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
25-Jun-2020	AA-	A1+	Stable	Maintain	YES
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. Ratings reflect improved performance of the company; core margins have seen significant improvement, as core profits were reported (1QCY20: PKR 69mln). Alternative income streams were built, like trading in Govt. securities, specifically investing in PIBs; enhanced tactical allocation in accordance with current market conditions being manage well though exposure to market risk needs to be consistently monitored. Management intends to refine the existing investment policy. Resultantly, company booked capital gain compared to capital losses which has supplemented the profits in latest quarter. Recoveries, resulted from settlement of NPLs, were leading to reversal in provisioning also helped profits. Funding base majorly comprises borrowings from money market while minuscule portion lies in CoIs. Notably, Covid-19 has posed challenges to all segments of the economy, worldwide and domestically, most sectors are getting negatively impacted. The ramifications would continue to unfold, warranting vigilance and timely actions where needed.
Rigorous efforts were made to enhance employee efficiency. Another critical milestone achieved regarding Kamoke Energy Limited (KEL), largest non-return generating asset, wherein management is all set in making it a performing asset via an engagement with another player in the market. Capital is injected during CY19, MOF injected PKR 200mln whilst another PKR 500mln is credited into PLHC's account during June-20. LAFICO has already injected PKR 1bln as advance for right issue subscription, which was received by PLHC via three credit advices accumulating the total amount. Two right issues are planned in upcoming months after which PLHC will be MCR compliant.

The financial profile, signify the progress to comply with regulatory minimum capital requirement. As per management representation, company has achieved on net equity basis an amount equivalent to MCR; the watch captures the company's resolve to complete the 'right issue' and reach towards compliance with MCR requirement. Consistent efforts by the management to stabilize revenue stream and attain sustained profit stream from diversified operations are underway. Meanwhile, sustaining asset quality is essential 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	Methodology | MFI (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-20)
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 Joint Stock Company established in 1981 and has worldwide exposure. Company's principal activity is to invest in diversified sectors such as general trading and retailing, real estate development and contracting, entertainment and leisure, hotels & resorts and financial services. It operates through its principal office in Tripoli, Libya, with representative offices located in Malta, Morocco and Rome.

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 SBP, 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. During the year, Mr. Fazal ur Rehman (Non-Executive Member – GOP nominee) has been replaced by Mr. Abrar Ahmed Mirza since Feb, 2019.

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 Company's external auditors, M/s Grant Thornton Anjum Rahman Chartered Accountants, have expressed emphasis of matter as on Financial statements for the year ended Dec-19 and drew attention of management towards meeting the required MCR of PKR 6bln, recoverability of company's investment in TFC's amounting to PKR 398.58mln and Kamoki Energy Limited assets.

Management

Organizational Structure In order to maintain adequate controls, the management has restructured and reorganized its organogram according to its operational needs. Company's functional area is divided into 10 core departments which includes Risk Management & Regulatory Compliance, Treasury Fund & Liability Management, Special Asset Management & Legal Department, Securities and Portfolio Management, Corporate and Investment Banking, Operations, SME & RBD, HR & Admin, IT, Back Office Operations and Finance & Accounts.

Management Team Pak Libya's Managing Director, Mr. Khurram Hussain associated with management since Mar, 19 and carries financial sector experience of more than 30 years. Mr. Masood Ibrahim has been associated with the team since Dec-14, carries extensive experience of ~19years. Management team consists of qualified and experienced individuals adding efficiency to company's performance.

Effectiveness The management has multiple committees naming: Credit Committee, Asset and Liability Committee, Credit Committee for SME & RBD, Risk Management Committee, IT steering Committee and Compliance Committee. All these committees include Heads of various divisions. Their primary function is to ensure the implementation of the company's vision and smooth facilitation of operations.

MIS MIS reports used by the head of departments are generated from a combination of systems with 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 MRMC, ALCO and Credit Committees have been strengthened through monthly & quarterly meetings and regular portfolio monitoring activity with a regular reporting mechanism.

Business Risk

Industry Dynamics JVFI's witnessed, in CY19, marginal growth advances (CY19: 4%, CY18: 6%) attributable to limited market outreach as well as conservative risk appetite of the institutions. Investment book majorly vested in government papers given investment's security has witnessed significant growth. Hence, major 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 The company's market share in terms of advances remained intact at 6% (CY18: 6%).

Revenues During CY19, interest income recorded an uptick to stand at PKR 1.9bln (CY18: PKR 1.4bln), up 35% YoY attributable to both slight increase in advances and key policy rate. NIMR stood at PKR 77mln (CY18: PKR 260mln), down 70% YoY, mainly driven by the peaked interest rates & increased borrowings from banks. Company's spread recorded as end Dec-19, for -1.8% (CY18: 0.9%) whereas company managed to achieve breakeven during 1QCY20, where asset's yield and cost of funds both recorded as 4.5%.

Performance During CY19, Cost to total revenue jumped up to ~435% (CY18: ~140%), manifolds the significant decline in other operating income to stand at PKR 25mln (CY18: PKR 78mln) primarily due to loss on sale of investments. Management has adopted cost cutting strategy that resulted in slight reduction in non-mark-up expenses to PKR 462mln (CY18: PKR 471mln). However, pre-provision operating loss was recorded at PKR 360mln, reversal against provisioning expense of PKR ~83mln supported the net loss and the company net loss stood at PKR 304mln for CY19 (CY18: Profit of PKR 323mln).

Sustainability Going forward, sale of repossessed assets of KEL is management's priority, for which company's management is in negotiation with some interested parties to dispose-off non-banking assets related to KEL. The management, while expanding its lending base, is focusing on SME & Retail Banking. Moreover, to support the bottom line, treasury and capital market operations would remain in focus. Pak Libya has received total amount of PKR 1.2bln in CY19 from its sponsors collectively.

Financial Risk

Credit Risk During CY19, the overall quality of the advances book witnessed improvement YoY, with impaired lending forming 26% of gross advances (CY18: 27%). Thus, loan loss coverage ratio observed improvement at 96% (CY18: 95%). Moreover, more than 95% of NPLs relate to top 20 customers. Major NPLs include Chemical and Pharmaceutical Sector of PKR 500mln in CY19.

Market Risk The investment book constitutes 56% (end-Dec18: 44%) of total assets; increase attributable to sizable addition in government securities as depicted 53% of total assets as end-Dec19 (end-Dec 18: 40%). Government securities mix remained tilted towards PIBs with 85.5% concentration (end-Dec18: 94%).

Liquidity And Funding During CY19, Pak Libya's investment book was added with significant amount of government papers in available for sale securities which has enhanced liquidity cushion; liquid assets to deposits and borrowings ratio stood at ~74% (CY18: ~64%). Liquidity position further improved as at end-Mar20 to ~81%.

Capitalization The Capital injection of PKR 1.0bln through right issue has been made by Libyan Sponsors (LAFICO) in 2019, while GOP has made advance payment of right issue subscription of PKR 200mln so far wherein remaining capital of PKR 800mln is budgeted by Govt. and expected to be received as PKR 500mln during June, 2020 & PKR 300mln till September 30, 2020. The continuous follow-up with Ministry of Finance, GOP for their remaining equity contribution is underway by the Company.

Pak Libya Holding Company (Pvt.) Limited

(PKR mln)

BALANCE SHEET	31-Mar-20	30-Dec-19	31-Dec-18	31-Dec-17
	1Q	Annual	Annual	Annual
Assets				
Earning Assets				
Advances	4,033	3,977	3,780	3,090
Lease	441	485	502	66
Debt Instruments	2,562	2,735	2,789	2,245
- Total Finances	**7,035**	**7,197**	**7,071**	**5,401**
Govt Securities	19,198	15,408	8,235	6,615
Equity Investments	761	871	803	835
Investments in Associates & Subsidiaries	6	6	6	6
Mutual Funds	-	-	-	-
- Total Investments	**19,964**	**16,285**	**9,043**	**7,455**
Others	2,315	2,922	2,000	4,053
Non Earning Assets				
Non Earning Cash	54	45	27	59
Deferred Tax	-	53	124	85
Net Non Performing Finances	64	63	69	437
Fixed Assets & Others	2,285	2,525	2,094	1,672
Total Assets	**31,718**	**29,089**	**20,428**	**19,163**
Liabilities				
Certificates of Investment	1,575	1,551	644	39
Borrowings	24,348	21,913	15,353	14,367
Interest Bearing Liabilities	**25,923**	**23,464**	**15,997**	**14,406**
Non Interest Bearing Liabilities	**434**	**371**	**263**	**202**
Equity				
Total Equity	5,358	5,290	4,384	4,713
Revaluation Surplus	3	(36)	(215)	(158)
TOTAL LIABILITIES & EQUITY	**31,718**	**29,089**	**20,428**	**19,163**
INCOME STATEMENT				
Interest/ markup earned	971	1,929	1,428	1,017
Interest/ markup expensed	(880)	(1,852)	(1,169)	(752)
Net Interest/ markup revenue	**91**	**77**	**260**	**265**
Other Income	45	25	78	318
Total revenue	**135**	**102**	**338**	**583**
Non Interest/ Non Markup expensed	(113)	(462)	(471)	(434)
Pre-provision Profit	23	(360)	(133)	149
(Provision)/ Reversal	54	83	(127)	(65)
Taxes	(9)	(27)	(62)	(36)
Net Income	**68**	**(304)**	**(322)**	**49**
Ratio Analysis				
Performance				
ROE*	5.7%	-6.4%	-7.1%	1.0%
Cost-to-Total Net Revenue	83.3%	453.3%	139.5%	74.5%
Capital Adequacy				
Equity / Total Assets	16.9%	18.2%	21.5%	24.6%
Capital Adequacy ratio as per SBP	19.8%	18.2%	17.7%	31.5%
Funding & Liquidity				
Liquid Assets/ Deposits & Borrowings	80.6%	73.8%	64.0%	57.2%
Finances/ Deposits & Borrowings	27.4%	30.9%	44.6%	40.5%
Loan Loss Coverage				
Loan Loss Provisions/ NPLs	95.8%	96.0%	95.7%	77.9%
Net Impaired Lending/Total Equity	1.2%	1.2%	1.6%	9.3%

** Annualized*

Rating Scale | Corporate

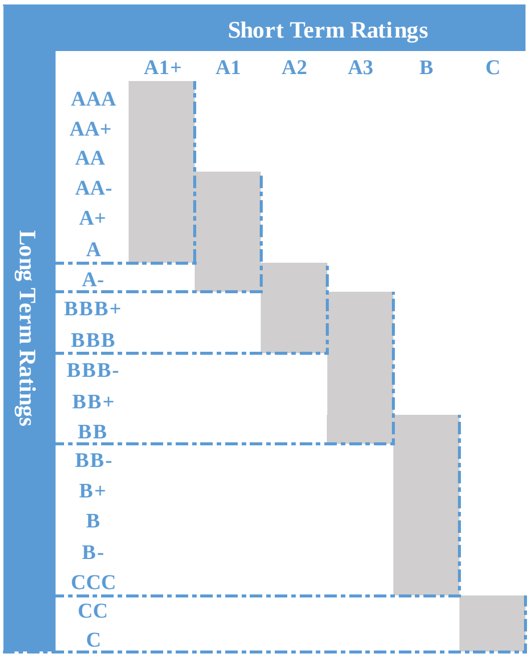
2019

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.

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

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(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**
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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

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(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.
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(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)

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(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)
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(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)
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(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)

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(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)
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