RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:
June 27, 2018

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA+	A-1+
Rating Outlook	Stable		Stable	
Rating Date	*June 27, '18*		*June 2, '17*	

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 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 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 core objective of POIC is to provide corporate and investment banking services with the focus of supporting economic growth and development in Pakistan and Oman. The company operates through its head office in Karachi with a branch in Lahore. It also has representative offices in Islamabad, Gwadar and Muscat.

Rating Drivers

Strong sponsor profile with two major sovereign owners
The ratings continue to factor in POIC's joint venture shareholding structure, with shares equally held by the Government of Pakistan and the Sultanate of Oman as on Dec 31, 2017. Business risk profile of POIC is strongly supported by company's longstanding presence in the industry, sound capitalization levels and moderate approach of risk appetite. Moreover, sovereign ratings of Sultanate of Oman have been recently revised, marginally, by international rating agencies due to weakening in economy.

Healthy growth witnessed in lending portfolio
Gross advances increased to Rs. 19.7b (FY16: Rs. 15.9b) at end-FY17 on account of an aggressive strategy undertaken by the management coupled with a focus to improve loan quality. Overall portfolio of the company is considered diversified across various sectors. The company also has a reputed client profile with whom it enjoys established relationships, resulting in repeat business over years. However, due to limited client base, concentration risk remained on the higher side with top 10 funded performing exposures accounting for 46.6% (FY16: 44.0%).

Improvement in asset quality
Asset quality continues to improve over the years with gross Non-Performing Loans (NPLs) amounting to Rs. 964.4m (FY16: Rs. 1.2b) in FY17. Quality indicators have also depicted an improvement as gross and net infection stood lower at 4.9% (2016: 7.7%; 2015: 10.9%) and 0.5% (2016: 1.0%; 2015: 2.8%), respectively at end-FY17. Going forward, management anticipates infection levels to reduce further given its recovery efforts and overall growth in portfolio.

Net profitability declined due to weakening of investment income and imposition of super taxation
Volumetric growth in earning assets contributed positively to the topline. Moreover, owing to company's aggressive stance towards recovery and conditions being favorable, POIC managed the reversal of a few NPLs which also supported the net markup income after provisions. However, downside tick in stock market and increasing interest rate scenario negatively impacted the investment income along with imposition of super tax which resulted in decline of profit after tax.

Comfortable liquidity profile
In order to fund its aggressive lending strategy, POIC mobilized higher deposits and borrowings during the outgoing FY17. 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 level has improved with the proportion of top 10 deposits declining to 66.7% (FY16: 54.6%) of total deposits at end-FY17. Moreover, liquidity risk is considered manageable in view of sizeable liquid assets given significant concentration in deposits.

Pak Oman Investment Company Limited (POIC) Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Total Investments	40,240.6	20,831.2	14,073.4
Net Advances	18,788.5	14,834.9	9,993.3
Total Assets	64,669.4	39,806.4	27,194.6
Borrowings	44,607.7	25,150.9	14,479.4
Deposits & other accounts	10,501.1	5,343.0	4,009.9
Subordinated Loans	-	-	-
Equity (excluding surplus)	8,059.8	8,106.8	7,770.2
Net Worth	8,123.4	8,461.2	8,165.1
INCOME STATEMENT	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Net Mark-up Income	856.0	851.6	885.8
Net Provisioning / (Reversal)	(168.3)	6.6	196.1
Non-Markup Income	340.4	827.7	790.0
Operating Expenses	573.3	568.8	468.2
Profit (Loss) Before Tax	744.5	1,025.3	975.3
Profit (Loss) After Tax	436.7	705.6	602.5
RATIO ANALYSIS	**DEC 31, 2017**	**DEC 31, 2016**	**DEC 31, 2015**
Gross Infection (%)	4.9	7.7	10.9
Provisioning Coverage (%)	90.7	87.4	76.6
Net Infection (%)	0.5	1.0	2.8
Cost of funds (%)	5.9	6.2	7.5
Net NPLs to Tier-1 Capital (%)	1.4	2.2	3.9
Capital Adequacy Ratio (C.A.R (%))	21.4	28.3	35.6
Markup Spreads (%)	1.4	1.9	2.3
Efficiency (%)	59.4	57.1	47.1
ROAA (%)	0.8	2.1	2.4
ROAE (%)	5.4	8.9	7.9
Adjusted Liquid Assets to Deposits & Borrowings (%)	43.7	41.0	44.2

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	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.
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				
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