

Rating Report (Surveillance)
Al-Arafah Islami Bank Limited
Ratings

Long Term : A₂
 Short Term : ST-2
 Date of Rating : 22 June, 2010
 Valid till : 30 June, 2011

Previous Ratings

Long Term : A₃
 Short Term : ST-2
 Date of Rating : 21 June, 2009

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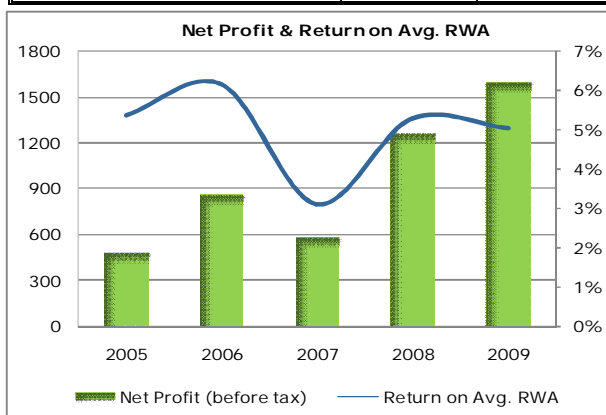
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Exhibit 1: Financial Highlights

Particulars	2009	2008
ROAA (Before Tax)	3.71%	3.74%
Return on Average RWA*	5.02%	5.27%
RWCAR	11.25%	11.20%
Cost to Income Ratio	34.43%	29.67%
Gross NPL Ratio	1.68%	2.95%
Loans to Deposit Ratio	94.21%	93.44%


1. RATIONALE

Credit Rating Agency of Bangladesh (CRAB) Limited has upgraded the long term rating of Al-Arafah Islami Bank Limited to **A₂** (Pronounced Single A two) and retained the short term rating at **ST-2** based on audited financials up to 31 December 2009 and other relevant information.

Commercial Banks rated **A₂** in the long term belong to “Strong capacity & high quality” cohort. Banks rated “A₂” have strong capacity to meet their financial commitments but are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than Commercial Banks in higher-rated categories. **A₂** rated banks are judged to be of high quality and are subject to low credit risk.

Commercial Banks rated in the short term “ST-2” category are considered to have strong capacity for timely repayment of obligations. Commercial Banks rated in this category are characterized with commendable position in terms of liquidity, internal fund generation, and access to alternative sources of funds.

Al-Arafah Islami Bank Limited (hereinafter referred to as AIBL or the Bank) commenced its operation on 27 September, 1995 and presently the Bank has 63 branches across the country. The paid up capital of the Bank reached BDT 1,798.95 million as of 31st December 2009

against the authorized capital of BDT 5,000 million.

CRAB upgraded the rating to A₂ in the Long Term considering year on year high profit growth (profit after tax reached at BDT 585.99 million in 2009 from BDT 668.24 million in 2008, registering a growth of 28.54%); high asset growth, improvement in asset quality (gross NPL reduced to 1.68% in 2009 from 2.95% in 2008).

The revenue stream of the Bank was dominated by net investment income having 56% of total revenue for the last five years. AIBL started its brokerage operation on 2009 and brokerage commission became one of the major revenue sources. As a result 42.46% of total operating income in 2009 was generated from commission/exchange & brokerage. The higher growth of the major contributing sector (net investment income and commission/fees & exchange) helped the bank to achieve a higher growth (in 2009: 21.43%) of operating income as well as profit after tax in 2009.

Cost to income ratio of the Bank increased by 4.77 percentage points due to higher growth of operating expense. Staff cost to income ratio of the Bank increased by 1.56 percentage points mainly because of their revision in pay scale.

In 2009, the Return on Average Asset (ROAA) increased marginally whereas Return on Average Equity (ROAE) decreased by 0.78 percentage points. Net investment income margin of the Bank reduced by 0.59 percentage points in 2009 resulted from lower growth of net investment income (8.20%). AIBL's after tax return on average risk weighted asset (RWA) also witnessed a decrease in 2009.

The Bank is mainly funded by customer deposit. Bank's deposit was mainly dominated by Mudaraba term deposit (50.07% of total), followed by other Mudaraba deposit (22.04% of total) and Mudaraba savings deposit (14.31% of total). Term deposit accounted for 72.11% of total deposits in 2009 (2008: 72.61%). However, the Bank's cost of deposit and borrowing was 7.36% in 2009 which was better compared to industry average. The liquidity position of AIBL was moderate compared to industry average in 2009. Average loans to deposit ratio of the Bank was 91.67% in 2009.

AIBL experienced high growth (30.25%) in investment (loans and advances) and reached BDT 36,134.08 million by the end of 2009. The Bank's loan portfolio was concentrated having 62.09% investment in trade finance. The Bank's top 50 funded loans in 2009 held 42.54% of total loan portfolio.

The overall asset quality trend of the Bank shows an improving trend in the last couple of years. Total non-performing loans (NPL) decreased to BDT 608.14 million in 2009 (2008: 817.90 million). The gross NPL ratio reduced to 1.68% in 2009 (2008: 2.95%) resulted from lower rate of NPL generation and loan written off. In 2009, AIBL had BDT 43.32 million excess provisions against non-performing loans. Special Mention Accounts (SMA) to total loans and advances ratio of the Bank was also reduced to 0.57% in 2009 from 1.49% in 2008.



The Bank was reasonably capitalized in terms of risk weighted capital adequacy ratio which was 11.25% by the end of 2009, against regulatory requirement of 10%. The risk weighted capital adequacy ratio was 10.19% under Basel II for the same period. The Board has decided to issue 1:1 right share on 10 June, 2010 which will further increase its capital and thereby capital adequacy ratio.

Investment in shares and securities of AIBL increased by 49.90% in 2009 whereas investment yield reduced to 1.11% in 2009 from 11.69% as the Bank decides to invest only in Bangladesh Government Islami Investment Bond.

The rating reflects the Bank's strength in improvement in credit quality and capital generation as well as earning diversification. The rating also factors the improvement in income generation as well as lower cost of deposit and borrowing. On the other hand, principal concerns of the Bank are higher loan to deposit ratio and fluctuation in performance.