

## PAiR INVESTMENT COMPANY LIMITED

### DIRECTORS' REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021

On behalf of the Board of Directors, we are pleased to present the Financial Statements of PAiR Investment Company Limited (PAiR) for the 9-month ended September 30, 2021. 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**

Pakistan's economy showed sign of recovery from the pandemic induced contraction, better than expected. The recovery which was earlier being termed as fragile is no more being viewed as such. There are adequate signs to confirm that the latest Covid wave in the Country remains contained, continued progress in vaccination, and overall debt management of the pandemic by the Government, the economic recovery now appears less vulnerable to pandemic-related uncertainties. Therefore, a greater emphasis is needed on ensuring the appropriate policy mix to protect the longevity of growth, to keep the inflation expectations anchored, and slow the growth in the current account deficit increasing due to increase in import and higher commodity prices in the international markets.

In its most recent meeting held in September 2021, the Monetary Policy Committee (MPC) decided to increase the policy rate by 25 bps while taking the decision amongst other factors MPC considered that the rebalancing of the policy rate management is required and the same can be best achieved by gradually tapering the significant monetary stimulus provided over the last 18 months. Over the last few months, the burden of adjusting to the rising current account deficit had fallen primarily on the exchange rate and it was appropriate for other adjustment tools, including interest rates, to also play their due role.

With a supportive FY22 budget and accommodative monetary policy, most high-frequency domestic demand indicators such as automobiles sales, petroleum, oil and lubricants sales, cement sales and electricity generation continue to depict robust growth. This growth is mirrored in the strength of imports and tax collections. LSM registered strong growth in June of 18.5 percent YoY before moderating in August to 2.2 percent YoY, in line with typical seasonal patterns.

The current account deficit rose to \$0.8 billion in July and \$1.5 billion in August, reflecting both vigorous domestic demand and high global commodity prices. While remittances remained strong, growing by 10.4 percent YoY during July-August and exports also performed reasonably well (averaging \$2.3 billion per month), they were outstripped by imports. In response, the rupee depreciated. However, the flexible market-based exchange rate regime has performed well since its introduction in June 2019, including through the Covid shock. the rupee has moved in an orderly manner in both directions and has depreciated by only 4.8 percent to date, much less than many other emerging market currencies over the same period as stated by SBP.

The momentum of prices remains relatively elevated, with month-on-month increases of 1.3 percent in July and 0.6 percent in August. In addition, inflation expectations of both households and businesses have drifted up and wage growth has picked up as the recovery has strengthened. Looking ahead, the inflation outlook largely depends on the path of domestic demand and administered prices, notably fuel and electricity, as well as global commodity prices

## Financial Overview

The earnings for the 9M period ended 30 Sep 2021 showed a decline in terms of markup income by 27% while non-markup income increased heftily. During the 9M period ended 30 Sep 2021, the Company earned Net Revenue from Funds (“NRFF”) PKR 551.929 million which is a decrease of 30% over the last year same period as the asset and liability portfolio stands repriced for the 625-bps rate cut in FY 2020 and also that the high yielding government bond that were a part of the portfolio previously stand matured. Non-markup income has increased by 185% over the same period last year. The contributory to this performance is Fee Commission and brokerage income which was PKR 14.127 million versus PKR 5.654 million, Dividend income was PKR 56.913 million versus PKR 26.658 million, gain on sale of securities came out as the largest contributory where PKR 54.296 million was earned in place of PKR 12.329 million. On aggregate basis the other income was PKR 128.090 million as compared to PKR 44.870 million in the same period last year.

Total assets increased by PKR 2.198 billion and closed at PKR 23.488 billion as against PKR 21.290 billion as of December 31, 2020. Net Investment increased approximately by PKR 1.760 billion whereas net advances increased by PKR 356 million when compared to the December 31, 2020. Increment in the Investment was mainly in the short-term Government securities keeping in view a straight to moderately upward interest rate trend hence validated by the increase in the policy rate by 25bps in September Monetary policy Statement of SBP. The management considers it prudent to be invested in shorter tenors. On net basis the provision for diminution in the value of Investment during the 9M period remained lower than the reversal made in the same head on disposal of earlier impaired scrips. As the portfolio is growing the volumes are increasing in terms of disbursements i.e., in the 9M period disbursement amounting to PKR 2.658 billion were done however the repayments and in some cases the early repayments continue to be the challenges which is evident from the repayment amount of PKR 2.1 billion during the 9M period. With all the challenged management anticipates the momentum to continue on the back of healthy pipeline that the business team has worked on. A net incremental charge of PKR 213.329 million on non performing portfolio was taken during the period against the classified portfolio. The management is vigilantly monitoring for the timely recovery of the various exposures, where relief was given in terms of restructuring of the facilities due to the COVID-19 circumstances taking into account the hardship being faced by the respective borrowers as well as the directives announced by State Bank of Pakistan (“SBP”).

## 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

The country has very well balanced itself in curtailing the vicious effects of the pandemic and the livelihood for the masses. The support to the economic activity is well for the company too and expect the advances to grow. Financial conditions remain appropriately accommodative from the policy making side. Private sector credit has resumed its expansionary trend across all major lending categories. So far, private sector credit has surpassed last year’s corresponding levels on the back of a sizable expansion in fixed investment loans and consumer financing, primarily due to the lower interest rate environment as well as the SBP’s subsidized refinancing schemes, especially LTFF and TERF. While the PSX had performed well till the first half of the year whereas the battering in the third quarter is expected to be over shortly. The Company will be making all out efforts to capitalize on these opportunities.

### 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 PAiR.

On Behalf of the Board of Director



Managing Director / CEO

Date: 24 October 2021  
Pakistan



Chairman of the Board of Directors