



IGI INVESTMENT BANK LIMITED (IGI IBL)

RATINGS (DECEMBER 2006)

IGI INVESTMENT BANK LIMITED
(FORMERLY FIRST INTERNATIONAL
INVESTMENT BANK LIMITED)

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

FINANCIAL DATA

| PKR (mln) | 30-Jun-06 | 30-Jun-05 |
|---------------|-----------|-----------|
| Total Assets | 5,292.5 | 4,368.4 |
| Equity | 644.6 | 665.9 |
| Net Income | 37.3 | 74.7 |
| ROA % | 0.77 | 1.91 |
| ROE % | 5.69 | 11.88 |
| Debt/Equity % | 622.29 | 490.27 |

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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 will be in eight equal semi annual installments commencing from the 18th month after the issuance. 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

ASSESSMENT

- The ratings reflect the bank’s conservative risk appetite, which, supported by an adequately leveraged capital structure, has ensured a strong risk absorption capacity. However, the bank’s profitability remain low, mainly an outcome of a) intense competition in the bank’s core financing operations resulting in continuing squeeze in spreads, and b) limited inroads into stable – indeed growing – fee-based businesses. Although the management is striving hard to develop non-fund based revenue streams, building the requisite human and infrastructure resources has proven to be an uphill task. While adequate progress has been made in this regard since the appointment of the current Chief Executive, given the increasingly competitive peer setting and the bank’s relatively recent efforts to diversify and expand revenue streams, the impact on the bottom line is limited. In PACRA’s opinion, therefore, IGI IBL’s performance – both in absolute terms and relative to peers – is likely to remain subdued. The negative rating outlook is a reflection of this opinion.
- During FY06, IGI IBL, while expanding its leasing and financing operations, actively participated in money and capital market operations. This volume expansion, to some extent, has helped in reducing the drag of declining spreads. However, substantial loss on disposal of low-yielding PIBs, despite significant returns on equities portfolio, significantly weighed down the bank’s profitability. Moreover, the bank’s cost structure continued to follow an upward trajectory mainly on account of new hiring (employees end-FY06: 140, FY05: 89), with no incremental benefit in terms of additional revenue, which would accrue gradually. The bank has largely held its spreads during 1Q-FY07. However, the equities portfolio performed poorly and contribution from fee-based avenues remained limited. At the same time, burgeoning operating costs resulted in a nominal loss for the period.
- Going forward, the management, to overcome the limited profitability and being cognizant of the changing operating environment in financing activities, has recognized fee-based businesses as main revenue drivers. IGI IBL has identified a) advisory, b) asset management, and c) brokerage services as avenues offering growth opportunities despite intense competition. The bank started its brokerage operations on a limited scale in FY05 and has recently acquired an active brokerage company. The bank has transferred all its brokerage related activities and resources to its wholly owned subsidiary – IGI Finex Securities Limited (IFSL), now offering a complete range of brokerage services. The bank is targeting aggressive growth in brokerage business and, in line with this, has substantially increased the capital of IFSL to above PKR 520mln. IFSL, with availability of requisite resources including capital, human, and infrastructure and association with a strong group, is expected to develop a stable revenue stream. In line with its strategy the bank has also incorporated a wholly owned asset management company – IGI Funds Limited. The company would be launching its first mutual fund soon. However, given increasing competition in the asset management industry and relatively long gestation period required in this business, the benefit to IGI IBL, in the form of dividends, would accrue over the medium-term. In terms of advisory services, the bank is pursuing a) corporate finance advisory, b) mutual fund investment advisory, branded as *Fund Select*, and c) portfolio management services. However, with the exception of Fund Select, the bank has yet to achieve any material progress in these segments. Nevertheless, as most of these initiatives are at initial stage, the translation of the strategy into stable revenue streams and the timing and extent of contribution to the bottom line remain to be seen. Meanwhile, the bank intends to maintain a steady growth in its loan book, while upholding its traditional conservative stance towards risk. However, it is increasing its participation in the low-risk capital market operations (CFS, ready-future transactions) and money market.
- The bank’s funding base comprises a balanced mix of certificates of deposit and bank borrowings. The deposit base is spread over a sizeable number of depositors, with adequate mix of individuals and coporates, ensuring stability. Moreover, increasing participation in money market has provided Interbank another avenue to mobilize short-term funds.
- IGI IBL, with an insignificant level of impaired portfolio, maintains very good asset quality. The bank restricts overall investment in equities to the size of its equity, within which trading equity portfolio is limited to 30% of the bank’s equity, which helps minimizing the potential risk.
- The bank’s capital structure is at a comfortable level. Given its plans of limited risk-assets based expansion, it continues to maintain a strong risk absorption capacity. Moreover, in case of any change in strategy resulting in a higher growth in fund-based operations, the management intends to do the same only after increasing the bank’s equity.

SUPPORT

- Considering the financial standing and market reputation of the sponsors, in PACRA’s view, support would be forthcoming, if it proves necessary, although no contractual obligation exists.

BACKGROUND

- IGI IBL, initially incorporated in 1990 as First International Investment Bank Limited (Interbank), is majority owned by Packages group (55%), directly by individuals and through different group companies mainly International General Insurance Company of Pakistan Limited (IGI). Recently there is an increasing realization by the group to strengthen its profile within the financial sector, as group companies now offer the full range of non-banking financial services. As a result, all group companies in the financial segment are being branded together as “IGI Financial Services”. At the same time, wherever possible, further synergetic benefits would also be explored including having common business premises and sharing of support services.
- The bank, listed on Karachi and Lahore Stock Exchanges, provides services in five cities with the head office at 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 and is spearheading the bank’s progress towards developing non-fund based revenues.

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