RATING REPORT

The First MicroFinance Bank Limited (FMFB)

REPORT DATE:
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RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A+	A-1	A	A-1
Rating Outlook	Stable		Positive	
Rating Date	*April 28th, '16*		*April 29th, '15*	

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. Akbar Ali Pesnani
	President & CEO: Mr. Amir Masood Khan
Key Shareholders (with stake 5% or more):	
Aga Khan Agency for Microfinance (AKAM): 42.3%	
Aga Khan Rural Support Programme (AKRSP): 22.2%	
International Finance Corporation (IFC): 17.8%	
Japan International Cooperation Agency (JICA): 17.8%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Micro Finance Institutions (Oct 2003)
http://www.jcrvis.com.pk/images/MicroFinance.pdf

The First MicroFinance Bank Limited (FMFB)

OVERVIEW OF THE INSTITUTION

FMFB was incorporated in 2001as 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 151 business locations at end-FY15.**

RATING RATIONALE

Ratings assigned to The First MicroFinance Bank Limited (FMFB) takes into account bank's association with Aga Khan Development Network along with presence of international development finance organizations as its sponsor. Capitalization indicators of the bank are expected to strengthen manifold with the proposed equity injection of Rs. 2b for a 50.5% stake in the bank by HBL, country's largest commercial bank, while ownership stake of the existing shareholders is expected to be diluted. HBL is also expected to provide technical assistance to FMFB. Ratings also take into account ongoing improvement in the operating performance of the institution.

With microcredit portfolio of the bank growing at a slower pace in comparison to microfinance banking sector, market share, in terms of gross loan portfolio, was reported lower at 10.0% (FY14: 12%) at end-FY15. Product mix largely remained unchanged with share of agri and livestock loans representing around 47% (FY14: 46%) of loan portfolio. The bank offers both group and individual based loans with a higher share of the former. Average loan size of the institution is lower as compared to some of the peer microfinance banks; this may entice borrowers to borrow from multiple institutions. The management plans to mitigate this by gradually increasing the proportion of upper-end microfinance product offering higher loan amounts. Asset quality indicators witnessed some weakening on account of political issue of loan waivers in Chitral region; though remained within prudent limits.

The bank primary source of funding remains deposits with deposit base growing by around 10% during FY15. The deposit mix witnessed some changes with proportion of current and saving accounts increasing to 45% (FY14: 39%). Concentration related indicators of the bank compares favorably to some of the peer MFBs. Overall liquidity profile of the institution remained sound with liquid assets representing 55% (FY14: 61%) of total deposits & borrowings at end-FY15.

Markup income of the banks increased on a timeline basis on account of volumetric growth in earning asset base. In-line with lower benchmark rates, cost of the funds of the institution reduced reflecting positively on the spreads. Overheads continue to rationalize on account of growth in balance sheet footing while Operating Self Sufficiency (OSS) was reported higher at 120.3% (FY14: 103.1%) during FY15. Beginning FY16, bank has reduced pricing of high end loan products by upto 250 basis points; the impact of lower yield on microcredit portfolio is expected to be offset by growth in loan portfolio and additional income from the deployment of proposed equity. With higher earning asset base, controlled growth in operating expenses and lower provisioning expense, profit after tax of the bank increased threefold to Rs. 311.7m (FY14: Rs. 109.4m) during FY15.

Management's initiative to implement "Oracle Flexcube" is expected to provide a centralized core banking platform while also strengthening the internal control infrastructure of the bank. Senior management team of the bank has depicted stability and comprises experienced professionals. The bank also benefits from the diversity of its Board members.

First Microfinance Bank Pakistan (FMFB-P) Annexure I

FINANCIAL SUMMARY			(amounts in Rs. Millions)
BALANCE SHEET	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2013**
Net Investments	4,030	4,273	4,051
Net Financing	5,526	4,417	3,450
Total Assets	12,187	10,674	9,514
Total Deposits	9,661	8,750	7,815
Borrowings	646	290	296
Tier-1 Equity	1,516	1,208	1,102
Net Worth	1,544	1,237	1,109
INCOME STATEMENT	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2013**
Net Mark-up Income	1,377	1,065	912
Net Provisioning / (Reversal)	73	110	59
Non-Markup Income	132	124	98
Operating Expenses	1,050	977	839
Profit After Tax	312	109	143
RATIO ANALYSIS	**Dec 31, 2015**	**Dec 31, 2014**	**Dec 31, 2013**
Gross Infection (%)	1.6	0.8	0.9
Incremental Infection (%)	2.0	3.4	4.2
Provisioning Coverage (%)	35.7	45.8	25.3
Net Infection (%)	1.0	0.5	0.7
Net NPLs to Tier-1 Capital (%)	3.8	1.7	2.1
Capital Adequacy Ratio (%)	23.7	24.1	24.0
Cost of Funds (%)	6.2	7.2	7.3
Markup Spreads (%)	14.0	11.5	10.5
OSS (%)	120.3	103.1	103.0
ROAA (%)	2.8	1.1	1.7
ROAE (%)	23.0	8.8	14.5
Liquid Assets to Total Deposit &Borrowings (%)	55.0	60.6	68.7

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

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 — Annexure III

Name of Rated Entity	First Microfinance Bank Pakistan (FMFB-P)
Sector	Micro Finance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
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