

July 05, 2013

Pak Brunei Investment Company Limited

Chairperson: Mr. Khairuddin Abdul Hamid; CEO: Ms. Ayesha Aziz

Analysts: Faryal Ahmad
Maria Wasti

Rating Rationale

Category	Initial	Previous
Entity	AA+ / A1+ Jun 28, '13	AA+ / A1 Jun 29, '12
Outlook	Stable Jun 28, '13	Stable Jun 29, '12

Pak Brunei Investment Company Limited (PBICL) is jointly owned by the Government of Pakistan (GoP) and Brunei Investment Agency (BIA) through equal interest of both the sponsors. The Board comprises four directors with each shareholder having two nominees; during the on-going year, two new directors were inducted, one each from either sponsor including the new Chairman, Mr. Khairuddin Abdul Hamid, acting Managing Director BIA. The Board maintains active oversight of the company's operations.

Business activity during the latter half of FY12 and 1QFY13 was adversely affected due to prolonged negotiation on the nomination of MD at the sponsors' level, which has subsequently been resolved. Notwithstanding this issue, management team of PBICL has remained stable. The business strategy envisaged for the institution entails among other things, revival financing, with specific management expertise built in this area of operations. Advisory and Strategic Investment Group targets relatively smaller distressed clients lacking specialized management skills and not only provides financing, but also contributes to future strategic direction through participation at Board level and aims to stream-line governance structure. With additional mandates in the pipeline, growth in this avenue is expected, going forward. Moreover, PBICL has also accumulated distressed securities at a deep discount to take benefit from the perceived uptick in the risk profile of such entities.

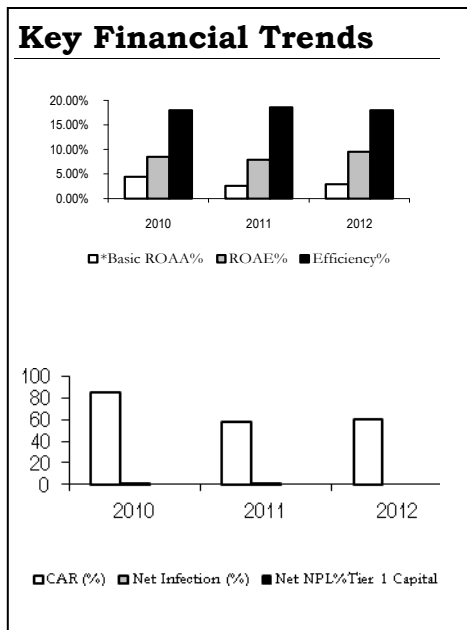
Gross loan portfolio of the institution increased to Rs. 5.8b (2011: Rs. 4.7b) by end FY12, of which 74% comprises corporate loans. With a separate SME financing division set up under the Corporate Banking Group during 2012, the scope of lending activities is expected to broaden over time. Sound internal controls and risk management infrastructure have resulted in strong portfolio quality indicators thus far. Underwriting quality will be tested further as the size of operations increases. Given that loan disbursement authority of Rs. 100m and above rests with the Board, the Board members are involved in most lending decisions. Loan portfolio features concentration which is mostly a function of the small size of the portfolio itself; as such, per party exposures have been maintained within prudent limits, with maximum loan outstanding against any single counterparty of Rs. 500m.

About 61% of the balance sheet is funded through equity. At current levels, there is room to leverage the balance sheet further. Funding sources of the company comprise deposits and borrowings. Deposits witnessed a decline by end 1Q'13. As per management, deposits are expected to reduce further and the company's primary reliance will be on bank credit lines. Given that deposits are also mostly mobilized from institutional counterparties, this change in strategy is not likely to have any material adverse effect on the company's funding access. Given the business strategy in place, access to long term funding may need to be developed to eliminate asset liability mis-match. The company actively structures credit exposures through marketable instruments that can be sold down or securitized.

In the on-going year, spreads have come under notable pressure, marginalizing the company's core earnings. Volumetric growth in business activity is required to off-set the impact of reduced margins.

Overview of the Institution

PBICL commenced operations in 2007 and operates as a Development Finance Institution (DFI), regulated by the State Bank of Pakistan (SBP). The financial statements for 2012 have been audited by M/s. Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants, who have been re-appointed for 2013. Primus Investment Management Limited, an asset management company incorporated in 2011, is a wholly owned subsidiary of PBICL. [JCR-VIS](#)



	2012	2011	2010
Net Advances (Rs. in b)	5.78	4.65	2.47
Deposits (Rs.in b)	2.82	0.98	0.84
Borrowings	2.42	23.36	5.94
Cost of Funds (%)	11.8	12.1	12.1
Profit / (Loss) (Rs.in m)	783.8	604.1	581.1
Equity (Rs. in b)	8.58	7.93	7.34
CAR (%)	59.8	58.5	84.6
Liquid Assets % Deposits & Borrowings (adj. for REPO)	40.1	87.1	107.1
Net Infection (%)	0.00	0.03	0.20

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