

PAİR INVESTMENT COMPANY LIMITED
DIRECTORS' REPORT FOR THE HALF YEAR ENDED JUNE 30, 2020



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, 2020. These 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'.

Economic Review

COVID- 19 pandemic has triggered the deepest global recession in decades. Economies around the globe have witnessed slowdown while growth is now not a relevant number. In the World Economic Outlook (WEO) released by IMF, 2020 global growth forecast is downgraded to negative 4.9 percent while the recovery is projected at a more gradual pace than was anticipated previously.

With respect to Pakistan, the fiscal and monetary authorities have responded with unprecedented economic policies including fiscal stimulus, monetary easing and debt moratorium. The reduction of Policy Rate to 7% (625bps reduction since March-2020) to support growth and employment, while keeping inflation expectations anchored and maintaining financial stability.

The outbreak of the pandemic was followed by a nation-wide lockdown which severely hampered economic activity across the country. As per the PBS, LSM output witnessed a contraction of 42% YoY during Apr'20 led by Textiles and Automobiles. The market expects some recovery in the first quarter of FY21 as the easing of the lockdown starts bearing fruit. Macroeconomic data in the next few months should show a consumption-led recovery, triggered by the low interest-rate environment, while global growth is also set to rebound this quarter with most large countries having eased the lockdown.

The inflation continued to be moderate with the exception of a seasonal uptick in food prices associated with the Eid holiday, headline inflation declined further to 8.2 percent in May on the back of the recent cut in diesel and petrol prices. Recent SPI data also suggests continued moderation in overall price pressures in June, despite price increases in some food items, notably wheat.

The focus of the FY21 Budget was the revival of the pandemic-stricken economy, coupled with the focus on social spending whilst also managing the revenue stream. The government faces an uphill task of improving the fiscal health keeping in mind mammoth IMF revenue targets, whilst having introduced no new taxation measures. The revenue target of FY21 budget is PKR 6.6tn with a total outlay of PKR 7.3tn while expecting a fiscal deficit of PKR 3.2tn.

With respect to the equity market, FY2020 will be remembered as the year of volatility while the risk-takers may tend to interpret it as a year of opportunity! the bears and bulls remained hand in hand. One can say with reasonable comfort that the stock market will continue to be choppy until the pandemic dies out at the same time in the long term, the outlook surely is being expected to be bullish. Which is why the current times are being considered as the opportunity to build positions in the equity market. Banks, E&Ps, OMCs and Cement as being the top picks.

Financial Overview

The earnings for the first half-year FY 2020 showed growth both in terms of markup income and non-markup income. During the half-year ended 30 June 2020, the Company earned Net Revenue from Funds ("NRFF") PKR 546.450 million which is an increase of 35% over the last year same period the decision of investment in T bills made in Q4 FY2019 had proved beneficial for the company further the gross additional disbursement of PKR 2.008 billion in H1 FY 2020 has also played its role. Non-markup income has increased by 20% over the same period last year, increase in fee & commission income was witnessed which is in line with the directives of the board of directors to enhance the non-markup lines.

Total assets were maintained at PKR 22.122 billion as against PKR 21.474 billion of the total asset as of December 2019. Investment in government securities was also maintained at the same levels as that of December 2019 except for the change in the mix from floater to fixed government paper. Gross advances increased by PKR 1.4 billion net of repayments, closing at PKR 8.049 billion from PKR 6.648 billion at the opening of FY 2020. The portfolio saw some additional classifications. Outstanding of NPL increased by PKR 207.236 million due to additional classifications whereas the incremental charge of PKR 93.017 million was taken against the NPL during the year. The proposal for relief in terms of restructuring of the facilities due to the prevalent COVID-19 circumstances were individually considered by Credit Committee taking into account the hardship being faced by the respective borrowers as well as the directives of State Bank of Pakistan ("SBP") and only the cases that fulfilled the aforesaid criterion were approved & were duly reported to SBP.

Equity markets around the globe have seen their worst times after the COVID-19 hit some 212 countries. PSX also plummeted in the same manner. Considering the extraordinary situation SBP allowed the financial institution to take the impairment charge in a systematic manner until the year-end. Consequently, PKR 69.161 million was taken as a charge for the impairment in the value of the investment for H1-FY2020. Had the relaxation been not provided by the SBP in the manner described above the charge for the H1-FY 2020 would have been higher by PKR 51.645 million.

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

Though the immediate lockdowns and strict restriction movements as soon as the pandemic broke in the country have led to a contained impact of COVID-19 in the country however the recent lifting up of these restrictions for economic reasons may be a call for the second wave of the deadly virus as is being witnessed in many countries that have gone this route. The exact time when it will be safe to say it's over is hard to tell.

Though SBP has taken the relevant measures at the right time still we expect that the credit off-take will remain lower than the original estimates while we can see some of the borrowers going out of business too while the yields on the assets are decreasing in line with the rate cuts, therefore, some real tough times calling for a vigilant and stable approach instead of a growth strategy for near future would be the right way for the organization having the dynamics like ours.



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 PAiR.

On Behalf of the Board of Director

A handwritten signature in blue ink, appearing to be the name of the Chairman of the Board of Directors.

Chairman of the Board of Directors

August 25, 2020

Islamabad – Pakistan