

The First MicroFinanceBank Limited - Pakistan

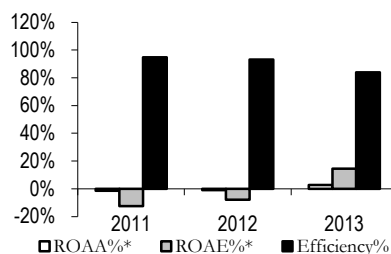
April 29, 2014

Chairman: Mr. Akbarali Pesnani; President & CEO: Mr. Amir Masood Khan

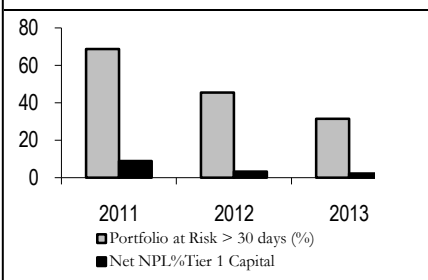
Analysts: Maimoon Rasheed
Faiz Sattar Khan

Category	Latest	Previous
Entity	A/A-1 <i>Apr 29, '14</i>	A/A-1 <i>Apr 30, '13</i>
Outlook	Stable <i>Apr 29, '14</i>	Stable <i>Apr 30, '13</i>

Key Financial Trends



* Based on recurring profit before provision and taxation



	2011	2012	2013
Net Advances (Rs. in b)	2.17	2.97	3.45
Deposits (Rs. in b)	5.92	6.57	7.81
Deposit Cost (%)	9.0	8.5	7.3
Profit / (Loss) (Rs. in b)	(93)	(63)	143
Equity (Rs. in m)	791	987	1109
CAR (%)	28.4	26.2	24
Liquid Assets %			
Deposits & Borrowings	71	69.9	68.7
Net Infection (%)	2.3	1.0	0.7

Rating Rationale

The First MicroFinanceBank Limited – Pakistan (FMFB-P) operates under the umbrella of Aga Khan Development Network (AKDN), which is an international development agency. In line with other group entities, FMFB-P strictly adheres to strategy prepared at the group level. Following a well articulated policy approved by the board, the bank has maintained its presence in flood hit areas, though fresh disbursements were made on selective basis. Resultantly, the proportion of advances portfolio deployed in the province of Sindh, where the bank's exposures had been most affected, has reduced to 30% (end-FY12: 49%, end-FY11: 56%) by end-FY13.

The bank has managed to contain the proportion of bullet loans on a timeline basis; it is planned to be curtailed further. The management also envisages improving average loan size by having greater focus on upper-end micro-enterprises with simultaneous increase in the loan size of other products as well. While the aforementioned factors are expected to help in increasing yield on advances, enhanced focus on building a book of secured (gold backed) portfolio is likely to offset its positive impact to a certain extent.

While expanding its loan book, the bank continued its focus on recoveries against previously classified/written-off loans in flood affected areas, with Rs. 100.8m recovered in FY13. The management expects the pace of recovery in this context to decelerate; total outstanding amount was Rs. 248.4m at end-FY13 against the total loan portfolio of Rs. 932 that had been affected by various calamities. The bank has however largely taken impact of this amount and it stands almost provided.

The bank envisages growth in distribution network using hub and spoke model to enhance outreach. The bank's funding strategy is based on deposit mobilization, with borrowings only obtained to make occasional spreads on repo transactions. With decline in average interest rates, the bank was able to reduce its cost of funds to 7.3% (FY12: 8.5%), which is one of the lowest amongst relatively established microfinance banks in the sector. A modest improvement in spreads was also witnessed during FY13. The bank posted a profit of Rs. 143.1m (FY12: loss Rs. 63.4m) in FY13 mainly on the back of healthy growth in advances and higher recovery against written-off loans. The management was also able to control operating expenses translating into improved efficiency ratios.

While expanding its deposit base, the bank was able to maintain concentration related indicators at par with prior year. With advances to deposits ratio (ADR) remaining low at around 44%, liquid assets were maintained at around three fourth of total deposits and borrowings. Given the projected increase in ADR, liquid assets in relation to deposits and borrowings are likely to decline, going forward.

FMFB-P intends to launch limited branchless banking (BB) operations in collaboration with Habib Bank Limited (HBL), initially for collecting loan installments through express counters of HBL. During FY13, all vacant positions at the senior management level were filled. Stability at the senior management level is considered important to ensure effective implementation of the strategic plan. The bank is in the process of identifying core banking software with the help of a consultant to replace the bank's existing decentralized software. Timely decision in this regard is considered essential, given that the bank's scale of operations continues to grow.

Overview of the Institution

FMFB-P was incorporated in 2001 and provides microfinance banking services to the poor and underserved segment of the society. The shareholding in the bank is primarily held by Agha Khan Agency for MicroFinance (42%) followed by Agha Khan Rural Support Program (22%) while remaining shares are equally distributed between International Finance Corporation and Japan International Cooperation Agency. FMFB-P's financial statements for FY13 were audited by M/s KPMG Taseer Hadi and Company, Chartered Accountants **JCR-VIS**

JCR-VIS Credit Rating Company Limited

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

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
29-Apr-14	A	Stable	A-1	Reaffirmed
30-Apr-13	A	Stable	A-1	Reaffirmed
30-Apr-12	A	Stable	A-1	Downgrade
28-Apr-11	A+	Stable	A-1	Reaffirmed
06-Sep-10	A+		A-1	Rating Watch - Developing
29-Apr-10	A+	Stable	A-1	Reaffirmed