RATING REPORT

U Microfinance Bank Limited

REPORT DATE:

April 28, 2023

RATING ANALYST:

Maham Qasim
maham.qasim@vis.com.pk

Qudsia Abbas
qudsia.abbas@vis.com.pk

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 28, 2023*		*April 30, 2022*	
PPTFC-1	A (Stable)		A (Stable)	
Rating Date	*April 28, 2023*		*April 30, 2022*	
PPTFC-2	A- (Stable)		A- (Stable)	
Rating Date	*April 28, 2023*		*February 03, 2022*	

COMPANY INFORMATION	
Incorporated in 2012	**External auditors:** KPMG Taseer Hadi & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Mr. Burak Sevilengul
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Kabeer Naqvi
Pakistan Telecommunication Company Limited – 100%	

APPLICABLE METHODOLOGY(IES)
Methodology: Micro Finance Banks (June 2019)   **https://www.vis.com.pk/kc-meth.aspx**   **Rating the Issue**   **https://docs.vis.com.pk/docs/Notchingtheissue202007nov.pdf**

U Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

Ubank (previously, Rozgar Microfinance Bank Limited) was incorporated as an unlisted public limited company in 2003 under the Companies Ordinance, 1984. Ubank is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL) and a sister concern of Pak Telecom Mobile Limited (PTML) (Brand Name – Ufone).

Profile of CEO

Mr. Kabeer Naqvi is a seasoned professional in the microfinance sector. Previously, Mr. Naqvi has served in Telenor Microfinance Bank Limited (TMBL) with his last designation being Group Executive Director, Chief Financial Officer & Company Secretary. His overall work experience is over 21 years.

Profile of Chairman

Mr. Burak Sevilengul is the Chief Commercial Officer, e& International, responsible for international operations in the Middle East, Asia and Africa. Mr. Burak brings 25 years of experience in international companies in Europe, Middle East, Africa and the USA of which more than 20 years is in the telecommunications and technology industries.

RATING RATIONALE

Rating Rationale

The ratings assigned to U Microfinance Bank Limited (Ubank) reflect strong sponsor profile and consistent demonstrated support of PTCL which has been assigned an entity rating of 'AAA/A-1+' (Triple A/A-One Plus) by VIS and is co-owned by the Government of Pakistan and Etisalat International Pakistan. The implicit support from the sponsor was witnessed from the conversion of Tier-II Subordinated Debt amounting to Rs. 2.8b over the last three years along with recent conversion of Rs.1.0b into ordinary shares during the outgoing year, which added further depth to capitalization indicators of the Bank. A further addition of Rs. 1.0b to the equity base was made in June'22 in the form of a Tier-1 instrument which has also assisted in maintaining growth momentum and capital buffers for the assigned ratings. The ratings continue to derive strength from the Bank's business strategy involving enhanced focus towards secured portfolio; a sizable portion of Ubank's micro-credit portfolio is gold-backed signifying lower credit risk. Moreover, the overall secured portfolio of the Bank continues to be larger than peers. The ratings incorporate fair asset quality indicators; the Bank has also implemented IFRS-9 resulting in additional provisioning buffers. Further, the Bank is adequately protected against risk of non-repayment by the borrowers pertaining to recently restructured flood impacted portfolio as over two-thirds of the portfolio is gold-backed. The ratings reflect growth in business volumes and strengthening of liquidity profile. In addition, comfort is drawn from significant scale of treasury operations reflecting positively in the profitability indicators; U Bank's profit after tax is the highest amongst peer microfinance banks. Furthermore, with volumetric growth in investment portfolio comprising of T-Bills, PIBs and mutual funds, the coverage of deposits and borrowings by liquid assets improved in the outgoing year. The assigned ratings have taken the impact of first-time adoption of IFRS -9 on account of which the increase in impairment allowance for the Bank was passed through its equity which caused it to decline slightly in comparison to the previous year. The Bank maintained capitalization buffers well above the regulatory requirements. Going forward, ratings are dependent on achievement of projected growth plans while maintaining asset quality and profitability indicators and retaining buffer over regulatory capital requirement.

Corporate Profile

Ubank's was incorporated in Pakistan in 29 October, 2003 as a public limited company under the then applicable Companies Ordinance, 1984. On 31 January 2013, the Bank was granted license by State Bank of Pakistan (SBP) for commencement of nationwide microfinance banking operations. On 11 July 2013, approval for the nationwide commercial launch of Branchless Banking Services (BBS) was received from SBP. The Bank commenced commercial operations of BBS on 23 July 2013.The entity was initially established as Rozgar Microfinance Bank Limited, before PTCL acquired 100% shareholding of the bank and rebranded it to its existing name on 7 December 2012. The Bank's principal business is to provide microfinance banking and related services to the poor and underserved segment of the society under the Microfinance Institution Ordinance, 2001. Ubank is proud to be at the front line of fighting poverty in Pakistan and is dedicated to play its critical part in the implementation of National Financial Inclusion Strategy 2020 that aims to bring 50% of Pakistan's adult population into banking net. The bank operates through a network of 303 (FY21: 207) operational branches and booths across Pakistan. The Bank's head office and the principal place of business is located at Jinnah Super Market, F-7 Islamabad Pakistan. The Bank is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL) holding 100% of the shareholding. Shareholding structure of Ubank at end-Dec'23 is tabulated below:

Shareholding Pattern	Dec'22
Pakistan Telecommunication Company Limited	100.0 %
Total	100.0%

At end-FY22, the Board of Director (BoD) at Ubank comprised of nine-members, five directors including President & CEO of the Bank, three independent directors and chairman of the Board. The BoD is chaired by

Mr. Burak Sevilengul. Mr. Burak Sevilengul is the Chief Commercial Officer of Etisalat, responsible for international operations in the Middle East, Asia and Africa. Mr. Burak brings 25 years of experience in international companies of which more than 20 years is in the telecommunications and technology industries. Prior to his current role, he assumed the Chief Consumer Officer position at Turkcell, a regional telecommunications and digital services provider and board positions in retail and fintech companies. In addition to being the chairman of UBank's Board, He also serves as a member of PTCL's Board. Mr. Burak holds a B.SC degree in Management from Middle East Technical University and an MBA degree from University of Georgia. The CEO and president of the company is Mr. Kabeer Naqvi who is a seasoned professional in the microfinance sector. Previously, Mr. Naqvi has served in Telenor Microfinance Bank Limited (TMBL) with his last designations being Group Executive Director, Chief Financial Officer & Company Secretary. His overall work experience is over 21 years. Composition of the BoD is tabulated below:

Directors	Status
Mr. Burak Sevilengul	Chairman
Mr. Kabeer Naqvi	President and CEO/Director
Mr. Mohammad Nadeem Khan	Director
Mr. Mohamed Essa Al Taheri	Director
Mr. Aqueel Malik	Director
Mr. Muhammad Jahanzeb Rahim	Director
Ms. Misbah Naqvi	Independent Director
Mr. Tariq Mohar	Independent Director
Dr. Rameez Khalid	Independent Director

During FY22, four BoD meetings took place; the attendance and contribution from BoD members was considered satisfactory. Five BoD committees are present to maintain effective oversight, namely Audit Committee (AC), Human Resource & Remuneration Committee (HRRC), Risk Management Committee (RMC), Finance Committee (FC) and Information Technology Committee (ITC). Stability was evidenced in the senior management; moreover, there was no key position vacant during the rating review period.

Distribution Network

In line with continuation of the expansion strategy embarked by the management to improve the Bank's market footprint in the country, Ubank added 97 branches/booths (FY21: nil) taking the total tally of branches/booths to 303 (FY21: 207) by end-FY22. The Bank has branches in four provinces of Pakistan, Azad Jammu & Kashmir and Islamabad Capital Territory, with majority of branch and permanent booth network concentration in Punjab. The Bank plans to further increase its geographical foot print by adding new locations to penetrate in un-banked areas by end of the ongoing year.

Distribution Network	Dec – 2021	Dec – 2022
Branches/Booths at start of the year	212	207
Closed during the year	(5)	(1)
Branches/Booths opened during the year	-	97
Total	**207**	**303**

Productivity Analysis

In line with increase in scale of operations, total number of loan officers (LOs) employed by the bank increased by end of the ongoing year. Therefore, the number of LOs per branch remained constant at end-FY22. On the other hand, the average portfolio size per LO was recorded higher in line with growth in gross loan portfolio (GLP) coupled with increase in average loan size. Moreover, the average case load per LO decreased during the period under review on account of higher number of LOs; the same was done to improve the customer experience with the Bank along with to avoid over-burdening of LOs. The high LOs attrition rate remains a major challenge for the industry. The high LO turnover gives way to portfolio management challenges, training and skill gap, inferior understanding of product and increase in burden on existing staff. All these challenges hamper both asset acquisition and Bank's recovery drive. As per the management, in order to manage these risks, adjustments will be made in remuneration package in order to retain the field staff. Productivity indicators are tabulated below:

LO's Productivity	FY21	FY22
No. of Los	1,125	1,362
No. of Branches/Locations	207	303
No. of Active borrowers	346,390	373,854
Average LOs/Branch	5	5
Active borrowers/LO	308	275
Active borrowers/branch	1,673	1,234

Financial Analysis

Credit Risk

Growth in gross loan portfolio (GLP):

The Bank's gross loan portfolio (GLP) witnessed a sizable growth of almost 73% and was recorded at Rs. 63.0b (FY21: Rs. 36.4b) by end-FY22 in line with positive trajectory evidenced in lending activities post COVID-19 pandemic. GLP also includes Islamic Financing portfolio amounting to Rs. 606.9m (FY21: Nil). The loan disbursements were recorded higher at Rs. 56.9b (FY21: Rs. 33.3b) primarily owing to significant increase in average ticket size recorded at Rs. 135,305 (FY21: Rs. 105,117) in line with increased lending in high ticket size products coupled with progression of clients to successive loan cycles wherein automatic increase in renewal loan is inbuilt. 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 to 94,977 (FY21: 84,797) during FY22. Moreover, with higher number of new clients added, total number of active borrowers increased to 373,854 (FY21: 346,390) due to growth strategy implemented during the review period. Going forward, Bank's loan portfolio growth is projected to be financed through augmentation of deposit base while maintaining an appropriate cost of deposit. Moreover, the asset base is projected to continue to be financed through its borrowings which will continue to have a positive impact on the bottom-line on account of all time high interest rates. The snapshot of advances portfolio is presented in table below:

Rs. Million	FY21	FY22
Gross Advances	36,411	62,978
Total Provision	2,036	3,694
Non-performing Advances	1,023	2,585
Islamic Loans	-	607
Net Advances	34,376	59,284

Microcredit Portfolio Risk Segregations:

During the outgoing year, growth in advances portfolio was mainly driven by higher lending in Gold and Enterprise segments; their aggregate contribution in GLP has increased notably at end-FY22. On the other hand, livestock and agri segments recorded a decline in terms of proportion of outstanding portfolio. In terms of repayment risk, highest risk is associated with loans extended for general purpose (gold) use, which are basically consumptive loans with no cash flow generation to support repayment. Nevertheless, the credit risk is largely mitigated as the aforementioned loans are backed against gold and have reported minimum loss rate. Further, the internal controls, to address the risks associated with gold back lending are intact with secured vaults, continuous gold weight reporting and external goldsmith calculations. In order to safeguard portfolio and avoid asset quality weakening in times ongoing dismal economic indicators, portfolio growth is expected to be driven by collateralized and asset-backed products including Enterprise segment and gold backed loans. The proportion of Gold & Enterprise combined is projected to be increase slightly to 70% by end-FY23. The difference between GLP reported at Rs. 63.0b as opposed to the figure used for portfolio risk segregations amounting to Rs. 50.6b is on account of accrued markup of Rs. 8.7b added as per IFRS-9 to present the fair value of the portfolio along with addition of Rs. 3.7b as provisioning; therefore, for FY22 the net advances portfolio (net-off accrued markup) is being used while for risk segregations and for FY21, GLP is being used. The table below shows the sectoral breakup of exposure:

Segments	Amount	FY21	Amount	FY22
Livestock	9,062	24.9%	8,943	17.7%
Agriculture	5,646	15.5%	6,205	12.3%
Enterprise	2,862	7.9%	5,434	10.7%
Housing - General	32	0.1%	1,236	2.4%
Gold	18,809	51.7%	28,766	56.9%
Total (In Rs. M)	36,411		50,584	

In terms of geographical distribution, the portfolio is predominantly concentrated in Punjab with the same constituting two thirds of the total GLP at end-FY22. In addition, in terms of type of repayment, the share of EMI increased to 18.1% (FY21: 11.2%), whereas the proportion of bullet loans decreased to 81.9% (FY21: 88.8%) by end-FY22; as per change in strategy, the management focused on secured bullet loans during the outgoing year to manage impacted credit repayment ability of borrowers. The higher proportion of EMI is a factor of increased focus towards enterprise and gold loans entailing monthly installments. Going forward, the management plans to increase the proportion of EMI loans owing to high repayment risk associated with bullet lending especially in times of prevailing economic downturn. The proportion of secured loans also increased during the outgoing year; the same was largely a function the increased focus on Gold Loan. However, loans secured against gold have prominent operational risk than credit risk; Ubank tries to mitigate this risk through physical verification of collateral at time of on-boarding along with three times post disbursement check during the tenor of the loan. Going forward, the proportion of secured loans is further projected to increase.

(Rs. in millions)	FY21	%	FY22	%
Secured Loans	18,840	52%	30,001	59%
Unsecured Loans	17,571	48%	20,583	41%
	36,411		50,584	

The management continued its policy of shifting from group-based loans to individual loans with target of keeping the group loan proportion lower than 5% of the total loan portfolio. In line with materialization of the target, the proportion of group loans reduced to 1.0% (FY21: 4.5%) of overall GLP. The Bank has 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.

Product	FY21	%	FY22	%
Group Based	1,638	4.5%	519.0	1.0%
Individual	34,773	95.5%	50,065	99.0%
Total	36,411		50,584	

The average loan size was recorded higher at Rs. 135,305 (FY21: Rs. 105,117) during FY22, primarily on account on increased focus toward higher ticket size segments and progression of existing clients towards successive loan cycles. The timeline increase in average loan size was also a function of increase in the maximum regulatory credit limits of housing and micro-enterprise loans from Rs. 1.0m to Rs. 3.0m in FY21. As a result, the proportion of loans falling in Rs. 100,000 and above bracket increased while the proportion of lower-ticket size loans decreased during the outgoing year. The breakdown of the GLP according to loans size brackets is tabulated below:

S. No.	Description	In. Rs.	No. of Clients
1	Up to Rs. 25,000	16.9	962
2	Rs. 25,000 - Rs. 50,000	2,202.4	54,998
3	Rs. 50,001-Rs. 75,000	6,835.2	115,965
4	Rs. 75,001-Rs. 100,000	5,901.0	69,509
5	Rs. 100,000 and Above	35,628.7	132,420

Total	**50,584.1**	**373,854**

The Bank added 27 new products with different variants under same loan category to its product portfolio during the outgoing year. As per strategy, to minimize the credit risk Ubank is going to offer mainly gold-backed or collateralized lending in the medium term. In addition, the management also aims to launch new products on both asset and liability side to increase its customer base with main focus on women-centric products to improve gender balance.

Deferred, Restructured, Rollover (DRR) Portfolio:

During 2020, the State Bank of Pakistan (SBP) announced COVID-19 Relief Scheme to dampen the impact of the pandemic by deferring the loan repayments for one year. Ubank rescheduled GLP amounting to Rs. 9.5b under the COVID-19 relief scheme by end-1QFY21. Out of the total DRR portfolio, the Bank recovered almost Rs.3.0b while written-off portfolio amounted to Rs. 0.5b, therefore the outstanding DRR portfolio was recorded at Rs. 6.0b. However, out of the aforementioned, GLP amounting to Rs. 4.1b was rescheduled again due to relief extended by SBP to curb the impact of floods and rains during the outgoing year. Subsequently, the pure covid-19 DRR portfolio was recorded at Rs. 1.9b; the same has further scaled down to Rs. 1.7b by end-Feb'23. As per the management, the credit risk emanating from the entire rollover portfolio involving both single and double restructuring amid flood repercussions amounting to Rs. 5.8b (1.7b+4.1b) at end-Feb'23 is manageable given 67% of the aforementioned portfolio is gold-backed. The transition of DRR Portfolio at end-FY22 is presented in the table below:

	Amounts
Rollover & restructured Portfolio (DRP) at 31st March, 2021	Rs. 9.5b
Amounts recovered by end-FY22	Rs. 3.0b
Written-off by end-FY22	Rs. 0.5b
Amount Restructured under Flood-22 Relief	Rs. 4.1b
Percentage Recovered	55.6%
To be Recovered	Rs. 1.9b

Ubank has adopted various measures to cope with the pandemic related challenges; including, special incentive programs and waivers, recovery targets and close monitoring of portfolio, communication among all departments which helped the Bank to set quarterly & unit wise targets and devise a robust on ground recovery plan.

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 Ubank's 313 branches, 53 locations were located in areas which 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. To access the portfolio impacted by flood Ubank carried out a Rapid Portfolio Review (RPR) at borrower level and based upon that loan portfolio amounting to Rs. 26.0b was directly/indirectly impacted by floods/rains by end-FY22. However, credit risk stemming from the affected portfolio was mitigated as 67% of portfolio impacted is backed against gold. As per the Bank's strategy, only vulnerable clients with low probability of recovery were offered rescheduling. Therefore, out of the overall outstanding flood impacted portfolio of Rs. 26.0, only Rs. 5.1b falls under rescheduled portfolio while the remaining Rs. 20.9b is performing and regular at end-FY22

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. 908m - 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. 453 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, Ubank has developed two special products for implementation of these schemes; the products are expected to be rolled out in the ongoing year. The Bank will likely record high disbursements under the new offerings with the incentive of 0% markup for the end users for six months. Ubank plans to make disbursements to the tune of around Rs. 11.0b to 12.0b under these schemes; the same is expected to have a positive impact on the profitability profile of the Bank by end-FY23 given the repayment risk is partially covered by the Government.

Implementation of IFRS-9 & its impact:

IFRS-9 has fundamentally changed the Bank's loan loss impairment method by replacing incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1st Jan, 2022, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS-9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Asset Quality:

In line with higher incurrence of non-repayment primarily stemming from DRR portfolio coupled with adoption of IFRS-9, the non-performing loans (NPLs) increased to Rs. 2.6b (FY21: Rs. 1.0b) at end-FY22. Therefore, the gross infection was recorded higher at end-FY22. Further, the advances charged off against provisions stood lower at Rs. 335.3m (FY21: Rs. 772.2m); however, the direct charge off to P&L was reported higher at Rs. 453.5m (FY21: Rs. 18.2m) at end-FY22. Therefore, with slight decrease in quantum of write-offs added during the year coupled with sizable portfolio enhancement, the incremental infection showed improvement and witnessed a decreasing trend during the outgoing year. Moreover, with additional provisioning recorded under IFRS-9, the net infection was recorded negative given the provisioning held amounting to Rs. 3.7b was higher than the amount of NPLs outstanding; however, the same has declined slightly during the outgoing year with the trend largely being reflective of gross infection statistics. As per instructions issued by SBP, the Bank used two track approach for ECL assessment on stage 3 loans. Based on that, the Ubank calculated provision /ECL both under Prudential Regulations issued by SBP for microfinance banks and IFRS-9 and higher of the two amounts has been taken for the calculation. Subsequently, the total provisioning, was recorded over 100% as the NPL amount was lower than the provisioning cushion kept in line with implementation of IFRS-9; however, the same has declined slightly during the review period owing to increase in npls. Moreover, with relaxation in the provisioning requirements allowed by SBP in March'22 involving additional 30 days allowance for recording of OAEM for the DRR portfolio coupled with extension of loss recognition for Housing and ME portfolio to 2 years (FY20: 180 days) and 18 months (FY20: 180 days) respectively has also assisted the microfinance banks (MFBs) in spreading their loss over a longer time period. However, if timely recovery is not made against the unsecured flood-impacted restructured portfolio, the same can impact the infection ratios of the Bank to some extent; however, in line with sizable provisioning held along with additional buffer of Rs. 1.0b added in 1QFY23, no significant strain on asset quality is expected. Asset quality indicators are tabulated below:

Portfolio Quality Indicators	FY21	FY22
NPLs % Total Advances (gross)	2.8%	4.1%
Net Infection (Specific & General)	-2.9%	-1.9%
Incremental Infection	5.4%	4.9%
Total Provisioning Coverage	198.9%	142.9%

Investment Mix

With increase in borrowings largely manifested in investment portfolio; the same augmented sizably to Rs. 137.3b (FY21: Rs. 46.6b) by end-FY22. The government securities portfolio, primarily constituting of T-Bills and PIBs amounting Rs. 54.8b (FY21: Rs. 21.0b) and Rs. 56.8b (FY21: Rs. 6.1b) respectively, represented the largest chunk of 81% (FY21: 58.2%) at end-FY22. Another major component on investment portfolio comprises of mutual funds amounting to Rs. 22.0b (FY21: Rs. 12.1b) at end-FY22. These investments are measured at fair value through profit and loss with fair value of them determined using quoted repurchase price. On the other hand, investment in TDRs was completely liquidated (FY21: Rs. 7.8b) by end of the outgoing year. Subsequently, with sizable proportion of government securities along with mutual fund investments held with counterparties having sound credit ratings and financial profile, credit risk emanating from investment portfolio is considered manageable. As per the management, Ubank's investment strategy entails either investment in sovereign instruments or 'A' or above rated securities. Further, the Bank also entered into a reverse repo agreement during the outgoing year with National Bank of Pakistan amounting to Rs. 6.6b (FY21: Nil) at the rates ranging from 16.1% to 16.9%; the same matured in Jan'23.

The entire T-bills portfolio is either categorized under fair value through profit & loss (FVTPL) or fair value through other comprehensive income (FVOCI) under IFRS 9 having maturities ranging from 36 to 97 days.; the same carry a markup charge ranging from 15.55% to 16.95% (FY21: 7.40% to 11.45%) per annum. As a result, although short-term in nature, the T-bill portfolio is susceptible to volatility in market interest rates. However, on the flip side PIB portfolio amounting to Rs. 51.1b categorized under FPTPL constitutes only of floating rate instruments to mitigate the risk associated with interest rate volatility. In addition, the remaining PIBs amounting to Rs. 5.7b are recorded at amortized cost therefore are not vulnerable to mark to market losses. Overall, the market risk originating from the investment portfolio is limited in line with majority investments carried being either short-term in nature or having floating interest rate. Therefore, the deficit on revaluation of investments was minimal at Rs. 2.0m (FY21: Rs. 288.6m) in FY22. Moreover, the Bank also has a small proportion of investments in TFCs and Ijarah Sukuk carrying markup ranging from 10.5% to 16.00% (FY21: 8.50% to 12%) and 16.45% to 19.30% (FY21: Nil), respectively. Going forward, the management plans to invest in short-term and floating rate securities only in the ongoing increasing benchmark rate scenario to mitigate market risk. At end-FY22, there was asset-liability mismatch in over one month up to six months bracket 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

Ubank's liquidity profile is sound and has improved during the review period as evidenced from sizable coverage of liquid assets by deposits and borrowings (adjusted for repo) recorded at 85% (FY21: 74%) at end-FY22. In addition, the liquidity indicators are supported by significant quantum of treasury operations; the same are being financed by borrowings as the advances to deposit (ADR) ratio largely remain unchanged at 64% (FY21: 63%) at end of the ongoing year. In absolute terms, the Bank's total liquid assets increased exponentially to Rs. 152.6b (FY21: Rs. 56.6b) largely constituting of government securities; subsequently, the liquid assets to total assets were reported higher at 65% (FY21: 47%) at end-FY22. The deposit base increased to 92.2b (FY21: Rs. 55.0b) at end-FY22; the same continues to remain an integral 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 in mark-up bearing deposits has been sizable as investment has been largely replaced by savings. Going forward, maintaining asset growth and strong liquidity position will remain critical from the ratings perspective.

The proportion of current and saving account (CASA) in the total deposits mix increased to 71% (FY21: 63%) 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 the cost of funding, the proportion of fixed deposit decreased on a timeline basis by end of the outgoing year. During FY22, four new saving products were introduced by the Bank. 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 added new term deposit products to attract customers unwilling to keep capital in non-interest-bearing accounts. In addition, Islamic banking operations are also expected to add significant number of accounts to the deposit base by end-FY23. The composition of deposit base is tabulated below:

	FY21	%	FY22	%
Fixed Deposits	20,280	36.9%	26,786	29.1%
Saving Deposits	30,893	56.2%	59,222	64.2%
Current Deposits	3,827	7.0%	6,192	6.7%
Total Deposits	55,000	100.0%	92,200	100.0%

Concentration risk emanating from deposits portfolio is high as share of top-50 depositors was significant; moreover, the same is on a higher side in comparison to majority of industry peers. Top 5 depositors including CDC-Trustee NBP FSIF, CDC Trustee Faysal IGF, DCCL Trustee JS MICR, CDC Trustee HBL and CDC-Trustee FAYSAL accounted for 38% (FY21: 29%) of total deposit mix. Although, overall concentration amongst top deposits is high, comfort is drawn from satisfactory ADR ratio and sound long-standing customer relations with the major depositors. The decline in related parties' deposits proportion to 7.0% (FY21: 10.5%) further adds to the withdrawal risk faced by the Bank. In addition, the proportion of the institutional deposits is also sizable and has increased significantly to 83% (FY21: 46%) at end-FY22. Therefore, in terms of granularity also, Ubank compares unfavorably to other microfinance banks.

	Top 50	Top 20	Top 10	Top 5	Top 3	Top 1
FY22	72%	60%	49%	38%	28%	15%
FY21	67%	54%	40%	29%	21%	9%

The average deposit size decreased to Rs. 40,487 (FY21: Rs. 51,749) by end-FY22. The size-wise breakup of deposits is presented in the table below:

Deposit Size (Rs. M)	FY21	%	FY22	%
Up to Rs. 25K	303.7	0.6	557.3	0.6
Rs. 25K - Rs. 50K	410.4	0.7	631.7	0.7
Rs. 50K-Rs. 75K	1,795.0	3.3	2,399.8	2.6
Rs. 75K-Rs. 100K	5,733.3	10.4	7,271.0	7.9
Rs. 100K and Above	46,757.9	85.0	81,340.5	88.2
Total	55,000.3	100.0	92,200.4	100.0

The Bank procured substantial borrowings amounting to Rs. 116.1b (FY21: Rs. 36.9b) in order to fund treasury operations; the practice of leveraging is carried out to reap margin spread on investments and is being positively reflected in net markup income earned. Ubank's repo borrowings increased to Rs. 29.7b (FY21: Rs. 15.6b) by end-FY22. During the rating review period ten new borrowings lines were procured amounting to Rs. 69.5b; three of these credit facilities worth Rs. 999.0m, Rs. 1.9b and Rs. 2.9b represent Bai Mawajjal facilities from Meezan Bank to finance the lending operations of Islamic Microfinance Division. In addition, two loan facilities amounting to Rs. 10.0b & Rs. 20.0b were obtained from MCB Bank Ltd to finance the working capital requirement including expansion of the Bank's advances portfolio. The facilities, scheduled to mature in Mar'23, were secured at the rate of 1M-KIBOR plus 0-0.05% per annum respectively. Moreover, a running finance loan amounting to Rs. 10.0b with markup charge of 3M-KIBOR per annum was secured from Allied Bank of Pakistan to meet short-term funding requirements including but not limited to finance growth of advances in KPK and Baluchistan regions; the credit line is expected to mature in Aug'23. Another running finance facility worth Rs. 20.0b was secured from Askari Bank Limited to finance working capital, investment and statutory requirements at the rate of 1M-KIBOR plus 0.01%; the same facility will mature on 31st August, 2023. The remaining facilities to the tune of Rs. 4.0b were procured from different financial institutions.

<u>Profitability</u>

Ubank's profitability indicators exhibited an upward trajectory with sizable bottom line of Rs. 2.2b (FY21: Rs. 1.1b) recorded during the outgoing year primarily in line with considerable volumetric growth in the earning asset base, lending and investment portfolios, along with positive adjustment of impairment charge for the year despite slight dip in spreads. The credit loss allowance amounting to Rs. 1.3b was added to net interest income as additional income during FY22 as opposed to provisioning charge of Rs. 1.6b deducted in the preceding year owing to re-measurement for credit losses recorded stemming from adoption of IFRS-9. The adjustment amount booked for the outstanding portfolio was significant at Rs. 3.3b; therefore, a reversal of Rs. 1.3b was recorded during the outgoing year. On the other hand, expense on account of markup waiver amounting to Rs. 453.5m (FY21: nil) largely pertaining to flood impacted portfolio was booked during the outgoing year. Further, the spreads of the Bank were slightly suppressed mainly in line with increase in cost of funding; the same was a combined outcome of increase in policy rates coupled with higher concentration of high cost bearing institutional deposits in the deposit mix. However, despite decline in spreads and increase in operating expenses, the Operational self-sufficiency (OSS) was largely maintained at 111.9% (FY21: 110.8%) on the back of cumulative positive impact of Rs. 884.9 of reversal of credit loss allowance coupled with growth in recurring non-markup income pertaining to loan processing fee owing to increase in micro-credit portfolio along with higher recoveries from written-off loans.

The considerable uptick in markup income earned to Rs. 20.7b (FY21: Rs. 12.2b) was predominantly on account of volumetric increase in GLP and investment portfolio coupled with higher yield on investments recorded at 13.5% (FY21:8.9%) during FY22. Subsequently, originating from higher yield on investments in line with policy rates being at the high end of the spectrum, yield on earning assets also scaled up to 32.7% in FY22 in comparison to 29.5% recorded in the previous year. Further, in absolute terms, the markup on advances was recorded at Rs. 13.7b (FY21: Rs. 10.0b) during the outgoing year; the same was supported by increase in price throughout the entire product portfolio. In addition, with implementation of IFRS-9 with accrued markup made part of the GLP to present the fair value of portfolio, no income accrued in other assets was recorded in FY22 as opposed to Rs. 8.8b in the previous year. Therefore, with haircut of provisioning made to GLP the net advance portfolio is computed. Hence, the risk of income suspension faced previously on classification of the high-risk portfolio (restructured portfolios) resulting in adjustment of lending portfolio yield of the subsequent year has now been eliminated. Moreover, the aggregate income on investments and bank deposits increased to Rs. 7.1b (FY21: Rs. 2.1b) on account of increase in quantum of investments and deposits held along with increase in average yield on investment. On the other hand, total markup expense increased to Rs. 14.1b (FY21: Rs. 5.6b) during FY22 in line with higher deposits base along with increased cost of funding to 13.7% (FY21: 8.7%) owing to significant increase in the benchmark rates witnessed from 9.75% in Dec'21 to 16% by end-Dec'22. The increase in cost of funding recorded stemming from higher cost of deposits of 13.4% (FY21: 8.7%) is in line with the trend in the microfinance sector. Subsequently, with higher yield on earning assets completely offset by increase in cost of funding, Ubank's spreads slid down to 19.0% (FY21: 20.8%) during the outgoing year.

The non-markup income increased to Rs. 1.9b (FY21: 1.3b) largely on account of higher loan processing fee booked amounting to Rs. 1.3b (FY21: Rs. Rs. 1.0b) with increase in number of loans disbursed along with higher disbursement in large ticket size loans entailing proportionately high fee structure during the outgoing year. Moreover, other income also improved to Rs. 566.7m (FY21: Rs. 259.4m) primarily due to higher recoveries against written off advances and gain on investments in FY22. During the ongoing year, the management plans to further increase the loan processing fee across entire product portfolio to support the profitability indicators. On the flip side, administrative expenses of the Bank were reported higher at Rs. 6.9b (FY21: Rs. 5.0b) during FY22 on account of increase in remuneration expense; the same were reported higher at Rs. 3.1b (FY20: Rs. 2.3b) due to cost impact of 97 additional branches/booths opened during the review period to improve market footprint along with inflationary impact on the administrative overhead. The increase in staff salaries was an outcome of higher average headcount of the Bank reported at 3,362 (FY21: 2,607) at end-FY22. However, on account of significant increase in total assets in comparison to administrative expenses, overhead ratio decreased to 4.2% (FY21: 5.7%) during FY22. Moreover, other charges were also recorded higher at Rs. 10.3m (FY21: Rs. 0.0m) owing to higher penalties paid during the year related to various non-compliances identified by SBP during its inspection of the Bank.

With growth in scale of operations coupled with credit loss allowance adjustment, profit before tax of the Bank significantly increased to Rs. 2.5b (FY21: Rs. 1.4b). However, with reduced effective tax rate, the taxation expense was recorded lower at Rs. 155.9m (FY21: Rs. 217.9m) for FY22. Subsequently, as a result of aforementioned tax adjustment, the Bank's bottom line was reported higher at Rs. 2.2b in FY22 in comparison to Rs. 1.1b in the preceding year. As per management's estimate, had the markup wavier scheme not been launched, the Ubank's bottom line would have been higher by Rs. 304m. On the other hand, had there been no change in prudential regulations for MFBs, the profit after tax would have been lower than Rs. 370.0m.

Going forward, the maintenance of profitability metrics will remain a challenge 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. However, the impact of the aforementioned will be largely mitigated owing to sizable proportion of collateralized loan portfolio and significant provisioning buffers maintained under IFRS-9. In addition, the management plans not to be dependent only on one revenue stream of micro-credit lending with continued focus on other streams including Islamic Banking, digital banking and treasury operations. The management expects to close FY23 with a higher bottom line owing to growth expected in secured advances, high policy rates positively reflected in investment portfolio return and sizable investments. Ubank had the highest bottom line amongst MFBs; the same edge over its peers is projected to be maintained going forward.

Capitalization

Paid up capital of the Bank increased by Rs. 1.0b to Rs. 5.1b (FY21: Rs. 4.1) during the year on account of equity injection by the parent company, PTCL, through issuance of ordinary shares against conversion of subordinated debt. On the other hand, the tier-1 equity of the Bank decreased to Rs. 7.1b (FY21: Rs. 7.8b) in line with adjustment of reduction in unappropriated profit and fair value reserve of financial assets aggregating to Rs. 2.7b made to core equity of FY21 during the ongoing year on account of adaptation of IFRS-9. Ubank is required to maintain a statutory reserve to which an appropriation equivalent to 20% of annual profit after tax is made till the time reserve fund equals the paid-up capital of the Bank. Thereafter, an appropriation of sum not less than 5% of its annual profit after taxes in accordance with statutory requirements under the Microfinance Institutions Ordinance, 2001. Furthermore, the bank contributes 5% of its annual profit after tax along with related income on investments to the Depositors' Protection Fund (DPF) under the Microfinance Institutions Ordinance, 2001. Given the regulatory requirements the Statutory reserves and DPF accumulated to Rs. 1.1b (FY21: Rs. 633.1m) and Rs. 270.8m (FY21: Rs. 158.3m) respectively by end-FY22. Further, net NPLs in relation to tier-1 capital are negative owing to allowance for impairment exceeding the quantum of NPLs due to implementation of IRFS-9.

Ubank issued a rated, unsecured and subordinated Tier-II TFC for inclusion in Bank's Supplementary Capital worth Rs. 600m in Jun'17 to improve the Capital Adequacy Ratio (CAR); the TFC is priced at 6M-KIBOR plus 3.50% per annum. The facility tenure is 7 years and is expected to mature in Jun'24. The issue has been assigned a rating of 'A-' (Single A minus) with a stable outlook. The TFCs are subordinated as to the payments of principal and profit to all other indebtedness of the Bank. The instrument is structured to redeem 0.02% of principal, semi-annually, over the 60 months and the remaining principal of 24.95% each of the issue amount respectively, in four equal instalments starting from 66th month; therefore, the outstanding amount stood at Rs. 449.1m (FY21: 598.9m) at end-FY22.

Moreover, the Bank also issued a rated, unsecured, subordinated, privately placed/DSLR listed, perpetual and non-cumulative additional Tier-1 instrument worth Rs. 1.0b (inclusive Green Shoe Option of Rs. 250m); it carries a markup charge at the rate of 6M-KIBOR plus 3.5% payable semi-annually on a non-cumulative basis on the outstanding amount. The Bank has full discretion over the amount and timing of profit distribution. Moreover, the waiver of profit distribution or other payment does not constitute an event of default. The Bank may call the TFCs at par with prior approval from SBP on any profit payment after 5 years from the issue date. The instrument is subordinated to all other claims except common shares. These TFCs are convertible into fixed number of ordinary shares of the Bank upon CET 1 trigger event and the point of non-viability (PONV) trigger event of failure by the Bank to comply with the lock in clause. Subsequently, with conversion of existing instrument in equity followed by issuance of new TFC, the Bank's total subordinated debt was maintained at Rs. 1.8b (FY21: Rs. 1.8b) at end-FY22. In addition, under borrowings Ubank issued TFC worth Rs. 1.0b during FY22 to be utilized to contribute towards Bank's additional Tier-1 capital; the facility tenure is perpetual and is priced at 6M-KIBOR plus 3.5%. The profit will be payable semi-annually in arrears on non-cumulative basis on the outstanding issue amount continuing till the maturity of the instrument. These certificates have a rating of 'A-' as issued by PACRA.

In line with issuance of additional instruments to assist in capital adequacy improvement, Ubank's CAR was largely maintained at 17.6% (FY21: 18.5%) at end of the outgoing year despite growth in loan portfolio and investments resulting in increase of risk weighted assets to Rs. 66.9b (FY21: Rs. 46.6b) at end of the outgoing year. Moreover, the Bank is comfortably placed in terms of CAR against the minimum regulatory requirement of 15.0% for MFBs. Going forward, the bank plans to focus on growth of its deposit base to grow its advances portfolio; however, the reliance on external funding will remain on the higher side due to aggressive investment strategy being implemented by the management.

U Microfinance Bank Limited Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**
Cash and Bank Balances with SBP and NBP	1,717	3,160	3,800	7,452
Balances with other Banks and/NBFIs/MFBs	3,020	1,908	6,224	1,276
Lending to Financial Institutions	-	450	-	6,582
Total Investments	6,970	24,070	46,565	137,331
Net Advances	21,374	30,006	34,376	59,284
Operating Fixed Assets	3,105	2,917	2,886	4,764
Other Assets	3,829	7,797	10,051	1,997
Deferred Tax Asset	76	400	677	2,610
Total Assets	40,090	70,713	104,578	221,296
Total Deposits	23,290	46,105	55,000	92,200
Borrowings	6,733	13,274	36,881	116,124
Sub-Ordinated Debt	4,599	2,799	1,799	1,834
Other Liabilities	2,416	2,860	3,407	4,038
Tier-1 Equity	3,060	5,673	7,778	7,088
Net Worth	3,051	5,675	7,491	7,100
Paid-Up Capital	2,286	3,086	4,086	5,086
INCOME STATEMENT	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**
Net Mark-up Income	3,424	5,792	6,626	6,603
Net Provisioning / (Reversal)	810	1,578	1,513	(885)
Non-Markup Income	939	1,263	1,278	1,867
Operating Expenses	3,214	4,266	5,035	6,900
Profit Before Tax	311	1,204	1,329	2,406
Profit after tax	254	906	1,111	2,250
RATIO ANALYSIS	**31-Dec-19**	**31-Dec-20**	**31-Dec-21**	**31-Dec-22**
Gross Infection (%)	4.1%	0.1%	2.8%	4.1%
Incremental Infection (%)	6.2%	-0.3%	5.4%	4.9%
Specific Provisioning Coverage (%)	39.3%	20.2%	51.8%	-
Total Provisioning Coverage (%)	56.6%	3660.5%	198.9%	142.9%
Advance to Deposit Ratio (%)	92%	65%	63%	64%
Net Infection (Specific) (%)	2.5%	0.10%	1.4%	-
Net Infection (Specific & General) (%)	1.8%	-4.3%	-2.9%	-1.9%
Net NPLs to Tier-1 Capital (%) (Total Provisioning)	12.7%	-22.5%	-13.0%	-15.6%
Capital Adequacy Ratio (%)	16.7%	21.7%	18.5%	18.3%
Markup on advances (%)	32.6%	35.4%	29.5%	32.7%
Markup on investments (%)	-	10.3%	8.9%	13.5%
Cost of Funds (%)	12.2%	10.9%	8.7%	13.7%
Spreads (%)	11.5%	24.4%	20.8%	19.1%
OSS (%)	134.9%	162.1%	110.8%	111.9%
ROAA (%)	0.68%	1.60%	1.3%	1.4%
ROAE (%)	8.7%	20.8%	16.9%	30.8%
Liquid Assets to deposits & borrowings (%)	34%	47%	74%	85%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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	U Microfinance Bank Limited (Ubank)
Sector	Micro Finance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
4/28/2023	A+	A-1	Stable	Reaffirmed
4/30/2022	A+	A-1	Stable	Reaffirmed
4/29/2021	A+	A-1	Stable	Upgrade
4/30/2020	A	A-1	Rating Watch - Developing	Maintained
1/11/2019	A	A-1	Stable	Upgrade
4/27/2018	A-	A-2	Stable	Reaffirmed
9/29/2017	A-	A-2	Stable	Reaffirmed
4/28/2017	A-	A-2	Stable	Reaffirmed
		RATING TYPE: INSTRUMENT TFC-1		
4/28/2023	A		Stable	Reaffirmed
4/30/2022	A		Stable	Reaffirmed
4/29/2021	A		Stable	Upgrade
4/30/2020	A-		Rating Watch - Developing	Maintained
1/11/2019	A-		Stable	Upgrade
4/27/2018	A-		Stable	Reaffirmed
3/1/2017	BBB+		Stable	Reaffirmed
		RATING TYPE: INSTRUMENT TFC-2		
4/28/2023	A-		Stable	Preliminary
3/2/2022	A-		Stable	Preliminary

Instrument Structure

Instrument	Privately Place Term Finance Certificate (PPTFC-1)
Issue Amount (Rs.)	600 million
Tenor	7 years
Security Structure	Privately Placed, unsecured, subordinated
Grace Period	5.5 years
Repayment	Four semi-annual installments
Interest Rate	6-month KIBOR plus 3.5%
Instrument	**Privately Placed Term finance Certificate (PPTFC-2)**
Issue Amount (Rs.)	1000 million
Tenor	Perpetual
Security Structure	Unsecured
Interest Rate	6-month KIBOR plus 3.5%

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.

<table>
<tr><td>Probability of Default</td><td>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.</td></tr>
<tr><td>Disclaimer</td><td>Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.</td></tr>
<tr><td>Due Diligence Meetings Conducted</td><td>
<table>
<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Mr. Muhammad Mujahid</td><td>CFO</td><td>April 04, 2023</td></tr>
<tr><td>Mr. Sarmad Pretu</td><td>CRO</td><td>April 04, 2023</td></tr>
<tr><td>Mr. Naved Sadiq</td><td>Financial Controller</td><td>April 04, 2023</td></tr>
</table>
</td></tr>
</table>