The Pakistan Credit Rating Agency Limited

Rating Report

Pak-Libya Holding Company (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
25-Jun-2021	AA-	A1+	Positive	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

JVFIs are largely engaged in providing credit lines on turf common to commercial banks. However, 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, adequate standards of governance, and relatively conservative risk appetite. Positive Outlook reflects improved performance of the institution; net markup income has seen significant improvement, during CY20, reported at PKR 713mln (CY19: PKR 77mln). This is mainly attributable to enhanced income stream from investments like trading in Govt. securities, specifically investing in PIBs; enhanced tactical allocation in accordance with current market conditions. Non markup income comprising of significant capital gains booked has boosted the bottom-line, turning it positive (CY20: PKR 304mln) as compared to losses being recorded in the consecutive previous periods. Funding base majorly comprises borrowings from financial institutions. Deposits comprising COIs have witnessed significant increase during the year. Another critical milestone is 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. There had been another challenge regarding non-compliance of MCR. Pak Libya has received full amount of last tranche in 1QCY21 from Ministry of Finance (MoF). Subsequent to full payment by Ministry of Finance (MoF), the Company’s paid-up capital (net of losses) rose to PKR 6.1bln to meet MCR requirements. The company’s capital adequacy witnessed increase YoY (CY20: 24.7%, CY19: 18.2%). 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 concerned bodies have mitigated the potential damages much anticipated from this pandemic. Vigilance is required as the loan repayment cycle resumes as variants of the pandemic continue to re-emerge.

Consistent efforts by the management to stabilize revenue stream and attain sustained profit stream from diversified operations remain vital. Meanwhile, sustaining asset quality is also 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 | 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 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 Institution (JVFI), operating within the framework of commercial and banking laws of Pakistan.

Background Libyan Foreign Investment Company (LAFICO) is a government owned Joint Stock Company established in 1981 and has worldwide exposure.

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 Ministry of Finance (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 the 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.

Board Effectiveness Board has four committees in place namely 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 a qualified opinion as at 31-Dec-20.The auditors described basis for qualification as "Investments (refer note 8.2.6) include term finance certificates (ITC) amounting to Rs. 398.58 million (2019: Rs. 398.58 million). We were unable to obtain sufficient appropriate audit evidence to determine the recoverability of these TFCs. There are no other sufficient alternative audit procedures that we could adopt to determine whether any allowance for non-recovery of the amount should be made in these financial statements for the year ended December 31, 2020".

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 eleven departments.

Management Team Pak Libya's Managing Director, Mr. Khurram Hussain has been associated with management since Mar, 19 and carries financial sector experience of more than 30 years. Mr. Khaled Joma Ezarzor has been associated with the Institution as Deputy Managing Director (DMD) since Apr-17 and carries extensive experience of ~23 years. Management team consists of qualified and experienced individuals adding efficiency to company's performance.

Effectiveness The management has multiple committees namely Credit Committee, Asset and Liability Committee, Credit Committee for SME & RBD, Investment Committee, Risk Management Committee, IT Steering Committee and Compliance Committee. All these committees include Heads of various departments. 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 also being prepared.

Risk Management Framework Pak Libya has an independent Risk Management & Regulatory Compliance Department that monitors credit, market, operational and liquidity risks as well as oversees the regulatory compliance function. This department directly reports to the Executive Committee. The role of ALCO, Investment Committee and Credit Committee has been strengthened through monthly/quarterly meetings and regular portfolio monitoring activity with a regular reporting mechanism.

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 market share in terms of advances was 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 increased to 7%, during CY20 which further enhanced in 1QCY21. Investment book recorded sizable increase primarily comprising government papers. The Company performed well on deposit mobilization (CY20: PKR 4bln, CY19: PKR 1.6bln).

Revenues During CY20, interest earned recorded a significant increase to stand at PKR 3.2bln (CY19: PKR 1.9bln), up 66 % YoY mainly attributable to increase in investments on which interest earned stood at PKR 2.4bln (CY19: PKR 1.2bln). Net mark up income grew significantly and stood at PKR 713mln (CY19: PKR 77mln), mainly driven by the increased interest earned accompanied by decreased cost of deposits. During 1QCY21, similar inclining trend witnessed where net mark up income stood at PKR 178mln.

Performance Other income witnessed significant incline to stand at PKR 504mln (CY19: PKR 25mln) primarily due to gain on securities of PKR 429mln as compared to loss of PKR 45mln in CY19. Non mark up expenses increased by 25% to stand at PKR 576mln (CY19: PKR 462mln) However, pre-provision operating profit of PKR 640mln (CY19: loss of PKR 360mln) was recorded. Bottom line turned positive and stood at PKR 304mln (CY19: loss of PKR 304mln). During 1QCY21, similar inclining trend witnessed where PAT of PKR 134mln was recorded.

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. Pak Libya has received full amount of last tranche in 1QCY21 from Ministry of Finance (GoP). Subsequent to full payment by Ministry of Finance, the Company has issued the remaining shares and has successfully met MCR requirement.

Financial Risk

Credit Risk In CY20, total advances increased by 25% to stand at PKR 5.7bln (end-Dec19: PKR 4.5bln) and constitute ~15% of the total assets (CY19: ~16%). Client concentration remained normal. Top 5 sectors concentration stood at 65%. During CY20, the overall quality of the advances book witnessed improvement YoY, with impaired lending forming 21% of gross advances (CY19: 26%).

Market Risk The investment book increased by 31% to stand at PKR 25bln (CY19: PKR 19bln) which constitutes 67% (end-Dec19: 65%) of total assets attributable to sizable addition in government securities. As at end-Dec20, government securities comprises 100% of PIBs (end-dec19: 85%).

Liquidity And Funding In CY20, funding base remained tilted towards borrowings which stood at PKR 26.4bln (end-Dec19: PKR 21.9bln), up ~20% YoY. Deposits in the form of CoIs increased significantly to PKR 4,043mln (end-Dec19: PKR 1,551mln) up ~161% YoY, it observed further increase at end-Mar21 and reported as PKR 4,346mln.

Capitalization The capital structure of the company primarily constitutes Tier I Capital. The company's capital adequacy witnessed incline YoY (CY20: 24.7%, CY19: 18.2%). During 1QCY21, the Company's paid-up capital (net of losses) rose to PKR 6.1bln to meet MCR requirements. Hence CAR further increased to 26.4% as at end-Mar21.

PACRA

Pak-Libya Holding Company Listed Public Limited	Mar-21 3M	Dec-20 12M	Dec-19 12M	Dec-18 12M
				PKR mln
A BALANCE SHEET				
1 Total Finances - net	9,005	8,024	7,197	7,073
2 Investments	23,633	22,501	16,285	9,041
3 Other Earning Assets	4,491	3,452	2,922	2,000
4 Non-Earning Assets	2,662	2,972	2,631	2,245
5 Non-Performing Finances-net	63	62	63	69
Total Assets	39,853	37,010	29,098	20,428
6 Deposits	4,346	4,043	1,551	644
7 Borrowings	28,835	26,392	21,914	15,353
8 Other Liabilities (Non-Interest Bearing)	654	613	379	263
Total Liabilities	33,836	31,047	23,844	16,260
Equity	6,018	5,963	5,254	4,168
B INCOME STATEMENT				
1 Mark Up Earned	723	3,209	1,929	1,428
2 Mark Up Expensed	(546)	(2,496)	(1,852)	(1,169)
3 Non Mark Up Income	33	504	25	78
Total Income	210	1,216	102	338
4 Non-Mark Up Expenses	(113)	(576)	(462)	(471)
5 Provisions/Write offs/Reversals	48	(180)	83	(127)
Pre-Tax Profit	145	460	(277)	(261)
6 Taxes	(11)	(156)	(27)	(62)
Profit After Tax	134	304	(304)	(323)
C RATIO ANALYSIS				
1 Cost Structure				
Net Mark Up Income / Avg. Assets	1.8%	2.2%	0.3%	1.3%
Non-Mark Up Expenses / Total Income	53.8%	47.4%	453.3%	139.5%
ROE	8.9%	5.4%	-6.4%	-7.7%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	15.1%	16.1%	18.1%	20.4%
Capital Adequacy Ratio	26.4%	24.7%	18.2%	17.7%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	22.8%	37.9%	30.0%	22.6%
(Advances + Net Non-Performing Advances) / Deposits	151.5%	140.3%	291.8%	676.0%
4 Credit Risk				
Non-Performing Advances / Gross Advances	15.7%	21.2%	26.0%	27.1%
Non-Performing Finances-net / Equity	1.0%	1.0%	1.2%	1.6%

Credit Rating

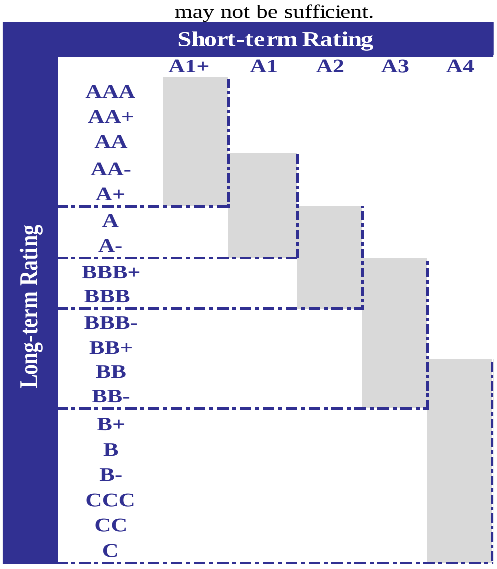
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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