

PAİR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023

On behalf of the Board of Directors, we are pleased to present the Financial Statements of PAİR Investment Company Limited (PAİR) for the 9-month ended September 30, 2023. These Financial Statements have been prepared in compliance with the requirements of BPRD Circular No. 2 of 2023, dated February 09, 2023, and International Accounting Standard (IAS) 34, 'Interim Financial Reporting'.

Economic Review

The geopolitical situation, difficult financial environment, and high inflationary pressures have all had a substantial impact on the prospects for global growth. All these factors posed significant economic risks for Pakistan's economy as well. Devastating floods and political unrest further aggravated the situation. Thus, FY2023 has been a challenging year for Pakistan's economy. In FY2022, Pakistan's economy witnessed a high growth rate of 6.1 percent, however, it was unsustainable as it was largely driven by domestic demand, which was stimulated by expansionary fiscal policy and ended up with a high fiscal and current account deficit. Subsequently, the economy signaled excessive demand and overheating, stated the Pakistan Economic Survey 2022-23. All this had to be countered by taking various measures at the macroeconomic level by primarily focusing on rationalization of expenditures, removing unproductive subsidies to reduce burden on the budget; significant cuts in expenditures to reduce the budgetary deficit; increasing the tax and non-tax revenue of the government; and a tight monetary policy to fight inflation which has been at record high levels.

Though the Monetary Policy Committee (MPC) in its meeting held on September 14, 2023 maintained the policy rate at 22%. However in September 2023 the inflation rate came at 31.4% from 27.4% in the previous month, driven by high fuel and energy prices. Similarly, the current account deficit after staying in positive for five months turned to negative as soon as the import restrictions were flexed a bit. All this suggest that the reactive measures may be able to support in the short term however the structural measures are inevitable.

Financial Overview

Profitability during the nine-month period ended 30 Sep 2023 showed significant improvement from the same period last year. Profit Before Tax ("PBT") with 48% increase came to PKR 696.982 million as compared to PKR 471.470 million for the same period last year. Increase in income came from both fund and non-funded income where Net Revenue from Fund ("NRFF") increased by 45% on YOY basis while other income increased by 65%. Performance of NRFF is attributable to the elevated interest rates as well as consistent buildup in the average balances of the remunerative assets while improved performance of the capital market where positive gains were made as opposed to the negative earnings on the sale of securities last year. Also, the dividend income of the equity portfolio came out better than same period last year. Credit loss allowance for diminution in value of investments for the nine-month period came to PKR 14.495 million. While Credit loss allowance against loans & advances came to PKR 163.382 million compared to PKR 55.093 for the same period last year. The rise in the P&L charge is attributable to classification of new names in the non-performing loans portfolio.

Financial position increased from PKR 32.741 billion to PKR 35.928 billion an increase of 10% as at the Sep 30, 2023. Net Investment increased approximately by PKR 1.5 billion whereas net advances increased by PKR 535.111 million when compared to the December 31, 2022. The increase mainly came from investing in Government securities while some increase was also seen in the equity market portfolio. For government securities, keeping in view that the rates are yet to peak out, to avoid any revaluation losses, funds were invested

in floating rate securities. Gross Advances increased by PKR 874.944 million which is about 8% growth over the closing number of December 31, 2022. PAIR has been able to manage the growth in times when the net credit offtake is in negative and cost of doing business is daunting. While taking on incremental exposures it was ensured that the borrowers have sound financial footings and are resilient to the economic headwinds.

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 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

From the view point of the Company increase in the interest rates is a trade-off between business prospects i.e. income from the debt securities is expected to increase at the same time this means increase in cost of doing business making it all the more difficult for the private borrowers where the global competitiveness has always been an issue. This will lead to lesser credit offtake surrounded by the withdrawal of refinance schemes encouraging long term investments in the business ventures. In terms of stock market outlook, the market has yet proved itself to be a land of opportunity. Having said the foregoing, the management will be making all out efforts to manage its human and economic resources in the most efficient manner possible in current circumstances & capitalize on the opportunities that emerge as result of the action of the policy makers.

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

Managing Director / CEO

Chairman of the Board of Directors

**Date: 27 October 2023
Pakistan**