RATING REPORT

Rural Community Development Programmes

REPORT DATE:
April 29, 2021

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity Rating	BBB	A-3	BBB	A-3
Rating Date	*April 29, '21*		*July 16, '20*	
Rating Outlook	*Rating Watch Developing*		*Rating Watch Negative*	
Rating Action	*Maintain*		*Maintain*	

COMPANY INFORMATION	
Incorporated in 2016	**External auditors:** Grant Thornton Anjum Rahman
Company limited by guarantee	**Chairman:** Ms. Ayesha Gulzar
	Chief Executive Officer: Mr. Muhammad Murtaza

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria : Non-Bank Financial Companies (March 2020)
https://www.vis.com.pk/kc-meth.aspx

OVERVIEW OF INSTITUTION

The company is primarily engaged in mobilizing funds for provision of microfinance services for mitigating poverty and promoting social welfare with the ultimate objective of poverty alleviation. The organization has presence in over 14 districts of Punjab and has divided its operations into 56 branches.

RATING RATIONALE

The assigned ratings of Rural Community Development Programmes (RCDP) take into account implicit support available from the parent organization, Rural Community Development society (RCDS) both on financial and technical fronts. The assigned ratings incorporate restricted lending, escalated credit risk, higher provisioning expense, shrinkage in spreads and depressed profitability. Ratings factor in manageable leverage indicators; the same have improved during the period under review in line with sizable cuts on disbursement activities. With distressed economic growth, the opportunities available for micro-credit borrowers for income generation have continued to dampen, therefore VIS expects weakening of asset quality indictors going forward in line with escalated probability of non-payment events. Moreover, the impact of change in the lending methodology from group to individual is yet to be ascertained. In view of continued uncertainty and severity of impact of the pandemic on the economy in general and microfinance sector in particular, the outlook on the ratings will remain vulnerable. Going forward, ratings will remain contingent upon meeting recovery targets, improvement in asset quality indicators, managing spreads, maintaining liquidity indicators while continuing healthy disbursement activities to keep the organization afloat.

In 1998, RCDS was formed to provide integrated development services to the impoverished and neglected communities in Punjab, Pakistan. Subsequently to abide and comply with regulations, RCDS underwent a spin-off process and separated the microfinance and social development aspects; microfinance segment was taken into a new entity by the name of RCDP while the social development aspects were retained within RCDS in 2016. RCDP has a total branch network of 85 branches all of which are located in Punjab.

__Rating Drivers:__

Experienced board and management team, sponsor support remains strong: RCDP's senior management and board of directors are experienced professionals with considerable experience in the field of microfinance. The ratings also draw comfort from sponsor support received from RCDS both in terms of financial and technical assistance. Going forward, stability in management team will play a critical part in going concern and stability of the institution.

Growth in microcredit portfolio: The overall gross portfolio exhibited a volatile trend as it declined to Rs. 4.7b (FY19: Rs. 5.0b) by end-FY20 in line with complete halt of disbursement activities from April to June'20 owing to onslaught of ongoing pandemic. Given the stressed debt repayment capacity of the micro-credit borrowers, the management completely shifted its focus from growth strategy to portfolio consolidation and curtailment of non-performing loans. However, the lending activities were re-initiated in July' 20; however the same still remained confined to tapping existing customers whose repayment history and capability were well known to the organization. As a result, the gross portfolio was reported slightly higher at Rs.4.9b by end-HY21. During 9MFY21, the management has completely refrained from lending to new clients, launching any new products or opening of additional branches. During FY20, RCDP made disbursement amounting to Rs. 6.3b, falling well short of the target of Rs. 10.7b, against which recovery of Rs. 6.7b was made during the year. Further, disbursement of Rs. 5.5b has been during 9MFY21 against the disbursement target of Rs. 9.0b for FY21. The disbursement target for FY21 is highly unlikely to be achieved as the financial impact in the remaining months of calendar year will aggravate drastically as a result of ongoing third wave of corona virus. Further, the management's current prerogative of sustenance in the heightened credit risk scenario, loan disbursement activities are not expected to pick pace to pre-covid levels at any time during FY21. In addition, the growth in portfolio always remains contingent upon availability of funding from financial institution on a timely basis.

In light of countering credit risk during suppressed economic activity and aggravated debt burdening of micro-credit borrowers owing to multiple borrowings, the management has escalated its recovery activities at multiple levels. RCDP has one on one recovery strategy; the repayment plan is customized for every borrower depending on specific requirements, the institution is also allowing waivers and discounts to expedite repayment. The branch network is divided into two geographic zones; Central & Southern Punjab, whereby client segregation of each branch is done from high to low risk brackets and seasoned resources are deployed from the head office (HO) to assist the recovery teams in devising consumer friendly repayment plans. Currently, the main focus of the management is towards collection and cash flow improvement. To facilitate the plan, RCDP has doorstep collection policy in place along with availability of alternate delivery channels (ADC) including UBL Omni and Easy Paisa. During the period under review, the institution has also taken HBL Konnect onboard as it has higher number of retail agents. HBL Konnect has prepared and uploaded recovery target file involving customer locations for all agents to speed up the recovery process. The management has recovered Rs. 3.2b during HY21. As per the management, around 95% of the recovery is made through ADCs while the remaining is received over the counter in branches.

The rating outlook of RCDP takes into account the distressed loan portfolio being renegotiated with the classified borrowers using various renegotiation techniques to recoup foregoing incomes, avert loss of principal capital and containment of provision and charge losses. With the application of advanced level methods as CDR-constant default rate and in-house scorecard for credit risk evaluations, the extrapolated recovery rate is expected around 85-90% which would result in better yields, profits and balance sheet footing. The aforementioned endeavor is expected to be completed by end-FY21. Based on the results of the activity and recovery of classified portfolio, VIS can review the rating outlook going forward.

Further, RCDP has completely reversed its lending methodology from predominantly group based loans to individual lending to curb the practice of having dummy borrowers; the former practice increased credit risk as with higher amounts sanctioned, the actual borrowers repayment thresholds exceeded their cash flow generating capacities. Further, the same has also resulted in improved turnaround time. However, in order to manage the risks associated with the new lending technique the institution has reduced the average loan size to Rs. 30,568 (FY20: Rs. 32,575; FY19: 37,988) during HY21. However going forward the impact of loan size reduction on the profitability indicators, involving productivity and efficiency as operating cost per loan value would increase, is yet to be ascertained. RCDP has restricted extension of SME loans during the pandemic situation; the same is also a factor of dip in the average ticket size. As per the management, the reduction in loan size has boded well with the present risk appetite levels of the institution with reduced exposure to each borrower. Despite limited lending, the numbers of clients increased on a timeline basis to 161,096 (FY20: 141,945; FY19: 132,617) in line with decrease in average ticket size and restructuring of portfolio amounting to Rs. 2.0b in Sep'20. Given the restructuring of portfolio, the existing clients have been retained in the client base without lending being carried out. The following table depicts the breakup of size-wise composition of loans at end-FY20:

S. No.	Description	No. of Clients
1	Upto Rs. 30,000	12,100
2	Rs. 30,001 - Rs. 50,000	60,822
3	Rs. 50,001-Rs. 100,000	55,293
4	Rs. 100,001-Rs. 150,000	10,987
5	Rs. 150,001 -Rs. 350,000	2,685
6	Rs. 350,001 and Above	58
7	Total	141,945

Credit and Enterprise Development (CED) and Business Enhancement Loan (BEL) continue to remain the main flagship products of the institution constituting around 69% of the total performing portfolio. During FY20, RCDP introduced a new lending product for renewable energy; however disbursement under the same has remained almost negligible given curtailment of lending to new clients. Despite change in lending methodology from group to individual, the product mix is projected to be dominated by CED and BEL during the rating horizon. As per the management, given the organization is in portfolio-consolidation stage no major change in product mix is expected to be implemented.

Elevated credit risk levels: Credit risk emanating from microcredit portfolio indicated an increasing trend reflected in higher infection ratios during the ongoing year; the same is a function of RCDP not availing the loan restructuring scheme extended by SECP post Sep'20; hence the infection levels are visible in HY21 numbers. Although, presently the infection ratios seem elevated and higher than the industry averages; however, once the deferment windows extended by both regulators SBP and SECP are matured and the impact of rollover portfolio comes to play, all micro-finance providers are expected to present the same asset quality indicators as seen in RCDP's case. The reasons for credit risk not being at alarming levels include deployment of paperless loan approval, automated loan disbursement and payments collection system; this mechanism enables the management to maintain robust internal controls. Further, complete rollout of individual loans to sync the clients' installment repayments with their actual cash flow generating capacities and decline in average ticket size will help the organization in avoiding over-burdening of clients and keeping credit risk in check. By end-HY21, non-performing loans (NPLs) increased to Rs. 779.7m (FY20: Rs. 55.4m; FY19: Rs. 49.2m), resultantly, gross infection was reported considerably higher at 15.8% (FY20: 1.2%; FY19: 1.0%), while net infection was recorded at 10.8% (FY20: 1.0%; FY19: 0.4%) at end-HY21. The NPLs declined slightly to Rs. 665.2m during 9MFY21; the same coupled with growth in gross lending portfolio and specific provision reflected positively on gross and net infection ratios to 12.8% and 5.9% respectively at end 9MFY21. Given, the country is seriously hit by third-wave of corona virus, the management must continue to ensure prudent risk management, as borrowers comprise low-income households who can get stressed for liquidity even as a result of slightest volatility in circumstances. Given, the asset quality is already deteriorated, VIS will vigilantly monitor infection ratios going forward; any adverse movement in the same can warrant a rating revision. Investment avenues of the institution are restricted to term deposit receipts (TDRs) with a bank having a sound credit rating. Hence, overall credit risk originating from investment portfolio is considered limited.

Loan approval process remained unchanged with paperless environment and online appraisal system turnaround time has improved: The loan approval process is initiated by the loan officer who visits prospective customers to collect their information and then attaches all the required documents such as CNIC copy, photograph, etc. on the e-appraisal application. E-appraisal application is available on android operating system and can be installed in any android compatible phone or tablet. Additionally, a biometric device is used to collect thumbprint of client and a mobile data sim to ensure internet connectivity. Post completion of this stage, complete data of customer is accessed by the verification officer (VO), who are deployed at every branch and supervised by Head Office. The responsibility of the VO is to ensure that the details of the guarantors and the customer are accurate, the loan will be used for the stated purpose and the borrower has sound repayment capacity. Based on his evaluation, the compliance officer provides his recommendation to the branch manager either to accept or reject the loan application. In case, the verification officer is not satisfied with the provided information, he can also send the application back to loan officer with his observations. Post feedback, the branch manager approves the loan, and sends a recommendation to area manager. The final approval is held with the Head of Operations located at the head office who reviews all applications that are accepted by the area managers. Despite induction of new loan officers (LOs) to meet requirements of growing business, active number of borrowers per loan officer increased on a timeline basis in line with growth in pool of borrowers.

Funding and Leverage Indicators: Given RCDP is a micro-finance institution with no access to consumer deposits; borrowings continue to remain the primary source of funding. Although the gross loan portfolio remained largely stagnant during period under review, borrowings of the institution were recorded higher at Rs. 4.7b (FY20: Rs. 4.7b; FY19: Rs. 3.9b) at end-HY21; the reason for higher borrowings yet stagnant portfolio is limited lending; the unutilized borrowings are a cushion for liquidity and are reflected by sizable cash balances at HY21. The largest proportion of borrowings was acquired from Pakistan Microfinance Investment Company (PMIC). Presently, the funding by Pakistan Poverty Alleviation Fund (PPAF) is being continued through PMIC as the same is jointly setup by PPAF, Triple Jump, SIMA and other local commercial banks. Given the company has foreign denominated borrowings, the forex risk on the same is mitigated by having forward contracts. To further mitigate the currency risk on foreign currency loans, going forward the company is considering replacing its foreign loans with domestic ones. The materialization of the same is yet to be ascertained over time. The breakdown of borrowings is presented in the table below:

(Rs. in millions)	**FY19**	**FY20**	**HY21**
Loan from Pakistan Microfinance Investment Company (PMIC)	2,900	2,790	2,790
Triple Jump	273.5	-	-
Demand Finance (HBL)	1.1	-	-
Demand Finance (UBL)	52.5	53.3	53.3
SIMA (Term Finance)	240.1	840.3	840.3
Rural Community Development Society	57.2	28.4	28.4
Demand Finance (BOP)	-	131.2	93.7
PPAF (Micro-credit facility)	-	87.4	87.4
Total Long Term loans (including current maturity)	**3,524.3**	**3,930.7**	**3,893.1**
Running Finance Facility from HBL	104.2	96.6	94.1
Running Finance Facility from UBL	299.9	250.0	250.0
Demand Finance (NBP)	-	500.0	500.0
Total Short-term Borrowings	**404.1**	**846.6**	**844.1**
Total Borrowings	**3,928.4**	**4,777.3**	**4,737.2**

Despite increased utilization of borrowings, RCDP's leverage indicators have improved on a timeline basis in line with augmentation of equity base. The leverage indicators are considered manageable and in sync with industry averages. The institution's debt leverage and gearing were reported at 2.4x (FY20: 2.5x; FY19: 2.8x) and 2.3x (FY20: 2.4x; FY19: 2.6x) at end-HY21. Going forward once the corona pandemic subsides, disbursements are projected to increase and therefore, borrowings are also expected to increase. As per management, the organization is in discussion with external parties to increase the quantum of borrowings. At end-HY21, RCDP had unutilized borrowings amounting to Rs.1.5b. Being a non-deposit NBFC, the growth objectives of the institution are synced with availability of funding opportunities at all times.

Leverage indicators maintained despite quantum increase in borrowings: Capitalization indicators of the company improved in line with internal capital generation; the same has slowed down considerably during the ongoing year in line with decline in spreads, higher provisioning and lower loan processing income. Given that RCDP is incorporated as a 'Limited by Guarantee Company', there is no share capital present. However, adjusting for internal capital generation, total equity of the institution (including subordinated loan from RCDS) increased to Rs. 2.1b (FY20: Rs. 2.0b; FY19: Rs. 1.6b) at end-HY21. Over the years, equity of the company increased primarily on the back of profit retention. In terms of capital adequacy, RCDP is comfortably placed; moreover the same presents sizable room for growth. In the medium to long-term the institution intends to convert into a bank to ease pressure on funding avenues; however, developments in this regard are yet to materialize.

Considerable improvement in liquidity profile; the same is an outcome of reduced lending activities: The liquidity position of the institution has improved fairly as with restricted disbursement the available resources are parked in liquid avenues. In normal circumstances, majority of the available resources are vested in loan disbursements; however in line with uncertainty involving ongoing pandemic exponential growth in micro-credit portfolio is not the management prerogative. The conservative lending approach leading to improvement in the liquidity position of the institution is viewed positively by VIS amid stressed national economic indicators. In absolute terms, liquid assets stood higher at Rs. 1.9bm (FY20: Rs. 2.0b; FY18: Rs. 601.5m) at end-HY21 primarily comprising cash and bank balances and term deposit receipts. As a result, liquid assets in relation to total borrowings stood higher at 39.9% (FY20: 42.3%; FY19: 15.3%) at end-HY21.

Volatility in profitability metrics: Profitability position of the institution exhibited positive momentum during FY20 as a result of volumetric growth in markup bearing assets along with improvement in spreads. However, operating self-sufficiency ratio (OSS) has declined on a timeline basis in line with higher administrative expenses recorded vis-à-vis the recurring income; the same has been a function of management's strategy of enhancing market footprint of the institution by opening new branches in FY20. Nevertheless, the OSS ratio was still sizable and maintained considerable cushion as core income is sufficient to cover administrative expenses. RCDP's markup bearing assets comprise advances extended to customers and banks deposits. The total markup income was reported higher at Rs. 1.7b (FY19: Rs. 1.3m) during FY20 majorly emanating from micro-credit portfolio as bank deposits only constitute a meager proportion of total markup bearing assets. Higher average quantum of advances and bank deposits resulted in improvement in total markup bearing income. Although there was no change in the pricing of loan portfolio during the period under review; the average return on markup bearing assets improved to 30.2% (FY19: 29.5%) during FY20 on account of growth in CED and BEL product portfolios entailing a higher markup charge at 20% as compared to other products having an markup charge of 15%. On the other hand, with noticeable increase in average quantum of borrowings along with higher average benchmark rates during FY20, markup expense increased to Rs. 683.6m (FY19: Rs. 511.5m). Moreover as a result of increase in the prevailing benchmark rates during the outgoing year, cost of funding increased to 15.7% (FY19: 15.3%) during FY20. In view of the respective movements in average return on markup bearing assets and average cost of funds, spreads of the company registered a slight increase and were reported higher at 14.5% (FY19: 14.2%) during FY20. The management was able to close FY20 at a healthy profit of Rs. 454.0m (FY19: Rs. 362.0m) despite increase in operating expenses as a result of improvement in spreads, reduced provisioning expense and increase in other income. The other income was recorded higher at Rs. 115.2m (FY19: Rs. 28.9m) during FY20 owing to increased investment income and present value adjustment of micro-credit revolving facility.

Although RCDP's HY21 mark-up income largely remained at FY20's level, the income generated from advances portfolio was reported lower at Rs. 746.1m during HY21 as compared to Rs. 1.7b in FY20 owing to management's approach of restricted lending during the ongoing year to avoid higher incidence of NPLs as the credit repayment capacity of micro-credit borrowers is adversely impacted. Given, reduced contribution of advances portfolio to the total markup income, yield on markup bearing assets declined to 26.2% during HY21. Moreover, the interest charged on some lending products was also reduced to pass relief to consumers in depressed economic growth scenario. On the other hand, cost of borrowings reduced fairly to 13.0% in line with decline in average benchmark rates during the period under review; SBP slashed the policy rate to 7% in Mar'20 to balance economic stress caused by the pandemic. However, despite decline in borrowing cost, spreads of the organization reduced to 13.2% during HY21 in line with significant dip in yield on mark-up bearing assets. VIS will continue to monitor movement in spreads during the rating horizon, ability to maintain the same at current levels will remain one of the key rating drivers.

There was considerable increase in administrative expenses primarily pertaining to staff related costs, which were recoded higher as an outcome of additional hiring of employees and opening of new branches in FY20 to cater to growing business needs. However, with the onslaught of pandemic, RCDP had to put a halt on its growth strategy and focused on sustenance therefore, the benefit of capital expenditure could not be reaped yet. Further, RCDP booked a provisioning of Rs. 90.0m during HY21 compared to reversal of Rs. 20.7m in FY20 due to heightened credit risk resulting from progression of loans to successive loan loss categories. Accounting for other income and expenses, profit after tax of the company declined significantly to Rs. 78.9m during HY21 primarily as a result of limited micro-credit lending and interest waivers given to customers' leading to shrinkage in markup income earned on loan book; hence spreads have dampened sizably. Going forward, the impact of Covid-19 crisis on the overall economy and the financial sector would bring a shift in operating dynamics of the financial institutions in wake of sizable uncertainty prevalent. Further, the impact of curtailment of economic activity for a certain period of time and lower lending may cause NIM compression, hence affecting the profitability of institutions. Maintaining conservative lending strategy to maintain asset quality and cost efficiencies would be important rating drivers going forward.

FINANCIAL SUMMARY

(amounts in PKR millions)

BALANCE SHEET	FY17	FY18	FY19	FY20	HY21
Net Advances	2,009.0	3,039.3	4,786.0	4392.7	4605.0
Short term investments	306.0	106.0	106.0	1152.5	237.5
Cash and bank balances	338.4	751.5	495.5	830.2	1623.9
Total Assets	2,746.8	4,166.9	5,714.1	6,931.7	7,038.5
Sub-ordinated loan	75.4	54.9	55.3	28.4	28.4
Long Term loans (including current maturity and subordinated loan)	1,346.3	2,441.8	3,524.3	3,930.6	3,893.1
Short term borrowings	406.0	298.8	404.1	846.6	844.1
Total Debt	1,752	2,740.6	3,928.4	4,777.3	4,737.1
Total Liabilities	1,944.6	3,016.6	4,201.9	4950.8	4978.6
Total Equity	802.2	1,150.3	1,512.2	1980.9	2059.8
Total equity (including subordinated loans)	877.6	1,205.2	1,567.5	2009.3	2088.2
INCOME STATEMENT	FY17	FY18	FY19	FY20	HY21
Net Mark-up Income	355.0	537.7	738.1	946.0	436.2
Net Provisioning/ (Reversal)	35.6	54.2	91.9	-20.7	88.9
Non-Markup Income	150.3	225.9	322.7	249.8	138.6
Administrative Expenses	233.7	405.4	633.5	840.6	463.4
Profit/ (loss) before Tax	262.0	348.1	362.0	454.0	78.9
Profit/ (loss) after Tax	262.0	348.1	362.0	454.0	78.9
RATIO ANALYSIS	FY17	FY18	FY19	FY20	HY21
Gross Infection (%)	0.3	0.5	1.00	1.2	15.8
Net Infection (%)	0.1	0.30	0.41	1.0	10.8
Spread (%)	15.9	15.2	14.2	14.5	13.2
OSS (%)	158.5	143.8	139.9	120.3	109.2
Net Worth % Total Assets (%)	31.9	28.9	27.4	29.0	29.7
Debt Leverage	2.4	2.6	2.8	2.5	2.4
Gearing	2.2	2.4	2.6	2.4	2.3
Liquid Assets to Total Borrowings (%)	36.8	31.3	15.3	42.3	39.9
CAR (%)	35.7	33.0	30.6	37.1	37.3
Return on Average Assets (%)	11.8	10.1	7.3	7.2	2.3
Current Ratio (x)	2.3	2.4	2.0	3.6	2.4

Productivity					
No. of Loan Officers (LOs)	245	382	627	627	653
No. of Branches	41	60	79	92	92
No. of Active borrowers	84,269	108,565	132,617	141,945	161,096
LO/Branch	6	7	8	7	7
Active borrowers/LO	344	284	212	226	247
Active borrowers/branch	2,055	1,809	1,679	1,543	1,751
Average loan size (in Rs.)	25,200	29,586	37,988	32,575	30,568

ISSUE/ISSUER RATING SCALE & DEFINITIONS   Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	Rural Community Development Programmes
Sector	Microfinance Institution
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: Entity				
29/04/2021	BBB	A-3	Rating Watch Developing	Maintained
16/07/2020	BBB	A-3	Rating Watch Negative	Maintained
02/08/2019	BBB	A-3	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Ghulam Haider	Head of Business Affairs & CEO's Secretariat	April 09, 2021