RATING REPORT

Saudi Pak Industrial and Agricultural Investment Company Limited

REPORT DATE:
June 23, 2023

RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 23, 2023*		*June 28, 2022*	

COMPANY INFORMATION	
Incorporated in 1981	**External auditors:** Grant Thornton Anjum Rahman
Unlisted Public Company	**Chairman of the Board**: Mr. Sultan Abdulrauf
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Rizwan Sheikh
Government of Pakistan – 50%	
Kingdom of Saudi Arabia – 50%	

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

Saudi Pak Industrial and Agricultural Investment Company Limited (Saudi Pak)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Saudi Pak Industrial & Agricultural Investment Company Limited (Saudi Pak) is a development financial institution. It has a Head Office in Islamabad and regional offices in Lahore and Karachi. Saudi Pak was founded in 1981 and later changed its status to a public unlisted company.

Profile of Chairman
Mr. Sultan Abdulrauf, a nominee of KSA, has more than 24 years of experience in corporate finance and equity management.

Profile of CEO
Mr. Rizwan Sheikh is a seasoned professional with more than 25 years of experience in driving portfolio strategy for local and international banks and rolling out innovative responsible finance initiatives for corporate and MSME customers.

Rating Rationale

The ratings assigned to Saudi Pak Industrial and Agricultural Investment Company Limited ("Saudi Pak" or "the Institution") take into account its strong shareholders' profile, with two sovereigns, Government of Pakistan and Kingdom of Saudi Arabia (KSA), having an equal stake in the Institution under the terms of a joint venture agreement. KSA has outstanding international ratings of 'A' and 'A+' from global credit rating agencies. The ratings take note of growth momentum witnessed in the loan book post covid-19 repercussions with management's aim to build a diversified portfolio of Tier-I and Tier-II clients, largely pertaining to project financing. The gross infection increased on a timeline owing to classification of one client along with implementation of IFRS-9. The ratings remain constrained on account of relative size of legacy npl portfolio vis-à-vis peers. Nevertheless, the ratings factor in additional provisioning buffers kept under IFRS-9 resulting in negative net infection and over 100% provisioning coverage of npls. Maintenance of asset quality will remain important for ratings as rising inflation and benchmark rates may affect the debt repayment capacity of Saudi Pak's clientele, leading to potential credit risk headwinds and npl accretion.

Given investment portfolio majorly comprises government securities the credit risk is on the lower side. Moreover, the elevated market risk owing to high interest rate environment prevalent is mitigated to some extent as floater rate PIBs account for 73% of Saudi Pak's total PIB portfolio. Overall, liquidity profile is comfortable with sufficient liquid asset coverage to deposits and borrowings; the same is in sync with the median of peers. The ratings reflect spread compression, dip in profitability indicators and reduction in equity base on account of initial adoption of IFRS-9 and comprehensive loss booked on investments. On the other hand, Capital Adequacy Ratio (CAR) remains sound and exhibits considerable room for growth. Going forward, pressure on ratings will remain given recovery of profitability indicators and appropriate repositioning of investment portfolio is not achieved in the medium term.

Corporate Profile

Saudi Pak was incorporated in 1981 as a development financial institution (DFI), with primary objective of investing and financing in industrial and agro-based industrial projects in Pakistan. The Institution is a joint venture agreement between its two sponsors, the Government of Kingdom of Saudi Arabia and the Government of Islamic Republic of Pakistan (GoP). Saudi Pak's Board of Directors (BoD) has a total of six members including 3 nominees each of the GoP and the KSA. The Board comprises of professionals with vast experience in development finance and government-supported entities. The Chairman of the Board is Mr. Sultan Abdulrauf, a nominee of the KSA, who has rich experience in investment banking and private equity management. Mr. Zafar Hassan acts as the Deputy Chairman and is a nominee of the GoP. He is the current Secretary of Food Security & Research. Composition of the BOD is attached as Annexure-1 to the report. To maintain effective oversight, the BOD has three committees in place namely Board Audit Committee (BAC), Board Human Resource & Remuneration Committee (BHRC) and Board Risk Management Committee (BRMC).

Management:

The management is spearheaded by Mr. Rizwan Sheikh who brings with him over 25 years of extensive and diversified experience in the financial sector of the country. Mr. Umar Saeed Khan is functioning as Group Head Business. Mr. Safdar Abbas Zaidi was appointed as CFO/Head Finance division in Apr'21. Ms. Tayyaba Yamin heads the Human Resource Division and has been in charge since Sep'20. Mr. Muhammad Azam is currently the Acting Head of Special Assets Management (SAM) division while Mr. Arif Majeed leads the Compliance Division. The IT division is under the supervision of Mr. Ali Imran. Mohammed Ghairat Hayat, Head RMD & CAD, resigned, while Mr. Umair Hashim, VP-RMD, has been in charge of RMD & CAD on an interim basis since May 8, 2023. Permanent hiring for the position has been advertised by Saudi Pak. Other than the aforementioned, no major change was evidenced during the rating review period. Brief profiles of the management are attached as Annexure-II to the report. The number of permanent staff members employed at Saudi Pak was recorded at 70 (FY21: 67) at end-FY22 with additional 85 (FY21: 92) outsourced employees. Saudi Pak has sixteen management committees keeping effective overwatch of operations as of Dec'22. Financial statements for FY22 were audited by Grant Thornton Anjum Rahman who are reappointed as external auditors for the ongoing year.

Internal Audit

Internal Audit (IA) division at Saudi Pak is headed by Mr. Ali Aosjah Muhammad and is supported by a team of three personnel. The scope of the IA division included risk-based audit approach as per the applicable guidelines on Internal Audit Function issued in April, 2019 by SBP. All divisions were audited in FY22 in line with the internal audit plan including the pre-audit of financial transactions and other activities on routine basis. The pre-audit of credit disbursement falls under the ambit of Compliance division. Scope of IA division also includes post audit of credit disbursements, regional offices and all the Head Office divisions. IA plan for FY22 included audit of all functions; however, for Information Technology Division (ITD) external IT consultant was engaged as per the approved audit strategy during the rating review period.

Risk Management

Mr. Umair Hashim, VP-RMD was given the interim charge of RMD & CAD effective May, 08, 2023 after the resignation of Mr. Mohammad Ghairat Hayat. Total staff strength of the division increased to 6 (FY21: 5) as two internal sources were permanently transferred to RMD & CAD in the outgoing year. Recently, information security function is reportable to RMD. RMD is divided into Credit Risk Unit, Market & Liquidity Risk Unit and Operational Risk Unit. Each proposal has to pass through RMD for review prior to sanctioning. During the review process, Key Risk Indicators (KRIs) are highlighted and subsequently, rating grades ae assigned independently, according to obligor risk rating model and facility risk rating model; that forms the part of review report which is then submitted to the originating unit (OU). The OU responds to each of the points underscored which later goes to Credit Investment Committee (CIC). After reviewing the same, the proposal is sent for approval/non-approval from Chief Executive (CE). Further, as an ongoing process, the grades of outstanding obligors are reviewed on annual basis and grades are revised or maintained based on the obligor's latest financial statements and payment behavior. Moreover, Credit Risk Unit also prepares reports pertaining to distribution of portfolio, migration or collection of loans, party wise breakup, quality-wise breakup, sector-wise breakup and geographical breakup. Accordingly, watch lists are prepared and the reports are submitted to Credit Risk Management Committee (CRMC) for review on quarterly and biannual basis along with non-performing loan portfolio details.

Market and Liquidity Risk Unit fetches data on daily basis from treasury division, portfolio management division and other external sources. Various risk matrices, such as Value at Risk (VaR), sensitivity analysis and stress tests are conducted on regular basis to ensure that the both the departments' portfolios are within the approved limits and in accordance with the internal policy structure. RMD along with ALCO are responsible for monitoring market and liquidity risks. Liquidity gap reports are generated on a periodic basis and are discussed in ALCO. Operational risk coordinators appointed in every division, report risk events in their area of operation in a particular format. Subsequently, every operational risk event incurred is reported and analyzed for the root causes. Accordingly, any control or mitigation measures are formulated and sent to Operational Risk Management Committee (ORMC), which meets on quarterly basis. Secondly, this unit contemplates Key Risk Indicators (KRIs) based on standard industry practices. For mitigation of inherent operational risks, Risk & Control Self-Assessment (RCSA) exercises are conducted. It entails complete RCSA for corporate finance division for one complete business line. Monitoring is done for borrowing and capital adequacy levels. Environmental Risk Rating (ERR) is aligned with Integrated Security System to provide additional layers for security for prudential concerns. ERR is calculated on all fresh cases and large clients. Moreover, with regard to Operational Risk Rating (ORR), SBP has introduced changes to conduct Money Laundering/Terrorist Financing (ML/TF) assessments at entity level. Subsequently RMD supports compliance division in ML/TF.

For credit risk assessment, Obligor Risk Rating (ORR) is assessed through outsourced software using weights for financial and non-financial data. The assessment criteria take into account obligor profile, clients cash flow strength, business risk, profitability and security quality. The clients are rated on a scale of 1-12. As per institution's credit policy, client with rating of below '5' is not eligible for financing. Clients having internal ratings below investment grade are classified as watch-list accounts. Watch list of the Institution comprised three clients on advances and investments side during FY22. Ratings generated by the software can be amended based on the professional judgment of RMD and Corporate Finance Division (CFD). Two Risk Management Committee meetings were convened in FY22 to deliberate on stress testing, NPLs and other risks faced by the institution. RMD also assessed the impact on additional provisioning due to implementation of IFRS 9 in the outgoing year.

Loan Approval Process

There were no changes in loan approval process during the review period. Initial due diligence is conducted by the CFD after which the proposal is sent to RMD which is responsible for assessing risks associated with the transaction. Once input from RMD is received, proposal is forwarded to the Credit and Investment Committee (CIC). The CIC was convened by GH-Business and included Head PMD, Head CFD, Head CAD and CFO. After recommendation from CIC, the proposal is submitted to the CEO/GM for final approval. For FY22, total per party limit (funded + non-funded) and total group limit (funded + non-funded) remained unchanged at Rs.1 billion and Rs.2 billion, respectively. Per sector limit is maintained at 30% of the outstanding portfolio. As per SBP requirements, sector concentration for real estate was capped at 10%.

Mr. Muhammad Azam now holds the charge as Acting Head SAM while Mr. Muhammad Yousaf Kharal, a senior VP was transferred to CAD. Staff strength of CAD is 5 (FY21: 8). CAD is responsible for post-disbursement credit monitoring which includes keeping track of borrower's compliance level with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments. Completeness of documentation in line with terms and conditions is also ensured by the CFD/CAD/Law Division. During FY22, a sum of Rs. 251m has been recovered, against a target of Rs. 162m by SAM. Furthermore, the management has set recovery target of Rs. 315m for SAM for the FY23. ECIB reports are generated before loan approval and prior to each disbursement. The SAM division with a headcount of 5 (FY21: 6) is responsible for recovery of non-performing loans. SAMD in consultation with Law division make all efforts to effect recovery from NPLs under litigation. As of December 2022, damages/recovery suits pending in courts against Saudi Pak involving contingent liabilities amounted to Rs. 1.8b. Around Rs. 1b pertained to damages claim by Macpac Film Ltd., Rs. 200m is for damages filed by Muhammad Zafar Sultan Paracha and damages suit of Rs. 600m filed by Kohinoor Mills Limited. All of these cases are pending in court and the management expects their dismissal on merits after due process of law.

Information Technology

ITD at Saudi Pak is headed by Mr. Ali Imran. The total strength of the division stood at 7 (FY21: 8) at end-FY22. As per SBP guidelines, Information Technology Governance Framework (ITGF) has been further improved during the review period in FY22 by reviewing and fulfilling the gaps integrating with overall enterprise level risk management program to mitigate technology risk while complying with SBP guidelines and fully aligning technology and business strategies. During FY22, Money Market System (FAB) has been upgraded into Net Technology using Oracle Database to have secure interface and uniform platform. The deployed system is accessible online to the users of Head Office and regional offices. The new system is specialized customized software to facilitate and meet the core requirements of Treasury and Settlement Division in an integrated environment. The existing Operational Risk system has further been improved in close liaison with RMD, following a revised operational model with additional features to enhance its functionality. IT infrastructure of Saudi Pak is secured by Firewall and end point protection against any internal and external intrusions. Business Continuity and Disaster Recovery plans are in place and are approved by the BoD. The same is reviewed by management and Board on periodic basis or as and when required to cater for any change in requirement or process in line with Saudi Pak and regulatory requirements.

ITD intends to upgrade the IT infrastructure, strengthening the systems for connectivity and communication to enhance operational efficiency during the ongoing year. Credit Portfolio System and Fixed Asset System (FAS) are also planned to be reviewed and updated during FY23. Upgraded FAS would then be integrated with financial system to facilitate the users of Finance Division. ITD also intends to develop a system (Automating complete Audit Process Cycle) to facilitate audit functions encompassing Audit Task Management System, Risk Based Audit Plan and General Ledger Transaction Monitoring in FY23. Furthermore, in the ongoing year, ITD has planned upgradation of HR/ESS (Employee Self-Service) system, Audit Software System, network bandwidth and SBP Data Inspection System.

Strategic Investments

Saudi Pak has a strategic investment in Saudi Pak Real Estate Limited (SPREL) worth Rs. 500m. SPREL is a wholly owned subsidiary of Saudi Pak and is involved in the real estate business. SPREL has an asset base of Rs. 811.0m (FY21: Rs. 769.7m) comprising of two offices at Tricon Center, Lahore, land in Royal Residencia and some cash parked in liquid assets. The management is also exploring the opportunity to form a joint venture with a reputable company to enhance the revenue and profitability of SPREL. The company posted a profit of Rs. 42.9m (FY21: Rs. 29.4m) during the outgoing year.

Implementation of IFRS-9 & its impact:

IFRS-9 has fundamentally changed the Bank's loan loss impairment method by replacing incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1st Jan, 2023, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS-9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Financial Analysis

Asset & Investment Mix

Total asset base of the Institution increased on a timeline basis and was solely funded by growth in borrowings, primarily repo borrowings. Given, Saudi Pak is a secondary market borrower the avenue of deposits (barring COIs) to fund high operational scale is inaccessible. The increase in asset base was mainly manifested in lending to financial institutions as the net advances portfolio largely remained unchanged while the proportion of investments in the total asset mix was recorded lower at end-1QFY23. The snapshot of asset mix is presented below:

(Rs. millions)	Dec'21	Dec'22	Mar'23
Cash and balances with treasury banks	0.2%	0.2%	0.2%
Balances with other banks	0.3%	0.3%	0.1%
Lending to financial institutions	0.0%	0.0%	6.4%
Investments	69.7%	67.8%	66.4%
Net Advances	15.4%	17.0%	15.6%
Fixed assets	9.5%	7.8%	7.5%
Other assets	4.9%	6.9%	3.8%
Total Assets	**44,688**	**53,607**	**55,305**

In absolute terms, the investment portfolio augmented during the rating review period; the same was a function of channeling of additional liquidity towards government securities PIB portfolio by end-1QFY23. Subsequently, credit risk emanating from investment portfolio is considered low as government securities accounted for 86% (FY22: 86%; FY21: 81%) of the investment portfolio at end-1QFY23. The table below presents the investment portfolio *(carrying values)* position:

Investments (Rs. m)	Dec'21	Dec'22	Mar'23
PIBs	25,168	31,194	31,741
T-Bills	0	0	0
Shares - Listed	2,523	2,225	2,228
Shares - Unlisted	513	510	510
Listed TFC/Sukuk	2,427	1,892	1,713
Subsidiary/Associate	500	500	500
Total	**31,131**	**36,321**	**36,692**

Government Securities:

In line with increasing benchmark rates along with fixed rates PIBs *(at cost)* constituting 26% (FY22: 27%; FY21: 34%) of the total PIB portfolio at end-1QFY23, the Institution faced moderate levels of market risk. In order to mitigate market risk, Saudi Pak maneuvered to reposition its PIB portfolio with increased focus towards floating rate securities. Subsequently, the Institution purchased 3-year floating PIBs worth Rs. 7.0b in FY21 & FY22. However, despite the repositioning carrying out to diffuse the impact of interest rate movements, the Institution booked a deficit of Rs. 1.8b during the outgoing year as opposed to Rs. 988.4m booked in FY21.The details of deficit booked on different PIBs is summarized below:

Issue Date	Dec'21			Dec'22			
	Amortized Value	Market Value	Revaluation	Amortized Value	Market Value	Revaluation	Deficit in FY2
7-Oct-21	-	-		4,947	4,918	(29)	(29)
7-Apr-22	-	-		1,958	1,961	3	3
19-Sep-19*	6,349	5,927	(422)	6,297	5,578	(719)	(297)
12-Jul-18*	2,560	2,190	(369)	2,552	1,976	(576)	(207)
21-Feb-19	2,999	3,002	3	2,998	2,966	(33)	(36)
22-Aug-19	14,249	14,049	(200)	14,242	13,796	(446)	(246)
Total	**26,157**	**25,168**	**(988)**	**32,994**	**31,194**	**(1,801)**	**(812)**

**Fixed rate PIBs*

Further, given the entire aforementioned portfolio was categorized under available for sale, other comprehensive loss booked under revaluation of investments amounted to Rs. 407.0m (FY21: Rs. 384.3m) at end-FY22. Subsequently, the aggregate deficit on investments increased to 1.3b (FY21: Rs. 880.4m) with surplus on revaluation on assets recorded lower at Rs. 1.3b (FY21: Rs. 2.0b) by end of the outgoing year. The modified duration of fixed rate 5-year (Rs.6.3b) and 10-year (Rs.2.5b) PIBs was recorded at 1.46 years and 3.87 years respectively at end-FY22. As per the management the strategy adopted to combat high market risk faced, Saudi Pak decided to dispose of the 10-Year PIBs aggregating to Rs. 2.5b maturing in 2028 in smaller chunks; the securities worth Rs. 600m each were sold in the ongoing year in two tranches of Rs. 300m each in Mar'23 and Apr'23.

On the other hand, the management wants to retain the 5-year PIBs amounting to Rs. 6.3b at end-1QFY23 till their maturity in 2024. Out of the total PIB portfolio, with implementation of IFRS-9 during the outgoing year the Institution placed PIBs amounting to Rs. 6.2b under HTM during 1QFY23 on amortized cost; therefore, the same is no more susceptible to mark-to-market losses due to interest rate fluctuations. The deficit was recorded slightly lower at Rs. 1.6b at end-1QFY23. In addition, with one-time adjustment on initial application of IFRS-9 on revaluation of investments, a surplus of Rs. 628.3m was recorded resulting in reduction of aggregate deficit to Rs. 659.1m for FY22 as opposed to Rs. 1.3b based on previously accounting standards. However, with loss on investments (net of tax) amounting to Rs. 390.3m booked, the deficit on investments stood at Rs. 1.0b at end-1QFY23. The snapshot of PIB portfolio (at face value) is tabulated below:

Movement in PIBs (Rs. m)			
Issue Date	**Dec'21**	**Dec'22**	**Mar'23**
19-Sep-19	6,200	6,200	6,200
12-Jul-18	2,500	2,500	2,200
Total Fixed PIBs	**8,700**	**8,700**	**8,400**
7-Oct-21	-	5,000	5,000
7-Apr-22	-	2,000	2,000
21-Feb-19	3,000	3,000	3,000
22-Aug-19	14,000	14,000	14,000
Total Floater PIBs	**17,000**	**24,000**	**24,000**
Total PIBs	**25,700**	**32,700**	**32,400**

Going forward, the management plans to invest in short-term floating rate securities in the ongoing increasing benchmark rate scenario to mitigate market risk. In addition, triggers have been placed in risk management framework to manage losses arising from investment in fixed rate securities. At end-FY22, there were asset-liability mismatches in over 1 day till 3 months buckets owing to elongated position of government securities, majority of funding comprising long-term advances and short-term borrowings procured. As per the management, the liquidity risk arising from this maturity mismatch risk is to be mitigated through available revolving bank credit lines and un-encumbered PIBs.

Equity Market Investments:

Carrying value of equity market investments in listed companies stood lower at Rs. 2.2b (FY21: Rs. 2.5b) at end-Dec'22 owing to liquidation of investment in fertilizer sector. The listed equity portfolio primarily comprised highly liquid dividend yielding stocks. Moreover, the equity portfolio largely comprises of top-tier blue chip companies. Major exposures included commercial banks 26.4% (FY21: 20.1%), power generation & distribution 27.1% (FY21: 28%), and oil & gas exploration companies 15.9% (FY21: 16.1%) at end-Dec'22. In addition, Saudi Pak has exposure in preference shares of Engro Polymer & Chemicals which are dividend yielding in nature. According to management, the company's stock portfolio outperformed the KSE 100 index by 13.1% (FY21: 4.6%) on a total return basis during 2022. In absolute terms, Saudi Pak's PMD return was recorded at 3.76% as opposed to negative return of KSE-100 Index of 9.36% during the outgoing year. The internal limit on investment in listed equities remained unchanged at 30% of the total equity base during the review period. The exposure in listed equities declined on account of adoption of IFRS-9 coupled with disposal of investments during the ongoing year. In addition, barring power sector limit at 40%, sector limit for investment in equities was maintained at 30% of the total equity portfolio. In addition, Saudi Pak shall not invest in single scrip in excess of 5% of its paid-up capital or 10% of paid-up shares of investee, whichever is lower. Currently, no change in limits is being proposed for the ongoing year. With decline in KSE index in the outgoing year, deficit of Rs. 94.4m (FY22: Rs. 98.9m; FY21: Rs. 30.5m) has been accumulated at end-Mar'23. In addition, provisioning for diminution in value of listed equity was also booked at Rs. 204.1m (FY21: 101.3m) in FY22. On the other hand, dividend income on stock market investment was booked at Rs. 338.3m (FY21: 275.3m) during the outgoing year. Going forward, the Institution plans to focus on its core business of lending with no incremental investment to be made in stock market in the ongoing year.

Net investment in unlisted shares amounted to Rs. 510.0m (FY21: Rs. 512.5m); major exposures included investment in Pakistan Gas Port Consortium (PGPC) amounting to Rs. 330m and Pace Barka Properties Limited of Rs. 168.8m. The provisioning against the unquoted equities remained at Rs. 273.8m at end-FY22. The investment in PGPC yields an interest income at 6M KIBOR+5.5%. While there are some legal issues related to PGPC, the company is receiving dividends from this investment. Pace Barka Properties Limited comprised investment in hotel property and leasehold land. Valuation of the property has increased and the company has hired Zameen.com as marketing service provider. Apart from the aforementioned, most of other unquoted investments are non-earning distressed legacy assets which have been fully provided for.

TFCs:

Saudi Pak's net investment in both listed and unlisted TFCs (cost) decreased to Rs. 2.5b (FY21: Rs. 3.0b) at end-FY22. The absolute amount of non-performing (npl) TFCs was recorded slightly lower owing to cumulative recovery of Rs. 16.5m on two npl TFC namely Agritech Limited and

Worldcall Telecom Limited. The provisioning coverage on the other hand remained unchanged at end-Dec'22. There was no addition in the npl TFCs during the rating review period. Major npl TFCs comprised of Agritech Limited (Rs. 272m) and Azgard Nine Limited (Rs. 262m). In aggregate, both these exposures constitute 83.0% (FY21: 83.1%) of the total npl TFC portfolio; the same were fully provided at end-Dec'22. As per management, TFC of Agritech is available for sale whereas the instrument of Azgard Nine is expected to be declassified in the ongoing year. With return on TFCs pegged with market rates, interest rate risk in the investment is considered manageable. Out of the performing TFC portfolio, recovery due amounting to Rs. 33.0m from Silk Bank Limited was not made during the outgoing year. The issuer, Silk Bank, has ceased to make the coupon payments during the current year because of the lock in clause having been invoked by State Bank of Pakistan (SBP). Therefore, the health of the performing portfolio is impacted in line with aforementioned non-payment event. The RMD has also placed Summit Bank on watchlist of potential NPLs arising in the future. Further, in line with adoption of IFRS-9, the npls increased significantly during the ongoing year as the portfolio is now recorded at fair value. Although, the credit loss allowance increased to Rs. 947.0m by end-1QFY23, the same was offset by sizable increase in npls. As a result, asset quality indicators weakened at end-1QFY23. Going forward, the management expects provisioning reversal of Rs. 214m against Agritech TFC against the scheme of arrangement being carried out.

Credit Quality of TFC Portfolio (Rs. m)	Dec'21	Dec'22	Mar'23
Gross Lending-TFC	3,038	2,499	2,660
NPLs	660	643	1,443
Provisioning Coverage	95%	95%	66%
Gross Infection	21.7%	25.7%	54.2%
Net Infection	1.4%	1.8%	29.0%

Saudi Pak's overall non- earning assets increased by end of the outgoing year primarily in line with higher non-performing advances and TFCs. However, despite increase in absolute value, the proportion of non-earning assets to total assets was recorded lower at 8.7% (FY21: 9.6%) at end-FY22 in line with augmentation of the asset base.

Non-Earning Investments (Rs. m)	Dec'21	Dec'22
Loans and TFCs	3,047	3,421
Strategic Investment	577	577
Unquoted Investment	443	454
Asset held of Sale	78	75
Quoted Stock	**149**	**149**
Total	**4,293**	**4,676**

Credit Risk

The disbursement activities post covid related disruptions picked pace during the outgoing year, therefore the amount disbursed, albeit slightly lower than the target of Rs. 4.0b stood higher at Rs. 3.8b (FY21: 3.0b) for FY22; the same reflected positively on Saudi Pak's Gross Loan Portfolio (GLP) which was in turn recorded higher at Rs. 11.5b (FY21: Rs. 9.1b) at end-FY22. The major increase was manifested in long-term loans extended to cement, mobile communication, engineering and hospitality sectors. In addition, the Institution also provided short-term loans for working capital requirements to the tune of Rs. 861.5m to companies operating in rubber, textile and electrical consumer durables sectors. Despite political instability and weak economic indicators, the positive momentum in lending was evidenced in the outgoing year as well with Saudi Pak's GLP closing at Rs. 12.2b at end-1QFY23. Nevertheless, in order to maintain portfolio health in currently distressed economic environment the management has now opted for selective and cautious growth; the net disbursement target therefore remains unchanged at Rs. 4.0b (gross disbursements target being around Rs. 6.0b) for the ongoing year. As per the management, the Institution plans to focus on clients with low import dependency, involved in import substitution and having export-based model. In addition, Saudi Pak's is also developing short-term products to tap agro based clients through discounting/factoring of inventory/receivables. Apart from corporate lending, the management aims to enhance is efforts towards reaping higher non-financial income through financial advisory and consultancy.

Due to the limited size of lending portfolio, concentration of top-10 exposures in terms of advances portfolio largely remained similar (FY22: 65.2%, FY21: 64.2%). Given small size of the lending portfolio, concentration continues to remain high. The single largest exposure represented 7.1% (FY21: 6.3%) of the company's core equity at end-FY22. The detail of top-10 exposures is presented in the table below:

Top-10 Exposures (Rs. m)	Dec'22
Lucky Cement Limited	995
Select Technologies (Pvt.) Limited	900
Air Link Communication Limited	800
Pak Elektron Limited	787
Hub Power Company Limited	758
Royal Hospitality (Pvt.) Limited	750
Fazal Cloth Mills Limited	715
Reliance Weaving Mills Limited	659
PGP Consortium Limited	578
Big Bird Foods (Pvt.) Limited	568
Total	**7,510**

In terms of sectoral concentration, textile sector constituted the highest share at end of the outgoing year. The management strategically reduced exposure in textile sector and focused towards telecom, transport, automotive, services, cement and energy sectors. Saudi Pak's aggregate exposure in textile sector was consciously reduced through CFD's prudent underwriting to avoid the internal breach of maximum exposure of 30% in one sector evidenced in FY21. As per the management, there were no internal breach in terms of sector limits and per party/group limits faced during the outgoing year.

Gross Advances by sector (Rs. m)	Dec'21	%	Dec'22	%
Textile	3,453	37.9%	3,220	28.1%
Power, Gas, Water, Sanitary	1,195	13.1%	1,011	8.8%
Dairy and Poultry	1,056	11.6%	1,056	9.2%
Transport, Storage and Communication	800	8.8%	1,700	14.8%
Electronics and electric appliances	871	9.6%	951	8.3%
Services	276	3.0%	901	7.9%
Others	1,459	16.0%	2,636	23.0%
Total	**9,109**	**100%**	**11,475**	**100%**

Asset Quality

During the outgoing year, NPLs increased to Rs. 2.8b (FY21: Rs. 2.4b) owing to delinquency of one client pertaining to an automobiles allied firm recorded. As per the management, no other case of impairment was reported during the rating review period. Top NPLs at end-Dec'22 include Kohinoor Spinning Mills (Rs. 365m), Chenab Limited (Rs. 355m), Brother Sugar Mills (Rs. 200m), and Dewan Group (Rs. 312m). These exposures constitute 44% (FY21: 59%) of the total NPL portfolio (advances); a few of them are under negotiations and are expected to be recovered over the next two years. Comfort is drawn from the fact that all the aforementioned impaired exposures are provided in full by the Institution. As per the management, around two-thirds of the delinquent portfolio constitutes of legacy portfolio classified before 2010. Despite incidence of a new NPL, the gross and net infection ratios improved by end-FY22 owing to growth in GLP. However, provision coverage was recorded lower as the net FSV benefit already availed was increased by Rs. 374.3m which resulted in specific provision reduction for the year by the same amount. If the FSV benefit had not changed, before and after-tax profit would have decreased by Rs. 374.3m (FY21: nil) and R. 265.7m (FY21: nil) respectively at end-FY22. The decrease in provisioning coverage was also a function of recording of new NPL during the outgoing year against which no provisioning is recorded. Moreover, Saudi Pak provided general provisioning of Rs. 86.4m during the outgoing year, i.e., 1% of regular loan portfolio other than staff advances on the anticipation that challenging economic conditions may have an adverse impact on performing loans and risk of increase in NPLs cannot be precluded. Apart from NPL, one energy sector client was provided rescheduling to the tune of Rs. 461.0m during the review period; however, post-restructuring the client is regular with its payments.

In line with recording of portfolio on fair value basis under IFRS-9, NPLs increased to Rs. 3.3b at end-1QFY23. Given, Saudi Pak's impaired portfolio largely comprises of old inherent portfolio, majority of NPLs pertained to stage-3 loss category under IFRS-9. Subsequently, the gross infection ratio stood higher at end-1QFY23. However, on the other hand, in line with additional provisioning recorded under IFRS-9, the net infection was recorded negative given the higher provisioning held. As per instructions issued by SBP, the Bank used two track approach for ECL assessment on stage-3 loans. Based on that, the Saudi Pak calculated provision /ECL both under Prudential Regulations issued by SBP for commercial banks and IFRS-9 and higher of the two amounts has been taken for the calculation. Subsequently, the total provisioning coverage also improved and was recorded over 100% as the npl amount was lower than the provisioning cushion kept in line with implementation of IFRS-9. Overall, the infection levels continue to report on the lower side as compared to historic levels.

As per the management, the Institution reaped the highest ever recovery from the impaired portfolio amounting to Rs. 252.0m during FY22 pertaining to six clients including Amtex, Dewan Salman Fiber, Dewan Farooque Motors, Divine Developers, Plyfo Industries and Stahlco Domestic. Going forward, Saudi Pak will continue to maintain an aggressive position for recovery of delinquent portfolio; the management has provided a cash recovery/ reversal floor and ceiling of Rs. 500m and Rs. 1.2b respectively for the ongoing year. The successful materialization of the same would positively reflect on the profitability metrics of the Institution. In regard to this, Chenab Limited and Ali Akbar Spinning have made payments amounting to Rs. 42m and Rs. 25m respectively during the ongoing year therefore both accounts with carrying values of Rs. 312m (Chenab) and Rs. 46m (Ali Akbar) will be declassified in FY24. Furthermore, the SAM Division is also in negotiations with Rose Associate, Sitara Spinning, Dewan Sugar and Diamond Tires aggregating to Rs. 690.4m for restructuring and eventual declassification.

Asset quality indicators (Rs. m)	Dec'21	Dec'22	Mar'23
Gross Advances	9,109	11,475	12,177
NPLs	2,387	2,778	3,313
Net Advances	6,868	9,119	8,650
Provisioning Coverage	94%	82%	107%
Gross Infection	26.2%	24.2%	27.2%
Net Infection	2.1%	5.5%	(2.5%)

Funding & Liquidity

The overall liquidity profile of the Institution is sound as evidenced from liquid assets to total deposits and borrowings recorded at 65% (FY22: 74%; FY21: 102%) at end-1QFY23. However, the proportion has declined during the rating review period in line with higher quantum of government securities given as collateral along with overall increase in borrowings. The coverages are in sync with the median of DFIs rated by VIS; the maintenance of liquidity buffers at current levels will remain important for ratings going forward. Commercial borrowings mobilized through repurchase borrowing agreements continue to comprise the major portion of borrowing mix. Other sources of funding mix included borrowings from SBP under refinance scheme (LTFF), borrowings obtained against charge on book debts/receivables and call borrowings. Given long-term investment portfolio funded is by short-term repo borrowings, significant asset liability maturity mismatch is present on the books in the 1-7 days to 2-3 months buckets. However, the management monitors maturity mismatch on an ongoing basis to manage the associated risk. In addition, given Saudi Pak as a DFI is a secondary market borrower with deposits only restricted to certificate of investments (COIs), the liquidity risk arising from withdrawals is almost non-existent. Moreover, the liquidity risk is considered further manageable as repo borrowings are secured against highly liquid government securities. Going forward, borrowings will continue to remain the key source of financing for the Institution.

New COIs worth Rs. 200m were procured from Air Link Communication Limited during the rating review period with deposit base in terms of COIs increasing on a timeline by end-1QFY23. COIs remain an alternate resource of funding for Saudi Pak with major ones pertaining to Port Qasim Authority and Select Technologies at end-FY22.

Funding & Liquidity Profile (Rs. m)	Dec'21	Dec'22	Mar'23
Repo Borrowings	21,832	27,776	27,859
SBP Borrowings	1,337	2,687	2,677
Others	3,288	6,312	7,000
Total Borrowings	26,457	36,775	37,536
Deposits	2,912	1,953	3,704
Total Deposits & Borrowings	29,369	38,728	41,240

Liquid Assets	29,632	35,555	35,158
Liquid Assets to Deposits & Borrowings	100.9%	91.8%	85.3%
Adjusted Liquid Assets to Deposits & Borrowings	102.5%	74.5%	64.6%

Capitalization

Saud Pak's paid-up capital increased to Rs. 6.8b (FY22: Rs. 6.8b; FY21: Rs. 6.6b) by end-1QFY23 owing to issuance of bonus shares worth Rs. 165.0m through transfer of unappropriated profit after approval of the shareholders in the outgoing year; these shares rank pari passu with existing shareholders. However, despite internal capital generation the total equity reduced on a timeline as a combined outcome of multiple factors; the reduction in the outgoing year was underpinned by other comprehensive loss booked on investments amounting to Rs. 407.0m coupled with 2.5% dividend worth Rs. 165.0m paid for FY21 at end-FY22. Furthermore, the reduction in unappropriated profit by Rs. 680.2m at end-FY22 was on account the impact of adaptation of IFRS-9 during the outgoing year. On the other hand, on initial adoption of IFRS-9 a surplus of Rs. 628.3m was booked on investments as a result of which the net impact of reduction in unappropriated profit was largely eliminated; hence, the revised total equity of FY22 was also recorded at the similar level of Rs. 14.0b at end-1QFY23. In addition, despite profit generation of Rs. 146.0m during 1QFY23, the total equity further declined to Rs. 13.7b (FY22: Rs. 14.0b) owing to deficit of Rs. 390.3m booked on investments during the ongoing year. Nevertheless, on account of additional provisioning buffers kept under IFRS-9, the Net NPLs (including TFCs) as a portion of Tier-1 capital decreased to negative by end-Mar'23. Total risk-weighted assets (RWAs) increased by 7.7% to Rs. 31.2b (FY21: Rs.29.0b) at end-FY22 in line with higher credit risk assets recorded on account of enhanced loan disbursements during the outgoing year. On the other hand, the market and operational risk assets declined at end-FY22. Subsequently, Saudi Pak's CAR declined at end-1QFY23; however; the same is maintained well above the regulatory requirement of 11.5% and the median of DFIs at end-FY22; the same also exhibits sizable room for growth. Strong capitalization indicators will remain imperative for ratings going forward.

Profitability

Saudi Pak's profitability profile has deteriorated during the outgoing year in line with sizable cut in markup spreads and significant provisioning expense booked in line with substantial diminution in value of investments particularly listed equity. The contraction of spreads was a function of varied factors including reduced yield of lending portfolio in line with long-term financing agreements extended post June'22, higher cost of funding originating from policy rate hikes evidenced during the outgoing year, transfer pricing delay in increase in policy rate to be passed on to the borrowers and increased contribution of investment income entailing lower yield to the markup income. The impact of provisioning expense on the outgoing year's profitability indicators was magnified as an aggregate provision of Rs. 318.0m stemming from Rs. 204.1m and Rs. 113.9m was booked on diminution of investments (listed equity) and advances respectively as opposed to cumulative reversal of Rs. 139.7m recorded in FY21. Subsequently, with spread compression and high provisioning expense recorded, Saudi Pak's bottom line shrank to Rs. 310.8m (FY21: Rs. 922.3m) during FY22.

Interest earned on advances reduced to Rs. 1.06b (FY21: Rs. 1.13b) as the Institution only relied on extension of short-term financing till June'22 coupled with income suspension of around Rs. 10.0m on impairment of an automobile/rubber client reported during the outgoing year. As a result, Saudi Pak's yield on advances declined to 13.6% (FY21: 17.6%) during FY22. On the other hand, yield on investment portfolio improved to 11.2% (FY21: 7.7%) in line with higher benchmark rates recorded during FY22. However, despite sizable cut in yield on advances along with markup on investments constituting 79% (FY21: 69%) of the total income mix, overall yield on interest bearing assets was recorded higher at 11.8% (FY21: 9.3%) during FY22 owing to increase in benchmark rates. Total markup expensed increased significantly to Rs. 4.7b (FY21: Rs. 2.3b) in line with surge in repo-borrowings to Rs. 27.8b (FY21: Rs. 21.8b) along with SBP's policy rate being at the very high end of the spectrum at end-FY22. Resultantly, cost of borrowing and cost of funds was recorded at 12.9% (FY21: 7.2%) and 13.0% (FY21: 7.3%) respectively during the outgoing year. Subsequently, in line with higher cost of funding, the Institutions' markup spread dipped to negative 1.2% in FY22 as opposed to 2.0% in the preceding year.

The non-interest income increased significantly to Rs. 740.2m (FY21: Rs. 301.3m) primarily on account of realized gain on equity securities booked worth Rs. 66.1m during FY22 in comparison to sizable loss of Rs. 302.0m booked in the preceding year. The dividend income remained the main contributor to non-markup income with sum of Rs. 400.5m (FY21: Rs. 319.4m) recorded largely emanating from KAPCO, EFERT, EPCL, and POL. In addition, other income largely constituting of rental income stood at Rs. 258.1m (FY21: Rs. 276.1m; the occupancy level of Saudi Pak was recorded healthy at over 96% during FY22. The Institution managed to restrict operating expenses at previous year's level at Rs. 527.3m (FY21: 530.5m) despite commodity super cycle evidenced during FY22. Nevertheless, despite curtailment of administrative expenses, an adverse trend was evidenced with efficiency ratio increasing to 45.0% (FY21: 26.1%) during the outgoing year; the same was a function of significant slash in spreads and subsequently reduction in net markup income. Although, no new exposure was made in the stock market during the review period, the management of price risk will remain crucial in alleviating pressure on profitability metrics.

With negative spreads aggravating due to lag in re-pricing of assets coupled with YOY decline in non-markup income, overall profitability profile weakened in 1QFY23. Going forward, management expects depressed profit levels due to high interest rate scenario and consequent negative spreads projected for the ongoing year as well. In addition, maintenance of asset quality in the current economic downturn from putting a drag on profitability is considered important from ratings perspective. On the other hand, the management's aim to focus on agro-based lending, Fintech sector, development of short-term factoring/discounting lending products and investment banking income is expected to provide positive impetus to bottom line going forward. The successful materialization of the same will be ascertained over time.

Saudi Pak Industrial and Agricultural Investment Company Limited Annexure I

Composition of Board	
Directors	**Representative**
Mr. Sultan Abdulrauf	Nominee Director of KSA/Chairman
Mr. Majid Misfer J. Alghamdi	Nominee Director of KSA
Mr. Ghanem Alghanem	Nominee Director of KSA
Mr. Zafar Hasan	Nominee Director of GoP/Deputy Chairman
Mr. Mohammad Tanvir Butt	Nominee Director of GoP
Mr. Qumar Sarwar Abbasi	Nominee Director of GoP

Committee	Composition
HR & R	Mr. Sultan M. Hasan Abdulrauf (C) Mr. Zafar Hasan (M) Mr. Ghanem Alghanem (M) Mr. Mohammad Tanvir Butt (M)
Audit	Mr. Ghanem Alghanem (C) Mr. Mohammad Tanvir Butt (M) Mr. Majid Misfer J. Alghamdi (M) Mr. Qumar Sarwar Abbasi (M)
Risk	Mr. Zafar Hasan (C) Mr. Majid Misfer J. Alghamdi (M) Mr. Qumar Sarwar Abbasi (M) Mr. Ghanem Alghanem (M)
M=Member; C=Chairman	

New Senior Executives' Profiles Appendix-I

	Brief Profiles
Mr. Umar Saeed Khan **SEVP Business Group Head**	Mr. Umar S. Khan has worked for almost 29 years in international as well as local commercial banks. His last assignment was in UAE where he worked for Invest Bank (Govt. of Sharjah majority owned bank) as the Head of Large Corporates – Northern Emirates. He has been in senior executive roles for the last 15 years. Mr. Khan started his career from Bank of America on the Credit & Marketing platform. Since then, he has held various positions in Habib Bank Limited (HBL), Standard Chartered Bank, United Bank Limited (UBL), and HSBC Bank where he reached to the position of Country Head – Commercial & Global Banking. He also headed Corporate & Commercial Banking at Silk Bank and headed Corporate & Transaction Banking as a SEVP in Habib Metro Bank.
Mr. Yawar Khan Afridi **EVP Group Head Operations**	Mr. Yawar Khan Afridi has a rich experience of above 30 years serving in local and international Commercial & Microfinance Banks. He is a diversified professional with core competencies in the field of banking operations, technology and manufacturing, trading. His banking career started from Mashreq Bank and prior to joining Saudi Pak Industrial & Agricultural Investment Company Limited, he was Head of Operations in Khushhali Bank (KBL), where he held various management positions providing leadership and strategic direction and demonstrated his expertise to lead and manage Microfinance, SME lending and deposits value streams. He led the sales, distribution & retail network of the Pakistan's largest microfinance bank. He is also recognized for his contribution towards establishing Micro Finance industry in the country through his association with Khushhali Bank. Mr. Yawar holds MBA in Banking & Finance degree. He has joined Saudi Pak in Dec 2015 as Group Head Operations and is responsible for administration, building/Saudi Pak Tower affairs, settlement & Information Technology department.
Mr. Mohammad Azam **VP Acting Head SAM**	Mr. Muhammad Azam holds degree in Master's in Information Technology and Masters in Business Administration having overall experience of 22 years and 18 years in banking sector. Previously, he worked with United Bank Limited as MIS Coordinator and NIB Bank as Credit Analyst in the Credit Initiation Unit, Consumer Department. He joined Saudi Pak in 2008 as the Manager for CAD and has spent this time developing Saudi Pak's SAM/CAD policies and due diligence procedures. He was made acting Head of SAM division in 2022.
Mr. Fateh Tariq **EVP Head Portfolio Management Department and Treasury**	Mr. Fateh Tariq has diverse and multi-faceted experience in financial markets of over Thirty years and has dealt with Equities, Fixed Income, Money market and listed derivatives in local and international markets. He joined Saudi Pak in 2017, previously he served in Abu Dhabi Investment Company a Sovereign wealth fund of Abudhabi, UAE. He has done MBA from Institute of Business Administration.
Mr. Ali Imran **SVP Head IT Division**	Mr. Ali Imran is a seasoned IT Professional having more than 22 years of diversified experience and held key positions in various national and international organizations. *He holds Master's Degree in Computer Science and done internationally recognized certifications i.e. ISO27001 ISMS as Senior Lead Implementer (PECB, Canada) and COBIT – Governance (ISACA). He has also completed MBA with specialization in BCP & IT Disaster Recovery for managing IT Operational Risks in Banks along with numerous International and domestic professional trainings/certifications from Canada, Egypt, Pakistan and Singapore during his professional career.* He has wide-ranging exposure in the areas of Technology Governance & Security, IT Infrastructure, Systems Development and Implementation, Project Management and building high quality teams. He joined Saudi Pak in 2007 as Head IT Division and has been instrumental in successful transformation of legacy Core systems & IT infrastructure into latest technology. During this period, he also played a key role in implementing BCP and development of Disaster Recovery Setup, devising Technology Governance Framework & Policies for Saudi Pak.
Ms. Tayyaba Yamin **VP Head HR Division**	Ms. Tayyaba Yamin is an HR Strategist, with almost 18 years of banking-industry experience. She has been associated with Saudi Pak since 2017. Prior to joining Saudi Pak, she held positions of Manger HR operations, Manager HRIS and Compensation and HR Analyst in Khushhali Microfinance Bank Limited. She has done MBA from University of Arid Agriculture Rawalpindi and Diploma in Human

	Resource Management (Ark Consulting Group). She also holds various certifications in Oracle Human Resource Management System and Payroll Fundamentals.
Ms. Tayaba Mazhar **SVP Company Secretary & Head Law**	Ms. Tayaba Mazhar joined Saudi Pak Industrial and Agricultural Investment Company Ltd as the Company Secretary. She is a lawyer by profession and has an extensive experience in both the legal as well as corporate secretarial fields. She has worked for a number of multinational companies including those in the financial sector. Her last assignment before joining Saudi Pak was with HBL as its Regional Litigation Head.
Mr. Safdar Abbas Zaidi **SVP/ CFO Head-Finance Division**	Mr. Safdar Zaidi is working with Saudi Pak since 2016. He has over 20 years of work experience in the financial sector of Pakistan. He is a Fellow member of the Institute of Chartered Accountants of Pakistan and a Certified Information System Auditor (ISACA, USA). Before Joining Saudi Pak, he had worked in 'Internal Audit & Risk Review' functions, under various positions of managerial & senior management cadre in financial institutions including ABL, HBL, SME Bank and UBL.
Mr. Umair Hashim **Interim Head RMD & CAD**	Mr. Umair Hashim took the charge of Interim Head RMD & CAD on May, 08, 2023. He was serving as VP-RMD and has been associated with Saudi Pak since 2008. He is having more than 15 years of experience in Corporate/Commercial and SME Credit. He has prior experience of working with FIs including Faysal Bank Limited and National Development Finance Corporation. Mr. Umair Hashim holds an MBA (Finance) degree from Arid Agriculture University and MS in Project Management from Bahria University.
Mr. Ali Aosjah Muhammad **VP/Head Internal Audit Division**	Mr. Ali Aosjah Muhammad is working with Saudi Pak since 2016. He has over 13 years of experience in the field of Audit and Finance. He is a Fellow member of the Association of Chartered Certified Accountants, UK. Before joining Saudi Pak, he had worked as Accounting and Operations Manager for a US based setup in Pakistan, responsible for all accounting, finance and operations related matters. Prior to that, he had worked with Grant Thornton Anjum Rahman, Chartered Accountants, on various positions dealing with the field of statutory audits.

Saudi Pak Industrial and Agricultural Investment Company Limited — Annexure II

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
Total Investments	23,904	35,557	31,131	36,321	36,692
Net Advances	7,869	6,811	6,868	9,119	8,650
Total Assets	37,085	48,236	44,688	53,607	55,305
Borrowings	22,759	32,320	26,457	36,775	37,536
Deposits & other accounts	510	2,446	2,912	1,953	3,704
Subordinated Debt	-	-	-	-	-
Paid up Capital	6,600	6,600	6,600	6,765	6,765
Tier-1 Equity	10,816	11,497	12,498	12,370	11,686
Net Worth	13,003	12,912	14,459	14,043	13,747
INCOME STATEMENT	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
Net Mark-up Income	763	992	1,431	499	83
Net Provisioning / (Reversal)	328	340	(140)	319	(93)
Non-Markup Income	426	612	301	740	142
Administrative Expenses	454	455	530	528	122
Profit/(Loss) Before Tax	405	809	1,341	393	196
Profit/(Loss) After Tax	267	616	922	311	146
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**	**31-Mar-23**
NPLs	4,069	3,895	2,387	2,778	3,313
Gross Infection	40.2%	41.7%	26.2%	24.2%	27.2%
Net Infection	23.2%	20.0%	2.1%	5.5%	(2.5%)
Provisioning Coverage	55.1%	65.1%	93.9%	81.7%	106.5%
Yield on Markup-bearing assets	11.3%	9.1%	9.3%	11.8%	N/A
Costs of Funds	10.7%	8.1%	7.3%	13.0%	N/A
Spreads	0.6%	1.0%	2.0%	(1.2%)	N/A
Efficiency (%)	39%	33%	26%	45%	45%
Net NPLs to Tier-1 Capital (%)	17.6%	12.3%	1.4%	4.3%	(1.5%)
Tier-1 CAR (%)	37.5%	34.7%	41.4%	39.3%	38.2%
Capital Adequacy Ratio (CAR) (%)	44.8%	38.3%	47.2%	42.9%	42.2%
ROAA (%)	0.9%	1.4%	2.0%	0.6%	1.1%
ROAE (%)	2.1%	4.8%	6.7%	2.2%	4.2%
Liquid Assets to Deposits & Borrowings (%)	73.0%	97.0%	102.5%	74.5%	64.6%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure III

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix IV

Name of Rated Entity	Saudi Pak Industrial and Agricultural Investment Company Limited
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
23-Jun-23	AA+	A-1+	Stable	Reaffirmed
28-Jun-22	AA+	A-1+	Stable	Reaffirmed
11-Jun-21	AA+	A-1+	Stable	Reaffirmed
10-Jun-20	AA+	A-1+	Stable	Reaffirmed
31-May-19	AA+	A-1+	Stable	Reaffirmed
12-Jun-18	AA+	A-1+	Stable	Reaffirmed
19-Jun-17	AA+	A-1+	Stable	Reaffirmed
17-Jun-16	AA+	A-1+	Stable	Reaffirmed
09-Jun-15	AA+	A-1+	Stable	Reaffirmed
12-Dec-14	AA+	A-1+	Stable	Upgrade
02-July-14	AA	A-1+	Positive	Reaffirmed
29-Jun-13	AA	A-1+	Positive	Maintained
29-Jun-12	AA	A-1+	Stable	Downgrade

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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. 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 Conducted

Name	Designation	Date
Mr. Safdar Abbas Zaidi	CFO	May 17, 2023
Mr. Umar Saeed Khan	SEVP Group Head Business	
Mr. Fateh Tariq	Head PMD & T	
Mr. Muhammad Azam	VP/Acting Head SAM	
Mr. Umair Hashim	VP/Acting Head CAD & RMD	