



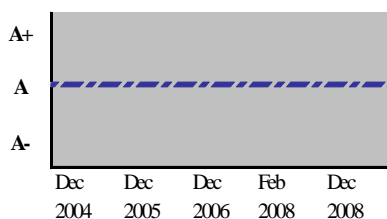
IGI INVESTMENT BANK LIMITED (IGI IBL)

RATINGS (JANUARY 2009)

IGI INVESTMENT BANK LIMITED

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

HISTORY-LT ENTITY RATING



FINANCIAL DATA

PKR (mln)

	30-Jun-08	30-Jun-07
Total Assets	9,831.4	6,649.0
Equity	2,244.3	1,067.5
Net Income / (Loss)	(6.4)	(39.2)
ROE %	n.m	n.m
Debt/Equity %	296.69	458.24

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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 its strong relative positioning in the investment banking industry emanating from the resilience demonstrated by the bank in the current liquidity crisis. The ratings also recognize the bank's strong risk absorption capacity supported by its good asset quality, sound equity base, and quality risk management systems. Though the performance of the bank is expected to remain subdued over the short to medium term, the management is making efforts to overcome the increasing business risk mainly by focusing on the bank's diversified product portfolio. However, the extent of its success is yet to be seen. Meanwhile, the ratings would continue to draw comfort from the bank's association with one of the prestigious business groups in the country – Packages group.
- The ratings are assigned a negative outlook recognizing the uncertain prospects of the overall investment-banking sector. The bank's ability to materialize its business plans in a timely manner while improving profitability and maintaining its asset quality would remain critical.

ASSESSMENT

- During FY08, IGI IBL managed to achieve a reasonable volumetric growth financed through a balanced mix of funding both from certificate of deposits and bank borrowings. However, net interest revenue remained subdued due to continuing pressure on spreads. Moreover, some portion of long-term finances of the bank has remained locked on fixed rates, the benefit of rising interest rates could not be availed. Meanwhile, income from capital market operations substantially increased mainly on account of robust performance witnessed in the equity market for major part of the year. However, subdued net interest income and high personnel and operating costs turned the bottom line into red. Going forward, the bank intends to adopt a cautious approach towards growth. Main focus would be to maintain stability in business volumes rather than mere profitability while upholding its traditional conservative stance towards risk.
- IGI IBL has two subsidiaries – IGI Finex securities Limited and IGI Funds Limited. As both the companies are in gestation phase, significant benefit from these investments is not likely to accrue over the medium term.
- Since end-FY08 investment banking industry in Pakistan has undergone a difficult phase, and most entities in the industry have lately experienced significant deterioration in credit profiles. Moreover, access to economical sources of funds has remained a challenge. Macroeconomic problems being faced by the entire economy have manifested a difficult operating environment for the industry. Nonetheless, IGI IBL maintained its financial profile by virtue of fresh equity injection through right shares during mid-FY08. However, business volumes shrank and turbulence in the stock market is expected to put further pressure on revenues of the bank during FY09.
- The bank made sizeable investment in CFS market. The exposure increased significantly in 1QFY09. The funds after remaining stuck due to temporary suspension of the stock market and weakening profile of finantee, has lately been realized 70% in cash and 30% in the form of equity securities. The bank intends to hold the securities till the market starts recovery. Although, to date, no major loss is faced, the bank is exposed to additional market risk to the extent of new equities acquired.
- During FY08, the management was able to arrest further deterioration in its asset quality by adopting a more cautious approach (NPL to Gross Finances Ratio: FY08: 5.5%, FY07: 6.5%). An increase has been witnessed in the 1Q FY09 in line with deteriorating credit environment. However, the management by virtue of its improved risk management procedures and strengthening of its recovery function expects considerable recovery in this regard. Moreover, the bank has plans to reduce its concentration in high-risk business sectors to avoid further pressure on asset quality.
- The bank's funding base comprises a balanced mix of certificates of deposit and bank borrowings. The bank's capital structure has substantially improved due to issuance of right shares in FY08. This equity injection has helped in improving the bank's risk absorption capacity.

PROFILE

- IGI IBL, incorporated in 1990, is majority owned (end-FY08: 47%) by Packages group, directly by individuals and through different group companies mainly IGI Insurance Limited. All group companies in the financial segment – Insurance, investment finance services, brokerage, asset management- are branded together as "IGI Financial Services". At the same time, wherever possible, synergetic benefits are availed including having common business premises and sharing of support services. The bank, listed on Karachi and Lahore Stock Exchanges, provides services in four cities with the head office in Karachi. The current CEO, who joined the bank in June 2004, has over 20 years of banking and capital markets experience in various senior management positions both locally and abroad.