



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
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	-

Rating Rationale and Key Rating Drivers

Development Financial institutions (DFIs) largely operate on turf common to commercial banks. Limited depth in participation towards development of long gestation projects, low funding base, and high competition become their key challenges. Joint Venture Financial Institutions are DFIs jointly established by the two sovereigns with primary objective of identifying and nurturing multiple development initiatives. Their ratings are mainly characterized by sovereign ownership, adequate standards of governance, and relatively conservative risk appetite.

The ratings of Pak Libya reflects sustained performance of the company since last many years. Benefiting from the increasing credit off take in the country in last few years, lending side of Pak Libya picked up pace along with sustaining the asset quality. Treasury operations continue to strengthen the financial position of the company. Investment in government securities increased; the company suffered sizable loss on its investment book; management has shrunk its PIB portfolio to minimize future losses. The company needs to beef up and elaborate its investment policy. Funding base majorly comprises borrowings from money market. During CY18, with significant surge in cost structure - interest and provisioning expense - company booked pre-provisioning operating loss. Going forward, given current economic scenario vigilant monitoring of existing loan book is required while keeping operating costs in check. The management continues to cautiously expand its existing loan book through corporate finance activities and further penetrating in SME segments.

Last year, a Special Purpose Vehicle named Kamoke Powergen (Pvt.) Limited (KPL) was incorporated, to apply for power generation license from NEPRA so as to increase viability of KEL – Pak Libya's largest non-performing exposure – a strategic investment on the books. However, the exposure was completely provided for. Although the management is trying to pursue it, owing to non-viability of RFO plants in a current energy industry dynamics, the sale of plant seems challenging. Company's sovereign parentage have not translated fully in meeting its regulatory capital requirement deficiency as of date. Lately, Ministry of Finance has injected PKR 200mln and given confirmation of remaining PKR 800mln to be injected by CY19. The approval for further extension in compliance with capital requirement has been extended by State Bank of Pakistan till June 30th, 2019.

The ratings have a "negative outlook", signifying the need to comply with regulatory minimum capital requirement (shortfall of PKR 1.6bln as at end-Dec'18). Consistent efforts by the management to stabilize revenue stream and add further diversity to operations would remain critical. Meanwhile, sustaining asset quality would help maintain the ratings. Timely sell-off of 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	Methodology Financial Institution(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
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 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. 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 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, company's investment in Summit Bank's TFC's amounting to PKR 398.58mln and Kamoki Energy Limited assets. Currently, SBP has extended the exemption granted to Pak Libya in meeting the MCR till 30-June-19.

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: 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 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 field.

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 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 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 slower growth (compared to last few years) in CY18 in terms of total assets and advances attributable to economic slowdown. Investment book majorly vested in government papers given investment's security. Industry's deposit base slimmed down and major reliance for funding remained on borrowings 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%.

Revenues During CY18, Interest Income recorded an uptick to stand at PKR 1.4bln (CY17: PKR 1.0bln), up 40% YoY attributable to both increase in advances and key policy rate.

Performance NIMR stood at PKR 260mln (CY17: PKR 265mln), down 2% YoY. Other operating income witnessed significant decline to stand at PKR 78mln (CY17: PKR 318mln) primarily due to lesser income from gain on sale of investments. Non-mark-up expenses remained largely same at PKR 450mln. However, pre-provision operating loss was recorded at PKR 112mln. Pak Libya's provisioning expense increased to PKR 138mln; which further diluted the bottom-line. The Company's net profit stood at PKR 313mln.

Sustainability Going forward, sale of repossessed assets of KEL is management's priority. The management, while expanding its lending base, is focusing on SME financing. Moreover, to support the bottom line, treasury and capital market operations would remain in focus. Offering corporate guarantees to exposure is also on cards.

Financial Risk

Credit Risk In CY18, total advances constitute 18.5% of the total assets (CY17: 16.1%) to stand at PKR 3.8bln (end-Dec17: PKR 3.0bln). Client concentration remained normal (CY17: 52%). During CY18, the overall quality of the advances book witnessed improvement YoY, with impaired lending forming 27% of gross advances (CY17: 39%). Thus, loan loss coverage ratio improved to 95.7% (CY17: 77.9%). Moreover, Special Asset Management Department has played a pivotal role in efficiently recovering the NPLs.

Market Risk The investment book constitutes 44.2% (end- Dec17: 38.8%) of total assets; increase attributable to sizable addition in government securities. Government securities mix remained tilted towards PIBs with 94% concentration (end-dec17: 25%). This increase mainly emanated from additional exposure in PIBs by 85%; this trend is however not in line with general economic trend as most financial institutions have taken exit from PIBs book attributable to increasing interest rate environment in the country. In CY18, exposure in equity market decreased to PKR 808mln (CY17: PKR 841mln).

Liquidity And Funding In CY18, Pak Libya's investment book was added with significant chunk of government papers which has enhanced liquidity cushion; liquid assets to deposits and borrowings ratio stood at 64% (CY17: 57%). Liquidity position further improved as at end-Mar19 to 71%. In CY18, funding base remained tilted towards borrowings which stood at PKR 15.3bln (end-Dec17: PKR 14.3bln), up ~7% YoY. Deposits in the form of CoIs increased to PKR 644mln (end-Dec17: PKR 39mln).

Capitalization The capital structure of the company primarily constitutes Tier I Capital. The company's capital adequacy witnessed decline YoY (CY18: 17.73%, CY17: 31.50%) attributable to decline in eligible capital. The accumulated losses have been constraining the Company's MCR since 2012, as it stands below the regulatory requirement of PKR 6bln, making it non-compliant with prudential regulations. Lately, Pak Libya has been given extension by SBP for MCR compliance till end-Jun19. Furthermore, Ministry of Finance vide letter dated April 25, 2019, has confirmed for the subscription of its portion of PKR 1bln in two tranches with disbursement of PKR 200mln in FY18-19 and allocation of PKR 800mln in budget FY19- 20. This will assist the company in being compliant with prudential regulations.



The Pakistan Credit Rating Agency Limited

Financial Summary

Pak Libya Holding Company (Pvt.) Limited

(PKR mln)

BALANCE SHEET	31-Mar-19	31-Dec-18	31-Dec-17	31-Dec-16
	1Q	Annual	Annual	Annual
Assets				
Earning Assets				
Advances	3,720	3,780	3,090	2,518
Lease	592	502	66	200
Debt Instruments	2,358	2,791	2,249	1,387
- Total Finances	6,670	7,073	5,405	4,105
Govt Securities	8,218	8,233	6,610	10,991
Equity Investments	846	803	835	794
Investments in Associates & Subsidiaries	6	6	6	1
Mutual Funds	-	-	-	-
- Total Investments	9,070	9,041	7,451	11,784
Others	1,053	2,000	4,053	1,013
Non Earning Assets				
Non Earning Cash	47	27	59	30
Deferred Tax	100	124	85	26
Net Non Performing Finances	66	69	437	132
Fixed Assets & Others	1,961	2,094	1,672	1,805
Total Assets	18,966	20,428	19,163	18,895
Liabilities				
Certificates of Investment	945	644	39	463
Borrowings	13,656	15,353	14,367	13,392
Interest Bearing Liabilities	14,601	15,997	14,406	13,855
Non Interest Bearing Liabilities	290	263	202	279
Equity				
Total Equity	4,248	4,384	4,713	4,669
Revaluation Surplus	(173)	(215)	(158)	92
TOTAL LIABILITIES & EQUITY	18,966	20,428	19,163	18,895
INCOME STATEMENT				
Interest/ markup earned	372	1,428	1,017	1,179
Interest/ markup expensed	(384)	(1,169)	(752)	(866)
Net Interest/ markup revenue	(12)	260	265	313
Other Income	18	78	318	119
Total revenue	6	338	583	433
Non Interest/ Non Markup expensed	(103)	(471)	(434)	(443)
Pre-provision Profit	(97)	(133)	149	(10)
(Provision)/ Reversal	(25)	(127)	(65)	1,042
Taxes	(13)	(62)	(36)	(241)
Net Income	(135)	(322)	49	791
Ratio Analysis				
Performance				
ROE*	-3.1%	-7.1%	1.0%	18.5%
Cost-to-Total Net Revenue	1824.0%	139.5%	74.5%	102.4%
Capital Adequacy				
Equity / Total Assets	22.4%	21.5%	24.6%	24.7%
Capital Adequacy ratio as per SBP	19.9%	17.7%	31.5%	36.6%
Funding & Liquidity				
Liquid Assets/ Deposits & Borrowings	70.8%	64.0%	57.1%	90.3%
Finances/ Deposits & Borrowings	46.1%	44.6%	40.6%	30.5%
Loan Loss Coverage				
Loan Loss Provisions/ NPLs	95.9%	95.7%	77.9%	92.7%
Net Impaired Lending/Total Equity	1.5%	1.6%	9.3%	2.6%

* Annualized

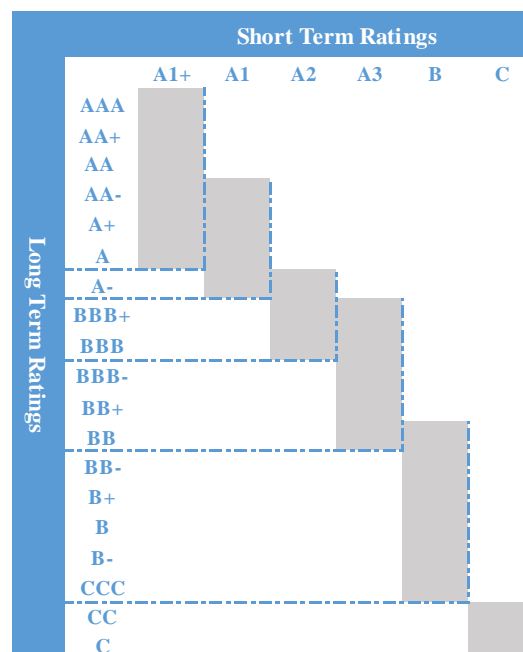
Pak Libya Holding Company (Pvt.) Limited

Jun-19

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
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.		
BBB			
BBB-			
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.		
BB			
BB-			
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.		
B			
B-			
CCC	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.		
CC			
C			
D	Obligations are currently in default.		



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 surveil 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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Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)

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- (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)

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