

## BANKING SECTOR UPDATE

### BANKING SECTOR REVIEW 2005 & BEYOND

The year 2005 represents a landmark year for the commercial banking sector in Pakistan both in terms of profitability and business growth. There was a significant increase in system deposits, which expanded by 23%, as well as in profitability, which almost doubled in this period. The increase in profitability was driven by increase in advances (29%) and also in spreads. The robust credit demand led to a higher advances/deposits ratio in the system. Banks' profitability was also stimulated by increasing fee-based income as well as capital gains in the stock market. Meanwhile, the improvement in equity-to-assets not only demonstrates the increase in risk absorption capacity but also provides room for future growth. While the aforesaid indicators reflect the improved financial health of the sector, the extent of improvement varied from bank to bank. In terms of various classes of banks, the foreign banks showed a decline in their share of deposits and advances. The large banks also found it difficult to maintain their system share, particularly of deposits. On the other hand, the medium-sized banks showed impressive growth with improving system share of deposits and advances. Within these banks, six banks have emerged as significantly ahead of the pack with asset size crossing over PKR 100 billion.

2. While the large banks are well-positioned to sustain growth and profitability, the

relatively smaller banks are coming under increasing competitive pressure not only for maintaining their system share but also for consolidating their position in individual business segments. The intensifying competitive pressure is generating added momentum to the process of mergers and acquisitions. As a consequence, several proposals of M&A are in various stages of implementation. The successful conclusion of the proposed M&A process is likely to bring a significant change in the banking landscape.

3. Meanwhile, the increasing interest in Islamic banking has added another dimension to the sector. During 2005, two new Islamic banks were licensed with another two licensed in the current calendar year making the total to six. At the same time, nine conventional banks were licensed to conduct Islamic banking in designated branches. It is expected that by year-end 2006, there would be over 100 Islamic banking branches in the country. This number could increase progressively in subsequent years with roll-out of the planned 50 branches of Dubai Islamic Bank. These

branches could attract a significant amount of deposits thereby increasing the system share of deposits from the nominal current level of less than 2%. In the short-to-medium term, however, the deployment of these deposits into core banking assets may be a slow process owing to limited availability of Sharia compliant assets, currently confined mainly to *Murabaha* and *Ijara*.

4. Prospects for 2006 suggest that it would be difficult to replicate the deposit and advances growth recorded in 2005. Likewise, it might not be possible to maintain the high spreads of the previous year. The pattern of deposit growth during the first quarter of 2006 indicates a considerable slowdown primarily due to tight monetary policy leading to slower M2 growth. This slowdown is more likely to affect relatively smaller banks; and particularly those with a limited branch network. In the longer term, however, growth in saving and term deposits could also affect larger banks, as higher expected return on debt securities, mutual funds and NSS could lead to a process of disintermediation.

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5. The advances growth recorded during the first quarter of 2006 also suggests a slowdown in credit off-take. This may not, however, be entirely representative of prospects for the full year. While there are indications of limited growth in credit demand from the large corporate sector, the potential for increased demand for SMEs, consumer financing and from the agriculture sector continues to be buoyant. However, these areas of potential growth are more likely to be tapped effectively by those banks that have in place the technology infrastructure, adequate network outreach and in-depth understanding of the target markets.

6. Spread management would be yet another challenge for commercial banks. The inclining interest rate trend witnessed in 2005 is likely to continue during 2006, though gradually. While banks would be able to pass on the increased costs to borrowers, they are likely to be under increasing pressure for upward adjustment in return on deposits, as the time lag for adjustment is likely to narrow down. Cognizant of this emerging scenario, most banks are focused on increasing the proportion of current (non-remunerative) deposits. The ability to achieve this objective would again be a function of the banks' size and infrastructure. Meanwhile, efforts are also in hand to reduce intermediation costs by enhancing employee productivity as well as technological upgradation. The increasing emphasis on expanding the ATM infrastructure is a critical element in this context with ATMs showing an annual increase of 55% from 786 to

1,217. Not only do ATM transactions provide a lower cost alternative, they also enhance the service quality image of banks.

7. The foregoing observations clearly underscore the likely plan that banks are expected to follow in 2006 and beyond: volume growth with increasing emphasis on higher return, but relatively riskier, SME and consumer financing. This strategy would obviously strain the risk management capacity of banks. In this changing environment, banks which are likely to emerge successful are those who already have in place robust risk management systems and who also have the vision and resources to keep them aligned with the changing risk profile of the asset portfolio. In terms of the regulatory framework, the risk management capability of the banking sector has continuously improved in recent years. The State Bank of Pakistan has continued to play an effective role in strengthening the capacity of banks to manage risk. Beyond prescribing substantial enhancement in paid-up capital, SBP is also actively pursuing its agenda of making all banks compliant with Basel II framework. In fact, SBP was among the first central banks in the region to formulate a comprehensive roadmap for Basel II specifying actionable points as well as timeline for completion. The roadmap was notified as early as March 2005 and since then the prescribed implementation steps are being taken within the identified timeline. More importantly, SBP continues to have frequent consultations with the banking sector for ensuring that the requirements are fully understood. At the same time, SBP continues to monitor

progress made by individual banks in aligning their technology platforms and risk management systems to be compliant with milestones specified in the roadmap. During its interaction with a large cross-section of commercial banks, PACRA finds that the level of preparation for Basel II varies from bank to bank. This variation is principally on account of the quality of technology platform and also on the size of the loan book of a particular bank. The latter factor is important because banks that have a larger advances portfolio would find it more difficult to analyze their portfolio according to parameters prescribed under Basel II due to limited or non-availability of required information on all borrowers.

8. SBP's multiple and continuous initiatives at enhancing banks' capacity to manage risk have already led to an improving trend in the risk profile of banking assets. This is reflected in continuous improvement in NPL related ratios. It is, however, important to analyze whether the improving asset quality is sustainable, as more and more banks increase their focus on consumer financing. In the case of some banks, the share of consumer financing has already grown to over 30% of total lending with plans to increase it to as high as 50% in the medium term. While so far the high growth in consumer financing has not led to any material increase in NPLs, it is important to note that a large proportion of these exposures represent 'unseasoned loans', that is, loans of recent origin. The default pattern of other countries suggests that the incidence of default increases in the third year and beyond. At this stage,

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therefore, the controlled NPLs may not be a reliable indicator of future trends.

9. The extent of potential risk in consumer financing is also a function of the nature of such loans with auto financing representing the lower end of risk followed by mortgage financing with the potential risk increasing exponentially in the case of unsecured personal loans and even more in the case of credit cards. The pattern of consumer financing growth in Pakistan indicates the highest contribution of auto financing. However, unsecured loans, particularly in the form of credit cards, are also growing at a high rate. While the principal issuing banks of credit cards have the requisite human resource base and adequate technology infrastructure both for credit evaluation and monitoring, the high rate of inflation as well as rising interest rate scenario in the country could impact the repayment capacity of borrowers and increase the incidence of defaults. An even greater risk factor is the inability of lending banks to access positive data on potential borrowers. While the functioning of SBP's credit information bureau has continued to improve, the availability of positive data is expected to be put in place in the third quarter of 2006. The usefulness of this additional data availability remains to be seen. At this stage, therefore, it is difficult to forecast the extent of additional provisioning that banks might have to make for coping with any increased incidence of defaults. Currently, most banks' managements feel that the prescribed provisioning standards are adequate and even if the default incidence were to increase, the considerably higher spreads on consumer loans

would enable banks to meet potential losses without any material impact on the bottom line.

10. There is a general perception in Pakistan that the increasing focus on consumer financing could, in the long run, undermine banks' asset quality and even solvency. This concern is not entirely warranted. The exposure in consumer financing in Pakistan is still at a low level, as compared to other countries in Asia. With consumer financing representing around 15% of total loans and around 4% of GDP, Pakistan ranks amongst the lowest within the Asian region. Even in India, consumer financing represents 10% of GDP and 24% of bank loans. In other, more developed countries, like Malaysia, Taiwan and Korea, consumer financing represents 60% of the GDP. It follows, therefore, that the growth potential in consumer financing in Pakistan remains very high. However, given the high rate of inflation and rising un-employment in the middle class, the repayment capacity of borrowers remains under stress. Under these circumstances, lending banks which are likely to remain relatively unscathed in the event of increasing default incidence are those who have strong monitoring and recovery systems in place, as such banks are likely to recover larger proportions in comparison to banks which may not have structured early warning signals in place.

While the banking sector in Pakistan has come of age and has acquired a fair degree of stability, it is not entirely insulated from challenges ahead. Although some banks are better equipped than others to effectively respond to these

challenges, the intensifying competitive environment precludes the luxury of complacency even among the best-managed banks. Overall, performance prospects of individual banks would continue to remain a function of a number of bank-specific variables. The asset size and capital structure of the bank, its geographical outreach, the financial standing and credibility of bank sponsors, the technological base and, most importantly, the quality of human resources are all key elements. A number of medium-sized banks have 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 large privatized banks with extensive geographical outreach, as these banks are rapidly overcoming their inefficiencies and adopting a more market-based business approach. There is, thus, an increasing awareness that, in order to maintain their historic performance, the medium sized banks will 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 choice to banking customers.



## PACRA RATING ACTIONS

### **July 31, 2006: PACRA Assigns Entity Ratings to Dewan Cement Limited (DCL)**

The Pakistan Credit Rating Agency (PACRA) has assigned the long-term and short-term entity ratings of “A” (single A) and “A1” (A one), respectively to Dewan Cement Limited (DCL). These ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments.

The ratings reflect improving prospects of the company subsequent to acquisition by Dewan Mushtaq Group. The group has followed a well-conceived turnaround strategy involving strengthening of the capital structure, through further equity injection and debt re-profiling, and optimization of the production processes. Despite the anticipated decline in capacity utilization due to substantial capacity expansions across cement sector, any material impact either in sales or margins is unlikely. This is on account of the growing cement demand and likely continuation of producers’ understanding. The ratings also recognize DCM’s association with a well-diversified financially strong group as a key factor.

**About the company:** Dewan Cement Limited (DCL) – formerly Pakland Cement Limited, incorporated in 1980 and listed on the Karachi and Lahore stock Exchanges – is majority owned by Dewan Mushtaq Group through its different companies since 2004. The Group, a long established conglomerate in the country, has interests in synthetic fibers, automotive and allied, sugar and allied, textiles, oil and gas, cement, and general trading sectors. It also enjoys the privilege of having business associations with respected multinational corporations. The cement plant is located near Port Qasim, Sindh, mainly serving the country’s south zone.

Professionals, mainly serving the group in different capacities, dominate the

company’s BOD, with only one member of Dewan family. The chief executive officer, a chartered accountant by profession, joined the company in August 2004 and is supported by a team of experienced professionals.

### **July 31, 2006: PACRA Withdraws the Ratings of Atlas Investment Bank Limited While Assigning a Short-Term Rating to its Secured TFC Assumed by Atlas Bank Limited**

Following the merger of Atlas Investment Bank Limited (AIBL) with and into Atlas Bank Limited, PACRA has withdrawn entity ratings of AIBL (long-term “A+” and short-term “A1”). Consequent to the merger, Atlas Bank Limited has assumed the obligations relating to TFC issued by AIBL. Pending full redemption in August 2006, a short-term rating of “A1+” has been assigned to the TFC (outstanding principal: PKR 16.65 mln).

Meanwhile, PACRA is in the process of assigning entity ratings to Atlas Bank Limited.

### **July 25, 2006: PACRA Maintains Rating of Securitized TFC of Chanda Oil & Gas Securitization Company Limited (COGSCL)**

The Pakistan Credit Rating Agency (PACRA) has maintained the rating of securitized (asset-backed) TFC of PKR 1,000mln by Chanda Oil & Gas Securitization Company Limited (COGSCL) at “A”. The rating denotes a low expectation of credit risk and strong capacity for timely payments to the TFC holders. The cash flows to be available to COGSCL are considered adequate to meet the contractual TFC obligations comfortably.

**About the Issuer:** COGSCL is a bankruptcy-remote special purpose vehicle. It has acquired the title, property and right in receivables of Zaver Petroleum Corporation Limited (ZPCL) originating from sale of ZPCL’s share of production from the Chanda

oilfield. The transaction between COGSCL and ZPCL is a true sale. COGSCL generated the funds required to purchase the receivables through issuing asset backed TFCs in February 2005 and has created a first exclusive charge over the receivables in favour of the trustee.

**About the Instrument:** The TFC has a tenor of 7 years maturing in February 2012 carrying profit based on simple average of last 7 days of ask side of 3 months KIBOR rate plus 325bps with a floor of 8.95% p.a. and a cap of 13% p.a. Principal redemption is to be made in 27 unequal quarterly installments that commenced from August 2005 (outstanding installments: 23, principal: PKR 912mln). To date, COGSCL has paid all due installments (1: Aug-05, 2: Nov-05, 3: Feb-06, & 4: May-06) on timely basis.

**About the Originator:** ZPCL, incorporated in August 1991, is the first local exploration and production company. Hashoo Group owns the majority stake in ZPCL through its different companies and individual nominees. The group has diversified business interests, out of which Pearl-Continental Hotel and Marriott Hotel chains are the most significant. The company currently has working interests in five exploration concessions in Pakistan and one in Sudan.

### **July 25, 2006: PACRA Removes the Ratings of Azgard Nine Limited from RatingWatch**

Consequent to the completion of acquisition of Pak American Fertilizer Limited by Azgard Nine Limited (ANL), PACRA removes its ratings from RatingWatch. Meanwhile, PACRA reaffirms long-term and short-term entity ratings of ANL at “A” (Single A) and “A1” (A one), respectively. The ratings of its listed TFCs of PKR 2,144mln and privately placed TFCs of PKR 2,500 are affirmed at “A+” (Single A plus). These ratings denote a low expectation of credit risk emanating from a strong capacity for



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timely payment of financial commitments.

### July 21, 2006: PACRA Assigns Ratings to WorldCall Telecom Limited (WTL)

The Pakistan Credit Rating Agency (PACRA) has assigned long-term and short-term entity ratings of “A+” (Single A plus) and “A1” (A one), respectively, to Worldcall Telecom Limited. These ratings, denoting a low expectation of credit risk, have also been assigned a **positive outlook**.

PACRA has assigned a rating of “AA-” (Double A minus) to the proposed secured TFC issue of PKR 350mln by WTL. While the rating of already issued secured TFC of PKR 350mln, originally issued by Worldcall Communications Limited (WCL) and assumed by WTL on its merger with WCL, is maintained at “AA-” (Double A minus). These ratings denote a very low expectation of credit risk and very strong capacity for timely payment of financial commitments.

WTL's ratings reflect the company's strong cash flow generation, which, in turn, provides sound coverages. The company, consequent to the recent merger, is better placed to effectively manage the business risk, while maintaining a low leveraged capital structure thereby mitigating financial risk. These ratings are assigned positive outlook recognizing that the merged company's performance prospects are likely to improve owing to a wider product range supported by the requisite infrastructure in addition to cost efficiencies and operational synergies.

**About the TFC Issues:** WTL, consequent to merger with Worldcall Communications Limited, has taken over the obligations relating to the secured TFCs of PKR 350mln issued by WCL during September 2002 for a tenor of 5 years. The profit payment is based on SBP discount rate *plus* 175bps with a floor of 12.25% and a cap of 16.25%. Principal redemption is in seven equal semi-annual installments, which commenced from September 2004. The instrument is secured by a

first *pari passu* hypothecation charge of PKR 437.5mln on the present and future fixed assets of the company. WTL is planning another issue of secured TFCs of PKR 350mln during 2006. The tenor of the instrument would be 5 years carrying profit based on 6month KIBOR *plus* 275bps. Principal redemption would be in six equal semi-annual installments beginning after a grace period of 2 years. The issuer will have call option exercisable after 2 years of issuance. The instrument would be secured by way of a first *pari passu* charge over specific present and future fixed assets of the payphone and prepaid calling card projects with a 25% margin.

### **About the company:**

Worldcall/First Capital group, entering the communication sector in 1995, ventured into various related businesses over the years. The group recently completed the merger of its four listed communication segment companies namely Worldcall Communications Limited, Worldcall Broadband Limited and Worldcall Multimedia Limited with and into Worldcall Telecom Limited. WTL is listed on Karachi and Lahore Stock Exchanges.

### July 20, 2006: PACRA Maintains TFC Rating of Sui Southern Gas Company Limited (SSGC)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term instrument rating of the PKR 1,250mln Tranche-II of SSGC's secured TFCs at “AA” (Double A). The ratings indicate a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments.

The TFC ratings reflect SSGC's inherently low financial and business risks. The low risk profile is a consequence of the GoP-guaranteed EBIT of 17% on its average net operating fixed assets, which continue to grow in pursuance of the ongoing expansion in the transmission and distribution systems. The ratings also take into account the maintained financial coverages and adequate liquidity. Despite the pending uncertainties relating to the modus

operandi of the privatization process, developments in the return formula, and the time frame involved, the company's capacity to repay its obligations during the remaining tenor of the rated TFCs, in PACRA's opinion, is likely to remain unaffected.

**About the TFC Issues:** With the full redemption of the first tranche of PKR 1,000mln in June 2006, only the 2nd tranche of PKR 1,250 mln of the secured TFCs remains in issue. The tenor of the issue is five years and the coupon rate is pegged to the SBP discount rate. While profit is payable semi-annually, principal redemption began in the year 2004. The TFCs are secured by an exclusive equitable mortgage of the building housing the company's corporate offices and a *pari passu* charge on all present and future machinery & equipments.

**About the company:** Sui Southern Gas Company Limited (SSGC) was formed in 1989 as a result of a series of mergers. It continues to enjoy a monopoly in transmission and distribution of gas in its franchise area comprising Sindh and Balochistan provinces. SSGC is currently catering to the gas requirements of over 2.3 million customers in power, domestic and industrial sectors. The government divested nearly 10% of the company through stock market in FY04. In January 2006, the Privatization Commission has invited EoIs to further divest 51% GOP shareholding in SSGC.

### July 18, 2006: PACRA Maintains Entity Ratings of House Building Finance Corporation (HBFC)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating at “A” (Single A) and the short-term rating at “A1” (A One) of House Building Finance Corporation (HBFC). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

HBFC's ratings reflect the Corporation's sound equity base signifying high-risk absorption capacity and strong underlying security against loans. While in the medium-term, the



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Corporation will continue to retain strong capacity to service its obligations, the long-term sustainability of operations is faced with a degree of uncertainty, on account of continued repayments of SBP's credit lines. Considering the significance of HBFC's pivotal role in GoP's commitment in expanding the housing stock in the country, the government is likely to provide adequate financial support for continued operations through rescheduling of these lines, for which negotiations are already in hand. The outcome of these negotiations will remain critical for future prospects of the Corporation.

**About the Corporation:** The House Building Finance Corporation (HBFC) was established in 1952 under the HBFC Act, to provide financial facilities for the construction, re-construction, repair and purchase of houses, particularly to the low and middle-income groups of the economy. The Government of Pakistan (GOP) and the State Bank of Pakistan (SBP) jointly hold the share capital of the Corporation.

The general direction and administration of the Corporation and its affairs is vested in the Board of Directors appointed by the GOP. HBFC has a large network of 60 offices spanning across the country, managed through 12 zones with headquarters at Karachi.

Unlike other financial institutions engaged in housing finance, the bulk of the loan disbursements of HBFC are to low-income group, and for construction of house, as against outright purchase and renovation. Under its new mission, the HBFC aims to be the housing bank for Small & Medium Housing (SMH) finance.

### **July 14, 2006: PACRA Maintains Entity Ratings of Jahangir Siddiqui Capital Markets Limited (JSCM)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and the short-term ratings of Jahangir Siddiqui Capital Markets Limited

(JSCM) at "AA-" (Double A minus) and "A1+" (A One plus), respectively. The ratings denote a very low expectation of credit risk emanating from very strong capacity for timely payment of financial commitments.

The ratings reflect the company's low risk profile emanating from brokerage business as the primary function. Meanwhile, the company's strong franchise value through its association with the JS group is also a key-rating factor.

The ratings are placed on the **Rating Watch with Positive implications** pending the finalization of the proposed equity injection of PKR 2.25bln from Global Investment House KSC (GIH) – a Kuwait based company. This would make GIH and JSCL two major stakeholders in the company with equal shareholding. The huge additional equity would transform the financial profile of the company with considerable improvement in business prospects. Although the performance – in terms of ROE – is likely to decline initially from the current high levels, owing to equity enhancement, the expected growth in volumes would dilute the impact, going forward.

**About the Company:** The company, sponsored by Jahangir Siddiqui & Company Limited (JSCL) and listed on Karachi and Islamabad Stock Exchanges, was incorporated in June 2000. The commercial operations were started in May 2003, when JSCL transferred its agency business – equity, fixed income and currency brokerage, research and corporate finance to JSCM. According to the group's strategy, JSCM's operations are to be confined predominantly to the brokerage operations with no exposure to proprietary trading.

### **July 13, 2006: PACRA Assigns Entity Ratings to Pak Elektron Limited (PEL)**

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term credit rating of "A" (Single A) and a short-term rating of "A1" (A One) to Pak Elektron Limited. The 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 diversified revenue base that ensures stability in earnings, despite a highly competitive environment. While aligning its products and processes to changing market dynamics, the management has been successful in withstanding the competitive pressures through continuous initiatives at product upgradation and development, cost optimisation, and emphasis on product quality. The capital structure of the company, though relatively highly leveraged at present, is expected to improve with augmentation in the equity base through increasing trend in profitability and planned issue of preference shares in the near future.

**About the company:** PEL was incorporated as a public limited company in 1956, and is currently listed on all the stock exchanges in Pakistan. The company is a leading manufacturer of power equipment and home appliances products. The power division primarily manufactures distribution transformers, energy meters, and switchgears. To achieve further diversification, the company has entered into turnkey construction of grid stations and manufacturing of power transformers. The appliances division mainly specializes in refrigerators and split air conditioners, while television and microwave oven has also been added to the product range during the year. PEL has an extensive dealership network, spread nationwide with over one thousand and five hundred outlets and an adequate after sales service network.

The majority ownership in the company was acquired by Saigol Group in 1978, having diversified business interests in textiles, energy and automobiles sectors. While effectively family controlled, the company is run by professional management.



## **July 12, 2006: PACRA Maintains Entity Ratings of AlBaraka Islamic Bank (Pakistan Branches)**

The Pakistan Credit Rating Agency (PACRA) has maintained both long-term and short-term ratings of AlBaraka Islamic Bank B.S.C. (E.C.) [Pakistan Branches] at “A-” (Single A minus) and “A1” (A one), respectively. PACRA also maintains the **positive outlook** assigned to these ratings. The ratings denote a low expectation of credit risk and strong capacity for timely payment of financial commitments.

The ratings reflect ABIB's maintained good asset quality and strong capitalization. At the same time, ratings factor in the bank's somewhat constrained performance and prospects relative to some other banks. This emanates from ABIB's competitive disadvantage of limited geographical outreach, which raises difficulties in credit expansion.

The Positive Outlook reflects the increasing strength of ABG and expected benefits likely to emerge as a consequence of the proposal to change the status of ABIB to a locally incorporated bank. These benefits include availability of the capital to the bank due to freeing of the same from SBP and independence of the management leading to strategic decision making more in tune with the local market. However, as the proposal is still in the implementation phase, the expected benefits in quantitative terms are expected to be realized with a time lag. Additionally, considering the intensifying competition, the extent of the impact remains to be seen.

**About the bank:** AlBaraka Islamic Bank (ABIB), incorporated in Bahrain as an offshore bank, is a subsidiary (78% holding) of AlBaraka Banking Group (ABG). ABG is part of Dallah AlBaraka Group (DBG) – a Saudi-based corporate conglomerate. ABG carries out commercial and corporate banking, treasury and fund management activities through its ten subsidiaries operating in various countries. The bank, through a recently completed IPO, got listed on Bahrain Stock Exchange and Dubai International Financial Exchange. Through this issue, ABG has become one of the largest

Islamic banking institutions in terms of capital (US\$ 630mln). ABIB commenced commercial operations in Pakistan in 1991 and currently operates from nine branches in the country under an Islamic banking license. The present country head - a professional banker with over three decades of experience - has been holding the position since the start of the bank's branch operations in Pakistan.

## **July 10, 2006: PACRA Assigns IFS Rating to Reliance Insurance Company Limited (RIC)**

The Pakistan Credit Rating Agency (PACRA) has assigned an Insurer Financial Strength (IFS) rating of “A-” (single A minus) to Reliance Insurance Company Limited (RIC). The rating denotes strong capacity to meet policyholder and contract obligations.

The rating reflects RIC's strong capacity to meet policyholders obligations as indicated by its sound financial base and solvency ratios. The performance of the investment portfolio is improving both in terms of return and contribution to total revenue. The company has been following a growth-oriented strategy in recent years while maintaining good underwriting performance.

RIC maintains reinsurance treaties with various reputed international reinsurers, mostly rated 'A' or above. The management is making concerted efforts to control its operational costs. As regards its investment portfolio, constituting both debt and equity securities, RIC follows a policy of long-term holding with main focus on earnings and liquidity of the portfolio.

**About the company:** Reliance Insurance Company Limited (RIC) was incorporated in 1981 by two industrial groups, Al-Noor and Amin Bawany. Both groups are primarily engaged in the manufacture of sugar and allied products, with interests in the modaraba sector as well as trading in commodities. RIC is listed on the Karachi and Lahore stock exchanges, and underwrites all classes of general insurance business. It has ten members BOD, majority of whom belong to the

forementioned groups. The current CEO has been heading the company since 1995, and is a Fellow of the Chartered Insurance Institute (FCII), London, with over 30 years of experience in both the technical and operational side of the business. His commitment to the organization is evidenced through his successful HR endeavors with a very low level of staff turnover at senior positions.

RIC currently operates with a network of 28 branches and employs 203 people. Six branches each are located in Karachi and Lahore, and the remaining are spread out over the rest of the country.

## **July 08, 2006: PACRA Maintains Entity Ratings of Attock Refinery Limited (ARL)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and the short-term ratings of Attock Refinery Limited (ARL) at “AA-” (Double A Minus) and “A1+” (A One Plus), respectively. The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payments of financial commitments.

The ratings reflect the company's very strong capital structure and robust cash flows that enables ARL to remain largely insulated from the cyclicity of refining industry. Meanwhile, the strengthening equity base due to mandatory retention of profits above 50% of paid-up capital would continue to provide significant cushion against any future unforeseen events. The ratings also factor in the benefits emanating from the company's association with the only fully integrated group in the petroleum sector of the country.

**About the company:** Attock Oil Company Limited (AOC), incorporated in UK and a pioneer in oil refining in South Asia, started refining operations in Pakistan in 1922. ARL was incorporated as a private limited company in 1978 to take over the crude oil refining business from AOC, which has 52.5% shareholding in ARL. ARL is listed with all the three stock exchanges



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of the country and currently has refining capacity of 40,000 BPD.

In Pakistan, Attock Group has considerable representation in the petroleum sector through its exploration companies – Attock Oil Company Limited (AOC) and Pakistan Oilfields Limited (POL) – an oil marketing company – Attock Petroleum Limited (APL) – and two refineries namely ARL and the newly acquired National Refinery Limited (NRL).

### **July 08, 2006: PACRA Maintains Entity Ratings of Pak-Libya Holding Company (Pvt) Limited (PLHC)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term ratings of PLHC at “AA-” (Double A minus) and “A1+” (A One Plus), respectively. The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect PLHC’s sustained strong risk absorption capacity stemming from augmenting equity base and relatively low risk profile of the asset portfolio. The ratings also factor in the company’s somewhat subdued profitability due to low spreads. This emanates from the inherent disadvantage of not being able to attract low cost deposits in the absence of a branch network. While PLHC has launched several initiatives to enhance the return on financing and increase fee based income, the profitability is likely to remain subdued.

**About the company:** Pak-Libya Holding Company (Pvt.) Limited was established as a joint stock company on 14th October, 1978 equally owned by the Government of the Islamic Republic of Pakistan and the Socialist Peoples Libyan Arab Jamahiriya. The Board of Director (BOD) comprises six directors. The managing director of the company has recently been appointed for a period of three years. The new MD possesses over twenty-five years of diversified experience both in local and international banks. With this change

in the top management, an immediate strategic shift is highly unlikely, and the company is expected to follow the current business strategy.

### **July 07, 2006: PACRA Maintains Entity & TFCs Ratings of Union Bank Limited (UnBL)**

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term ratings of Union Bank Limited (UnBL) at “AA-” (Double A minus) and “A1+” (A One Plus) respectively. These ratings denote a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments. The ratings of the unsecured, subordinated TFCs already in issue (first TFC issue of PKR 750mln, second TFC issue of PKR 750mln and third TFC issue of PKR 1,000mln respectively) have also been maintained at “A+” (Single A plus). These ratings denote high credit quality emanating from a strong capacity for timely payment of financial commitments. Meanwhile, pending the outcome of the negotiations regarding the acquisition of the bank by Standard Chartered Bank, the ratings have been placed on a RatingWatch with positive implications.

UnBL’s ratings reflect the sustained success of the bank in consolidating its competitive edge in consumer banking while continuing to expand the corporate finance and SME segments. Increasing exposure to consumer banking suggests a relatively high risk appetite. Nevertheless, effective risk management through stringent credit evaluation and monitoring supported by a strong I.T. structure and systems are expected to largely mitigate the potential risk of loss. However, the asset quality continues to be weighed down by the legacy of NPLs inherited from the acquired banks, and consequently, the historical infection ratios remain higher than peer banks. Given its established niche in the consumer segment, and backed by a strong human and physical infrastructure, the bank is well positioned to meet the challenges of the emerging competitive banking environment.

**About the TFC issues:** UnBL issued its first unsecured subordinated TFC during December 2002 for a tenor of 5 1/2 years at a floating rate of latest cut-off yield on 5 year PIB plus 225bps with a floor of 11.00% and a cap of 15.50%. The bank issued second unsecured subordinate TFC of PKR 750mln for a tenor of 7 years during January 2004. The profit payment is at a floating rate of 5% and cap of 10.75%. The third TFC of PKR 1,000 million was issued in January 2006, including an IPO of PKR 250mln. The TFC has a 7-year tenor, with profit payable at a floating interest rate of 6-months KIBOR + 2%. The TFC holders are exposed to a relatively higher risk, as the obligations towards the TFC holders are subordinate to those of other creditors, including depositors, of the bank.

**About the bank:** UnBL commenced operations in 1991 under the management of a local business group. However, the management changed subsequently in 1999, as a Saudi investor acquired the controlling interest in the bank. The bank is actively pursuing growth in all areas of operations. UnBL currently operates a network of 65 branches in 21 cities and has correspondent banking relationship with a large number of institutions in 89 countries. The bank has also expanded into the international arena by operating two branches in Sri Lanka. Standard Chartered Bank (SCB) has recently initialed an agreement with the bank’s sponsoring shareholders to acquire majority shares of UnBL. SBP has granted both banks the permission to undertake a due diligence exercise, which if completed to mutual satisfaction is expected to culminate in a sale-purchase agreement.

### **July 07, 2006: PACRA Maintains Entity Ratings of First Punjab Modaraba (FPM)**

The Pakistan Credit Rating Agency (PACRA) has maintained the entity ratings of First Punjab Modaraba (FPM) at “A” (Single A) and “A1” (A one) for the long-term and short-term, respectively. The ratings have been assigned a **positive outlook**. These ratings denote a low expectation of credit risk and a strong capacity for



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timely payment of financial commitments.

FPM's ratings reflect its sustained good asset quality and strong capacity to absorb potential risk. The ratings also recognize the improving trend in performance witnessed post FY05 with increasing contribution of non-mark up based earnings. The management's ongoing strategy of leveraged volume expansion, facilitated by access to required funding is likely to improve earning prospects. These would also be augmented by income from non-core operations. The future outlook, therefore, appears to be positive. Meanwhile, affiliation with BoP continues to be a key rating factor.

**About the Modaraba:** Established in 1992, FPM is a perpetual, multi-purpose Modaraba, listed on the Karachi, Lahore and Islamabad stock exchanges. Punjab Modaraba Services (Pvt) Ltd – a wholly owned subsidiary of The Bank of Punjab – holding around 38% stake in the Modaraba manages the Modaraba. The Bank of Punjab was established towards the end of 1989 under the Bank of Punjab Act, with its head office in Lahore. It is a large commercial bank in which the Government of Punjab holds majority stake. The Modaraba is primarily engaged in *morabaha* and lease financing and operates from a single location in Lahore. The Modaraba is targeting an aggressive growth by strengthening its niche market through providing facilities to consumer and SME sectors. To facilitate the future growth it plans to increase its geographical outreach. These reforms are expected to diversify the Modaraba's customer and product base, going forward.

### **July 06, 2006: PACRA Assigns Entity Ratings to Faysal Bank Limited (FBL)**

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term rating of "AA" (Double A) and a short-term rating of "A1+" (A One Plus) to Faysal Bank Limited (FBL). 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 the bank's very strong risk absorption capacity, supplemented by sound credit quality of the loan book. Meanwhile, the strong capital structure supports the relatively high exposure in the stock market. While earning reasonably competitive returns on core banking operations, the overall profitability is augmented by healthy returns from non-interest based avenues, resulting in strong performance indicators.

The bank recorded appreciable growth in finances and deposits in recent years, leading to increase in its system share. The fee-based income of the bank is comparable with peers, attributable to the bank's strong investment banking division and advisory function, generating sizeable fee income, besides facilitating expansion in the corporate loan book. The expanding core business, investment banking strengths, speedy decision making process and substantial risk absorption capacity are likely to sustain the bank's position among peers despite the intensifying competitive pressures.

**About the bank:** The bank started operations in Pakistan in 1987, first as a branch set up of Shamil Bank of Bahrain and since 1995, as a locally incorporated bank under the present name of Faysal Bank Ltd. On January 01, 2002 AL-Faysal Investment Bank, another group entity merged into FBL.

The majority shareholding (67%) of FBL is owned by Dar Al-Maal Al-Islami Trust (DMI) through its various subsidiaries, including 45% holding by Shamil bank. The DMI group, headed by H.R.H. Prince Al Faisal Al Saud of Saudi Arabia, is registered in Bahamas with main offices in Geneva, Switzerland. DMI owns and operates an international network of Islamic Banks, Investment and Insurance companies. The current chief executive, a qualified professional having extensive local and international banking experience, has been associated with the bank since 1999.

### **July 06, 2006: PACRA Assigns Positive Outlook to the Ratings of Prime Commercial Bank Limited (PCBL)**

PACRA has maintained the long-term and short-term entity ratings of Prime Commercial Bank Limited at "A+" (Single A Plus) and "A1" (Single A One) respectively. Additionally, the ratings have been assigned a positive outlook. The rating of the unsecured, subordinated TFC issue of PKR 800mln 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.

The ratings reflect the bank's stable performance and sound asset quality. The bank continues to pursue its efforts of reengineering its processes and systems. This is expected to help in implementing its long-term strategy of higher growth, improved productivity and service quality. While the bank's performance remains on the lower side, it is well placed to handle any unexpected downturn owing to its well-diversified loan book. Meanwhile, given the likelihood of successful implementation of its well-conceived strategy, PCBL would be better positioned to cope with the intensifying competitive pressures.

PCBL's ratings have been assigned a positive outlook owing to its current reengineering efforts and higher future growth reorientation, which is expected to translate into improved profitability. However, as these initiatives are still in the implementation phase, the expected benefits in quantitative terms are expected to be realized with a time lag. Additionally, considering the intensifying competition, the extent of the impact remains to be seen.

**About the TFC Issue:** PCBL issued an unsecured subordinated TFC in Feb-05 for a tenor of 8 years carrying mark-up at a floating rate of latest 6-month KIBOR plus 1.9% payable semi-annually. Principal redemption will be in four equal annual installments commencing from Feb-2009.



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**About the bank:** After commencing operations in 1992, PCBL currently operates with a network of 63 branches. Arab Asian International Holding Company, registered in Bahrain, holds the major stake in the bank. This company is owned by members of a Saudi family belonging to a highly regarded, very sizeable and well diversified business group of Saudi Arabia.

The President and Chief Executive, who has held the position since the bank's inception, possesses over 30 years of international and domestic banking experience. A team of senior executives who have extensive exposure to banking and finance assists him.

### July 05, 2006: PACRA Maintains Entity & TFCs Ratings of Azgard Nine Limited (ANL)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating at "A" (Single A), and the short-term rating at "A1" (A One) of Azgard Nine Limited (ANL). Additionally, the ratings have been assigned a **positive outlook**. These ratings are applicable to senior unsecured creditors of the company. ANL's proposed secured TFC of PKR 2,000mln (with a green-shoe option of PKR 400mln) has been assigned a rating of "A+" (Single A Plus). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payments of financial commitments.

ANL's ratings reflect the company's dynamic long-term vision, an outcome of its management's progressive efforts to transcend any cultural and geographical barriers to sales of its products. This is reflected in continuous improvement in turnover.

**About the TFC Issue:** The company is planning to issue a secured TFC of PKR 2,000mln with a green-shoe option of PKR 400mln in the current year. The TFC issue is of a seven-year tenure, and will carry a profit rate of 6 months KIBOR+240 basis points, with no cap or floor. Principal redemption will be in ten unequal semi-annual installments starting from the thirtieth month from date of disbursement after

an initial grace period of two years. The TFC contains a 25% conversion option. This allows TFC holders the right of conversion of up to 25% of the value of their TFCs into ordinary shares at a 30% discount to the preceding three months average share price of ordinary shares, at any time between Jan-2008 to Mar-2008. The TFC is secured by way of first charge on the present and future fixed assets of the company with a 25% margin.

**About the company:** Azgard Nine Limited (previously Legler Nafees Denim Mills Limited) is a vertically integrated unit, comprising of spinning, weaving, stitching, dyeing and finishing. The company is listed on the Karachi stock Exchange. It is currently one of the top quality manufacturers and exporters of denim fabrics and garments. The highly professional management of the company is embarked upon a vision of fully leveraging the company's strategic assets - physical and human - to become a truly global player. A comprehensive strategy is, therefore, in place to emulate best international practices in corporate governance, production efficiencies and environmental standards.

### July 05, 2006: PACRA Maintains Entity Ratings of KASB Bank Limited

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of KASB Bank Limited at "BBB+" (Triple B plus) and "A2" (A two), respectively. These ratings denote a low expectation of credit risk emanating from an adequate capacity for timely payment of financial commitments.

The ratings reflect the bank's relatively subdued position in an increasingly competitive banking environment, mainly an outcome of its small size and limited franchise value. At the same time, the ratings recognize the strategy of the new management that envisions a broad-based aggressive expansion in the bank's asset portfolio, but with focused products for different segments - corporate, SMEs and consumer - while capitalizing on the bank's

recently extended outreach. Meanwhile, the management is working in a structured manner to strengthen human and infrastructure resources to achieve the planned business growth. Nevertheless, with restricted internal generation, the bank would remain dependent on its sponsors' support for meeting increasing capital requirements. The sponsors are committed to the bank and have recently demonstrated their support by injecting fresh equity to maintain the capital structure.

**About the bank:** KASB Bank Limited, incorporated in October 1994 and listed on all three stock exchanges, was acquired by KASB group and an Omani group in October 2002. The bank's seven member Board of Directors comprises experienced professionals and is involved in the development of the bank's strategy and monitors its execution. In the past, the bank faced problems in building and afterward ensuring continuity of the senior management team. The current chief executive, Mr. Muneer Kamal, an experienced banker with a distinguished profile, was inducted in November 2005. He has assembled a core team of experienced professionals for ensuring effective implementation of the newly chalked business strategy.

### July 05, 2006: PACRA Assigns 4-Star Fund Rating to Atlas Fund of Funds (AFoF)

The Pakistan Credit Rating Agency (PACRA) has assigned a **4-Star** rating to Atlas Fund of Funds (Category: Balanced Fund), which reflects good performance relative to its peers. The rating is a composite measure of two factors namely a) returns, and b) risk associated with the returns measured by Sharpe Ratio.

**About the fund:** AFoF, a closed-end scheme, was established under a Trust Deed executed on May 29, 2004 with Atlas Asset Management Limited (AAML) as the management company and Central Depository Company of Pakistan Limited (CDC) as a trustee. The objective of AFoF is to provide investors one window facility to invest in diversified portfolio offering good



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returns and consistent growth. The Fund aims to deliver this objective mainly by investing in closed-end mutual funds, open-ended mutual funds, money market instruments or in deposits with scheduled banks.

**About the Asset Manager:** Atlas Asset Management Limited (AAML), sponsored by the Atlas Group, was incorporated in August 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. The group has diversified into various industrial and service oriented businesses. Though each company within the group works independently, the overall strategic direction of the group is set by the Group Executive Committee. Shirazi Investments (Pvt) Limited, the parent company of the asset manager, holds 88% of the total shareholding.

AAML has an asset manager rating of 'AM3+', which reflects the company's strong capacity to manage the risks inherent in asset management. The company is catering to different investment objectives of a diverse client base. Currently, the company is managing three funds with assets under management of more than PKR 4.8bln as at May 31, 2006. AAML, in addition to AFoF, manages two open-end funds namely, Atlas Income Fund and Atlas Stock Market Fund.

### **July 04, 2006: PACRA Maintains Entity Ratings of NIB Bank Limited (NIB)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of NIB Bank Limited 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 emanating from a strong capacity for timely payment of financial commitments. The ratings reflect the bank's high-risk absorption capacity, and very strong financial profile and international identity of the principal shareholder – Temasek. The rating also take into account the management's well-

conceived strategy for aggressive penetration into Commercial, SMEs and Consumer segments through roll out of robust models with specially tailored products. While confronting the challenges of a bank of relatively recent origin, the management, in a short span of time, has made impressive progress in building a quality team, requisite infrastructure, and systems and processes, and is well geared to launch its overall business plans.

NIB's ratings have been assigned a positive outlook, based on the potential benefits to arise from aggressive growth in the target markets. However, given the relatively high risk nature of the targeted segments and the intensifying competition in the sector, the extent of impact of implementation of the business plans on performance, and the related effectiveness of the support processes and risk management systems remains to be seen.

**About the bank:** NIB Bank Ltd. (Formerly NDLC-IFIC Bank) was formed on October 03, 2003 as a result of the amalgamation of the National Development Leasing Corporation Limited (NDLC) and Pakistan Branches of International Finance Investment and Commerce Bank Limited - Bangladesh (IFIC). Later in April 2004, the bank acquired the Pakistan operations of Credit Agricole Indosuez (CAI), the Global French bank. NIB is listed on all the three stock exchanges in Pakistan, and currently has a network of 27 braches.

Bugis Investment (Mauritius) Pte. Ltd., an indirect wholly owned subsidiary of Temasek Holdings, acquired more than two-third stake in the bank in Jul05 through subscribing to fresh allotment of shares. Temasek is the investment arm of the Government of Singapore and is rated AAA by Moodys and Standard & Poors. It was established in 1974 and manages a diversified portfolio, having a market value of over USD 60bln, spanning across Singapore, Asia and OECD countries. Its investment is in companies that are involved in a wide range of activities including, telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering

and technology, as well as pharmaceuticals and biosciences.

### **July 03, 2006: PACRA Assigns Entity Ratings to Kohat Cement Company Limited (KCCL)**

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term and short-term entity ratings of Kohat Cement Company Limited to "A" (Single A) and "A1" (A One), respectively. The ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The rating reflects the augmentation in the risk absorption capacity through retention of robust profits and a recent right issue. Despite an anticipated decline due to substantial capacity expansions across the sector, the overall capacity utilization and margins levels are expected to remain at reasonably comfortable levels in the wake of growing cement demand and likely continuation of producers' understating. KCCL, owing to its locational advantage and expected increase in market share through sizeable capacity enhancement, is well positioned to capitalize on the emerging business opportunities.

**About the company:** Kohat Cement Company Limited (KCCL) was established in 1980 under the State Cement Corporation of Pakistan. The company, subsequent to its privatization in 1992, was acquired by Atta group, which currently holds around 80% of the stake. All the directors, belonging to the Atta family, are high worth individuals. The group also has major interests in real estate and hotel business. The chief executive has an extensive exposure to the cement industry and remained the Chairman of All Pakistan Cement Manufacturers Association (APCMA) for six years (Apr97-Mar03).

The company currently has an annual production capacity of 0.567mln tons of grey cement, which would be raised to 2.667mln tpa, through expected completion of a new production line in Jul07. Meanwhile, the company has



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recently installed a white cement plant of 0.135mln tpa capacity.

### **July 03, 2006: PACRA Maintains the Ratings of Pakistan Industrial Credit and Investment Corporation Limited (PICIC)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Pakistan Industrial Credit & Investment Corporation Limited (PICIC) at “AA” (Double A) and “A1+” (A One Plus) respectively. The ratings denote a very low expectation of credit risk and a very strong capacity for timely payment of financial commitments. These ratings remain on RatingWatch pending outcome of the expected merger with PICIC Commercial Bank Limited.

PICIC's ratings reflect the Corporation's maintained risk absorption capacity supported by well diversified income streams from stable and sustainable sources, and the largely maintained relative positioning among the larger financial sector entities. Though having made substantial contribution to the Corporation's profitability in recent years, income from capital market operations will remain vulnerable to volatility risk emanating from fluctuations in the stock market. The renewed focus on core business operations is expected to lend further stability to the income stream. At the same time, the sustainability of PICIC's performance trends is contingent on the ability to improve spreads on lending operations as these remain considerably lower than those of commercial banks. The proposed merger with PICIC Commercial Bank Limited (PCBL) is expected to redress this relative disadvantage. However, the terms of merger and the timing of its consummation remain to be finalized. At this stage, therefore, Corporation's prospects are clouded by a degree of uncertainty. Consequently ratings remain on RatingWatch.

**About the corporation:** Pakistan Industrial Credit & Investment Corporation Limited (PICIC) was established in 1957. Being the largest

DFI in the country in terms of total assets and a branch network of 45 as of 1Q06, the Corporation's primary activities encompass term financing for industrial and commercial activities, merchant banking operations, capital market operations, leasing and consumer financing. PICIC engaged in asset management consequent to the acquisition of management rights of ICP mutual funds – Lot 'B' and ICP SEMF (subsequently renamed as PICIC Investment Fund and PICIC Growth Fund respectively). These are now being managed through a new Asset Management Company wholly owned by the Corporation. PICIC also ventured into the general insurance business by forming PICIC Insurance Limited, a wholly owned subsidiary, wherein the Corporation has recently resolved to reduce its holding to 30% and distribute the remaining 70% among PICIC's existing shareholders in order to comply with the SBP specified pre-conditions for the proposed merger with its other subsidiary, PCBL. Among the shareholders, public sector corporations have the strongest presence followed by the general public and private institutions.

### **June 30, 2006: PACRA Maintains the Ratings of Metropolitan Bank Limited (MBL)**

The Pakistan Credit Rating Agency (PACRA) has maintained both long-term and short-term ratings of Metropolitan Bank Limited 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 placed on Rating Watch pending outcome of the expected merger with Habib Bank AG Zurich, Pakistan branches.

The ratings reflect MBL's outstanding asset quality and consistently robust performance. Meanwhile, the management's quest for product innovation and technological upgradation helps to maintain MBL's competitive edge in terms of service quality and operating efficiency. The ratings also factor in the potential benefits emerging from the proposed amalgamation with HBZ, which would

further strengthen the bank's competitive positioning.

**About the bank:** MBL commenced its operations in 1992. The Chief Executive of the bank is a former Governor of the State Bank and also a former president of Habib Bank Limited, one of the largest banks in the country. MBL, with focus on trade financing, is also strengthening its retail banking. In order to augment revenues, the bank is seeking diversification in business volumes and income streams. By the end of 2006, Habib Bank AG Zurich Pakistan branches are proposed to be merged with and into MBL. Consequently, HBZ will become the major shareholder of the merged entity. The merging entity carries out the same activities as MBL, with the advantage of the backing of strong parent and world-class technologies. This suggests that the merger will lend further strength to the relative positioning and brand value of the combined entity.

### **June 29, 2006: PACRA Assigns Entity Ratings to Mybank Limited**

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term rating of “A-” (A minus) and a short-term rating of “A2” (A Two) to Mybank Limited (ML). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect the management's well-conceived business strategy to improve its financial profile and performance prospects. The strategy envisages leveraging the branch network both for deposit mobilization and credit expansion. To ensure success of the proposed strategy, the management is putting in place the requisite infrastructure including advanced IT platform, recruitment of high calibre individuals, establishment of proper set of systems and controls, and building franchise value. Meanwhile, the bank's capitalization is expected to remain robust given the sponsor's commitment to inject equity in order to meet prudential requirements. However, being a



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relatively smaller sized bank with limited franchise value, ML is placed at a disadvantage in competing against the better-known and larger sized banks in the fast changing dynamics of the banking sector.

**About the bank:** Mybank Limited (formerly Bolan Bank Limited, name changed in May 2005) commenced its operations in October 1992 as a scheduled commercial bank and is listed on the Karachi and Lahore Stock Exchanges.

In March 2004, the controlling interest (51%) of the bank was acquired from the sponsoring directors by Mr. Iqbal Alimohamed and family, an eminent name in business and industry. Mr. Alimohamed, formally the CEO and Chairman of Gul Ahmed Textile Mills Limited (1985-2002), is the chairman of the bank and is a chartered accountant by profession.

Apart from sub-committees of the board, directors have delegated day-to-day management of the affairs of the bank to the management and are not part of any management committee. The president, Mr. Muhammad Azimuddin, who joined the bank in Dec-04 has 23 years of experience in premier local and multinational institutions. Under his leadership, the new management has identified areas of concern and the focus has, therefore, been on institutional building and infrastructure development.

### **June 29, 2006: PACRA Maintains Entity & TFCs Ratings of Bank Alfalah Limited (BAL)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Bank Alfalah Limited at “AA” (Double A) and “A1+” (A one plus), respectively. The ratings of three unsecured subordinated TFC issues of PKR 650mln, PKR 1,250 mln and PKR 1,325 mln are 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.

BAL's ratings reflect its strengthening position in the banking sector, an outcome of its sustained, but focused, growth in recent years that has fortified its ability to withstand the intensifying competitive pressures. Although the bank's profitability is subdued compared to peers, it is indicative of its low-margin high volume business philosophy. The bank has demonstrated the capacity to raise its capital, both Tier 1 & 2, to cater for its growth targets. Meanwhile, the ratings recognize the continuing support of financially strong sponsors as a key factor.

**About the bank:** The Abu Dhabi Group, comprising prominent members of the ruling family and leading businessmen of UAE, own the majority shareholding in BAL since its privatisation in 1997. The bank is listed on the Karachi and Lahore Stock Exchange. The chairman of the board, H.E. Sheikh Hamdan Bin Mubarak Al Nahayan, is also Federal Minister of Public Works, United Arab Emirates. The chief executive of the bank is a career banker with over 43 years experience both within Pakistan and abroad, and has been with the bank since its incorporation. A team of experienced professionals assists him.

**About the TFC issues:** BAL issued first listed unsecured subordinated TFC during December 2002 for a tenor of 6 years at a floating rate of latest cut-off yield on 5 year PIB plus 1.35% with a floor of 10.00% and a cap of 15.00%. Principal redemption will be in two equal semi-annual installments commencing from the 66th month (i.e., June 2008). The bank issued second unsecured subordinate TFC for a tenor of 8 years carrying mark-up at a floating rate of latest 6-month KIBOR plus 1.5% during December 2004. Major principal redemption will be in three equal semi-annual installments commencing from the 84th month of the issue (i.e., December 2011). The bank issued third unsecured subordinate TFC for a tenor of 8 years in November 2005. The instrument carries mark-up at a floating rate of latest 6-month KIBOR plus 1.5%. Major principal redemption will be in three equal semi-annual installments

commencing from the 84th month of the issue (i.e., November 2012).

### **June 28, 2006: PACRA Maintains Entity & TFCs Ratings of Bank AL Habib Limited (BAHL)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Bank AL Habib Limited (BAHL) at “AA” (Double A) and “A1+” (A One Plus) respectively. The rating of the unsecured, subordinated TFC issue of PKR 1,350mln has also been maintained at “AA-” (Double A Minus). The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect BAHL's continuing appetite for low risk while sustaining relative performance from core operations. This is reinforced by the management's conscious efforts of preserving the established franchise value through service quality and prudent banking practices. At the same time, the management remains focused on business expansion as well as product innovation to maintain its position in the fast changing dynamics of the banking sector. Meanwhile, the continuous effort of the bank to further strengthen the risk management systems is also a key-rating factor.

**About the bank:** BAHL's sponsors are members of the Habib family – the oldest and a distinguished name in Pakistan's banking circles. They are active in the management of the bank and are backed by a team of experienced professionals most of which have been with the bank since its inception.

The bank's main activities are short-term lending, mainly trade finance related and seasonal running finance. Its future strategy envisages maintained growth through further expansion of branch network, while maintaining the Habib hallmark of a conservative risk profile. BAHL continues to strengthen its technological platform and human resource base.



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**About the TFC issue:** The unsecured, subordinated TFC issue of PKR 1,350mln has a tenor of 8 years starting July 2004. The profit payment is made semi-annually, based on 6-month KIBOR *plus* 1.5% with a floor of 3.5% and a cap of 10%. Major principal redemption will be in three semi-annual installments, commencing from the 84th month of the issue.

### June 28, 2006: PACRA Maintains Entity & TFCs Ratings of Soneri Bank Limited (SBL)

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity 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 of unsecured, subordinated term finance certificates of PKR 1,200mln by Soneri Bank Limited has been maintained at “A+” (Single A plus). The rating denotes a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect the bank's business philosophy that encompasses a conservative stance towards risk while maintaining a stable, albeit modest, asset growth. The bank, despite consistently higher growth by some peers, intends to continue its prudent asset deployment strategy, while gradually expanding its outreach. Meanwhile, it is working on enhancing its fee-based earnings mainly through investment banking activities. The ratings also take into account the management's structured efforts to further strengthen the risk management systems.

**About the bank:** SBL, commencing its operations in 1992, currently operates a network of 60 branches. The Feerasta family, owners of the Rupali group, holds the controlling stake in the bank. The group's primary activities are centered on the synthetic textile industry. The group, through Feerasta

family members and nominees, maintains a dominant position on the bank's board of directors. The President and Chief Executive, a banker with over four decades of domestic and international banking exposure, manages the operations of the bank through a team of experienced professionals.

**About the TFC issue:** SBL issued unsecured subordinated TFCs of PKR 1,200mln for a tenor of 8 years in May 2005. The profit payment, to be made semi-annually, will be based on 6 month KIBOR *plus* 160bps. The principal will be redeemed in four equal semi-annual installments starting from the 78th month (October 2011) from the issue date. The TFC holders are exposed to a relatively higher risk, as the obligations towards the TFC holders are subordinate to those of other creditors including depositors of the bank.

### June 27, 2006: PACRA Assigns 5-Star Fund Rating to Al Meezan Mutual Fund (AMMF)

The Pakistan Credit Rating Agency (PACRA) has assigned a **5-Star** fund rating to Al Meezan Mutual Fund (Category: Islamic Fund), which reflects a superior performance relative to its peers. The rating is a composite measure of two factors namely a) returns, and b) risk associated with the returns measured by Sharpe Ratio.

**About the fund:** AMMF, a closed-end fund, was incorporated in August 1995 as a public limited company and is listed on the Karachi Stock Exchange. Al Meezan Investment Management Limited is acting as the company's 'investment advisor' and CDC Limited as its 'custodian'. The primary objective of AMMF is to provide the maximum total return to the certificate holders from investment in shariah compliant investments for the given level of risk.

The Fund, according to its Memorandum and Articles of Association, is allowed to invest in any type of equity and debt securities. However, the investment advisor while selecting investments strictly follows Islamic Shariah principles, as approved

by the Shariah advisor (Meezan Bank Limited) for other Islamic funds being managed by AMIM.

**About the Asset Manager:** Incorporated in February 1995, Al Meezan Investment Management Limited (AMIM) is a subsidiary (65% shareholding) of Meezan Bank Limited (MBL), the first scheduled Islamic commercial bank in the country.

The Chief Executive of AMIM, Mr. Mohammad Shoab, is a CFA Charter holder and also has Masters degree in Business Administration with over 16 years of experience in the capital markets. The Head of Investments is an MBA with extensive experience of more than 10 years in the financial sector of the country.

The company is catering to different investment objectives of a diverse client base. Currently, the company is managing three funds with assets under management of more than PKR 6.5bln as at end May-06. AMIM, in addition to AMMF, manages another closed-end fund namely Meezan Balanced Fund and an open-end fund namely Meezan Islamic Fund.

### June 23, 2006: PACRA Upgrades IFS Rating of East West Insurance Company Limited (EWI)

The Pakistan Credit Rating Agency (PACRA) has upgraded the Insurer Financial Strength (IFS) rating of East West Insurance Company Limited to “A-” (Single A Minus). The rating denotes strong capacity to meet policyholder and contract obligations.

The rating reflects the strengthened financial base mainly as a result of substantial increase in equity through retention of one off gains realized on divestment of a major equity investment. At the same time, the rating also recognizes the improving performance prospects of the company from core underwriting operations, as well as contribution of investment income. While the investment income is expected to be boosted by increase in the size of investment portfolio, deployed in debt and equity securities, the management's concerted efforts for



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controlling operating costs, and plans to pursue a moderate growth in business volumes are likely to result in improving underwriting performance.

**About the company:** EWI commenced commercial operations as a general insurance company in 1983 and is currently listed on the Karachi Stock Exchange. The shareholding in the company is effectively held by Yunus family. During 2005, Mian Mehboob Ahmad, Chief Justice (R) of Lahore High Court, also having extensive exposure in the insurance sector, has been appointed as the Chairman of BoD, which is expected to improve the quality of strategic policy making. The remaining members of the BoD, including the CEO, belong to Yunus family. The other major concern owned by the family is the Metropolitan Life Assurance Co. of Pakistan Ltd.

The company writes various classes of general insurance business, and is the pioneer in the field of livestock insurance and recently extended coverage to loans against crops. The company has an extensive network of around 50 branches and agency offices spread across the country. With its head office in Karachi, the operations of the company are managed by three principal offices in Karachi, Lahore and Islamabad.

### **June 23, 2006: PACRA Maintains the Ratings of Pak Kuwait Investment Company (Pvt) Limited (PKIC)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term rating of "AAA" (Triple A) and a short-term rating of "A1+" (A One plus) of the Pakistan Kuwait Investment Company (Pvt) Limited (PKIC). These ratings denote the lowest expectation of credit risk emanating from an exceptionally strong capacity for timely payment of financial commitments.

The ratings reflect the company's very strong risk absorption capacity emanating from its robust capital structure. This is further supported by the management's prudent stance towards risk while targeting a modest growth in different areas of business.

Although returns on trading in equities continue to dominate the company's profitability, the contribution of relatively stable interest earnings is improving and the income from investment banking activities has also started.

**About the company:** PKIC was established in March 1979 as a joint venture between the governments of Pakistan and Kuwait. Currently the shareholding is equally held through the State Bank of Pakistan and the Kuwait Investment Authority (KIA). The primary objective of the organization is to make a tangible contribution to economic development by supporting both industrial and service sectors. The Managing Director, who joined PKIC in January 2005, has over 35 years of diversified national as well as international experience. This includes Chairmanship of NIT and as President and Chief Executive of Zarai Taraqati Bank.

### **June 23, 2006: PACRA Assigns 5-Star Fund Rating to Meezan Balanced Fund (MBF)**

The Pakistan Credit Rating Agency (PACRA) has assigned a **5-Star** fund rating to Meezan Balanced Fund (Category: Islamic Fund), which reflects a superior performance relative to its peers. The rating is a composite measure of two factors namely a) returns, and b) risk associated with the returns measured by Sharpe Ratio.

**About the fund:** MBF, a close-end scheme, was established under a Trust Deed executed in June 2004 between Al Meezan Investment Management Limited as management company and, Central Depository Company of Pakistan Limited (CDC) as trustee. The primary objective of MBF is to provide the maximum total return to the certificate holders from investment in shariah compliant investments for the given level of risk.

**About the Asset Manager:** Incorporated in February 1995, Al Meezan Investment Management Limited (AMIM) is a subsidiary (65% shareholding) of Meezan Bank Limited (MBL), the first scheduled Islamic

commercial bank in the country, which operates strictly under the principles of Islamic Shariah. The main sponsors of the bank are some leading financial institutions based in Pakistan, Kuwait, Bahrain and Saudi Arabia including Pakistan Kuwait Investment Company (Pvt) Limited (PKIC), which also owns 30% shareholding in AMIM.

The Chief Executive of AMIM, Mr. Mohammad Shoab, is a CFA Charter holder and also has Masters degree in Business Administration with over 16 years of experience in the capital markets. The Head of Investments is an MBA with extensive experience of more than 10 years in the financial sector of the country.

AMIM is catering to different investment objectives of a diverse client base. Currently, the company is managing three funds with assets under management of over PKR 6.5bln as at end May 06. AMIM, in addition to MBF, manages another closed-end fund namely Al Meezan Mutual Fund Limited and an open-end fund namely Meezan Islamic Fund.

### **June 22, 2006: PACRA Upgrades Entity Ratings of The Bank of Punjab (BoP)**

PACRA has upgraded the long-term rating of The Bank of Punjab (BoP) to "AA" (Double A) while the short-term rating has been maintained 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 bank's ratings reflect its robust performance and strong risk absorption capacity. BoP's regional brand equity and its extensive branch network make it well positioned to capitalize on these inherent strengths despite the intensifying competition. Meanwhile, the management has made significant progress in terms of technological upgradation and human resource development for improving operational efficiency as well as service quality.

**About the bank:** The Bank of Punjab was established under the BoP Act



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1989. The bank is currently operating with a 266 branch network concentrated in the province of Punjab. BoP is principally involved in short-term lending and providing other general banking services. The Board of Directors comprises ten members, with six nominees of the GOP and the rest elected by other shareholders. While the bank's branch network is concentrated in Punjab, the proportion of business generated outside Punjab is increasing in line with the management's strategy. The bank currently has thirteen branches operating outside Punjab, and the management plans a further increase in coming years.

The bank's current Chief Executive/President, who took charge in May 2003, is serving on a five-year contract. The incumbent is a professional banker having extensive experience of banking in Pakistan and abroad. He is assisted by a team of experienced professionals.

The Chief Executive has succeeded in bringing about a change in the strategic focus of the bank's long-term policy objectives by capitalizing on BoP's potential strengths and eliminating some of its inherent organizational weaknesses. The success of his initiatives are demonstrated in the bank's flattering performance indicators.

### **June 22, 2006: PACRA Maintains Ratings of Askari Commercial Bank Limited (ACBL)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Askari Commercial Bank Limited (ACBL) at "AA+" (Double A Plus) and "A1+" (A One Plus) respectively. The ratings of the first and the second unsecured, subordinated TFC issues of PKR 1,500mln each have also been maintained at "AA" (Double A). The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect the bank's largely sustained core performance and very

good asset quality, which despite experiencing certain deterioration lately was preserved owing to sizeable general provision for potential loan losses. The bank, while maintaining its cautious stance towards entering new avenues, intends to strengthen its position within the retail banking segment – low cost deposit mobilization and high margin consumer financing – to improve its competitiveness. The ratings also recognize the management's efforts of continuously strengthening the risk management systems.

**About the bank:** ACBL, operating with a countrywide network of 98 branches plus one offshore banking unit (end-05), commenced its operations in 1992 and has emerged as one of major players in the commercial banking sector of the country. Army Welfare Trust (AWT) remains its principal shareholder controlling the Board of Directors through its nominees. AWT has business interests spread across a wide range of economic and industrial sectors. ACBL offers a full range of commercial banking services to the corporate, middle market and retail segments.

The new president, subsequent to the completion of term of the previous one, assumed the office in March 06. However, except this change, the senior management – comprising experienced and distinguished bankers – has remained the same. While the new president has extensive banking experience – including two years in ACBL – he faces a daunting task of preserving the bank's relative positioning in the fast changing sector dynamics.

**About the issues:** ACBL has issued unsecured subordinated TFCs of PKR 1,500mln each for a tenor of 8 years in February 2005 and October 2005. The profit payment is made semi-annually, based on 6-month KIBOR plus 150bps. The principal will be redeemed in a bullet payment at the maturity of the instrument.

### **June 21, 2006: PACRA Assigns Entity Ratings to Modaraba Al-Mali (MAM)**

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term entity rating of "A-" (single A minus) and a short-term entity rating of "A2" (A two), to Modaraba Al-Mali. These ratings denote a low expectation of credit risk emanating from strong capacity for timely payment of financial commitments.

MAM's ratings reflect the execution of the management's well-conceived business model, which has enabled the Modaraba to fortify its earnings without increasing the potential risk. At the same time, the Modaraba's association with JS Group is considered as a key rating factor.

About the Modaraba: Established in 1987, MAM is a perpetual multi-purpose Modaraba, listed on all bourses of Pakistan. JS Finance Limited, with 11% equity stake, manages the Modaraba. During 2004, the management company was acquired by JS Group in collaboration with the DCD Group. JS Group holds 75% of controlling shares while the other 25% is held by the DCD Group. JS Finance Limited is planning to float specific purpose modarabas in order to carry property business, which will strengthen the earning base of the management company. Meanwhile, the management company is in the process of merging Modaraba Al Tijarah – another Modaraba under management – into MAM. The Modaraba is primarily engaged in the business of operating lease and *morabaha* financing and operates from a single location in Karachi. It plans to continue with leveraged volume expansion while focusing on operating lease in the telecom sector and Morabah Share Financing (MSF). The future growth will be facilitated through mobilizing funds through a combination of certificates of *musharika* and *shariah* compliant credit lines.

### **June 19, 2006: PACRA Maintains Entity Ratings of Packages Limited**

The Pakistan Credit Rating Agency (PACRA) has maintained both long-term and short-term entity ratings of Packages Limited at "AA" (Double A)



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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 reflect the company's demonstrated competitiveness both in terms of pricing and efficiency in the paper and packaging industry of the country. This is instrumental in helping Packages to effectively manage the associated business risk. At the same time, the ratings also take into account the stable returns on the company's investment portfolio, which is concentrated in companies having strong presence in the growing consumer products segment.

**About the Company:** Packages Limited, a joint venture between *Ali Group* of Pakistan and *Akerlund & Rausing* of Sweden, was established in 1957. The company is listed on all three stock exchanges. Packages is a vertically integrated company having its own paper and paperboard mill. It is the only company in Pakistan having a complete range of packaging solutions including offset printed cartons, shipping boxes and flexible packaging materials. The management follows a forward-looking strategy of continuous expansion and upgradation of production facilities for maintaining the company's competitive edge.

#### **June 05, 2006: PACRA Maintains Entity 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.

TPFL's ratings reflect its market leadership position supported by its quality brand image and strategic relationships with prime clients. The company's margins remained under pressure, which resulted in lower profitability. However, with overall increasing volumes the company's cash

flows continued to remain robust. The ratings also recognize the substantial increase in its production and the well conceived export strategy, which has helped the company to withstand the competitive pressures.

**About the company:** Established in 1993, TPFL is engaged in manufacturing of Biaxially Oriented Polypropylene (BOPP) film. It is a joint venture between Packages Limited (PL) and Mitsubishi Corporation of Japan. Having started commercial production in 1995 the company is listed on all bourses in Pakistan. The company started its operations with a rated capacity of 5,400 tones per annum, which has increased to 26,800 tpa. With around 74% market share of the BOPP film in the country, TPFL is the largest producer in Pakistan. The constant and improving quality of TPFL's product has established it as a quality producer in the market. In the medium-term, the company's management plans to further enhance its capacity, benefiting from growing local demand and opportunities available in the export market.

#### **May 22, 2006: PACRA Assigns 4-Star Fund Rating to ABAMCO Composite Fund (ACoF)**

The Pakistan Credit Rating Agency (PACRA) has assigned a **4-Star** fund rating (Category: Equity Fund) to ABAMCO Composite Fund (ACoF), which reflects a good performance relative to its peers. The rating is a composite measure of two factors namely (a) returns, and (b) risk associated with the returns measured by Sharpe Ratio.

**About the fund:** ACoF, a closed-end fund, was established in April 2004 under a trust deed between ABAMCO Limited as investment advisor and Central Depository Company of Pakistan Limited (CDC) as trustee. The Fund is listed on all stock exchanges in Pakistan. The investment objective of ACoF is to maximize the total investment return, which consists of a combination of capital appreciation and income. ACoF follows a “large cap” investment strategy, investing primarily in large market capitalization

companies. Consistent with this policy, the Fund invests primarily in equity securities of large-cap companies having market capitalization of over PKR 1bln. Launched in May 2004, it has the largest ever paid-up capital of PKR 3.3bln (USD 55mln), including an amount of USD 5mln from International Finance Corporation (IFC). ACoF can also invest in debt securities up to a maximum of 20% of the net assets of the Fund.

**About the Asset Manager:** Incorporated in 1995, ABAMCO is the largest private sector asset management company in Pakistan, managing assets of around PKR 27bln. It is a subsidiary of Jahangir Siddiqui & Company Limited (JSCL), the flagship and main holding company of the JS group. Other institutional shareholders of ABAMCO include AMVESCAP Plc. – a leading global asset management company – and International Finance Corporation, a part of the World Bank Group.

ABAMCO has an asset manager rating of ‘AM2’, which reflects the company's very strong capacity to manage the risks inherent in asset management. The Chief Executive of ABAMCO, Mr. Najam Ali, is a Chartered Accountant with extensive exposure to the financial sector. The Chief Investment Officer is an MBA with significant buy-side and sell-side experience in Pakistan's financial and capital markets. The fund manager of ACoF is Bachelors in Commerce with more than 15 years of experience in the financial sector.

#### **May 22, 2006: PACRA Maintains Entity Ratings of Pak-Arab Refinery Limited (PARCO)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity rating of Pak-Arab Refinery Limited (PARCO) at “AAA” (triple A) and “A1+” (A one plus), respectively. The ratings denote the lowest expectation of credit risk and an exceptionally strong capacity for timely payment of financial commitments.

PARCO's ratings reflect continued improvement in refinery margins along



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with healthy margins on pipeline operations, very strong liquidity, and the continuously improving capital structure, as a result of which the stand-alone risk absorption capacity of the company continues to strengthen. Meanwhile, up till 1HY2009, the guaranteed return on MCR provides sufficient cushion and helps in keeping the bottom line profitability intact regardless of fluctuations in the operating results of the refinery. The company's business and financial risks, therefore, remain extremely low.

**About the company:** PARCO, an unlisted public limited company, was established in 1974 as a joint venture between the Government of Pakistan (60%) and the Emirate of Abu Dhabi (40%). The company owns and operates Pakistan's longest oil pipeline network, extending from Karachi to Mehmood Kot near Multan. Forming an important link in the transport of petroleum products upcountry, the pipeline system was extended to Machhike near Lahore in 1998, and presently spans 1,228 km. PARCO's MCR, with a capacity of 4.5 mln tonnes per annum (tpa), is the largest refining complex representing around 35% of the country's aggregate refining capacity. It enjoys a GOP guaranteed 25% after-tax return on paid-up capital from the initial eight years. MCR's commercial operations started in December 2000.

### **May 19, 2006: PACRA Assigns 4-Star Fund Rating to BSJS Balanced Fund Limited (BBF)**

The Pakistan Credit Rating Agency (PACRA) has assigned a **4-Star** fund rating (Category: Balanced Fund) to BSJS Balanced Fund Limited (BBF), which reflects a good performance relative to its peer. The rating is a composite measure of two factors namely a) returns, and b) risk associated with the returns measured by Sharpe Ratio.

**About the fund:** BBF, a closed-end fund, was incorporated in March 1994 as a public limited company and is listed on the Karachi Stock Exchange. ABAMCO Limited is acting as the company's 'investment advisor' and

MCB Bank Limited as its 'custodian'. The primary objective of BBF is to maximize the total investment return, which would consist of a combination of capital appreciation and income. The principal activity of the Fund is to make investments in marketable securities including equity and debt instruments. The equity portion of the portfolio seeks capital growth by investing in stocks that meet certain fundamental and technical standards of selection and in the opinion of the Investment Advisor, better-than-average potential for appreciation alongwith liberal dividend distribution policies. The objective is achieved through investing in selected stocks, TFCs, reverse repo transactions, government securities and placing funds as saving and term bank deposits.

### **About the Asset Manager:**

Incorporated in 1995, ABAMCO is the largest private sector asset management company in Pakistan, managing assets of around PKR 27bln. It is a subsidiary of Jahangir Siddiqui & Company Limited (JSCL), the flagship and main holding company of the JS group. Other institutional shareholders of ABAMCO include AMVESCAP Plc. – a leading global asset management company – and International Finance Corporation, a part of the World Bank Group.

ABAMCO has an asset manager rating of 'AM2', which reflects the company's very strong capacity to manage the risks inherent in asset management. The Chief Executive of ABAMCO, Mr. Najam Ali, is a Chartered Accountant with extensive exposure to the financial sector. The Chief Investment Officer is an MBA with significant buy-side and sell-side experience in Pakistan's financial and capital markets. The fund manager of BBF is Bachelors in Commerce with more than 15 years of experience in the financial sector.

### **May 18, 2006: PACRA Upgrades Long-Term Entity Rating of Engro Chemical Pakistan Limited (ECPL)**

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term entity rating of ECPL to "AA" (Double

A) while maintaining 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.

ECPL's ratings reflect its very strong capital structure and sustained profitability. The ratings also reflect its low business risk profile, as the local fertilizer industry is now operating in a seller's market with assured sales and stable margins. Meanwhile, the continuous business diversification is strengthening the company's capacity to absorb the impact of any unforeseen negative developments in the sector.

**About the Company:** Engro Chemical Pakistan Limited (ECPL) was incorporated in 1965. The core business of ECPL is manufacturing and marketing of fertilizers. ECPL is the second largest producer of urea in the country, which is produced at the plant site in Daharki. The company has also diversified its interests, which mainly include two joint ventures with foreign companies, the first, Engro Vopak Terminal Limited, being a jetty and chemical terminal facility at Port Qasim, and the other, Engro Asahi Polymer and Chemicals Limited, the first PVC resin manufacturing plant in the country. The Dawood Group, having acquired 42% of the shares, is the largest shareholder in ECPL. The association of DG has augmented the capacity of the Board to guide the management in formulating its long term strategy. As part of its diversification strategy, ECPL has entered into food business, and is planning to step into energy sector by establishing its subsidiary alongwith acquiring another IPP. The increasing business diversification would inevitably further strengthen the earning base without compromising the risk profile of the company.

### **May 17, 2006: PACRA Places Ratings of Metropolitan Bank on RatingWatch**

In the wake of the proposed merger of Pakistan Branches of Habib Bank AG Zurich with Metropolitan Bank Limited, the ratings of Metropolitan



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Bank are placed on RatingWatch. The long-term and short-term ratings of the bank are currently 'AA+' and 'A1+'.

The bank's ratings are currently being reviewed and the review process is expected to be completed by 30th June 2006. However, if by then details of the proposed merger are not finalized, the ratings would continue to remain on RatingWatch.

### **May 17, 2006: PACRA Assigns IFS Rating to United Insurance Company of Pakistan Limited (UIC)**

The Pakistan Credit Rating Agency (PACRA) has assigned an Insurer Financial Strength rating of "A-" (single A minus) to The United Insurance Company of Pakistan Limited (UIC). The rating denotes strong capacity to meet policyholder and contract obligations. At the same time, risk factors are moderate, and the impact of adverse and economic factors is expected to be modest.

UIC's rating reflects its sound financial base and firm underwriting practices engendering a strong capacity to meet policyholders' obligations. The rating also takes into account the efficacy of the management's strategy of focusing on a large number of small-sized clients resulting in low exposure per risk, which is also instrumental in keeping the loss ratio at an exceptionally low level.

**About the company:** UIC, established in 1959, and listed on the Karachi Stock Exchange the following year, is operating through a network of 70 branches. The network is spread across 36 cities with concentration in the province of Punjab. The family and associates of Mian M. A. Shahid, the President & Chief Executive of the company, own majority share (75%) in the company. They took control of UIC in 1999.

UIC, a non-captive insurance company, has adopted an aggressive growth stance beginning 2004. The company's strategy is different from most insurance companies in that it focuses on generating business by capitalizing

on its extensive branch network through a close liaison with branches of different banks. UIC writes all types of general insurance business.

### **May 09, 2006: PACRA Places Ratings of First Fidelity Leasing Modaraba on RatingWatch**

The Pakistan Credit Rating Agency (PACRA) has maintained the entity ratings of First Fidelity Leasing Modaraba at "A-" (Single A minus) for the long-term and "A2" (A two) for the short-term. The ratings denote a low expectation of credit risk and a strong capacity for timely payment of financial commitments. These ratings have been placed on **Rating Watch** pending the outcome of the proposal to merge the Modaraba into another entity of the Crescent group.

The ratings of the Modaraba reflect its sustained risk absorption capacity mainly an outcome of its predominantly equity based capital structure. The management intends to maintain a low risk credit expansion strategy with increasing focus on property investments.

**About the Modaraba:** FFLM, listed on all the three stock exchanges of the country, was established in 1991 and is managed by Fidelity Capital Management (Pvt.) Limited. Recently, Crescent Standard Business Management (Pvt.) Limited (CSBML) has acquired the entire shareholding of the management company of the Modaraba. CSBML is part of the Crescent group and mainly serves as a holding company for the group's interest in various entities. The Crescent group is one of the well-known corporate groups in Pakistan with diverse interests both in manufacturing and financial services.

### **May 08, 2006: PACRA Assigns 5-Star Fund Rating to Dawood Money Market Fund (DMMF)**

The Pakistan Credit Rating Agency (PACRA) has assigned a **5-Star** fund rating (Category: Income Fund) to Dawood Money Market Fund (DMMF), which reflects a superior performance relative to its peers. The rating is a

composite measure of three factors namely a) returns, b) risk associated with the returns measured by Sharpe Ratio, and c) credit quality of the assets.

**About the Fund:** DMMF, an open-end scheme, was established under a Trust Deed executed between Dawood Capital Management Limited (DCM) as Management Company and Bank AL Habib Limited as Trustee. DMMF commenced its business activities in April 2003. The primary objective of DMMF is to provide better returns to the unit holders on consistent basis, as compared to other short-term investment options available in the market, while protecting investor's capital. The Fund invests in a mix of spread transaction, CFS, debt securities, COIs, money market instruments, and short-maturity reverse repurchase transactions. The focus of investment strategy is to protect capital by diversifying the investments and by managing maturities in a manner that reduces the interest rate risk.

**About the Asset Manager:** DCM was incorporated in 1993 as a venture capital company, and listed on Karachi Stock Exchange. The company was acquired by the First Dawood Group in 1999. During 2003, the company changed its objective to undertake asset management and investment advisory business, and subsequently also changed its name to DCM. The sponsoring group is a branch of the reputable Dawood family, which is one of the leading business groups in Pakistan. The combined effective holding of the Group in the company is around 60%. Apart from First Dawood Investment Bank (FDIB), the sponsoring group also operates two leasing modarabas, and is further diversifying its operations through joint venture arrangements by setting up an Islamic Bank, Takaful Insurance and Wind Power generation project. Asian Development Bank (ADB) has a 12.5% holding in DCM, and also has a representation on the BoD through a nominee director. The CEO of DCM, Ms. T. Uzra Dawood, has done her Doctorate of Juridical Science from Harvard Law School, and is holding this office since Apr 2004.



## **May 05, 2006: PACRA Assigns Asset Manager Rating to Dawood Capital Management Limited (DCM)**

The Pakistan Credit Rating Agency (PACRA) has assigned an asset manager rating of “AM3” to Dawood Capital Management Limited (DCM). The rating reflects the company’s strong capacity to manage the risks inherent in asset management and the asset manager meets high investment management industry standards and benchmarks.

The company’s strong capacity emanates from a well-qualified and experienced management team, association with a strong and expanding business group, adequate risk management policies, and reasonable supporting systems. Although the number of funds and assets under management have increased, the relative size and diversity still remains limited. Meanwhile, the rating also recognizes the management’s well-conceived business plan of focusing on small retail investors through offering innovative products and following a distinctive marketing strategy. However, as the implementation of this strategy is at an initial stage, the impact thereof on business expansion and the related timeline remain to be seen.

**About the company:** DCM was incorporated in 1993 as a venture capital company, and listed on Karachi Stock Exchange. The company was acquired by the First Dawood Group in 1999. During 2003, the company changed its objective to undertake asset management and investment advisory business, and subsequently also changed its name to DCM. The sponsoring group is a branch of the reputable Dawood family, which is one of the leading business groups in Pakistan. The combined effective holding of the Group in the company is around 60%. Apart from First Dawood Investment Bank (FDIB), the sponsoring group also operates two leasing modarabas, and is further diversifying its operations through joint venture arrangements by setting up an Islamic Bank, Takaful Insurance and Wind Power generation project. Asian Development Bank (ADB) has a 12.5% holding in DCM, and also has a

representation on the BoD through a nominee director. The CEO of DCM, Ms. T. Uzra Dawood, has done her Doctorate of Juridical Science from Harvard Law School, and is holding this office since Apr 04.

## **May 04, 2006: PACRA Upgrades Ratings of MCB Bank Limited (MCB)**

The Pakistan Credit Rating Agency (PACRA) has upgraded the long-term entity rating of MCB Bank Limited to “AA+” (Double A plus), while maintaining the short-term rating at “A1+” (A one plus). The rating of unsecured subordinated TFC issue of PKR 1,600mln has also been upgraded to “AA” (Double A). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

MCB’s ratings reflect the bank’s very strong risk absorption capacity emanating from its strengthened capital structure supplemented by a sound asset quality. The ratings also take into account the management’s demonstrated ability of aligning the operations in line with the changing dynamics of the sector enabling the bank to remain well positioned to face competitive pressures.

**About the TFC Issue:** MCB issued unsecured subordinated TFC of PKR 1,600mln during August 2002 for a tenor of 5½ years at a floating rate of latest cut-off yield on 5 year PIB plus 1.50% with a floor of 11.75% and a cap of 15.75%. Major principal redemption will be in three unequal installments commencing February 2007.

**About the bank:** A number of distinguished corporate groups, led by Nishat group, jointly own majority stake in MCB since its privatization in 1991. MCB continues to derive substantial benefits from the resourcefulness, financial strength and business acumen of the members of Board of Directors. The President & Chief Executive, Mr. Mohammad Aftab Manzoor, has extensive banking experience locally and abroad and has been in this position for the last six years. A highly experienced and distinguished team of senior management assists him. MCB currently operates an extensive

network of 947 domestic and 5 overseas branches with a leading position in automated banking services. The bank has a market share of around 9% in the total deposits of the scheduled banking system.

## **May 03, 2006: PACRA Maintains Entity Ratings of Union Leasing Limited (ULL)**

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term ratings of Union Leasing Limited (ULL) 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. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

The ratings of ULL reflect the company’s largely maintained risk absorption capacity, backed by a substantial equity base. The implicit support of the parent company, Union Bank Limited, and its strong operational affiliation with the company are also key factors. However, given the fast intensifying competition, the company’s ability to maintain its relative position within the financial sector would depend upon increased diversification of activities and/or identification of higher spread generating market segments.

**About the company:** Union Leasing Limited (ULL) was incorporated in October 1993 as a public limited company and started commercial operations in the following year. The company is listed on all the three stock exchanges of the country. The majority shareholding of the company vests in Union Bank Limited. ULL is currently operating through seven branches, with its head office in Karachi. Despite this small branch network, the leasing company has a nationwide access through forty-four branches of Union Bank. It has maintained close coordination with these branches and has acquired good quality clients through them. The Union Bank affiliation continues to provide ULL an inherent advantage as opposed to stand-alone leasing companies.



## List of Publicly Disseminated Ratings

### Entity Ratings:

|                                   | Name of the Organisation                   | Type of Rating   | Date of Notification<br>MM/DD/YYYY | Rating Assigned  |               |                |
|-----------------------------------|--|------------------|------------------------------------|------------------|---------------|----------------|
|                                   |  |                  |                                    | FS/FR/<br>AMR/DG | Long-<br>Term | Short-<br>Term |
| <b>FINANCIAL SECTOR</b>           |  |                  |                                    |                  |               |                |
| <b>ASSET MANAGEMENT COMPANIES</b> |  |                  |                                    |                  |               |                |
| 1.                                | ABAMCO Limited                             | AMR <sup>1</sup> | 12/20/2005                         | AM2              | ---           | ---            |
| 2.                                | Arif Habib Investment Management Limited   | AMR              | 12/20/2005                         | AM2              | ---           | ---            |
| 3.                                | Atlas Asset Management Limited             | AMR              | 12/08/2005                         | AM3+             | ---           | ---            |
| 4.                                | Crosby Asset Management (Pakistan) Limited | AMR              | 12/30/2005                         | AM4              | ---           | ---            |
| 5.                                | Dawood Capital Management Limited          | AMR              | 04/26/2006                         | AM3              | ---           | ---            |
| <b>MUTUAL FUNDS</b>               |  |                  |                                    |                  |               |                |
| <b>Equity Funds</b>               |  |                  |                                    |                  |               |                |
| 1.                                | ABAMCO Composite Fund (ACoF)               | FR               | 03/28/2006                         | 4-Star           | ---           | ---            |
| 2.                                | Atlas Stock Market Fund (ASMF)             | FR <sup>2</sup>  | 03/24/2006                         | 4-Star           | ---           | ---            |
| 3.                                | Crosby Dragon Fund (CDF)                   | FR               | 03/22/2006                         | 3-Star           | ---           | ---            |
| 4.                                | National Investment (Unit) Trust – NIT     | FR               | 03/20/2006                         | 4-Star           | ---           | ---            |
| 5.                                | Pakistan Premier Fund (PPF)                | FR               | 03/20/2006                         | 5-Star           | ---           | ---            |
| 6.                                | Pakistan Stock Market Fund (PSMF)          | FR               | 03/16/2006                         | 5-Star           | ---           | ---            |
| 7.                                | Pakistan Strategic Allocation Fund (PSAF)  | FR               | 03/21/2006                         | 5-Star           | ---           | ---            |
| <b>Income Funds</b>               |  |                  |                                    |                  |               |                |
| 8.                                | Atlas Income Fund (AIF)                    | FR               | 02/16/2006                         | 4-Star           | ---           | ---            |
| 9.                                | Dawood Money Market Fund (DMMF)            | FR               | 04/20/2006                         | 5-Star           | ---           | ---            |
| 10.                               | Pakistan Income Fund (PIF)                 | FR               | 02/10/2006                         | 4-Star           | ---           | ---            |
| 11.                               | UTP-Income Fund (UTP-IF)                   | FR               | 02/10/2006                         | 5-Star           | ---           | ---            |
| <b>Balanced Funds</b>             |  |                  |                                    |                  |               |                |
| 12.                               | Atlas Fund of Funds (AFoF)                 | FR               | 06/30/2006                         | 4-Star           | ---           | ---            |
| 13.                               | BSJS Balanced Fund (BBF)                   | FR               | 03/28/2006                         | 4-Star           | ---           | ---            |
| 14.                               | Unit Trust of Pakistan (UTP)               | FR               | 03/22/2006                         | 5-Star           | ---           | ---            |
| <b>Islamic Funds</b>              |  |                  |                                    |                  |               |                |
| 15.                               | Al Meezan Mutual Fund (AMMF)               | FR               | 06/23/2006                         | 5-Star           | ---           | ---            |
| 16.                               | Meezan Balanced Fund (MBF)                 | FR               | 06/19/2006                         | 5-Star           | ---           | ---            |
| 17.                               | Meezan Islamic Fund (MIF)                  | FR               | 04/13/2006                         | 5-Star           | ---           | ---            |
| 18.                               | UTP-Islamic Fund (UTP-ISF)                 | FR               | 03/14/2006                         | 3-Star           | ---           | ---            |
| <b>Absolute Return Funds</b>      |  |                  |                                    |                  |               |                |
| 19.                               | Pakistan Capital Market Fund (PCM)         | FR               | 03/22/2006                         | 5-Star           | ---           | ---            |

<sup>1</sup> Asset Manager Rating

<sup>2</sup> Fund Rating



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|  | Name of the Organisation  | Type of Rating | Date of Notification<br>MM/DD/YYYY | Rating Assigned   |                         |
|--|---|----------------|------------------------------------|-------------------|-------------------------|
|  |   |                |                                    | FS/ FR/<br>AMR/DG | Long-Term<br>Short-Term |
| <b>DFIs / INVESTMENT COS. / BROKERAGE HOUSES</b> |   |                |                                    |                   |                         |
| 1.   | House Building Finance Corporation                                  | Entity         | 06/30/2006                         | A                 | A1                      |
| 2.   | Investment Corporation of Pakistan (ICP)                            | Entity         | 10/06/2005                         | AA                | A1+                     |
| 3.   | Jahangir Siddiqui & Company Limited                                 | Entity         | 02/20/2006                         | AA+               | A1+                     |
| 4.   | Jahangir Siddiqui Capital Markets Limited                           | Entity         | 06/30/2006                         | AA-               | A1+                     |
| 5.   | Pakistan Industrial Credit & Investment Corporation Limited (PICIC) | Entity         | 06/27/2006                         | AA                | A1+                     |
| 6.   | Pak Kuwait Investment Company (Pvt) Limited                         | Entity         | 06/12/2006                         | AAA               | A1+                     |
| 7.   | Pak Libya Holding Company (Pvt) Limited                             | Entity         | 06/22/2006                         | AA-               | A1+                     |
| <b>MODARABAS</b>                                 |   |                |                                    |                   |                         |
| 1.   | First Fidelity Leasing Modaraba™                                    | Entity         | 04/17/2006                         | A-                | A2                      |
| 2.   | First Habib Modaraba  | Entity         | 02/03/2006                         | AA                | A1+                     |
| 3.   | First Punjab Modaraba   | Entity         | 04/03/2006                         | A                 | A1                      |
| 4.   | Modaraba Al-Mali  | Entity         | 06/13/2006                         | A-                | A2                      |
| 5.   | Standard Chartered Modaraba   | Entity         | 02/16/2006                         | AA+               | A1+                     |
| <b>LEASING COMPANIES</b>                         |   |                |                                    |                   |                         |
| 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         | 01/24/2006                         | AA+               | A1+                     |
| 4.   | Union Leasing Limited   | Entity         | 02/27/2006                         | A+                | A1                      |
| <b>BANKING COMMERCIAL</b>                        |   |                |                                    |                   |                         |
| 1.   | AlBaraka Islamic Bank (Pakistan Branches)                           | Entity         | 06/30/2006                         | A-                | A1                      |
| 2.   | Askari Commercial Bank Limited                                      | Entity         | 06/19/2006                         | AA+               | A1+                     |
| 3.   | Atlas Bank Limited™   | Entity         | 05/05/2005                         | BBB-              | A3                      |
| 4.   | Bank Al Habib Limited   | Entity         | 06/13/2006                         | AA                | A1+                     |
| 5.   | Bank Alfalah Limited  | Entity         | 06/12/2006                         | AA                | A1+                     |
| 6.   | The Bank of Punjab  | Entity         | 06/20/2006                         | AA                | A1+                     |
| 7.   | Faysal Bank Limited   | Entity         | 06/26/2006                         | AA                | A1+                     |
| 8.   | First Women Bank Limited  | Entity         | 06/29/2005                         | AA                | A1+                     |
| 9.   | KASB Bank Limited   | Entity         | 06/29/2006                         | BBB+              | A2                      |
| 10.  | MCB Bank Limited (Formerly Muslim Commercial Bank Limited)          | Entity         | 05/02/2006                         | AA+               | A1+                     |
| 11.  | Metropolitan Bank Limited   | Entity         | 06/27/2006                         | AA+               | A1+                     |
| 12.  | Mybank Limited  | Entity         | 06/27/2006                         | A-                | A2                      |
| 13.  | NIB Bank Limited  | Entity         | 06/30/2006                         | A+                | A1                      |
| 14.  | Prime Commercial Bank Limited                                       | Entity         | 06/28/2006                         | A+                | A1                      |
| 15.  | Soneri Bank Limited   | Entity         | 06/26/2006                         | AA-               | A1+                     |
| 16.  | Union Bank Limited  | Entity         | 06/30/2006                         | AA-               | A1+                     |

™ Rating Watch



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|--|--|------------------|------------------------------------|-------------------|-------------------------|
|  |  |                  |                                    | FS/ FR/<br>AMR/DG | Long-Term<br>Short-Term |
| <b>BANKING INVESTMENT</b>                    |  |                  |                                    |                   |                         |
| 1.   | First Dawood Investment Bank Limited   | Entity           | 12/30/2005                         | A+                | A1                      |
| 2.   | First International Investment Bank Limited                                    | Entity           | 12/30/2005                         | A                 | A1                      |
| 3.   | Jahangir Siddiqui Investment Bank Limited <sup>FW</sup>                        | Entity           | 02/10/2006                         | A+                | A1                      |
| 4.   | ORIX Investment Bank Pakistan Limited  | Entity           | 12/30/2005                         | A+                | A1                      |
| 5.   | Trust Leasing & Investment Bank Limited  | Entity           | 12/30/2005                         | AA-               | A1+                     |
| <b>INSURANCE COMPANIES</b>                   |  |                  |                                    |                   |                         |
| 1.   | Atlas Insurance Limited (Formerly Muslim Insurance Co. Ltd.)                   | IFS <sup>3</sup> | 10/27/2005                         | A+                | ---                     |
| 2.   | East West Insurance Company Limited  | IFS              | 06/13/2006                         | A-                | ---                     |
| 3.   | Habib Insurance Company Limited  | IFS              | 10/06/2005                         | A+                | ---                     |
| 4.   | Int'l General Insurance Co. of Pakistan Ltd. (IGI)                             | IFS              | 10/13/2005                         | AA                | ---                     |
| 5.   | New Jubilee Insurance Company Limited (NJI)                                    | IFS              | 10/27/2005                         | AA                | ---                     |
| 6.   | Reliance Insurance Company Limited   | IFS              | 05/03/2006                         | A-                | ---                     |
| 7.   | United Insurance Company of Pakistan Limited                                   | IFS              | 05/15/2006                         | A-                | ---                     |
| <b>REAL ESTATE DEVELOPERS &amp; PROJECTS</b> |  |                  |                                    |                   |                         |
| 1.   | Eden Developers (Pvt) Limited  | DG <sup>4</sup>  | 09/07/2005                         | PE2               | ---                     |
| <b>INDUSTRIAL CORPORATES</b>                 |  |                  |                                    |                   |                         |
| <b>TEXTILE</b>                               |  |                  |                                    |                   |                         |
| 1.   | Azgard Nine Limited <sup>FW</sup> (Formerly Legler Nafees Denim Mills Limited) | Entity           | 05/30/2006                         | A                 | A1                      |
| 2.   | Nishat Mills Limited   | Entity           | 01/06/2006                         | A+                | A1                      |
| <b>SUGAR &amp; ALLIED</b>                    |  |                  |                                    |                   |                         |
| 1.   | Al-Abbas Sugar Mills Limited   | Entity           | 02/17/2005                         | A                 | A1                      |
| <b>FUEL &amp; ENERGY</b>                     |  |                  |                                    |                   |                         |
| 1.   | Attock Refinery Limited (ARL)  | Entity           | 06/21/2006                         | AA-               | A1+                     |
| 2.   | National Refinery Limited (NRL)  | Entity           | 04/27/2005                         | AAA               | A1+                     |
| 3.   | Pak-Arab Refinery Limited (PARCO)  | Entity           | 05/16/2006                         | AAA               | A1+                     |
| 4.   | Pakistan State Oil Company Limited (PSO)                                       | Entity           | 01/24/2006                         | AAA               | A1+                     |
| 5.   | Sui Northern Gas Pipelines Limited (SNGPL)                                     | Entity           | 04/20/2006                         | AA-               | A1+                     |
| <b>CEMENT</b>                                |  |                  |                                    |                   |                         |
| 1.   | Dewan Cement Limited   | Entity           | 06/30/2006                         | A                 | A1                      |
| 2.   | Kohat Cement Company Limited   | Entity           | 06/19/2006                         | A                 | A1                      |
| <b>ENGINEERING</b>                           |  |                  |                                    |                   |                         |
| 1.   | Pak Elektron Limited (PEL)   | Entity           | 06/09/2006                         | A                 | A1                      |
| <b>TRANSPORT &amp; COMMUNICATION</b>         |  |                  |                                    |                   |                         |
| 1.   | Pakistan Mobile Communications Limited (Mobilink)                              | Entity           | 10/07/2005                         | AA-               | A1                      |
| 2.   | WorldCall Telecom Limited (WTL)  | Entity           | 06/21/2006                         | A+                | A1                      |

<sup>3</sup> Insurer Financial Strength Rating

<sup>4</sup> Developer Grading



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| Name of the Organisation              | Type of Rating | Date of Notification<br>MM/DD/YYYY | Rating Assigned   |                         |  |
|---------------------------------------|----------------|------------------------------------|-------------------|-------------------------|--|
|                                       |                |                                    | FS/ FR/<br>AMR/DG | Long-Term<br>Short-Term |  |
| <b>CHEMICAL &amp; PHARMACEUTICALS</b> |                |                                    |                   |                         |  |
| 1. Engro Chemical Pakistan Limited    | Entity         | 05/15/2006                         | AA                | A1+                     |  |
| <b>PAPER &amp; BOARD</b>              |                |                                    |                   |                         |  |
| 1. Packages Limited                   | Entity         | 06/12/2006                         | AA                | A1+                     |  |
| <b>MISCELLANEOUS</b>                  |                |                                    |                   |                         |  |
| 1. Tri-Pack Films Limited             | Entity         | 04/28/2006                         | A+                | A1                      |  |



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## Term Finance Certificates (TFCs) Ratings:

| Sr. No. | Name of the Organisation  | Amount<br>PKR (mln) | Date of<br>Notification<br>(MM/DD/YYYY) | Date of Issue<br>(MM/DD/YYYY) | Rating<br>Assigned |
|---------|---|---------------------|---|-------------------------------|--------------------|
| 1.      | Askari Commercial Bank Limited – TFCs-I                           | 1,500.00            | 06/19/2006                              | 02/04/2005                    | AA                 |
| 2.      | Askari Commercial Bank Limited – TFCs-II                          | 1,500.00            | 06/19/2006                              | 10/31/2005                    | AA                 |
| 3.      | Atlas Bank Limited <sup>rw</sup> – TFCs-2 <sup>nd</sup> Tranche   | 100.00              | 12/30/2005                              | 08/16/2001                    | A1+ <sup>*</sup>   |
| 4.      | Azgard Nine Limited   | 2,144.00            | 02/24/2005                              | 09/19/2005                    | A+                 |
| 5.      | Azgard Nine Limited – (ST-TFCs)                                   | 2,500.00            | 07/07/2006                              | <i>Privately Placed</i>       | A+                 |
| 6.      | Bank Al Habib Limited   | 1,350.00            | 06/13/2006                              | 07/16/2004                    | AA-                |
| 7.      | Bank Alfalah Limited – I  | 650.00              | 06/12/2006                              | 12/21/2002                    | AA-                |
| 8.      | Bank Alfalah Limited – II   | 1,250.00            | 06/12/2006                              | 11/24/2004                    | AA-                |
| 9.      | Bank Alfalah Limited – III  | 1,325.00            | 06/12/2006                              | 11/25/2005                    | AA-                |
| 10.     | Chanda Oil & Gas Securitization Company Limited – Securitised     | 1,000.00            | 06/27/2006                              | 02/16/2005                    | A                  |
| 11.     | First Dawood Investment Bank Limited (1 <sup>st</sup> Tranche)    | 253.05              | 12/30/2005                              | 09/21/2001                    | AA-                |
| 12.     | First Dawood Investment Bank Limited (2 <sup>nd</sup> Tranche)    | 345.00              | 12/30/2005                              | 07/27/2002                    | AA-                |
| 13.     | First International Investment Bank Limited (Interbank)           | 500.00              | 04/14/2006                              | <i>To be issued</i>           | A+                 |
| 14.     | Gulistan Textile Mills Limited                                    | 320.67              | 12/22/2005                              | 09/05/2001                    | A-                 |
| 15.     | Jahangir Siddiqui & Company Limited – TFCs-I                      | 500.00              | 02/20/2006                              | 04/18/2003                    | AA+                |
| 16.     | Jahangir Siddiqui & Company Limited – TFCs-II                     | 500.00              | 02/20/2006                              | 12/23/2004                    | AA+                |
| 17.     | Jahangir Siddiqui & Company Limited – TFCs-III                    | 500.00              | 02/20/2006                              | 09/30/2005                    | AA+                |
| 18.     | Jahangir Siddiqui & Company Limited – TFCs-IV                     | 1,000.00            | 05/15/2006                              | <i>To be issued</i>           | AA+                |
| 19.     | MCB Bank Limited (Formerly Muslim Commercial Bank Limited)        | 1,600.00            | 05/02/2006                              | 08/10/2002                    | AA                 |
| 20.     | Pakistan Mobile Communications Limited (Mobilink)                 | 3,261.64            | 11/29/2005                              | 05/31/2006                    | AA-                |
| 21.     | Prime Commercial Bank Limited                                     | 800.00              | 06/28/2006                              | 02/12/2005                    | A                  |
| 22.     | Soneri Bank Limited   | 1,200.00            | 06/26/2006                              | 05/05/2005                    | A+                 |
| 23.     | Sui Southern Gas Company Limited (2 <sup>nd</sup> Tranche)        | 1,250.00            | 02/07/2006                              | 06/11/2002                    | AA                 |
| 24.     | Trust Leasing & Investment Bank Limited (1 <sup>st</sup> Tranche) | 250.00              | 12/30/2005                              | 06/03/2003                    | AA                 |
| 25.     | Trust Leasing & Investment Bank Limited (2 <sup>nd</sup> Tranche) | 375.00              | 12/30/2005                              | 07/18/2004                    | AA                 |
| 26.     | Trust Leasing & Investment Bank Limited (3 <sup>rd</sup> Tranche) | 375.00              | 12/30/2005                              | 11/15/2005                    | AA                 |
| 27.     | Union Bank Limited – TFCs-I                                       | 750.00              | 06/30/2006                              | 12/21/2002                    | A+                 |
| 28.     | Union Bank Limited – TFCs-II                                      | 750.00              | 06/30/2006                              | 01/20/2004                    | A+                 |
| 29.     | Union Bank Limited – TFCs-III                                     | 1,000.00            | 06/30/2006                              | 02/02/2006                    | A+                 |
| 30.     | WorldCall Communications Limited – TFCs-I                         | 350.00              | 06/21/2006                              | 10/01/2002                    | AA-                |
| 31.     | WorldCall Communications Limited – TFCs-II                        | 350.00              | 06/21/2006                              | <i>To be issued</i>           | AA-                |

<sup>rw</sup> RatingWatch

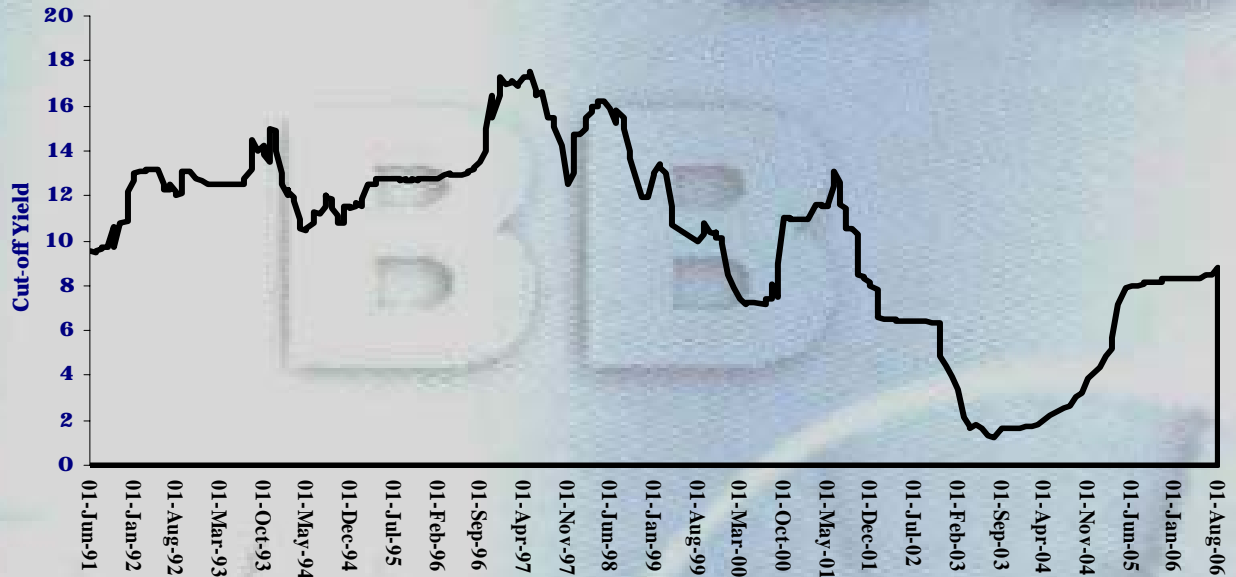
\* Short-term rating



## INTEREST RATE TRENDS

### Short Term: (Treasury Bills)

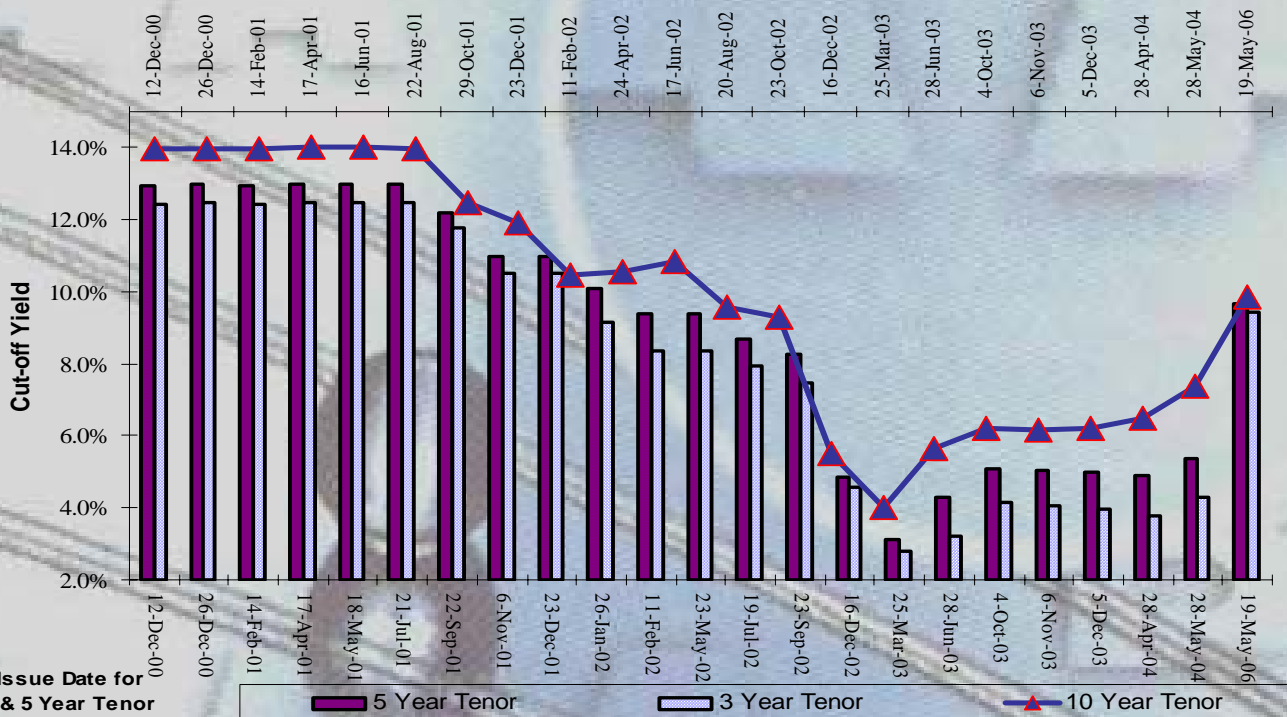
#### 6-Month Treasury Bills Cut-Off Yield



### Long Term: (PIBs)

Issue Date for 10 Year Tenor

#### Rates for 3, 5 & 10 Year Tenor



Issue Date for 3 & 5 Year Tenor

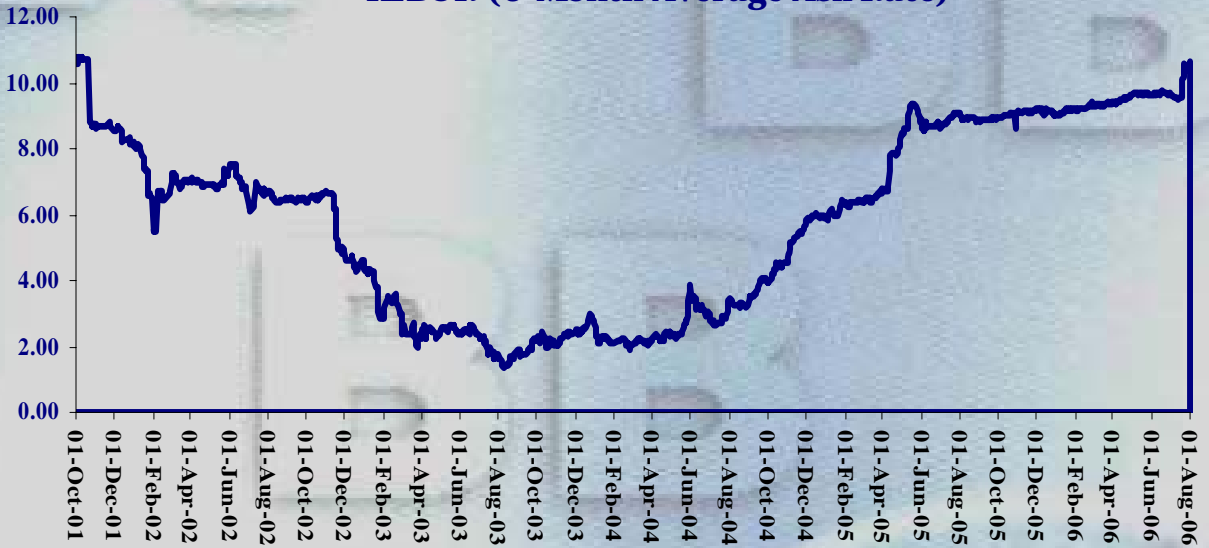
Legend: 5 Year Tenor (Pink Bar), 3 Year Tenor (White Bar), 10 Year Tenor (Blue Line with Triangle)



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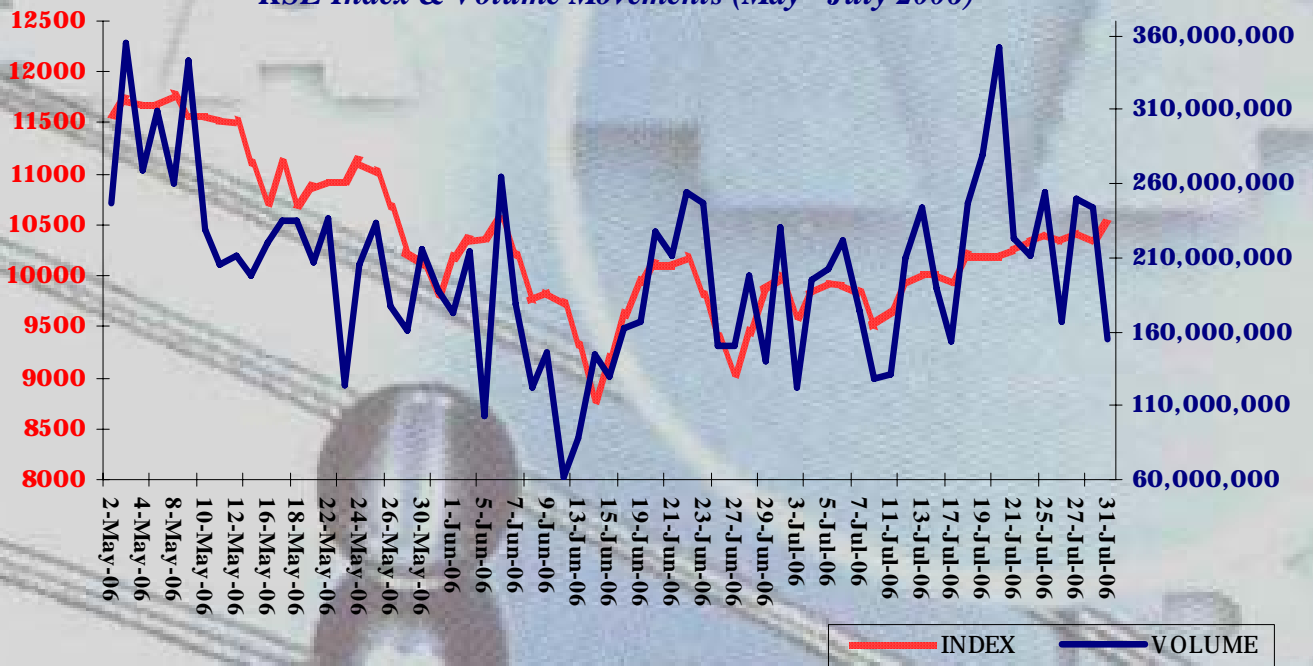
## KIBOR:

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



## KSE-100 Index:

### KSE Index & Volume Movements (May - July 2006)





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