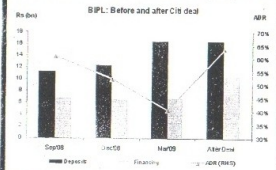


NATIONAL NEWS

Analyses & Comments by BR Research

Citi-BIPL talks augur well for Islamic consumer banking

Bank Islami's potential acquisition of Citi Bank Pakistan's mortgage and SME banking businesses is a sign of things to come. For BIPL, this sounds like a dormant deposit to more than double its size in Pakistan — with plans to reduce its branch network from 23 to 17 while also scaling down its consumer and SME banking businesses.



old portfolio at the time of death in private sector credit off-take, especially in the consumer segment. Besides, it is in accordance with its expansionary plans as evident by its rising number of branches which rose by 66 to 102 in 2008.

BIPL has shown its interest in buying Citi's auto loans with an estimated worth of Rs2.3 billion, which is currently in due diligence stage, in addition to Citi's already scrutinized mortgage portfolio, worth nearly Rs1.3 billion.

These deals can increase the bank's advance-to-deposits ratio (ADR) from a meager 41 percent to 64 percent. Although, that would still be lower than the banking industry average of 77 percent, it will at least be at par with the Islamic banking average of 66 percent.

Citi Bank's motive is to rationalize its Pakistani operations in line with its global strategy and has already started squeezing

Fertilizer firms have had a good year so far and will take numbers promise even more fortunate times ahead. The country's top three fertilizer companies saw revenues jump 49 percent in HCY09 — mainly due to a 21 percent hike in urea prices, whereas those engaged in DAP business took advantage of soaring prices which led to massive rise in DAP sales volume. However, the industry's overall gross margins slid to its five-year low, hit mainly by its sales mix — highly tilted towards low-margin imported phosphate — which dampened the impact of higher urea margins.

Yet the picture isn't all that bad with other banks against the industry average of 10 percent. If the bank re-positions its assets to the tune of Rs3.6 billion, assuming that it buys Citi's portfolios at par, it will still be adequately liquid (9% total assets). This can help the bank capitalize on premium

pricing of consumer portfolio. However, on the flip side, this could also add risk to BIPL's assets considering the infectious nature of consumer portfolio. Although, all those risks should be priced in the deal, even if it's not, BIPL has enough space to cushion itself

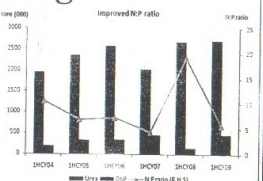
Fertilizer firms making fertile gains

Company	Revenue (PKR)	Profit (PKR)	Margin (%)
Urea	22,510	14,432	64%
DAP	15,732	8,539	54%
Other	7,019	5,884	84%
Total	45,261	28,855	64%

The improvement in agricultural economy owing to better crop support prices has started to show its effect on crop yields, and, thus, soaring fertilizer usage is evident by HCY09 numbers. Rapidly improving N:P application ratio has been the healthiest sign of what could be the best year for the country's agriculture

yield and which can help to meet an otherwise optimistic target of 3.8 percent farming growth set earlier by the government. Despite these changing trends, the industry leader Fauji Fertilizer Company (FFC) — being mainly a urea producer — took full advantage of urea's premium pricing by keeping a better sales mix which kept its margins stable. The other two players, however, had to face the brunt of sales mix containing higher concentration of phosphate fertilizer.

During the period, the sector's bottom line was eroded by high or financial costs, but an analysis shows that the companies are well positioned to absorb these charges in future, given the margins in the upcoming



strong possibility of a significant decline in interest rates ahead. December, the sector is likely to post a record breaking year in terms of revenues. The real game is on volumes now.

If this acquisition is successfully completed, it will open doors for more conversion of conventional assets into Islamic, which has grown by heaps and bounds to hold 4.8 percent of banking assets as against mere 0.3 percent at the end of 2003.

Small entrepreneurs' haven

Conventionally, banks have tended to focus on loaning large amounts of money to a relative concentrated market, which makes its business cost efficient. On the flipside, microfinance, with its focus on lending small sums to a huge customer base, has had the inherent problem of disparity between the cost of processing a client versus the return from the said client. Banks have also found it difficult to hedge themselves from losses as people from

poverty stricken or underprivileged areas rarely have assets that they can use as collateral. Furthermore, the pervasive nature of the informal money lending system is proving to be a hindrance in the adoption of microfinance. This system, completely unregulated with no authoritative agency to enforce consumer rights, allows money lenders to charge the desperate borrowers, sky high interest rates leading to further entrenchment in ever-rising

debt. Despite the obvious disadvantages, the system is easy to access with little or no conditions to fulfill prior to borrowing — giving tough competition to commercial banks and other formal micro lenders which typically require extensive knowledge of establishing a customer — processing before any transaction is confirmed.

These issues, therefore, have kept a wide majority of banks at bay from microfinance business while those that have ventured

both operations and client information to banks at a certain fee. Such bureau — either run by the government or under public-private partnership formula — would not just collect pertinent information about potential borrowers but also bring together groups of individuals interested in obtaining a microfinance facility and create awareness in society. While micro-finance may not be the sole solution to eliminate poverty, it is indeed a key ingredient, evidence suggests that

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