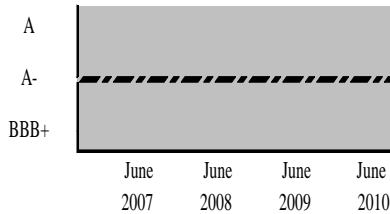


RATINGS (JUNE 2010)

EMIRATES GLOBAL ISLAMIC BANK LIMITED (EGIBL)

Entity	New	Previous
Long Term	A-	A-
Short Term	A2	A2
OUTLOOK	Negative	Negative



FINANCIAL DATA

PKR (mln)

	Mar-10*	Dec-09	Dec-08
Total Assets	20,843	19,762	16,537
Equity	3,223	3,488	4,052
Net (Loss)	(265)	(563)	(260)
Equity / Total Assets (%)	15.5	17.6	24.5
SBP CAR	22.6	25.4	30.4

*Based on un-audited accounts

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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 expanded outreach. Nevertheless, the performance of the bank remained subdued owing to a high cost structure, mainly an outcome of developmental phase, further marred by significant deterioration in asset quality. Cognizant of this, the bank has halted expansion in finances portfolio, while enhancing vigilance and recovery efforts to arrest increasing NPLs.
- The outlook on the ratings remains negative and critically dependent upon EGIBL’s ability to meet the regulatory capital requirement, while arresting deteriorating core performance.
- The merger of Emirates Global Islamic Bank Limited (EGIBL) and Albaraka Islamic Bank B.S.C. (E.C.) [Pakistan Branches] (AIB) – a wholly owned subsidiary of Albaraka Bank, Bahrain – has recently been announced. The deal is subject to necessary legal and regulatory approvals both in Pakistan and Bahrain. In view of this, the ratings of EGIBL are placed on Rating Watch until the finalization of the merger. On completion of the merger, the rating of the surviving entity would be updated after reviewing the impact of merger and ensuring strategy.

ASSESSMENT

- AIB is operating in Pakistan as an Islamic bank since 1991 with a current network of 29 branches spread over 17 cities. If the merger goes through, the combined entity “Albaraka Bank Pakistan” will have a branch network of 93 branches. In view of the merger, the management does not intend to expand the finances portfolio till the finalization of the merger and are increasing their efforts towards recoveries.
- EGIBL witnessed an increase of 21% in its finances portfolio during 2009. This expansion coupled with higher asset yield resulted in significant YoY increase in interest revenue. Meanwhile, non-fund based income witnessed an upsurge on account of higher commissions and sizeable increase in the income from dealing in foreign currencies. However, the revenues were still not sufficient to mask the operating cost, which were on rise due to expanding network and considerable marketing expense to establish the bank’s franchise value. Nevertheless, the major dent to profitability was substantial provisioning on account of hefty rise in NPLs. With volume increment to operating revenues and in the absence of high marketing costs, there was certain respite to the bank’s profitability in 1Q10. However, the provisioning drag was quiet significant, leading to a sizeable loss.
- The bank is exposed to a relatively higher level of credit risk, given high top twenty concentration (Dec-09: 62%). EGIBL has experienced a significant rise in its classified portfolio during 2009 (Mar10: PKR 1,536mln, Dec09: PKR 1,214mln, Dec08: PKR 14mln) on account of deteriorated economic conditions and the management’s strategy to focus on high volume high margin loan accounts. Meanwhile, elevated Net NPL/Equity ratio (Mar-10: 27.8%) signifies a potential drag on EGIBL’s equity. The bank’s SAM department has increased its focus on recoveries and the management expects to regularize 50% of its infected portfolio by 2011. Given continuing depressed socio-economic environment, probability of fresh infections may not be ruled out.
- 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. Almost the entire advances portfolio of EGIBL is rated with the maximum exposure ranging between 6 to 7 – again highlighting EGIBL’s exposure to credit risk.
- EGIBL has a modest investment portfolio, constituting only 17% of total assets. The portfolio is dominated by sukuk (95%) – mostly financially strong enterprises. Given their pricing structure, EGIBL is also not significantly exposed to the market risk. The deposit concentration in terms of top 20 depositors is relatively high (Dec09: 36%).
- EGIBL’s risk absorption, though weakening attributed to deteriorated asset quality, remained adequate as reflected by ~23% CAR at end-Mar10. However, the bank has not been able to meet the minimum capital requirement for the second consecutive year, for which the proposed merger is being sought.

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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