



**The Pakistan Credit Rating
Agency Limited**

Issue V, May 2015



PACRA *INSIGHT*

The Best Vision is INSIGHT

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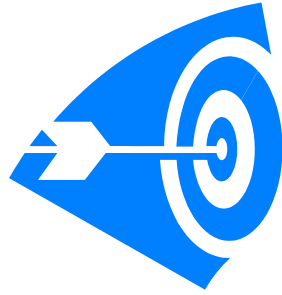
Inside....

1. PACRA **Rating Universe**
2. Pakistan **Rating Industry**
3. Credit **Risk**
4. Sector **View**
5. PACRA **Capacity Building Endeavors Series**
 - i. Human Resource Training
 - ii. Public Awareness Programs
 - iii. Capital Market Development

New Section

PACRA Insight is a medium to communicate with the users of ratings

– harmonizing knowledge; assimilating expertise....in essence, leading the rating industry's development along high standards of integrity and transparency



PACRA Rating Universe

Composition, Size, Activity & Developments



Entity Ratings

Instrument
Ratings

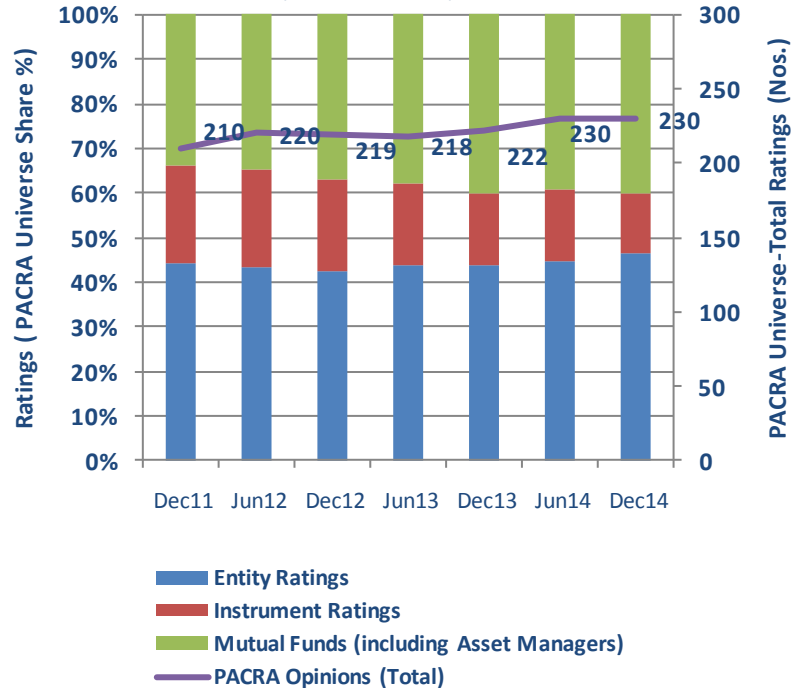
Mutual Funds
(including Asset
Managers)

Developments

PACRA Rating Universe – *Composition*

FIGURE I

SNAPSHOT - PACRA Ratings Composition
(Dec11- Dec14)



- **Universe composition** - Dominated by entity ratings followed by various kinds of opinions for asset manager companies (AMCs) and instrument ratings
- New instrument issuance yet to pick up pace
- **CY14** sees PACRA launching a **NEW** product – *Security Agency Grading* (details later in the presentation)

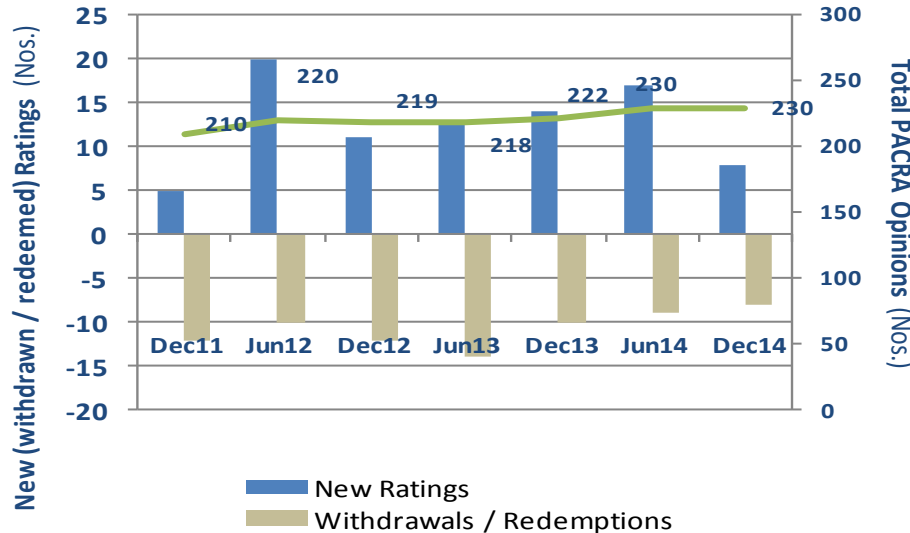
Pakistan Rating Universe – *Dual Ratings*

Dual Ratings				
	PACRA		JCR-VIS	
	Current Rating	Rating Action / Dissemination Date	Current Rating	Rating Action / Dissemination Date
AKD Investment Management	AM3	Initial / (26-Sept-14)	AM3	Upgrade / (10-Apr-15)
AlBaraka Bank (Pakistan)	A	Maintain / (27-Jun-14)	A	Maintain / (30-Jun-14)
Askari General Insurance	A+	Maintain / (05-Jan-15)	A+	Maintain / (15-Apr-15)
Fatima Fertilizer	AA-	Upgrade / (27-Nov-14)	AA-	Initial / (16-Apr-14)
Faysal Bank	AA	Maintain (23-Jun-14)	AA	Maintain / (30-Jun-14)
Jubilee General Insurance	AA+	Maintain / (05-Jan-15)	AA+	Maintain / (30-Dec-14)
K-Electric	A+	Upgrade / (11-Jun-14)	AA	Upgrade / (01-Dec-14)
Tameer Microfinance Bank	A+	Maintain / (27-Feb-15)	A+	Maintain / (17-Apr-15)
The Bank of Khyber	A	Maintain / (30-Jun-14)	A	Maintain / (30-Jun-14)
The Pakistan General Insurance	A-	Maintain / (12-Jun-14)	A-	Maintain / (12-Dec-14)
The Universal Insurance	BBB-	Downgrade / (06-Jan-15)	BBB	Maintain / (24-Nov-14)
<div> <div>PACRA</div> <div>Pakistan</div> <div>Credit Risk</div> <div>Sector View</div> </div>				

PACRA Rating Universe – *Entry / Exit*

FIGURE II

SNAPSHOT - PACRA Ratings Universe Growth
(Dec11 - Dec14)



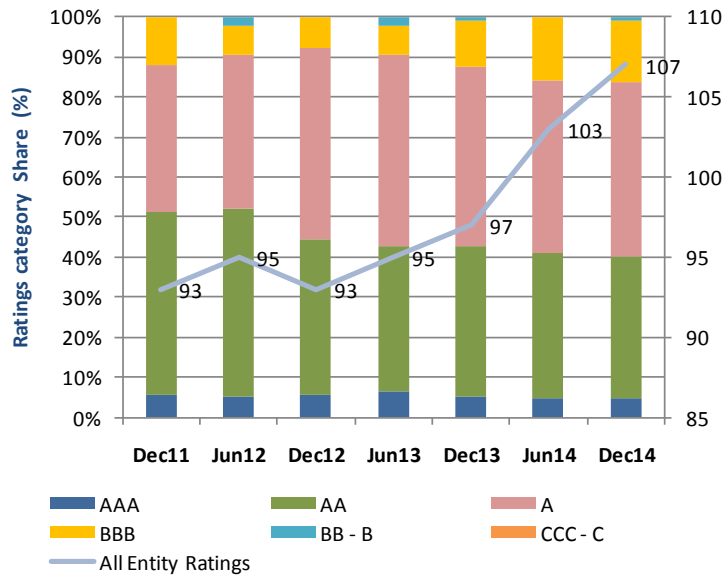
PACRA Rating Universe – *Entry / Exit* (CY14)

Growth	4% Eight (8) additions	
	Entry	Exit
	25	17
Entity	12	2
Instrument	5	10
Mutual Funds (including asset managers)	8	5

Entity Rating Universe - Composition

FIGURE III

PACRA Entity Ratings Composition & Growth
(Dec11 - Dec14)



Sector-Wise Distribution (CY14)

Heavy-weight Sector	Concentration (%)
Commercial & Microfinance Banks & Joint Venture FIs	24
Non-Banking FIs	11
Insurance	20
Energy	15

Broad Sectoral Concentration

Financial Institutions (10 unique sectors) - 51%

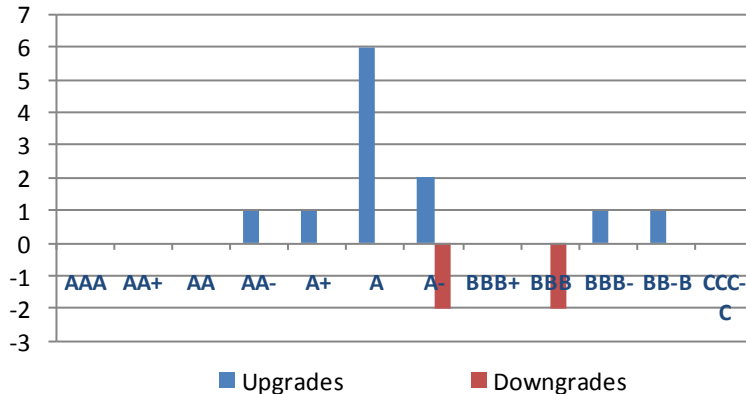
Corporates (17 unique sectors) - 49%

Entity Rating Universe – Rating Activity

Rating Activity - upgrades/Downgrades
(Nos.)

FIGURE IV

Entity Rating Activity across Rating Categories
(For calendar year ended Dec 31, 2014)



Rating Activity – Entities (CY14)

Upgrades	Downgrades
11	4

Multinotch Upgrades: 2

1. Maple Leaf Cement (From BB to BBB)
2. Engro Corp.(From A to AA-)

Rising Star

Multinotch Downgrades: 2

1. KASB Bank (From BBB to B)
2. IGI Investment Bank (From A- to BBB-)

Fallen Angel

Rising Star: A rating rising directly from low rating categories (BB, B and CCC to C rating categories) into high rating categories (from AAA to BBB with BBB- being the lowest rating in this category)

Fallen Angel: A rating falling directly from high rating categories (from AAA to BBB with BBB- being the lowest rating in this category) into low rating categories (BB, B and CCC to C rating categories)

Entity Rating Universe – *Entry / Exit*

PACRA ENTITY RATING UNIVERSE (Entry / Exit) (For Calendar Year ended December 31, 2014)

	Entities	Initial Long-Term Ratings		Withdrawn Entities	Last Long-Term Ratings
Financial Institutions					
1	The Universal Insurance Company	BBB+	1	Askari Bank	AA
2	Crescent Star Insurance	BBB+			
Corporates					
1	Nishat Hotels and Properties	A-	2	Tri-Pack Films	A+
2	Chiniot Power	A-			
3	Engro Elengy Terminal	A-			
4	Pak Elektron	A-			
5	Maqbool Textile Mills	BBB+			
6	Engro Polymer & Chemicals	A			
7	Bestway Cement	A+			
8	Foundation Wind Energy	A			
9	Kohinoor Textile Mills	A-			

•Of the two withdrawn Entities, one (Askari Bank) has switched to JCR-VIS, while the other (Tri-Pack Films) has thus far chosen to stay unrated

Entity Rating Universe – Rating Outlook Analysis

Ratings Outlook Analysis		
	Positive	Negative
Opening @ Jul 01, 2014	11	5
Translated in Rating Change (-)	3	0
Translated in Outlook Change (-)	0	1
Maintained (+)	8	4
Ratings Not Reviewed (+)	0	0
Withdrawn (-)	0	0
During 1HFY15: New (+)	0	0
Opening @ Jan 01, 2015	8	5

Ratings Outlook Analysis		
	Positive	Negative
Opening @ Jan 01, 2014	9	5
Translated in Rating Change (-)	1	2
Translated in Outlook Change (-)	1	0
Maintained (+)	7	3
Ratings Not Reviewed (+)	0	0
Withdrawn (-)	0	0
During 2HFY14: New (+)	4	2
Opening @ Jul 01, 2014	11	5

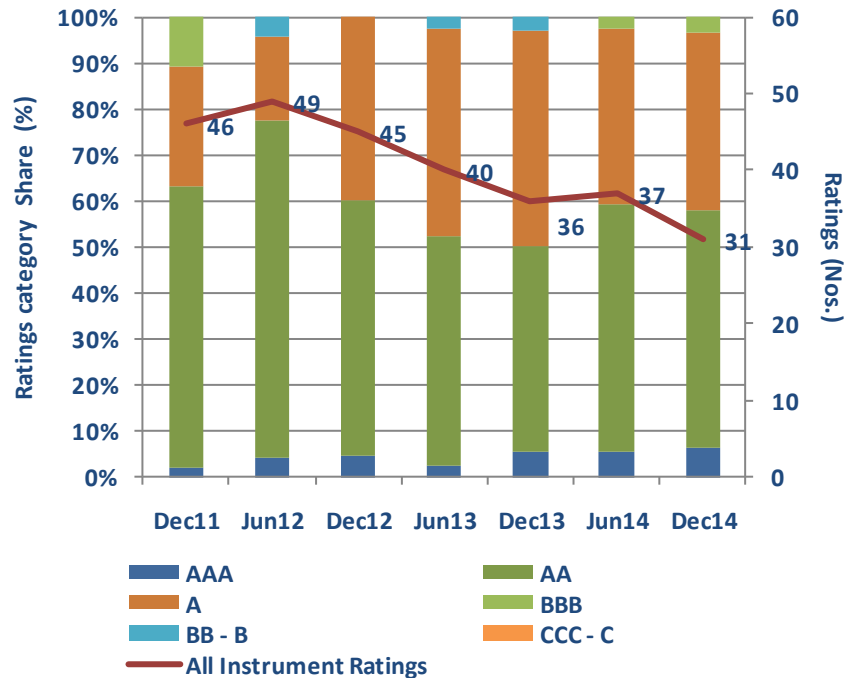
Rating outlook indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change

Instrument Rating Universe - Composition

FIGURE V

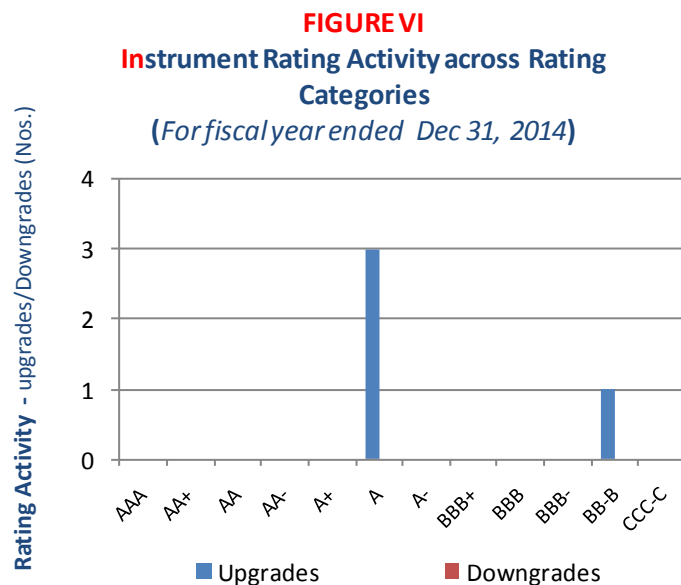
SNAPSHOT - PACRA Instrument Ratings Composition & Growth

(Dec11- Dec14)



✓ Fresh debt issuances have remained sluggish and the universe has shrunk due to redemptions.

Instrument Rating Universe - *Rating Activity*



Rating Activity – Instruments(CY14)	
Upgrades	Downgrades
4	0

Three (3) of the upgrades emanated from a single issuer – Engro Fertilizers

Instrument Rating Universe – *Entry / Exit*

PACRA INSTRUMENT RATING UNIVERSE (Entry / Exit) (For Calendar Year ended December 31, 2014)

	[Initial / Preliminary ratings] Issuers / Instruments	Initial / Preliminary Instrument Ratings
1	Pakistan Mobile Communications Sukuk; 6,900mln (including green shoe option of 2,100mln) issued Dec14	AA
2	AlBaraka Bank (Pakistan) Sukuk; 2,500mln (including green shoe option of 500mln) issued Sep14	A
3	Engro Fertilizers Sukuk III; 3,200mln issued Jul14	A+
4	Engro Corporation Sukuk; 4,000mln issued Jul14	AA
5	Jahangir Siddiqui & Company TFC VIII; 750mln issued Apr14	AA+
	[Withdrawn Ratings] Issuers / Instruments	Last Instrument Ratings
	No instruments were withdrawn during this period	

- i. New debt issuance underlying these eight instruments amounted to PKR 17.35bln and the entire amount has been issued
- ii. CY14 has 10 Instrument Redemptions

Mutual Funds (including asset managers) - Overview

Asset Manager Ratings: Pakistan mutual fund industry has witnessed notable evolution in the overall structure. Asset Management Companies are introducing a variety of products in line with varying risk-return preferences of investors. Notable expansion is in CPPI based funds, wherein risk disclosures need attention. Dependence on regulatory support has significantly diminished, ushering in a new era of self-dependence and maturity. The distance to travel is still huge, when compared with international and regional industries, especially India. ..

Capital Protection Ratings: CPPI based capital protected funds have had high influx in the market in recent times. These fund carry different risk appetites depending upon the philosophy of the fund manager. Yet the risk appetite is not transparent to the unit holder. The Capital Protection Rating is intended to bridge this gap: by clearly identifying the risk a unit holder is assuming by investing in a certain capital protected fund.

Fund Stability Ratings: The last couple of years have seen addition of almost a dozen funds. The predominant expansion was seen in the income fund category: particularly government bond fund. The reason was higher interest rate yield with minimal exposure to credit risk. Going forward, the interest rate environment has diminished the prospects..

Mutual fund performance rankings: The fund performance has significantly improved. This is attributed to the strong equity market fundamentals. The investors are responding positively to the growing forex reserves, slightly better GDP growth and improving security situation..

Asset Manager Ratings - *Opinions*

FIGURE VII
SNAPSHOT - Asset Manager Ratings Composition & Growth (Dec11- Dec14)



FIGURE VIII
SNAPSHOT - Fund Stability Ratings Composition & Growth (Dec11- Dec14)

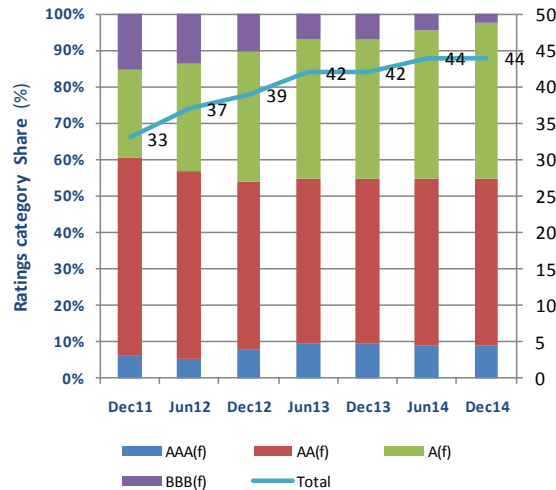
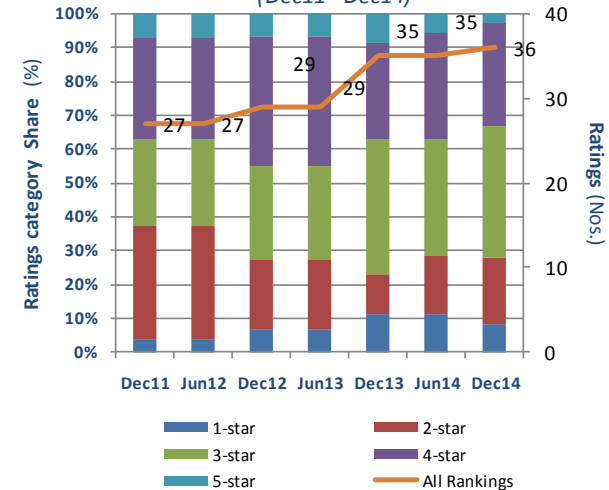


FIGURE IX
SNAPSHOT - Mutual Fund Rankings Composition & Growth (Dec11 - Dec14)



PACRA Launches – Security Agency Grading

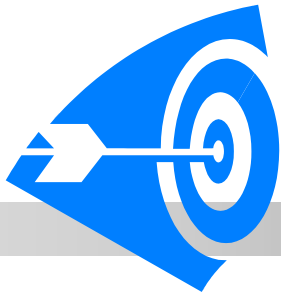


PACRA Managing Director,
Mr. Adnan Afaq introduces
PACRA new product –
Security Agency Grading and
highlights its value for
stakeholders !



Security agency grading is an opinion on **“the relative ability of the security agency to provide protection services”**.

PACRA envisages that this initiative will not only aid the users but would also help in improving the standards of security services provided in the country and the overall regulatory compliance of the industry.



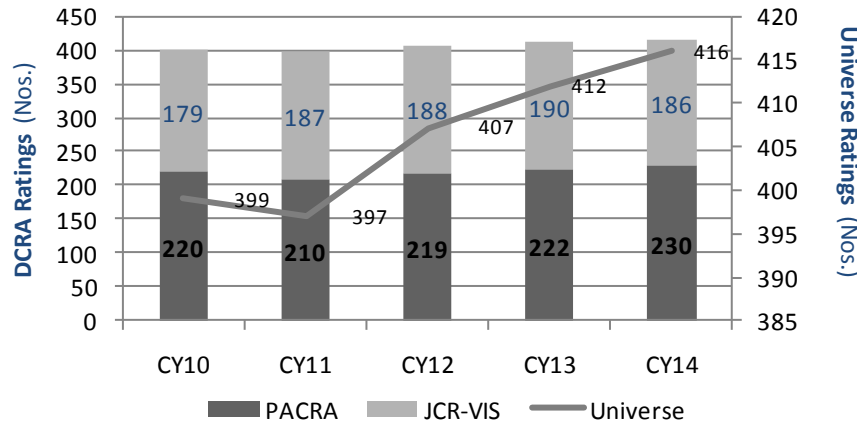
PAKISTAN Rating Industry

Composition, Size & Trends



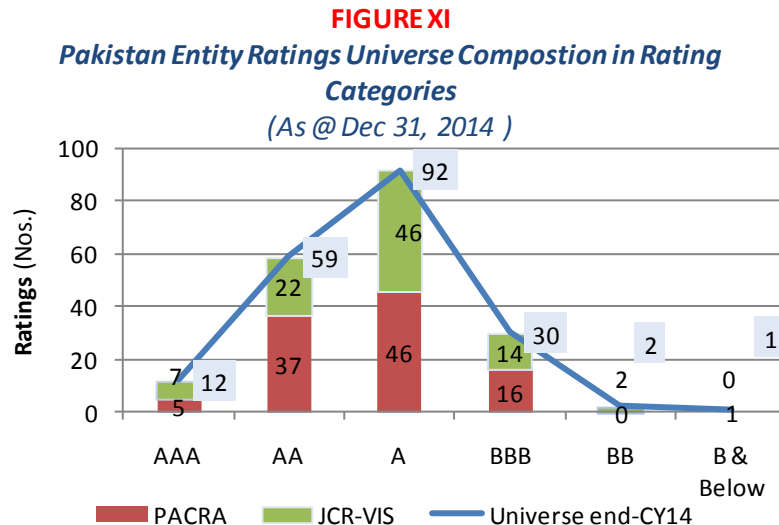
Pakistan Rating Industry - Composition

FIGURE X
Pakistan Ratings Universe Growth
(CY10- CY14)



Pakistan's Ratings Universe is shared amongst two domestic credit rating agencies (DCRAs) – PACRA and JCR-VIS. Between themselves, they have 400+ public opinions. On a YoY basis, the universe size has seen an addition of only (2) new opinions.

Pakistan Rating Industry – *Mean Rating*

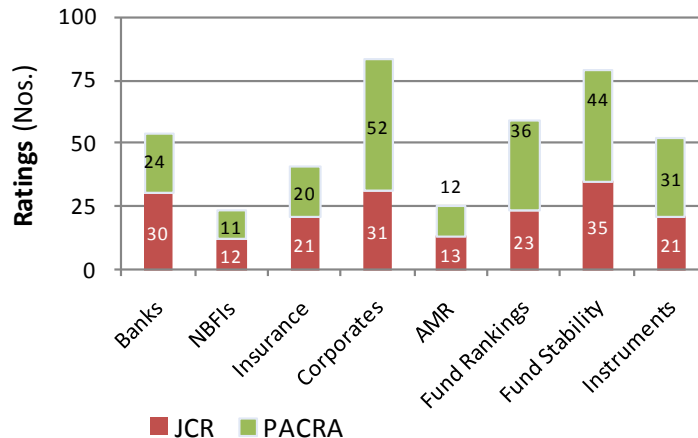


▪The ratings universe is concentrated mostly in high rating categories [**Mean Universe Entity Rating Category: ‘A’ (Single A)** as shown in **FIGURE XI**] as most rated entities are either financial institutions (where ratings are mostly mandatory by the regulator) or prominent corporate having very high credit quality.

Pakistan Rating Industry – *Product Range*

FIGURE XII

*Pakistan Ratings Universe Composition in Rating
Classes
(As @ Dec31, 2014)*



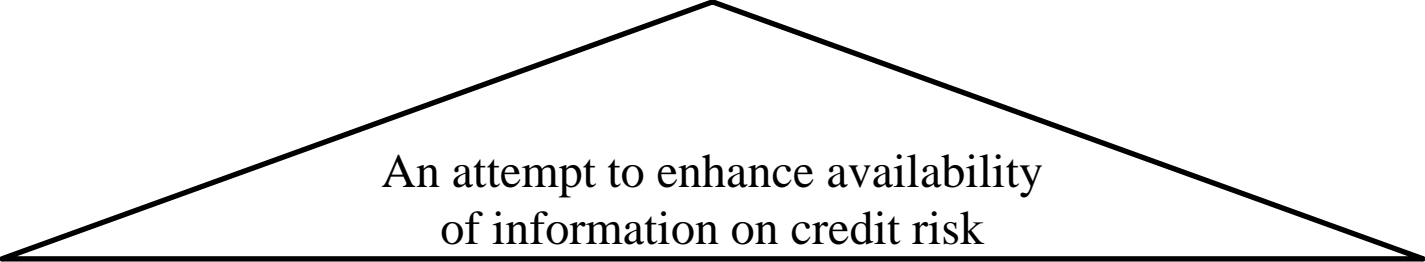
**PACRA becomes the first
rating agency in the world to
offer Security Agency Grading**

Rating penetration remains low in Pakistan, especially amongst corporates, where ratings are optional and primarily driven by their need to employ debt financing - mainly through debt instruments.

Pakistan Rating Industry – *SBP Initiative*

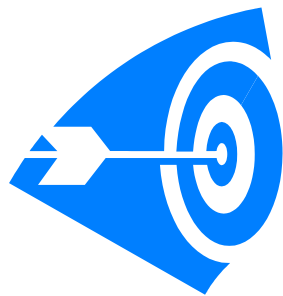
“Effective from **December 31, 2014**, all unrated private sector corporate entities with aggregate outstanding exposure from financial institutions (both fund-based and non-fund based) of PKR 5.0 billion or above, net of liquid assets, will attract risk weight of **115%**”

“Effective from **December 31, 2015**, all unrated private sector corporate entities with aggregate outstanding exposure from financial institutions (both fund-based and non-fund based) of PKR 3.0 billion or above, net of liquid assets, will attract risk weight of **125%**”



An attempt to enhance availability
of information on credit risk

State Bank of Pakistan BPRD Circular Letter No. 02 of 2015: Risk weight for Unrated Large Corporates – Implementation of Basel Capital Framework; issued January 09, 2015



3

Credit Risk

Comment



Rating
Action

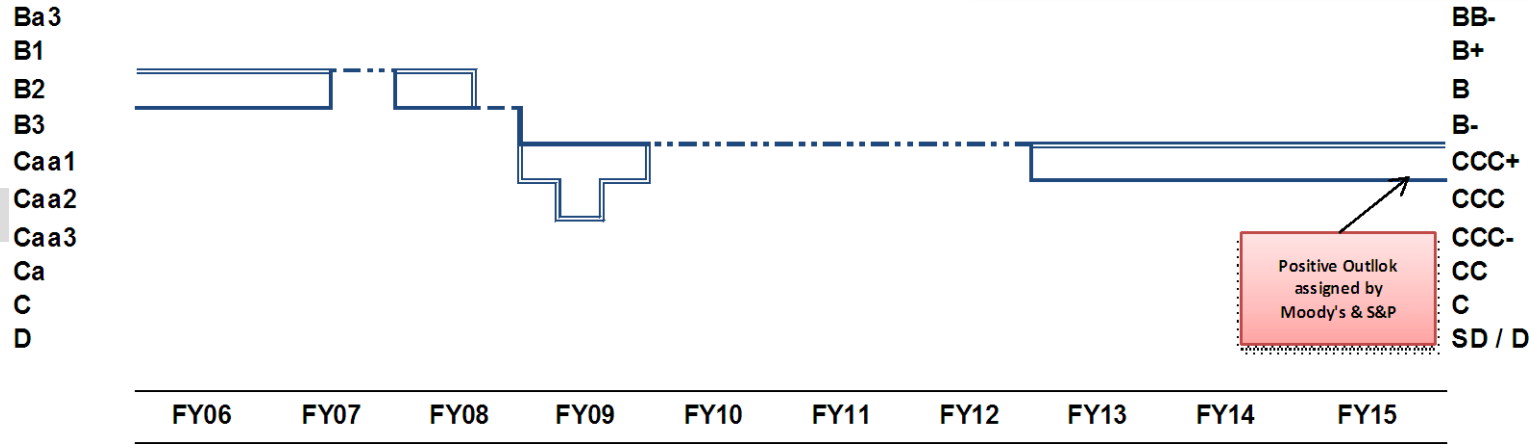
Rating
History

Rating
Rationale

Credit Risk – Sovereigns “NOT PRIME”

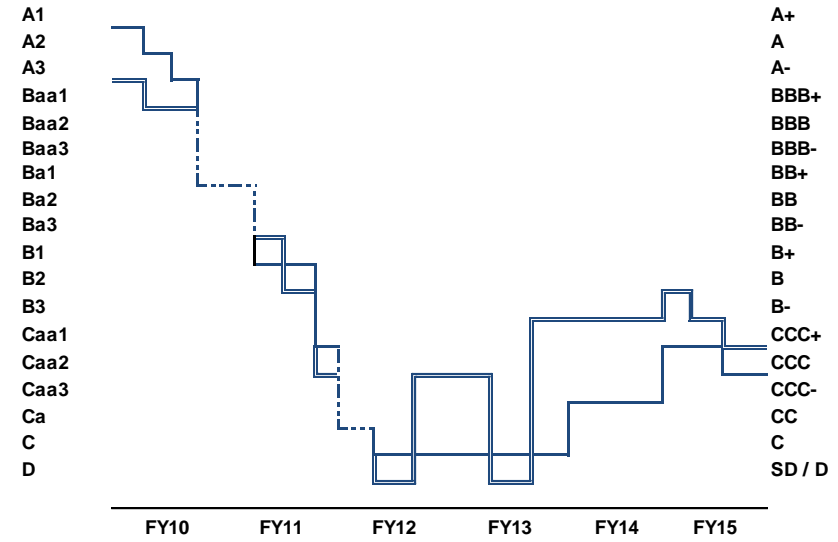
Sovereign Credit Rating Actions					
Current			Last		
		Moody's	S&P	Moody's	S&P
Rating Action	Pakistan	Maintain	Maintain	Maintain	Maintain
	Greece	Downgrade	Downgrade	Maintain	Downgrade
Rating	Pakistan	Caa1 (25-Mar15)	B- (05-May15)	Caa1 (14-Jul14)	B- (19-Nov14)
	Greece	Caa2 (25-Apr15)	CCC+ (15-Apr15)	Caa1 (06-Feb15)	B- (06-Feb15)
Rating Modifier	Pakistan	Positive	Positive	Stable	Stable
	Greece	Negative	Negative	Rating Watch, Possible Downgrade	Rating Watch Negative
PACRA		Pakistan		Credit Risk	Sector View

Pakistan Rating History



Credit Risk – Sovereigns “NOT PRIME”

Greece Rating History



Pakistan – Sovereigns “NOT PRIME”

Moody's (25-Mar15):

Rating Action: *Moody's affirms Pakistan's Caal rating, changes outlook to positive*

“Moody's decision to revise the outlook on Pakistan's foreign currency rating is based on a strengthening external liquidity position, continued efforts toward fiscal consolidation, and the government's steady progress in achieving structural reforms under the IMF program.

Upward triggers to the rating would stem from the further implementation of reforms or the successful completion of the IMF program, additional strengthening in the external liquidity position or continued fiscal consolidation. Domestic political stability and steady relations with international donors would further support the rating. Conversely, a stalling of the ongoing IMF program or the withdrawal of other multilateral and bilateral support, a deterioration in the external payments position or a more unstable political environment would be viewed as credit negative.”

S&P (05-May15):

Rating Action: *Outlook On Pakistan Revised To Positive On Improved Growth, Fiscal And External Performance; 'B-/B' Ratings Affirmed*

“The positive outlook reflects our expectations of Pakistan's improved economic growth prospects, fiscal and external performance, and the supportive relationship of external donors over the next 12 months. We may raise our ratings on Pakistan if the following factors occur together with receding security risks and an improved business environment: GDP growth continues to be better than our expectation, exceeding our revised forecast of 4.6% over 2015-2017; or General government debt declines faster than our projection due to fiscal outperformance; or Gains in Pakistan's external performance continue to support the accumulation of reserves. We may revise the outlook back to stable if Pakistan's economic, fiscal, and external performance weakens again.”

Greece – Sovereigns “NOT PRIME”

Moody's (25-Apr15):

Rating Action: Moody's downgrades Greece's government bond rating to Caa2 from Caa1; outlook negative

“The key drivers behind the downgrade are :

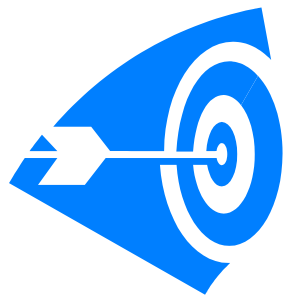
- 1) The high uncertainty over whether Greece's government will reach an agreement with official creditors in time to meet upcoming repayments on marketable debt.
- 2) The significant implementation risks of a follow-up, medium-term financing programme even if an agreement is reached, given the weakened economy and a fragile domestic political environment.

The negative rating outlook reflects Moody's view that the balance of economic, financial and political risks in Greece is slanted to the downside.”

S&P (15-Apr15):

Rating Action: Greece Downgraded To 'CCC+/C'; Outlook Negative

“The downgrade reflects our view that Greece's solvency hinges increasingly on favorable business, financial, and economic conditions. In our view, these conditions have worsened due to the uncertainty stemming from the prolonged negotiations between the almost three-month-old Greek government and its official creditors. The outlook for full-year economic growth is highly uncertain.”



Sector View

Short-term Performance & Outlook



Sector View

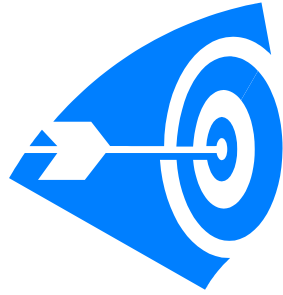
Performance & Outlook		
Commercial Banks	<p>Performance: Domestic commercial banks' performance remained healthy during CY14. Industry's deposits crossed PKR 9tln (~12% YoY growth). The hefty funding base facilitated lending activity as advances grew by 9%; ADR remained largely intact. Textile sector (16%) continued to lead the lending portfolio, followed by power and energy (~13%). Asset quality improved to 12% (end-Dec13: 13%). Benefiting from volumetric growth, the sector made robust profits of PKR 154bln (up 45% YoY) as against PKR 106bln in CY13, despite squeeze in spreads. Meanwhile, decline in interest rates earned capital gains for banks. Decline in provisioning expense positively impacted bottom-line.</p> <p>Outlook: Given substantial exposure to GoP (Dec14: PKR 4.1tln), private sector lending remains limited . Going forward, continuing monetary easing may encourage credit growth.</p>	Microfinance <p>Performance: MFI outreach hovers around 3.2mln active borrowers, representing low penetration, as estimated market potential is 27mln microfinance clients. MFBs dominate the sector, representing 56% in total Gross Loan Portfolio and 41% of active borrowers at end-Sep14. During 9MCY14, branchless banking registered sizeable growth of 22% in value on the back of ~8% rise in volume of transactions. The number of agents has also grown.</p> <p>Outlook: With huge potential in terms of untapped market, MFI has substantial growth prospects. Moreover, demonstrated support from Regulator for sector development translates into positive outlook. Nevertheless, key challenges of branch and branchless banking include (i) scarcity of skilled human capital, (ii) shared agents leading to business competition, and (iii) low market awareness.</p>

Sector View

Performance & Outlook			
General Insurance	<p>Performance 9M14: GPW growth has sustained in 9M14 at 11% (CY13: 10%). The GPW of the industry majorly comes from the fire segment (35%) and miscellaneous segment (28%), which currently derives the GPW growth. With better risk management practices, the loss ratio has improved, enabling the industry to post underwriting break even for the very first time in CY13 after five years. The combined ratio in 9M14 has been substantially improved to 95% (9M13: 100%) entirely due to loss ratio</p> <p>Outlook: With the advent of takaful window, another avenue has emerged; With some cannibalization, takaful may add new clients from the retail market. Moreover, the non-conventional avenues – health, crop and livestock – are expected to continue growth momentum. The underwriting profitability would remain dependent on loss pattern. The need is to bring operational efficiency, as currently the expense ratio is high (~46%).</p>	Asset Manager Companies (AMCs)	<p>Performance: During CY14, the AMC industry continuing with the growth momentum observed an increase of 14% in its AUMs mainly led by the strong performance of capital markets. Resultantly, a slight improvement in the system share of equity funds was noticed despite net redemption during the period. Risk averse investor sentiment and sound performance of the capital market supported the substantial growth in capital preservation schemes. The transition of AUMs from money market towards income funds predominately government bond funds was an outcome of the prevailing interest rate environment.</p> <p>Outlook: With the reduction in the tax arbitrage opportunity, the AMCs would enhance its focus towards real investors. Capital preservation schemes alongwith the Government Bond Funds would continue to remain the attractive products highlighting the risk averse appetite. In addition to that advisory portfolios would also remain a key area of focus for industry participants. Moreover, if the industry succeeds in bringing sophistication in relation to the banking related products it would bode well for the retail volume accretion.</p>

Sector View

	Performance & Outlook
Refining	<p>Performance: A steep decline in the international crude prices during 1HFY15 owing to (i) downgrade in global oil consumption forecast, (ii) reluctance by OPEC members to cut output in expectation of another big boost in the shale oil led to sizeable inventory losses for the domestic refineries. This resulted in a pressure on GRMs negatively impacting the sectors performance. The currency depreciation during the period leading to exchange losses also exerted negative pressure on the sectors bottom line.</p> <p>Outlook: The self sufficiency of US coupled with a decrease in its reliance on crude import from OPEC and OPEC's decision to maintain its current production levels would continue to result in an oversupplied scenario. In addition to that the developments in the US shale sector may post thin chances of any sharp increase in oil prices. The domestic refining sector would continue to benefit from the favorable duty structure which contributes significantly to the overall profitability. Any unfavorable change in the pricing regime would undermine the operational viability of the sector.</p>



PACRA Capacity Building

Endeavors, Initiatives, On-going Activities



Human
Resource
Training

Public
Awareness
Programs

Capital
Market
Development

PACRA Capacity Building Endeavors *Series*

Human resource Training

Capacity Building

PACRA invites a motivational speaker to talk on ATTITUDE. The idea was to groom the soft skills of its employees !!

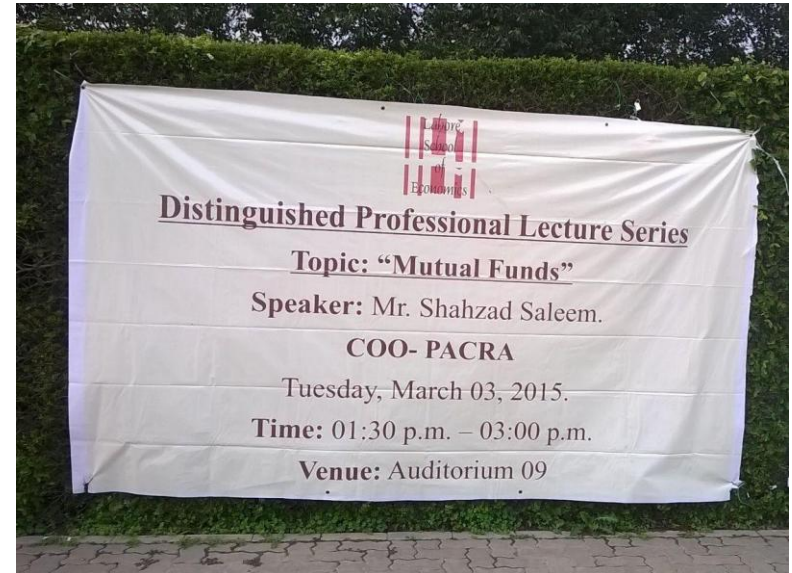


PACRA Capacity Building Endeavors *Series*

Public Awareness Programs

Capacity Building

**PACRA COO, Mr. Shahzad Saleem
gave a talk on mutual funds as an
investment vehicle for the benefit of
the MBA Class at Lahore School of
Economics !!**



PACRA Capacity Building Endeavors *Series*

Capital Market Development

Capacity Building

PACRA was the Camp Office for Asian Development Bank when it visited Pakistan in October 2014 to investigate the potential for private sector development in Pakistan !!!



Disclosures

- **Criteria & Related Research**
 - **Commercial Banking Sector View**
 - **Microfinance Sector View**
- **General Insurance Sector View**
- **Asset Manager Companies Sector View**
- **Refining Sector View**

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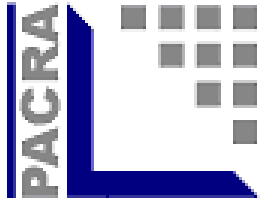
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About PACRA

PACRA – Pakistan's pioneer credit rating agency – is continuing its journey in its second decade of operations. The company distinguishes itself through a culture of constant innovation, improvement and service quality. PACRA offers a complete range of credit rating services. It has a comprehensive organizational structure and set of resources to support its business. PACRA team of 30 analysts comprises a mix of highly qualified business professionals and accountants. To date, PACRA has assigned over three thousand opinions

The Pakistan Credit Rating Agency

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