

**PAKISTAN KUWAIT INVESTMENT COMPANY (PRIVATE) LIMITED****RATINGS (JUNE 2006)**

PAKISTAN KUWAIT INVESTMENT
COMPANY (PRIVATE) LIMITED
(PKIC)

| | NEW | PREVIOUS |
|---------------|-----|----------|
| ENTITY | | |
| Long Term | AAA | AAA |
| Short Term | A1+ | A1+ |

FINANCIAL DATA

PKR (mln)

| | 31-Dec-05 | 31-Dec-04 |
|------------------------|-----------|-----------|
| Total Assets | 25,747.5 | 19,508.1 |
| Equity | 10,655.8 | 8,959.3 |
| Net Income | 1,896.5 | 1,584.7 |
| ROA % | 8.38 | 8.79 |
| ROE % | 19.34 | 18.92 |
| Equity/ Total Assets % | 41.39 | 45.93 |

ANALYSTS

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RATING RATIONALE**ASSESSMENT**

- The ratings reflect the company's very strong risk absorption capacity emanating from its robust capital structure. This is further supported by the management's prudent stance towards risk while targeting a modest growth in different areas of business. Although returns on trading in equities continue to dominate the company's profitability, the contribution of relatively stable interest earnings is improving and the income from investment banking activity has also started.
- PKIC has bifurcated its fund-based businesses in three areas: a) corporate finance, b) treasury, and c) capital markets. Within corporate finance, the company, due to relatively higher cost of funds compared to commercial banks, is concentrating on second tier clients with acceptable level of credit risk. During 2005, in addition to gradual expansion in its targeted segment, the company availed a sizeable short-term fund deployment opportunity, resulting in substantial growth in its loan book. Going forward, PKIC is targeting a moderate expansion in its loan book. It is also planning to initiate short-term seasonal financing for procurement of indigenous raw materials. To further strengthen its risk management, the company is in the process of developing a formal policy manual including a risk grading system.
- PKIC continues to strengthen its treasury function and focuses on participation in low margin, high volume transactions involving a minimal level of risk. The division while providing substantial growth in the balance sheet size was a major contributory towards increase in the interest-based income during 2005. The company, in addition to money market operations, is deploying funds in the fixed-return areas of capital market including CFS, ready-future spread transactions and financing against shares. The company intends to further expand the size of its treasury operations. The Asset and Liability Committee monitors the risk management processes and control systems for ensuring that the exposures are within the acceptable limits.
- PKIC, actively managing a sizeable portfolio of equities, has achieved substantial gains over the past few years mainly due to robust behaviour of the stock market. The company has divided its portfolio between strategic (forming around 26% of the total portfolio on cost basis at end-05) and trading investments (available for sale: 30%, held for trading: 44%). The strategic portfolio mainly includes PKIC's holding in Meezan Bank Limited. To manage the associated market risk, the company has capped the total exposure in equities on cost basis, excluding the strategic portfolio, at 75% of total equity excluding marketable and government securities reserve. Additionally the portfolio management committee has put in place a well-documented control system.
- The company has taken various initiatives in the form of strategic equity investment in different companies aimed at diversifying its revenue stream. The most recent of these is Pak Kuwait Takaful Limited (30% ownership), Pakistan's first Islamic general insurance company. PKIC is planning to launch an Islamic life insurance company and has also formed an NBFC to undertake asset management and brokerage businesses. However, it will take sometime before these investments can emerge as significant contributors to revenues. PKIC has also recently established an investment banking function to build a fee-based revenue resource. The company, since long, is exploring the opportunity to acquire a commercial bank, which would provide the company with greater financial flexibility and multiple options for asset growth while enabling it to more effectively compete in the fast changing financial sector of the country.
- PKIC is very well capitalized, which, while representing a very strong risk absorption capacity, provides room for leveraged growth.

SUPPORT

- Given the joint shareholding in company of the governments of Pakistan and Kuwait, implicit support can be assumed in the event of contingency even in the absence of any specific guarantee or undertaking in this regard.

BACKGROUND

- PKIC was established in March 1979 as a joint venture between the governments of Pakistan and Kuwait. Currently the shareholding is equally held through the State Bank of Pakistan and the Kuwait Investment Authority (KIA). The primary objective of the organization is to make a tangible contribution to economic development by supporting both industrial and service sectors. The Managing Director, who joined PKIC in January 2005, has over 35 years of diversified national as well as international experience. This includes Chairmanship of NIT and as President and Chief Executive of Zarai Taraqiati Bank.