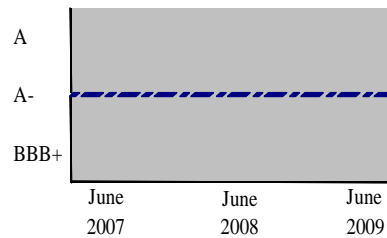


**RATINGS (JUNE 2009)**

**EMIRATES GLOBAL ISLAMIC BANK LIMITED (EGIBL)**

Entity	New	Previous
Long Term	A-	A-
Short Term	A2	A2
<b>OUTLOOK</b>	<b>Negative</b>	-



**FINANCIAL DATA**

PKR (mln)

	Mar-09*	Dec-08	Dec-07
Total Assets	17,727	16,537	8,941
Equity	3,993	4,052	3,820
Net (Loss)	(60)	(260)	(57.5)
Equity / Total Assets (%)	22.5	24.5	42.72
SBP CAR	28.4	30.4	50.0

\*Un-audited

**ANALYSTS**

Arsalan Ahmed  
+92 42 5869504  
a.ahmed@pacra.com

Jhangeer Hanif  
+92 42 5869504  
jhangeer@pacra.com

**RATING RATIONALE AND KEY RATING DRIVERS**

- The ratings reflect EGIBL’s experienced management team and gradual progression towards establishing a sound operating platform, supplemented by developing technological infrastructure and expanding outreach. Although the bank is in initial stage of operations, the management has designed a plan for enhancing its franchise value through focused branding, product innovation and high service standards. However, the success of these initiatives, pursued by other new players as well, into desired results, remains to be seen.
- EGIBL is non-compliant with minimum capital requirement (MCR). The bank, cognizant of competitive banking landscape and pressing absolute capital requirements, is exploring various options including merger or addition of a new sponsor. However, given global financial turmoil, the injection of fresh foreign equity would be a challenge. The outlook on the ratings is negative, which, while capturing non-compliance with MCR, highlights the urgency for the bank to cope with constraints of limited size and market penetration.

**ASSESSMENT**

- The bank’s primary focus remained on strengthening its infrastructure through i) refining the risk management framework, ii) upgrading the technology platform, iii) diversifying the physical outreach and iv) engaging quality staff to cater to the expanding network.
- During 2008, EGIBL’s finances portfolio witnessed significant increase, translating into substantially higher revenue. EGIBL also expanded its fee based income, predominantly advisory fee followed by LC/LG commission. On the expense side, the bank experienced a sizeable rise in its personnel and other charges, attributed to expansion in the branch network – hence net loss for the period. During 1Q09, EGIBL was able to make a slight pre-provision profit of PKR 10mln, but due to substantial provision on account of NPLs and diminution in investments, it incurred a net loss for the period. The bank currently has a relatively high cost of funds, explaining its low core spreads. Moreover, its deposits base has high concentration (top 20, 45% at end Dec-08) necessitating the need to energize its network for low cost funds.

- Going forward, the bank intends to continue focusing on its positioning as the preferred Islamic bank in the country. Furthermore, EGIBL plans to follow its latest growth pattern though without compromising the asset quality. Although the bank’s credit portfolio is currently dominated by corporate lending, it wants to grab a larger share of the retail segment. This segment is also targeted for deposit mobilization in future to diversify the deposit base while keeping the cost under control. EGIBL, for this, plans a number of new products while capitalizing on the value addition of Siebel, a customer relationship management solution, and the recent organizational restructuring. These initiatives though exhibit clarity of direction may not yield the desired results given weak economic fundamentals of the country.

- The bank is currently using a locally developed core banking solution – Auto I-Banker. For compliance with Basel II, EGIBL has implemented a comprehensive obligor risk rating system for corporates, consumers, and SMEs.
- The bank is exposed to a relatively higher level of credit risk, given high segmental and top twenty concentration. It has recently experienced a significant rise in its classified portfolio (Mar09: PKR 406mln), mainly due to one major delinquency. During 2008, the bank, in addition to other initiatives, established a Special Assets Management unit for keeping a check on NPLs. Nonetheless, asset quality is likely to deteriorate further to some extent.
- EGIBL has a higher finances to deposit ratio, attributed to a portion of equity being deployed in advances. It has a modest investment portfolio, constituting only 17% of total assets. The portfolio is dominated by sukuk (86%). Given their pricing structure, EGIBL is not significantly exposed to the market risk.
- EGIBL has a good capitalization level, given its initial stage of operations as evident from its equity-to-asset ratio. Its CAR, standing at 28% at end-Mar09, depicts significant room for future growth. Nonetheless, the bank remains dependent on its sponsor’s support for meeting the minimum capital requirement.

**PROFILE**

- EGIBL, incorporated in December 2004, commenced its operations in February 2007. The bank is a joint venture between Emirates Investment Group (EIG), UAE and Al Rajhi family, Saudi Arabia. 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.
- The seven member BoD comprises representatives of sponsoring groups. The Chief Executive, Mr. Tariq Husain, a Chartered Accountant, has over 30 years of local and international experience.

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