



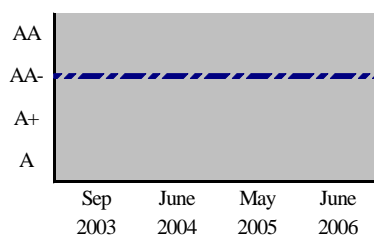
Pak-Libya Holding Company (Pvt.) Limited (PLHC)

Ratings (June 2006)

Pak-Libya Holding Co. (Pvt.) Ltd.

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

L.T Entity Rating History



Financial Data

PKR (million)

	31-Dec-05	31-Dec-04
Total Assets	11,854.1	10,971.0
Equity	3,066.9	2,795.3
Net Income	271.6	286.2
ROA %	2.38	2.98
ROE %	9.27	10.79
Equity/Total Assets %	25.87	25.48

Analysts

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Rating Rationale

Assessment

- The ratings reflect PLHC's sustained strong risk absorption capacity stemming from augmenting equity base and relatively low risk profile of the asset portfolio. The ratings also factor in the company's somewhat subdued profitability due to low spreads. This emanates from the inherent disadvantage of not being able to attract low cost deposits in the absence of a branch network. While PLHC has launched several initiatives to enhance the return on financing and increase fee based income, the profitability is likely to remain subdued.
- During 2005, PLHC changed its asset mix, by deploying funds in credit avenues through divesting investments, mainly government securities that were locked at lower rates. This is expected to have positive impact on the company's spread management. The company continues to primarily rely on syndicated financing including TFCs mainly due to its relatively limited capacity to independently identify and execute credit growth opportunities. Thus the interest income mainly remains a function of low margin corporate lending and treasury operations. On the other hand, higher cost of funds in an increasing interest rate scenario led to squeezed spreads and resultantly, almost stagnant net interest revenue. Meanwhile, decline in dividend income and loss on disposal of government securities restricted the contribution from other operating income. However, a net reversal of provisions and tax adjustments positively contributed towards the bottom line, thereby largely maintaining the overall profitability.
- Going forward, the sustainability of profitability will largely depend on the company's ability to expand its credit portfolio in a highly competitive and dynamic operating environment. In order to compensate for falling interest margins, the management, while maintaining its focus on core business operations, is striving for increasing exposure to higher margin consumer financing. Since this is inherently more risk prone, efforts are underway to implement a credit policy that would be underpinned by the introduction of credit grading mechanism, which has been designed by keeping in view the SBP guidelines, thus reducing the potential risk. While increase in the proportion of consumer financing could improve spreads, the extent of improvement is not likely to be material given the increasing competition from financial institutions with extensive network and credit base.
- PLHC has reduced its exposure to the stock market to 23% of the equity base (CY05: 33%), while, at the same time improving quality of the portfolio. Although the unrealized loss on equity investments stood at around PKR 99mln at end-1Q06, the portfolio offers good prospects in terms of dividend yield. Going forward, the management plans to maintain its equity portfolio within the range of 20-25% of the total equity base to limit the potential market risk. This would enable the company to earn reasonable income stream in terms of dividends and potential for capital gains depending on the stock market behavior. Meanwhile, Portfolio Management Committee will be ensuring the quality of the portfolio through effective monitoring.
- PLHC maintains overall good asset quality. Although net impaired lending to equity ratio witnessed some deterioration due to infection on account of a lease facility of PKR 200mln, the management is pursuing this case and has adjusted it through court settlements on the basis of monthly installments. Meanwhile, the management's ongoing efforts to strengthen the overall risk management systems and controls are expected to mitigate further risk of loss.
- PLHC's capital structure remains very strong and its capital adequacy ratio remains well above the prudential requirement for DFIs. Going forward, in order to meet the minimum capital requirement, the company is in the process of issuing right shares of a nominal value of PKR 880mln, which is expected to further strengthen its capital structure, going forward.

Support

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

Background

- Pak-Libya Holding Company (Pvt.) Limited was established as a joint stock company on 14th October, 1978 equally owned by the Government of the Islamic Republic of Pakistan and the Socialist Peoples Libyan Arab Jamahiriya. The company operates within the framework of commercial and banking laws of Pakistan and its operations are supervised by the State Bank of Pakistan.
- Pak-Libya is the first company in the financial sector of Pakistan to receive ISO certification. The recognition reflects the company's image as a *quality conscious organization*.
- The managing director of the company has recently been appointed for a contract of three years. The new MD, Mr. Naemuddin Khan, possesses over twenty-five years of diversified experience in both local and international banks.