



The Pakistan Credit Rating Agency Limited

Rating Report

ASA Microfinance Bank (Pakistan) Limited (Formerly ASA Pakistan Limited)
Report Contents
1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History table with columns: Dissemination Date, Rating, Outlook, Action, Rating Watch. Rows for 17-Mar-2024 (SIP2, Positive, Maintain, -) and 17-Mar-2023 (SIP2, Stable, Initial, -).

Rating Rationale table with columns: Factor, Comment. Rows include Ownership/Members, Governance, Management, Social Impact, Business Sustainability, and Financial Sustainability.

Key Rating Drivers: ASA Microfinance Bank (Pakistan) Limited ('ASA' or the 'Company') converted into a Microfinance Bank in Nov'23 as a non-deposit lending institution. Consequently, the Company has updated its Core Banking System, following which, it intends to proceed with the conversion into a deposit-taking institution.

Disclosure table with rows: Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, Rating Analysts.

Ownership/Members

Structure The Company is 99.99% owned by ASA International Holding, which is based out of Mauritius. ASA International operates in South Asia, South East Asia, West Africa, and East Africa. In total, the Company has a presence in 13 countries.

Acumen The group is one of the world's largest international microfinance institutions providing small, socially responsible loans to low-income entrepreneurs, most of whom are women, across Asia and Africa.

Financial Strength The group has a consolidated asset base of ~USD 490mln and a consolidated equity position of ~USD 90mln at end-Dec'23. ASA International Group PLC is also listed on the London Stock Exchange with a share price of ~£ 61.25 at 31st Dec'2023.

Governance

Board Structure The Company's Board of Directors (BoD) comprises seven members, which include three independent, three non-executive directors, and the CEO as an executive director. The Board is chaired by Mr. Dirk Machgielis Brouwer, who is the CEO and co-founder of ASA International. The non-executive directors all represent ASA international.

Board Profile Mr. Dirk Brouwer co-founded ASA International in 2007 and has since served as its Executive Director and now he is the Deputy Chairman. With over 20 years of experience in investment banking, and 15 in microfinance. Mr. Martijn Bollen has been the General Counsel of ASA International since 2007 and joined the Board of ASA-Pakistan in November 2019. Mr. Bollen has over 13 years of experience in the microfinance industry.

Board Effectiveness The Company has formed three committees at the Board level – 1) Audit Committee, 2) Human Resources Committee, and 3) Risk Management Committee. All committees are chaired by an independent director, strengthening the governance oversight.

Transparency EY Ford Rhodes Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements for CY22. The firm is in the A Category of SBP's panel of auditors. Furthermore, the Company also has an internal audit department for a greater control framework.

Management

Organizational Structure The Company has a well-developed organizational structure. The administration, HR, IT, and social performance departments report to the deputy CEO while the other departments apart from the internal audit department report to the CEO. The internal audit department reports directly to the Board Audit Committee.

Management Team The Management Team is headed by Mr. Saeed Uddin Khan, the CEO of the Company. He joined as the CEO in 2019. Mr. Saeed brings with him 33 years of diversified and senior management experience in Conventional as well as Islamic Banking in different banks and financial institutions. He holds MBA degree from IBA, Karachi.

Management Effectiveness The Company has formulated multiple committees at the senior management level – 1) Management Committee, 2) Information Technology Steering Committee, 3) Compliance Committee, 4) Credit Operations Committee, 5) Client Complaint Resolution Committee, and, 6) Corporate Social Responsibility Committee.

Risk Management Framework The Company has Risk Management and Compliance departments which perform regular 'surprise' visits to branches to assess multiple risk and compliance parameters. Furthermore, there is a Risk Management Committee (RMC) at the Board level while a risk management manual is also present. There are also TORs defined for the RMC.

Technology Infrastructure ASA has software sourced from ASA International which allows for real-time report generation. On the other hand, the loan disbursements and collections process is currently all manual and done through cash transactions.

Social Impact

Social Performance Management System ASA has a Green Banking Policy as well as a Corporate Social Responsibility Policy. The Company prepares multiple reports related to social performance, including a social performance dashboard, a client satisfaction survey, and a summary of CSR activities done throughout the year. Two Committees are formed at the senior management level related to social performance management – 1) Client Complaint Resolution Committee, and, 2) Corporate Social Responsibility Committee.

Client Protection & Social Responsibility ASA ensures that transparency is present in all its dealings with customers. The Company's customers can lodge their complaints through emails, phone calls, or in person. The management reports grievances to the board on a quarterly basis and there is a board approved client complaint policy also available. A dedicated Consumer Protection Unit recently formulated has further boosted the client protection framework of ASA.

Outreach The Company has ~96% female borrowers and ~39% rural borrowers at end-Dec'23, showing their commitment towards providing finances to the underbanked population in the country. The Company has maintained a client retention ratio of above 99%, depicting the customers' satisfaction with the Company.

Quality Of Services There is one major product offering of the Company – microfinance which is broken up into three products that have different limits and target different aspects. Further, the Company also provides regular training for their customers to have them educated on the best practices of businesses.

Business Sustainability

Operating Environment The business environment during CY23 remained challenging with high inflation squeezing the purchasing power of consumers, and the cost of doing business has also increased with a surge in interest rates. Political stability remains vital for the economy during CY24.

Sustainability The Company has an Outstanding Loan Portfolio (OLP) amounting to ~PKR 19,473mln at end-Dec'23, which constitutes a market share of ~3.6% as per the OLP of microcredit institutions in the country.

Strategy ASA is focusing on technology integration to streamline its operations with the deployment of T24 Temenos software. The latest version of the Temenos Software has recently been deployed at ASA, enabling it to take a step further towards its strategy of deposits mobilization.

Financial Sustainability

Asset Quality Despite the current economic situation, the Company's write-offs stood at ~PKR 27mln in CY23, depicting the Company's ability to manage its credit risk.

Liquidity & Funding The current liabilities of the Company stood at ~PKR 7,922mln at end-Dec'23. The Company has a good amount of current assets to cover its current liabilities, standing at ~PKR 22,904mln at end-Dec'23.

Capitalization The Company's equity base stood at ~PKR 10,733mln at end-Dec'23 compared with ~PKR 9,270mln at end-Dec'22. The current level of equity base is considered good.

THE PAKISTAN CREDIT RATING AGENCY
FINANCIAL SUMMARY
NBMFC
PUBLIC LIMITED COMPANY



	Dec-23 CY23 12M Management	Dec-22 CY22 12M Audited	PKR MLN Dec-21 CY21 12M Audited
BALANCE SHEET			
A ASSETS			
1 MICROCREDIT - NET LOAN PORTFOLIO	19,418	17,909	13,791
2 INVESTMENTS	-	-	-
3 CASH	999	2,207	819
4 NON-CURRENT ASSETS	592	267	192
5 OTHER ASSETS	1,897	2,473	1,056
SUM OF ASSETS	22,906	22,856	15,859
B LIABILITIES			
1 DEPOSITS	-	-	-
2 BORROWINGS	8,304	11,623	8,605
3 OTHER LIABILITIES	3,868	1,964	683
SUM OF LIABILITIES	12,172	13,587	9,287
C EQUITY/FUNDS			
	10,733	9,270	6,571
INCOME STATEMENT			
D INCOME			
1 MARK UP EARNED	9,651	7,346	5,229
2 MARK UP EXPENSED	(2,183)	(1,922)	(1,068)
FINANCIAL RETURNS	7,468	5,423	4,161
3 OTHER OPERATING INCOME	(6)	(57)	(68)
4 NON-OPERATING INCOME	-	51	59
TOTAL INCOME	7,462	5,417	4,152
E EXPENSE			
1 OPERATING EXPENSE	(2,573)	(2,129)	(1,490)
2 PROVISIONS	(178)	(55)	(321)
TOTAL EXPENSE	(2,751)	(2,183)	(1,811)
F PROFIT/SURPLUS			
1 PRE-TAX PROFIT/SURPLUS	4,711	3,234	2,341
2 TAX	(2,000)	(1,172)	(687)
PROFIT/SURPLUS	2,711	2,062	1,655
RATIOS			
G SOCIO-ECONOMIC STATISTICS			
1 Female Borrowers	95.9%	95.7%	97.2%
2 Rural Borrowers	38.7%	38.8%	40.7%
3 Client Retention Rate	79.1%	88.9%	80.6%
H PERFORMANCE			
1 Operational Self Sufficiency (OSS)	195.5%	177.5%	179.3%
2 Cost per Borrower	4,214	3,808	3,193
3 Portfolio Yield	49.9%	45.2%	42.5%
4 Minimum Lending Rate	26.2%	25.1%	23.1%
5 Return on Equity	27.1%	26.0%	29.0%
I ASSET QUALITY			
1 PAR 30 Ratio	0.3%	1.4%	0.3%
2 Risk Coverage Ratio (PAR 30)	1.0	0.5	5.0
3 Write Off Ratio	0.1%	0.9%	3.2%
J LIQUIDITY & FUNDING			
1 Liquid Assets as a Percentage of Deposits & Short-term Borrowings	12.6%	38.6%	27.2%
2 Demand Deposit Coverage Ratio	N/A	N/A	N/A
3 Loan-to-Deposit Ratio	N/A	N/A	N/A
K CAPITALIZATION			
1 Capital Adequacy Ratio (CAR)	35.2%	27.1%	19.2%
2 Debt to Equity	1.1	1.5	1.4

Social Impact and Performance Rating (SIP)	
An independent opinion on the ability of an entity to create intended social impact and achieve sustainable performance.	
Scale	Definition
SIP1	Very Strong. Very strong ability to create intended social impact and very high likelihood of sustaining performance.
SIP2++ SIP2+ SIP2	Strong. Strong ability to create intended social impact and high likelihood of sustaining performance.
SIP3++ SIP3+ SIP3	Adequate. Adequate ability to create intended social impact and adequate likelihood of sustaining performance.
SIP4++ SIP4+ SIP4	Inadequate. Inadequate ability to create intended social impact and low likelihood of sustaining performance.
SIP5	Weak. Weak ability to create intended social impact and very low likelihood of sustaining performance.

<p>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’.</p>	<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. 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 rating outlook of the respective opinion.</p>	<p>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.</p>	<p>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 surveill the opinion due to lack of requisite information</p>	<p>Harmonization A change in rating due to revision in applicable methodology or underlying scale.</p>
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2) Conflict of Interest

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- 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

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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 | Clause 11-(A)(p).
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- (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)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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