



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-2022	AA-	A1+	Positive	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

JVFIs are largely engaged in providing credit lines on turf common to commercial banks. JVFI's can only draw fixed deposits. This enhances their cost of funding. 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. Advances of the Company and Investments recorded growth. Positive Outlook reflects that the Company has sustained its decent performance. However, net-markup income declined by 15.0% on account of low monetary policy rate for major period of CY21. Overall decent net-markup income is 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 of the Company has declined largely on account of major chunk of capital gain booked in previous year. Consequently, bottom-line witnessed a major dent. Another critical milestone is achieved regarding Kamoke Energy Limited (KEL), where the non-performing assets have been sold. The proceeds shall assist in resolving liquidity and other short-term and medium-term issues. There had been another challenge regarding non-compliance of MCR. Pak Libya has received full amount of last tranche in CY21 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 remained stagnant around 24.0%. During CY21, JVFI's advances recorded sizable growth (CY21: 22%, CY20: 17%). 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. The industry's deposit base recorded marginal growth (CY21: PKR 29bln, CY20: PKR 27bln). Equity base of the industry witnessed attrition by 4%. 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, JVFI's may get marginalized.

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 Financial Institution Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study DFIs(Jun-21)
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 27 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-21. The auditors described basis for qualification as "Investments (refer note 8.2.6) include term finance certificates (ITC) amounting to Rs. 398.58 million (2020: 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, 2021".

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 CY21, JVFI's advances recorded sizable growth (CY21: 22%, CY20: 17%) attributable to enhanced exposure in finance lease by Pak Kuwait. Highest system share, in terms of advances, shifted to Pak Kuwait. 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. The industry's deposit base recorded marginal growth (CY21: PKR 29bln, CY20: PKR 27bln). Equity base of the industry witnessed attrition by 4%. 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, JVFI's may get marginalised.

Relative Position Investment book recorded sizable increase primarily comprising government papers. The Company performed well on deposit mobilization (CY21: PKR 4.6bln, CY20: PKR 4.0bln).

Revenues During CY21, interest earned recorded a decrease of 6.3% to stand at PKR 3.0bln (CY20: PKR 3.2bln). The decreasing trend was also witnessed in markup expenses and consequently net mark-up presented a decline by 15% and stood at PKR 606mln (CY20: PKR 713mln), mainly driven by the decreased policy rate.

Performance Other income witnessed significant decline and presented PKR 30mln (CY20: PKR 504mln) driven by the loss on securities of PKR 80mln as compared to gain of PKR 429mln in CY20. Non-markup expenses decreased by 14.2% to stand at PKR 494mln (CY20: PKR 576mln). However, pre-provision operating profit of PKR 143mln (CY20: PKR 640mln) was recorded. Bottom line stood at PKR 41mln (CY20: 304mln). Decrease in pre-operating profit and bottom line also pertain to the impact of loss on securities.

Sustainability Critical milestone is achieved regarding Kamoke Energy Limited (KEL), where the non-performing assets have been sold. The proceeds shall assist in resolving liquidity and other short-term and medium-term issues.

Financial Risk

Credit Risk In CY21, total advances increased by 12.5% to stand at PKR 6.3bln (End-Dec20: PKR 5.6bln) and constitute 15.5% of the total assets (End-Dec20: 15%). The coverage and infection ratios of the Company were reported at 95.2% (CY20: 95.9%) and 16.2% (CY20: 21.2%) respectively which shows that the company has been able to maintain its credit risk.

Market Risk The investment book enhanced by 10.1% during CY21 to stand at PKR 24.8bln (End-Dec20: PKR 22.5bln) which constitutes 61.0% (CY20: 60.8%) of total assets base whereas government securities continue to dominate the overall investment book (96.4%).

Liquidity And Funding In CY21, funding base remained tilted towards borrowings which increased by 14.2% and stood at PKR 30.1bln (End-Dec20: PKR 26.4bln). Deposits in the form of Certificate of Investments increased to PKR 4,576mln (End-Dec20: PKR 4,043mln) up ~13.2%.

Capitalization The capital structure of the company primarily constitutes Tier I Capital. The company's capital adequacy witnessed a slight decline of 0.7% (CY21: 24.0%; CY20: 24.7%).



PKR mln

Pak-Libya Holding Company
Listed Public Limited

Dec-21	Dec-20	Dec-19	Dec-18
12M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	8,684	8,024	7,197	7,073
2 Investments	24,782	22,501	16,285	9,041
3 Other Earning Assets	3,983	3,452	2,922	2,000
4 Non-Earning Assets	3,114	2,972	2,631	2,245
5 Non-Performing Finances-net	58	62	63	69
Total Assets	40,621	37,010	29,098	20,428
6 Deposits	4,576	4,043	1,551	644
7 Borrowings	30,149	26,392	21,914	15,353
8 Other Liabilities (Non-Interest Bearing)	321	613	379	263
Total Liabilities	35,046	31,047	23,844	16,260
Equity	5,575	5,963	5,254	4,168

B INCOME STATEMENT

1 Mark Up Earned	2,958	3,209	1,929	1,428
2 Mark Up Expensed	(2,352)	(2,496)	(1,852)	(1,169)
3 Non Mark Up Income	30	504	25	78
Total Income	636	1,216	102	338
4 Non-Mark Up Expenses	(494)	(576)	(462)	(471)
5 Provisions/Write offs/Reversals	(100)	(180)	83	(127)
Pre-Tax Profit	42	460	(277)	(261)
6 Taxes	(2)	(156)	(27)	(62)
Profit After Tax	41	304	(304)	(323)

C RATIO ANALYSIS

1 Cost Structure

Net Mark Up Income / Avg. Assets	1.6%	2.2%	0.3%	1.3%
Non-Mark Up Expenses / Total Income	77.6%	47.4%	453.3%	139.5%
ROE	0.7%	5.4%	-6.4%	-7.4%

2 Capital Adequacy

Equity / Total Assets (D+E+F)	13.7%	16.1%	18.1%	20.4%
Capital Adequacy Ratio	24.0%	24.7%	18.2%	17.7%

3 Funding & Liquidity

Liquid Assets / (Deposits + Borrowings Net of Repo)	24.8%	37.9%	30.0%	22.6%
(Advances + Net Non-Performing Advances) / Deposits	137.9%	140.3%	291.8%	676.0%

4 Credit Risk

Non-Performing Advances / Gross Advances	16.2%	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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
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+	
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-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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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)

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(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)

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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)

(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)

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