

PAİR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE HALF YEAR ENDED JUNE 30, 2013

On behalf of the Board of Directors, I am pleased to present the Financial Statements of PAİR Investment Company Limited (PAİR) for the half year ended June 30, 2013. These Condensed Financial Statements have been prepared in compliance with the requirements of BSD Circular Letter No. 2, dated May 12, 2004 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting'.

PAİR Investment Company Limited has completed 6 years of its incorporation on 29 May 2013. The Directors wish to place on record their sincere gratitude to the Iran Foreign Investment Company, Ministry of Finance- Government of Pakistan, State Bank of Pakistan and Securities & Exchange Commission of Pakistan for their support and continued guidance. The Directors also thank and appreciate the support and confidence of our valued customers and dedication of our management and staff members over the years who have contributed to the growth and strength of PAİR.

Economic Review

There has been a discernible positive change in sentiments post May 2013 elections because of clarity on the political front. The change in the behavior of banks in auctions of government securities and reaction of stock market are two examples. The absence of foreign financial inflows and high fiscal borrowings from the banking system, however, remain formidable economic challenges. Similarly, power shortages and security conditions continue to be strong impediments to growth.

An almost continuous and broad based deceleration in inflation over the last year has had a favorable impact on inflation outlook. In May 2013, the year-on-year CPI inflation was 5.1 percent while trimmed measure of core inflation was 6.7 percent; the lowest levels since October 2009. The average CPI inflation for Fiscal Year 13 is expected to be at least two percentage points below the target of 9.5 percent.

There are two developments, however, that are worth highlighting. First, there has been a noticeable change in sentiments, as highlighted above, that can potentially have a favorable influence on private financial inflows. Other than the overall economic outlook, investment decisions do take into account the relative political certainty that determines the continuation of economic policies for some time in the future. Second, declining inflation has increased the relative real return on rupee denominated assets. This could provide some room for downward adjustment in nominal returns to cater to broad macroeconomic considerations despite external account concerns

Company Performance General Overview

PAİR has reported a profit before tax of Rs. 371.25 million for the first half of the year which is 6% lower than the corresponding period last year, amidst the challenging macroeconomic scenario and the declining interest rates environment. Since July 2012, the discount rate has declined from 12% to 9% in June 2013 (i.e. a 25% reduction) which has negatively impacted the Gross Mark-up Income of the

Company. The Earnings per share for the half year were reported at Rs. 0.43 as against Rs. 0.46 in the corresponding period last year. Non Mark-up Income showed a remarkable increase of 1.86 times than the last half year due to the heavy capital gain on sale of securities which increased by 3.8 times as KSE delivered outstanding performance this year and has risen by 40% in local currency terms.

PAİR's asset base has increased to Rs. 16.10 billion as at June 30, 2013 as compared to Rs. 15.74 billion as at December 31, 2012. Net investments remained stable and Loans and Advances portfolio registered a slight increase of 1.27% to reach Rs. 4.42 billion as at June 30, 2013.

Rupees in '000

<u>Profit & Loss Account</u>				<u>Statement of Financial Position</u>			
For the Half Year Ended,	June 2013	June 2012	Change (%)	As at,	June 30, 2013	Dec 31, 2013	Change (%)
					(Re-stated)		
Mark-up / return / interest earned	661,897	734,036	-9.83%	Advances	4,380,104	4,325,337	1.27%
Mark-up / return / interest expensed	308,753	305,581	1.04%	Investments	10,867,837	10,841,572	0.24%
Net mark-up / interest income	353,144	428,455	-17.58%	Total Assets	16,105,187	15,737,488	2.34%
Non Mark-up Income	134,044	46,919	185.69%	Total Liabilities	7,694,521	7,539,916	2.05%
Total income	487,188	475,375	2.49%	Share Capital	6,000,000	6,000,000	-
Non Mark-up / Interest Expenses	77,174	120,041	-35.71%	Reserves	467,077	415,719	12.35%
Profit before Provisions	410,014	355,333	15.39%	Unappropriated Profit	1,816,519	1,611,086	12.75%
Provisions / (Reversals)	38,765	(39,845)	N/A				
Profit before Taxation	371,249	395,178	-6.06%				
Taxation	114,459	117,804	-2.84%				
Profit after Taxation	256,790	277,374	-7.42%				
Earnings per Share (Rupees)	0.43	0.46	-7.42%				

Credit Rating


PAİR's long-Term Entity Rating has been upgraded to 'AA' (Double A) and a short term Entity Rating of 'A1+' (A One Plus) "Positive Outlook" has been maintained by Pakistan Credit Rating Agency Limited (PACRA) based on the audited accounts for the period ended December 31, 2012.

Future Outlook

PAİR has taken approval from Board of Directors (BoD) to act as Issuing and Paying Agent (IPA) for Commercial Paper ("CP") based on the SBP Guidelines. Commercial Paper is an unsecured instrument with a maturity period from 30 days to one year. Acting in capacity of an IPA shall, in future, allow PAİR to exploit new avenues of fee income, give extra mileage in terms of creating goodwill and diversify sources of short-term financing. Based on the approval sought from BoD, PAİR is now issuing its first Commercial Paper in third quarter of CY13 to the reputable companies in the financial market, thereby enhancing the market presence of PAİR coupled with exploiting new ways of generating business.

PAİR prime focus will remain in providing services and financing to projects which provide sustainable long term economic growth and infrastructure. PAİR is committed to excel by increasing operational efficiencies and quality of services by focusing on clients' needs.

PICL's Lahore Branch shifted to its new office at Park Lane Tower, Lahore Cant. The Company is also in the process of further expanding geographically by opening liaison office in Iran. The purpose of the Iran office is to promote investments in Pakistan and to further strengthen the economic ties between the two brotherly Islamic Countries.

On Behalf of the Board

Syed Ahmad Iqbal Ashraf
Chief Executive and Managing Director

Bhurban: August 28, 2013