



RATINGS (JANUARY 2011)

IGI INVESTMENT BANK LIMITED (IGI IBL)

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

HISTORY - LT ENTITY RATING						
AA-						AA-
A+						A+
A			♥	♥		A
A-						A-
	Dec-06	Feb-08	Jan-09	Dec-09	Dec-10	
♥ Negative Outlook						

FINANCIAL DATA

PKR (mln)

	FY10	FY09	FY08
Total Assets	8,261	6,549	9,831
Equity	1,670	1,869	2,244
Net (Loss)	(199)	(375)	(6)
ROE %	n.m	n.m	n.m
Debt/Equity %	357.9	208.7	296.7

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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 reflect IGI IBL's strong relative positioning emanating from its association with IGI Financial Services, financial division of Packages Group. Though the bank has maintained relatively strong equity base, its performance has remained weak mainly owing to significant credit and impairment losses. Moreover, the company's investment (~ 50% of equity) in its subsidiaries has yet to generate any returns; the management is expecting the dividend stream to begin in the near-term. The ratings incorporate efforts of the bank to improve its risk management framework, which is critical in the wake of increasing focus towards capital market related activities, while curtailing the credit losses through recovery of impaired portfolio.
- IGI IBL intends to pursue mainly capital market activities for growth, while shifting from its traditional and relatively diversified business model. This may expose the bank to more volatile sources of business streams with high underlying risk. The ratings are dependent on the management's ability to ensure profitable operations while managing underlying risks.

ASSESSMENT

- The recent years have remained challenging for Pakistan's economy in general and for financial institutions in particular. Deteriorating credit quality, as a result of suppressed economic conditions continued to be a critical issue for almost all lending institutions. IGI IBL has also been affected by the same. Despite an improvement in operating performance of the bank due to relatively large capital gains, the overall profitability has remained weak on account of heavy provisioning against loan losses (FY10: PKR 264mln; FY09: PKR119mln) and investments (FY10: PKR 132mln; FY09: nil).
- Lately, the bank has revisited its business strategy. The bank intends to focus mainly on treasury operations – money and stock market, mainly in the form of repo and ready-future transactions. Although direct lending would be restricted to selected exposures, IGI IBL would maintain sizeable credit book in the form of investments in debt securities – TFCs, Sukuk. The interest income from debt securities would provide a stable revenue stream to the bank largely mitigating depleting revenues from finance and leasing operations. Direct equity market exposure would be restricted to short term investments in stocks and mutual funds. To manage the equity price risk, a policy has been designed whereby limits have been assigned for maximum exposure. The bank also intends to enter into margin financing business. As the revenues of IGI IBL would be largely dependent on its treasury and capital market operations, the oversight and pro-active management of the related risks including credit risk, would require management's critical attention.
- Till date the investment in two subsidiaries – IGI Finex Securities Limited and IGI Funds Limited – has not yielded positive return to the bank. Although the subsidiaries are making efforts to manage their operations more efficiently, a sizeable dividend stream from these investments would be difficult to accrue in the near term.
- During FY10, the asset quality further weakened mainly owing to a single client exposure of PKR 196mln turning bad. Few of the debt instruments (17.4%) have also entered into restructuring during the year. Currently the management is actively pursuing the recovery of defaulted loans. Risk management (RM) has assumed enhanced focus 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 enterprise level risk management.
- The bank has a stable funding base with a high percentage of CoIs (Funds mobilized through deposits to Total funding net of lease deposits – FY10: 65%, FY09: 68%), largely due to a strong brand image.

IGI IBL's equity, despite erosion on account of significant losses, still remains robust relative to most of its peers. However, about half of it (PKR 860mln) is deployed in its subsidiaries. Going forward, the bank's ability to augment and strengthen its risk absorption capacity through averting further impairment in assets, while achieving positive bottom-line would remain critical.

PROFILE

IGI IBL, incorporated in 1990, is majority owned (end-FY10: 60%) 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 five 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.

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