Development Financial Institutions (DFIs)

Sector Study

June 2021

TABLE OF CONTENTS

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 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.

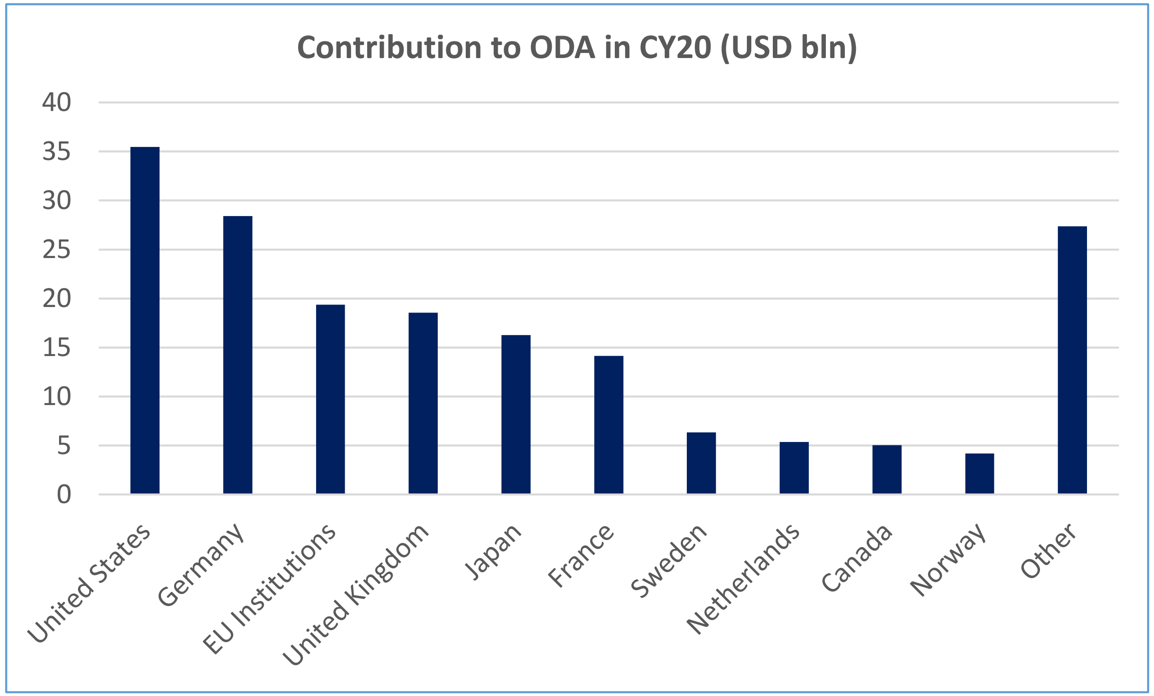
Source: EDFI, OECD

DFIs | Global Overview

- In CY20, Official Development Assistance* (ODA) amounted to USD~161.2bln, an increase of ~3.5% in real terms compared to CY19 when ODA stood at USD~156.5bln. The increase is in part due to international support of an inclusive global recovery in light of the pandemic and in part due to an increase in bilateral sovereign lending.
- The total ODA amount included USD~158bln in the form of grants, loans to sovereign entities, debt relief, and contributions to multilateral institutions. USD~1.3bln was contributed towards development oriented private sector instruments and USD~1.9bln was in the form of net loans and equities to private companies operating in ODA-eligible countries.
- During CY20, the largest contributor to ODA was the United States with USD~35bln or 22% of global ODA. The remaining contributions were largely made up by European countries.
- 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%



*Official development assistance (ODA) is a category of flows used by the Development Assistance Committee of the OECD to measure foreign aid.

Note: Top 5 ODA recipient countries data is available till CY19

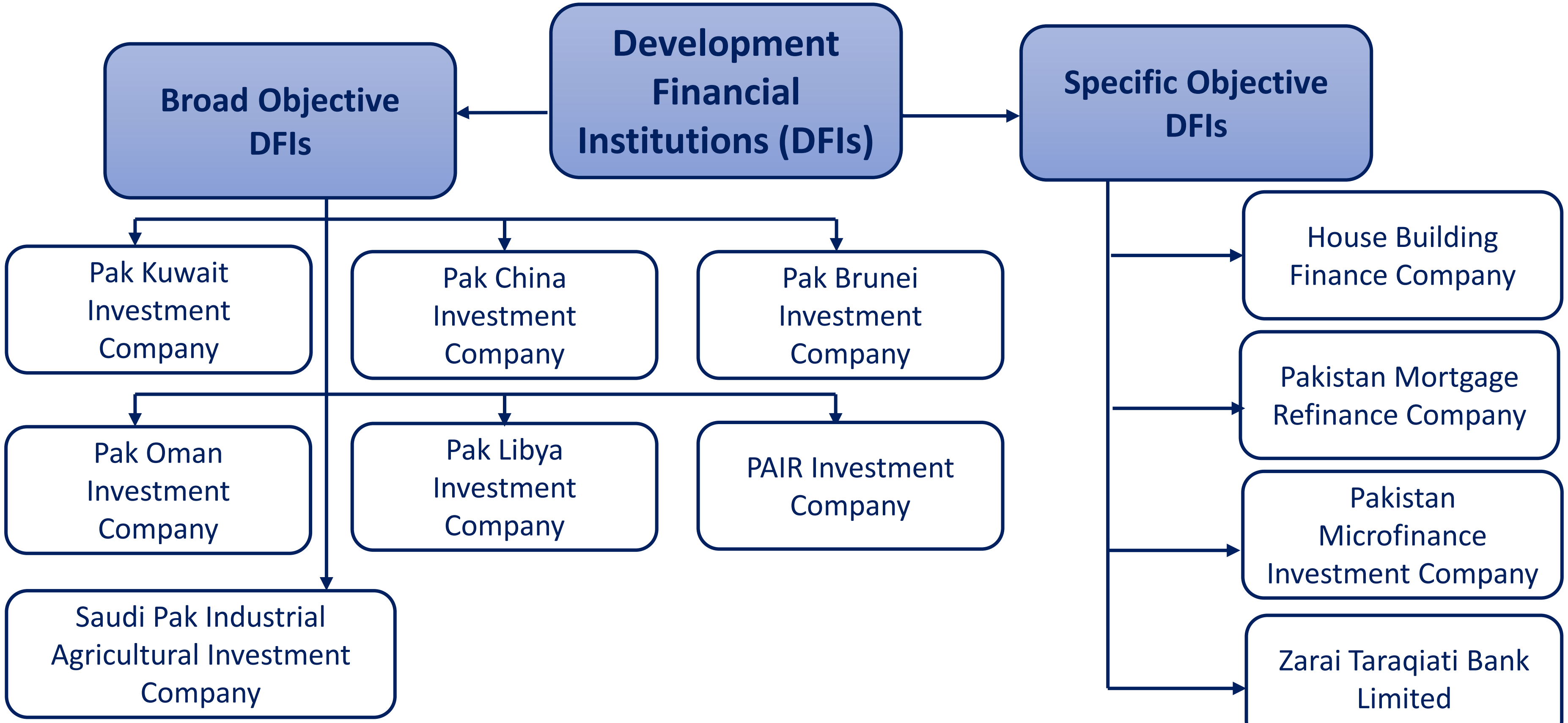
Source: OECD

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:	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**
Cash & Balances With Treasury Banks	2,794	555	593	3,721	3,034	1,712
Balances With Other Banks	7,676	4,849	4,541	5,998	5,613	8,809
Lending To Financial Institutions	8,405	12,757	16,998	16,881	10,228	11,670
Investments - Net	108,943	122,126	122,263	240,205	286,995	317,870
Advances - Net	68,630	76,664	82,331	91,907	111,173	111,339
Operating Fixed Assets & Other Assets	12,355	11,016	11,730	18,342	22,208	20,324
TOTAL ASSETS	**208,802**	**227,968**	**238,455**	**377,054**	**439,251**	**471,724**
Liabilities:						
Borrowings From Financial Institution	98,404	100,537	111,444	228,989	260,512	298,382
Deposits And Other Accounts	10,934	17,115	11,644	12,033	27,444	23,019
Other Liabilities	17,235	17,388	16,750	24,732	25,635	25,367
TOTAL LIABILITIES	**126,574**	**128,508**	**132,217**	**260,023**	**307,570**	**341,125**
Equity:						
Share Capital	49,227	65,373	69,032	73,622	75,352	76,122
Reserves	11,941	13,287	14,317	17,592	19,819	21,487
Unappropriated Profit	16,711	18,827	22,581	22,997	33,735	31,237
Surplus/Deficit On Revaluation Of Assets	4,350	1,973	308	2,820	2,776	1,753
TOTAL EQUITY	**82,229**	**99,460**	**106,238**	**117,031**	**131,681**	**130,599**

Note: Includes all DFIS: JVFIs and Special Purpose Entities

Source: SBP

DFIs | Local Overview

Operating Position

OPERATING POSITION						
	CY16	CY17	CY18	CY19	CY20	1QCY21
Net Mark-Up / Interest Income	5,959	6,469	7,043	10,567	13,818	2,925
Net Mark-Up / Interest Income After Provision	7,567	7,009	7,161	9,198	12,054	3,016
Total Non - Markup / Interest Income	6,496	5,372	4,637	5,960	11,269	1,278
Total Income	14,063	12,381	11,798	15,157	23,323	4,295
Total Non-Markup/Interest Expenses	4,829	4,415	4,681	5,351	6,319	1,455
Profit/ (Loss) Before Taxation	**9,233**	**7,967**	**7,117**	**9,806**	**17,004**	**2,840**
Less: Taxation	2,248	2,644	2,129	1,953	3,602	573
Profit/ (Loss) after Taxation	**6,985**	**5,322**	**4,988**	**7,854**	**13,402**	**2,267**

- The industry's profits after tax increased significantly by ~71% during CY20 and clocked in at PKR~13bln as compared to PKR~8bln in CY19.
- The increase was largely attributable to non-markup/interest income which grew by ~89% during CY20. In addition, net markup/interest income also increased by ~31% during the year.

Note: Includes all DFIS: JVFIs and Special Purpose Entities

Source: SBP

DFIs | Local Overview

Key Ratios

Key Ratios (%)						
	CY16	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**
Capital						
Total Capital to Total RWA	40.8	47.0	47.0	44.9	43.1	43.3
Tier 1 Capital to Total RWA	39.6	46.1	46.3	43.7	41.7	42.2
Asset Quality						
NPLs to Total Loans	17.5	17.1	15.8	14.5	12.8	13.3
Provision to NPLs (Coverage)	77.7	71.8	70.3	74.4	77.8	75.1
Earnings						
ROA after Tax	3.6	2.4	2.2	2.7	3.3	2.0
ROE after Tax	8.7	5.8	4.9	7.2	10.7	6.9
Net Interest Income to Gross Income	47.8	54.6	60.3	63.9	55.1	69.6
Operating Expense to Gross Income	38.8	37.3	40.1	32.4	25.2	34.6
Liquidity						
Liquid Assets/Total Assets	41.4	40.4	38.1	54.9	54.5	56.5
Liquid Assets/Short term Liabilities	90.2	90.9	86.9	97.6	97.5	98.2
Funding Mix*						
Borrowings	88.9	85.5	90.5	94.8	89.8	92.3
Deposits	11.1	14.5	9.5	5.2	10.2	7.7

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

Source: SBP

PACRA

Total Assets

		Total Assets (PKR mln)						Growth		
Sr #	**JVFI**	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**	**CY18**	**CY19**	**CY20**
1	Pak Kuwait	28,941	29,129	29,977	65,781	106,826	113,696	3%	119%	62%
2	Pak Oman	39,806	64,669	58,110	92,083	96,806	111,809	-10%	58%	5%
3	Pak Brunei	34,391	29,869	48,793	57,773	40,253	47,460	63%	18%	-30%
4	Saudi Pak	24,332	22,167	19,191	37,085	48,236	44,771	-13%	93%	30%
5	Pak Libya	18,896	19,163	20,428	29,089	37,010	39,853	7%	42%	27%
6	Pak China	22,518	24,421	19,762	33,403	31,409	33,060	-19%	69%	-6%
7	PAIR	18,598	17,686	18,525	21,475	21,290	22,637	5%	16%	-1%
Total		**187,483**	**207,104**	**214,787**	**336,689**	**381,830**	**413,286**			
Growth YoY		**-**	**10%**	**4%**	**57%**	**13%**	**8%**			

- The asset base of JVFIs grew by ~13% in CY20 and ~8% in 1QCY20 to stand at PKR~413bln. The growth in total assets is largely attributable to increase in investments which is the largest component of total assets and constituted ~72% of JVFIs asset base at the end of 1QCY21.
- Pak Kuwait Investment Company (PKIC) has the largest contribution to total assets of JVFIs clocking in at PKR~114bln, a share of ~28% in 1QCY20. During CY20, PKIC also exhibited the highest growth in total assets of ~62% as the company's advances nearly doubled and investments grew by ~60% YoY basis.

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

Source: JVFIs Financial Statements

PACRA

Assets | Advances

Advances (PKR mln)								System Share		
Sr #	JVFI	CY16	CY17	CY18	CY19	CY20	1QCY21	CY18	CY19	CY20
1	Pak Kuwait	4,422	3,166	2,698	6,655	14,257	13,806	4%	9%	17%
2	Pak Oman	14,834	18,788	20,480	20,024	20,935	20,122	29%	28%	25%
3	Pak Brunei	13,996	18,768	20,330	18,771	19,133	17,443	29%	26%	23%
4	Saudi Pak	8,256	8,458	7,865	7,869	6,811	6,501	11%	11%	8%
5	Pak Libya	2,838	3,593	4,350	4,525	5,674	6,583	6%	6%	7%
6	Pak China	6,040	7,900	7,620	9,286	11,550	11,407	11%	13%	14%
7	PAIR	5,424	4,653	6,224	5,390	6,165	6,780	9%	7%	7%
Total		**55,811**	**65,326**	**69,567**	**72,521**	**84,525**	**82,643**			
Growth YoY		**-**	**17%**	**6%**	**4%**	**17%**	**-2%**			

- The total advances of JVFIs experienced significant growth of ~17% and stood at PKR~85bln at the end of CY20. However, during 1QCY21, advances fell by ~2% to PKR~83bln.
- In addition, the share of advances, which occupy ~20% share in total assets in 1QCY20, has fallen from ~30% share of total assets in CY16, largely due to the risk averse nature of DFIs.
- During CY20, the largest share of advances was held by Pak Oman Investment Company of PKR~21bln, equivalent to ~25% of total JVFIs advances.

Source: JVFIs Financial Statements

Assets | Advances – Credit Quality

NPLs / Gross Advances

Sr #	JVFI	CY17	CY18	CY19	CY20	1QCY21
1	Pak Kuwait	20.4%	25.8%	29.0%	13.8%	6.7%
2	Pak Oman	6.1%	3.6%	3.2%	7.4%	7.0%
3	Pak Brunei	6.7%	3.1%	2.9%	5.1%	5.0%
4	Saudi Pak	24.8%	29.3%	40.6%	38.5%	41.0%
5	Pak Libya	45.9%	31.0%	26.7%	25.1%	17.0%
6	Pak China	4.8%	9.7%	12.2%	16.7%	13.6%
7	PAIR	15.3%	31.1%	25.3%	31.3%	26.9%
	Average	**17.7%**	**19.1%**	**20.0%**	**19.7%**	**16.8%**

- The total Non Performing Loans (NPL) of JVFIs increased by ~18% during CY20 and stood at PKR~12.7bln as compared to PKR~10.8bln in CY19. However, NPLs exhibited slight decline of ~3% during the 1QCY21 and stood at PKR~12.3bln at the end of the period.
- The NPLs to gross advances ratio for CY20 remained relatively stable at ~19.7% as compared to ~20% in CY19. However, the ratio declined to ~16.8% in 1QCY21 on the back of slightly lower attrition in the period.
- The JVFIs loan exposure is tilted towards corporates and consists of diversified sectors including textiles, sugar, steel and automobile among many others. The comparatively significant exposure towards textile and sugar sectors may explain why the JVFIs Average NPLs to Gross Advances ratio is relatively high since these sectors generally have higher infection ratios.

Source: JVFIs Financial Statements

DFIs | JVFIs

Assets | Investments

Investments (PKR mln)								Growth		
Sr #	**JVFI**	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**	**CY18**	**CY19**	**CY20**
1	Pak Kuwait	21,206	22,923	25,815	56,341	90,459	92,428	13%	118%	61%
2	Pak Oman	20,832	40,241	28,433	59,376	68,217	87,253	-29%	109%	15%
3	Pak Brunei	16,658	7,679	26,117	31,817	17,483	27,192	240%	22%	-45%
4	Saudi Pak	11,349	9,468	4,159	23,904	35,557	33,382	-56%	475%	49%
5	Pak Libya	13,184	9,700	11,832	19,020	24,913	26,117	22%	61%	31%
6	Pak China	7,734	13,848	9,976	19,130	15,658	17,748	-28%	92%	-18%
7	PAIR	11,843	11,044	11,260	14,664	13,652	14,557	2%	30%	-7%
Total		**102,806**	**114,903**	**117,593**	**224,252**	**265,938**	**298,678**			
Growth YoY		**-**	**12%**	**2%**	**91%**	**19%**	**12%**			

- The industry's investments showed steady growth in CY20, ~19%, and 1QCY21, ~12%, and stood at PKR~299bln at the end of the period.
- Investment in government securities makes up the majority of the investment portfolio of JVFIs with a share of ~75% in CY20. Other investments include equities, non-government debt securities and investments in associates.
- During CY20, the largest share of investments was held by Pak Kuwait Investment Company of PKR~90bln, equivalent to ~34% of total JVFIs investments, which also showed the largest increase of ~61% during the year.

Source: JVFIs Financial Statements

Assets | Investments Share

Investments / Total Assets							
Sr #	JVFI	CY16	CY17	CY18	CY19	CY20	1QCY21
1	Pak Kuwait	73%	79%	86%	86%	85%	81%
2	Pak Oman	52%	62%	49%	64%	70%	78%
3	Pak Brunei	48%	26%	54%	55%	43%	57%
4	Saudi Pak	47%	43%	22%	64%	74%	75%
5	Pak Libya	70%	51%	58%	65%	67%	66%
6	Pak China	34%	57%	50%	57%	50%	54%
7	PAIR	64%	62%	61%	68%	64%	64%
Average		**55%**	**54%**	**54%**	**66%**	**65%**	**68%**

- The share of investments in the total asset base has remained constant at ~55% from CY16 to CY18 and has since then increased to ~72% in 1QCY21. This was spurred by the increase in yields of government securities, which occupy the largest share in investments, towards the end of CY18 and in CY19.

Source: JVFIs Financial Statements

Funding Mix | Borrowings

Borrowings (PKR mln)							
Sr #	**JVFI**	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**
1	Pak Kuwait	2,662	2,562	1,371	28,953	62,153	67,809
2	Pak Oman	25,151	44,608	39,962	73,681	70,552	90,100
3	Pak Brunei	20,493	13,967	36,890	45,152	27,763	35,696
4	Saudi Pak	10,718	9,077	5,771	22,759	32,320	29,057
5	Pak Libya	13,392	14,367	15,353	21,914	26,392	28,835
6	Pak China	8,196	9,577	4,181	16,119	12,903	14,642
7	PAIR	6,550	6,371	7,916	10,843	10,223	11,671
Total		**87,162**	**100,528**	**111,444**	**219,422**	**242,306**	**277,810**
Growth YoY		**-**	**15%**	**11%**	**97%**	**10%**	**13%**

- 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 ~10% and stood at PKR~245bln at the end of CY20. During 1QCY21, there was a further increase of ~13% in borrowings as they rose to PKR~278bln.
- The largest share in JVFIs total borrowing is occupied by Pak Oman Investment Company with PKR~90bln, equivalent to ~32% of the total Industry borrowing.

Source: JVFIs Financial Statements

Funding Mix | Deposits

Deposits (PKR mln)								System Share		
Sr #	**JVFI**	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**	**CY18**	**CY19**	**CY20**
1	Pak Kuwait	4	3	35	-	2,820	2,220	0%	0%	10%
2	Pak Oman	5,343	10,501	9,010	8,576	15,869	11,991	77%	71%	58%
3	Pak Brunei	2,913	4,751	725	620	830	500	6%	5%	3%
4	Saudi Pak	131	8	8	510	2,446	2,508	0%	4%	9%
5	Pak Libya	463	39	644	1,551	4,043	4,346	6%	13%	15%
6	Pak China	-	-	-	-	512	512	0%	0%	2%
7	PAIR	2,080	1,814	1,222	775	924	941	10%	6%	3%
Total		**10,934**	**17,115**	**11,644**	**12,033**	**27,444**	**23,019**			
Growth YoY		**-**	**57%**	**-32%**	**3%**	**128%**	**-16%**			

- The Industry's deposit mobilization grew significantly in CY20, an overall growth of ~128%. However, a decline of ~16% was observed in 1QCY21 and deposits fell to PKR~23bln.
- Despite the increase, contribution from deposits to the total funding base remains low at ~7.7% of total funding.
- Pak Oman Investment Company has the largest deposit portfolio among JVFIs and accounted for ~58% of total deposits in CY20.

Source: JVFIs Financial Statements

PACRA

Liquidity

Liquid Assets / (Deposits + Borrowing)						
Sr #	**JVFI**	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**
1	Pak Kuwait	275.2%	320.8%	617.1%	108.6%	93.4%
2	Pak Oman	67.4%	72.9%	57.7%	71.2%	77.1%
3	Pak Brunei	73.7%	24.0%	61.0%	62.7%	51.3%
4	Saudi Pak	93.2%	89.5%	49.7%	130.7%	99.4%
5	Pak Libya	80.9%	48.0%	12.5%	12.8%	15.6%
6	Pak China	131.0%	145.0%	188.5%	113.2%	83.0%
7	PAIR	121.2%	102.1%	85.1%	97.0%	39.6%
Average		**120.4%**	**114.6%**	**153.1%**	**85.2%**	**65.6%**

- JVFIs have a high level of average liquidity as the majority of their assets are in the form of investments in government securities and listed shares.
- Average liquidity has reduced in last two years, falling from ~153% in CY18 to ~66% in CY20 as deposits and borrowings have grown at a greater rate as compared to liquid assets.

Source: JVFIs Financial Statements

Equity

Equity (PKR mln)							
Sr #	**JVFI**	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**
1	Pak Kuwait	22,822	24,807	26,549	33,535	37,717	38,514
2	Pak Oman	8,107	8,123	8,143	8,353	9,083	8,703
3	Pak Brunei	10,491	10,658	9,960	10,549	10,733	10,400
4	Saudi Pak	12,386	12,205	12,649	13,003	12,912	12,769
5	Pak Libya	4,669	4,713	4,168	5,254	5,963	6,018
6	Pak China	14,001	14,668	15,361	16,632	17,482	17,575
7	PAIR	9,367	9,255	9,110	9,471	9,662	9,510
Total		**81,843**	**84,431**	**85,941**	**96,797**	**103,553**	**103,489**
Growth YoY		**-**	**3%**	**2%**	**13%**	**7%**	**-0.1%**

- The industry's equity base has steadily grown in the past few years from PKR~82bln in CY16 to PKR~103bln in 1QCY21.
- PKIC has the largest equity profile of PKR~39bln in 1QCY21.

Source: JVFIs Financial Statements

Capital Adequacy

Capital Adequacy Ratio							
Sr #	JVFI	CY16	CY17	CY18	CY19	CY20	1QCY21
1	Pak Kuwait	39.8%	41.3%	42.6%	36.6%	34.0%	29.9%
2	Pak Oman	28.3%	21.5%	17.3%	15.6%	17.2%	17.1%
3	Pak Brunei	25.6%	30.6%	24.5%	27.3%	26.6%	26.1%
4	Saudi Pak	45.0%	44.6%	47.1%	44.5%	38.3%	40.6%
5	Pak Libya	36.6%	31.5%	17.7%	18.2%	24.7%	26.4%
6	Pak China	103.9%	93.7%	87.3%	73.7%	70.7%	71.3%
7	PAIR	76.4%	59.3%	52.4%	58.0%	55.8%	53.5%
Average		**50.8%**	**46.1%**	**41.3%**	**39.1%**	**38.2%**	**37.8%**

Equity / Total Assets							
Sr #	JVFI	CY16	CY17	CY18	CY19	CY20	1QCY21
1	Pak Kuwait	79%	85%	89%	51%	35%	34%
2	Pak Oman	20%	13%	14%	9%	9%	8%
3	Pak Brunei	31%	36%	20%	18%	27%	22%
4	Saudi Pak	51%	55%	66%	35%	27%	29%
5	Pak Libya	25%	25%	20%	18%	16%	15%
6	Pak China	62%	60%	78%	50%	56%	53%
7	PAIR	50%	52%	49%	44%	45%	42%
Average		**45%**	**46%**	**48%**	**32%**	**31%**	**29%**

- The average Capital Adequacy Ratio (CAR) of JVFIs has shown a decrease in recent years, falling from ~50.8% in CY16 to ~37.8% in 1QCY21. However, all player’s CAR remains well above the minimum requirement of ~12.5% by the State Bank of Pakistan.
- In addition, the equity to total assets ratio has declined from ~45% in CY16 to ~29% in 1QCY21, as the industry has increased its reliance on borrowings to fund its asset base.

Source: JVFIs Financial Statements

Performance | Net Interest/Markup Revenue (NIMR)

Net Interest-Markup Revenue (PKR mln)								Growth		
Sr #	JVFI	CY16	CY17	CY18	CY19	CY20	1QCY21	CY18	CY19	CY20
1	Pak Kuwait	784	637	862	1,351	2,091	507	35%	57%	55%
2	Pak Oman	852	856	840	1,021	1,547	369	-2%	22%	52%
3	Pak Brunei	507	553	719	734	768	230	30%	2%	5%
4	Saudi Pak	834	743	603	763	992	184	-19%	27%	30%
5	Pak Libya	313	265	260	77	713	178	-2%	-71%	831%
6	Pak China	697	954	1,082	1,713	1,439	287	13%	58%	-16%
7	PAIR	710	658	435	943	1,004	181	-34%	117%	6%
Total		**4,697**	**4,665**	**4,801**	**6,602**	**8,553**	**1,937**			
Growth YoY		**-**	**-1%**	**3%**	**38%**	**30%**				

- The industry's Net Interest-Markup Revenue (NIMR) exhibited growth of ~30% and stood at PKR~9bln in CY20 as compared to PKR~7bln in CY19. The growth was largely attributable to increase in non-core income, i.e., income from investments.
- The average spread (core and non-core) of JVFIs during CY20 was 0.9%, a significant increase from CY19 when average spread stood at 0.3%. The average spread also remained stable in 1QCY21 at 0.9%. The JVFIs are not earning significant spread from their advances and investments in government securities as borrowing costs are high. On the other hand, JVFIs receive significant non markup/interest income in the form of dividends, gains on securities or share in profits of associates which bolsters their overall profitability.

Note: Average spread calculation is based on PACRA Rated clients

Source: JVFIs Financial Statements

DFIs | JVFIs

Performance | Profits

Profit Before Tax (PKR mln)							
Sr #	JVFI	CY16	CY17	CY18	CY19	CY20	1QCY21
1	Pak Kuwait	4,128	2,594	3,515	5,768	7,818	2,284
2	Pak Oman	1,025	745	749	682	1,337	279
3	Pak Brunei	1,333	671	503	458	1,033	152
4	Saudi Pak	963	860	698	405	809	118
6	Pak Libya	1,042	84	(261)	(277)	460	145
5	Pak China	858	970	912	1,066	1,166	129
7	PAIR	861	368	11	394	506	107
Total		**10,210**	**6,291**	**6,129**	**8,496**	**13,130**	**3,215**
Growth YoY		**-**	**-38%**	**-3%**	**39%**	**55%**	

Profit After Tax (PKR mln)							
Sr #	JVFI	CY16	CY17	CY18	CY19	CY20	1QCY21
1	Pak Kuwait	3,452	1,850	2,768	4,743	6,344	1,880
2	Pak Oman	706	437	464	504	972	198
3	Pak Brunei	476	470	276	366	718	107
4	Saudi Pak	801	627	408	267	616	114
5	Pak Libya	603	48	(323)	(304)	304	134
6	Pak China	962	671	619	760	773	93
7	PAIR	615	230	(10)	241	387	74
Total		**7,615**	**4,333**	**4,202**	**6,578**	**10,115**	**2,600**
Growth YoY		**-**	**-43%**	**-3%**	**57%**	**54%**	

- The industry's profits grew significantly during CY20, with Profit Before Tax (PBT) increasing ~55% from PKR~8bln in CY19 to PKR~13bln in CY20. Meanwhile Profit After Tax (PAT) also increased ~54% from PKR~7bln in CY19 to PKR~10bln.
- The Return on Assets (ROA) of JVFIs has remained relatively stable at around ~2% from CY17 to CY20.
- Meanwhile, Return on Equity (ROE) has been on an increasing trend, standing at ~10% in CY20 as compared to ~5% in CY17.

Source: JVFIs Financial Statements

DFIs | Specific Objective

Pakistan Microfinance Investment Company

Pakistan Microfinance Investment Company Limited						
Financial Position						
PKR mln	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**
Total Investment	2,350	950	825	2,094	1,617	1,651
Financing - Net	-	11,381	20,533	22,823	22,365	21,899
Cash & Bank Balances		67	56	806	212	126
Total Assets	**5,917**	**12,837**	**22,087**	**27,192**	**27,422**	**26,620**
Loans & Borrowings	-	-	1,999	7,666	8,207	7,569
Subordinated loans	-	6,699	13,490	12,347	12,082	11,787
Equity	**5,817**	**5,969**	**6,245**	**6,286**	**6,693**	**6,749**
Total Equity & Liabilities	**5,917**	**12,837**	**22,087**	**27,192**	**27,422**	**26,620**
Performance Indicators						
PKR mln	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**1QCY21**
Revenue	17	713	1,739	3,633	3,256	657
PBT	(66)	185	399	68	581	106
PAT	(67)	152	277	39	403	56

- 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 with net profit ratio increasing from ~1% in CY19 to ~12% in CY20, largely due to decline in provision expense.
- Meanwhile, in 1QCY20, the net profit ratio declined to ~9% as non-mark-up expenses rose during the period.
- PMIC's liquidity and capitalization indicators remained relatively stable during the period.

Source: PACRA Database

DFIs

Regulatory Framework

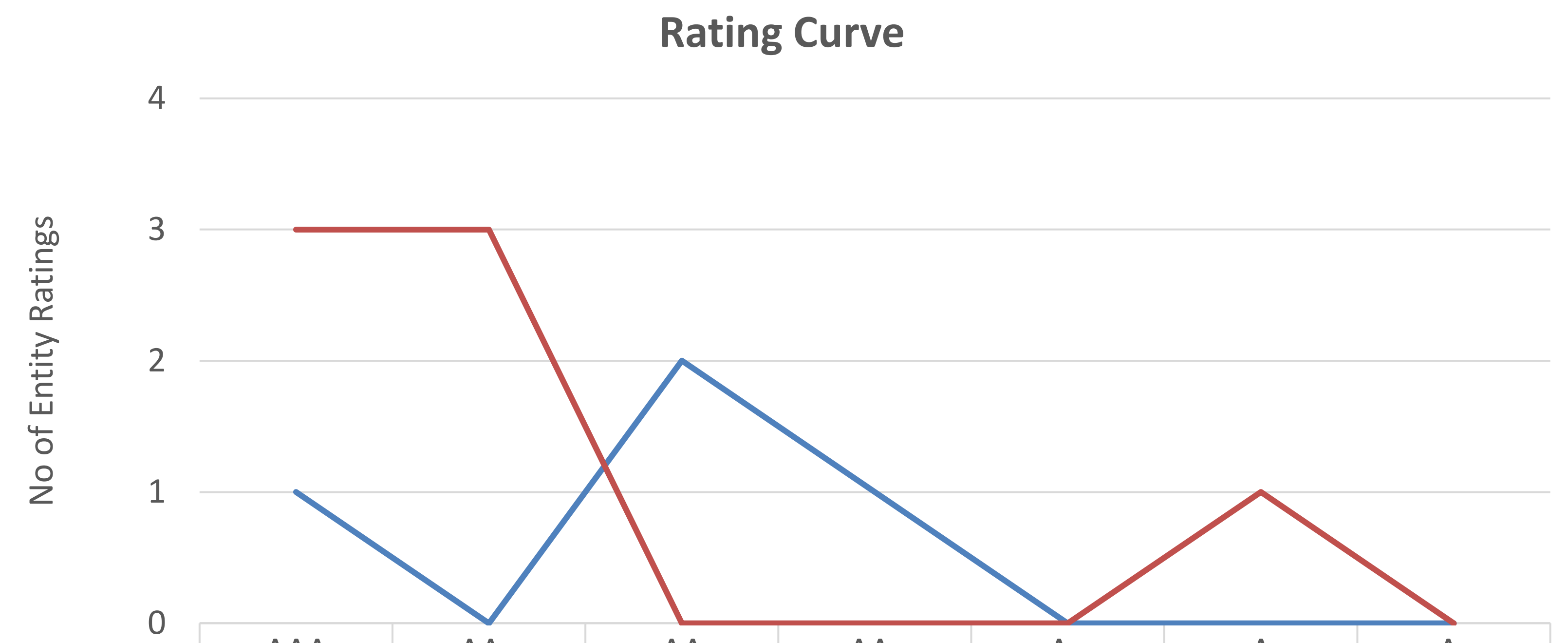
- The Development Financial Institutions (DFIs) operating in Pakistan are regulated by the State Bank of Pakistan (SBP) and are notified under section 3A of the Banking Companies Ordinance, 1962 which specifies the provisions and sections of the Ordinance that are applicable to DFIs.
- In addition, DFIs 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 rates 4 DFIs while VIS rates 6 DFIs.
- DFIs have high ratings reflective of their strong financial profile due to Sovereign Ownership and sound financial matrix.



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

- Uncertainty due to the continuing COVID-19 pandemic.
- Delay in availability of vaccination could hamper economic recovery.

Opportunities

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

DFIs | Outlook & Future Prospects

Outlook: STABLE

- The domestic economy has started to gradually recover from the impact of the COVID-19 pandemic which slowed down industrial activities and bought various businesses to a halt. The third wave of the virus is subsiding and vaccinations are increasing steadily reducing the likelihood of another severe wave which could hinder economic activity.
- The economic recovery is exhibited by the GDP growth of ~3.9% during FY21 (based on provisional figures). Among the contributors of GDP growth is industrial activity which has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~12.84% YoY during the first ten months of FY21.
- The industry's ratio of NPLs to Total Loans has been on a declining trend in recent years, falling from ~17.5% in CY16 to ~13.3% in 1QCY21.
- The decision taken by the State Bank of Pakistan (SBP) to lower the policy rate by 625bps to 7% in the last quarter of FY20 has lowered the borrowing costs for the industry. Moreover, the interest rate is also not expected to witness any major hike in the short-term.
- The inflation level in the country has also declined. The average inflation rate during 11MFY21 stood at ~8.83% as compared to an average inflation rate of ~10.7% during FY20.

Source: PBS, SBP

DFIs | BIBLIOGRAPHY

- 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)

Research Team	**Saniya Tauseef** ***Asst. Manager*** saniya.tauseef@pacra.com	**Insia Raza** ***Research Analyst*** insia.raza@pacra.com
Contact Number: +92 323 8457222		

DISCLAIMER