RATING REPORT

The First MicroFinanceBank Limited (FMFB)

REPORT DATE:
May 5, 2017

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*April 28th, '17*		*April 28th, '16*	

COMPANY INFORMATION

Incorporated in 2001	**External auditors:** M/s Ernst & Young Ford Rhodes Sidat Hyder - Chartered Accountants
Public Limited Company	**Chairman of the Board**: Mr. Rayomond Kotwal
	President & CEO: Mr. Muhammad Amir Khan
Key Shareholders (with stake 5% or more):	
Habib Bank Limited (HBL): 50.5%	
Aga Khan Agency for Microfinance (AKAM): 20.9%	
Aga Khan Rural Support Programme (AKRSP): 11.0%	
International Finance Corporation (IFC): 8.8%	
Japan International Cooperation Agency (JICA): 8.8%	

APPLICABLE METHODOLOGY(IES)

Methodology: Micro-Finance Banks (May 2016)
http://jcrvis.com.pk/kc-meth.aspx

The First MicroFinanceBank Limited (FMFB)

OVERVIEW OF THE INSTITUTION

FMFB was incorporated in 2001 as a public limited company under the Companies Ordinance, 1984 and provides microfinance banking services to the poor and underserved segment of the society. The bank operates through a network of 159 business locations at end-FY16.

Profile of Chairman

Mr. Rayomond Kotwal has over 30 years of experience. Mr. Kotwal is currently the Chief Financial Officer of Habib Bank Limited.

Profile of CEO

Mr. Muhammad Amir Khan brings over 22 years of extensive experience in consumer and commercial banking with the Standard Chartered Bank, ABN Amro Bank and Royal Bank of Scotland.

Financial Snapshot

Net equity: 2016 – Rs.3.8b, 2015 – Rs.1.5b

Net profit: 2016 – Rs. 316.2m; 2015: Rs.311.7m

RATING RATIONALE

Ratings of The First MicroFinanceBank Limited (FMFB) incorporate its association with Habib Bank Limited (HBL) – the largest commercial bank in Pakistan – along with Aga Khan Development Network and other international finance institutions. With an equity injection of Rs. 2b during 2016, HBL has acquired controlling interest in the bank while stake of other shareholders has been diluted. Resultantly, capitalization levels improved with Capital Adequacy Ratio increasing to 39.4% (2015: 22.2%).

Gross loan portfolio of the bank increased by 46.7% and amounted to Rs. 8.3b (2015: Rs. 5.6b) at end-2016. However, sector market share in terms of GLP remained largely stable and closed at 6.0% (2015: 6.2%). While lending product suite remained the same, minor changes were witnessed in some product specifications. Livestock and agri loans continue to have the largest share in the portfolio. With the management's focus on higher ticket loans and gradual progression of clients to next loan cycle, average loan size and average disbursement size both increased and are above industry average. Portfolio quality indicators exhibited improvement during 2016.

Deposits continue to represent primary source of funding; deposit base increased by 26.7% by end-2016. The deposit mix witnessed some changes with proportion of current and saving accounts increasing to 48.5% (2015: 44.9%) by end-2016. Concentration in deposits increased during the year; granularity in the depositor base is required in order to mitigate the concentration risk. Overall liquidity profile of the bank remained sound with liquid assets representing 60.5% (2015: 55.0%) of total deposits and borrowings at end-2016. Going forward, the bank intends to gradually increase advances to deposit ratio.

FMFB managed to increase its earning assets mainly on the back of higher loan and investment portfolios. Resultantly, total mark-up income stood higher during 2016. In line with higher proportion of CASA and lower benchmark rates, cost of the funds of the institution declined reflecting positively on spreads. Operating expenses increased considerably in 2016 mainly on account of one-off adjustment in salaries and benefits in line with market rates; Operating Self-Sufficiency (OSS) remained stable at 121.3% (2015: 120.2%) on the back of considerable increase in core income. Despite increase in operating expenses, net profit was maintained on the back of higher core income and lower provisioning expense.

The bank has introduced new Core Banking System (CBS) – Oracle Flexcube. The new CBS provides flexibility to the bank to cater to the growing needs of customers. With the inclusion of a new shareholder, several changes were witnessed at the board level. Notable positive changes were also witnessed at the senior management level. Stability in management is pivotal in effective implementation of the business strategy.

Financial Summary

FINANCIAL SUMMARY			(Amounts in Rs. Millions)
BALANCE SHEET	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Net Investments	5,932	4,030	4,273
Net Financing	8,183	5,526	4,417
Total Assets	16,878	12,187	10,674
Total Deposits	12,237	9,661	8,750
Borrowings	298	646	290
Tier-1 Equity	3,828	1,516	1,208
Net Worth	3,831	1,544	1,237
INCOME STATEMENT	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Net Mark-up Income	1899	1,378	1,065
Net Provisioning / (Reversal)	16	73	110
Non-Markup Income	171	133	124
Operating Expenses	1560	1,050	977
Profit After Tax	316	312	109
RATIO ANALYSIS	**31-Dec-16**	**31-Dec-15**	**31-Dec-14**
Gross Infection (%)	0.7	1.6	0.8
Incremental Infection (%)	0.4	2	3.4
Provisioning Coverage (%)	23.9	35.7	45.8
Net Infection (%)	0.5	1.0	0.5
Net NPLs to Tier-1 Capital (%)	1.2	3.8	1.7
Capital Adequacy Ratio (%)	39.4	22.2	24.1
Cost of Funds (%)	5.4	6.4	7.2
Markup Spreads (%)	14.6	13.9	11.5
OSS (%)	121.3	120.2	103.1
ROAA (%)	2.2	2.8	1.1
ROAE (%)	11.0	22.9	8.8
Liquid Assets to Total Deposit &Borrowings (%)	60.5	55.0	60.6

ISSUE/ISSUER RATING SCALE & DEFINITIONS

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

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

(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

'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

Name of Rated Entity	The First MicroFinanceBank Limited (FMFB)
Sector	Micro Finance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28/04/2017	A+	A-1	Stable	Reaffirmed
28/04/2016	A+	A-1	Stable	Upgrade
29/04/2015	A	A-1	Positive	Maintained
29/04/2014	A	A-1	Stable	Reaffirmed
30/04/2013	A	A-1	Stable	Reaffirmed
30/04/2012	A	A-1	Stable	Downgrade
28/04/2011	A+	A-1	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	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.
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