The Pakistan Credit Rating Agency Limited

Rating Report

Pak-Libya Holding Company (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Dec-2019	AA-	A1+	Negative	Maintain	-
27-Jun-2019	AA-	A1+	Negative	Maintain	-
27-Dec-2018	AA-	A1+	Negative	Maintain	-
14-Jun-2018	AA-	A1+	Negative	Maintain	-
18-Dec-2017	AA-	A1+	Negative	Maintain	-
23-Jun-2017	AA-	A1+	Negative	Maintain	-
25-Jun-2016	AA-	A1+	Negative	Maintain	-
26-Jun-2015	AA-	A1+	Negative	Maintain	-
26-Jun-2014	AA-	A1+	Negative	Maintain	-

Rating Rationale and Key Rating Drivers

Development Financial institutions (DFIs) largely operate on turf common to commercial banks. Limited participation in development projects, low funding base and high competition are the challenges. Joint Venture Financial Institutions are DFIs jointly established by two sovereigns; ratings are mainly characterized by sovereign ownership, adequate governance and relatively conservative risk appetite.
The ratings of Pak-Libya reflect sustained performance of the company, since last many years. Over the last one decade, JVFIs at large have been relying more on the non-core income attributable to limited outreach in the market. In last few quarters, the company suffered sizable loss on its investment book attributable to fix positions in PIBs. Currently, the government securities mix is redesigned with sizable quantum in PIBs (Floaters) and differentiated tenor for PIBs (Fixed); mix though improved but market risk prevails. Funding base majorly comprises borrowings from money market while minuscule portion lies in CoIs. During 9MCY19, with significant surge in interest expense along with loss on securities, the Company booked pre-provisioning operating loss. However, in latest quarter the company managed to close in profits. Going forward, given current economic scenario vigilant monitoring of existing loan book is required while keeping operating costs in check. Last year, an SPV named Kamoke Powergen (Pvt.) Limited was incorporated, to apply for power generation license from NEPRA – KEL largest non-performing exposure. However, management has provided for the major portion and is eying to dispose off the asset and settling the outstanding exposure on break even. Company's sovereign parentage has not translated fully in meeting its regulatory capital requirement deficiency as of date. During 3QCY19, MOF injected PKR 200mln whilst PKR 300mln is allocated and PKR 500mln is budgeted in CY20. However, LAFICO has injected PKR 1bln as advance for right issue subscription, which is received by PLHC via three credit advice accumulating the total amount. Extension granted till Sep 30th, 2019 whilst further extension is under process.

The ratings have a "negative outlook", signifying the need to comply with regulatory minimum capital requirement (shortfall of PKR 2.0bln as at end-Sep'19). Consistent efforts by the management to stabilize revenue stream and add further diversity to operations would remain key area to ensure sustainable profitability. Meanwhile, sustaining asset quality would help maintain the ratings. Current advancement on sell-off KEL is important for the ratings.

Disclosure

Name of Rated Entity	Pak-Libya Holding Company (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_FI_FY19(Jun-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | DFIs(Jun-19)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Pak Libya Holding Company (Pvt.) Limited (Pak Libya) was established as a joint stock company in October 1978. Pak Libya is a Joint Venture Financial Institute (JVFI), operating within the framework of commercial and banking laws of Pakistan.

Background Libyan Foreign Investment Company is a government owned company established in 1981. The Company's principal activity is to invest in diversified sectors. It operates through its principal office in Tripoli, Libya.

Operations The primary objective of Pak Libya is to promote development of industrial and economic infrastructure of the country, by supporting both industrial and service sectors. Pak Libya utilizes three core avenues for asset building: loans/leases, capital and money market operations, and project financing for infrastructure development.

Ownership

Ownership Structure Pak Libya is equally owned by the Government of Islamic Republic of Pakistan (GoP), represented through MoF, and the Government of Libya, represented through Libyan Foreign Investment Company (LAFICO), implying strong sovereign support.

Stability The ownership structure has remained the same since inception of the Company. It is expected to remain same in foreseeable future.

Business Acumen The business acumen of the sponsors is considered good.

Financial Strength The financial muscle of sponsors is considered good.

Governance

Board Structure The overall control of the company vests in six member Board of Directors. Both governments have an equal representation on board. Board's Chairman is the representative of Government of Libya, while Company's Managing Director is representing Government of Pakistan.

Members' Profile All board members carry vast experience from diversified sectors. Mr. Bashir B. Omer, Board's Chairman, has worked as an investment banker with over 20 years of experience. All the directors are professionally trained, adding effectiveness to the board.

Board Effectiveness Board has four committees in place naming Audit Committee, Risk Management Committee, Credit/Investment Committee, and Human Resource and Remuneration Committee; for active monitoring and evaluation.

Financial Transparency The company's external auditors, M/s Grant Thornton Anjum Rahman Chartered Accountants, have expressed emphasis of matter for the year ended December 31st, 2018 and drew attention towards exemption granted to Pak Libya on the required MCR of PKR 6bln, investment in Summit Bank's TFC's amounting to PKR 398mln and Kamoki Energy Limited assets.

Management

Organizational Structure The Company's functional area is divided into: Risk Management with Credit Admin Department and Special Asset Management under its ambit, Securities and Portfolio Management, Corporate and Investment Banking, Treasury and Fund Management, Operations, SME and RBD, Internal Audit, Human Resource, IT, Finance, Law, Compliance and Regulatory Reporting.

Management Team The company's MD/CEO, Mr. Khurram Hussain carries financial sector experience of more than 30 years. All the team members carry vast experience in related fields.

Effectiveness The management has multiple committees naming: Credit Committee, Asset and Liability Committee, Risk Management Committee, IT Steering Committee, Credit Committee for SME and RBD and Compliance Committee. All the divisional heads report directly to the Executive Committee, comprising Company's Managing Director and Deputy Managing Director. However, the Head of Internal Audit reports independently to the Board Audit Committee.

MIS MIS reports used by the head of departments are generated from a combination of systems whilst some manual reports are also prepared.

Risk Management Framework Pak Libya has an independent Risk Management Division that monitors credit, market, operational and liquidity risks. This division directly reports to the Executive Committee. The role of ALCO and Credit Committee has been strengthened through monthly meetings and regular portfolio monitoring activity with a regular reporting mechanism.

Business Risk

Industry Dynamics JVFI's witnessed, in 9MCY19, decline in advances attributable to limited market outreach as well as slowdown in economy. Investment book majorly vested in government papers given investment's security has witnessed significant growth. Hence, reliance is on non-core operations for generation of income. Industry's deposit base slimmed down and major reliance for funding remained on borrowing from money market. Going forward, to compete with other financial institutions (commercial banks primarily), the industry players need to build relatively unique products and services. Otherwise, JVFIs may get marginalized.

Relative Position Pak Libya's market share in terms of advances remained intact at 6%.

Revenues During 9MCY19, Interest Income recorded an uptick to stand at PKR 1.16bln (9MCY18: PKR 1.08bln), up 7.59% YoY largely attributable to increase in key policy rate.

Performance During 9MCY19, NIMR stood at PKR 3.2mln (9MCY18: PKR 240mln), witnessed significant decline YoY owing to higher mark-up expensed on borrowings. Other operating income witnessed decline to stand at PKR 44mln (9MCY18: PKR 65mln) primarily due to loss on sale of investments while dividend income improved YoY. Non-mark-up expenses remained under control at PKR 334mln (9MCY18: PKR 354mln). Hence, pre-provision operating loss was recorded at PKR 287mln. Provisioning expense increased to PKR 90mln emanating from enhanced provision for diminution in the value of investments. Hence, the company reported net loss at PKR 394mln (9MCY18: loss PKR 97mln). During 3QCY19, the Company's net profit closed at PKR 9.9mln (3QCY18: PKR 92mln).

Sustainability Going forward, sale of repossessed assets of KEL is management's priority. The approval was provided by SBP to create an SPV to obtain NEPRA license has enhanced its sale ability. The management is positive about disposing off the asset on break even. To fulfill Minimum Capital Requirements, GOP has injected PKR 200mln during 3QCY19 whilst PKR 300mln are allocated and remaining PKR 500mln are budgeted by GoP. Recently, Libyan sponsor has injected PKR 1bln, received by SBP. The process will be completed after issuance of right shares and same will be reflected in financial statements of CY20. Further, the SBP has extended the period, in meeting MCR till Sep.30, 2019.

Financial Risk

Credit Risk During 9MCY19, the Company was able to enhance its earning asset book with sharp growth of 24%, primarily attributable to increase in investment in Government securities. Infection Ratio improved to 25.1% from 27.1% in CY18, with ~12.22% increase in advances where the loan loss coverage ratio impaired to 96.1% (CY18: 95.7%).

Market Risk The investment book constitutes 51.1% (end- Dec18: 44.2%) of total assets; increase attributable to sizable addition in government securities. However, Government securities mix has portrayed change where tilt is shifting towards PIBs as interest rates are considered to be peaked out. In 9MCY19, exposure in equity market increased to PKR 814mln (CY18: PKR 808mln). In the investment policy, PLHC has maintained separate limits on investment exposure in Government securities (Fixed & Floater), furthermore there is imposed stop loss limits on both exposure (MTB & PIBs); ranging 0.5%-1% change in interest rates. However, room for further refinement exists in the time related exposure.

Liquidity And Funding In 9MCY19, Pak Libya's funding base remained tilted towards borrowings - PKR 18.5bln (end-Sep18: PKR 13.6 bln), up by ~36% YoY. Consequently, liquidity ratio enhanced and stood at 67.6% (Dec18: 64%). Deposits in the form of CoIs increased to PKR 1.31bln (end-Sep18: PKR 1.1bln). Going forward, management is eyeing to enhance deposits base for funding requirements.

Capitalization Equity base (9MCY19: PKR 4.2bln CY18: PKR 4.4bln), mainly comprising Tier-I capital remains below the MCR level. Pak Libya has received 200mln as advance for right issue subscription however rest of the subscription is due in course by MoF. SBP has also granted extension for compliance till Sep'18. Pak Libya's capital adequacy stands at 18.5% (CY18: 17.7%).

Pak Libya Holding Company (Pvt.) Limited

(PKR mln)

BALANCE SHEET	30-Sep-19	31-Dec-18	31-Dec-17	31-Dec-16
	3Q	Annual	Annual	Annual
Assets				
Earning Assets				
Advances	4,242	3,780	3,090	2,518
Lease	513	502	66	200
Debt Instruments	2,528	2,791	2,249	1,387
- Total Finances	**7,282**	**7,073**	**5,405**	**4,105**
Govt Securities	11,556	8,233	6,610	10,991
Equity Investments	815	803	835	794
Investments in Associates & Subsidiaries	6	6	6	1
Mutual Funds	-	-	-	-
- Total Investments	**12,377**	**9,041**	**7,451**	**11,786**
Others	2,472	2,000	4,053	1,013
Non Earning Assets				
Non Earning Cash	32	27	59	30
Deferred Tax	99	124	85	26
Net Non Performing Finances	61	69	437	132
Fixed Assets & Others	1,900	2,094	1,672	1,805
Total Assets	**24,222**	**20,428**	**19,163**	**18,897**
Liabilities				
Certificates of Investment	1,307	644	39	463
Borrowings	18,569	15,353	14,367	13,392
Interest Bearing Liabilities	**19,876**	**15,997**	**14,406**	**13,855**
Non Interest Bearing Liabilities	**348**	**263**	**202**	**279**
Equity				
Total Equity	4,190	4,384	4,713	4,669
Revaluation Surplus	(191)	(215)	(158)	92
TOTAL LIABILITIES & EQUITY	**24,222**	**20,428**	**19,163**	**18,895**
INCOME STATEMENT				
Interest/ markup earned	1,163	1,428	1,017	1,179
Interest/ markup expensed	(1,159)	(1,169)	(752)	(866)
Net Interest/ markup revenue	**3**	**260**	**265**	**313**
Other Income	44	78	318	119
Total revenue	**48**	**338**	**583**	**433**
Non Interest/ Non Markup expensed	(334)	(471)	(434)	(443)
Pre-provision Profit	(287)	(133)	149	(10)
(Provision)/ Reversal	(90)	(127)	(65)	1,042
Taxes	(18)	(62)	(36)	(241)
Net Income	**(393)**	**(322)**	**49**	**791**
Ratio Analysis				
Performance				
ROE*	-9.2%	-7.1%	1.0%	18.5%
Cost-to-Total Net Revenue	701.8%	139.5%	74.5%	102.4%
Capital Adequacy				
Equity / Total Assets	17.3%	21.1%	24.4%	24.6%
Capital Adequacy ratio as per SBP	18.5%	17.7%	31.5%	36.6%
Funding & Liquidity				
Liquid Assets/ Deposits & Borrowings	66.3%	64.0%	57.1%	90.3%
Finances/ Deposits & Borrowings	36.9%	44.6%	40.6%	30.5%
Loan Loss Coverage				
Loan Loss Provisions/ NPLs	96.1%	95.7%	77.9%	92.7%
Net Impaired Lending/Total Equity	1.5%	1.6%	9.3%	2.6%

**** Annualized***

Credit Rating Scale & Definitions

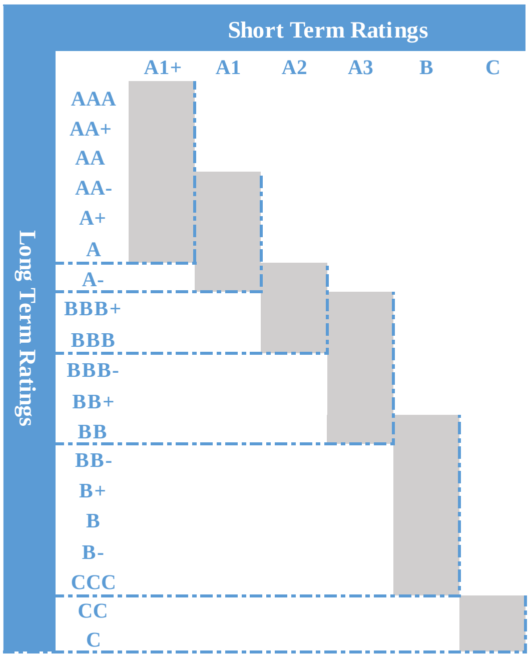
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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 conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

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