



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

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Oct-2024	A-	A2	Stable	Upgrade	-
29-Apr-2024	BBB+	A2	Positive	Maintain	-
04-Sep-2023	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

ASA Microfinance Bank (Pakistan) Limited ('ASA' or the 'Company') is a public unlisted company and is owned by ASA International (ASAI) Holding with an ownership stake of ~99.99%. ASA International is a publicly listed company on the London Stock Exchange, and stands as one of the world's leading international microfinance institutions operating in 13 countries across Asia and Africa. ASA is dedicated to its mission of providing microfinance services to underprivileged households in Pakistan, emphasizing financial inclusion and empowerment of women. A strong governance framework is underpinned by a well-defined organizational structure and an experienced management team, ensuring the seamless execution of operations. The Company's lending strategy of maintaining strong and close relationships with its customers has demonstrated effectiveness, consistently delivering strong performance over the years and facilitating notable growth in lending activities. As a testimony of its broad strategic vision, ASA converted into a Microfinance Bank in Nov'23. Recently, the Company has implemented a Core Banking System (Temenos - T24) and management has reported that the Company is at an advanced stage of getting permission from SBP to mobilize deposits. The Company's backend software and scrutiny processes have also been improved. During 1HCY24, the advances portfolio stood at ~PKR 21,142mln, reflecting a growth of 9.4% compared to CY23. The Company secures ~4% market share in terms of GLP amongst the microfinance banks and institutes as of end-Jun'24. On the business front, the Company has managed to make a growth of ~27% with a recorded topline of PKR 5.6bln during 1HCY24 (1HCY23: PKR 4.4bln). Additionally, the PAT grew by ~56% and reported at PKR 1.4bln during 1HCY24 (1HCY23: PKR 923mln). Due to the substantial growth in income relative to the expense base, the OSS reflects marked improvement and is deemed to be robust. The Company's equity stood at ~PKR 9.6bln at end-Jun'24. ASA has a strong Capital Adequacy Ratio standing at ~34% at end-Jun'24. Liquidity has also improved at end Jun'24, whereas the GLP in relation to equity stands at 45.8% at end-Jun'24. The upgrade is attributed to several key factors, including the Company's strong historical financial performance, a diversified loan portfolio, a robust capital base, improved governance and management practices, and advancements in technology.

The assigned rating is contingent upon the Company's capacity to effectively mitigate emerging risks under the prevailing circumstances to preserve its business and financial risk profile. At the same time, the Company's ability to safeguard its performance indicators in a challenging business environment is crucial.

#### Disclosure

<b>Name of Rated Entity</b>	ASA Microfinance Bank (Pakistan) Limited (Formerly ASA Pakistan Limited)
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Microfinance Institution Rating(Oct-23),Methodology   Rating Modifiers(Apr-24),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-24)
<b>Related Research</b>	Sector Study   Microfinance(Sep-23)
<b>Rating Analysts</b>	Hassaan Ahmad   Hassaan.Ahmad@pacra.com   +92-42-35869504



## Profile

**Structure** ASA Microfinance Bank (Pakistan) Limited ('ASA' or 'the Company') is a public unlisted company having share capital incorporated on 19th March 2008 under the repealed Companies Ordinance 1984.

**Background** ASA was granted a commencement of Business license on 28th July 2008. The Company is part of the ASA International group. The Company converted into a Microfinance Bank in Nov'23 as a non deposit lending institution.

**Operations** The principal activity of ASA is to provide micro-finance facilities to the underprivileged segments in Pakistan. As of Jun'24, the Company operates from its Head Office based in Karachi and has 72 branches and 273 Service centers across Pakistan. The branches are concentrated in Punjab and Sindh while there is one branch each present in Balochistan and KPK.

## Ownership

**Ownership 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.

**Stability** The holding institution, ASA International, is one of the world's largest international microfinance institutions providing small, socially responsible loans to low income entrepreneurs across Asia and Africa, most of whom are women. It has a wide network of 2028 branches in more than 13 countries.

**Business Acumen** ASA International's diverse presence across multiple countries gives it keen market insights into the microfinance business.

**Financial Strength** The group has a consolidated asset base of ~USD 490mln and a consolidated equity position of ~USD 90mln at end-Jun'24. ASA International Group PLC is also listed on the London Stock Exchange with a share price of ~£ 69 on 11th Oct 2024.

## Governance

**Board Structure** The Company's Board of Directors (BoD) comprises seven members, which include two independent, five non-executive directors, and the CEO as an executive director. The Board is chaired by Ms. Karin Kersten, who is the CEO of ASA International. The non-executive directors all represent ASA International.

**Members' Profile** Ms Kersten is the Chief Executive Officer of ASA International. She previously worked for ABN AMRO Bank, where she had a distinguished career, most recently as Managing Director, Trade & Commodity Finance. Mr. Malik joined the Board of ASA Microfinance Bank (Pakistan) Ltd. in November, 2019. He joined the Pakistan Army in 1973 and after a meritorious 38 years of service retired in 2011. Ms. Kemna has been a Non-Executive Director since 2018 and joined the Board of ASA Microfinance Bank (Pakistan) Ltd. in November, 2019. She is the Chair of the Board of Directors for Dutch pension provider and asset manager MN. Mr. Muhammad Kamran Shehzad is a former Deputy Governor of State Bank of Pakistan & Managing Director, SBP- Banking Services and former Banking Ombudsman Pakistan also.

**Board Effectiveness** There were two board meetings held during 1HCY24. The Company has formed three committees at the Board level – 1) Audit Committee, 2) Human Resource Remuneration and Nomination 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 CY23. 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 different banks and financial institutions. He holds MBA degree from IBA, Karachi.

**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.

**MIS** To enhance data safety, management has significantly improved the Data collection and management center and has acquired a program for compliance handling.

**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 Microfinance Bank has recently updated its core banking system with the latest version of Temenos software(T24). On the other hand, the loan disbursements and collection process is currently all manual and done through cash transactions.

## Business Risk

**Industry Dynamics** The microfinance banking sector in Pakistan is experiencing steady growth, with its Gross Loan Portfolio (GLP) reaching PKR 510 billion as of March 2024, representing a 4% increase since December 2023. Microfinance banks hold the largest share of this portfolio, accounting for 77%, while non-banking microfinance companies make up the remaining 23%. Overall, the microfinance banking sector in Pakistan is making progress, but face challenges due to the country's economic situation.

**Relative Position** The Company has an Outstanding Loan Portfolio (OLP) amounting to ~PKR 21,142mln at end-Jun'24, which constitutes a market share of ~3.8% as per the OLP of microcredit institutions in the country.

**Revenue** The Company earned total revenue of ~PKR 5.6bln during 1HCY24 as compared to ~PKR 4.4bln during 1HCY23. The Company's revenue stems from loan service charges (Interest income), risk coverage fees, and loan processing fees. The top line of the company is supported by profit earned on bank deposits.

**Profitability** The Company earned a net profit after tax amounting to ~PKR 1,436mln during 1HCY24 as compared to ~PKR 923mln during 1HCY23.

**Sustainability** The Company has received the Microfinance Bank license and converted into Microfinance Bank last year in November and the Company also installed Temenos Software. However, the Company does not have license to mobilize the deposits yet, which they aim to get by 1QCY25.

## Financial Risk

**Credit Risk** Despite the current economic situation, the Company's write-offs stood at ~PKR 41mln in 1HCY24, depicting the Company's strong ability to manage its credit risk

**Market Risk** ASA Microfinance Bank strategically allocates the majority of its deposits to savings accounts, resulting in negligible market risk. By adopting this approach, the bank effectively manages its exposure to market fluctuations and volatility.

**Funding** The majority of the Company's funding is from foreign sources and the Company has to hedge its risk through futures contracts with banks, resulting in exchange rate risk. Mobilization of deposits after the conversion to a microfinance bank may help with these risks in the future.

**Cashflows & Coverages** The total liabilities of the Company stood at ~PKR 19,431mln at end-Jun'24. The Company has adequate total assets to cover its current liabilities, standing at ~PKR 29,113mln at end-Jun'24.

**Capital Adequacy** The Company's equity base stood at ~PKR 9,681mln at end-Jun'24 compared with ~PKR 10,296mln at end-Dec'23. The current level of equity base is considered good. The Capital Adequacy ratio stood at 34% at end Jun'24.



PKR mln

**ASA Microfinance Bank (Pakistan) Limited**  
**Unlisted Public Limited**

Jun-24	Dec-23	Dec-22	Dec-21
6M	12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	21,226	19,414	17,779	13,959
2 Investments	333	-	-	-
3 Other Earning Assets	4,605	1,180	1,215	811
4 Non-Earning Assets	3,034	2,811	3,732	1,256
5 Non-Performing Finances-net	(85)	(167)	130	(168)
<b>Total Assets</b>	<b>29,113</b>	<b>23,238</b>	<b>22,856</b>	<b>15,859</b>
6 Deposits	-	-	-	-
7 Borrowings	13,019	8,215	11,623	8,605
8 Other Liabilities (Non-Interest Bearing)	6,413	4,726	1,964	683
<b>Total Liabilities</b>	<b>19,432</b>	<b>12,941</b>	<b>13,587</b>	<b>9,287</b>
<b>Equity</b>	<b>9,682</b>	<b>10,297</b>	<b>9,270</b>	<b>6,571</b>

**B INCOME STATEMENT**

1 Mark Up Earned	5,688	9,632	7,346	5,229
2 Mark Up Expensed	(1,077)	(2,188)	(1,922)	(1,068)
3 Non Mark Up Income	(21)	(44)	(6)	(9)
<b>Total Income</b>	<b>4,590</b>	<b>7,401</b>	<b>5,417</b>	<b>4,152</b>
4 Non-Mark Up Expenses	(1,954)	(3,127)	(2,129)	(1,490)
5 Provisions/Write offs/Reversals	101	(273)	(55)	(321)
<b>Pre-Tax Profit</b>	<b>2,738</b>	<b>4,001</b>	<b>3,234</b>	<b>2,341</b>
6 Taxes	(1,301)	(1,528)	(1,172)	(687)
<b>Profit After Tax</b>	<b>1,436</b>	<b>2,473</b>	<b>2,062</b>	<b>1,655</b>

**C RATIO ANALYSIS**

**1 Performance**

Portfolio Yield	53.9%	49.8%	45.2%	42.5%
Minimum Lending Rate	29.8%	29.4%	25.1%	23.1%
Operational Self Sufficiency (OSS)	193.5%	171.6%	177.5%	179.3%
Return on Equity	28.8%	25.3%	26.0%	29.0%
Cost per Borrower Ratio	5,123.6	5,121.5	3,808.5	3,193.4

**2 Capital Adequacy**

Net NPL/Equity	-0.9%	-1.6%	1.4%	-2.6%
Equity / Total Assets (D+E+F)	33.3%	44.3%	40.6%	41.4%
Tier I Capital / Risk Weighted Assets	40.7%	45.4%	41.5%	42.2%
Capital Adequacy Ratio	N/A	N/A	N/A	N/A
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	27.9%	26.7%	31.4%	34.2%

**3 Funding & Liquidity**

Liquid Assets as a % of Deposits & Short term Borrowings	72.8%	15.1%	38.6%	27.2%
Demand Deposit Coverage Ratio	N/A	N/A	N/A	N/A
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	0.0%	0.0%	0.0%	0.0%
Net Advances to Deposits Ratio	N/A	N/A	N/A	N/A

**4 Credit Risk**

Top 20 Advances / Advances	0.0%	0.0%	0.0%	0.0%
PAR 30 Ratio	0.0%	0.3%	1.4%	0.3%
Write Off Ratio	1.0%	0.4%	0.6%	3.2%
True Infection Ratio	0.9%	0.7%	1.9%	3.0%
Risk Coverage Ratio (PAR 30)	231.9%	383.2%	46.9%	497.3%

### Credit Rating

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.

Scale	Long-Term Rating
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	<b>Very high credit quality.</b> 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.
A+ A A-	<b>High credit quality.</b> 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.
BBB+ BBB BBB-	<b>Good credit quality.</b> 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.
BB+ BB BB-	<b>Moderate risk.</b> 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+ B B-	<b>High credit risk.</b> 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.
CCC CC C	<b>Very high credit risk.</b> 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.

Scale	Short-Term Rating
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.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

### Rating Modifiers | Rating Actions

<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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><b>Rating Watch</b> 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><b>Suspension</b> 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><b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.</p>	<p><b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.</p>
---	---	--	--	---

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening. Rating actions may include "maintain", "upgrade", or "downgrade".

**Note:** This scale is applicable to the following methodology(s):

a) Broker Entity Rating	e) Holding Company Rating
b) Corporate Rating	f) Independent Power Producer Rating
c) Debt Instrument Rating	g) Microfinance Institution Rating
d) Financial Institution Rating	h) Non-Banking Finance Company

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell

### **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 | Clause 11-(A)(p).
- (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 | 17-(a)
- (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)

### **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