



Rating Action

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PACRA MAINTAINS RATINGS OF NIB BANK LIMITED

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of NIB Bank Limited at **AA-** (Double A Minus) and **A1+** (A One Plus), respectively. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. The rating of the unsecured, subordinated TFC Issue of PKR 4,000mln has also been maintained at **A+** (Single A Plus), denoting a low expectation of credit risk.

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 bank: 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 Investments (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 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 installments, starting from the 66th month (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.

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The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity.

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