

## PAİR INVESTMENT COMPANY LIMITED

### DIRECTORS' REPORT FOR THE PERIOD ENDED MARCH 31, 2013

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, 2013. 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'. In conclusion, given the risks to the balance of payments position, the Central Board of Directors of SBP has decided to keep the policy rate unchanged at 9.5 percent.

#### **Economic Review**

In the monetary policy statement of February 2013, the SBP highlighted two main challenges for Pakistan's economy: one is to manage the balance of payment position and second to contain the possible increase in inflation. Since then, SBP's foreign exchange reserves have declined by another US\$ 2 billion; from US\$ 8.7 billion at end-January 2013 to US \$ 6.7 billion as of 5th April 2013, mainly due to debt payments. Contrary to expectations, however, year-on-year inflation has come down by 1.5 percentage points; from 8.1 percent in January 2013 to 6.6 percent in March 2013. These developments pose divergent policy choices for the SBP. While the former calls for caution, the latter indicates a possible resumption of ease in the policy rate.

Despite continued energy shortages and substantial fiscal borrowings from the banking system, credit extended to private businesses has shown some nascent recovery. During July – February, FY13, loans to private businesses have increased by Rs173.3 billion as opposed to Rs56.8 billion during the same period of last year. This has helped in a modest growth of 2.9 percent in the Large Scale Manufacturing (LSM) sector during July – February, FY13 compared to 1.9 percent in the corresponding period of last year.

A cumulative decline of 450 basis points in the policy rate of SBP since the beginning of FY12 has played a role in this uptick. Moreover, an analysis of the balance sheets of the main sectors supports this assessment. Thus, both the decline in inflation and the need to encourage further borrowings by the private sector point towards continuation of current monetary policy stance and a possible reduction in the policy rate. However, the current balance of payments position and a structural imbalance in fiscal accounts suggest vigilance.

#### **Company Performance General Overview**

We understand that being a DFI our role is to invest in sustainable economic growth of our country while keeping our operations profitable. Despite the fall in Discount Rate of 250 bps beginning from the year 2012, we manage to sustain our gross mark-up earnings. However mark-up expense boosted due to introduction of term loan facility with fixed spread and it's the main factor effecting negatively on the profitability of the Company as compared to last year. Non Mark-up Income showed an increase of 39%. Capital gain on sale of securities increased by 134% approx. Administrative expenses increased by 10.7% from Rs 52.7 million to Rs 58.4 million mainly due to the prevailing inflation and increased operations of the Company.

PAİR in the first quarter of 2013 while remaining prudent in the given prevalent economic situation, continued to emphasize on building risk weighted assets by ensuring quality and optimizing costs to pursue its strategy of maintaining steady growth.

				Rupees in '000			
<u>Profit &amp; Loss Account</u>				<u>Statement of Financial Position</u>			
For the Quarter ended ,	March 2013	March 2012	Change (%)	As at,	March 31, 2013	Dec 31, 2013	Change (%)
Mark-up / return / interest earned	345,500	344,399	0.32%	Advances	4,645,551	4,325,337	7.40%
Mark-up / return / interest expens	170,605	129,953	31.28%	Investments	10,029,616	10,841,572	-7.49%
Net mark-up / interest income	174,895	214,446	-18.44%	Total Assets	15,174,258	15,736,521	-3.57%
Non Mark-up Income	46,346	33,332	39.04%	Total Liabilities	6,890,770	7,537,154	-8.58%
Total income	221,241	247,778	-10.71%	Share Capital	6,000,000	6,000,000	-
Non Mark-up / Interest Expenses	58,352	52,707	10.71%	Reserves	438,210	415,719	5.41%
Profit before Provisions	162,889	195,071	-16.50%	Unappropriated Profit	1,702,843	1,612,881	5.58%
(Provisions) / Reversals	2,571	7,725	-66.72%				
Profit before Taxation	165,460	202,796	-18.41%				
Taxation	53,007	63,000	-15.86%				
Profit after Taxation	112,453	139,796	-19.56%				
Earnings per Share (Rupees)	0.19	0.23	-17.39%				

## Credit Rating

The Pakistan Credit Rating Agency Limited (PACRA) has upgraded long-term entity rating of PAİR Investment Company Limited (PAİR Investment) from "AA-" (Double A Minus) to "AA" (Double A) and maintained the short-term rating at "A1+" (A One Plus).

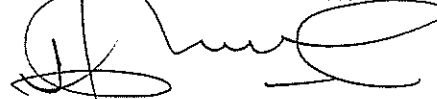
This upgraded rating speaks to the credit-worthiness of the PAİR Investment. PACRA's summary letter states: "the upgrade reflects management's well-conceived strategy to improve business profile of the company, envisaging conservative growth in risk-based lending while strengthening risk management framework and improving technology infrastructure."

## Future Outlook

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

PAİR is well-positioned to seize the opportunities as they unfold to us. Despite the soft economy and deteriorating law & order conditions over the past year, we judged it important to continue making key investments in the long-term. However, in line with the banking sector, movement in key interest rates may have a direct negative impact on our profitability FY2013.

On Behalf of the Board of Director



Syed Ahmad Iqbal Ashraf  
Managing Director &  
Chief Executive Officer

Tehran: May 10, 2013