

PAİR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED MARCH 31, 2023

On behalf of the Board of Directors, I am pleased to present the Financial Statements of PAİR Investment Company Limited (PAİR) for the period ended March 31, 2023. These Financial Statements have been prepared in compliance with the requirements of BSD Circular Letter No. 5, dated March 22, 2019, and International Accounting Standard (IAS) 34, 'Interim Financial Reporting'.

Economic Review

The political dust storm is not willing to settle down any time soon while the economy is faced with strong head winds and economic activity continues to reflect a broad-based slowdown. Inflation levels keep soaring further, scaling 35.4% YoY in Mar-23 which is now the highest level since 1974. As per the Monetary Policy Committee ("MPC") of State Bank of Pakistan, inflation is expected to remain high in the near term. MPC considers the current monetary policy stance appropriate, and stresses that accumulated monetary tightening of about 1400 bps that took the policy rate from 7% to 21%, will help achieve the medium-term inflation target over the next 8 quarters. However, the uncertainties attached with the global financial conditions as well as the domestic political situation, pose risks to this assessment. However, there are early indications of inflation expectations plateauing, albeit at an elevated level meaning that the high prices prevalent in the markets will be the new normal for a foreseeable future.

The current account deficit has narrowed considerably, more than previously anticipated, mainly on the back of sizable import containment. One can argue that this can be both a positive and a negative thing as it has come down on the back of stricter rule for the imports of the inventories and spare parts other than the ones required for the scheduled maintenances, leading to consecutive negative LSM numbers. Having said and done the forgoing, the overall balance of payments position continues to remain under stress, with foreign exchange reserves still at low levels. The delay in IMF continued to prolong, which hinged upon formal assurances from friendly countries, followed by multiple visits by government officials to the same is negatively impacting the investor sentiments.

In anticipation of IMF's nod, KSE100 Index inched up 3.3% by mid of Mar-2023. The steam, however, fizzled out as political noise began to increase, which was then piled on by ambiguity over flows from friendly countries – a key condition to get IMF's nod for the ninth tranche. From there, the index took a sharp decline. This took 1QCY23 performance to -1%. If the same is measured in terms of the sharp devaluation in PKR against US\$ then the losses escalate even further i.e. in US\$ terms 1QCY23 returns come to be -21.0%. While Moody's credit rating agency once again slashed Pakistan's credit rating, this time to Caa3, outlook was switched from Negative to Stable.

Financial Overview

The year started with a healthy bottom line as the profit before tax increased by 48% and profit after tax by 43%. The earnings for the first quarter FY 2023 showed a progressive increase, in terms of markup income it increased by 111% where both volume and price were improved in the Q1- 2023 while non-markup income decreased by 23% making an aggregate increase of 37% in the total income over the same period last year.

During the three-month period ended 31 March 2023, the Company earned Net Revenue from Funds (“NRFF”) PKR 334.357 million in comparison to PKR 221.505 million which is an increase of 51% over the same period last year. In the rising interest scenario, the asset / liability combination of the company is as such that the funding lines adjust themselves rather swiftly while assets specially advances are somewhat sticky and get repriced in due course of time. To manage the repricing gaps the focus is on the floating rate assets, therefore, it is expected that yield on the remunerative assets will improve going forward even further in periods to come. On the other income side, the dividend income showed 3% increment over the same period last year. The uncertainty took its toll on the PSX remained range bound leading to less than expected gain on equity securities where gains were 104% less than the same period last year.

The total asset that were PKR 32.74 billion as at the end of the Dec 31, 2022 increased by PKR 968.4 million and closed at PKR 33.7 billion as at Mar 31, 2023. Net Investment decreased by PKR 686.3 million which comes to a decrease of 3.25% while net advances increased by PKR 1.275 billion or 13.5% when compared to December 31, 2022. Decrease in the Investment was in the long-term debt securities keeping in view an upward interest rate trend where management is observing the right time to invest as the interest rates peak out. Credit loss allowance for diminution in value of investments amounted to PKR 5.315 million and Credit loss allowance against loans & advances amounted to PKR 27.143 million for Q1- FY 2023 due to implementation of IFRS-9 by the Company. Healthy disbursements were seen in the loan book where gross advances increased by PKR 1.478 billion. Given the economic circumstances the management is following cautious approach on further disbursements and is closely monitoring the loan book. There was no increase in the non performing portfolio, whereas the incremental charge of PKR 32.458 million was taken during the period as per IFRS-9 requirement.

Credit Rating

Pakistan Credit Rating Agency Limited (PACRA) has reaffirmed entity rating long-Term Entity Rating ‘AA’(Double-A) and a short-term Entity Rating of ‘A1+’ (A-One Plus). These ratings indicate a very low expectation of credit risk emanating a very strong capacity for timely payment of financial commitments. The ratings of PAiR primarily reflect the joint sovereign ownership of Pakistan and Iran.

Future Outlook

The immediate term sentiment on external account and inflation, in addition to IMF developments, is also likely to take a cue from international oil prices where recent weakness was followed by announcement of a surprise production cut from OPEC members. A lot depends on the policies adopted by the regulator and government. The management is and will be closely monitoring developments on political as well as on economic front, to align the business decision in an effective manner.

Appreciation and Acknowledgement

We take this opportunity to express our gratitude to our customers and business partners for entrusting their confidence in us in these turbulent times and assure them that we remain committed to maintaining high service standards and a strong culture of good corporate governance and compliance in all our endeavors. We offer sincere appreciation to the Iran Foreign Investment Company, Ministry of Finance - Government of Pakistan, State Bank of Pakistan, and Securities & Exchange Commission of Pakistan for their guidance and cooperation extended to us. Finally, we are also thankful to our associates, staff, and colleagues for all their continued dedication, enthusiasm, and loyalty towards the growth of PAİR.

On Behalf of the Board of Director

 Zahoor Ahmed Acting Chairman of the Board of Directors	 Abbas Daneshvar Hakimi Meibodi Managing Director/ Chief Executive Office
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April 28, 2023
Islamabad,
Pakistan