

ABC MFI LIMITED

SUMMARY

ICRA assigned an “BBB” rating with a “Stable” outlook to “ABC MFI Limited” on XXX 2025, assuming no material adverse events affecting the business activities occur during the validity period. The assigned rating reflects a balanced assessment of the entity’s business model, competitive advantages, market conditions and overall financial stability, which contribute to the overall creditworthiness of the company based on ICRA credit rating methodology for insurance entities. Below are the key points, including credit strengths as well as credit challenges, reflected in the assigned rating.

The assigned rating reflects ABC’s stable business profile with consistent operational performance improvement, strong capital position supported by equity growth, and robust asset base with a growing loan portfolio. However, deteriorating liquidity profile, emerging credit quality stress in the loan portfolio, and moderation in profitability metrics amid balance sheet expansion are critical factors for ABC to focus on during the short to medium term period.

OUTLOOK

The Stable outlook assigned to the issuer rating of ABC factors in the expectation of a healthy operating and financial performance driven by the stable business profile.

RATING UPGRADE TRIGGERS

- Sustained improvement in the liquidity ratio above 1.0x through better cash flow management or diversified funding sources.
- Reduction in PaR30 below the 5% threshold alongside stable or declining NPL ratios.
- Continued growth in net profits supported by stable net interest margins and controlled operating expenses.
- Broader loan mix across geographies and customer segments, reducing concentration risk.

RATING DOWNGRADE TRIGGERS

- Continued deterioration in liquidity coverage or inability to access timely external funding.
- Aggressive borrowing without corresponding capital support weakens the debt-to-equity profile.
- Increase in delinquency indicators, particularly if PaR30 or NPL ratios rise materially.
- Significant lapses in regulatory compliance or internal controls that impair operational integrity.

Rating Date: DD-MM-YY

Rating Validity: 1 Year

Report Type: New Rating Assignment

Rating Assignment

Rating	Outlook
BBB	Stable

Table 1

Key Financials

UGX m	FY23	FY24
Interest Income	xx	xx
Total Income	xx	xx
Net Profit	xx	xx
Assets	xx	xx
Loan Portfolio	xx	xx
Cash and Cash Equivalent	xx	xx
Net Worth	xx	xx
Total Debt	xx	xx

Table 2

Key Ratios

	FY23	FY24
Operational Self-sufficiency Ratio	xx	xx
Net Interest Margin	xx	xx
Return on Equity	xx	xx
Return on Assets	xx	xx
Portfolio-to-Assets Ratio	xx	xx
Debt-to-Equity Ratio (times)	xx	xx
Cash to Short-term Liabilities Ratio (times)	xx	xx
Operating Expense Ratio	xx	xx

Table 3

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BUSINESS PROFILE

ABC MFI Limited is a Tier 4 microfinance institution (MFI) operating in Uganda. Established in XXX, it is formally licensed under the Uganda Microfinance Regulatory Authority (UMRA). It is also registered with the Financial Intelligence Authority (FIA) and recognised by the Kampala Capital City Authority as a moneylending and savings institution. The entity is a member of the Association of Microfinance Institutions in Uganda (AMFIU) and is ISO 9001:2015 certified.

The institution primarily lends to small and medium enterprises (SMEs) and individual consumers, with a strong focus on financial inclusion. ABC operates through two branches and supports its operations with XX employees. It is guided by a professional supervisory board and a seasoned executive management team with extensive collective experience in commercial banking, fintech, and development finance. ABC has recently implemented the XXX System that allows for loan applications and payment using USSD, Self-Service Web Portal and Mobile app technology.

The ownership structure of ABC reflects concentrated private control. The institution is governed by a seasoned five-member Supervisory Board and an experienced executive team whose backgrounds span commercial banking, fintech, portfolio management, and development finance. Their collective expertise underpins ABC's strategic positioning in the evolving Ugandan microfinance landscape.

ABC's business model focuses on inclusive credit provision for SMEs, salaried employees, and women-led enterprises through four key lending products: Business Loans, Asset Financing, Salary Loans, and the Women in Business (WIB) Scheme. Business Loans form the largest share of the portfolio, offering short-term and flexible repayment options. Asset Financing is the second largest contributor to the loan book. Salary Loans target both government and private sector employees, providing predictable long-term repayment streams. The WIB Scheme promotes gender equity and financial inclusion by offering unsecured group loans to women entrepreneurs at competitive rates, complemented by financial literacy and business development training.

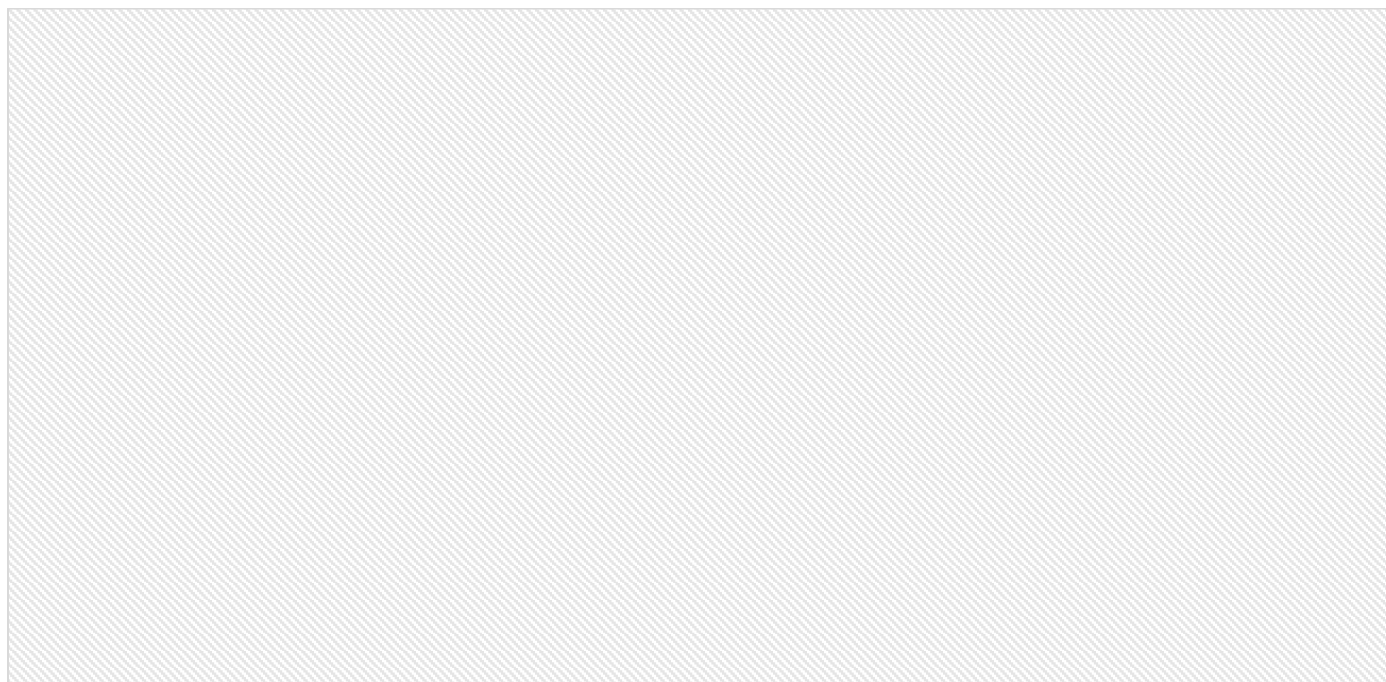


Exhibit 1

RISK ASSESSMENT

Risk Type	Brief Explanation	Risk Level	Trend
Liquidity Risk	- The MFI current ratio stood at XX times. The MFI has consistently kept a low liquidity ratio below XX times since FY20 (except in FY23 when the ratio stood at XX times). - The proportion of current liabilities in total liabilities increased from XX% in FY22 to xx% in FY24, underscoring the importance of maintaining adequate liquid assets to manage short-term obligations efficiently.	High	Increasing
Credit Risk	The NPL ratio of the loan book stood at XX% while the PaR 30 stood at XX% as of 31st March 2025, exceeding the internationally accepted benchmark of 5% for MFIs.	Moderate	NA*
Governance Risk	- The entity has stated that it operates under a diversified ownership structure and is owner-managed, which can help mitigate agency risks typically observed in institutions where ownership and management are separate. - The governance framework is assessed as adequate with an appropriate board, board committees and a management team and management committees in place with the relevant roles clearly defined. - There are also policies available to provide policy direction, including the credit policy discussed under credit risk and the AML/CFT policy. We reviewed the AML/CFT policy and found it comprehensive, with provisions including reporting STRS to the FIA, conducting customer due diligence when onboarding, monitoring business relationships, maintaining records, providing information, training employees, and improving internal processes.	Low	Stable
Strategic Risk	- ABC has XX directors on the board who are deemed adequate for a tier 4 non-deposit-taking MFI. - The board has diverse skills and competencies, including IT, banking, customer experience and marketing, economics, ESG, Reinsurance, financial services and investment banking. - There is an identified market niche of small and medium businesses and consumers. Strategic planning is undertaken with the current strategy plan being a four-year plan to 2028, which, among others, projects about XXX% growth in the loan book from UGX XX bn in 2025 to UGX xx bn in 2028 while focusing on women and expanding operational offices for a wider geographical coverage.	Low	Stable
Operational Risk	- There were no major adverse events that impacted operations during the period under review. - ABC operated with an appropriate operational risk environment. There is an organisational chart showing roles and responsibilities for each position. We deemed this adequate and appropriate.	Low	Stable
Compliance/Legal Risk	The MFI is keen to comply with the relevant laws and regulations, having been registered with FIA (Financial Intelligence Authority) for anti-money laundering purposes, the Personal Data Protection Agency for purposes of compliance with personal data protection, assessed and certified as conforming to the requirements of ISO 9001:2015 certification for the provision of non-deposit taking microfinance services, and UMRA (Uganda Microfinance Regulatory Authority) to provide financial services as a non-deposit taking MFI.	Low	Stable
Interest Rate Risk	We noted that the MFI maintained a positive NIM throughout the period under review, implying that it was able to manage interest costs and interest income to remain profitable.	Low	Stable
Exchange Rate Risk	This is because of the MFI's very low exposure to assets and liabilities denominated in foreign currencies.	Low	Stable
Capital Risk	the entity met the regulatory minimum capital requirements	Low	Stable

Table 4

*For Credit Risk, we are unable to assess the direction of credit risk because of the limited data provided by the MFI.

DETAILED CREDIT RATIONALE

Business Profile: Stable business profile

Since its incorporation in XXX, ABC MFI Limited has transitioned from its startup phase into a steadily expanding Tier 4 microfinance institution (MFI) with a defined market position and growing operational footprint. The institution is licensed under the Uganda Microfinance Regulatory Authority (UMRA) and registered with the Financial Intelligence Authority (FIA). ABC operates through two branches with a staff complement of XX, offering a diversified suite of lending products aimed at promoting financial inclusion among SMEs, salaried employees, and women-led enterprises. The entity's stable business profile is supported by prudent governance, a diversified product mix, and increasing technological integration, which collectively enhance its competitiveness and sustainability within Uganda's microfinance sector.

Management Quality: Qualified management team with adequate governance structure

ABC MFI Limited is guided by a qualified and experienced management team supported by an adequate governance structure. The institution's governance framework demonstrates appropriate oversight, defined roles, and a commitment to sound corporate governance practices.

The Board of Directors is chaired by XXX, an economist with extensive experience in academic leadership and public policy. His strategic insight and governance experience contribute to the overall effectiveness of the Board. XXX, who is the Chief Operating Executive of ABC, has provided overall leadership and strategic direction for the institution since XXX. He brings a wealth of experience from the banking and development finance sectors, having previously served with XXX Bank, the XXX Bank, and Finance in Motion. Further, XXX, who has been the Chief of Operations since XXX, is responsible for overseeing internal operations, branch performance, and compliance with operational protocols. With over XX years of experience in the financial sector, including XX years at Centenary Bank, he has played a key role in enhancing service delivery, operational efficiency, and resource utilisation. He also served as Managing Director of ABC for approximately XX years.

The institution has established an adequate governance framework, including an appropriately constituted Board, functional Board committees, and management committees with clearly defined roles and responsibilities. In addition, the entity has developed and implemented key policies that guide its operations and governance practices. These include the Credit Policy, which governs credit risk management, and the AML/CFT Policy, which ensures compliance with anti-money laundering and counter-financing of terrorism standards.

Profitability & Performance: Consistent operational improvement amid moderation in profitability metrics

Over the five-year period ending FY24, ABC grew its loan book from UGX xxx m (FY20) to UGX xxx m (FY23) and further to UGX xxx m (FY24), reporting xx% y/y growth, and its interest income from UGX xxx m (FY20) to UGX xxx m (FY23) and further to UGX xxx m (FY24), marking xx% y/y growth. Net profits also increased from UGX xxx m in FY23 to UGX xxx m in FY24 (xx% y/y growth), demonstrating an upward earnings trend despite rising operating costs. This consistent operational improvement reflects the successful execution of its business model, effective risk control, and increasing customer traction in both urban and peri-urban markets.

Operational Self-Sufficiency (OSS), a core indicator of financial sustainability, remained above the 100% benchmark throughout the period. Although it moderated to xx% in FY24 from a peak of xx% in FY21, the ratio still reflects the institution's ability to internally fund its operating costs. This decline, however, underscores the pressure on margins as the institution scales up, with increasing cost intensity and operational overheads.

ABC's profitability profile, while showing growth in absolute net profit, exhibited a declining trend in key return metrics during FY24. Net profit rose marginally by XX% to UGX XXX m; however, both Return on Assets (RoA) and Return on Equity (RoE) weakened to xx% and xx%, respectively, down from xx% and xx% in FY23. This was primarily driven by a significant expansion in the asset base and a strengthened equity position, which diluted returns. Additionally, Net Interest Margin (NIM) declined to xx% in FY24 from xx% in FY23, indicating compression in lending spreads amidst growing interest expenses.

One of the contributing factors to this profitability pressure was the imposition of an interest rate cap by the Ministry of Finance (in 2024), which set a maximum rate of 2.8% per month (33.6% annually) for moneylenders.

This regulatory ceiling curtailed ABC's ability to price loans at previously higher levels, leading to compressed lending spreads. These developments signal weakening profitability efficiency despite growth in income and scale. If this trajectory continues without strategic adjustments, it could strain internal liquidity generation and raise concerns about long-term financial sustainability. ICRA views this moderation in profitability, particularly in light of regulatory constraints, as a key negative sensitivity for the rating.

Profitability					
	FY20	FY21	FY22	FY23	FY24
Operational Self-Sufficiency	XX	XX	XX	XX	XX
Net Interest Margin	XX	XX	XX	XX	XX
Return on Assets	XX	XX	XX	XX	XX
Return on Equity	XX	XX	XX	XX	XX

Table 5

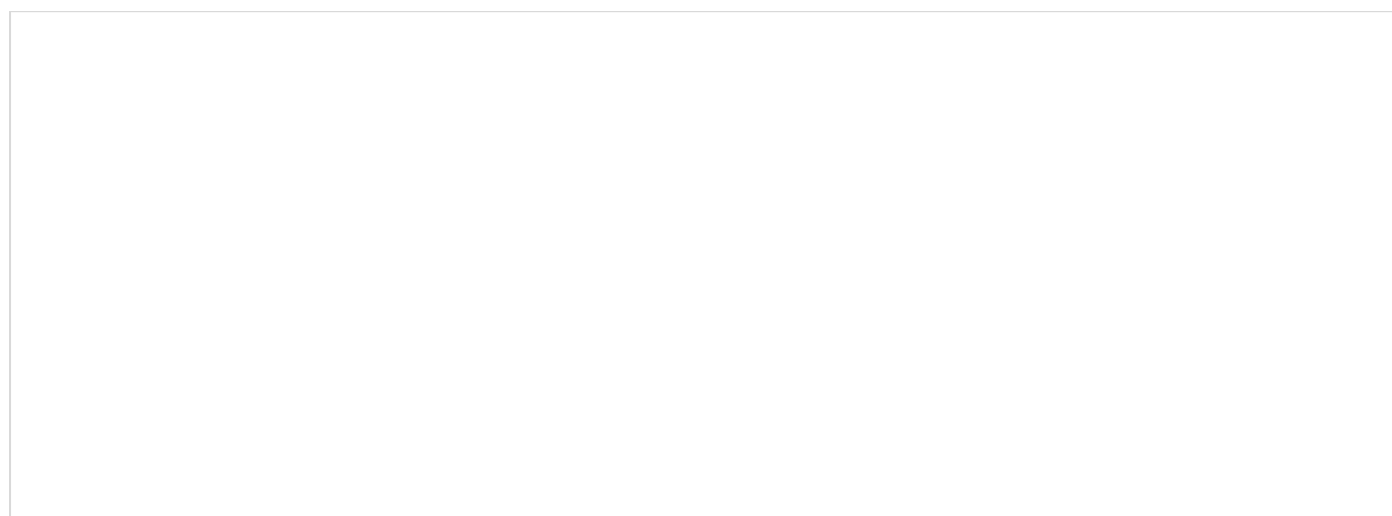


Exhibit 2

Asset Quality & Financial Position: Growing asset base amid emerging credit risk

ABC has demonstrated consistent growth in its asset base, increasing from UGX xxx m in FY20 to UGX xxx m in FY23 and further to UGX xxx m in FY24 (xx% y/y growth), primarily driven by the sustained expansion of its loan portfolio. In FY24 alone, the gross loan book surged by xx% y/y, rising from UGX xxx m in FY23 to UGX xxx m and now accounts for approximately xx% of total assets. The institution's lending model remains anchored in individual and SME loans, with individual borrowers accounting for xx% of the portfolio and group loans comprising the remaining xx%. Business Working Capital Loans represent the largest share at xx% of the total outstanding, followed by asset financing and salary loans. ABC has also introduced inclusive lending products like the Women in Business (WIB) scheme, contributing around xx% of the portfolio. While xx% of the loan book was performing as of March 2025, credit quality pressures are evident with a PaR30 of xx%, exceeding the 5% industry threshold.

While ABC's asset base and lending operations have expanded rapidly, emerging asset quality concerns are evident. As the institution's asset quality is showing early signs of stress, despite headline metrics such as the Non-Performing Loan (NPL) ratio appearing relatively contained. As of March 2025, the NPL ratio stood at xx%, which may seem modest in isolation. However, a deeper examination reveals that the Portfolio at Risk over 30 days (PaR30) was significantly higher at xx%, surpassing the industry threshold of 5% typically observed among Tier 4 microfinance institutions. Out of xx% non-performing loans, xx% loans are classified as 'Substandard', xx% as 'Doubtful', and xx% as 'Loss'. This signals a weakening asset quality trend that requires improved credit monitoring and recovery processes. While the institution has a comprehensive credit policy, rising delinquency levels highlight the need for tighter underwriting and early warning systems.

Asset Quality					
	FY20	FY21	FY22	FY23	FY24
Portfolio to Assets (%)	XX	XX	XX	XX	XX

Table 6

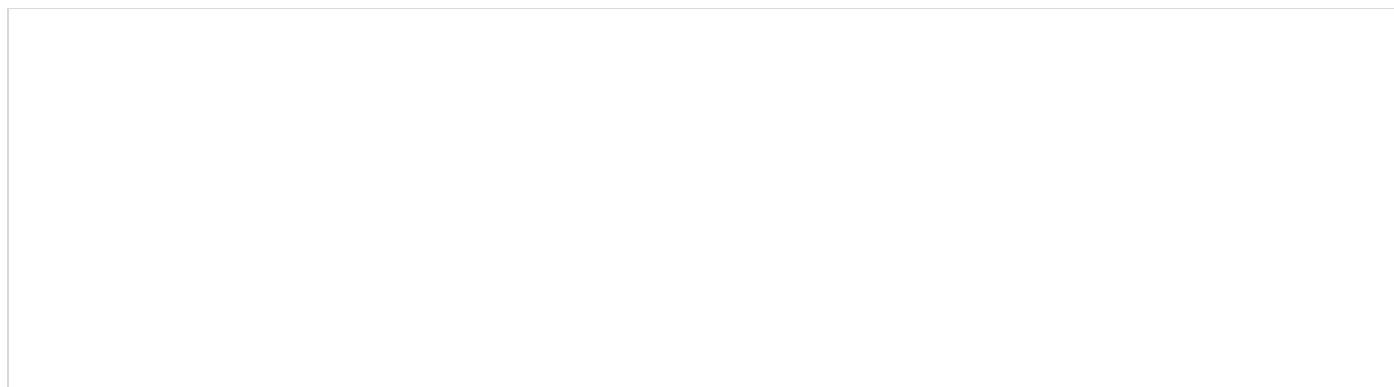


Exhibit 3

Liquidity: Deteriorating liquidity profile

Liquidity remains a key credit constraint for ABC. As the institution’s “Cash to Short-term Liabilities ratio” stood at xx times in FY24, against xx times in FY23. This means liquid assets, which comprised cash and cash equivalents, were a mere xx% of short-term liabilities. The MFI has consistently kept a low liquidity ratio below xx times since FY20 (except in FY23, when the ratio stood at xx times). The liquid ratio was below the recommended minimum of 1. The MFI would face a liquidity problem in the absence of external funding if the need for liquidity arose at short notice. ABC should seek to improve its liquidity position by maintaining a higher level of liquid assets relative to short-term liabilities. The proportion of current liabilities in total liabilities increased from xx% in FY22 to xx% in FY24, underscoring the importance of maintaining adequate liquid assets to manage short-term obligations efficiently. Noteworthy is that ABC does not take public deposits.

Liquidity Profile					
	FY20	FY21	FY22	FY23	FY24
Cash to Short-term Liabilities Ratio (times)	XX	XX	XX	XX	XX

Table 7

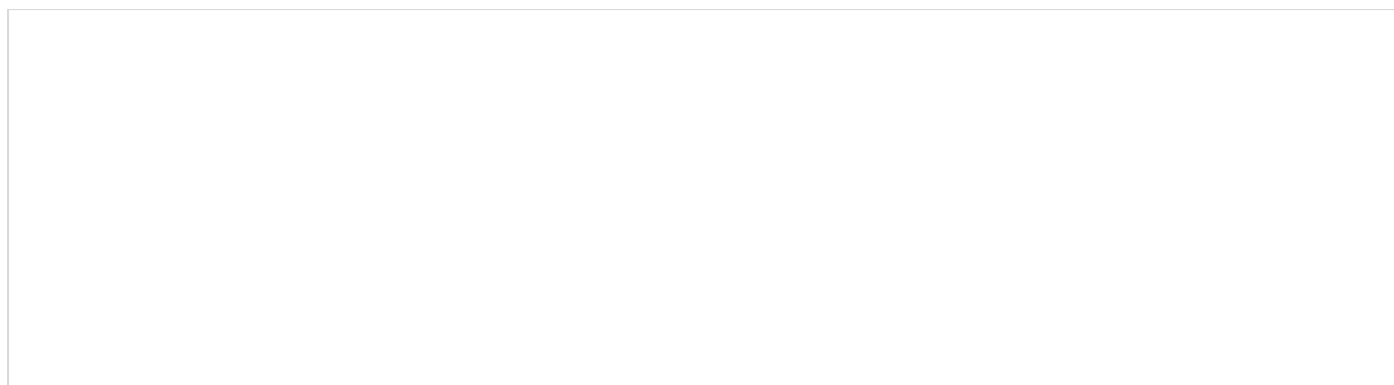


Exhibit 4

Capital Adequacy: Strong capital position supported by equity growth

ABC MFI Limited has maintained a strong capital base, enabling the institution to support its aggressive growth strategy while preserving balance sheet resilience. As of FY24, the entity reported a net worth of UGX xxx m, an increase from UGX xxx m in FY23 (xx% y/y growth). This capital expansion has been driven by both consistent internal accruals (retention of profits) and periodic equity infusions, including UGX xxx m in paid-up capital and retained earnings of UGX xxx m as of FY24.

In addition to equity strengthening, ABC has also received a UGX xxx m repayable grant from XXX, treated as a long-term liability due in xxx. This concessional funding enhances long-term financial flexibility without adding immediate repayment pressure, further strengthening the capital profile. The entity has relied on a balanced mix of equity and long-term borrowings to fund its loan portfolio. As of FY24, long-term borrowings stood at UGX xxx m (excluding a grant from XXX), with short-term borrowings at UGX xxx m, maintaining a prudent leverage position. This is demonstrated in its debt-to-equity ratio, which stood at xx times in FY24 vs xx times in FY23.

Capital position					
	FY20	FY21	FY22	FY23	FY24
Debt to Equity (times)	XX	XX	XX	XX	XX

Table 8

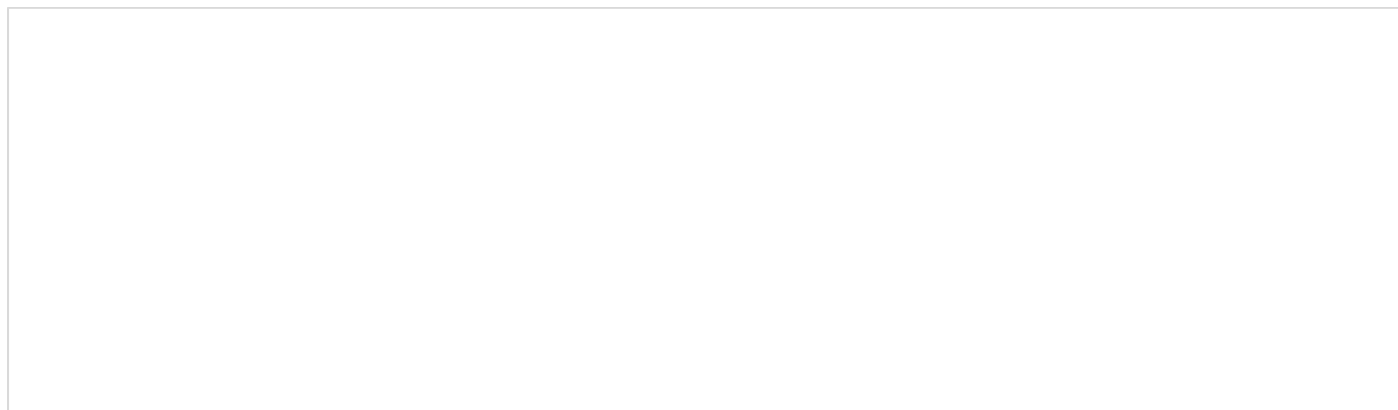


Exhibit 5

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