

## The First MicroFinanceBank Limited - Pakistan

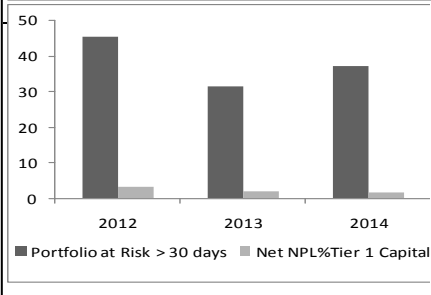
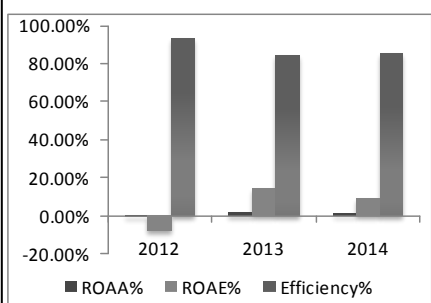
May 6, 2015

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

**Analysts:** Waqas Munir (FRM)  
Maham Qasim

Category	Latest	Previous
Entity	A/A-1 Apr 29, '15	A/A-1 Apr 29, '14
Outlook	Positive Apr 29, '14	Stable Apr 29, '14

### Key Financial Trends



	2012	2013	2014
Net Advances (Rs. in b)	2.97	3.45	4.42
Deposits (Rs. in b)	6.57	7.81	8.75
Deposit Cost (%)	8.5	7.3	7.3
Profit / (Loss) (Rs. in m)	(63)	143	109
Equity (Rs. in m)	987	1109	1237
CAR (%)	26.2	24.0	24.1
Liquid Assets % Deposits & Borrowings	69.9	68.7	60.9
Net Infection (%)	1.0	0.7	0.5

### Rating Rationale

Ratings assigned to The First MicrofinanceBank Limited - Pakistan (FMFB-P) take into account the bank's association with Aga Khan Development Network along with presence of international development finance organizations as its sponsors. A leading commercial bank has shown interest for acquisition of a majority shareholding in the bank by way of equity participation. A total of Rs. 2.0b is expected to be injected as fresh equity over the next three years; this is expected to significantly strengthen the capital base of the institution; Capital Adequacy Ratio of 24.1% was reported at end-FY14 (FY13: 24%).

While being one of the oldest microfinance banks in the country, growth of FMFB-P had remained subdued over the period FY10 to FY11; following the change at the helm and various measures undertaken to strengthen the control infrastructure, pace of growth has picked up lately. Microcredit portfolio increased by around 28% during FY14 with growth mainly fuelled by products entailing individual lending. As a result of a product mix rationalization strategy, microcredit portfolio now reflects almost an equal mix between EMI and bullet loans. Exposure to agriculture and livestock sector represented around 40% of the GLP at end-FY14. Proportion of gold lending has increased on a timeline basis and is projected to represent 13% of GLP at end-FY15. In order to measure changes in the socioeconomic indicators of clients, a Poverty index was rolled out across the branch network. Incremental infection stood at 3.4% vis-à-vis 4.2% in the preceding year; this is amongst the highest in relation to peer banks.

With an overall target of doubling the balance sheet size in the next five years, the bank has put in place aggressive growth targets. The bank's internal control infrastructure will be tested at higher operating activity levels. Management envisages continuing product/geographical diversification with focus on individual lending and increasing share of loans involving higher amounts; new loan products for new market segments are also being developed. In terms of geographical expansion, exposure is projected to be curtailed in areas vulnerable to climate risk while growth will be driven from central and southern Punjab and Gilgit-Baltistan. A sizeable investment is planned in the IT infrastructure of the bank to support its growth plans. The bank has selected "Oracle Flexcube" as a core banking software which will replace the existing decentralized software over the next two years.

The bank continues to fund its balance sheet with deposits while Advances to Deposit ratio (ADR) remained lowest among the MFBs. Deposit base increased by around 12% while deposit mix largely remained unchanged. Liquidity profile of the institution remains strong with liquid asset representing around 61% of total deposits and borrowings. Given the projected increase in ADR, liquid assets in relation to deposit and borrowings are likely to decline over time.

While basic earnings of the bank increased to Rs. 188m (FY13: Rs. 165m), higher provisioning against microcredit portfolio, subdued recoveries against written off loans and reduced tax benefit availed led to lower profitability during FY14. Expanding microcredit portfolio and prudent increase in average loan sizes are expected to drive profitability in the coming years. Additionally, the institution plans to utilize the information technology platform to improve operational efficiencies.

### Overview of the Institution

FMFB-P was incorporated in 2001 and provides microfinance banking services to the poor and underserved segment of the society. At end-FY14, FMFB-P operated with 136 business locations comprising 100 branches/permanent booths/ point of links and 36 Pakistan Post Office (PPO) Sub Offices. Financial statements for FY14 were audited by M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants **JCR-VIS**