



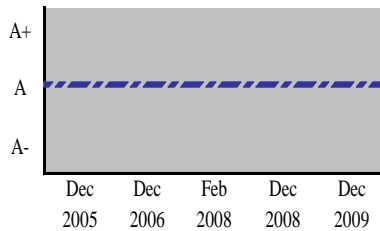
IGI INVESTMENT BANK LIMITED (IGI IBL)

RATINGS (JANUARY 2010)

IGI INVESTMENT BANK LIMITED (IGI IBL)

	NEW	PREVIOUS
ENTITY		
Long Term	A	A
Short Term	A1	A1
TFCs		
<i>Secured, listed</i>		
<i>(PKR 500mln)</i>	A+	A+
OUTLOOK	Negative	Negative

HISTORY – LT ENTITY RATING



FINANCIAL DATA

PKR (mln)

	FY09	FY08	FY07
Total Assets	6,549	9,831	6,649
Equity	1,869	2,244	1,068
Net (Loss)	(375)	(6)	(39)
ROE %	n.m	n.m	n.m
Debt/Equity %	208.7	296.7	458.2

ANALYSTS

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TFC ISSUE

IGI IBL issued secured listed TFCs of PKR 500mln in July 2006 for a tenor of 5 years. The instrument carries profit at the rate of 6-months KIBOR plus 225bps. Principal redemption is in eight equal semi annual instalments commenced from the Jan08. The instrument is secured by way of first parri passu hypothecation charge on present and future assets of the bank with a 25% margin.

RATING RATIONALE AND KEY DRIVERS

- The ratings of IGI IBL reflect the suppressed socio-economic environment, which has severely impacted the investment banking industry. IGI IBL continued to face pressure on spreads owing to the bank's inherently high cost of funding and limited high-margin, low-risk deployment avenues. Furthermore, impairment losses recognized on investments and depletion in asset quality has impacted the bank's risk absorption capacity. However, IGI IBL's strong relative positioning in the industry, emanating from its higher equity base, diversified revenue stream and adequate liquidity position, lends support to its financial profile. At the same time, its association with Packages Group – a strong business conglomerate of Pakistan – is a key rating factor.
- The ratings have a negative outlook reflecting the pressure on the bank's prospects, emanating from subdued operating environment, decreasing spreads, deteriorating asset quality and difficult industry dynamics to establish sustainable revenues. Meanwhile, upholding of adequate risk management framework would remain crucial.

ASSESSMENT

- The substantial deterioration witnessed in the macroeconomic fundamentals during FY09 severely impacted the non-banking financial industry, including investment banks of Pakistan. Acute liquidity crisis prevalent during the first half of FY09 aggravated the worsening situation. Most entities in the industry subsequently experienced significant depletion in their credit profiles. Although IGI IBL's performance was also impacted on account of these factors, it was able to largely sustain its market standing on back of a strong brand image, diversified revenue stream and higher risk absorption capacity, emanating from a sound equity base.
 - During FY09, IGI IBL achieved growth in its net interest revenue, mainly on the back of high participation in treasury operations. The bank's strong liquidity position, resulting from the equity injection in the bank during FY08 enabled it to capitalize on liquidity crisis in Pakistan's financial sector during 1HFY09. However, volatile interest rate environment and relatively high cost funding kept spreads under pressure. At the same time, capital market operations witnessed significant losses (FY09: PKR 205mln) mainly on account of weak performance observed in the equity markets. Although in line with its plans, IGI IBL managed to reduce its non-markup expenses, a sizeable increase in provisioning against bad debts (FY09: PKR 119mln, FY08: 29mln), and subdued income from non-fund avenues severely impacted the already depressed profitability.
 - Going forward, the management intends to adopt a cautious stance towards growth. It plans to curtail further lending in the near-term in order to rationalize its risk profile. Concurrently, the bank will enhance its focus towards low-risk, low-spread avenues such as treasury and non-fund operations. However, establishing a sustainable revenue stream in absence of a sizeable lending book will remain a challenge for the management, considering the weak industry dynamics.
 - During FY09, IGI IBL witnessed a significant decline in the quality of its lending portfolio (NPL to Gross Finances Ratio: FY09: 18.8%, FY08: 5.5%, FY07: 6.5%). This deterioration was result of a major economic slowdown, rising interest rates, seasoning of the portfolio and stricter NPL recognition criteria implemented during the year by SECP. Although interest rates have gradually been reduced since end-FY09, the bank's portfolio remains exposed to increasing credit risk due to continuing adverse business environment.
 - Risk management (RM) has assumed enhanced focus of the management in these turbulent times. The RM department has revisited existing policies in light of the latest crisis, in addition to embarking upon establishing new policies for managing liquidity and market risks.
 - The bank has a stable funding base with low reliance on sensitive bank borrowings (borrowings from banks & other FIs to Total funding net of lease deposits – FY09: 24%, FY08: 41%), largely due to its ability to raise COIs because of a strong brand image.
 - IGI IBL's equity, despite erosion on account of significant losses, remained robust relative to its peers. However, about half of it (PKR 895mln) is deployed in its subsidiaries – IGI Finex Securities Limited and IGI Funds Limited, whose performance remain subdued. Going forward, rising net impaired lending to equity (FY09: 26%, FY08: 6%), may be a drag on risk absorption capacity of the bank.
- ### PROFILE
- IGI IBL, incorporated in 1990, is majority owned (end-FY09: 48%) by Packages group, directly by individuals and through different group companies mainly IGI Insurance Limited (43%). All group companies in the financial segment – Insurance, investment finance services, brokerage, asset management – are branded together as "IGI Financial Services" (IGI FS). Wherever possible, synergetic benefits are availed including having common business premises and sharing of support services. The bank, listed on Karachi, Lahore and Islamabad Stock Exchanges, has offices in four cities with the head office in Karachi. The current CEO, Syed Javed Hasan, has over 20 years of financial and capital markets experience in various senior management positions both locally and abroad.