# RATING REPORT

# U Microfinance Bank Limited

**REPORT DATE:**

April 30, 2022

**RATING ANALYST:**

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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 30, 2022* | | *April 29, 2021* | |
| **PPTFC-1** | *A (Stable)* | | A (Stable) | |
| ***Rating Date*** | *April 30, 2022* | | *April 29, 2021* | |
| **PPTFC-2** | *A- (Stable)* | | B- (Stable) | |
| ***Rating Date*** | *February 03, 2022* | | *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

UMBL (previously, Rozgar Microfinance Bank Limited) was incorporated as an unlisted public 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).

**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.

## RATING RATIONALE

Incorporated in October 2003 under the Companies Ordinance, U Microfinance Bank Limited (UMBL) is a wholly owned subsidiary of Pakistan Telecommunication Company Limited (PTCL). 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. The assigned ratings to U Microfinance Bank Limited (UMBL) incorporate its strong sponsor, Pakistan Telecommunication Company Limited (PTCL) (assigned an entity rating of AAA/A-1+ (Triple A/AOne Plus) by VIS Credit Rating Company) which is co-owned by the Government of Pakistan and Etisalat International Pakistan (LLC) (Etisalat) (rated AA- by an international credit rating company). Management control of PTCL rests with Etisalat, a state owned Telecom Corporation of UAE.

At present, the company has a network of over 200 branches, spread across 183 cities and rural areas of the country, and offers a wide range of loan products to small-scale enterprises and individuals. Branchless banking service is provided under the brand name of U Paisa covering nearly 45,000 agent locations across the country.

**Board of Directors**

| Board of Directors | |
|---|---|
| Burak Sevilengul | Chairman |
| Kabeer Naqvi | President & CEO |
| Mohammad Nadeem Khan | Director |
| Mohammad Essa Al Taheri | Director |
| Aqueel Malik | Director |
| Misbah Naqvi | Independent Director |
| Muhammad Jahanzeb Rahim | Director |
| Tariq Mohar | Independent Director |

The Board of Directors (Board) at UMBL comprises 8 members, including 2 independent directors. Composition of the Board complies with bare minimum requirement set by SECP. Non-executive directors on the Board mainly include individuals who hold leading executive positions in Etisalat or the parent company. There are 5 Board sub-committees in place, which include the Board Audit Committee (BAC), Board Risk Management Committee (BRMC), Board Human Resource & Remuneration Committee (BHRRC), Board Finance Committee (BFC), and Board Information Technology Committee (BITC).

The following table presents the composition of these committees. As depicted in the table, all committees comply with minimum independence criteria.

| BAC | |
|---|---|
| Misbah Naqvi | Chairperson |
| Mohammad Nadeem Khan | Member |
| Tariq Mohar | Member |
| **BHRRC** | |
| Aqueel Malik | Chairperson |
| Mohammad Essa Al Taheri | Member |
| Misbah Naqvi | Member |
| Jahanzeb Rahim | Member |
| **BRMC** | |
| Mohammad Nadeem Khan | Chairperson |
| Mohammad Essa Al Taheri | Member |
| Jahanzeb Rahim | Member |
| Tariq Mohar | Member |
| **BFC** | |
| Mohammad Nadeem Khan | Chairperson |
| Aqueel Malik | Member |
| Mohammad Essa Al Taheri | Member |
| Tariq Mohar | Member |
| **BITC** | |
| Jahanzeb Rahim | Member |
| Misbah Nqvi | Member |
| Aqueel Malik | Member |

## Management Profile

Mr. Kabeer Naqvi was appointed as the CEO of the bank in 2015 and has been instrumental in ensuring the turnaround. Before joining UMBL, he worked as the Chief of Staff and Chief Financial Officer at Telenor Microfinance Bank Limited.

| Names | Designation |
|---|---|
| Kabeer Naqvi | President & CEO |
| Ambreen Malik | Chief Business Officer and Chief Digital Officer |
| Haidar Ali | Chief Credit Officer |
| Mariam Pervez | Chief Commercial Officer & Chief of Staff |
| Mubashar Shahani | Chief Internal Auditor |
| Muhammad Majid Khan | Chief Financial Officer |
| Palwasha Qazi | Chief Legal Officer & Company Secretary |
| Sarmad Pretu | Chief Risk Officer |
| Saadia Mansoor | Chief Human Resource Oficer |
| Shaikh Mashhood-ur-Rahman | Chief Technology Officer |

During the outgoing year, two changes took place in the senior management team. Shaikh Mashhod-ur-Rehman and Muhammad Majid Khan were appointed as Chief Technology Officer and Chief Financial Officer, respectively.

## Distribution Network

UMBL has a distribution network consisting of 207 branches, which had an addition of 5 Islamic Banking branches last year. Although UMBL is currently operating in all the provinces, geographical concentration has remained on the higher side. However, the bank is making efforts to widen its outreach through opening of branches in new locations. The management plans to open 80 new branches by the end of 2022, including 25-30 Islamic Banking Branches, to scale up the branch network in urban and retail rural sectors.

**Information Technology (IT)**

During the period under review, the technology platforms are undergoing substantial upgrades and enhancements in its core technology infrastructure. PADSS compliance was completed, while the bank is focused more on the upcoming migration project of its legacy core banking system. In parallel, with products on the cards, certain key enhancements have already been carried out in the existing core banking to launch housing finance, Islamic products and pool management. The internal development function within the technology ambit is being improved to offer more indigenously built products for the bank.

The new core banking system shall enable the bank to run Islamic window alongside the convention mode, while offering greater control on security, offering greater productivity and quicker roll out of newer products.

The bank also enhanced its Corporate Data Network with redundant network links in nearly all branches to offer more uptime and consistent branch operations.

The other IT platform is SYBASE-365, for Branchless Banking. SYBASE-365 is a leading financial services platform which provides an end-to-end solution for mobile commerce businesses and is flexible to use with multiple mobile channels (SMS, USSD, IVR, Mobile Internet, and Downloadable Client). Major modules in operation include payment mobilizer (manages limits, commission, fees, etc.), top-up mobilizer (manages bills payments, top-up and their relevant commission structure) and remittance mobilizer. Middle-ware solutions include linking of debit cards with mobile accounts, UMBL accounts and facilitating interbank funds transfers to mobile accounts.

Apart from the core applications, the bank has also deployed newer surround systems in AML, KYC, and CRM.

The Disaster Recovery (DR) site in Lahore, co-located in PTCL Data center has been enhanced to offer more resiliency and uptime. The facility has replicated databases from the production site offering zero data loss in eventuality if the product site fails. Expected restoration time of 1 hour is set, giving the corporate data network proper convergence time to the DR site. Core applications were successfully tested form the DR site during the period under review.

**Internal Audit**

Internal Audit (IA) department comprises fifteen resources, including Chief Internal Auditor. IA is mainly divided into four functions i.e. Operations (Branches), Information System (IS), Management and Shari'ah audit. Branch audit methodology is based on model where one branch is divided into four processes, i.e. loan disbursal and recovery process, deposit operations, cash operations and systems &

internal controls. 7 resources are dedicated to branch audit, while other resources are allocated to audit of Management, IS, Shari'ah Compliance and Branchless Banking functions.

Scope of IS audit includes review of IT infrastructure, IT applications, IT Operations, Information Security, and BCP and Disaster Recovery processes. For branch audits, the process begins with an opening meeting at the respective branch, which is followed by review of various documents and field visits / calls to customers. In every branch audit, selected customers are visited which results in an additional independent control to verify and assess the existence of customer, their loan repayment capacity and willingness to repay the loan liability, as these are among the significant indicators of loan portfolio of a particular branch. To ensure adequate coverage of loan customers efficiently and effectively, calls are also made to customers to verify their existence and willingness to repay the loan liability. Branchless Banking (BB) audit includes risk-based plans covering operations, channel management, regulatory compliance and Policies / procedures' compliance. This also includes visit of selected branchless banking agents to review and ensure compliance with applicable regulatory requirements.

Performance evaluation of all audit domains is integrated and is done using a numeric rating scale. Frequency of audit conducted is determined on the basis of the risk assessment as per the following criteria:

- Severe Risk: Every year
- Major Risk: Alternate year
- Moderate Risk: Once in three years
- Low Risk: Need basis

**<u>Financial Analysis</u>**

**Asset Quality**

| Rs. in m | 2020 | % | 2021 | % |
|---|---|---|---|---|
| Cash and Bank | 3,160 | 4% | 3,800 | 4% |
| Balances with other banks/NBFIs/ MFBs | 1,908 | 3% | 6,224 | 6% |
| Investments-net | 24,074 | 34% | 46,565 | 45% |
| Advances-net | 30,006 | 42% | 34,376 | 33% |
| Operating Fixed Assets | 2,917 | 4% | 2,886 | 3% |
| Other Assets | 7,797 | 11% | 10,051 | 10% |
| Deferred Tax Asset | 400 | 1% | 677 | 1% |

The bank's asset base expanded by 48% in 2021 and crossed the mark of Rs. 100b. To avail positive arbitrage in GOP securities and to garner tax benefit through exposure in mutual funds, most of the incremental borrowings and deposits were utilized for investments in T-Bills, PIBs, and mutual funds that invest in fixed income government securities.

The bank's product suite can be broadly segregated into two categories; unsecured loans and secured gold-backed loans. The bank's strategy going forward is to increase its portfolio towards secured loans. During 2021, growth in advances portfolio has been manifested in both categories. The constitution of enterprise loans and gold backed loans continued to depict an uptick; in line with management's strategy. The credit risk is largely mitigated as the said loans are backed against gold and have reported minimum loss. 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.

By end-2021, the deferred portfolio amounted to Rs. 900m while the rescheduled loans stood at Rs. 7.3b; both aggregating to Rs. 8.2b.

**Liquidity**

Liquidity profile of the bank has exhibited improvement and is considered sound in line with sizable quantum of investments carried on the books along with growth in cash avenues including balances with other banks. Overall, UMBL's total liquid assets increased on account of higher balances held with other banks/NBFIs/MFBs, investments in government securities and mutual funds. Subsequently, liquid assets to total deposits and borrowings also stood higher by the end-2021 to 62% (2020: 49%).

Deposit base of the bank grew by 19.3% in 2021 and was reported at Rs. 55b (CY20: Rs. 46.1b). Slight comfort may be drawn from significant growth in the proportion of current deposits and saving deposits grew during the year accounting for more than 60% (2020: 43%) of the total deposits. Low granularity is also being reflected in the size-wise breakup of deposits; higher size deposits formed majority proportion of overall deposit base. Going forward, the management intends to increase granularity in deposits by introducing low-ticket sticky deposits through its branchless banking project.

Deposits continued to remain the primary source of funding of advances for the bank during the review period. However, to finance the greater exposure in investments, the company undertook borrowings in the outgoing year. The quantum of borrowings significantly increased from Rs. 13.3b to Rs. 36.9b. This consists of different kinds of financing facilities from various commercial banks and SBP. This enabled the bank to not only grow its investments, but also increase its deposits in other banks.

| (Rs. in millions) | 2020 | % | 2021 | % |
|---|---|---|---|---|
| Fixed Deposits | 26,358 | 57% | 20,280 | 37% |
| Saving deposits | 16,802 | 37% | 30,893 | 56% |
| Current deposits | 2,945 | 6% | 3,827 | 7% |
| **Total Deposits** | **46,105** | | **55,000** | |

| (Rs. in millions) | 2020 | 2021 |
|---|---|---|
| Investments | 24,074 | 46,565 |
| Cash and balances with SBP and NBP | 3,160 | 3,800 |
| Balances with other banks and MFBs | 1,908 | 6,224 |
| Liquid Assets | 29,143 | 56,588 |
| Deposits | 46,105 | 55,000 |
| Borrowing | 13,274 | 36,881 |
| **Liquid Assets to Deposits and Borrowing(x)** | **49%** | **62%** |
| **Advances to Deposits** | **65%** | **63%** |
| **CA (%)** | **6%** | **7%** |
| **CASA (%)** | **43%** | **63%** |
| **Liquid assets/TA** | **33%** | **47%** |

**Profitability**

Sources of revenue stream of the bank can be categorized into six major categories: retail urban, retail rural, corporate banking, investment banking and treasury, digital banking, and Islamic banking.

Mark-up income earned reported an increase of 21% during 2021 contributed by volumetric growth in the advances and investments portfolio. Profitability of the bank followed an upward trend due to higher mark-up income.

| (Rs. in millions) | 2020 | % | 2021 | % |
|---|---|---|---|---|
| Advances | 9,066 | 89% | 10,032 | 82% |
| Government Securities | 490 | 5% | 1,147 | 9% |
| Term deposits/Deposit Accounts | 578 | 6% | 1,037 | 9% |
| **Total markup earned** | **10,134** | **100%** | **12,216** | **100%** |

Spreads posted a decrease in 2021, which is aligned with the industry due to lower benchmark rates as compared to the preceding year.

| | 2020 | 2021 |
|---|---|---|
| Avg. Return on Advances | 35.4% | 29.5% |
| Avg. Return on Investment | 10.3% | 9.1% |
| Avg. Return on earning assets | 35.3% | 29.5% |
| Cost of Deposits | 10.8% | 8.7% |
| Cost of Borrowings | 11.1% | 8.5% |
| Cost of Funds | 10.9% | 8.7% |
| **Spread** | **24.4%** | **20.8%** |

| (Rs. in millions) | 2020 | 2021 |
|---|---|---|
| Net Spread Income | 5,792 | 6,626 |
| Provisions | (1,578) | (1,495) |
| Fee, Commission and Brokerage Income | 1,125 | 1,018 |
| Other Income | 138 | 259 |
| Administrative Expenses | (4,266) | (5,035) |
| Other Expenses | (5) | (0) |
| Pre-tax profit/(loss) | 1,204 | 1,356 |

Operational self-sufficiency (OSS) ratio depicted a slight decline to 109.65% at end-2021 (CY20: 110.93%); however remains on the higher side indicating that the recurring income is sufficient to cover operating expenses. Core earnings of the company remained at similar level (CY21: Rs. 2.6b, CY20: Rs. 2.6b) as compared to the last year. With the help of a rise in other income (recovery against written off advances and gain on sale of investments to the tune of Rs. 104m and Rs. 140m, respectively in 2021), the bank posted profit before tax of Rs. 1.4b (CY20: Rs. 1.2b) and profit after tax of Rs. 1.1b (CY20: Rs. 906m) in 2021.

Despite a fall in spreads in 2021, the company was able to earn a higher profit due to a sizeable increase in the portfolio of advances and investments. Going forward, the management expects further growth in profitability on the back of additional equity injection and subsequent expansion in the scale of operations.

**Capitalization**

| (Rs. in millions) | 2020 | 2021 |
|---|---|---|
| Share Capital | 3,086 | 4,086 |
| Unappropriated profit | 1,100 | 1,926 |
| | | |
| **Total Equity** | **5,673** | **7,778** |

Paid up capital of the bank had an increase of Rs. 1.0b by during the year on account of equity injection by the parent company through issuance of preference shares against conversion of subordinated debt from the parent company (PTCL). Furthermore, equity base augmented with further inclusion of advance against issue of shares amounting Rs. 1b which is expected to be converted into paid-up capital in 2022 through issuance of preference shares against conversion of subordinated debt from PTCL.

The aforementioned along with the profit retention earned for the review period ensued growth in equity base of the Bank. Capital Adequacy Ratio (CAR) of the bank remained in line with regulatory requirements (CY21: 18.5%, CY20: 21.7%), despite a significant increase in its investments and advances portfolio.

Furthermore, the Bank is in the process of issuing privately placed/listed, unsecured, subordinated, perpetual, non- cumulative and continent convertible debt instruments in the form of term finance certificates (TFC) of up to Rs. 1.0b (inclusive of a green shoe option of Rs. 250m). The issue proceeds will be used to support future business growth, while remaining compliant with the CAR prescribed by the SBP under its Basel III framework. Drawdown from the aforementioned is expected in June'22, post which the capitalization indicators of the bank are expected to strengthen. Persistent focus of the bank towards secured advances is considered important.

| FINANCIAL SUMMARY | (amounts in PKR millions) | | |
|---|---|---|---|
| **BALANCE SHEET** | **31-Dec-19** | **31-Dec-20** | **31-Dec-21** |
| Cash and Bank Balances with SBP and NBP | 1,717 | 3,160 | 3,800 |
| Balances with other Banks and/NBFIs/MFBs | 3,020 | 1,908 | 6,224 |
| Lending to Financial Institutions | - | 450 | - |
| Total Investments | 6,970 | 24,074 | 46,565 |
| Net Advances | 21,374 | 30,006 | 34,376 |
| Operating Fixed Assets | 3,105 | 2,917 | 2,886 |
| Other Assets | 3,905 | 8,197 | 10,728 |
| Total Assets | **40,090** | **70,713** | **104,578** |
| Total Deposits | 23,290 | 46,105 | 55,000 |
| Borrowings | 6,733 | 13,274 | 36,881 |
| Other Liabilities | 7,016 | 5,659 | 5,206 |
| Tier-1 Equity | 3,060 | 5,673 | 7,778 |
| Net Worth | 3,051 | 5,675 | 7,491 |
| Paid-Up Capital | 2,286 | 3,086 | 4,086 |
| | | | |
| **INCOME STATEMENT** | **31-Dec-19** | **31-Dec-20** | **31-Dec-21** |
| Net Mark-up Income | 3,424 | 5,792 | 6,626 |
| Net Provisioning / (Reversal) | 810 | 1,578 | 1,495 |
| Non-Markup Income | 939 | 1,263 | 1,278 |
| Operating Expenses | 3,206 | 4,266 | 5,035 |
| Profit Before Tax | 311 | 1,204 | 1,356 |
| Profit after tax | 254 | 906 | 1,111 |
| | | | |
| **RATIO ANALYSIS** | **31-Dec-19** | **31-Dec-20** | **31-Dec-21** |
| Gross Infection (%) | 4.10% | 0.11% | 2.81% |
| Net Infection (%) | 2.53% | 0.09% | 1.38% |
| Incremental Infection (%) | 6.16% | -0.33% | 5.39% |
| Specific Provisioning Coverage (%) | 39.35% | 20.20% | 51.75% |
| Net NPLs to Tier-1 Capital (%) | 16.94% | 0.41% | 5.32% |
| Capital Adequacy Ratio (%) | 16.70% | 21.70% | 18.50% |
| Markup on earning assets (%) | 32.60% | 35.30% | 29.50% |
| Cost of Funds (%) | 12.20% | 10.90% | 8.70% |
| Spreads (%) | 20.40% | 24.40% | 20.80% |
| OSS (%) | 103.94% | 110.93% | 109.65% |
| ROAA (%) | | 1.60% | 1.30% |
| ROAE (%) | | 20.80% | 16.90% |
| Liquid Assets to deposits & borrowings (%) | 39% | 49% | 62% |

## 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.

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**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 (UMBL) |
| **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 | | |
| 4/30/2022 | 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 | | |
| 4/30/2022 | 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 | | |
| 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. |
| **Probability of Default** | VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. |
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**Due Diligence Meetings Conducted**

| Name | Designation | Date |
|---|---|---|
| Mr. Muhammad Majid | CFO | April 04, 2022 |
| Mr. Sarmad Pretu | CRO | April 04, 2022 |
| Mr. Naveed Sadiq | Financial Controller | April 04, 2022 |