



The Pakistan Credit Rating Agency Limited

Rating Report

Apna Microfinance Bank Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
04-Dec-2018	BBB+	A3	Stable	Maintain	-
28-May-2018	BBB+	A3	Stable	Upgrade	-
10-Nov-2017	BBB	A3	Stable	Maintain	YES
10-May-2017	BBB	A3	Stable	Downgrade	-
07-Apr-2016	BBB+	A3	Positive	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings capture improved risk profile of the bank. Compliance status of the bank has been improved, except capital adequacy ratio (CAR), for which the sponsors injected PKR ~200mln since May'18 to render a bridge to the gap. Management's committed efforts to arrest attrition in loan portfolio is reflected in disbursement of fresh loans to quality customers accompanied by stricter follow-ups. Meanwhile, stringent efforts to recover older non-performing loans (NPLs) are being carried out. This has enabled the bank to subside its infection ratio considerably. Lately, the management has completely revamped the bank's operations including (i) cleansing of HR base (ii) re-building the organizational structure incorporating control monitors (iii) overhauling of IT infrastructure (iv) improving the overall control environment with revisiting policies and procedures and (v) refurbishing the credit mechanism. Outcome of the stated efforts has culminated into positive results, including profit generation since Jan-18. The ratings take into account sponsors' cognizance of the situation and commitment to turnaround the bank, wherein considerable achievement has been achieved. Financial risk profile is, however, reflected by stretched liquidity position, necessitating vigilant management approach.

The ratings are dependent upon recovery of the older infected loans, alongside maintaining asset health of fresh disbursements. Compliance with CAR is essential. Meanwhile, improved profitability is of significance and any further deterioration in CAR and/or erosion of profitability will have negative impact on the ratings.

Disclosure

Name of Rated Entity	Apna Microfinance Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology MFI (Jun-18)
Related Research	Sector Study Microfinance Bank(Apr-18)
Rating Analysts	Nadeem sheikh nadeem.sheikh@pacra.com +92-42-35869504

The Pakistan Credit Rating Agency Limited

Profile

Structure Apna Microfinance Bank Limited (“the bank”) was incorporated in May 2003 as a Public Limited Company under the Companies Act, 2017 (formerly Companies Ordinance, 1984). The bank is listed on Pakistan Stock Exchange (PSX) since the commencement of its operations in 2005.

Background In June-15, the bank was granted a national level license subsequent to completion of regulatory capital requirement. Presently, the bank operates with a network of 116 branches spread across Pakistan. The Head Office of the bank is located on Sundar Das road, Lahore.

Operations The bank is offering a wide variety of lending products customized according to the needs of various communities. These include loans for farmers, livestock loans, agri-loans, house loans, tractor loans, salary loans, business loans, gold backed loans, and others catering specific needs of the unbanked individuals. The bank also has a broad range of serviceable deposits that are mobilized through a number of current, saving and time deposit products.

Ownership

Ownership Structure Apna Microfinance Bank is a part of United International Group (UIG) with major ownership stake of ~76% vesting with the group. United Insurance Company has ~45% stake in the bank, while ~26% is held by the United Track Systems (Pvt) Limited. UIG is led by its Founder and Chairman – Mian Akram Shahid – the single largest shareholder. Owing to Mr. Shahid’s indirect shareholding in Apna MFB through UIC (being the main sponsor) and direct shareholding in the bank (~6%), he is considered to be the ultimate/main sponsor of the bank.

Stability Ownership structure is considered stable.

Business Acumen United International Group (UIG) has gradually strengthened its foothold in various business ventures.

Financial Strength The group is diversified into various other sectors including insurance, business tracking, information technology and business consultancy, thereby depicting sound financial strength.

Governance

Board Structure The Board of Directors comprises 8 members, with two directors holding more than ~10% ownership stake in the bank. Mr. Akram Shahid is the Chairman of the Board.

Members’ Profile Board members’ profile is considered adequate.

Board Effectiveness The Board has four sub-committees; (i) Executive (ii) HR & Remuneration (iii) Risk Management and (iv) Audit Committee.

Financial Transparency Ilyas Saeed & Co. Chartered Accountants is the external auditor of the company and they have expressed qualified opinion on IHCY18 financial accounts in respect to quantum of non-performing advances, related provision and suspended income.

Management

Organizational Structure A complete revamp of the organization hierarchy took place in CY17, in out-turn of State Bank of Pakistan’s (SBP) inspection in CY16. The revived organization structure benefited the bank in arresting the destruction and toning down prevalent risks to an acceptably low level on a timeline basis.

Management Team Cleansing of HR base as part of turnaround plan in CY17 boded well for the bank as a whole. Since then, tone of the management has been completely changed, where integrity is considered as the core value of the team. Top management alongside mid-tier managers and branch staff are well-versed individuals possessing knowledge of their business.

Effectiveness Effective management practices accompanied by formal meetings and documentation controls have improved the overall operational efficacy of the bank.

MIS AB3 - Autosoft is used as the core banking software which sufficiently serves the purpose of meeting banking reporting requirements.

Risk Management Framework Separate Risk Division is in place; adequate mechanism for assessing credit worthiness and non-performing portfolio. All Risk Management policies and manuals have been redesigned.

Technology Infrastructure Technological infrastructure is sound; AB3 - Autosoft is used as the core banking software which sufficiently serves the purpose of meeting banking reporting needs.

Business Risk

Industry Dynamics Pakistan Microfinance Industry comprises of 44 microfinance providers including 11 Microfinance Banks (MFBs), 17 Microfinance Institutions (MFIs), 7 Rural Support Program (RSPs) and 9 others projects. Microfinance banks dominate the industry with a share in Gross Loan Portfolio of ~68%.

Relative Position The bank’s current direction is focused towards emerging out of the turmoil the bank was in and considerable results have been achieved in this regard. The bank’s share in market in terms of Gross Loan Portfolio (GLP) stood at ~5% and in terms of micro-deposits, it recorded at ~7% as at End-June’18.

Revenue The bank recorded a net interest/markup revenue of PKR~1,521mln in 9MCY18, translating into a bottom line of PKR~46mln.

Profitability Since Jan’18, the bank achieved break-even and started generating profits. Net profitability clocked in at PKR~46mln as at End-Sep’18.

Sustainability The bank has achieved considerable success in turning around its deteriorated position. Stringent management efforts and team cohesiveness are reflected in the stabilized position of the bank. Meanwhile, recoveries from the previously infected loan book are in process.

Financial Risk

Credit Risk Gross Loan Portfolio surged to PKR~8,654mln as at End-June’18 (End-Dec’17: PKR~5,984mln), demonstrating a healthy increase of ~45% Infection ratio dropped significantly to ~12% (CY17: ~22%), though remained stagnant in absolute numbers, reflecting that infection pertaining to fresh disbursement is low. Recoveries against old loan portfolio remain critical.

Market Risk The bank does not strategize to absorb increased policy rate effect in its loan book. Thereby, increased interest rate environment may affect the bank’s spreads as cost of funds increases. On the other hand, the same effect is taken into yields from Government securities the bank has invested in.

Funding As the bank takes up pace to increase its business size, expansion in funding base remains key to its strategy. Total deposits of the bank clocked in at PKR~14,392mln at End-Sep’18 (End-Dec’17: PKR~12,529mln), representing steady growth.

Liquidity Liquidity profile draws management vigilance as liquid assets-to-deposits and borrowings ratio dropped to ~27% as at End-Sep’18 (End-Dec’17: ~46%).

Capital Adequacy The bank remained non-compliant in meeting the minimum CAR requirement of 15%. CAR as at End-Sep’18 was recorded at ~6.9% (End-Dec’17: 7.7%).



The Pakistan Credit Rating Agency Limited

Apna Microfinance Bank Limited

Financial Summary

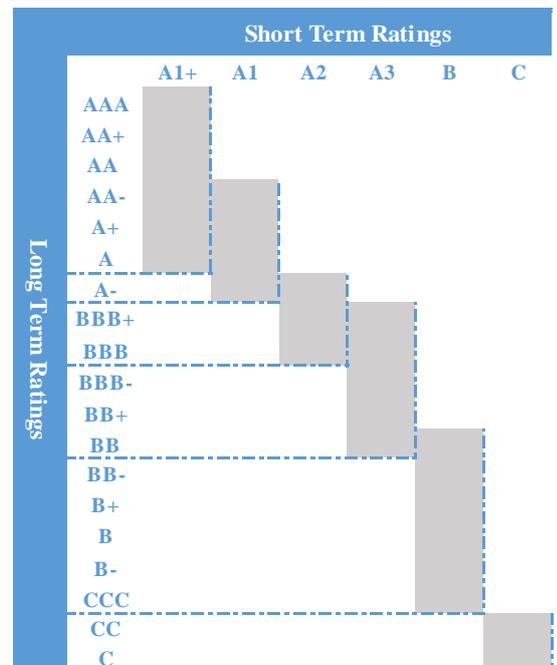
PKR mln

BALANCE SHEET	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
	9M	Annual	Annual	Annual
Earning Assets				
Total Finances	8,543	4,772	4,920	2,566
Investments	556	554	598	227
Deposits with Banks	2,353	4,049	4,233	1,709
	11,452	9,375	9,752	4,502
Non Earning Assets				
Non-Earning Cash	983	1202	1075	287
Net Non-Performing Finances	-37	130	571	53
Fixed Assets & Others	3520	3276	2156	827
	4,467	4,608	3,802	1,168
TOTAL ASSETS	15,918	13,984	13,554	5,670
Interest Bearing Liabilities				
Deposits				
CASA	8,988	7,673	6,335	2,437
Time Deposits	5,404	4,856	6,012	2,110
	14,392	12,529	12,347	4,547
Borrowings	10	202	204	-
Non Interest Bearing Liabilities	351	232	296	69
TOTAL LIABILITIES	14,753	12,963	12,847	4,615
EQUITY (including revaluation surplus)	1158	1012	693	1030
Deferred Grants	7	9	15	25
TOTAL LIABILITIES & EQUITY	15,918	13,984	13,554	5,670
INCOME STATEMENT	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
Interest / Mark up Earned	1,521	1,578	1,442	447
Interest / Mark up Expensed	(575)	(704)	(672)	(187)
Net Interest / Markup revenue	946	874	770	260
Other Operating Income	139	51	62	40
Total Revenue	1,085	925	832	300
Other Income	189	467	51	57
Non-Interest / Non-Mark up Expensed	(1,163)	(1,309)	(1,135)	(352)
Pre-provision operating profit	111	84	(252)	6
Provisions	(44)	(273)	(846)	(30)
Pre-tax profit	67	(188)	(1,098)	(24)
Taxes	(21)	109	362	(5)
NET INCOME	46	(80)	(735)	(29)
Ratio Analysis	30-Sep-18	31-Dec-17	31-Dec-16	31-Dec-15
Performance				
ROE	6%	-9%	-85%	-4%
Cost-to-Total Net Revenue	91%	94%	129%	98%
Capital Adequacy				
Equity/Total Assets	7%	7%	5%	18%
Capital Adequacy Ratio as per SBP	6.9%	7.7%	6.8%	29.8%
Loan Loss Coverage				
Non-Performing Advances /Gross Advances	12%	22%	23%	4%
Loan Loss Provisions / Non-Performing Advances	103%	90%	62%	55%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	27%	46%	47%	49%
Advances / Deposits	59%	39%	44%	58%
CASA deposits / Total Customer Deposits	62%	61%	51%	54%
Intermediation Efficiency				
Asset Yield	19%	16%	20%	15%
Cost of Funds	6%	6%	8%	7%
Spread	14%	11%	12%	9%
Outreach				
Branches	116	116	116	73

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
D	Obligations are currently in default.		



Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent