

The First MicrofinanceBank Ltd

In this document:

- Brief History
 - Methodology
 - Area of Operations
 - Clients
 - Poverty Focus
 - Distinctive Features
 - Innovations
 - Financial Results
 - Challenges & Development Plans
 - Inclusion in Financial Sector
-

Brief History

The First MicrofinanceBank Ltd (FMFB) is the result of the transformation of the microfinance program of the Aga Khan Rural Support Program (AKRSP), with more than twenty years of experience, into a separate, specialised microfinance bank. In 1996, the AKRSP started to streamline its microfinance program separately, with the objective of creating a separate entity, capable of mobilising savings. FMFB has benefited from the long experience and transfer of key employees and technologies from AKRSP. The First MicrofinanceBank Ltd was established as a non-listed public limited company under the provisions of the Companies' Ordinance in November 2001 and licensed as a Microfinance Institution (MFI) under the provisions of the Microfinance Institutions Ordinance 2001 in January 2002. The main shareholders are the AKRSP (45.5%), the Aga Khan Fund for Economic Development (30.30%) and the IFC (24.2%). FMFB formally started operations in February 2002, taking deposits through its first branch in July 2002.

Methodology

FMFB offers a full range of financial products, such as deposits and loans but also transfer of funds. It provides different loan products, adapted to its diverse clientele, in urban and rural regions.

1. *Business Group Loan*
Solidarity group lending, Rs.5,000-50,000, 15% annual interest rate.
2. *Business Committee Loan*
Larger solidarity groups, Rs.3,000-50,000, 12% annual interest rate.
3. *Individual Loan*
Microenterprises. Rs.5,000-100,000, 16% annual interest rate
4. *Group Loan*
Village banking methodology, rural areas, 10% annual interest rate
5. *Urban Group Loan*
Solidarity groups, 3-10 borrowers, Rs.3,000-50,000, 15% annual interest rate
6. *House Improvement Loan*
Rural areas, 5 or more borrowers in village or women organisations, Rs.1,500-50,000, 15% annual interest rate
7. *Employee loan scheme.*
Low-income employees. Rs.5,000-40,000, 10% annual interest rate

FMFB offers current accounts, savings accounts and fixed term deposits (1 month - 2 years) with interest rates varying from 1 to 3%. Only Rs.5 is required to open a saving account.

FMFB also proposes additional services, such as cheques operations, micro insurance (with loan and life coverage) and wire transfers.

Area of Operations

FMFB currently operates 21 branches, 7 being in the major urban centres of Rawalpindi, Karachi, Lahore, Hyderabad and Gwadar, and 14 in rural Northern areas.

Clients

Four of FMFB clients were part of the sixteen microentrepreneurs rewarded at the Pakistan's Global Microentrepreneurship Awards organised in Karachi in November 2004. The ceremony was held at

the Karachi Stock Exchange, symbolically opened by the overall winner, a lady entrepreneur and FMFB client.

Active clients	Active savers*	Active borrowers	Gender
14,296	14,296	6,500	n/a

As of June 2004

Poverty Focus

The target clientele of FMFB is the poor and underprivileged, especially women.

Average outstanding loan size (US\$)	Average outstanding loan size / GNP per capita	Average deposit size (US\$)
346	75%	1,254

As of June 2004

Distinctive Features

FMFB is the only licensed private microfinance bank in Pakistan, built on a strong team of managers, and its adherence to international best practices. FMFB has a strong MIS and focus on sustainability. It offers domestic transfers of funds between branches.

Innovations

FMFB plans to sell government securities to assist the poor to access high yield, low risk government bonds, and optimise their savings. It also plans to start mobile banking operations in 2004, with field officers provided with cars. It currently collaborates with the Citigroup Foundation on an urban credit and health program, with prominent doctors speaking in poor villages in order to raise awareness on health issues, while free outpatient healthcare is provided to bank clients at the Aga Khan University.

Financial results

FMFB made a US\$300,000 profit over the first six months of 2004, a significant increase from US\$38,000 for the full year of 2003. It received a rating grade of A+/A-1+ from JCR-VIS Credit Rating Company, in June 2004. According to this rating agency, profitability of the bank is still constrained by high operating costs and low yield of invested government bonds.

Loan Portfolio (US\$)	Portfolio at risk	Savings Deposits (US\$)	OSS / FSS	RoE / RoA
2,145,000	3.46%	8,150,000	105% / 77%*	0.48% / 0.34%

As of June 2004

* As of December 2003

Challenges and development plans

FMFB's objective is to reach Rs500 million in deposits and Rs300 million in credit by the end of 2004. FMFB has to satisfy the high expectations on its performance and growth of outreach from the financial and political community, while working in difficult environments. FMFB projects to reach 33,500 clients at the end of 2004 and become a reference for other similar institutions in the region (Central Asia, Afghanistan). It plans to have thirty branches by 2005, and provide training and IT solutions to other microfinance providers in Pakistan and internationally. FMFB also plans to develop women-specific products and serve small enterprises.

Inclusion in financial Sector

FMFB is regulated by the central bank of Pakistan and achieved a rating of A1+, highest rating over a short-term perspective, and A+ over the medium and long term. Savings not reinvested in credit to clients are invested in government securities.

Sources:

- JCR-VIS Credit Rating Company Ltd, FMFB Rating Report, September 2003
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