The Pakistan Credit Rating Agency Limited

Rating Report

Apna Microfinance Bank Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jul-2024	BBB-	A4	Negative	Maintain	Yes
27-Jul-2023	BBB-	A4	Negative	Downgrade	Yes
29-Apr-2023	BBB+	A3	Negative	Maintain	Yes
30-Apr-2022	BBB+	A3	Negative	Maintain	Yes
30-Apr-2021	BBB+	A3	Stable	Maintain	Yes
30-Apr-2020	BBB+	A3	Stable	Maintain	Yes
30-Oct-2019	BBB+	A3	Stable	Maintain	-
30-Apr-2019	BBB+	A3	Stable	Maintain	-
04-Dec-2018	BBB+	A3	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Apna Microfinance Bank is one of a few MFBs that faced the challenges posed by COVID-19, weakening in the macroeconomic fundamentals and unprecedented inflation. The bank took a major hit in the last two years. However, it was able to publish its audited financial statements for 2022 and 2023. The management of Apna Bank made significant efforts to curtail and contain the negative consequences of portfolio restructuring. During CY23, the Bank reported a loss after tax amounting to PKR 3.59bln (CY22: 4.49 bln). One of the primary contributors to this loss is the provision charge amounting to PKR 1.3 billion during the year. This provision primarily relates to portfolios classified by the regulator. As of year-end Dec'23, on account of accumulated losses amounting to PKR 10.97bln (negative PKR 7.38bln), the Bank has reported negative net assets amounting to PKR 6.64bln (CY22: PKR 4.05bln). The net investments stood at PKR 1.25bln (Dec'22: PKR 2.46bln). The net advances of the Bank stood at PKR 6.59bln as of the end Dec'23 (Dec'22: 8.35bln). The Bank's Advances-to-deposit ratio was reported at 51.7% (CY22: 53.4%). The Bank remained non-compliant with MCR and CAR requirements. The sponsors have demonstrated their unwavering commitment to rescuing the Bank. During CY'23, the sponsors injected PKR 1bln. Additionally, they have issued a formal letter of support to the Bank, pledging to provide additional funding this year. This will be done in two tranches; PKR 500mln each. The paid-up capital of the bank will also be enhanced. The management has devised and is implementing a detailed plan of action to overcome the financial and operational difficulties faced by the Bank. The key elements of the strategy are a) Commitment by the sponsors and Injections on further equity b) Increasing secured advances portfolio (100% Gold backed and against salary) c) Recovery of non-performing advances d) Reducing cost of deposits and e) Optimization of operations and reduction of costs by closing the loss-making branches. Considering above mention equity injection significantly reduced NPLs' provisioning and reduction in discount rate management expects net profit on a monthly basis, full-year profitability not much later. There is a cautionary approach on the lending side and the liquidity is well preserved.

Going forward, the management has developed and executed a recovery and restructuring strategy for the portfolio, successfully recovering a significant portion of non-performing advances. They are optimistic about future recoveries, which will lead to provision reversals and enhanced financial positions. Turnaround can be achieved by further equity injection and building up performing assets to generate income for the bank in upcoming years. Compliance with CAR is essential, going forward. Besides, turning loss into profitability is imperative.

Disclosure	
Name of Rated Entity	Apna 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 | Rating Modifiers(Apr-24),Methodology | Financial Institution Rating(Oct-23)
Related Research	Sector Study | Microfinance(Sep-23)
Rating Analysts	Madiha Sohail | madiha.sohail@pacra.com | +92-42-35869504

Profile

Structure Apna Microfinance Bank Limited ("the bank") was incorporated in May 2003 as a Public Limited Company under the Companies Act, 2017 (formerly Companies Ordinance, 1984). The bank is listed on Pakistan Stock Exchange (PSX) since the commencement of its operations in 2005 under the Microfinance Institution Ordinance, 2001.

Background In June-15, the bank was granted a national-level license after completion of regulatory capital requirements. Presently, the bank operates with a network of 111 branches spread across Pakistan

Operations The bank offered a wide variety of lending products customized according to the needs of various communities. These include loans for farmers, Livestock loans, Agri-loans, House loans, Tractor Loans, Salary loans, and Business loans. However, currently, new disbursements are at a halt.

Ownership

Ownership Structure The bank is a part of the United International Group (UIG) with a pre-dominant ownership stake held by Mr. Mian Shahid through his group companies, especially United Track and United Software.

Stability There is expected change in the shareholding of the bank in the foreseeable future as the sponsor shareholder is currently evaluating few options.

Business Acumen United International Group (UIG) has its foothold in various business ventures. The group has interests in microfinance, insurance, tracking business, information technology, agriculture, and business consultancy. UIG is led by its Founder and Chairman – Mian Akram Shahid – the single largest shareholder

Financial Strength United Insurance is the flagship company of the Group.

Governance

Board Structure The overall control of the bank vests with nine members. The bank has two independent directors on the Board as per the Prudential Regulations requirement for MFBs. The board has four sub-committees; (i) Audit Committee (ii) HR and Remuneration Committee (iii) Risk and Compliance Committee, and (iv) Monitoring Committee.

Members' Profile Strengthening the governance framework to support healthy operations is important. Mr. Wajahat Malik is the CEO and President. All the board members are experienced professionals carrying experience of an average of over 20 years.

Board Effectiveness During the year, one board meetings were held; the attendance of the board remained good in the meetings. The board and committee meeting minutes are formally maintained, showing the high attendance of the members.

Transparency The audit committee of the bank comprises five members and is chaired by an independent director, Mr. Abdul Aziz Khan. A separate Internal Audit Department is in place which reports independently to the Audit Committee. RSM Avais Hyder Liaquat Nauman & Co. Chartered Accountants are the external auditors of the Bank. The auditors have added emphasis of matter paragraph in the audit report for 2023 and have raised material uncertainty relating to going concern.

Management

Organizational Structure A total of seven department heads report directly to the President. The SAM Department with reporting line to the COO has been established as collateral to the disbursements to strengthen the recovery ratio.

Management Team The management positions were filled by qualified professionals to strengthen departmental results. These included the Head of SAM, the Head of Business, and the Head of Product Development.

Effectiveness Six Management Committees are in place namely i) Asset Liability Management Committee (ALCO) ii) Credit Committee, iii) Management Committee, iv) Compliance Committee, v) HR Committee, and vi) IT Steering Committee to ensure operational efficiency and efficient decision-making.

MIS To enhance data safety, the management improved the data collection and management center and acquired a program for compliance handling as well

Risk Management Framework As a consequence of the SBP inspection (as stated above), the bank envisaged betterment in risk management through improvement in the overall control environment by revisiting and devising risk management policies and control procedures to manage its credit risk

Technology Infrastructure Apna Bank uses Auto-banker III (ABIII) as its core-banking software. Developed by a local vendor, ABIII provides flexibility to consolidate records based on branch, repayment behavior, classification of loan, and borrower profile.

Business Risk

Industry Dynamics The microfinance Bank's asset quality witnessed significant impairment due to multiple factors, the high inflationary environment amidst a slowdown in the economy, and the high-interest rate. In the Microfinance sector, the Microfinance Banks (MFBs) maintained the highest share of the total GLP at ~77%, while NBMFCs (including MFIs and RSPs) made up the remaining ~23% during CY23. MFBs' bottom line experienced a negative growth of ~52.7% (CY22: ~112.3%). Thereby, MFBs' equity continued to decline in CY23 by ~14.5%. Rising NPLs have been a major sign of concern for the MFBs sector. This issue not only stems from the fresh portfolio disbursed but also due to the carried-forward loan portfolio against the deferments allowed during the pandemic breakout. In CY23, the MFBs' NPLs increased to ~9.5% (~8.8% in CY22). Due to persistent losses and equity erosion, the MFBs sector capital structure also reflects a deteriorated outlook with the overall CAR of the sector falling way below the regulatory benchmark of 15.0% to ~7.6%in CY23. The Sector's Gross Loan Portfolio (GLP) clocked in at PKR~408bln as of End-Dec'23, up ~12.8% since End-Dec'22, when it recorded at PKR~361bln. However, during CY23, the sector's NPLs increased by ~12.3%, which is lower than the increase in NPLs during CY22 when the growth rate stood at ~61.8%.

Relative Position At end-Dec23, the bank's market share remained around 2.7% in terms of the Gross Loan Portfolio (CY22: 3%).

Revenue The markup earned witnessed an increase (CY23: PKR 2.5bln; CY22: PKR 2.2bln) attributable to a higher contribution from advances to stand at PKR 1.9bln (CY22: PKR 1.7bln). The markup expenses also recorded an uptick (CY23: PKR 2.7bln; CY22: PKR 1.6bln). Non-mark-up income increase to PKR 212mln (CY22: PKR 171mln) due to sustained fee and commission income.

Profitability During CY23, the bank's non-markup expenses clocked in at PKR 2.2bln (CY22: PKR 2.2bln). The bank booked a provision of PKR 1.3bln (CY22: PKR 3.4bln) due to the higher NPLs. The bank's profitability took a major hit and recorded losses of PKR 3.5bln (CY22: loss of PKR 4.4bln).

Sustainability The bank is only allowed to lend what it recovers. The sponsoring shareholders are finding ways to recapitalize the bank, for which a few options are being considered. The management is striving for recoveries, where they are hopeful that a significant amount of loan can be recovered. Also, the current portfolio is being switched towards a gold portfolio to further secure the bank, while building a revenue stream.

Financial Risk

Credit Risk During CY23, the Gross Loan Portfolio (GLP) - net declined to PKR 6.5bln (end-Dec22: PKR 8.35bln). The infection ratio further increased to 41% (endDec22: 38.1%) attributable to a hike in the non-performing advances recorded at PKR 4.7bln (end-Dec22: PKR 4.6bln).

Market Risk At end-Dec23, the cash and bank balances with SBP and NBP are PKR 2bln; balances with other banks are PKR 2.3bln; whereas investment stood at PKR 1.2bln.

Funding The bank's funding is majorly fueled through deposits (end-Dec23: PKR 22.4bln; end-Dec22: PKR 22.6bln). The demand deposits clocked at PKR 13.1bln (end-Dec22: PKR 15.6bln)

Cashflows & Coverages A good size of liquidity is parked in government securities and bank placements, which support the risk profile. The net advances to deposit ratio also declined to stand at 29.3% (end-Dec22: 37.4%).

Capital Adequacy At end-Dec23, the bank's equity base was recorded negatively to stand at PKR 6.6bln (end-Dec22: PKR 4bln). The bank remained non-compliant in meeting the minimum CAR requirement of 15%. The sponsoring shareholders are finding ways to recapitalize the bank, for which a few options are being considered.

Apna Microfinance Bank Listed Public Limited	Dec-23 12M	Dec-22 12M	Dec-21 12M	Dec-20 12M
A BALANCE SHEET				
1 Total Finances - net	6,939	7,527	7,999	10,118
2 Investments	1,154	2,366	1,160	1,604
3 Other Earning Assets	2,388	2,237	4,285	9,505
4 Non-Earning Assets	6,787	6,530	6,726	7,502
5 Non-Performing Finances-net	(249)	927	3,607	101
Total Assets	17,020	19,587	23,777	28,831
6 Deposits	22,450	22,606	22,084	26,179
7 Borrowings	-	-	0	3
8 Other Liabilities (Non-Interest Bearing)	1,211	1,028	1,250	390
Total Liabilities	23,660	23,634	23,334	26,572
Equity	(6,641)	(4,047)	442	2,259
B INCOME STATEMENT				
1 Mark Up Earned	2,527	2,266	908	3,418
2 Mark Up Expensed	(2,731)	(1,600)	(1,459)	(1,389)
3 Non Mark Up Income	212	171	162	177
Total Income	8	836	(388)	2,206
4 Non-Mark Up Expenses	(2,263)	(2,234)	(2,169)	(2,078)
5 Provisions/Write offs/Reversals	(1,305)	(3,479)	(86)	(70)
Pre-Tax Profit	(3,560)	(4,876)	(2,643)	58
6 Taxes	(34)	387	712	(21)
Profit After Tax	(3,594)	(4,489)	(1,931)	37
C RATIO ANALYSIS				
1 Performance				
Portfolio Yield	17.8%	15.6%	4.5%	28.1%
Minimum Lending Rate	53.2%	61.2%	33.2%	36.4%
Operational Self Sufficiency (OSS)	42.6%	32.7%	27.5%	99.0%
Return on Equity	N/A	-124.5%	-142.9%	1.8%
Cost per Borrower Ratio	N/A	N/A	N/A	N/A
2 Capital Adequacy				
Net NPL/Equity	3.7%	22.9%	815.3%	4.5%
Equity / Total Assets (D+E+F)	-39.0%	-20.7%	1.9%	7.8%
Tier I Capital / Risk Weighted Assets	-140.0%	-76.6%	6.7%	10.7%
Capital Adequacy Ratio	-140.0%	-76.6%	7.9%	11.8%
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	-88.8%	-1014.8%	-85.5%	2.0%
3 Funding & Liquidity				
Liquid Assets as a % of Deposits & Short term Borrowings	24.7%	28.0%	31.8%	51.6%
Demand Deposit Coverage Ratio	42.2%	52.4%	62.0%	100.5%
Liquid Assets/Top 20 Depositors	N/A	N/A	N/A	109.1%
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	100.0%	100.0%	100.0%	100.0%
Net Advances to Deposits Ratio	29.8%	37.4%	52.6%	39.0%
4 Credit Risk				
Top 20 Advances / Advances	0.0%	0.0%	0.0%	0.0%
PAR 30 Ratio	41.1%	38.5%	34.2%	4.6%
Write Off Ratio	0.0%	0.0%	0.0%	0.0%
True Infection Ratio	41.1%	38.5%	34.2%	4.6%
Risk Coverage Ratio (PAR 30)	105.2%	80.0%	12.0%	79.1%

Credit Rating

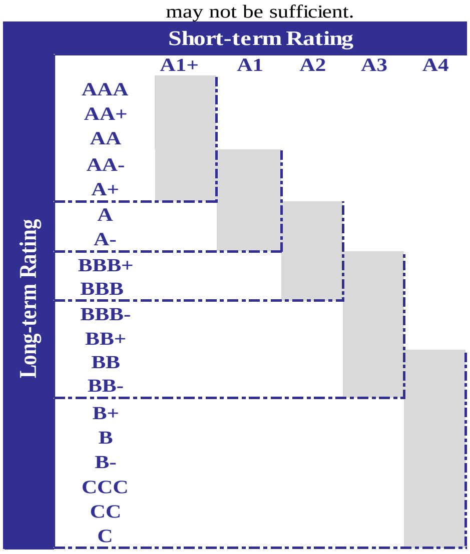
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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)
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