RATING REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:
June 28, 2024

RATING ANALYST:
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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 28, 2024*		*June 22nd,'23*	
Rating Action	*Reaffirm*		*Reaffirm*	

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** BDO Ebrahim & Co., Chartered Accountants
Unlisted Public Company	**Chairman of the Board**: H.H. Sayyid Juland Jaifar Salim Al Said
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Nauman Ansari
Ministry of Finance, Pakistan – 49.99%	
Oman Investment Authority, Oman – 49.99%	

APPLICABLE METHODOLOGY(IES)

Government Supported Entities
https://docs.vis.com.pk/docs/Meth-GSEs202007.pdf

Financial Institutions Rating
https://docs.vis.com.pk/Methodologies%202024/Financial-Institution-v2.pdf

Rating Scales & Definitions
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Pak Oman Investment Company Limited

OVERVIEW OF THE INSTITUTION

POIC was initially established as a privately held company in July 2001 before being converted into a public limited company in March 2004. It operates as a JV between the Government of Pakistan (GoP) and the Sultanate of Oman (SO).

Chairman's Profile:

His Highness Sayyid Juland Jaifar Al Said brings over 16 years of experience from his tenure at the Oman Investment Authority (OIA). Presently, he leads the Investment Risk & Assurance function at OIA. His Highness has been serving on the board of POIC and its subsidiary since 2017. In 2021, he assumed the role of Chairman of POIC's BoD.

Profile of MD / CEO

Mr Nauman Ansari, the CEO/MD of POIC, is a senior Finance and Banking professional with 30 years of multi-functional and varied experience of global, regional and local banking institutions including Standard Chartered Bank, Bank of America, ABN Amro and Fortis Bank. His last two assignments were as President and CEO of Bank Alfalah Limited and Faysal Bank Limited. Mr. Ansari is a graduate of Miami University, USA.

Mr. Ansari has served on numerous Boards of Directors. Currently, Mr. Ansari is serving as an Independent Director /

RATING RATIONALE

Pak Oman Investment Company Limited ('POIC' or 'the Company'), a Development Financial Institution (DFI), specializes in providing corporate and investment banking services. The primary mission of the company is to stimulate economic growth in both Pakistan and Oman by supporting industrial development and promoting agro-based industries commercially. Headquartered in Karachi, POIC operates with an extended presence through a branch office in Lahore and representative offices in Islamabad, Gwadar, and Muscat.

Rating Drivers

A strong sponsor profile emanating from the presence of two sovereigns.

POIC's ratings are underpinned by the Company's joint venture (JV) shareholding structure having equal ownership by the Government of Pakistan (GoP) and the Sultanate of Oman (SO). In Sep'23, S&P upgraded the sovereign rating of Oman from 'BB' to 'BB+' and in Mar'24, it revised the outlook from 'Stable' to 'Positive'. The rating improvement is attributed to factors such as continued reduction in government debt, increased hydrocarbon production, and the SO's fiscal and economic reform initiatives. POIC's sponsors have demonstrated financial support, with the SO adopting a long-term perspective on its investment and extending financial assistance to POIC as and when needed. VIS expects this trend of support to continue in future, if required.

Conservative lending strategy with high client and sector concentration

Amid challenging economic conditions, the company made disbursements with a cautious approach, in order to mitigate associated risk. The company reported lower disbursements of Rs. 3.1b (FY22: 7.1b) against the disbursement target of Rs. 6.3b for FY23, resulting in lower gross advances portfolio of Rs. 19.2b (FY22: Rs. 20.3b) at end-FY23.

Key sectoral exposures included textiles, power, transport, storage, and communication. The top five sectors accounted for a combined exposure of 66.4% (FY22: 62.3%) at end-FY23. The increase was primarily manifested in financial sector. According to the management, no specific sector has been shortlisted for credit disbursement; the company would rather take exposure on a company-to-company basis, going forward. Given the small size of the lending portfolio, concentration has remained high. The management intends to reduce concentration over the next 1-2 years.

While gross infection increased due to accretion of some fresh infection, net infection improved considerably owing to higher provision coverage

Gross infection stood higher at 13.2% (FY22: 11.0%) on account of some increase in NPLs during FY23 owing to incidence of fresh infection. During FY23, the company adopted IFRS-9. The provisioning coverage increased significantly to 92.7% (FY22: 38.4%); net infection thereby improved to 1.1% (FY22: 7.1%). Moreover, Net NPLs to Tier 1 equity decreased significantly to 2.9% (FY22: 19.1%) by end-FY23. In addition, the company has provided for Stage 1&2 under IFRS-9. Maintenance of asset quality is a key rating driver.

Increasing trend in investment portfolio with manageable associated risks

The investment portfolio enhanced to Rs. 335.7b (FY22: Rs. 125.7b) by end-FY23. The increase was primarily manifested in government securities with Pakistan Investment Bonds (PIBs) amounting Rs. 163.4b (FY22: Rs. 63.4b; FY21: Rs. 46.3b), T-Bills amounting Rs. 161.4b (FY22: Rs. 57.9b; FY21: Rs. 49.8b) and Ijara Sukuk amounting Rs. 6.0b (FY22: nil). The mark to market

Chairman on the Board of Directors of Parwaaz Financial Services Limited and on the Board of Director of Pak Oman Asset Management Company Limited and Orient Power Company (Pvt) Limited.

surplus of Rs. 97.2m was recorded on PIBs portfolio against a deficit of Rs. 559.6m at end-FY22. However, the company recorded substantial mark to market deficit on government securities at end-1QFY24 that is expected to subside with decrease in interest rates and reduced time to maturity.

The company enhanced repo borrowings to acquire floating rate PIBs, which comprised approximately 95% of the PIBs portfolio at end-FY23, mitigating the market risk. POIC intends to increase its fixed rate PIBs given interest rates develop a downward trajectory. The investment portfolio is heavily weighted towards government securities, comprising 98.6%, indicating a low credit risk profile. Given the low exposure to other segments of investments, the associate risks are considered manageable.

Profit increased despite inflationary trends and higher incidence of provision as interest rates reached an all-time high in FY23

Overall profitability indicators were higher primarily due to elevated interest rates. Markup income surged to Rs. 67.5b (FY22: Rs. 17.5b; FY21: Rs. 8.0b) in FY23, driven by significant volumetric growth in earning assets. Despite a higher cost of funds of 20.4% in FY23 (FY22: 13.0%), pressure on mark-up spreads was slightly alleviated that stood at 0.82% (FY22: 0.23%).

Despite a higher dividend income, non-interest income declined in FY23 mainly due to lower other income of Rs. 24m, down from Rs. 148m in FY22, which included a one-time reversal related to the Worker's Welfare Fund. The company also recorded a lower gain on the sale of securities of Rs. 81m (FY22: Rs. 136m). POIC booked net provisions of Rs. 1b (FY22: Rs. 171.9m) during FY23 following adoption of IFRS-9. Compensation expense increased considerably to Rs. 640m (FY22: Rs. 400m) mainly due higher cash bonuses and increments. Inflationary trends and a major provision of Rs. 204m regarding Workers' Welfare Fund resulted in higher operating expenses plus other charges, amounting Rs. 1.2b (FY22: Rs. 639m). However, efficiency improved considerably to 30% (FY22: 59%) in FY23 on the back of substantial increase in recurring income. Accounting for taxation, net profit increased to Rs. 705m (FY22: Rs. 334m) in FY23. The company posted net profit of Rs. 22m in 1QFY24.

Improvement witnessed in the liquidity coverage ratio

Liquidity profile in terms of liquid assets as a proportion of deposits and borrowings (adjusted against collateralized investments and borrowings against those collaterals) decreased to 53% (FY22: 76%; FY21: 47%) by end-FY23. Meanwhile, the liquidity coverage ratio (LCR) improved to 103.7% (FY23: 75.3%; FY22: 79.9%).

The POIC, in line with other DFIs, relies on SBP's pass through financing schemes, financial institutions, and deposits for its funding requirements. The total borrowings increased to Rs. 340.0b (FY22: Rs. 132.9b; FY21: Rs. 104.0b) by end-FY23. Repo borrowings continued to remain the largest contributor which amounted to Rs. 292.6b (FY22: Rs. 104.3b) at end-FY23. Meanwhile, total deposits stood slightly lower at Rs. 12.2b (FY21: Rs. 13.5b; FY21: Rs. 14.3b) due to some withdrawal from banking companies and private sector. However, deposit concentration risk has improved.

Given lower Tier 1 capital coupled with significant increase in risk weighted assets, capital adequacy ratio decreased on a timeline basis

Paid-up capital remained at Rs. 6.15b at end-FY23. Adjusting for reserves, the equity base (excluding surplus on revaluation) was recorded lower at Rs. 8.3b (FY22: Rs. 8.7b) at end-FY23 mainly on account of adoption of IFRS-9 and its adjustment of expected credit loss against retained earnings. At end-1QFY24, the equity base after adjusting for deficit on revaluation of assets was reported lower at Rs. 7.2b (FY23: Rs. 8.7b) mainly on account of dividend payments pertaining to the last period and a deficit on revaluation of assets of Rs. 810.9m against a surplus of Rs. 407.4m at end-FY23.

Given lower Tier1 equity and higher risk-weighted assets (RWAs) mainly due to significant increase in market risk related RWAs, Capital Adequacy Ratio (CAR) decreased considerably to 15.49% (2022: 21.92%) by end-FY23, though remained above the minimum regulatory requirement of 11.5%. The management projects to maintain CAR between 14-16%, going forward. At the same time, leverage ratio (LR) witnessed a declining trend to 1.13% (FY23: 1.82%; FY22: 4.48%) at end-1QFY24; improvement in the same is desirable.

Key Initiatives:
POIC is expanding its product portfolio to enhance its market presence and diversify its financial services. The institution is entering the guarantee financing (cash) and Supply Chain Financing markets to provide improved liquidity solutions for its clients. Additionally, POIC is set to launch Islamic banking services, with the licensing process in its final stages, pending requisite approvals. This initiative is being closely guided by the State Bank of Pakistan (SBP), highlighting its strategic importance. Furthermore, POIC plans to begin Islamic deposit mobilization by end-FY24, which is expected to enhance its funding base.

POIC is also incorporating a sustainability aspect into its strategy by venturing into green financing, including green bonds, to support renewable energy and environmentally sustainable projects. The institution is exploring cross-border transactions and identifying opportunities in Oman, marking a shift to being active on both sides, reaping the maximum benefits.

Revenue streams include agency services, debt capital market (DCM) & syndication, advisory services, and are diversifying to private equity initiatives, particularly in the fintech and agricultural sectors. These product development initiatives may address the evolving financial needs of its clientele.

Corporate profile

Established in 2001 as a privately held company, POIC operates as a JV between the Government of Pakistan (GoP) and the Sultanate of Oman (SO) through the Oman Investment Authority (OIA). The company's headquarters are located in Karachi, with additional presence through a branch office in Lahore and representative offices in Islamabad, Gwadar, and Muscat.

Under the regulatory purview of the State Bank of Pakistan (SBP), POIC functions as a Development Financial Institution (DFI). The Ministry of Finance, Pakistan, and OIA, SO, possess equal shareholding. In September'23, S&P upgraded the sovereign rating of SO from 'BB' to 'BB+' and in Mar'24, S&P revised the outlook from 'Stable' to 'Positive'.

Figure 1: Shareholding Pattern

Government	Entities	%
Government of Pakistan	Ministry of Finance	49.99
	Secretary – Economic Affairs Division	0.01
Sultanate of Oman	Oman Investment Authority	49.99
	Ministry of Commerce & Industry	0.01

Board Profile

The Board of Directors (BoD) of POIC is composed of five directors (one position vacant), with H.H. Sayyid Juland Jaifar Salim Al Said serving as the Chairman of Board. As per the JV agreement, the Chairman of the Board is nominated by the OIA, while the MD is nominated by the GoP. Each shareholder, in accordance with the agreement, has the privilege to nominate three directors. The composition of the Board is illustrated in the table below:

Figure 2: Composition of Board of Directors

	Nominees	Status
H.H. Sayyid Juland Jaifar Salim Al Said (Chairman)	Sultanate of Oman	Chairman
Mr. Ayham Abdul Aziz abdul Qadar Al Ghassani	Sultanate of Oman	Director
Mr. Faisal Ali Ibrahim Al Siyabi	Sultanate of Oman	Director
Mr. Mohammad Shabir Ahmed Khan	Government of Pakistan	Director
Mr. Nauman Ansari	Government of Pakistan	CEO/MD

With over 16 years of experience at the OIA, previously known as the State General Reserve Fund (SGRF), His Highness Sayyid Juland Jaifar Al Said has held key roles in Private Equity, Real Estate, and Risk Management. Presently, he leads the Investment Risk & Assurance function at OIA and played a pivotal role in establishing the Risk and Compliance function at SGRF in FY13.

During FY23, seven board meetings were held at POIC, and full attendance was observed in all the meetings. To ensure effective oversight, there are four committees present at the Board Level – Board Executive Committee (BEC), Board Audit Committee (BAC), Board Risk Committee (BRC), and Board Remuneration & Compensation Committee (BRCC). Composition of BOD committees are mentioned below:

Figure 3: Composition of Board Committees

	BOD	BEC	BAC	BRC	BRCC
H.H. Sayyid Juland Jaifar Salim Al Said	C	C	-	-	C
Mr. Ayham Abdul Aziz abdul Qadar Al Ghassani	M	-	C	M	M
Mr. Faisal Ali Ibrahim Al Siyabi	M	M	M	M	M
Mr. Nauman Ansari	M	M	-	-	-
Mr. Mohammad Shabir Ahmed Khan	M	M	M	C	M

C=Chairman; M=Member

During FY23, the changes observed at the board level and its sub-committees are as follows:

- Mr. Omer Hamid Khan left the BoD on 27th April, 2023. Mr. Mohammad Shabir Ahmed Khan joined the BoD on 23rd May, 2023.
- Mr. Nauman Anasri took charge of the position of Managing Director during Jun'23. Mr. Ansari replaced acting MD, Mr. Mohammad Zalmai Rahman Uddin Khan, who assumed the said role in Nov'22.

No changes have been observed at the board level in the ongoing year.

Management Profile

Mr Nauman Ansari, the CEO/MD of POIC is a senior Finance and Banking professional with 30 years of multi-functional and varied experience of global, regional and local banking institutions including Standard Chartered Bank, Bank of America, ABN Amro and Fortis Bank. His last two assignments were as President and CEO of Bank Alfalah Limited and Faysal Bank Limited. Mr. Ansari is a graduate of Miami University, USA.

Mr. Ansari has served on numerous Boards of Directors. Currently, Mr. Ansari is serving as an Independent Director / Chairman on the Board of Directors of Parwaaz Financial Services Limited and on the Board of Director of Pak Oman Asset Management Company Limited and Orient Power Company (Pvt) Limited.

Risk Management

Risk Management Department at POIC is involved in conducting due diligence on credit and investment proposals before circulation to the Management Credit Committee and Executive Committee of the Board in line with the risk management policy. With financial analysis and market assessment, the department assigns obligor risk ratings which are paramount for the derivation of client-wise Expected Credit Loss (ECL) under IFRS 9 that also assist the senior management and the Board in making informed decisions on credit portfolio.

The company also engages an Internal Risk Rating System (IRRS), which categorizes customers into different risk bands based on security and pricing considerations. The department collaborates with corporate and investment banking teams to identify distressed accounts on a daily basis. The department also oversees sectorial limits and provides outlook recommendations on various sector. The BoD approves the overall risk tolerance limits, through its Board Risk Management Committee (BRMC) while the risk management policy is updated every three years to adapt to changing market dynamics.

The Risk Committee ensures the development of robust financial models and systems to calculate different categories of risk. Stress tests are conducted to maintain prudent levels of exposure to credit, market, liquidity, and operational risks in alignment with the available capital. The company adopts a cautious approach, selectively engaging with customers whose risk profiles align with the acceptable limits.

To mitigate risk, the company diversifies its lending portfolio, shifting focus from manufacturers to the services & the financial sector. This strategic move prioritizes essential industries like financial services, education, IT, and telecom, reducing uncertainties in cross-border trade. Additionally, advances are made on a company-to-company basis, without targeting specific sectors for credit disbursements while the management has decided to curtail lending to the textile sector.

In order to enhance risk management effectiveness, the department has implemented an Enterprise Risk Management (ERM) system. This system comprehensively identifies and mitigates a spectrum of risks, encompassing market, credit, liquidity, and operational risks, alongside critical IT-related risks such as cybercrime, particularly pertinent for DFIs. By integrating all sub-functions into a unified risk intelligence platform, the organization achieves a cohesive view of its risk landscape. This consolidated approach allows compliance, internal audit, and internal control teams to access and utilize centralized risk data through an integrated enterprise risk management software solution.

Information Technology (IT)

At POIC, data security is paramount, with a strict policy of storing all data offline, eschewing internet-based storage solutions to minimize cyber risk. Regular backups to external drives ensure data protection and facilitate swift restoration in the event of system failures or data loss incidents. The company has implemented data replication for all key functions—including corporate, treasury, risk, and HR—with a replication frequency ranging from 20 minutes to one day.

Significant upgrades are underway within POIC's IT department. The company is transitioning from PCs to laptops and moving from the Zimbra email server to a subscription-based Office 365 suite. Additionally, POIC is introducing 'Rosetta', a new software for scanning and workflow management, aimed at improving document archiving processes. The HR system is also being upgraded to a cloud-based platform to enhance functionality and accessibility.

To ensure robust IT infrastructure and security, POIC has engaged an external firm for IT audits, with PWC conducting the latest audit in June 2023. These audits provide an independent assessment of IT operations and security measures, focusing on penetration testing, application audits, IT governance, and general controls, helping to identify areas for improvement.

Audit and Compliance

The company adheres to a structured audit schedule, with annual audits for its core departments and audits for support functions conducted over a 15–18-month period. However, if deemed necessary, the Internal Audit (IA) team, with the approval of the Board Audit Committee (BAC), can expedite the audit cycles for support functions to ensure timely oversight and risk management.

IA ratings are evaluated based on five critical factors: regulatory compliance, the effectiveness of internal controls, the implementation of previous audit observations, adherence to internal policies, and the adequacy of follow-up on approved policies and manuals. Audit observations are classified into high, medium, or low risk categories, depending on their severity.

Compliance reviews are comprehensive, encompassing assessments of the company's adherence to regulatory guidelines and industry best practices. Additionally, the department conducts risk profiling of new customers to identify potential compliance issues. A quarterly report summarizing these compliance activities is submitted to the Board Risk Committee (BRC), ensuring continuous monitoring and accountability.

Product Development Initiatives:

POIC is expanding its product portfolio to enhance its market presence and diversify its financial services. The institution is entering the guarantee financing and bill discounting markets to provide improved liquidity solutions for its clients. Additionally, POIC is set to launch Islamic banking services, with the licensing process in its final stages, pending requisite approvals, as per management. This initiative is being closely guided by the State Bank of Pakistan (SBP), highlighting its strategic importance. POIC plans to begin Islamic deposit mobilization by end-FY24, which is expected to enhance its funding base.

POIC is also incorporating a sustainability aspect into its strategy by venturing into green financing, including green bonds, to support renewable energy and environmentally sustainable projects. The institution is exploring cross-border transactions and identifying opportunities in Oman, marking a shift to being active on both sides, reaping the maximum benefits.

Revenue streams include agency services, debt capital market (DCM) & syndication, advisory services, and are diversifying to private equity initiatives, particularly in the fintech and agricultural sectors. These product development initiatives may address the evolving financial needs of its clientele.

Financial Analysis
Asset Mix

During FY23, the asset base of the company enhanced to Rs. 367.0b (FY22: 157.7b). The increase was largely manifested in investment portfolio. Moreover, other assets increased mainly on account of higher accrued mark-up and advanced taxation. Given the management's conservative approach, the advances portfolio decreased on a timeline basis.

The momentum continued in 1Q24 where the increase was again mainly manifested in the investment portfolio, which increased to Rs. 357.7b (FY23: Rs. 335.7b; FY22: Rs. 125.7b). Major assets distribution is given below:

Figure 4: Composition of Major Assets

Major Assets (Rs. Million)	2022	2023	1Q'24
CCEs*	1,971	664	768
	1.2%	***0.2%***	***0.2%***
Investments – Net	125,711	335,736	357,696
	79.7%	***91.5%***	***91.5%***
Advances – Net	19,421	16,180	14,095
	12.3%	***4.4%***	***3.6%%***
Other Assets	10,598	14,423	18,208
	6.7%	***3.9%***	***4.7%***
Total Assets	**157,700**	**367,003**	**390,766**

* CCEs are Cash & Cash Equivalents, which include Cash & Balances with treasury banks and balances with other banks.

Credit Risk

Figure 5: Asset quality indicators

(Rs. in million)	2022	2023	1Q'24
Gross Advances	20,275	19,218	16,932
NPLs	2,225	2,536	2,324
Gross infection	11.0%	13.2%	13.7%
IFRS 9 – Stage 3 / Specific provisioning	854	2,351	2,180
IFRS 9 – Stage 1 & 2	-	687	658
Net infection	7.1%	1.1%	1.0%
Provisioning coverage	38.4%	92.7%	93.8%

Tier I Equity	7,164	6,366	4,318
Net NPLs to Tier 1 equity	19.1%	2.9%	3.3%

Amid challenging economic conditions, the company made disbursements with a cautious approach, in order to mitigate associated risk. The company reported lower disbursements amounting Rs. 3.1b (FY22: 7.1b) against the disbursement target of Rs. 6.3b for FY23, resulting in a decrease in the gross advances portfolio to Rs. 19.2b (FY22: Rs. 20.3b) by end-FY23.

Gross infection stood higher at 13.2% (FY22: 11.0%) on account of fresh infection during FY23. Credit exposures of Rs. 465m related to retail and paper & paper board sectors were added to non-performing loans (NPL) during FY23. At the same time, the company adopted IFRS-9 in FY23. The provisioning coverage increased significantly to 92.7% (FY22: 38.4%). Thereby, net infection improved to 1.1% (FY22: 7.1%). Moreover, Net NPLs to Tier 1 equity decreased significantly to 2.9% (FY22: 19.1%) by end-FY23. In addition, the company has provided for Stage 1&2 under IFRS-9. Maintenance of asset quality is a key rating driver.

Key sectoral exposures included textiles, power, transport, storage, and communication. The top five sectors accounted for a combined exposure of 66.4% (FY22: 62.3%) at end-FY23. The increase was primarily manifested in financial sector, the proportion of which increased to 9.3% (FY22: 2.6%). According to the management, no specific sector has been shortlisted for credit disbursement; the company would rather take exposure on a company-to-company basis, going forward.

The table below shows segment-wise exposure of advances:

Figure 6: Sector wise advance %

	2022	2023
Textile	20.3%	19.7%
Transport, Storage and Communication	11.8%	12.3%
Financial	2.6%	9.3%
Power (electricity), Gas, Water, Sanitary	17.4%	18.4%
Services	10.2%	6.7%
Sugar	3.9%	1.9%
Electronics and electrical appliances	2.6%	1.9%
Construction	1.4%	1.4%
Cement	1.9%	1.9%
Automobile and transportation equipment	1.5%	1.4%
Chemical and Pharmaceuticals	1.5%	1.0%
Individuals	0.5%	0.8%
Wholesale and Retail Trade	0.4%	0.4%
Others	24.1%	22.9%
Total Gross Advances (in Rs. millions)	**20,275**	**19,218**

Given small size of the lending portfolio, concentration has remained high with the top 20 advances constituting about 53% of the total advances (FY22: 56%). The management intends to reduce concentration over the next 1-2 years.

Investments

The investment portfolio enhanced further to Rs. 335.7b (FY22: Rs. 125.7b) by end-FY23. The increase was primarily manifested in government securities with Pakistan Investment Bonds (PIBs) amounting Rs. 163.4b (FY22: Rs. 63.4b; FY21: Rs. 46.3b), T-Bills amounting Rs. 161.4b (FY22: Rs. 57.9b; FY21: Rs. 49.8b) and Ijara Sukuk amounting Rs. 6.0b (FY22: nil). The mark to market surplus of Rs. 97.2m was recorded on PIBs portfolio against a deficit of Rs. 559.6m at end-FY22. However, the company recorded substantial mark to market deficit on government securities at end-1QFY24 that is expected to subside with decrease in interest rates and reduced time to maturity.
The company enhanced repo borrowings to acquire floating rate Pakistan Investment Bonds (PIBs), which comprised approximately 95% of the PIBs portfolio at end-FY23, mitigating the market risk. POIC intends to increase its fixed rate PIBs if interest rates develop a downward trajectory. The investment portfolio is heavily weighted towards government securities, comprising 98.6%, thereby indicating a low credit risk profile. Given the low exposure to other segments of investments, the associate risks are considered manageable. The investment mix is tabulated below:

Figure 7: Investment Mix

Rs. in million	2022	2023
Federal Government Securities		
Pakistan Investment Bonds	57,970	161,429
Market Treasury Bills	63,394	163,408

Ijara Sukuk	0	6,035
Shares		
Listed Companies	-	124
Unlisted Companies	235	485
Non-Government Debt Securities		
Term Finance Certificate	2,456	2,585
Sukuk Certificates	619	663
Commercial Papers	93	0
Associates	629	612
Subsidiary	315	395
Total Investments	**125,711**	**335,736**

Liquidity Risk

Liquidity profile in terms of liquid assets as a proportion of deposits and borrowings (adjusted against collateralized investments and borrowings against those collaterals) decreased to 53% (FY22: 76%; FY21: 47%) by end-FY23. Meanwhile, the liquidity coverage ratio (LCR) improved to 103.7% (FY23: 75.3%; FY22: 79.9%) by end-1QFY24.

The POIC, in line with other DFIs, relies on SBP's pass through financing schemes, financial institutions, and deposits for its funding requirements. The total borrowings increased to Rs. 340.0b (FY22: Rs. 132.9b; FY21: Rs. 104.0b) by end-FY23. Repo borrowings continued to remain the largest contributor which amounted to Rs. 292.6b (FY22: Rs. 104.3b) at end-FY23. Meanwhile, total deposits stood slightly lower at Rs. 12.2b (FY21: Rs. 13.5b; FY21: Rs. 14.3b) due to some withdrawal from banking companies and private sector.

Figure 8: Composition of Deposits

(Rs. in millions)	2022	%	2023	%
Individuals	2,063	15%	2,129	17%
Government (Federal and Provincial)	2,573	19%	5,701	47%
Non-Banking Financial Institutions	3,154	23%	706	6%
Private Sectors	5,730	42%	3,683	30%
Total	**13,521**	**100%**	**12,218**	**100%**

At end-FY23, top 10 deposits concentration improved to 51% (FY22: 58%) of the total deposit base. With limited outreach and competition from commercial banks; POIC would continue to face challenges in mobilizing cheaper deposits.

Profitability

Figure 9: Profitability snapshot

(Rs. in millions)	2022	2023	1QFY24
Interest Earned	17,488	67,478	18,452
Interest Expensed	16,653	64,657	18,650
Net Markup Income	**834**	**2,821**	**(198)**
Fee and commission income	96	47	15
Dividend income	96	175	6
Gain on securities	136	81	198
Other income	148	24	2
Total non-markup income	**478**	**326**	**222**
Operating expenses	609	916	172
Other charges	30	242	14
Total Non-markup expenses	**639**	**1,158**	**186**
Reversals/(provisions)	(172)	(1,048)	187
Profit Before Tax	**501**	**941**	**25**
Tax	(167)	(235)	3
Profit After Tax	**334**	**705**	**22**

Overall profitability indicators were higher primarily due to elevated interest rates. Markup income surged to Rs. 67.5b (FY22: Rs. 17.5b; FY21: Rs. 8.0b) in FY23, driven by significant volumetric growth in earning assets, resulting in an earned interest of Rs. 62.6b (FY22: Rs. 14.4b; FY21: Rs. 6.2b) from investments. Despite a higher cost of funds at 20.4% in FY23 (FY22: 13.0%), pressure on mark-up spreads was slightly alleviated, which stood at 0.82% (FY22: 0.23%).

Despite a higher dividend income of Rs. 175m (FY22: Rs. 96m), non-interest income decreased to Rs. 326m (FY22: Rs. 477m) in FY23. The decrease was primarily due to lower other income of Rs. 24m (FY22: Rs. 148m), which included a one-time reversal of Worker's Welfare Fund. Additionally, the company recorded a lower gain on the sale of securities of Rs. 81m (FY22: Rs. 136m). POIC booked net provisions of Rs. 1b (FY22: Rs. 171.9m) during FY23, following adoption of IFRS-9. Compensation expense increased considerably to Rs.

640m (FY22: Rs. 400m) mainly due higher cash bonuses and increments. Inflationary trends and a major provision of Rs. 204m regarding Workers' Welfare Fund resulted in higher operating expenses plus other charges, amounting Rs. 1.2b (FY22: Rs. 639m). However, efficiency improved considerably to 30% (FY22: 59%) in FY23 on the basis of substantial increase in total recurring income. Accounting for taxation, net profit increased to Rs. 705m (FY22: Rs. 334m) in FY23. The company posted net profit of Rs. 22m in 1QFY24.

Capitalization

Paid-up-capital remained at Rs. 6.15b at end-FY23. Adjusting for reserves, the equity base (excluding surplus on revaluation) was recorded lower at Rs. 8.3b (FY22: Rs. 8.7b) by end-FY23 mainly on account of adoption of IFRS-9 and thus adjustment of expected credit loss against retained earnings. At end-1QFY24, the equity base after adjusting for deficit on revaluation of assets was reported lower at Rs. 7.2b (FY23: Rs. 8.7b) mainly on account of dividend payments pertaining to the last period and a deficit on revaluation of assets of Rs. 810.9m against a surplus of Rs. 407.4m at end-FY23.

Given lower Tier1 equity and higher risk-weighted assets (RWAs) mainly due to significant increase in market risk related RWAs, Capital Adequacy Ratio (CAR) decreased to 15.49% (2022: 21.92%) by end-FY23, though it remained above the minimum regulatory requirement of 11.5%. The management projects to maintain CAR between 14-16%, going forward. At the same time, leverage ratio (LR) witnessed a declining trend to 1.13% (FY23: 1.82%; FY22: 4.48%) at end-1QFY24; improvement in the same is desirable.

Pak Oman Investment Company Limited (POIC) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**2021**	**2022**	**2023**	**1Q24**
Investments	101,788	125,711	335,736	357,696
Net Advances	19,720	19,421	16,180	14,095
Lending to FI	1,954	5,136	-	-
Cash & Balances	1,664	1,971	664	768
Other Assets	3,134	5,462	14,423	18,208
Total Assets	128,260	157,700	367,003	390,766
Borrowings	103,997	132,901	340,891	360,812
Deposits	14,354	13,521	12,218	17,369
Other Liabilities	1,153	2,579	5,154	5,377
Equity (excl. rev)	8,757	8,719	8,332	8,019
Net Worth	8,756	8,700	8,739	7,208
INCOME STATEMENT				
Net Markup income	1,216	834	2,821	(198)
Net Provisioning/(reversal)	49	172	1,048	(187)
Non-Markup Income	218	477	326	222
Operating Expenses	676	609	916	172
Other Charges	42	30	242	14
Profit/ (Loss) Before Tax	651	501	941	25
Profit / (Loss) After Tax	478	334	705	22
RATIO ANALYSIS				
Gross Infection (%)	9.4	11.0	13.2	13.7
Provisioning Coverage (%)	39.0	38.4	92.7	93.8
Net Infection (%)	5.9	7.1	1.1	1.0
Cost of Funds (%)	7.4	13.0	20.4	21.9
Spreads (%)	0.9	0.2	0.8	-0.2
Net NPLs to Tier-1 Capital (%)	17.6	19.1	2.9	3.3
Capital Adequacy Ratio (CAR) (%)	16.5	21.9	15.5	15.6
Efficiency (%)	50.0	59.3	30.1	-
Leverage Ratio (%)	5.6	4.5	1.8	1.1
ROAA (%)	0.4	0.2	0.3	0.0
ROAE (%)	5.5	3.8	8.3	1.1
Liquid Assets to Deposits & Borrowings (%)	47.4	75.8	53.3	73
LCR (%)	67.9	79.9	75.3	103.7
NSFR (%)	105.6	104.3	103.0	102.0

**Annualized*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Pak Oman Investment Company Limited
Sector	Development Finance Institution (DFI)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28-Jun-24	AA+	A-1+	Stable	Reaffirmed
22-Jun-23	AA+	A-1+	Stable	Reaffirmed
22-Jun-23	AA+	A-1+	Stable	Reaffirmed
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. Abdullah Jamal	Head of Internal Audit	May 29-30, 2024
Mr. Salman Raza	Chief Risk Officer	
Mr. Zalmai R. Khan	Corporate Head	
Mr. Tasadduq Aslam	Head of Treasury	
Mr. Rehan Ghayur	Head of Information Technology	
Ms. Nadia Ishtiaq	Head of Investment Banking & Private Equity	