

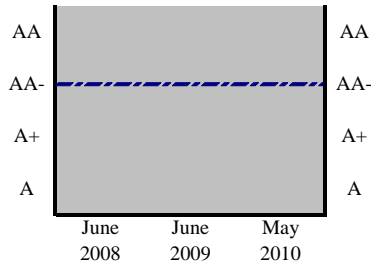


RATINGS (MAY 2010)

PAK IRAN JOINT INVESTMENT COMPANY (PIJC)

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

RATING HISTORY



FINANCIAL DATA

PKR (mln)

	Mar-10 [^]	Dec-09	Dec-08
Total Assets	8,936	8,285	5,815
Equity	6,905	6,308	5,446
Net Income	87	371	318
ROA %	4.5	5.3	6.4
ROE %	5.9	6.3	6.7
Equity/Total Assets %	77.3	76.1	93.6

[^]Based on unaudited accounts for the period ended March 31, 2010.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the sovereign ownership structure of PIJC, jointly owned by the Governments of Pakistan and Iran, signifying strong financial support. At the same time, the risk absorption capacity of the company remains strong resulting mainly from a robust equity base and healthy liquidity. Nevertheless, the company's ability to build a healthy portfolio of earning assets, in line with its development mandate in a competitive and difficult economic environment remains challenging.
- The ratings are dependent on the management's ability to develop an effective risk management framework needed to compliment the overall business strategy of the company. Furthermore, any politically motivated intervention affecting the company's governance standards could be negative for the ratings. Meanwhile, creating long-term assets to establish fairly diversified and stable revenue streams may have positive implications on the ratings.

ASSESSMENT

- To establish the company as a viable and sustainable financial institution, the Board of PIJC has approved the development of the following lines of business: 1) Treasury and Investments, 2) Corporate Finance, 3) Loans and Advances, and 4) Strategic Investments specializing in Project Financing. However, the company while facing stiff competition mainly from commercial banks is yet to establish its niche in the highly competitive financial industry.
- Since commencement of its operations, the management has followed a conservative approach towards growth, as it intends to develop the requisite infrastructure before actively pursuing its business plan. During CY09, PIJC registered significant improvement (42%) in its net interest income. The company diverted a greater portion of its assets towards relatively higher yielding avenues – TFCs, mutual funds, and government securities – augmenting the overall spreads of the company. However, higher provisioning expense due to infection in asset quality, limited the growth in the bottom line of the company during 2009.
- The management is in the process of designing and implementing 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. At the same time, PIJC has contracted the services of a consultant to review the risk framework of the company and assist in the development of the operational risk policy.
- Although experiencing staff turnover, the company continues to establish its management team. While most departmental heads are in place, the process for hiring middle tier managers continues. Meanwhile, in order to maintain adequate controls, the company has established an independent audit function and is in the process of developing a compliance unit.
- Going forward, the management focus will remain on long-term asset creation in order to ensure sustainable earnings. In this regard, the company is targeting significant growth, with plans to substantially build the core loan book. The management has identified various sectors, following a prudent approach, to achieve its growth targets. To facilitate this growth, the company plans to resort to more stable and long-term sources of funding as against relying mainly on money market borrowing. However, materialization of the company's plan is yet to be seen.
- The investment portfolio comprised 41% of the total asset base at end-09, primarily consisting of market treasury bills (72%), while equity market investments and income funds constituted a minor portion of investments. Given the management's stance to maintain a high level of investments in low risk short-term avenues, mainly treasury bills, the overall market risk is expected to remain low, going forward. The company will also continue to explore various investment avenues to achieve a fair diversification in its asset mix.
- Owing to limited advances book (PKR 2,704mln, including TFCs and Sukuk bonds), the company's credit risk exposure remains low. However, the company has experienced recovery issues regarding few of its money market exposures. As a result, the infection ratio increased to 16% during the year. In this regard, the management is making concerted efforts to secure its facilities. Nevertheless, the company has adequately provided against the said exposures (Mar'10: 68%).
- In order to meet the minimum capital requirement as prescribed by the SBP, the company increased its paid up capital in February 2010, to PKR 6bln. 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

- Pak-Iran Joint Investment Company Limited 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. Recently, the Government of Iran replaced all three nominees on the Board. Mr. Nowrouz Kohzadi, the new Chairman of the Board, serves as the Managing Director of the Export Promotion Bank of Iran. Mr. Aizaz Sarfraz, the Managing Director of PIJC, an MBA, possesses experience in the financial industry and continues to build a team of professionals.