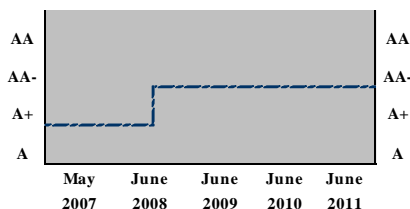


RATINGS (JUNE 2011)
NIB BANK LIMITED (NIB)

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

LT ENTITY RATING - HISTORY

FINANCIAL DATA

PKR (mln)

	Mar11*	Dec10	Dec09
Total Assets	150,393	164,350	208,119
Equity	12,867	13,662	41,643
Finances	65,655	69,384	81,237
Deposits	100,597	99,169	93,920
Net income	(795)	(10,112)	691
ROE %	n.m.	n.m.	1.7
Equity / Asset %	8.6	8.3	20.0
SBP			
CAR%	14.3	14.7	19.6

* Based on unaudited results for 3 Months ended March11

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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 66th 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 NIB's association with Temasek Holdings - owned by Government of Singapore, internationally rated at AAA. On a standalone basis, the poor performance of its loan book caused NIB to experience material weakening. The bank reported significant credit losses, though mainly emanating from legacy loan book acquired from PICIC - the bank & DFI - NIB's initiated program-lending book also experienced sizeable infection. However, the sponsor, demonstrating continuing commitment towards its majority-owned subsidiary, injected fresh capital to keep the bank's financial profile intact. Nevertheless, sizeable non-performing assets, thereby putting pressure on the bank's earnings, in turn, risk absorption capacity in the form of high provisioning is the key challenge. The management, cognizant of this, is pursuing a recovery strategy, the success of which is dependent on the quality of execution and inherent uncertainty of market conditions.
- The ratings are dependent on continued support of the sponsors. Meanwhile, improvement in core earnings while strengthening overall risk management framework would remain important.

ASSESSMENT

- In 2010, the bank's deposit base witnessed moderate growth (6%). The deposit mix remained largely unchanged (CASA deposits - CY10: 57%; CY09: 56%). Deposit concentration remained low, as depositors holding more than 1% of total deposits constituted 10% of total deposits (CY09: 9%). Gross advances registered slight decline as the bank, while being cautious, focused on consolidation and recovery from non-performing portfolio. Around two thirds of the advances portfolio was deployed in the corporate sector with major share arising from the textile sector (31%), food (10%) and whole sale and retail (10%). The bank's exposure in TFCs (~8% of total finances) mainly comprised non-rated instruments¹ (54%).
- The bank, owing to a conservative stance towards credit expansion and particularly substantial increase in non-performing loans, witnessed sizeable decline in its earning assets. Resultantly, earning capacity, in turn, spreads of the bank was impacted (CY10:3.8%; CY09: 5.3%). In addition, the bank registered pre-provisioning operating loss owing to a hefty hike (38%) in non mark up expenses – a consequence of one-time operational restructuring cost, whereby the bank rationalized its branch network and related staff. However, the positive impact of this is expected to materialize in future, which is also observed in 1Q11 with a decline of 26% in non-markup expenses on YoY basis. Meanwhile, significant increase in NPLs led the bank to book large provisioning (~PKR 9,926mln). As the bank also decided to write down acquisition related goodwill, it caused accumulated losses to rise upto PKR 42bln.
- During 1Q11, NIB reported a loss, wherein a sizeable portion of non-earning assets (~23% of the total) continues to drag its revenues. The bank needs to continue its conservative strategy towards credit growth. NPL levels are expected to remain higher. However, the management's aggressive recovery strategy along with selected deployment of advances is expected to provide some stability. Meanwhile, the bank's ability to restructure its deposit base, where the proportion of time deposits is relatively higher, would remain important to improve the spreads.
- NIB bank's investment portfolio as a percentage of total assets has decreased (1QCY11: 23%; CY10: 28%, CY09: 28%) as the bank liquidated its investment portfolio in order to reduce its high cost short term borrowings. Meanwhile, the investments remain largely concentrated in government securities (~80% of total investments at end-Mar11), mainly treasury bills and PIBs. The remaining portfolio comprised its investment in subsidiary –PICIC Asset Management Company Limited (65%) – associates (17%) and a small portfolio of equity securities including mutual funds.
- NPLs proportion in the total loan book (NPLs to gross advances – 1QCY11: 36.2%; 2009: 23.4%) is significantly higher than peers. As at March 31, 2011, 57 % of the NPLs were inherited from pre-merger entities mainly PICIC and PCBL. However, NIB originated portfolios both under program and otherwise also have sizeable NPLs and high infection ratio (24%). The bank has discontinued this line of business since early 2010, while it is incorporating the learnings in overall risk management framework.
- Despite the foregoing, the bank has sound capitalization with CAR of 14.3%, which is relatively better than its peers and offers adequate room for credit expansion. During the year, the bank announced a right share issue of PKR 8,575mln, with an undertaking to pick up unsubscribed rights by Temasek Holdings, the primary shareholder. The fresh equity will adequately compensate the impact of the sizeable loss booked in 2010.

PROFILE

- NIB Bank Limited, formed in 2003, after a series of mergers, now operates a network of 179 branches with ~ 2.5% share in total banking assets (end-Dec10). Bugis Investment (Mauritius) Pte. Limited, a wholly owned subsidiary of Fullerton Financial Holdings (FFH), which in turn is fully owned by Temasek Holdings, owns majority stake in NIB (74%). Temasek Holdings is an Asian investment company headquartered in Singapore, and owns a diversified portfolio (S\$ 186bln = USD 133bln) as at March 2010, concentrated principally in Singapore, Asia and the emerging economies.
- The eight-member BoD includes three executives of FFH, who are experienced professionals and are directors in other financial institutions, and four independent directors with extensive professional experience. 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 team.

¹ These include investment in TFCs of Power Holdings (Private) Limited PKR 2,789mln.