

**BANKING SECTOR IN PAKISTAN****COMMERCIAL BANKS – REGULATORY ENVIRONMENT & PERFORMANCE PROSPECTS**

The commercial banking sector in Pakistan has come of age and is now well equipped in terms of technology, skills and financial resources to play an effective role in financial intermediation. With the recent privatization of HBL, 80% of banking has now come under private management and the already competitive environment is likely to become even more intense. Benefiting from the continuing consolidation process in large banks and the cautious stance of foreign banks, medium-sized private banks have managed to marginally increase their system share. This has largely been due to continuing improvement in service quality and the expanding geographical outreach.

With declining spreads in corporate finance, banks are increasing their focus on other segments, principally the SME sector and consumer finance. While this shift is expected to preserve – or even enhance – declining margins, it also exposes the banks to higher levels of risk. The increase in risk appetite would obviously require more stringent risk management systems for preserving asset quality. While there is a general improvement in risk management systems across the banking sector, there is less than adequate sensitivity about ensuring that the risk appetite remains consistent with the capacity of individual banks to manage it. In this regard, the role of the regulators (SBP) becomes critical. In recent years, SBP has demonstrated its commitment and capacity not only at ensuring consolidation and orderly growth

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in the banking sector, but also introduction of effective risk management policies. SBP has recently issued three new Prudential Regulations covering (i) Corporate/Commercial Banking, (ii) SME Financing and (iii) Consumer Financing, which have come into effect from 1<sup>st</sup> January 2004. A key element of these regulations is the mandatory requirement for a 5% general provision against all unsecured loans. This regulation is primarily aimed at catering for the potential risk in consumer financing, particularly against issue of credit cards and personal loans. The State Bank has also issued detailed risk management guidelines which elaborate procedures for identifying, measuring, monitoring and managing credit, market, liquidity, country and operational risks. Most recently, the SBP, being cognizant of the importance of a properly designed and implemented internal control system for an adequate risk management framework, has issued guidelines on internal controls. These guidelines elaborate upon the different elements of an internal control system and provide guidance for its implementation, evaluation and reporting. Responsibilities of key players are also highlighted, particularly with regard to the

responsibility of BOD for ensuring efficient internal control systems. Banks are required to submit half-yearly progress reports regarding the status of compliance with these guidelines.

One of the objectives of these guidelines is to build up internal capacity of the banks for Basle II Accord, which the central bank intends to implement in due course. In line with this, the SBP is proposing changes to the applicable regime of minimum capital requirement – the Capital Adequacy Ratio – to include capital charge for market risk, which comprises interest rate, equities investment position and foreign exchange risks. The market risk capital requirement would be calculated separately. In addition to Tier 1 and Tier 2, banks would be allowed to include a third Tier (Tier 3) in their total regulatory capital. Tier 3 capital, limited to 250% of a bank's Tier 1 capital, would comprise unsecured, subordinated, fully paid-up short-term debt with original maturity of at least two years having a lock-in clause that neither interest nor principal may be paid, even at maturity, if such payment results in non-compliance with the minimum CAR. Thus, the Tier 3 capital, if circumstances demand, can become part of a bank's permanent capital. All these measures are expected to promote self-regulation, bring more transparency in the banking sector and augment the banks' risk absorption capacity.

On a broader front, SBP jointly with SECP is engaged in improving the quality of corporate governance across the entire corporate sector. Specifically, in the banking sector, SBP has taken several measures to put in place good governance practices: limiting family representation on the BOD to 25% in case of majority holding, pre-appointment clearance from SBP for CEO and members of the Board, minimum

quarterly meetings of the BOD, classification of external auditors in various categories, and improving external disclosure and SBP reporting requirements.

Benefiting from volume growth, most banks showed substantial improvement in their core earnings despite the declining trend in spreads. However, the potential decline in spreads was mitigated to a large extent through increased focus in SME and consumer financing. At the same time, the bottom line was flattered by increased income from other sources, particularly through the banks' investment portfolio. In fact, in some cases, net income from this source even exceeded core earnings. This trend is unlikely to be sustained. The steep rise in the stock market during most of 2003 is unlikely to be replicated during 2004 and beyond. The potential gain would also be constrained by the restriction on banks to limit exposure to the equity market to not more than 20% of the bank's equity. However, even the non-sustainable benefits, whether in terms of realized capital gains or in terms of revaluation surpluses, have strengthened the financial profile of the banks; and more particularly their risk absorption capacity. This has been further augmented in cases where such gains also accrued on the holding of government securities. However, in the case of the latter, the revaluation surpluses reflected in the balance sheets as at 31st December 2003 are likely to be eroded owing to the recent increase in yields on government securities. In fact, in some cases – mainly those who had acquired a large portfolio of government securities recently – the revaluation surpluses appearing at YE03 may actually be converted into a deficit. Where banks, for reasons of enhancing liquidity decide to encash excess securities, there is likely to be a direct negative impact on income during 2004. Even where banks decide to carry the

excess portfolio till maturity, the enhancement of risk absorption capacity during 2003 in terms of notional augmentation of the equity base would no longer be available.

Going forward, performance prospects of individual banks would continue to remain a function of a number of bank-specific variables. The asset size of the bank, its geographical outreach, the financial standing and credibility of bank sponsors, the quality of human resource and technological base are all key elements which would impact on performance prospects. The impact of inclining trend in interest rates, though expected to be range bound, would generally be negative for the banks owing to revaluation losses in short to medium term. However, an increase in return on earning assets would be beneficial for the banks in long term. The relatively smaller banks, who might not have succeeded in developing specific market niches, would continue to fight for survival and might well become candidates for acquisition by or merger with larger banks. The medium size banks have already come out successfully in the fast evolving competitive environment, and seem well placed for sustaining their performance and asset quality. However, they continue to face the threat of greater competition from the recently privatized large public sector banks like HBL and UBL. There is, thus, an increasing awareness that, in order to maintain their historic performance, they have to remain committed to continuous improvement in service quality as well as product innovation. These factors would inevitably lead to greater efficiency in financial intermediation and provide a wider range of choice to banking customers.

## PACRA RATING ACTIONS

### [July 22, 2004: PACRA Maintains The Ratings of Pak-Libya Holding Company \(Pvt\) Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term ratings of Pak-Libya Holding Company (Private) Limited (PLHC) 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 ratings are applicable to the senior unsecured creditors of the company.

The assigned ratings reflect the sustained risk absorption capacity emanating from its equity base and the relatively low risk profile of the asset portfolio. The ratings take into account management's success in improving revenues from core operations mainly on the back of declining cost of funds. The ratings also recognize PLHC's relative standing among peers in terms of financial strength and future prospects.

### [July 16, 2004: PACRA Assigns Ratings to Albaraka Islamic Bank \(Pakistan Branches\)](#)

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term rating of 'A -' (Single A minus), and a short-term rating of 'A1' (A One) to Albaraka Islamic Bank B.S.C., E.C. (Pakistan Branches). These ratings represent high credit quality and a low expectation of credit risk due to a strong capacity for timely payment of financial commitments. The ratings are applicable to the senior unsecured creditors (depositors) of the bank.

The ratings reflect the largely maintained asset quality and risk absorption capacity of the bank. The ratings also take into account the bank's moderate growth prospects owing to increasing competition and its limited outreach in terms of branches.

### [July 14, 2004: PACRA Upgrades Long-Term Entity Rating of Pakistan Industrial Credit & Investment Corporation \(PICIC\)](#)

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term rating of Pakistan Industrial Credit & Investment Corporation (PICIC) to 'AA' (Double A) while the short-term rating has been maintained at 'A1+' (A one plus). These ratings denote a very strong capacity for timely payment of financial commitments and are applicable to the senior unsecured creditors of the Corporation.

PICIC's ratings reflect potential benefits arising from the diversification strategy to increase its income from stable and sustainable sources. A sizeable contribution to income, in the medium term, is expected from capital market operations and the settlement of chronic default cases. The ratings also recognize that although income

from capital market activity will remain vulnerable to volatility risk emanating from fluctuations in the stock market, PICIC has instituted appropriate, pre-emptive risk management policies that effectively contain its market risk. The ratings are further backed by the continuing enhancement in the risk absorption capacity reflected in the expanding equity base of the Corporation, and the expected satisfactory settlement of delinquent loans.

### [July 10, 2004: PACRA Assigns Ratings to Saudi Pak Commercial Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has assigned the long-term and short-term ratings of 'BBB' (Triple B) and 'A3' (A Three), respectively, to Saudi Pak Commercial Bank Limited (SPBL). These ratings denote a low expectation of credit risk emanating from an adequate capacity for payment of financial commitments. The ratings are applicable to the senior unsecured creditors (depositors) of the bank.

SPBL's ratings reflect the restructuring efforts of the bank's new management, encompassing emphasis on the areas of technology, infrastructure, human resources, and development of risk management systems. Although the bank's future prospects are expected to benefit from these measures, but due to its limited network of 28 branches, it faces a challenging task in competing against well-established private banks.

### [July 10, 2004: PACRA Upgrades The Ratings of The Bank of Punjab \(BoP\)](#)

PACRA has upgraded the long-term rating of The Bank of Punjab (BoP) to 'A+' (Single A Plus), while maintaining the short-term rating at 'A1' (A One). These ratings have also been assigned a positive outlook. These ratings, applicable to senior unsecured creditors (depositors) of the bank, denote a low expectation of credit risk resulting from a strong capacity for timely payment of financial commitments.

BoP's ratings reflect its enhanced risk absorption capacity emanating from retention of entire profit for 2003, augmented by appreciation in the value of investments and improved performance. The ratings also recognize the successful ongoing implementation of the new management's strategy, formulated in the first half of 2003, for expansion and diversification of financing portfolio, strengthening the technology base and human resources.

### [July 08, 2004: PACRA Affirms Ratings of Union Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has affirmed the long-term and short-term entity ratings of Union Bank Limited at 'A+' (Single A plus) and 'A1' (A

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One), respectively. The ratings are applicable to the senior unsecured creditors (depositors) of the bank. The ratings of unsecured, subordinated TFCs (First Issue: PKR 750mln, Second Issue: PKR 750mln) are affirmed at 'A' (single A). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

Union Bank's ratings reflect enhancement in the risk absorption capacity resulting from the emergence of a stable earning stream in addition to a stronger franchise value. The ratings also recognize the ability of the management to leverage the bank's strong technology platform in retaining its lead in consumer financing which is expected to remain a major growth area.

### [July 07, 2004: PACRA Maintains Asset Management Intrinsic Rating of ABAMCO Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the Asset Management Intrinsic Rating of 'aa' (Double a) for ABAMCO Limited. 'Double a' is the third highest possible rating and reflects the company's excellent capacity to master the risks inherent in asset management. This capacity emanates from eight years of track record in managing open and closed-ended mutual funds as well as its internal systems and processes. ABAMCO is well positioned to retain its leadership among private sector asset management companies in face of increased competition.

A recognized player in the field of asset management, ABAMCO offers a range of mutual funds with varying risk/return profiles and, therefore, catering to a diverse set of individuals and institutional investors. ABAMCO's profitability improved significantly during the last one year due to substantial growth in the size of funds under management. The company has as total of PKR 13.9 bln assets under management. ABAMCO's equity has increased from PKR 181 mln in June'03 to PKR 490 mln as at March 31, 2004. ABAMCO's marketing approach is characterized by transparency as regards asset management and active support for investors. Owing to well-conceived investment policies, ABAMCO has provided investors with consistent returns. Considering the increasing competition in the mutual fund sector and ABAMCO's vision to maintain its market leadership, ABAMCO is currently in the process of reorganization in an effort to bring greater efficiency and transparency in operations.

### [July 02, 2004: PACRA Maintains The Ratings of Pakistan Kuwait Investment Company \(Pvt\) Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term ratings of Pakistan Kuwait Investment Company (Pvt) Limited (PKIC) at 'AAA' (Triple A) and 'A1+' (A one plus), respectively. These ratings denote the lowest expectation of credit risk emanating from an exceptionally strong

capacity for timely payment of financial commitments. The ratings are applicable to the senior unsecured creditors of the company.

The ratings reflect PKIC's sustained low risk profile and expanding trend in the equity base through substantial profit retention, which provides a significant cushion against potential risks. The risk arising from any adverse movements in the value of the large equity investment portfolio is mitigated by the policy of carrying a sizeable stock market fluctuation reserve. The ratings also recognise the improved performance though attributable mainly to capital gains – a volatile source of income. PKIC also draws comfort from the implicit support of the two joint venture partners. Of the two, Kuwait Investment Authority (KIA) is perceived to be financially very strong being the investment arm of the State of Kuwait.

### [July 02, 2004: PACRA Upgrades Credit Rating of Prime Commercial Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term rating of Prime Commercial Bank Limited to 'A+' (Single A Plus) while maintaining the short-term rating at 'A1' (A one). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments. The ratings are applicable to the senior unsecured creditors (depositors) of the bank.

The ratings reflect the bank's improving risk profile, significant increase in core earnings together with a maintained strong liquidity. The ratings also recognize the healthy growth trends with increasing outreach and greater focus on the middle market segment.

### [July 01, 2004: PACRA Upgrades Long-Term Rating of Bank Alfalah Limited](#)

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term rating of Bank Alfalah Limited (BAL) to 'AA' (Double A) while maintaining the short-term rating at 'A1+' (A one plus). These ratings are applicable to the senior unsecured creditors (depositors) of the bank. The rating of unsecured subordinated TFC issue of PKR 650mln has been upgraded to 'AA-' (Double A minus). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

BAL's ratings reflect the improved risk absorption capacity emanating from the increased equity base and also the maintained risk profile of assets. The ratings also take into account the effectiveness of the risk management systems, the efficacy of which stand demonstrated during the high growth mode in recent years. The strong sponsor support is also a key factor.

### [July 01, 2004: PACRA Maintains The Ratings of Bank Al Habib Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating of Bank AL Habib

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Limited at 'AA' (Double A) and the short-term rating at 'A1+' (A one plus). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. The ratings are applicable to the senior unsecured creditors (depositors) of the bank. The proposed issue of unsecured, subordinated Term Finance Certificates of PKR 1,350mln by the bank has been assigned a rating of 'AA-' (Double A minus).

The ratings reflect the continued ability of the bank to maintain its relative performance from core earnings while preserving its good asset quality. Going forward, in an increasingly competitive banking environment, the extensive geographical outreach makes the bank well positioned to maintain volume growth.

### [June 30, 2004: PACRA Upgrades Long-Term Rating of Askari Commercial Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term rating of Askari Commercial Bank Limited to 'AA+' (Double A Plus) while maintaining the short-term rating at 'A1+' (A One plus). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. The ratings are applicable to the senior unsecured creditors (depositors) of the bank.

The ratings reflect ACBL's sustained ability of revenue growth from core operations while maintaining a low risk profile and also a dynamic as well as efficient fund deployment strategy. Going forward, given the strong technological platform and the enhanced geographical outreach, the bank is well positioned to maintain its competitive edge despite an increasingly competitive operating environment.

### [June 29, 2004: PACRA Maintains The Ratings of Metropolitan Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term ratings of Metropolitan Bank Limited (MBL) at "AA+" (Double A plus) 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 ratings are applicable to the senior unsecured creditors (depositors) of the bank.

The ratings reflect the efficacy of the bank's business strategy and prudent risk management policies, which have enabled the bank to maintain excellent asset quality while ensuring sustainability of performance, despite the increasingly competitive and somewhat uncertain operating environment.

### [June 29, 2004: PACRA Withdraws Ratings of Trust Investment Bank Limited and Fidelity Investment Bank Limited](#)

Consequent to the merger of Trust Investment Bank Limited (TIBL), Fidelity Investment Bank Limited

(FIBL) and Doha Bank – Pakistan Branches to form Trust Commercial Bank Limited, the ratings assigned to TIBL and FIBL by PACRA stand withdrawn. The rating of secured TFCs of PKR 287.50mln of TIBL has also been withdrawn.

### [June 28, 2004: PACRA Maintains The Ratings of Muslim Commercial Bank Limited \(MCB\)](#)

PACRA has maintained the long-term and the short-term ratings of Muslim Commercial Bank Limited (MCB) at "AA" (Double A) and "A1+" (A One Plus), respectively.

These ratings are applicable to the senior unsecured creditors (depositors) of the bank. The rating of unsecured subordinated TFC issue of PKR 1,600 million has been maintained at "AA-" (Double A Minus).

These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

MCB is well positioned to sustain its performance despite an increasingly competitive banking environment. The capacity primarily emanates from a strong franchise and an extensive technology platform, which, with enhanced focus on non-fund based avenues, will enable the bank to sustain its profitability despite pressure on interest-based revenues. The ratings also take into account improving asset quality having positive impact on the bank's risk absorption capacity.

### [June 28, 2004: PACRA Maintains The Ratings of Soneri Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and the short-term ratings of Soneri Bank Limited (SBL) 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 ratings are applicable to the senior unsecured creditors (depositors) of the bank.

SBL's ratings reflect a maintained overall risk profile with preserved sound asset quality stemming from the bank's low risk appetite and sustained policy of maintaining high liquidity.

### [June 24, 2004: PACRA Withdraws Ratings of Pacific Leasing Company Limited](#)

Consequent to the merger of Pacific Leasing Company Limited (PLCL) with First Standard Investment Bank Limited ( *now Crescent Standard Investment Bank Limited* ), the ratings assigned to PLCL by PACRA stand withdrawn. The rating of secured TFCs of PKR 350mln has also been withdrawn.

### [June 22, 2004: PACRA Maintains Entity & TFC Ratings of Al-Abbas Sugar Mills Limited \(AASML\)](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating of Al-Abbas Sugar Mills

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Limited (AASML) at 'A -' (Single A minus) and the short-term rating at 'A2' (A two). The ratings have also been assigned a positive outlook. These ratings are applicable to the senior unsecured creditors of the company. The rating of AASML's secured TFC of PKR 350mln has been maintained at 'A' (Single A). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

AASML's ratings reflect positive performance trends both in distillery and sugar divisions, and a strengthened capital structure. The ratings also recognize the company's declining vulnerability to the persistent volatility in volumes and margins in sugar operations, as revenues from its expanded distillery operations constitute an increasing proportion of its turnover.

#### [June 21, 2004: PACRA Maintains Ratings of Engro Chemicals Pakistan Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term entity rating of Engro Chemical Pakistan Limited (ECPL) at 'AA -' (Double A minus) and short-term rating at 'A1+' (A one plus). The ratings of the secured TFC 1 st Tranche of PKR 500 mln and 2 nd Tranche of PKR 1,000 mln have also been maintained at 'AA' (Double A). These ratings indicate a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect the maintained overall risk profile while recognizing improvement in net income contributed mainly by higher dividend income and reduced financial charges together with stable cash flows and better coverages. The ratings also take into account the uncertainty of government policies regarding fertilizer sector and the critical nature of ECPL's core business and its importance in the national economy.

#### [June 15, 2004: PACRA Assigns Short-Term Rating to Investment Corporation of Pakistan \(ICP\)](#)

The Pakistan Credit Rating Agency (PACRA) has assigned a short-term entity rating of 'A1+' (A one plus) to Investment Corporation of Pakistan (ICP). The rating represents ICP's highest capacity for timely repayment of its obligations and reflects a complete financial turnaround mainly due to substantial inflow from sale of management rights of mutual funds. In anticipation of the winding up of the Corporation, the Corporation has retrenched a substantial part of staff and paid off all its contractual liabilities. The winding up process is expected to be completed in the next 12 months since there do not appear to be any constraining factors. PACRA, therefore, is assigning only a short-term rating to the Corporation.

#### [June 04, 2004: PACRA Maintains Entity Ratings of First Habib Modaraba \(FHM\)](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the entity ratings of First Habib Modaraba (FHM) at 'AA-' (Double A minus) and 'A1+' (A one plus) for the long-term and short-term, respectively. 'A1+' is the highest level in PACRA's rating scale for short-term rating. These ratings indicate low expectation of credit risk and very strong capacity for timely payment of financial commitments.

The ratings reflect the continued ability of the Modaraba to maintain its performance and effective risk management policy. The efficacy and prudence of risk management is reflected in the infection-free lease portfolio. The leverage-driven growth strategy makes FHM well positioned to benefit from any improvement in the prevailing operating environment.

The ratings also recognize the Modaraba's proactive approach in tapping opportunities in an increasingly competitive market and the continued affiliation of the Modaraba with Habib Group.

#### [May 31, 2004: PACRA Maintains Entity & TFC Ratings of WorldCall Communications Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term ratings of WorldCALL Communications Limited (WCL) at "A+" (single A plus) and "A1" (A one), respectively. The ratings have been assigned a positive outlook. These ratings denote a low expectation of credit risk and are applicable to the senior unsecured creditors of the company. Rating of the secured TFC of PKR 350 mln has also been maintained at "AA -" (double A minus). This rating denotes a very low expectation of credit risk and very strong capacity for timely payment of financial commitments.

The ratings recognize a strong financial risk profile for WorldCALL Communications Limited with stable cash flows and sound coverages. The ratings also take into account the synergic benefits arising from the company's diversification strategy and its strong competitive position within the payphone industry. The position helps WorldCALL Communications Limited in mitigating various business risk factors in the telecom services sector including vulnerability to changes in government regulations, unfair competition, and low barriers to entry in the market. The Group's plans to venture into LDI and LL projects are likely to further improve business prospects for WCL.

#### [May 24, 2004: PACRA Maintains Mutual Fund Rating of Unit Trust of Pakistan \(UTP\)](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the mutual fund rating of 'AA(f)' (double A) for Unit Trust of Pakistan (UTP). The rating denotes the ability of the Fund to consistently outperform its peers

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with strong capacity to respond to future opportunities or stress situations.

UTP's rating reflects strong profitability and substantial investment revaluation increment alongwith the management's ability to identify and benefit from the emerging opportunities while maintaining effective fund management policies. The rating also recognizes growth in the Fund size with an increasing proportion of equity investments, thereby exposing the Fund to an enhanced market volatility risk. However, in pursuance of the Fund's investment policies, the composition of assets changes from time to time in line with changing market trends. Moreover, the substantial unrealized gain provides a cushion against any significant adverse movement in the market.

#### [May 24, 2004: PACRA Maintains Mutual Fund Rating of BSJS Balanced Fund \(BBF\)](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the mutual fund rating of 'AA(f)' (double A) for BSJS Balanced Fund (BBF). The rating reflects the Fund's ability to sustain revenues and provide consistently high returns to certificate holders through optimizing opportunities in the capital market.

While maintaining the rating, PACRA has taken into consideration the effective fund and risk management policies and dynamic strategy aimed at capitalizing on emerging trading opportunities. However, the increased investment in equity securities exposes the Fund to relatively higher market volatility risk.

#### [May 21, 2004: PACRA Maintains The Ratings of Tri-Pack Films Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained both long-term and short-term ratings of Tri-Pack Films Limited (TPFL) at "A+" (single A plus) and "A1" (A one), respectively. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments. The ratings are applicable to senior unsecured creditors of the company.

The ratings recognize the strong capacity of TPFL to meet its financial obligations. Though the profit margin of the company could come under pressure temporarily due to the low utilization of new capacity, the enhanced cash flow generation potential serves to mitigate the risk. The ratings also take into account TPFL's relatively low exposure to business risk attributable to its leading market position, reinforced by the company's strategic and long-term relationship with quality conscious customers.

#### [May 12, 2004: PACRA Maintains Entity & TFC Ratings of Packages Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the entity ratings of Packages Limited (PL) at 'AA' (double A) and 'A1+' (A one plus) for the long-term and short-term, respectively. These ratings are

applicable to senior unsecured creditors of the company. The rating of PKR 850mln unsecured perpetual TFC issue has also been maintained at 'AA' (double A). These ratings denote a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

The ratings reflect PL's very strong risk absorption capacity emanating from enlarging equity base, supplemented by substantial unrecognised appreciation in the value of its investment portfolio. Declining gearing, inclining coverages and stable cash flows continue to contribute to PL's financial strength. The ratings also factor in the demonstrated ability of the management to successfully meet emerging competitive challenges. PL is exposed to a low level of business risk attributable to its sustained market leadership and strategic long-term relationship with its customers.

#### [May 07, 2004: PACRA Assigns Ratings to KASB Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term rating of 'BBB+' (triple B plus) and a short-term rating of 'A2' (A two) to KASB Bank Limited. The ratings have been assigned a positive outlook. These ratings are applicable to the senior unsecured creditors (depositors) of the bank and denote a low expectation of credit risk emanating from an adequate capacity for timely payment of financial commitments. The rating of PKR 200mln secured TFCs, originally issued by KASB Leasing Limited with the repayment obligations currently vesting in KASB Bank Limited, is maintained at 'A-' (single A minus). The rating denotes a strong capacity for timely payment of financial commitments.

The ratings reflect an adequate risk absorption capacity emanating from a substantially improved capital structure. The ratings also recognize the strengthening human and infrastructure resources that make the bank well positioned to achieve its targets. However, this ability, to some extent, is constrained by the increasingly competitive banking sector as well as the difficult operating environment. While the management is committed to aggressive expansion of the deposit base and advances portfolio, given the limited branch network and brand identification, KASB faces an uphill task in competing against the better known and larger sized private banks.

#### [May 05, 2004: PACRA Maintains Entity & TFC Ratings of Atlas Investment Bank Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the entity ratings of AIBL at "A-" (Single A minus) and "A2" (A two) for the long-term and short-term, respectively. The entity ratings are applicable to senior unsecured creditors of the bank. The ratings of both tranches of secured TFCs (PKR 200mln and PKR 100mln) have also been maintained at "A" (Single A).

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These ratings denote a low expectation of credit risk and strong capacity for timely payment of financial commitments.

AIBL's ratings reflect the improvement in performance as well as the diversification and increased stability of revenue resources. The rating also factors in the stressed risk absorption capacity emanating from sizable uncovered exposure relative to the bank's equity. AIBL's performance, as measured by ROE, in addition to increased net interest revenue and brokerage income, improved substantially on account of sizeable capital gains realized on government securities and equity investments, and dividend income. AIBL's strategy to replace the FCY loans with lower cost institutional borrowings in LCY resulted in a decline in interest expense which in-turn resulted in a substantial increase in net interest revenue and helped ease pressure on spreads.

#### [April 30, 2004: PACRA Maintains the Rating of the Secured TFC of Shahmurad Sugar Mills Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the rating assigned to the secured TFC issue of PKR 200mln of Shahmurad Sugar Mills Limited (SSML) at “**BBB**” (Triple B). The rating denotes a low expectation of credit risk and adequate capacity for timely payment of financial commitments.

The rating assigned to SSML's secured TFC recognizes the company's weakening capital structure and strained internally generated cash flows despite improving margins. The rating also reflects the sponsors demonstrated financial support in times of stress as a critical mitigating factor. With its business operations limited to sugar production, the company continues to be affected by the issues debilitating the industry. Going forward, the commencement of distillery operations will add stability to the company's income stream, rendering it less vulnerable to unfavorable changes in the economic climate although the extent of this impact remains to be seen.

#### [April 29, 2004: PACRA Maintains the Rating of the Secured TFC of Al-Noor Sugar Mills Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the rating assigned to the secured TFC issue of PKR 203.6mln of Al-Noor Sugar Mills Limited (ANSML) at “**BBB+**” (Triple B Plus). The rating denotes a low expectation of credit risk and an adequate capacity for timely payment of financial commitments.

The rating assigned to ANSML's secured TFC reflects the improved performance prospects from its sugar operations. The rating also recognizes the company's demonstrated capacity to honor its debt obligations despite the persistent malaise affecting the sugar industry. While the declining trend in coverages has been largely arrested, internally generated cash flows are likely to remain strained. However, the sponsors

demonstrated financial support in periods of stress remains a source of comfort for the TFC holders.

#### [April 28, 2004: PACRA Maintains TFC Rating of Gulistan Textile Mills Limited](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the rating of the secured TFC issue of PKR 321mln of Gulistan Textile Mills Limited (GTML) at ‘A-’ (single A minus). This rating indicates a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

GTML's rating reflects the improvement in core earnings and thus the internal cash generation due to increase in production capacity, improvement in product quality and diversification, emanating from continued investment in BMRE. The rating also takes into account the strong capacity of the company and the Gulistan Group to raise external funds in the event of any unforeseen liquidity crunch.

#### [April 13, 2004: PACRA Maintains Entity Ratings of Orix Investment Bank Pakistan Limited \(OIBPL\)](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Orix Investment Bank Pakistan Limited (OIBPL) at ‘A’ (Single A) and ‘A1’ (A one), respectively. The ratings are applicable to senior unsecured creditors of the bank. These ratings indicate a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings of OIBPL reflect the maintained performance of the bank from core operations along with effective risk management policies, which have helped in largely preserving the asset quality. The ratings also recognize the management's initiatives for identifying new avenues of revenue generation and achieving increased diversification in an increasingly competitive environment. The ratings also factor in the implicit support from the parent group.

#### [April 09, 2004: PACRA Maintains Entity Ratings of First Fidelity Leasing Modaraba](#)

The Pakistan Credit Rating Agency (PACRA) has maintained the entity ratings of First Fidelity Leasing Modaraba (FFLM) at ‘**BBB+**’ (Triple B plus) and ‘**A2**’ (A two) for the long-term and short-term, respectively. These ratings denote a low expectation of credit risk and adequate capacity for timely payment of financial commitments. The ratings reflect FFLM's adequate-risk absorption capacity emanating from sizeable share of equity in total assets. The ratings also factor in the relatively limited growth prospects of the Modaraba.

#### [April 06, 2004: PACRA Maintains AAA & A1+ Ratings for Pak-Arab Refinery Limited \(PARCO\)](#)

For the seventh year running, the Pakistan Credit Rating Agency (PACRA) has maintained the entity ratings of Pak-Arab Refinery Limited (PARCO) at ‘**AAA**’ (Triple A)

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and 'A1+' (Single A one plus) for the long-term and short-term, respectively. The entity ratings are applicable to the senior unsecured creditors of the company. The rating of the secured TFC of PKR 2.5bln has been maintained at 'AAA' (Triple A). These ratings denote the lowest expectation of credit risk and an exceptionally strong capacity for timely payment of financial commitments.

PARCO – a joint venture between the Government of Pakistan (60%) and the Emirate of Abu Dhabi (40%) – is involved in refining, transporting and marketing of various petroleum products in the country in an integrated manner.

PARCO's ratings reflect stable business operations, effective management policies, competitive margins on pipeline operations and the guaranteed 25% minimum return on the paid-up capital attributable to its investment in the Mid-Country Refinery (MCR) being a project implemented under the 1994 Petroleum Policy. As a result, the company's business and financial risk continues to be very low. Nevertheless, the liquidity levels are expected to remain aligned to the pace of disbursements of SGR (Shortfall in Guaranteed return) by the GOP. Meanwhile, the management's capability to successfully accomplish its business and financial objectives remains fully demonstrated.

### [April 01, 2004: PACRA Upgrades Ratings of Legler Nafees Denim Limited](#)

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term entity rating of Legler Nafees Denim Mills Limited (LNDM) to "A" (Single A ) and the short-term rating has been upgraded to "A1" (A One). The ratings have also been assigned a positive outlook. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payments of financial commitments.

The ratings reflect the company's improving performance and risk absorption capacity through the ongoing conservative profit retention policy. The ratings also reflect, inter-alia, the future prospects arising from the company's transition from a commodity to specialty producer. This, coupled with certain other strategic plans, is expected to enhance LNDM's international competitive position.

## List of Publicly Disseminated Ratings

### Entity Ratings:

Sr. No.	Name of the Organisation	Type of Rating	Date of Notification	Rating Assigned	
				FS/MF/ AMIR	Long-Term Short-Term
<b>FINANCIAL SECTOR</b>					
<b>MUTUAL FUNDS / ASSET MANAGEMENT COS.</b>					
1.	ABAMCO Limited	AMIR <sup>1</sup>	06/30/2004	aa	--- ---
2.	BSJS Balanced Fund Limited	MF <sup>2</sup>	05/17/2004	AA(f)	--- ---
3.	National Investment (Unit) Trust – NIT	MF	09/15/2003	AA(f)	--- ---
4.	Unit Trust Of Pakistan	MF	04/01/2004	AA(f)	--- ---
<b>DFIS / INVESTMENT COS. / BROKERAGE HOUSES</b>					
1.	House Building Finance Corporation (HBFC)	Entity	10/07/2003		A A1
2.	Investment Corporation of Pakistan (ICP)	Entity	06/03/2004		--- A1+
3.	Jahangir Siddiqui & Co. Limited	Entity	01/16/2004		AA+ A1+
4.	Pakistan Industrial Credit & Investment Corporation Limited (PICIC)	Entity	06/29/2004		AA A1+
5.	Pakistan Kuwait Investment Company (Pvt) Limited	Entity	06/30/2004		AAA A1+
6.	Pakistan Libya Holding Company (Pvt) Limited	Entity	06/30/2004		AA- A1+
<b>MODARABAS</b>					
1.	First Fidelity Leasing Modaraba	Entity	03/10/2004		BBB+ A2
2.	First Grindlays Modaraba	Entity	02/24/2004		AA+ A1+
3.	First Habib Modaraba	Entity	02/27/2004		AA- A1+
4.	First Punjab Modaraba	Entity	02/25/2004		A A1
<b>LEASING COMPANIES</b>					
1.	Askari Leasing Limited	Entity	03/22/2004		A+ A1
2.	Dawood Leasing Company Limited	Entity	01/13/2004		A+ A1
3.	Network Leasing Corporation Limited	Entity	03/26/2004		BBB A3
4.	Orix Leasing Pakistan Limited	Entity	03/12/2004		AA A1+
5.	Trust Leasing Corporation Limited	Entity	01/30/2004		A+ A1
6.	Union Leasing Limited	Entity	12/31/2003		A A1
<b>BANKING COMMERCIAL</b>					
1.	AlBaraka Islamic Bank (Pakistan Branches)	Entity	06/21/2004		A- A1
2.	Askari Commercial Bank Limited	Entity	06/24/2004		AA+ A1+
3.	Bank Al Habib Limited	Entity	06/23/2004		AA A1+
4.	Bank Alfalah Limited	Entity	06/24/2004		AA A1+

<sup>1</sup> Asset Management Intrinsic Rating

<sup>2</sup> Mutual Fund Rating

Sr. No.	Name of the Organisation	Type of Rating	Date of Notification	Rating Assigned	
				FS/MF/AMIR	Long-Term Short-Term
5.	The Bank of Punjab	Entity	06/23/2004		A+ A1
6.	First Women Bank Limited	Entity	08/08/2003		BBB+ A2
7.	KASB Bank Limited	Entity	04/23/2004		BBB+ A2
8.	Metropolitan Bank Limited	Entity	06/22/2004		AA+ A1+
9.	Muslim Commercial Bank Limited	Entity	06/19/2004		AA A1+
10.	NDLC-IFIC Bank Limited <sup>1</sup>	Entity	10/03/2003		A A1
11.	Prime Commercial Bank Limited	Entity	06/28/2004		A+ A1
12.	Saudi Pak Commercial Bank Limited	Entity	06/30/2004		BBB A3
13.	Soneri Bank Limited	Entity	06/24/2004		AA- A1+
14.	Union Bank Limited	Entity	06/30/2004		A+ A1

### BANKING INVESTMENT

1.	Atlas Investment Bank Limited	Entity	02/27/2004		A- A2
2.	First International Investment Bank Limited	Entity	01/13/2004		A A1
3.	Jahangir Siddiqui Investment Bank Limited	Entity	02/23/2004		A+ A1
4.	Orix Investment Bank Limited	Entity	03/08/2004		A A1

### INSURANCE COMPANIES

1.	International General Insurance Company of Pakistan Limited (IGI)	IFS <sup>2</sup>	09/02/2003	AA	--- ---
2.	Muslim Insurance Company Limited	IFS	09/08/2003	A	--- ---
3.	New Jubilee Insurance Company Limited (NJI)	IFS	11/18/2003	AA	--- ---

### INDUSTRIAL CORPORATES

#### TEXTILE

1.	Azgard Nine Limited (Formerly Legler Nafees Denim Mills Limited)	Entity	02/25/2004		A A1
2.	Nishat Mills Limited	Entity	01/12/2004		A+ A1

#### SUGAR & ALLIED

1.	Al-Abbas Sugar Mills Limited	Entity	04/12/2004		A- A2
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#### FUEL & ENERGY

1.	Pak-Arab Refinery Company Limited (PARCO)	Entity	03/31/2004		AAA A1+
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#### TRANSPORT & COMMUNICATION

1.	Pakistan Mobile Communications (Pvt) Limited (Mobilink)	Entity	10/15/2003		AA- A1
2.	WorldCall Communications Limited	Entity	04/22/2004		A+ A1

<sup>1</sup> Provisional Rating and TFCs on Rating Watch

<sup>2</sup> Insurer Financial Strength Rating



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Sr. No.	Name of the Organisation	Type of Rating	Date of Notification	Rating Assigned	
				FS/MF/ AMIR	Long-Term
<b>CHEMICAL &amp; PHARMACEUTICALS</b>					
1.	Engro Chemical Pakistan Limited	Entity	06/14/2004	AA-	A1+
<b>PAPER &amp; BOARD</b>					
1.	Packages Limited	Entity	04/23/2004	AA	A1+
2.	Security Papers Limited	Entity	09/25/2003	AA	A1+
<b>MISCELLANEOUS</b>					
1.	Tri-Pack Films Limited	Entity	05/14/2004	A+	A1

## Term Finance Certificates (TFCs) Ratings:

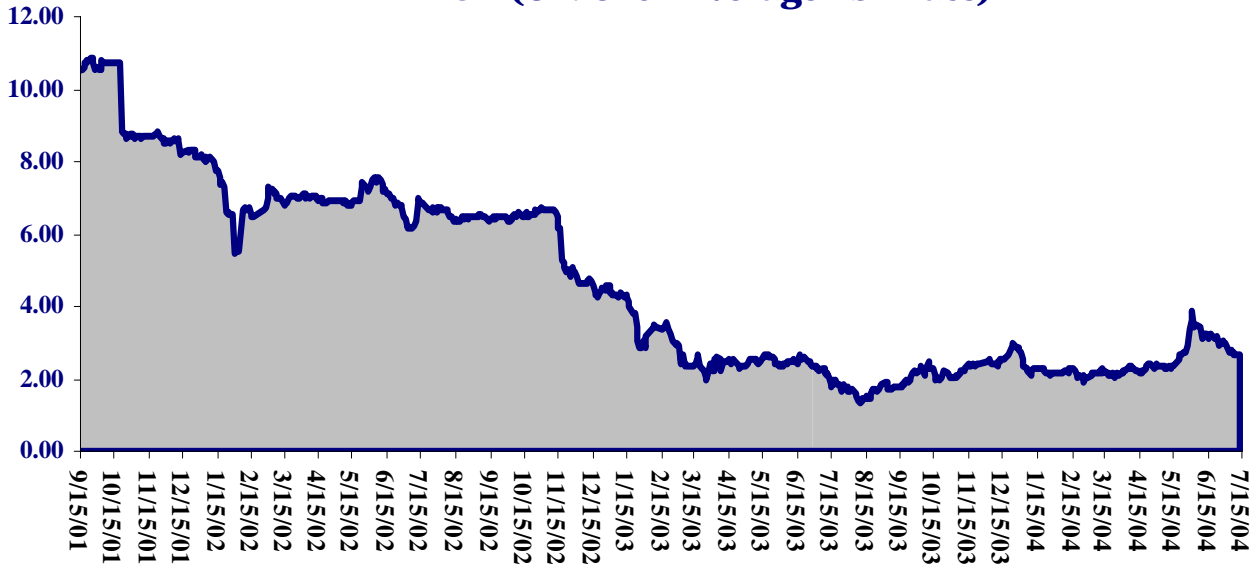
Sr. No.	Name of the Organisation	Amount PKR (mln)	Date of Notification (MM/DD/YYYY)	Date of Issue (MM/DD/YYYY)	Rating Assigned
1.	Al-Abbas Sugar Mills Limited ( <i>Privately Placed</i> )	350.00	04/12/2004	07/03/2003	A
2.	Al-Noor Sugar Mills Limited	203.66	04/23/2004	10/31/2000	BBB+
3.	Atlas Investment Bank Limited – I	200.00	02/27/2004	09/27/2000	A
4.	Atlas Investment Bank Limited - II	100.00	02/27/2004	08/16/2001	A
5.	Bank Al Habib Limited	1,350.00	06/23/2004	07/16/2004	AA-
6.	Bank Alfalah Limited	650.00	06/24/2004	12/21/2002	AA-
7.	Dawood Leasing Company Limited (1 <sup>st</sup> Tranche)	253.05	01/13/2004	09/21/2001	AA-
8.	Dawood Leasing Company Limited (2 <sup>nd</sup> Tranche)	345.00	01/13/2004	07/27/2002	AA-
9.	Engro Chemical Pakistan Limited (2 <sup>nd</sup> Tranche)	1,000.00	06/14/2004	07/06/2002	AA
10.	First International Investment Bank Limited (M-Series)	57.04	01/13/2004	09/01/2001	A
11.	First International Investment Bank Limited (R-Series)	135.86	01/13/2004	09/01/2001	A
12.	Gulistan Textile Mills Limited	320.67	04/26/2004	09/05/2001	A-
13.	Jahangir Siddiqui & Company Limited	500.00	01/16/2004	04/18/2003	AA+
14.	KASB Bank Limited ( <i>Originally issued by KASB Leasing Limited</i> )	200.00	04/23/2004	07/15/2003	A-
15.	Maple Leaf Cement Factory Limited	250.00	02/25/2004	07/20/2002	A
16.	Muslim Commercial Bank Limited	1,600.00	06/19/2004	08/10/2002	AA-
17.	NDLC-IFIC Bank Limited*	500.22	10/03/2003	12/01/1999	A+
18.	Network Leasing Corporation Limited	100.00	03/26/2004	10/08/2000	BBB+
19.	Nishat Mills Limited	600.00	01/12/2004	09/19/2001	A+
20.	Orix Leasing Pakistan Limited (1 <sup>st</sup> Tranche)	742.00	03/12/2004	04/07/2001	AA+
21.	Orix Leasing Pakistan Limited (2 <sup>nd</sup> Tranche)	758.00	03/12/2004	08/01/2002	AA+
22.	Packages Limited	850.00	04/23/2004	08/01/2001	AA
23.	Pak-Arab Refinery Company Limited	2,500.00	03/31/2004	12/12/2001	AAA
24.	Securetel SPV Limited – (Securitized)	850.00	09/01/2003	04/27/2003	A
25.	Shahmurad Sugar Mills Limited	230.00	04/26/2004	05/21/2002	BBB
26.	Sui Southern Gas Company Limited (1 <sup>st</sup> Tranche)	1,000.00	12/31/2003	06/01/2001	AA
27.	Sui Southern Gas Company Limited (2 <sup>nd</sup> Tranche)	1,250.00	12/31/2003	06/11/2002	AA
28.	Trust Leasing Corporation Limited – I	250.00	01/30/2004	06/03/2003	AA-
29.	Trust Leasing Corporation Limited – II	375.00	03/31/2004	07/18/2004	AA-
30.	Union Bank Limited – I	750.00	06/30/2004	12/21/2002	A
31.	Union Bank Limited – II	750.00	06/30/2004	01/20/2004	A
32.	Union Leasing Limited	357.10	12/31/2003	04/20/2002	A+
33.	WorldCall Communications Limited	350.00	04/22/2004	10/01/2002	AA-
<b>Total Amount Issued:</b>		19,727.60			

\* On RatingWatch



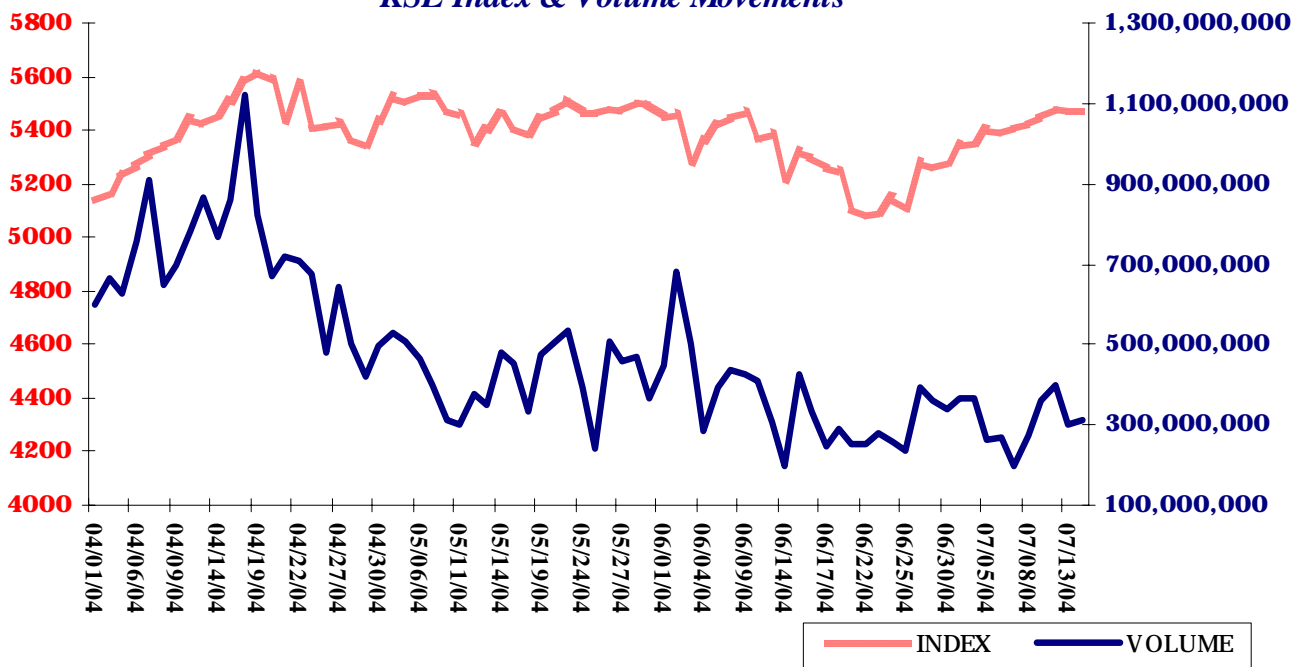
## KIBOR:

### KIBOR (6-Month Average Ask Rate)



## KSE-100 Index:

### KSE Index & Volume Movements





**PACRA MILESTONES**

<b>Event</b>	<b>Date</b>
Signing of IFC/IBCA*/LSE Joint Venture Agreement	June 15, 1994
Incorporation of PACRA	August 18, 1994
Establishment of Camp Office	October 09, 1994
Notification of First Rating	November 08, 1994
First Board Meeting	November 20, 1994
IBCA/PACRA Technical Services Agreement	January 15, 1995
Inauguration of PACRA's Office	February 04, 1995
First Training Workshop	May 28-31, 1995
PACRA's Recognition by Financial Times, London As A Local Rating Agency	October 1995
Second Training Workshop	November 19-29, 1995
Notification of 10 <sup>th</sup> Rating	December 26, 1995
Registration of PACRA with CLA	February 14, 1996
PACRA's First International Consultancy	March 14, 1996
Operation of Second Floor Office Premises	August 01, 1996
Notification of 50 <sup>th</sup> Rating	April 10, 1997
Notification of 100 <sup>th</sup> Rating	September 25, 1998
Establishment of PACRA's branch office in Karachi	March 30, 2002
PACRA joined ACRAA as founder member	June 06, 2002
Employee Buy-Out	January 22, 2003
PACRA becomes a public limited company	April 20, 2004
PACRA enters into agreement with NESPAK for Real Estate Developers & Projects Grading System	May, 2004
Notification of 200 <sup>th</sup> Rating	June 30, 2004

*\*Currently operating as **Fitch Ratings Limited** which is the 3<sup>rd</sup> largest rating company in the world after acquiring Fitch Inc USA, Duff & Phelps Credit Rating Company USA, ItalRating DCR Italy and Thomson Bankwatch*

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