



ARIF HABIB RUPALI BANK LIMITED

RATINGS (MAY 2007)

ARIF HABIB RUPALI BANK LIMITED (AHRB)

NEW

ENTITY

Long Term	A*
Short Term	A1

**The ratings are placed on the Rating Watch*

FINANCIAL DATA

PKR (mln)

31-Dec-06

Total Assets	5,696.4
Equity	3,094.0
Net Income	94.0
Equity / Total Assets %	54.31
Net NPLs / Equity %	-

ANALYSTS

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ASSESSMENT

- The ratings reflect AHRB's substantially enhanced risk absorption capacity subsequent to the proposed merger of Arif Habib Securities Limited (AHSL) with and into the bank due to significant expansion in equity base. The ratings are placed on the **Rating Watch** pending the completion of the merger process. As a result of merger, a sizeable and sustainable income stream would be added that would provide much needed comfort in initial years of establishing core-banking operations. Meanwhile, the bank has inducted an experienced senior management team, which is focusing on the preliminary building blocks by implementing a business plan and putting in place requisite infrastructure including establishing a branch network, taking IT initiatives and instigating risk management systems and procedures. The success of the bank will be inevitably linked to the success of these steps.
- Currently operating with 7 branches, the bank plans to double this number by end-07 and reach a network of 70 branches by 2011. The current and projected branch network is based on centralized processing center with real-time IT capability. The bank has embarked upon taking technology-based initiatives to attract retail customers. Meanwhile, the management plans to follow a low cost structure by having a major portion of smart and small branches in total number of branches. AHRB is also working on establishing unique selling points – booths – for providing easy access to customers. While prudent growth in advances is projected, the deposits are planned to be mobilized relatively aggressively.
- In the initial 2-2.5 years of operations, the bank plans to establish itself based on the group's strength in corporate and wealth management to provide a critical mass to its balance sheet and a foundation to build a franchise. The bank, in this period, is planning to participate in syndicate of large commercial loans for good credit quality corporates. For approving syndicate financing, the management follows the same risk evaluation criteria as of other loan disbursements. Afterwards, the bank plans to tap SMEs and consumer financing as well with gradual expansion in the loan book. This approach would also provide time to institutionalize better operational controls and risk management system, imperative for SMEs and consumer banking.
- Nevertheless, the degree of success in terms of the achievement of the management's strategy remains to be seen. The bank faces an uphill task in mobilizing business in the presence of larger, more established commercial banks. However, the bank would benefit from contacts of the sponsors, business to be brought in through other group companies and relationships of newly inducted senior bankers. At the same time, the bank, with its limited franchise value, would be obliged to offer some sort of financial inducement to lure clientele and attract effective human resource. This is likely to reduce margins and increase the operating costs, and combined with the continuing investment in infrastructure, is expected to constrain the bank's earning potential from core operations in the initial years.
- The bank has taken certain initiatives regarding risk management systems. These include setting up of Risk Management Division (RMD), which is now functional. Moreover, draft risk management manuals have been prepared. The treasury middle office is regularly monitoring the treasury functions while producing daily and weekly reports. At the same time, credit risk review has been established having an independent review of each loan proposal and recording the findings in the form of credit risk review sheet. Moreover, a scoring based system for internal credit rating alongwith mapping grades have been developed for rating of prospective borrowers and updating process of the existing ones. The bank has acquired and installed H-plus, core-banking software. H-plus is a proven, integrated banking application capable of generating standard and customized MIS reports and is also compliant with the BASEL II requirements.
- Subsequent to the merger, the bank would have robust capitalization with equity of around PKR 12bln. This would provide an edge over smaller banks having obligation to inject additional equity every year to meet the prudential requirement. At the same time, this would provide substantial cushion and comfort – in terms of both equity / assets and CAR – to buildup its loan portfolio.

KEY RATING DRIVERS

- The ratings are dependent on the bank's ability to fully utilize its prospective strengths to build a core-banking platform while implementing its business strategy, thereby improving its relative positioning in the banking sector. At the same time, stability and cohesiveness of the core management team would also be critical. The inability of the bank to overcome its inherent constraints of limited size, outreach, franchise value, core revenue streams, and human resource in a timely manner would have negative implications for the ratings.

PROFILE

- AHRB, incorporated in December 2005, commenced its commercial operations in August 2006 subsequent to merger of Rupali Bank Limited (Pakistan Branch) with and into the bank. Currently, Arif Habib Group (AHG), through its main holding company – Arif Habib Securities Limited – and Mr. Arif Habib in individual capacity, holds the majority shareholding of the bank while the rest is held by Rupali Bank Limited of Bangladesh. Subsequent to the planned merger of AHSL with and into the bank, AHRB would be the flagship company of the group. The bank would have the second largest private sector asset management company and a leading brokerage house as its subsidiaries. Additionally, it would have strategic investments mainly in fertilizer and cement sector companies. While the bank's equity proprietary trading activities would be reduced – owing to prudential regulations – in comparison to those of AHSL, major portion of income is likely to be derived from capital gains, wherein the group's experience and prominent role in capital markets provides sufficient assurance for significant contribution to profitability. The dividend income, though initially would remain moderate, is expected to increase as some of strategic investments would start paying dividends.
- In a short time span, the bank has developed a seasoned senior management team. The Chief Executive is a business and law graduate with 30 years of local and international experience.