



The Pakistan Credit Rating Agency Limited

Rating Report

NRSP 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
30-Apr-2018	A	A1	Stable	Maintain	-
31-Oct-2017	A	A1	Stable	Maintain	-
29-Apr-2017	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of NRSP Microfinance Bank ("the Bank") incorporate emergence of the Bank as a growing institution, evident from consistent improvement in business volumes and ensuing profitability. The loan book represents significant growth since inception. Though the design of lending product keeps the concentration high, it takes comfort from the prudent strategy to focus group-lending in rural areas and a sizable portion of crop-linked loans. Moreover, the bank is eyeing diversification through introducing new micro-finance products and expanding its Islamic micro-lending division. The healthy asset quality of the bank is exhibited by its low non-performing loans (NPLs); ~0.3%, being one of the finest among the peers. The expansion strategy boded well for the bank resulting into enhanced customer outreach evident from the escalated deposit base. This has made the bank a major contributor in the micro-deposits (~13% market share) and is expected to sustain its position, benefiting from the specified branches introduced for deposit mobilization. The ratings reflect association of NRSP Microfinance Bank with the National Rural Support Programme, the major shareholder, and with the three foreign development organizations - IFC, Acumen, and KfW, providing both technical and financial support to the bank. The Bank is poised towards expansion mainly focusing in untapped rural areas and aims to introduce technology driven banking products in near future. Focus on poverty alleviation for the underprivileged community remains pivotal in modelling the bank's strategy.

The ratings are dependent on the bank's ability to sustain improving trend in its market position. The out-turn of the bank's strategy to digitize its core lending operations and modify its lending mix is important. Unfolding of the bank's venture into branchless banking remain imperative alongside the bank's aptness to maintain a steady low cost deposit base.

Disclosure

Name of Rated Entity	NRSP Microfinance Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology MicroFinance Institutions (Jun-17),Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17)
Related Research	Sector Study Microfinance Bank(Apr-18)
Rating Analysts	Amara Gondal amara.gondal@pacra.com +92-42-35869504

NRSP MICROFINANCE BANK LIMITED		MICROFINANCE SNAPSHOT
Incorporation	2011	<ul style="list-style-type: none"> • Composition of 11 Microfinance Banks (MFBs), 16 Microfinance Institutions (MFIs) and 6 Rural Support Programs (RSPs) with a credit outreach of ~44%, ~33% and ~19% respectively. • Gross Loan Portfolio recorded at PKR~202bln at End-Dec17 indicating a growth of ~10% in the 4QCY17. • Savings increased by ~15% in the 4QCY17 and recorded at PKR~163bln at End-Dec17. • Sector's outreach growth rate - over ~6% in the 4QCY17.
Legal status	Microfinance Bank – Public Limited	
Outreach	104 Branches - Nationwide	
Head Office	University Road, Bahawalpur	
OWNERSHIP		
<ul style="list-style-type: none"> ▪ NRSP Microfinance Bank (herein referred to as “the bank”) is a subsidiary of National Rural Support Programme (NRSP) – a non-profit organization established in 1991, holding major ownership stake of ~52%, followed by International Finance Corporation (IFC) and Kreditanstalt fur Wiederaufbau (KfW) – a German development bank, each holding ~16% stake. 		
GOVERNANCE		
<ul style="list-style-type: none"> ▪ The Board of Directors comprises of 9 members including 3 representatives from NRSP, one nominee each from IFC, KfW and Acumen, two independent directors and the CEO, Mr. Zahoor Hussain Khan. ▪ Dr. Rashid Bajwa is the Chairman of the Board. He also serves as the CEO of NRSP. ▪ The Board is branched into three sub-committees; (i) Audit (ii) Compensation & Remuneration & (iii) Operation & Risk Policy 		
MANAGEMENT		
<ul style="list-style-type: none"> ▪ Multi-tier departmentalized structure. ▪ The CEO, Mr. Zahoor Hussain Khan, is an experienced banker and has been associated with the bank for long. He has an overall experience of ~22 years. 		
RISK MANAGEMENT		
<ul style="list-style-type: none"> ▪ Adequate credit disbursal mechanism through implementation of Oracle Flexcube core banking software since 2012. Oracle fusion and Oracle HCM MIS are in the process of being implemented. ▪ Multi-tier credit approval process; addition of credit risk officers at all branches assists in achieving operational efficiency. 		
ASSET RISK		
<ul style="list-style-type: none"> ▪ Loan Book grew by ~58% YoY in CY17 with gross loan portfolio being recorded at PKR~20,934mln; group lending constituted ~77% and gold-backed loans represented ~1% of the total loan portfolio. ▪ Infection risk lessened to ~0.3% at End-Dec17 (End-Dec16: ~0.4%), relatively the finest amongst the peers – backed on account of group lending and refined recovery procedures. ▪ Investment portfolio witnessed a decrease in CY17 representing ~8% of the total asset base on End-Dec'17 (End-Dec'16: ~23%) majorly due to a significant decrease in investments made in mutual funds. Secured investments in Market Treasury bills, however increased reducing market risk to an acceptably low level. 		
PERFORMANCE		
<ul style="list-style-type: none"> ▪ Share in market with respect to gross loan portfolio dropped to ~10% despite an increase in number of active borrowers due to a smaller average ticket size as compared to peers. Share in terms of deposits was sustained at ~13%. ▪ Earning assets increased by ~23% in CY17, however declined as a percentage of total asset base, i.e., ~86% of asset base at End-Dec'17(End-Dec'16:~88%). ▪ Net Interest/Markup revenue increased sufficiently by ~48% YoY transpiring into healthy operating results. ▪ Bottom-line of PKR~821mln (CY16: PKR~685mln) was recorded, depicting a YoY increase of ~20% - a factor of successful rationalization of costs – due to the bank's rigorous efforts of digitizing its core lending operations resulting in decrease in administrative expenses and improvement in operational efficiency. This is evident from a controlled cost-to-total revenue ratio of ~68% (CY16:58%). ▪ Going forward, key business initiatives for the bank include (i) introduction of branchless banking services (ii) garnering all lending products on a digitized platform and (iii) increase in Islamic Banking base. 		
FINANCIAL RISK		
<ul style="list-style-type: none"> ▪ Funding constitutes deposits and borrowings from financial institutions - deposits grew by ~40% in CY17; End-Dec17: PKR~23,672mln (End-Dec16: PKR~16,922mln). Surge in savings portfolio from Islamic banking was witnessed clocking in at PKR~2,343mln at End-Dec'17 (End-dec'16: PKR~527mln), representing ~11% of the total deposit base. CASA represented 38% of the total deposits. . ▪ Liquidity profile became relatively stretched as reflected by the liquid assets-to-deposits and borrowing ratio of ~35% at End-Dec17 (~End-Dec16:~51%), hence necessitating management attention to monitor growth strategy since surging deposits stretch liquidity. ▪ CAR stood relatively stagnant at ~18% End-Dec'17 – a factor of a trivial portion of gold backed lending in the total loan portfolio. Going forward, expected tier-II capital reduction due to maturity of issued TFC is an attention drawing factor. 		



NRSP Microfinance Bank Limited

	PKR mln		
	31-Dec-17	31-Dec-16	31-Dec-15
	Annual	Annual	Annual
BALANCE SHEET			
Earning Assets			
Finances	20,865	13,223	9,111
Investments	2,696	6,109	2,132
Deposits with Banks	5,192	4,062	1,565
	28,754	23,394	12,808
Non Earning Assets			
Non-Earning Cash	1,674	1,205	660
Net Non-Performing Finances	(159)	(96)	(72)
Fixed Assets & Others	3,321	1,950	911
	4,836	3,058	1,499
TOTAL ASSETS	33,590	26,452	14,306
Funding			
Deposits	23,672	16,922	7,257
Branch Banking	23,672	16,922	7,257
Branchless Banking	-	-	-
Borrowings	3,966	5,350	4,157
	27,638	22,272	11,414
Non Interest Bearing Liabilities	1,937	977	348
TOTAL LIABILITIES	29,575	23,248	11,761
EQUITY (including revaluation surplus)	4,012	3,203	2,534
Deferred Grants	2	1	10
Total Liabilities & Equity	33,590	26,452	14,306
INCOME STATEMENT			
	31-Dec-17	31-Dec-16	31-Dec-15
Interest / Mark up Earned	4,976	3,221	2,054
Interest / Mark up Expensed	(2,039)	(1,240)	(741)
Net Interest / Markup revenue	2,937	1,981	1,313
Branchless Banking Income (excluding admin expenses)	-	-	-
Other Operating Income	871	693	601
Total Revenue	3,808	2,675	1,914
Other Income	-	-	-
Non-Interest / Non-Mark up Expensed	(2,315)	(1,559)	(1,122)
Pre-provision operating profit	1,493	1,116	793
Provisions	(388)	(155)	(142)
Pre-tax profit	1,106	960	650
Taxes	(284)	(276)	(191)
Net Income	821	685	460
Ratio Analysis			
	31-Dec-17	31-Dec-16	31-Dec-15
Performance			
ROE	23%	24%	20%
Cost-to-Total Net Revenue	61%	58%	59%
Provision Expense / Pre Provision Profit	26%	14%	18%
Capital Adequacy			
Equity/Total Assets	12%	12%	18%
Capital Adequacy Ratio as per SBP	18%	19%	21%
Loan Loss Coverage			
Non-Performing Advances /Gross Advances	0%	0%	0%
Loan Loss Provisions / Non-Performing Advances	331%	300%	594%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	35%	51%	38%
Advances / Deposits	87%	78%	124%
CASA deposits / Total Customer Deposits	38%	44%	62%
Intermediation Efficiency			
Asset Yield	19%	18%	17%
Cost of Funds	8%	7%	7%
Spread	11%	10%	10%
Outreach			
Branches	104	98	67



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; 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. A1: A strong capacity for timely repayment. A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
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.		
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA-			
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.		
A			
A-			
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 or economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
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.		
BB			
BB-			
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.		
B			
B-			
CCC	Very high 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.		
CC			
C			
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 within 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 or 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, a suspended 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 rating is an assessment of the credit standing of an entity/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