

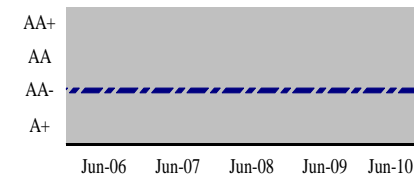


RATINGS (JUNE 2010)

PAKLIBYA HOLDING COMPANY (PVT.) LIMITED

RATINGS	NEW	PREVIOUS
Entity		
Long Term	AA-	AA-
Short Term	A1+	A1+

L.T ENTITY RATING HISTORY



FINANCIAL DATA

PKR (mln)

	Mar-10*	Dec-09	Dec-08
Total Assets	15,003.7	16,416.3	12,172.3
Equity	6,587.10	6,525.0	7,253.1
Net Income	62.1	(728.1)	112.4
ROA %	1.6	(5.1)	0.7
ROE %	3.8	(10.6)	1.6
Equity / Assets (%)	43.9	39.8	59.6
SBP CAR %	38.0	37.0	57.0

* Based on unaudited accounts for 3 months ended March 31, 2010.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect the sovereign ownership structure of PakLibya Holding, jointly owned by the Governments of Pakistan and Libya, signifying strong financial support. The ratings factor in the company's recent initiatives of fortifying its system and controls and management structure, which are expected to be beneficial for the future prospects. Meanwhile, performance of the company remains relatively constrained. Although a detailed business plan has been formulated, the efficacy of the plan, in terms of tangible outcomes in prevailing tough operating environment, remains to be seen.
- The management's ability to successfully implement its strategy in a timely manner, while managing the associated risks, would remain critical for the ratings. At the same time, maintaining strong asset quality and upholding high governance standards would remain crucial.

ASSESSMENT

▪ The global financial crisis impacted the Pakistani economy with a lagged effect. Although certain macroeconomic indicators have improved, the chronic power crisis, stubborn inflationary pressure, and adverse law and order situation affected the overall economic activity and, in turn, the asset quality of the financial institutions. DFIs in Pakistan face many challenges in fulfilling their mandate including intense competition from commercial banks, limited outreach, and lack of viable funding sources. Thus, the sector relies heavily on money and capital market operations for generating profitable returns.

▪ Established in 1978, PLHC is one of the oldest DFI in the country and its core activities are divided into three main functions: i) Corporate and Investment Banking, ii) Treasury and Money Markets and iii) Securities Portfolio Management (SPM). Following its charter, PLHC actively pursued growth in loan disbursement during 2009 as the advances portfolio witnessed substantial increase (CY09: PKR 6,717mln, CY08: PKR 3,757mln). The company also mobilized sizeable certificates of investment (CoIs), mainly from corporate, while reducing its borrowings from money market. However, the company's net interest revenue decreased modestly (9%) attributable mainly to higher cost and quantum of funds, which exerted pressure on the spreads. The company's other operating income also declined significantly on account of recognition of heavy losses (PKR 613mln) emanating from the equity investments incurred during 2008. This, coupled with significant provisioning expense for NPLs, rendered the bottom-line red. The company reverted back to profitability in 1Q10 on the back of healthy returns on investments.

▪ PLHC's investment portfolio comprises around 26% of asset base and witnessed a healthy growth (29%). Equity investments constitutes majority (45%) of the portfolio followed by government securities (32%), mutual funds (14%) and strategic investments (9%). The management is reconfiguring its equity investment portfolio by rationalizing number of scrips and focusing on high dividend yielding stocks of blue chips companies to optimize returns while reducing market risks.

▪ Owing to a sizeable advances book (PKR 9,420mln, including TFCs & Sukuks), PLHC's credit exposure remains high. The majority (87%) of the PLHC loans are long-term financing lines directed towards corporates within four sectors; power, fertilizers, telecommunication and cement, representing around 69% of the credit portfolio. PLHC's top twenty funded exposures remain high (CY09: 88%; CY08: 70%) and thus exposes the company to concentration risk. Delinquencies in loan book stood at around 10% in 2009 (1Q10: 12%) emanating almost entirely (99%) from corporate portfolio. With subdued economic environment, maintaining strong asset quality would remain a challenge for the company. In this regard, the company has engaged external consultants to update its various policies and procedures pertaining to credit, market, liquidity and operational risks. Meanwhile, the organizational structure and risk management function have been streamlined to align with envisaged business plan.

▪ Going forward, the management has adopted a five year business plan that entails a multi pronged strategy. The company would focus on its core activity - project financing - to establish sustainable revenue stream, while money market and capital market operations would supplement. The management also intends to elevate PLHC to a holding company structure by establishing entities or formulating strategic partnerships in promising sectors of the economy including banking, shipping, sugar, power, real estate and fertilizer. On the liability side, the main focus would be on rationalizing cost of funds while generating longer tenure funding base through financial intuitions and by issuing TFCs/ Bonds.

▪ PLHC generates funds through CoIs and money market borrowings, which are largely short-term in nature. To effectively match its maturity and liquidity profile, the company needs to develop sustainable, long-term funding avenues. The capital structure of PLHC primarily constitutes Tier I Capital and remains strong. However, compared to peers, it is on the lower side.

PROFILE

▪ PLHC, established as a joint stock company in 1978, is equally owned by the Government of Pakistan and the Socialist Peoples Libyan Arab Jamahiriya, through SBP and LFICO, respectively. LFICO, a state owned company, has a large portfolio of investments spread over Africa, Asia, Europe and Americas.

▪ The six-member board of PLHC has equal representation of both sponsor countries. The Chairman, Mr. Ramadan A. Haggiagi, after serving two decades at PLHC has been replaced by General Ehsan Ul Haq (Retd). Although General Haq is a Pakistani national, he has been nominated by the Libyan Government. Mr. Kamaluddin Khan, the managing director of the company, has an extensive experience in the financial sector, both local and international. He is assisted by a senior management team, whom has shown a high stability.