



## RATINGS (JUNE 2010)

### PAK BRUNEI INVESTMENT COMPANY (PBIC)

	NEW	PREVIOUS
<b>ENTITY</b>		
Long Term	AA	AA
Short Term	A1+	A1+

## FINANCIAL DATA

PKR (mln)

	1Q10*	Dec-09	Dec-08
Total Assets	13,350	12,131	5,528
Equity	6,948	6,311	5,363
Net Income	137	448	222
ROA %	4.3	5.0	4.5
ROE %	8.3	7.7	5.2
Equity/Total Assets %	52.0	52.0	97.0
SBP CAR (%)	96.0	81.0	138.0

\*Based on unaudited accounts for the period ended March 31, 2010.

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## RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect PBIC's sovereign ownership – jointly owned by Governments of Pakistan and Brunei Darussalam – implying strong sponsor support to the company. The ratings also incorporate the company's robust capitalization and ensuing high risk absorption capacity. Meanwhile, the company has an established organizational structure, with strong core management team in place, and remains well positioned to capitalize on any emerging opportunities. However, the management is currently following a cautious approach to preserve asset quality.
- The ratings are dependent on the management's ability to effectively manage its risk profile and tap new business avenues for effective deployment of funds. At the same time, any politically motivated intervention in the company's affairs, impacting the corporate governance standards, would negatively impact the ratings.

## ASSESSMENT

- The main role of Development Finance Institutions (DFIs) is to promote economic development by supporting both industrial and service sector projects. In Pakistan, DFIs face many challenges in fulfilling their mandate on the back of competition from commercial banks, limited outreach and lack of viable funding sources. Thus, the sector mainly focused on money and capital market operations for generating profitable returns. PBIC offers a wide range of products and its operations are bifurcated into four areas: i) advisory and strategic investment, ii) project and corporate financing/syndication, iii) equity trading iv) money markets/trading/investment/distribution and v) capital markets trading/investment. The main focus of the company remains on diversifying its revenue stream by identifying viable opportunities in multiple sectors. In this regard, the company has established its position as an advisor and arranger for loans, underwriting and syndication transaction in a short span of time. The company also provides various financing facilities.
- During 2009, PBIC's NIMR registered a considerable growth (2009: PKR 764mln, 2008: PKR 541mln) mainly due to expansion in earning assets – government securities. The company's operating expenses also witnessed an increase due to inflationary pressures and induction of new personnel. Although the fee based income remained low due to subdued economic environment and lower quantum of transactions, strong returns from stock market and money market operations boosted profitability. However, provisioning expense – largely attributable to diminishment in the value of investments – impacted the bottom-line negatively.
- Going forward, the management intends to focus on short to medium term lending to fundamentally sound and to export oriented companies. The investment portfolio is expected to remain skewed towards securities. The company plans to make strategic investments in multiple sectors by following private equity fund model. In this regard, the management is exploring certain options including acquiring an asset management company. However, these plans remain in primary stages and their implementation will be contingent upon the pace of economic recovery.
- In order to maintain adequate controls, the management has enforced a well-designed organizational structure with independent internal audit function. Furthermore, the company has setup multiple committees for managing operational, market, liquidity, and credit risk. The company has in place detailed manuals with clear operational guidelines and has implemented dedicated software for risk management and assigning internal credit rating.
- The company's total finances stood at PKR 5,186mln at end-Dec-09, which is dominated by fixed income and debt instrument investments such as TFCs and Sukuks (72%). During the year, the asset quality deteriorated as NPLs (end-2009: PKR 282.1mln) emerged in the loan book due to subdued economic environment. Moreover, a limited client base with high exposure in power and gas (29%), cement (20%) and services (12%) engenders concentration risk. PBIC has low provisioning against NPLs (8.9%), but this is mitigated to a certain extent by the strong collateralization of these loans.
- PBIC's investment portfolio grew impressively (2009: PKR 4,706mln, 2008: PKR 646mln) and is dominated by government securities (90%), with investments in equity market and mutual funds comprising the remaining portion. The recovery in the stock markets poised well for the company. The company intends to maintain moderate level of equity investments (approved limit of PKR 1bln) to safeguard against market risk.
- In order to meet the minimum capital requirement as prescribed by the SBP, the company increased its paid up capital in February 2010, to PKR 6bln. The capital structure of the company primarily constitutes Tier I Capital and would support the company's growth plans while supporting its risk absorption capacity. PBIC relies heavily on financial institutions and money market lines for funding. Going forward, the company intends to explore other sustainable sources of funding including the issuance of commercial papers.

## PROFILE

- Pak Brunei Investment Company Limited (PBIC), an equally owned joint venture between the Governments of Pakistan and Brunei Darussalam, commenced business in August 2007. PBIC operates from its head office in Karachi. Brunei Investment Agency (BIA), a department and investment arm of the Ministry of Finance, represents Brunei Darussalam's stake in PBIC and manages the bulk of Brunei's foreign investments.
- PBIC has a professional board of four members comprising two representatives of BIA, the Managing Director of PBIC and a director representing the GoP. Dr. Amin Abdullah, Managing Director of BIA, is the chairman of the board. During the year, the GoP replaced Mr. Tariq Mahmood Pasha with Ms. Sumaria K. Aslam. The Managing Director of PBIC, Ms. Ayesha Aziz, possesses extensive experience in the financial sector. Her first term serving as MD PBIC has expired in May 2010. Extension of her contract is in process.