

PAİR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 30, 2020.

Economic Review

In the most recent Monetary Policy Statement, State Bank of Pakistan ("SBP") views the business confidence and outlook for growth as improved. As the Covid-19 cases are on decline in Pakistan and the easing of lockdowns, as well as the timely stimulus provided by the Government and SBP are at work. At the same time, the forecast for inflation has risen slightly, primarily due to the supply side shocks to food prices. The series of targeted measures undertaken by SBP since the Covid-19 outbreak have injected significant liquidity and further lowered funding costs for many businesses and households. Together, these monetary measures have injected an estimated stimulus of Rs. 1.58 trillion, or about 3.8 percent of GDP, in the cash flow of businesses and households. In addition, the government has undertaken a number of significant measures to support economic activity including the Ehsaas emergency cash program, commodity financing, a risk-sharing facility for SMEs, and acceleration of tax refunds.

The large-scale manufacturing (LSM) index saw a deep contraction between March and June however during the quarter under review it has returned to expansion, growing at 5 percent year-on-year basis. Increase in demand including auto sales, cement dispatches, POL sales, and electricity consumption reflect an encouraging pick-up in economic activity. Nonetheless, the economic recovery remains uneven across industries, with the hospitality and certain services sectors especially lagging, and the level of activity generally still remains below pre-Corona levels. The growth outlook is subject to uncertainty. On the downside, risks include a potential second wave of Covid-19 domestic infections, a possible sharp increase in infections in the winter months in Pakistan's major export markets in Europe and the US, and the threat to agriculture from locust attacks. On the upside, a faster global recovery could lift exports higher.

Despite a challenging environment, the external sector has remained resilient since the Coronavirus outbreak. Low global oil prices and subdued domestic demand helped to reduce the current account deficit further during the onset of the Coronavirus. More recently, a gradual recovery is expected in exports. remittances have performed strongly on the back of orderly exchange rate conditions as well as supportive policy steps taken by the Government and SBP under the Pakistan Remittance Initiative. Remittances rose to a record monthly high in July and have topped US\$ 2 billion for the last three months. By supporting the current account, which swung into a surplus in July, these developments have helped to restore SBP's foreign exchange reserves to their pre-pandemic level of around US\$ 12.8 billion. As a result, Pakistan's reserve adequacy is now back above the important global benchmark of 3 months of import cover. Looking ahead, the current account deficit is expected to remain bounded at around 2 percent of GDP. This, together with expected private and official flows, should continue to keep Pakistan's external position stable in FY21.

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 nine months ended September 30, 2020 showed growth both in terms of markup income and non-markup income. During the nine month period under review, the Company earned Net Revenue from Funds ("NRFF") of PKR 786.833 million which is an increase of 24% 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 2.184 billion during the period has also played its role. Non-markup income has increased by 23% over the same period last year. The increase from disposal of equity investment once the marked conditions improved.

Total assets as at the close of September 2020 were maintained at PKR 21.759 billion as against PKR 21.474 billion 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 1.16 billion net of repayments, closing at PKR 7.82 billion from PKR 6.648 billion at the opening of FY 2020. The portfolio saw some additional classifications. Outstanding of NPL increased by PKR 262.319 million due to additional classifications whereas the incremental charge of PKR 87.643 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 85.851 million was taken as a charge for the impairment in the value of the investment for nine months ended September 30, 2020. Had the relaxation been not provided by the SBP in the manner described above, the charge for the nine months ended September 30, 2020 would have been higher by PKR 6.454 million. The light at the end of the tunnel was that during the third quarter the PSX has seen a rally of bullish trends that led to a reversal of PKR 69.684 million in the provision against the said non-performing equity Investments.

Credit Rating

Pakistan Credit Rating Agency Limited (PACRA) continues to maintain & reaffirm the entity rating i.e. long-Term Entity Rating of 'AA'(Double-A) and 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 lifting up of the restrictions for economic reasons has exposed the masses to 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 but one thing for sure that is, it is here to stay.

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 PAİR.

On Behalf of the Board of Director



Chairman of the Board of Directors
November 07, 2020
Islamabad – Pakistan