RATING REPORT

Pak Oman Microfinance Bank Limited

REPORT DATE:
June 13, 2018

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	*April 27, 2018*		*September 29, 2017*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Unlisted Public Limited Company	**Chairman of the Board:** H.E Yahya Bin Said Bin Abdullah Al-Jabri
Key Shareholders (with stake of 5% or more):	**Chief Executive Officer:** Mr. Teizoon Kisat
LOLC Private Limited – 50.1%	
Sultanate of Oman – 33.2%	
Pak Oman Investment Company Limited – 16.7%	

APPLICABLE METHODOLOGY(IES)

Methodology: Micro Finance Banks (June 2016)
http://www.jcrvis.com.pk/docs/Meth-MFBs201606.pdf

Pak Oman Microfinance Bank Limited

RATING RATIONALE

In March 2006, Pak Oman Microfinance Bank Limited was incorporated as a public limited company. Its principal business is to provide microfinance services to the poor and low income segment of the society as envisaged under the Microfinance Institutions Ordinance, 2001.

Profile of Chairman
His Excellency Yahya Bin Said Bin Abdullah Al-Jabri has vast experience of global corporate & investment banking. He is a member of the Board of Governance at the Central Bank of Oman, a Board member of the Oman Investment Fund, Chairman of Pak Oman Investment Company Limited and Chairman of the Capital Market Authority.

Profile of CEO
Mr. Teizoon Kisat has been associated with the leasing sector since 1995. He previously served ORIX Leasing Pakistan Limited in the capacity of MD & CEO for five years. He was also the elected Chairman of the Leasing Association of Pakistan from 2008 to 2010.

Financial Snapshot
Net Worth: 2017 – Rs. 2,310.8m, 2016 – Rs. 1,072.3m

Net Profit: 2017 – Rs. 29.6m, 2016 – Rs. 6.5m

Assigned ratings of Pak Oman Microfinance Bank Limited (POMFB) derive strength from the recent acquisition of 50.1% by LOLC Private Limited. Equity, in the form of additional shares, amounted to Rs. 1.2b. Remaining interest of 49.9% lies with the Sultanate of Oman and Pak Oman Investment Company Limited. The bank operates through a network of 19 branches and 15 services centers nationwide; there are plans to open 7 additional branches and 10 service centers during 2018. Efforts in this regard are currently underway.

Rating Drivers:

Governance Structure & Internal Control Framework: Post-acquisition, LOLC has carried out rudimentary changes among policies and procedures of the bank to improve operational efficiencies, expand loan portfolio and strengthen recovery mechanism. In view of the same, two new nominee directors of LOLC have been appointed in the Board to ensure effective oversight. Moreover, the bank has also implemented a new integrated IT system for further strengthening of its internal controls.

Lending Operations & Product Portfolio: Similar efforts have also been made by LOLC to improve the lending mechanism. Given that LOLC specializes in group loans, POMFB is making efforts in replicating the same methodology in Pakistan. The bank has revamped and adopted the same decentralized loan approval model as is followed by the sponsor in Sri Lanka. POMFB also revised features related to group loans to strengthen the recovery mechanism and coordination of group members. Group loans represent a large chunk of the portfolio while a slight improvement in individual loans was also observed during 2017. Presently, POMFB's portfolio includes nine products spanning from livestock to enterprise loans. During CY17, further lending in Bara Karobar loan was restricted; the same is expected to be launched with its restructured product features in the ongoing year. Moreover, a new product named Pak Oman Salary Loan was introduced. There are also plans to introduce an agricultural loan in its portfolio.

Asset Quality: Prior to June 2017, infection levels were on the higher side on account of shortage of staff, lack of recovery strategy and delays in collection reports. However, in order to curtail NPLs, the bank, in coordination with LOLC, actively managed recovery ratios by circulating progress on a regular basis. Along with support in other areas, LOLC visits the bank every month to supervise the recovery management process. Similar to industry norms, the bank is negotiating terms with a financial service provider for cash collections.

Asset Mix: With the new capital, asset base of the bank increased significantly with the highest growth manifested in balances held with other banks, followed by certificate of investments (COIs), Term Deposit Receipts (TDRs) and Treasury Bills. Over CY17, net advances also improved representing 28.8% of resource base, on the back of aggressive disbursements. Going forward, the bank aims to achieve the loan portfolio of Rs. 1.7b for 2018.

Profitability: Topline of POMFB has improved on the back of volumetric growth in advances and returns generated from other investment avenues. Expense base increased on account of new hiring and realignment of the bank organizational structure. Nevertheless, efficiency levels of the bank improved to 81.1% (CY16: 92.8%) on the back of higher recurring core income. Going forward, management aims to increase its advances portfolio while maintaining a minimum level of deposits. However, profitability will remain a function of efficient disbursement of advances and quality of assets.

Capitalization: As of December 2017, given the significant growth in equity base, Capital Adequacy Ratio (CAR) increased to 181.78% (2015: 122.33%).CAR remains significantly above regulatory requirement of 15% depicting significant room for growth.

Pak Oman Microfinance Bank Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
Total Investments	797.0	516.9	105.2
Advances - Net	688.1	428.5	358.7
Total Assets	2,391.7	1,260.5	1,127.2
Borrowings	-	-	-
Tier-1 Equity	2,310.7	1,071.6	1,074.2
Net Worth	2,310.8	1,072.3	1,074.5
INCOME STATEMENT	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
Net Mark-up Income	234.1	171.6	168.4
Net Provisioning / (Reversal)	24.3	18.6	13.2
Non-Markup Income	47.0	43.0	23.9
Administrative Expenses	213.1	181.6	162.5
Profit after tax	29.6	6.5	5.7
RATIO ANALYSIS	**Dec 31, 2017**	**Dec 31, 2016**	**Dec 31, 2015**
Gross Infection (%)	3.6	5.0	8.9
Net Infection (%)	2.4	3.6	7.2
Net NPLs to Tier-1 Capital (%)	0.7	1.4	2.4
Markup Spreads (%)	8.6	13.5	16.1
OSS (%)	123.4	107.7	113.4
ROAA (%)	1.6	0.5	0.5
Liquid Assets to deposits & borrowings (x)	173.5	4.9	27.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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<tr><th>REGULATORY DISCLOSURES</th><th>Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td>Pak Oman Microfinance Bank Limited</td></tr>
<tr><td>Sector</td><td>Micro Finance Bank (MFB)</td></tr>
<tr><td>Type of Relationship</td><td>Solicited</td></tr>
<tr><td>Purpose of Rating</td><td>Entity Rating</td></tr>
<tr><td>Rating History</td><td>
<table>
<tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>27-Apr-18</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>29-Sep-17</td><td>A-</td><td>A-2</td><td>Stable</td><td>Upgrade</td></tr>
<tr><td>28-April-17</td><td>BBB+</td><td>A-3</td><td></td><td>Rating Watch-Positive</td></tr>
<tr><td>28-April-16</td><td>BBB+</td><td>A-3</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>29-April-15</td><td>BBB+</td><td>A-3</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>29-April-14</td><td>BBB+</td><td>A-3</td><td>Stable</td><td>Reaffirmed</td></tr>
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</td></tr>
<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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 credit quality only and is not a recommendation to buy or sell any securities.</td></tr>
<tr><td>Probability of Default</td><td>JCR-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.</td></tr>
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