RATING REPORT

U Microfinance Bank Limited (UMBL)

REPORT DATE:
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RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity Rating	A-	A-2	A-	A-2
Rating Date	*April 28, '16*	*April 28, '16*	*April29, '15*	*April29, '15*
Rating Outlook	Stable	Stable	Stable	Stable

COMPANY INFORMATION

Incorporated in 2003	**External auditors:** Deloitte YousufAdil Chartered Accountants.
Unlisted Public Limited Company	**Chairman:** Mr. Hamid Farooq
Key Shareholder(s):	**Chief Executive Officer (Acting):**Mr. Syed Umar Viqar
Pakistan Telecommunication Company Limited – 100%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria :Microfinance Institutions-Oct 2003
http://www.jcrvis.com.pk/images/MicroFinance.pdf

U Microfinance Bank Limited (UMBL)

OVERVIEW OF THE INSTITUTION

UMBL(previously,Rozgar Microfinance Bank Limited) was incorporated as anunlistedpublic limited company in 2003 under the Companies Ordinance 1984.

UMBL is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL) and a sister concern of Pak Telecom Mobile Limited (PTML) (Brand Name – Ufone).

PTCL (the Holding Company) is the largest telecommunication company in Pakistan and listed on Pakistan Stock Exchange Limited. The company provides telecommunication and broadband internet services in Pakistan. Following the privatization in 2006, 26% of the shareholding of PTCL along with management control is now vested with Etisalat International Pakistan (Emirates Telecommunication Corporation Group). The Government of Pakistan (GoP) continues to retain 62% shares of PTCL. At year-end’2015, PTCL had a sizeable asset base of Rs. 180.4b, with equity of Rs. 86.2b.

RATING RATIONALE

The assigned ratings to U Microfinance Bank Limited (UMBL) reflect its association with a strong sponsor, Pakistan Telecommunication Company Limited (PTCL). PTCL is co-owned by the Government of Pakistan and Etisalat International Pakistan (LLC) (Etisalat). Management control of PTCL rests with Etisalat,astate owned Telecom Corporation of UAE, having a long-term international scale rating of ‘A+’ assigned by an international rating agency Fitch. The senior management team at UMBL has been strengthened in the outgoing year with the induction of Mr. KabeerNaqvi, a seasoned professional in the microfinance sector. With the change in management an increased focus on branch banking operations has been noted,which is evident from the expansion in the bank’s geographical footprint to over 50 locations from 25 at (end-Sep’2015). Additional hiring has also been undertaken invarious business and control functions with significant increase in experienced loan officers (LOs).

Credit Risk: Loan book has shownsignificantgrowth,standingatRs. 1.6b (2015: Rs. 912.9m; 2014: Rs. 344.1m) by end-1Q16. At end-March’2016, proportion of unsecured financing represents over two-third of gross lending portfolio (GLP) primarily comprised ofexposureinlivestock and agriculture loans. The management expects the proportion of secured loans (gold-backed loans) to remain around one-third of loanportfolio. Going forward, net advances are projected to increase significantlyas a result of an increase in branches, LOs,average loan sizes and new products launches by the management. Infection in the portfolio has remained within manageable level with PAR-30 reported at 0.3% at end-March’2016. Given the rapid growth in loan book, and the fact that portfolioisalmost entirely based on bullet repayment, as has been in the past, quality of fresh lending in the portfolio will become evident as the loan cycle matures.

Liquidity & Funding: The funding strategy of UMBL entails a mix of deposits and borrowings to finance growth in the bank’s operations and loan book. The deposit base has shown significant growth, standing at over Rs. 3b (2015: Rs. 1.1b) as of mid-April’2016. A sizeable portion of the growth in deposits is attributed to longer maturity term deposits (1 year and above) on account of which deposit concentration and the proportion of institutional deposits has increased; granularity of deposit will remain a key rating factor going forward. Growth in deposits is being supplemented by borrowingprocurement strategy whereby nearly Rs. 2b of medium term borrowings will be undertaken by year-end’2016. Liquidity profile draws comfort from liquid assets carried on the balance sheet, increasing proportion of longer maturity deposits & borrowings in funding mix and unutilized credit lines available with the UMBL.

Capitalization: Net equity was reported above the minimum equity requirement while Capital Adequacy Ratio (CAR) declined to 53.3% (2015: 88%) at end-1Q16 on account of significant growth in advances portfolio. While remaining above regulatory limit, CAR is expected to decline with increase in risk weighted assets in line with projections.

Branchless Banking (BB): BB revenues witnesseda decline in the outgoing year. However, the segment reported higher profitability during 2015 on account of coordinated efforts of the bank and the super-agent. As a result ofahigh agent commission structure, which is affectingthe profitability of BB operators, the management is restructuring the existing BB modelwith product diversification to enable greater support to overall profitability.

Profitability: UMBL posted a profit before tax of Rs. 29.3m during 2015.Going forward, profitability metrics are projected to improve with growth in income from core operations despite a significant increase in administrative expenses due to branch network expansion Asset quality indicators are expected to remain consistent while important in achieving projected profitability levels.

U Microfinance Bank Limited (UMBL) — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
	1Q2016	**2015**	**2014**	**2013**
Total Assets	3,382	2,271	1,832	1,381
Net Advances	1,593	913	344	41
Asset Quality				
Gross Infection (PAR-30) (%)	0.31%	0.46%	0.08%	0.05%
Net Infection	0.02%	0.41%	0.07%	0.03%
Funding & Liquidity				
Deposits	2,112.1	1,065.3	702.6	205.2
Net Advances to Deposit Ratio (%)	75%	86%	49%	20%
Cost of Funds (%)	6.64%	6.02%	4.10%	1.24%
Capitalization				
Net worth	1,064	1,048	957	1039
Net Worth % Total Assets	31.5%	46%	52%	75%
Profitability				
Profit/ (loss) Before Tax	14.7	29.3	-136.7	-102.8
Profit/ (loss) after Tax	10.2	8.0	-96.9	-45.1
Spread	13.14%	9.6%	10.4%	8.11%
Number of Branches	41	38	25	15
Total Number of active clients	39,787	22,254	8786	1220
Average loan size	40,370	41,313	39,437	33,919

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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

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

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

(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.jcrvis.com.pk/images/policy_ratings.pdf

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

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	U Microfinance Bank Limited (UMBL)
Sector	Microfinance Institution
Type of Relationship	Solicited
Purpose of Rating	Microfinance Institution Rating
Rating History	See table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Rating History

Rating Date	Medium to Long Term	Rating Outlook	Short Term	Rating Action
RATING TYPE: Entity				
28-Apr-16	A-	Stable	A-2	Reaffirmed
29-Apr-15	A-	Stable	A-2	Reaffirmed
30-Apr-14	A-	Stable	A-2	Upgrade
30- Apr-13	BBB+	Positive	A-2	Upgrade/Rating Watch Removed
23- Apr-12	BB+	Rating Watch - Positive	A-3	Maintained