RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:
June 28, 2022

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 16th '22*		*June 30, '21*	
Rating Action	*Reaffirm*		*Reaffirm*	

COMPANY INFORMATION

Incorporated in 2001	**External auditors:** EY Ford Rhodes Chartered Accountants
Unlisted Public Company	**Chairman of the Board**: H.H. Sayyid Juland Jaifar Salim Al Said (Effective since February 2021)
Key Shareholders (with stake 5% or more):	**Acting Chief Executive Officer**: Mr. Jehangir Shah (Effective June 15th, 2022)
Ministry of Finance, Pakistan – 49.99%	
Oman Investment Authority, Oman – 49.99%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Government Supported Entities
https://docs.vis.com.pk/docs/Meth-GSEs202007.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 Highness Sayyid Juland Jaifar Al Said has over 15 years of experience at the Oman Investment Authority (OIA). He currently heads the Investment Risk & Assurance function at OIA. His Highness has served on the board of POIC and some of its subsidiaries since 2017. He has been appointed as Chairman of the Board of Directors of the Company in 2021.

Profile of Acting CEO

Mr. Jehangir Shah has 40 years of experience in commercial banking, private and personal banking and leasing. He has had overseas work experience in UAE, Egypt and Brazil with BCCI. Prior to joining Pak Oman Investment Company as Deputy Managing Director in 2008, Mr. Shah served in senior management position in Oman International Bank SAOG and Capital Assets Leasing Corporation Limited.

RATING RATIONALE

Incorporated as a Development Financial Institution (DFI); Pak Oman Investment Company Limited is primarily engaged in the provision of corporate and investment banking services with the focus on promotion of economic growth of Pakistan and Oman through industrial development and agro-based industries on commercial basis. The company operates through its headquarters in Karachi, branch office in Lahore, and representative offices at Islamabad, Gwadar, and Muscat.

Rating Drivers

Sound sponsor profile with two major sovereign owners

Ratings draw comfort from POIC's joint venture shareholding structure with shares equally vested between the Government of Pakistan and Sultanate of Oman through their respective finance ministries. S&P Global has lately upgraded sovereign rating of Sultanate of Oman from B+ to BB- with stable outlook. The upgrade incorporates higher oil prices, rising hydrocarbon production and government's fiscal reform program. The sponsors of the company have historically extended financial support towards POIC, and VIS expects the trend to continue going forward if need arises.

Asset quality indicators depict a weakening trend on a timeline basis.

Asset quality indicators depict weakening with Gross and Net Infection of the Company increasing to 9.6% (2021: 9.4%; 2020: 7.1%) and 6.2% (2021: 5.9% 2020: 4%) respectively at end Mar'22. Higher NPLs (2021: Rs. 1.9b; 2020: Rs. 1.5b) in the review period were concentrated in Sugar, Power and Poultry sector.

Given the pressure of NPLs, POIC has been pursuing a conservative lending strategy which has resulted in gross financing portfolio declining by 5.2% (2021: Rs. 20.4b; 2020: Rs. 21.5b) in 2021. Total net advances represented 15.4% of the total asset base at end Dec'21, while investments form for four-fifth of the same. In terms of sectoral exposures, lending's to Textiles, Power, Transportation and Storage, Services and Financials represent the key sectoral exposures. Client wise concentration remains high with top 20 advances constituting 63% of the advances while top 66 sum up to 98% of the financing portfolio. Going forward, while management intends to continue to take up a cautious lending stance, however given the higher credit risk environment, we expect further weakening in asset quality metrics. Maintaining asset quality indicators in line with rating benchmarks is considered important rating driver, going forward.

Profitability reverted to 3 year average. One off capital gain had boosted profitability last year.

Net profit of the Company (2021: Rs. 477.7m; 2020: Rs. 972.4m; 2019: Rs. 504.3) has remained close to stable over past 3-4 years with the exception in 2020 on account of higher capital gains booked in debt securities. In 2021, markup income declined by 10.8% to Rs. 8.0b (2020: Rs.

8.9b; 2019: Rs. 7.5b) while markup expense declined by 8.6%. Growth was witnessed in fee income, however quantum of which stands lower, to Rs. 76.2m (2020: Rs. 44.2m).

Efficiency (cost to income ratio) of the Company weakened to 53.1% (2020: 41.6%) in 2021 on account of lower net interest income earned while operating expense base stood stable at Rs. 718m (2020: Rs. 710m).

Going forward, we expect spread contraction in Q2 and Q3 2022 on account of 4% rise in interest rates in Q2 2022. Given faster re-pricing of funding vis-à-vis assets will keep spreads under pressure before improving toward Q4 2022. VIS expects some pressure on profitability keeping in view current volatile macro-economic situation possibly giving rise to higher NPLs and provisioning expense. Nevertheless, around three-fourth of the interest income is driven by investment portfolio, which is expected to provide some support to the profitability profile.

Sizable investment portfolio with low credit and manageable and market risk exposure.

Investment portfolio significantly increased to Rs. 101.7b (2020: Rs. 68.2b) at end 2021; recording growth of 49.2%. Credit risk of investment portfolio continue to remain low as 95.2% of the portfolio is deployed in GoP securities. Investment in the same has grown by 53% primarily due to increase in Treasury Bills. Market risk remains manageable as well given higher exposure to shorter re-pricing investments as more than four-fifth of the Company's PIBs investments are parked in floater PIBs.

Adequate liquidity and capitalization profile. Going forward, both are expected to remain under pressure.

The liquidity profile of the company reflects weakening with liquid assets declining over time from 78% to 47% over a period of 4 years. In addition, while remaining compliant with regulatory requirements, Liquidity Coverage Ratio (LCR) (2021: 67.9%; 2020: 53%) and Net Stable Funding Ratio (NSFR) (2021: 105.56%; 2020: 101.51%) lag behind peers. Borrowing led asset growth also exposes POIC to greater mismatch risk on the balance sheet. Limited outreach of the DFI and tough competition from commercial banks remain major contributors for concentration in deposit base.

Equity base (excluding surplus revaluation) of the institution remained at almost preceding year level at Rs. 8,756.9m (2020: Rs. 8,734.5m) in 2021 due to limited profitability. Overall capitalization indicators are considered adequate with CAR reported at 17.39% (2021: 16.47%; 2020: 17.19%) as at end Mar'22. However, given higher Net NPL to Tier 1 Capital (March 2022: 17.8%), risk profile remains elevated. Improvement in the same is considered important.

Pak Oman Investment Company Limited (POIC) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions) – Annexure I*

BALANCE SHEET	2019	2020	2021	Q1'22
Investments	59,376	68,217	101,788	97,765
Net Advances	20,024	20,935	19,720	19,717
Lending to FI	8,132	3,600	1,954	-
Cash & Balances	2,128	1,533	1,664	1,585
Total Assets	92,083	96,806	128,260	122,220
Borrowings	73,681	70,552	103,997	99,324
Deposits	8,576	15,869	14,354	13,019
Equity (excluding surplus on reval)	8,192	8,735	8,757	8,490
Net Worth	8,353	9,083	8,756	8,492
INCOME STATEMENT				
Net Markup income	1,021	1,549	1,216	263
Net Provisioning/(reversal)	(34)	145	49	(20)
Non-Markup Income	236	671	218	51
Administration expenses	577	680	676	178
Profit/ (Loss) Before Tax	682	1,337	651	145
Profit / (Loss) After Tax	504	972	478	102
RATIO ANALYSIS				
Gross Infection (%)	3.4%	7.1%	9.4%	9.6%
Provisioning Coverage (%)	81.4%	42.7%	39.0%	37.6%
Net Infection (%)	0.7%	4.2%	5.9%	6.2%
Net NPLs to Tier-1 Capital (%)	2.1%	12.9%	17.6%	17.8%
Capital Adequacy Ratio (CAR) (%)	15.6%	17.2%	16.5%	17.4%
Efficiency (%)	52.7%	41.6%	53.1%	66.4%
ROAA (%)	0.7%	1.0%	0.4%	0.3%*
ROAE (%)	6.1%	11.2%	5.4%	4.7%*
Liquid Assets to Deposits & Borrowings (%)	78.3%	67.2%	49.2%	47.3%
LCR (%)	68%	53%	68%	55%
NSFR (%)	102%	102%	106%	103%

**annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28-Jun-22	AA+	A-1+	Stable	Reaffirmed
30-Jun-21	AA+	A-1+	Stable	Reaffirmed
30-Jun-20	AA+	A-1+	Stable	Reaffirmed
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.
Probability of Default	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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Due Diligence Meeting(s) Conducted

Name	Designation	Date
Mr. Mohammad Jamal Nasir	Chief Financial Officer	May 18, 2022
Mr. Waqas Mehmood	Head of Risk Management	
Mr. Zalmai R. Khan	Corporate Head	
Mr. Tasadduq Aslam	Head of Treasury	