

## CORPORATE GOVERNANCE REPORT

### Pak Oman Investment Company Limited (POIC)

**REPORT DATE:**

November 1, 2016

**RATING ANALYSTS:**

Muniba Khan

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**RATING DETAILS**

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR-9	CGR-9
Rating Date	November 1, '16	December 1, '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%	Staff Strength (including outsourced): 98
Ministry of Finance, Oman – 49.99%	Representative Offices: 3; Branches: 1

**APPLICABLE METHODOLOGY(IES)**
**JCR-VIS Entity Rating Criteria: Corporate Governance Ratings** <http://jcrvis.com.pk/images/cgr.pdf>

## Pak Oman Investment Company Limited

### OVERVIEW OF THE INSTITUTION

### RATING RATIONALE

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

Pak Oman Investment Company Limited (POIC) is established under a Joint Venture Agreement (JVA) between the Government of Pakistan (GoP) and Sultanate of Oman (SO). 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. The institution maintains healthy stakeholder relations. Overall control environment of the institution is considered satisfactory.

In line with the JVA, each sponsor nominates three directors on the Board. Given equal representation of the sponsoring governments and legal structure some of the practices that are considered favorable from a governance perspective may not be implemented. SECP has given exemptions to all DFIs, including POIC, from the Public Sector Companies (Corporate Governance) Rules, 2013 subject to the conditions that training of directors, performance evaluation of the Board and audit of financial statements of the companies will be ensured through Quality Control Review (QCR) rated firms. POIC remains compliant with these provisions of the code.

Board members carry diversified experience in financial and taxation related sectors. The Board is overseeing matters of both strategic nature and also monitoring the performance of the company. Moreover, credit approval authority rests primarily with a Board committee, in view of which the responsibility for credit exposures rests both with the management and the Board.

Clear reporting lines are defined in the organogram. Barring Head of Internal Audit, all departmental heads report to the Managing Director (MD). Head of Internal Audit functionally reports to its respective Board level committee. There have been few changes in the senior management of POIC during the period under review. During 2015, departmental heads of credit administration, compliance and IT functions witnessed turnover; these positions were timely filled. There is one vacant position in key management team. The company has a defined succession plan in place, which was approved by the Board in 2010.

Level of financial and qualitative disclosures in the public domain is considered satisfactory. However, additional disclosures such as ToRs of Board committees could also be included in the public domain.

The company has implemented a Microsoft Access solution to support its core operations. The management is in the process of implementing Dot net based system, also developed by SL. The new ERP was made live on a standalone basis in June 2016. The disaster recovery site is outsourced with data transferred at each day end.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

### Pak Oman Investment Company Limited (POIC)

### Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR billions)</i>		
<b>BALANCE SHEET</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
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
<b>INCOME STATEMENT</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
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
<b>RATIO ANALYSIS</b>	<b>DEC 31, 2015</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>
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**

<b>CGR 10</b> Highest level of corporate governance	<b>CGR 4, CGR 4+, CGR 4++</b> Moderately low level of corporate governance
<b>CGR 9, CGR 9+, CGR 9++</b> Very high level of corporate governance	<b>CGR 3, CGR 3+, CGR 3++</b> Low level of corporate governance
<b>CGR 8, CGR 8+, CGR 8++</b> High level of corporate governance	<b>CGR 2, CGR 2+, CGR 2++</b> Very low level of corporate governance
<b>CGR 7, CGR 7+, CGR 7++</b> Moderately high level corporate governance	<b>CGR 1, CGR 1+, CGR 1++</b> Lowest level of corporate governance
<b>CGR 6, CGR 6+, CGR 6++</b> Satisfactory level of corporate governance	
<b>CGR 5, CGR 5+, CGR 5++</b> Adequate level of corporate governance	

**Governance Watch:** 'Governance Watch' may be assigned to highlight identifiable governance events that necessitate re-evaluation of the assigned rating. A 'Governance Watch' announcement means that the status of the assigned rating is uncertain and an event or deviation from an expected trend has occurred or is expected and additional information is necessary to take a rating action.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Pak Oman Investment Company Limited				
<b>Sector</b>	Development Finance Institution (DFI)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Corporate Governance Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	1-Nov-16	CGR 9	-	-	Reaffirmed
	1-Dec-15	CGR 9	-	-	Reaffirmed
	28-Nov-14	CGR 9	-	-	Reaffirmed
	10-Oct-13	CGR 9	-	-	Reaffirmed
	11-Oct-12	CGR 9	-	-	Reaffirmed
9-May-11	CGR 9	-	-	Reaffirmed	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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