

NIB BANK LIMITED (NIB)

Ratings (May 2007)

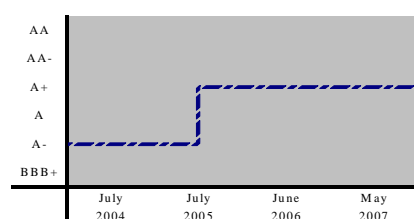
NIB Bank Limited

Entity	New	Previous
Long Term	A+*	A+
Short Term	A1*	A1
TFCs (Unsecured, Subordinated)	A*	n.a.
PKR 4,000mln		

Outlook Positive Positive

*The ratings have been placed on Rating Watch

LT ENTITY RATING - HISTORY



Financial Data (PKR mln)

	31-Dec-06	31-Dec-05
Total Assets	46,432.8	32,018.7
Equity	4,379.7	4,253.8
ROE %	2.92	3.69
ROA %	0.32	0.43
Equity / Total Assets %	9.43	13.29
SBP CAR	11.61	17.44

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TFC Issue

NIB plans to issue listed unsecured, subordinated TFCs of PKR 4,000mln, for a tenor of 8 years. The profit payment, to be made semi-annually, will be based on 6 months KIBOR plus 180bps. The instrument is structured to redeem 0.24% of the issue amount in the first 60 months, and the remaining in six (6) equal semi-annual instalments, starting from the 66th month. 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

Assessment

- The ratings reflect the strong financial profile and international identity of the principal shareholder – Temasek, and quality of the management team of the bank. The rating also factors in the difficult challenges faced by NIB in competing with well-established banks. This inherent disadvantage is reflected in higher cost of deposits and lower spreads. However, the management has developed a well conceived strategy for aggressive penetration into Commercial, SMEs and Consumer segments through roll out of robust models, with specific emphasis on risk management. Meanwhile, an appreciable progress has been made towards branch expansion, infrastructure building, and development of systems and procedures, though exerting a pressure on the profitability in the process. Considering the management's plan to acquire majority stake in Pakistan Industrial Credit & Investment Corporation Limited (PICIC), the ratings have been placed on Rating Watch.
- During 2006, the management achieved notable growth in advances and deposits, and also expanded the network to 41 branches (end-Dec05: 27 branches). The senior management team was further strengthened through induction of experienced personnel, and requisite infrastructure for launching the bank's business model was established through hiring more staff, development of systems and processes, and implementing a sound technology platform. The monthly disbursements under the newly developed *personal instalment loan product* registered a sharp growth, since its launch in May06. However, the disbursements were curtailed towards the end of 2006 owing to SBP's directive of restricting unsecured financing portfolio to the equity of the bank, thereby limiting further growth. In the meantime, the management has launched a secured financing product – *Small Business Loan*, and reconfigured its existing auto loan product. The process for development of business models for Commercial and SMEs segments is in final stages.
- In addition to relatively high operating expenditure to support the branch expansion and infrastructure development, the profitability during 2006 was impacted heavily by statutory general provisioning requirement against the newly launched personal loan product. Meanwhile, more than anticipated pressure on spreads, and higher specific provisioning charge against NPLs further diluted the profitability. However, the bottom line was supported to some extent by a tax credit arising on acquisition of Credit Agricole Indosuez. Going forward, the management aims at rapid branch expansion, while pursuing an aggressive growth in high yielding financing segments. Meanwhile, emphasis will also be placed on mobilizing deposits to support the targeted growth, focusing mainly on the retail segment. The profitability, though likely to improve from the current levels, is expected to remain constrained in the medium-term due to drag of high operating costs on branch expansion.
- The NPLs have increased from the previous year, though their proportion in total finances declined due to substantial growth in the loan book. The fresh NPLs have emerged mainly from the lease portfolio inherited from former NDLC, and the management aims to arrest the rising trend by tightening the monitoring and recovery process. The market risk for the bank is limited, as the investment portfolio primarily constitutes short-term MTBs, and includes only a modest proportion in equity investments.
- The management has instituted a strong risk management platform and control environment to effectively manage the risks associated with aggressive entry into relatively high risk business segments. The new products, and the related processes are being developed through a careful and detailed process, and assistance is being received from the principal shareholder and associated group banks, which are already running these models in their respective countries.
- The bank's CAR, with aggressive growth in the advances portfolio but limited augmentation in the equity base through internal generation, declined from the previous year. The proposed TFC issue will contribute towards Tier-II capital, which would support the management's aggressive growth plans. While an appreciable increase has been achieved in the proportion of demand deposits in the total deposit base during 2006, the bank's reliance on institutional deposits continues to be high. Meanwhile, credit-to-deposit ratio is also fairly high, though a part of it is attributable to the comparatively greater proportion of lease and export refinancing portfolio in the total loan book.

Rating Outlook & Key Rating Drivers

NIB's ratings have been assigned a positive outlook, based on the potential benefits expected from high 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 Limited 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 41 branches.
- 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 80bln, 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.