product innovation, and leveraging technology to deliver high service standards. However, the success of these initiatives, which are being pursued by other new players as well, into desired results in the increasing competitive banking landscape, remains to be seen. Meanwhile, the bank's association with financially strong sponsors remains a key rating factor.
- The ratings are dependent on the bank's ability to effectively execute its business strategy, while putting in place sound risk management framework. Meanwhile, the stability and cohesiveness of the senior management would remain critical. At the same time, inefficiency or failure of the bank to cope with the constraints of limited size, franchise, and market penetration could have negative implications for ratings.

ASSESSMENT

- In the initial period of operations, the bank's primary focus is on building requisite infrastructure including engaging the human resource and expanding the physical outreach. An experienced senior management team has been assembled, which while developing basic banking processes, has designed a detailed roadmap to be pursued by the bank. The management is also pursuing the skill development of its human resource by initiating Management Trainee programme. The bank has expanded the branch network to 25 branches by end-June 08 including 3 rural branches in 13 geographically distributed areas. As a part of its strategy, the management is pursuing a high degree of automation and technology to improve product delivery and service quality. In this regard, the bank has acquired a quality customer relationship management software package - Siebel. Going forward, the management plans to take further technology initiatives by providing visa debit cards, and mobile phone and internet banking.
- The growth in advances has picked up in 1Q08. However, it was mainly concentrated, and primarily includes corporate segment. Meanwhile, the deposit mobilization was relatively constrained, and also had high concentration. Due to high incidence of operating cost on infrastructure expansion and lower business volumes in the initial phase, the bottom line is currently under pressure. However, the management expects to achieve break-even by end-2008.
- Going forward, the management plans to add another 25 branches by end 2009, taking the network to 50. While setting aggressive growth targets in advances and deposits, the management plans to diversify into consumer, SME and agriculture businesses. Meanwhile, an investment banking team has been developed, which in addition to generating fee income, would also facilitate expansion in the loan book. Given the intensifying competition in the sector and difficult credit environment, the materialization of targeted growth in the loan book remains to be seen. In line with the bank's plans to develop its non-fund based revenues, it has started offering bancassurance services to its customers. These are currently offered in alliance with Takaful Pakistan Limited – an associate of the bank.
- EGIBL is in the process of strengthening the capacity of its risk management division. The management has designed detailed credit approval format and has in place a rating model for Corporates and SMEs. Currently the management is deliberating necessary modifications in the said model for meeting the requirements of Basel II, for the development of obligor and facility ratings. The bank is using a locally developed core banking software, which is addressing the needs of its current operations. However, as the bank expands in size and starts offering multiple products and services, its core system may require upgradation to support quality and control environment.
- The management plans to increase the capital to PKR 6bln by the end of 2008 through a right issue, while further raising it to PKR 9bln by the end of 2009 through an IPO. This would provide the bank a substantial cushion – in terms of both equity to assets and CAR – to pursue its aggressive growth plans.

PROFILE

- EGIBL, incorporated in December 2004, commenced its operations in February 2007. The bank is a joint venture between Emirates Investment Group (EIG), UAE (50%) and Al Rajhi family, Saudi Arabia (50%). EIG, sponsored by members of ruling family of Sharjah, has interests in the property development and financial services sectors in the Middle East and Asia Pacific regions. Al Rajhi family is Saudi Arabia's leading business group with a major stake in the world's largest Islamic bank, Al Rajhi Bank. Going forward, the bank plans to enter into asset management business.
- The Chief Executive, Mr. Tariq Husain, a Chartered Accountant, has 30 years of local and international experience.