RATING REPORT

Pak Oman Microfinance Bank Limited

REPORT DATE:
May 06, 2022

RATING ANALYST:

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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		Rating Watch – Developing	
Rating Date	*April 30, 2022*		*April 30, 2021*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Unlisted Public Limited Company	**Chairman of the Board:** Ishara Chinthaka Nanayakkara
Key Shareholders (with stake 5% or more):	**Chief Executive Officer :** Mr. Farooq Rashid
LOLC Asia Private Limited – 100.0%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Micro Finance Banks (June 2019)
https://docs.vis.com.pk/docs/Micro%20Finance%20201906.pdf

Pak Oman Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

Pak Oman Microfinance Bank Limited was incorporated in March 2006 as an unlisted public limited company under Microfinance Institutions Ordinance 2001. The Bank's principal activity is to provide microfinance services to the poor and underserved.

RATING RATIONALE

Incorporated in March 2006, Pak Oman Microfinance Bank Limited (POMBL) is engaged in provision of microfinance services to the poor and underserved segment of the society. The bank currently holds license to operate nationwide. Head office of POMBL is based in Karachi, while the bank also has branches and service centers across all provinces of Pakistan including Azad Jammu & Kashmir other than Gilgit Baltistan. As at end-Dec 2021, service network of the bank included 43 (2020: 31) branches and 33 (2020: 35) service centers.

A noticeable change has been witnessed in the shareholding pattern during the period under review. In the outgoing year, LOLC Holdings PLC through LOLC Asia Private Limited bought complete stake of 100.0% in the organization in accordance with their prior intentions for the same.

LOLC Asia Private Limited: LOLC is a wholly owned subsidiary of LOLC Group Sri Lanka. The registered office of LOLC Asia Private limited is based in Singapore. LOLC Group Sri Lanka is one of the biggest and diversified conglomerates in Sri Lanka having investments in various industries including financial services, insurance, manufacturing, trading, plantation, renewable energy, and leisure. Apart from Pakistan, LOLC Group has presence in Cambodia, Myanmar, Indonesia, the Philippines, Maldives, Sierra, Leone, Mauritius, Malawi, Tanzania, Kenya, Egypt, Tajikistan, Zimbabwe, UAE, Singapore, Nigeria and Zambia providing financial services.

Board of Directors

Table 1: Board of Directors

Members	Status
Mr. Ishara Chinthaka Nanayakkara	Chairman
Mr. Wanni Achchige Rohana Kumara	Sponsor Nominee
Mr. P.L. Chamika Rasintha Cooray Wijewarnasooriya	Executive Director

The Board of Directors (BoD) at POMBL was reconstituted in December 2020 and the above members have attained clearance of Fit and Proper Test from SBP. Due to recent changes in shareholding structure, currently the BoD comprises 3 members (nominated by LOLC) and is chaired by Mr. Ishara Chinthaka Nanayakkara. A total of five Board meetings were held during 2021. Key discussions during the BoD meetings encompassed update and evaluation of operational performance, and future plans for growth. Attendance and participation of members was satisfactory.

In order to ensure effective oversight, three board level committees are in place; these include Board Audit Committee (BAC), Board Human Resource and Remuneration Compensation Committee (BHRCC) and Board Risk Management Committee (BRMC).

Management Profile and Organizational Structure

Profile of Chairman

Mr. Ishara Chinthaka Nanayakkara has over a decade of experience in the industry and currently holds the role of Chairman of Commercial Leasing & Finance PLC, one of Sri Lanka's leading financial service providers for over 27 years, as well as LOLC Life Assurance Limited. He is also the Deputy Chairman of Seylan Bank, a premier commercial bank in the country. Mr. Nanay Akkara's interest in microfinance lead to the inauguration of LOLC Myanmar Micro Finance Company Ltd, a green field investment in Myanmar in which he was the founding Chairman, and currently serves as a Director. His proficiency in micro finance in the region is further demonstrated by his involvement at strategic level in LOLC Cambodia Ltd (Previously known as Thaneakea Phum Ltd); the 5th largest microfinance company in Cambodia. He was also recently appointed as a director in LOLC International Private Limited. He has been appointed as Chairman of the Board of Directors of the Company in February 2022.

Changes observed in the senior leadership team during the period under review include:

Mr. Farooq Rashid has been appointed as the new Chief Executive Officer of the bank in the June 2021. During February 2021 to May 2021, Mr. Kashif Ahmed Siddiqui (CFO & Company Secretary) was assigned with additional responsibility of acting CEO for the period. Pak Oman MFB also conducted new inductions during the outgoing and ongoing year. The new additions include Mr. Waseem Bari as the Head of Internal Audit, Mr. Sultan Muhammad as the Head of Operations, Mr. Zafar Iqbal as the Head of Marketing & Business Development, Mr. Mir Yousuf Khan as the Head of Administration and Mr. Umair Sabir as the acting Head of HR. Mr. Sultan Muhammad also assists in the supervision of the compliance department. Mr. Gohar Iqbal rendered his services as the Head of Credit & Risk Management for 1QCY22; however, the position is now vacant. Role of Mr. Chamika in the senior management team as the COO is viewed positively from the ratings perspective as he has vast experience in the financial services industry especially in the microfinance industry. In the ongoing year, the bank is in the process of hiring Head of Collection & Recovery and Head of Sindh Region.

Table 2: Management Team

Names	Designation
Mr. Farooq Rashid	Chief Executive Officer
Mr. P.L. Chamika Rasintha Cooray Wijewarnasooriya	Chief Operating Officer (COO)
Mr. Kashif Ahmed Siddiqui	Chief Financial Officer (CFO) & Company Secretary
Mr. Gohar Iqbal (now vacant)	Head of Credit & Risk Management
Mr. Zafar Iqbal	Head of Marketing & Business Development
Mr. Umair Sabir	Head of Human Resource
Mr. Sultan Muhammad	Head of Operations
Mr. Mir Yousuf Khan	Head of Administration
Mr. Waseem Bari	Head Of Internal Audit
Mr. Mohamed Faraz Basheer	Head of IT
Mr. Haider Ali Khan	Head of Legal

According to the management, Risk management function has been segregated from the marketing function. Risk management department reports directly to the BRMC. Moreover, a digitalization department has been created. The management aims to digitalize the operations of the loan processing and payments to streamline operations. At present, all the key positions of the Digitalization department are filled with qualified and experienced resources. In the ongoing year, the bank is in the process of implementing its digitalization plans including- Digital Lending Application, Debit card/Visa/Master/PayPak CASA Deployment and Customer Digital on Boarding is expected to be launched in Q2'2022.

Management Committee (MANCOM), Asset and Liability Committee (ALCO), Risk Committee (RC) and Human Resource Committee (HRC) are four committees present at management level.

Distribution Network

POMBL increased its network reach to 76 branches by adding ten branch in 2021; the expansion in branches/service centers was in order to target customers in rural areas. The bank has gradually developed its distribution network over the years by opening both branches and service centers. The majority of the branches are in Punjab (37 branches) followed by Sindh (23 branches), KPK (7 branches), Baluchistan (5 branches) and one in Azad Kashmir and Federal Capital area, respectively. The lending staff at each branch includes Customer Relationship Officers (CRO), and Verification Officer (VO). CRO and VO report to Branch Manager (BM) who then reports to the Area Manager (AM). With a broad focus towards decentralization, Regional Business Heads have also been appointed. In order to strengthen the audit function, the bank has assigned an audit officer in each branch. In the ongoing year, the institution plans to launch around 26 branches in the North of the country including Islamabad, Peshawar, Skardu and Gilgit Baltistan.

Productivity indicators

Given enhanced focus in regard to geographical expansion towards rural areas as well as emphasis on market based business (micro enterprise loans), average loan size increased in 2021. The number of active loans observed reduction due to management's preference to deal with borrowers with sound repayment capacity, especially during the COVID-19 time. However, increasing the number of borrowers is a key priority of the management going forward. During FY21, small ticket size loans of up to Rs. 25,000 were disbursed with a significant jump noted in the ticket size of Rs. 25-50k. The number of loan officers (LOs) also observed significant increase to aid in recovery efforts and improve profitability at branch level. Productivity of LOs is likely to improve going forward on account of digitalization and introduction of mobile applications, which would ultimately reduce processing time and increase efficiency. Productivity indicators of the bank are tabulated below:

Table 3: Productivity indicators

	2020	2021
Branches	66	76
No. of loan officers (LOs)	480	822
No. of active loans	56,658	55,982
Average loan size (Rs.)	44,464	99,740
Active Clients/ LO	118	68
Loan Amount/ LO (Rs.)	5,248,452	6,792,602

Information Technology (IT)

POMBL is using in-house developed core banking application FUSION for bank operations and loan processing while also providing solution for leasing and deposit-based products. In addition to the core banking application, POMBL has launched recovery collection through a mobile application at the field level.

The bank's Disaster Recovery (DR) site is located at third party- CubeXs Weatherly in Karachi and its primary data center is situated at head office, DHA, Karachi. Real time data backups are maintained on six servers and the same is stored on magnetic tapes for offline back-up. The tapes are placed in BRR security vault at each day end.

In the ongoing year, the bank has implemented digital loans module to facilitate borrowers in making repayments of installments. Digital Lending Application, Debit card/Visa/Master/PayPak CASA Deployment and Customer Digital on Boarding is expected to be launched in Q2'2022. Similarly, Mobile banking and I Pay Mobile Application objectives are expected to be achieved in the 4Q'2022.

Internal Audit

The Internal Audit department is headed by Mr. Waseem Bari. He is a seasoned professional with 15 years of Internal Audit and Finance experience. Prior to joining POMBL, Mr. Waseem was associated with Summit Bank Limited. He is a Certified Chartered Accountant from Association of Chartered Certified Accountants (ACCA). As per management, there was no change in the team structure of the department in the outgoing year. Total staff strength of the Audit department remains 9, including the Head of the department.

Scope of the IA department activities is defined by the annual audit plan, which is approved by the Board. The management follows a risk based audit methodology whereby Branches and Service Centers are selected on the basis of their respective NPL ratios, portfolio size and previous audit ratings. The Audit Plan is updated on an annual basis. Client visits vary between 15%-20% depending on the risk category of the branch. The audit observations are classified into three categories: 'Satisfactory', 'Average' and 'Unsatisfactory'.

Financial Analysis

Asset Quality

Table 4: Asset Mix

Asset Mix (Rs. in m)	2020	2020 (%)	2021	2021(%)
Cash and Bank	3	0%	88	1%
Balances with other banks/NBFIs/ MFBs	1,290	29%	894	12%
Investments-net	181	4%	286	4%
Advances-net	2,469	56%	5,372	75%
Operating Fixed Assets	170	4%	285	4%
Other Assets	229	5%	176	2%
Deferred Tax Assets- net	103	2%	79	1%
Total	**4,446.3**		**7,180.9**	

Total assets of the bank increased by 61% to Rs. 7.2b (CY20: Rs. 4.5b) at end-2021, with sizeable increase manifested in the advances. Funds from deposits and borrowings were used to facilitate growth in the advances portfolio, which observed considerable increase to Rs. 5.4b (CY20: 2.5b) at end-CY21. Consequently, around 75% of the asset base comprises advances in 2021.

Moreover, operating fixed assets stood higher at Rs. 284.6m (CY20: Rs. 170.1m) in CY21 mainly due to additions in property & equipment and right of use assets measured and accounted in the books, while other assets decreased to Rs. 176.5m (CY20: Rs. 229.3m). The decline in the same was mainly on account of reduction in mark-up accrued on loans and advances by end-CY21 emanating from the deferred/re-scheduled loan portfolio. Cash and bank balances declined and were reported at Rs. 1.0b (CY20: Rs. 1.3b) by the end-CY21. With the management's focus to increase the size of the loan book, advances are expected to constitute a greater proportion of the total asset base going forward. Increase in deposit base is expected to fund the growth in lending portfolio.

Credit Risk

With recovery in the global economy post COVID-19, pace of disbursements escalated in the period from June 2021 to December 2021; subsequently, gross loan book of POMBL registered healthy growth of 122% in 2021. Total quantum of the gross financing portfolio amounted Rs. 5.6b (CY20: Rs. 2.5b) at end-2021. With increase in gross advances, market share of POMBL was reported higher at 1.4% (CY20: 0.8%). However, the market share remains on the lower side vis-à-vis peers.

The product portfolio comprises several products spanning from Livestock, Agricultural Microbusiness to Enterprise Loans and House Loans catering to both individuals and group customers. Total product suite offered by the bank comprises 12 products with House Loans introduced in 2021 as shown in the table below:

Table 5: Product-wise advances

Advances Portfolio	FY20	%	FY21	%
Microbusiness loan	294.43	12%	0.52	0%
Micro agri loan	91.61	4%	633.28	11%
Micro asset loan	1.59	0%	0.84	0%
Livestock loan	80.49	3%	0.31	0%
New micro business loan	0.10	0%	-	0%
Micro enterprise loan	1,572.54	62%	3,604.55	65%
Salary loan	42.22	2%	244.74	4%
Bara karobar loan	216.01	9%	954.56	17%
Bullet zarai karza	208.94	8%	126.55	2%
Lease	11.34	0%	2.77	0%
House Loan	-	0%	15.39	0%
	2,519.25		**5,583.52**	100%

During the outgoing year, the management maintained its product wise lending strategy by focusing on micro enterprise loans due to better repayment capability in comparison to other borrowers. In addition to the same, other notable increase was observed in the proportion of Micro agri loans and Bara karobar loans during 2021 led by hiring of additional CROs with specialized forte in agricultural lending. Product wise concentration is on the higher side with the micro enterprise loans constituting approximately 65% (CY20: 62%) of total portfolio at end-2021. The portfolio mix is tilted towards EMI loans as the same comprised around 70% of total portfolio, while the bullet loans constituted

30% of the total portfolio. Given higher proportion of EMI loans, recovery ratio is comparatively favorable with effective management of credit risk.

Table 6: Asset Quality Indicators

Infection (Rs. in m)	2020	2021
Gross Advances	2,519.3	5,583.5
Specific Provisioning	45.9	123.4
General Provisioning	24.7	104.6
staff loan	20.7	16.5
Net Advances	**2,469.4**	**5,372.0**
NPLs	195.6	390.5
NPLs written off	269.8	158.2
Tier 1 Equity	2,187.1	2,393.4
Gross Infection	**7.8%**	**7.0%**
Net Infection	**6.1%**	**4.9%**
Incremental Infection	**11.9%**	**8.7%**
Provisioning Coverage	**36.1%**	**58.4%**
Net NPLs/Tier 1 Equity	**6.8%**	**10.7%**

Due to significant growth in the portfolio, POMBL experienced notable credit impairment with gross NPLs growing by 99.6% in 2021.The same is as a result of bank's prudent approach in estimating general provisions over and above the regulatory requirement. At end-Dec 2021, total NPLs amounted to Rs. 390.5m (CY20: Rs. 195.6m). Moreover, the bank also booked a write-off to the tune of Rs. 158.2m (CY20: Rs. 269.8m) during the same period. Given greater increase in performing portfolio as compared to NPL portfolio, gross infection decreased to 7.0% (CY20: 7.8%) at end-CY21. Net and incremental infection ratios were reported lower at 4.9% (CY20: 6.1%) and 8.7% (CY20: 11.9%), respectively. Moreover, comfort is drawn from the senior management's stringent focus and measure taken for timely recoveries and measures undertaken to improve lending practices. Through concerted efforts, the bank managed to recover Rs. 46.5m (2020: Rs. 29.4m) against written off advances in 2021.

In order to provide regulatory relief to borrowers during COVID-19, SBP allowed deferral of principal component of installments for one year provided that the borrower will continue to service the mark-up amount. Moreover, the financing facilities of borrowers, who are unable to service the mark-up amount or need deferment exceeding one year, may be rescheduled / restructured upon their request. As a result, the original deferred portfolio stood at Rs. 1.3b in CY20. No loans of the bank were restructured as per this moratorium. Out of the original deferred portfolio of Rs. 1.3b, quantum of outstanding payments amounted Rs. 98.0m at end-Dec 2021; furthermore, the same were reported lower at Rs. 67.0m at end-March 2022. Recovery of this amount is considered important from to maintain asset quality indicators in line with the parameters for the assigned ratings.

Liquidity Risk

Deposit base of the bank depicted a sharp increase and was reported at Rs. 1771.3m (CY20: Rs. 6.7m) in comparison to the preceding year. Albeit improving, liquidity risk is considered on the higher side, given top 21 depositors comprising 71% (CY20: 3%) of the total deposit base at end-2021. In the outgoing year, 93% of the deposit base was sourced from institutional depositors (NRSP, APNA Microfinance, and Pak Oman Investment Company). The reduced granularity is a source of concern as it makes the bank vulnerable to liquidity shortfalls. The management plans to upgrade the deposit team and improve depositor concentration. Furthermore, the Bank plans to launch current and saving deposits in June'22 given almost all deposits comprising fixed deposits at-end Dec'21. Deposit base breakups are provided in the tables below:

Table 7: Composition of deposits

(Rs. in millions)	2020	2021
Individuals	6.7	84.5
Institutions	-	1,686.8
Total Deposits	**6.7**	**1,771.3**

(Rs. in millions)	2020	%	2021	%
Saving Deposits	0.1	0.9%	0.1	0.0%
Fixed Deposits	0.1	1.8%	1,764.7	99.6%
Current Deposits	6.5	97.3%	6.5	0.4%
Total Deposits	**6.7**		**1,771.3**	

Total borrowings acquired by POMBL amounted to Rs. 2.5b (CY20: Rs. 2.0b) at end-2021. These borrowings include debt drawdown from the State Bank of Pakistan (SBP). The credit facility carries interest rate at 6 month KIBOR minus 100 bps and is repayable in June 2024. Total borrowings also include credit facility from Pakistan Microfinance Investment Company (PMIC); only 63% of the same was utilized at end-Dec'21. The facility carries mark-up at the average rate of 6M KIBOR plus 3.5%. To manage liquidity requirements for the digitalization plan and current business operations, the bank is currently negotiating additional borrowing lines from banks and support from the sponsor (LOLC). In addition, the management is also focusing on proactively managing relationship with large-sized depositors to keep a check on any unforeseen deposit withdrawals.

Liquid assets carried on the balance sheet decreased to Rs. 1.3b (CY20: Rs. 1.5b) primarily on account of reduction in balances with other banks and MFBs. Given greater increase in deposit base, liquid assets in relation to deposits and borrowings decreased significantly to 29.8% (CY20: 74.2%) at end-2021. Similarly, the same was reported lower at 26.6% at end-March'22. Nevertheless, overall liquid assets in relation to deposits and borrowings are considered adequate. Given the projected increase in deposit base and borrowings post expansion, maintaining adequate liquidity profile is considered important from the ratings perspective.

Table 8: Liquidity Indicators

Liquidity (Rs. in m)	2020	2021
Investments	181.3	286.4
Cash and balances with SBP and NBP	3.4	88.0
Balances with other banks and MFBs	1,290.2	859.4
Liquid Assets	**1,474.9**	**1,233.9**
Deposits	6.7	1,771.3
Borrowing	1,982.3	2,482.3
Liquid Assets to Deposits and Borrowing (%)	**74.2%**	**29.0%**
Advances to Deposits (x)	**375.9**	**3.2**
Liquid Assets/ Total Assets	**33.2%**	**17.3%**

Profitability

Profitability of the bank took an upward trend primarily owing to increasing spreads evident from growth in markup income, and higher fee & commission income earned. The bank's topline inclined by 109% during 2021, with majority of the uptick being contributed by the significant return on the advances portfolio as indicated in the table below:

Table 9: Breakup of markup income earned

(Rs. In millions)	2020	2021
Income from Advances	531.9	1,502.5
Income from Investment in Government Securities	16.8	5.6
Income from Deposit Accounts	161.3	61.3
Income from Sukuk	0.0	4.0
Income from Term Deposit Receipts	38.9	0.4
Income from Staff Loan	0.6	0.6
Total	**749.6**	**1,574.4**

Against the trend in the industry, spreads of the bank improved substantially in 2021 at 28.3% (2020: 14.0%) on account of hike in markup of certain products offered.

Table 10: Spreads

	2020	2021
Return on Markup Bearing Assets	23.5%	38.3%
Cost of Funds	9.5%	10.0%
Spreads	14.0%	28.3%

With markup bearing earning assets increasing to Rs. 6.4b (CY20: Rs. 3.8b) during CY21, interest income was reported higher at Rs. 1.6b (CY20: Rs. 0.8b) majorly provided by interest on performing advances. Moreover, return on mark-up bearing assets increased to 38.3% (CY20: 23.5%) in CY21 primarily on account of increase in yield earned on all categories in the bank's portfolio including highest markup generating micro enterprise loans.

During CY21, yield on advances increased to 45.8% (CY20: 30.1%) on account of increased contribution of high priced loan products to the product mix. Interest income from investments amounted to Rs. 10.0m (CY20: Rs. 55.7m) while return on investment portfolio stood lower at 4.3% (CY20: 9.8%) in 2021.

During CY21, total deposits & borrowings increased to Rs. 4.3b (CY20: Rs. 2.0b), while total interest expense amounted to Rs. 224.7m (CY20: Rs. 188.1m). Interest expense on deposits amounted to Rs. 49.3m (CY20: Rs. 0.007m). Cost of deposit decreased to 9.35% (CY20: 9.50%) on account of decrease in benchmark rates.

With a greater increase in return on mark-up bearing assets as compared to the increase in cost of funds, spread of the bank depicted a sizeable increase to 28.3% (CY20: 14.0%) during CY21. Subsequently, net mark-up income was reported significantly higher at Rs. 1.4b (CY20: Rs. 0.6b) on the account of higher average mark-up bearing assets during CY21.

Moreover, non-markup income also witnessed sizeable increase to Rs. 317.6m (CY20: Rs. 191.0m) on the back of higher other income generated from fee & commission income (CY21: Rs. 217.5m; CY20: Rs. 89.2m) and noticeable increase in recoveries against written off advances (CY21: Rs. 46.5m; CY20: Rs. 29.4m) in the outgoing year. Fee, commission & brokerage income was reported higher during 2021 mainly on account of increase in loan amount booked during the year and processing fees against the same.

During CY21, administrative expenses increased to Rs. 1.0b (CY20: Rs. 0.7b) due to increase in staff related expense, rent, advertisement and insurance related expenses. Considerable increase in headcount of employees and deployment of Sri Lankan staff contributed to higher salaries and wages expenses. Despite elevation in administrative expenses, Operational self-sufficiency (OSS) ratio depicted a sizeable increase to 141.8% (CY20: 71.4%) during 2021. The increase is in line with higher NIMs and incline in recurring income during the year. Consequently, bank reported higher profit before tax of Rs. 323.8m, (CY20: Loss of Rs. 239.0m) during CY21. Accounting for taxation, net profit amounted to Rs. 215.9m (CY20: Loss of Rs. 179.6m). Profitability indicators of the bank depicted a decrease in 1Q'22 owing to lower total income and higher provision against NPLs & Advances. As per management, the increase in provisioning in 1Q'22 was in relation to mainly the recent cow disease (Lumpy Skin Disease) and Agri-loans provided. Going forward, management envisages improvement in profitability profile of the bank on account of projected increase in spreads, operational efficiencies and uptick in disbursements, post digitalization.

Capitalization

Table 12: Capitalization

Capitalization (Rs. in m)	2020	2021
Share Capital	2,308.3	2,308.3
Statutory & General Reserves	94.1	149.3
Depositors' Protection Fund	10.0	22.0
Accumulated Profit	(215.3)	(51.7)
Total Equity	**2,197.1**	**2,427.9**
Capital Adequacy Ratio (CAR)	**64.3%**	**39.1%**

Paid-up capital remained unchanged at Rs. 2.3b at end-CY21; however the total equity base augmented to Rs. 2.4b (CY20: Rs. 2.2b) due to profit retention and reduction in accumulated losses. Equity of the bank is in compliance with the minimum capital requirement of Rs. 1.0b stipulated for microfinance banks with nationwide operations. Net NPLs as a percentage of equity increased to 11.1% (CY20: 6.8%) due to higher NPLs at end-CY21. Moreover, Capital Adequacy Ratio (CAR) of the bank decreased to 39.1% (CY20: 64.3%) by end-CY21 due to substantial growth in asset base. Given growth plans over the medium term, sizeable internal capital generation would be required to maintain CAR above the minimum regulatory requirement. The same is likely to be attained if the deterioration in asset quality is countered effectively. Going forward, projected improvement in profitability is expected to aid growth in equity base of the bank over the rating horizon. Evidently, the equity base was reported slightly higher at Rs. 2.5b at end-March'22.

Pak Oman Microfinance Bank Limited Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*		
BALANCE SHEET	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**
Cash and Bank Balances with SBP and NBP	3.6	3.4	88.0
Balances with other Banks and/NBFIs/MFBs	1,197.3	1,290.2	894.4
Lending to Financial Institutions	0.0	0.0	0.0
Total Investments	1,258.5	181.3	286.4
Net Advances	1,902.9	2,469.4	5,372.0
Operating Fixed Assets	132.5	170.1	284.6
Other Assets	140.2	332.0	255.5
Total Assets	**4,635.0**	**4,446.3**	**7,180.9**
Total Deposits	6.7	6.7	1,771.3
Borrowings	1,982.3	1,982.3	2,482.3
Other Liabilities	243.0	270.3	521.2
Tier-1 Equity	2,365.3	2,197.1	2,427.9
Net Worth	2,365.3	2,197.1	2,427.9
Paid-Up Capital	2,308.3	2,308.3	2,308.3
INCOME STATEMENT	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**
Net Mark-up Income	658.5	557.1	1,349.7
Net Provisioning / (Reversal)	225.4	246.9	315.5
Non-Markup Income	116.3	191.0	317.6
Operating Expenses	488.6	740.2	1,020.9
Profit Before Tax	52.5	-239.0	323.8
Profit after tax	28.7	-179.6	215.9
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**
Gross Infection (%)	8.7%	7.8%	7.0%
Net Infection (%)- Specific	5.1%	6.1%	5.0%
Incremental Infection (%)	14.4%	11.9%	8.7%
Provisioning Coverage (%)- Specific	43.2%	23.5%	31.6%
Net NPLs to Tier-1 Capital (%)	4.1%	6.8%	10.5%
Capital Adequacy Ratio (%)	83.9%	64.3%	39.1%
Markup on Earning assets (%)	24.0%	23.5%	38.3%
Cost of Funds (%)	12.5%	9.5%	10.0%
Spreads (%)	11.5%	14.0%	28.3%
OSS (%)	103.4%	71.4%	114.8%
ROAA (%)	0.8%	-4.0%	3.7%
ROAE (%)	1.2%	-8.1%	9.3%
Liquid Assets to deposits & borrowings (%)	124%	74%	30%

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: 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.

REGULATORYDISCLOSURES	Appendix III
Name of Rated Entity	Pak Oman Microfinance Bank (POMBL)
Sector	Micro Finance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
30-April-2022	A-	A-2	Stable	Maintained
30-April-21	A-	A-2	Rating Watch - Developing	Maintained
30-April-20	A-	A-2	Rating Watch - Negative	Maintained
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

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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2022 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Farooq Rashid	CEO	March 17, 2022
Mr. Kashif Ahmed Siddiqui	CFO & Company Secretary	March 17, 2022
Mr. P.L. Chamika Rasintha Cooray Wijewarnasooriya	Chief Operating Officer (COO)	March 17, 2022
Mr. Ovais Chishty	Senior Manager Finance	March 17, 2022