



The Pakistan Credit Rating Agency Limited

Rating Report

U Microfinance Bank Limited | TFC | TBI

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|-------------|--------------|
| 20-Dec-2021 | AA- | - | Stable | Preliminary | - |

Rating Rationale and Key Rating Drivers

The rating of the TFC reflects the coverage of the instrument through the security structure - 50% of the Issue Amount will be secured against pari passu charge on the Issuer's Book Debts, Advances and Receivables with 25% margin. Whereas, 50% of the Issue amount is secured against lien on government securities of a similar tenor. In case the Issuer fails to make the Profit/Principal payment on the relevant due date, the Security Agent reserves the right to realize the cash from the government securities placed under lien with the security agent and make payment including principal and interest as falling due to the relevant investor within 05 days of the relevant due date without invoking Event of Default. U Microfinance Bank Limited (UMBL) is a fast growing player in the Microfinance Sector (End-Jun'21: 9.8%, End-Dec'20: 9.3% market share in total Gross Loan Portfolio). The Bank's ambitious growth strategy encompasses multi-faceted targets focused towards achieving growth in the retail banking segment, developing digital banking platform and building a wholesome treasury book. The Bank's funding needs are primarily fostered through a growing deposit base, coupled with sizable borrowings. Sponsor support is reflected by way of conversion of a part of the subordinated debt into Tier-I capital in the form of preference shares of PKR 1bln in Dec-20. Almost half of the Bank's portfolio is gold backed which provides a strong mitigant against potential credit risk.

COVID-19 is an ongoing challenge. While it has taken a toll on many businesses, its ramifications are still unfolding. The proactive measures taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. Vigilance is required as the loan repayment cycle remains amid re-emerging variants of COVID-19. Average loan size of the Bank is on the higher side in relation to its peers on account of gold backed lending. The rating is dependent upon the Bank's compliance with the agreed terms.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | U Microfinance Bank Limited TFC TBI |
| Type of Relationship | Solicited |
| Purpose of the Rating | Debt Instrument Rating |
| Applicable Criteria | Methodology Debt Instrument Rating(Jun-21) |
| Related Research | Sector Study Microfinance(Sep-21) |
| Rating Analysts | Sehar Fatima sehar.fatima@pacra.com +92-42-35869504 |



Issuer Profile

Profile U Microfinance Bank Limited has been incorporated, under section 32 of the Companies Ordinance, 1984 (Companies Act, 2017). The Bank has a network of more than 212 touch points, across 183 cities and rural areas in Pakistan and offers a wide range of microfinance loans, deposit products, and branchless banking solutions. UMBL's branchless banking offers services under the banner of U Paisa in collaboration with Ufone (Pak Telecom Mobile Limited). The service is offered at nearly 45,000 agent locations across Pakistan, while the head office is situated in Islamabad.

Ownership In 2012, Pakistan Telecommunication Company Limited (PTCL) acquired 100% shareholding of Rozgar Microfinance Bank Ltd, which was established in 2003, as a district wide microfinance bank. Henceforth, its name was changed to U Microfinance Bank Limited in 2013 and in the same year SBP granted license for commencement of nationwide microfinance banking operations.

Governance The Board of UMBL consists of eight directors, comprising representatives of Emirates Telecommunication Group Company (Etisalat), PTCL and Government of Pakistan along with two Independent Directors and one Executive Director. Mr. Burak Sevilengul, the Chairman of the Board, has over 24 years of experience.

Management Mr. Kabeer Naqvi, the President & CEO, is also an Executive Director on the Board of UMBL and has 20 years of professional experience to his name and has been with the Bank since Sep'15. A team of professionals assist him.

Business Risk Pakistan Microfinance Industry (MFI) comprises of 32 microfinance providers including 21 microfinance institutions (MFIs). During 1HCY21, Active Borrowers clocked at 8.2 million, depicting an increase of 2% compared to the last quarter and 20% compared to the same period last year. Consequently, the GLP also crossed PKR 365 billion from PKR 355 billion, an increase of 2.8% quarterly basis. Growth was once again driven by the MFBs as they accumulated over 106,000 clients and 6.5 billion in GLP. The key contributor in terms of clients remains MMFB as they successfully experiment with their Digital Lending portfolio, while MMBL, KBL and FMFB led the growth in GLP as they amassed over 8 billion. During 9MCY21, markup earned enhanced to PKR 8.9bn (9MCY20: PKR 7.0bn). Net mark-up income improved to clock in at PKR 4.8bn (9MCY20: 3.8bn). However, Asset yield declined to 19.4% from 27.6% in end-Sep21 where spread inched down to 11.4% (end-Sep20: 27.6%). Non-mark up income remained largely intact (9MCY21: PKR 892mln; 9MCY20: PKR 899mln) attributable to gain on securities and enhanced other income where fee commission income recorded decline to PKR 621mln (9MCY20: PKR 790mln). Net profitability improved to PKR 854mln (9MCY20: PKR 566mln) despite provisioning expense of PKR 1.0bn.

Financial Risk UMBL remains one of the prominent players of the industry. The segmentation of lending portfolio reveals contribution from microenterprise (52%) followed by livestock loan (31.1%) as at end-Sep21. The Bank has also introduced a micro, small, and medium enterprises (MSME) secured product with gold as collateral across Pakistan. The bank's equity base improved to PKR 6,440mln (end-Dec20: PKR 5,674mln) where the share capital increased to PKR 4bn. Equity to total assets remained stagnant at 8% since Dec-20. The bank's total CAR stood at 18.45% as at end-Sep21.

Instrument Rating Considerations

About The Instrument U Microfinance Bank Limited (UMBL) is planning to issue rated, secured, listed Term Finance Certificates (TFC) up to PKR 5,000mln. Profit will be payable semi-annually in arrears calculated on a 365 day year basis on the outstanding principal amount. The first such profit payment will fall due six (06) months from the Issue date and subsequently every six (06) months thereafter. The basic purpose of the respective issue is to enhance the advances book which will be enabled by the additional liquidity raised through the TFC. Semi-annual principal redemption shall commence from second year from the issue date in 10 equal principal installments and shall continue till the maturity of the TFC.

Relative Seniority/Subordination Of Instrument The security structure is 50% of the Issue Amount will be secured against pari passu charge on the Issuer's Book Debts, Advances and Receivables with 25% margin. Whereas, 50% of the Issue amount is secured against lien on government securities of a similar tenor. In case of varying maturity profile, the issuer will replenish it under the guidance of the Security Agent. In case the Issuer fails to make the Profit/Principal payment on the relevant due date, the Security Agent reserves the right to realize the cash from the government securities placed under lien with the security agent and make payment including principal and interest as falling due to the relevant investor within 05 days of the relevant due date without invoking Event of Default.

Credit Enhancement The instrument is secured.



PKR mln

U Microfinance Bank Limited
Un-listed Public Limited

| Sep-21 | Dec-20 | Dec-19 | Dec-18 |
|--------|--------|--------|--------|
| 9M | 12M | 12M | 12M |

A BALANCE SHEET

| | | | | |
|--|---------------|---------------|---------------|---------------|
| 1 Total Finances - net | 33,564 | 31,283 | 20,984 | 17,007 |
| 2 Investments | 23,728 | 17,954 | 6,970 | 1,968 |
| 3 Other Earning Assets | 7,467 | 8,467 | 3,009 | 11,012 |
| 4 Non-Earning Assets | 16,430 | 14,286 | 8,737 | 4,791 |
| 5 Non-Performing Finances-net | (716) | (1,277) | 390 | 13 |
| Total Assets | 80,473 | 70,713 | 40,090 | 34,792 |
| 6 Deposits | 50,582 | 46,105 | 23,290 | 20,535 |
| 7 Borrowings | 20,339 | 17,285 | 12,684 | 10,628 |
| 8 Other Liabilities (Non-Interest Bearing) | 3,113 | 1,648 | 1,065 | 820 |
| Total Liabilities | 74,033 | 65,038 | 37,039 | 31,983 |
| Equity | 6,436 | 5,674 | 3,051 | 2,809 |

B INCOME STATEMENT

| | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|
| 1 Mark Up Earned | 8,906 | 10,134 | 7,266 | 4,407 |
| 2 Mark Up Expensed | (4,017) | (4,342) | (3,843) | (1,702) |
| 3 Non Mark Up Income | 892 | 1,263 | 939 | 599 |
| Total Income | 5,780 | 7,055 | 4,363 | 3,305 |
| 4 Non-Mark Up Expenses | (3,733) | (4,295) | (3,220) | (2,261) |
| 5 Provisions/Write offs/Reversals | (1,044) | (1,580) | (838) | (260) |
| Pre-Tax Profit | 1,004 | 1,180 | 304 | 784 |
| 6 Taxes | (150) | (274) | (51) | (237) |
| Profit After Tax | 854 | 906 | 254 | 547 |

C RATIO ANALYSIS

1 Performance

| | | | | |
|-------------------------------------|-------|-------|-------|-------|
| Net Mark Up Income / Avg. Assets | 8.6% | 10.5% | 9.1% | 10.3% |
| Non-Mark Up Expenses / Total Income | 64.6% | 60.9% | 73.8% | 68.4% |
| ROE | 18.8% | 20.8% | 8.7% | 26.1% |

2 Capital Adequacy

| | | | | |
|-------------------------------|-------|-------|-------|-------|
| Equity / Total Assets (D+E+F) | 8.0% | 8.0% | 7.6% | 8.1% |
| Capital Adequacy Ratio | 18.4% | 21.7% | 16.7% | 19.0% |

3 Funding & Liquidity

| | | | | |
|---|-------|-------|-------|-------|
| Liquid Assets / (Deposits + Borrowings Net of Repo) | 43.8% | 40.2% | 32.5% | 46.4% |
| (Advances + Net Non-Performing Advances) / Deposits | 64.9% | 65.1% | 91.8% | 82.9% |
| Demand Deposits / Deposits | 4.8% | 6.4% | 10.2% | 10.1% |
| SA Deposits / Deposits | 52.6% | 36.4% | 26.1% | 30.2% |

4 Credit Risk

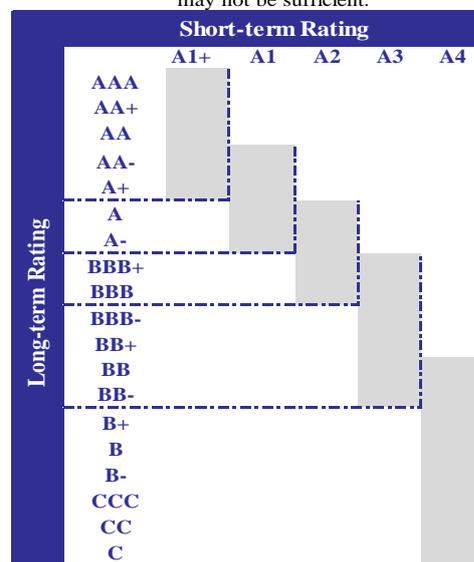
| | | | | |
|--|--------|--------|-------|------|
| Non-Performing Advances / Gross Advances | 3.4% | 0.1% | 4.1% | 1.3% |
| Non-Performing Finances-net / Equity | -11.1% | -22.5% | 12.8% | 0.4% |

Credit Rating

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

| Scale | Long-term Rating Definition |
|-------------|---|
| AAA | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+ | |
| AA | Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| AA- | |
| A+ | |
| A | High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions. |
| A- | |
| BBB+ | |
| BBB | Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. |
| BBB- | |
| BB+ | Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met. |
| BB | |
| BB- | |
| B+ | |
| B | High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment. |
| B- | |
| CCC | 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. |
| CC | |
| C | |
| D | Obligations are currently in default. |

| Scale | Short-term Rating Definition |
|------------|---|
| A1+ | The highest capacity for timely repayment. |
| A1 | A strong capacity for timely repayment. |
| A2 | A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. |
| A3 | An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |



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

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

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

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

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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.
- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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Regulatory and Supplementary Disclosure

U Microfinance Bank Limited | TBI

| Nature of Instrument | Size of Issue (PKR) | Years | Security | Quantum of Security | Nature of Assets | Book Value of Assets (PKR mln) | Trustee |
|----------------------|--|--|----------|---------------------|------------------|--------------------------------|-----------------|
| TFC | PKR 2,500mln (Inclusive of Green Shoe option of PKR 500mln) | 7 years (including 1 year grace period) | Secured | | | | To be appointed |

| | |
|---|---------------|
| 6 Months KIBOR Ask Rate (assumed "0" for calculation purpose) | 0.00% |
| Spread: | 1.75% |
| Effective Rate | 1.75% |
| Maximum Rate | 2% |
| Maximum Rate + Spread | 22% |
| Issue Amount | 2,500,000,000 |

U Microfinance Bank Limited | TBI | Tentative Redemption Schedule

| Years | Months | Tentative Dates | No. of Days | Principal Redemption Schedule | Issue price Component of Redemption | Maximum Expected Profit 22% | Total Redemption | Prompt Payment Bonus | Principal Outstanding |
|--------------|--------|-----------------|-------------|-------------------------------|-------------------------------------|-----------------------------|----------------------|----------------------|-----------------------|
| | 0 | 14-Dec-21 | | | | | | | 2,500,000,000 |
| 1 | 6 | 14-Jun-22 | 182 | 0.02% | 500,000 | 274,246,575 | 274,746,575 | 21,815,068 | 2,499,500,000 |
| | 12 | 14-Dec-22 | 183 | 0.02% | 500,000 | 275,698,274 | 276,198,274 | 21,930,545 | 2,499,000,000 |
| 2 | 18 | 14-Jun-23 | 182 | 0.02% | 500,000 | 274,136,877 | 274,636,877 | 21,806,342 | 2,498,500,000 |
| | 24 | 14-Dec-23 | 183 | 0.02% | 500,000 | 275,587,973 | 276,087,973 | 21,921,771 | 2,498,000,000 |
| 3 | 30 | 13-Jun-24 | 182 | 0.02% | 500,000 | 273,278,470 | 273,778,470 | 21,797,616 | 2,497,500,000 |
| | 36 | 13-Dec-24 | 183 | 0.02% | 500,000 | 275,477,671 | 275,977,671 | 21,912,997 | 2,497,000,000 |
| 4 | 42 | 14-Jun-25 | 183 | 0.02% | 500,000 | 275,422,521 | 275,922,521 | 21,908,610 | 2,496,500,000 |
| | 48 | 14-Dec-25 | 183 | 0.02% | 500,000 | 275,367,370 | 275,867,370 | 21,904,223 | 2,496,000,000 |
| 5 | 54 | 14-Jun-26 | 182 | 0.02% | 500,000 | 273,807,781 | 274,307,781 | 21,780,164 | 2,495,500,000 |
| | 60 | 14-Dec-26 | 183 | 0.02% | 500,000 | 275,257,068 | 275,757,068 | 21,895,449 | 2,495,000,000 |
| 6 | 66 | 14-Jun-27 | 182 | 0.02% | 500,000 | 273,698,082 | 274,198,082 | 21,771,438 | 2,494,500,000 |
| | 72 | 14-Dec-27 | 183 | 0.02% | 500,000 | 275,146,767 | 275,646,767 | 21,886,675 | 2,494,000,000 |
| 7 | 78 | 13-Jun-28 | 182 | 49.88% | 1,247,000,000 | 273,588,384 | 1,520,588,384 | 21,762,712 | 1,247,000,000 |
| | 84 | 13-Dec-28 | 183 | 49.88% | 1,247,000,000 | 137,545,808 | 1,384,545,808 | 10,941,144 | - |
| Total | | | | 100% | 2,500,000,000 | 3,708,259,621 | 6,208,259,621 | 295,034,753 | |