

## RATING REPORT

### Pak Oman Microfinance Bank Limited

**REPORT DATE:**

April 28, 2017

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-3	BBB+	A-3
Rating Outlook	Rating Watch- Positive		Stable	
Rating Date	April 28, 2017		April 28, 2016	

#### 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. Munawar Suleman
Sultanate of Oman – 66.6%	
Pak Oman Investment Company Limited – 33.4%	

#### APPLICABLE METHODOLOGY(IES)

Methodology: Micro Finance Banks (June 2016)

<http://www.jcrvis.com.pk/docs/Meth-MFBs201606.pdf>

## Pak Oman Microfinance Bank Limited

### OVERVIEW OF THE INSTITUTION

### RATING RATIONALE

*In March 2006, Pak Oman Microfinance Bank Limited was incorporated as a public limited company under 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. Munawar Suleman has been associated with Pak-Oman for last 10 years. He holds a Master's degree in Economics and is a Fellow member of Institute of Marketing Management.

#### Financial Snapshot

Net Worth: 2016 – Rs. 1,072m, 2015 – Rs. 1,075m

Net Profit: 2016 – Rs. 7m, 2015 – Rs. 6m

Setup in 2006, Pak Oman Microfinance Bank Limited (Pak-Oman) operates under the jurisdictions of Microfinance Institutions Ordinance, 2001. The bank has a distribution network of 16 branches and 14 service centers stationed across all provinces of the country. Sultanate of Oman is the majority shareholder with 66.6% stake in the bank while remaining 33.4% shares are held by Pak Oman Investment Company Limited (POICL).

#### Rating Drivers:

**Sponsor Profile:** Assigned outlook factors in acquisition of 50.1% stake in Pak-Oman by Lanka Orix Leasing Company PLC (LOLC)<sup>1</sup>. Resultantly, shareholding of POICL and Sultanate of Oman will dilute to 16.7% and 33.3%, respectively. LOLC possesses significant expertise in the microfinance sector with operations in Sri Lanka, Cambodia and Myanmar.

**Management & Governance:** Given majority holding of LOLC, management control of Pak-Oman will transfer to the new shareholder. Thus, positive developments with respect to governance structure of the bank will be monitored. Turnover has been observed at senior management level during period under review. With appointment of a new Chief Executive Officer in the ongoing year, vacancies at key positions are expected to be filled. Moreover, subsequent to transaction closure, business model of Pak-Oman is envisaged to be brought in line with LOLC's methodology practiced in its overseas investments. Stability in the senior management is considered essential for achieving long term objectives.

**Operations:** Ratings continue to be constrained by notable gaps in the bank's internal control environment. As per internal audit reports, there is significant room for improvement in the risk management function. Moreover, turnover at Customer Relationship Officer's level remained on the higher side; the incentive structure has been revised in order to mitigate the same. To improve operational efficiency, a new integrated core banking application has been implemented at the bank. It is currently being run parallel to the existing system while complete deployment is expected in the ongoing year. Ability of the bank to adapt to new core banking software is considered important and challenges arising from its implementation will be monitored.

**Asset Mix:** Net advances increased in 2016 and represented one-third of resource base. Moreover, portfolio indicators improved largely on account of write offs and limited accretion of fresh non-performing loans. Despite improvement, infection levels remain on the higher side in relation to peers. In this regard, a recovery strategy has been devised. Going forward, Pak-Oman's ability to strengthen monitoring and control systems while maintaining disbursements would be crucial from an asset quality perspective.

**Liquidity and Capitalization:** Deposit mobilization activity of the bank picked up pace in 2016. At current level, deposit profile features significant concentration; liquidity risk associated with the same is mitigated by the high level of liquid assets carried on balance sheet. Assigned ratings are underpinned by the bank's ability to scale up its operations given its comfortable capitalization profile. Pak-Oman is expected to secure equity of Rs. 1.2b in the near term from LOLC. This, along with funding from deposits will support growth of loan portfolio while maintaining capitalization at healthy levels.

<sup>1</sup> LOLC was assigned credit rating of "[SL]A" with "Stable" outlook by ICRA Lanka Limited on January 31, 2017.

**Pak Oman Microfinance Bank Limited**

**Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 30, 2014</b>
Total Investments	516.9	105.2	79.1
Advances - Net	428.5	358.7	221.0
Total Assets	1,260.5	1,127.2	1,114.9
Borrowings	-	-	-
Tier-1 Equity	1,071.6	1,074.2	1,069.6
Net Worth	1,072.3	1,074.5	1,069.2
<b>INCOME STATEMENT</b>			
	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 30, 2014</b>
Net Mark-up Income	171.6	168.4	119.6
Net Provisioning / (Reversal)	18.6	13.2	1.5
Non-Markup Income	43.0	23.9	13.6
Administrative Expenses	181.6	162.5	129.0
Profit after tax	6.5	5.7	(7.3)
<b>RATIO ANALYSIS</b>			
	<b>Dec 31, 2016</b>	<b>Dec 31, 2015</b>	<b>Dec 30, 2014</b>
Gross Infection (%)	5.0%	8.9%	1.6%
Net Infection (%)	3.6%	7.2%	1.3%
Net NPLs to Tier-1 Capital (%)	1.4%	2.4%	0.3%
Markup Spreads (%)	16.4%	16.1%	12.5%
OSS (%)	107.7%	113.4%	99.0%
ROAA (%)	0.5%	0.5%	-0.7%
Liquid Assets to deposits & borrowings (x)	4.9	27.1	39.3

**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](http://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](http://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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES				Appendix III	
<b>Name of Rated Entity</b>	Pak Oman Microfinance Bank Limited				
<b>Sector</b>	Micro Finance Bank (MFB)				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity 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>				
	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
	29-April-13	BBB+	A-3	Stable	Reaffirmed
	30-April-12	BBB+	A-3	Stable	Reaffirmed
	29-April-11	BBB+	A-3	Stable	Reaffirmed
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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.				
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