

The Finance in the Capital Market and Credit Rating in Pakistan

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1. Financial/ Capital Market in Pakistan

The capital market in Pakistan is still to be developed and lagged behind that of India in several aspects, including the absolute size and market structure, as well as primary and secondary markets. The debt instruments are still at early stage of development. The bond market is dominated by government debt securities, but the market lacks depth, breadth, and liquidity, while the corporate market remains tiny¹.

Although economic growth had accelerated until 2007, several factors including political uncertainty and the world financial crises since the latter part of 2008 would result in momentum of stagnation of further expansion of the capital and financial markets in Pakistan. The stock index (Karachi Stock Exchange 100) has fallen and the foreign reserves declined sharply from the peak of 14,040 in 2007 to 4732 on 8 November 2008. With deteriorating situation in the market and economic fundamentals, Pakistan accepted the Stand-By Arrangement (SBA) with IMF on 24th November 2008, with amount of US\$7.6 billion for 23 months. Under the IMF program, the government would introduce austerity measures for improvement in the fiscal balance, that would constrain to issue government bonds. Under such a situation, capital markets, especially debt instruments would not be suitable for further expansion in Pakistan for the next years.

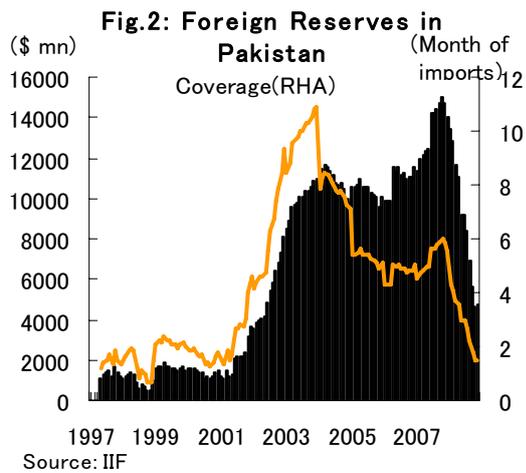
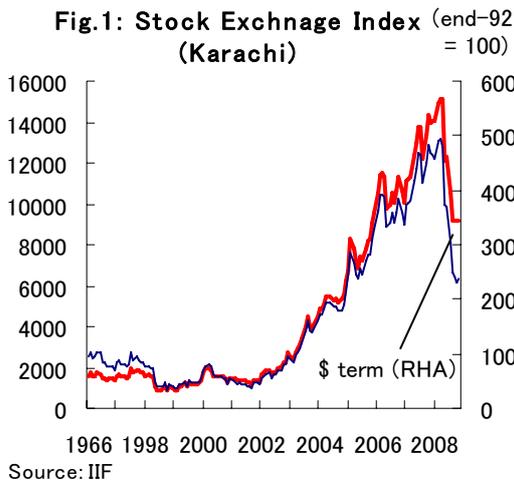
Table 1: Pakistan Profile

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08e
Population (mn)	139.8	142.4	145.3	148.2	151.1	154.0	156.8	159.6
GDPper capita (US\$)	519	484	521	575	647	716	811	906
GDP (US\$ bn)	74.1	72.3	72.7	83.5	98.1	109.6	127.0	143.8
Real GDP (% Change)	3.9	2.0	3.1	4.7	7.5	9.0	6.9	6.4
Consumer Price (% Change)	4.4	2.8	3.1	4.6	9.3	7.9	7.8	12.0
Manufacturing production % cha	11.0	3.5	7.2	17.9	15.3	14.7	8.8	3.8
Trade balance, customs (\$ million)	-1,412	-1,269	-294	-359	-1,279	-4,514	-8,441	-9,711
Exports, fob (\$ million)	8,190	8,933	9,140	10,974	12,459	14,482	16,553	17,278
% change previous year	8.8	9.1	2.3	20.1	13.5	16.2	14.3	4.4
Imports, fob (\$ million)	9,602	10,202	9,434	11,333	13,738	18,996	24,994	26,989
% change previous year	-0.1	6.2	-7.5	20.1	21.2	38.3	31.6	8.0
Current Account Balance (\$ millio	-215	325	2,833	4,061	1,811	-1,534	-5,015	-6,878
% of GDP	-0.3	0.5	3.7	4.8	1.9	-1.4	-4.0	-4.8
Reserve (ex.gold) (\$ million)	2,119	4,831	10,041	11,192	10,599	11,560	14,248	9,233
(Months of imports)	(1.8)	(3.9)	(8.6)	(8.2)	(6.3)	(4.9)	(4.7)	(2.8)
External Debt (\$ million)	32,781	31,655	33,400	33,352	33,307	34,037	35,655	38,699
% of GDP	44.9	44.4	45.8	38.8	33.3	30.5	27.6	26.5
% of Exports			365.4	306.3	268.7	236.4	215.4	226.6
Debt Service Ratio (%)	26.0	26.6	23.1	17.7	24.0	11.9	10.3	10.3
Yield on 91-day Treasury bill	10.4	8.1	4.1	1.7	4.8	8.2	8.8	13.8
KSE Index(end-period)	1,369	1,770	3,402	5,348	7,450	9,989	13,772	9,187
Exchange Rate (Rs/\$, average)	53.6	61.9	59.7	57.8	58.3	59.5	60.3	78.8

Notes: Yield on 91-day Treasury bill figure for 2008is 3 Decvember 2008. Exchange rate and Sensex figure for 12th Decvember 2008

Source: IMF, World Bank, IIF

¹ Sophastienphong et al. (2008) Chapter 5 p.125



(1) General Feature of the Capital Markets in Pakistan

The capital market in Pakistan has been dominated by the equity market, while the size and the liquidity of the debt market are limited. The largest stock market in Pakistan is Karachi Stock Exchange (KSE). KSE is the biggest and liquid exchange in Pakistan and was declared as the “Best Performing Stock Market of the World for the year 2002”. As on November 18, 2008, 655 companies were listed with the market capitalization of Rs. 2826.8 billion (US \$ 46.258 billion), equivalent to 28.1% of GDP, and listed capital of Rs. 737.37 billion (US \$ 9.99 billion). The KSE 100 Index closed at 7514.42 on December 19, 2008.

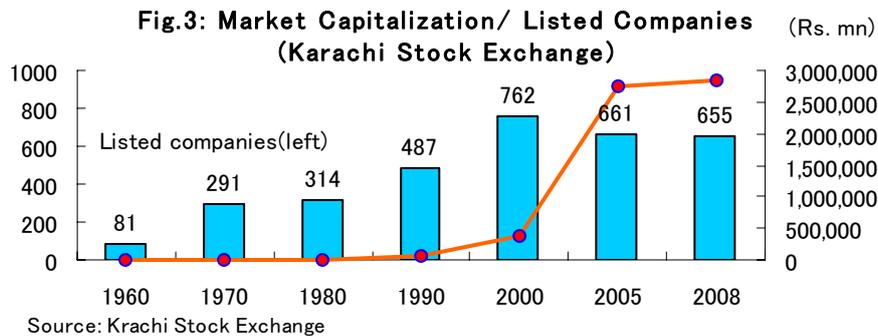


Table 2: Overview of the Market

	2004	2005	2006	2007	2008*
Total No. of Listed Companies	661	661	652	654	655
Total Listed Capital - Rs.	405,646	470,427	519,270	671,256	737,371
Total Market Capitalisation - Rs.	1,723,454	2,746,559	2,771,114	4,329,910	2,826,839
KSE-100 TM Index	6218.4	9556.61	10040.5	14075.83	9184.09
KSE-30 TM Index			12521.54	16717.1	9981.93
KSE All Share Index	4104.86	6444.64	6770.06	9956.76	6639.18
New Companies Listed during the	17	19	9	14	10
Listed Capital of New Companies -	66,837.00	30,090.28	14,789.76	57,239.92	15,312.12
New Debt Instruments Listed	5	8	3	3	6
Listed Capital of New Debt	4,775.00	10,900.00	3,400.00	6,500.00	21,000.00
Average Daily Turnover - Shares in	343.7	365.64	260.69	268.23	159.87
Average value of daily turnover - Rs.	17,408.95	33,583.29	31,610.71	25,262.97	15,875.60
Average Daily Turnover (Future TM)	69.64	117.16	82.68	61.69	34.36
Average Value of Daily Turnover -	4,914.25	15,461.42	13,587.63	9,077.61	5,842.49
Foreign Investment in Securities Market					
Inflow - Rs	1,481.1 *	-	-	-	-
Outflow - Rs	3,047.90	-	-	-	-
Net Inflow/(Outflow) - Rs	-1,566.70	-	-	-	-

Note: up to 18 November 2008 for 2008

Source: Karachi Stock Exchange

There is a unique leverage financing available through the Continuous Funding System (CFS) mechanism, or Badla. CFS is a facility for financing share purchases extended by banks and brokerages houses, which allow buyers to undertake their highly leveraged positions in the market. CFS facilitates delayed payment for purchases by paying the CFS overnight finance rates through overnight sale and buy back mechanism. The CFS existence, in some sense, could be a major deterrent in the development of a derivative market with several schemes as stock futures, index futures, options, warrants, etc.

The bond market in Pakistan is characterized by predominance of public sector bonds, which contrast to very small amount of corporate bonds. The international issuance of corporate (non-government) bonds is limited to very few large enterprises

The issued amount of new capital by Pakistani companies were only \$68 million, which cannot be compared with Thailand (US\$3.7 billion), Malaysia (US\$2 billion) and Indonesia(US\$ 1 billion).in 2006. Under limited corporate bond market, limited number of firms undertake private placement. Compared with government bonds, the market facility for corporate bond trading is relatively weak, and the size and liquidity of the secondary market are small.

Although capital market development is a key element of the Government's reform agenda due to its importance for resource mobilization and intermediation, investment finance and employment generation, the capital market is yet to develop in bond trading facilities.

The Asian Development Bank has already provided a program for Pakistan to lend US\$400 million to help it develop well-functioning capital markets, particularly in equity and long-term debt since 2007. The program includes policy and regulatory

reforms to increase the supply / demand for securities, including shares and bonds and strengthen securities market oversight.

The primary market for government securities not only provides benchmark interest rates, but also relatively risk free assets for financial institutions, including banks. The primary market of treasury bills (T-bills) is relatively robust, as T-bill supplies continued to rise every year². On the other hand, the long-term government papers (mainly Pakistan Investment Bonds, TIBs) are not actively issued in the primary market, due to the limited size and activities of the local bond markets.

(2) Financial Markets and Corporate Finance

Major resources for corporate financing are bank loans in Pakistan. Bank credit continues to dominate corporate debt finance; banks account overall for 90% of financial assets. Private debt in Pakistan remains under 1% of GDP, and the domestic market liquidity is limited in the domestic bond market, especially dominated by the sovereign bonds. Thus, the size of the corporate debt market is rather small. This is also because relatively large companies could seek financing from external sources by issuing Global Depository Receipts (GDRs).

In Pakistan, most corporate debt instruments are in the form of Term Finance Certificate (TFCs), which are held for a long period, and very few are traded in the secondary market. TFC is one of the debt instruments, originally based on the concept of Islamic laws, which entail the concept of 'redeemable capital not based interest'. Issuance of TFCs is now shifting from non-financial enterprises to financial enterprises, and that are issued largely by commercial banks to meet Basel regulatory requirements. TFC issuance has been moved from fixed to floating rates recently, as most of the new TFCs were issued at floating coupons.

The coupon rates on the TFCs have different fixed coupons as well as floating coupons linked to various interest rates (i.e. Pakistan Investment Bond [PIB] rates, Karachi Inter-Bank Offer rate [KIBOR]). Since the secondary market for PIBs has not developed to serve long-term market rates, the markets have shifted to using the 6 month KIBOR as the benchmark. This would reduce the efficacy of bond markets in mitigating rollover and interest rate risk³.

The Securities and Exchange Commission of Pakistan (SECP) regulates the TFC market, and all public issues of TFCs require a credit rating. The credit rating agencies operated in Pakistan include: i) Pakistan Credit Rating Agency (PACRA), associated with Fitch-IBCA and JCR-VIS.

(3) Bond Markets in Pakistan: Overview

In Pakistan, domestic debt has increased in recent years, but there still need for a

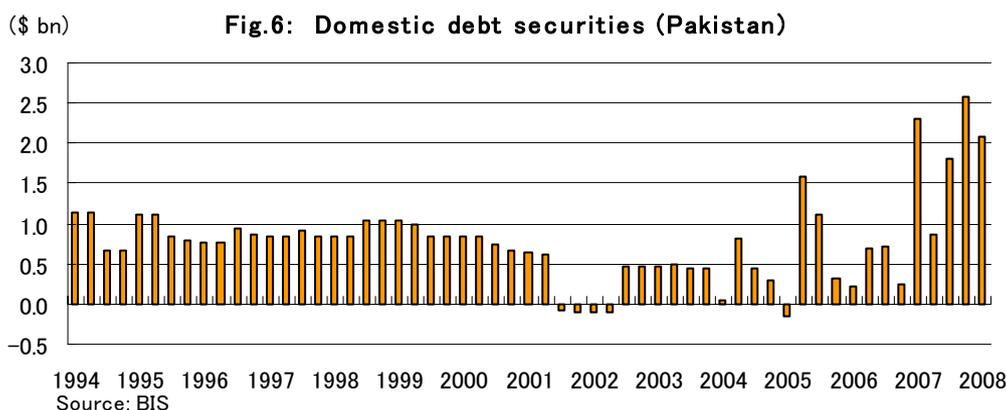
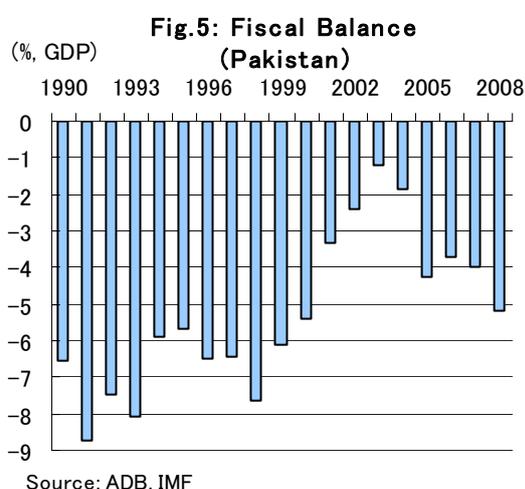
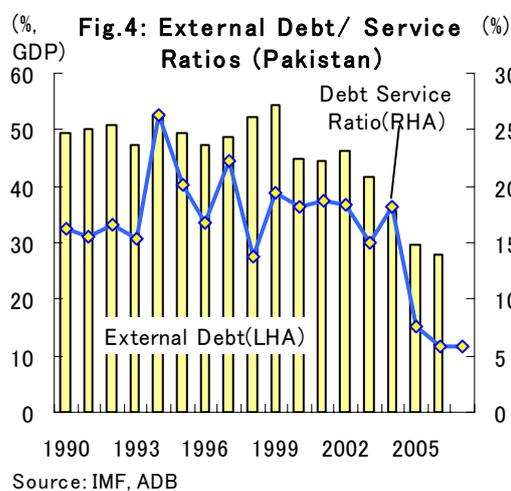
² State Bank of Pakistan Bulletin pp.91-92

³ Hameed [2007] p.116

well functioning secondary market even for sovereign bonds.

The bond markets in Pakistan have developed in the past decade, but dominated by the Government securities, which constitutes almost all the bonds issued and traded in the domestic market in Pakistan.

Although the official external debt has been decreased in recent years, the domestic fiscal balance has become deteriorated due to the global financial crises and the worsening economic environment of the region. The fiscal deficit would require increase in revenue resources. However, Pakistan's tax revenue-to GDP ratio in 2006/07 was 11%, which is still low in international standard⁴. Therefore, the government may have to continue to rely on the issuance of government bonds.



Although the corporate bond market in Pakistan has achieved significant growth since its inception in 1995, corporate bonds markets are still to be developed, and the share of the corporate debt per GDP is still small by international comparison (Table 3).

⁴ IMF (2008) p.16

Country	Government	Corporate	Financial
Pakistan	22.3	0.7	0.5
India	34.3	0.7	3.0
China	29.7	2.8	12.1
Hong Kong	8.7	3.9	10.0
Korea	46.8	24.8	38.7
Malaysia	33.7	38.0	14.6
Singapore	38.9	3.5	10.9
Thailand	39.0	15.3	0.1

Note: Pakistan's shares of Corporate and financial institutions are for June 2006.
Source: BIS, IMF, Hameed [2007], calculated by the author.

The major constraints for the development of domestic bonds markets include lack of secondary markets and illiquidity of the bonds. Even the market of government bonds is lacking the market rollover risks. The secondary market for government debt securities has been thin and illiquid; even the government bonds are not actively traded, due to the market constraints, such as lack of liquid benchmark rate of Government paper. The secondary market for government securities remains dominated by repo trades rather than outright trades, which account for only 8% of daily trade volumes.

Moreover, the main investors continue to be the commercial banks and very few other institutional investors like insurance companies and funds exist. As major institutional investors, banks in Pakistan will need active secondary markets for liquidity reasons, but the development of securitization is constrained by the market conditions and facilities, including lacking fixed rates.

The market is dominated by repo trades in treasury bills, which account for about 92 percent of the daily trading volume; outright trades account for only 8 percent. Money market instruments, including commercial paper, warehouse bankers acceptances, do not exist in the Capital market in Pakistan.

(4) Constraints of development of bond market

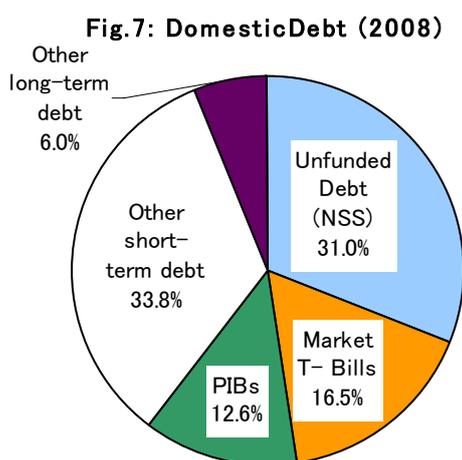
Alternative sources of government bonds, including NSS, have prevented from developing bond markets, especially private debts.

The government debt is predominantly dependent on the instruments of National Savings Scheme (NSS), which has the largest share among the government debt (Fig.7). The NSS is one of the largest schemes, which attract significant portion of national savings, and it makes comparable market instruments unattractive, since the government in general supports the NSS. In FY2008, the Share of NSS is 31.0%, while T-Bills and PIBs are 16.5% and 12.6 %, respectively. The total amount of NSS in 2008

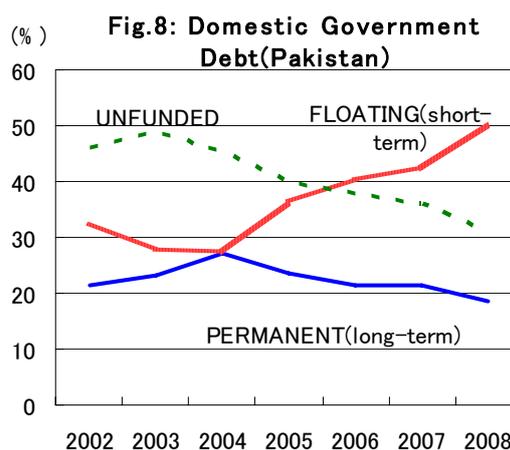
⁵ Debt Capital Market Committee (2007), p.26

is Rs. 1,084bn, equivalent to 10.8% of GDP.

On the other hand, the share of short-term debt (Floating debt) has been increased recently, due to the improvement in the market conditions until former part of 2008 (Fig.8). This shows that the debt market instruments other than savings schemes have become gradually active in Pakistan.



Source: State Bank of Pakistan



Source: State Bank of Pakistan

Table 4: Domestic Debt Outstanding (Pakistan)

(Million Rupees)

	2002	2003	2004	2005	2006	2007	2008
PERMANENT(long-term)	367,989	427,908	536,800	500,874	499,700	552,972	608,306
	(21.4)	(23.1)	(27.1)	(23.5)	(21.5)	(21.3)	(18.7)
Pakistan Investment Bonds (PIBs)	153,818	228,665	331,646	307,598	303,868	352,520	411,635
FLOATING(short-term)	557,807	516,268	543,443	778,163	940,745	1,108,168	1,637,896
	(32.5)	(27.9)	(27.5)	(36.5)	(40.5)	(42.6)	(50.3)
Market Treasury Bills (MTB)	208,133	403,024	345,686	453,206	432,676	656,099	536,977
UNFUNDED	792,138	909,500	899,215	854,044	881,706	940,007	1,010,900
	(46.1)	(49.1)	(45.4)	(40.0)	(38.0)	(36.1)	(31.0)
TOTAL Domestic Debt (A+B+C)	1,717,934	1,853,676	1,979,458	2,133,081	2,322,151	2,601,146	3,257,102
Percent of GDP	38.58	38.02	35.09	32.82	30.58	29.87	32.38

Note: The figures are as of the end of FY (June).

Source: State Bank of Pakistan

Several constraints for bond market development in Pakistan include: i) lack of benchmark rates for long-term paper; ii) crowding out by government borrowing; iii) administrative impediments; iv) lack of liquidity in TFC market⁶; irregular issuance of PIBs in the market. .

Institutional investors usually hold term Finance Certificates (TFCs) until the maturity, so that there is no active trading in the secondary market of TFCs. Thus, most of the trading is now concentrated on the government bonds, including short-term T-bill and long-term PIBs (Pakistan Investment Bonds). Secondary markets of PIBs are not very active, since financial institutions hold most of the PIBs,

⁶ Hameed [2006] pp.12-14. The National Savings Scheme (NSS), with its subsidized nature, makes comparable market instruments seem unattractive and non-competitive.

including banks. In this regard, the Government may conduct regular PIB auctions to increase supply of PIBs.

The interest rate on government paper is not entirely market determined, and the limitation of volume in the secondary market undermines the bench-making role of sovereign paper. The corporate bonds are also crowded out by government borrowings, due to the yields of PIBs' limited reflection of market conditions.

(5) Corporate debt market

As described above, major financial resources for corporate financing are bank loans in Pakistan, and that has affected the development of other financial instruments.

Corporate debt markets are yet to be developed, due to institutional constraints, market liquidity, as well as limited merits of holding corporate bonds, compared with government bonds. At the end of June 2006, outstanding corporate debt amounted to about \$952 million, or 0.8% of GDP.

The dual role of commercial banks in the financial sector being the adviser as well as major investor in bond market has resulted in limited incentive to trade and enhance market development, due to the captive market of TFCs, which are mainly held by the commercial banks.⁷ Most transactions are through in the over-the-counter (OTC) market, not registered with the Karachi Stock Exchange, so that the trading volumes cannot be estimated correctly.

Some progress is made in the TFCs market recently, with the introduction of call and put options, floating coupons, caps and floors, conversion options, perpetuity, etc. In spite of this, domestic capital markets have not yet played a significant role in resource mobilization. In 2005, for instance, Pakistani companies issued about \$68 million equivalent in new capital. This compares to \$3.7 billion in Thailand, \$2 billion in Malaysia and \$1 billion in Indonesia

(6) Relevant organizations/ Institutions

Central Depository Company of Pakistan Limited (CDC)

Central Depository Company of Pakistan Limited (CDC) was incorporated in 1993 and subsequently became operational in 1997 to manage and operate the Central Depository System (CDS). CDS is an electronic book entry system to record and transfer securities. Electronic book entry means that the securities do not physically change hands and the transfer from one client account to another takes place electronically. An IBM led consortium along with the management of the company implemented CDS in Pakistan.

⁷ Debt Capital Market Committee (2007)

National Clearing Company of Pakistan Limited (NCCPL)

Pakistan's Capital Markets are providing clearing and settlement services to all three stock exchanges in the country.

As a part of Capital Market Development Programme of Asian Development Bank (ADB) in Pakistan, the Capital Market Project Consultants, Arthur Anderson & Company was given mandate to develop recommendations for a National Clearing & Settlement System (NCSS). It will replace the separate and individual Clearing Houses of three Stock Exchanges, namely Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange by a single and centralized entity.

Accordingly, the Company was incorporated on July 3, 2001 to manage and operate the National Clearing & Settlement System (NCSS) in a fully automated electronic settlement system. NCSS Live Operations commenced from December 24, 2001. However, the Company became operational in the year 2003-04 by inducting and handling clearing and settlement of all book-entry securities through NCSS. Thereafter, any security, which becomes live in Central Depository System, on ready status, is accordingly inducted into the NCSS

2. Credit Rating Agencies in Pakistan

(1) General Features of Credit Rating Agencies (JCR-VIS, PACRA)

There are only two major credit rating agencies in Pakistan, and lack of presence of regionally and globally acclaimed credit ratings agencies tends to less competitive situation in the market.

One is JCR-VIS, which was established in 1997 as a joint venture between Duff & Phelps Credit Rating Co. (DCR), Vital Information Services (Pvt.) Ltd. - (VIS), Karachi Stock Exchange (KSE), Islamabad Stock Exchange (ISE) and JCR (Japan). Subsequent to DCR's merger with Fitch IBCA, DCR sold its interests in DCR-VIS to VIS in 2001.

The other is PACRA, established in 1994 as a joint venture among IBCA Limited (the international credit rating agency), International Finance Corporation (IFC) and the Lahore Stock Exchange. In addition to local ratings, PACRA has successfully completed two international rating assignments in collaboration with Fitch.

Local rating agencies evaluate all issuers by local standards of risk assessment in the 'national scale', with the top rating of "AAA" awarded to the best local companies. There would be still some difference in ratings by local rating agencies and global scale agencies, since several factors are to be considered: i) strong ties to the government; ii) support from members of the same corporate groups; iii) main bank relations; iv) degrees of disclosure and corporate governance, etc.

Table5: Profiles of Credit Rating Agencies in Pakistan

	PACRA (Pakistan Credit Rating Agency)	JCR-VIS
1 Year of establishment	1994	1997
2 status/nature; Ownership structure, etc.	<p>PACRA was established in 1994 as a joint venture among IBCA Limited (the international credit rating agency), International Finance Corporation (IFC) and the Lahore Stock Exchange. PACRA has been a member of ACRAA since June 2002. By virtue of this membership, PACRA is committed to promote 'best practices' of credit rating, as identified by the Association. PACRA's website highlights details of these best practices followed by the company.</p>	<p>1997 as a joint venture between Vital Information Services (Pvt.) Ltd. - (VIS), Karachi Stock Exchange(KSE), Islamabad Stock Exchange(ISE) and Duff & Phelps Credit Rating Co. (DCR). Subsequent to DCR's merger with Fitch IBCA, DCR sold its interests in DCR-VIS to VIS in 2001. Joint ventures and affiliates include: Islamic International Rating Agency - (IIRA); Credit Rating Information & Services Limited - (CRISL); Association of Credit Rating Agencies in Asia - (ACRAA)</p> <p>Japan Credit Rating Agency, Ltd. - (JCR)15% , Vital Information Services (Pvt.) Ltd. - (VIS) 67.5%, Karachi Stock Exchange Guarantee Limited - (KSE) 12.5%, the Islamabad Stock Exchange Guarantee Limited - (ISE) 5.0%</p>
3 Covered issues	Total Number of Ratings Notified : 340 (Entity rating 221; Instrument rating 119) [as at October 8, 2008]	Total Number of Ratings : 166 (Entity rating76; Instrument rating37) [2006-2008]
4 credit rating schemes	<p>Rating responsible for Local scale (local currency) under four categories: long-term, short-term, fixed deposit, and corporate credit ratings</p> <p>①Bank Rating; ②Corporate Rating; ③ Insurance Rating; ④Structured finance; ⑤ Asset Manager Rating; Mutual Fund Rating; ⑥Real Estate Grade Rating, etc.</p>	<p>① Entity Ratings of Corporates, NBFIs & FIs; ② Credit Ratings of Term Finance Certificates and long term issues; ③ Bank Finance Ratings; ④ Commercial Paper; ⑤ Lease, Housing Finance, Credit Card and other Corporate/ Consumer Finance Receivables Securitization Ratings; ⑥ Equity Ratings including initial public Offerings and Right Offerings; ⑦Insurer Financial Strength Ratings; ⑧Project Finance Ratings; ⑨Mutual Funds Ratings; ⑩Musharaka/Modaraba issues Ratings; ⑪ Grading of Construction Projects</p>
5 Clients/ assigned bodies	<p>Manufacturing firms; Banks/ financial institutions; Asset management; Insurance; Real estate; services; Leasing; non-banking finance companies</p>	<p>Corporate Sector Companies; Banks/ Financial institutions; Housing finance companies; Infrastructure sector companies; services; Municipal and local bodies; State gov.; non-banking finance companies; Real estate projects; Debt funds</p>
6 Type of Rating	<p>①Fund Rating; ②Asset Manager Rating; ③Term Finance Certificates; ④Insurer Financial Strength Rating; ⑤Securitized Term Finance Certificates; ⑦Entity</p>	<p>①Term Finance Certificates; ②Asset Manager Rating; ③Securitized Term Finance Certificates; ④Fund Rating; ⑤ Insurer Financial Strength Rating</p>
7 Advisory and other services	<p>Consultancy Assignments, including international organizations (World Bank, IFC, etc)</p> <p>Foreign Currency Ratings; Local Currency Ratings on International Scale; Local Currency Ratings on National Scale</p>	<p>Other services: ①Foreign Currency Ratings; ②Local Currency Ratings on International Scale; ③Local Currency Ratings on National Scale</p>

8 Rating Methodology	Factors considered: ①Industry Risk; ②Market Position; ③ Ownership and support; ④Earnings & Performance; ⑤Cash Flow; ⑥Management Evaluation; ⑦Capital And Debt Structure; ⑧Funding And Flexibility; ⑨Corporate Governance ; ⑩Additional Factors For Financial Institutions	Factors considered: companies' profits/ losses of company, and others such as Financial Ratios (e.g. capital structure; interest coverage; debt service coverage; net worth; profitability margin; return on capital employed; net cash accruals to total debt ratio; current ratio)
9 Mapping (long-term and short-term)	①Long-term (AAA~BB+); Short-term(A1+ ~A3) ②Long-term(BB~C-); Short-term(B,C) ③Long-term(D); Short-term(P5) Prefix used : 'F'(financial sector), 'CCR' (corporate credit rating)	①Long-term (AAA~A+); Short-term(A1+ ~A3) ②Long-term(A~BB); Short-term(A1~A3) ③Long-term (BBB~C); Short-term(B~D)
10 Rating Outputs	Upon the client's approval, the one-page summary of the report is made public and a press release of the assigned rating is issued. The detailed rating report is sent to the client.	The rating committee evaluates the matter, arrives at a rating decision, and notifies the company, after which JCR-VIS publishes the new rating.
11 Special features	professional expertise and technical assistance to Fitch affiliates. PACRA has successfully completed rating assignments in Hong Kong, Oman and Egypt, involving credit rating of various financial institutions as well as industrial corporate. PACRA is also assisting Fitch in ratings of large commercial banks in Pakistan. This is part of Fitch's international rating service.	

Sources: PACRA, JCR-VIS

Many private bonds are issued as TFCs, and most of them have been rated A+ and above. However, the data suggests that after controlling for length of tenor, the issue seem to be unrelated to the rating⁸.

In Pakistan the majority of credit rating is 'entity' rating, and the number of the 'instrument ratings' of which TFCs and other bonds issues is relatively small. For example, among the total number of ratings notified by PACRA of 340, entity ratings are 221, while instrument ratings are 119.

(2) Rating Methodologies

As some examples of general rating methodologies, general principles of PACRA (The Pakistan Credit Rating Agency Limited) are given below.

(a) Banking Sector

In the cases of rating of the banking sector, PACRA analyses the operating environment on an entity's credit worthiness, together with market situation,

⁸ This is shown by Hameed (2007) in a regression with difference of issue rate and discount rate (to control for prevailing monetary conditions) as the dependent variable and length of tenor (in years) and numerical category.

regulatory environment. The analyses of banks usually consider both quantitative and qualitative factors, including the following aspects:

- Risk Management
- Credit Risk
- Market Risk
- Operational Risk
- Funding Liquidity
- Capitalization
- Earning and Performance
- Diversification of Business and Franchise
- Management and strategy
- Corporate Governance
- Ownership and Support

(b) Corporate Rating

In credit rating exercises, there are analyses based on qualitative and quantitative assessment of several aspects of corporate sectors.

(i) Qualitative analysis

Qualitative analysis is conducted through considering several factors, including industry risk, operating environment, market position, management, corporate governance, as well as accountability of the firms.

Industry Risk: PACRA determines a company's rating within the context of each company's industry fundamentals. Many credit issues are weighed in conjunction with the risk characteristics of the industry to arrive at an accurate evaluation of credit quality.

Operating Environment: PACRA explores the possible risks and opportunities in a company's operating environment resulting from social, demographic, regulatory and technological changes.

Market Position: Several factors determine a company's ability to withstand competitive pressures, including its share in key markets, product dominance and the ability to influence price.

Product diversity, geographic spread of sales, diversification of major customers and suppliers and comparative cost position.

Management: PACRA's assessment of management focuses on corporate strategy, risk

tolerance and funding policies. Key factors considered are the mix of debt and equity in funding growth, the company's ability to support increased debt, and the strategic fit of new assets.

Corporate governance: PACRA's assessment of corporate governance involves both systematic analyses of governance data and information, including independence and effectiveness of the board of directors to be an essential element of a robust corporate governance framework.

Accounting: PACRA's rating process examines accounting policies and the extent to which they accurately reflect a company's financial performance. Relevant areas are consolidation principles, valuation policies, inventory costing methods, depreciation methods, income recognition and reserving practices, pension provisions, treatment of goodwill and off-balance sheet items. The overall aim is to judge the aggressiveness of the accounting practices and, where necessary, restate figures to make the company's financials comparable with those of its peers.

(ii) Quantitative factors

The quantitative aspect of PACRA's corporate ratings focuses on the company's policies in relation to operating strategies, acquisitions and divestitures, leverage targets, dividend policy and financial goals.

Cash Flow Focus: In its financial analysis, PACRA emphasizes cash flow measures of earnings, coverage and leverage, and gives more weight to cash flow measures than equity-based ratios. Cash flow from operations provides a company with more secure credit protection than dependence on external sources of capital.

Earnings and Cash Flow: earnings and cash flow that affect the maintenance of operating facilities, internal growth and expansion, as well as access to capital and the ability to withstand downturns in the business environment. The availability of funds to repay debt without external funding PACRA's analysis focuses on the stability of earnings and the continuity of cash flows from the company's major business lines.

Capital Structure: PACRA analyzes capital structure to determine a company's reliance on external financing and assess the credit implications of a company's leverage, considering the nature of its business environment and the principal funds flows from operations. The evaluation includes off-balance-sheet debt, asset values, leased property, contingency reserves, treatment of goodwill, provision for deferred taxes and off-balance-sheet liabilities.

Financial Flexibility:

Having financial flexibility allows a company the latitude to meet its debt service obligation and manage stress without eroding credit quality. In terms of debt, the more conservatively capitalized a company, the greater its flexibility. In addition, a commitment to maintaining debt within a certain range, the ability to redeploy assets and revise plans for capital spending, strong banking relationships and equity markets access.

Project risk evaluation: In the case of companies implementing a project of significant size, PACRA evaluates the risks associated with that project, and factors in these risks, which include the project's business risk, involving the entity's existing product line, and the management's record of accomplishment, as well as technology risk, funding risks.

(3) Rating Processes

Credit rating agencies in Pakistan follow general rating procedures, as seen in many other Asian countries. All the processes are implemented in close cooperation with the issuers/ entities to be rated by PACRA and JCR-VIS.

Fig.9: PACRA's Rating Process Flow Chart

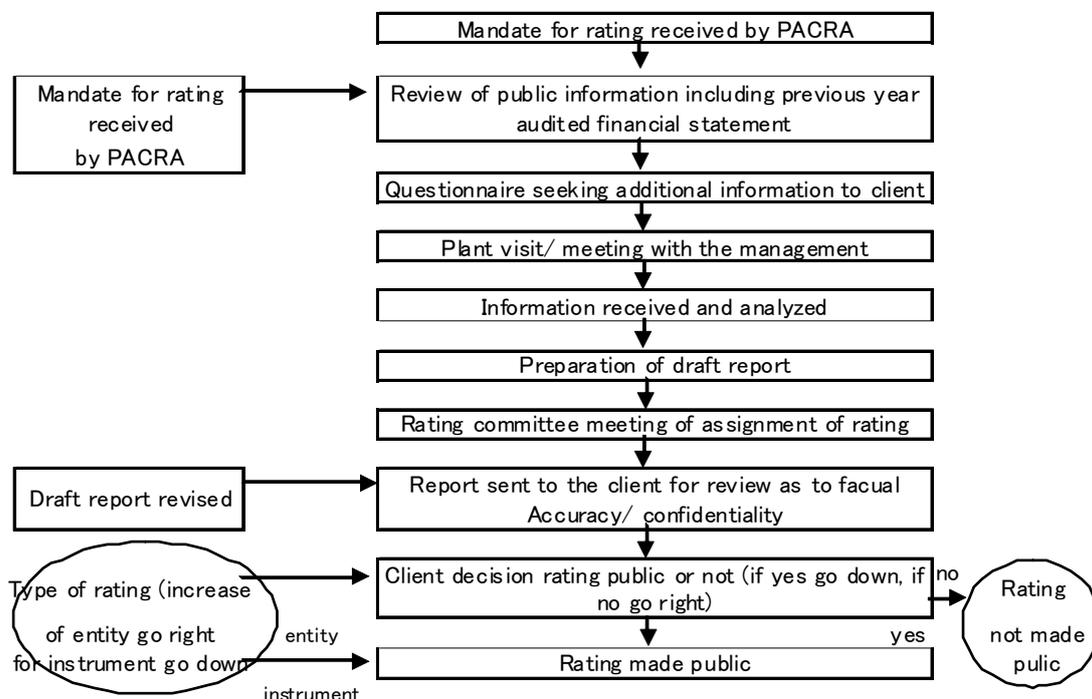


Table 6: Rating Process (JCR-VIS)

Issuer/Client	1. Signs agreement for an initial rating
JCR-VIS	2. Submits preliminary information materials
JCR-VIS	3. Conducts a preliminary study
Issuer/Client	4. Submits a detailed questionnaire to the issuer/client
JCR-VIS	5. Provides detailed information in response to detailed questionnaire
JCR-VIS	6. Conducts pre due diligence meeting analysis
JCR-VIS	7. Conducts due diligence meetings
JCR-VIS	8. Conducts post due diligence analysis
JCR-VIS	9. Brief for internal rating committee meetings is prepared
JCR-VIS	10. Sub Committee recommends preliminary/initial rating
JCR-VIS	11. Rating Committee decides the preliminary/initial rating
JCR-VIS	12. Discusses the rating rationales and rating issues with client
JCR-VIS	13. Notifies issuer of the preliminary/initial rating, deliberates on appeals by client, if any
Issuer/Client	14. Consents to release of preliminary/initial rating to the public in case of non-mandatory ratings
JCR-VIS	15. Releases the preliminary/initial rating to the press

Source: JCR-VIS

(4) Differences of domestic credit rating agencies and major foreign credit rating agencies

Since very few Pakistani companies have had issued bonds in the international markets, it is difficult to assess the entities and issued that are locally rated with that of international ratings. As in the case of India, sovereign ceiling of Pakistan could be applicable for international bond ratings, while some local firms could have the best credit rating scale in local currency and raising thorough local markets in Rupee currency.

For the locally issued debt instruments, mapping of the long-term and short-term rating is as shown below. Both JCR-VIS and PACRA use same mapping scales for each rating; A1+ (A+ ~AAA), A1(AA- ~A-), A2(A ~BBB), A3(BBB+ ~BB+).

Table 7-1: Mapping of debt instruments (PAKRA)

Long-term	Short-term		
AAA			
AA+			
AA	A1+		
AA-			
A+		A1	
A			
A-			A2
BBB+			
BBB			A3
BBB-			
BB+			

Note: For locally issued debt instruments

Source: PACRA

Table 7-2: Mapping of debt instruments (JCR-VIS)

Long-term	Short-term		
AAA			
AA+	A1+		
AA			
AA-		A1	
A+			
A			A2
A-			
BBB+			A3
BBB			
BBB-			
BB+			

Note: For locally issued debt instruments

Source: JCR-VIS

(5) Problems to be addressed for expanding local credit ratings

General problems for local credit ratings may include as follows:

First, very few public offered corporate bonds are issued in the domestic market in Pakistan. Most corporate bonds are issued in the form of TFCs, which could be easily issued for private placement. Normal bond issuance would require complexity of procedures, cost and time for public offering. It is also to be noted that the absolute needs for issuance of public bonds are not very large.

Second, the requirement of issuance of TFCs is not strict and easy for issuance, and it tends to depend on private placement among many firms in Pakistan.

It is also noted that most TFCs were rated A+ and above, but after controlling for length of tenor, the issue rate seem to be unrelated to the rating⁹.

The constraints of expanding credit rating activities would not be credit rating agencies per se, but the local financial and capital market conditions are not favourable for credit rating of ordinary corporate bonds, and the majority of ratings are for 'entity ratings'

3. Problems to be solved and the Outlook of Pakistani Capital Market

(1) Constraints and actions for development of corporate financial markets

There are several problems in the domestic bond markets in Pakistan for further enhancement of market, which include as follows:

Pakistan's debt securities market remains small and is dominated by government securities. It has been hampered by the national savings schemes.

The secondary market for the government bonds has developed recently, but the liquidity of the debt instruments is limited. One of the most impediments to corporate bond market development is lack of credible benchmark for long-term paper in the

⁹ Hameed(2007) P.117

market in Pakistan.

The recommended actions to be undertaken include as follows:

- (a) Improving cash management and creating a credible sovereign benchmark through increasing supply of benchmark sovereign bonds, as well as interest rates to be decided through the actual conditions of the market.
- (b) Developing a well functioning secondary market in sovereign bonds through conducting regular auctions of PIBs, indicating clear targets.
- (c) Supporting the issuance of Term Finance Certificates (TFCs) (incl. regulatory and tax incentives for corporations to publicly issue debt)
- (d) State Bank of Pakistan (SBP) may introduce a repo facility for TFCs, as some high-grade TFCs could be used as collateral for their lending operations, allowing short selling of TFCs
- (e) Fostering the development of institutional investors (incl. mutual funds, insurance and pension funds)

Table 8: Recommendations for Debt Capital Market Development in Pakistan

Issues	Recommendations
<p>1. Government Securities</p> <p>The Absence of efficient benchmark sovereign yield curve</p> <p>Artificial suppression of the long-end of the yield curve would reduce the appetite for long-term instruments</p> <p>The cut-off yield for T-bill and PIB auctions, not letting the market determine the price, thereby price-driven auction</p> <p>Debt management is not organized properly through Debt Policy Coordination Office(DPCO)</p>	<p>Regular supply of government bonds; improvement in the infrastructure, etc.</p> <p>The government authority should take price-taker at the long-end of the yield curve</p> <p>The government should conduct auctions to be quantity-driven.</p> <p>DPCP to develop a comprehensive debt management strategy, coordinating the parties concerned, and establish proper targets of cashflows.</p>
<p>2. Corporate Securities</p> <p>Inefficient pricing of TFC instrument.</p> <p>Several constraints, including Cumbersome primary issuance guidelines, procedures, and costs.</p>	<p>Pricing of TFCs needs to be reviewed for efficient pricing structure.</p> <p>Shelf registration procedures to be introduced.</p>
<p>3. Investors</p> <p>Conflict of interest between commercial banks' dual role of being the adviser as well as principal investor in bond</p> <p>Insufficient institutional investors</p>	<p>Mutual funds are encouraged to approach for issuance of corporate bonds</p> <p>Government needs to improve regulation and incentives for development of insurance and pension funds.</p>
<p>4. Rating Agencies</p> <p>Limited affiliation and presence of international credit rating agencies cause inadequate competition within the local credit rating industry.</p>	<p>Feasibility of getting foreign credit rating agencies to be assessed.</p>

Source: Debt Capital Market Committee(2007) "Proposed Reforms to Pakistan's Debt Capital market"

(2) Problems to be solved for Credit Rating in Pakistan

Credit rating agencies in Pakistan may have enough capability to conduct fair credit ratings of firms, but many ratings are for entities and some TFCs. The domestic rating agencies are not very competitive situations, due to the insufficient competitive environment, where only two agencies exist in the country. The constraints for further development of credit rating activities would require further expansion of corporate debt and derivatives markets. As in the case of India, the fundamental problem lies in the small and limited corporate debt market.

It is therefore relatively long-term plan for future expansion of private debt markets in Pakistan is required. Some recommendations for development in the debt capital markets in Pakistan are given below.

(3) Outlook and Prospects for expanding the local debt markets and credit rating activities

Under the current situation of political and economic instability in Pakistan, it would be difficult to expect rapid growth of domestic capital market, especially debt markets of corporate bonds. In addition, the external debt financing in Pakistan is relatively limited among the emerging markets.

At this moment, very few Pakistani companies are in a position to issue bonds in the global markets, and foreign investors are not very keen in investment in the debt instruments in Pakistan, due to its size and political and economic situations.

In the long-term, however, it would be necessary to establish firm-based primary and secondary markets for debt instruments in Pakistan, but the prerequisite for expanding investment in debt instruments in Pakistan would be further development of retail and institutional investors, as well as market infrastructures. It is also required to establish a stable and democratic government, which would be a prerequisite for getting investors' confidence. Otherwise, it would be difficult to expect expansion of domestic debt markets for active credit ratings in the country. Development of local bond markets would be long-term tasks for introducing Asian regional bonds in the country.

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Appendix: Ratings by Credit Rating Agencies in Pakistan

1. Consolidated List of PACRA's Publicly Disseminated Ratings As At November 19, 2008

Sr. No.	Name Of Organization	Type of Rating	Date of (dd/mm/yy)	Rating Assigned		
				FS/FR/AMR/D	Long Term	Short Term
1	ABN Amro Bank Pakistan Limited	Entity	28-Jun-06	---	A+	A1
2	ABN Amro Bank Pakistan Limited	TFCs	17-Jul-07	---	A	---
3	Adamjee Insurance Company Limited	IFS	18-Jun-07	AA	---	---
4	Al Meezan Mutual Fund (AMMF)	FR ¹	1-Jan-08	4-Star	<i>Islamic Fund Category</i>	
5	Al-Abbas Sugar Mills Limited	Entity	24-Jul-08	---	A	A1
6	Al-Abbas Sugar Mills Limited	TFCs	24-Jul-08	---	A+	---
7	Allied Bank Limited (ABL)	Entity	30-Jun-08	---	AA	A1+
8	Allied Bank Limited (ABL)	TFCs	5-Jul-08	---	AA-	---
9	AlBaraka Islamic Bank (Pakistan Branches)	Entity	29-Aug-08	---	A-	A1
10	Alfalah GHP Investment Management	AMR ²	5-May-08	AM3	---	---
11	Alfalah GHP Value Fund (AGVF)	FR	22-May-07	5-Star	<i>Asset Allocation Fund</i>	
12	Alfalah Insurance Company Limited	IFS	19-May-08	A-	---	---
13	Al Ghurair Giga Pakistan (Pvt) Limited	Entity	11-Jul-08	---	A	A1
14	Alliance Investment Management Limited	AMR	22-Jul-08	AM4-	---	---
15	Amreli Steels (Pvt) Limited	TFC-sukuk	12-Jun-08	---	A	---
16	AMZ Plus Income Fund (APIF)	FR	7-Feb-08	5-Star	<i>Income Fund Category</i>	
17	AMZ Plus Stock Fund (APSF)	FR	7-Feb-08	3-Star	<i>Equity Fund (Open-End)</i>	
18	Arif Habib Investment Management Limited	AMR	22-Feb-08	AM2	---	---
19	Arif Habib Investment Management Limited	Entity	26-Feb-08	---	A+	A1
20	Arif Habib Bank Limited (AHB)	Entity	1-Oct-07	---	A-	A2
21	Askari Bank Limited	Entity	30-Jun-08	---	AA	A1+
22	Askari Bank Limited	TFCs ^{3-I}	30-Jun-08	---	AA-	---
23	Askari Bank Limited	TFCs-II	30-Jun-08	---	AA-	---
24	Askari Investment Management Limited	AMR	26-Aug-08	AM3	---	---
25	Askari Income Fund (AIF)	FR	7-Feb-08	5-Star	<i>Income Fund Category</i>	
26	Askari Leasing Limited	Entity	10-Jan-08	---	A+	A1
27	Atlas Asset Management Limited	AMR	23-Jan-08	AM3+	---	---
28	Atlas Bank Limited	Entity	7-Jul-08	---	A-	A2
29	Atlas Fund of Funds (AFoF)	FR	31-Jan-08	5-Star	<i>Fund of Funds Category</i>	
30	Atlas Income Fund (AIF)	FR	31-Jan-08	5-Star	<i>Income Fund Category</i>	
31	Atlas Insurance Company Limited (Formerly	IFS ⁴	23-Jun-08	A+	---	---
32	Atlas Stock Market Fund (ASMF)	FR	31-Jan-08	5-Star	<i>Equity Fund (Open-End)</i>	
33	Attock Refinery Limited (ARL)	Entity	18-Aug-08	---	AA-	A1+
34	Azgard Nine Limited	Entity	14-Nov-08	---	A+	A1
35	Azgard Nine Limited	TFCs	14-Nov-08	---	AA-	---
36	Azgard Nine Limited	ST-TFCs	14-Nov-08	---	A1+*	---
37	Bank Al Habib Limited	Entity	3-Jul-08	---	AA	A1+
38	Bank Al Habib Limited	TFCs-I	3-Jul-08	---	AA-	---
39	Bank Al Habib Limited	TFCs-II	3-Jul-08	---	AA-	---
40	Bank Alfalah Limited	Entity	1-Jul-08	---	AA	A1+
41	Bank Alfalah Limited	TFCs-I	1-Jul-08	---	AA-	---
42	Bank Alfalah Limited	TFCs-II	1-Jul-08	---	AA-	---
43	Bank Alfalah Limited	TFCs-III	1-Jul-08	---	AA-	---
44	Bank Alfalah Limited	TFCs-IV	1-Jul-08	---	AA-	---
45	BankIslami Pakistan Limited	Entity	17-Jul-08	---	A-	A2
46	The Bank of Punjab (BoP)	Entity	28-May-08	---	AA-	A1+
47	Dawood Capital Management Limited (DCM)	AMR	13-Jan-08	AM3	---	---
48	Dawood Money Market Fund (DMMF)	FR	29-Apr-08	5-Star	<i>Money-Market Fund</i>	
49	Dewan Cement Limited	Entity	18-Jan-08	---	A-	A2
50	Dewan Cement Limited	TFCs	18-Jan-08	---	A	---
51	East West Insurance Company Limited	IFS	7-Jul-08	A-	---	---
52	Eden Builders Limited	Developer	28-May-08	PE2	---	---
53	Eden Builders Limited	S-TFCs	3-Apr-08	A	---	---
54	Eden Developers (Pvt) Limited	Developer	6-Feb-07	PE2	---	---
55	Eden Developers (Pvt) Limited	S-TFCs	27-May-08	A-	---	---
56	Emaar DHA Islamabad Limited	Developer	9-Jul-07	PE1	---	---
57	Emaar Giga Karachi Limited	Developer	31-Oct-07	PE1	---	---
58	Emirates Global Islamic Bank Limited	Entity	8-Jul-08	---	A-	A2
59	Engro Chemical Pakistan Limited	Entity	30-Apr-07	---	AA	A1+
60	Engro Chemical Pakistan Limited	TFCs-I	4-Sep-07	---	AA	---
61	Engro Chemical Pakistan Limited	TFCs-II	20-Sep-07	---	AA	---
62	Faysal Bank Limited (FBL)	Entity	5-Jul-08	---	AA	A1+
63	Financial Receivables Securitization	S-TFCs	28-May-08	---	AA-	---
64	First Capital Equities Limited (FCEL)	Entity	25-Jan-08	---	A	A1

65	First Capital Investments Limited (FCIL)	Entity	13-Jan-08	AM4+	---	---
66	First Capital Mutual Fund (FCMF)	FR	13-Jan-08	4-Star	<i>Equity Fund (Closed-End)</i>	
67	First Dawood Investment Bank Limited	Entity	12-Mar-08	---	A+	A1
68	First Dawood Investment Bank Limited	TFCs - 2nd	12-Mar-08	---	AA-	---
69	First Dawood Mutual Fund (FDMF)	FR	29-Apr-08	4-Star	<i>Balanced Fund Category</i>	
70	First Fidelity Leasing Modarabar	Entity	9-May-08	---	A-	A2
71	First Fidelity Leasing Modarabar	TFCs	9-May-08	---	A	---
72	First Habib Modaraba ^{+ve outlook}	Entity	11-Apr-08	---	AA	A1+
73	First Punjab Modaraba	Entity	15-Feb-08	---	A	A1
74	First Women Bank Limited	Entity	29-Sep-08	---	BBB+	A2
75	Habib Asset Management Limited	AMR	19-Sep-07	AM3-	---	---
76	Habib Insurance Company Limited (HIC)	IFS	16-May-08	A+	---	---
77	Habib Metropolitan Bank Limited	Entity	9-Jul-08	---	AA+	A1+
78	House Building Finance Corporation (HBFC)	Entity	25-Sep-07	---	A	A1
79	House Building Finance Corporation (HBFC)	TFCs	10-Mar-08	A+	---	---
80	IGI Investment Bank Limited (<i>Formerly First</i>)	Entity	16-Feb-08	---	A	A1
81	IGI Investment Bank Limited (<i>Formerly First</i>)	TFCs	16-Feb-08	---	A+	---
82	IGI Funds Limited (IGI FL's)	AMR	16-Feb-08	AM3-	---	---
83	IGI Insurance Limited (IGI)	IFS	22-Oct-07	AA	---	---
84	Jahangir Siddiqui & Company Limited	Entity	14-Jul-08	---	AA+	A1+
85	Jahangir Siddiqui & Company Limited	TFCs-I	14-Jul-08	---	AA+	---
86	Jahangir Siddiqui & Company Limited	TFCs-II	14-Jul-08	---	AA+	---
87	Jahangir Siddiqui & Company Limited	TFCs-III	14-Jul-08	---	AA+	---
88	Jahangir Siddiqui & Company Limited	TFCs-IV	14-Jul-08	---	AA+	---
89	JS Aggressive Asset Allocation Fund (JS)	FR	13-May-08	4-Star	---	---
90	JS Fund of Funds (JS FoF)	FR	13-May-08	4-Star	---	---
91	JS Growth Fund (JS GF)	FR	13-May-08	3-Star	---	---
92	JS-Income Fund (JSIF)	FR	13-May-08	5-Star	5-Star	---
93	JS Investments Limited (<i>Formerly JS</i>)	AMR	28-Apr-08	AM2+	---	---
94	JS Investments Limited (<i>Formerly JS</i>)	Entity	22-May-08	---	AA-	A1+
95	JS Bank Limited ^{+ve outlook}	Entity	10-Jul-08	---	A-	A2
96	JS Global Capital Limited (<i>Formerly JS</i>)	Entity	9-Oct-08	---	AA	A1+
97	JS Value Fund (JSVF)	FR	13-May-08	5-Star	5-Star	---
98	KASB Bank Limited	Entity	1-Jul-08	---	A	A1
99	KASB Funds Limited	AMR	31-Jan-08	AM3+	---	---
100	KASB Securities Limited ^{+ve}	Entity	8-Oct-08	---	A+	A1
101	KASB Securities Limited ^{+ve}	TFCs	8-Oct-08	---	AA-	---
102	Kohat Cement Company Limited (KCCL)	Entity	18-Sep-07	---	A-	A2
103	Maple Leaf Cement Factory Limited	Entity	24-Oct-07	---	A	A1
104	Maple Leaf Cement Factory Limited	TFCs	25-Oct-07	---	A+	---
105	MCB Asset Management Company Limited	AMR	7-Jan-08	AM3+	---	---
106	MCB Bank Limited (<i>Formerly Muslim</i>)	Entity	3-Jul-08	---	AA+	A1+
107	MCB Bank Limited (<i>Formerly Muslim</i>)	TFCs	25-Jun-07	---	A1+	---
108	Meezan Balanced Fund (MBF)	FR	1-Jan-08	5-Star	<i>Islamic Fund Category</i>	
109	Meezan Islamic Fund (MIF)	FR	1-Jan-08	5-Star	<i>Islamic Fund Category</i>	
110	Metrobank-Pakistan Sovereign Fund (MSF)	FR	14-Feb-08	4-Star	3-Star	---
111	Modaraba Al-Malid ^{-ve outlook}	Entity	23-Sep-08	---	A-	A2
112	Mybank Limited	Entity	1-Jul-08	---	A	A1
113	National Investment (Unit) Trust - NIT	FR	12-Jan-07	4-Star	<i>Equity Fund (Open-End)</i>	
114	National Investment Trust Limited	AMR	18-Aug-08	AM2-	---	---
115	National Power Construction Corporation	Entity	13-Jul-07	---	A	A1
116	National Refinery Limited (NRL)	Entity	12-Aug-08	---	AAA	A1+
117	Network Leasing Corporation Limited	Entity	18-Oct-06	---	D	D
118	Network Microfinance Bank Limited	Entity	4-Aug-08	---	BBB	A3
119	New Jubilee Insurance Company Limited	IFS	12-Jan-08	AA	---	---
120	NIB Bank Limited	Entity	26-Jun-08	---	AA-	A1+
121	NIB Bank Limited	TFCs	26-Jun-08	---	A+	---
122	Nishat Mills Limited	Entity	11-Feb-08	---	A+	A1
123	Optimus Limited (OL)	Entity	17-Aug-07	---	BBB+	A2
124	Optimus Limited (OL)	TFCs	17-Aug-07	---	A	---
125	ORIX Investment Bank Pakistan Limited	Entity	24-Mar-08	---	A-	A2
126	ORIX Leasing Pakistan Limited	Entity	6-Mar-08	---	AA+	A1+
127	ORIX Leasing Pakistan Limited	TFCs	6-Mar-08	---	AA+	---
128	PACE Pakistan Limited(PACE)	Entity	8-May-08	---	A+	A1
129	PACE Pakistan Limited(PACE)	TFCs-I	8-May-08	---	AA-	---
130	PACE Pakistan Limited(PACE)	TFCs-II	8-May-08	---	AA-	---
131	Packages Limited	Entity	27-May-08	---	AA	A1+
132	Pak-American Fertilizers Limited (PAFL)	Entity	14-Nov-08	---	A+	A1
133	Pak-Arab Refinery Limited (PARCO)	Entity	18-Aug-08	---	AAA	A1+

134	Pak Brunei Investment Company Limited	Entity	29-Apr-08	---	AA	A1+
135	Pak China Investment Company Limited	Entity	21-Jul-08	---	AA-	A1+
136	Pak Elektron Limited (PEL)	Entity	28-Jul-08	---	A	A1
137	Pak Elektron Limited (PEL)	TFCs-I	28-Jul-08	---	A	--
138	Pak Elektron Limited (PEL)sukuk	TFCs-II	28-Jul-08	---	A+	--
139	Pakistan Capital Market Fund (PCM)	FR	14-Feb-08	5-Star		<i>Asset Allocation Fund</i>
140	Pakistan Income Fund (PIF)	FR	14-Feb-08	5-Star		<i>Income Fund Category</i>
141	Pakistan Industrial Credit & Investment	Entity	19-Jun-07	---	AA-	A1+
142	Pak Iran Joint Investment Company Limited	Entity	24-Jul-08	---	AA-	A1+
143	Pak Kuwait Investment Company (Pvt)	Entity	26-Jun-07	---	AAA	A1+
144	Pak-Libya Holding Company (Pvt) Limited	Entity	17-Jul-08	---	AA-	A1+
145	Pakistan Mobile Communications Limited	Entity	5-Mar-08	---	AA-	A1
146	Pakistan Mobile Communications Limited	TFCs-I	5-Mar-08	---	AA-	--
147	Pakistan Mobile Communications Limited	TFCs-II	5-Mar-08	---	AA-	--
148	Pakistan Premier Fund Limited (PPF)	FR	12-Jan-07	4-Star		<i>Equity Fund (Closed-End)</i>
149	Pakistan State Oil Company Limited (PSO)	Entity	11-Dec-07	---	AAA	A1+
150	Pakistan Stock Market Fund (PSMF)	FR	14-Feb-08	3-Star	5-Star	--
151	Pakistan Strategic Allocation Fund (PSAF)	FR	14-Feb-08	4-Star		<i>Equity Fund (Closed-End)</i>
152	Pioneer Cement Limited	Entity	28-Jan-08	---	A-	A2
153	Prime Electronics Securitization Company	TFCs	18-Jul-07	---	AA-	--
154	Royal Bank of Scotland Limited	TFCs	3-Sep-08	---	AA-	--
155	Reem Rice Mills (Pvt) Limited	Entity	25-Oct-07	---	BBB+	A2
156	Reliance Insurance Company Limited (RIC)	IFS	3-May-06	A-	--	--
157	Shaheen Insurance Company Limited (SIC)	IFS	4-Jul-08	A-	--	--
158	Shakarganj Mills Limited	Entity	4-Feb-08	---	BBB+	A2
159	Shakarganj Mills Limited	TFCs	22-Apr-08	---	A-	--
160	Soneri Bank Limited	Entity	30-Jun-08	---	AA-	A1+
161	Soneri Bank Limited	TFCs	30-Jun-08	---	A+	--
162	Standard Chartered Bank (Pakistan) Limited	Entity	4-Jul-08	---	AAA	A1+
163	Standard Chartered Bank (Pakistan) Limited	TFCs-I	4-Jul-08	---	AAA	--
164	Standard Chartered Bank (Pakistan) Limited	TFCs-II	4-Jul-08	---	AAA	--
165	Standard Chartered Bank (Pakistan) Limited	TFCs-III	4-Jul-08	---	AAA	--
166	Standard Chartered Modaraba (Formerly	Entity	29-Feb-08	---	AA+	A1+
167	Sui Northern Gas Pipelines Limited (SNGPL)	Entity	10-Oct-08	---	AA	A1+
168	Sui Southern Gas Company Limited (SSGC)	Entity	16-Oct-08	---	AA-	A1+
169	Sui Southern Gas Company Limited (SSGC)	TFCs	16-Oct-08	---	AA	--
170	Trakker (Pvt) Limited	Entity	30-Jul-07	---	A-	A2
171	Trakker (Pvt) Limited	TFCs	30-Jul-07	---	A-	A2
172	Trakker Direct Insurance Company Limited	IFS	11-Jun-08	A-	--	--
173	Tri-Pack Films Limited	Entity	25-Aug-08	---	A+	A1
174	TRG Pakistan Limited	Entity	4-May-07	---	BBB+	A2
175	Trust Investment Bank	Entity	21-May-08	---	A+	A1
176	Trust Investment Bank	TFCs-I	21-May-08	---	AA-	--
177	Trust Investment Bank	TFCs-II 1st	21-May-08	---	AA-	--
178	Trust Investment Bank	TFCs-II	21-May-08	---	AA-	--
179	Trust Investment Bank	TFCs-III	21-May-08	---	AA	--
180	Union Leasing Limited	Entity	11-May-07	---	A+	A1
181	Unit Trust of Pakistan (UTP)	FR	13-May-08	5-Star	5-Star	--
182	United Insurance Company of Pakistan	IFS	4-Aug-08	A-	--	--
183	UTP Plus Incom Fun (UTP-PIF)	FR	13-May-08	4-Star		<i>Asset Allocation Fund</i>
184	UTP Large Cap Fund (UTP-LCF)	FR	13-May-08	4-Star	5-Star	--
185	UTP-Islamic Fund (UTP-ISF)	FR	13-May-08	4-Star		<i>Islamic Fund Category</i>
186	WorldCall Telecom Limited (WTL)	Entity	8-Jan-08	---	A+	A1
187	WorldCall Telecom Limited (WTL)	TFCs-I	8-Jun-08	---	AA-	--
188	WorldCall Telecom Limited (WTL)	TFCs-II	8-Nov-07	---	AA-	--
189	WorldCall Telecom Limited (WTL)	TFCs-III	28-Mar-08	---	AA-	--

^{FW} On Rating Watch ^{FW}

1 Fund Rating

2 Asset Manager Rating

3 Term Finance Certificates

4 Insurer Financial Strength Rating

5 Securitised Term Finance Certificates

2. JCR-VIS (all ratings)

Company Name	Rating Type	Rating Date	Medium to Long	Outlook	Short Term	Rating Action
Commercial Bank						
1 AlBaraka Islamic Bank B.S.C (E.C.) - Pakistan	Entity	6/28/2008	A	Stable	A-1	Reaffirmed
2 Allied Bank Ltd. (Formerly Allied Bank of	TFC-1	7/22/2008	AA-	Stable		Upgrade
3 Arif Habib Bank Limited (formerly Arif Habib	Entity	10/22/200	A	Rating Watch -	A-2	Rating
4 Atlas Bank Limited	Entity	10/23/200	A-	Rating Watch -	A-2	Rating
5 Dawood Islamic Bank Limited	Entity	6/30/2008	A-	Stable	A-2	Reaffirmed
6 Dubai Islamic Bank Pakistan Ltd.	Entity	6/30/2008	A	Stable	A-2	Reaffirmed
7 Faysal Bank Limited	Entity	6/30/2008	AA	Stable	A-1+	Reaffirmed
8 Faysal Bank Limited	TFC-1	6/30/2008	AA-	Stable		Reaffirmed
9 Habib Bank Limited	Entity	6/28/2008	AA+	Stable	A-1+	Reaffirmed
10 Meezan Bank Limited	Entity	6/30/2008	A+	Stable	A-1	Reaffirmed
11 National Bank of Pakistan	Entity	6/26/2008	AAA	Stable	A-1+	Reaffirmed
12 Oman International Bank S.A.O.G. (Pakistan	Entity	6/30/2008	BBB	Stable	A-2	Outlook
13 Samba Bank Limited (formerly Crescent	Entity	6/28/2008	A	Stable	A-1	Maintained
14 Saudi Pak Commercial Bank Ltd.	Entity	6/12/2008	A-	Stable	A-3	Maintained
15 SME Bank Ltd	Entity	6/6/2008	BBB	Rating Watch	A-3	Maintained
16 Standard Chartered Bank (Pakistan) Ltd.	Entity	6/28/2008	AA+	Stable	A-1+	Reaffirmed
17 Standard Chartered Bank (Pakistan) Ltd.	TFC-2	6/28/2008	AA	Stable		Reaffirmed
18 Standard Chartered Bank (Pakistan) Ltd.	TFC-3	6/28/2008	AA	Stable		Reaffirmed
19 The Bank of Khyber	Entity	6/30/2008	BBB+	Stable	A-2	Reaffirmed
20 The Punjab Provincial Co-operative Bank Ltd.	Entity	7/23/2008	CCC	Rating Watch	C	Downgrade
21 United Bank Limited	Entity	6/30/2008	AA+	Stable	A-1+	Reaffirmed
22 United Bank Limited	TFC-1	6/30/2008	AA	Stable		Reaffirmed
23 United Bank Limited	TFC-2	6/30/2008	AA	Stable		Reaffirmed
24 United Bank Limited	TFC-3	6/30/2008	AA	Stable		Reaffirmed
25 United Bank Limited	TFC 4	6/30/2008	AA	Stable		Reaffirmed
DFI s						
27 Pak Oman Investment Co. Ltd.	Entity	6/30/2008	AA+	Stable	A-1+	Reaffirmed
28 Pakistan Kuwait Investment Company (Pvt.)	Entity	6/28/2008	AAA	Stable	A-1+	Reaffirmed
29 Saudi Pak Industrial and Agricultural	Entity	6/30/2008	AA+	Stable	A-1+	Reaffirmed
30 Zarai Taraqiati Bank Ltd.	Entity	6/28/2008	AAA	Stable	A-1+	Reaffirmed
31			(B+)*	(Stable)*	(B)*	(Upgrade)*
NBFCs						
32 Al-Zamin Leasing Corporation Limited	Entity	2/28/2008	BBB+	Stable	A-2	Reaffirmed
33 Al-Zamin Leasing Corporation Limited	TFC-2	2/28/2008	A-	Stable		Reaffirmed
34 Al-Zamin Leasing Corporation Limited	TFC 4	2/28/2008	A-	Stable		Reaffirmed
35 Asian Housing Finance Limited	Entity	2/22/2007	BB+	Negative	B	Downgrade
36 Escorts Investment Bank Limited	Entity	1/3/2008	A	Stable	A-1	Reaffirmed
37 Escorts Investment Bank Limited	TFC-1	1/3/2008	A+	Stable		Reaffirmed
38 First Credit and Investment Bank Ltd.	Entity	9/20/2007	BBB+	Stable	A-2	Reaffirmed
39 Grays Leasing Limited	Entity	11/17/200	BBB+	Negative	A-3	Maintained
40 Invest Capital Investment Bank Ltd.	Entity	6/19/2008	A-	Positive	A-2	Initial
41 Javed Omer Vohra & Co., Ltd.,	Entity	12/17/200	BBB-	Stable	A-3	Downgrade
42 KASB Capital Limited	Entity	10/23/200	A+	Rating Watch	A-1	Initial
43 KASB Modaraba	Entity	6/11/2008	BBB	Stable	A-3	Initial
44 NBP Capital Limited	Entity	7/14/2008	A	Stable	A-2	Maintained
45 Orix Leasing Pakistan Ltd.	Entity	10/24/200	AA(p)			Reaffirmed
46 Pak-Gulf Leasing Company Limited	Entity	2/28/2008	BBB-	Stable	A-3	Downgrade
47 Saudi Pak Leasing Company Limited	Entity	11/10/200	BBB+	Negative	A-3	Downgrade
48 Saudi Pak Leasing Company Limited	TFC-1	11/10/200	A-	Negative		Downgrade
49 Security Investment Bank Ltd.	Entity	8/12/2008	A	Stable	A-2	Maintained
50 Security Leasing Corporation Ltd.	Entity	11/10/200	BBB+	Negative	A-3	Downgrade
51 Sigma Leasing Corporation Limited	Entity	2/27/2008	A-	Stable	A-2	Reaffirmed
52 SME Leasing Limited	Entity	7/7/2008	A-	Stable	A-2	Reaffirmed
53 Standard Chartered Leasing Limited	Entity	8/27/2008	A(p)			Reaffirmed
54 Taurus Securities Limited	Entity	11/14/200	A-	Negative	A-2	Maintained
Modarabas						
55 Al-Zamin Leasing Modaraba	Entity	9/29/2008	A-	Stable	A-2	Reaffirmed
56 Al-Zamin Leasing Modaraba	TFC-1	9/29/2008	A	Stable		Reaffirmed
57 Al-Zamin Leasing Modaraba	TFC-2	9/29/2008	A	Stable		Reaffirmed
58 B.R.R. Guardian Modaraba.	Entity	10/20/200	A	Stable	A-2	Reaffirmed
59 B.R.R. Guardian Modaraba.	TFC-1	6/17/2008	A+	Stable		Final
60 First Al-Noor Modaraba	Entity	1/9/2008	BBB	Stable	A-3	Reaffirmed
61 First Habib Bank Modaraba	Entity	4/15/2008	AA-	Stable	A-1+	Reaffirmed
62 First National Bank Modaraba	Entity	3/10/2008	A+	Stable	A-1	Upgrade
63 First Paramount Modaraba	Entity	7/17/2008	BBB-	Stable	A-3	Reaffirmed

Insurance						
64	ACE Insurance Ltd.	IFS	8/25/2008	A +	Stable	Reaffirmed
65	Alpha Insurance Co. Ltd	IFS	10/9/2008	A-	Stable	Reaffirmed
66	Capital Insurance Company Limited	IFS	12/10/200	BB+	Negative	Maintained
67	Central Insurance Company Limited	IFS	3/19/2008	A	Stable	Reaffirmed
68	Century Insurance Company Limited	IFS	10/23/200	A	Stable	Reaffirmed
69	East West Insurance Co. Ltd	IFS	2/25/2008	A-	Stable	Upgrade
70	EFU General Insurance Ltd.	IFS	7/17/2007	AA	Stable	Reaffirmed
71	EFU Life Assurance Ltd	IFS	3/27/2008	AA-	Stable	Upgrade
72	Excel Insurance Company Limited	IFS	11/1/2007	BBB-	Stable	Reaffirmed
73	Jupiter Insurance Co. Ltd.	IFS	4/7/2005			Suspended
74	National Insurance Co. Ltd.	IFS	2/22/2008	AA+	Stable	Reaffirmed
75	New Jubilee Insurance Co. Ltd	IFS	2/7/2008	AA	Stable	Reaffirmed
76	PICIC Insurance Ltd.	IFS	3/19/2008	A-	Negative	Maintained
77	Premier Insurance Co. of Pakistan Ltd.	IFS	3/14/2008	A	Stable	Reaffirmed
78	Reliance Insurance Co. Ltd.	IFS	9/10/2007	A-	Positive	Maintained
79	Saudi Pak Insurance Co. Ltd.	IFS	8/18/2008	A-	Stable	Upgrade
80	Security General Insurance Co. Ltd.	IFS	10/31/200	A	Stable	Reaffirmed
81	Silver Star Insurance Company Ltd	IFS	10/30/200	BBB+	Stable	Reaffirmed
82	Takaful Pakistan Limited	IFS	8/28/2008	A-	Negative	Maintained
83	The Co-operative Insurance Society of	IFS	12/26/200	C	Stable	Reaffirmed
84	The Crescent Star Insurance Co. of Pakistan	IFS	12/26/200	BBB	Positive	Reaffirmed
85	The Pakistan General Insurance Co. Ltd	IFS	10/6/2008	BBB	Stable	Upgrade
86	The Universal Insurance Co. Ltd.	IFS	10/7/2008	A-	Negative	Maintained
87	UBL Insurers Ltd.	IFS	10/14/200	A-	Stable	Reaffirmed
Mutual Funds						
88	AKD Income Fund.	Fund	12/26/200	A-(f)		Initial
89	AKD Investment Management Ltd	Managem	12/26/200	AM3+		Reaffirmed
90	Al-Meezan Investment Management Ltd.	Entity	2/19/2008	A	Stable	A-2 Initial
91	Al-Meezan Investment Management Ltd.	Managem	12/27/200	AM2		Reaffirmed
92	AMZ Asset Management Ltd.	Managem	11/18/200	AM3-		Downgrade
93	AMZ Plus Income Fund	Fund	11/18/200	BBB+(f)		Downgrade
94	BMA Asset Management Co. Ltd	Managem	2/25/2008	AM2-		Upgrade
95	BMA Chundrigar Road Saving Fund	Fund	10/17/200	A(f)		Initial
96	Crosby Asset Management (Pakistan) Limited	Managem	11/30/200	AM4-		Reaffirmed
97	Faysal Asset Management Ltd	Managem	1/9/2008	AM3+		Upgrade
98	Faysal Income & Growth Fund	Fund	1/9/2008	A+(f)		Reaffirmed
99	Faysal Savings Growth Fund	Fund	3/10/2008	A(f)		Initial
100	HBL Asset Management Ltd.	Managem	3/14/2008	AM3		Initial
101	KASB Funds Limited	Managem	7/30/2008	AM2-		Initial
102	Meezan Islamic Income Fund	Fund	6/24/2008	A(f)		Initial
103	NAFA Cash Fund	Fund	12/12/200	A(f)		Reaffirmed
104	National Asset Management Company Ltd.	Managem	5/12/2008	AM3-		Reaffirmed
105	National Fullerton Asset Management Ltd.	Managem	12/12/200	AM2		Reaffirmed
106	National Investment Trust Ltd.	Managem	6/23/2008	AM2		Initial
107	Noman Abid Investment Management	Managem	10/6/2008	AM3-		Initial
108	Pak Oman Advantage Fund	Fund	12/24/200	AA-(f)		Reaffirmed
109	Pak Oman Asset Management Ltd	Managem	2/4/2008	AM3+		Initial
110	Pak Oman Bank Of Punjab Advantage Plus	Fund	12/24/200	A(f)		Initial
111	PICIC Asset Management Company Ltd.	Managem	12/30/200	AM2	Rating Watch -	Rating
112	UBL Fund Managers Ltd. (Formerly United	Managem	4/1/2008	AM2-		Reaffirmed
113	United Growth & Income Fund	Fund	4/1/2008	A(f)		Reaffirmed
114	United Money Market Fund	Fund	4/1/2008	A+(f)		Reaffirmed
Micro Finance						
116	KASHF Foundation	Entity	4/3/2008	BBB+	Stable	A-3 Reaffirmed
117	KASHF Foundation	TFC-1	4/3/2008	A	Stable	Reaffirmed
118	KASHF Foundation	TFC-2	10/17/200	A-	Stable	Preliminary
119	Khushhali Bank Limited (formerly Khushhali	Entity	4/30/2008	A-	Stable	A-1 Maintained
120	Pak Oman Microfinance Bank Ltd.	Entity	4/30/2008	BBB+	Negative	A-3 Maintained
121	Rozqar Microfinance Bank Ltd.	Entity	5/2/2008	BB+	Negative	A-3 OutLook
122	Tameer Micro Finance Bank Ltd.	Entity	4/30/2008	A-	Negative	A-3 Maintained
123	The First Micro Finance Bank Ltd.	Entity	4/30/2008	A+	Stable	A-1 Maintained
Textiles						
124	Amtex Limited	TFC-2	6/9/2008	A	Stable	Final
125	Indus Dyeing & Mfg Co. Ltd.	Entity	1/8/2008	A	Stable	A-2 Reaffirmed
126	Quetta Textile Mills Limited	TFC-1	9/23/2008	A-	Stable	Final
127	Sadaqat Textile Mills (Pvt) Ltd	Entity	6/18/2008	BBB+	Stable	A-3 Initial
128	Sadaqat Textile Mills (Pvt) Ltd	TFC-1	6/18/2008	A-	Stable	Preliminary
129	Saif Textile Mills Ltd	Entity	6/23/2008	BBB+	Stable	A-3 Downgrade
130	Sapphire Textile Mills Limited	Entity	1/9/2008	A	Stable	A-2 Reaffirmed

Sugar							
131	Al-Noor Sugar Mills Ltd.	Entity	11/29/200	BBB+	Stable	A-2	Initial
132	JDW Sugar Mills Limited	Entity	5/2/2008	A-	Stable	A-2	Initial
133	JDW Sugar Mills Limited	TFC-1	10/24/200	A	Stable		Final
134	Shahmurad Sugar Mills Ltd	Entity	9/11/2007	BBB	Stable	A-2	Reaffirmed
135	Shahmurad Sugar Mills Ltd	TFC-2	9/4/2008	A-	Stable		Final
Consumer Goods							
136	Engro Foods Ltd.	TFC-1	8/13/2008	A-	Stable		Preliminary
137	National Foods Ltd.,	Entity	1/7/2008	A+	Stable	A-2	Reaffirmed
138	New Allied Electronic Industries (Pvt.) Ltd.	TFC-1	11/11/200	BB+	Negative		Downgrade
139	New Allied Electronic Industries (Pvt.) Ltd.	TFC-2	11/11/200	BB+	Negative		Downgrade
140	New Allied Electronic Industries (Pvt.) Ltd.	TFC-3	11/11/200	BBB-	Negative		Downgrade
Chemicals & Pharma							
141	Ittehad Chemicals Ltd.	Entity	8/20/2007	A-	Stable	A-2	Maintained
142	Searle Pakistan Ltd	Entity	9/4/2008	BBB	Stable	A-3	Rating
143	Searle Pakistan Ltd	TFC-1	9/4/2008	A-	Stable		Rating
Oil & Gas							
144	Jamshoro Joint Venture Limited	Entity	4/9/2008	A+	Stable	A-1	Reaffirmed
145	Jamshoro Joint Venture Limited	Secured	4/9/2008	AA-	Stable		Reaffirmed
146	Oil & Gas Development Co. Ltd.	Entity	2/14/2007	AAA	Stable	A-1+	Initial
Steel & Allied Products							
147	Crescent Steel And Allied Products Ltd.	Entity	1/2/2008	A+	Stable	A-1	Reaffirmed
148	Crescent Steel And Allied Products Ltd.	TFC-1	1/2/2008	AA-	Stable		Reaffirmed
Construction							
149	Eden Housing Limited.	TFC-1	5/29/2008	A	Stable		Final
150	Eden Housing Limited.	TFC-2	5/29/2008	A	Stable		Final
151	Eden Housing Limited.	TFC-3	9/8/2008	A	Stable		Preliminary
152	Eden Housing Limited.	Developer	11/16/200	PE1-			
153	Gharibwal Cement Limited	Entity	7/16/2008	BB+	Rating	A-3	Rating
154	Gharibwal Cement Limited	TFC-2	7/16/2008	BBB	Rating		Maintained
Miscellaneous							
156	Arif Habib Securities Ltd.	Entity	6/3/2008	AA	Stable	A-1	Initial
157	Avari Hotel Limited	TFC-1	7/10/2007	A-	Stable		Final
158	Century Paper & Board Mills Limited	Entity	9/24/2007	A-	Stable	A-2	Initial
159	Century Paper & Board Mills Limited	TFC-1	9/24/2007	AA-	Stable		Preliminary
160	Pakarab Fertilizers Ltd.	Entity	6/11/2008	AA-	Stable	A-1	Reaffirmed
161	Pakarab Fertilizers Ltd.	TFC-1	6/11/2008	AA	Stable		Reaffirmed
162	Pakistan International Container Terminal	Entity	12/13/200	A-	Stable	A-2	Reaffirmed
163	Pakistan Security Printing Corporation (Pvt.)	Entity	7/15/2008	AAA	Stable	A-1+	Reaffirmed
164	Security Papers Ltd.	Entity	7/15/2008	AAA	Stable	A-1+	Reaffirmed
165	Telecard Limited	TFC-1	5/5/2006	BBB	Rating		Downgrade
166	Wateen Telecom (Pvt.) Ltd.	Entity	8/13/2007	A	Positive	A-1	Upgrade
Commercial Bank							
168	Allied Bank Ltd. (Formerly Allied Bank of	CGR	12/3/2007	CGR-8			Initial
DFIs							
170	Pak Oman Investment Co. Ltd.	CGR	11/22/200	CGR-9			Reaffirmed
171	Pakistan Kuwait Investment Company (Pvt.)	CGR	6/28/2008	CGR-8			Downgrade
Miscellaneous							
173	Security Papers Ltd.	CGR	7/15/2008	CGR-8			Reaffirmed
NPOs							
174	The Citizens Foundation	NPO-GR	6/23/2006	GR-8			Reaffirmed