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
24-Jun-2024	AA-	A1+	Positive	Maintain	-
24-Jun-2023	AA-	A1+	Positive	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Pak Libya Holding Company (Pvt.) Limited ("PLHCL" or "the Company") reflects the ownership strength derived from the Joint Venture (JV) between the Government of Pakistan and the Government of Libya. The prime purpose of the Development Financial Institutions (DFI) is social uplift via the execution of commercially viable projects. The management is strategizing to augment the diversity of its business portfolio by venturing into the MTS (Margin Trading System), underwriting, private equity and strategic partnership coupled with gradual enhancement of the lending portfolio. The gross performing advances stood at PKR 9.3bln as of CY23 and is primarily allocated to diversified sectors including sugar, textile, chemical & pharmaceutical, power and others. The Company is equipped with a credit risk model that assimilates sector-wise risk tagging and the borrower payment trend which escalates the asset quality. However, under-stress macroeconomic indicators escalated the NPLs (non-performing loans) and impacted the infection ratio. Over the years, the Company's asset book continued an upward trajectory reaching PKR 446.0bln in CY23 (CY22: 124.6bln), amidst the macroeconomic and industry-specific challenges. During CY23, the investment portfolio mix was predominantly vested with Government securities financed through the SBP's OMO facility. The strategic shift to investments in PIBs floater was made to curb market uncertainty about interest rate movement and maintain average duration at an optimal level. In CY23, the Company gained momentum as the NIM demonstrated a notable improvement at PKR 1.3bln compared to a loss of 2mln in CY22. The dividend income was an additional contribution to net profitability. The Company secured a bottom line of PKR 329.9mln (compared to a net loss of PKR 306.4mln). The enhanced equity base and a sizeable increase in CAR (CY23: 34.83%; CY22: 16.65%) contributed to improved risk absorption capacity. Borrowings from financial institutions are their primary source of funding, while the contribution of COIs remains minimal within the funding base. The Company intends to expand its footprint in the Islamic banking domain. This avenue is expected to yield a positive outcome for the Company, going forward.

A positive outlook reflects consistent efforts by the management to stabilize the revenue stream and attain a sustained profit stream from diversified operations. Meanwhile, the reduction in NPLs with improved asset quality and compliance with MCR is essential to sustain 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 | 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 Pak Libya is a Joint Venture Financial Institution (JVFI), operating within the framework of commercial and banking laws of Pakistan regulated by SBP.

Background Pak Libya Holding Company (Pvt.) Limited was formed as a private limited company in October 1978, owned by the Government of Pakistan and the Government of Libya. It was established with an initial tenure of thirty years. Subsequently, this tenure was extended to October 2038.

Operations The Company's primary objective is to foster the development of the country's industrial and economic infrastructure. Its core avenues are asset building: loans/leases, capital and money market operations, and project financing.

Ownership

Ownership Structure The Company is equally owned by the Government of the 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 of the Company has remained unchanged since its inception and is anticipated to persist in its current form in the foreseeable future.

Business Acumen The Company's sovereign ownership reflects the strong business acumen of the sponsors.

Financial Strength The financial muscle of the sponsors is considered very strong.

Governance

Board Structure The overall control of the board is vested with six members with equal representation of the sponsors. The Chairman, Mr. Mohamed Mahmoud Shawsh is the representative of the Government of Libya, while the company's Managing Director, Mr. Tariq Mahmood represents the Government of Pakistan.

Members' Profile All board members possess vast knowledge, experience, and requisite competencies necessary for effective decision-making. The Chairman, Mr. Mohamed Mahmoud Shawsh brings with him an extensive experience of over 15 years. Currently, he holds the position of Chief Investment Officer at Libyan Foreign Investment Company ("LAFICO").

Board Effectiveness The board has three committees in place namely Audit Committee, Risk Management Committee, and Human Resource Management Committee; for active monitoring and evaluation.

Financial Transparency M/s Yousaf Adil & Co. Chartered Accountants are the external auditors of the Company. They expressed a qualified opinion on the financial statements of the company for the period ended December 31, 2023. The auditors described that the investment in TFCs of PKR 398.58mln (end-Dec22: PKR 398.58mln) is the basis for a qualified opinion, as there is no expectation of recovery due to the financial health of the issuer.

Management

Organizational Structure The Company has a well-defined organizational structure. The functional areas have been segregated into ten departments to meet the operational needs.

Management Team The MD, Mr. Tariq Mahmood holds a graduate degree from New Mexico State University USA and is also a CFA charterholder. He possesses more than twenty-three years of Corporate & Investment Banking Experience including international exposure with a U.S. bank and the DMD, Mr. Bashir B. Omer is a distinguished investment banker with diversified international exposure. They are supported by a team of highly qualified and experienced professionals.

Effectiveness The management has multiple committees namely Credit Committee, Asset and Liability Committee, Risk Review & Compliance Committee, IT Steering Committee, Human Resource Committee and Management Committee to ensure the smooth flow of operations. All these committees include the heads of various departments.

MIS The Company's MIS system fully implements IFRS-9 to calculate expected credit loss (ECL). The Company has an Oracle and Dot. net-based database system. The credit and treasury module is implemented on Dot.net and general ledgers and others on Oracle.

Risk Management Framework Pak Libya has an independent Risk Management & Regulatory Compliance Department that monitors credit, market, operational, and liquidity risks along with the regulatory compliance function. This department directly reports to the Executive Committee. The role of the ALCO, Risk Review & Compliance Committee and Credit Committee has been strengthened through monthly/quarterly meetings and regular monitoring of the portfolio. The Company has an in-house internal audit department directly reporting to the audit committee of the board and it presents each department's performance report annually.

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 As of end-Dec'22, with ~8% system share in Advances, the Company lies in the lower tier of the JVFI industry.

Revenues During CY23, the net markup income indicated a substantial increase at PKR 1.3bln against a loss of PKR 2mln in CY22. The increase is primarily driven by the highest concentration of markup from investments (CY23: PKR 67.4bln; CY22: PKR 6.6bln) attributed to upward-slopping interest rates. The markup expenses reached PKR 68bln (CY22: PKR 8.1bln) on the back of expensive borrowings. The Company's asset yield went up to 25.3% (CY22: 10.3%) whereas the cost of funds clocked at 24.7% (CY22: 10.5%). This has contributed to a positive spread of 0.6% (-0.2% in CY22).

Performance During CY23, the non-markup income of PKR 61mln compared to a loss of 77mln in CY22, provided a cushion to the bottom line. The dividend income exhibited largely the same trend at PKR 81mln (CY22: PKR 83mln). The non-markup expenses increased to PKR 792mln (CY22: PKR 514mln) owing to elevated compensation expense (CY23: PKR 531mln; CY22: PKR 376mln). The provisioning was booked at PKR 79.5mln against the reversal of PKR 375mln in CY22. The Company secured a bottom line of PKR 330mln compared to a loss of 306.4mln in CY22.

Sustainability Going forward, the management of the Company is strategizing to augment the diversity of its business portfolio by venturing into the MTS (Margin Trading System), underwriting, private equity and strategic partnership coupled with gradual enhancement of the lending portfolio. The Company intends to apply for an Islamic Banking Licence from SBP.

Financial Risk

Credit Risk The management adopted a cautious approach towards its lending portfolio for improvement in the asset quality. As of end-Dec23, the gross performing advances reached PKR 9.3bln (end-Dec22: PKR 9.6bln) and remained largely the same. The NPLs to total advances ratio went up to 16.8% (end-Dec22: 12.3%) attributable to a sizeable increase in NPLs at PKR 1.8bln (end-Dec22: PKR 1.3bln). The top 5 sector exposure stands at ~75% of the total exposures, with the highest exposure in Textile standing at ~31% followed by Manufacturing at ~22%, Chemicals & Pharmaceuticals at ~18%, Sugar at ~16%, and Services at ~14%.

Market Risk The Company's investment book is dominated by Government securities (T-Bills & PIBs), comprising ~93% of total assets. The investment portfolio stands at PKR 416.5bln (end-Dec22: PKR 104.4bln). The investment mix tilted towards the Floater PIBs on the back of a volatile market and high interest rates.

Liquidity And Funding The Company established its major funding through SBP's OMO facility. The borrowings made up ~96.8% of the total liabilities reflecting a massive increase at PKR 424.3bln (end-Dec22: PKR 113.4bln). The Company's deposit base is entirely vested with the Certificate of Investments (COI), significantly up by 20.9% YoY at PKR 6.8bln (end-Dec22: PKR 5.6bln).

Capitalization The Company's risk absorption capacity exhibited improvement on the back of an enhanced equity base (end-Dec23: PKR 7.7bln; end-Dec22: PKR 4.1bln). The Company's CAR was reported at 34.83% (end-Dec22: 16.65%) maintaining a robust cushion against the minimum CAR requirement of ~12.5% by the SBP.

Pak-Libya Holding Company (Pvt.) Limited Private Limited	Dec-23 12M	Dec-22 12M	Dec-21 12M
A BALANCE SHEET			
1 Total Finances - net	11,795	12,126	8,684
2 Investments	416,556	104,477	24,782
3 Other Earning Assets	195	3,878	3,983
4 Non-Earning Assets	17,328	4,382	3,114
5 Non-Performing Finances-net	210	(172)	58
Total Assets	446,084	124,691	40,621
6 Deposits	6,804	5,627	4,576
7 Borrowings	424,392	113,480	30,149
8 Other Liabilities (Non-Interest Bearing)	7,173	1,472	321
Total Liabilities	438,368	120,579	35,046
Equity	7,716	4,111	5,575
B INCOME STATEMENT			
1 Mark Up Earned	69,401	8,104	2,958
2 Mark Up Expensed	(68,029)	(8,106)	(2,352)
3 Non Mark Up Income	61	(77)	30
Total Income	1,433	(78)	636
4 Non-Mark Up Expenses	(792)	(514)	(494)
5 Provisions/Write offs/Reversals	(80)	374	(100)
Pre-Tax Profit	561	(218)	42
6 Taxes	(231)	(88)	(2)
Profit After Tax	330	(306)	41
C RATIO ANALYSIS			
1 Cost Structure			
Net Mark Up Income / Avg. Assets	0.5%	0.0%	1.6%
Non-Mark Up Expenses / Total Income	55.3%	-655.8%	77.6%
ROE	5.6%	-6.3%	0.7%
2 Capital Adequacy			
Equity / Total Assets (D+E+F)	1.7%	3.3%	13.7%
Capital Adequacy Ratio	34.8%	16.6%	24.0%
3 Funding & Liquidity			
Liquid Assets / (Deposits + Borrowings Net of Repo)	11.5%	70.6%	24.8%
(Advances + Net Non-Performing Advances) / Deposits	146.8%	173.1%	137.9%
4 Credit Risk			
Non-Performing Advances / Gross Advances	16.8%	12.3%	16.2%
Non-Performing Finances-net / Equity	2.7%	-4.2%	1.0%

Credit Rating

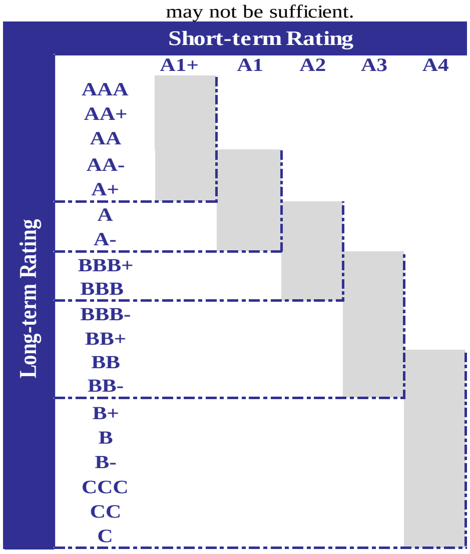
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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