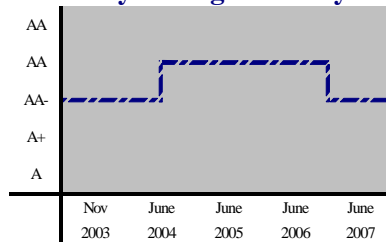


**Pakistan Industrial Credit & Investment Corporation Limited****Ratings (June 2007)**

Entity*	New	Previous
Long term	AA-	AA
Short term	A1+	A1+

* The ratings have been placed on a Rating Watch.

LT Entity Rating – History**Summary Data**

(PKR million)

	31-Dec-06	31-Dec-05
Total Assets	37,984.0	40,489.4
Total Equity	7,431.6	8,518.8
Net Income	800.4	2,227.3
ROE%	10.0	29.3
Equity / Total assets %	19.6	21.0

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RATING RATIONALE**ASSESSMENT**

- The ratings reflect the stressed performance trends and major deterioration in asset quality of the Corporation. The profitability, besides being exposed to volatility risk due to high exposure in the stock market, is increasingly coming under pressure due to squeezing spreads and high provisioning expense against rising NPLs. Meanwhile, the Corporation continues to maintain a strong capital structure, and derives strength from its established subsidiaries in the financial sector. Recently NIB Bank Limited, sponsored by an international group of high standing – Temasek –, has signed agreements with various groups of shareholders for acquiring majority stake in the Corporation, with the ultimate objective of merging NIB Bank, PICIC and PICIC Commercial Bank Limited. Pending the completion of the merger process, the ratings remain on Rating Watch.
- With increasing pressure on income from financing operations, and deteriorating asset quality, the overall performance of the company has been severely impacted, reflected by substantial decline in ROE during 2006. As against sizeable expansion in the loan book during the past two years, the advances portfolio registered a modest decline during the year. Meanwhile, the net interest revenue decreased substantially owing to pressure on spreads, arising from more than proportionate increase in cost of funding compared to rise in yield on finances. While the dividend income, mainly accruing from the strategic investments, remained healthy, the capital gains on non-strategic equity investment portfolio were substantially lower on a YoY basis. This was attributable to depressed and volatile behaviour of the stock market for most of 2006. Meanwhile, the pre-tax profitability was further dampened by higher level of provisioning expense against the sharp increase in NPLs. The bottom line was supported to some extent by recognition of a deferred tax asset on unabsorbed tax losses. During 1Q07, the pressure on earnings persisted with squeezing spreads, the drag of increasing proportion of non-earning assets, and high provisioning expense.
- The Corporation's subsidiaries, namely PICIC Commercial Bank Limited and PICIC Asset Management Company Limited, also registered a YoY decline in performance during 2006, which is expected to have an impact on dividend income accruing to PICIC.
- PICIC is exposed to a relatively higher level of market risk, owing to continuing sizeable investment in non-strategic equity portfolio, close to the maximum permissible limit. The management as a policy invests with a long-term view in fundamentally strong scrips, while the level of trading portfolio is limited at less than PKR 100mln. Meanwhile, effective policies and procedures have been adopted to manage the associated risks.
- The NPLs registered a sizeable increase during 2006, emanating mainly from exposures in the textile and commercial vehicle segments. Resultantly, the proportion of NPLs in total finances increased substantially, constituting around one-fourth of the total finances at end-Mar07. At the same time, the net impaired lending to equity has also increased significantly. The management has rescheduled a fair proportion of these NPLs, while efforts are also being made to liquidate the underlying collateral. This option has proved beneficial in the past in terms of preventing any material loss. However, given the quantum of infection in the loan book, a significant drag on Corporation's earnings is likely to persist in the medium-term.
- The equity base, though registering a YoY decline due to high dividend payout and relatively low profitability during 2006, remained strong in relation to total assets. Deposits constitute around three-fourth of the total funding mix at end-Dec06. However, the funding costs are high owing to limited contribution of retail deposits in the total deposit mix. Given the Corporation's focus on long-term financing, but at the same time higher reliance on short-term funding, there exists a sizeable mismatch in assets and liabilities in the short-term, though comfort is available in the form of high proportion of liquid assets.

KEY RATING DRIVERS

- PICIC's ratings are dependent on the success of the management's strategies in improving the quality of its loan book, and enhancing the returns from core operations. Meanwhile, performance of the subsidiaries and effective management of market risk would remain critical. Nevertheless, given the increasingly competitive environment, the Corporation would find it difficult on a standalone basis to generate reasonable returns from financing operations.

PROFILE

- 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 at end-1Q07, the Corporation's primary activities encompass term financing for industrial and commercial activities, merchant banking operations, capital market operations, leasing, and consumer financing. The Corporation owns 60% stake in PICIC Commercial Bank Limited, having an asset base of over PKR 70bln and a network of 122 branches at end-Mar07. PICIC Asset Management Company, the wholly owned subsidiary of PICIC, is a strong player in asset management sector with assets under management aggregating to over PKR 18bln. Meanwhile, PICIC Insurance Company Limited, an associated concern, though still in its gestation phase, is showing appreciable growth.
- Among the shareholders, public sector corporations have the strongest presence followed by the general public and private institutions. The chief executive, who has been in this position since 1996, is an experienced banker and has been principally instrumental in the turnaround of the organization in the last few years.