



The Pakistan Credit Rating Agency Limited

Rating Report

NRSP Microfinance Bank Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-Dec-2023	A-	A2	Negative	Maintain	Yes
14-Dec-2022	A-	A2	Negative	Downgrade	Yes
29-Apr-2022	A	A1	Negative	Maintain	Yes
30-Apr-2021	A	A1	Stable	Maintain	Yes
23-Oct-2020	A	A1	Stable	Maintain	Yes
27-Apr-2020	A	A1	Negative	Maintain	Yes
28-Oct-2019	A	A1	Negative	Maintain	-
29-Apr-2019	A	A1	Negative	Maintain	-
06-Nov-2018	A	A1	Stable	Maintain	-
30-Apr-2018	A	A1	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

NRSP was facing challenges, as the majority of the players came under pressure due to multiple factors. The management in conjunction with the support of the key sponsors chalked out a plan to steer the bank out of the problem zone. Although the problems persist, the bank has travelled a long distance and expects to close the calendar year in a much-improved position compared to last year. NRSP Bank has been serving an increasing number of customers and has cementing its position in the industry with ~6.4% share in the total gross loan portfolio as of Jun'23. The GLP of the bank stood at ~PKR 32bln at the end of Sept'23. The bottom line of the Bank increased drastically, depicting a profit of ~PKR 546mln at the end of Sept'23 compared to a loss in Sept'22 of ~PKR 2,525mln. The Major sponsor, NRSP (Parent Co) injected ~PKR 1bln in NRSP bank in Feb'23 and promised to invest more with other sponsor's of NRSP Bank. A new equity injection Plan amounting to PKR 3.5bln is under discussion with the Board and sponsors.

Under that plan, Proparco also confirmed the grant of Euro 0.195mln under their technical assistant program. The proposed equity injection would support the bank in future growth prospects.

The equity of the company stood at ~PKR 1.66bln as of Sept'23 compared to ~PKR 92mln at the end of Dec'22, the increase in equity of the bank is due to the injection of equity by the NRSP (Parent Co). The Bank is continuously struggling to comply with CAR requirements. The CAR of the bank stood at ~ (-6.5%) at the end of Sept'23 compared to ~(-11.5%) in Jun'23 and ~(-13.2%) at the end of Dec'22. The bank expects to cover a significant gap by the end of this year on the negative side of CAR. The management is projecting to cover the remaining distance from the legal requirement by the end of next year, based on their own performance. Alongside this, a capital injection plan is being worked out, by virtue of which the bank would be soliciting significant capital injection from its sponsors. There is express commitment from key sponsors.

NRSP Microfinance Bank constitutes a GLP of PKR ~31.92bln in 9MCY23 (CY22 PKR ~32.3bln). GLP includes the NPL of PKR 2.8bln in 9MCY23 (CY22 PKR ~5.16bln). The bank shows efficiency in collecting its Non-performing loans as it decreases by 45.74%. The Cash and bank balances increased by ~6% to PKR ~1,928mln in 9MCY23 (PKR1,819mln CY22).

This is important to note that the provision charged by the bank has drastically reduced by ~70% changing the company's table to profits. The sponsor has reassured their support, both in technical and financial forms, to the bank historically with an expression of explicit intention from NRSP to provide financial support in the form of capital injection, as and when required.

The ratings are dependent upon the bank's ability to steer out of the current challenges while improving the risk profile.

Disclosure

Name of Rated Entity	NRSP Microfinance Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Financial Institution Rating(Oct-23),Methodology Microfinance Institution Rating(Oct-23)
Related Research	Sector Study Microfinance(Sep-23)
Rating Analysts	Madiha Sohail madiha.sohail@pacra.com +92-42-35869504



Profile

Structure NRSP Microfinance Bank Limited ("The Bank") was incorporated as a public unlisted company in October 2008 under Section 32 of the Companies Ordinance, 1984 (now the Companies Act, 2017). The bank commenced nationwide operations in March 2011

Background The Bank builds on the experience of its parent institution - National Rural Support Program (NRSP) which in 2008, spun-off its Micro Enterprise Development Programme (MEDP) into a separate bank.

Operations The Bank currently operates with its head office in Bahawalpur, a key district in Southern Punjab, which places it closer to its target market. The Bank is operational through a countrywide branch network of 135 branches including 37 Islamic branches as of Sept, 2023. A wide range of financial services is offered by the bank including micro-lending, micro-insurance, Islamic banking products, and deposits to the financially excluded individuals living in both ur-ban and rural areas of Pakistan.

Ownership

Ownership Structure The Bank is a subsidiary of the National Rural Support Program (NRSP) with a shareholding of 57.40%. Other institutional shareholders include International Finance Corporation (IFC) (16.02%), PROPARCO (15.91%), and Acumen (10.68%). Continued sponsor support accompanied by a stable ownership pattern, since inception, bodes well for the bank. The good financial position of sponsors strengthens the financial muscle of the bank.

Stability Continued sponsor support accompanied by a stable ownership pattern, since inception, bodes well for the bank.

Business Acumen NRSP – a nonprofit organization – established in 1991, is an autonomous body limited by a government guarantee. It is the largest Rural Support Program in the country in terms of out-reach, staff, and development activities. Other sponsors include; IFC - a member of the World Bank Group and Acumen - incorporated in 2001, share the common purpose of developing underprivileged societies of developing economies and encouraging financial inclusion

Financial Strength Good financial position of sponsors strengthens the financial muscle of the bank

Governance

Board Structure The overall control of the Bank vests in a nine-member board of directors (BOD), including the CEO. The Chairman of the Board is Mr. Rashid Bajwa and Mr. Riaz Bangash is the CEO/President of the bank. Two independent directors are part of the Board. The directors are experienced professionals having exposure to various sectors, including the microfinance industry.

Members' Profile The directors are experienced professionals having exposure in various sectors, including the microfinance industry.

Board Effectiveness The Board of Directors is branched into four sub-committees namely (i) Audit (ii) Remuneration & Compensation and (iii) Operational Risk and Policy (iv) Information and Technology . These committees ensure effective over-sight of the bank's affairs and strengthen the Board's governance role.

Transparency M/S A.F. Ferguson & Co. are the external auditors of the bank. The auditor has expressed a qualified conclusion on the financial statements of 6MCY22 due to undercharging of provisions.

Management

Organizational Structure The bank has divided its organizational structure into ten departments with each department head reporting directly to the CEO, while the head of the internal audit department reports to the Audit Committee

Management Team The Chairman of the Board is Mr. Rashid Bajwa and Mr. Riaz Bangash is the CEO/President of the bank. Two independent directors are part of the Board. The directors are experienced professionals having exposure to various sectors, including the microfinance industry.

Effectiveness To ensure the effectiveness of the operations, the bank has three management committees in place, namely; i) Operations and Risk Management Committee (ORMC), ii) Asset Liability Committee (ALCO) and iii) IT Steering Committee.

MIS Detailed MIS reports are generated to support the senior management in timely and effective decision-making. MIS includes reports about disbursements, repayments, recoveries, deposits, and compliance.

Risk Management Framework The bank has instituted policies for assessing credit worthiness of loan applicants, which is par-amount to its business model. Recently, the bank has particularly steered its focus toward consolidating its position by adopting more stringent and efficient risk control mechanisms.

Technology Infrastructure The bank uses Oracle Flexcube as its core banking software; implemented since 2012. A back-to-back support contract from Oracle is directly in place to ensure a smooth system run

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises 50 microfinance providers including 30 micro-finance institutions (MFIs). Active Borrowers continued the trend as 9.3 million borrowers were achieved during 3MCY23, an increase of 5.6% compared to CY22. Similarly, the GLP surpassed PKR 509bln during 3MCY23, an increase of 26.1% compared to the GLP in CY22. The further analysis explains the major contribution to the growth of active borrowers and GLP was contributed by the MFB peer group where Mobilink MFB was at the top of the list due to the significant adoption of digital credit and greater outreach to the customer base. NBMFC's peer group also contributed to the increase by adding 94,000 active borrowers and PKR 2.6bln in GLP. In the case of MFBs, PAR > 30 days slightly increased to 5.3% (CY21: 5.2%). However, the PAR > 30 days of MFIs recovered to report at 4.1% in CY22 (CY21: 5.5%).

Relative Position The bank catered to 3.3% of the borrowers in the microfinance industry (including MFIs, RSPs, and other projects) as of the end of June 22, grabbing a 6.7% share of the market in terms of Gross Loan Portfolio (GLP).

Revenue The interest/Mark income of the Bank increased by 244% to PKR 6,841mln during 9MCY23 (9MCY22: PKR 1,986mln). Consequently, net interest income also increased to report at PKR 2,627mln (Loss in 9MCY22: PKR -907).

Profitability During 9MCY23, the bank's net profitability increased manifold to report a profit of PKR 546mln (9MCY22: Loss of PKR -2,525mln).

Sustainability The microfinance industry has notably absorbed the effect of macroeconomic instabilities in its portfolio in the shape of slumped growth and elevated Portfolio at Risk (PAR). NRSP MFBs, in terms of affect absorption, have been on the higher end, due to their product mix concentration and other factors.

Financial Risk

Credit Risk The bank's loan book is primarily concentrated on non-collateralized loans. As of end-Sept'23, the GLP reported at PKR 31,964mln (end-Dec'22: PKR 32,386mln). Advances continued to be dominated by Agri Input Loans, followed by Micro-Enterprise Loans and Livestock Loans. The bank's infection ratio total to 9% in Sept'23 (End-Dec'22: 16%), mainly as a result of a marginal decrease in NPLs to PKR 2,849mln on Sept'23 (End Dec'22: PKR 5,169mln).

Market Risk As of end-Sept'23, the Bank's investment book increased by 45.3% to PKR 3,540mln (End-Dec'22: PKR 2,436mln).

Funding The bank's funding is majorly fueled through deposits, which primarily consist of time deposits (56.2%).

Cashflows & Coverages Liquidity profile(during 9MCY23 as the bank's liquid assets to deposits and short-term borrowings ratio reported to 25.6% (End-Dec'22: 26.6%).

Capital Adequacy The central bank required microfinance banks to maintain CAR at a minimum of 15%. As at end-Sep'23, the bank is CAR non-compliant



PKR mln

NRSP Microfinance Bank Public Limited	Sep-23	Dec-22	Dec-21	Dec-20
	9M	12M	12M	12M

A BALANCE SHEET

1 Total Finances - net	29,117	27,217	28,726	28,048
2 Investments	2,627	2,436	6,782	8,638
3 Other Earning Assets	5,397	4,611	7,703	7,320
4 Non-Earning Assets	9,597	9,116	9,717	9,271
5 Non-Performing Finances-net	1,508	811	(1,547)	(115)
Total Assets	48,246	44,191	51,381	53,161
6 Deposits	35,732	32,444	34,127	39,285
7 Borrowings	4,567	6,587	8,378	4,068
8 Other Liabilities (Non-Interest Bearing)	6,285	5,067	4,597	4,298
Total Liabilities	46,584	44,098	47,102	47,651
Equity	1,660	89	4,274	5,498

B INCOME STATEMENT

1 Mark Up Earned	6,842	4,188	7,989	8,852
2 Mark Up Expensed	(4,214)	(3,973)	(3,790)	(3,929)
3 Non Mark Up Income	1,415	1,518	1,086	1,077
Total Income	4,042	1,733	5,286	6,000
4 Non-Mark Up Expenses	(2,303)	(3,364)	(3,160)	(3,115)
5 Provisions/Write offs/Reversals	(925)	(4,591)	(3,988)	(1,741)
Pre-Tax Profit	814	(6,222)	(1,862)	1,144
6 Taxes	(268)	2,004	631	(351)
Profit After Tax	546	(4,218)	(1,232)	793

C RATIO ANALYSIS

1 Performance

Portfolio Yield	26.3%	12.2%	24.8%	31.1%
Minimum Lending Rate	30.8%	37.7%	36.3%	30.7%
Operational Self Sufficiency (OSS)	110.9%	47.8%	83.0%	113.0%
Return on Equity	83.0%	-193.0%	-25.2%	15.6%
Cost per Borrower Ratio	N/A	N/A	N/A	N/A

2 Capital Adequacy

Net NPL/Equity	90.7%	875.7%	-36.2%	-2.1%
Equity / Total Assets (D+E+F)	3.4%	0.2%	8.3%	10.3%
Tier I Capital / Risk Weighted Assets	-6.9%	-13.2%	7.8%	13.6%
Capital Adequacy Ratio	-6.9%	-13.2%	11.1%	16.4%
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	818.8%	-98.7%	-22.4%	16.9%

3 Funding & Liquidity

Liquid Assets as a % of Deposits & Short term Borrowings	25.6%	26.6%	47.5%	41.8%
Demand Deposit Coverage Ratio	165.6%	221.5%	461.0%	562.4%
Liquid Assets/Top 20 Depositors	75.6%	68.5%	134.0%	114.6%
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	88.7%	83.1%	80.3%	90.6%
Net Advances to Deposits Ratio	85.7%	86.4%	79.6%	71.1%

4 Credit Risk

Top 20 Advances / Advances	0.1%	0.0%	0.1%	0.1%
PAR 30 Ratio	8.9%	16.0%	6.9%	4.2%
True Infection Ratio	8.9%	16.0%	6.9%	4.2%
Risk Coverage Ratio (PAR 30)	47.0%	84.3%	172.9%	109.3%

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 Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
BB+	
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-	
B+	
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-	
CCC	
CC	Very high credit 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
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.



*The correlation shown is indicative and, in certain cases, may not hold.

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'.

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.

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) 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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.

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

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

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- (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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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- (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)

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