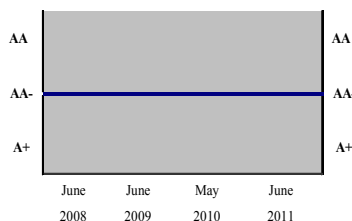


RATINGS (JUNE 2011)
PAİR INVESTMENT COMPANY LIMITED (PAİR)

Entity	New	Previous
Long Term	AA-	AA-
Short Term	A1+	A1+

RATING HISTORY



FINANCIAL DATA

	PKR (mln)		
	Mar-11 [^]	Dec-10	Dec-09
Total Assets	10,470	10,471	8,285
Equity	7,551	7,396	6,309
Net Income	155	578	371
ROA %	5.9	6.2	5.3
ROE %	8.2	8.4	6.3
Equity/Total Assets %	72.1	70.6	76.1

[^]Based on unaudited accounts for the period ended March 31, 2011.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the joint ownership of PAİR by the Governments of Pakistan and Iran. The ratings recognize strong risk absorption capacity of the company emanating from sound equity base, improving profitability, and ample liquidity. The company is in the process of developing diversified revenue streams through building its finances book and investment portfolio. However, the management's success in achieving its business objectives while capitalizing on its identified niche – project financing – remains to be seen.
- The ratings are dependent on the management's ability to tactfully structure its asset base, while establishing stable funding sources to support growth. As the company is in developmental phase, venturing into profitable businesses to establish its market position along with continuous strengthening of systems and controls to maintain strong asset quality would remain important. At the same time, any politically motivated intervention in the company's affairs, impacting the corporate governance standards would negatively affect the ratings.

ASSESSMENT

- During CY10, PAİR augmented its assets, majorly funded from fresh capital injection besides bank borrowings. The company's advances to construction and power sectors rose substantially. Meanwhile, exposure in debt instrument – both Sukuks and TFCs – further increased. Nonetheless, the instruments portfolio, though remained concentrated in banking and fertilizer sectors, is considered strong owing to investment in high rated instruments (64% in AA category at end-10).
- PAİR registered improvement (19%) in its net interest income on account of rise in earning assets. Meanwhile, fresh capital injection helped to improve spreads. However, significantly higher operating expenses (CY10: PKR 209mln, CY09: PKR 110mln) kept the profits under check. Nevertheless, provisioning reversal on account of settlement of a major non-performing loan augmented the overall profitability. During the first quarter, PAİR registered a profit of PKR 155mln (1QCY10: PKR 87mln), mainly on the account of lower administration expenses and zero provision expense.
- The management has designed a framework to streamline the risk management systems. In this regard, credit, market, and liquidity risk policies have been formulated with criteria to measure and monitor risks. However, effective implementation and testing of these policies may take some time. The implementation of COSO framework to strengthen control mechanism is currently underway. Meanwhile, customization of the credit module and various other IT initiatives will be carried out to improve the company's systems and procedures to compliment desired growth objectives. PAİR continues to establish its management team and inducted a Head of Credit & Investment Banking Division and a Company Secretary during 2010.
- Going forward, the management will continue to focus on long-term asset creation to ensure sustainable earnings. The management has identified various thriving sectors of the economy to direct its funds, while following a prudent approach to achieve desired growth targets. To facilitate this growth, the company plans to resort to more stable and long-term sources of funding. In this regard, PAİR intends to raise CoIs to bring diversification in its funding base. The company intends to set up an office in Iran with the objective of bringing in the Iranian investments in Pakistan.
- The investment portfolio of the company comprised ~40% of the total asset base at end-10. The portfolio, mainly comprising investment in government treasury bills, and income and money market funds, bodes well for the liquidity while minimizing the company's exposure to market risk. Meanwhile, the company's stock market portfolio, though represented a minor portion (15% of equity end-Dec10) in total assets, exposes the company to market risk.
- During the year, assets quality of the company improved (NPLs-to-gross finances: 10: 1.5%, 09: 14.1%) due to significantly growth achieved in the loan book.
- While being fully compliant with minimum capital requirement subsequent to equity injection by the sponsors, sizeable increase in profitability further improved the equity base of the company. Meanwhile, as the company continued to build its finances book, the company's CAR rationalized to 91% at end-10 (End09: 112%). Nevertheless, the capital structure of the company primarily constitutes Tier I capital that provides significant cushion to absorb the impact of any adverse macroeconomic shocks. Meanwhile, given the strong capitalization of the company, the overall leveraging is expected to remain low.

PROFILE

- PAİR was established in January 2007, and commenced operations on May 29, 2007 as a Development Finance Institution (DFI). It is a joint venture investment company that is equally owned by the Governments of Islamic Republic of Pakistan through the Ministry of Finance (MoF) and the Islamic Republic of Iran through Iran Foreign Investment Company (IFIC). The objective of the company is to promote economic development, while facilitating investments from Iran to Pakistan.
- According to the Joint Venture Agreement, both the partners have equal representation on the six-member Board. Mr. Nowrouz Kohzadi, the Chairman of the Board, serves as the Managing Director of the Export Promotion Bank of Iran. Syed Ahmed Iqbal Ashraf, a Fellow of Association of Chartered Certified Accountants from England with three decades of local and international banking experience, has recently joined PAİR as its CEO. He has served as CEO of Bank of Khyber, DMD of Pak-China Investment Company and SEVP/ Group Chief of Overseas Banking Group at NBP.