



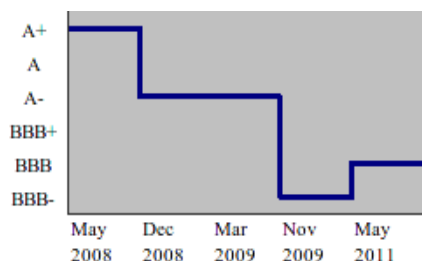
RATINGS (MAY 2011)

TRUST INVESTMENT BANK LIMITED

	NEW	PREVIOUS
ENTITY		
Long term	BBB	BBB-
Short term	A3	A3
SECURED TFC		
TFC II(Second Tranch PKR 345mln)*	-	BBB
TFC III (PKR 600 mln)	BBB	BBB
OUTLOOK	Positive	-

*Redeemed in Jan-11

LT RATING HISTORY



FINANCIAL DATA

PKR (mln)

	MAR-11*	JUN-10	JUN-09
Total Assets	5,356	5,906	6,475
Equity	557	376	381
Net Income	211	(702)	(715)
Debt/Equity	6.7	12.7	13.3
Equity/Assets (%)	10.4	6.4	5.9

ANALYSTS

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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% without any floor and cap, but a call option exercisable after 2 years. Principal is being repaid in 8 equal semi-annual installments which commenced from Jan 2010 (outstanding principal: PKR371mln) The underlying security structure of this TFC consists of first charge on specific performing leased assets and related receivables with a 40% margin.

RATING RATIONALE AND KEY DRIVERS

- The ratings reflect improving financial profile of the bank owing to management's initiatives including i) restructuring of maturity profile of the bank's short term debt obligations, ii) design and work on a plan to improve liquidity position by converting non-earning assets into earning, and iii) improvement in profitability though mainly driven by reversals of provisioning. The leveraging of bank has reduced lately, primarily on account of sponsors' support in the form of subordinated loan and conversion of certain debt obligations into convertible preference shares. Nevertheless, achieving sustainable operational profitability and augmentation in the risk absorption capacity remain important.
- The ratings are assigned positive outlook recognizing a) ongoing process for conversion of subordinate loan into capital, b) sale of land (Book value at end Mar-11: PKR 476mln) to bridge the gap between earning assets and interest bearing liabilities, and c) expected operational profitability within 2011. Nevertheless, extent and timely materialization of the bank's initiatives into sustainable revenue streams remains to be seen. Meanwhile, compliance with regulatory capital and liquidity requirements through either sponsor's support or with internal generation would remain important.

ASSESSMENT

- TIBL's main focus in last two years has remained primarily on consolidation of its balance sheet which interalia, includes re-profiling and matching of its asset- liability structure. This has resulted in rationalized asset base at the cost of overall reduction in interest earning assets vis-a-vis liabilities. Though the bank was able to convert a sizable portion of its non-earning assets (receivable of PKR 458mln from Trust Capital (Pvt.) Limited (TCPL) – subsidiary of the bank) into earning through restructuring and settlement in the form of a land (Book Value of PKR 107mln), level of non-earning assets still remain high.
- The bank booked an accounting profit of PKR 211mln in 9MFY11, mainly owing to non-recurring adjustments related to TCPL including i) recognition of suspended interest income on loan, ii) reversal of provisioning against the same loan, and iii) reversal of diminution in value of the investment in TCPL. However, the net interest revenue and pre-provisions operating performance remain weak (PPOP). Cognizant of this, the bank has rationalized its cost structure by taking administrative measures and bringing operational efficiencies. This rationalization, to some extent has supported the PPOP lately. However, non earning assets remain a key hindrance to bank's operations. In order to improve its business profile, the bank is making efforts for early conversion of these non earning assets. TIBL has taken various other initiatives including bills discounting to build new revenue streams. The bank has targeted an operational profitability with in 2011.
- Going forward, the bank plans to undertake growth in all the business avenues including leases, loans, and margin financing as the business operating environment for NBFCs becomes flexible. Though this business model is expected to help build a sustainable revenue stream for the bank, continuous monitoring and management of related risks would be required. Meanwhile, the bank would remain prone to inherent constrain of limited and high cost avenues of funding.
- TIBL has been able to keep the credit quality of its lease book in check as reflected in absolute level of non-performing leases. The management does not expect any material deterioration in credit quality of loan book. However, the potential drag of unprovided impairment remains a key concern (Net NPLs as percentage of equity: 121% at end Mar-11).
- Liquidity profile of the bank needs improvement as the bank is currently non compliant with statutory liquidity requirement. In this context, sale of land (Book value: PKR 476.4mln) is expected to generate sufficient liquidity for the bank. Overall leveraging has decreased (Total Debt as percentage of Total Equity at end Mar-11: 6.7 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 recognizes the need to improve the quality of capital and in this regard keenly working on various initiatives. Meanwhile, improvement in core profitability and overall risk absorption capacity in an optimal time frame would be of paramount importance. Nevertheless, the ratings recognize assurance from sponsors of their commitment and continuous financial support to the bank during periods of low liquidity and operational losses.

PROFILE

- TIBL, incorporated in July 1992, is listed on all the three stock exchanges. A loosely knitted group of individuals, directly and through their related corporates, owns the majority shareholding (around 50%) in the bank. The chairman of seven-member board – Mr. Asis Kamal – is the key shareholder. Other board members are entrepreneurs and professionals with exposure to corporate and financial sector. The Chief Executive Officer, Mr. Humayun Nabi Jan has over 25 years of diverse experience. He is spearheading the bank's consolidation in these challenging times and his continuing association is critical.