

CORPORATE GOVERNANCE REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:

October 12, 2018

RATING ANALYSTS:

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RATING DETAILS

	Latest Rating	Previous Rating
Rating Category	Corporate Governance	Corporate Governance
Entity	CGR-9	CGR-9
Rating Date	October 12, '18	November 1, '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%	Staff Strength (including contractual): 92
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 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. Babauddin 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.

The assigned rating takes into account the governance practices instituted at the organization in context of the Joint Venture (JV) agreement between the two sponsoring sovereigns; Government of Pakistan (GoP) and Sultanate of Oman (SO). 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 at the institution.

The terms of the JV agreement dictate the Board composition where each sponsor nominates three directors on the Board. The regulator has exempted JV related entities from 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 are conducted by Quality Control Review (QCR) rated firms. POIC, on a timeline basis, has remained compliant with these provisions of the code.

Current rating is also based on evaluation of key governance areas of the rated institution including regulatory compliance, composition and operations of the Board of directors (BoD) and executive management, self-regulation, financial transparency and relationship with stakeholders. Overall control environment of the institution is considered satisfactory.

Board oversight is considered satisfactory in addition to which there are effectively functioning Board and management level committees. The Board is overseeing matters of both strategic nature and also monitoring the performance of the company. Board members carry extensive experience in financial and taxation related sectors. There were two changes on the Board, one nominee of each sovereign was replaced by another while composition of committees remained unchanged. Moreover, credit approval authority for higher loan values rests primarily with a Board level committee. POIC may consider delegating complete authority to the management to avoid overlap between duties of the Board and management. There has been some turnover at senior management level, which were timely filled. The company has a Board approved succession plan in place which mostly cover senior management; however, the same remained limited in scope.

All information related to the company is disseminated in electronic form through official website in addition to periodic financial statements. Level of financial and qualitative disclosures in the public domain is considered satisfactory.

Efforts in the risk management function were also witnessed during the period under review. Greater focus on liquidity management and prudence in lending activities are currently underway. Moreover, in accordance with SBP's newly issued green banking guidelines, development of relevant policy and designation of a green banking officer are also being considered.

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

Pak Oman Investment Company Limited (POIC)

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR billions)</i>		
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	-	-	-
Tier-1 Equity	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	7.6
Net NPLs to Tier-1 Capital (%)	1.6	2.2	3.6
Capital Adequacy Ratio (C.A.R (%))	21.4	28.3	35.6
Markup Spreads (%)	1.4	1.9	2.0
Efficiency (%)	59.4	57.1	43.8
ROAA (%)	0.8	2.1	2.4
ROAE (%)	5.4	8.9	7.9
Liquid Assets to Deposits & Borrowings (%)	43.7	41.0	70.9

ISSUE/ISSUER RATING SCALE & DEFINITIONS**Appendix II**

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

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

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	Corporate Governance Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	12-Oct-18	CGR9	-	-	Reaffirmed
	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
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 corporate governance only and is not a recommendation to buy or sell any securities.				
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