RATING REPORT

Pak Brunei Investment Company Limited (PBICL)

REPORT DATE:
June 27, 2023

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*June 27, '23*		*June 28, '22*	

COMPANY INFORMATION	
Incorporated in 2006	**External Auditors:** M/s Yusuf Adil Chartered Accountants
Unlisted Public Company	**Chairperson of the Board**: Ms. Dk Noorul Hayati Pg Julaihi
Key Shareholders (with stake 5% or more):	**Managing Director**: Mr. S.M. Aamir Shamim
Brunei Investment Agency – 50.0%	
Ministry of Finance, Government of Pakistan – 49.999%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Government Supported Entities (July 2020) *https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf* **Rating Scales & Definitions:** *https://docs.vis.com.pk/docs/VISRatingScales.pdf*

Pak Brunei Investment Company Limited

OVERVIEW OF THE INSTITUTION

PBICL was incorporated as a Development Finance Institution (DFI) in 2006 and operates as a joint venture of (Government of Pakistan and Brunei Investment Agency (BIA). In 2022, EY Ford Rhodes Chartered Accountants conducted the external audit of financial statements. The audit firm is listed in the 'A' category of SBP's panel of auditors.

Profile of Chairman

Ms. Noorul is a Portfolio Manager in the Absolute Return Strategy in BIA, the Sovereign Wealth Fund of the GoB. Ms. Noorul has been associated with BIA for 18 years. Her previous roles included Assistant Portfolio Manager and Analyst for Macro and Fixed Income Group. She has also managed the European Fixed Income Portfolio. Before moving onto current role, she was co-leading the private equity team. In her current role she is leading a team of professionals focused on hedge fund investments across the globe. She has also previously served as Director in Audley Insurance Company, wholly owned by BIA. She holds a degree with a major in Economics from Universiti Brunei Darussalam.

Profile of Managing Director: *Mr. S.M. Aamir Shamim has served as Group Head of Treasury and Financial Institutions at BankIslami Pakistan Limited (BIPL). He has also served as SEVP Finance & Treasury Group at the Islamic Bank of Thailand.*

RATING RATIONALE

Pak Brunei Investment Company Limited (PBICL) is a Development Finance Institution (DFI) engaged in provision of financial assistance to industrial and agricultural projects. PBICL is classified as DFI, is regulated by State Bank of Pakistan (SBP). The DFI operates via its head office in Karachi and with a branch office in Lahore. PBICL is a joint venture between Government of Pakistan (GoP) and Government of Brunei (GoB); each having an equal ownership. While interest of GoP is represented by Ministry of Finance (MoF), interest of GoB is represented by Brunei Investment Agency (BIA). In Mar'23, GoB appointed Ms. Dk Noorul Hayati binti Pg Julaihi as the Chairperson of the Board of Directors while in May'23, Federal Government of Pakistan appointed Mr. S.M. Aamir Shamim as the Managing Director of PBICL in place of Ms. Ayesha Aziz.

Advances: In the backdrop of socio-political and economic challenges faced by the country and global economic slowdown amid rising inflation, caused by the commodity super cycle and effects of the Ukraine war, PBICL followed a cautious strategy while making disbursements over the review period. In CY22, the gross advances portfolio of the Company exhibited a growth of ~19% driven by higher disbursements largely meeting the budgeted amount. Also, there were changes in YoY exposures across various sectors given disbursements were mainly directed towards relatively resilient sectors including power, sugar, food, chemicals & pharma, engineering, packaging agriculture and financial sectors. Meanwhile, the Company reduced its exposure in sectors more susceptible in economic downturn like consumer electronics, steel and engineering, textile and hospitality. In terms of segment-wise exposures, the corporate segment remained the mainstay of the DFI's lending operations, followed by Advisory and Strategic Investment Group (ASIG) and Small and Medium Enterprises (SME). Albeit, there is some improvement, the portfolio shows counterparty concentration given significant exposure in the corporate sector. It is pertinent to note that on account of relatively small size of the equity base, concentration in terms of tier-1 capital has remained on the higher side.

Asset Quality: In CY22, the asset quality indicators exhibited improvement as reflected by decline in gross and net infection ratios on account of reduction in NPLs and growth in advances portfolio. The decrease in NPLs was mainly on account of regularization of some accounts in electronics and electrical appliances along with power sector. Meanwhile, due to higher incidence of fresh infection and decrease in advances, there was an uptick in gross infection ratio by end-1Q'23. However, with higher provisioning charge against the advances portfolio (including performing, underperforming and non-performing) according to IFRS 9, the net infection ratio has dropped to 0.89% (CY22: 1.57%; CY21: 2.56%). In addition, provisioning coverage also exhibited notable improvement to 79.2% (CY22: 56.8%; CY21: 53.7%) as of Mar'23. PBICL's gross and net infection is indicative of moderate credit risk and compares favorably to peers.

Investments: As a result of participation in open market operations (OMO) conducted by SBP, Company's net investment portfolio has exhibited sizable growth as of Dec'22 and 1Q'23 while the increase was manifested in floating rate PIBs. Out of the total outstanding government securities exposure, fixed rate PIBs accounted for ~9% (Dec'22: 17.0%; Dec'21: 34.1%) while weighted modified duration of fixed rate is 3.63 years. The weighted average modified duration of overall PIBs portfolio and TFCs/sukuks remained manageable at 0.70 years and 0.19 years, respectively, as of Dec'22. As of Mar'23, total deficit on government securities portfolio increased notably mainly in line with mark to market losses on fixed rate PIBs. Meanwhile, as per management, after subsequent re-pricing of floating rate PIBs there was net surplus on Govt. securities portfolio; majority of the floating rate PIBs have fortnightly re-pricing. Going forward, the management intends to be rather less aggressive in building its investment portfolio. Given leverage ratio of 6.43% (Dec'22: 9.65%; Dec'21: 16.29%) as of Mar'23, against SBP requirement of 3%, the Company still have cushion to expand its investment portfolio. Moreover, the management intends to invest only in market T-bills, going forward. The equity portfolio majorly comprised exposure in dividend yielding stocks of cement and power companies. PBICL has shreded its equity portfolio in 1Q'23 owing to stumbling performance of stock market amid socio-political and economic slowdown. Therefore, overall market and credit risk arising from investment portfolio is expected to remain manageable.

Liquidity: The liquidity profile of DFI is underpinned by availability of funding lines, and adequate coverage of deposits and borrowings via liquid assets, which has improved notably to 55.2% (CY22: 26.4%; CY21: 24.5%) by end-Mar'23 as a result of growth in investment portfolio. Deposit base only comprised certificates of investments (COIs). However, it is to be noted that given the Company has funded relatively long-term Government securities with shorter tenure borrowings, there was liquidity shortfall reported in 1 month, 1 to 2 months, 2 to 3 months and 3 to 6 months buckets, as of Dec'22. However, given the fact that funding against these securities can be easily be arranged in money market, through OMO or SBP discounting, they pose limited threat to the organization's liquidity. Funding of the DFI is done through borrowings, which is the primary growth driver of the DFI. Funding sources include unsecured exposures, borrowing from SBP under the long-term financing facility (LTFF), temporary economic refinance facility (TERF) and various other subsidized financing schemes and repo borrowings, secured by government securities. Since SBP has allowed DFIs to participate in OMOs, it has given opportunity to the Company to leverage its book through investment in government securities, which has resulted in increased repo borrowing in 1QFY23.

Profitability: Overall PBICL's profitability profile is characterized by thin spreads, underpinned by conservative selection of counterparty credit risk and declining advances as proportion of assets. As per management, squeeze in markup spreads in CY22 was due to sharp increase in benchmark rates amidst quarterly repricing of the advances portfolio. In addition, the management remained focused on short-term advances, entailing lower spreads, owing to stressed economic conditions. The efficiency ratio of the DFI has improved on the back of sizeable recurring income in relation to operating expenses and remains comparable to peers. On account of contraction in markup spreads, profit before provisions was reported lower, however, the Company booked net reversals in provisioning vis-à-vis provisioning charge in the preceding year, which led to increase in profit before tax in the outgoing year. The markup spreads on advances came under further pressure due to hike in markup rates in 1Q'23. Meanwhile, the Company has subsequently adjusted the repricing of advances on monthly basis which has reduced the stress on spreads to a great extent. On the other hand, risk adjusted returns from treasury operations have supported the profitability profile of the Company. Given that the probability of further rate hikes can not be eliminated, the management intends to focus on earning risk adjusted returns from treasury while being conservative in core lending operations.

Capitalization: As of Dec'22, tier-1 capital of the Company declined, largely as a result of net deficit on investment portfolio. Meanwhile, in 1Q'23, the tier-1 capital further shrank mainly due to the combined impact of first time adoption of IFRS 9 and net deficit on investment portfolio. This, along with increase in risk weighted assets (RWAs) primarily in line with higher credit risk assets led to decrease in capital adequacy ratio (CAR) as of Dec'22 while CAR remained largely unchanged as of Mar'23 as a result of decrease in RWAs. Net NPLs to tier-1 capital decreased to 3.0% (Dec'22: 5.0%; Dec'21: 6.1%) as of Mar'23, reflecting manageable credit risk. Nonetheless, overall capitalization indicators remain sound with healthy buffers as reflected by CAR maintained well above the regulatory requirements. At present, PBICL's CAR falls in line with the peers and the benchmarks for the assigned ratings. Given the Company holds a sizable investment in floating rate Government securities portfolio, the impact of mark to market losses on CAR due to interest rate increase is expected to remain limited.

Corporate Profile

Pak Brunei Investment Company Limited ('PBICL' or 'the DFI') is a Development Finance Institution (DFI) engaged in provision of financial assistance to industrial and agricultural projects. PBICL is regulated by State Bank of Pakistan (SBP). PBICL operates via its head office in Karachi, with a branch office in Lahore.

PBICL is a joint venture between Government of Pakistan (GoP) and Government of Brunei (GoB); each having an equal ownership. While interest of GoP is represented by Ministry of Finance (MoF), interest of GoB is represented by Brunei Investment Agency (BIA).

Table 1: Shareholding Pattern

Shareholding	Entity	%
Government of Pakistan (GoP)	Ministry of Finance	49.9993%
	Secretary – Economic Affairs Division	0.0007%
Government of Brunei (GoB)	Brunei Investment Agency	50.0%

Board of Directors (BoD) at PBICL comprises 4 directors and is chaired by Ms. Dk Noorul Hayati binti Pg Julai who has been designated as the Chairperson of the Board with effect from March 22, 2023. As per JV agreement, each sponsor has 2 nominee directors on the BoD. The BoD Chairperson is nominated by BIA, whereas Managing Director (MD) is nominated by GoP. Recently, Federal Government appointed Mr. S.M. Aamir Shamim as the MD of PBICL for a tenure of three years in place of Ms. Ayesha Aziz.

Table 2: Board of Directors

Name	Status	Nominee
Ms. Dk Noorul Hayati binti Pg Julai	Chairperson	BIA
Ms. Norakerteni Muhammad	Non-Executive Director	BIA
Mr. Nasir Mahmood Khosa	Non-Executive Director	MoF
Mr. S.M. Aamir Shamim	Executive Director	MoF

There were changes in Board composition in the outgoing year as well. Mr. Nasir Mahmood Khosa was nominated as a non-executive director by the GoP in place of Mr. Arif Ahmed Khan with effect from October 25, 2022. Ms. Norakerteni Muhammad replaced Mr. Sofian Mohammad Jani as a non-executive of the Company by BIA (GoB) with effect from March 22, 2023.

All DFIs operating in Pakistan including PBICL have attained an exemption with a clause related to BRPD Circular No. 15 of 2016 circulated by SBP, which mandates that at least a third of the BoD are independent. However, this exemption is only applicable if the DFI complies with certain requirements including training of directors, performance evaluation of the Board and audit of financial statements through Quality Control Review (QCR) rated firms.

During 2022, three meetings of the BoD were convened while full attendance was observed by all the directors. In order to ensure effective oversight, three committees are also present at Board level. These include Board Audit Committee (BAC), Board Credit and Risk Management Committee (CRMC) and Board Human Resource and Remuneration Committee (HRRC). During the outgoing year 03 BAC meetings, 02 CRMC and 02 HRRC meetings were convened.

The auditors, M/s. EY Ford Rhodes, Chartered Accountants, have completed their assignment for the year ended Dec 31, 2022. Subsequently, upon recommendation of BAC, the Board has appointed M/s Yousuf Adil, Chartered Accountants as statutory auditors of the Company for the year December 31, 2023.

Management Profile

Mr. Shamim has been appointed as Managing Director of PBICL on May 31, 2023 after clearance of fit & proper test by SBP. He has served as Group Head of Treasury and Financial Institutions at Bank Islami Pakistan Limited (BIPL). He has also served as SEVP Finance & Treasury Group at the Islamic Bank of Thailand. Moreover, the management team comprises experienced professionals who have had a lengthy association with PBICL. Total staff strength stood at 98 (Dec'21: 96) as of Dec'22.

Organizational structure of PBICL is well defined with dedicated departmental heads. Along with the core operations of a DFI, PBICL has developed expertise in revival financing. Advisory and Strategic Investments Group (ASIG) generates fee-based income by providing financial services, including transaction advisory services, consultancy on turn-around strategies, financial restructuring, and acting as an arranger and advisor for corporate clients to raise funds via the secondary capital market. PBICL's 3 wholly owned subsidiaries share certain support functions with PBICL. These include administration, HR, IT, Risk, Internal Audit and compliance.

Strategic Holdings

In December 2021, after having received regulatory and Board approvals, a new subsidiary company to carry out corporate restructuring business was formed. As per Court order of Honorable Sindh Court dated March 02, 2023, AWWAL Modaraba has been merged with AWWAL Corporate Restructuring Company Limited (ACRCL). The combined capital of merged entity is approx. Rs. 1.15 billion. The surviving entity ACRCL will principally operate as a business revival entity under the CRC Act 2016 and CRC Rules 2019. PBICL also has two other wholly owned subsidiaries i.e. Awwal Modaraba Management Limited and Primus Leasing Company Limited.

Financial Analysis

Credit Risk

In the backdrop of socio-political and economic challenges faced by the country and global economic slowdown amid rising inflation, caused by the commodity super cycle and effects of Ukraine war, PBICL followed a cautious strategy while making disbursements over the review period. In CY22, gross advances portfolio of the Company exhibited a growth of ~19% driven by higher disbursements amounting Rs. 18.9b (CY21: Rs. 14.4b) largely meeting the budgeted amount of Rs. 19b. These include advances disbursed under short-term financing amounting Rs. 8.9b, followed by Rs. 5.3b disbursed under Long-term Financing Facility (LTFF) by SBP, Long-term loans of Rs. 4.0b and lease portfolio amounting Rs. 703.3m.

The disbursements were largely directed towards Power, Sugar, Food, Chemicals & Pharma, engineering, packaging agriculture and financial sectors. Meanwhile, the Company reduced its exposure in sectors more susceptible to perform poor in economic downturn like consumer electronics, steel and engineering, textile and hospitality. Resultantly, exposure in power sector has increased to 19.4% (CY22: 15.7%), food and beverage sector exposure increased to 9.8% (CY21: 8.8%) while despite new disbursements, chemical and pharma sector YoY exposure decreased slightly to 14.4% (CY21: 14.8%). On the other hand, textile (CY22: 17.3%; CY21: 20.6%), steel and engineering (CY22: 3.6%; CY21: 6.6%) and construction sector (CY22: 3.5%; CY21: 4.1%) saw a reduction in their share to the advances portfolio.

Table 3: Sector-wise (Top 10) breakup of Advance Portfolio & Gross Infection (GI)

	Dec'21	GI	Dec'22	GI
Textile	20.6%	0.5%	17.3%	0.7%
Power, Gas, Water, Sanitary	15.7%	4.2%	19.4%	0.0%
Chemical and Pharmaceutical	14.8%	0.0%	14.4%	0.1%
Food and Beverage	8.8%	17.1%	9.8%	12.9 %
Steel and Engineering	6.6%	0.5%	3.6%	0.9%
Construction	4.1%	0.0%	3.5%	0.6%
Electronics & Electrical Appliances	6.9%	28.5%	3.2%	0.0%
Financial	2.5%	0.0%	3.0%	0.0%
Others	2.4%	3.4%	4.4%	2.4%
Automobile and Transportation Equipment	1.4%	0.4%	1.1%	1.2%
Agriculture, Forestry, Hunting & Fishery	0.8%	0.0	1.7%	0.0%
Gross Advances (In Rs. bn)	**20.8**	**4.9%**	**24.5**	**3.6%**

The advances portfolio entirely comprises private sector exposures which also included lease portfolio of Rs. 1.03b (CY21: Rs. 0.98b). In terms of segment-wise exposures, corporate segment remains the mainstay of the DFI's lending operations, followed by ASIG and SME. SME portfolio witnessed growth of 73.8% in 2022 and reached PKR 2.12b. SME Group's focus remained on facilitating the small and medium sized enterprises sector specifically through deployment of concessionary lines allocated under SBP Schemes. PBICL was the first financial institution to initiate deployment of SBP Schemes. In the ongoing year, two further subsidized lines of SBP were deployed for SME financing i.e. SBP Finance Facility for Storage of Agriculture Produce (FFSAP) and SBP Financing Scheme for Renewable Energy (RE). PBICL's role as a lead institution deploying the concessional finance facilities to urban as well as underserved rural areas has been widely acknowledged.

Table 4: Segment-wise Breakup of Gross Advances

(Rs. in m)	Dec'21	%	Dec'22	%
Corporate	16,557	80%	18,874	77%
ASIG	2,842	14%	3,444	14%
SME	1,218	6%	2,117	9%
	20,617	**100%**	**24,435**	**100.00%**

Albeit, there is some improvement, the portfolio shows counterparty concentration given significant exposure in corporate sector. Top 10 exposures accounted for 34.8% of the total funded portfolio, as compared to 39.6% in the preceding year. On the other hand, non-funded exposure, remained majorly concentrated in public/government sector exposures contributing 78% (CY21: 85%) to the total portfolio of Rs. 24.7b (CY21: Rs. 21.9b). The proportion of top 10 unfunded exposures to the total outstanding portfolio decreased to 5.4% (CY21: 6.1%) as of Dec'22. It is pertinent to note that on account of relatively small size of equity base, concentration in terms of tier-1 capital has remained on a higher side.

Table 5: Funded Exposures (FE) as Percentage of Tier-1 Capital

FE in (Rs. In m)	Dec'21	FE as % of Tier-1 Capital	Dec'22	FE as % of Tier-1 Capital
Top 5	5,141	61%	5,631	75%
Top 10	8,261	98%	8,431	112%
Top 20	12,613	150%	12,575	141%

Gross advances portfolio decreased to Rs. 22.01b owing to reduction in performing portfolio as of Mar'23. Disbursements during the first quarter amounted to Rs. 4.03b. On the other hand, non-performing loans (NPLs) have increased to Rs. 941.2m due to higher incidence of fresh infection, amounting to Rs. 59.6m. Incremental charge against credit loss allowance in 1Q'23 amounted to Rs. 18.9m (CY22: Rs. 101.1m; CY21: Rs. 85.0m).

PBICL implemented IFRS 9 'Financial Instruments' from January 1, 2023. The IFRS 9 replaces the current credit loss measurement method with an 'expected credit loss' model (ECL). The IFRS 9 requires the Company to record an allowance for ECLs for all financial assets not held at FVTPL. The allowance is based on the ECL's associated with the probability of the default in the next twelve months unless there has been significant increase in credit risk since origination. The changes in accounting policies resulting from the adoption of the complete IFRS 9 have been applied retrospectively, except that comparative periods have not been restated. A difference in carrying value of financial assets and financial liabilities resulting from adoption of IFRS 9 are recognized in retained earnings as at January 1, 2023. Accordingly, the impairment allowance presented for 2022 is not comparable to that in 2023.

Table 6: Asset Quality Indicators

	Dec'21	Dec'22	Mar'23
NPLs (In Rs. Millions)	1,018.9	881.6	941.2
Gross Infection	4.89%	3.57%	4.12%
Net Infection*	2.56%	1.57%	0.89%
Provisioning Coverage (Specific)	48.8%	56.8%	79.2%
Provisioning Coverage (Total)	53.7%	56.8%	79.2%

** Only takes into account specific provisions*

In CY22, the asset quality indicators exhibited improvement as reflected by decline in gross and net infection ratios on account of reduction in NPLs and growth in advances portfolio. The decrease in NPLs was mainly on account of regularization of some accounts in electronics and electrical appliances along with power sector as reflected by sector-wise gross infection ratios given above in Table 3. Meanwhile, with increase in NPLs in 1Q'CY23 owing to higher incidence of fresh infection, and decrease in advances portfolio, there was an uptick in gross infection ratio. On the other hand, with higher provisioning charge to the tune of Rs. 833.22m (CY22: Rs. 500.6m; CY21: Rs. 547.0m) as of Mar'23, against the advances portfolio (including performing, underperforming and non-performing) according to IFRS 9, net infection ratio has dropped to 0.89% (CY22: 1.57%; CY21: 2.56%). In addition, provisioning coverage also exhibited notable improvement to 79.2% (CY22: 56.8%; CY21: 53.7%) as of Mar'23.

Forced sale value (FSV) benefit amounting to Rs. 372.2m (CY221: Rs. 438.9m) is available with the Company against certain mortgaged properties held as collateral against non-performing advances. However, the same has not been considered while computing credit loss allowance as at period ending-Mar'23 as it has been computed under IFRS 9. Previously, the company used to avail the benefit of FSV as allowed under the relevant section of amendments in SBP's Prudential Regulations for Classification and Provisioning of Assets, however, now SBP requires provisions for stage 3 (defaulted clients) to be higher of provisions calculated under IFRS-9 or Prudential Regulations.

PBICL's gross infection is indicative of moderate credit risk. Moreover, the Company has history of no write-offs against advances, meanwhile, in CY22, a sum of Rs. 28.1m was written off which was, in fact, difference created as a result of assignment of receivables of an account, decreed against a client, at a discount. Average obligor risk rating (ORR) of the portfolio remained at '3', indicating sound credit quality of the underlying counterparties. Furthermore, gross infection also compares favorably to peers.

As per management, robust risk management framework, effective pre-disbursement evaluation and post disbursement monitoring systems has enabled the Company to manage its credit risk effectively.

Investment

Table 7: Investment Portfolio

(Rs. in m)	Dec'21		Dec'22		Mar'23	
Government Securities	21,410	81.6%	38,974	87.0%	72,618	93.3%
Non-Government Securities	1,962	7.5%	2,477	5.5%	2,471	3.2%
Equities	822	3.1%	1,341	3.0%	749	1.0%
Mutual Funds	0	0.0%	0	0.0%	0	0.0%
Commercial Paper	50	0.2%	0	0%	0	0%
Subsidiaries	2,003	7.6%	2,013	4.5%	2,013	2.6%
Total	**26,247**		**44,805**		**77,851**	

As a result of participation in open market operations (OMO) conducted by SBP, Company's net investment portfolio has exhibited sizable growth by end-Dec'22 and 1Q'23 while the increase was manifested in floating rate PIBs. Out of the total outstanding government securities exposure, fixed rate PIBs accounted for ~9% (Dec'22: 17.0%; Dec'21: 34.1%) while weighted average duration of fixed rate PIBs stood at around 3.6 years Weighted average modified duration of overall PIBs portfolio and TFCs/sukuks remained manageable at 0.70 years and 0.19 years, respectively, as of Dec'22.

Table 8: Breakdown of Govt. Securities Portfolio

(Rs. In m)	Dec'21		Dec'22		Mar'23	
T-Bills	9,625	45.0%	-	-	-	-
Fixed Rate PIBs	7,291	34.1%	6,611	17.0%	6,331	8.7%
Floating Rate PIBs	4,494	21.0%	32,363	83.0%	64,784	89.2%
GOP Ijara Sukuk	-	-	-	-	1,503	2.1%
Total	**21,410**	**100%**	**38,974**	**100%**	**72,618**	**100%**

As of Mar'23, total deficit on government securities portfolio increased to Rs. 2.2b (Dec'22: Rs. 1.69; Dec'21: Rs. 1.19b) mainly owing to mark to market losses on fixed rate PIBs. Meanwhile, as per management, after re-pricing of floating rate PIBs there was net surplus on Net Markup Income from Govt. securities portfolio; majority of the floating rate PIBs have fortnightly re-pricing. Going forward, the management intends to be rather less aggressive in building its investment portfolio. Given leverage ratio of 6.43% (Dec'22: 9.65%; Dec'21: 16.29%) as of Mar'23, against SBP requirement of 3%, the Company still have cushion to expand its investment portfolio. Moreover, the management intends to invest only in market T-bills, going forward.

The deficit on listed equities portfolio amounted to Rs. 217.1m (Dec'22: Rs. 431.8m; Dec'21: Rs. 263.3m) as of Mar'23. The equity portfolio majorly comprised exposure in dividend yielding stocks of cement and power companies. PBICL has shed its equity portfolio in 1Q'23 owing to stumbling performance of stock market amid socio-political and economic slowdown. Therefore, overall market and credit risk arising from investment portfolio is expected to remain manageable.

Liquidity Risk

Table 9: Liquidity Indicators

(Rs. in m)	Dec'21	Dec'22	Mar'23
Deposits	50	54.8	54.8
Liquid Assets	25,506	48,439	78,999
Borrowings	40,285	68,320	99,365
Liquid Assets to Total Deposits & Borrowings	24.5%	26.4%	55.2%
Borrowings from SBP	6,250	6,378	6,548
Investments given as collateral	20,408	34,045	57,675
Repo Borrowings	19,496	13,877	60,781

The liquidity profile of DFI is underpinned by availability of funding lines, and adequate coverage of deposits and borrowings via liquid assets, which has improved notably to 55.2% (CY22: 26.4%; CY21: 24.5%) by end-Mar'23 as a result of growth in investment portfolio. Deposit base only comprised certificates of investments (COIs) carrying markup rate of 15% per annum (2021: 11.25% per annum) with maturity falling on Dec 22, 2023. However, it is to be noted that given the Company has funded relatively long-term Government securities with shorter tenure borrowings, there was liquidity shortfall of Rs. 14.6b, Rs. 11.1b, Rs. 1.7b and Rs. 3.4b in 1 month, 1 to 2 months, 2 to 3 months and 3 to 6 months buckets, respectively, as of Dec'22. (Dec'21: shortfall of Rs. 15.6b in 1 month and of Rs. 4.0b in 1 to two months bucket). However, given the fact that funding against these securities can be easily be arranged in money market, through OMO or SBP discounting, they pose limited threat to the organization's liquidity.

The Company's Liquidity Coverage Ratio (LCR) has remained adequate at above 100% as of Mar'23. Net Stable Funding Ratio (NSFR) has remained well above 100% during the period under review. PBICL has been managing NSFR above 100% quite well and have ample secured funding lines available with big banks. However, there is no regulatory requirement for maintenance of LCR for DFIs.

As illustrated in Table 9, funding of the DFI is done through borrowings, which is the primary growth driver of the DFI. Funding includes unsecured exposures, borrowing from SBP under the LTFF, TERF and various other subsidized financing schemes and repo borrowings, secured by government securities. Given increased investment in Govt. Securities, repo borrowings have increased substantially by end-Mar'23.

Profitability

In the backdrop of the State Bank of Pakistan's (SBP) monetary tightening in 2022, benchmark rates remained high for most of the year. The average benchmark rate for 2022 was around 550 basis points (bps) higher than that in 2021. As a result, PBICL's yield on earning assets increased by ~425 bps while cost of funds increased by ~548 bps leading to contraction in mark-up spreads by ~123 bps.

Overall PBICL's profitability profile is characterized by thin spreads primarily as an outcome of lending at lower rates, underpinned by conservative selection of counterparty credit risk and declining advances as proportion of assets. As per management, squeeze in markup spreads in CY22 was due to sharp increase in markup rates amidst quarterly re-pricing of the advances portfolio. In addition, the management remained focused on short-term advances entailing lower spreads, in the backdrop of stressed economic conditions. PBICL's ROAA compares adversely to peers and the industry, warranting improvement in the same.

Table 10: Profitability Indicators

	2021	2022	1Q'23
ROAA	**1.0%**	**1.0%**	**0.9%***
ROAE	**4.3%**	**4.4%**	**6.5%***
Spread	**1.53%**	**0.30%**	**N/A**
- Average Return on Earning Assets	8.22%	12.48%	N/A
- Cost of Funding	6.69%	12.17%	N/A
Efficiency Ratio	**37.9%**	**35.5%**	**29.8%**
** Annualized*			

During CY22, the markup earned was recorded higher at Rs. 6.9b (CY21: Rs. 3.3b). Around 67% of the markup income (CY21: 64%) was contributed by investment portfolio while contribution of income from advances decreased to 31% (CY22: 35%). However, due to relatively higher increase in markup expensed, net interest margin decreased to Rs. 789.4m (CY21: 866.2m).

The efficiency ratio of the DFI improved to 25.5% (CY21: 37.9%) on the back of sizeable recurring income in relation to operating expenses and remains comparable to peers. Fee and commission income increased by around 47% mainly on account of growth in advisory/participation fee and processing income fee while ~54% of the fee and commission income emanates from trustee fee. In addition, dividened income almost doubled in the outgoing year. However, due to loss on securities, there was a slight increase in total non-markup income. Conversely, opearting expenses incraesed modestly by ~3%.

Table 11: Income Statement Extract

	2021	2022	1Q'23
Net Spread	**866**	**789**	**339**
- *Profit on Financings & Investments*	3,335	6,899	3,714
- *Profit Expensed on Funding*	2,469	6,110	3,375
Non-Markup Income	**340**	**353**	**83**
- *Fee & Commission Income*	72	106	23
- *Dividend Income*	140	287	64
- *Gain/ (Loss) on securities*	125	(43)	(4)
- *Other Income*	3	3	-

On account of contraction in markup spreads, profit before provisions was reported lower at Rs. 708.4m (CY21: Rs. 774.4m). However, the Company booked net reversals of Rs. 58.9m in provisioning against loans and advances vis-à-vis provisioning charge of Rs. 123.6m in the preceding year. Accounting for provisioning reversal against investments and write-off, there was a net reversals in provisions and write off amounting Rs. 35.3m (CY21: charge of Rs. 70.7m) in the outgoing year. Therefore, profit before taxation was reported slightly higher at Rs. 743.7m (CY21: Rs. 703.6m) in CY22.

The markup spreads on advances came under further pressure due to hike in markup rates in 1Q'23. Meanwhile, the Company has subsequently adjusted the repricing of advances on monthly basis on fresh advances or at the time of renewals, which has reduced the stress on spreads to a great extent. On the other hand, risk adjusted returns from treasury operations have supported the profitability profile of the Company. Markup earned posted a YoY growth of ~38% largely on account of augmenation in return on investment portfolio. Similarly, net interest margin increased to Rs. 338.7m (1Q'22: Rs. 130.2m). Profit before taxation was recorded notably higher at Rs. 277.8m as compared to Rs. 76.5m in the SPLY. Accounting for taxation, net profitability increased to Rs. 183.8m (1Q'22: Rs. 59.6m) in 1Q'23.

Given that the probability of further rate hikes can not be eliminated, the management intends to focus on earning risk adjusted returns from treasury while being conservative in core lending operations.

Capitalization

Table 12: Capitalization

(Rs. in m)	Dec'21	Dec'22	Mar'23
Net Equity	**11,305**	**11,505**	**11,076**
- Paid up Capital	6,000	6,000	6,000
- Reserves	1,920	2,121	2,257
- Retained Profits	3,385	3,384	2,818
Tier-1 Capital	**8,436**	**7,556**	**6,649**
Net NPLs to Tier-1 Capital	**6.1%**	**5.0%**	**3.0%**
Leverage	**16.3%**	**9.7%**	**6.4%**
CAR	**29.4%**	**23.0%**	**23.0%**
Tier I CAR	29.4%	23.0%	23.0%
CET I	29.4%	23.0%	23.0%
Dividend Payout	**62.3%**	**59.5%**	**-**

As of Dec'22, tier-1 capital of the Company declined as a result of net deficit on investment portfolio. Meanwhile, in 1Q'23, the tier-1 capital further shrank due to the combined impact of first time adoption of IFRS 9 and net deficit on investment portfolio. This, along with increase in risk weighted assets (RWAs) largely on account of higher credit risk assets led to decrease in capital adequacy ratio (CAR) as of Dec'22 while CAR remained largely unchanged as of Mar'23 as a result of decrease in RWAs. Net NPLs to tier-1 capital decreased to 3.0% (Dec'22: 5.0%; Dec'21: 6.1%) as of Mar'23, reflecting manageable credit risk. Nonetheless, overall capitalization indicators remain sound with healthy buffers as reflected by CAR well above the regulatory requirements. The Company has consistently paid out dividend amounting Rs. 300m each year for the last five years. At present, PBICL's CAR falls in line with the peers and the benchmarks for the assigned ratings. Given the Company holds a sizable investment in floating rate Government securities portfolio, the impact of mark to market losses on CAR due to interest rate increase is expected to remain limited.

Pak Brunei Investment Company Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**2020**	**2021**	**2022**	**1Q'23**
Total Investments	17,482.9	26,246.6	44,805.4	77,852.0
Gross Advances	19,557.3	20,847.2	24,708.5	22,848.3
Advances – net	19,133.9	20,300.1	24,207.9	22,015.0
Total Assets	**40,253.4**	**51,449.8**	**79,937.6**	**111,284.1**
Borrowings	27,763.4	40,284.8	68,320.2	99,365.0
Deposits & other accounts	830.0	50.0	54.8	54.8
Tier 1 Capital	**8,046.7**	**8,435.7**	**7,555.7**	**6,649.3**
Core Equity (Excluding Revaluation Surplus)	11,125.5	11,305.3	11,504.8	11,075.5
INCOME STATEMENT	**2020**	**2021**	**2022**	**1Q'23**
Net Mark-up Income	767.7	866.2	789.4	338.7
Net Provisioning / (Reversal)	34.0	70.7	(35.3)	16.9
Non-Markup Income	687.7	340.3	353.2	82.8
Operating Expenses	366.2	408.9	420.1	126.8
Profit (Loss) Before Tax	1,033.4	703.6	743.7	277.8
Profit (Loss) After Tax	718.4	481.3	502.9	183.8
RATIO ANALYSIS	**2020**	**2021**	**2022**	**1Q'23**
NPLs	983.9	1,018.9	881.6	941.2
Gross Infection (%)	5.03%	4.89%	3.57%	4.12%
Total Provisioning Coverage (%)	43.04%	53.69%	56.78%	79.16%
Net Infection (%)	2.93%	2.56%	1.57%	0.89%
Cost of Funds (%)	10.3%	7.57%	12.17%	N/A
Net NPLs to Tier-1 Capital (%)	6.96%	6.15%	5.04%	2.95%
Tier- 1 CAR (%)	26.64%	29.42%	23.02%	23.04%
Capital Adequacy Ratio (C.A.R (%))	26.64%	29.42%	23.02%	23.04%
Markup Spreads (%)	1.2%	1.53%	0.30%	N/A
Efficiency (%)	36.66%	37.92%	35.53%	29.82%
ROAA (%)	1.47%	1.05%	0.98%	0.92%*
ROAE (%)	6.58%	4.29%	4.41%	6.51%*
Adjusted Liquid Assets to Deposits & Borrowings (%) **	21.43%	24.46%	26.14%	55.19%
Liquid Assets to Deposits & Borrowings	46.86%	60.48%	69.13%	79.89%

**Annualized*

*** (Liquid Assets – Investments held as collateral)/(Deposits + Borrowings –Repo Borrowings)*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Pak Brunei Investment Company (PBICL)
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-Jun-23	AA+	A-1+	Stable	Reaffirmed
28-Jun-22	AA+	A-1+	Stable	Reaffirmed
29-Jun-21	AA+	A-1+	Stable	Reaffirmed
29-Jun-20	AA+	A-1+	Stable	Reaffirmed
26-Jun-19	AA+	A-1+	Stable	Reaffirmed
27-Jun-18	AA+	A-1+	Stable	Reaffirmed
02-Jun-17	AA+	A-1+	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings

<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Fahad Fahim</td><td>Head of Enterprise Risk Management</td><td rowspan="5">May 31, 2023</td></tr>
<tr><td>Ms. Humaira Siddique</td><td>Chief Financial Officer</td></tr>
<tr><td>Mr. Saiyid Najam Rizvi</td><td>Head of Credit Risk & Monitoring</td></tr>
<tr><td>Mr. Adnan Naqvi</td><td>Head Corporate Banking</td></tr>
<tr><td>Mr. Mustafa Ali Baig</td><td>Head of Treasury</td></tr>
<tr><td>Mr. Abdul Jaleel Shaikh</td><td>Chief Risk Officer</td><td>June 6, 2023</td></tr>
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