PAÏR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2019

On behalf of the Board of Directors, I am pleased to present the Financial Statements of PAÏR Investment Company Limited (PAÏR) for the nine month ended September 30, 2019.

Economic Review

PTI Government was faced with challenging economic conditions including an unsustainably large current account deficit. To mend the situation many unpopular but necessary policy measures were undertaken including a sharp currency devaluation, increase in interest rates by 750 bps i.e. from 6.25% to 13.75%, upward adjustments in gas & electricity prices, and broadening of tax base & selectively increasing the tax rate. The government also made great stride in arranging external financing from friendly countries to alleviate pressure on foreign exchange reserves and negotiated an Extended Fund Facility with the IMF amounting to USD 6 billion that aims to stabilize the external position from FY20. These unpopular measures have started yielding their results. The Current Account Deficit has dropped massively, Revenue collection has improved, Inflationary pressures are easing.

The State Bank of Pakistan (SBP) in its bi-monthly Monetary Policy Statement (MPS) left the Policy Rate unchanged at 13.25%, citing the Monetary Policy Committee's unchanged view on the inflation expectation. After recording 10.5% YoY in August 2019, inflation as measured by CPI for September 2019 inched up to 11.4%, which is expected to remain firm during the 1st half of FY2020 due to pass-through impacts of earlier exchange rate depreciation, adjustment in utility prices and increase in food prices. However, inflation is expected to peak at 12% in January 2020 and will follow declining trend thereafter. Consequently, reversal of monetary tightening cycle will commence from the second half FY2020.

After a significant decline of 12.5% during the July-Aug 2019 period, the stock market witnessed a sharp rebound of 8.1% in September. However, the market is still down by a hefty 39% from its peak witnessed in May-17. Looking ahead, a positive view on the stock market is maintained. This is probably not the right time to exit the market given the market valuations are attractive, robust corporate earnings growth specially banking sector that will benefit the most from the interest rate hike, there is ample local liquidity, and foreign portfolio inflows have started coming in too.

Financial Overview

For the nine month ended 30 September 2019 the Company earned Net Revenue from Funds ("NRFF") PKR 636.848 million which is an increase of 45% over the last year same period, after adjusting for income reversal on Non-Performing Loans ("NPL"). The non-markup Income was significantly lower and stood at PKR 36.615 million as opposed to PKR 87.780 million for the 9M-FY18. The support in the Non-markup income which came from the robust capital gains earned from capital market were not there as the market remained volatile till Q3 of FY19. The much anticipated increase in total assets of the Company came in Q3 when it closed at PKR 22.134 billion as against PKR 18.525 billion as at December 2018. Mainly on account of replenishment of Government Securities that matured at start of FY19. The interest rates are considered to have peaked and an inverted interest curve is visible, hence investments in T-bills and PIBs were made to capitalize on the opportunities that may arise in near future.

Advances net of the repayments were maintained at PKR 7.24 billion. PKR 296.306 million was additionally classified during Q3-FY19 whereas the total charge taken against the Non-Performing Loans ("NPL") for the 9 months amounted to PKR 99.042. The equity market continued its dismal performance. Provision against the equity exposure has adversely impacted the profit and loss position. Almost double of the charge taken in the same period last year was taken into account and amounted to PKR 145.669 million. Management have kept the administration expenses under control. The overall profitability improved as the profit before taxation stood at PKR 180.682 million versus profit before tax of PKR 29.075 million for the last year.

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 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

PAÏR Investment's prime focus will remain be, providing services and financing to projects which provide sustainable long term economic growth and infrastructure. The Company is committed to excel by increasing operational efficiencies and quality of services that focus on clients' needs. The issue of the physical presence of MD/CEO of the company remains unresolved however IFIC has nominated a replacement in place of Mr. Hamid Eftekhari. Legal formalities of newly nominated MD/CEO are being complied with and he is expected to join PAIR team in due course of time.

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 PAÏR.

On Behalf of the Board of Director

Chairman
November 04, 2019