RATING REPORT

Pak Brunei Investment Company Limited (PBIC)

REPORT DATE:
June 28, 2022

RATING ANALYSTS:
Arsal Ayub, CFA
arsal.ayub@vis.com.pk

Musaddeq Ahmed Khan
musaddeq@vis.com.pk

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 28, '22*		*June 29, '21*	

COMPANY INFORMATION	
Incorporated in 2006	**External Auditors:** EY Ford Rhodes, Chartered Accountants (Current Statutory Auditors). A.F. Ferguson & Co. Chartered Accountants. (Statutory Auditors till 31 December 2021).
Unlisted Public Company	**Chairman of the Board**: Mr. Sofian Mohammad Jani
Key Shareholders (with stake 5% or more):	**Managing Director**: Ms. Ayesha Aziz, CFA
Brunei Investment Agency – 50.0%	
Ministry of Finance, Pakistan – 49.999%	

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

Pak Brunei Investment Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

PBIC was incorporated as a Development Finance Institution (DFI) in 2006 and operates as a joint venture of (Government of Pakistan and Brunei Investment Agency. In 2021, A.F. Ferguson & Co. 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

Mr. Sofian serves as the Acting MD in BIA and oversees asset allocation strategy. He has been associated with BIA for over two decades in the capacity of investment officer and as director of Internal Fund Management Department. His other engagements include serving as a member of the Board for Employees' Trust Fund and Investment Committee of the Monetary Authority of Brunei Darussalam.

Profile of

RATING RATIONALE

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

Strong sponsor profile with two major sovereign owners.

PBIC 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). Assigned ratings continue to factor in sovereign sponsor profile.

The assigned rating incorporates asset quality indicators of PBIC, which compare favorably to peers

Given that portfolio growth remained muted during the period under review, the asset quality indicators have not depicted much change since our last review. As per management, slowdown in portfolio growth stemmed from moderating of credit build-up during post Covid-19 economic conditions. PBIC's gross infection is indicative of moderate credit risk. However, gauging from the yield on advances and PBIC's internal average ORR of the portfolio of '3-', credit quality of underlying counterparties is considered sound. Furthermore, gross infection also compares favorably to peers. Even though provisioning coverage leaves room for improvement, the net infection remains adequately low and is considered superior to peers.

Rating takes into account liquidity profile of PBIC

Liquidity profile of the DFI is considered sound in view of availability of funding lines and coverage of borrowings by liquid assets, which stood at 26.6%, as of Mar'22, improving on a timeline. However, it is pertinent to mention that liquid assets comprise mostly of Government Securities, wherein maturity profile were elongated as of Dec'21; as a result, there was a liquidity shortfall of Rs. 10.4b in the one-month bucket, as of Dec'21 (Dec'20: Rs. 3.2b). As per management, the liquidity shortfall is mainly attributed to REPO borrowing against government securities, which is essentially short-term borrowing and can easily be replaced in money market at maturity. Provided that SBP also provides discounting facility against government securities, this negative gap in one-month bucket does not pose liquidity threat to the entity.

PBIC's profitability indicators compare adversely to peers, warranting improvement

PBIC's profitability profile is characterized by thin spreads albeit an adequately low efficiency ratio. The former is mainly a function of lending at lower rates, mainly as counterparty credit risk selection is conservative and declining advances as proportion of assets. As per management, in addition to conservative counterparty risk selection lower spreads also resulted from a shift towards short term advances (carrying lower spreads) in view of the economic conditions. Accordingly, PBIC's RoAA compares adversely to peers and the industry, warranting

Managing Director

Ms. Ayesha Aziz (MD) spearheads the management team at PBIC. She is a seasoned professional with over 28 years of experience in project finance, asset management, corporate finance advisory and treasury activities. Ms. Aziz is an MBA from the Institute of Business Administration (IBA) and a qualified Chartered Financial Analyst (CFA). She is a director on the Board of Awwal Modaraba Management Limited, KSB Pumps Company Limited, Engro Polymer and Chemicals Limited and Glaxo SmithKline Consumer Healthcare besides chairing the Board of Primus Leasing Limited.

improvement in the same. The short to medium term outlook on PBIC's profitability is stressed mainly as spread is likely to undergo contraction in the short term and normalize by Q4'22/Q1'23; this is mainly attributable to the upward trajectory in benchmark rates, which should translate in an uptick in spread. Nevertheless, given the lag in repricing of assets vis-à-vis liabilities, the spread is likely to contract in Q2/Q3'22 and normalize subsequently. Furthermore, the sizable holdings of Fixed PIB portfolio will translate in investment deficits, which will impact PBIC's capital buffers.

Ratings incorporate PBIC capital buffers fall in line with peers and VIS' benchmark

At present, PBIC's CAR, of 25.7% falls in line with the peers and the benchmark for the assigned rating. The DFI's CAR remains exposed to MTM impact of interest rate increase. Given the significant movement in benchmark rates since Mar'22, CAR is likely to recede by Jun'22.

Pak Brunei Investment Company — Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Mar-22**
Total Investments	31,817.0	17,482.9	26,246.6	30,402.1
Net Advances	18,771.4	19,133.9	20,300.1	19,652.5
Total Assets	57,773.5	40,253.4	51,449.8	53,904.8
Borrowings	45,152.0	27,763.4	40,284.8	42,474.2
Deposits & other accounts	620.0	830.0	50.0	50.0
Paid-Up Capital	6,000.0	6,000.0	6,000.0	6,000.0
Tier-1 Equity	7,805.9	8,046.7	8,435.7	7,916.7
Net Worth	10,549.4	10,732.6	10,232.0	10,270.1
INCOME STATEMENT	**2020**	**Q1'21**	**2021**	**Q1'22**
Net Mark-up Income	767.7	230.2	866.2	130.2
Net Provisioning / (Reversal)	34.0	2.5	70.7	16.1
Non-Markup Income	687.7	27.1	340.3	51.4
Administrative Expenses	366.2	102.9	408.9	89.0
Profit (Loss) Before Tax	1,033.4	151.9	703.6	76.5
Profit (Loss) After Tax	718.4	106.7	481.3	59.6
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Mar-22**
Gross Infection (%)	3.11%	5.03%	4.89%	5.04%
Provisioning Coverage (%)	66.17%	43.04%	53.69%	55.2%
Net Infection (%)	1.07%	2.93%	2.32%	2.57%
Net NPLs to Tier-1 Capital (%)	2.58%	6.96%	6.15%	6.36%
Capital Adequacy Ratio (C.A.R (%))	27.27%	26.64%	29.42%	25.69%
Efficiency (%)	32.49%	36.66%	37.92%	44.97%
ROAA (%)	0.69%	1.47%	1.05%	0.46%*
ROAE (%)	3.56%	6.75%	4.59%	2.36%*

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 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	see table below
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.
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Due Diligence Meetings	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
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
2-Jun-17	AA+	A-1+	Stable	Initial

Due Diligence Meetings

Name	Designation	Date
Mr. Abdul Jaleel Shaikh	COO	June 16, 2022
Ms. Humaira Siddique	CFO	
Mr. Saiyid Najam Rizvi	Head of Credit Risk & Monitoring	