RATING REPORT

NRSP Microfinance Bank Limited

REPORT DATE:
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RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Date	*Apr 28, '17*		*Oct 28, '16*	
Instrument	A		A	
Rating Outlook	Stable		Stable	
Rating Date	*Apr 28, '17*		*Oct 28, '16*	

COMPANY INFORMATION

Incorporated in 2008	**External auditors:** M/s Deloitte M.Yousaf Adil Saleem & Co. (2016) A. F. Ferguson & Co., Chartered Accountants (2017)
Public Limited Company	**Chairman of the Board**: Dr. Rashid Bajwa
Key Shareholders (with stake 5% or more):	**Chief Executive Officer**: Mr. Zahoor Hussain Khan
National Rural Support Program (NRSP) – 52.06%	
International Finance Corporation (IFC) – 16.02%	
KfW – 15.9%	
Acumen Fund – 10.70%	
Acumen Capital Markets – 5.34%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Micro Finance Institutions
http://www.jcrvis.com.pk/images/MicroFinance.pdf

NRSP Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

NRSPB is licensed by SBP to operate as a nationwide microfinance bank under the Microfinance Ordinance, 2001. The bank provides microfinance services to the rural low income sector with an overall objective of mitigating poverty and promoting social welfare. Bank operated through 82 branches and 15 rural service centers at end-2016. The bank also acquired commercial Islamic banking license by SBP in 2016

Profile of Chairman

Dr. Rashid Bajwa is the current Chief Executive Officer (CEO) of the National Rural Support Program (NRSP). Mr. Bajwa also holds various honorary positions such as Chairman of Pakistan Microfinance Network, Member of State Bank of Pakistan's committee of Rural Finance and Member of the General Body of the Pakistan Poverty Alleviation Fund and Sindh Rural Support Program.

Profile of CEO

Mr. Zahoor Hussain Khan serves as the President/CEO of NRSP Bank, where he has led the whole transformation process of NRSP Bahawalpur Region's microfinance operations into a fully regulated and licensed NRSP Microfinance Bank Limited. He has vast experience of designing, planning, monitoring, policy formulation and product development for rural microfinance.

RATING RATIONALE

NRSP Microfinance Bank Limited (NRSPB) was incorporated as a public limited company in 2008 under the Companies Ordinance 1984. The bank has licenses to provide microfinance banking services and commercial Islamic banking services across the country. Although the bank has nationwide operations, the same are primarily concentrated in Punjab. The registered office of NRSPB is situated in Islamabad, while the head office is based in Bahawalpur.

Rating Drivers

Sponsor profile: National Rural Support program (NRSP) is the primary shareholder of NRSP microfinance bank, while other shareholders include reputable organizations such as International Finance Corporation (IFC), KfW Germany and Acumen Fund. Assigned ratings incorporate sound profile of these sponsors carrying vast experience in the microfinance sector. Sponsors have demonstrated commitment in the form of both technical knowledge transfer and financial support during the recent years. JCR-VIS anticipates this support to continue in case the need arises.

Portfolio growth: Net advances of the bank increased to Rs. 15.4b (2016: Rs. 13.1b; 2015: 9.0b) at end-Q1'17. Despite considerable growth in portfolio during the outgoing year, market share of the bank, in terms of gross advances, decreased to 14.7% (2015: 16.3%). However, NRSPB continues to remain third largest microfinance bank in the country.

Credit Risk: Despite diversification in portfolio during the outgoing year, the same depicts product concentration as agricultural lending accounted for almost three-fourth of the total portfolio at end-2016. However, ratings draw comfort from bank's experience and satisfactory track record in agriculture financing primarily in rural areas. Going forward, management aims to increase the bank's customer base by offering high ticket loan products to individuals with satisfactory repayment history as indicated by the introduction of MSME loan products. This initiative will aid in rationalizing product concentration, in addition to enhancing average loan size. Sound asset quality indicators of the bank such as low incremental ratio (2016: 1.17%; 2015: 1.20%) also demonstrate that credit risk emanating from the portfolio remains manageable. Commensurate underwriting measures and training for evaluation of customers would need to be put in place for MSME loan products. Given the future growth plans regarding advances portfolio, the PAR may need strict monitoring.

Liquidity Risk: Deposit base depicted sizeable increase to Rs. 17.2b (2016: Rs. 16.9b; 2015: Rs. 7.3b) at end-Q1'17. This increase was achieved primarily on the back of acquisition of fixed deposits from institutions. The same has resulted in considerable increase in the depositor concentration. At end-2016, liquidity profile of the bank was supported by presence of sizeable proportion of liquid assets in relation to deposits and borrowings; however, proportion of liquid assets in relation to liabilities and deposits decreased at end-Q1'17. Going forward, maintenance of adequate liquidity buffer is critical, unless granularity of deposits improve.

Profitability: Profitability of NRSPB increased in 2016 on the back of growth witnessed in core income, facilitated by volumetric increase in microcredit portfolio. Operational self-sufficiency (OSS) ratio of the bank is also healthy (2016: 165.9; 2015: 160.3%); recurring income is more than sufficient to meet the operating expenses. Moreover, overheads ratio of the bank is lowest among its peers. However, expense base is expected to increase given the initiative taken by the bank to increase staff salaries in order to improve retention. This trend is evident in Q1'17 as higher expense base resulted in lower profit after tax (Q1'17: Rs. 149.7m: Q1'16: Rs. 182.7m).

Capitalization: Despite decreasing on timeline basis, the Capital Adequacy Ratio (CAR) of the bank the same remained higher than minimum regulatory requirement of 15%. The bank has considerable room available for growth in risk weighted assets on account of buffer available in CAR over the minimum regulatory requirement and current deployment in mutual funds; the CAR being a function of risk management and profitability would need to be monitored closely in the growth phase, going forward.

NRSP Microfinance Bank Limited — Appendix I

Financial Summary	(amounts in millions)		
BALANCE SHEET	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
Total Investments	6,109.1	2,151.1	3,971.2
Net Financing	13,126.7	8,999.2	5,125.2
Total Assets	26,452.4	14,292.2	11,797.6
Borrowings	5,349.5	4,156.9	4,204.2
Total Deposits	16,922.1	7,255.3	5,159.8
Tier-1 Equity	3,202.9	2,534.0	2,075.4
Net Worth	3,203.7	2,544.5	2,126.1
INCOME STATEMENT	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
Net Mark-up Income	1,981.4	1,312.9	938.1
Net Provisioning / (Reversal)	155.3	142.5	62.2
Non-Markup Income	693.3	601.4	328.0
Operating Expenses	1,559.0	1,121.5	918.2
Net Profit	684.8	459.7	197.7
RATIO ANALYSIS	**Dec 31, 2016**	**Dec 31, 2015**	**Dec 31, 2014**
Gross Infection (%)	0.36%	0.16%	0.98%
Provisioning coverage (%)	25.2%	30.0%	32.0%
Net Infection (%)	0.27%	0.11%	0.67%
Incremental Infection (%)	1.17%	1.20%	1.70%
Capital Adequacy Ratio (%)	18.6%	21.3%	22%
Cost of funds (%)	8.6%	8.8%	9.9%
Markup Spreads (%)	18.7%	20.9%	13.9%
OSS (%)	165.9%	160.3%	132.8%
ROAA (%)	3.4%	3.5%	1.8%
ROAE (%)	23.8%	19.9%	10.4%
Liquid Assets to Total Borrowings (%)	51.1%	38.5%	63.7%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	NRSP Microfinance Bank Limited
Sector	Microfinance Bank
Type of Relationship	Solicited
Purpose of Rating	Entity & Instrument Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
03-May-2017	A	A-1	Stable	Reaffirmed
28-Oct-16	A	A-1	Stable	Upgrade
29-April-16	A-	A-2	Positive	Maintained
28-Apr-15	A-	A-2	Stable	Reaffirmed
29-Apr-14	A-	A-2	Stable	Upgrade
30-Apr-13	BBB+	A-3	Positive	Maintained
12-Apr-12	BBB+	A-3	Stable	Initial
RATING TYPE: INSTRUMENT				
03-May-17	A		Stable	Reaffirmed
28-Oct-16	A		Stable	Upgrade
21-Sep-16	A-		Stable	Final
14-June-16	A-		Stable	Preliminary

Instrument Structure	The issue amount is Rs. 3b with principal repayment in eight quarterly installments over the period of two years beginning from the third month of the issue data. The markup rate on the instrument is 3 months KIBOR plus 2.35%. Security structure of the instrument include a partial cash coverage of upto Rs. 300m (equivalent to 10% of the issue size) which is available throughout the instrument tenor along with first pari passu charge on present and future current asset of the bank with a 25% margin.
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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