



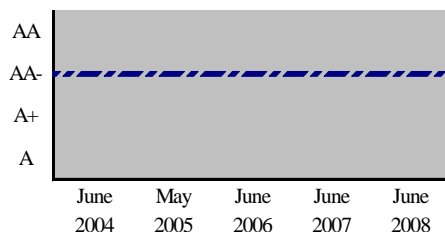
Pak-Libya Holding Company (Pvt.) Limited (PLHC)

RATINGS (JUNE 2008)

PAK-LIBYA HOLDING COMPANY (PVT.) LIMITED

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

L.T ENTITY RATING HISTORY



FINANCIAL DATA

PKR (million)

	31-Dec-07	31-Dec-06
Total Assets	19,631.0	12,809.9
Equity	7,140.7	4,241.7
Net Income	499.0	294.8
ROA %	3.08	2.39
ROE %	8.77	8.07
Equity/Total Assets %	36.37	33.11

ANALYSTS

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RATING RATIONALE & KEY DRIVERS

- The ratings reflect the joint ownership of PLHC by the Governments of Pakistan and Libya, implying support to the company. At the same time, the ratings factor in the strong risk absorption capacity on the back of a sound capital structure and a conservative stance towards risk. However, PLHC remained relatively constrained in building a loan book and diversifying the revenue streams.
- The successful and timely diversification into other dimensions of financial services and developing additional stable revenue streams, while effectively managing the associated risks would have positive implications for the ratings. At the same time, any politically motivated intervention in the company's affairs negatively impacting good corporate governance standards would be critical for the ratings. Meanwhile, any material deterioration in the company's asset quality or squeeze in profitability may have negative connotations.

ASSESSMENT

- PLHC's asset base registered a significant YoY increase during 2007 mainly on the back of substantial equity injection and moderate increase in gearing by mobilizing additional funds from the money market. The additional funds were mainly deployed in money market and fixed income funds. At the same time, the reported increase in advances was an outcome of capital market financing (CFS), wherein core loan book has remained largely stagnant. With continuing pressure on spreads and a high provision expense - result of withdrawal of forced sale value of underlying collaterals for calculating provisions against NPLs - the performance remained under pressure. The improvement in the reported profits in 2007 was mainly driven by capital gains. During 1Q08, the trend largely continued with growth in finances emanating from short-term capital market financing. Moreover, the profitability was again supplemented by capital gains.
- The management, while relying on participation in syndicate financing transactions including TFCs, intends to expand its traditional business lines, to achieve the targeted credit expansion. The management also intends to continue with its strategy of expanding in the consumer segment, mainly mortgage and auto financing, in low risk corporate employee segment. In this regard, it plans to enhance its geographical presence in Lahore and Islamabad to build volumes in the consumer finance segment, albeit the overall contribution is expected to remain modest. To tap opportunities outside Pakistan and channelize investments in different segments PLHC plans to open liaison offices in Dubai and Tripoli.
- Moreover, PLHC is exploring opportunities for enhancing bilateral business relationship between the two sponsoring countries in areas of power, oil & gas and real estate. This would facilitate in attracting foreign direct investment in Pakistan for the development of capital-intensive infrastructure projects and generating a higher level of fee-based and fund-based income. At the same time, depending on feasible arbitrage opportunities, the company intends to remain an active participant in the money market and take selected exposure in the stock market. However, the translation of these initiatives into stable revenue streams in the highly competitive operating environment remains to be seen.
- The company, though successfully limiting any fresh infection in its portfolio, could not achieve any major recovery during 2007. Consequently, asset quality, measured in terms of NPLs to gross finances (core finances excluding CFS financing), largely remained at the last year's level. Meanwhile, the management continues to strengthen its overall risk management and recovery system to support its expansion plans.
- Funds mobilized during 2007 remained a mix of borrowings and deposits (COI's), mainly from financial institutions. PLHC has a strong capital structure that has been lately strengthened to meet minimum paid-up capital requirement. The capital structure of the company primarily constitutes Tier I Capital (Total CAR: 44%) and has improved providing ample room for further growth.

PROFILE

- Pak-Libya Holding Company (Pvt.) Limited established as a joint stock company in 1978 is equally owned by the Government of the Islamic Republic of Pakistan and the Socialist Peoples Libyan Arab Jamahiriya, through Libyan Arab Foreign Investment Company (LAFICO). LAFICO a state owned company has a large portfolio of investments spread over Africa, Asia and Europe.
- The six-member board of PLHC has equal representation of both sponsor countries. The Chairman, Mr. Ramadan A. Haggiagi has been with LAFICO and PLHC since two decades and is currently the Head of Portfolio Investments Department at LAFICO. The managing director and CEO of the company Mr. Naemuddin Khan, possesses over twenty-five years of experience in both local and international banks. Mr. Saleh JM Abdalla, recently joined PLHC as DMD representing Libyan interest. He is expected to strengthen the strategy formulation process in the company and enhance the ability to tap opportunities in Libya, mainly to attract resources to Pakistan. PLHC has an experienced senior management team in place, which has shown a low turnover over years.