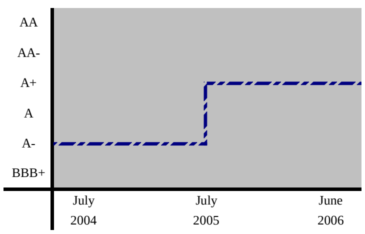
NIB BANK LIMITED (NIB)

Ratings (June 2006)

NIB Bank Limited

	New	Previous
Entity		
Long Term	A+	A+
Short Term	A1	A1
Outlook	Positive	Positive



Financial Data

PKR (mln)

	31-Dec-05	31-Dec-04
Total Assets	32,022.7	16,557.5
Equity	4,253.8	1,377.8
ROE %	3.69	9.31
ROA %	0.43	0.97
Equity / Total Assets %	13.28	8.32
SBP CAR	16.90	10.26

Analysts

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Rating Rationale

Assessment

- The ratings reflect the bank's high-risk absorption capacity, and very strong financial profile and international identity of the principal shareholder – Temasek. The rating also take into account the management's well-conceived strategy for aggressive penetration into Commercial, SMEs and Consumer segments through roll out of robust models with specially tailored products. While confronting the challenges of a bank of relatively recent origin, the management, in a short span of time, has made impressive progress in building a quality team, requisite infrastructure, and systems and processes, and is well geared to launch its overall business plans.
- Since the acquisition of majority shareholding by Temasek in Jun05, leading to change in bank's profile and strategic direction, a notable development has been achieved in every sphere of bank's activity. A quality senior management team has been assembled, while all the back office and support areas are now fully staffed. With the change in name of the bank, the management is focused on creating a strong brand name and market presence with increasing emphasis on service quality. The expanding branch network is expected to reinforce this image. Realizing the importance of a strong technology platform, the management is currently in the process of finalizing arrangements with an internationally acclaimed software group for providing core-banking solutions. Meanwhile, the management benefits from extensive involvement and technical assistance of the principal shareholder, in product designing, systems development, and even in the selection process of senior management personnel.
- During 2005, the profitability in terms of ROA continued to remain constrained. Despite spreads coming under pressure due to greater reliance on institutional deposits – an outcome of limited outreach – the net interest revenue increased on the back of sizeable volume expansion. At the same time, the contribution of non-fund based income improved considerably, owing to impressive growth in trade volumes handled by the bank. However, high operating costs, emanating from branch and infrastructure expansion dragged down the overall profitability to modest levels.
- The bank has recently launched its personal loan product, with emphasis on the relatively untapped self-employed segment and has plans to further expand the product base in this segment, currently limited to auto financing. Meanwhile, work on developing a SMEs business model, envisaging program lending in a structured manner, is currently under process, with plans to launch the product by end-06. These products, and the related risk management processes are being developed through a careful and detailed process, and assistance is being received from associated banks in the group, which are already successfully running these models in their relevant countries. Prospects of success and the extent thereof, remains to be seen. Meanwhile, the management intends to pursue rapid branch expansion, which besides supporting growth in the targeted segments, would also facilitate in building a stable and low cost deposit base. Going forward, the bank's performance, in terms of ROE & ROA is expected to improve due to volume expansion in high yielding products. However, it is likely to remain relatively constrained compared to few of its peers, owing to drag of high operating costs on infrastructure.
- NPLs, as a proportion of total finances, and the uncovered exposure in relation to total equity is at low levels, attributable to settlement/regularization of some major exposures in the cement sector and limited fresh infection in recent years. The investment portfolio primarily constitutes short-term MTBs, and includes only a modest proportion in equity portfolio. The bank has a well-established integrated risk management department, monitoring credit, market & liquidity and operational risks. The bank is ahead of some of its peers for timely implementation of Basel II. Besides developing inhouse capability for meeting the requirements of Basel II, the management has engaged a consultancy firm for identifying gaps and recommending desired actions.
- With sizeable equity injection by Temasek, NIB has become one of the strongest capitalized banks in the sector, evidenced by high CAR. However, given the aggressive growth targets of the bank, and comparative stregthnining of the capitalization levels in the sector to meet SBP's minimum capital requirements, the ratio is likely to come in line with the peers in due course of time. The credit to deposit ratio, though reduced from last year is comparatively at high levels. However, comfort can be drawn from the huge equity base of the bank.

Rating outlook & Key Rating Drivers

NIB's ratings have been assigned a positive outlook, based on the potential benefits to arise from aggressive growth in the target markets. However, given the relatively high risk nature of the targeted segments and the intensifying competition in the sector, the extent of impact of implementation of the business plans on performance, and the related effectiveness of the support processes and risk management systems remains to be seen.

Support

- The parent company has a very strong capacity to support the bank, should it prove necessary.

Background

- NIB Bank Ltd. (Formerly NDLC-IFIC Bank) was formed on October 03, 2003 as a result of the amalgamation of the National Development Leasing Corporation Limited (NDLC) and Pakistan Branches of International Finance Investment and Commerce Bank Limited -Bangladesh (IFIC). Later in April 2004, the bank acquired the Pakistan operations of Credit Agricole Indosuez (CAI), the Global French bank. NIB is listed on all the three stock exchanges in Pakistan, and currently has a network of 27 braches.
- Bugis Investment (Mauritius) Pte. Ltd., an indirect wholly owned subsidiary of Temasek Holdings, acquired more than two-third stake in the bank in Jul05 through subscribing to fresh allotment of shares. Temasek is the investment arm of the Government of Singapore and is rated AAA by Moodys and Standard & Poors. It was established in 1974 and manages a diversified portfolio, having a market value of over USD 60bln, spanning across Singapore, Asia and OECD countries. Its investment is in companies that are involved in a wide range of activities including, telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences.
- The Chief Executive of NIB has an extensive international and local banking experience and is one of the founders of Global Securities, a leading securities firm in Pakistan.