RATING REPORT

Pak Oman Microfinance Bank Limited

REPORT DATE:
April 29, 2019

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 25, 2019*		*April 27, 2018*	

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.vis.com.pk/docs/Meth-MFBs201606.pdf

Pak Oman Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

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 Group and Chairman of Capital Market Authority. He also serves as a Chairman of Special Economic Zone at Duqm.

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: Dec'18 – Rs. 2.4b; Dec'17 – Rs.2.3b

RATING RATIONALE

Pak-Oman Microfinance Bank (POMFB) has been operating in microfinance segment for over a decade. As at December 31, 2018, POMFB's operates through a network of 49 branches and service centers; out of which 6 branches and 10 service centers were added during the outgoing year. For 2019, management plans to open 19 new branches/service centers.

Product portfolio comprises several products spanning from livestock to enterprise loans catering to both individuals and group customers. Micro Business Loan (MBL) remained the largest in terms of advances; representing around one-half of total portfolio. Group loans dominate the overall financing mix; however proportion of individual loans is projected to increase. Almost the entire lending portfolio is EMI based.

Key Rating Drivers:

Strong sponsor profile is a key rating driver

Assigned ratings continue to draw comfort from strong sponsor profile which comprises sovereign support of Sultanate of Oman and foreign investment of LOLC Private Limited (LOLC). Remaining stake is held with Pak Oman Investment Company Limited (POICL), a joint venture between sovereigns of Sultanate of Oman and Pakistan.

Sizeable growth witnessed in lending portfolio while asset quality indicators have depicted weakening on a timeline basis. Enhanced focus on controls and growth in loan portfolio is projected to result in decline in infection levels.

Net advances portfolio witnessed sizeable growth (higher than projected) and increased to Rs. 1,208.6m (2017: Rs. 688.1m) as at end-2018. Number of active clients increased by 68% in 2018. Growth in loan portfolio was a function of expansion in branch network, increase in loan officers and enhanced productivity indicators. Productivity of loan officers is planned to be enhanced further, going forward. Average loan size for POMFB is currently well below microfinance industry average but is projected to witness some increase as the Company rolls out new products that will have higher ticket size. Going forward, aggressive growth in loan book is projected to continue with management planning to further expand geographical footprint over the next 2 years.

Asset quality indicators have depicted weakening on a time line basis. In absolute terms, quantum of Non-Performing Loans (NPLs) jumped to Rs. 103.7m (2017: Rs. 24.8m). Resultantly, gross and net infection was reported considerably higher compared to previous year. The increase in NPLs was primarily attributable to involvement of four branches in fraudulent activities. Subsequently, management has taken a number of steps to enhance controls including reducing cash handling and increase the frequency of branch audits. Adjusting for NPLs on account of frauds, infection in the portfolio remained around prior year level.

Liquidity profile is currently strong with sizeable liquid assets on balance sheet. Excess liquidity will be absorbed by the end of the ongoing year as POMFB forges ahead with its growth plans. Subsequently, a mix of deposits and borrowings is planned to be utilized for funding future growth.

Liquid assets carried on the balance sheet amounted to Rs. 1,125.7m (2017: Rs. 1,571.3m; 2016: Rs.

Net Profit (PAT): 2018 – Rs. 60.2m;, 2017 – Rs. 29.6m

729.2m) at end-2018. Given sufficient liquidity available throughout the outgoing year, deposit mobilization has remained subdued as part of a deliberate strategy to reduce interest expense. Management has recently strengthened deposit mobilization team and plans to tap aggressively tap deposit mobilization from the second half of 2019. Moreover, management is already in the process of arranging a funding line of Rs. 2b.

Profitability projected to grow on the back of volumetric growth in earning assets.
Overall earning profile has witnessed double-digit growth in 2018 on the back of volumetric increase in performing advances. Total markup income earned amounted to Rs. 439.1m (2017: Rs. 243.5m) in 2018. Return on advances accounted for over three-fourth of the total markup income. Spreads were reported significantly higher on account of no deposits and borrowings mobilized. In line with growth in operations of the bank, the administrative expenses also witnessed an increase to 318.7m (2017: Rs. 213.1m). Majority of the increase pertained to employee related cost and opening of new branches, training and security expenses.

Operating self-sufficiency ratio of the bank increased to 154.4% (2017: 123.4%) in 2019 due to higher growth in recurring income vis-à-vis administrative expenses. Despite significant jump in provisioning expenses, Bank posted a higher than budgeted profit before tax of Rs. 100.6m (2017: Rs. 43.7m) in 2018. Profit after tax was reported at Rs. 60.2m (2017: Rs. 29.6m).

Capitalization indicators are projected to remain strong over the rating horizon.
Equity base of the bank increased to Rs. 2.4b (2017: Rs. 2.3b) at end-2018 on account of decline in accumulated losses. Capital Adequacy Ratio (CAR) (2018: 144%; 2017: 182%) of the bank remains at comfortable levels, above the minimum regulatory requirement of 15% depicting significant room for growth. Based on eligible capital reported at end-Dec'2018, POMFB has room to grow risk weighted assets by around Rs. 14b.

Further upgrading and strengthening IT Infrastructure and controls remain a key focus area
POMFB currently uses PiBAS as its core banking application. The Bank is in the process of implementing FUSION as its Core Banking Application (CBA). In order to ensure smooth transition, a phase-wise implementation process has been initiated. Going forward, other key initiatives on the IT front include implementation of HRMS application, payroll system, mobile banking application (iPay) for online banking and OASYS (IT helpdesk system).

Pak Oman Microfinance Bank Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**
Total Investments	516.9	797.0	630.6
Advances - Net	428.5	688.1	1,208.6
Total Assets	1,260.5	2,391.7	2,489.5
Borrowings	-	-	-
Tier-1 Equity	1,071.6	2,310.8	2,366.3
Net Worth	1,072.3	2,310.8	2,366.3
INCOME STATEMENT	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**
Net Mark-up Income	171.6	234.1	439.0
Net Provisioning / (Reversal)	18.6	24.3	89.1
Non-Markup Income	43.0	47.1	69.2
Administrative Expenses	181.6	213.1	318.7
Profit before tax	14.8	43.7	100.6
Profit after tax	6.5	29.6	60.2
RATIO ANALYSIS	**Dec 31, 2016**	**Dec 31, 2017**	**Dec 31, 2018**
Gross Infection (%)	5.0%	3.6%	8.3%
Net Infection (%)	3.6%	2.4%	5.6%
Net NPLs to Tier-1 Capital (%)	1.4%	0.7%	2.8%
Markup Spreads (%)	13.5%	4.8%	19.9%
OSS (%)	107.7%	123.4%	154.4%
ROAA (%)	0.5%	1.6%	2.5%
ROAE (%)	0.6%	1.7%	2.6%
Liquid Assets to deposits & borrowings (x)	4.9	173.9	165.9

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Pak Oman Microfinance Bank Limited
Sector	Micro Finance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	See table below
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 credit quality only and is not a recommendation to buy or sell any securities.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
25-April-19	A-	A-2	Stable	Reaffirmed
27-Apr-18	A-	A-2	Stable	Reaffirmed
29-Sep-17	A-	A-2	Stable	Upgrade
28-April-17	BBB+	A-3		Rating Watch-Positive
28-April-16	BBB+	A-3	Stable	Reaffirmed
29-April-15	BBB+	A-3	Stable	Reaffirmed
29-April-14	BBB+	A-3	Stable	Reaffirmed