The Pakistan Credit Rating Agency Limited

PAIR INVESTMENT COMPANY LIMITED

	NEW [JUN-16]	PREVIOUS [JUN-15]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2016

Profile &Ownership

- PAIR Investment Company Limited (PAIR), an equally owned joint venture between Pakistan and Iran, was incorporated in January 2007 and commenced operations as a Development Finance Institution (DFI) on May 29, 2007.
- The Company's activities largely bifurcated into fund- based and non-fund based, includes financing for industrial and commercial projects, capital and money market operations and other investment banking activities.
- The company operates through a head office in Karachi and a branch office in Lahore.
- The Ministry of Finance (MoF) manages the ownership interests of the Government of Pakistan, while Iran Foreign Investment Company (IFIC) represents the Government of Iran.

Governance

- The overall control of the company currently vests in a six-member board of directors including the CEO and five independent directors. The board comprises equal representation from Pakistan and Iran.
- Mr. Seyed Ahmad Aragchi recently nominated by IFIC, is the board's Chairman. He is also on the board of Central Bank of Iran (CBI).

Management

- Mr. Nadeem Karamat MD/CEO of the company has more than three decades of varied experience in the banking and corporate advisory sector
- Experienced management team.

Performance

- During CY15, PAIR managed to earn a spread of 3.4%. (CY14: 2.1%).
- Pre-provision operating profit increased slightly by 15% only.
- Net profit increased mainly owing to lower provisioning expense.
- During 1QCY16, PAIR witnessed deterioration in performance (17% decreases in its total revenue). However, managed operating expenses and a provisioning reversal of PKR 17mln helped PAIR registering the bottom line of PKR 128mln (1QCY15: PKR 158mln).

Risk Management

- During CY15, PAIR's total assets registered growth of 24%. Although, there is an addition of finance leasing (PKR 114mln), the company's total finances witnessed a 15% decrease in 1QCY16. These were mainly dominated by corporate loans and cash credits (1QCY16: 54%; CY15: 53%, CY14: 48%).
- NPL decreased by PKR 30mln in CY15, however, asset quality remained relatively same as evident by maintained NPLs / gross advances ratio (CY15: 30%; CY14: ~30%). PAIR has availed FSV benefit of PKR 215mln at end-CY 15. Potential drag of un-provided NPLs on equity remained limited (CY15: ~5%; CY14: 6%).
- Going forward, the company is intending to take forward its developmental role. PAIR is planning to open up a micro finance bank and a liaison cum branch office in Tehran to facilitate cross border investments. Meanwhile, efforts to strength fund and non-fund based revenues would continue, where tapping new low risk profile clients, bills discounting, underwriting, and SBP refinancing and leasing services have been introduced.

Capital & Funding

- During CY15, deposit base grew. However, these were mainly short-term deposits mobilized from FIs, which subsequently rationalized in 1QCY16.
- PAIR maintains a strong equity base. The capital base of the company, mainly comprising Tier-I capital, provides comfort to absorb the impact of any adverse macroeconomic performance related shocks. Capital adequacy remained above regulatory requirement (CY15:83%; CY14:74%).

RATING RATIONALE

The ratings of PAIR primarily reflect the joint sovereign ownership of Pakistan and Iran. On a stand-alone basis, the company managed a healthy increase in its profitability in CY15, mainly benefiting from its government securities investment portfolio. The financing book (including debt instruments) was rationalized. The coverage ratio has improved (70% as on end-CY15). Going forward, while maintaining the cautious approach and after evaluating the associated risks, the product portfolio will be diversified by entering into leasing, Bills discounting and SBP - LTFF. Meanwhile, strategic investment opportunities are also being explored by the management. The ratings draw comfort from the company's robust liquidity and significantly higher capital adequacy.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to sustain its financial profile while pro-actively managing concentration level in funding and advances. The management expects that removal of sanctions on Iran may bring new business to both countries. However, materialization of potential business opportunities may take time

PKR mln

PAIR Joint Investment Company Limited

BALANCE SHEET	31-Mar-16	31-Dec-15	30-Dec-14	31-Dec-13
	3MCY16	Annual	Annual	Annual
Assets				
Investments (Others)				
Equity	414	603	888	818
Debt	400	443	426	2,311
Advances	3,120	3,110	3,133	3,335
Finances	7,165	7,165	7,165	7,165
Other Earning Assets	10,463	16,379	10,943	9,730
Fixed Assets	188	191	210	196
Net Non-Performing Advances	389	393	459	343
Other Non Earning Assets	491	487	421	537
Total Assets	**17,130**	**23,221**	**18,744**	**17,282**
Liabilities				
Deposits	839	1,891	386	25
Borrowings	6,728	11,652	9,221	8,489
Other Liabilities	519	485	344	327
Equity				
Equity (including surplus on revaluation)	9,045	9,193	8,793	8,441
Total Liabilities & Equity	**17,130**	**23,221**	**18,744**	**17,282**
INCOME STATEMENT				
Net Interest / Mark Up Revenue	211	883	725	665
Other Operating Income/Loss	27	360	372	286
Total Revenue	238	1,242	1,098	951
Administrative and General Expenses	(74)	(302)	(283)	(220)
Pre-provision Profit	164	940	815	730
Provisions	(17)	17	351	275
Pre-tax Profit	181	923	464	456
Net Income	**128**	**597**	**352**	**339**
Ratio Analysis				
Performance				
ROA	2.5%	2.8%	2.0%	2.1%
Coverages				
Liquid Assets / Deposits and Borrowings	1.5	1.3	1.2	1.2
Finances / Total Assets	0.3	0.3	0.4	0.4
Loan Loss Coverage				
Impaired Lending / Gross Advances	29.3%	29.5%	29.8%	21.1%
Net Impaired Lending / Equity	4.7%	4.7%	5.7%	4.7%

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALES & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.
CCC CC C	**Very high credit risk.** "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Name of Rated Entity	PAIR Investment Company Limited
Sector	Joint Venture Financial Institutions
Type of Relationship	Solicited
Purpose of the Rating	Regulatory Requirement Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
23-Jun-15	AA	A1+	Stable	Mainatain
18-Jun-15	AA	A1+	Stable	Maintain
23-Jun-14	AA	A1+	Stable	Maintain
02-May-13	AA	A1+	Stable	Upgrade
30-Jun-12	AA-	A1+	Positive	Maintain

Related Criteria and Research

Related Research: Joint Venture Financial Institutions - Viewpoint | May16

Rating Methodology: Bank Rating Methodology

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Rating Team Statement

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest

PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them

The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees

PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities

PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and ii) fee mandate - signed with the payer, which can be different from the entity

PACRA ensures that the credit rating assigned to an entity or instrument should not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship

Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past