

U Microfinance Bank Limited

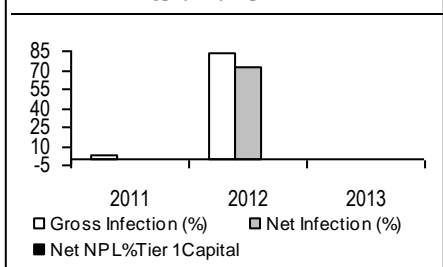
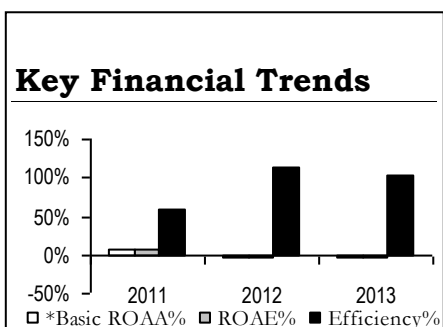
Chairman: Mr. Hamid Farooq; President/Chief Executive Officer: Mr. Arif Sirhindi

May 2, 2014

Rating Rationale

Analysts: Maimoon Rasheed
Faiq Sattar

| Category | Latest | Previous |
|----------|--------------------------------|----------------------------------|
| Entity | A-/A-2 <i>April 30, '14</i> | BBB+/A-2 <i>April 30, '13</i> |
| Outlook | Stable | Positive |



| | 2011 | 2012 | 2013 |
|--|-------|--------|--------|
| Net Financings (Rs. in m) | 2.2 | 0.44 | 41 |
| Deposits (Rs. in m) | 7.1 | 5.6 | 205.2 |
| Deposit Cost (%) | 3.8 | 7.1 | 2.1 |
| Profit / (Loss) (Rs. in m) | 8.2 | (17.1) | (45.1) |
| Equity (Rs. in m) | 101.1 | 1,084 | 1,039 |
| Liquid Assets to Deposits & Borrowings (x) | 4.4 | 36 | 3 |
| Net Infection (%) | 33.8 | 72.0 | 0.03 |

The ratings assigned to U Microfinance Bank Limited (UMBL) take into account its association with a strong sponsor, Pakistan Telecommunication Company Limited (PTCL) – the largest telecom company in Pakistan – having 100% shareholding in the bank. PTCL is co-owned by the Government of Pakistan and Etisalat International Pakistan (LLC) (Etisalat). The management control of PTCL rests with Etisalat, a state owned Telecom Corporation of UAE, having a long-term rating of ‘AA-’ by an international rating agency.

The bank received nationwide microfinance banking license on January 31, 2013 followed by the approval from the State Bank of Pakistan to launch branchless banking (BB) operations commercially in July 2013. With only a few months of full-scale operations in 2013, UMBL was short of certain financial projections for the year. Lending activities also remained limited in FY13 though having picked pace subsequent to year-end as most of the branches were made operational in last quarter of 2013. Lending activities are projected to increase at a moderate pace with a loan portfolio of Rs. 1.2b targeted to be achieved by end FY16. The bank plans to increase focus on group lending primarily in secured agricultural loan products.

Over the long term, the bank’s focus will remain primarily on pursuing growth in volumes of BB services. Latest additions in the BB service suite include UP Debit Card that was launched in March, 2014 in collaboration with Union-pay International. At present, UMBL has an agent network of around 24,000 retailers. In order to increase market penetration, UMBL is also pursuing strategic alliances with different entities. In this connection, UMBL has signed a Memorandum of Understanding (MoU) with National Bank of Pakistan (NBP) to provide BB solutions for personal banking to NBP’s customers nationwide. International remittance services and health insurance products are also in pipeline in collaboration with Etisalat and EFU Life Assurance Limited, respectively. Moreover, UMBL has entered into direct facilitation agreements with five utility companies.

With a limited loan portfolio at end-FY13, assets were mostly parked in money market operations. The bank continues to carry a sizeable amount of liquid assets in relation to deposit & borrowings. Deposit base has also increased with a significant proportion of non-remunerative current accounts. The growth is largely attributable to agents’ balances that are required to be maintained with the bank to undertake BB transactions. Total agents’ balances represented 3/4th of total current account deposits at end-FY13.

The bank’s profitability in 2013 was mostly a function of non-core operations i.e. income from investment portfolio. Loan book remained modest thereby having minimal contribution to revenue stream. While income from BB operations is presently nominal, the proportion of the same is projected to increase in line with the bank’s business model. On account of induction of senior management along with opening of new branches, UMBL’s operating expenditure increased considerably during FY13. Ability to meet projections depends on realization of targeted BB volumes and translation of planned alliances into business volumes.

Net equity is in compliance with the minimum capital requirement stipulated for microfinance banks with nationwide operations. The management is projecting growth in equity base beyond FY14 on the back of retention of profits. For FY14, an after-tax loss of Rs. 2.5m is budgeted.

Overview of the Institution

Rozgar Microfinance Bank Limited, a district level micro-finance bank, was incorporated as a public limited, unlisted company in October 2003 under the Companies Ordinance, 1984. PTCL acquired the bank in August 2012 and changed its name to U Microfinance Bank Limited. The accounts for 2013 have been audited by M/s A.F.Ferguson & Co. – Chartered Accountants – and the same has been appointed as the auditor for the year ending December 31, 2014 JCR-VIS

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| Rating Date | Medium to Long Term | Outlook | Short Term | Rating Action |
|-----------------------------------|---------------------|---------------------------|------------|------------------------------|
| <u>RATING TYPE: Entity</u> | | | | |
| 30-Apr-14 | A- | Stable | A-2 | Upgrade |
| 30-Apr-13 | BBB+ | Positive | A-2 | Upgrade/Rating Watch Removed |
| 23-Apr-12 | BB+ | Rating Watch - Positive | A-3 | Maintained |
| 20-May-11 | BB+ | Rating Watch - Developing | A-3 | Upgrade |
| 29-Apr-10 | BB- | Rating Watch - Negative | B | Reaffirmed on Rating Watch |