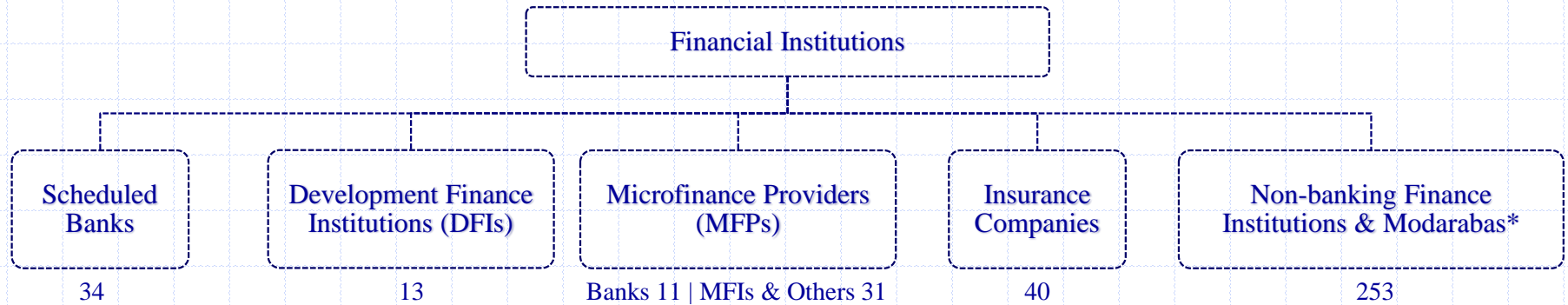


Development Financial Institutions (DFIs)

Broad Objective DFIs| JVFIIs
Specific Objective DFIs| PMIC and PMRC

June 2018

DFIs | Introduction



* NBFIs includes: leasing companies, Investment Banks, AMCs, Mutual Funds, Pension Funds, REIT, Private equity companies & Private equity funds

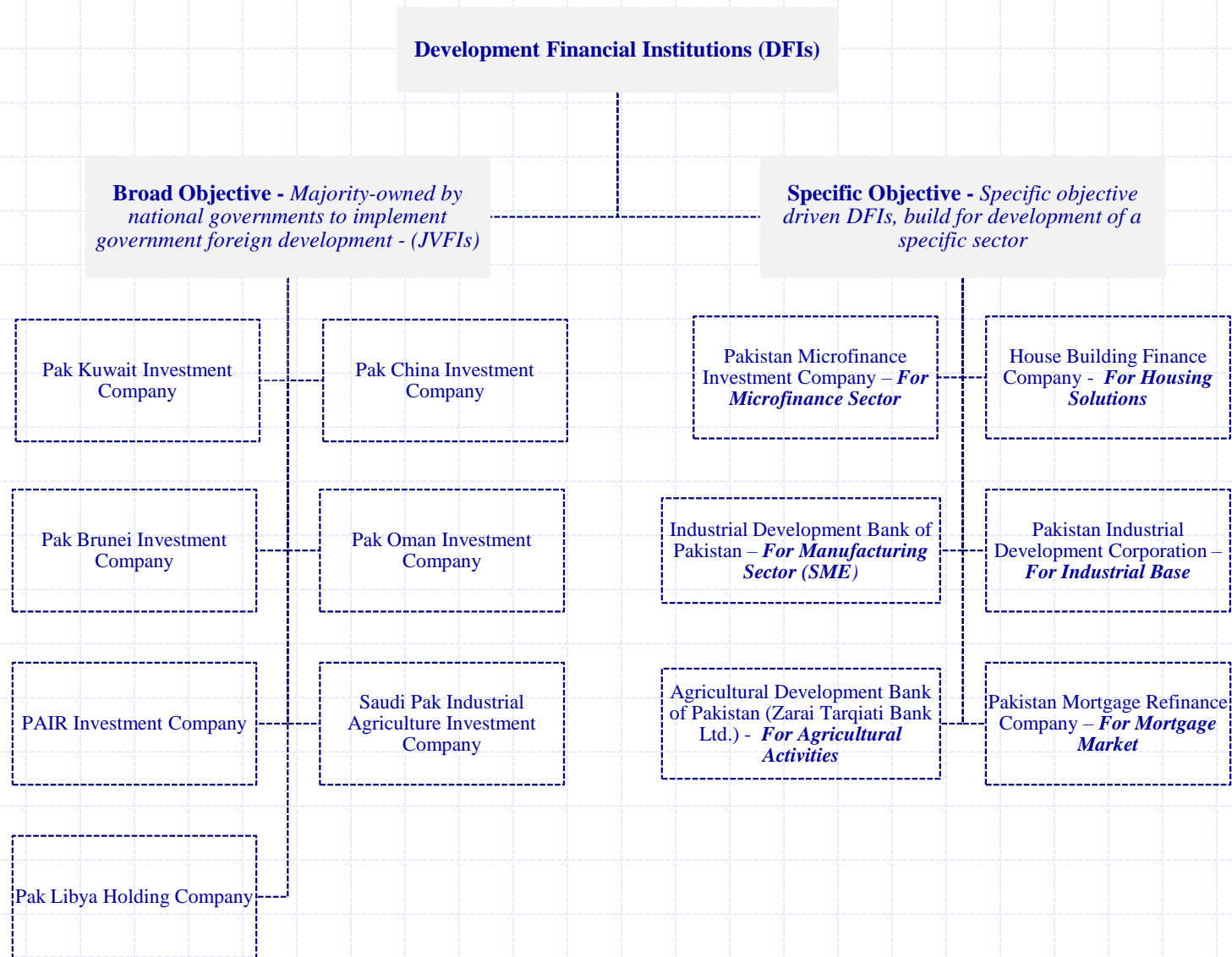
Banks, JVFI, and MFBs fall within legal ambit of State Bank of Pakistan while the rest of the financial institutions are regulated by Securities and Exchange Commission of Pakistan

DFIs are financial institutions providing finance to the private sector for investments that promote development. They provide a range of specialized financial products and services to suit the specific needs of the targeted strategic sectors.

DFIs believe that financial and development success go hand in hand and therefore growth of the private sector is one of the keys to sustainable development.

During 1950s and 1960s, DFIs were established in Pakistan with assistance from International Financial Institutions.

DFIs | Classification



This sector study would be covering all the Broad Objective DFIs - JVFI, and two Specific Objective DFIs - PMIC and PMRC

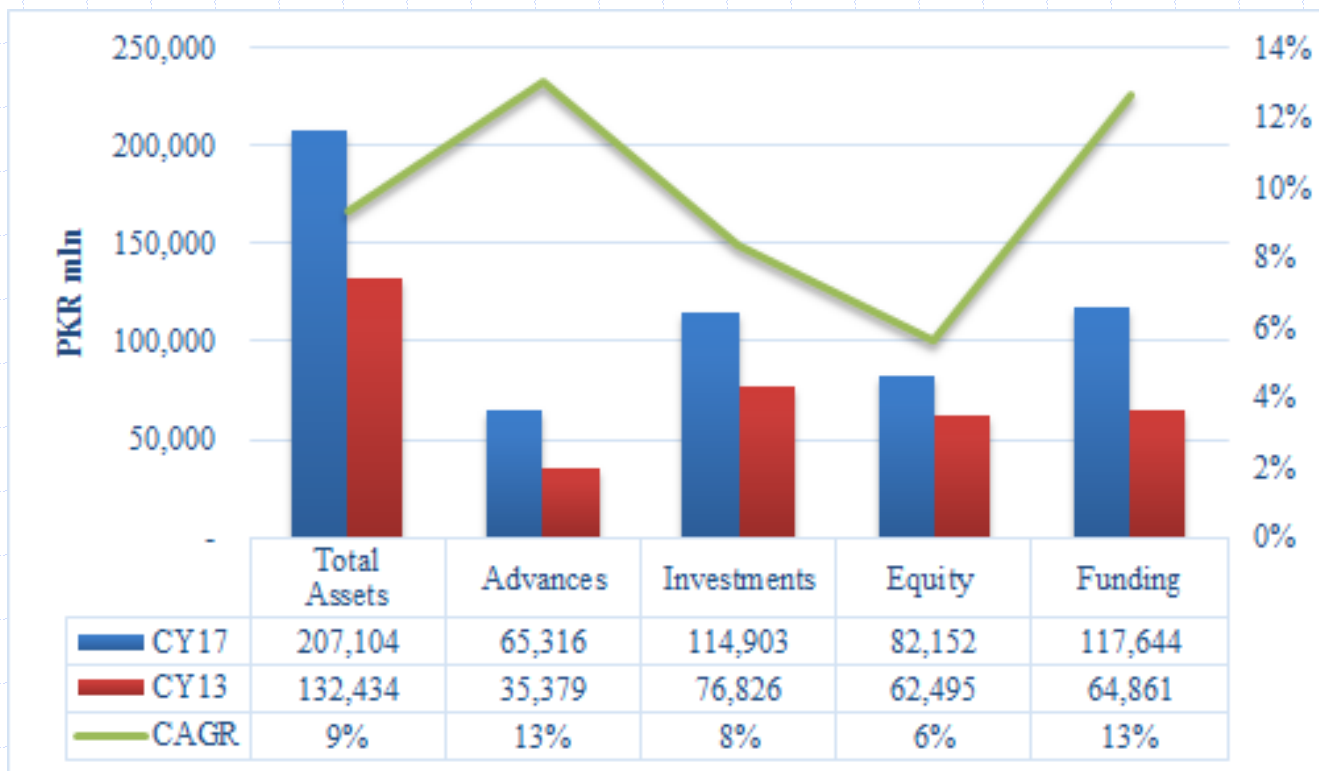
DFIs | Rated Universe

Development Financial Institution		Year of Incorporation	Latest Rating	Outlook	Rating Agency	Date
Sr. #	Joint Venture Financial Institutions (JVFI)s					
1	Pakistan Kuwait Investment Company (Private) Limited	1979	AAA/A1+	Stable	PACRA	14-Dec-17
2	Pak China Investment Company Limited	2007	AAA/A1+	Stable	JCR	30-Jun-17
3	Pak Brunei Investment Company Limited	2007	AA+/A1+	Stable	JCR	02-Jun-17
4	Pak Oman Investment Company Limited	2001	AA+/A1+	Stable	JCR	02-Jun-17
5	Saudi Pak Industrial and Agricultural Investment Company Limited	1981	AA+/A1+	Stable	JCR	19-June-17
6	PAIR Investment Company Limited	2007	AA/A1+	Stable	PACRA	18-Dec-17
7	Pak-Libya Holding Company (Private) Limited	1978	AA-/A1+	Negative	PACRA	18-Dec-17
	Specific Objective DFIs					
1	Zarai Taraqiati Bank Limited	2002	AAA/A1+	Stable	JCR	20-Jun-17
2	House Building Finance Company Limited	2007	A /A1	Stable	JCR	23-Jun-17
3	Pakistan Microfinance Investment Company Limited	2016	AA/A1+	Stable	PACRA	24-Oct-17
4	Pakistan Mortgage Refinance Company Limited	2015	Unrated	-	-	-
5	Industrial Development Bank of Pakistan	1961	Unrated	-	-	-
6	Pakistan Industrial Development Corporation	1952	Unrated	-	-	-

Highly rated institutions mainly owing to sovereign ownerships and relatively low risk asset structure

Broad Objective DFIs | JVFIIs

JVFI's | Industry Snapshot



- Though challenges were not fully converted into opportunities, JVFI's grew with a CAGR of 13% in the advances portfolio over a span of 5 years
- CPEC led growth in CY17 opens expansionary platforms in infrastructure development, energy, agriculture, information technology and many other sectors.

JVFIs | Peer Comparison

Assets				<i>(PKR mln)</i>	
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Oman	64,669	39,806	27,195	23,366	17,728
Pak Brunei	29,869	34,391	29,115	32,901	35,508
Pak Kuwait	29,129	28,941	28,367	24,634	22,291
Pak China	24,421	22,518	20,549	20,008	12,731
Saudi Pak	22,167	24,332	25,087	22,173	14,774
Pak Libya	19,163	18,896	15,274	12,436	12,121
PAIR	17,686	18,598	23,221	18,744	17,282
Total	207,104	187,483	168,809	154,261	132,434
Growth YoY	10%	11%	9%	16%	7%

- **Assets** remain stable in CY17, since no specific niche has been identified for JVFI, thus they operate in same environment as with other financial institutions – increasing the competition as they have to compete with commercial banks over cost of funds and outreach
- Predominant operations in money and capital markets
- Growth led mainly by Pak Oman (31%)
- Decline in assets of Pak Brunei (13%), Saudi Pak (9%) and PAIR (55)

Advances				<i>(PKR mln)</i>	
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Oman	18,788	14,834	9,993	9,070	7,494
Pak Brunei	18,768	13,996	10,237	7,386	6,799
Saudi Pak	8,458	8,256	6,675	5,688	3,954
Pak China	7,890	6,040	5,708	5,957	5,329
PAIR	4,653	5,424	3,503	3,592	3,678
Pak Libya	3,593	2,838	3,238	3,708	4,353
Pak Kuwait	3,166	4,422	5,114	2,798	3,772
Total	65,316	55,811	44,468	38,199	35,379
Growth YoY	17%	26%	16%	8%	-2%
Advances / Total Assets	32%	30%	26%	25%	27%

- **Advances** declined to 17% in CY17, due to limited outreach
- Growth in advances dominated by Pak Oman and Pak Brunei (29%)
- Despite, CPEC provided congenial economic environment for the country, JVFI didn't have an overall better credit offtake

JVFIs | Peer Comparison

Investments		<i>(PKR mln)</i>			
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Oman	40,241	20,832	14,073	12,180	7,629
Pak Kuwait	22,923	21,206	22,143	20,902	11,887
Pak China	13,848	7,734	12,091	11,289	4,283
PAIR	11,044	11,843	18,807	14,115	12,745
Pak Libya	9,700	13,184	10,922	7,703	6,356
Saudi Pak	9,468	11,349	12,702	10,739	6,495
Pak Brunei	7,679	16,658	16,850	24,247	27,431
Total	114,903	102,806	107,590	101,174	76,826
Growth YoY	12%	-4%	6%	32%	4%

- **Investments** grew by 12% keeping in view the interest rate regime (Jan'17-Dec'17: 5.75%, Jan'18-Mar'18: 6%)
- Pakistan Stock Exchange closed with a decline of 15%, thus the investment books were build around government securities. Major shift was witnessed from PIBs to MTBs
- Largest reduction witnessed in investment book of Pak Brunei (54%) and Pak Libya (26%)

Funding		<i>(PKR mln)</i>			
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Oman	55,109	30,494	18,489	18,489	10,156
Pak Brunei	18,718	23,406	18,762	18,762	26,959
Pak Libya	14,406	13,855	11,178	11,178	8,425
Saudi Pak	9,084	10,849	12,017	12,017	5,088
PAIR	8,185	8,630	13,543	13,543	8,515
Pak China	9,577	8,196	6,903	6,903	326
Pak Kuwait	2,565	2,664	6,427	6,427	5,392
Total	117,644	98,095	87,320	87,320	64,861
Growth YoY	20%	12%	12%	0%	8%

- Consistent growth in financing
- **Funding** profile remained tilted towards borrowings (85%) while growth of deposits (15%) was subdued

JVFI | Peer Comparison

Equity (PKR mln)					
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Kuwait	24,128	22,822	19,727	18,512	15,680
Pak China	14,668	14,001	13,385	12,762	12,290
Pak Brunei	10,658	10,491	9,724	8,989	8,285
Saudi Pak	10,632	9,921	9,380	8,586	7,358
PAIR	9,293	9,367	9,064	8,618	8,265
Pak Oman	8,060	8,107	7,770	7,419	7,284
Pak Libya	4,713	4,669	3,874	3,569	3,333
Total	82,152	79,378	72,924	68,454	62,495
Growth YoY	3%	9%	7%	10%	6%

- Except for Pak Libya, all JVFI's have comply the Minimum Capital Requirement of PKR 6bln.
- However, Pak Libya plans to bridge the gap through organic growth over the years
- Majority **equity** retained – limited dividend payout

Net Interest Revenue (PKR mln)					
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Oman	856	852	886	756	672
Saudi Pak	743	834	851	677	515
PAIR	658	710	883	725	665
Pak Kuwait	637	784	864	789	688
Pak Brunei	553	507	553	468	438
Pak China	552	697	1144	1112	933
Pak Libya	265	313	360	315	254
Total	4,264	4,697	5,541	4,842	4,165
Growth YoY	-9%	-15%	14%	16%	-18%

- Abridged spreads led to a decline of 9% in **Net Interest Revenue**

JVFI | Peer Comparison

PBT (PKR mln)					
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Kuwait	2,594	4,128	2,504	3,195	2,807
Pak China	970	858	951	619	855
Saudi Pak	860	963	983	1,402	435
Pak Oman	745	1,025	975	545	488
Pak Brunei	671	1,333	1,300	1,106	917
PAIR	368	861	923	464	456
Pak Libya	84	1,042	472	318	196
Total	6,291	10,210	8,108	7,650	6,154
Growth YoY	-38%	26%	6%	24%	146%

- Due to limited outreach and no specific niche identified by JVFI, industry's **profitability before tax** witnessed a decline of 38% in CY17

PAT (PKR mln)					
JVFI	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Pak Kuwait	1,850	3,452	1,829	2,678	2,360
Pak China	671	962	937	905	706
Saudi Pak	627	801	305	233	182
Pak Brunei	470	476	724	1159	765
Pak Oman	437	706	602	384	376
PAIR	230	615	621	469	564
Pak Libya	48	603	597	352	339
Total	4,333	7,615	5,615	6,179	5,291
Growth YoY	-43%	36%	-9%	17%	475%

- Amid challenges JVFI's **profitability after tax** witnessed a decline of 43% in CY17
- Pak Kuwait contributes almost half of the profitability (43%) owing to the to share of strategic investments

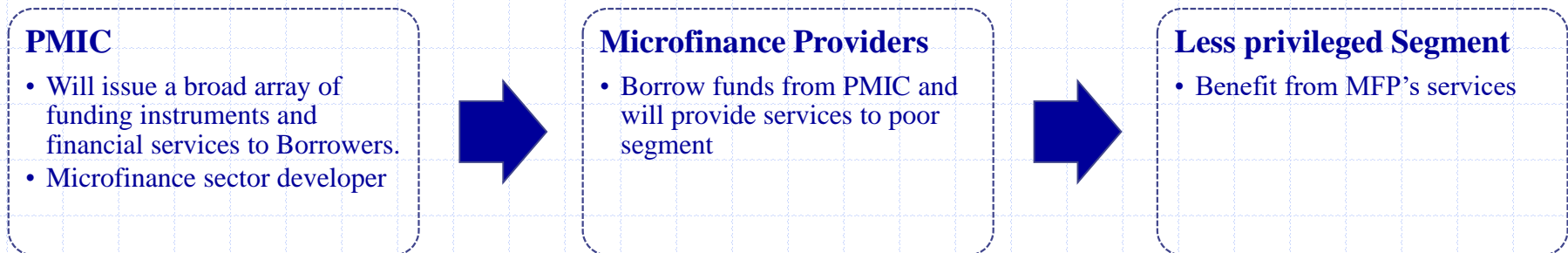
Specific Objective DFIs

Pakistan Microfinance Investment Company limited (PMIC)

PMIC is registered as an Investment Finance Company under NBFCs regulations with Securities and Exchange Commission of Pakistan (SECP) – incorporated in August 2016

It is setup jointly by, Pakistan Poverty Alleviation Fund (PPAF) (49%), Department for International Development (DFID) through Karandaaz Pakistan (38%) and the German Development Bank (KFW) (13%)

Objective: The purpose of the Organization is to improve financial inclusion, employment and wellbeing of the poor by providing wholesale financing to the microfinance service providers in the country.



Specific Objective DFIs

Pakistan Microfinance Investment Company limited (PMIC)

Business activities of PMIC can be divided into two categories;

- i. **Financial Solutions:** It aims to provide funding instruments and financial services to Borrowers. The solutions includes, wholesale credit, subordinated debt, guarantees, and other investment services. The company would focus on innovating the existing product line.
- ii. **Microfinance plus:** Along with lending PMIC would offer other services to the Microfinance providers. This services are but not limited to; i) Technical Advisory services, ii) Value Chain – creating linkage, iii) Micro-Insurance, iv) Renewable Energy – addressing the energy shortages, v) Housing finance, and vi) Education Programs.

Target Market: 20 MFIs, registered as NBMFIs under the SECP rules, and 11 MFBs currently licensed by SBP, PMIC's target market would comprise of 31 institutions.

PMIC intends to attract funding from development agencies, financiers, commercial banks and capital markets to meet the liquidity needs of the sector which requires USD 3 billion to reach a target of 10 million active clients by the year 2020. The entity is eyeing a Gross Loan Portfolio of ~ PKR 40bln by 2020.

Specific Objective DFIs

Pakistan Microfinance Investment Company limited (PMIC)

Financial Position		
<i>PKR mln</i>	Dec-17	Dec-16
Non Current Assets	7,227	11
Current Assets	5,610	5,905
Total Assets	12,837	5,917
Non Current Liabilities	6,688	-
Current Liabilities	180	100
Total Liabilities	6,868	100
Equity	5,969	5,817

Financial Performance		
<i>PKR mln</i>	Dec-17	Dec-16
Revenue	701	17
PBT	185	(66)
PAT	152	(67)

Specific Objective DFIs

Pakistan Mortgage Refinance Company (PMRC)



PMRC is regulated and incorporated by State Bank of Pakistan as an unlisted public limited company, in 2015. However, SECP will oversee company's capital market operations.

PMRC is a public-private institution having 51% private commercial banks ownership, 49% public sector banks, and the GoP/MoF stake with an Authorized capital of PKR 10mln and proposed paid-up capital PKR 6bln. The company has achieved total equity base of PKR 3.6bln as of end-Mar18. It is expected to receive commencement of business license from SBP by end of second quarter 2018.

Objective: PMRC is expected to address several market failures to improve mortgage affordability by:

- Supporting lending at a fixed rate,
- Facilitating the standardization of origination and servicing standards of mortgages and enhancing quality, and
- Providing an efficient capital market long-term funding channel

Business Strategy of PMRC is clubbed in three phases:

Phase 1: PMRC will fund its refinancing activities from its paid-up capital and a proposed long-term loan from the World Bank

Phase 2: Introduce in the local bond market to fund its refinancing operations.

Phase 3: Standardizing the mortgage lending practices of the Primary Mortgage Lenders with Technical Assistance from International Finance Corporation/World Bank.

World Bank has already approved loan for the company at a concessional rate. PMRC expects to float its first bond in the market by 2020.

The Way Forward..

- Development Financial Institutions need to step up to promote new growth areas. They could provide unique value propositions in terms of advisory and nurturing new growth sectors to become profitable.
- Development of specific objective DFIs, proves to be catalytic for generating new knowledge convening specific sectors and providing technical assistance to build up those sectors.
- For championing in new growth areas, DFIs need to develop in three key areas:
 - i. They must develop and prioritise niche segments identified to be of strategic and economic importance. These will give them legitimacy with funders and partners.
 - ii. Strengthening affiliations with Government, Ministries and Agencies to facilitate the design of appropriate government support. This will enabling them to take higher risks.
 - iii. Establish business models that ensure long-term financial sustainability. This could be achieved with sound risk-management tools and high corporate governance standards that insulate them from undue political interference.
 - iv. A broader focus on socio-developmental goals taking into account positive externalities for the economy.



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