

PAİR INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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 September 30, 2017. 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

Real GDP growth has maintained its upward trajectory and increased to a decade-high of 5.3 percent in FY17. Some of the other macroeconomic indicators, such as subdued inflation, investment growth, and rising private sector credit, also showed an encouraging picture. However, decline in exports is overshadowing the otherwise reviving economic activity. According to the State Bank of Pakistan's recent report on economy, the revival in agriculture during FY17 is notable which is supported by favorable policy measures, including subsidy on fertilizer, reduction in sales tax on tractors, and increased access to finance. Better agriculture had, in turn, positive spillover for trade and manufacturing sectors. Further, Public Sector Development Programme (PSDP) and China – Pakistan Economic Corridor (CPEC) related activities also continued to boost construction related industries, such as cement and steel.

The overall improvement in business sentiments along with supportive policies (historically low interest rate, high infrastructure spending and better law and order) has encouraged a number of companies to pursue expansion plans. This was reflected in a significant surge in private sector credit off-take during FY17, with a sizable share of fixed investment loans. At the same time, a hefty increase in machinery imports was also noted. CPI inflation remained quite stable in the first two quarters of FY17, but picked up gradually in the third quarter. The average inflation during Jul-Sep FY17 was 4.0 percent, compared with 2.6 percent in the same period last year. However, it is still significantly lower than the annual target of 6.0 percent. Going forward, it is imperative to exploit all sources of FX inflows – most importantly exports – in order to comfortably finance the rising import demand. Pakistan's macroeconomic indicators continue to improve and solidify grounds for a sustained upward growth trajectory. In particular, key constraints impeding the economy from achieving high growth – i.e. power supply and security situation – are gradually getting better. In this backdrop, the government envisages a higher real GDP growth of 6.0 percent for FY18, compared to 5.3 percent recorded in FY17.

After posting decline for three consecutive months the stock market had respite in the month of Sep FY 17 and gained approximately 1200 basis points. The gains were driven by foreign buying on account of inclusion of Pakistani stocks in FTSE Global Indices. However the trading volume remained low. At the current level the PSX index is offering attractive yields when compared to the government securities.

Financial Overview

During the period ended September 30, 2017 the Company earned NRFF of PKR 502.4 million and Non-markup Income of PKR 91.1 million. The total assets were maintained at PKR 14.1 billion as against PKR 18.5 billion of total asset as at December 31, 2016. The decline is due to decrease in long term government securities, some of which matured some was sold to realize the capital gains. Decrease in case of advances is due to lag between the disbursement and repayments of the same. Further Advances also decreased due to reclassification of PKR 761.295 million to

investments in the form of Term Finance Certificates portfolio thus closing at PKR 4.48 billion as at September 30, 2017 compared to PKR 5.4 billion as at the close of year ended December 31, 2016. The streak of control over non-performing loans continued and there was no new addition in the non performing portfolio, however, there was recovery of PKR 11.2 million. Management is making vigorous efforts for settlement of non-performing loans as a result further provision reversals are anticipated in Q4 – FY17. P&L charge of PKR 30.2 million is taken as Provision against non-performing loans during the period which pertains to reduction in the Forced Sales Value benefit available under the Prudential Regulations on the legacy portfolio. Further, a P&L charge of PKR 28.1 million is taken as Provision for diminution in value of investments due to decline in value of equity scripts held by the Company as at September 30, 2017. Management has taken steps for the resolution of long outstanding operational issue of construction of Head office of the Company on its leased hold property. With the commencement of the construction work, it is anticipated that the new office will be functional by Q1 – FY 18.

Credit Rating

Pakistan Credit Rating Agency Limited (PACRA) has reaffirmed entity long-Term Entity Rating ‘AA’ (Double A) and a short term Entity Rating of ‘A1+’ (A One Plus).

Future Outlook

PAİR 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. State Bank of Pakistan (“SBP”) signed Banking and Payment Arrangement (BPA) with Iran's central bank, Bank Markazi Jomhuri Islami Iran (BMJII), on April 14, 2017 in Tehran. Deputy Governor SBP Riaz Riazuddin and Vice Governor BMJII signed the agreement on behalf of their central banks. Whereas the work on the PAK-IRAN Free Trade Agreement is underway this can provide business opportunities to PAİR.

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 PAİR.

On Behalf of the Board of Director



Chairman
Tehran – Iran

October 22, 2017