



## Crescent Investment Bank Limited (CIBL)

### Ratings (May 2003)

Crescent Investment Bank Limited

	New	Previous
<b>Entity *</b>		
Long-Term	A-	BBB-
Short-Term	A1	A3

\* The ratings are applicable to the senior unsecured creditors of the bank.

### Financial Data

PKR (mln)

	2002	2001	2000
Total Assets	3,481	6,528	8,042
Equity	1,106	600	1,454
Net Income	506	(807)	557
ROA (%)	10.1	(11.1)	7.4
ROE (%)	59.3	(78.5)	43.6
Equity/Asset (%)	31.8	9.2	18.1

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### Rating Rationale Assessment

- CIBL's ratings reflect the marked improvement in the capital structure and risk profile of the bank. PACRA is of the opinion that the bank now has a strong capacity to meet its financial obligations in the absence of any unforeseen development. The ratings also recognize the substantial reduction in potential market risk emanating from the bank's large exposure to the equity market in the past, after considerable reduction in the size of the equity investment portfolio. The bank's ratings were downgraded and placed on RatingWatch subsequent to a significant deterioration in the capital structure and risk profile of the bank during September 2001. Since then, the capital structure has been strengthened through considerable reduction in liabilities and an enhanced capital base. Going forward, the management is considering conversion to a commercial bank through a merger. In the event the proposal materializes, concentration of the bank's investment in the equity portfolio is expected to decline further while the bank would have alternate avenues for fund raising and revenue generation.
- During FY2002, CIBL managed to wipe out the entire accumulated loss. The turnaround was a result of the boom in the stock market and the bank earned substantial capital gains from sale of investments. Resultantly, equity of the bank has been recouped to PKR 1.1bln. The bank earned PKR 898mln on account of income from investments in FY2002 (about 73% of which is gain on sale of investments) as against a loss of PKR 595mln in the previous year. As a result, both ROE and ROA registered marked improvements. The performance, though encouraging, still highlights the extent of vulnerability of the bank's performance to stock market trends in the past. Going forward, however, the volatile trend is not expected to continue in view of the major restructuring measures being taken up by the management in anticipation of the imminent merger.
- As a result of a major restructuring, the bank's balance sheet size declined by about 47% on a YoY basis during FY2002, further reducing by 11% during 1Q2003. This was mainly a result of off-loading of equities during the year as well as the management's decision to shed off relatively expensive deposits.
- The quality of CIBL's loans and advances portfolio registered a considerable improvement during 2002, and NPLs as at 31<sup>st</sup> December 2002 constituted around 22% of total loans compared to the previous year's level of 32%. During FY2002, the impaired lending / total lending ratio has declined substantially, having gone down to 70%, owing to the marked reduction in the overall lending coupled with the increase in capital base of the bank. However, after accounting for the specific provisions there against, the net uncovered exposure works out to be at a comfortable level of 30% of free equity from the previous year's level of about 200%.
- During FY2002, the net investment in the equity portfolio was reduced to PKR 770mln compared to last year's level of PKR 2.1bln. The share of equity investments in total assets also came down to 22% from the previous year's level of 32%, thus reducing the bank's risk exposure significantly. This factor mitigates, to a large extent, the long prevailing concern of excessive exposure of the bank to the stock market and the resulting volatility in its performance indicators.
- The gearing, which had escalated to over 880% by FYE2001 has come down to 150% by FYE2002 thereby improving the risk absorption capacity of the bank. Hidden reserves in the form of appreciation in property values provide additional strength to the capital base of the bank.

### Support

- Given the substantial stake in the bank, the sponsoring group CG would be inclined to lend financial support in the event of a contingency, but the extent of such support would be modest. The opinion is strengthened by the manifestation of limited support provided during the recent liquidity crisis.

### Background

- Crescent Investment Bank Limited (CIBL) was established in 1989 as the first private sector investment bank in Pakistan and is listed on all three stock exchanges of the country.
- CIBL was sponsored by the Crescent Group (CG) – a diversified corporate conglomerate actively involved in the textile, sugar, steel and financial sectors. CG continues to exercise management control, with 26.66% stake in the bank as at 31st December 2002.
- On the basis of total assets, CIBL was the second largest investment bank operating in Pakistan as at 31st December 2002.
- CIBL is involved in all the investment-banking activities, but its noteworthy feature has been the management of a large equity investment portfolio. With the accomplishment of the imminent merger, factors like the relative restriction imposed on the avenue of equity investments, along with opening up of new avenues for fund raising and revenue generation, are expected to have a stabilizing impact on the operations of the bank.