Pak Oman Microfinance Bank Limited

Chairman: H.E. Yahya Bin Said Bin Abdullah Al-Jabri; CEO: Mr. Munawar Suleman

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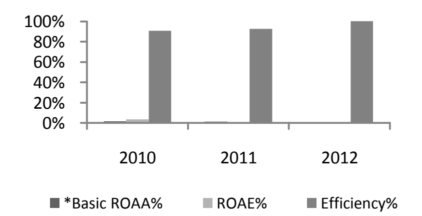
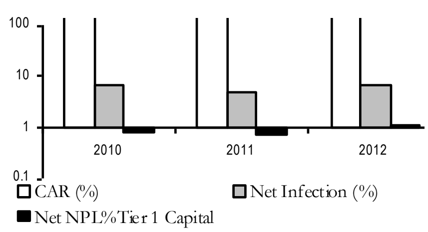
Category	Latest	Previous
Entity	BBB+/A-3	BBB+/A-3
	Apr 29, '13	*Apr 30, '12*
Outlook	Stable	Stable
	Apr 29, '13	*Apr 30, '12*

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2010	2011	2012
Net Financings (Rs. in m)	85	99	117
Deposits(Rs.in m)	28	25	27
Deposit Cost (%)	1.2	1.4	0.8
Profit / (Loss) (Rs.in m)	24	5	(0.1)
Equity (Rs. in m)	698	699	700
CAR (%)	239	229	222
Liquid Assets /Deposits(x)	18.7	23.9	19.2
Net Infection (%)	6.5	4.9	6.7

Rating Rationale

Pak Oman Microfinance Bank Limited (POMFB) commenced operations in 2006 and has a nationwide license to carry out micro-credit and deposit taking activities. As per the regulations stipulated by the State Bank of Pakistan (SBP), microfinance banks with national scale operations were required to maintain minimum paid up capital (free of losses) of Rs. 800m by Dec'12 and Rs. 1b by Dec'13. Net equity of POMFB stood at Rs. 700m as at December end 2012. Given the limited scale of operational activities, balance sheet remains unleveraged, with net worth representing as much as 94% of total assets. The bank has been granted extension by SBP until April'13 to meet minimum capital requirement; management expects fresh equity injection of Rs. 150m from the sponsors shortly. Assuming no additional losses in 2013, further injection of Rs. 150m will be required to meet the capital requirement laid down for Dec'13.

Deposit base of the bank, marginally increased to Rs. 27m in 2012; majority of these comprised mandatory savings maintained against outstanding advances. Currently, the bank has sizeable liquid reserves on its balance sheet, which may be channelized into core lending activities to optimize the utilization of resources available. An active deposit mobilization strategy may however need to be developed to fuel growth in balance sheet over the long term.

Majority of the bank's equity is currently held in low risk investments; 60% of the asset base is deployed in placement with an associated concern rated 'AA+'. Net investment portfolio stood higher at Rs. 81m at end 2012 (2011: Rs. 59m). This includes TFCs/Sukuks worth Rs. 13.3m, which have been restructured; repayment capacity of issuers remains under stress. Credit risk profile of the remaining portfolio is largely considered sound.

With slight growth in loan portfolio noted in 2012, net loan portfolio comprised almost 16% (2011: 13%) of the asset base; loan portfolio is projected to comprise 17% of assets by end 2013. With floods experienced in Sindh during the year, portfolio quality indicators witnessed weakening; incremental infection (including write-offs) was recorded at 6.8% in FY12 (FY11: 4.7%). Overall, quality of assets however remains sound, with net NPLs and restructured investments collectively comprising 3% of equity.

Loan approval authority is currently centralized; management is initiating delegation of the same at select branches. Depending on the results of this exercise, greater delegation at branch level may be considered. The bank has greater presence in Punjab in terms of branch infrastructure; loan portfolio outstanding in Sindh is however slightly higher. Based on management's experience of lower delinquencies, lending activities will primarily be focused in Punjab in 2013. Moreover, the proportion of agri & live stock loans is gradually being reduced. All lending is essentially unsecured barring a motorbike leasing product launched in the beginning of 2013. In line with market trends, plans to introduce gold backed loan product are on the anvil.

The bank reported a marginal loss in 2012. Timely equity injection may have a positive impact on future profitability. While yield on loan portfolio is highest among MFBs, overall return on markup bearing assets is considerably lower, as loans comprise a small proportion of earning assets. The bank's earnings profile has limited room to absorb the impact of any adverse developments in credit risk profile of assets.

Senior management positions including CFO and Head of IT are currently vacant. Head of Credit is overseeing IT and ex-Manager Accounts is officiating as acting CFO. The IT infrastructure is being improved with implementation of an online solution underway. Given the frequency of off-site data backup, the bank is exposed to the risk of losing up to an entire month's data in case any loss event occurs at the Head-Office.

Overview of the Institution

POMFB was incorporated in 2006 as an unlisted public limited company. Sultanate of Oman is the majority shareholder with 66% stake in the bank, with remaining 33% shares held by Pak Oman Investment Company Limited (POICL). Staff strength of the institution stood higher at 162 (2011: 150). With closure of one branch and opening of one service centre, POMFB operated through 15 branches and 6 service centers at end Dec'12. Financial statements for 2012 were audited by M/s Yousuf Adil Saleem & Company Chartered Accountants JCR-VIS