RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:
June 24, 2019

RATING ANALYSTS:

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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 24, '19*		*June 27, '18*	

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. Bahauddin Khan
Ministry of Finance, Pakistan – 49.99%	
Ministry of Finance, Oman – 49.99%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Government Supported Entities
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Meth-GSEs201606.pdf

Pak Oman Investment Company Limited

OVERVIEW OF THE INSTITUTION

POIC was incorporated as a private limited company in July, 2001. Subsequently, it was converted into a public limited company in March, 2004. The company is a joint venture between the Government of Pakistan (GoP) and the Sultanate of Oman (SO).

Profile of Chairman

His Excellency Yahya Bin Said Bin Abdullah Al-Jabri has vast experience of global corporate & investment banking with academic qualifications from prestigious business schools. Currently he is the Chairman of the Special Economic Zone at Duqm. He also holds senior positions in Oman's leading business & financial sectors such as being a member of the Board of Governance at the Central Bank of Oman, a Board member of the Oman Investment Fund and Chairman of the Capital Market Authority.

Profile of CEO

Mr. Bahauddin Khan has 36 years of Banking experience in both Multinational and local banks. Prior to joining POIC he served as Chief Operating Officer of Bank Alfalah Ltd and associated with prestigious banks such as Standard Chartered Bank, Deutsche Bank, Union Bank and UBL in senior positions.

RATING RATIONALE

POIC is primarily engaged in provision of corporate and investment banking services with a focus on supporting economic growth and development in Pakistan and Oman. The company operates through its head office in Karachi and a branch in Lahore. It also has liaison offices in Islamabad Gwadar and Muscat.

Rating Drivers

Sound sponsor profile with two major sovereign owners

The assigned ratings incorporate POIC's joint venture shareholding structure, with shares equally held by the Government of Pakistan and the Sultanate of Oman through their respective finance ministries. Sovereign ratings of Sultanate of Oman have been reaffirmed at 'BB/B' by an international rating agency in 2019; however, the outlook has been revised from stable to negative. Nonetheless, sponsors of the company have demonstrated financial support towards POIC in the past and VIS anticipates this support to prevail in future in case a need arises.

Modest growth witnessed in the financing portfolio with focus on consolidation going forward

Gross advances of POIC increased at a modest rate of 7.1% to Rs. 21.1b (2017: Rs. 19.7b) at end-2018. Overall portfolio of the company is considered diversified across various sectors. Client wise concentration in portfolio depicted improvement on year on year basis as top 10 funded exposures as a proportion of total gross advances decreased to 42.8% (2017: 46.6%) at end-2018. However, due to limited client base, concentration is still considered to be on the higher side. Going forward, the management has adopted a consolidation approach with focus on maintaining portfolio quality rather than growth. The company has set a target (net advances) of Rs. 19.3b for 2019; at end Q1'19, net advances amounted to Rs. 20.6b.

Asset quality indicators continue to depict improvement

Gross Non-Performing Loans (NPLs) of POIC decreased to 711.2m (2017: Rs. 964.4m) at end-2018 on account of reversals due to recoveries. Reduction in NPLs coupled with growth in advances resulted in improvement in gross infection ratio to 3.4% (2017: 4.9%). Net infection ratio was reported at 0.64% (2017: 0.48%). Going forward, pressure may be witnessed on asset quality indicators in view of rising interest rates. However, the management has enhanced monitoring of its exposures, and continues to maintain sound underwriting practices and pursue strong recovery drives to mitigate any adverse impact on portfolio quality.

Operating profitability decreased on account of lower income from investments but net profitability improved due to the impact of reversals

Volumetric growth in earning assets contributed positively to the topline. However, sizeable reduction in income from investments on account of maturity of government securities contributed to lower net interest income. Moreover, non-markup income also declined owing to lower dividend income and gain on securities translated to lower operating profit. Management's effort on recoveries yielded reversals almost double the size of the preceding year, which resulted in higher net profitability in 2018. Going forward, spreads of POIC are expected to increase on account of full year impact of higher interest rates on advances portfolio. However, growth in overall profitability will depend on quantum of provisions/reversals.

Manageable liquidity profile and sound capitalization indicators

Overall liquidity profile is considered manageable in view of adequate liquid assets in relation to deposits and borrowings, and regulatory compliant Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Primary funding sources include financial institutions and SBP's pass through financing schemes. Apart from borrowing, Certificate of Investments (COIs) is also the major source of mobilizing deposits. Concentration in deposit base improved during the outgoing year on account of higher mobilization from retail customers; however, the same still depicts room for further improvement. Due to limited outreach of the institution and competition from commercial banks, the institution faces challenges in mobilizing cheaper depositors from retail customers.

Overall capitalization indicators remain sound in view sizeable cushion in Capital Adequacy Ratio (CAR) vis-à-vis the regulatory requirement. Growth in equity base was recorded in 2018 on account of profit generation. However, with payment of dividends to the tune of Rs. 430.5m for 2018, equity base f POIC was reported lower at end-Q1'19.

Pak Oman Investment Company Limited (POIC) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**2016**	**2017**	**2018**
Total Investments	20,831.2	40,240.6	28,443.4
Net Advances	14,834.9	18,788.5	20,480.7
Total Assets	39,806.4	64,669.4	58,110.5
Borrowings	25,150.9	44,607.7	39,961.6
Deposits & other accounts	5,343.0	10,501.1	9,010.5
Subordinated Loans	-	-	-
Equity (excluding surplus)	8,106.8	8,059.8	8,103.5
Net Worth	8,461.2	8,123.4	8,142.9
INCOME STATEMENT			
Net Mark-up Income	851.6	856.0	839.7
Net (Provisioning) / Reversal	(6.6)	168.3	332.1
Non-Markup Income	827.7	340.4	161.6
Operating Expenses	568.8	573.3	552.2
Profit (Loss) Before Tax	1,025.3	744.5	749.3
Profit (Loss) After Tax	705.6	436.7	464.4
RATIO ANALYSIS			
Gross Infection (%)	7.7	4.9	3.4
Provisioning Coverage (%)	87.4	90.8	81.6
Net Infection (%)	1.0	0.5	0.6
Cost of funds (%)	6.2	5.9	6.9
Net NPLs to Tier-1 Capital (%)	2.2	1.4	2.3
Capital Adequacy Ratio (C.A.R (%))	28.3	21.5	17.3
Markup Spreads (%)	1.9	1.4	1.0
Efficiency (%)	57.1	59.4	60.0
ROAA (%)	2.1	0.8	0.8
ROAE (%)	8.5	5.3	5.7
Adjusted Liquid Assets to Deposits & Borrowings (%)	66.8	75.5	67.6

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: 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 Oman Investment Company Limited
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
24-Jun-19	AA+	A-1+	Stable	Reaffirmed
27-Jun-18	AA+	A-1+	Stable	Reaffirmed
2-Jun-17	AA+	A-1+	Stable	Reaffirmed
29-Jun-16	AA+	A-1+	Stable	Reaffirmed
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

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.
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