

## PAiR INVESTMENT COMPANY LIMITED

### DIRECTORS' REPORT FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024

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, 2024. 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**

Quarter under review saw positive developments for the economy including conclusion of a short SBA program and approval of USD 7 billion Extended Fund Facility ("EFF") by Executive Board of the International Monetary Fund ("IMF"). The country has already received the first tranche of USD 1.0 billion. In addition, the country has also requested a climate-based funding of around USD 1-1.5 bn with IMF, under the name of Resilience and Sustainability Facility ("RSF"), which will open up another source of concessionary long-term funding. IMF in its press release has acknowledged the implementation of sound policies in short term that played a major role in restoring economic stability. It further noted that significant structural challenges still remain a daunting challenge for which consistent efforts are needed to create a long term resilient economic base. Market sees this re-entry into an extended IMF program as continuation of prudent macro-economic policies. The approval of the EFF has its dominos effect in terms of unlocking funds from other international lenders. Which cumulatively will strengthen the country's foreign exchange ("FX") reserves and provide relief from external pressures.

Interest rate trajectory after peaking at 22% has started its downward journey as the Monetary Policy Committee ("MPC") on September 12, 2024, reduced the policy rate by 200 basis points to 17.5%. The decision was taken into consideration sharp fall in inflation & global oil prices, increase in FX reserves, decline in sovereign yields, and improved business confidence. The current ease in inflation was attributed to the impact of contained demand reinforced by improved supplies of major food items, favorable global commodity prices and delay in upward adjustments in administered energy prices. At the same time MPC also considers that near-term inflation outlook remains susceptible to risks, owing to uncertainty stemming from the timing and magnitude of adjustments in administered energy prices, future course of global commodity prices, and any additional taxation measures to meet the shortfall in revenue collection. While policy rates have been lowered by 4.5% to 17.5% market anticipates further decline in coming monetary policies.

Stock market performance remained sluggish in July and August before offering solid gains in the month of September-24. The benchmark, KSE-100 Index breached the psychological barrier of 82,000 and scaled new highs before settling at 81,114 at month end. While the IMF – EFF has played its role in the upward marching of the PSX, However, the fluid global and regional events including the November 24 US elections, Israel- Palestine tensions spilling the boundaries and entering into a greater Middle East conflict, will continue to weigh on investors' sentiments in the short term. In the medium to long term outlook for equities appears optimistic. The assessment is based on the gradually improving macroeconomic indicators, country's upgraded credit rating, and resilient corporate earnings despite slowing demand and still elevated interest rates. Inflation is expected to range around 7-9% in the near term, creating the basis for downward adjustment in the Policy Rates leading the portfolio shifts from fixed income to the capital markets in an effort the maintain the level of earnings.

## Financial Overview

The company posted increase of PKR 196.657 million or 28% in terms of Profit Before Tax and Levies (“PBT”) and came to PKR 888.639 million as compared to PKR 695.982 million for the same period last year. Increase in income was mainly driven by funded income where Net Revenue from Fund (“NRFF”) increased by 6% on YOY basis. Performance of NRFF is attributable to the elevated interest rates as well as consistent buildup in the average balances of the remunerative assets. While other income remained lesser than the same period last year. Dividend Income and Gain on sale of securities were lower than same period last year, since the average equity investment remained considerably low as management expects that a reentry in the market will be taken at later stage or in between the intervals when the range bound market corrections are seen. Additional provisions of PKR 82.426 million against non-performing loans and PKR 195.321 million against private debt securities created immense pressure on the bottom line, however recoveries from the legacy non performing loan and reversal in the provisioning requirements under IFRS-9 has counter balanced the same and net reversal of PKR 44.310 million can be seen on the face of the P&L.

Financial position increased from PKR 36.441 billion to PKR 39.181 billion an increase of 8% as at the Sep 30, 2024. Net Investment increased approximately by PKR 2.361 billion whereas net advances decreased by PKR 309.611 million when compared to the December 31, 2023. The increase mainly came from investing in Government securities. As the Interest rate is on reversing long term investments were made in fixed rate PIBs. In terms of adjustment of the downward revision of the returns to be earned and paid, it is pertinent to mention that the liabilities will be adjusted immediately while the assets will reprice on the agreed repricing dates which gives favorable advantage to the company.

## 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 sharp decline in yields will create pressure on the bottom line, while the excess liquidity available in the market as a result of buy back of Treasury Bills by the Government in recent days as well as lower volumes of take-up in the debt security auctions has left the banking industry with unprecedented levels of liquidity. Asset generation will be a key challenge for the market leaders, further, the fact that these industry players will have to manage their Advances to Deposit Ratios too to save the bottom lines from the additional tax charges. All this will be leading to asset creation specially loaning at exceptionally lower rates crowding out the smaller market participants including PAiR. Having said the foregoing, the management will calibrate and recalibrate its asset acquisition strategy based on macro-economic outlook, interest rate regime, private credit offtake and will focus on acquiring and maintaining quality assets to sustain the profitability of the company.

## 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  
Chairman of the Board of Directors

Date: 27 October 2024  
Islamabad  
Pakistan