

CORPORATE GOVERNANCE REPORT

Pak Oman Investment Company Limited (POIC)

REPORT DATE:

July 16, 2021

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
	Corporate Governance	Corporate Governance
Entity	CGR-9	CGR-9
Rating Date	July 16, '21	July 3, '20

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):	Chief Executive Officer: Mr. Bahauddin Khan
Ministry of Finance, Pakistan – 49.99%	Staff Strength (including contractual): 94
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 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 CEO

Mr. Bahauddin Khan has 37 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) was incorporated under the Joint Venture Agreement (JVA) between the Government of Pakistan (GoP) and Sultanate of Oman (SO) through respective finance ministries. 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.

Accordingly, four directors have completed the Director's Training Certification under the Directors Training Program recommended by Securities & Exchange Commission of Pakistan (SECP). One director is exempted from the training; and POIC continues to encourage remaining members to get the certification. The sixth director will complete the training in FY21 which was delayed due to COVID. Overall, POIC, has remained compliant with the provisions of the code.

The assigned ratings take into account a well-established corporate governance framework implemented at POIC adequately supplemented by effective functioning of board and management level committees. Active oversight by the board was ensured during FY20 through five meetings held by the Board of Directors and Board's Executive Committee; four meetings held by the Board's Audit Committee and Board's Risk Committee; and three meetings conducted by the Board's Remuneration & Compensation Committee. Full attendance was observed in Board meetings held during the year. Meetings incorporated comprehensive discussion on various policies, structures, procedures, and practices. Formulation and implementation of remuneration policy has been noted. An independent external evaluation of the Board and its members is carried out every year to assess the effectiveness of the Board for continuous improvement and refinement.

Changes at the Board level were noted with H.H. Sayyid Juland Jaifar Salim Al Said as the Chairman of the Board as well as replacement of two nominee directors by the Government of SO. The Chairman has been serving on POIC Board since 2017 and brings with him 15 years of experience with Oman Investment Authority. Additionally, re-composition in some of Board level committees was noted which bodes well for strengthening corporate governance practices.

During FY20, there were no changes in the authorities designated to the Board Level Committee as well as all the sub-committees. However, in order to avoid overlap between duties of the Board and management, POIC may consider delegating complete authority to the management.

Stability in the management team is an important rating determinant of corporate governance. No turnover at senior management level was observed during FY20. Management comprises of experienced professionals spearheaded by Mr. Bahauddin Khan, a seasoned banker with 37

plus years of experience, Also POIC has a well-defined succession plan duly approved by the Board and clear reporting lines defined in the organogram. Barring Head of Internal Audit, all departmental heads report to the Managing Director (MD). Head of Internal Audit functionally report to their respective Board level committees.

In line with POIC risk management framework, which includes identification of potential risk, assessment of its impact and formulation of mitigation strategies, company continued to pursue a prudent lending strategy in the face of heightened economic uncertainty amid pandemic. Growth was focused on building investment portfolio, while advances portfolio was consolidated. Consequently, liquidity and capitalization indicators improved. However, credit risk emanating from financing portfolio remains elevated.

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.

Pak Oman Investment Company Limited (POIC)
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
BALANCE SHEET	2018	2019	2020	1Q'FY21
Total Investments	28,443.4	59,375.9	68,217.3	87,252.9
Net Advances	20,480.7	20,024.1	20,935.3	20,121.7
Total Assets	58,110.5	92,082.8	96,806.1	111,808.5
Borrowings	39,961.6	73,681.0	70,551.8	90,099.7
Deposits & other accounts	9,010.5	8,576.4	15,869.1	11,990.9
Subordinated Loans	-	-	-	-
Share Capital	6,150.0	6,150.0	6,150.0	6,150.0
Equity (excluding surplus)	8,103.5	8,191.7	8,734.5	8,472.4
Net Worth	8,142.9	8,353.5	9,083.0	8,703.4
INCOME STATEMENT				
Net Mark-up Income	839.7	1,020.9	1,548.5	369.0
Net (Provisioning) / Reversal	332.1	34.1	(145.0)	49.9
Non-Markup Income	161.6	236.3	670.8	35.6
Operating Expenses	552.2	577.4	680.2	158.7
Profit (Loss) Before Tax	749.3	681.8	1,337.1	278.9
Profit (Loss) After Tax	464.4	504.3	972.4	198.4
RATIO ANALYSIS				
Gross Infection (%)	3.4	3.4	7.1	7.3
Provisioning Coverage (%)	81.6	81.4	42.7	43.0
Net Infection (%)	0.6	0.7	4.2	4.3
Cost of funds (%)	6.9	12.0	9.7	7.0
Net NPLs to Tier-1 Capital (%)	2.4	2.1	12.9	13.0
Capital Adequacy Ratio (C.A.R (%))	17.3	15.6	17.2	17.1
Markup Spreads (%)	1.0	0.7	1.8	1.3
Efficiency (%)	60.0	52.7	41.6	43.7
ROAA (%)	0.8	0.7	1.0	0.8
ROAE (%)	5.7	6.2	11.2	8.9
Adjusted Liquid Assets to Deposits & Borrowings (%)	67.6	84.7	84.9	87.5

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				
	16-July-21	CGR-9	-	-	Reaffirmed
	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.				
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	June 07, 2021		