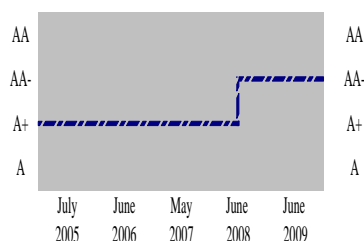


**RATINGS (JUNE 2009)**
**NIB BANK LIMITED (NIB)**

| RATINGS                                                                       | NEW | PREVIOUS |
|-------------------------------------------------------------------------------|-----|----------|
| <b>Entity</b>                                                                 |     |          |
| Long Term                                                                     | AA- | AA-      |
| Short Term                                                                    | A1+ | A1+      |
| <b>Instrument (TFCs)</b><br>(Listed, Unsecured, Subordinated)<br>PKR 4,000mln | A+  | A+       |

**LT ENTITY RATING - HISTORY**

**FINANCIAL DATA**

PKR (mln)

|                  | Mar09 <sup>^</sup> | Dec08     | Dec07     |
|------------------|--------------------|-----------|-----------|
| Total Assets     | 185,597.5          | 178,909.1 | 176,872.4 |
| Equity           | 41,352.0           | 41,006.7  | 36,481.4  |
| Finances         | 73,603.9           | 75,855.7  | 81,248.8  |
| Deposits         | 107,898.7          | 104,586.2 | 116,671.2 |
| ROA %            | 0.22*              | -ve       | -ve       |
| Equity / Asset % | 22.28              | 22.92     | 20.63     |
| SBP CAR%         | 19.04              | 19.53     | 6.47      |

<sup>^</sup> Based on unaudited results for 3 Months ended March09

\* non annualized

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**TFC Issue**

NIB issued listed unsecured, subordinated TFCs of PKR 4,000mln, for a tenor of 8 years, in Mar08. The profit payment, to be made semi-annually, is based on 6 months KIBOR plus 115bps. The instrument is structured to redeem 0.20% of the issue amount in the first 60 months, and the remaining in six (6) equal semi-annual installments, starting from the 66<sup>th</sup> month (i.e. Aug 2013). The TFCs have a call option, in whole or in part, subject to the approval of SBP, exercisable on any profit payment date after 60 months.

**RATING RATIONALE AND KEY RATING DRIVERS**

- The rating reflects the banks emergence as a prominent player in the banking sector of the country. In 2008, the bank faced a tough operating environment, made more difficult by the acquisition of PICIC which brought with it deterioration in the asset quality, translating into significant losses. Nevertheless, the principal shareholder - Temasek - while providing technical assistance to the bank stood by and supported through significant fresh equity injection, restoring the risk absorption capacity. Meanwhile, NIB's business model of programmed lending is progressing well supplemented by management commitment and established infrastructure.
- The ratings are dependent on the effective execution of the bank's strategy to establish a strong franchise – retail deposit penetration and quality credit expansion in an increasingly competitive banking landscape. Retention and cohesiveness of senior management is critical to ensure consistency in policies and strategy. Meanwhile, further material deterioration in the asset quality of the bank, especially from fresh disbursement, leading to weakening of its risk absorption capacity could adversely affect the ratings.

**ASSESSMENT**

- NIB, with a network of 235 branches at end-Mar09, has gained a prominent position in the banking sector of the country after the merger process. Around half of the bank's loan book is currently concentrated in the corporate sector with remaining major portion being deployed in SME sector (34%) and consumer financing (11%).
- NIB's business strategy envisages categorization of customers into various segments based on common attributes, and targeting each segment through separately designed business models under programmed lending. This also involves positioning, structuring, and staffing of branches according to the requirements of each individual segment.
- NIB's performance, in terms of profitability, deteriorated considerably mainly driven by: a) credit provision, b) goodwill impairment, and c) fall in equity markets. Meanwhile, bank's non-interest based income witnessed a notable increase due to sizeable dividend income from its Asset Management subsidiary and investments in the mutual funds of subsidiaries/associates. However, this source of revenue remains dependent on the performance of the stock market.
- Going forward, NIB plans to improve its branch productivity thereby rationalizing its high operating cost structure and increase deposit mobilization by expanding its relationship base and by fostering existing relationships. Meanwhile, the management is geared towards reducing its currently high cost of funds by increasing the proportion of current accounts. Moreover, conservative growth is expected in the advances portfolio as the management undertakes the shedding of those loans in the acquired portfolio which do not fulfill the bank's target market or credit acceptance criteria and are susceptible to infection and for which the management has designed an exit strategy.
- NIB's proportion of NPLs in the total loan book is significantly higher than peers and is a result of infected portfolio inherited from the acquired entities. The NPLs, as a proportion of gross advances were around 24% at end-Mar09 (end-07:14%). The management has extensively reviewed the loan book and believes that most weak credits have been identified and fresh injection would be minimal, going forward. Meanwhile, it has stepped up the recovery efforts.
- The bank is in the process of implementing Temenos (T-24) as its core banking software. The complete migration is expected to be completed by Q3-2009. Effective and timely implementation of the core banking software is critical to mitigate operational risks involved.
- The liquidity of the bank, in terms of its liquid assets to deposits and borrowing ratio, remained constrained in comparison to its peers. However, lately it has improved to 37% (end-Mar09) mainly on account of softening of advances to deposits pattern, whereby additional funds are invested in government securities. Going forward, a sizeable investment in government securities is expected to help the bank's liquidity management.
- In the wake of anticipated losses projected at end 2008, the bank raised PKR 12bln in additional capital through a rights issue at par in December 2008 taking the reported share capital above PKR 40bln at end March-09. The issue was almost fully subscribed by the key sponsor. Meanwhile, the bank's current level of CAR is fairly high and offers significant room for credit expansion.

**PROFILE**

- NIB Bank Limited, formed in 2003, merged with PICIC and its banking subsidiary PICIC Commercial Bank with effect from December 31, 2007. Bugis Investment (Mauritius) Pte. Limited, a wholly owned subsidiary of Fullerton Financial Holdings (FFH), which in turn is fully owned by Temasek Holdings, acquired majority stake in NIB in Jul05 (present ownership: 74%). Temasek is the investment arm of the Government of Singapore and is rated Aaa/AAA by Moodys and Standard & Poors (end-Dec08). It manages a diversified portfolio, having a market value of over USD 130bln at end-Mar08, spanning across Singapore, Asia and OECD countries.
- The eight-member BoD mainly comprises representatives of Temasek, who are experienced professionals and are directors in other banking companies. The current President and the CEO, who has been associated with the bank since inception, has extensive banking experience. He is assisted by an experienced, dynamic and professional team.