

PAİR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED MARCH 31, 2019

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, 2019. These Financial Statements have been prepared in compliance with the requirements of BSD Circular Letter No. 5, dated March 22, 2019 and International Accounting Standard (IAS) 34, 'Interim Financial Reporting'.

Economic Review

Policy measures including PKR devaluation, hike in interest rates, increase in import duties, and deep cut in public spending has resulted in bringing down the large Current Account Deficits (CAD) and fast depleting foreign exchange reserves and the situation finally seems to improve. The ever increasing imports that are certainly unsustainable have started to respond to demand compression. However Exports are yet to show some real and meaningful performance. As the exporters enhance their capacities and reach out to the old and new markets it is expected to take some time. The government also remains focused on boosting exports and incentives have been parceled out such as exemption from utility tariff hikes. The CAD for February 2019 has clocked in at USD 356 million, a 29 month low, as compared to USD 1.6 billion per month, on average witnessed in FY2018. SBP forex reserves increasing to USD 10.7 billion in Mar-19 from the recent low of USD 7.2 billion seen in Dec-18 as Inflows from friendly countries trickled in, this may have helped in managing the immediate crisis situation however the urgency for structural reforms and measures to further narrow the CAD should remain the policy priority.

Inflationary pressure continued as of March-19 it has risen to 9.4% YoY and is expected to continue on account of Ramadan effect, quarterly house rent adjustment along with further rationalization of utility tariffs. However, average inflation Nonetheless, due to high base effect during remaining months of the fiscal year, average FY19 inflation should remain within SBP's forecast of 6.5%-7.5%. After a hefty 5% rise in interest rates during the ongoing monetary tightening cycle, the Discount Rate has risen to 11.25%. Market expect a nominal 50 basis points increase in interest rates.

A bailout package is underway as the negotiations with the IMF continues. The negotiations revolve around formulating a short to medium term framework for slashing the budget deficit by increasing revenues, rationalizing expenditure, raising utilities tariff, reducing circular debt, making exchange rate more flexible, and monetary tightening to contain underlying inflationary pressures. Entry into the IMF program would enhance the credibility of Pakistan with respect to global financial community with the possibility of paving the way for fetching flows from multilateral agencies such as the World Bank & Asian Development Bank, and also facilitate access to international capital markets.

Amid large swings and thin trading volumes, the benchmark KSE-100 Index closed at 38,649 points. The market overlooked all the positive development including the reduction in CAD, foreign inflows from the friendly countries stabilizing the forex reserve position, instead the growth in economy and corporate profitability remained the concerns keeping the investors either sidelined or indulging in profiteering. As the market has given dismal performance for the last two years, the valuations are being viewed as attractive and the major equity market players including the mutual funds are pinning their hopes on the revival of the stock market once the hurdle of closing the IMF package is out of the way.

Financial Overview

During the period ended 31 March 2019 the Company earned Net Revenue from Funds (“NRF”) PKR 188.383 million which is an increase of 27% 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 13.60 million as opposed to PKR 59.64 million for the Q1-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 throughout the period. The total assets declined by PKR 880 million and came to a close of PKR 17.65 billion as against PKR 18.53 billion of total asset as at December 2018. Mainly on account of maturity of T bills of PKR 1.99 billion. However gross advances increased by PKR 516 million closing at PKR 7.71 billion from PKR 7.19 at the opening of FY 19. Exposure of PKR 297.95 million was additionally classified whereas incremental charge of PKR 52.59 was taken against the NPL during the year. Though a charge of PKR 9 million was taken as the provision for diminution in the value of investment, however, the unrealized losses on the securities reduced by PKR 61.38 million as they came down from PKR 84.67 million as at the close of FY18 to PKR 23.285 million as at the close of Q1- FY19. The overall profitability improved as the profit before taxation stood at PKR 62.39 million versus PKR 11.59 million same period 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

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

Tehran – Iran

Date : 26th May 2019