RATING REPORT

Pak China Investment Company Limited (PCICL)

REPORT DATE:
June 30, 2025

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	AAA	A1+	AAA	A1+
Outlook/Rating Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Date	*June 30, 2025*		*June 28, 2024*	

COMPANY INFORMATION	
Incorporated in 2007	**External auditors:** Grant Thornton Anjum Rahman Chartered Accountants
Unlisted Public Company	**Chairman of the Board:** Mr. Sun Bo
Key Shareholders (with stake more than 5%):	**President & CEO:** Mr. Song Zhenwen
Government of Pakistan – 50%	
People's Republic of China – 50%	

APPLICABLE METHODOLOGY

Government Supported Entities
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

Financial Institution
https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pak China Investment Company Limited (PCICL)

OVERVIEW OF THE INSTITUTION

Pak China Investment Company Limited (PCICL) was incorporated in 2007 as an unlisted public limited Company. PCICL operates as a Development Financial Institution (DFI) under a joint venture agreement between its two sponsors i.e. Government of Pakistan (GoP) and People's Republic of China (PRC). The head office of the Company is located in Islamabad, while representative office is situated in Karachi.

Profile of Chairman

Mr. Sun Bo has been serving as Chairman of the Board of Directors since Nov'24. He currently holds the position of DGM of the International Business Department-II at China Development Bank, where he oversees the Bank's foreign exchange credit operations across different regions. With over 20 years of extensive experience in international banking, credit review, internal control, compliance and corporate affairs, Mr. Sun has played a pivotal role in advancing global cooperation and leading numerous high-impact international initiatives. He holds a Master's degree in Industrial Economics and a Bachelor's degree in Information Management and Systems, both from the Central University of Finance and Economics

Profile of CEO

Mr. Song Zhenwen was appointed as Managing Director of the Company in June'25. Prior to joining PCICL, he had 20 years of affiliation with China Development Bank (CDB), where he served at various positions in Business Management, Human Resource, Legal Affairs and Customer Services Departments. He holds a Master's degree in Economics

RATING RATIONALE

Entity ratings assigned to Pak China Investment Company Limited ('PCICL' or the 'Company') reflect the institution's strong ownership structure. As a joint venture between the Government of Pakistan (GoP) and the People's Republic of China (PRC), PCICL benefits from both sovereign support and strategic alignment with bilateral economic initiatives. VIS also takes into account the high international scale credit ratings assigned to PRC.

PCICL maintains a strong capital base, comprised solely of Tier-1 capital, well above the regulatory minimum, which provides a significant buffer against potential losses and supports future growth. Liquidity indicators also remain healthy, with liquid assets comfortably covering deposits and borrowings, and stable funding metrics highlighting a sound balance sheet structure. The Company's investment strategy, focused on short-tenor government securities, underscores its conservative approach to credit and market risk, while maintaining portfolio flexibility.

Despite sector-wide challenges, PCICL has demonstrated resilience in profitability. Although interest margins have slightly narrowed in a declining rate environment, core profitability remains intact, supported by disciplined cost control and conservative provisioning. Recent declines in net income are considered cyclical and linked to macroeconomic factors. The Company has outlined a shift back to long-term lending, aimed at reducing earnings volatility and supporting sustainable income streams.

Credit risk is elevated due to concentration in a few sectors and clients, though this is partially mitigated by the institution's continued emphasis on lending to top-tier corporates and participation in strategic national projects. Asset quality remains manageable, although non-performing loans have increased modestly, primarily due to stress in specific sectors such as steel manufacturing. Provisioning levels remain sufficient, with incremental adjustments made to reflect evolving portfolio risks.

Organizational stability remains an area for improvement, with notable senior management turnover during the review period. Nonetheless, efforts to enhance risk governance frameworks and adopt digital systems for loan origination signal a forward-looking operational strategy. Going forward, the ongoing enhancements in governance, risk management, and operational resilience will be critical in sustaining the assigned ratings amidst evolving market dynamics and policy shifts.

DFI Sector

Development Finance Institutions (DFIs) in Pakistan play a critical role in supporting long-term investments in key sectors such as housing, SMEs, infrastructure, and agriculture. However, their performance has remained under pressure due to structural limitations, risk-averse operating models despite having been set up with core development mandates, and the crowding out effects of fiscal requirements affecting the entire financial sector. During the last quarter of 2024, a new DFI was added to the sector - EXIM Bank. By Dec'24, the industry witnessed a 15.3% (Dec'23: 63.3%↑) contraction *from Peking University and a Bachelor's degree in law from the Central University of Finance and Economics, Beijing, China*

in its asset base, primarily manifested in 18.6% (Dec'23: 73.3%↑) drop in investments, mainly in government securities, which still made up 83.2% (Dec'23: 86.6%) of total assets.

Although advances grew modestly by 1.5% (Dec'23: 0.1%), they remained a small part of the overall asset book, at only 9.7% (Dec'23: 8.0%) of assets. Public sector lending, especially housing finance by a single DFI, supported this limited growth, while private sector advances declined by 0.7%. Investment composition shifted toward longer-tenor Pakistan Investment Bonds (PIBs), as institutions sought to mitigate the impact of declining yields. Simultaneously, short-term Market Treasury Bills (MTBs) dropped by 79.4%.

Earnings remained healthy despite a shrinking asset base. Net interest income remained relatively stable at PKR 25 billion, while non-interest income rose sharply, driven by a 79.8% increase in dividend earnings—largely attributed to one DFI's stake in a major Islamic bank. This contributed to a 34.7% rise in after-tax profits, pushing ROA to 1.2% and ROE to 17.1%. However, net interest margins were squeezed due to relatively sticky funding costs amid falling returns on earning assets. Asset quality showed some deterioration, with the NPL ratio rising to 8.0% (Dec'23: 7.4%) and provisioning coverage falling to 78.6% (Dec'23: 114.8%).

The sector remains well-capitalized, with a capital adequacy ratio (CAR) of 52.5% (Dec'23: 43.3%), well above the 11.5% minimum requirement. DFIs in Pakistan continue to face structural challenges, including limited access to deep capital markets for long-term funding, a low national savings rate, and the absence of concessional funding mechanisms that are available to their counterparts in other jurisdictions. In the medium term, declining yields on government securities, may exert pressure on future earnings. In response, DFIs are investing in areas such as digital banking, venture capital, and Islamic finance to align more closely with evolving market needs. Despite ongoing macroeconomic uncertainty, there are emerging investment opportunities in green finance, infrastructure development, and public-private partnership (PPP) models. Realizing this potential will require a supportive regulatory environment and a strategic repositioning of DFIs to more effectively fulfill their original mandate of promoting long-term, inclusive development.

Pak China Investment Company Limited (PCICL) — Appendix I

FINANCIAL SUMMARY				(PKR in millions)
BALANCE SHEET	**31-Dec-22**	**31-Dec-23**	**31-Dec-24**	**31-Mar-25**
Total Investments	73,440.58	18,294.06	54,361.90	13,032.91
Net Advances	16,198.26	18,915.03	19,336.44	17,578.53
Total Assets	94,215.24	45,249.52	82,395.50	37,073.46
Borrowings	72,177.83	21,965.72	53,277.91	8,760.08
Total Deposits	1,503.42	370.56	2,174.95	2,174.95
Total Liabilities	74,599.20	23,264.98	57,284.60	11,662.95
Paid-Up Capital	9,905.98	9,905.98	9,905.98	9,905.98
Tier-1 Equity	15,867.45	17,893.38	22,516.75	22,874.62
Net Worth (Exc. Surplus on Revaluation)	19,371.24	22,455.16	24,929.64	25,452.39
INCOME STATEMENT	**CY22**	**CY23**	**CY24**	**1QCY25**
Net Mark-up Income	2,375.84	4,094.73	4,441.82	843.04
Net Provisioning / (Reversal)	469.36	510.49	338.73	-22.38
Non-Markup Income	816.69	1,021.67	344.10	138.21
Operating Expenses	604.12	758.03	827.42	192.44
Profit Before Tax	2,119.05	3,847.62	3,619.67	811.19
Profit After Tax	1,324.60	2,511.04	2,304.49	524.10
RATIO ANALYSIS	**CY22**	**CY23**	**CY24**	**1QCY25**
Gross Infection (%)	8.73%	6.49%	7.67%	8.26%
Net Infection (%)	2.71%	0.17%	2.52%	2.76%
Specific Provisioning Coverage (%)	70.92%	97.49%	68.95%	68.51%
General Provisioning Coverage (%)	1.40%	1.46%	3.53%	3.87%
Net NPLs to Tier-1 Capital (%) (adj. for general prov.)	2.76%	0.18%	2.17%	2.14%
Cost of funds (%)	4.35%	18.52%	17.64%	6.79%*
Markup Spreads (%)	1.66%	0.70%	0.58%	2.89%*
Efficiency (%)	24.06%	18.21%	17.99%	21.86%
ROAA (%)	2.01%	3.60%	3.61%	3.51%*
ROAE (%) (Exc. Surplus on Reval.)	7.12%	12.01%	9.73%	8.32%*
Liquid Coverage Ratio (%)	532.40%	1419.66%	102.00%	755.25%
Net Stable Funding Ratio (%)	117.74%	124.04%	120.00%	134.51%
Liquid Assets to Deposits & Borrowings (%)	97.46%	95.96%	131.33%	142.46%
Gross Advances to Deposits Ratio (%)	932.21%	4850.81%	841.92%	764.36%
Capital Adequacy Ratio (%)	55.64%	59.53%	52.45%	56.23%

**Annualized*

*** Adjusted for repo and collateral*

**** Adjusted for SBP refinancing schemes*

REGULATORY DISCLOSURES Appendix II

Name of Rated Entity	Pak China Investment Company Limited (PCICL)
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/ Rating Watch	Rating Action
RATING TYPE: ENTITY				
30-Jun-25	**AAA**	**A1+**	**Stable**	**Reaffirmed**
28-Jun-24	AAA	A1+	Stable	Reaffirmed
26-Jun-23	AAA	A1+	Stable	Reaffirmed
23-Jun-22	AAA	A1+	Stable	Reaffirmed
28-Jun-21	AAA	A1+	Stable	Reaffirmed
25-Jun-20	AAA	A1+	Stable	Reaffirmed
21-Jun-19	AAA	A1+	Stable	Reaffirmed
20-Jun-18	AAA	A1+	Stable	Reaffirmed
30-Jun-17	AAA	A1+	Stable	Reaffirmed
28-Jun-16	AAA	A1+	Stable	Reaffirmed
24-Jun-15	AAA	A1+	Stable	Initial

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
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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Armughan Ahmad Daud	Chief Financial Officer and Company Secretary	**21-May-25**
2	Mr. Syed Nabeel Abbas Tirmizi	Head of Treasury	
3	Mr. Fu Chaoqing	Group Head CPEC Promotion & Group Head CBG (A)	
4	Mr. Khurram Nadeem	Divisional Head – Investment Banking	
5	Ms. Faiza Asim	Group Head Risk Management	
6	Mr. Adeel Minhas	Financial Controller (A)	