RATING REPORT

Pak Brunei Investment Company Limited (PBIC)

REPORT DATE:
June 30, 2017

RATING ANALYSTS:
Jazib Ahmed, CFA
jazib.ahmed@jcrvis.com.pk

Hamza Rizwan
hamza.rizwan@jcrvis.com.pk

RATING DETAILS

	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	AA+	A-1+
Rating Outlook	Stable	
Rating Date	*June 2, 2017*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** 2016: EY Ford Rhodes., Chartered Accountants 2017: A.F. Fergusons & Co. Chartered Accountants.
Unlisted Public Company	**Chairman of the Board**: Mr. Sofian Mohammad Jani
Key Shareholders (with stake 5% or more):	**Managing Director**: Ms. Ayesha Aziz, CFA
Ministry of Finance, Pakistan – 49.99%	
Brunei Investment Agency – 50.00%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Government Supported Entities *http://jcrvis.com.pk/images/gse.pdf*

Pak Brunei Investment Company Limited

OVERVIEW OF THE INSTITUTION

PBIC was incorporated as a public limited company in 2006. PBIC is a joint venture between Government of Pakistan and Brunei Investment

Profile of Chairman

The Board is chaired by Mr. Sofian Mohammad Jani, a nominee of BIA; he also serves as an Assistant Managing Directors at BIA and is fulfilling two additional roles of Head of Investments and Assets Allocation Strategy.

Profile Of MD

Ms. Ayesha Aziz has 24 years of experience in project finance, asset management, corporate finance advisory and treasury activities. Prior to joining PBIC, she was involved in establishing and managing operations and subsidiaries of Pak Oman Investment Company Limited, including a microfinance bank and an asset management company, where she acted as a board member and CEO.

RATING RATIONALE

Pak Brunei Investment Company Limited (PBIC) was incorporated as a public limited company under the Companies Ordinance, 1984. PBIC is established as a Development Financial Institute (DFI). The company has appointed A.F. Fergusons & Co. Chartered Accountants as their external auditors for 2017.

Key Rating Drivers

Sponsorship Profile: PBIC is a joint venture between the Government of Pakistan (GoP) and the Brunei Investment Agency with equal shareholding. PBIC has a wholly owned subsidiary Awwal Modaraba Management Limited and is now setting up a leasing company for the SME segment. PBIC has divested 70% stake in its wholly owned subsidiary, Primus Investment Management Limited (PIML), to Army Welfare Trust in a recent development.

Portfolio: Product portfolio comprises Corporate banking, SME and ASIG (Advisory and Strategic Investment Group). Total advances increased to Rs. 14.0b (2015: Rs. 10.2b) at year end-2016, primarily on the back of increase in long-term finance facility under SBP-LTFF scheme. However, the same decreased to Rs. 12.9b at end-1Q'17. Corporate banking represents major proportion (2016: 83.6%) of the portfolio. ASIG is a relatively small but critical segment since it comprises focuses on financing to distressed companies, which is in stark contrast to other DFIs. PBIC is the only DFI offering support and finance to the same. Financing portfolio mostly comprises corporate clients due to which concentration among top 10 clients remains high. Furthermore, the same has increased on a timeline basis to 43.5% (2015: 40.9%).

Asset Quality: Asset quality indicators remained stable over the year, as gross infection was recorded at 3.2% (2015: 3.0%). Coverage ratio exhibited an increase to 52.1% (2015: 50.0%) at year end-2016, and further increased to 53.1% by end-1Q'17. Net infection ratio remained stable at 1.5% at year end-2016. Majority of NPLs belong to ASIG segment, while risk profile of the same is higher vis-à-vis conventional lending portfolio, comfort is drawn from past track record of successfully executing such transactions through sound underwriting and monitoring policies.

Profitability: Due to low interest rates scenario, spreads decreased to 3.7% (2015: 4.3%) during the year 2016. Decline in net interest margins was compensated by volumetric growth in advances and non mark up income including fee and commission income. Efficiency ratio exhibited an improvement to 39.2% at end 2016 (2015: 42.4%). PBIC reported a profit before tax of Rs. 267.7m (end-1Q'16: Rs. 291.1m) while profit after tax was reported at Rs. 195.2m (end-1Q'16: Rs. 197.1m) at end-1Q'17.

Liquidity & Capitalization: Borrowing from financial institutions remains the primary source of funding and amounted to Rs. 20.5b (2015: Rs. 14.5b). Borrowing from State Bank of Pakistan under the LTFF scheme increased in comparison to last year. PBIC maintains sufficient liquidity as liquid assets to deposits and borrowing remained comfortable (2016: 82.0%, 2015: 64.3%) during the year. Furthermore, Capital Adequacy Ratio (CAR) stands comfortably over the regulatory requirement at 25.6% (2015: 25.7%) at year end 2016. Liquidity and capitalization indicators will improve further upon the redemption of mutual funds from the divested PIML.

Pak Brunei Investment Company Limited (PBIC) Appendix I

FINANCIAL SUMMARY *(amounts in PKR billions)*

BALANCE SHEET	1Q end-17	31-Dec-16	31-Dec-15	31-Dec-14
Total Investments	15,002.7	16,658.0	16,850.0	24,247.0
Net Advances	12,946.3	13,996.0	10,237.0	7,386.0
Total Assets	30,457.7	34,391.0	29,115.0	32,901.0
Borrowings	18,754.5	20,493.0	14,544.0	18,090.0
Deposits & other accounts	483.4	2,913.0	4,218.0	5,164.0
Subordinated Loans	-	-	-	-
Tier-1 Equity	10,685.8	10,491.0	9,724.0	8,989.0
Net Worth	10,643.9	10,429.0	9,684.0	9,139.0
INCOME STATEMENT	**1Q end-17**	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Net Mark-up Income	111.5	507.0	553.0	468.0
Net Provisioning / (Reversal)	5.0	97.0	179.0	(3,665.0)
Non-Markup Income	229.9	1,237.0	1,230.0	907.0
Operating Expenses	68.6	363.0	305.0	272.0
Profit (Loss) Before Tax	267.7	1,333.0	1,300.0	1,106.0
Profit (Loss) After Tax	195.2	962.0	937.0	905.0
RATIO ANALYSIS	**1Q end-17**	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Gross Infection (%)	3.4%	3.2%	3.0%	0.0%
Provisioning Coverage (%)	53.1%	52.1%	50.0%	100.0%
Net Infection (%)	1.6%	1.5%	1.5%	0.0%
Cost of funds (%)	-	6.2%	8.0%	8.3%
Net NPLs to Tier-1 Capital (%)	2.0%	2.1%	1.6%	0.0%
Capital Adequacy Ratio (C.A.R (%))	-	25.6%	26.4%	33.8%
Markup Spreads (%)	-	3.7%	4.3%	0.2%
Efficiency (%)	49.6%	39.2%	42.4%	35.2%
ROAA (%)	2.6%	3.1%	3.2%	2.6%
ROAE (%)	7.3%	9.6%	9.9%	10.4%
Liquid Assets to Deposits & Borrowings (%)	-	82.0%	64.3%	94.7%

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 III
Name of Rated Entity	Pak Brunei Investment Company (PBIC)				
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				
	2-Jun-17	AA+	A-1+	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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	JCR-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, JCR-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. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2017 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				