RATING REPORT

NRSP Microfinance Bank Limited

REPORT DATE:
May 05, 2025

RATING ANALYST:
Musaddeq Ahmed Khan
musaddeq@vis.com.pk

RATING DETAILS

Rating Category	Current Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity Rating	A-	A2	A-	A2
Rating Date	May 05, 2025		May 06, 2024	
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	

COMPANY INFORMATION

Incorporated in 2008	**Board Chairman:** Dr. Rashid Bajwa
Public Limited Company	**CEO:** Mr. Riaz Bangash
Key Shareholders (with 5% or more):	**External Auditors:** Yousuf Adil Chartered Accountants
National Rural Support Program ~ 57%	
PROPARCO ~ 17%	
International Finance Corporation (IFC) ~ 16%	
Acumen ~ 11%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Micro-Finance Banks
https://docs.vis.com.pk/docs/MicroFinance-Oct-2023.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

NRSP Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

NRSP Microfinance Bank Limited is licensed by the State Bank of Pakistan to operate as a nationwide microfinance bank under the Microfinance Institutions Ordinance, 2001. The Bank provides microfinance services to the rural low-income segment, with the broader objective of supporting poverty mitigation and promoting social welfare.

Profile of Board Chairman:

Dr. Rashid Bajwa currently serves as the Chief Executive Officer of the National Rural Support Programme (NRSP), where he is responsible for overseeing one of the largest rural development operations in Pakistan. NRSP is mandated to contribute to poverty alleviation by mobilizing community potential and implementing development initiatives across the country.

Profile of CEO:

Mr. Riaz Bangash is a seasoned banker with over 30 years of experience across commercial, SME, consumer, and microfinance banking. He holds an MBA from the Institute of Business Administration (IBA),

RATING RATIONALE

NRSP Microfinance Bank Limited's ('NRSP Mfb' or the 'Bank') entity ratings are supported by an experienced management team and strong institutional sponsors. The Bank has demonstrated significant turnaround in asset quality indicators, with provisioning coverage strengthening under the IFRS-9 framework. Portfolio realignment towards secured lending, enhanced credit risk controls, and a more disciplined recovery framework have contributed to improving asset risk profile. Liquidity buffers have been significantly strengthened following the mobilization of incremental deposits and borrowings, channeled into high-quality liquid assets, thereby providing resilience against funding shocks. Profitability trends show a gradual recovery, supported by higher operational self-sufficiency and targeted cost control measures, although spreads remain under pressure. Capitalization levels have improved, albeit remaining below the regulatory minimum, with planned capital injections expected to support compliance over the medium term.

Nonetheless, the Bank remains exposed to risks associated with the timely execution of its strategic initiatives, particularly in achieving planned capital augmentation and sustaining asset quality in a challenging operating environment. Successful execution of the growth strategy, diversification of funding sources, and maintenance of prudent underwriting standards remain important rating considerations.

Sector Update

The microfinance sector in Pakistan experienced expansion during 2024, underpinned by a 38.5% increase in total assets, reaching PKR 1.07 trillion. This growth was largely reflected in a sharp rise in investments, which surged by 136.9%, and a relatively weak 10.9% uptick in net advances, with the latter being significantly below inflation. Deposits grew by 22.8%, however, borrowings more than tripled, leveraging opportunities available for enhanced spreads in the interbank market.

On the asset quality front, non-performing loans (NPLs) rose substantially by 64.9%, with the gross infection ratio climbing from 6.68% as of Dec'23 to 9.68% as of Dec'24. The risk profile of the portfolio deteriorated, as reflected in a 47.9% increase in loss category, 161.1% rise in doubtful loans and a 130.5% increase in substandard loans. This was owing to several factors, including carryover losses from the pandemic era, the severe floods of 2022 and the wheat crisis more recently. Total provisioning increased by 53.6% with the sector wide implementation of IFRS-9, in preparation to build necessary buffers for future credit events.

During CY24, profitability remained under pressure despite stronger markup income (↑24.5%) and a higher net interest margin (↑170bps). Operating self-sufficiency (OSS) dipped further to 75.2% from 78.8% in CY23, while net losses doubled to PKR 16.2 billion after tax, driven by rising provisioning costs and elevated interest expenses.

With minimal credit offtake, substantial surplus liquidity remained available with liquid assets to funding (deposits, borrowings, bills payable) rising to an average 49.6% as of Dec'24 from 35.0% as of Dec'23. Capitalization levels weakened, as despite a 39.9% increase in paid-up capital, total equity

Karachi, and a JAIBP certification from the Institute of Bankers Pakistan, with distinction in credit management. He has attended several strategic-level training programs conducted by institutions such as Frankfurt Business School, LUMS, British Council, World Bank, Stephen Covey, and IBP. Prior to joining NRSP Microfinance Bank, he held senior positions at Habib Bank Limited, Askari Bank Limited, and The Bank of Khyber.

remained flat, reflecting losses. The sector's overall Capital Adequacy Ratio (CAR) dropped sharply to 2.6% as of Dec'24 from 7.6% as of Dec'23, with Tier 1 CAR also declining to a concerning 0.1%, indicating severe strain on core capital and an urgent need for further recapitalization.

In terms of outreach, the total number of clients grew by an impressive 64% to over 9.28 million. Female clients surged by 149.5%, reaching over 3 million, reflecting enhanced financial inclusion efforts and gender-focused strategies, even as male clients still dominate in term of proportion at 67.3% as of Dec'24 down from 78.5% as of Dec'23. Individual lending rose by 15.5% to PKR 455.41 billion, while group lending declined by 35.8%, indicating a structural shift toward personalized credit products.

Despite the strong asset growth and client outreach, the sector faces challenges stemming from elevated credit risks and rising provisioning needs. Weak profitability has adversely impacted the capitalization levels of the sector. Looking ahead, the sector's resilience will depend on tighter credit screening, digitization of lending processes, enhanced recovery mechanisms, while continuing to promote inclusive finance.

Company Profile

NRSP Microfinance Bank Limited was incorporated in Pakistan on October 22, 2008, as a public limited company under the Companies Ordinance, 1984. It obtained a nationwide microfinance banking license from the State Bank of Pakistan (SBP) on February 18, 2009, under the Microfinance Institutions Ordinance, 2001. The Bank commenced operations in March 2011, following the issuance of certificate of commencement of business by the Securities and Exchange Commission of Pakistan (SECP) and SBP. The Bank operated 133 (CY23: 133) branches across the country, including 37 (CY23: 37) Islamic banking branches, in CY24.

The Bank was established with the objective of providing microfinance and related services to low-income and underserved segments of society, thereby promoting financial inclusion and contributing to poverty alleviation. It draws on the experience and institutional support of its holding company, the National Rural Support Programme (NRSP), which holds a 57.40% ownership stake. Other shareholders include reputable institutions such as the International Finance Corporation (IFC) and Acumen. The Bank's offerings include deposits, micro-credit, and micro-insurance services, catering to the needs of financially excluded individuals in both urban and rural areas of Pakistan.

Auditor's Report

The CY24 financial statements were audited by Yousuf Adil Chartered Accountants, which is categorized as 'A' on the SBP's Panel of Auditors. The auditor issued an unmodified and unqualified opinion on the financial statements. However, the audit report includes emphasis on two key matters. The first draws attention to the Bank's non-compliance with the regulatory Capital Adequacy Ratio (CAR) requirement, and management's ongoing plans to address the shortfall. The second discloses that the Bank has recognized a deferred tax asset based on the expectation of sufficient taxable profits in future years, as projected in its financial forecasts. The preparation of these forecasts is based on management's assumptions regarding future business and economic conditions. Any significant changes in these assumptions could impact the recoverability of the deferred tax asset.

Board of Directors & Governance

Name	Designation
Dr. Rashid Bajwa	Chairman/NRSP Designate
Dr. Shahida Jaffrey	NRSP Designate
Mr. Shoaib Sultan Khan	NRSP Designate
Mr. Fazlullah Qureshi	NRSP Designate
Mr. Jesse C. Fripp	Nominee Director PROPARCO
Mr. Shahid Sattar	Independent Director
Mr. Stephen Rasmussen	Independent Director
Dr. Ayesha Khan	Acumen Designate
Mr. Riaz Bangash	CEO/President

As of Dec'24, the Board of Directors (BoD) of NRSP Mfb comprised nine members, with no changes observed during the review period. The Board includes four nominee directors from NRSP, two independent directors, one nominee director each from Acumen Fund and PROPARCO, and the Chief Executive Officer. Dr. Rashid Bajwa continues to serve as the Chairman of the Board. All members of the BoD possess extensive experience in the microfinance and banking sectors, both locally and internationally.

Loan Approval & Collection Process

NRSP Mfb has a comprehensive overhaul of its loan origination and underwriting framework underway to strengthen credit risk controls and improve portfolio quality. As part of its action plan, the Bank is streamlining its loan appraisal and due diligence processes by introducing standardized protocols for post-disbursement follow-ups and training loan officers (LOs) accordingly. LO activity and borrower behavior are being systematically captured through an integrated information system, enabling advanced data analytics for risk monitoring. Appraisal procedures have been reinforced by incorporating community-level cross-verification and selectively obtaining credit bureau information for additional household members to better assess household-level indebtedness. Furthermore, partial collateralization has been introduced for previously unsecured loans, enhancing the Bank's security position. NRSP Mfb is also piloting a sector-specific credit risk scoring model, with built-in mechanisms for ongoing review and adjustment of scoring criteria. Specialized training is being provided to Credit Risk Officers (CROs) to ensure the effective application of these models. In parallel, the Bank is strengthening its data analytics function to identify early warning signals through anomaly detection, while designated analysts are tasked with monitoring sectoral trends and conducting periodic performance reviews. Financial literacy initiatives are also being rolled out to equip borrowers with skills for responsible financial management and sustainable economic empowerment.

To augment recoveries and curtail portfolio slippage, the Bank has instituted a strong loan recovery mechanism underpinned by performance-based incentives for its Special Asset Management (SAM) team. Clear recovery benchmarks have been established, with both monetary and non-monetary rewards for high-performing asset managers. Borrowers in default are now systematically categorized as willful, influenced, or genuine defaulters, enabling tailored recovery strategies. NRSP Mfb has segmented its risky portfolio based on key parameters such as age of debt, borrower behavior, and likelihood of recovery. Asset managers are being equipped with specialized training, including legal aspects of recovery, while the legal framework supporting enforcement actions is being strengthened to facilitate timely recourse against willful defaulters. Field visit applications are utilized to monitor the recovery process, and predictive analytics are deployed to optimize strategy through behavioral insights. Additionally, flexible repayment plans and incentives for digital repayments are being offered to ease financial burden and promote cashless transactions. The Bank remains committed to borrower transparency, ensuring that repayment terms and expectations are communicated clearly. With a defined annual recovery target of PKR 1.5 bn, NRSP Mfb is adopting a region-specific, branch-level approach to recovery, reflecting focus on portfolio rehabilitation and credit discipline.

Productivity Analysis

Productivity Indicators	CY22	CY23	CY24
No. of Loan Officers	1,140	996	1,111
No. of Branches	145	133	133
No. of Active Borrowers	258,937	189,671	186,798
LOs/Branch	7	7	8
Active Borrowers/LO	227	190	168
Active Borrowers/Branch	1,785	1,426	1,404
Average Loan Size (PKR)	125,071	189,403	204,017

Notwithstanding the headwinds, the Bank expanded its LO base during the review period to reinforce institutional capacity in line with its medium-term business growth plan. Concurrently, the average loan size increased in CY24, primarily on account of inflationary pressures in the first half of the year and rising borrower-level credit requirements. The Bank also recalibrated its origination strategy by selectively extending credit to existing, creditworthy clients, aimed at improving portfolio quality and safeguarding asset performance amid macroeconomic volatility. This contributed to a decline in both Active Borrowers/LO and Active Borrowers/Branch metrics during CY24.

Going forward, anchored in the Bank's broader objective to deepen financial outreach, the management has outlined a structured roadmap to expand geographical coverage by identifying high-potential urban, semi-urban, and rural catchments for future branch rollouts. This expansion strategy will include detailed demographic analysis—assessing factors such as income levels, population density, and market saturation—alongside strategic area profiling based on accessibility and commercial visibility. To further tailor service offerings, NRSP Mfb will conduct structured surveys and focus group discussions to capture insights on customer preferences. Insights derived from ongoing field visits, macroeconomic trends, and competitive dynamics will be synthesized to evaluate the commercial viability of each proposed location. Initial engagement will emphasize relationship-building with local businesses, particularly urban microenterprises and segments within the informal economy. Staff recruitment will follow the HR hiring framework, with emphasis on training to ensure strong product knowledge and service quality. Soft launches or pilot initiatives will be executed to validate operational processes prior to full-scale openings, which will be supported by targeted marketing campaigns. Subsequently, key performance indicators such as customer acquisition rates and transaction volumes will be tracked, and structured feedback from clients and branch personnel will guide iterative refinements to optimize service delivery and operational performance. As per the strategic roadmap, the Bank projects to scale its branch footprint from 133 in 2024 to 231 by 2029—

a cumulative growth of 74%. The expansion trajectory is expected to be led by the Islamic Microfinance Division (IMD), which is projected to grow by 151%, outpacing the 44% anticipated increase in Conventional Microfinance Division (CMD) branches—underscoring the Bank's commitment to inclusive and diversified financial outreach.

Financial Analysis

Credit Risk

Gross Loan Portfolio

The gross micro-credit portfolio recorded a 6.1% increase, reaching PKR 38.1 bn (Dec'23: PKR 35.9 bn) as of Dec'24, primarily driven by an increase in the average loan size. The Bank maintained its focus on extending higher ticket loans to its existing borrower base. Going forward, management anticipates the Gross Loan Portfolio (GLP) to reach PKR 41.0 bn by end-Dec'25, driven by measured expansion of the loan book, with an increasing share of secured lending. The macroeconomic outlook—marked by an expected downtrend in the policy rate and easing inflationary pressures—is likely to strengthen borrower repayment capacity and provide a supportive backdrop for portfolio growth.

Microcredit Portfolio Risk Segregation

Segments (PKR mn)	CY22	%	CY23	%	CY24	%
Agriculture	16,292.8	52.2%	12,986.2	42.2%	11,972.6	35.0%
Enterprise	2,739.7	8.8%	2,810.5	9.1%	3,117.1	9.1%
Housing	3,642.0	11.7%	3,813.7	12.4%	5,099.5	14.9%
Livestock	1,599.3	5.1%	422.1	1.4%	200.7	0.6%
Others	6,922.1	22.2%	10,770.5	35.0%	13,838.9	40.4%
Total	**31,196.0**	**100.0%**	**30,803.0**	**100.0%**	**34,228.8**	**100.0%**

The segment-wise distribution of the GLP in CY24 indicates a shift in composition, with the 'Others' segment—primarily comprising gold-backed lending—accounting for the largest share at 40.4% (CY23: 35.0%), followed by Agriculture at 35.0% (CY23: 42.2%) and Housing at 14.9% (CY23: 12.4%).

Going forward, the Bank plans to diversify its sectoral exposure by expanding its secured product portfolio. Key initiatives include the introduction of secured solar financing for tubewell solarization and residential use, supported through partnerships with housing societies. A supply chain finance solution (reverse factoring) is also under development to provide short-term liquidity to SMEs associated with large anchor corporates. Product outreach is expected to expand via targeted campaigns focused on micro and small enterprises, alongside the scaling of loans against salary offerings to new employer segments and the promotion of loans against pension products. Marketing initiatives will be designed to target micro and small enterprises, while awareness of Islamic products will be increased. In the agriculture segment, the Bank aims to strengthen its collaboration with Fauji Fertilizer Company (FFC) to extend credit for agricultural inputs and explore partnerships with AgriTech platforms to support customer identification and advisory services.

Convt. vs Shariah (PKR mn)	CY22	%	CY23	%	CY24	%
Conventional Loans	24,369.4	78.1%	21,794.6	70.8%	24,799.3	72.5%
Shariah Loans	6,826.6	21.9%	9,008.4	29.2%	9,429.5	27.5%
Total	**31,196.0**	**100.0%**	**30,803.0**	**100.0%**	**34,228.8**	**100.0%**

During the review period, 72.5% (CY23: 70.8%) of loans disbursed by NRSP Mfb were under the conventional banking portfolio, with the remaining extended through Shariah-compliant financing. In 2017, the Bank obtained an independent license from the SBP to operate an Islamic Banking window, following which it established its dedicated IMD in line with regulatory requirements. The IMD is supported by a full-time Shariah Advisor to ensure adherence to Shariah principles. Going forward, the portfolios of the CMD and IMD are projected to reach PKR 29.4 bn and PKR 19.6 bn, respectively, over the medium term. In line with SBP's broader Islamic banking transition agenda by 2028, the Bank plans to prioritize the development of its IMD portfolio.

Sec. vs Unsecured (PKR mn)	CY22	%	CY23	%	CY24	%
Secured Loans	14,149.7	45.4%	16,847.5	54.7%	20,771.0	60.7%
Unsecured Loans	17,046.4	54.6%	13,955.5	45.3%	13,457.7	39.3%
Total	**31,196.0**	**100.0%**	**30,803.0**	**100.0%**	**34,228.8**	**100.0%**

To manage credit exposure, the management has prioritized increasing the proportion of secured loans within the portfolio. As a result, the share of secured lending witnessed an upward trajectory during the outgoing year. Going forward, NRSP Mfb plans to increase the share of secured lending from 59% to 83% of the total portfolio. As part of this, a partnership with FFC has been established to introduce products, providing secured financial solutions for the farming community.

EMI vs Bullet (PKR mn)	CY22	%	CY23	%	CY24	%
EMI	11,524.5	36.9%	14,015.3	45.5%	12,718.3	37.2%
Bullet	19,671.5	63.1%	16,787.8	54.5%	21,510.5	62.8%
Total	**31,196.0**	**100.0%**	**30,803.0**	**100.0%**	**34,228.8**	**100.0%**

The share of bullet lending rose to 62.8% in CY24 (CY23: 54.5%), reflecting the growing concentration of the Bank's secured portfolio, which remains largely backed by gold. Owing to their short-tenor structure and collateralized nature, these loans are typically disbursed on bullet repayment terms, resulting in a higher proportion of such exposures within the overall portfolio.

Group vs Individual (PKR mn)	CY22	%	CY23	%	CY24	%
Group Based	972.1	3.1%	36.3	0.1%	4.2	0.0%
Individual	30,223.9	96.9%	30,766.8	99.9%	34,224.5	100.0%
Total	**31,196.0**	**100.0%**	**30,803.0**	**100.0%**	**34,228.8**	**100.0%**

In the domestic microfinance sector, the prevalence of group lending has declined due to concerns over dummy borrowers, which can result in excessive loan disbursements beyond a borrower's cash flow capacity and repayment ability. To mitigate such risks, NRSP Mfb maintains a prudent lending approach by limiting its exposure to group-based lending models.

Size wise composition (No. of clients)	CY24	%
Up to PKR 25,000	2,932	1.6%
PKR 25,001 - PKR 50,000	21,218	11.4%
PKR 50,001-PKR 100,000	73,558	39.4%
PKR 100,001 and 250,000	56,787	30.4%
PKR 250,001 and 500,000	18,915	10.1%
PKR 500,001 and above	13,388	7.2%
Total	**186,798**	**100.0%**

During CY24, the Bank's average loan size increased to PKR 204,017 (CY23: PKR 189,403), primarily driven by a higher share of disbursements under secured, high-ticket lending products, including Sadabahar Gold Loan, NRSP Murabaha, Housing, and Business Enterprise loans. The increase also reflects progression of clients into successive loan cycles, where renewals are mostly exercised, at higher loan amounts. In parallel, NRSP Mfb has strengthened its due diligence framework for new-to-bank clients, with particular focus on Agriculture, Enterprise, and Housing segments— where average ticket sizes are typically higher. Enhanced credit appraisal standards are expected to mitigate default risk and reinforce credit quality across the portfolio.

Asset Quality

Asset Quality (PKR in mn)	CY22	CY23	CY24
Net Advances	28,027.8	34,330.5	37,170.3
NPLs	5,168.6	1,216.6	1,018.5
NPLs Written-Off	3,902.1	4,954.9	1,347.3
Tier-1 Equity	89.0	2,043.7	3,528.7
Gross Infection	***16.0%***	***3.4%***	***2.7%***
Net Infection	***3.6%***	***1.8%***	***1.1%***
Incremental Infection	***22.1%***	***2.8%***	***3.1%***
Specific Provisioning Coverage	***80.4%***	***49.1%***	***60.8%***
General Provisioning Coverage	***0.7%***	***2.9%***	***0.9%***
Net NPLs/Tier-1 Equity	***1137.6%***	***30.3%***	***11.3%***

As of end-Dec'24, the Bank's Non-Performing Loans (NPLs) declined to PKR 1.0 bn (Dec'23: PKR 1.2 bn), contributing to an improvement in the gross and net infection ratios, which stood at 2.7% (CY23: 3.4%) and 1.1% (CY23: 1.8%), respectively. However, the incremental infection[1] ratio rose slightly to 3.1% (CY23: 2.8%), indicating further accumulation of delinquencies during the year. Following the implementation of IFRS-9, specific provisioning coverage improved to 60.8% (CY23: 49.1%), while general provisioning coverage[2] decreased to 0.9% (CY23: 2.9%). As a result of lower net NPLs and higher Tier-1 equity, the Net NPLs to Tier-1 equity ratio improved to 11.3% (CY23: 30.3%), significantly enhancing loss absorption capacity.

[1] *Incremental Infection ratio: (∆NPLs + NPLs Written Off)/ (Avg. Net Advances + NPLs Written Off)*

[2] *General provisioning coverage: (Stage-1 ECL + Stage-2 ECL)/ (Gross Advances – NPLs)*

Investment Mix

The investment portfolio witnessed significant expansion of PKR 114.5 bn, reaching PKR 120.1 bn (Dec'23: PKR 5.6 bn) as of Dec'24, driven by secured Term Finance Facility obtained during the year and amounting ----bn, against a limit of PKR 150bn, primarily directed towards Pakistan Investment Bonds (PIBs). As the entire portfolio comprises government securities, the associated credit risk remains minimal. PIBs constituted 87.7% of the portfolio, followed by Treasury Bills at 9.3%, and GoP Ijara Sukuk at 3.0%.

Liquidity and Leverage

Liquidity	CY22	CY23	CY24
Liquid Investments	2,435.8	5,605.8	120,111.0
Cash and balances with SBP and NBP	1,819.6	2,430.9	5,892.3
Balances with other banks and MFBs	4,369.2	5,358.6	3,938.3
Liquid Assets	**8,624.6**	**13,395.4**	**129,941.6**
Deposits	32,444.2	41,057.9	55,000.5
Borrowings	5,145.0	4,872.9	112,182.7
Subordinated Debt	1,442.4	2,237.6	2,391.9
Liquid Assets to Deposits & Borrowing* (%)	***22.7%***	***27.3%***	***41.1%***
Advances to Deposits (x)	***99.8%***	***87.5%***	***69.3%***
CA (%)	***12.0%***	***21.4%***	***23.6%***
CASA (%)	***44.5%***	***49.7%***	***52.3%***
Liquid Assets/Total Assets	***19.5%***	***24.5%***	***73.3%***

**Adjusted for investment held as collateral and borrowings secured against collateral*

As of end-Dec'24, the Bank's liquidity profile exhibited marked improvement, with the Liquid Assets to Deposits and Borrowings (LADB) ratio rising to 41.1% (CY23: 27.3%). This was primarily driven by the deployment of incremental deposits and borrowings towards liquid avenues, thereby enhancing the Bank's liquidity buffer, with still weak credit offtake. The Bank's deposit base expanded notably to PKR 55.0 bn (Dec'23: PKR 41.1 bn), resulting in an increase in its share of total market deposits to 7.5% (CY23: 6.9%). The pace of deposit growth outstripped the growth in advances, contributing to a decline in the Advances to Deposits Ratio (ADR) to 69.3% (CY23: 87.5%) to more prudent levels.

Deposit mobilization was predominantly led by Fixed Deposits, which accounted for 40.0% of the total increase, followed by Savings and Current Deposits, each contributing 30.0% and collectively rising to 52.3% (CY23: 49.7%). The depositor mix shifted during the year, with corporate deposits increasing sharply to 43.4% (CY23: 9.5%), while deposits from financial institutions declined to 8.6% (CY23: 39.6%). Individual deposits slightly decreased to 44.9% (CY23: 47.2%). Notwithstanding the compositional changes, concentration risk remained stable and noteworthy, with top-10 depositors comprising 24.0% of deposits.

Total borrowings increased substantially to PKR 112.2 bn (Dec'23: PKR 4.9 bn), primarily on account of a PKR 150.0 bn Term Finance Facility obtained from the National Bank of Pakistan. Of this, PKR 100.0 bn was availed as of Dec'24. While the asset-liability maturity (ALM) profile reflects funding mismatches in the short term, the Bank's liquidity reserves are considered satisfactory to meet potential short-term obligations without material stress.

Looking forward, the Bank's liquidity position is anticipated to remain adequate, supported by targeted initiatives. The Bank aims to diversify and strengthen its deposit base, particularly through enhanced mobilization of low-cost CASA deposits, personalized banking services, and competitive deposit products tailored to SMEs and corporate segments. Concurrently, the expansion of digital banking platforms and strategic partnerships, including collaborations aimed at financial inclusion, will facilitate deposit growth and enhance transactional volumes. While the Bank has significantly improved its liquidity buffers, maintaining liquidity and leverage ratios at comfortable levels will depend upon the successful execution of planned capital injections, and prudent management of depositor concentration risks.

Profitability

Profitability	CY22	CY23	CY24
Return on Markup Bearing Assets (%)	**11.0%**	**24.6%**	**23.4%**
Cost of Funds (%)	**9.7%**	**13.2%**	**14.2%**
Net Spread (%)	**1.2%**	**11.4%**	**9.3%**
OSS (%)	**47.8%**	**110.6%**	**117.2%**
ROAA (%)	**-8.8%**	**1.8%**	**1.1%**
ROAE (%)	**-193.2%**	**49.2%**	**44.0%**

Total markup income increased to PKR 12.5 bn during CY24 (CY23: PKR 9.8 bn), driven by higher markup on investments, driven by a surge in secured borrowings, and achieving the benefits of interest rate arbitrage in the interbank market, increased profit from Islamic financing, and income recognized under government subsidy schemes such as the Kamyab Pakistan Program and the Prime Minister's Youth Loan Program. On the other hand, markup expense also rose to PKR 8.3 bn (CY23: PKR 5.7 bn), driven by the expansion in the deposit and more sharply, its borrowing base, although reported in the last quarter of the year. As a result, net markup income recorded a marginal uptick to PKR 4.2 bn (CY23: PKR 4.1 bn). The net spread contracted to 9.3% (CY23: 11.4%), reflecting compression in the Bank's earning margins.

Non-markup income declined during CY24, primarily due to a reduction in fee and commission income. However, operating expenses remained largely contained during the year, reflecting effective cost control measures. Provisioning expenses declined on a year-on-year basis, contributing to an improvement in the Bank's Operational Self-Sufficiency (OSS) Ratio, which rose to 117.2% (CY23: 110.6%). Consequently, the Bank posted a net profit of PKR 1.2 bn (CY23: PKR 0.9 bn) in CY24.

Looking ahead, profitability is expected to strengthen, supported by a strategic realignment towards secured lending and continued recovery in asset quality. Markup income growth will be fueled by the Bank's expanding secured loan portfolio, alongside a measured reduction in funding costs driven by an enhanced deposit mix and CASA growth. Concurrently, strategic investments in digital banking are expected to support non-markup income. The Bank's planned geographical expansion is also expected to grow business volumes, thereby contributing to revenue growth. However, this expansion will increase operating costs in the near term due to branch setup, staff recruitment, and training expenditures. These costs are expected to be partially offset by economies of scale, cost control initiatives, and productivity gains per branch over time. Profitability will further benefit from sustained recoveries from the previously written-off portfolio, cost rationalization initiatives, and increased operational efficiency through digitization and automation of key processes. Nonetheless, realizing these gains remains contingent upon effective execution of the Bank's strategic business plan and maintaining asset quality amidst evolving macroeconomic conditions.

Capitalization

As of Dec'24, the Bank's equity base increased to PKR 3.6 bn (Dec'23: PKR 2.0 bn), primarily driven by the profit for the year, along with an increase in advance against right issue. Nevertheless, the eligible capital base remained constrained due to the low Tier-1 capital, which reflects a significant regulatory deduction on account of deferred tax assets, in accordance with the prevailing capital adequacy framework Furthermore, in line with regulatory guidelines, Tier-2 capital recognition was capped at 41.67% of CET-1, resulting in limited contribution from Tier-2 capital. Total eligible capital turned positive at PKR 302.4 mn (Dec'23: -PKR 1.8 bn), though remains at a modest level, while Risk-weighted assets (RWA) increased marginally to PKR 31.1 bn (Dec'23: PKR 30.3 bn), reflecting modest growth in business volumes. As a result, the Bank reported a Capital Adequacy Ratio (CAR) of 1.0% as of Dec'24 (Dec'23: -6.02%), remains significantly below the regulatory minimum requirement of 15.0%. However, the Bank achieved compliance with the SBP's minimum paid-up capital requirement of PKR 1.0 bn (net of accumulated losses), with its net paid-up capital reported at PKR 1.8 bn as of Dec'24 (Dec'23: PKR 652.6 mn).

Over recent years, capital has been supplemented by two subordinated debt issuances. These include a Tier-II Term Finance Certificate (TFC) of PKR 770.0 mn issued for a period of seven years, maturing on July 9, 2028. The principal is to be repaid in four equal quarterly installments during the final year of the term. This TFC includes a call option exercisable with prior SBP approval any time after the fifth year from the issue date, and incorporates lock-in and loss absorbency clauses. Additionally, subordinated debt includes a loan of PKR 672.4 mn (equivalent to EUR 6.0 mn) from KfW, Germany, aimed at financing the Bank's advances portfolio, originally repayable as a bullet payment on June 30, 2023. The loan has had its term extended to June 30, 2025, following the invocation of the lock-in clause, with a further extension anticipated of 1.5 years. All associated foreign currency risks rest with KfW. However, this instrument is no longer eligible for capital inclusion, even if Tier-1 equity is restored, due to the expiry of its qualifying term.

While expected profitability in CY25 is anticipated to improve the CAR, the ratio is still projected to remain below the regulatory threshold unless fresh capital is injected. Such an injection would enable additional Tier-2 recognition and enhance the impact of retained earnings, assuming RWAs remain stable. A right issue is on the anvil with final consent of shareholders expected within the current quarter. NRSP is likely to inject its share of the new capital in addition to buying out the share of IFC. Alternatively, or additionally, the capital injection plan may be executed through an Employee Stock Option Plan. As such the Bank is expected to meet the minimum capital requirement before the end of the current year.

NRSP Microfinance Bank Limited — Appendix I

FINANCIAL SUMMARY			(amounts in PKR millions)
BALANCE SHEET	**31-Dec-22**	**31-Dec-23**	**31-Dec-24**
Cash and Bank Balances with SBP and NBP	1,819.60	2,430.90	5,892.29
Balances with other Banks and/NBFIs/MFBs	4,369.15	5,358.65	3,938.35
Lending to Financial Institutions	0.00	1,022.41	3,101.07
Net Investments	2,435.81	5,605.82	120,110.98
Net Advances	28,027.83	34,330.49	37,170.32
Operating Fixed Assets	1,356.09	1,299.70	1,219.64
Other Assets	3,361.98	1,110.50	2,596.91
Total Assets	44,190.93	54,618.06	177,241.30
Total Deposits	32,444.15	41,057.86	55,000.50
Borrowings	5,144.97	4,872.93	112,182.68
Subordinated Debt	1,442.36	2,237.60	2,391.88
Other Liabilities	5,066.85	4,406.19	4,109.00
Tier-1 Equity	88.96	2,043.74	3,528.68
Net Worth	92.59	2,043.48	3,557.24
Paid Up Capital	1,498.37	1,498.37	1,498.37
INCOME STATEMENT	**CY22**	**CY23**	**CY24**
Net Mark-up Income	214.41	4,056.31	4,185.77
Net Provisioning / (Reversal)	4,578.69	2,190.81	571.12
Non-Markup Income	1,518.24	549.39	298.13
Operating Expenses	3,363.63	3,400.57	3,295.58
Profit Before Tax	(6,222.18)	986.04	1,870.11
Profit after tax	(4,218.29)	910.78	1,225.26
RATIO ANALYSIS	**CY22**	**CY23**	**CY24**
Market Share – Advances (%)	8.96%	8.81%	8.21%
Market Share – Deposits (%)	6.29%	6.88%	7.50%
Gross Infection (%)	15.96%	3.39%	2.67%
Incremental Infection (%)	22.06%	2.78%	3.10%
Specific Provisioning Coverage (%)	80.42%	49.10%	60.78%
General Provisioning Coverage (%)	0.74%	2.87%	0.86%
Net Infection (%)	3.58%	1.75%	1.07%
Net NPLs to Tier-1 Capital (%)	1137.56%	30.30%	11.32%
Capital Adequacy Ratio (%)	-7.08%	-6.02%	0.97%
Markup on earning assets (%)	10.97%	24.60%	23.44%
Cost of Funds (%)	9.75%	13.18%	14.16%
Markup Spreads (%)	1.23%	11.42%	9.29%
OSS (%)	47.84%	110.60%	117.18%
ROAA (%)	-8.83%	1.77%	1.06%
ROAE (%)	-193.24%	49.19%	43.98%
Advances to Deposit Ratio	99.82%	87.50%	69.29%
Liquid Assets to deposits & borrowings* (%)	22.67%	27.34%	41.12%

**Adjusted for investment held as collateral and borrowings secured against collateral*

REGULATORY DISCLOSURES						Annexure II
Name of Rated Entity	NRSP Microfinance Bank Limited					
Sector	Micro Finance Bank					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Outlook/ Rating Watch**	**Rating Action**	
	RATING TYPE: ENTITY					
	05-May-2025	A-	A2	Stable	Reaffirmed	
	06-May-2024	A-	A2	Stable	Upgrade	
	27-Apr-2023	BBB+	A2	Rating Watch Developing	Downgrade	
	29-Apr-2022	A-	A1	Negative	Downgrade	
	29-Apr-2021	A	A1	Rating Watch Developing	Maintained	
	30-Apr-2020	A	A1	Rating Watch Negative	Maintained	
	14-May-2019	A	A1	Stable	Reaffirmed	
	27-Apr-2018	A	A1	Stable	Reaffirmed	
	30-Oct-2017	A	A1	Stable	Reaffirmed	
	03-May-2017	A	A1	Stable	Reaffirmed	
	28-Oct-16	A	A1	Stable	Upgrade	
	RATING TYPE: INSTRUMENT					
	27-Apr-2018	A			Reaffirmed	
	30-Oct-2017	A			Reaffirmed	
	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	N/A					
Statement by the Rating Team	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	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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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**			
	Mr. Riaz Bangash	CEO	25th April 2025			
	Mr. Asif Mahmood	Head of Finance/Company Secretary/Head of Islamic Microfinance Division	25th April 2025			