

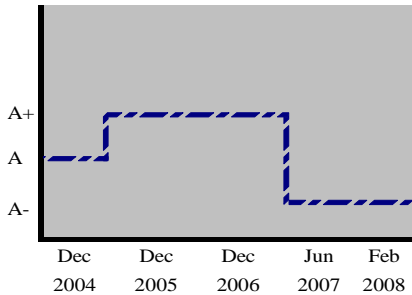


ORIX INVESTMENT BANK PAKISTAN LIMITED (OIBPL)

RATINGS (MARCH 2008)

ORIX INVESTMENT BANK PAKISTAN LIMITED

	NEW	PREVIOUS
ENTITY		
Long Term	A-	A-
Short Term	A2	A2



FINANCIAL DATA

	PKR (mln)		
	31-DEC	30-JUN	30-JUN
	-07*	-07	-06
Total Assets	4,891.1	5,351.9	5,062.3
Equity	1,105.5	347.0	788.1
Net Income / (Loss)	32.5	(312.0)	202.6
ROA %	0.6	(6.0)	4.8
ROE %	4.5	(49.4)	28.2
Debt / Equity %	374.1	1398.6	533.2

* Based on six months reviewed results

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RATING RATIONALE AND KEY DRIVERS

- OIBPL's ratings reflect its subdued performance prospects over the medium-term and potential losses arising from the investment portfolio. At the same time, the ratings recognize the sound quality of the loan book and augmentation in the equity base through a recent 200% right issue, supporting the risk absorption capacity. Meanwhile, the management's ongoing efforts to revive the bank's operations and establishing sustainable revenue streams would remain critical. The demonstrated support of the major shareholders, namely, ORIX Corporation Japan and ORIX Leasing Pakistan, is also a key rating factor.
- Implementation of a strong risk management framework and induction and retention of requisite human resource, also helping in restoring the bank's franchise, are crucial for the future prospects of the organization. Failure to effectively execute these strategies could prove detrimental to the ratings. However, material, sustainable improvement in the performance of the bank, complemented by prudent risk management systems and a strong capital structure, in turn, engendering robust risk absorption capacity, would have positive implications for the ratings.

ASSESSMENT

- FY07 proved to be a difficult year for OIBPL, as the bank's operations suffered a major setback stemming from a shares financing transaction. The transaction, mainly originated by the brokerage division, pertains to certain clients and linked to a single scrip, Callmate Telips Telecommunication Limited (CTTL). The bank had to pay off the respective liabilities and these shares were eventually transferred to OIBPL's proprietary investment portfolio. While the management failed to reach a settlement with respective clients, the value of these shares deteriorated significantly resulting in a substantial loss for the bank. The fall out from this transaction affected other areas of operations adversely, as reflected by subdued performance of the bank across various segments, especially brokerage and other fee-based services. Consequently, income from non-fund based operations, historically the major contributor towards the bottomline, declined substantially (around 34%) during the year. The overall finances portfolio of the bank also reduced slightly. Moreover, though OIBL continued with its money/capital market financing operations, significantly higher finance cost, as the bank had to revert to short-term borrowings to finance its operations – including financing for transacted shares – led to reduced interest revenue.

- In addition to the monetary losses, OIBPL's reputation was also damaged during this ordeal. The management is working towards establishing OIBPL as a reputable financial institution and reviving its operations. The bank has revamped its organizational structure and most of the top management team has been replaced in the process, though yet to fulfill all its HR requirements. OIBPL is reviewing its risk management systems and control mechanism at various organizational levels. In 1HFY08, the bank posted positive earnings. However, the management had not recognized further deficit on CTTL shares (PKR 465mln) as impairment, which would have significantly dampened the bottomline. Although OIBPL's management is exploring viable options to dispose off its stake in CTTL, the losses arising from these shares are expected to materialize due to weak performance prospects of the company (Book Value per share to OIBPL: PKR 50.7; current market value: PKR 7; current unrecognized loss: PKR 572mln). Going forward, the management intends to focus more on fee-based income, particularly brokerage – mainly retail business – and corporate advisory services. The bank is also shifting focus of its loan book from SMEs to Corporates, albeit at lower spreads, to achieve volume expansion. However, the success of these steps remains to be seen, as OIBPL faces multiple challenges intensified by stiff competition in the sector and human resource constraints.

- The management is working towards establishing and strengthening its risk management systems and control mechanism for various departments. The limit for proprietary trading in equities stands at PKR 200mln, limiting the bank's exposure to market risk. Owing to its investments in long-term PIBs, the bank is exposed to interest rate risk. Nevertheless, the bank is utilizing this portfolio for its money market operations, thereby increasing the effective return. The bank's Asset & Liability Management Committee monitors the bank's exposure to interest rate risk on regular basis. Meanwhile, NPLs of the bank increased despite slight YoY decrease in the loan book (NPLs FY06: 7.6% FY07: 10.6%). Nevertheless, the bank's asset quality remains strong on account of strong provision coverage (88% provisioning).
- During FY07, the bank's equity eroded on the back of accumulated losses and capital adequacy ratios were also distorted. The BoD, cognizant of the situation, conducted a right issue (200%; PKR 726mln) to mitigate the financial losses and enhance the equity base of the bank. Although, the enhanced equity base has improved the capital structure and risk absorption capacity of the bank, the ensuing loss in the investment portfolio may dampen it, necessitating the need for another round of capitalization.

PROFILE

- ORIX Investment Bank Pakistan Limited was incorporated in July 1995 and commenced operations in the subsequent year. Listed on both Karachi and Lahore Stock Exchanges, OIBPL was sponsored by ORIX Corporation Japan (ORIX) and ORIX Leasing Pakistan Limited (OLP). ORIX is the single largest shareholder (32.5%) of OIBPL, followed by OLP (15%). Other shareholders include local and foreign financial institutions and individuals. The bank's business activities include short-term lending, fund placements, treasury operations, money market brokerage, equity broking and financial and advisory services.
- The Board of Directors (BoD) comprises seven members including the CEO. Three directors are nominees of ORIX, two of OLP, while SaudiPak Industrial & Investment Company and Pak-Kuwait Investment Company has appointed one nominee each. The CEO – Mr. Naim Farooqui – has experience of more than 21 years in development and investment banking.

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