

Rating Report

Al Masraf

United Arab Emirates

July 2010

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Dhabi, United Arab Emirates
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RATINGS

	Current	Last Changed From	Date	USD (mn) AED (mn)	2009 USD	2009 AED	2008 AED	2007 AED
Sovereign								
Long-Term:	AA-	A+	May 07	Total Assets	3,098	11,379	12,639	9,878
Short-Term:	A1+	A1	May 07	Net Loans	1,848	6,786	7,093	3,978
Outlook	Stable	-	-	Total Deposits*	2,253	8,276	9,728	7,088
				Total Capital	811	2,977	2,741	2,639
				Gross Income	181	665	438	366
Foreign Currency				Net Income	113	414	296	311
Long-Term:	BBB+	BBB	Jul 08	<i>Exchange Rate: USD/AED</i>		3.6725	3.6725	3.6725
Short-Term:	A2	A3	Jun 07	<i>*Customer + Interbank</i>				
Financial Strength	BBB	BBB-	Jun 07	%		2009	2008	2007
Support	2	3	Jul 08	NPL / Gross Loans		11.62	9.93	17.96
				Loan-Loss Reserves / NPLs		68.52	63.28	61.69
				Capital Adequacy Ratio		25.00	23.00	35.00
Outlook				Net Loans / Stable Funds		76.77	84.73	60.78
Foreign Currency	Stable	-	-	Interest Differential		4.27	3.15	2.53
Financial Strength	Stable	Positive	Jun 07	Cost / Income		20.84	29.76	26.48
				ROAA		3.45	2.62	3.71

RATINGS DRIVERS

Supporting the Rating

- The UAE federal government and the Libyan Arab Foreign Bank are major shareholders
- Solid capital adequacy ratio
- Good profitability

Constraining the Rating

- High level of non-performing loans (NPLs) and lower than industry average provision cover
- Customer concentrations in loans and deposits
- Challenging operating environment, although a modest growth is projected for UAE's GDP in 2010 on the back of Abu Dhabi government spending stimulus.

RATING RATIONALE

Al Masraf performed well in 2009 with the substantial increase in net interest income, on the back of a wider net interest spread, and improved investment-related income offsetting higher loan-loss provision charges. Key profitability ratios were higher than in 2008 and remained significantly above the industry average. As in previous years, the Bank's good profitability last year was underpinned by strong net interest and non-interest revenues. Al Masraf continues to earn good fees and commissions from its long-standing relationships with banks (mainly Libyan and Algerian).

Non-performing loans (NPLs) increased last year due to classifications in trade sector loans and the Bank's relatively new consumer credit portfolio. However, the year-on-year growth in NPLs was relatively low compared with peer banks because the Bank had no exposure to the two major Saudi conglomerates that defaulted last year, and its consumer loan portfolio is comparatively small.

The Bank's real estate exposure is at a manageable level and the bulk of its real estate loans are in Abu Dhabi, which is under less stress than Dubai. The Bank created sizeable loan-loss provisions last year,

which pushed up the NPL provision coverage ratio. Capital provides substantial cover for unprovided NPLs. The Bank's strong profitability and solid capital adequacy ratio are major mitigants.

Liquidity ratios improved at end 2009. The Bank receives good support from Libyan and Algerian banks which have pumped in deposits when liquidity conditions tightened at end 2008. The UAE federal government, a major shareholder, is an important depositor.

Al Masraf's Foreign Currency ratings are affirmed at BBB+ long-term and A2 short-term with a Support rating of 2 and a Stable Outlook. The ratings reflect the Bank's strong ownership. The financial strength rating is maintained at BBB with the Bank's good profitability and strong capital base being major supporting factors while its relatively weak asset quality is a major constraint. Although Q1 2010 results showed a decline in net profit due to a narrower net interest spread compared to the corresponding period of the previous year, key profitability ratios remained strong. Asset quality ratios were largely unchanged from end 2009. A Stable Outlook is therefore assigned to the Financial Strength rating.