

FIRST DAWOOD INVESTMENT BANK LIMITED

- A total of sixteen rating actions within a period of eleven years preceding “default”
- Entity Rating relationship terminated in December 2009

1.1 First Dawood Investment Bank Limited (FDIB) initially started as a leasing company in 1995 and then gradually expanded its business to investment banking operations. PACRA formed its first rating opinion on FDIB in 1998, and till December 2009 a total of sixteen rating actions were taken, including two upgrades and four downgrades

Rating History – First Dawood Investment Bank Limited (Long-term Entity and Instrument Ratings)																	
AA-																	AA-
A+																	A+
A																	A
A-																	A-
BBB+																	BBB+
BBB																	BBB
BBB-																	BBB-
BB+																	BB+
BB																	BB
BB-																	BB-
B+																	B+
B																	B
B-																	B-
CCC																	CCC
CC																	CC
C																	C
D																	D
	May -98	Jul -99	Mar -00	Feb -01	Feb -02	Mar -03	Dec -03	Feb -05	Dec -05	Dec -06	Feb -08	Dec -08	Feb -09	May -09	Nov -09	Dec -09	

Rating Watch

RW

Long-Term Entity Rating

Negative Outlook



Instrument Rating

1.2 The upward rating transition reflected improvement in credit quality of the bank, attributable to relatively higher levels of financial discipline being practiced by the management. However, in recent years, the bank focused upon aggressive growth strategy that initially resulted in greater profitability. However, concurrently, the overall risk profile of the bank increased considerably. Meanwhile, high leveraging and diminishing liquidity led the bank into severe crises.

1.3 Overall credit profile of the investment banking industry came under pressure in later half of 2008 owing to economic downturn in general and heavy reliance of majority of Non Banking Finance Companies (NBFCs) on short term borrowing, in particular. In this regard, PACRA issued a press release on October 22, 2008, highlighting various concerns that could possibly hurt the risk absorption capacity of investment banks. Subsequently, the rating agency took entity-wise actions, while highlighting negative implications of the latest developments for the whole investment banking industry.

1.4 On December 23, 2008, PACRA downgraded the entity and TFC¹ ratings of the bank by two notches (**long-term: A- from A+; short term: A2 from A1; TFC: A from AA-**) highlighting the increase in business and financial risk of the bank owing to: i) tightened money markets and high interest rate environment, ii) large exposure in equity market and the associated revaluation losses, and iii) weakening asset quality. Meanwhile, the rating agency assigned a negative outlook to these ratings clearly mentioning that the delay in fresh equity injection or failure to achieve tangible progress in management’s plans to revive the operations of the bank could result in a further downgrade.

1.5 The entity and TFC ratings remained under surveillance and were further downgraded on February 20, 2009 by three and four notches respectively to **BBB -**, the lowest investment grade rating. The rating opinion reflected mounting pressure on risk absorption capacity of bank owing to significant losses from stock market operations and high uncovered exposure of non

¹ Secured TFC of PKR350mln issued by FDIB in 2007

performing loans. Also, the ratings were placed on *Rating Watch* pending the bank’s plans either to merge or to bring in fresh capital.

1.6 The ratings were further downgraded to speculative grade category (*BB*) on May 22, 2009, reflecting severe impact upon the financial profile of the company of significant delays in materialization of efforts to revive its operations. The rating agency, while rationalizing the bank’s ratings, also considered the existence of lenders’ forbearance. The ratings were assigned a negative outlook.

1.7 On November 19, 2009, with some material changes taking place in the top management, the rating agency re-emphasized the state of affairs of the bank highlighting the urgency of timely execution of restructuring plan and rebuilding of equity to an adequate level. The management shared a revised restructuring plan with the rating agency citing completion of restructuring by end-Dec09. This timeline was considered a critical rating factor.

1.8 On December 31, 2009, PACRA took the entity ratings to “D”, underlying the exhaustion of lenders’ forbearance on bank’s non performance of its liabilities – both interest bearing and obligations arising from guarantee calls. However, the TFC rating had been downgraded by three notches to “CCC”, as the bank is timely honoring the interest payments. Nevertheless, the fast depleting underlying collateral – lease book – and otherwise distressed profile of the bank indicates a high default risk, on the instrument as well.

1.9 The entity rating relationship has been terminated at the request of the client. However, PACRA is monitoring the payment behavior² of the instrument.

References:

December 31, 2009	PACRA Downgrades Ratings of First Dawood Investment Bank to “D” [Long-Term Entity Rating: D, Instrument Rating: D]
November 19, 2009	PACRA Emphasizes Rating Watch on First Dawood Investment Bank [Long-Term Entity Rating: BB, Instrument Rating: BB]
May 22, 2009	PACRA Downgrades Ratings Of First Dawood Investment Bank Limited, Assigns Negative Outlook [Long-Term Entity Rating: BB, Instrument Rating: BB]
February 20, 2009	PACRA Downgrades Ratings Of First Dawood Investment Bank Limited [Long-Term Entity Rating: BBB-, Instrument Rating: BBB]
December 23, 2008	PACRA Downgrades Entity & TFC’s Rating of First Dawood Investment Bank Limited [Long-Term Entity Rating: A-, Instrument Rating: A]
December 23, 2008	Credit Profiles Deteriorate, Outlook Negative For The Investment Banking Industry
October 22, 2008	PACRA Sees Concerns For Investment Banking and Leasing Businesses

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² Last profit payment was due on March 11, 2010 and the trustee confirmed the receipt of payment from FDIB