



FIRST INTERNATIONAL INVESTMENT BANK LIMITED

RATINGS (APRIL 2006)

FIRST INTERNATIONAL INVESTMENT BANK LIMITED (INTERBANK)

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

FINANCIAL DATA

PKR (mln)

	30-Jun-05	30-Jun-04
Total Assets	4,368.4	3,433.0
Equity	665.9	591.2
Net Income	74.7	42.0
ROA %	1.91	1.24
ROE %	11.88	8.08
Debt / Equity %	490.27	419.69

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TFC ISSUE

Interbank is planning to issue secured listed TFCs of PKR 500mln during the current year. The proposed TFC issue is for a tenor of 5 years carrying a profit 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 will be secured by way of first pari passu charge on present and future assets of the bank with a 25% margin. The bank intends to utilize the proceeds of the TFCs to establish its asset management business, strengthen the brokerage function and further expand the investment portfolio.

Rating Rationale

Assessment

- The ratings reflect the bank's sustained strong risk absorption capacity, which is primarily an outcome of its conservative stance towards risk supported by an effective credit risk management system. However, at the same time, the bank, due to relatively fine pricing to ensure good credit quality and high cost structure, continues to experience subdued profitability. The management, to overcome this impediment and being cognizant of the changing operating environment in the fund-based business, has identified fee-based investment banking activities as main revenue drivers. However, as most of these initiatives are at initial stage, the ability to operationalize the strategy into stable revenue streams and the timing and extent of contribution to the bottom line remains to be seen.
- Interbank's performance – measured in terms of ROE and ROA – improved modestly during FY05, though still remaining considerably lower compared to most peers. The bank's foray into money and capital market operations helped it improve its spreads slightly, which, alongwith a moderate growth in the loan book, resulted in higher net interest revenue. The bank also benefited from capital gains from trading in equities. However, at the same time, it further divested a portion of its PIBs portfolio, albeit at a loss, reducing the total capital gains on YoY basis. Interbank started its equity brokerage business during FY05 and this source has also contributed, though modestly, towards the revenues. Nevertheless, its operating cost structure was the highest amongst peers. During 1H FY06, the growth in the loan book was limited and spreads were also slightly depressed in contrast to FY05, though the bank increased its participation in money market operations. The bank had almost completely divested its low-yielding PIBs portfolio during the period. However, due to loss on disposal of this portfolio, the bank reported a net loss for the period. The redeployment of these funds in relatively high-yielding avenues is likely to support the spreads, going forward.
- The bank's focus is on developing core investment banking operations, mainly brokerage, corporate finance facilitation and asset management. In terms of fund-based business, it is not targeting an aggressive growth in its loan book and intends to maintain a steady pattern, while upholding its traditional conservative stance towards the risk. However, it is increasing its participation in the low-risk capital market operations (CFS, ready-future transactions) and money market. Within investment banking activities, Interbank has identified the brokerage business as the core revenue generating activity in the near-term. In line with its objective, the bank has recently acquired 100% shareholding and control of Finex Securities Limited – an established equity, money market and forex brokerage house. This is expected to bolster the revenues by providing access to a larger customer base. In this regard, the bank's long-standing relationships with different institutions and individuals by virtue of its certificates of deposit schemes are expected to help in making the initial breakthrough, on which the management intends to build through providing good quality of services. Additionally, the bank plans to utilize technology-based tools to attract a larger universe of customers. As regards corporate finance and asset management related services, the bank is in the process of developing the requisite expertise. Although these initiatives are likely to benefit the bank's profitability, this will be in a gradual manner.
- 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 corporates, ensuring stability. Moreover, increasing participation in money market has provided Interbank another avenue to mobilize short-term funds.
- Interbank restricts the size of its proprietary equity portfolio to 30% of its own equity, which helps minimizing the potential risk. As regards investments in government securities, the bank has divested a major portion of its PIBs portfolio. Going forward, it would support its money market operations through short-term treasury bills. This is expected to keep the interest rate risk within acceptable limits. In terms of credit risk, Interbank, with an insignificant level of impaired portfolio, maintains very good asset quality.
- Interbank's capital structure is at a comfortable level, though the bank, after a break of three years, has recently distributed cash dividend restricting the increase in its equity base. However, given its plans of limited risk-assets based expansion, it continues to maintain a strong risk absorption capacity.

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

- First International Investment Bank Limited (Interbank), incorporated in 1990, is a joint venture of the Packages Group (PG), American Express Bank N.Y. (Amex) and International Finance Corporation, who collectively hold majority of the bank's equity. Interbank, listed on Karachi and Lahore Stock Exchanges, provides services in five cities with the head office at Karachi. In order to increase the business volume, particularly from the brokerage operations, the bank has recently started its operations in Faisalabad and Sialkot and, going forward, any further expansion would be on selective basis.
- The board of directors comprises seven members, including four representing PG and two nominees of Amex. 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.

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