RATING REPORT

Pak Oman Microfinance Bank Limited

REPORT DATE:
April 30, 2020

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Rating Watch – Negative		Stable	
Rating Date	*April 30, 2020*		*April 25, 2019*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** EY Ford Rhodes & 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 (Ministry of Finance) – 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 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: Dec'19 – Rs. 2.4b, Dec'18 – Rs.2.4b

Net Profit: 2019 – Rs. 28.7m, 2018 – Rs. 60.2m

RATING RATIONALE

Current ratings of POMFB derive strength from its sponsor's profile, LOLC Private Limited (LOLC) possessing significant expertise in the microfinance sector with operations in Sri Lanka, Cambodia and Myanmar. Being the parent, LOLC continues to provide technical and managerial support to POMFB. Ratings continue to incorporate the bank's sound capitalization indicators and adequate liquidity levels. The bank operates through a network of 30 branches and 35 services centers nationwide. In view of the recent coronavirus outbreak, plans to open new branches / service centers have been kept on hold for the time being.

With growth witnessed in lending portfolio, asset quality indicators have depicted weakening on a timeline basis. Credit risk from investments is also considered manageable.
Gross loan portfolio of POMFB has exhibited an increasing trend and amounted to Rs. 1.9b (2018: Rs. 1.4b) at end-FY19. Growth in portfolio was achieved on the back of increase in expansion in branch network, increase in average loan size and growth in the number of LOs. Given the dynamics of the microfinance sector, enterprise loans are the flagship products of the company as the same accounted for more than two-thirds of the total gross microcredit portfolio at end-FY19. With growth witnessed in loan portfolio, asset quality indicators of the bank increased. Increase in quantum of Non-Performing Loans (NPLs) translated into higher infection levels on gross basis. Furthermore, incremental infection remained on the higher side in comparison to peers. Credit risk of the bank also emanated from its investment portfolio comprising debt instruments and Term Deposit Receipts (TDRs). TDRs are placed with a bank having a sound credit rating. Term Finance Certificates and Sukuk both are non-performing and have been fully provided for. Hence, overall credit risk profile is considered manageable.

Liquid assets as a proportion of deposits and borrowings depicted a decline on account of fresh borrowing utilized by the bank, nonetheless, continues to remain within adequate levels.
Given sufficient liquidity available throughout the years, banks deposits have remained low at similar to prior year level as part of its cost reduction strategy. Moreover, liquid assets carried on the balance sheet amounted to Rs. 2.4b (2018: Rs. 1.1b) at end-2019. During 2019, the bank also mobilized a credit line from the central bank amounting to Rs. 2.0b with the intention of growing its portfolio in 2020. However, given the recent pandemic, all business plans are being revised. Going forward, disbursements are projected to remain on the lower side resulting in lower liquidity needs.

Capitalization indicators are projected to remain healthy over the rating horizon indicating significant room for growth Paid-up capital of the bank remained unchanged at Rs. 2.3b, at end-December 2019. Accounting for reserves and retained profits, equity level of the bank was reported at Rs. 2.4b (FY18: Rs. 2.3b), at end-2019. Over the years, equity of the company increased primarily on the back of internal capital generation. At end-December 2019, the bank has an accumulated loss of Rs. 36.1m. With Capital Adequacy Ratio (CAR) reported at 83.89% (2018: 143.78%), bank remains at comfortable levels, above the minimum regulatory requirement of 15% depicting significant room for growth.

Operational and financial profile of the bank weakened on account of continuous infection in financing portfolio and evident deficiencies in the internal control framework.
As a result of higher provisioning, profitability indicators were adversely impacted. Profitability of the company depicted a decline to Rs. 28.7m for FY19. Despite lower profitability levels, operating self-sufficiency ratio of the bank remained at 154.7% (2018: 154.4%) in 2019. The same depicts considerable cushion as core income is more than sufficient to cover administrative expenses. Profitability will remain a function of efficient disbursement of advances and quality of assets. The ratings will remain contingent upon recovery of projected NPLs, improvement in quality of financing portfolio and growth in earnings.

Pak Oman Microfinance Bank Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2017**	**Dec 31, 2018**	**Dec 31, 2019**
Total Investments	797	631	1,258
Advances - Net	688	1,209	1,903
Total Assets	2,392	2,458	4,635
Borrowings	-	-	1,982
Paid up Capital	2,308	2,308	2,308
Tier-1 Equity	2,311	2,344	2,365
Net Worth	2,311	2,344	2,365
INCOME STATEMENT	**Dec 31, 2017**	**Dec 31, 2018**	**Dec 31, 2019**
Net Mark-up Income	234	439	658
Net Provisioning / (Reversal)	24	89	225
Non-Markup Income	47	69	116
Administrative Expenses	213	319	489
Profit before tax	44	101	53
Profit after tax	30	60	29
RATIO ANALYSIS	**Dec 31, 2017**	**Dec 31, 2018**	**Dec 31, 2019**
Gross Infection (%)	3.6%	8.3%	8.7%
Net Infection (%)	2.4%	5.6%	5.1%
Net NPLs to Tier-1 Capital (%)	0.7%	2.8%	4.1%
Markup Spreads (%)	4.8%	19.9%	
OSS (%)	123.4%	154.4%	154.7%
ROAA (%)	1.6%	2.5%	0.8%
ROAE (%)	1.7%	2.6%	1.2%
Liquid Assets to deposits & borrowings (x)	173.9	165.9	1.23

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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-April-19	A-	A-2	Rating Watch - Negative	Maintained
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.
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Due Diligence Meetings Conducted	

	Name	Designation	Meeting Date
1	Mr. Kashif Ahmed Siddiqui	Chief Financial Officer	April 23, 2020
2	Ms. Aseya Qasim	Head of Business	April 23, 2020