The Pakistan Credit Rating Agency Limited

PAK BRUNEI INVESTMENT COMPANY LIMITED

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

REPORT CONTENTS

JUNE 2016

Profile & Ownership

- Pak Brunei Investment Company Limited (PBIC) was incorporated in November 2006 as a joint venture between the Islamic Republic of Pakistan and Brunei Darussalam
- The ownership of these governments is represented through the Ministry of Finance (MoF) in case of Pakistan and Brunei Investment Agency (BIA) represents Brunei Darussalam.
- Key objective of the company is to provide entire range of investment banking activities.
- To capitalize on the opportunities in asset management industry, PBIC established a 100% owned subsidiary, Primus Investment Management Limited (PIML) in December 2011. PBIC has also set up a Modaraba Management Company and has launched its first modaraba – Awwal Modaraba in January 2016

Governance

- The overall control of the company vests in board of directors (BoD), having strong profile and diverse investment management experience.
- The BoD, including the Managing Director (MD), comprises four members with equal representation of the joint venture partners.
- All directors of the company are non-executive with the exception of the MD.
- During the year, Mr. Sofian Mohammad Jani, who is associated with the board since Sep-2014, replaced Mr. Junaid bin Haji Masri as the chairman of the board. He is currently the Assistant Managing Director of BIA.

Management

- PBIC has an established structure with a stable and experienced management team.
- The Managing Director, Ms. Ayesha Aziz, has been associated with PBIC since Jun-07 and has over 22 years of varied experience in the banking and financial sector.

Risk Management

- PBIC's earning assets, constitute major portion of the total assets (CY15: 94%; CY14: 96%).
- Higher disbursements in the working capital portfolio lead to rise in the net advances book.
- The client concentration increased as evident by top 20 customers representing 76% of PBIC's gross advances (CY14: 71%).
- During CY15, with addition of two clients, PBIC's non performing book surged. Nevertheless, PBIC enjoys sound asset quality as evident by its NPLs to Gross Advances ratio (3%), which is the lowest among JVFIs.

Performance

- During CY15, despite decrease in earning assets, the company posted better spread on account of managed asset yield.
- Significant gain on sale of investments supported pre-provision profitability.
- Provision expense and higher tax resulted in largely sustained bottom-line (CY15: PKR 937mln; CY14: PKR 905mln).
- During 1QCY16, PBIC posted a lower profitability on the back of reduced total revenue YoY.
- Strategy includes increasing the scale of lending activities across all segments, including SME. Apart from expansion in short-term financing, significant increase in long-term loans (refinanced through SBP subsidized lines) is in the pipeline. Moreover, it will utilize the platform of its subsidiary – Awwal Modaraba – for private equity and revival financing transactions. However, given associated risks, careful monitoring of the same would remain crucial.

Capital & Funding

- PBIC's funding base consists of money market borrowings and COIs.
- Deposit book is highly concentrated as the whole COI base constitute to eight accounts only.
- PBIC has a strong liquidity profile largely dependent on variation in investment in govt. securities (Liquid Assets / Deposits and Borrowings: 1QCY16: 90%; CY15: 80%; CY14: 95%).
- The company's capital adequacy remains strong at 27% (CY14: 34%).

RATING RATIONALE

Pak Brunei Investment Company Limited is a joint venture, equally owned by Governments of Pakistan and Brunei; sovereign parentage implies strong support. The company has established two subsidiaries, i) Primus Investment Management Limited - an asset management company, and ii) Awwal Modaraba Management Limited - modaraba management company - that has lately launched Awwal Modaraba with PBIC being a major shareholder in it. Establishing a specialized leasing company is also on the agenda. While, build-up of a sizeable revenue stream from these investments may take time. PBIC maintains a strong financial profile, characterized by low-leveraging, liquid investment portfolio, and good asset quality. During CY15, the company, mainly benefiting from gains on trading investment portfolio, managed a sizeable increase in pre-provision profit. While the significant income originated from trading bonds, the loans and advances book also registered considerable growth. The company took provisioning against few loans by deciding not to avail FSV benefit. As a result, provisioning charges had a substantial impact on net interest earnings. Despite reduced net interest income, ROE remained intact. Going forward, the company while gradually expanding its financing business across all areas, intends to continue focusing on its niche of advisory based revival financing to relatively smaller corporate customers and SME Financing.

KEY RATING DRIVERS

The company through its strategic investments intends to expand its business profile by establishing subsidiaries in Private Equity, SME and Revival financing, however achieving reasonable size and dividend stream may take time. Moreover, management of related risks is critical. At the same time, upholding high governance standards and maintaining good asset quality would remain important.

Pak Brunei Investment Company Limited

(PKR mln)

BALANCE SHEET	31-Mar-16	31-Dec-15	31-Dec-14	31-Dec-13
	1Q	Annual	Annual	Annual
Assets				
Earning Assets				
Advances	10,740	10,082	7,386	6,799
Debt Instruments	1,379	2,387	2,489	1,971
- Total Finances	**12,119**	**12,469**	**9,875**	**8,770**
Govt Securities	16,427	7,005	15,675	19,048
Equity Investments	6,609	7,038	5,603	6,082
Investments in Associates & Subsidiaries	355	355	355	250
Other Investments	-	1	30	22
- Total Investments	**23,391**	**14,399**	**21,663**	**25,402**
Others	77	475	77	234
Non Earning Assets				
Non Earning Cash	95	102	123	96
Deferred Tax	72	65	-	-
Net Non Performing Finances	222	220	95	58
Fixed Assets & Others	1,039	1,385	1,068	947
Total Assets	**37,014**	**29,115**	**32,901**	**35,508**
Liabilities				
Certificates of Investment	4,653	4,218	5,164	567
Borrowings	21,449	14,544	18,090	26,392
Interest Bearing Liabilities	**26,102**	**18,762**	**23,254**	**26,959**
Non Interest Bearing Liabilities	**977**	**669**	**507**	**302**
Equity				
Total Equity	9,722	9,724	8,989	8,285
Revaluation Surplus	214	(40)	151	(39)
TOTAL LIABILITIES & EQUITY	**37,014**	**29,115**	**32,901**	**35,508**
INCOME STATEMENT				
Interest/ markup earned	440	1,832	2,503	1,407
Interest/ markup expensed	(301)	(1,279)	(2,036)	(969)
Net Interest/ markup revenue	**139**	**553**	**468**	**438**
Other Income	226	1,230	907	706
Total revenue	**366**	**1,783**	**1,375**	**1,144**
Non Interest/ Non Markup expensed	(71)	(304)	(272)	(219)
Pre-provision Profit	294	1,479	1,102	925
Provision/ (Reversal)	(3)	(180)	4	(8)
Taxes	(94)	(363)	(201)	(211)
Net Income	**197**	**937**	**905**	**706**
Ratio Analysis				
Performance				
ROE	8.1%	10.0%	10.5%	8.4%
Cost-to-Total Net Revenue	19.5%	17.1%	19.8%	19.2%
Capital Gains/ Total Revenue	47.2%	59.7%	42.3%	20.1%
Capital Adequacy				
Equity / Total Assets	26.3%	33.4%	27.3%	23.3%
Capital Adequacy ratio as per SBP	26.9%	27.2%	33.8%	35.9%
Funding & Liquidity				
Liquid Assets/ Deposits & Borrowings	89.9%	79.8%	94.9%	95.5%
Finances/ Deposits & Borrowings	47.0%	67.3%	42.5%	32.5%
Loan Loss Coverage				
Loan Loss Provisions/ NPLs	50%	50%	100%	100%
Net Impaired Lending/Total Equity	2.3%	2.3%	1.1%	0.7%

* Annualized

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

Rating	Definition
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	Pak Brunei Investment Company Limited
Sector	JVFI
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
4-Jun-15	AA+	A1+	Stable	Initial

Related Criteria and Research Joint Venture Financial Institutions - Viewpoint | May-16

Rating Methodology Bank Rating Methodology

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Rating Team Statement

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