The Pakistan Credit Rating Agency Limited

Rating Report

PAIR Investment Company Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	AA	A1+	Stable	Maintain	-
25-Jun-2020	AA	A1+	Stable	Maintain	-
14-Dec-2019	AA	A1+	Stable	Maintain	-
14-Jun-2019	AA	A1+	Stable	Maintain	-
26-Dec-2018	AA	A1+	Stable	Maintain	-
13-Jun-2018	AA	A1+	Stable	Maintain	-
18-Dec-2017	AA	A1+	Stable	Maintain	-
19-Jun-2017	AA	A1+	Stable	Maintain	-
23-Jun-2016	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

JVFIs are largely engaged in providing credit lines on turf common to commercial banks. Limited growth in advances, over last many years, is evident of conservative risk appetite of these institutions. Key reliance on treasury function funded through borrowings from money market. Their ratings are mainly characterized by sovereign ownership and relatively conservative risk appetite. The ratings assigned takes into account PAIR's ability to sustain its position among peers. Improved net profitability was recorded in CY20 – a positive sign. Advances witnessed a meager increase in CY20. NPLs to advances ratio largely remained same though NPLs increased. The management is positive about healthy income from treasury function to further enhance the profitability. The company has taken sizable exposure into government securities, wherein market risk dominates. The capital and treasury division’s primary focus of investment during the year was Government securities specifically PIBs; remaining portion was vested in Equities and Sukuk & TFCs. Borrowing from financial institution remains the primary source whereas COI's remain minuscule part of funding base. Liquidity position and capitalization indicators remained stable. Going forward, PAIR is focusing on strengthening the existing relationships. Management is cognizant of the fact that they need to find new niche for growth and development. COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. As a result, the banking industry remained protected and in fact posted record profits. Vigilance is required as the loan repayment cycle resumes amid variants of the pandemic continue to re-emerge.

The ratings are dependent on the company’s ability to sustain its financial profile while managing the concentration level in funding and advances. Consistent efforts by the management to add new sectors/names to further diversify their portfolio, manage provisioning expense and effect on profitability and stability remains critical for the ratings.

Disclosure

Name of Rated Entity	PAIR Investment Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | FI (Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | DFIs(Jun-20)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure PAIR Investment Company Limited (PAIR) was incorporated in January 2007 and commenced operations as a Development Finance Institution (DFI) on May 29, 2007.

Background PAIR Investment Company Limited (PICL) is a Joint Venture Investment Company which has been formed as a result of an agreement between the Governments of Pakistan and Iran. It is classified as a "Development Finance Institution" (DFI) under the regulatory control of the State Bank of Pakistan

Operations PAIR's objectives include financing for industrial and commercial projects and SMEs, capital and money market operations and other investment banking activities. The Company operates through its head office in Karachi and has a branch office in Lahore

Ownership

Ownership Structure PAIR Investment Company Limited (PAIR), an equally owned joint venture between Pakistan and Iran. The Ministry of Finance (MoF) manages the ownership interests of the Government of Pakistan, while Iran Foreign Investment Company (IFIC) represents the Government of Iran.

Stability The ownership structure is same since inception and is likely to remain same in foreseeable future.

Business Acumen The business acumen of Ministry of Finance (MoF) and Iran Foreign Investment Company (IFIC) is considered good.

Financial Strength The financial muscle of sponsors is considered strong.

Governance

Board Structure Currently PAIR's board comprises two directors representing Pakistan and three directors representing Iran. All the members of the board are non-executive except the MD/CEO of the company.

Members' Profile All the board members carry vast experience from diversified sectors. Mr. Zahoor Ahmed, nominated by MOF, is the acting Chairman of the board since March'19. Members representing MOF has long association with different organizations in government roles.

Board Effectiveness The board has formulated four board committees for effective monitoring namely 1) Audit Committee, 2) Risk Management Committee, 3) Human Resource Committee and 4) Board Strategic Investment Committee.

Financial Transparency M/s KPMG Taseer Hadi & Co., Chartered Accountants, are company's external auditors. They have expressed an unqualified opinion in their audit report for the year ended December 31, 2020.

Management

Organizational Structure The functional areas are divided into: Human Resource, Administration Department, Information Technology, Treasury & Investment Department, Capital Market Department, Credit and Risk Management, Compliance, Corporate and Investment Banking Group (CIBG), Finance and Accounts and Internal Audit.

Management Team PAIR's management team comprises well qualified and experienced individuals, having an association with the company since long. Company's MD/CEO, Mr. Abbas Danishvar, he has taken charge of the office of MD/CEO effective March 01, 2020.

Effectiveness To ensure effectiveness of the decision-making process, the management has setup eleven committees: Asset and Liability Committee (ALCO), Management Committee (MANCOM), Investment Committee, IT Steering Committee, HR Management Committee, Central Credit Committee, Internal Control Monitoring Committee, Market Risk Committee, Admin Committee, Compliance Management Committee and IFRS 9 Project Steering Committee.

MIS The head of departments monitor the performance through system generated reports. These reports can be generated daily, weekly, monthly or quarterly basis to evaluate the performance of the respective departments.

Risk Management Framework PAIR has implemented a risk management framework outlining the various roles and responsibilities for each risk unit. Credit, market, liquidity and operational risk policies have been implemented, in-line with the requirements of SBP, to measure, monitor and mitigate all risk factors. PAIR's Risk Management Department has four main functions, namely: Credit Risk, Market Risk, Liquidity Risk, and Operational Risk.

Business Risk

Industry Dynamics During CY20, JVFI's advances recorded sizable growth (CY20: 17%, CY19: 4%) attributable to enhanced investment in finance lease by Pak Kuwait. However, highest system share in terms of advances retained by Pak Oman. Investment book majorly vested in government papers given investment's security has witnessed growth. Hence, industry's major reliance is on non-core operations for generation of income. After few years, the industry's deposit base recorded sizable growth (CY20: PKR 27bln, CY19: PKR 12bln) attributable to growth witnessed in deposit base of Pak Oman, Pak Libya, Pak Kuwait and Saudi Pak. Equity base of the industry increased by 7%. Going forward, to compete with other financial institutions (commercial banks primarily), the industry players need to identify niche along with building relatively unique products and services. Otherwise, JVFIs may get marginalized.

Relative Position The Company's market share in terms of advances remained stagnant at 7%. Investment book witnessed attrition and deposit recorded uptick of 3%.

Revenues During CY20, interest earned on advances and investments remained largely stagnant at PKR 1.96bln (CY19: PKR 1.97bln). The net markup revenue increased (CY20: PKR 1,004mln; CY19: PKR 943mln) attributable to comparatively lower cost of funds (CY20: 8.4%; CY19: 9.9%). During 1QCY21, net markup revenue stood at PKR 254mln.

Performance During CY20, total income increased by 18% YoY to stand at PKR 1,074mln (CY19: PKR 907mln) attributable to gain on securities of PKR 19mln comparing with loss on securities of PKR 102mln in CY19. However, cost to total net revenue decreased to ~35% (CY19: ~37%). Bottom-line increased by ~61% to stand at PKR 387mln (CY19: PKR 241mln) attributable to the increased revenue. During 1QCY21 PAT stood at PKR 74mln.

Sustainability Going forward, PAIR will be following cautious lending approach while relying on investment incomes. The project of liaison cum branch office in Tehran to facilitate cross border investments has been put on hold till the conditions improve and the mechanism for remittance between the two countries is functional.

Financial Risk

Credit Risk PAIR's gross advances constitute ~36% of the total assets as at end-Dec20 (end-Dec19: 31%). During CY20, net advances grew by 14% and stood at PKR 6.2bln (end-Dec19: PKR 5.4bln). During CY20, PAIR's impaired lending to gross advances slightly decreased to 27.0% (CY19: 27.4%) driven from increase in gross advances. Loan loss coverage ratio increased to 74.5% (CY19: 69.1%) due to increased provisioning in CY20.

Market Risk PAIR maintains investments in high rated scrips carrying favorable market values. In CY20, exposure in equity market increased to PKR 1,025mln (CY19: PKR 960mln), accompanied with no exposure in mutual funds. During CY20, investment in government securities comprises 88% (CY18: 86%) of the entire investment book. Further segregation reveals that PIBs are 75% (CY19: 34%) and T-Bills are 25 % (CY19: 66%) of the government securities.

Liquidity And Funding The relative inability of Joint Venture Financial Institutions (JVFIs) to raise low-cost funds, as they face competition from commercial banks is a major deterrent in their growth. This is mainly on account of limited outreach and focused expertise. During CY20, PAIR's funding profile remained tilted towards borrowings (CY20: PKR 10.2bln, CY19: PKR 10.9bln). Deposit base witnessed growth and stood at PKR 924mln (CY19: PKR 775mln) that is appreciable. The management needs to improve its outreach further to enhance the funding base.

Capitalization PAIR maintains a strong equity base. The capital base of the company, mainly comprising Tier-I capital provides comfort to absorb the impact of any adverse macroeconomic performance related shocks. Given the company's conservative risk appetite and a large portion of unutilized capital, the company's capital adequacy remained above regulatory requirement (1QCY21: 54%, CY20: 55%, CY19: 58%).

PKR mln

# Listed Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Total Finances - net	11,240	10,526	10,041	10,450
2 Investments	9,632	8,761	9,449	6,293
3 Other Earning Assets	15	68	221	133
4 Non-Earning Assets	1,286	1,405	1,199	907
5 Non-Performing Finances-net	465	530	564	740
Total Assets	22,637	21,290	21,475	18,523
6 Deposits	941	924	775	1,222
7 Borrowings	11,671	10,223	10,843	7,916
8 Other Liabilities (Non-Interest Bearing)	515	481	386	278
Total Liabilities	13,127	11,628	12,004	9,416
Equity	9,510	9,662	9,471	9,108
B INCOME STATEMENT				
1 Mark Up Earned	366	1,960	1,967	907
2 Mark Up Expensed	(185)	(957)	(1,024)	(473)
3 Non Mark Up Income	73	71	(36)	101
Total Income	254	1,074	907	536
4 Non-Mark Up Expenses	(93)	(377)	(335)	(267)
5 Provisions/Write offs/Reversals	(54)	(191)	(177)	(257)
Pre-Tax Profit	107	506	394	11
6 Taxes	(33)	(119)	(153)	(22)
Profit After Tax	74	387	241	(10)
C RATIO ANALYSIS				
1 Cost Structure				
Net Mark Up Income / Avg. Assets	3.3%	4.7%	4.7%	2.3%
Non-Mark Up Expenses / Total Income	36.5%	35.1%	37.0%	49.9%
ROE	3.1%	4.0%	2.6%	-0.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	42.0%	45.4%	44.1%	49.2%
Capital Adequacy Ratio	53.5%	55.8%	58.0%	52.4%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	56.9%	66.2%	67.6%	47.3%
(Advances + Net Non-Performing Advances) / Deposits	720.5%	667.4%	695.2%	509.4%
4 Credit Risk				
Non-Performing Advances / Gross Advances	24.8%	27.0%	27.4%	23.8%
Non-Performing Finances-net / Equity	4.9%	5.5%	6.0%	8.1%

Credit Rating

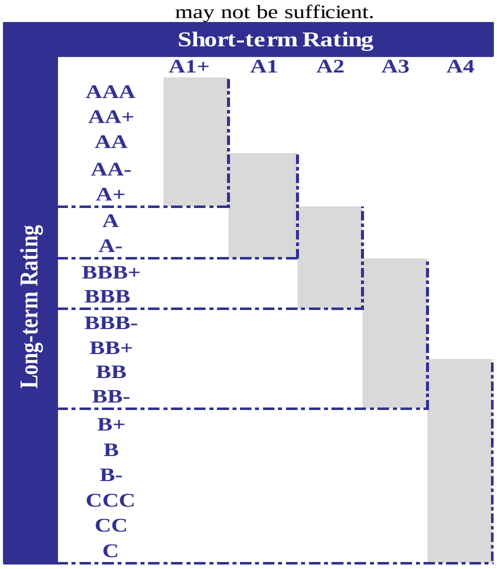
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information