

## RATING REPORT

### FINCA Microfinance Bank (FINCA MFB)

**REPORT DATE:**

May 2, 2016

**RATING ANALYSTS:**

Waqas Munir, FRM

[waqas.munir@jcrvis.com.pk](mailto:waqas.munir@jcrvis.com.pk)

Maham Qasim

[maham.qasim@jcrvis.com.pk](mailto:maham.qasim@jcrvis.com.pk)

#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Outlook</b>	Positive		Positive	
<b>Rating Date</b>	April 26, '16		April 30, '15	

#### COMPANY INFORMATION

**Incorporated in 2008**

**External auditors:** M/s M. Yousuf Adil Saleem & Co.

**Public Limited Company**

**Chairperson of the Board:** Ms. Zar Wardak

**CEO:** Mr. Mudassar Aqil

**Key Shareholders (with stake 5% or more):**

FINCA Microfinance Coopertief U.A - 86.4%

Kashf Holdings(Private) Limited – 5.2%

#### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Micro Finance Institutions (Oct 2003)

<http://www.jcrvis.com.pk/images/MicroFinance.pdf>

## FINCA Microfinance Bank (FINCA MFB)

### OVERVIEW OF THE INSTITUTION

FINCA MFB, previously Kashf Microfinance Bank Limited, was incorporated in June 2008 as a public limited company under the Companies Ordinance, 1984. Subsequent to takeover by FINCA International, the name of the bank was changed from Kashf Microfinance Bank Limited to FINCA MFB with effect from November 25, 2013.

### RATING RATIONALE

The ratings take into account association of FINCA Microfinance Bank (MFB) with FINCA International. Sponsor support has been demonstrated in the outgoing year with fresh equity injection of Rs. 485.1m to support bank's growing operations. The bank also benefits from FINCA's vast global experience in the microfinance sector through its various subsidiaries. The ratings also take into account continuing improvement in the operating performance of the institution evident by improved profitability indicators on the back of growing micro credit portfolio. Asset quality indicators witnessed some deterioration during the outgoing year; maintaining sound asset quality continues to remain critical to uphold positive momentum in internal capital generation.

In line with sector trends, the bank's micro credit portfolio has grown at a fast pace in the recent years with its market share, in terms of gross loan portfolio, standing at 9.8% at end-FY15 (FY14: 10.8%). Enterprise lending, entailing large sized micro finance loans, remains the forte of the bank. Gross microcredit portfolio increased by 36% during FY15 against the sector growth of 50%. There were notable changes in the product mix with proportion of gold backed loans declining on a timeline basis— the management intends to cap gold backed loans at around 15% of the overall micro-credit portfolio. Asset quality indicators deteriorated during the outgoing year attributable to regulatory restriction on gold auction for several months during FY15; this was removed towards the end of FY15. In the coming years, the bank is targeting an aggressive growth in its microcredit portfolio by further increasing the proportion of enterprise lending.

Deposits continue to be bank's primary source of funding and increased by around 30% during FY15 against the sector growth of 52%. Concentration in deposit base, though reduced, continues to remain high as top 10 depositors reflected around 23% of overall deposit base. Branch wise deposit concentration is also on the higher side. Efforts are underway to rationalize this by building a broad base deposit mix; however till the time such granularity is achieved, the bank may need to maintain a larger liquidity cushion on the balance sheet. Liquid assets represented around one-third of deposit and borrowings at end-FY15.

Given decline in markup rates in some products and progression of existing clients into next loan cycles, yield on micro-credit portfolio declined, however remained higher in comparison to peer MFBs on account of higher proportion of EMI based loans. Spreads of the institution are expected to largely sustain in the coming years. Interest income augmented during FY15 on account of volumetric growth in the micro credit portfolio. Overheads of the institution, albeit improving on a year-on-year basis, continue to remain relatively high. With higher core income, Operating Self Sufficiency (OSS) was reported higher at 112% during FY15 as compared to 102% in preceding year.

Credit Risk Officers are being removed from branches to inculcate risk culture among lending staff and to improve turnaround time. The risk management department intends to limit its role in supervisory capacity. Under the branchless banking initiative, the bank plans to offer mobile wallet services while digitalization of core processes is also envisaged.

The management team of FINCA MFB comprises seasoned resources with extensive experience in the microfinance sector. The team has depicted stability in the recent years. The institution also benefits from the diversity of experience of its Board members.

---

**FINCA Microfinance Bank (FINCA MFB)****Annexure I**

---

**Profile of the incoming directors****Mr. Syed Asad Mahmood**

Mr. Mahmood serves as a vice president, social enterprise and financial innovation at FINCA International. Prior to joining FINCA International, he served as a Managing Director at Deutsche Bank. He holds a Civil Engineering degree from Rutgers University and an MBA in International Finance from Temple University.

**Mr. Farid Ahmed Khan, CFA**

Mr. Farid is the CEO of ABL Asset Management since 2010. He carries more than 22 years experience of capital markets both locally and internationally. He serves on the Board of NADRA Authority and is also a member of Corporate Leaders Advisory Board of IBA, Karachi. He holds an MBA in Finance from Institute of Business Administration, Karachi and got his CFA qualification in 1998.

**FINCA Microfinance Bank (FINCA MFB)****Annexure II****Board Committee Composition**

	<b>No. of meetings during FY15</b>	<b>Members of the Committee</b>
Audit Committee	4	Mr. Arif Masud Mirza (C) Ms. Nadezhda Gordeeva Mr. Dane Steven McGuire
Human Resource and Compensation Committee	1	Ms. Zar Wardak (C) Mr. Arif Masud Mirza Mr. Mudassir Aqil
Risk and Compliance Committee	2	Ms. Roshaneh Zafar (C) Ms. Zar Wardak Mr. Dane Steven McGuire

---

**FINCA Microfinance Bank (FINCA MFB)****Annexure III**

---

**Profile of Senior Management Team****CEO**

Mr. Mudassar Aqil joined FINCA MFB as CEO in 2011. Mr. Aqil holds an MBA degree from Salisbury University, Maryland and was previously associated with Bank Alfalah Limited. He serves as a director on the Board of Pakistan Microfinance Network.

**COO**

Before joining FINCA MFB, Mr. Shahid Maqsood served Bank Alfalah Limited in the capacity of country head in Afghanistan and Bahrain. He has also worked with Kashf Foundation in the past. Mr. Maqsood holds an MBA degree in finance and banking diploma from the Institute of Bankers Pakistan.

**CFO**

Mr. Dmitry Bogatyrev joined FINCA MFB in July 2014. He has worked in various capacities in audit and finance with Kyrgyz Investment & Credit Bank, ProCredit Bank and Bank of Asia JSCB. Holding about 15 years of experience, Mr. Bogatyrev is an MBA and a Certified Internal Auditor.

**Head - Risk**

Mr. Haider Ali joined the bank in 2014 and carries more than 10 years of experience. Previously he has been associated with Bank Alfalah Limited in Karachi and Kabul in various risk management positions. Mr. Ali holds an MBA degree in Finance and is currently pursuing ACCA.

**Head - Institutional Sales and New Initiatives**

Mr. Farhan Haider carries more than 17 years of banking experience in corporate, commercial, SME and Microfinance sectors with expertise in credit function.

**Head - Business Banking**

Mr. Muhammad Qaiser carries more than 10 years of experience in microfinance industry. He holds a Master degree in Sociology and has also done post graduate diploma in Development Support Communication from University of the Punjab, Lahore.

**Head – Systems, Operations and Internal Control**

Ms. Noshina Bukhari carries more than 15 years of experience in banking operations, trade finance and SME finance. She holds a Masters in public administration from Quaid-e-Azam University, Islamabad.

**Head – Training and Organizational Development**

Mr. Mahmood Shamsheer joined from Kashf Foundation in 2010. He carries around 10 years of experience in human resource and is a graduate of the University of Southern Queensland, Australia and has an Executive MBA from the Lahore University of Management Sciences.

**Head - Marketing, Research and Development, Business Intelligence and Customer Experience**

Mr. Fawad Younas, joined the bank during 2014 and carries more than 20 years of experience in key management positions. Mr. Younas holds an MBA degree.

**Head - Information security**

Ms. Nuvin Jatala joined FINCA MFB in Nov, 2007. She carries more than 13 years of experiences in information technology and holds a Bachelor of Engineering in Computer Systems from N.E.D University of Engineering & Technology, Karachi and Masters in Computer Science from SZABIST, Karachi.

**Head – Compliance**

Compliance function is headed by Mr. Asif Javed who carries more than 15 years of commercial banking experience. Mr. Asif holds an MBA degree from Al-Khair University.

**Head – Human Resource**

Mr. Aqib Irshad serves as Head of Human Resources and carries more than 16 years of experience in human resource related functions.

## FINCA Microfinance Bank (FINCA MFB)

## Annexure IV

FINANCIAL SUMMARY			(amounts in Rs. Millions)
<b>BALANCE SHEET</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>
Net Investments	1,039.2	447.5	397.8
Net Financing	5,418.7	3,994.7	2,019.2
Total Assets	8,451.9	6,380.5	3,978.9
Total Deposits	6,057.4	4,656.2	2,735.5
Borrowings	115.0	201.1	-
Tier-1 Equity	1,915.2	1,263.9	1,091.6
Net Worth	1,933.5	1,282.2	1,104.5
<b>INCOME STATEMENT</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>
Net Mark-up Income	1,365.1	885.9	480.5
Net Provisioning / (Reversal)	105.7	47.8	16.3
Non-Markup Income	326.2	235.2	130.5
Operating Expenses	1,322.0	1,030.6	589.8
Profit	166.7	176.1	1.4
<b>RATIO ANALYSIS</b>	<b>Dec 31, 2015</b>	<b>Dec 31, 2014</b>	<b>Dec 31, 2013</b>
Gross Infection (%)	2.3%	0.9%	0.7%
Incremental Infection (%)	3.0%	1.8%	1.3%
Provisioning Coverage(%)	11.4%	23.0%	27.6%
Net Infection (%)	2.1%	0.7%	0.5%
Net NPLs to Tier-1 Capital (%)	5.8%	2.2%	0.9%
Capital Adequacy Ratio (%)	30.5%	34.3%	58.8%
Cost of Funds (%)	9.2%	10.1%	11.8%
Markup Spreads (%)	21.9%	21.5%	18.0%
OSS (%)	111.8%	101.8%	99.0%
ROAA (%)	2.2%	3.4%	-
ROAE (%)	10.5%	15.0%	-
Liquid Assets to Total Deposit & Borrowings (%)	29.3%	28.1%	55.8%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Annexure V**

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.



REGULATORY DISCLOSURES		Annexure VI			
<b>Name of Rated Entity</b>	FINCA Microfinance Bank (FINCA MFB)				
<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>				
	26-April-16	A-	A-2	Positive	Reaffirmed
	30-April-15	A-	A-2	Positive	Maintained
	30-April-14	A-	A-2	Stable	Upgrade
	30-April-13	BBB+	A-3	Stable	Upgrade
	09-May-12	BBB-	A-3	Rating Watch - Developing	Downgrade
	29-April-11	BBB	A-3	Rating Watch - Developing	Maintained
<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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				