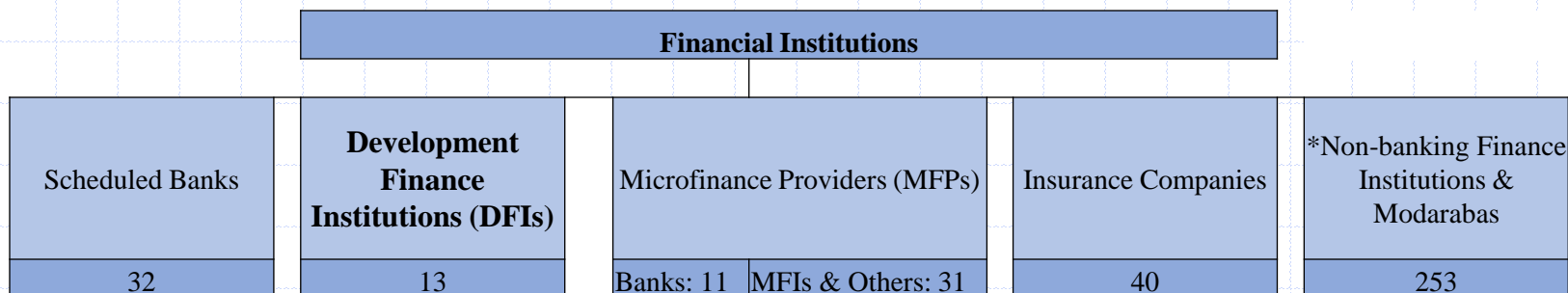


Development Financial Institutions (DFIs)

Scope

- Joint Venture Financial Institutions (JVFIIs)
- Microfinance Development Institution

DFIs | Introduction



* NBFIs includes: leasing companies, Investment Banks, AMCs, Mutual Funds, Pension Funds, REIT, Private equity companies & Private equity funds

Banks, JVFI, and MFBs fall within legal ambit of State Bank of Pakistan while the rest of the financial institutions are regulated by Securities and Exchange Commission

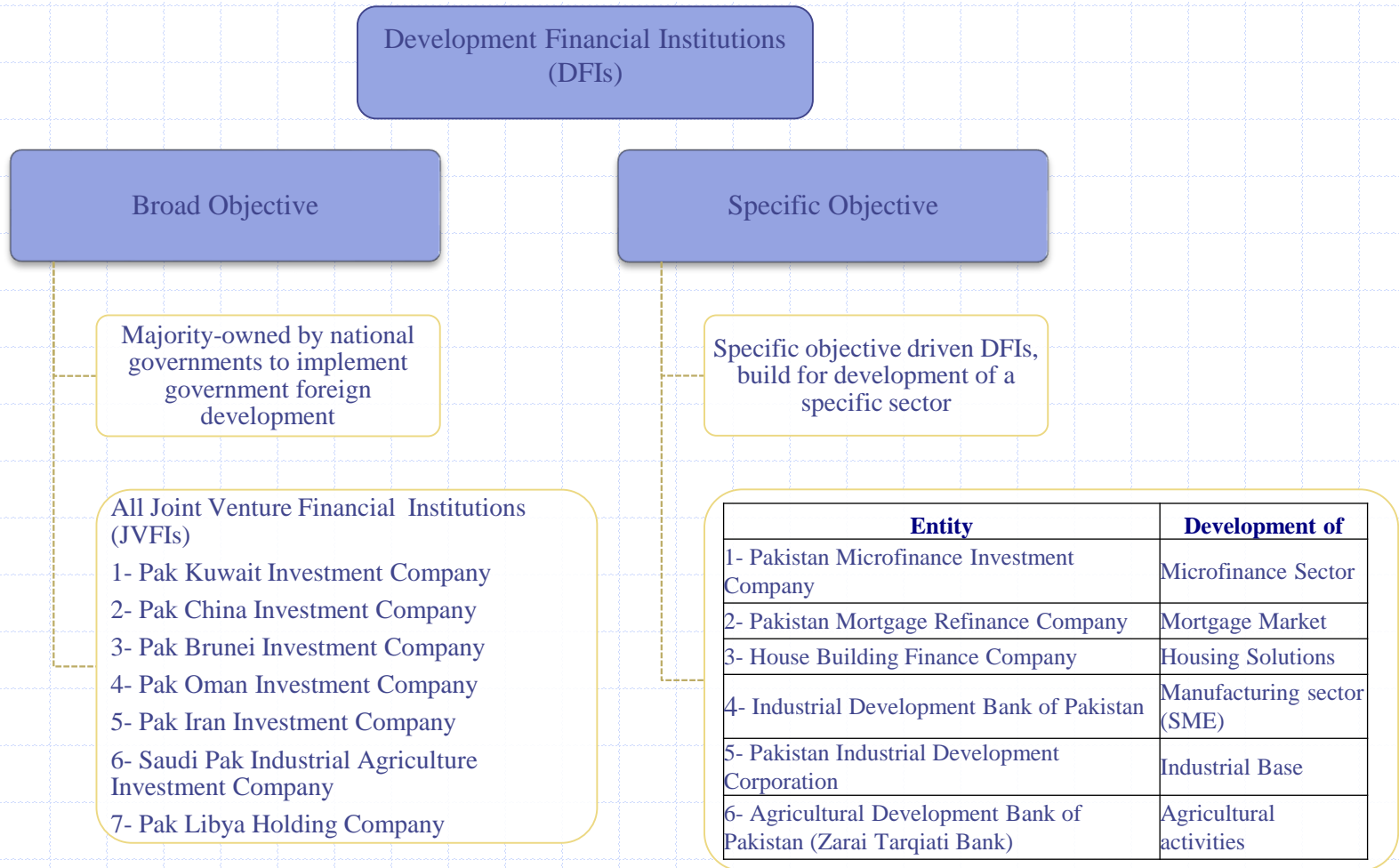
DFIs are financial institutions providing finance to the private sector for investments that promote development.

They provide a range of specialized financial products and services to suit the specific needs of the targeted strategic sectors.

DFIs believe that financial and development success go hand in hand and therefore growth of the private sector is one of the keys to sustainable development.

During 1950s and 1960s, DFIs were established in Pakistan with assistance from International Financial Institutions.

DFIs | Classification



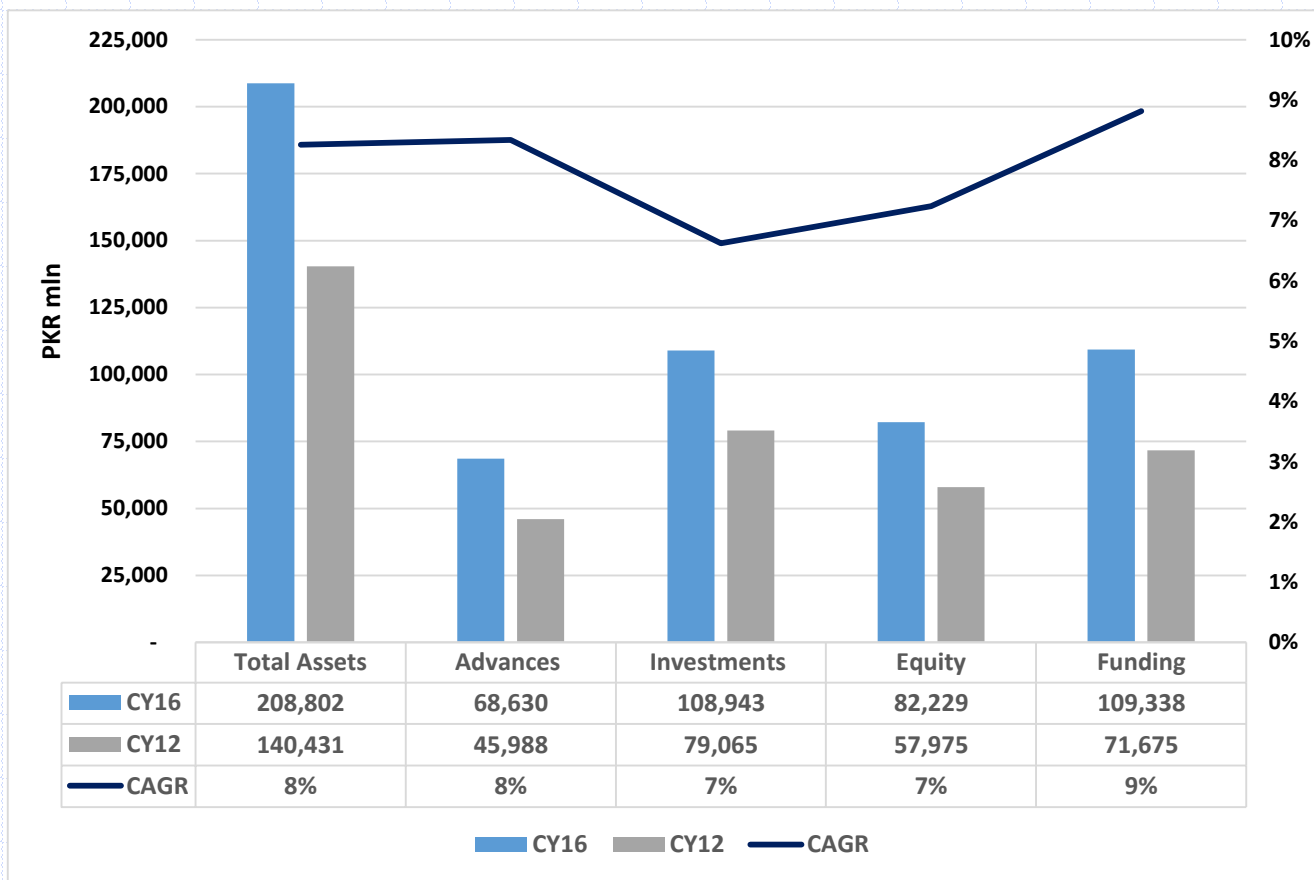
This sector study would be covering the Broad Objective DFIs and Microfinance DFI (PMIC); a specific objective DFI

DFIs | Rated Universe

Development Financial Institution		Incorporation	Latest Rating	Outlook	Rating Agency	Date
Sr. #	Joint Venture Financial Institution					
1	Pakistan Kuwait Investment Company (Private) Limited	1979	AAA/A1+	Stable	PACRA	14-Jun-17
2	Pak China Investment Company Limited	2007	AAA/A1+	Stable	JCR	30-Jun-17
3	Pak Brunei Investment Company Limited	2007	AA+/A1+	Stable	JCR	02-Jun-17
4	Pak Oman Investment Company Limited	2001	AA+/A1+	Stable	JCR	02-Jun-17
5	Saudi Pak Industrial and Agricultural Investment Company Limited	1981	AA+/A1+	Stable	JCR	19-Jun-17
6	PAIR Investment Company Limited	2007	AA/A1+	Stable	PACRA	19-Jun-17
7	Pak-Libya Holding Company (Private) Limited	1978	AA-/A1+	Negative	PACRA	23-Jun-17
Specific Objective DFIs						
1	Zarai Taraqati Bank Limited	2002	AAA/A1+	Stable	JCR	20-Jun-17
2	House Building Finance Company Limited	2007	A /A1	Stable	JCR	23-Jun-17
3	Pakistan Microfinance Investment Company Limited	2016	Unrated	-	-	-
4	Pakistan Mortgage Refinance Company Limited	2015	Unrated	-	-	-
5	Industrial Development Bank of Pakistan	1961	Unrated	-	-	-
6	Pakistan Industrial Development Corporation	1952	Unrated	-	-	-

- Highly rated institutions mainly owing to sovereign ownerships and relatively low risk asset structure

JVFI's | Snapshot



- Despite the challenges, JVFI's are growing with a CAGR of 8% in the advances portfolio over a span of 5 years
- Growth momentum was build up by better economic conditions of the country and with expanding into various segments
- With the country's budget focusing more on infrastructure development, energy, agriculture and information technology., and an ambitious growth rate of ~6%, the industry is expected to demonstrate growth in future

JVFI's | Snapshot

Lending Portfolio						
PKR mln	Jun 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12
Lending to FIs	6,091	8,405	863	3,548	10,788	2,198
Advances	74,474	68,630	56,795	48,594	45,263	45,988
Impaired Lending	18%	17%	22%	25%	30%	32%
Loss Coverage	75%	78%	76%	75%	68%	63%

- **Advances:** Despite challenges, growth in advances remained adequate; fuelled by the congenial economic environment of the country and overall better credit offtake
- Portfolio quality is improving with better risk monitoring and conservative lending

Investments						
PKR mln	Jun 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12
Investments	140,219	108,943	115,307	108,317	79,497	79,065
% of Govt. Investments	57%	59%	60%	59%	52%	55%

- A large portion of investments comprises government securities
- As the interest rate arbitrage has bottomed out, investments now being converted to short term rather than long term Mix being tilted towards T-Bills from PIBs previously
- On average, ~14% of total Capital remains invested in equities

JVFIs | Snapshot

Funding						
PKR mln	Jun 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12
Funding	130,384	109,338	98,562	89,451	76,253	71,675
Deposits	8%	10%	12%	17%	12%	19%
Borrowings	92%	90%	88%	83%	88%	81%

- **Funding:** Funding profile remained tilted towards borrowings while growth of deposits was subdued - ADR higher than Commercial Banks average ~ 47%
- No specific niche identified for these DFIs, thus they operate in same environment as with other financial institutions – increasing the competition as they have to compete with commercial banks over cost of funds and outreach

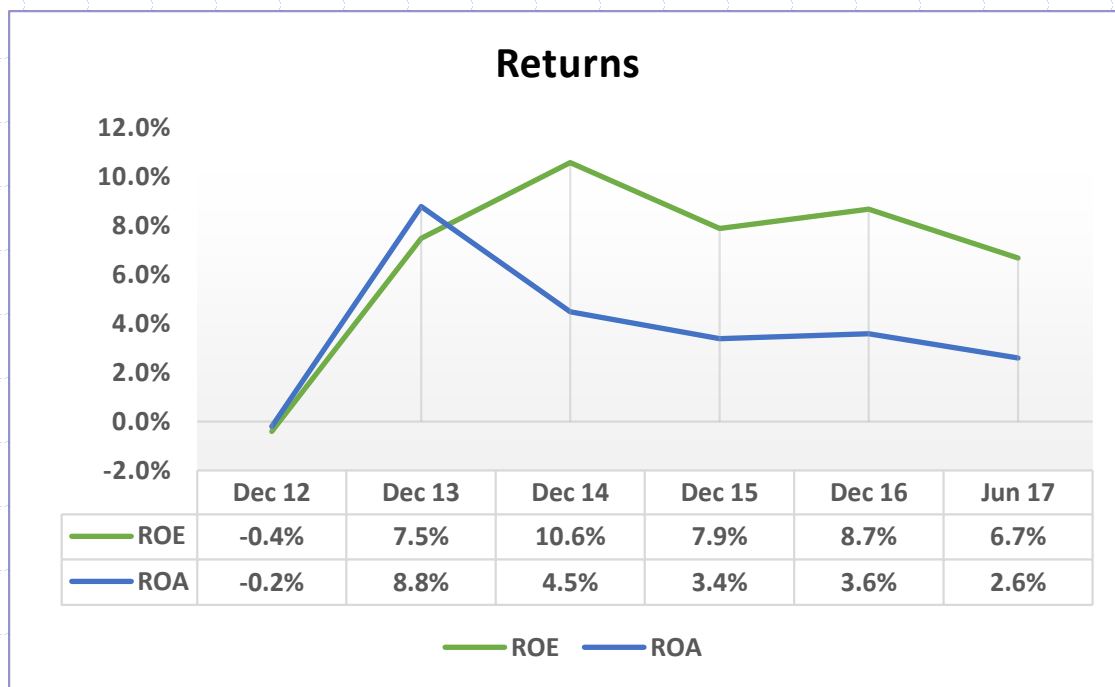
Capital						
PKR mln	Jun 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12
Equity	98,508	82,229	79,294	76,417	60,992	57,975
Capital to Total Assets	35%	33%	34%	43%	41%	41%
CAR	49%	41%	44%	45%	51%	55%

- Adequate minimum capital requirement (PKR 6bln)
- Majority equity retained – limited dividend payout
- Average ROE of industry ~7%

JVFIs | Profitability | Snapshot

Performance						
PKR mln	Jun 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12
Net Interest Markup Revenue	3,292	5,959	8,019	7,052	5,414	6,403
Net Income	2,916	6,985	6,162	7,276	4,458	(247)
Operating expenses to Total revenue	35%	34%	35%	31%	41%	75%

- Abridged spreads led to decline in Net markup income
- Higher non-mark-up along with dwindled revenue led to higher cost to revenue ratio



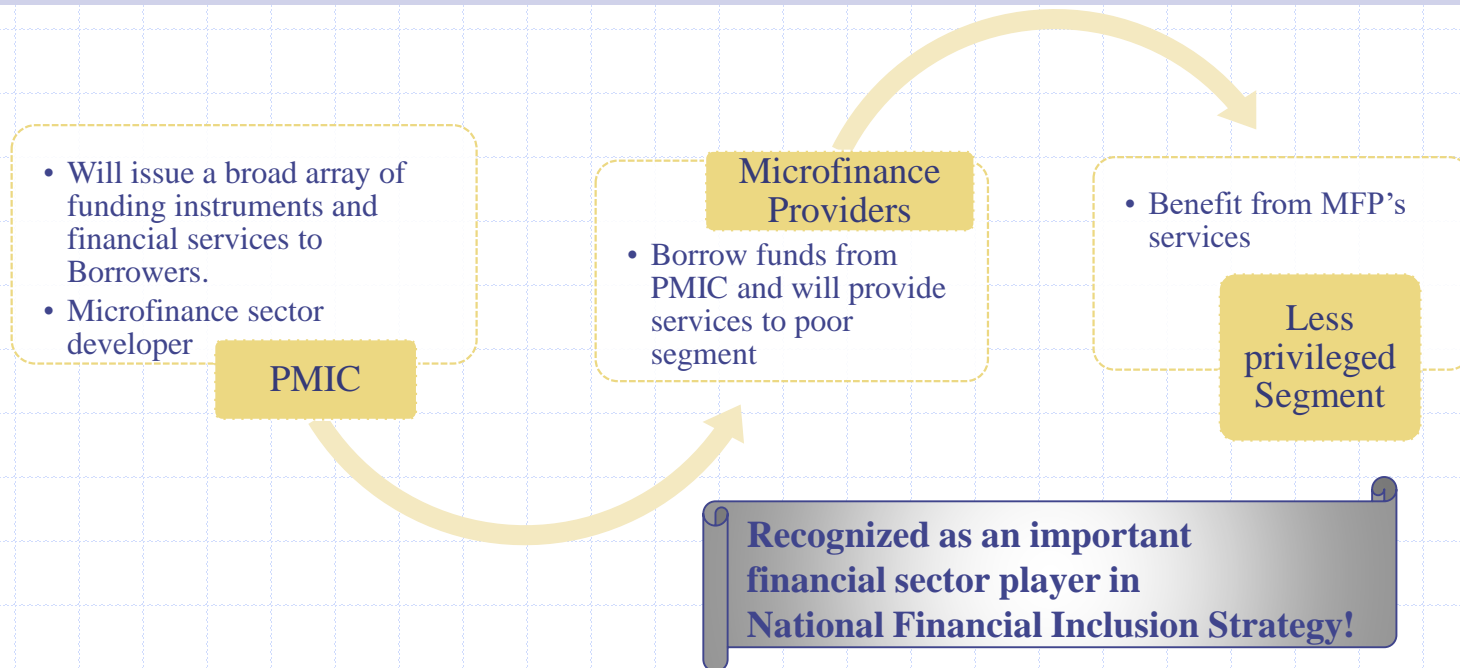
Specific Objective DFI

Pakistan Microfinance Investment Company limited (PMIC)

PMIC is registered as an Investment Finance Company under NBFCs regulations with Securities and Exchange Commission of Pakistan (SECP) – incorporated in August 2016

It is setup jointly by, Pakistan Poverty Alleviation Fund (PPAF) (49%), Department for International Development (DFID) through Karandaz Pakistan (38%) and the German Development Bank (KfW) (13%)

Objective: The purpose of the Organization is to improve financial inclusion, employment and wellbeing of the poor by providing wholesale financing to the microfinance service providers in the country.



Specific Objective DFI

Business activities of PMIC can be divided into two categories;

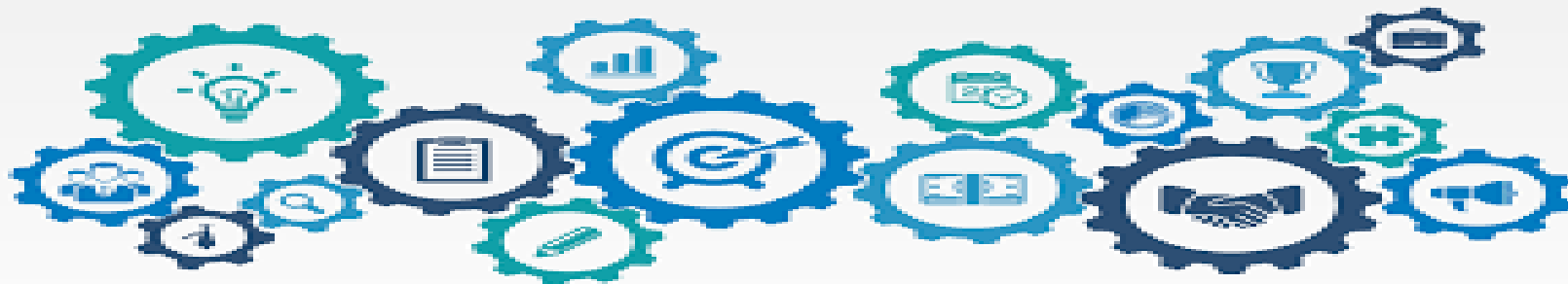
- i. **Financial Solutions:** It aims to provide funding instruments and financial services to Borrowers. The solutions includes, wholesale credit, subordinated debt, guarantees, and other investment services. The company would focus on innovating the existing product line.
- ii. **Microfinance plus:** Along with lending PMIC would offer other services to the Microfinance providers. This services are but not limited to; i) Technical Advisory services, ii) Value Chain – creating linkage, iii) Micro-Insurance, iv) Renewable Energy – addressing the energy shortages, v) Housing finance, and vi) Education Programs.

Target Market: 20 MFIs, registered as NBMFIs under the SECP rules, and 11 MFBs currently licensed by SBP, PMIC's target market would comprise of 31 institutions.

PMIC intends to attract funding from development agencies, financiers, commercial banks and capital markets to meet the liquidity needs of the sector which requires USD 3 billion to reach a target of 10 million active clients by the year 2020. The entity is eyeing a Gross Loan Portfolio of ~ PKR 40bln by 2020.

The Way Forward..

- Development Financial Institutions need to step up to promote new growth areas. They could provide unique value propositions in terms of advisory and nurturing new growth sectors to become profitable.
 - Development of specific objective DFIs, proves to be catalytic for generating new knowledge convening specific sectors and providing technical assistance to build up those sectors.
-
- For championing in new growth areas, DFIs need to develop in three key areas:
 - i. They must develop and prioritise niche segments identified to be of strategic and economic importance. These will give them legitimacy with funders and partners.
 - ii. Strengthening Affiliations with Government, ministries and agencies to facilitate the design of appropriate government support. This will enabling them to take higher risks.
 - iii. Establish business models that ensure long-term financial sustainability. This could be achieved with sound risk-management tools and high corporate governance standards that insulate them from undue political interference.
 - iv. A broader focus on socio-developmental goals taking into account positive externalities for the economy.



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Analysts	Mahina Majid Senior Financial Analyst mahina.majid@pacra.com
Contact Number: +92 42 3586 9504	

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