The Pakistan Credit Rating Agency Limited

Rating Report

PAIR Investment Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2024	AA	A1+	Stable	Maintain	-
23-Jun-2023	AA	A1+	Stable	Maintain	-
25-Jun-2022	AA	A1+	Stable	Maintain	-
25-Jun-2021	AA	A1+	Stable	Maintain	-
25-Jun-2020	AA	A1+	Stable	Maintain	-
14-Dec-2019	AA	A1+	Stable	Maintain	-
14-Jun-2019	AA	A1+	Stable	Maintain	-
26-Dec-2018	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The assigned ratings of PAIR Investment Company Limited (PAIR or the Company) reflect the ownership strength emanating from the Joint venture (J.V) between the Government of Pakistan and the Government of Iran. The prime purpose of the Development Financial Institutions (DFI) is social uplift via the execution of commercially viable projects. The Company's business strategy vests in generating sustainable profitability while growing prudently. The lending portfolio of the Company has shown stable growth over the years and is primarily allocated to diversified sectors including textile, sugar, telecommunication, rice, energy, tyres, financial sector and others. Investment book witnessed a growth of 13% amounting to PKR 16,768mln in CY23 (CY22: 14,813mln). The investment book of the Company is mainly dominated by floaters PIBs (Pakistan Investment Bond) to curb market uncertainty about interest rate movement and maintain average duration at an optimal level. The management team is highly cohesive and well-integrated. The ratings reflect the management's concerted efforts to uphold asset quality and effectively manage the relatively high concentration of advances to financially sound entities. As a philosophy, the Company is unsusceptible to spread transactions, focusing on the core and the sustainable profit streams. The reversal of provisions following the adoption of IFRS 9, coupled with the settlement of a non-performing loan (NPL), has augmented the Company's profitability. The Company gradually liquidated their equity portfolio to benefit from the boom in the stock market. The total asset base grew by ~11% amounting to PKR ~36.4bln during CY23 and PKR 39.0bln in 1QCY24. During 1QCY24, asset quality indicators for PAIR have shown improvement, evidenced by a reduction in infection ratios to 15.3% (CY23: 19%) and an improvement in investment yield. The Company has maintained its CAR (Capital Adequacy ratio) ratio at 36.59% during CY23 supplementing the risk absorption capacity. The liquidity position and capitalization indicators remain stable. Borrowings from financial institutions are their primary source of funding, while the contribution of COIs remains minimal within the funding base. In the DFI industry, limited growth in advances, over the last many years, is evidence of the conservative risk appetite of these institutions. The Central Bank maintained a tight monetary policy stance to combat inflation and curb aggregate demand. Despite these challenges, CY23 was a remarkably successful year for the banking/DFI industry. The market anticipates an inverted yield trend and a recent ~1.5% cut in the policy rate is a reflection of this.

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

Disclosure

Name of Rated Entity	PAIR Investment Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Financial Institution Rating(Oct-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | DFIs(Jun-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

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

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

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

Ownership

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

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

Business Acumen The business acumen of the Company is vested in the Ministry of Finance (MoF) and the Iran Foreign Investment Company (IFIC).

Financial Strength The financial strength of the sovereign sponsors is considered strong.

Governance

Board Structure The board of PAIR comprises five members including the CEO, with three directors representing Iran and two directors representing Pakistan.

Members' Profile The board members possess extensive experience across diverse sectors. Mr. Zulfiqar Younas, serving as the acting Chairman, holds the position of Additional Secretary Finance & SA to Finance Minister, representing the Government of Pakistan. Members representing MOF have a long association with different organizations in government roles.

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

Financial Transparency M/s Yousuf Adil Chartered Accountants, who are in the category 'A' of SBP and have a QCR rating by ICAP, are the company's external auditors. They have expressed an unqualified opinion in their audit report for the year ended December 31, 2023.

Management

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

Management Team PAIR's management team comprises well-qualified professionals who possess considerable industry-specific exposure. Mr. Abbas Daneshvar is the company's MD/CEO. With a proven track record of success in the banking sector, Mr. Daneshvar has been recognized among the 100 best-performing CEOs and business leaders of Pakistan in 2022 and 2023 by the CEO Club Pakistan. Mrs. Kauser Safdar serves as the CFO of the Company. She is a seasoned professional with a proven track record of extensive experience in the banking sector.

Effectiveness To ensure the effectiveness of the decision-making process, the management has set up nine committees: Asset and Liability Committee (ALCO), Risk Management Committee, Admin Committee, Compliance Management Committee, IT Steering Committee, HR Committee, Central Credit Committee, and Internal Control Monitoring Committee.

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

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

Business Risk

Industry Dynamics CY23 remained a challenging year for the economy, including a drop in exchange reserves, currency devaluation, and peak inflation. The Central Bank maintained a tight monetary policy stance to combat inflation and curb aggregate demand. Despite these challenges, CY23 was a remarkably successful year for the banking/DFI industry. The sector outperformed historical statistics, as the majority of the net mark-up income emanates from investment in government securities and the minute portion contributed by income from advances. During CY23, the DFI sector's total asset base stood at PKR 2.3trn (CY22: PKR 1.4trn) and investment book at PKR 2.02trn in CY23 (CY22: PKR 1.2trn). The advances book stood at PKR 188.2bln as of CY23 (CY22: PKR 188.1bln). The market anticipates an inverted yield trend and a recent ~1.5% cut in the policy rate is a reflection of this. In the upcoming quarters, if the downward yield trend persists then it might result in a strategic shift in the DFIs investment book.

Relative Position The Company's market share in terms of advances declined to 6% (CY22: 8%), reflecting their cautious approach amidst a stressed macroeconomic environment, in line with industry norms.

Revenues In CY23, the markup earned showed improvement, reaching PKR ~5.9bln (CY22: PKR 3.2bln). This improvement was attributed to an uptick in markup earned on investments and advances, which surged to PKR ~4.4bln (CY22: PKR 2.54bln), and PKR ~1.5bln (CY22: PKR 700mln) respectively. In 1QCY24, the upward trend continues and the markup earned stood at PKR ~1.6bln.

Performance In CY23, total income increased by 57.6% YoY to ~PKR 1.9bln (CY22: PKR 1.2bln). Markup expense increased to PKR ~4.2bln (CY22: PKR ~2.1bln) Non-markup income rose to PKR 224mln (CY22: PKR 110mln), primarily due to a gain of PKR 43mln booked on securities, compared to a net loss of PKR 73mln in CY22. Consequently profit of the Company improved to PKR 769mln up form PKR 446mln in CY22. In 1QCY24, the Company achieved profitability of PKR 331mln.

Sustainability The management of the Company is committed to generating a green bottom line while adopting a cautious approach. By adhering to disciplined financial management policies, they anticipate maintaining minimal non-performing loans in the years ahead. Additionally, the Company gradually liquidated its equity portfolio to capitalize on the stock market boom.

Financial Risk

Credit Risk In 1QCY24, the total finances grew to PKR ~17.4bln (Dec23: PKR ~16.1bln). The reversal of provisions following the adoption of IFRS 9, coupled with the settlement of a non-performing loan (NPL), improved asset quality of the Company, evidenced by a reduction in infection ratios to 15.3% (CY23: 19%).

Market Risk In 1QCY24, the investment book (inclusive of debt instruments) increased to PKR ~17.7bln (Dec23: PKR ~16.8bln). Investment in government securities comprises 95% (end-Dec23:95%) of the investment book.

Liquidity And Funding PAIR's funding profile remained tilted towards borrowings clocking in at PKR ~23.7bln (Dec23: PKR ~21.8bln). The Certificate of investments witnessed growth of 37% and stood at PKR ~3.7bln (Dec23: PKR 2.7bln).

Capitalization PAIR maintains strong equity base largely sustained at PKR ~10.4bln (Dec23: PKR 10.6bln). The capital base of the company, mainly comprising Tier-I capital stands provides comfort to absorb the impact of any adverse macroeconomic performance-related shocks. The company's capital adequacy remained well above regulatory requirements (end-Mar24: 34.2%; end-Dec23: 36.6%).

PKR mln

PAIR Investment Company Limited	Mar-24	Dec-23	Dec-22	Dec-21
Unlisted Public Limited	3M	12M	12M	12M
A BALANCE SHEET				
1 Total Finances - net	17,380	16,151	15,545	12,142
2 Investments	17,707	16,768	14,813	11,095
3 Other Earning Assets	107	178	22	151
4 Non-Earning Assets	3,478	2,962	2,188	1,371
5 Non-Performing Finances-net	354	383	173	255
Total Assets	39,027	36,442	32,741	25,014
6 Deposits	3,691	2,724	1,772	1,132
7 Borrowings	23,655	21,789	20,336	13,658
8 Other Liabilities (Non-Interest Bearing)	1,256	1,347	860	568
Total Liabilities	28,602	25,861	22,968	15,359
Equity	10,424	10,581	9,773	9,655
B INCOME STATEMENT				
1 Mark Up Earned	1,627	5,868	3,244	1,562
2 Mark Up Expensed	(1,216)	(4,168)	(2,132)	(826)
3 Non Mark Up Income	44	224	110	174
Total Income	455	1,924	1,221	911
4 Non-Mark Up Expenses	(176)	(647)	(470)	(392)
5 Provisions/Write offs/Reversals	254	(171)	(97)	(265)
Pre-Tax Profit	534	1,106	654	254
6 Taxes	(203)	(337)	(208)	(60)
Profit After Tax	331	769	446	194
C RATIO ANALYSIS				
1 Cost Structure				
Net Mark Up Income / Avg. Assets	4.4%	4.9%	3.9%	3.2%
Non-Mark Up Expenses / Total Income	38.6%	33.6%	38.5%	43.0%
ROE	12.6%	7.6%	4.6%	2.0%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	26.7%	29.0%	29.8%	38.6%
Capital Adequacy Ratio	34.2%	36.6%	33.5%	49.5%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	64.2%	68.2%	67.4%	55.6%
(Advances + Net Non-Performing Advances) / Deposits	313.3%	391.0%	532.9%	575.5%
4 Credit Risk				
Non-Performing Advances / Gross Advances	15.3%	19.0%	18.1%	24.8%
Non-Performing Finances-net / Equity	3.4%	3.6%	1.8%	2.6%

Credit Rating

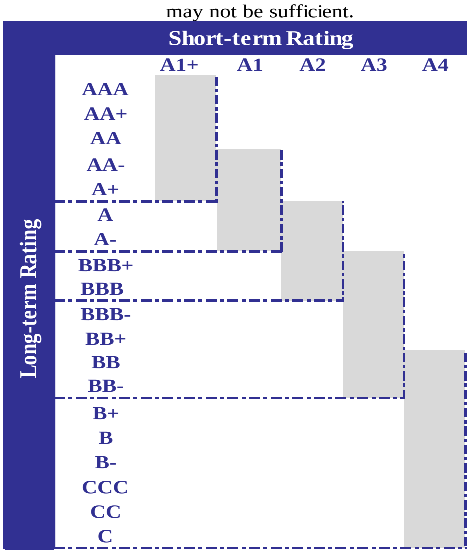
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies 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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information