RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:
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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 2, '17*		*June 29, '16*	

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. The company is a joint venture between the Government of Pakistan (GoP) and the Sultanate of Oman

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 35 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

Pakistan Oman Investment Company Ltd (POIC) was incorporated in 2001 and was later converted into a public limited company in 2004. The company is engaged in provision of financing and investment banking services with the objective of promoting economic growth in Pakistan and Oman. POIC operates primarily through its head office in Karachi. It also has a branch office in Lahore and representative offices in Islamabad, Gwadar and Muscat.

Key Rating Drivers

Sponsorship Profile: The ratings of POIC reflect sound profile of the sovereign sponsors. The company is a joint venture between the Government of Pakistan (GoP) and the Sultanate of Oman, with equal number of shares vested with both entities. In view of the recent movement in oil prices, sovereign ratings of Oman have been revised by international rating agencies. Nevertheless, sponsors of the company have demonstrated commitment towards the company in the past and JCR-VIS anticipates this support to prevail in future.

Portfolio: Core lending operations of the company gained momentum with gross advances increasing to Rs. 19.5b (2016: Rs. 15.9b; 2015: Rs. 10.9b) at end-Q1'17. Higher quantum of portfolio can be attributed to the adoption of growth strategy by the management to offset the impact of decline in spreads. Sector-wise composition of advances depicts considerable diversification. Due to limited number of total clients, concentration in portfolio continued to remain on the higher side with top-10 clients accounting for 44% (2015: 38%) of the total funded exposure. Concentration in clientele continues despite the increase in number of total clients.

Asset Quality: Asset quality indicators have depicted improvement as gross and net infection stood at 6.1% (2016: 7.7%; 2015: 10.9%) and 0.8% (2016: 1.0%; 2015: 2.8%), respectively at end-Q1'17. As per management, low infection ratios are result of sound underwriting policies of the company and same cautious approach will be maintained in case of any future growth in portfolio. However, given the sizeable growth in portfolio during the outgoing year, asset quality indicators will be tested over time.

Profitability: In 2016, profitability grew on the back of sizeable gain on sale of securities and reversals in provisions booked against diminution in the value of investments. Net markup income witnessed compression on the back of reduction in interest rates. As per management, growth in business volumes aided in offsetting the impact of decrease in spreads to a certain extent. In Q1'17, the effect of decrease in spreads outweighed the effect of volumetric growth in portfolio, resulting in lower profitability vis-à-vis the comparable period in the preceding year. Management believes that further growth in portfolio will aid in countering the effect of decline in interest rates going forward.

Funding & Liquidity: Borrowings acquired from financial institutions continued to remain the primary source of funding for the DFI; sizeable increase was observed in the quantum of Bai Muajjal borrowing. Apart from borrowings, the company also mobilizes deposits in the form of Certificates of Investments (COIs), which also increased considerably in order to fund growth in portfolio. Given the sizeable increase in deposits and borrowings, liquid assets in relation to deposits and borrowings decreased on yearly basis. Moreover, growth in advances also resulted in lower Capital Adequacy Ratio (CAR) (Q1'17: 20.29%; 2016: 28.34%; 2015: 35.62%) vis-à-vis the preceding year; albeit the same remains comfortably above the regulatory requirement.

Pak Oman Investment Company Limited (POIC) — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR billions)*
BALANCE SHEET	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Total Investments	20,831.2	14,073.4	12,179.5
Net Advances	14,834.9	9,993.3	9,070.3
Total Assets	39,806.4	27,194.6	23,365.6
Borrowings	25,150.9	14,479.4	8,868.7
Deposits & other accounts	5,343.0	4,009.9	6,296.0
Subordinated Loans	-	-	-
Equity (excluding surplus)	8,106.8	7,770.2	7,418.7
Net Worth	8,461.2	8,165.1	7,712.2
INCOME STATEMENT	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Mark-up Income	851.6	885.8	756.4
Net Provisioning / (Reversal)	6.6	196.1	221.0
Non-Markup Income	827.7	790.0	402.7
Operating Expenses	568.8	468.2	372.7
Profit (Loss) Before Tax	1,025.3	975.3	545.3
Profit (Loss) After Tax	705.6	602.5	383.6
RATIO ANALYSIS	**DEC 31, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Gross Infection (%)	7.7	10.9	10.4
Provisioning Coverage (%)	87.4	76.6	86.1
Net Infection (%)	1.0	2.8	1.6
Cost of funds (%)	6.2	7.5	9.9
Net NPLs to Tier-1 Capital (%)	2.2	3.9	2.3
Capital Adequacy Ratio (C.A.R (%))	28.3	35.6	31.2
Markup Spreads (%)	1.9	2.3	1.6
Efficiency (%)	57.1	47.1	43.8
ROAA (%)	2.1	2.4	1.9
ROAE (%)	8.9	7.9	5.2
Adjusted Liquid Assets to Deposits & Borrowings (%)	34.6	44.2	40.9

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	

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