Pak Oman Microfinance Bank Limited

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

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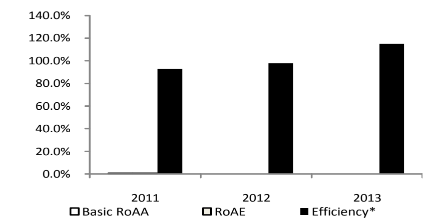
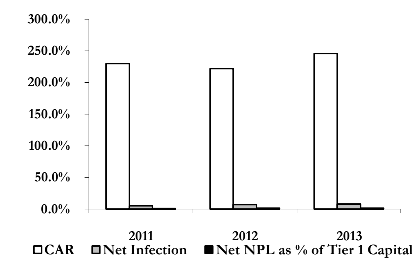
Category	Latest	Previous
Entity	BBB+/A-3	BBB+/A-3
	Apr 29, '14	*Apr 29, '13*
Outlook	Stable	Stable
	Apr 29, '14	*Apr 29, '13*

Key Financial Trends



** Based on recurring profit before provision and taxation*



	2011	2012	2013
Net Advances (Rs. in m)	99	117	115
Deposits (Rs.in m)	25	27	29
Deposit Cost (%)	1.4	0.8	1.2
Profit / (Loss) (Rs.in m)	5	(0.1)	(28)
Equity (Rs. in m)	699	700	819
CAR (%)	229	222	246
Liquid Assets /Deposits(x)	23.9	19.8	22.9
Net Infection (%)	4.9	6.7	7.9

Rating Rationale

Ratings of Pak Oman Microfinance Bank Limited (Pak-Oman) draw strength from its association with Sultanate of Oman* that has a direct stake of 66.5% in the bank. Given that core lending operations have so far remained fairly restricted, there is a sizeable amount of liquid assets carried on balance sheet. Almost 2/3rd of assets comprise clean placements with Pak-Oman Investment Company Limited (POICL), rated 'AA+/A-1+'. Ratings are constrained by weaknesses in the control infrastructure while institutional building is also required.

Lending portfolio comprises 13% of the asset-base; portfolio quality remains weak, with incremental infection of 15% witnessed during 2013 and year-end net infection reported at 7.9%. The bank made some strategic changes during 2013 including a gradual transition from group lending to individual lending while diverting its exposure towards the Punjab region. Fresh disbursements in Sindh have been reduced on account of the adverse portfolio performance in the region. The pace of lending activities have remained slow in 2013; a 3 year Strategic Business Plan has recently been approved by the Board which envisages growth in lending operations.

Profitability indicators of the bank have weakened on account of decline in return on performing advances while there was also a dip in the return from POICL, a major investment on books. Efficiency deteriorated to 115% (FY12: 98%) as revenues could not match increase in expenses and the bank incurred an operating loss of Rs. 16m vis-à-vis an operating profit of Rs. 2m in the preceding year. Moreover, the bank booked additional provisions against TFCs/Sukuk and advances. Consequently, there was a net loss on books. Future profitability is contingent upon the bank's ability to enhance core lending activities while maintaining adequate asset quality.

The bank is non compliant with the regulatory Minimum Capital Requirement (MCR) of Rs. 1b stipulated for end-2013. An equity injection of Rs. 150m was made during 2013 which was not sufficient to meet the requirement. Pak-Oman had obtained an exemption from the State Bank of Pakistan till March 31, 2014 in this regard. The management has applied for further extension up to June 30th, 2014 as sponsors are expected to inject Rs. 250m during 2Q14. Given that CAR is considerably higher than the regulatory limit, the bank has substantial room for growth in lending activities. Presently, Pak-Oman is not focusing on deposit mobilization having a nominal deposit base of Rs. 29m, majority of which comprises mandatory deposits taken against advances provided to clients.

There are notable gaps in the bank's internal control environment. As per internal audit reports, there is considerable room for improvement in the control mechanism at branch level. As a result, management has postponed plans to de-centralize loan disbursement and a review of every loan by the risk department was made mandatory in 2014. Implementation of the new IT system has seen inordinate delays and three key modules are still pending for installation. There are no back up servers in place and the bank is relying on conventional methods of taking backups on tape with a risk of losing up to a day's data in case of any loss event. Key management positions at departmental head level are occupied by personnel who have been given an acting charge. Moreover, certain departments are working below capacity due to lack of staff. One of the independent BoD members resigned in 2013 and the position is still vacant. The Board committees have not convened meetings on a regular basis, which compromises the oversight function.

* Sultanate of Oman has credit rating of A/A-1 from an international rating agency

Overview of the Institution

Pak-Oman was incorporated in 2006 as an unlisted public limited company. Sultanate of Oman is the majority shareholder with 66.5% stake in the bank, with remaining 33.5% shares held by Pak Oman Investment Company Limited (POICL). Staff strength of the institution stood higher at 182 (2012: 162). With set up of a branch in Jhelum, Pak-Oman operated through 16 branches and 8 service centers at end-2013. Financial statements for 2013 were audited by M/s Yousuf Adil Saleem & Company Chartered Accountants JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
29-Apr-14	BBB+	Stable	A-3	Reaffirmed
29- Apr-13	BBB+	Stable	A-3	Reaffirmed
30- Apr 12	BBB+	Stable	A-3	Reaffirmed
29- Apr-11	BBB+	Stable	A-3	Reaffirmed
30-Dec-10	BBB+	Stable	A-3	Rating Watch – Removed
06-Sep-10	BBB+		A-3	Rating Watch – Developing
29- Apr-10	BBB+	Stable	A-3	Reaffirmed