

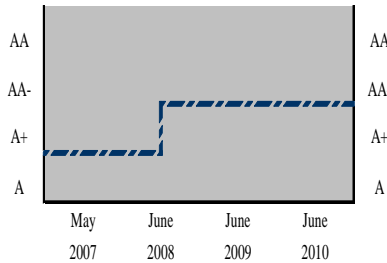
## The Pakistan Credit Rating Agency Limited

### RATINGS (JUNE 2010)

#### NIB BANK LIMITED (NIB)

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

#### LT ENTITY RATING - HISTORY



#### FINANCIAL DATA

PKR (mln)

	Mar10*	Dec09	Dec08
Total Assets	207,297	208,119	178,909
Equity	41,666	41,643	41,007
Finances	81,480	81,237	75,846
Deposits	95,992	93,920	104,586
Net income	23	691	(7,475)
ROE %	0.2**	1.7	(19.3)
Equity / Asset %	20.1	20	22.9
SBP CAR%	14.3	19.6	19.5

\* Based on unaudited results for 3 Months ended March10

\*\* 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 instalments, 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 ratings reflect the demonstrated financial and technical support NIB receives from its sponsoring group, Temasek Holdings – rated AAA internationally. The ratings draw comfort from the parent's long established presence in the Asian markets, coupled with a strong financial profile. Meanwhile, the ratings also incorporate the bank's sound capitalization, prudent risk management policies and the management's focus to diversify its loan book while simultaneously rationalizing its overall cost structure.
- The ratings are dependent on the management's ability to successfully execute the bank's strategy to improve its market standing in an increasingly competitive banking landscape. Retention and cohesiveness of senior management is critical to ensure consistency in policies and strategy. Meanwhile, any material deterioration in the asset quality particularly emanating from fresh disbursements may negatively impact the ratings.

#### ASSESSMENT

- In 2009, advances experienced marginal growth (2.75%) on account of the bank's low risk appetite coupled with the management's strategy to gradually take exit from the loan accounts, which do not fulfill the bank's credit acceptance criteria and are susceptible to infection. On the deposits side, in order to reduce cost of funds and improve spreads, the bank shifted its focus towards low cost deposits accumulation. As a result, it shed high cost deposits, although this resulted in contraction of deposits base (2009: PKR94bln; 2008 PKR105bln). Consequently, the bank's spreads improved (2009: 5.28%; 2008: 4.91%).
- NIB's interest income registered significant growth (20%), on the back of increased quantum of earning assets. However, the bank's reported non-interest based income witnessed sizeable YoY decline, owing to one time dividend, related to pre-acquisition reserves, of PKR750mln received in 2008, from its wholly owned subsidiary PICIC Asset Management. The bank managed to cut its operating costs by realigning some of its branches and rationalizing its staffing requirements. Considerable reduction in the provisions expense led to improved profitability during the year. In 2008, the bank booked provisions of PKR 8,833mln against NPLs which mainly related to the acquired entities. In 2009, provisions expense dropped to PKR525mln. Moreover, during the year, the bank availed the FSV benefit. Had the benefit not been availed, the net charge of provisions would have been higher by PKR1,916mln.
- 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.
- Going forward, the management is geared towards further reducing its cost of funds by increasing the proportion of low cost deposits. Meanwhile, conservative growth is expected in the total advances portfolio as the management continues to align its advances portfolio with its overall business strategy. Having strengthened its business models while inducting experienced professionals, NIB aims to adopt an aggressive expansion approach once the economy starts reviving. Meanwhile, the management continues to consolidate its existing infrastructure besides rationalizing its overall cost structure.
- NIB's proportion of NPLs in the total loan book (NPLs to gross advances – 2009: 23.4%; 2008: 23.1%) is significantly higher than peers and is impacted by the infected portfolio inherited from the acquired entities. The management believes that most weak credits have been identified and fresh infection would be minimal, going forward. Meanwhile, sizeable provisions (PKR3,289mln) were reversed during 2009, evidencing the management's recovery efforts.
- The bank successfully implemented Temenos (T-24) as its core banking software in Dec-09. It would help to mitigate the operational risks while improving efficiency in the overall operations of the bank.
- The liquidity of the bank remains adequate; though a little lower at end-09 due to higher advances to deposits pattern. Nevertheless, with increasing deposits, it has eased somewhat at end-Mar10, a level that the management intends to largely hold.
- The bank has sound capitalization with CAR of 14.3%, which is relatively better than its peers and offers adequate 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 Jun05 (present ownership: 74%). Temasek is the investment arm of the Government of Singapore and is rated Aaa/AAA by Moodys (Nov09) and Standard & Poors (Sep09). It manages a diversified portfolio, having a market value of over USD 84bln at end-Mar09, spanning across Singapore, Asia and OECD countries.
- The eight-member BoD includes three 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.