



RATINGS (JANUARY 2012)

TRUST INVESTMENT BANK LIMITED

| | NEW | PREVIOUS |
|-----------------------|----------|----------|
| ENTITY | | |
| Long term | BBB- | BBB |
| Short term | A3 | A3 |
| SECURED TFC | | |
| TFC III (PKR 600 mln) | BBB- | BBB |
| OUTLOOK | Negative | Positive |

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect continuous pressure on financial and business profile of the bank as evident from very low liquidity and recurring operating losses. Nevertheless, these ratings recognize the efforts of the management to subside the pressure, mainly through conversion of non earning assets in earning resources. This would help in improving liquidity position. The bank is currently pursuing few of its lenders for settlement of borrowings against certain assets, which are currently classified as non-earning. This, while rationalizing interest cost, is expected to bring overall leveraging down. Meanwhile, the sponsors are exploring options to bring a new equity partner in the bank. While significant progress on these initiatives is yet to materialize, certain changes in organizational structure have been made with the intention to strengthen operational framework of the bank.
- The outlook on ratings is negative highlighting weakening risk absorption capacity and vulnerability of the bank to any kind of liquidity shock. The bank needs to hasten its efforts to achieve sustainable operational profitability, strengthen the true equity base, and generate liquidity to create cushion against unforeseen contingencies. In this regard, timely accomplishment of ongoing conversion of real estate assets into liquid assets to minimize mismatch between earning assets and interest bearing liabilities remain critical. Meanwhile, timely curing of non-compliance with regulatory capital and liquidity requirements is important.

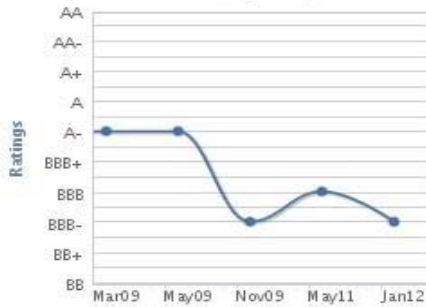
ASSESSMENT

- TIBL has been struggling phase for last few years with depletion of earning assets as the major setback. In line with the changing dynamics for non-banking financial sector, the bank focused on consolidation of its balance sheet which interalia, included re-profiling and matching of its financial assets to interest bearing liabilities. This resulted in rationalized asset base at the cost of overall reduction in earning assets vis-a-vis liabilities. The current structure of TIBL's balance sheet is such that the lease and loan portfolio is the only earning asset of the bank. The leases are expected to mature by next year and the bank has surrendered its leasing license. At the same time proportion of net earning assets as a percentage of total assets (net) has decreased over the years (48% at end Sep-11; 51% at end Jun-11; 54% at end Jun-10; 65% at end Jun-09), thereby impacting the earning ability.
- The bank booked an accounting profit of PKR 166mln during FY11, mainly owing to non-recurring reversals related to subsidiary – Trust Capital (Private) Limited (TCPL). However, the net interest revenue and pre-provisions operating performance remained weak in FY11 and 1QFY12. Cognizant of this, the bank has rationalized its cost structure. This rationalization, to some extent, has supported the PPOP lately. However, non earning assets which include a) sizeable deferred tax asset (PKR 516mln at end Sep-11), b) Net Non performing finances (PKR 702mln), and c) Land held for sale (PKR 476mln) remain key hindrance to bank's earning capacity. Currently, this land is being swapped against shares of sponsor's flag ship company - Tricon developers Limited (TDL) - which is in real estate business.
- Going forward, the bank plans to utilize its investment finance services (IFS) license to offer various fund and non fund based products which interalia, include high yield vendor bill discounting, margin financing, and guarantees. Given persistent challenges for NBFC industry the bank would remain prone to inherent constrain of limited and high cost avenues of funding.
- The asset quality of the bank remained under pressure (NPLs % Gross Finances: 30% at end Sep-11; FY11: 29%; FY10:40%). The analysis of top twenty exposures in both the lease (25%), loan book (80%) suggests an overall constrained credit quality. Meanwhile, the potential drag of un-provided impairment remains a key concern (Net NPLs as percentage of equity: 146% at end Sep-11). The unfunded exposure as % of equity (154%) is also very high.
- Liquidity profile of the bank needs improvement as the bank is currently non compliant with statutory liquidity requirement. The funding mix remained heavily tilted towards borrowing from FIs (79%), with a continuous decrease in CoIs. The concentration of top 20 depositors is very high (98%), making the bank vulnerable to pressure of withdrawal of deposits.
- During FY11 leveraging has decreased (at end Sep-11: 7.6 Times; 12.7 Times at end Jun-10) mainly owing to conversion of liabilities into preference capital and support from sponsors (subordinated loan of PKR 401 mln). The bank is currently in the process of settling ~20% of its borrowing by offering shares of TDL. Once concluded this deal is expected to reduce the interest cost and leveraging of the bank. However, in order to comply with upcoming minimum equity requirement (PKR 700mln at end Jun-12) for renewal of IFS license, the bank would need fresh capital. The bank recognizes the need and is keenly working on various initiatives, including new equity sponsors. However, near term materialization of these efforts remains to be seen.

PROFILE

- TIBL, incorporated in July 1992, is listed on all the three stock exchanges. The chairman of seven-member board - Mr. Asif Kamal – is the key shareholder (Asif Kamal & Associates: 43%) and force behind the bank. Other board members are entrepreneurs and professionals with exposure to corporate and financial sector. Mr. Humayun Nabi Jan, who spearheaded the bank's consolidation in these challenging times, has resigned as CEO of the bank lately. Mr. Shahid Iqbal, a Chartered Account by profession is succeeding him. Mr. Iqbal has over two decades of experience at senior management and financial control positions.

Trust Investment Bank Limited
LT Rating History



FINANCIAL DATA

PKR in mln

| | SEP-11* | JUN-11 | JUN-10 |
|------------------------------|---------|--------|--------|
| Total Assets | 5,284 | 5,380 | 5,906 |
| Equity | 481 | 501 | 376 |
| Net Income | (8) | 166 | (702) |
| Debt/Equity | 7.6 | 7.6 | 12.7 |
| Total Liabilities/Equity (%) | 9.9 | 9.7 | 14.5 |

*based on unaudited accounts for 1QFY12

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TFC ISSUE

- The bank issued its TFC-III of PKR 600 mln in July 2008. The instrument has a tenor of 5 years and a profit rate of 6 months KIBOR plus 1.8%. Principal redemption in 8 equal semi-annual installments commenced from Jan 2010 (outstanding principal: PKR 300mln). The management has confirmed that the recent installment (~PKR 96mln due on 04-Jan-2012) has been paid and is in the process of clearance.