

# PAÏR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE NINE MONTH ENDED SEPTEMBER 30, 2018

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 period ended September 30, 2018. 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'.

#### **Economic Review**

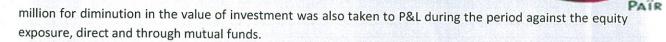
The transition of the government from the caretaker to the new elected government has made a positive impact on the business and consumer confidence however economic concerns continue to persist. State Bank of Pakistan ("SBP") recently raised its target policy rate by 100bps to 8.5%, reasons for the aggressive rate hike included concerns on rising inflation and persistent twin deficit situation along with increased pressures from global developments i.e. high oil prices, capital outflow from Emerging Markets, and trade war between US and China. SBP also revised its projections of average inflation to 6.5-7.5% based on the surge in international oil prices, upward revision in domestic gas prices, rise in regulatory duties on imported items and lagged impact of currency devaluation.

The government has announced its decision to go to yet another International Monetary Fund (IMF) program. The market view the entry into an IMF program would bring fiscal discipline. Investors are expected to respond positively to Pakistan's entry in an IMF program besides providing immediate relief to the dwindling FX reserves. IMF is likely to impose conditions such as upward adjustment in energy prices and interest rates, no fresh borrowing from SBP, and further devaluation of the rupee. These measures are expected to rein in aggregate demand pressure and contain the twin deficits. From the recent developments it is evident that federal government and the central bank have started taking the necessary steps that are typically required under the IMF program.

Pakistan Stock Exchange have been taking big swings from negative to positive and from positive to negative throughout the period after the new government came to office. From the stock market perspective expectations are that the investors will respond positively to Pakistan's entry in an IMF program. Once the PKR attains stability, the market is expected to regain its appeal for foreign investors, given that it is trading at attractive valuations compared to other emerging markets. The challenging economic situation is already accounted for in these valuations.

# **Financial Overview**

For the nine month period ended 30 September 2018 the Company earned gross NRFF of PKR 448.768 million however due to income reversal of PKR 171.389 million on account of additional non-performing loan classification, net NRFF stood at PKR 277.379 million. The non-markup Income was PKR 87.780 million. The main support in the Non-markup income came from the capital gains earned from equity market. Administrative expenses remained under control when compared to the last year. The total assets declined by PKR 2.175 billion and came to a close of PKR 15.51 billion as against PKR 17.69 billion of total asset as at December 2017. Placements made in the market with financial institutions matured, as such the lendings to FIs as at September 30, 2018 were PKR 550 million, down by PKR 420 million from the opening of PKR 970 million at the beginning of the period. This is expected to be replenished subsequently. The most significant decline however was in Investments which closed at PKR 8.82 billion down by PKR 2.22 billion. The T bill portfolio that matured during the period was not replenished in anticipation of the increase in the interest rates. It was expected to yield negative spreads, adversely impacting the profitability. Further PKR 73.52



The legacy portfolio of Non-performing loans gave a blow to the Profit and Loss account with the reclassification to non- performing loans amounting to PKR 621.613 million. In addition to the income reversal of PKR 171.389 million stated above, PKR 46.221 million was taken as charge on account of provision against non performing advances, taking away a total of PKR 217.610 million away from the profits.

## **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).

### **Future Outlook**

Initially the policy measures taken by the new Government and SBP may lead to slower economic growth; higher inflation and interest rates; and tighter financial conditions however tough decisions are imperative given the present scenario. Pakistan has a history of going into the IMF program very frequently however quick fixes are done to comply with the conditionality of the program avoiding the structural reforms as a result goals of achieving persistent growth and medium-term fiscal sustainably remains unattained. If the policy measures taken are combined with critical structural reforms such as broadening the tax base, eradicating corruption, improving governance, restructuring or privatization of Public Sector Enterprises (PSEs), making local industries and exports competitive, and decreasing the transmission and distribution losses in the energy chain; Pakistan will be on the path of higher economic growth rate and financial sustainability rather quickly.

From the standpoint of PAÏR Investment, the prime focus will remain in providing services and financing to projects which provide sustainable long term economic growth and infrastructure. It will also be taking up SME projects in line with the vision of SBP as per its risk appetite. The company 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 PAÏR.

On Behalf of the Board of Director

Chairman

Dubai - UAE

October 21, 2018