RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:
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RATING ANALYSTS:
Faryal Ahmad
faryal.faheem@jcrvis.com.pk

Muniba Khan
muniba.khan@jcrvis.com.pk

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 30, '15*		*June 30, '14*	

COMPANY INFORMATION

Incorporated in 2001	**External auditors:** KPMG Taseer Hadi & Co., Chartered Accountants
Unlisted Public Company	**Chairman of the Board**: H.E. Yahya Bin Said Bin Abdullah Al- Jabri
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Agha Ahmed Shah
Ministry of Finance, Pakistan – 49.99%	
Ministry of Finance,Oman – 49.99%	

APPLICABLE METHODOLOGY(IES)

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

Pak Oman Investment Company Limited

OVERVIEW OF THE INSTITUTION

POIC was incorporated as a private limited company in 2001. Subsequently, it was converted into a public limited company in 2004.

RATING RATIONALE

Ratings assigned to Pak Oman Investment Company Limited (POIC) take into account implicit support of the two sovereign sponsors, the Government of Pakistan and Sultanate of Oman (SO). SO has an outstanding rating of 'A/A-1' from an international rating agency. Standalone risk profile of the company is considered strong reflected by sound capitalization levels and conservative risk appetite.

Core lending operations of the company gained momentum with gross advances increasing to Rs. 10.0b (FY13: Rs. 8.4b) by end-FY14; the portfolio increased further to Rs. 10.8b in 1Q15. Fresh lending has largely been undertaken in the sugar and financial sectors in FY14; exposures in the textile and sugar sectors represent 16% of the portfolio each. Concentration in lending portfolio has remained high with ten largest exposures representing 41.7% of advances. The concentration in portfolio is primarily a function of the limited size of aggregate portfolio, while individual exposures are not excessively large. The single largest exposure of Rs. 780m is against a financial institution and represented 10.1% of POIC's own equity. Asset quality has improved with net infection in loan portfolio declining to 1.6% (FY13: 2.6%) while non-performing exposures in investment portfolio also declined to Rs. 324.4m. Aggregate net non-performing assets represented 6.1% of the company's own equity at end FY14 (FY13: 9.1%).

At end FY14, equity of the company represented 33% of the total resource base (FY13: 41%). Leveraging has increased slightly in FY14 though other than lending operations and a limited amount of fixed and deferred tax assets, the company's balance sheet largely comprises assets having sound liquidity profile. Liquid assets represented 67.9% (FY13: 66.2%) of deposits and borrowings at end FY14. Funding sources of the company primarily comprise borrowings from financial institutions and Certificates of Investments issued to institutional counterparties.

Profitability has largely been maintained in FY14. At year-end, the investment portfolio was carried at an unrealized surplus of Rs. 458.5m, which may be realized, going forward. Given that the company is a secondary market borrower itself, it works on thin spreads. In line with market trend, the company also enhanced its holding in PIBs and to that extent, returns have been locked in for the long term while remaining assets are either short term or re-priceable while cost of liabilities is also linked to market benchmark rates. Barring the timing difference in re-pricing of assets and liabilities, the company's spreads are largely expected to remain range bound and profitability will remain a function of asset mix and quality. Increasing leverage may enhance return on equity, assuming quality of assets remains intact.

POIC has demonstrated support towards its subsidiary/associate in the financial sector, with equity injections made in both Pak-Oman Microfinance Bank Limited and Pak-Oman Asset Management Company Limited, to enable the institutions to achieve compliance with their respective minimum capital requirements.

Pak Oman Investment Company Limited (POIC) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Total Investments	12,179.5	7,629.3	10,229.0
Net Advances	9,070.3	7,493.7	6,347.1
Total Assets	23,365.6	17,727.7	18,577.9
Borrowings	8,868.7	5,721.8	6,546.4
Deposits & other accounts	6,296.0	4,433.8	4,351.0
Subordinated Loans	-	-	-
Tier-1 Equity	7,418.7	7,284.2	7,158.0
Net Worth	7,712.2	7,200.8	7,161.1
INCOME STATEMENT	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Net Mark-up Income	756.4	672.1	744.5
Net Provisioning / (Reversal)	221.0	126.1	174.8
Non-Markup Income	402.7	281.5	347.8
Operating Expenses	372.7	327.7	303.4
Profit (Loss) Before Tax	545.3	487.8	605.5
Profit (Loss) After Tax	383.6	375.5	428.4
RATIO ANALYSIS	**DEC 31, 2014**	**DEC 31, 2013**	**DEC 31, 2012**
Gross Infection (%)	10.4	13.4	16.2
Provisioning Coverage (%)	86.1	82.9	78.9
Net Infection (%)	1.6	2.6	3.9
Cost of funds (%)	10.0	9.2	11.0
Net NPLs to Tier-1 Capital (%)	1.9	2.7	3.5
Capital Adequacy Ratio (C.A.R (%))	31.2	36.6	41.5
Markup Spreads (%)	1.3	1.2	1.0
Efficiency (%)	41.7	39.6	35.9
ROAA (%)	1.9	2.1	2.3
ROAE (%)	5.2	5.2	6.1
Liquid Assets to Deposits & Borrowings (%)	67.9	66.2	76.6

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 Oman Investment Company Limited
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	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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-Jun-15	AA+	A-1+	Stable	Reaffirmed
30-Jun-14	AA+	A-1+	Stable	Reaffirmed
12-Jun-13	AA+	A-1+	Stable	Reaffirmed
29-Jun-12	AA+	A-1+	Stable	Reaffirmed
29-Jun-11	AA+	A-1+	Stable	Reaffirmed