RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:
June 29, 2016

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 29, '16*		*June 30, '15*	

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)

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

Pakistan Oman Investment Company Ltd (POIC) was incorporated in 2001 and was later converted into a public limited company in 2004. The company operates through its head office in Karachi with a branch in Lahore. It also has representative offices domestically in Islamabad and Gwadar besides having an off-shore office in Muscat. A well established corporate governance framework is implemented at POIC supplemented by effectively functioning board and management level committees. Management team of the institution comprises seasoned professionals.

Key Rating Drivers

- **Sponsorship Profile:** The ratings assigned to POIC take into account the joint venture shareholding structure of the company, with shares equally held by the Government of Pakistan and the Sultanate of Oman. Standalone risk profile of the company is considered strong reflected by sound capitalization levels and conservative risk appetite.
- **Advances:** Core lending operations of the company gained momentum with gross advances increasing to Rs. 10.9b (2014: Rs. 10.0b) on account of a consolidation strategy undertaken by the management under which focus was improving loan quality. Largest single exposure amounting to Rs. 825m is undertaken against a financial institution and represents 10.6% of the company's total equity.
- **Asset quality:** Portfolio quality regressed on a subjective basis as non-performing loans (NPLs) stood higher at Rs. 1.2b (2014: Rs. 1.0b). Almost 35% of total NPLs emanate from textile sector. Fresh classifications under NPLs include two new clients operating in fuel and energy and services sector.
- **Profitability:** As with other DFIs, POIC operates on thin spreads which have remained largely unchanged during FY15. Profitability of the company was driven by higher realized capital gains on sale of securities coupled with some increase from volumetric growth in earning assets. Given the sizeable proportion of fixed rate instruments on the balance sheet, capital gains from sale of securities will remain a key profitability driver in 2016. In the backdrop of declining interest rate scenario, the company may need to effectively balance its cost of funding and return on assets in order to curtail pressure on spreads.
- **Investments:** At end-2015, net investment portfolio of POIC increased due to higher deployment in government securities coupled with nominal increase in equity portfolio. Additional exposure in PIBs was undertaken in anticipation of further decrease in interest rates. Interest rate risk emanating from corporate debt portfolio and company's lending operations is considered limited since the underlying returns on these portfolios are pegged to market benchmark rates.
- **Liquidity and Funding:** Funding sources of the company primarily comprise borrowings. The company also mobilizes deposits in the form of Certificate of Investments (COIs). Concentration remained sizeable as top-10 depositors constituted 33.4% of the overall deposit base. Liquidity risk is considered manageable in view of sizeable liquid assets given significant concentration in deposits.
- **Management Profile:** Recently, a change was witnessed at the helm of the organization. In October 2015, Mr. Bahauddin Khan was appointed as the CEO of the company. There were few changes in management team as well.

Pak Oman Investment Company Limited (POIC) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Total Investments	14,073.4	12,179.5	7,629.3
Net Advances	9,993.3	9,070.3	7,493.7
Total Assets	27,194.6	23,365.6	17,727.7
Borrowings	14,479.4	8,868.7	5,721.8
Deposits & other accounts	4,009.9	6,296.0	4,433.8
Subordinated Loans	-	-	-
Tier-1 Equity	7,770.2	7,418.7	7,284.2
Net Worth	8,165.1	7,712.2	7,200.8
INCOME STATEMENT	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Net Mark-up Income	885.8	756.4	672.1
Net Provisioning / (Reversal)	196.1	221.0	126.1
Non-Markup Income	790.0	402.7	281.5
Operating Expenses	468.2	372.7	327.7
Profit (Loss) Before Tax	975.3	545.3	487.8
Profit (Loss) After Tax	602.5	383.6	375.5
RATIO ANALYSIS	**DEC 31, 2015**	**DEC 31, 2014**	**DEC 31, 2013**
Gross Infection (%)	10.9	10.4	13.4
Provisioning Coverage (%)	76.6	86.1	82.9
Net Infection (%)	2.8	1.6	2.6
Cost of funds (%)	7.6	10.0	9.2
Net NPLs to Tier-1 Capital (%)	3.6	1.9	2.7
Capital Adequacy Ratio (C.A.R (%))	35.6	31.2	36.6
Markup Spreads (%)	2.0	1.3	1.2
Efficiency (%)	43.8	41.7	39.6
ROAA (%)	2.4	1.9	2.1
ROAE (%)	7.9	5.2	5.2
Liquid Assets to Deposits & Borrowings (%)	70.9	67.9	66.2

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	
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.
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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
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