

RATING REPORT

U Microfinance Bank Limited

REPORT DATE:

June 10, 2024

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
Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	June 10, 2024		April 28, 2023	
PPTFC-1	A (Stable)		A (Stable)	
Rating Date	June 10, 2024		April 28, 2023	
PPTFC-2	A- (Stable)		A- (Stable)	
Rating Date	June 10, 2024		April 28, 2023	

COMPANY INFORMATION

Incorporated in 2012	External auditors: A.F. Ferguson & Co. Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Hatem Mohamed Ali Ahmed Bamatraf
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohamed Essa Al Taheri
Pakistan Telecommunication Company Limited – 100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Micro Finance Banks
<https://docs.vis.com.pk/docs/MicroFinance-Oct-2023.pdf>

VIS Rating Scale
<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

U Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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).</p> <p>Profile of CEO</p> <p>Mr. Al Taheri earned a Master's degree in International Business from the University of Wollongong, Dubai, and has accumulated more than 20 years of professional experience. His career encompasses positions at HSBC Bank, Dubai Commercial Bank, and the Development Board of Dubai Government. Currently, he fulfills the role of Group EVP Financial Policies and Systems at e& Group and also serves as a Non-Executive Director at U Microfinance Bank.</p> <p>Profile of Chairman</p> <p>Mr. Hatem Barmatraf, an executive business graduate from INSEAD, has a background in the telecommunications industry, with experience gained from engagements with telecom companies across the region. In addition to chairing the Board of Directors of UMBL, Mr. Barmatraf currently serves as the President and Group</p>	<p>Rating Rationale</p> <p>The ratings assigned to U Microfinance Bank Limited (UMBL) 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 (LLC). As of Dec'23, PTCL's total assets and cash balances were reported at 387.6 bn (Dec'22: Rs. 305.2 bn) and Rs. 10.0 bn (Dec'22: Rs. 5.7 bn) respectively. During CY23, PTCL's Return on Average Equity (ROAE) was recorded at 8.3%. The implicit support from the sponsor was witnessed from equity injection of Rs. 1.6 bn provided as an advance for the issuance of ordinary shares during the outgoing year and further equity injection of Rs. 1.2 bn in cash in the ongoing year.</p> <p>There has been significant growth in the Bank's Gross Loan Portfolio (GLP). A major driver of this expansion was the agriculture segment. The proportion of secured loans within the overall loan portfolio has remained range-bound over time, yet remaining above the industry average. To mitigate inherent credit risks in unsecured lending, the Bank's strategy includes gradually increasing the proportion of secured loans. Additionally, the Bank's policy of limited group lending of the total loan portfolio further reduces credit risk. In terms of repayment structure, Bullet loans are predominant, while the proportion of EMI loans is declining. High concentration in the bullet repayment structure is a deviation from presently evolving sector norms towards EMI structures, given the higher risk associated with bullet structures.</p> <p>The asset quality indicators reflect a weakened position, with a higher gross and net infection reported. Due to higher reported NPLs, net NPLs as a percentage of the Bank's Tier-I capital were notably higher at 42.3% (CY22: 17.4%).</p> <p>The investment portfolio saw a reduction. With a noteworthy proportion of long-term PIBs in the portfolio, there may be some market risk embedded, although benchmark rates appear to have peaked. Liquidity remains sufficient, though liquid assets to deposits and borrowings fell. The asset-liability maturity analysis as of Dec'23 indicates short-term borrowings funding longer term commitments, which can pose constraints in times of market-wide liquidity crunch, and should be minimized.</p> <p>Profitability indicators are reflective of asset quality strains on both markup income generated as well as ECL charges. Moreover, cost of funds has risen and inflationary pressures have impacted other operating costs. While the Bank booked a loss before tax, a net profit was reported, benefiting from deferred tax realizations.</p> <p>The Capital Adequacy Ratio (CAR) was below regulatory requirements at the end of Dec'23 and Mar'24, but with equity injections and conversions of subordinated debt to equity in early 2024, the restated CAR as of Mar'24 was 15.4%. Recent conversion of a tier-II capital instrument to equity, also increases room to issue further tier-II debt to reinforce capital adequacy if needed. Going forward, asset quality indicators and profitability trends will be monitored in terms of their effect on retaining and expanding capital buffer over regulatory capital requirement.</p> <p>Auditor's Opinion and other material information</p> <p>A.F. Ferguson & Co., Chartered Accountants, a member of the PwC network, assumed the role of external auditor for UMBL in 2023, replacing KPMG Taseer Hadi & Co. The newly appointed auditor, A.F. Ferguson & Co., issued an unqualified and unmodified opinion, confirming the adherence of the Bank's financial statements to accounting standards and the accurate depiction of its financial position as of Dec'23.</p>

CEO of PTCL and Ufone 4G, demonstrating his commitment to driving the success of these entities

In 2023, the State Bank of Pakistan (SBP) conducted a review of the Bank and instructed its board to implement certain corrective measures, particularly concerning the application of IFRS-9, necessitating significant restatements to rectify these discrepancies in the financial statements retrospectively.

Corporate Profile

U Microfinance Bank Limited ('UMBL' or the 'Bank') was incorporated in Pakistan on 29th October 2003, as a public limited company under the then applicable Companies Ordinance, 1984. It was granted a license by the State Bank of Pakistan (SBP) on 31st January 2013, to commence nationwide microfinance banking operations. Approval for the nationwide commercial launch of Branchless Banking Services (BBS) was obtained from SBP on 11th July, 2013, and commercial operations of BBS began on 23rd July, 2013. Originally established as Rozgar Microfinance Bank Limited, the entity underwent a change in ownership when Pakistan Telecommunication Company Limited (PTCL) acquired 100% shareholding on 7th December, 2012, and rebranded it. UMBL's core business is to provide microfinance banking and related services to the poor and underserved segments of society, operating under the Microfinance Institution Ordinance, 2001.

The shareholding structure of UMBL as of Dec'23 is detailed in the table below:

Shareholding Pattern	Dec'23
Pakistan Telecommunication Company Limited	100.0 %
Total	100.0 %

As of the end-CY23, the UMBL Board of Directors consisted of six members. Presently, the board comprises four directors, including the Bank's CEO, one independent director, and the chairman. The BoD is chaired by Mr. Hatem Mohamed Ali Ahmed Bamatraf. The CEO and president of the Bank is Mr. Mohamed Essa Al Taheri. Composition of the BoD is tabulated below:

Directors	Status
Mr. Hatem Mohamed Ali Ahmed Bamatraf	Chairman
Mr. Mohamed Essa Al Taheri	CEO/Director
Mr. Mohammad Nadeem Khan	Director
Mr. Aqueel Malik	Director
Mr. Muhammad Jahanzeb Rahim	Director
Dr. Rameez Khalid	Independent Director

Asset Mix

As of Dec'23, total assets of UMBL decreased by Rs. 58.5 bn mostly as borrowings were wound down by Rs. 74.2 bn, and correspondingly investments portfolio held as security, declined. In contrast, there was an uptick in deposits by Rs. 13.6 bn, and advances – net of provisions – rose by Rs. 27.1bn as of Dec'23. The observed trends reflect a shift towards a more balanced and sustainable funding profile, characterized by reduced reliance on external borrowings and increased focus on deposit mobilization and lending activities. Going forward, the Bank aims to strengthen its core banking operations.

Balance Sheet Extract (Rs. mn)	Dec'22	Dec'23
Total Assets	218,449.0	159,966.7
Investments – net of provision	137,330.9	51,690.8
Advances – net of provisions	55,029.8	82,087.6
Total Liabilities	214,537.0	154,136.0
Deposits and other accounts	92,200.4	105,797.0
Borrowings	115,134.7	40,914.7

Financial Analysis**Credit Risk**

The Bank's Gross Loan Portfolio (GLP) witnessed a sizeable uptick of 44.0% and was reported at Rs. 88.7 bn (Dec'22: Rs. 61.6 bn) as of Dec'23. The GLP also includes Islamic Financing portfolio amounting to Rs. 3.8 bn (Dec'22: Rs. 615.6 mn). Most of the recent growth was driven by higher lending in the Agriculture segment, which accounted for 52.8% of the loan portfolio during the review period, compared to 40.7% in the previous year. 'Agriculture' and 'Livestock' segments continue to dominate the loan portfolio.

Segments (Rs. mn)	CY21	%	CY22	%	CY23	%
Livestock	10,385.0	28.5%	28,342.0	46.0%	25,086.0	33.4%
Agriculture	5,756.0	15.8%	25,079.0	40.7%	39,699.0	52.8%
Enterprise	20,238.0	55.6%	6,695.0	10.9%	8,659.0	11.5%
Housing	32.0	0.1%	1,505.0	2.4%	1,740.0	2.3%
Total	36,411.0	100.0%	61,621.0	100.0%	75,184.0	100.0%

The proportion of secured loans within the overall loan portfolio has remained range-bound over time, with a slight decline to 54.8% in CY23 compared to 56.9% in CY22, and remains slightly higher than industry average; the gradual transition towards higher proportion of secured lending has been seen across the sector. The Bank's strategy entails increasing the proportion of secured loans gradually to mitigate the inherent credit risk in unsecured lending. To achieve this objective, UMBL has already introduced the 'Khud Mukhtar' loan targeting salaried individuals seeking to either establish a new business or expand their existing one. This loan structure involves equal monthly repayments and requires collateral in the form of personal vehicles, residential or commercial properties, gold, or any other appropriate custodial document.

Secured/Unsecured (Rs. mn)	CY21	%	CY22	%	CY23	%
Secured	18,808.0	51.7%	35,042.0	56.9%	41,185.0	54.8%
Unsecured	17,603.0	48.3%	26,579.0	43.1%	33,999.0	45.2%
Total	36,411.0	100.0%	61,621.0	100.0%	75,184.0	100.0%

In terms of repayment structure, the percentage of Bullet loans within the GLP rose to 82.8% (CY22: 81.9%) in CY23, while the proportion of EMI loans in the loan portfolio declined to 17.2% (CY22: 18.1%). This increase in the proportion of Bullet loans is attributed to heightened lending activity in the agriculture and livestock segment, which typically involves lump sum payments at the end of the loan term. High concentration in the bullet repayment structure is a deviation from presently evolving sector norms towards EMI structures.

EMI/Bullet (Rs. mn)	CY21	%	CY22	%	CY23	%
EMI	4,064.0	11.2%	11,127.0	18.1%	12,966.0	17.2%
Bullet	32,347.0	88.8%	50,494.0	81.9%	62,218.0	82.8%
Total	36,411.0	100.0%	61,621.0	100.0%	75,184.0	100.0%

In accordance with the Bank's policy, group lending is being utilized on a very limited scale to mitigate the credit risk associated with this mechanism. The management has achieved its target of keeping the group lending proportion lower than 5.0% in the total loan portfolio.

Group/Individual (Rs. mn)	CY21	%	CY22	%	CY23	%
Group	1,639.0	4.5%	633.0	1.0%	2,280.0	3.0%
Individual	34,772.0	95.5%	60,988.0	99.0%	72,904.0	97.0%
Total	36,411.0	100.0%	61,621.0	100.0%	75,184.0	100.0%

Asset Quality

Non-performance has increased, as reflected by a rise in PaR ratio across all categories, which stood at 6.7% at end December'23 (CY22: 2.6%).

Gross Advances and Portfolio at Risk (PaR)	2022	%	2023	%
Current and Watchlist	60,013.4	-	82,830.1	-
Other assets especially mentioned (OAEM)	425.5	0.7%	1,969.7	2.2%
Sub-standard	630.3	1.0%	1,406.8	1.6%
Doubtful	353.1	0.6%	887.9	1.0%
Loss	198.7	0.3%	1,645.8	1.9%
Total	61,621.0	2.6%	88,740.3	6.7%

NPLs booked reached Rs. 4.1 bn (Dec'22: Rs. 1.2 bn) as of Dec'23, despite a write-off of Rs. 406.8 mn during the year (CY22: Rs. 335.3 mn). Consequently, reported gross and net infection rates have worsened to 4.6% (CY22: 1.9%) and 2.8% (CY22: 1.1%) respectively. Total provisions exceeded NPLs, having been set aside in accordance with IFRS-9. Provisions covered 40.7% (CY22: 43.2%) of Stage-3 assets, with Stage-1 and Stage-2 provisions accounting for 1.5% (CY22: 1.7%) and 36.2% (CY22: 39.2%) respectively. Due to the elevated incidence and reporting of NPLs, net NPLs as a percentage of the Bank's Tier-I capital were notably higher at 42.3% (CY22: 17.4%).

Asset Quality Indicators (Rs. mn)	2021	2022	2023
NPLs	1,023.5	1,182.1	4,123.5
NPLs written off	790.3	335.3	406.8
Tier 1 Equity	4,904.1	3,851.2	5,773.5
Gross Infection	2.8%	1.9%	4.6%
Net Infection	1.4%	1.1%	2.8%
Incremental Infection	5.4%	1.1%	4.9%
Specific Provisioning Coverage	51.8%	43.2%	40.7%
Total Provisioning Coverage	198.9%	557.6%	161.3%

Investment Mix

The investment portfolio decreased to Rs. 51.7 bn (Dec'22: Rs. 137.3 bn) as of Dec'23 from Rs. 137.3 bn. Within this portfolio, investments valued at amortized cost totaled Rs. 4.8 bn, comprising mainly Pakistan Investment Bonds (PIBs). Investments measured at Fair Value through Profit and Loss (FVTPL) amounted to Rs. 8.0 bn, comprising Mutual Funds and Term Finance Certificates (TFCs). The TFCs include an amount of Rs. 225.0 mn, originally issued as a supplementary capital instrument, and which have since been converted into common equity shares of the issuer, following an event of non-payment as per original terms of the agreement. Investments categorized under Fair Value through Other Comprehensive Income (FVOCI) were reported at Rs. 38.9 bn as of Dec'23, inclusive of Ijarah and Private Sukuk alongside T-Bills and PIBs. The market risk emanating from the investment portfolio is some cause of concern, with a noteworthy proportion of long-term PIBs in the portfolio, although benchmark rates appear to have peaked, limiting the downside risk.

Liquidity

Liquidity position remains sufficient although liquid assets to deposits and borrowings fell to 39.1% in CY23 (CY22: 64.5%) adjusted for repo borrowings. Total deposits rose to Rs. 105.8 bn (Dec'22: Rs. 92.2 bn) as of Dec'23, including Rs. 9.4 bn in deposits of related parties, primarily the parent company, PTCL.

Liquidity Indicators (Rs. mn)	2021	2022	2023
Liquid Assets	57,121.9	122,986.9	58,795.5
Deposits	55,439.1	92,200.4	105,797.0
Borrowings	36,850.6	115,134.7	40,914.7
Liquid Assets to Deposits and Borrowings (%)	60.7%	68.1%	39.4%
Advances to Deposits (%)	65.7%	66.8%	83.9%
CA (%)	7.0%	6.7%	9.2%
CASA (%)	63.1%	70.9%	51.2%
Liquid Assets/ TA	56.0%	56.3%	36.8%

A deposit mobilization drives yielded gains with individual depositors more than tripling over prior year to Rs. 47.8 bn in absolute terms in CY23, compared to Rs. 15.3 bn in CY22. In terms of proportion, individual depositors constituted the largest share of total deposits, accounting for 45.2% in CY23 compared to 16.6% in CY22. These are positive trends from the perspective of bringing about stability in fund sources.

Deposits (Rs. mn)	2021	%	2022	%	2023	%
Individual Depositors	29,468.4	53.6%	15,287.8	16.6%	47,773	45.2%
Corporations/Firms	17,428.8	31.7%	33,609.9	36.5%	30,589	28.9%
Financial Institutions	8,103.1	14.7%	43,302.7	47.0%	27,435	25.9%
Total Deposits	55,000.3	100.0%	92,200.4	100.0%	105,797.0	100.0%

Growth in deposits was primarily driven by increase in fixed deposits, which coupled with saving deposits accounted for 90.8% of the overall deposit mix, slightly down from 93.3% in the previous year. Term deposits, assist the Bank in managing its asset-liability maturity mismatches, thereby reducing the risk of funding shortfalls that may arise from overreliance on on-demand liabilities to fund long-term assets. However, the cost of funding has been negatively impacted due to minimal access to current accounts. More recent efforts have been directed at leveraging technology partnerships to mobilize funding through digital channels, which have emerged as highly cost effective.

Deposits (Rs. mn)	2021	%	2022	%	2023	%
Fixed Deposits	20,280.3	36.9%	26,785.8	29.1%	51,591.7	48.8%
Saving Deposits	30,892.7	56.2%	59,222.2	64.2%	44,452.1	42.0%
Current Deposits	3,827.3	7.0%	6,192.4	6.7%	9,753.2	9.2%
Total Deposits	55,000.3	100.0%	92,200.4	100.0%	105,797.0	100.0%

As of Dec'23, the total borrowings of the Bank decreased significantly to Rs. 40.9 bn (Dec'22: Rs. 115.1 bn). Additionally, as of Dec'23, the Bank had unsecured subordinated debt from PTCL amounting to Rs. 1.5 bn, eligible as supplementary capital. Furthermore, the Bank issued TFCs to an unrelated FI in the amount of Rs. 600.0 mn as Tier II subordinated debt, with a tenure of 7 years. Moreover, the Bank issued Additional Tier-I TFCs amounting to Rs. 1.0 bn, which is outstanding.

The asset-liability maturity analysis as of Dec'23 indicates short-term borrowings funding longer term commitments, which can pose constraints in times of market-wide liquidity crunch, and should be minimized.

Profitability

Markup income posted notable increase, reaching Rs. 34.8 bn (CY22: Rs. 18.7 bn), primarily due to higher interest earned on advances amounting to Rs. 21.5 bn (CY22: Rs. 12.8 bn) driven by an expansion in the GLP and the prevailing elevated benchmark rate. Consequently, the overall return on interest-bearing assets rose to 20.3% (CY22: 12.7%) during the review period. On the same note, mark-up paid on deposits also more than doubled in CY23, amounting Rs. 19.0 bn (CY22: Rs. 9.0 bn), with the impact of higher policy rates exacerbated by the higher proportion of savings and fixed term deposits, resulting in much narrower spreads and significantly reduced net markup income.

Operating expenses rose to Rs. 9.9 bn in CY23 (CY22: Rs. 6.6 bn), reflecting the inflationary impact on overheads. In CY23, the Bank reported negative core earnings¹ of Rs. (1.6 bn) due to lower core revenue and higher administrative expenses. Before restatement of CY22 financials, the Bank had reported core earnings of Rs. 1.6 bn for the year, which was restated to a lower Rs. 600.7 mn subsequently.

Despite improvement in non-markup income, and a provision reversal amounting Rs. 593.5 mn in CY23, as against provision charge-off at Rs. 2.4 bn during CY22, the Bank still reported a loss before taxation of Rs. (1.1 bn), though lower compared to a restated loss before taxation of Rs. (2.3) bn in CY22. Accordingly, Operational Self Sufficiency Ratio (OSS) improved to 89.8% from 85.6% in the previous year, although still remaining below 100%, and indicating a deficit of total recurring income over expenses. However, net earnings reported by the Bank benefitted from the realization of deferred tax benefits, and was reported at Rs. 750.4 mn in CY23, contrasting with a net loss of Rs. 875.7 mn in CY22.

In 1QCY24, the Bank has reported a net loss of Rs. 2.2 bn owing to the suspension of Rs. 4.0 bn markup on the Deferred, Restructured, and Rollover (DRR) portfolio which was impacted by the COVID-19 pandemic and floods of 2022. Having taken the losses resulting from the adoption of IFRS 9 and the adverse macroeconomic social challenges of the past 3 years, the Bank may be well positioned to grow its portfolio and book efficiency gains from its planned digitalization drive. Profits over the next 3 quarters are likely to offset the impact of losses in Q1, resulting in significant anticipated improvement in profitability for the full year.

Capitalization

As of Dec'22, the restated Capital Adequacy Ratio (CAR) is estimated to be slightly below regulatory requirements, and significantly lower than the initially reported 18.3%. The Bank's total equity base increased to Rs. 5.8 bn (Dec'22: Rs. 3.9 bn) as of Dec'23. Despite an equity injection of Rs. 1.6 bn provided by PTCL as an advance for the issuance of ordinary shares, the CAR decreased further to 13.9% by end-Dec'23 with an increase in Risk Weighted Assets (RWAs).

In 1QCY24, the Bank reported a net loss of Rs. 2.2 bn, thereby reducing its eligible CET-1 capital, and also decreasing the eligible Tier-2 capital, recognized as 41.67% of eligible CET-1 capital. Consequently, the Bank reported a reduction in its CAR to 9.4% as of Mar'24.

In April 2024, following the period-end, PTCL preference shares were converted into ordinary share capital of Rs. 1.0 bn, and PTCL subordinated debt of Rs. 1.2 bn was also converted into ordinary share capital. Additionally, there was an equity injection of Rs. 1.2 bn in cash. Incorporating this equity increase in previous periods, the Bank's CAR would have been 15.4% as of Mar'24 and 16.6% as of Dec'23. With a higher Tier-1 capital due to both new equity issuance as well as converted supplementary capital, the Bank has fresh room for issuance of new tier II capital, if anticipated growth is faster than internally generated capital and causes CAR to fall. Moreover, PTCL's demonstrated support as a resilient and cash-rich entity lends to support to the capitalization profile of the Bank.

¹ Net markup income + total non-markup income - administrative expenses

U Microfinance Bank Limited

Appendix I

FINANCIAL SUMMARY (amounts in PKR millions)				
BALANCE SHEET	31-Dec-21	31-Dec-22	31-Dec-23	31-Mar-24
Cash and Bank Balances with SBP and NBP	3,799.9	8,114.4	5,900.4	5,471.7
Balances with other Banks and/NBFIs/MFBs	6,242.0	614.1	974.8	476.6
Lending to Financial Institutions	-	6,587.4	454.5	4,502.8
Total Investments	47,080.0	137,330.9	51,690.8	39,285.4
Net Advances	39,255.8	55,029.8	82,087.6	81,994.7
Operating Fixed Assets	2,901.2	4,717.9	7,274.6	7,077.5
Other Assets	1,216.4	2,257.6	7,857.8	10,605.4
Total Assets	102,033.4	218,448.7	159,965.7	153,011.0
Total Deposits	55,439.1	92,200.4	105,797.0	114,839.1
Borrowings	36,850.6	115,134.7	40,914.7	26,780.9
Sub-Ordinated Debt	1,799.4	2,834.7	2,628.1	2,492.0
Other Liabilities	2,961.4	4,367.0	4,795.7	5,323.3
Tier-1 Equity	4,904.1	3,851.2	5,773.5	3,607.8
Net Worth	4,982.9	3,911.9	5,830.2	3,671.6
Paid-Up Capital	4,085.7	5,085.7	5,085.7	5,085.7
INCOME STATEMENT	CY21	CY22	CY23	1QCY24
Net Mark-up Income	6,626.5	3,924.2	2,268.0	(1,973.3)
(Net Provisioning)/Reversal	(1,512.9)	(2,390.7)	593.5	851.5
Non-Markup Income	1,277.8	3,300.8	5,977.8	423.6
Operating Expenses	(5,035.2)	(6,634.6)	(9,857.1)	(2,855.7)
Profit Before Tax	1,356.1	(2,270.7)	(1,098.7)	(3,554.0)
Profit after tax	1,111.0	(875.7)	750.4	(2,165.5)
RATIO ANALYSIS	CY21	CY22	CY23	1QCY24
Gross Infection (%)	2.8%	1.9%	4.6%	5.2%
Incremental Infection (%)	5.4%	1.1%	4.9%	1.1%
Specific Provisioning Coverage (%)	51.8%	43.2%	40.7%	53.6%
Total Provisioning Coverage (%)	198.9%	557.6%	161.3%	128.1%
Net Infection (Specific) (%)	1.4%	1.1%	2.8%	2.5%
Net NPLs to Tier-1 Capital (%)	10.1%	17.4%	42.3%	58.2%
Capital Adequacy Ratio (%)	18.5%	18.3%	13.9%	15.4%
Markup on earning assets (%)	16.7%	14.1%	22.3%	19.4%*
Cost of Funds (%)	7.2%	10.7%	19.7%	22.9%*
Spreads (%)	9.5%	3.4%	2.5%	-3.5%*
OSS (%)	111.2%	85.6%	89.8%	66.3%
ROAA (%)	1.3%	-0.5%	0.4%	-5.5%*
ROAE (%)	21.0%	-20.0%	15.6%	-184.7%*
Advances to Deposits Ratio (%)	67.9%	65.7%	66.8%	83.9%
Liquid Assets to Deposits & Borrowings (%)	46.9%	60.7%	68.1%	39.4%
<i>*Annualized</i>				

REGULATORY DISCLOSURES		Appendix II				
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	Outlook/ Rating Watch	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	6/10/2024	A+	A-1	Stable	Reaffirmed	
	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	
	<u>RATING TYPE: INSTRUMENT TFC-1</u>					
	6/10/2024	A		Stable	Reaffirmed	
	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	
	<u>RATING TYPE: INSTRUMENT TFC-2</u>					
	6/10/2024	A-		Stable	Reaffirmed	
	4/28/2023	A-		Stable	Reaffirmed	
	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. Naveed Sadiq	Head of Financial Controls & Reporting	07-May-2024
	Mr. Sarmad Pretu	Chief Commercial Officer	