

NBFCs SECTOR UPDATE

NBFCs SECTOR

- Intense competition from commercial banks
- On-going sector consolidation
- Focus on diversification of revenue sources

The various activities falling into the ambit of Non Banking Finance Companies (NBFCs) include leasing, investment banking, housing finance, venture capital, asset management, discounting services and investment advisory services. Most NBFCs are engaged in leasing, investment banking and investment advisory services. With the lifting of bar on setting up of an asset management business without foreign collaboration, participation within this segment is also increasing. However, the housing finance, venture capital and discounting services still have few players. The concept of NBFCs was introduced in 2002. Thereafter, all companies offering non-banking financial services – previously classified as NBFIs – were placed under the regulatory supervision of the SECP. The objective of this was two-fold: (a) to remove the overlap of regulatory jurisdiction between the SBP and the SECP (b) to provide impetus for mergers and acquisitions among existing NBFCs. The latter is expected to improve efficiency through: achieving better capital adequacy, enhanced resources – both financial and personnel – and their optimum utilization, increase in net margins through economies of scale, and increase in the business-handling capabilities of institutions. A number of mergers have taken place in the recent period. Also, some other NBFCs that could not

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meet the financial requirements are presently under liquidation. This process is inevitably resulting in fewer, but stronger institutions with better growth prospects. Issuance of a single license for all NBFC activities is also currently under consideration by the SECP. This is expected to facilitate both NBFCs and the regulator by removing the irritants relating to separate issuance/renewal of licenses for each business activity. As the capital requirements for such a universal non-banking license are currently being worked out, the implications of the enforcement of any such requirement remain uncertain.

SECP issued a uniform set of prudential regulations for NBFCs with effect from January 2004 with the aim of facilitating NBFCs in improving their risk management capabilities, and to inculcate better corporate governance practices. These prudential regulations allow the NBFCs to launch multiple products for expanding the scope of their business. An important area of regulations relates to impaired portfolio, which also emphasizes streamlining and

strengthening of reporting to the SECP. The SECP has made it obligatory for a NBFC to set up a recovery cell and nominate a recovery officer. Furthermore, NBFCs have been allowed to settle non-performing facilities through rescheduling and restructuring of the impaired portfolio by recovering at least 25% of the outstanding amount. It has been made mandatory for NBFCs to provide five percent of their total lending to small borrowers, including SMEs. The prudential regulations were subsequently amended in June 2004, September 2005 and October 2005. Respectively, these amendments relate to change of determinant for OAEM classification from 90 days past-due to 180 days past-due, enhancement of per party limit to PKR 20mln for housing finance, and relaxation, in exceptional cases, in the specified current ratio to be maintained by the borrower.

With effect from FY2005, the SECP has made it mandatory for all NBFCs and Collective Investment Schemes managed by NBFCs to obtain and maintain a credit rating from a credit rating agency recognized by the SECP.

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The said ratings are required to be updated at least once in every 12 months, within 6 months of the close of financial year. The ratings are also required to be notified to SECP and the public within seven days of notification by the rating agency.

With the aim of creating a level playing field for the banking and non-banking financial sector, both the SECP and SBP have been introducing reforms. The first step in this direction was in October 2003, when SBP granted permission to the commercial banks to establish NBFCs, provided the subsidiary to be set up for the purpose would be a public limited company, and the transactions undertaken or services provided by the subsidiary set up under the NBFC rules would not create any financial obligation on the balance sheet of the holding company. Furthermore, in December 2003, SBP allowed banks and DFIs to underwrite TFCs, commercial papers and other debt instruments of NBFCs. This enabled NBFCs to raise debt from the secondary market. With resource mobilization thus becoming easier, NBFCs are slightly better placed than before to compete with banks. Also, in June 2005, SECP allowed NBFCs to issue foreign currency deposits in the shape of COIs/CODs, with attached conditions relating to prohibition of carrying net open positions, maintenance of specified reserves with SBP in the currency of such deposits, and permissible avenues for deployment of funds from such deposits.

Nevertheless, operations and activities of various banking and non-banking players in the financial sector overlap, increasing competition between institutions. Pakistan's financial sector landscape has changed substantially in the last few years and the process continues.

Privatization of state-owned banks, increasing regulatory capital requirements and higher liquidity are reasons of the significant changes. In this fast changing environment and increasing competition within the sector, commercial banks feel compelled to expand the range of their services and are increasingly encroaching on areas, which were previously dominated by NBFCs. The banks, with their relatively low cost of funds, are better placed than NBFCs to offer competitive rates to creditworthy clients. Thus, non-commercial banking entities have been finding it difficult to realize their full potential. In order to achieve increased diversification within their revenue streams, most NBFCs, particularly the investment banks, identified the capital market as a potential source of earnings and actively participated in this activity during FY2005, and the trend continues. Going forward, the government's recent initiation of rehabilitation process for earthquake affected areas and the proposed upcoming construction of dams may provide a positive influx for increased economic activity, particularly within the construction and commercial transport sectors. As a result, NBFCs, particularly those undertaking leasing businesses, are expected to look towards competing for incremental exposures in these sectors. Meanwhile, strong participation in capital market activities and enhanced focus on fee-based avenues is expected to continue.

Investment Banks:

Investment banks are largely tapping two main avenues, fund-based and fee-based. The former has been the area primarily facing competition from commercial banks. These fund based activities currently comprise leasing, SME financing, consumer financing, repurchase

lending/borrowing and funds deployment in government securities/ equities. Investment banks have generally responded by shifting the focus towards fee-based activities, by identifying and competing for their relative niche in small ticket advisory activities. These include corporate finance facilitation, money and capital market brokerage, underwriting and asset management services.

Among fund-based activities, the investment banks are focusing on (a) reducing the cost of funds, and (b) volume growth. In pursuit of the latter objective, efforts are being made to increase geographical outreach through additional branches. At the same time, while auto-leasing continues to enjoy strong demand, consumer-leasing products are receiving a higher priority through tie-ups with designated manufacturers and suppliers. Meanwhile, having experienced an increasing interest rate scenario, the general trend in the sector is a move towards floating rate assets and increased focus on cost curtailment for better spread management. Given the highly competitive environment and pressure on spreads, the current focus of the sector is expected to remain on increased diversification, through identification of untapped avenues and enhanced geographical presence, and with continuing participation in capital market activities.

The main limitation in the fee-based business for investment banks is dearth of good quality human resources. Going forward, identification of untapped credit avenues, improvement in operational efficiency and enlargement of non-fund based revenues are critical for the performance of investment banks.

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Leasing Companies

Being primarily involved in fund-based activities, the effect of strong competition from the commercial banks has been more pronounced in case of the leasing sector as compared to the investment banking sector. As a result, the proportion of companies engaged purely in leasing operations continues to decline. Several leasing companies opted for conversion into investment banks in search of alternate avenues for revenue generation. Others – primarily stronger companies, or those companies that are backed by large financial institutions – have been trying to survive the pressure on spreads by targeting volume growth, supplemented by market segmentation and strategic expansion of branch networks. Nevertheless, given the increased economic activity within the country, the fewer, stronger players are better placed than before to share the pie with commercial banks, owing to their relative niche in the SME segment. The sector has shown resilience in the face of continued stiff competition from commercial banks. Overall profitability, which was mainly volume driven, registered an improvement over the previous year with rising demand on the back of increased industrial activity. Strategic market penetration helped generate volumes for some companies. This included tapping businesses in smaller towns with a high prevalence of SMEs and agricultural activity. This trend, initiated in 2003, has now become more pronounced, and will remain a key focus as leasing companies expand and develop their own niche markets. The SME sector in particular is likely to provide an important growth avenue. The other area that is anticipated to yield competitive

advantage is enhancement in the quality and speed of service.

The earnings of leasing companies may face a slight dent in the short term owing to the applicability of the revised International Accounting Standard 17, which has become applicable on the leasing companies in Pakistan with effect from July 1, 2005. The transitional provisions of the said IAS envisage a retrospective change in accounting treatment of the initial direct costs and related income (upfront fee etc). Receipts on this account were previously recognized up-front in the income. The revised standard now requires deferred recognition of such receipts over the lease term. Owing to retrospective applicability, all leasing companies would have to reverse the initial direct costs recognized in income up till June 30, 2005, by transferring an equivalent amount from retained earnings to unearned income. The income so reversed would be recognized over the remaining term of such contracts.

Having experienced an increasing interest rate scenario, the general trend in the sector is a move towards floating rate assets for better spread management, and increased emphasis on curtailment of operating costs. Given the highly competitive environment and pressure on spreads, the current focus of the sector is expected to remain on volume growth through increased diversification within the loan book, and enhanced geographical presence.

PACRA RATING ACTIONS

January 13, 2005: PACRA Maintains Entity & TFCs Ratings of First Dawood Investment Bank Limited (FDIBL)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating at “A+” (Single A plus), and the short-term rating at “A1” (A One) of First Dawood Investment Bank Limited (FDIB). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings of two tranches of secured TFCs of PKR 253mln and PKR 345mln have also been maintained at “AA-” (Double A minus). This rating denotes a very low expectation of credit risk emanating from a very strong capacity for timely payments of financial commitments.

FDIB's ratings reflect the bank's sound asset quality and strong risk absorption capacity augmented by substantial amount of unrecognised reserves. The ratings also take into account the bank's subdued profitability exhibited over the past couple of years, attributable mainly to capital losses/reevaluation deficit on its investment portfolio. While the ratings recognize the management's ongoing efforts to expand and diversify its revenue base through enhancing participation in the recently initiated fee based investment banking activities, given the increasing competition in the sector, it will take some time before a reasonable and stable revenue stream from these avenues could emerge.

About the TFC Issues: The bank has issued TFCs worth PKR 598mln. The first tranche of PKR

253mln was issued in September 2001. It carries interest at 175bps plus the SBP discount rate with a floor of 13.5% and a ceiling of 17.5% payable semi-annually. The second tranche of PKR 345mln was issued in July 2002 at similar rate, but with a floor of 12.25% and a ceiling of 16.25% payable semi-annually. These instruments are of a perpetual nature and have a call and put option exercisable at the end of every five years from the date of issue. The TFCs are secured by way of registered charge over all present and future assets and receivables of FDIB with a margin of 20%.

About the bank: Dawood Leasing Company Limited, operating since 1995, was converted into First Dawood Investment Bank Limited (FDIB) in 2004. This was done in order to enable the entity to offer a wide range of financial services. The company has undergone a paradigm shift, with investment banking gradually displacing leasing as the management's core focus with further expansionary plans in the pipeline.

January 09, 2005: PACRA Maintains the Ratings of First International Investment Bank Limited (Interbank)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of First International Investment Bank Limited (Interbank) at ‘A’ and ‘A1’ respectively. These ratings indicate a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings reflect the bank's sustained strong risk absorption capacity, which is primarily an outcome of its conservative stance

towards risk supported by an effective credit risk management system. However, at the same time, the bank, due to relatively fine pricing, to ensure good credit quality, and high cost structure, continues to experience subdued profitability. The management, to overcome this impediment and being cognizant of the changing operating environment in the fund-based business, has identified fee-based investment banking activities as main revenue drivers. However, as most of these initiatives are at initial stage, the ability to operationalize the strategy into stable revenue streams and the timing and extent of contribution to the bottom line remains to be seen.

About the bank: First International Investment Bank Limited (Interbank), incorporated in 1990, is a joint venture of the Packages Group (PG), American Express Bank N.Y. (Amex) and International Finance Corporation, who collectively hold majority of the bank's equity. Interbank, listed on Karachi and Lahore Stock Exchanges, provides services in five cities with the head office at Karachi. In order to increase the business volume, particularly from the brokerage operations, the bank has recently started its operations in Faisalabad and Sialkot and, going forward, any further expansion would be on selective basis.

The board of directors comprises seven members, including four representing PG and two nominees of Amex. The current CEO, who joined the bank in June 2004, has over 20 years of banking and capital markets experience in various senior management positions both locally and abroad.

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January 06, 2005: PACRA Assigns Positive Outlook to the IFS Rating of International General Insurance Company of Pakistan Limited (IGI)

The Pakistan Credit Rating Agency (PACRA) has maintained the Insurer Financial Strength (IFS) rating of International General Insurance Company of Pakistan Limited at “AA”. Additionally, the rating has been assigned a positive outlook. The rating denotes the very strong capacity to meet policyholder and contract obligations. At the same time, risk factors are considered moderate, and the impact of adverse and economic factors is expected to be very limited.

The rating reflects IGI's strong profitability attributable to prudent underwriting policies and stable source of investment income. The company, subsequent to acquisition of Pakistan branches of Royal and SunAlliance Insurance plc. (R&SA) and change in the top management, has revised its business strategy. The new management intends to capitalize on the immense financial strength of the company and is adopting a relatively more aggressive stance towards business growth. IGI's sound financial base, high solvency margin, and effective risk management systems make the company well positioned to manage targeted growth while retaining its low risk profile. However, the extent of success in the planned growth strategy remains to be seen.

About the company: IGI's majority shareholder - Packages Group - is one of the larger conglomerates of the country with interests in paper and board, milk and dairy, chemicals, investment banking and insurance.

Following acquisition of R&SA, during 2004, IGI is also now the Global Network Partner of Royal & SunAlliance Global Network Limited for their global businesses in Pakistan. With the change in the Chief Executive Officer (CEO) of

IGI and acquisition of R&SA, the organizational structure of the company was revamped during 2005. The new CEO has vast exposure in the Asian insurance market and has over 13 years of experience in key management positions in the financial sector.

January 06, 2005: PACRA Upgrades the Long-Term Rating of ORIX Investment Bank Pakistan Limited (OIBPL)

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term rating of ORIX Investment Bank Pakistan Limited to ‘A+’ (single A plus), while maintaining the short-term entity rating at ‘A1’ (A One). The ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings reflect the bank's strong risk absorption capacity and increasing profitability emanating from diversified revenue sources. This represents the successful implementation of OIBPL's strategy to focus on core investment banking activity rather than relying merely on financial intermediation operations. This in turn has helped the bank to develop a stable niche in the increasingly competitive financial sector.

About the bank: ORIX Investment Bank Pakistan Limited (OIBPL) was incorporated in July 1995 and commenced operations in the subsequent year. Listed on both Karachi and Lahore Stock Exchanges, OIBPL was sponsored by ORIX Corporation, Japan (OCJ) and ORIX Leasing Pakistan Limited (OLP). Subsequent to recent increase in shareholding, OCJ is the single largest shareholder (30%) of OIBPL, followed by OLP (15%). Other shareholders include local and foreign financial institutions and individuals. The bank's business activities include short-term

lending, fund placements, treasury operations, money market brokerage, equity broking and financial and advisory services.

The Board of Directors (BoD) comprises seven members including the CEO. Three directors are nominees of OCJ, two of OLP, while SaudiPak Industrial & Investment Company and Pak-Kuwait Investment Company has appointed one nominee each. The CEO - Mr. Naim Farooqui - has experience of more than 21 years in development and investment banking.

January 05, 2005: PACRA Withdraws the Ratings of Saudi Pak Commercial Bank Limited (SPBL)

Following the decision of the management of Saudi Pak Commercial Bank Limited to terminate their rating relationship with PACRA, PACRA has withdrawn its credit ratings for the bank (long-term ‘BBB’ and short-term ‘A3’), notified in June 2005.

January 04, 2005: PACRA Assigns Asset Manager Rating to Crosby Asset Management Pakistan Limited (CAML)

The Pakistan Credit Rating Agency (PACRA) has assigned an asset manager rating of “AM4” to Crosby Asset Management (Pakistan) Ltd (CAML). The rating reflects the company's adequate capacity to manage the risks inherent in asset management and the asset manager meets investment management industry standards and benchmarks.

The company's asset management capacity is an outcome of reasonable management experience and business strategy, relevant software tools for portfolio management, adequate risk management policies and independence from reference shareholder in decision-making process. However, given its short

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operational history and relatively modest size in terms of professional manpower and infrastructure, CAML has not been able to develop systems and processes comparable to some peers, which have a longer operational history and considerably larger pool of assets under management. Despite these constraints, CAML has been able to discharge its primary responsibility to investors because of the relatively modest size of assets under management. However, given the existing organizational infrastructure the capacity of the company could come under considerable strain with any material increase in the size of funds under management.

About the company: Crosby Asset Management (Pakistan) Ltd, incorporated in 1993 is a wholly owned subsidiary of Crosby Asset Management International Limited, a company incorporated in the British Virgin Island, which, in turn is a subsidiary of Crosby Capital Partners (CCP). CCP, the parent company of Crosby Group of Companies, was established in 1984 and is now Asia's leading independent investment management firm with dual headquarters in London and Hong Kong. Currently, CAML is acting as the investment management company for an open-end fund, Crosby Dragon Fund. The current Chief Executive of CAML, Mr. Mumtaz Hussain Syed, is an MBA with vast experience in the financial, telecom, cement, textile and energy sector.

January 04, 2005: PACRA Maintains the Ratings of Network Leasing Corporation Limited (NLCL)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating at 'BBB' (Triple B) and the short-term rating at 'A3' (A Three) of Network Leasing Corporation Limited. These ratings denote a low expectation of credit

risk and an adequate capacity for timely payment of financial commitments.

The ratings reflect NLC's continued strategy of steady growth, while keeping control over credit risk, as reflected in its adequate asset quality. The company's focus on micro leasing renders high cost structure and hence, somewhat constrained profitability. This is due largely to the socially motivated strategy of the sponsors to use leasing as a vehicle to contribute towards poverty alleviation. The core focus, therefore, remains on micro leasing for employment generation and enhancement of family incomes.

About the company: Network Leasing Corporation Limited (NLC), commencing operations in 1995, has completed a decade of successful operations. The company is listed at all bourses and is principally engaged in lease financing of income generating assets to micro and small enterprises. The company is currently operating from its head office in Karachi and branches, one each, in Lahore and Peshawar. It is supported by international organizations like Swiss Agency for Development and Co-operation (SDC), Asian Development Bank and World Bank for mobilizing funds.

The Board of Directors of NLC consists of seven members, all having extensive experience in the business. The managing director – a Chartered Accountant – is assisted by an experienced team of professionals.

Capitalising on its experience in micro financing, the management of NLC in collaboration with Jahangir Siddiqui & Company Limited established a micro finance bank – Network Microfinance Bank Limited in 2004, which is now fully operational. The bank - listed on Karachi stock exchange – has also started mobile branch banking in order to deliver financial and

banking services at the doorsteps of underprivileged communities.

January 02, 2005: PACRA Maintains the Ratings of Askari Leasing Limited (ALL)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating at 'A+' (Single A plus) and the short-term rating at 'A1' (A one) of Askari Leasing Limited (ALL). These ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings reflect ALL's maintained good asset quality and the ability to sustain performance from core operations despite an increasingly competitive operating environment. Although ALL's continued high gearing could constrain further growth, some measures are being considered to overcome this impediment.

About the company: ALL was incorporated in August 1993 and is listed on all three stock exchanges of the country. Army Welfare Trust (AWT) is the majority shareholder of ALL since its inception. AWT has over the years evolved into one of the largest business conglomerates of the country. In the financial sector, AWT is represented by a leading commercial bank – Askari Commercial Bank Ltd. - a leasing company, and a general insurance company - Askari General Insurance Company Ltd. Currently, the Board of Directors of ALL includes five nominees of AWT, while one director each is a nominee of the National Investment (Unit) Trust, State Life Insurance Corporation of Pakistan and Mehmood Group.

ALL continued to be the second largest leasing company in FY05 in the leasing sector, in terms of both NIL and total assets alongwith its relatively extensive branch network. In the last few years, that is, with the assumption of office by the current chief executive, the

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branch operations have been strengthened through decentralization, which ensures greater synergy with Askari Bank branches.

January 02, 2005: PACRA Upgrades the Asset Manager Rating of Atlas Asset Management Limited (AAML)

The Pakistan Credit Rating Agency (PACRA) has upgraded asset manager rating of Atlas Asset Management Limited (AAML) to "AM3+". The rating reflects the company's strong capacity to master the risks inherent in asset management and the asset manager meets high investment management industry standards and benchmarks.

The rating recognizes the notable improvement in the qualifications and prospective capabilities of AAML. The intrinsic capacity has been strengthened by setting up some important supporting systems in addition to already implemented policies and processes. Although the number of funds and assets under management have increased, the relative size and diversity still remain limited, mainly an outcome of short track record.

About the company: Atlas Asset Management Limited (AAML), previously Atlas Asset Management Company Limited (AAMCL), sponsored by the Atlas Group of Companies (AGC), was incorporated on August 20, 2002. Atlas Group, established in 1962, is one of the well-known business groups of the country with strong presence in manufacturing, finance and trading sectors. AAML is acting as the asset management company for two open-end funds and as an investment advisor to a closed-end fund. The Chief Executive, with extensive experience, is a known figure in the country's mutual fund industry. During the year, AAML's relationship with ING – an asset

manager of international repute and technical partner of AAML in Pakistan - progressed very well. The representative of ING attends the board meetings on a regular basis, physically or through teleconferencing.

December 30, 2005: PACRA Maintains the Asset Manager Rating of Arif Habib Investment Management Limited (AHIML)

The Pakistan Credit Rating Agency (PACRA) has maintained the asset manager rating of Arif Habib Investment Management Limited (AHIML) at 'AM2'. The rating reflects the company's very strong capacity to master the risks inherent in asset management and the asset manager meets very high investment management industry standards and benchmarks.

The rating recognizes the company's strong market position, sound internal systems and processes, a high degree of independence and control, qualified and experienced management team, effective asset allocation and risk management policies and continuous initiatives by the management for refinement in the systems and processes to further enhance the efficiency of operations.

About the company: AHIML, incorporated in August '00, is one of the largest private sector asset management companies in Pakistan. AHIML has four open-end and two closed-end funds under its management, with total funds under management currently aggregating to PKR 17bln. The majority stake in the company is held by Arif Habib Securities Limited (AHS). AHS, which started as a traditional security firm, is now acquiring the character of a holding company for Arif Habib Group. The company has recently transferred its brokerage operations to a wholly owned subsidiary established for

this purpose. Meanwhile, the group continues to expand and diversify and has acquired major interests in various industrial projects and entered into a joint venture agreement with Rupali Bank of Bangladesh, for acquiring its Pakistan operations. The current Chief Executive of AHIML, Mr. Nasim Beg, is a Chartered Accountant with over 30 years of experience in the financial sector, including the mutual fund industry.

December 27, 2005: PACRA Maintains TFC Rating of Gulistan Textile Mills Limited (GTML)

The Pakistan Credit Rating Agency (PACRA) has maintained the TFC rating of Gulistan Textile Mills Limited at "A-" (Single A minus). The rating indicates a low expectation of credit risk and strong capacity for timely payment of financial commitments.

The rating reflects GTML's maintained performance trend with declining sales turnover more than offset by increasing margins. While the company's internal cash flows remained somewhat strained due to working capital requirement, these are expected to improve through increasing earnings in the absence of any major planned capex, thus allowing the company to reduce its reliance on external borrowings, going forward. Meanwhile, the strong standing of the group and its demonstrated capacity to mobilize requisite funds from external sources provides a degree of comfort to TFC holders.

About the TFC Issue: GTML issued the first secured TFC of PKR 321mln in FY2001 for a tenor of five years. The TFC carries a profit rate of 2% above the State Bank of Pakistan's discount rate, with a floor of 14% and a ceiling of 17.5%. The TFC is secured by way of a first charge ranking parri passu with existing creditors on land, building and plant & machinery, providing

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25% margin. The company has serviced its TFC obligations on a timely basis falling due up to September 2005 (outstanding principal: PKR 106.8mln, final redemption: September 2006, number of outstanding installments: 2).

About the company:

Established in 1967, GTML is the largest company – in size – among all the group concerns operating under the banner of Gulistan Group. The company is listed on Karachi and Lahore stock exchanges. It operates four spinning units with an installed capacity of 108,552 spindles, and yarn is sold both locally and abroad. Currently, GTML is one of the leading exporters of yarn, and its manufacturing facilities have capacity to produce a wide range of counts of carded & combed yarn in both cotton as well as blended varieties. The strategy of continuous balancing, modernization, replacement and expansion (BMR&E) has kept the company competitive despite the changing market dynamics.

December 23, 2005: PACRA Maintains IFS Rating of New Jubilee Insurance Company Limited (NJI)

The Pakistan Credit Rating Agency (PACRA) has maintained the Insurer Financial Strength (IFS) Rating of New Jubilee Insurance Company Limited (NJI) at “AA” (Double A). The rating denotes a very strong capacity to meet policyholder and contract obligations. Risk factors are considered modest, and the impact of any adverse business and economic factors is expected to be modest.

NJI's rating reflects its good underwriting performance, sound solvency margin and strong financial base. Meanwhile, the management, leveraging on the company's core strengths, has

undertaken several initiatives to accelerate organic growth and has increased its retention levels while strengthening the risk management systems. The potential benefits from NJI's new strategy are expected to improve its competitiveness leading to improvement in margins.

About the company: New Jubilee Insurance Company Limited (NJI), established in 1953, has completed its fifty-one years of successful business operation in 2004. It is listed on Karachi and Lahore stock exchanges. Major shareholders of NJI include Agha Khan Hospital and Medical College Foundation, Agha Khan Fund for Economic Development and Hashoo group. The current chief executive, Mr. Tahir Ahmed, joined the company in August 2004 and was appointed as CEO in July 2005. He is a graduate engineer and also a Chartered Insurer and possesses extensive experience in the field of insurance.

The company underwrites all types of general insurance business including fire, marine, motor, health and miscellaneous business. Operations are currently carried out from a nationwide network of 19 branches covering all major cities. In terms of gross premium written (GPW), NJI maintains its position of being third largest company among the general insurance companies operating in the country.

December 07, 2005: PACRA Assigns Short-Term Rating of 'A1' to the Securitised TFC of Securetel SPV Limited

The Pakistan Credit Rating Agency (PACRA) has assigned a short-term rating of 'A1' (A One) to Securetel SPV Limited's Securitised TFC-A of PKR 840mln. This rating denotes obligations supported by a strong capacity for timely repayment.

With ten installments out of a total of twelve having already being paid

on schedule, the capacity for timely repayment relative to the reduced outstanding TFC obligation is considered strong on the back of substantially enhanced revenues of Paktel Limited. Furthermore, as the tenor of the TFCs expires within the ensuing six months, a short-term rating has been notified.

About the Issuer: With the principal objective of acting as SPV to facilitate true sale securitization, Securetel SPV Limited, a non bankruptcy-remote special purpose vehicle (SPV), was incorporated on June 25, 2002 as a public limited company under the Companies (Asset Backed Securitisation) Rules, 1999.

Securetel SPV Limited has acquired an interest in future receivables of Paktel Limited (PTL), paying the sale price by issuing TFCs. The TFC-A series is listed on Lahore Stock Exchange and carries profit based on SBP discount rate +200bps with a cap of 16% p.a. and floor of 12% p.a. for the first year and 11.50% p.a. for the last two years. These are redeemable in twelve quarterly installments (principal + interest) of which ten installments have been paid. The remaining outstanding principal of TFC A series amounting to PKR 140mln plus interest thereon is payable by March 27, 2006.

About the Originator: PTL, the originator, was incorporated in 1989. It was a joint venture between Cable & Wireless of UK and Hassan Associates till Millicom International Cellular, S.A. (MIC) acquired 98.9% of the shares in November 2000. MIC, a Luxembourg-based company listed on NASDAQ national market and Luxembourg stock exchange has been rated B+ (B Plus) by Standard & Poor's. MIC's portfolio of assets comprises 16 cellular operations in 15 countries, focusing on Asia, Latin America and Africa.

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November 30, 2005: PACRA Places Ratings of Dawood Bank Limited & Atlas Investment Bank Limited on Rating Watch

Reports regarding the acquisition of majority shareholding of Dawood Bank Limited by the Atlas Group have been confirmed. Following this development, PACRA has placed ratings of both Dawood Bank Limited and Atlas Investment Bank Limited on rating watch.

This would be followed by a detailed review of the implications of this acquisition, particularly with reference to reported plans of merger of Dawood Bank Limited with Atlas Investment Bank Limited. At this stage, there is no change in the ratings of the two institutions which currently stand at 'A+' and 'A1' for Atlas Investment Bank; and 'BBB-' and 'A3' for Dawood Bank.

November 28, 2005: PACRA Upgrades IFS Rating of Muslim Insurance Company Limited

The Pakistan Credit Rating Agency (PACRA) has upgraded the Insurer Financial Strength (IFS) rating of Muslim Insurance Company Limited to "A+". The rating denotes strong capacity to meet policyholder and contract obligations.

The rating reflects MIC's improving profitability, sound underwriting practices and premium growth. With business from group companies constituting a high proportion of total business, the company continues to benefit from lower loss ratios. This is mainly due to the tradition of effective systems of asset maintenance by group companies. The company's financial base is sound owing to a healthy retention policy, allowing MIC to target a higher level of growth, going forward. Adequate due diligence is also being paid to

risk management systems given the management's growth strategy encompasses a renewed emphasis on obtaining non-group business.

About the company: Muslim Insurance Company Limited (MIC), one of the oldest insurance companies in Pakistan, commenced commercial operations in 1934 as a life insurance company. However, after nationalization of life insurance in 1972, MIC was restricted to non-life insurance business. The company went public in 1955 and is listed on the Karachi and Lahore stock exchanges. The Atlas Group - one of the well known business groups in the country with diversified interests including car production, motorcycle production, auto parts manufacturing, investment banking, insurance, and trading - is the majority shareholder in MIC.

Overall control of the company vests in the Board of Directors, comprising seven members, mainly representing of the Atlas Group. The current chief executive - previously working in the capacity of chief operating officer in MIC - assumed the position in 2004. He has extensive exposure to the insurance sector, and is also the Chairman of the Insurance Association of Pakistan. MIC underwrites all types of non-life insurance business including fire, marine, motor and miscellaneous risks. While efforts are being made to improve the productivity of existing branches, the management is also targeting a further increase in the branch network.

October 31, 2005: PACRA Upgrades IFS Rating of Habib Insurance Company Limited

The Pakistan Credit Rating Agency (PACRA) has upgraded the Insurer Financial Strength (IFS) rating of Habib Insurance Company Limited to "A+". The rating denotes strong capacity to meet policyholder and contract obligations. At the same

time, risk factors are considered moderate, and the impact of adverse and economic factors is expected to be limited.

The rating reflects HIC's prudent growth strategy, and a strong financial base with an improvement in financial strength relative to peers. The company, as part of its medium-term strategy, is emphasizing on product development. While the company is developing its marketing function, it does not plan to pursue business growth while compromising risk. This is expected to keep its overall risk profile largely unchanged.

About the company: Habib Insurance Company with more than sixty years of operations to its credit is one of the oldest insurance companies in the country. Habib Group - one of the oldest and most well known groups with significant investments in the industrial and service sectors - is the majority shareholder in HIC. Overall control of the company vests in the Board of Directors, comprising seven members, with the majority of directors belonging to the Habib family. Habib Group companies are becoming an increasingly valuable resource for HIC through provision of a higher level of relatively low risk business.

With a nationwide network of 13 branches, HIC underwrites all types of general insurance business.

October 21, 2005: PACRA & NESPAK Grading of Eden Developers (Pvt) Limited

PACRA & NESPAK have jointly maintained the grading of Eden Developers (Pvt) Limited at "PE2". The grading denotes a strong project execution capacity with highly promising prospects of execution of real estate projects as per plan and the ability to transfer ownership as per terms.

The success of the company lies in innovative architectural design and planning, high standards of

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construction and management, and a planning team focused towards providing timely delivery through standardization and effective monitoring.

About the Company: Eden Developers (Pvt) Limited (EDPL) has played an important role in the development of Lahore's real estate sector since 1981. The company has been principally engaged in the construction and execution of affordable housing projects, and land development, with a limited focus on construction of plazas. Eleven housing, and three commercial projects, have been completed so far. The focus of the company has remained on providing for the residential needs of a growing middle class by building high quality houses at affordable prices, and at the same time providing the business community with modern and contemporary commercial buildings. Going forward, the company plans on shifting its focus to housing projects for the lower middle income segment.

October 19, 2005: PACRA Maintains Entity Ratings of Investment Corporation of Pakistan (ICP)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term entity rating of ICP at "AA" (Double A) and the short-term rating at "A1+" (A one plus). These ratings denote a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

ICP's ratings reflect its very strong financial profile emanating from its pre-dominantly equity based balance sheet structure and full settlement of contractual obligations towards all creditors. The Government has decided to wind-up ICP and the Privatization Commission is working on this mandate. PACRA is, therefore,

assigning the ratings with the assumption that until the winding up process is completed ICP will continue its limited operations and not venture into any activity that could enhance the risk exposure.

October 19, 2005: PACRA Maintains the Ratings of Pakistan Mobile Communications Limited (Mobilink)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term ratings of Pakistan Mobile Communications Limited (PMCL) at "AA-" (double A minus) and "A1" (A One) 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 reflect PMCL's sustained market leadership and strong financial performance emanating from continuing growth in volumes. Though the increase in financial leverage owing to continuing debt acquisition for supporting expansion has been substantial, the corresponding increase in cash flows allows the company to maintain gearing and respective coverages at an adequate level. The ratings also incorporate the company's success in sustaining its positioning in an increasingly competitive cellular industry despite some negative publicity on the quality of service front.

About the company: Pakistan Mobile Communications Limited (PMCL) is the largest cellular telecommunication service provider engaged in installation, operation and maintenance of a countrywide GSM cellular network under the brand name of Mobilink. PMCL was incorporated as a private limited company in December 1990, commenced operations in August 1994, and was converted into a public limited company in February 2005. The

company enjoys the strong technological support of Orascom Telecom (OT), which operates GSM cellular networks in seven emerging markets across the Middle East, Africa and South Asia. In addition to GSM operations, Orascom Telecom has other subsidiaries in the areas of Internet and satellite technologies. The parent company was incorporated in Egypt in 1992 and is publicly traded on the Cairo and Alexandria Stock Exchange in Egypt, and the London Stock Exchange.

List of Publicly Disseminated Ratings

Entity Ratings:

	Name of the Organisation	Type of Rating	Date of Notification MM/DD/YYYY	Rating Assigned		
				FS/FR/ AMR/DG	Long-Term	Short-Term
FINANCIAL SECTOR						
MUTUAL FUNDS / ASSET MANAGEMENT COS.						
1.	ABAMCO Limited	AMR ¹	06/30/2004	AM2	---	---
2.	Arif Habib Investment Management Limited	AMR	12/20/2005	AM2	---	---
3.	Atlas Asset Management Limited	AMR	12/08/2005	AM3+	---	---
4.	BSJS Balanced Fund Limited	FR ²	05/17/2004	AA(f)	---	---
5.	Crosby Asset Management (Pakistan) Limited	AMR	12/30/2005	AM4	---	---
6.	National Investment (Unit) Trust – NIT	FR	12/09/2004	AA(f)	---	---
7.	Pakistan Income Fund (PIF)	FR	09/24/2004	A+(f)	---	---
8.	Pakistan Premier Fund (PPF)	FR	09/24/2004	AA(f)	---	---
9.	Pakistan Stock Market Fund (PSMF)	FR	09/24/2004	AA(f)	---	---
10.	Unit Trust Of Pakistan	FR	04/01/2004	AA(f)	---	---
DFIS / INVESTMENT COS. / BROKERAGE HOUSES						
1.	House Building Finance Corporation	Entity	08/31/2005		A	A1
2.	Investment Corporation of Pakistan (ICP)	Entity	10/06/2005		AA	A1+
3.	Jahangir Siddiqui & Company Limited	Entity	03/11/2005		AA+	A1+
4.	Jahangir Siddiqui Capital Markets Limited	Entity	06/25/2005		AA-	A1+
5.	Pakistan Industrial Credit & Investment Corporation Limited (PICIC)	Entity	06/30/2005		AA	A1+
6.	Pakistan Kuwait Investment Company (Pvt) Limited	Entity	06/23/2005		AAA	A1+
7.	Pak Libya Holding Company (Pvt) Limited	Entity	05/17/2005		AA-	A1+
MODARABAS						
1.	First Fidelity Leasing Modaraba	Entity	02/08/2005		A-	A2
2.	First Habib Modaraba	Entity	12/17/2004		AA	A1+
3.	First Punjab Modaraba	Entity	12/31/2004		A	A1
4.	Standard Chartered Modaraba (Formerly First Grindlays Modaraba)	Entity	12/22/2004		AA+	A1+
LEASING COMPANIES						
1.	Askari Leasing Limited	Entity	12/30/2005		A+	A1
2.	Network Leasing Corporation Limited	Entity	12/30/2005		BBB	A3
3.	ORIX Leasing Pakistan Limited	Entity	01/12/2005		AA+	A1+
4.	Union Leasing Limited	Entity	12/22/2004		A+	A1

¹ Asset Manager Rating

² Fund Rating



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	Name of the Organisation	Type of Rating	Date of Notification		Rating Assigned	
			MM/DD/YYYY	FS/ FR/ AMR/DG	Long-Term	Short-Term
BANKING COMMERCIAL						
1.	AlBaraka Islamic Bank (Pakistan Branches)	Entity	06/27/2005		A-	A1
2.	Askari Commercial Bank Limited	Entity	06/09/2005		AA+	A1+
3.	Bank Al Habib Limited	Entity	06/15/2005		AA	A1+
4.	Bank Alfalah Limited	Entity	06/09/2005		AA	A1+
5.	The Bank of Punjab	Entity	06/14/2005		AA-	A1+
6.	Dawood Bank Limited ^{FW}	Entity	05/05/2005		BBB-	A3
7.	First Women Bank Limited	Entity	06/29/2005		AA	A1+
8.	KASB Bank Limited	Entity	05/05/2005		BBB+	A2
9.	Metropolitan Bank Limited	Entity	06/10/2005		AA+	A1+
10.	MCB Bank Limited (Formerly Muslim Commercial Bank Limited)	Entity	05/18/2005		AA	A1+
11.	NIB Bank Limited	Entity	07/20/2005		A+	A1
12.	Prime Commercial Bank Limited	Entity	06/27/2005		A+	A1
13.	Saudi Pak Commercial Bank Limited	Entity	06/13/2005		BBB	A3
14.	Soneri Bank Limited	Entity	03/18/2005		AA-	A1+
15.	Union Bank Limited	Entity	06/25/2005		AA-	A1+
BANKING INVESTMENT						
1.	Atlas Investment Bank Limited ^{FW}	Entity	12/22/2004		A+	A1
2.	First Dawood Investment Bank Limited (Formerly Dawood Leasing Company Limited)	Entity	12/30/2005		A+	A1
3.	First International Investment Bank Limited	Entity	12/30/2005		A	A1
4.	Jahangir Siddiqui Investment Bank Limited	Entity	03/22/2005		A+	A1
5.	ORIX Investment Bank Pakistan Limited	Entity	12/30/2005		A+	A1
6.	Trust Leasing & Investment Bank Limited	Entity	11/12/2004		AA-	A1+
INSURANCE COMPANIES						
1.	East West Insurance Company Limited	IFS ³	09/21/2005	BBB	---	---
2.	Habib Insurance Company Limited	IFS	10/06/2005	A	---	---
3.	International General Insurance Company of Pakistan Limited (IGI)	IFS	10/13/2005	AA	---	---
4.	Muslim Insurance Company Limited	IFS	10/27/2005	A+	---	---
5.	New Jubilee Insurance Company Limited (NJI)	IFS	10/27/2005	AA	---	---
REAL ESTATE DEVELOPERS & PROJECTS						
1.	Eden Developers (Pvt) Limited	DG ⁴	09/07/2005	PE2	---	---
INDUSTRIAL CORPORATES						
TEXTILE						
1.	Azgard Nine Limited (Formerly Legler Nafees Denim Mills Limited)	Entity	02/24/2005		A	A1
2.	Nishat Mills Limited	Entity	03/01/2005		A+	A1

^{FW} Rating Watch

³ Insurer Financial Strength Rating

⁴ Developer Grading



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Name of the Organisation	Type of Rating	Date of Notification	Rating Assigned			
			MM/DD/YYYY	FS/ FR/ AMR/DG	Long-Term	Short-Term
SUGAR & ALLIED						
1.	Al-Abbas Sugar Mills Limited	Entity	02/17/2005		A	A1
FUEL & ENERGY						
1.	Attock Petroleum Limited (APL)	Entity	11/14/2004		AA	A1+
2.	Attock Refinery Limited (ARL)	Entity	03/02/2005		AA-	A1+
3.	National Refinery Limited (NRL)	Entity	04/27/2005		AAA	A1+
4.	Pak-Arab Refinery Limited (PARCO)	Entity	12/30/2004		AAA	A1+
5.	Pakistan State Oil Company Limited (PSO)	Entity	10/20/2004		AAA	A1+
TRANSPORT & COMMUNICATION						
1.	Pakistan Mobile Communications Limited (Mobilink)	Entity	10/07/2005		AA-	A1
2.	WorldCall Communications Limited	Entity	03/04/2005		A+	A1
CHEMICAL & PHARMACEUTICALS						
1.	Engro Chemical Pakistan Limited	Entity	04/05/2005		AA-	A1+
PAPER & BOARD						
1.	Packages Limited	Entity	05/24/2005		AA	A1+
MISCELLANEOUS						
1.	Tri-Pack Films Limited	Entity	05/23/2005		A+	A1



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Term Finance Certificates (TFCs) Ratings:

Sr. No.	Issuer Name	Amount PKR mln	Date of Notification (MM/DD/YYYY)	Issue Date (MM/DD/YYYY)	Rating Assigned
1.	Al-Abbas Sugar Mills Limited (<i>Privately Placed</i>)	350.00	02/17/2005	07/03/2003	A+
2.	Askari Commercial Bank Limited – I	1,500.00	06/09/2005	02/04/2005	AA
3.	Askari Commercial Bank Limited – II	1,500.00	06/09/2005	10/31/2005	AA
4.	Atlas Investment Bank Limited ^{rw} – II	100.00	12/30/2005	08/16/2001	AA-
5.	Azgard Nine Limited	2,000.00	02/25/2005	09/19/2005	A+
6.	Bank Al Habib Limited	1,350.00	06/15/2005	07/16/2004	AA-
7.	Bank Alfalah Limited – I	650.00	06/24/2004	12/21/2002	AA-
8.	Bank Alfalah Limited – II	1,250.00	08/26/2004	11/24/2004	AA-
9.	Bank Alfalah Limited – III	1,500.00	09/02/2005	11/25/2005	AA-
10.	Chanda Oil & Gas Securitization Company Limited – Securitized	1,000.00	06/08/2004	02/16/2005	A
11.	Engro Chemical Pakistan Limited (2 nd Tranche)	1,000.00	04/05/2005	07/06/2002	A1+*
12.	First Dawood Investment Bank Limited (<i>Formerly Dawood Leasing Company Limited</i>) (1 st Tranche)	253.05	12/30/2005	09/21/2001	AA-
13.	First Dawood Investment Bank Limited (<i>Formerly Dawood Leasing Company Limited</i>) (2 nd Tranche)	345.00	12/30/2005	07/27/2002	AA-
14.	Gulistan Textile Mills Limited	320.67	12/22/2005	09/05/2001	A-
15.	Jahangir Siddiqui & Company Limited – TFCs-I	500.00	03/11/2005	04/18/2003	AA+
16.	Jahangir Siddiqui & Company Limited – TFCs-II	500.00	03/11/2005	12/23/2004	AA+
17.	Jahangir Siddiqui & Company Limited – TFCs-III	500.00	06/20/2005	09/30/2005	AA+
18.	Maple Leaf Cement Factory Limited	250.00	01/10/2005	07/20/2002	A+
19.	MCB Bank Limited (<i>Formerly Muslim Commercial Bank Limited</i>)	1,600.00	05/18/2005	08/10/2002	AA-
20.	Network Leasing Corporation Limited	100.00	12/17/2004	10/08/2000	A2*
21.	ORIX Leasing Pakistan Limited (2 nd Tranche)	758.00	01/12/2005	08/01/2002	AA+
22.	Prime Commercial Bank Limited	800.00	06/27/2005	02/12/2005	A
23.	Securetel SPV Limited – (Securitized)	850.00	10/13/2005	04/27/2003	A1*
24.	Shahmurad Sugar Mills Limited	230.00	04/15/2005	05/21/2002	BBB
25.	Soneri Bank Limited	1,200.00	03/18/2005	05/05/2005	A+

^{rw} On Rating Watch

* Short-term rating



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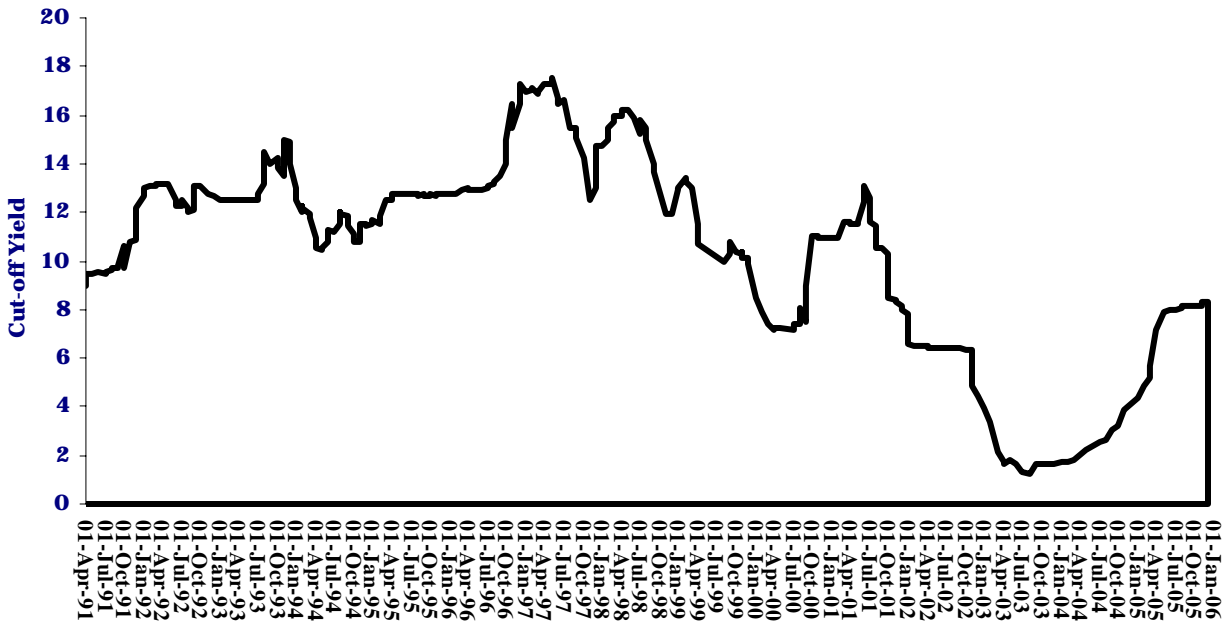
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26.	Sui Southern Gas Company Limited (1 st Tranche)	1,000.00	01/06/2005	06/01/2001	AA
27.	Sui Southern Gas Company Limited (2nd Tranche)	1,250.00	01/06/2005	06/11/2002	AA
28.	Trust Leasing & Investment Bank Limited – 1 st Tranche	250.00	11/12/2004	06/03/2003	AA
29.	Trust Leasing & Investment Bank Limited – 2nd Tranche	375.00	11/12/2004	07/18/2004	AA
30.	Trust Leasing & Investment Bank Limited – 3rd Tranche	375.00	06/17/2005	11/15/2005	AA
31.	Union Bank Limited – I	750.00	06/25/2005	12/21/2002	A+
32.	Union Bank Limited – II	750.00	06/25/2005	01/20/2004	A+
33.	Union Bank Limited – III (<i>Proposed</i>)	1,000.00	06/25/2005	<i>To be issued</i>	A+
34.	WorldCall Communications Limited	350.00	03/04/2005	10/01/2002	AA-

INTEREST RATE TRENDS

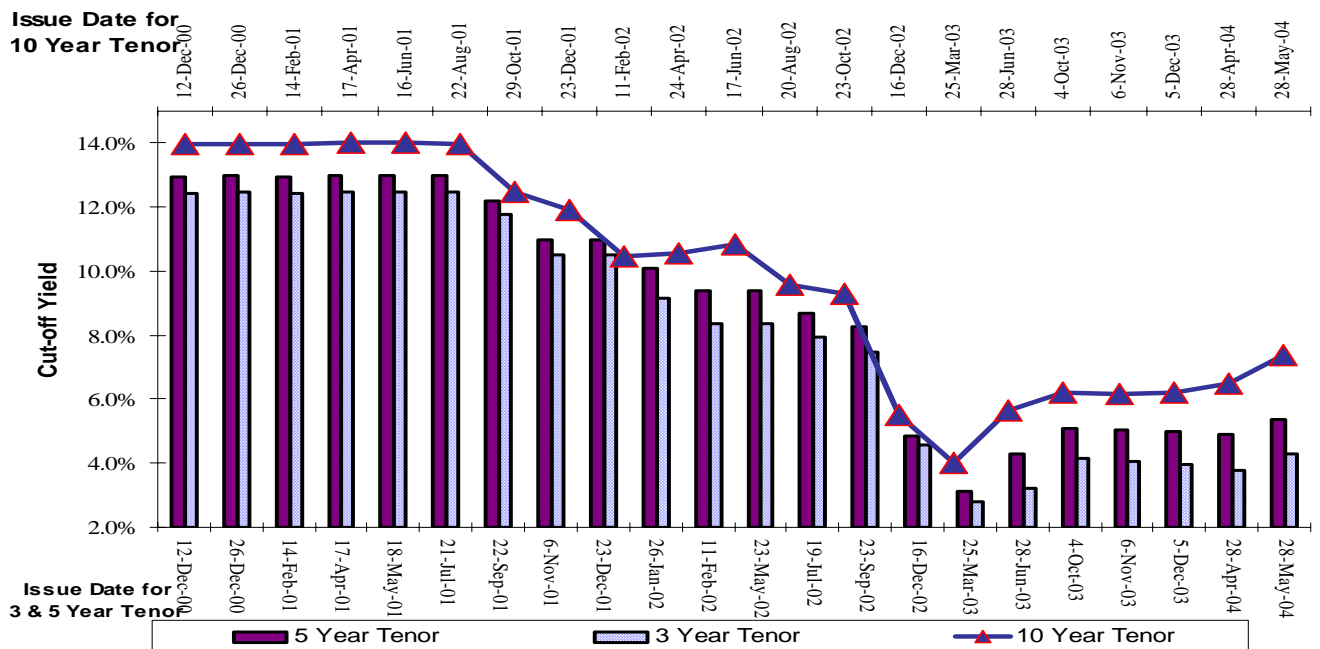
Short Term: (Treasury Bills)

6-Month Treasury Bills Cut-Off Yield



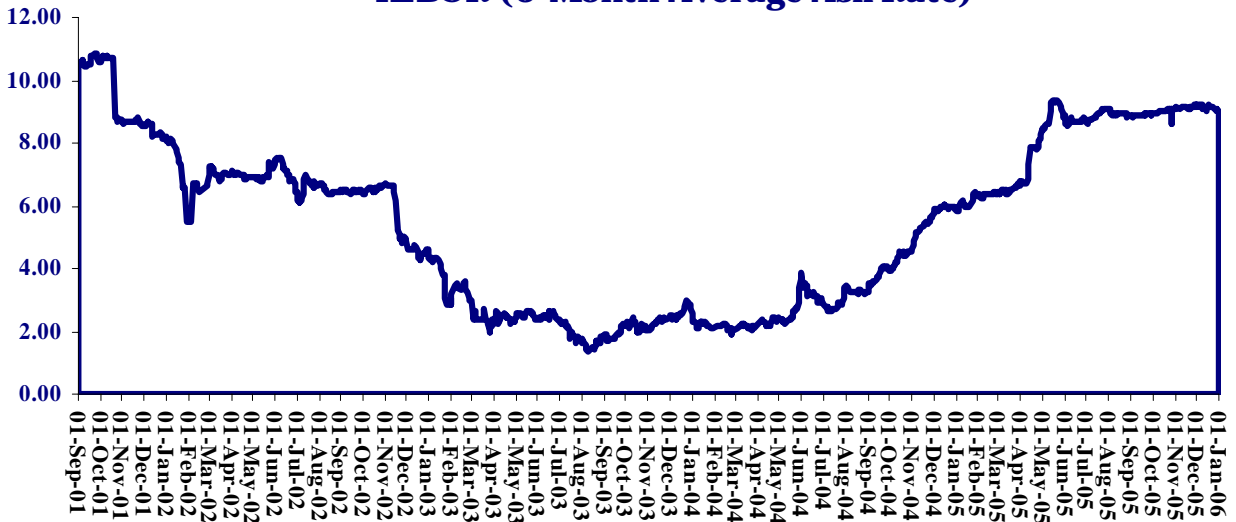
Long Term: (PIBs)

Rates for 3, 5 & 10 Year Tenor



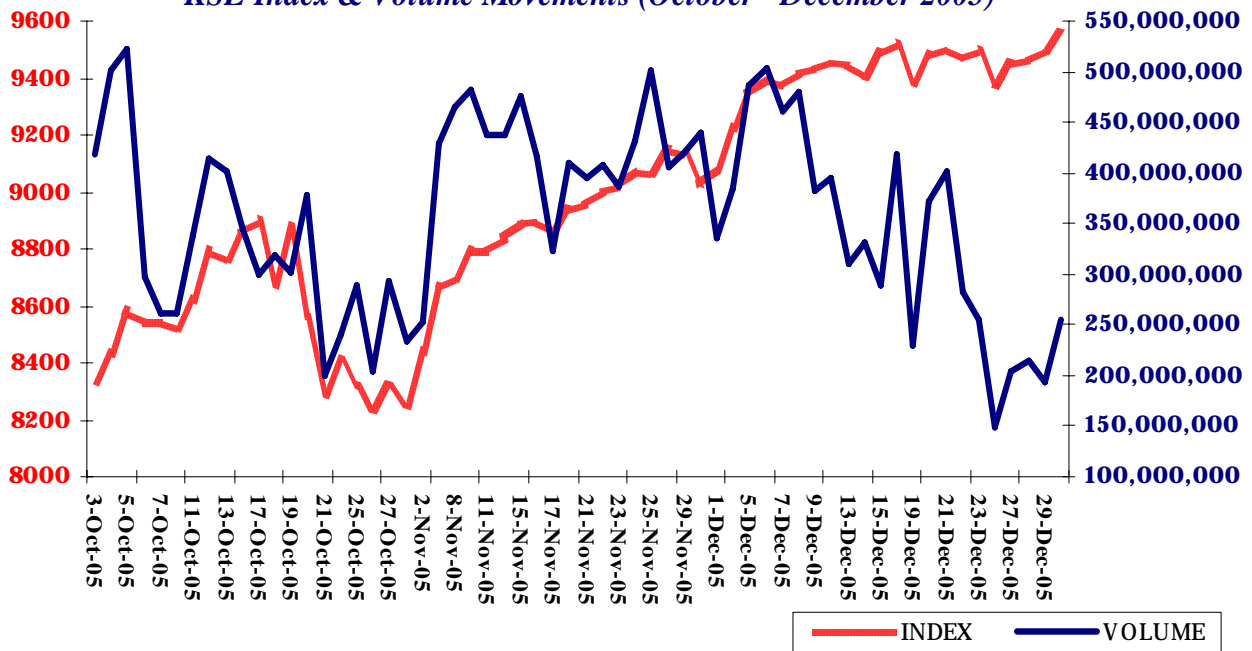
KIBOR:

KIBOR (6-Month Average Ask Rate)



KSE-100 Index:

KSE Index & Volume Movements (October - December 2005)





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