RATING REPORT

HBL Microfinance Bank Limited

(Formerly The First MicroFinanceBank Limited)

REPORT DATE:
May 03, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*April 28th, '23*		*April 30th, '22*	

COMPANY INFORMATION

Incorporated in 2001	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants Islamabad
Public Limited Unlisted Company	**Chairman of the Board**: Mr. Rayomond Kotwal **President & CEO**: Mr. Muhammad Amir Khan
Key Shareholders (with stake 5% or more) at end-March'2023:	
Habib Bank Limited (HBL): 79.92%	
Aga Khan Agency for Microfinance (AKAM): 4.46%	
Aga Khan Rural Support Programme (AKRSP): 12.05%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Micro Finance Banks (June 2019)
https://docs.vis.com.pk/docs/Micro%20Finance%20201906.pdf

HBL Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

HBL Microfinance Bank Ltd. (HBL MfB), was established in 2002 as a nationwide microfinance bank, licensed by the State Bank of Pakistan. Currently, HBL has a majority share-holding of 79.92% in HBL MfB. The Bank operates through a network of 217 business locations at end-FY22.

Profile of Chairman

Mr. Rayomond Kotwal has over three decades of experience, having worked in senior finance roles. Mr. Kotwal also serves on the Boards of Habib Allied Holdings Limited – UK, HBL Bank – UK, and HBL Asset Management Limited, and is also a Member of the Board of Trustees of HBL Employee Funds and HBL Foundation.

Profile of CEO

Mr. Muhammad Amir Khan brings over 30 years of extensive experience in consumer and commercial banking. He has also served as the CEO of Mobilink Microfinance Bank where he played an instrumental role in setting up the new microfinance bank.

Financial Snapshot

Total assets:
end-FY22: Rs. 142.5b;
end-FY21: Rs. 110.0b;
end-FY20: Rs.76.4b.

Total equity:
end-FY22: Rs. 13.2b;
end-FY21: Rs. 10.1b;
end-FY20: Rs. 6.7b.

Net profit:
FY22: Rs. 1.2b;
FY21: Rs. 1.6b;
FY20: Rs. 575m.

RATING RATIONALE

<u>Rating rationale</u>

The ratings assigned to HBL MfB incorporates its strong ownership profile, as majority shareholding is vested with Habib Bank Limited (HBL) and the Aga Khan Development Network. The Bank changed its name and rebranded itself to HBL Microfinance Bank Ltd from "The First MicroFinanceBank Ltd." in January 2022. The rebranding along with equity injection by the Parent Bank has further cemented the strong group association with existing customers and facilitated the growth of market footprint and outreach. Therefore, the market share of the Bank in terms of GLP in the overall microfinance sector increased to 17.9% (FY21: 15.1%) by end of the outgoing year. Moreover, the Bank has also become the leading microcredit services provider in the country in the ongoing year. HBL Mfb is expected to continue its growth momentum in the ongoing year with focus on disbursements of higher-ticket size housing and MSME loans. In addition, the asset quality indicators improved during the rating review period. However, going forward, the maintenance of profitability metrics is expected to remain challenging owing to weak economic indicators especially inflation sizably impacting micro-credit borrowers' repayment ability, high cost of funds amid ever-increasing policy rate situation exerting pressure on spreads and higher operational costs due to inflationary impacts.

The liquidity position of the Bank is sound as evidenced from sizable liquid assets to total deposits and borrowings carried on the books. The ratings take into account high concentration and low granularity of deposit portfolio in comparison to market peers. However, satisfactory Advances-to-Deposits ratio (ADR) and sound long-standing customer relations with the major depositors mitigate the concentration and withdrawal risks to some extent. In line with equity injection in the outgoing year despite sizable microcredit portfolio growth, the Bank's capital adequacy ratio is compliant with the minimum regulatory requirement. Going forward, the ratings will be dependent on maintenance of market share and infection ratios along with improvement in profitability metrics.

<u>Key rating drivers</u>

Aggressive growth of lending portfolio: The Bank's gross loan portfolio (GLP) witnessed sizable growth and was recorded at Rs. 87.9b (FY21: Rs. 59.2b) by end-FY22 against the target of Rs. 66.1b in line with lending activities reverting back to normal post COVID-19 pandemic. The loan disbursements were recorded higher at Rs. 70.8b (FY21: Rs. 50.4b) against the target of Rs. 44.3b primarily owing to significant increase in average ticket size in line with increased lending in housing segment coupled with progression of clients to successive loan cycles wherein automatic increase in renewal loan is inbuilt. HBL MfB's average ticket size is one of the highest in the microfinance sector and contributes positively to efficiency indicators of the Bank. As per the management, with sizable growth recorded during the period under review, HBL MfB has become the market leader in terms of micro-lending by end-Feb'23 taking over Khushhali Microfinance Bank Limited. In line with growth momentum witnessed in micro-credit lending to improve market penetration, the number of new clients added to the Bank's active borrowers pool increased during FY22. However, despite higher number of new to Bank clients, total number of active borrowers decreased mainly on account of customers being dropped by the Bank intentionally due to weak credit history. Subsequently, the client retention ratio scaled down to 77% (FY21: 82%) during the outgoing year. HBL MfB is targeting to close FY23 with a conventional micro-credit portfolio of Rs. 100.7b while the total active borrower base is expected to increase to 602,141. Moreover, disbursement target is budgeted at Rs. 68.5b with higher new-to-bank borrowers to be added to the lending portfolio during the ongoing year. Going forward, Bank's growth is projected to be financed through augmentation of deposit base while maintaining an appropriate cost of deposit.

<u>Microcredit Portfolio Risk Segregations:</u> During the rating review period, growth in advances portfolio was mainly driven by increased focus of the Bank on high ticket size loans in Housing category; the contribution of the same to GLP has increased notably at end of the outgoing year. Sectoral breakdown of the advances portfolio shows that despite decline in the proportion of the Livestock loans in the overall portfolio, the same remained the largest contributor at end-FY22. Within the Housing and Livestock segments, products with guaranteed monthly cash-flow, collateral backing and

EMI based repayment mode were prioritized by the Bank. Continuing with the strategy adopted post COVID-19, MSME segment was further streamlined during the outgoing year due to recovery challenges and high credit risk faced. On the other hand, the proportion of agriculture and general purpose remained unchanged. In order to safeguard portfolio and avoid asset quality weakening in times ongoing dismal economic indicators, portfolio growth is expected to be driven by mortgaged based business under Housing segment along with salary/pension backed lending under agriculture & livestock products. The proportion of Agriculture & Livestock combined is expected to be maintained at around 50% by end-FY23. The proportion of secured loans also increased during the outgoing year; the same was largely a function the increased focus on housing portfolio. In addition, in terms of type of payment, the share of EMI increased to 71% (FY21: 65%), whereas the proportion of principal on maturity (Bullet PMS) and pure bullet loans decreased by end-FY22. The higher proportion of EMI is a factor of higher contribution of Housing loans to GLP entailing monthly installments. Going forward, the management plans to increase the proportion of EMI loans to more than 70% by end-FY23 owing to high repayment risk associated with bullet lending especially in times of prevailing economic downturn. The Bank has also curtailed group lending to mitigate credit risk that emerges from activist involvements, loan hijacking, recovery pocketing and loan mis-utilization. Going forward, the Banks plans to keep the proportion of group-based lending at bare minimum with new disbursements to be made under individual loan categories.

A new product named "Women Enterprise Finance" was rolled out during FY22, having maximum credit limit of Rs. 350,000 offered at a discounted rate of 36.9%. The product was designed to target women borrowers specifically due to decreased female representation in GLP after the collapse of women-run businesses during pandemic. On the other hand, post introduction of 'Roshanzar Premium' and 'Government Markup Subsidy Scheme (GMSS)' with high maximum credit limits introduced in FY21, the Bank has no new products in these segments in the pipeline since existing products cover the target market requirements. There will be an ongoing focus on staff training, enabling them to enter and efficiently cater to risks associated with high ticket market segments.

Deferred, Restructured, Rollover (DRR) Portfolio: During 2020 the State Bank of Pakistan (SBP) announced COVID-19 Relief Package to dampen the impact of the pandemic by deferring the loan repayments for one year. HBL MfB rescheduled GLP amounting to Rs. 12.7b by end-FY20. However, the restructuring of advances in retrospect of SBP's relaxation to mitigate economic slowdown was extended till 1QFY21 with additional restructuring recorded at Rs. 2.1b. Subsequently, the total DRR portfolio amounted to Rs. 14.8b by end-1QFY21 at maturity of both schemes introduced by SBP. Out of the total DRR portfolio, the Bank recovered Rs. 1.3b in FY20 and Rs. 7.3b in FY21 with the cumulative recovery recorded at Rs. 8.6b. However, the written off portfolio stood at Rs. 423.0m by end-FY21, taking the tally of outstanding DRR portfolio to Rs. 5.8b at end-FY21. During the outgoing year, the Bank made recoveries of Rs. 3.0b while loans of Rs. 1.7b were written-off, resulting in outstanding DRR portfolio recorded at Rs. 1.1b at end-FY22. Moreover, the portfolio after recovery of Rs. 270m further decreased to Rs. 846m by end-Feb'22. As per the management, more than 80%of the outstanding portfolio is expected to be recovered.

HBL MfB adopted various measures to cope with the pandemic related challenges; including, special recovery drives at all branches which are supported by attractive incentive programs, close monitoring of portfolio, continuous and clear communication about portfolio dues, regular portfolio review to take corrective measures on timely basis, selective client acquisitions on the basis of impact on different sectors, focus on business growth through low impacted segments and fixed income groups where cash-flows are not impaired due to the pandemic situation. These measures have helped the Bank in achieving lower delinquency and better client management compared to the industry. The Bank had also enhanced its collections and follow-ups mechanism in order to maximize the recovery.

Portfolio impacted during Floods-22: Starting from mid-June 2022, unprecedented monsoon rain triggered one of Pakistan's worst floods in decades. One-third of Pakistan's territory and around 33 million people have been impacted by the floods. As per management, out of HBL MfB's 214 locations (at relevant time), 55 locations were declared as calamity hit by the Government of Pakistan (GoP). In contrast to regulatory relief provided to micro-credit borrowers during Covid-19, the flood affected clients were not provided any blanket cover by the central bank. On the other hand, different portfolio segregations and clients were evaluated on case-to-case basis. According to this strategy, for performing client the Bank focused on recovery while rescheduling was discouraged, for clients with medium probability of recovery the Bank adopted for wait and watch strategy with rescheduling to be considered as the last option, however; the low probability of recovery clients were offered rescheduling. Based upon the detailed assessment carried out at borrower level, 97,936 borrowers with loan portfolio amounting to Rs. 22.5b were directly or indirectly impacted by floods/rains at end-

FY22. According to management, out of this portfolio Rs. 3.6b was recovered, Rs. 332.5m was rescheduled and Rs. 204.0m was written-off during the rating review period. As a result, out of the outstanding flood impacted portfolio of Rs. 18.7b, only Rs. 332.5m falls under rescheduled while the remaining Rs. 18.4b is performing and regular.

Relief Schemes introduced by SBP: SBP has introduced Kissan Package-2022 for farmers effected by floods. Under the Kissan Package Markup Waiver Scheme (MWS), agriculture loans that were regular as on 30th June, 2022 with outstanding balance (including markup) of up to Rs. 500,000 per loan were given waiver of entire markup amount due till September 30, 2022. According to this scheme, 50% waiver amount will be borne by GOP through budgetary allocation whereas remaining will be absorbed by the Bank. The total outstanding markup accrued on these loans amounted to Rs. 488m - net of recoveries. The Bank has waived off the entire amount by directly writing off the markup accrued on loans however; 50% amounting to Rs. 244 million has been recognized as receivable from the Government. Moreover, rescheduling/restructuring of the principal amount pertaining to same loans for up to one year in calamity-notified areas is also approved. In addition to MWS, SBP also announced "GOP Markup Subsidy Scheme" for revival of agriculture/livestock sectors against loans of up to Rs. 500,000 to subsistence farmers at markup rate of 0% per annum along with "Interest Free Loans and Risk Sharing Scheme" for landless farmers up to Rs. 200,000 at markup rate of 0% per annum with markup subsidy provide by Government at 6M-KIBOR + 9%; the validity for both schemes is six months. The latter scheme provides credit risk coverage of 50% of outstanding loans (principal) in case of non-repayments, after being classified as substandard. As per the management, HBL MfB has developed a special product for implementation of these schemes; the product is expected to be rolled out in the ongoing year. On this product a discount of 10% to 11% in APR will be borne by the Bank.

Asset quality indicators improved during the rating review period: During the outgoing year, the non-performing loans (NPLs) decreased to Rs. 2.1b (FY21: Rs. 2.3b) at end-FY22. Therefore, the gross and net infection have improved on a timeline at end-FY22 amid, the extension of loss recognition for Housing and MSME portfolio to 2 years (FY20: 180 days) and 18 months (FY20: 180 days) respectively. Given that majority of the DRR portfolio has matured with no internal restructuring done, the infection ratios present an accurate depiction of asset quality. Further, the advances charged off against provisions and bad debt directly charged to profit & loss were reported higher at end-FY22. The increase in quantum of write-offs was offset by growth in GLP, therefore incremental infection also witnessed a decreasing trend during the outgoing year. Moreover, the provisioning coverage (only specific provision) stood lower due to overall reduction in quantum of NPLs especially in the doubtful bracket resulting in lower provisioning requirement for FY22. In view of the continuous business challenges posed by the worsening of the current macroeconomic indicators along with recent floods, HBL MfB has continued to exercise prudence by keeping incremental general provision of Rs. 706m in addition to the statutory requirement of 1%.

Profitability Indicators: HBL MfB remained profitable with positive bottom line of Rs. 1.2b (FY21: Rs. 1.6b) recorded during FY22. However, the profitability indicators were marked by downward trajectory as a combined outcome of multiple factors including decline in markup spreads, higher provisioning expense coupled with increase in administrative expenses. The contraction of spreads was majorly a function of switching of funds from balances placed with banks to investment portfolio entailing lower yield along with high cost of funding stemming from high benchmark rate scenario prevalent. As a result, despite growth in recurring non-markup income, primarily loan processing fee in line with increased lending of high-ticket loans pertaining to Housing category along with higher recoveries from written-off loans, the Operational self-sufficiency (OSS) was recorded low at 107.4 (FY21: 115.6%) for FY22.

The considerable uptick in markup income earned was predominantly on account of volumetric increase in GLP as the yield of micro-credit portfolio only increased by 20bps during FY22. With growth in GLP, markup on advances was recorded higher during the outgoing year. On the other hand, despite increased lending under housing segment entailing higher markup rates coupled with average upward price adjustment of 5% of the entire micro-credit portfolio, the increase in yield was marginal as accrued markup income amounting to Rs. 3.0b (FY21: 2.1b) was moved to suspense account in line with recognition of NPLs originating from DRR portfolio. However, the full impact of increase in loan pricing will be visible by end- June'23 as these rates were only applicable on new loans disbursed. Moreover, income on investments increased on account of sizable switch of funds placed in bank deposits to investment portfolio along with increase in average yield to 12.1% (FY21: 7.8%) in line higher benchmark rates recorded during the outgoing year. Further, the yield on balances held with other banks was also recorded higher owing high discount rate. Subsequently, overall yield on interest bearing assets increased during FY22.

Total markup expense increased during FY22 in line with higher deposits base along with increased cost of funding to 13.2% (FY21: 8.5%) owing to significant increase in the benchmark rates witnessed from 9.75% in Dec'21 to 16% by Dec'22. Moreover, the cost of deposits was equivalent to cost of funding on account of deposits constituting 93% of the funding mix; the increase in cost of deposits was solely a function of benchmark rates being at the very high end of the spectrum as the proportion of high-cost term deposits declined in the overalls deposit mix. In line with frequent policy rate hikes experienced during the rating review period, the frequency of asset price reviews has completely changed with asset repricing now done exactly in tandem with deposit reprising with every new policy rate announcement to the avoid lag in pricing change from putting a drag on spreads. Going forward, the average yield on markup bearing assets is targeted to increase for FY23 as the management plans to increase pricing of lending products in line with the change in the policy rate and competition outlook.

With increase in number of loans disbursed along with higher disbursement in large ticket size loans entailing proportionately high fee structure, the Bank's microcredit application processing fee and commission increased significantly during FY22. Moreover, other income also improved due to higher recoveries against written off advances made during the outgoing year. Given the inflation and consequent increase in cost of funds during the ongoing year, the management also plans to increase the loan processing fee.

On the other hand, administrative expenses of the Bank were reported higher during FY22 mainly on account of increase in remuneration expense; the same were reported higher due to cost impact of 12 additional branches opened/upgraded during the review period to improve market footprint along with inflationary impact on the administrative overhead. Moreover, the cost for borrowers' credit life insurance was recorded higher due to increase in rates charged by the insurance companies along with volumetric growth of GLP. However, despite increase in admin expenses, with sizable growth in the asset base overhead ratio declined slightly during FY22.As a combined impact of reduction in spreads and increase in operating and provisioning expenses, profit before tax of the Bank reduced for FY22. As per management's estimate, had the markup wavier scheme not been launched, the HBL MfB's bottom line would have been higher by Rs. 140m. Going forward, the maintenance of profitability metrics is expected to remain challenging owing to weak economic indicators especially inflation sizably impacting micro-credit borrowers' repayment ability, high cost of funds amid ever-increasing policy rate situation and increase in operational costs due to network expansion.

Investment Mix: Investment portfolio augmented to Rs. 30.4b (FY21: Rs. 13.7b) by end-FY22; the same was a function of channeling of liquidity placed in bank deposits in the preceding year towards government securities portfolio including T-Bills and PIBs amounting to Rs. 17.5b (FY21: Rs. 5.7b) and Rs. 13.2b (FY21: Rs. 4.2b) respectively at end-FY22. On the other hand, investment in TDRs was completely liquidated by end of the outgoing year. Subsequently, credit risk emanating from investment portfolio is considered low as government securities accounted for 100% (FY21: 70.9%) of the investment portfolio. Sizable liquidity was vested in balances held with other banks in FY21 owing to sound credit risk profile of the investment as the deposit was placed in 'AAA' rated related-Bank coupled with positive variance on its return recorded in comparison to government securities portfolio yield. Majority of T-bill portfolio amounting to Rs. 16.5b is categorized under available for sale having maturity of three months to one year carrying markup at the rates ranging between 13.3% to 16.4% (FY21: 7.44% to 10.00%) per annum. Out of the total PIB portfolio, Rs. 2.6b are placed under HTM on amortized cost therefore are not susceptible to mark-to-market losses due to interest rate fluctuations. However, out of available for sale PIB portfolio amounting to Rs. 10.6b, Rs. 4.0b are fixed tenor instruments. Subsequently, the deficit on revaluation of federal securities was recorded at Rs. 302.7m (FY21: Rs. 166.6m) at end of the outgoing year. Moreover, almost one third of the PIB portfolio maturing in 2023-2025 is susceptible to market risk ta end-FY22.

The Bank has taken steps to mitigate the risk associated with interest rate volatility including investing in floating rate securities instead of fixed rate securities. Therefore, the proportion of floating rate PIB's increased to 68% (FY22: 65%) amounting to Rs. 10.2b (FY22: Rs. 8.8b) out of the total Rs. 15.0b at end-1QFY23. Overall, the market risk originating from the investment portfolio is relatively manageable in line with sizable quantum of floaters carried. Going forward, the management plans to invest in short-term securities in the ongoing increasing benchmark rate scenario to mitigate market risk. At end-FY22, there was asset-liability mismatch in up to one month due to sizable CASA deposit falling due while the maturity mismatch prevalent in six months to one-year bracket was on account of large time-deposits above Rs. 100,000 falling due in the said bracket. The liquidity risk arising from maturity mismatch risk is largely mitigated through available borrowing lines available with local banks.

Liquidity Profile: The liquidity position of the Bank is sound as evidenced from sizable liquid assets to total deposits and borrowings carried on the books at end-FY22. However, the same has declined in line with higher funds channelized towards micro-credit portfolio as growth strategy was implemented during the outgoing year post pandemic rationalization. Moreover, liquid assets to total assets were also reported lower at end-FY22.

Deposit base increased at end-FY22; the same continues to remain the main source of funding for the Bank during the rating review period. The increase in the deposit base is largely in tandem with the industry growth given with discount rate being at all-time high, the quantum increase mark-up bearing deposits has been sizable as investment has been largely replaced by savings. Going forward, in order to fuel sustained asset growth and manage strong liquidity position, deposit mobilization will remain critical. The proportion of current and saving account (CASA) in the total deposits mix increased primarily owing to sizable volumetric increase in saving deposits during FY22. In line with increased focus of the Bank to shed high-interest bearing term deposits to rationalize cost of funding, the proportion of fixed deposit decreased on a timeline basis by end-FY22. Given enhancing the quantum of current deposits is currently difficult on account of benchmark rates being on the higher side creating significant opportunity cost against keeping capital in current accounts, the Bank has introduced various incentives for the liability team for achieving current deposit targets. In addition, branchless banking operations are also expected to add to the current account deposit base by end-FY23. The management plans to close the ongoing year with a CASA proportion of 65%. Concentration risk emanating from deposits portfolio is high as share of top-50 depositors was recorded on the higher side in comparison to market peers. However, sound long standing customer relations with major depositors mitigate the concentration risk to some an extent. The proportion of the institutional deposits is sizable and has remained largely unchanged at end-FY22. Therefore, even in terms of granularity, HBL MfB compares unfavorably to other market players.

In order to meet operational and business requirements, the Bank reliance on borrowings increased at end-FY22. HBL MfB does not have any repo borrowings or borrowings from outside of Pakistan. During the rating review period three new borrowings lines were procured amounting to Rs. 1.75b; one of these credit facilities was obtained from Pakistan Mortgage Refinance Company (PMRC) to finance the housing portfolio. Moreover, higher utilization of NBP running finance facility was recorded at end-FY22. In addition to the above, during FY20 HBL MfB has also obtained a subordinated term finance facility of Rs. 2.0b from its parent company, HBL, for a tenor of 8 with the option to make bullet repayment after expiry of 5 years. The Bank has obtained this facility to contribute towards its Supplementary/ Tier-II capital and CAR as per regulations for MFBs. The funds raised are being utilized for the Bank's ongoing business expansion. Going forward, the Bank plans to focus on growth of its deposit base with minimum reliance one the external borrowing to grow its advances portfolio.

Capital Structure: Equity base of the bank augmented in line with profit retention and equity injection of Rs. 2.0b from HBL during the outgoing year. Out of the total equity ploughed in, Rs. 1.0b placed under advance against right share issue is already credited to HBL MfB's account subsequent to year end. On the other hand, the other Rs. 1.0b has become part of issued share capital with the same increasing to Rs. 5.7b at end-FY22 as opposed to Rs. 4.7b in the preceding year. The Bank had already increased the authorized share capital in FY21 to facilitate the equity injection that was planned for FY22 and FY23 from HBL. Equity injections were carried out by HBL in order to support business growth objectives; the same has come to fruition as HBL MfB has become the leading provider of micro-credit services in the country at end-Feb'23. Net NPLs in relation to tier-1 capital improved as a combined outcome of reduction in NPLs and growth in equity base by end-FY22. With sizable disbursements resulting in GLP growth, the risk weighted assets increased, therefore the Bank's capital adequacy ratio (CAR) was reported at 16.4% (FY21: 17.0%) at end of the outgoing year; however, the same is comfortable and above the minimum regulatory requirement of 15.0% for MFBs.

HBL Microfinance Bank Limited (HBL MfB) Annexure I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**Dec 31, 2019**	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**
Cash & balances with SBP and NBP	2,876	4,252	6,344	13,161
Balances with other Banks/NBFIs/MFBs	3,405	7,472	24,032	1,235
Net Investments	4,513	14,542	13,730	30,395
Net Advances	30,936	41,628	56,872	85,377
Other Assets	5,502	8,469	9,042	12,358
Total Assets	47,232	76,363	110,021	142,526
Total Deposits	38,404	61,726	91,363	116,063
Borrowings	-	2,021	2,883	6,571
Subordinated Debt	-	2,000	2,000	2,000
Other Liabilities	2,781	3,927	3,962	4,665
Paid-Up Capital	2,731	2,731	4,731	5,731
Tier-1 Equity	6,048	6,649	10,225	13,429
Net Worth	6,047	6,688	10,083	13,226
INCOME STATEMENT	**Dec 31, 2019**	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**
Net Mark-up Income	5,054	6,664	8,982	10,419
Net Provisioning / (Reversal)	853	1,567	1,884	2,581
Non-Markup Income	768	876	1,430	2,109
Operating Expenses	4,268	5,157	6,270	8,145
Profit Before Tax	701	815	2,258	1,802
Profit After Tax	533	575	1,556	1,225
RATIO ANALYSIS	**Dec 31, 2019**	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**
Gross Infection (%)	3.5	2.8	3.9	2.4
Incremental Infection (%)	5.0	1.6	4.9	3.4
Provisioning Coverage (%)	33.6	29.9	46.7	42.7
Net Infection (%)	2.4	2.0	2.1	1.4
Net NPLs to Tier-1 Capital (%)	12.1	12.7	12.2	9.1
Net Advances to Deposit Ratio	81%	67%	62%	74%
Capital Adequacy Ratio (%)	15.8	15.0	17.0	16.4
Yield on Mark-up Bearing Assets	24.4	24.3	20.8	23.0
Cost of Funds (%)	10.5	10.4	8.5	13.2
Markup Spreads (%)	13.9	13.9	12.3	9.8
OSS (%)	108.1	107.0	115.6	107.4
ROAA (%)	1.3	0.9	1.7	1.0
ROAE (%)	9.2	9.0	18.6	10.5
Liquid Assets to Total Deposit & Borrowings (%)	28.1	39.9	46.3	36.7

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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	Annexure III
Name of Rated Entity	HBL Microfinance Bank Limited – HBLMfB *(Formerly: The First MicroFinanceBank Pakistan (FMFB)*
Sector	Microfinance Bank (MfB)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28/04/2023	A+	A-1	Stable	Reaffirmed
30/04/2022	A+	A-1	Stable	Maintained
30/04/2021	A+	A-1	Rating Watch-Developing	Reaffirmed
30/04/2020	A+	A-1	Rating Watch-Developing	Maintained
25/03/2019	A+	A-1	Stable	Reaffirmed
30/04/2018	A+	A-1	Stable	Reaffirmed
31/10/2017	A+	A-1	Stable	Reaffirmed
28/04/2017	A+	A-1	Stable	Reaffirmed
28/04/2016	A+	A-1	Stable	Upgrade

Due Diligence Meeting/s Conducted

Name	Designation	Date
Mr. Ali Raza Anjum	Chief Operating Officer	10-March-2023
Mr. Adil Abbasi	Chief Financial Officer	10-March-2023
Mr. Syed Haris Ali	Head Risk Management	10-March-2023