

## CORPORATE GOVERNANCE REPORT

### Pak Oman Investment Company Limited (POIC)

**REPORT DATE:**

Aug 1, 2022

**RATING ANALYSTS:**

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#### RATING DETAILS

	Latest Rating	Previous Rating
<b>Rating Category</b>	Corporate Governance	Corporate Governance
<b>Entity</b>	CGR-9	CGR-9
<b>Rating Date</b>	Aug 1, '22	July 16, '21
<b>Rating Action</b>	Reaffirmed	Reaffirmed

#### COMPANY INFORMATION

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

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporate Governance Ratings (August 2017)

<https://docs.vis.com.pk/docs/CGR-Methodology-201708.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 POICL and some of its subsidiaries since 2017. He has been appointed as Chairman of the Board of Directors of the Company in 2021.

## RATING RATIONALE

Incorporated in 2001 as a private limited company; Pak Oman Investment Company Limited (POIC) operates under a joint venture between the Government of Pakistan (GOP) and Government of Sultanate of Oman. Headquartered in Karachi; the Company also operates via branch office in Lahore and representative offices in Islamabad, Gwadar, and Muscat. 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.

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 2021 through Seven meetings held by the Board of Directors, five meetings held by 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. To assess the effectiveness of the Board for continuous improvement and refinement, an independent external evaluation of the Board and its members is carried out every three years while internal Board evaluation is conducted every year. A third party Board effectiveness assessment each year may further enhance the governance framework by providing timely and independent feedback.

Changes at the Board level were noted in 2021 with replacement of two board members from OIA. The Board of Directors (BOD) constitutes five directors, and is chaired by H.H. Sayyid Juland Jaifar Salim Al Said. The Chairman of the Board is nominated by the OIA while the Managing Director (MD) is nominated by the GOP. According to the JV agreement, each shareholder has the right to nominate three directors. At present, the position of one nominee director from Pakistan remains vacant to be filled in by the GOP in due course.

In addition, in line with the Corporate Governance Regulatory Framework by SBP, Mr. Bahauddin Khan has ceased to be the CEO after completing his term and currently Mr. Jehangir Shah serves as the Acting CEO of the Company. Mr. Jehangir Shah has 40 years of experience in commercial, private and personal banking and leasing. He has had overseas work experience in UAE, Egypt and Brazil with Bank of Credit and Commerce International. Prior to joining POIC as Deputy Managing Director in 2008, Mr. Shah served as Country Manager- Pakistan for Oman International Bank SAOG and as Managing Director and CEO of Capital Assets Leasing Corporation Limited (Calcorp). His former employments include those of Executive Director at Pak Gulf Leasing Company Limited, Habib Credit and Exchange Bank and Bank of Credit and Commerce International. Mr. Shah is also a director of Pak Oman Asset Management Company and independent director of International Industries Limited and Fauji Fertilizer Company Limited. While GoP has initiated the process of seeking CEO replacement, timely appointment remains a critical element of Corporate Governance Framework.

With the change at Board level, board committees were also reconstituted. No major changes in the authorities designated to the Board Level Committee were noted, although room for improvement exists with respect to clarity and segregation of responsibilities at the Board and management levels.

Stability in the management team is an important rating determinant of corporate governance. During the period under review, some changes were witnessed in the composition of senior management team with new appointment for replacement in Head of Credit Administration and Company Secretary position. Overall, turnover within senior management remains low. Management comprises of experienced professionals. Also POIC succession plan is 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. Succession plans for key management positions are reviewed each year.

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. Growth was focused on building investment portfolio, while advances portfolio was consolidated. However, credit risk emanating from financing portfolio remains elevated. With the change in top leadership, clarity on the strategic direction of the DFI and dissemination of the same throughout the organization will remain important.

Over the past few years the Company has emphasized upon and implemented green banking initiatives to promote and attain environmental compliance. However, internal mechanism for reviewing business risks and evaluating their impact may be further enhanced.

All information related to the Company is disseminated in electronic form through official website. The Company posts annual, quarterly and half year financial statements with satisfactory levels of financial and qualitative disclosures.

**Pak Oman Investment Company Limited (POIC)**
**Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions) – Annexure I</i>				
<b>BALANCE SHEET</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Q1'22</b>
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
<b>Total Assets</b>	<b>92,083</b>	<b>96,806</b>	<b>128,260</b>	<b>122,220</b>
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
Paid Up Capital	6,150	6,150	6,150	6,150
Net Worth	8,353	9,083	8,756	8,492
<b>INCOME STATEMENT</b>				
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
<b>RATIO ANALYSIS</b>				
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%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

<p><b>CGR 10</b> Highest level of corporate governance</p>	<p><b>CGR 4, CGR 4+, CGR 4++</b> Moderately low level of corporate governance</p>
<p><b>CGR 9, CGR 9+, CGR 9++</b> Very high level of corporate governance</p>	<p><b>CGR 3, CGR 3+, CGR 3++</b> Low level of corporate governance</p>
<p><b>CGR 8, CGR 8+, CGR 8++</b> High level of corporate governance</p>	<p><b>CGR 2, CGR 2+, CGR 2++</b> Very low level of corporate governance</p>
<p><b>CGR 7, CGR 7+, CGR 7++</b> Moderately high level corporate governance</p>	<p><b>CGR 1, CGR 1+, CGR 1++</b> Lowest level of corporate governance</p>
<p><b>CGR 6, CGR 6+, CGR 6++</b> Satisfactory level of corporate governance</p>	
<p><b>CGR 5, CGR 5+, CGR 5++</b> Adequate level of corporate governance</p>	

**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.

<b>REGULATORY DISCLOSURES</b>		<b>Appendix III</b>				
<b>Name of Rated Entity</b>	Pak Oman Investment Company Limited					
<b>Sector</b>	Development Finance Institution (DFI)					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Corporate Governance Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	1-Aug-22	CGR-9			Reaffirmed	
	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		
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	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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<b>Due Diligence Meeting(s) Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>			
	Mr. Mohammad Jamal Nasir	Chief Financial Officer	May 18, 2022			