



The Pakistan Credit Rating Agency Limited

APNA MICROFINANCE BANK LIMITED

RATINGS REPORT

	NEW [APR-17]	PREVIOUS [APR-16]
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Entity

Long Term BBB BBB+

Short Term A3 A3

Outlook Stable Positive

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APRIL 2017

Profile & Ownership

- Apna Microfinance Bank, commenced operations in 2005, is listed on Pakistan Stock Exchange and operates a nationwide network of 116 branches
- Majority owned by the United International Group (UIG) (~44%) through United Insurance Company Limited – UIC (38%), United Track System (1%) and the Group's founding member – Mian Akram Shahid (5.5%); individual shareholders held 56% of the bank's stake
- UIG has interests in microfinance, insurance, tracking business, information technology, agriculture, and business consultancy

Governance & Management

- Seven member Board; four of the board members are also the shareholders of the bank
- Mr. Gulistan Malik was appointed as acting President and CEO with effective designation of role in Nov16
- The auditor, RSM Avais Hyder Liaqat Nauman, Chartered Accountants, has expressed modified opinion for the year ended December 31, 2016 led by renewal of micro-credit without completion of renewal conditions, and are not classified as non-performing advances. The auditor has not verified the NPLs (PKR 1.5bln)

Risk Management

- A separate Risk Division is in place; comprehensive mechanism for assessing credit worthiness and non-performing portfolio
- A multi-layered loan approval process wherein loan verifications, approvals, and disbursements are carried out by separate and independent departments
- Plans to implement auto MIS in majority of the departments by end April'17
- Management has recently revisited and redesigned all its policies and manuals

Performance

- Apna Bank's Gross Loan Portfolio (GLP) increased significantly reaching a market share 4% and attracting 1% of the industry borrowers; growth emanated from penetration into new markets after grant of national license
- Deposits increased, both in number and in value terms, 10% share in the micro-savings of the industry
- Earning assets of the bank witnessed significant growth (Mar'17: 45%, Dec'16: 117%); deposits with other banks surged massively (Mar'17: 289%, Dec'16: 148%)
- Simultaneously, NIMR, as a proportion of Assets, also increased (1Q17: 2%, CY16: 6%, CY15: 5%).
- Branch expansion kept the bank's cost structure higher relative to the industry; cost-to-total revenue ratio escalated (1Q17: 131%, CY16: 128%, CY15: 98%)
- The absolute NPLs increased from last year's level, however, it is notable that bank enjoys full insurance cover from United Insurance Company Limited against non-performing loans
- Deterioration in advances quality led the bank to limit additional loans disbursement since November'2016
- Intends to expand no further and capitalize on current branch network, rationalizing cost
- Aims to attract deposits other than micro sector; for the same reason the branch size is kept relatively bigger
- Effective implementation of business strategy and building a cohesive management team remains critical.

Financial Risk

- APNA solely relies on deposits as its funding source; aggressive growth (Mar'17: 73%, Dec'16: 172%) CASA mix of the bank remained at ~51%; concentration risk improved top-50 depositors only 20%
- Liquidity profile remained healthy (liquidity ratio 47%); increased on YoY basis
- Cash Reserve Ratio met the regulatory requirement of 5% of deposits along with statutory liquidity reserve as 10% of deposits, while the Bank's CAR (~7%) remains non-complaint with regulatory requirement
- The management has chalked out a plan to address the distress situation; i) Commitment from the sponsor to provide financial support, ii) Revamp all its policies and procedures and improve overall operational environment of the bank, iii) Streamlining recovery procedures, iv) Expects to achieve operational break even by Jun'17 on the back of building its current account

RATING RATIONALE

The ratings of the bank reflect the sponsors' demonstrated commitment to provide the requisite financial support. Lately, the bank's profile has experienced stress. This primarily emanated from sizeable infection in the lending portfolio. Moreover, expansionary phase kept cost structure high. Ensuing losses caused significant erosion in the bank's equity base. Hence, making it non-compliant with minimum regulatory capital and adequacy requirements. The management is cognizant of the situation and there is dedicated focus on recoveries. The management is confident of substantial recoveries, it has managed some success recently. Notably, sponsors are committed to plug-in any gap in requisite capital. They intend to inject fresh capital in tranches so that the bank achieve regulatory compliance by end-2017. Apna Microfinance Bank, following an aggressive strategy and building on its National level license, has accumulated fast presence (branch network) and sizeable volumes (advances and deposits) in the microfinance space. The bank's current strategy is to overcome its woes and consolidate its position. The management is revamping its policies and procedures and expect to improve the overall risk environment of the bank. Along with improvement in overall risk culture, keeping check on the administrative and operating expenses is the focal point of the management. The management intends to expand its deposit base in line with its well-laid branch network. Meanwhile, additional disbursements are limited. This

KEY RATING DRIVERS

The ratings highlight the need to timely arrest the deteriorated equity base and limited core profitability. Achievement of operational profit on sustainable basis along with good asset quality - at par with industry - are requisites. Strengthening of governance framework and related systems and controls are important.

**Profile – Board of Directors: Apna Microfinance Bank Limited (Apna Bank)
as at December 31, 2016**

Sr. #	Name of BoD Members	Representation	Occupation	Other Key Experience	Committees	Participation in BoD Meetings [Total:]
1.	Mr. Muhammad Akram Shahid [LLB] 1961	United International Group of Companies	Chairman/ Director	Founder/Chairman of United International Group of Companies	<ul style="list-style-type: none"> Executive Committee Human Resource and Remuneration Committee Risk Management Committee 	8/8
2.	Mr. Muhammad Azam Cheema [MSc Hon] 1966	Auriga Group	Vice Chairman/ Director	Partner and Finance Director of Auriga Group of companies	<ul style="list-style-type: none"> Audit Committee Executive Committee Risk Management Committee 	8/8
3.	Mr. Qamar-uz-Zaman [BBA] 1978	Stakeholder	Director	3 rd largest manufacturer and exporter of carpets in Pakistan. Has trained over 40,000 unskilled laborers in art of weaving.	<ul style="list-style-type: none"> Executive Committee Human Resource and Remuneration Committee 	6/8
4.	Mr. Syed Rahat Ali Shah [ACA] 1982	Stakeholder	Director	Head of Corporate Compliance of United International Group of Companies & Former Senior Manager Audit at RSM Pakistan	<ul style="list-style-type: none"> Audit Committee Risk Management Committee Executive Committee Human Resource and Remuneration Committee 	4/4
5.	Mr. Muhammad Saleem Shaikh [Master in Science] 1945	Stakeholder	Director	Over 35 years of banking experience, Remained President & CEO of Allied Bank of Pakistan Ltd, Rozgar Microfinance Bank Ltd.	<ul style="list-style-type: none"> Audit Committee Human Resource and Remuneration Committee 	8/8
6.	Mr. Muhammad Asghar [LLB] 1948	Independent	Director	Director of United Bank Limited, PASCO, UBL Fund Managers & UBL Insurer Limited	<ul style="list-style-type: none"> Audit Committee Risk Management Committee Executive Committee 	4/4
7.	Mr. Imad Muhammad Tahir [MSc Investment and Financial Risk Management] 1989	Investor	Director	Pakistani origin residing in United Kingdom, having its Import/Export business from other Countries including Pakistan	<ul style="list-style-type: none"> Audit Committee Human Resource and Remuneration Committee Risk Management Committee 	7/8

**Profile – Senior Management: Apna Microfinance Bank Limited (Apna Bank)
as at December 31, 2016**

#	Name [Qualification] (Date of Birth)	Designation	Reporting Line	Experience		
				Overall (years)	With the Bank (since)	At current position (since)
1	Mr. Ghulistan Malik [B.Com/IBP Part 1] 1956	Acting President	BoD	39	2016	2016
2	Mr. Rafat Abbas [MBA Finance / Banking] 1962	Company Secretary	BoD	26	2007	2007
3	Mr. Qasim Mansoor [CA] 1980	Head Internal Audit	CEO	12	2016	2016
4	Mr. Kamran Ramzan [ACCA] 1979	Head Human Resource	CEO	10	2014	2016
5	Muhammad Ishtiaq [MSc. Agri] (1950)	Head CAD	CEO	41	2015	2015
6	Mr. Ali Murtza [CA] 1985	Chief Financial Officer	CEO	9	2015	2015
7	Mr. Nazish Ali [B.Com.] 1971	Head Operations (Acting)	CEO	23	2016	2016
8	Mr. Aftab Saleem [MBA] 1969	Head Compliance	CEO	23	2016	2016
9	Mr. Abdul Rashid Khan [Graduate, Cobol programming Language (NCR Cyprus) ASP.NET, CCNA] 1946	Head of Information Technology	CEO	49	2012	2012
10	Mr. Akhlaq Ahmed Khan [MBA] 1952	Head Risk Management	CEO	34	2013	2014
11	Mr. Muhammad Salman Hamid [MBA] 1980	Head Credit	CEO	14	2016	2016



Financials [Summary]

The Pakistan Credit Rating Agency Limited

Apna Microfinance Bank Limited

	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
BALANCE SHEET				
Earning Assets				
Total Finances	4,113	4,920	2,566	747
Investments	414	598	227	141
Deposits with Banks	3,868	4,233	1,709	518
	<u>8,395</u>	<u>9,752</u>	<u>4,502</u>	<u>1,406</u>
Non Earning Assets				
Non-Earning Cash	919	1075	287	78
Net Non-Performing Finances	325	571	53	69
Fixed Assets & Others	2316	2156	828	206
	<u>3,560</u>	<u>3,802</u>	<u>1,168</u>	<u>353</u>
TOTAL ASSETS	11,955	13,554	5,671	1,759
Interest Bearing Liabilities				
Deposits				
CASA	5581	6335	2437	500
Time Deposits	5303	6012	2110	694
	<u>10,883</u>	<u>12,347</u>	<u>4,547</u>	<u>1,194</u>
Borrowings				
	198	204	-	-
Non Interest Bearing Liabilities				
	331	296	69	23
TOTAL LIABILITIES	11,413	12,847	4,615	1,216
EQUITY (including revaluation surplus)	528	693	1030	511
Deferred Grants	14	15	25	32
TOTAL LIABILITIES & EQUITY	11,955	13,554	5,670	1,759
INCOME STATEMENT				
Interest / Mark up Earned	432	1,442	447	239
Interest / Mark up Expensed	(210)	(672)	(187)	(79)
Net Interest / Markup revenue	222	770	260	160
Other Operating Income	7	62	40	10
Total Revenue	229	832	300	170
Other Income	7	51	57	24
Non-Interest / Non-Mark up Expensed	(309)	(1,135)	(352)	(166)
Pre-provision operating profit	(73)	(252)	6	28
Provisions	(86)	(846)	(30)	(20)
Pre-tax profit	(160)	(1,098)	(24)	9
Taxes	(4)	362	(5)	(3)
NET INCOME	(164)	(735)	(29)	6
Ratio Analysis				
Performance				
ROE	-21.1%	-85.3%	-3.8%	1.2%
Cost-to-Total Net Revenue	131.0%	128.5%	98.4%	85.4%
Capital Adequacy				
Equity/Total Assets	4.4%	5.1%	18.2%	29.0%
Capital Adequacy Ratio as per SBP	6.8%	6.8%	29.8%	48.0%
Loan Loss Coverage				
Non-Performing Advances /Gross Advances	23.3%	23.2%	4.4%	12.0%
Loan Loss Provisions / Non-Performing Advances	74.0%	61.5%	55.3%	32.1%
Funding & Liquidity				
Liquid Assets / Deposits and Borrowings	46.9%	47.1%	48.6%	65.1%
Advances / Deposits	40.8%	44.5%	57.6%	68.3%
CASA deposits / Total Customer Deposits	51.3%	51.3%	53.6%	41.9%
Intermediation Efficiency				
Asset Yield	6.1%	20.2%	15.1%	18.5%
Cost of Funds	2.4%	7.9%	6.5%	8.1%
Spread	3.7%	12.4%	8.6%	10.4%
Outreach				
Branches	116	116	73	17

Apna Microfinance Bank Limited

Apr-17

STANDARD 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. This capacity is highly unlikely to be adversely affected by foreseeable events.	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-	Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change 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-	Highly speculative. Significant 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	High default 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.	

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, or e) the entity/issuer defaults.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issues 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.



Regulatory and Supplementary Disclosure

Name of Issuer
Sector
Type of Relationship

APNA Microfinance Bank Limited (APNA Bank)
Microfinance
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
10-May-17	BBB	A3	Stable	Downgrade
07-Apr-16	BBB+	A3	Positive	Maintain
07-Apr-15	BBB+	A3	Stable	Upgrade
12-May-14	BBB	A3	Positive	Maintain
15-May-13	BBB	A3	Positive	Maintain
30-Apr-12	BBB	A3	Positive	Maintain
23-May-11	BBB	A3	Rating Watch	Maintain

Related Criteria and Research

Rating Methodology
Sector Research

Microfinance Institutions Methodology
Banking | Microfinance - Viewpoint | Feb-17

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties

Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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[Probability of Default \(PD\)](#)

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