RATING REPORT

The First MicroFinanceBank Limited (FMFB)

REPORT DATE:
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RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*April 30th, '18*		*October 31st, '17*	

COMPANY INFORMATION	
Incorporated in 2001	**External auditors:** M/s A. F. Ferguson & Co., Chartered Accountants, a member firm of the PwC network
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)

JCR-VIS Entity Rating Criteria: Micro Finance Banks (May 2016)
http://jcrvis.com.pk/docs/Meth-MFBs201606.pdf

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 186 business locations at end-FY17.

Profile of Chairman

Mr. Rayomond Kotwal has over 30 years of experience. Mr. Kotwal is currently the CFO 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

Total assets: FY17– Rs. 25.9b; FY16 – Rs. 16.9b

Total equity: FY17 – Rs.4.5b, FY16 – Rs.3.8b

Net profit: FY17 – Rs. 686m; FY16: Rs. 316m

RATING RATIONALE

The ratings assigned to The First MicroFinanceBank Limited (FMFB) take into account its association with Habib Bank Limited (HBL) – the largest commercial bank in Pakistan – along with Aga Khan Development Network and other international finance institutions. The ratings also derive strength from ongoing improvement in the operating performance exhibited by sustained asset quality indicators, rationalized operating expenses and increased profitability providing positive momentum to bank's internal capital generation. Moreover, the ratings incorporate bank's prospective approach towards growth reflected by ongoing initiatives towards enhanced digitalization and strengthening of core functions.

Key Rating Drivers

Business volume & Portfolio Indicators: With growth manifested in bank's microcredit portfolio outpacing growth of microfinance sector, market share, in terms of gross loan portfolio, improved to 7.2% (FY16: 6.0%) by end-FY17. Product suite was enhanced with the introduction of three new products during the outgoing year, with the aim of serving the untapped market segments and reducing product concentration risk. The sectoral portfolio concentration remained predominated by agri and livestock segments; the management intends to maintain the current mix, going forward. However, ratings draw comfort from the bank's satisfactory track record in agriculture and livestock financing coupled with vigilant portfolio monitoring. The off-take of higher ticket loans introduced will be assessed over due course. In terms of lending structure, micro-credit portfolio is almost equally split between bullet and Equal Monthly Installments (EMI) loans. With gradual progression of clients to successive loan cycles, average loan size and average disbursement size increased. On the contrary, the same was still recorded slightly lower than industry average which may induce customers towards risk of multiple borrowings. Further, the bank has managed to improve its healthy client retention. On a timeline basis, overall asset quality indicators remained one of the lowest among peer microfinance banks (MFBs); demonstrating modest credit risk emanating from loan portfolio.

Funding & Liquidity: Deposits remained the primary source of funding for the bank at end-FY17. FMFB's deposit base witnessed sizeable growth on timeline basis primarily on account growth in fixed deposits mainly owing to launch of diamond TDR product. In line with the aforementioned, deposit concentration risk exhibited increase; hence, granularity is required with development of broader depositor base. The bank remains comfortably placed in terms of liquidity indicators owing to presence of sizeable proportion of liquid assets, coupled with one of the lowest advances to deposit ratio recorded amongst peers. Going forward, the bank plans to increase current account deposit base through increased deployment of liability relationship staff at potential locations to rationalize cost of funds.

Profitability & Capitalization: Growth in total markup bearing assets in line with increased market penetration and expansion in outreach positively reflected into bank's bottom line. Operating Self Sufficiency was reported higher at 133.4% (FY16: 121.3%) on the back of considerable increase in core income and rationalization of operating expenses. Retention of profits, in turn, resulted in augmentation of capital base. The bank's Capital Adequacy Ratio (CAR) remained well above the minimum regulatory requirement of 15%, signifying bank's ability to increase its risk weighted assets. Going forward, the bank plans to reduce pricing of loans; the impact of lower yield on microcredit portfolio is expected to be offset by projected increase in average processing fee and growth in loan portfolio.

Branchless Banking (BB): Commercial launch of 10 digital access channels was completed during the review period. As per the Digital Financial Services (DFS) strategy, the bank plans to further digitize and automate its existing branch operations with the introduction of Loan Origination System whereby bio-metric powered tablets will be used for extending loans. DFS is expected to improve customer experience along with provision of operational efficiencies for the bank. The BB operations are projected to contribute towards deposit base in FY18 and onwards.

The First MicroFinanceBank Limited (FMFB) Annexure I

FINANCIAL SUMMARY			(amounts in Rs. Millions)
BALANCE SHEET	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2017**
Net Investments	4,030	4,628	5,934
Net Financing	5,526	8,183	14,395
Total Assets	12,187	16,878	25,941
Total Deposits	9,661	12,237	20,887
Borrowings	646	298	-
Tier-1 Equity	1,516	3,828	4,506
Net Worth	1,544	3,831	4,506
INCOME STATEMENT	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2017**
Net Mark-up Income	1,377	1,899	2,863
Net Provisioning / (Reversal)	73	16	92
Non-Markup Income	132	171	302
Operating Expenses	1,050	1,560	2,062
Profit After Tax	312	316	686
RATIO ANALYSIS	**Dec 31, 2015**	**Dec 31, 2016**	**Dec 31, 2017**
Gross Infection (%)	1.6	0.7	0.7
Incremental Infection (%)	2.0	0.4	0.7
Provisioning Coverage (%)	35.7	23.9	23.2
Net Infection (%)	1.0	0.5	0.5
Net NPLs to Tier-1 Capital (%)	3.8	1.2	1.6
Capital Adequacy Ratio (%)	23.7	39.4	26.5
Cost of Funds (%)	6.2	5.4	5.6
Markup Spreads (%)	14.0	14.6	14.7
OSS (%)	120.3	121.3	133.4
ROAA (%)	2.8	2.2	3.4
ROAE (%)	23.0	11.0	16.5
Liquid Assets to Total Deposit & Borrowings (%)	55.0	60.5	46.8

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	The First MicroFinanceBank Pakistan (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				
	30/04/2018	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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