


Development Financial Institutions (DFIs)

Sector Study

June 2022

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DFIs | Introduction

- Development Finance Institutions (DFIs) are specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national and/or international development funds or benefit from government guarantees. This ensures their creditworthiness, enabling them to raise large amounts of money on international capital markets and provide financing on very competitive terms.
- DFIs invest in private sector projects in low and middle-income countries to promote job creation and sustainable economic growth. They apply stringent investment criteria aimed at safeguarding financial sustainability, transparency, and environmental and social accountability.
- DFIs can be bilateral, serving to implement their government's foreign development and cooperation policy, or can be multilateral. Bilateral DFIs are either independent institutions, such as the Netherlands Development Finance Company (FMO), or part of larger bilateral development banks, such as the German Investment and Development Company (DEG), which is part of the German development bank KfW. They are both among the largest DFIs worldwide.
- Multilateral DFIs are private sector arms of International Financial Institutions (IFIs) that have been established by more than one country, and hence are subject to international laws. Their shareholders are generally national governments but could also occasionally include other international or private institutions. These institutions finance projects in support of the private sector mainly through equity investments, long-term loans and guarantees. They usually have a greater financing capacity than bilateral development banks and also act as a forum for close co-operation among governments. The main multilateral DFIs include African Development Bank (AFDB), Asian Development Bank (ADB) and European Investment Bank (EIB), among others.

Source: EDFI, OECD

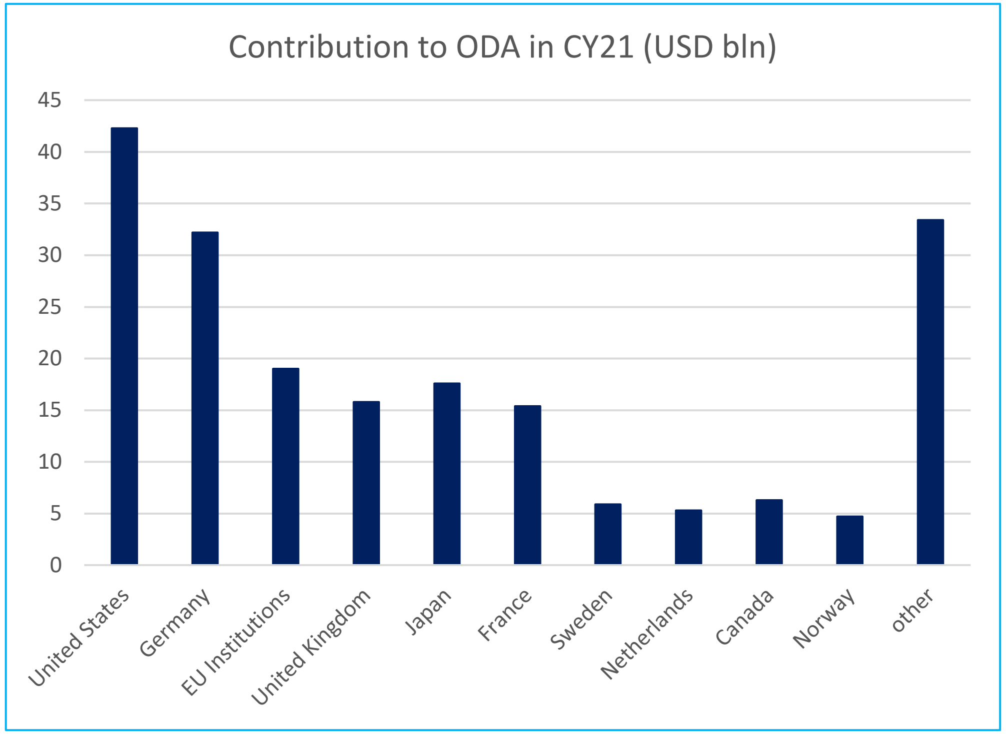
DFIs | Global Overview

- In CY21, official development assistance (ODA) by member countries of the Development Assistance Committee (DAC) amounted to USD~178.9bln, representing 0.33% of their combined GNI. This total included USD~174.9bln in the form of grants, loans to sovereign entities, debt relief and contributions to multilateral institutions, USD~1.1bln to development-oriented private sector instrument (PSI) vehicles and USD~3.0bln in the form of net loans and equities to private companies operating in ODA-eligible countries.

- In CY21, the United States continued to be the largest DAC member country with an ODA of USD~42.3bln, followed by Germany USD~32.2bln. Both US and Germany combined contribution to ODA is 38%.

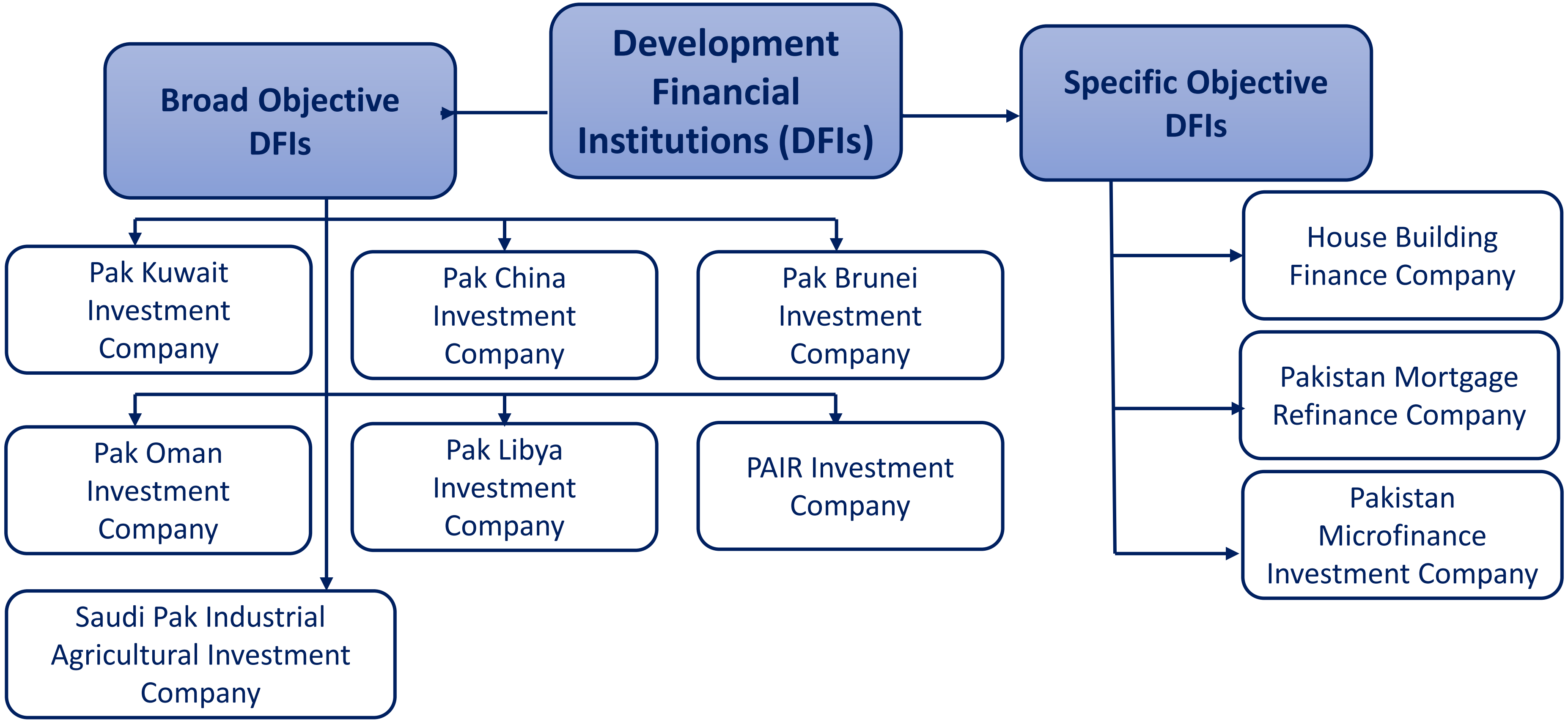
- The largest recipients of ODA are concentrated in Asia and Africa, and include countries such as Syria, Ethiopia, Bangladesh, Afghanistan and Nigeria among others. The top ten recipients account for ~25% of total ODA disbursements.

Top 5 Recipients of ODA	
Country	**% share**
Syria	6%
Ethiopia	3%
Bangladesh	3%
Afghanistan	3%
Yemen	2%
Other	83%
Total	100%



DFIs | Local Overview

- There are two categories of Development Financial Institutions (DFIs) operating in Pakistan. Broad objective DFIs and Specific objectives DFIs. Broad objective DFIs are also known as Joint Venture Financial Institutions (JVFIs), and are majority owned by national governments in order to implement the government's foreign development policies. Specific objective DFIs are created for the development of a specific sector.
- The shareholding structure of JVFIs consists of 50% ownership of the Government of Pakistan, through either the Ministry of Finance or State Bank of Pakistan. The remaining 50% is owned by the respective foreign governments through relevant institutions.
- Meanwhile, ownership structures of specific objective DFIs is more varied with shareholding held by national and international financial and developmental institutions.



Source: SBP

DFIs | Local Overview

Financial Position

Financial Position						
Assets:	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**1QCY22**
Cash & Balances With Treasury Banks	555	593	3,721	3,034	2,831	881
Balances With Other Banks	4,849	4,541	5,998	5,613	24,230	21,601
Lending To Financial Institutions	12,757	16,998	16,881	10,228	8,534	6,020
Investments – Net	122,126	122,263	240,205	286,995	338,433	348,285
Advances – Net	76,664	82,331	91,907	111,173	140,443	144,239
Operating Fixed Assets & Other Assets	11,016	11,730	18,342	22,208	24,224	25,683
TOTAL ASSETS	**227,968**	**238,455**	**377,054**	**439,251**	**538,696**	**546,709**
Liabilities:						
Borrowings From Financial Institutions	100,537	111,444	228,989	260,512	348,313	357,544
Deposits And Other Accounts	17,115	11,644	12,033	27,444	34,039	29,405
Other Liabilities	17,388	16,750	24,732	25,635	19,946	21,281
TOTAL LIABILITIES	**128,508**	**132,217**	**260,023**	**307,570**	**402,298**	**408,230**
Equity:						
Share Capital	65,373	69,032	73,622	75,352	84,201	84,201
Reserves	13,287	14,317	17,592	19,819	22,338	24,160
Unappropriated Profit	18,827	22,581	22,997	33,735	31,989	31,980
Surplus/Deficit On Revaluation Of Assets	1,973	308	2,820	2,776	-2,130	-1,863
TOTAL EQUITY	**99,460**	**106,238**	**117,031**	**131,681**	**136,398**	**138,478**

Note: Includes all DFIS: JVFIs and Special Purpose Entities

Source: SBP

DFIs | Local Overview

Operating Position

OPERATING POSITION						
	CY17	**CY18**	**CY19**	**CY20**	**CY21**	**1QCY22**
Net Mark-Up / Interest Income	6,469	7,043	10,567	13,818	12,461	2,676
Net Mark-Up / Interest Income After Provision	7,009	7,161	9,198	12,054	12,822	2,424
Total Non - Markup / Interest Income	5,372	4,637	5,960	11,269	9,089	1,407
Total Income	12,381	11,798	15,157	23,323	21,911	3,831
Total Non-Markup/Interest Expenses	4,415	4,681	5,351	6,319	6,995	1,542
Profit/ (Loss) Before Taxation	7,967	7,117	9,806	17,004	14,915	2,289
Less: Taxation	2,644	2,129	1,953	3,602	3,015	548
Profit/ (Loss) after Taxation	**5,322**	**4,988**	**7,854**	**13,402**	**11,901**	**1,741**

- Both net markup/Interest income and non-markup/interest income showed a decline of ~10% and ~19% during the year CY21. The Profit After Tax of the DFIs amounted to PKR~12bln in CY21 (PKR ~13bln in CY20). The contraction in profitability was mainly due to lower NII and non-interest income coupled with higher operating expenses. The decline in NII reflected the impact of lower interest rate environment which prevailed in most part of CY21 that translated into slowdown in interest earnings on investments and advances.

Note: Includes all DFIS: JVFIs and Special Purpose Entities

Source: SBP

DFIs | Local Overview

Key Ratios

Key Ratios (%)	CY17	CY18	CY19	CY20	CY21	1QCY22
Capital						
Total Capital to Total RWA	40.8	47.0	47.0	44.9	38.7	39.1
Tier 1 Capital to Total RWA	39.6	46.1	46.3	43.7	38.2	38.2
Asset Quality						
NPLs to Total Loans	17.5	17.1	15.8	14.5	9.5	9.6
Provision to NPLs (Coverage)	77.7	71.8	70.3	74.4	84.9	83.6
Earnings						
ROA after Tax	3.6	2.4	2.2	2.7	2.4	1.3
ROE after Tax	8.7	5.8	4.9	7.2	8.9	5.1
Net Interest Income to Gross Income	47.8	54.6	60.3	63.9	57.8	65.5
Operating Expense to Gross Income	38.8	37.3	40.1	32.4	32.5	37.8
Liquidity						
Liquid Assets/Total Assets	41.4	40.4	38.1	54.9	54.8	54.2
Liquid Assets/Short term Liabilities	90.2	90.9	86.9	97.6	98.0	98.8
Funding Mix*(%)						
Borrowings	88.9	85.5	90.5	94.8	90.0	90.0
Deposits	11.1	14.5	9.5	5.2	10.0	10.0

Note: Includes JVFIs and Special Purpose Entities, * Funding Mix is based on JVFIs data

Source: SBP

DFIs | JVFIs

Total Assets

Total Assets (PKR mln)								Growth		
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22	CY19	CY20	CY21
1	Pak Kuwait	29,129	29,977	65,781	106,826	135,034	137,279	119%	62%	26%
2	Pak Oman	64,669	58,110	92,083	96,806	128,260	122,220	58%	5%	32%
3	Pak Brunei	29,869	48,793	57,773	40,253	51,450	53,905	18%	-30%	28%
4	Saudi Pak	22,167	19,191	37,085	48,236	44,688	48,867	93%	30%	-7%
5	Pak Libya	19,163	20,428	29,089	37,010	40,621	40,132	42%	27%	10%
6	Pak China	24,421	19,762	33,403	31,409	37,971	40,041	69%	-6%	21%
7	PAIR	17,686	18,525	21,475	21,290	25,014	24,984	16%	-1%	17%
Total		**207,104**	**214,787**	**336,689**	**381,830**	**463,038**	**467,429**			
Growth YoY		**10%**	**4%**	**57%**	**13%**	**21%**	**1%**			

- The asset base of JVFIs grew by ~21% in CY21 and stood at PKR~463bln. The growth in total assets is largely attributable to increase in investments which is the largest component of total assets and constitutes ~66% of JVFIs asset base at the end of 1QCY22.
- Pak Kuwait Investment Company (PKIC) has the largest contribution to total assets of JVFIs clocking in at PKR~137bln, a share of ~32% in 1QCY22. The 26% increase in assets was due to higher disbursements to the corporate sector along with additional investments in government securities to earn arbitrage income.

Note: JVFIs contribute ~88% of Total Assets of DFIs

Source: JVFIs Financial Statements

DFIs | JVFIs

Assets | Advances

		Advances (PKR mln)						System Share		
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22	CY19	CY20	CY21
1	Pak Kuwait	3,166	2,698	6,655	14,257	27,359	30,246	9%	17%	27%
2	Pak Oman	18,788	20,480	20,024	20,935	19,720	19,717	28%	25%	20%
3	Pak Brunei	18,768	20,330	18,771	19,133	20,300	19,653	26%	23%	20%
4	Saudi Pak	8,458	7,865	7,869	6,811	6,868	6,842	11%	8%	7%
5	Pak Libya	3,593	4,350	4,525	5,674	6,312	6,027	6%	7%	6%
6	Pak China	7,900	7,620	9,286	11,550	15,842	15,040	13%	13%	13%
7	PAIR	4,653	6,224	5,390	6,165	6,517	7,381	7%	7%	7%
Total		**65,326**	**69,567**	**72,521**	**84,525**	**102,919**	**104,906**	**100%**	**100%**	**100%**
Growth YoY		**17%**	**6%**	**4%**	**17%**	**22%**	**2%**			

- The total advances of JVFIs experienced significant growth of ~22% and stood at PKR~103bln at the end of CY21. but in 1QCY22, advances showed a small growth of only ~2% to PKR~105bln.
- During CY21, the largest share of advances was held by Pak Kuwait Investment Company of PKR~27bln, equivalent to ~27% of total JVFIs advances, the increase in advances is due to increase in net markup-based income of the Company by 8% YoY to PKR ~2.3bln on the back of 25% expansion in interest-earning assets. The advances portfolio of the company increased by ~91% during last year, which contributed significantly to the interest income.

Source: JVFIs Financial Statements

Assets | Advances – Credit Quality

NPLs / Gross Advances							
Sr #	**JVFI**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**1QCY22**
1	Pak Kuwait	20.4%	25.8%	29.0%	13.8%	4%	4%
2	Pak Oman	6.1%	3.6%	3.2%	7.4%	10%	10%
3	Pak Brunei	6.7%	3.1%	2.9%	5.1%	5%	5%
4	Saudi Pak	24.8%	29.3%	40.6%	38.5%	35%	38%
5	Pak Libya	45.9%	31.0%	26.7%	25.1%	19%	20%
6	Pak China	4.8%	9.7%	12.2%	16.7%	11%	11%
7	PAIR	15.3%	31.1%	25.3%	31.3%	32%	28%
Average		**17.7%**	**19.1%**	**20.0%**	**19.7%**	**16%**	**16%**

- The total Non Performing Loans (NPL) of JVFIs decreased to ~16% during CY21 from 19.7% in CY20. However, NPLs exhibited slight decline due to higher growth in advances and sluggish pace of NPLs.
- The NPLs to gross advances ratio for 1QCY22 stayed at ~16% and did not changed when compared with CY21. Moreover, improved earnings and repayment capacity of the corporate sector and recovery of loans deferred /restructured under SBP's pandemic relief measures contributed to the decline in the infection ratio.

Source: JVFIs Financial Statements

DFIs | JVFIs

Assets | Investments

Investments (PKR mln)								Growth		
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22	CY19	CY20	CY21
1	Pak Kuwait	22,923	25,815	56,341	90,459	103,845	103,374	118%	61%	15%
2	Pak Oman	40,241	28,433	59,376	67,769	101,788	97,765	109%	15%	50%
3	Pak Brunei	7,679	26,117	31,817	17,483	26,247	30,402	22%	-45%	50%
4	Saudi Pak	9,468	4,159	23,904	35,557	31,131	35,433	475%	49%	-12%
5	Pak Libya	9,700	11,832	19,020	24,913	27,212	27,071	61%	31%	9%
6	Pak China	13,848	9,976	19,130	15,658	12,843	19,449	92%	-18%	-18%
7	PAIR	11,044	11,260	14,664	13,652	16,975	15,937	30%	-7%	24%
Total		**114,903**	**117,593**	**224,252**	**265,491**	**320,040**	**329,430**			
Growth YoY		**12%**	**2%**	**91%**	**18%**	**21%**	**3%**			

- The industry's investments showed a growth of ~21%, in CY21 and stood at PKR~320bln at the end of the period. Most of the long term investment were parked in floating rate anticipating interest rate increase, growth of 3% could be seen in 1QCY22. Although investment driven growth in DFIs improved soundness and profitability, it was mostly funded through short-term borrowings from banks and is misaligned with their economic model of providing long-term project financing.
- Investment in government securities makes up the majority of the investment portfolio of JVFIs with a share of ~78% in CY21. Other investments include equities, non-government debt securities and investments in associates.

Source: JVFIs Financial Statements

DFIs | JVFIs

Assets | Investments Share

Investments / Total Assets							
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22
1	Pak Kuwait	79%	86%	86%	85%	77%	75%
2	Pak Oman	62%	49%	64%	70%	79%	80%
3	Pak Brunei	26%	54%	55%	43%	51%	56%
4	Saudi Pak	43%	22%	64%	74%	70%	73%
5	Pak Libya	51%	58%	65%	67%	67%	67%
6	Pak China	57%	50%	57%	50%	34%	49%
7	PAIR	62%	61%	68%	64%	68%	64%
Average		**54%**	**54%**	**66%**	**65%**	**64%**	**66%**

- The share of investments in the total asset base has remained constant at ~54% from CY17 to CY18 and has since then increased to ~66% in 1QCY22. This was spurred by the increase in yields of government securities, which occupy the largest share in investments.

Source: JVFIs Financial Statements

Funding Mix | Borrowings

Borrowings (PKR mln)							
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22
1	Pak Kuwait	2,562	1,371	28,953	62,153	81,209	81,722
2	Pak Oman	44,608	39,962	73,681	70,552	103,997	99,324
3	Pak Brunei	13,967	36,890	45,152	27,763	40,285	42,474
4	Saudi Pak	9,077	5,771	22,759	32,320	26,457	30,592
5	Pak Libya	14,367	15,353	21,914	26,392	30,149	29,114
6	Pak China	9,577	4,181	16,119	12,903	14,694	20,963
7	PAIR	6,371	7,916	10,843	10,223	13,658	13,553
Total		**100,528**	**111,444**	**219,422**	**242,306**	**310,449**	**317,742**
Growth YoY		**15%**	**11%**	**97%**	**10%**	**28%**	**2%**

- The industry's funding mix is largely tilted towards borrowings. Attracting low cost deposits in competition with commercial banks remains a constraining factor for the Industry to expand its funding base. Borrowings grew by ~28% and stood at PKR~310bln at the end of CY21. During 1QCY22, there was a small increase of ~2% in borrowings to PKR~317bln. DFIs mainly rely on borrowings from financial institutions to finance their assets.
- The largest share in JVFIs total borrowing is occupied by Pak Oman Investment Company with PKR~104bln, equivalent to ~33% of the total Industry borrowing in CY21.

Source: JVFIs Financial Statements

Funding Mix | Deposits

Deposits (PKR mln)								System Share		
Sr #	**JVFI**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**1QCY22**	**CY19**	**CY20**	**CY21**
1	Pak Kuwait	3	35	-	2,820	6,265	7,160	0%	10%	18%
2	Pak Oman	10,501	9,010	8,576	15,869	14,354	13,019	71%	58%	42%
3	Pak Brunei	4,751	725	620	830	50	50	5%	3%	0%
4	Saudi Pak	8	8	510	2,446	2,912	2,921	4%	9%	9%
5	Pak Libya	39	644	1,551	4,043	4,576	5,086	13%	15%	13%
6	Pak China	-	-	-	512	4,750	-	0%	2%	14%
7	PAIR	1,814	1,222	775	924	1,132	1,170	7%	3%	4%
Total		**17,115**	**11,644**	**12,033**	**27,444**	**34,039**	**29,405**	**100%**	**100%**	**100%**
Growth YoY		**57%**	**-32%**	**3%**	**128%**	**24%**	**-13.6%**			

- The Industry's deposit mobilization grew by ~24% in CY21. However, a decrease of ~-13.6% was observed in 1QCY22 mainly because of zero deposits in 1QCY22 of Pak China Investment Company and because of the limitation in both the scope and scale of business. The share of deposits in total funding inched up to ~6.3% during CY21 compared with ~6.25% in CY20.
- Pak Oman Investment Company has the largest deposit portfolio among JVFIs and accounted for ~42% of total deposits in CY21.

Source: JVFIs Financial Statements

DFIs | JVFIs

Equity

Equity (PKR mln)							
Sr #	**JVFI**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**1QCY22**
1	Pak Kuwait	24,807	26,549	33,535	37,717	42,184	42,110
2	Pak Oman	8,123	8,143	8,353	9,083	8,756	8,492
3	Pak Brunei	10,658	9,960	10,549	10,733	10,232	10,270
4	Saudi Pak	12,205	12,649	13,003	12,912	14,459	14,538
5	Pak Libya	4,713	4,168	5,254	5,963	5,575	5,382
6	Pak China	14,668	15,361	16,632	17,482	18,275	18,524
7	PAIR	9,255	9,110	9,471	9,662	9,655	9,611
Total		**84,431**	**85,941**	**96,797**	**103,553**	**109,033**	**108,575**
Growth YoY		**3%**	**2%**	**13%**	**7%**	**6%**	**-0.1%**

- The industry's equity base has steadily grown in the past few years from PKR~84bln in CY17 to PKR~109bln in CY21. DFIs financed ~90% of total assets through equity and borrowings from financial institutions while only ~6.3% was funded by deposits. Equity dropped by ~0.1% because of decrease in NII and revaluation losses on fixed income securities due to increase in interest rates in the start of 1QCY22.

Source: JVFIs Financial Statements

DFIs | JVFIs

Capital Adequacy

Capital Adequacy Ratio							
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22
1	Pak Kuwait	41.3%	42.6%	36.6%	34.0%	24.5%	23.1%
2	Pak Oman	21.5%	17.3%	15.6%	17.2%	16.5%	17.4%
3	Pak Brunei	30.6%	24.5%	27.3%	26.6%	29.0%	26.0%
4	Saudi Pak	44.6%	47.1%	44.5%	38.3%	47.2%	48.1%
5	Pak Libya	31.5%	17.7%	18.2%	24.7%	24.0%	21.9%
6	Pak China	93.7%	87.3%	73.7%	70.7%	62.8%	63.6%
7	PAIR	59.3%	52.4%	58.0%	55.8%	49.5%	40.6%
Average		**46.1%**	**41.3%**	**39.1%**	**38.2%**	**36%**	**34%**

Equity / Total Assets							
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22
1	Pak Kuwait	85%	89%	51%	35%	31%	31%
2	Pak Oman	13%	14%	9%	9%	7%	7%
3	Pak Brunei	36%	20%	18%	27%	20%	19%
4	Saudi Pak	55%	66%	35%	27%	32%	30%
5	Pak Libya	25%	20%	18%	16%	14%	13%
6	Pak China	60%	78%	50%	56%	48%	46%
7	PAIR	52%	49%	44%	45%	39%	38%
Average		**46%**	**48%**	**32%**	**31%**	**28%**	**24%**

- The average Capital Adequacy Ratio (CAR) of JVFIs has shown a decrease in recent years, falling from ~46.1% in CY17 to ~34% in 1QCY22. However, all players' CAR remains well above the minimum requirement of ~12.5% by the State Bank of Pakistan. Further analysis indicates that credit risk accounted for the major part of DFIs' regulatory capital requirement, as the CRWA constituted ~66.6 percent of total RWA.
- In addition, the equity to total assets ratio has declined from ~46% in CY17 to ~23% in 1QCY22, as the industry has increased its reliance on borrowings to fund its asset base.

Source: JVFIs Financial Statements

Performance | Profits

Profit Before Tax (PKR mln)							
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22
1	Pak Kuwait	2,594	3,515	5,768	7,818	9,508	2,698
2	Pak Oman	745	749	682	1,337	651	145
3	Pak Brunei	671	503	458	1,033	704	152
4	Saudi Pak	860	698	405	809	1,341	253
6	Pak Libya	84	(261)	(277)	460	42	-69
5	Pak China	970	912	1,066	1,166	1,414	347
7	PAIR	368	11	394	506	254	149
Total		**6,291**	**6,129**	**8,496**	**13,130**	**13,915**	**3,676**
Growth YoY		**-38%**	**-3%**	**39%**	**55%**	**4%**	**-73%**

Profit After Tax (PKR mln)							
Sr #	JVFI	CY17	CY18	CY19	CY20	CY21	1QCY22
1	Pak Kuwait	1,850	2,768	4,743	6,344	7,882	2,200
2	Pak Oman	437	464	504	972	478	102
3	Pak Brunei	470	276	366	718	481	107
4	Saudi Pak	627	408	267	616	922	188
5	Pak Libya	48	(323)	(304)	304	40.88	(79)
6	Pak China	671	619	760	773	919	244
7	PAIR	230	(10)	241	387	194	110
Total		**4,333**	**4,202**	**6,578**	**10,115**	**10,917**	**2,872**
Growth YoY		**-43%**	**-3%**	**57%**	**54%**	**6%**	**-73%**

- The Profit Before Tax (PBT) grew by ~4% from PKR~13.1bln in CY20 to PKR~13.9bln in CY21. Meanwhile Profit After Tax (PAT) also increased ~6% from PKR~10.1bln in CY20 to PKR~10.9bln in CY21.
- The Return on Assets (ROA) of JVFIs has decreased owing to lower NII, losses on trading of securities as the increase in interest rates (in 4QCY21) resulted in revaluation losses on fixed income securities while equity prices also came down towards the end of the year. Accordingly, earnings indicators also moderated in CY21. The after-tax ROA of DFIs contracted to ~2.4% in CY21 from ~3.3% in CY20, while ROE declined to ~8.9% from ~10.7% a year earlier.

Source: JVFIs Financial Statements

DFIs | Specific Objective DFIs

Pakistan Microfinance Investment Company

Pakistan Microfinance Investment Company Limited						
Financial Position						
PKR mln	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**
Total Investment	2,350	950	825	2,094	1,617	3,194
Financing - Net	-	11,381	20,533	22,823	22,365	12,058
Cash & Bank Balances		67	56	806	212	2018
Total Assets	**5,917**	**12,837**	**22,087**	**27,192**	**27,422**	**17,270**
Loans & Borrowings	-	-	1,999	7,666	8,207	9,004
Subordinated loans	-	6,699	13,490	12,347	12,082	9,617
Equity	**5,817**	**5,969**	**6,245**	**6,286**	**6,693**	**7,272**
Total Equity & Liabilities	**5,917**	**12,837**	**22,087**	**27,192**	**27,422**	**31,107**
Performance Indicators						
PKR mln	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**
Revenue	17	713	1,739	3,633	3,256	2,793
PBT	(66)	185	399	68	581	669
PAT	(67)	152	277	39	403	477

- Pakistan Microfinance Investment Company Limited (PMIC), incorporated in August 2016, is licensed to carry out Investment Finance activities as a Non-Banking Financial Company (NBFCs) under NBFC Rules 2003 and NBFC Regulations 2008
- PMIC's profitability improved significantly in CY19 from PKR~39mln toPKR~403mln. However, in CY21, the increase slowed to ~18.4% from PKR~403mln in CY20 to PKR~477mln in CY21, largely due to a decline in revenue.
- Total assets of PMIC have declined by ~37% during CY21 on the basis of sharp decline in financing-net of ~46% in CY21.

Source: PACRA Database

DFIs

Regulatory Framework

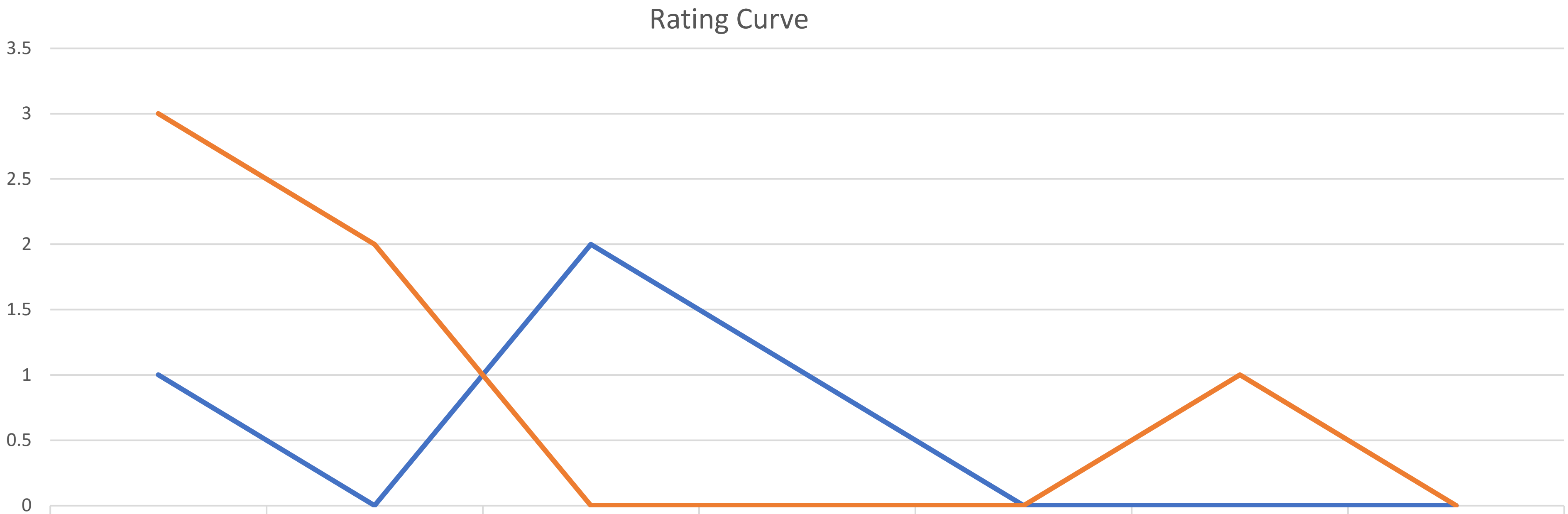
- The Development Financial Institutions (DFIs) operating in Pakistan are regulated by the State Bank of Pakistan (SBP) and are notified under section 3A of the Banking Companies Ordinance, 1962 which specifies the provisions and sections of the Ordinance that are applicable to DFIs.
- In addition, DFIs are also required to comply with SBP's Prudential Regulations which provide guidance regarding risk management, corporate governance and operations of financial institutions.
- As per SBP regulations, the Minimum Capital Requirement (MCR) for DFIs is PKR 6bln. In addition, DFIs are required to maintain a Capital Adequacy Ratio (CAR) of 12.5% in line with the Basel III framework.
- In response to the COVID-19 pandemic, SBP introduced some measures to provide regulatory relief to the financial sector. This included the reduction of the Capital Conservation Buffer from 2.5% to 1.5%. This reduced CAR requirements by 1%, from 12.5% to 11.5%.
- During October 2020, SBP issued guidelines for DFIs to undertake Shariah compliant businesses and operations, as a part of its effort to expand the scope of Shariah compliant financial services in the country. Those DFIs who wish to commence Shariah compliant business and operations will be required to apply to State Bank for issuance of license and grant of permission respectively under these guidelines.
- These guidelines cover various areas including minimum capital adequacy, requirements related to sponsor directors, business plan, Shariah governance, application fees, and preconditions for commencement of business.

Source: SBP, Business Recorder

DFIs

Rating Curve

- PACRA provides entity ratings to 4 DFIs.
- DFIs have high ratings reflective of their strong financial profile due to Sovereign Ownership and sound financial matrix.
- Rating range of DFIs AAA to A-



	AAA	AA+	AA	AA-	A+	A	A-
PACRA	1	0	2	1	0	0	0
VIS	3	2	0	0	0	1	0

DFIs

SWOT Analysis

Strengths

- Strong regulatory oversight from the State Bank of Pakistan (SBP).
- High level of credit worthiness due to government ownership or guarantees.
- Ability to raise large amounts of funds in international capital markets.

Weaknesses

- Tendency to focus on risk free profitable projects rather than those which would have greatest developmental impact.

Threats

- The absence of stable sources of funding due to multiple structural issues (e.g. limited outreach of DFIs to capital market, etc.) and resultant reliance on costly interbank funding is a major hindrance in DFIs' project finance prospects.

Opportunities

- Increase in investment opportunities in the form of Special Economic Zones and CPEC Projects.

DFIs | Outlook & Future Prospects

Outlook: STABLE

- Although DFIs represent less than ~2% of financial services in Pakistan, however, they have a crucial role in providing credit to distressed sectors and industries where other financial institutes are reluctant in offering their services.
- The economic recovery is exhibited by the GDP growth of ~5.8% during FY22. Among the contributors of GDP growth is industrial activity which has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~10.5% YoY.
- The industry's ratio of NPLs to Total Loans has been on a declining trend in recent years, falling from ~17.7% in CY17 to ~13% in 1QCY22.
- PSDP allocation has gone down from PKR ~900bln in FY22 to PKR ~727bln in FY23 which basically creates space for private lending, where DFIs can be instrumental in providing much needed capital to private sector.
- The decision taken by the State Bank of Pakistan (SBP) to increase the policy rate to ~13.75% in the 2QFY22 will increase DFIs interest bearing income although the cost of borrowing would also rise as most of their financing comes from borrowing from financial institutions.
- Fiscal consolidation, austerity measures are been taken all over the world due to astronomical increase in commodity prices as it puts pressure on financial institutions where rationed capital is more used on procuring basic necessities such as food items and energy products.

Source: PBS, SBP

- State Bank of Pakistan (SBP)
- Pakistan Bureau of Statistics (PBS)
- PACRA Database
- JVFIs Financial Statements
- Organization for Economic Co-operation and Development (OECD)
- European Development Financial Institutions (EDFI)
- Business Recorder (https://www.brecorder.com/news/40023359/shariah-compliant-business-sbp-issues-guidelines-for-dfis)

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