

CORPORATE GOVERNANCE REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:

July 3, 2020

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	July 3, '20	October 12, '18

COMPANY INFORMATION

Incorporated in 2001	External auditors: EY Ford Rhodes 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)

VIS Entity Rating Criteria: Corporate Governance Ratings

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. 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.

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. Frequency of board and committee meetings, high attendance record and comprehensive discussion on various aspects of the company during the meetings demonstrates active oversight by the Board. Management team of the institution comprises seasoned professionals. There has been some turnover at senior management level, which were timely filled. The institution maintains healthy stakeholder relations. Overall control environment of the institution is considered strong.

In line with the JVA, each sponsor nominates three directors on the Board. Barring one director, all other board members have received Director's Training in line with best practices. The Board is overseeing matters of both strategic nature and also monitoring the performance of the company. Credit approval authority for higher loan values rests primarily with a Board level committee. In the ongoing year, the credit approval limit for CEO was increased from Rs. 50m to Rs. 350m. POIC may consider delegating complete authority to the management to avoid overlap between duties of the Board and management.

Clear reporting lines are defined in the organogram. Barring Head of Internal Audit and Head of Risk Management, all departmental heads report to the Managing Director (MD). Head of Internal Audit and Head of Risk Management functionally report to their respective Board level committees. The company has a defined succession plan in place, approved by the Board. Stability in the management team is considered essential from a rating perspective.

Gross advances of POIC slightly reduced to Rs. 20.6b (2018: 21.1b) at end-2019. Overall portfolio of the company is considered diversified across various sectors. Client wise concentration in portfolio remained at around half of portfolio with respect to top 10 funded exposures. Due to limited client base, concentration is considered to be on the higher side. Going forward, the management has adopted a consolidation approach with focus on maintaining portfolio quality rather than growth. Gross Non-Performing Loans (NPLs) of POIC decreased to Rs. 678.3m (2018: Rs. 711.2m; 2017: Rs. 964.4m) at end-2019 on account of reversals due to recoveries. Reduction in NPLs coupled with consolidation of advances allowed the company to maintain sound asset quality indicators. POIC's investment portfolio increased to Rs. 59.4b (2018: Rs. 28.4b) at end-2019. Credit risk emanating from investment portfolio is manageable, as 91.5% of the investment portfolio was deployed in GoP securities. Increase in the investment portfolio in 2019 was observed primarily on account of higher investment in T-Bills and PIBs. PIBs have average duration of 5-7 years.

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.

Annexure I

Profile of Directors

Table 3: Board Composition

	Nominees	Status
H.E. Yahya Bin Said Bin Abdullah Al-Jabri(Chairman)	Sultanate of Oman	Non-Executive Director
Mr. Haitham Yousuf Juma Al Zadjali	Sultanate of Oman	Non-Executive Director
H.H. Juland Jaifar Salim Al Said	Sultanate of Oman	Non-Executive Director
Mr. Bahauddin Khan (CEO/MD)	Government of Pakistan	Executive Director
Mr. M. Zubair Motiwala	Government of Pakistan	Non-Executive Director
Mr. Omar Hamid Khan	Government of Pakistan	Non-Executive Director

Profile of the Chairman - H.E. Yahya Bin Said Bin Abdullah Bin Abdullah Al-Jabri

H.E. Yahya Bin Said Bin Abdullah Bin Abdullah Al-Jabri is the Chairman of the Special Economic Zone Authority at A'Duqum in Oman and Chairman of the Capital Market Authority. He also holds directorship at the Central Bank of Oman and is a Board member of the Civil Service Pension Fund and Oman Investment Fund. He completed his academic qualifications from Kellogg School of Management, Harvard Business School and Darden University.

Profile of the CEO – Mr. Bahauddin Khan

Mr. Khan possesses a diverse experience in the fields of operations and technology. He has worked in various areas including operations, compliance, information technology, trade finance and treasury. Prior to joining POIC, he served as Chief Operating Officer at Bank Alfalah Limited.

Profile of other directors

Mr. Haitham Yousuf Juma Al Zadjali has 17 years of proficient experience in managing various projects as directed by the Ministry of Finance-Sultanate of Oman. In addition, he is also a member of the Board of Directors of Oman Liquefied Natural Gas LLC (Oman LNG), Oman Logistic Company and Pak Oman Microfinance Bank Limited.

H.H. Juland Jaifar Al Said has over 12 years' experience working at the State General Reserve Fund (SGRF). He currently manages the Private Markets investment risk division and played a significant role in the establishment of the Risk and Compliance function at SGRF in 2013.

Mr. M. Zubair Motiwala is a prominent industrialist and has served the business community in various capacities as one of the leading representatives from the industrial sector. He was the Chairman of Sindh Board of Investment since July 2011 to October 2014. He also served as Advisor to Chief Minister Sindh on Investment from January 2009 to July 2011. He has served as director on boards of various public and prominent private sector organizations and had also been elected as Chairman of All Pakistan Textile Processing Mills Association.

Mr. Omar Hamid Khan is presently serving as Secretary – Ministry of Food Security. He has versatile experience in Public Development, Policy Formulation, Strategic Management and Implementation at federal/ executive levels being a career civil servant. He also served as Special Secretary – Finance Division, Secretary Benazir Income Support Program (October 17 – 28, January, 2019), Additional Finance Secretary (Expenditure) in the Finance Division, Additional Secretary, Economic Affairs Division, Senior Joint Secretary/Spokesman in Ministry of Interior, Senior Joint Secretary in the Cabinet Division, Joint Secretary/Principal Staff Officer to the Principal Secretary to Prime Minister, including various stints as Deputy Secretary Prime Minister's Secretariat, Establishment Division and Deputy Director

Federal Investigation Agency. He has officially travelled in China, Mexico, Brazil, Nepal, USA, UK, France, Spain, Switzerland and Thailand. Mr. Khan is a MSc. (Zool) from the University of Punjab; with Post Graduate 1 year Diploma in International Relations. He is also a graduate of National Defence University (National Security Course 2010-11) as well as Senior Management Course (2nd SMC) from National School of Public Policy.

Pak Oman Investment Company Limited (POIC)
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
BALANCE SHEET	2017	2018	2019
Total Investments	40,240.6	28,443.4	59,375.9
Net Advances	18,788.5	20,480.7	20,024.1
Total Assets	64,669.4	58,110.5	92,082.8
Borrowings	44,607.7	39,961.6	73,681.0
Deposits & other accounts	10,501.1	9,010.5	8,576.4
Subordinated Loans	-	-	-
Paid up capital	6,150.0	6,150.0	6,150.0
Equity (excluding surplus)	8,059.8	8,103.5	8,191.7
Net Worth	8,123.4	8,142.9	8,353.5
INCOME STATEMENT			
Net Mark-up Income	856.0	839.7	1,020.9
Net (Provisioning) / Reversal	168.3	332.1	34.1
Non-Markup Income	340.4	161.6	236.3
Operating Expenses	573.3	552.2	577.4
Profit (Loss) Before Tax	744.5	749.3	681.8
Profit (Loss) After Tax	436.7	464.4	504.3
RATIO ANALYSIS			
FFO	n/a	n/a	n/a
Gross Infection (%)	4.9	3.4	3.3
Provisioning Coverage (%)	90.8	81.6	81.4
Net Infection (%)	0.5	0.6	0.7
Cost of funds (%)	5.9	6.9	11.96
Net NPLs to Tier-1 Capital (%)	1.4	2.3	2.1
Capital Adequacy Ratio (C.A.R (%))	21.5	17.3	15.57
Markup Spreads (%)	1.4	1.0	0.68
Efficiency (%)	59.4	60.0	52.7
ROAA (%)	0.8	0.8	0.7
ROAE (%)	5.3	5.7	6.2
Gearing (x)	5.5	4.9	8.9
Current Ratio	n/a	n/a	n/a
Adjusted Liquid Assets to Deposits & Borrowings (%)	75.5	67.6	84.7

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.

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					
	3-July-20	CGR 9	-	-	Reaffirmed	
	12-Oct-18	CGR 9	-	-	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	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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