

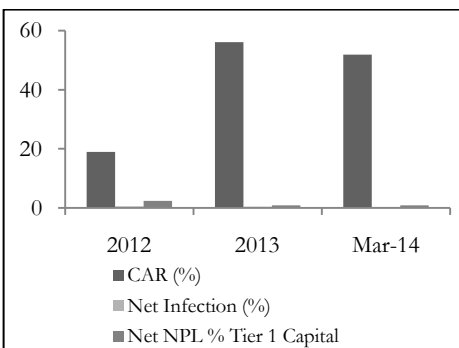
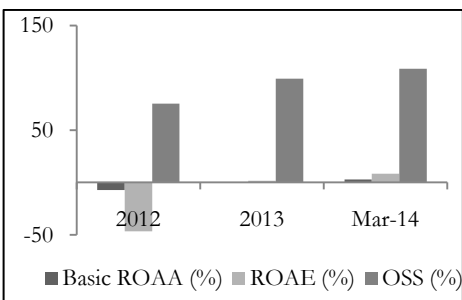
FINCA Microfinance Bank Limited (formerly Kashf Microfinance Bank Limited)

Chairman: Ms. ZarWardak; Chief Executive Officer: Mr. Mudassar Aqil

May 7, 2014

Analysts: Waqas Munir, FRM
Syed Adil Hussain

Category	Latest	Previous
Entity	A-/A-2 <i>Apr 30, '14</i>	BBB+/A-3 <i>Apr 30, '13</i>
Outlook	Stable	Stable



	2012	2013	1Q14
Net Financings (Rs. in b)	1.1	2.0	2.4
Deposits (Rs.in b)	1.7	2.7	3.0
Deposit Cost (%)	8.9	9.9	9.9
Profit / (Loss) (Rs.in m)	(136.5)	1.4	23.3
Equity (Rs. in b)	0.27	1.1	1.1
CAR (%)	19.0	58.8	51.9
Liquid Assets % Deposits & Borrowings	34.1	50.8	41.5
Net Infection (%)	0.56	0.47	0.38

Rating Rationale

The assigned ratings take into account strong sponsor profile of FINCA Microfinance Bank Limited (FINCA MFB). Being part of a large global network, FINCA MFB stands to benefit from a multi-jurisdictional experience of FINCA International. Changes have been witnessed in the management structure inline with global FINCA practices including implementation of a new organogram, induction of Chief Operating Officer and formation of a Management Board. Moreover, senior positions in Risk Management have been created while an organization wide Enterprise Risk Management infrastructure is also envisaged. Position of Chief Finance Officer has been filled and a dedicated resource has been hired for Marketing and Alternative Delivery Channels. Moreover, there have been internal rotations of resources. Management team has depicted stability in recent years and comprises experienced professionals.

Market share of the bank in terms of deposits improved to 8.3% at end-FY13 (FY12: 7.4%). With a deposit led funding strategy, deposit base of the bank augmented with growth mainly experienced in term deposits increasing the overall cost of deposits. Concentration in deposit base continues to be on the higher side. At end 1Q14, liquid assets represented 41.5% of deposits; such liquidity levels may be warranted till such time the bank is able to achieve broad based deposit mix.

Given focus on increasing scale, microcredit portfolio of the bank increased to Rs. 2.0b at end-FY13 (FY12: Rs. 1.1b) and further to Rs. 2.4b at end-1QFY14. The bank specializes in cash flow based individual loans and mainly targets urban markets. To tap agriculture financing, Zaraqarza was introduced with a bullet repayment structure linked to the crop cycles; quantum of agriculture financing is expected to gradually increase. Around 95% of the microcredit portfolio is Equal Monthly Installment (EMI) based. Proportion of gold backed loans has largely remained unchanged at around one-third of the overall portfolio. Various policy relaxations were made in KamyabKarobariKarza, the flagship product of the bank, in order to increase business volumes and improve retention and productivity; impact of these changes on credit quality will be tested over time. Credit risk management function is considered well established while asset quality indicators have so far remained within prudent limits.

With deployment of equity in earning assets and higher microcredit portfolio, core earnings augmented during FY13. Larger client base also increased the loan processing fee which continues to supplement profitability. Spreads of the bank have remained strong despite increase in cost of deposits as yield on advances portfolio is high. With most of the loan portfolio being EMI based, the bank enjoys significantly higher yield on loans vis-à-vis peers. High overheads had so far constrained profitability; the bank has been able to marginalize pre-tax loss in the out-going year. The management attributes the high overheads to its business model. Further increase in core lending activities may allow the bank to rationalize its overheads costs, which are currently considered on the higher side, despite having improved on a timeline basis. The management is projecting to post profits in the on-going year.

Following the Rs. 825m equity injection, capital base of the bank improved to Rs. 1.1b at end-March, 14 (FY13: Rs. 1.1b; FY12: Rs. 0.3b). This also led to improvement in CAR, which stood at 51.9% at end-1QFY14 (FY13: 58.8%; FY12: 19.0%), depicting significant room for growth.

Overview of the Institution

FINCA Microfinance Bank Limited (FINCA MFB), formerly Kashf Microfinance Bank Limited, commenced operations in October, 2008 under the Microfinance Institutions Ordinance 2001. The bank provides microfinance services to the poor and under-banked segments of the society. The bank has presence in more than 70 cities across the country. External auditors of the bank for FY13 were M/s M. Yousuf Adil Saleem & Co. **JCR-VIS**

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
30-Apr-14	A-	Stable	A-2	Upgrade
30-Apr-13	BBB+	Stable	A-3	Upgrade
09-May-12	BBB-	Rating Watch - Developing	A-3	Downgrade
29-Apr-11	BBB	Rating Watch - Developing	A-3	Maintained
24-Jan-11	BBB	Rating Watch - Developing	A-3	Maintained
06-Sep-10	BBB		A-3	Rating Watch - Developing
30-Apr-10	BBB	Stable	A-3	Reaffirmed