



PAİR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED MARCH 31, 2018

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, 2018. 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

Pakistani economy continues to demonstrate sustained growth. Government is maintaining the target of GDP growth at 5.8% for FY2017-18. With the key drivers being increased energy supply, strong agriculture sector performance and robust Large-Scale Manufacturing (LSM). However, despite the aforementioned positive developments, widening macroeconomic imbalances pose challenges to progress made so far. Focus on increase in energy supply is lacked by reforms in cost efficient energy supply mechanism which has yet again led to circular debt ballooning to above the PKR 900 billion. Similarly, lack of growth in tax revenues continues to push already burdensome fiscal deficit to 5.5% against the initial fiscal target of 4.3%; while country's mounting debt burden exerting further pressure on already precarious Debt to GDP ratio.

On the external side, foreign exchange reserves continued to deplete reaching USD 17.9 billion. Rising Current Account deficit remains a cause of concern. The 8MFY18 current account deficit was recorded at USD 10.8bn against USD 7.2bn in the same period last year. The widening deficit was mainly on account of high trade deficit (+22.7%). Despite the positive development on export side (+12.2%YoY), external account position continues to remain challenging for the authorities warranting additional policy measures.

After increasing the policy rate by 25 bps in the quarter ended March 31, 2018, in a surprise move, State Bank of Pakistan in its latest monetary policy review meeting decided to keep policy rate unchanged at 6.0% citing low inflation along with confidence in recent policy actions to address external account situation. Nonetheless, market maintains interest rate hike expectation of 75-100bps during FY18.

During the quarter ended March 31, 2018, Pakistan Stock Exchange's KSE-100 index also increased by 13% to close at 45,560 points; reflecting the optimistic investor sentiments. In the coming months, the market will take direction from developments on Budget FY19, recently announced tax amnesty scheme, upcoming general elections, further policy measures to arrest the burgeoning twin deficits and foreign inflows. The local equity market currently trades at an earnings yield of 10%, offering nearly ~400bps premium on short-term government paper.

Financial Overview

During the period ended 31 March 2018 the Company earned gross NRFF of PKR 148.81 million however due to income reversal of PKR 111.193 million on account of additional non-performing loan classification, net NRFF stood at PKR 37.620 million. The non-markup Income was PKR 59.64 million for the quarter. The main support in the Non-markup income came from the robust capital gains earned from capital market at the start of Q1. The total assets declined by PKR 638.27 million and came to a close of PKR 17.05 billion as against PKR 17.69 billion of total asset as at December 2017. Mainly on account of maturity of placements made in the market with financial institutions as such the lending to FIs as at March 31, 2018 was PKR 500 million, down by PKR 470 million from the opening of PKR 970 million at the beginning of Q1 FY 2018. This is expected to be replenished subsequently. Further in advances, there is attrition of PKR 173.73 million in

advances that closed at PKR 4.479 billion. This is due to lag between the disbursement of advances and its repayments.

The legacy portfolio of Non-performing loans gave a blow to the Profit and Loss account with the reclassification to non-performing loans amounting to PKR 393.89 million. In addition to the income reversal of PKR 111.19 million stated above, PKR 21.65 million was taken a charge on account of provision against non performing advances was done, taking away a total of PKR 132.85 million away from the profits.

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).

Future Outlook

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

Appreciation and Acknowledgement

We take this opportunity to express our gratitude to our customers and business partners for entrusting their confidence in us and assure them that we remain committed to maintain 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


Chairman

Mashhad – Iran

~~May 24~~ 2018

June