The Pakistan Credit Rating Agency Limited

Rating Report

Mobilink Microfinance Bank Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Apr-2018	A	A1	Positive	Maintain	-
26-Oct-2017	A	A1	Stable	Maintain	-
28-Apr-2017	A	A1	Stable	Maintain	-
05-Aug-2016	A	A1	Stable	Upgrade	-
25-Mar-2016	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of Mobilink Microfinance Bank Limited ("the Bank") take comfort from the relationship of the Bank with a leading global telecom group - Veon (formerly Vimplecom) - and with Pakistan's largest cellular operator – Jazz (formerly Mobilink). Sponsors' commitment to the bank is witnessed in the form of both technical collaboration and financial support. Ensuing synergies are strengthening the bank's penetration in target markets. Leveraging on the sponsors network and renowned brand name (JazzCash), branchless banking domain is taking on a rapid growth and being reinforced with the aim of expanding Mobile-wallets accounts. The bank's current strategy is pivoted around capitalizing on its digital banking base having strong support from its super agent cellular operator. The management's confidence lies in keeping this segment's margins sustained and bring it at the forefront of mobile banking services, amidst rising competition. The bank held a market share of ~5% in the total Gross loan portfolio and ~8% in the total deposits of the Microfinance industry by End-Dec'17. Overall asset quality is healthy supported by robust recovery framework. Deposit base is widening on year-on-year basis with branchless banking concentration of ~56% of the total deposits by the end of Dec'17. This provides a competitive edge to the bank in establishing a significantly low cost deposit base transpiring into better margins.

Positive outlook takes into account progress towards growth trajectory by means of increased market captivation in digital banking. The low cost branchless deposit base in relation to the absolute gross advances of the bank breeds into larger spreads eventually improving the profitability of the bank as a whole. Going forward, capitalization of this cost benefit into increased market share remains important.

Disclosure

Name of Rated Entity	Mobilink Microfinance Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | MicroFinance Institutions (Jun-17),Methodology | Correlation between long-term and short-term rating scale(Jun-17),Methodology | Criteria Modifiers(Jun-17)
Related Research	Sector Study | Microfinance Bank(Apr-18)
Rating Analysts	Amara Gondal | amara.gondal@pacra.com | +92-42-35869504

MOBILINK MICROFINANCE BANK LIMITED	
Incorporation	Feb - 2012
Legal status	Microfinance Bank – Public Limited
Outreach	61 branches – nationwide
Head Office	F-8 Markaz | Islamabad

MICROFINANCE SNAPSHOT

- Composition of 11 Microfinance Banks (MFBs), 16 Microfinance Institutions (MFIs) and 6 Rural Support Programs (RSPs) with a credit outreach of ~44%, ~33% and ~19% respectively.
- Gross Loan Portfolio recorded at PKR~202bln at End-Dec17 indicating a growth of ~10% in the 4QCY17.
- Savings increased by ~15% in the 4QCY17 and recorded at PKR~163bln at End-Dec17.
- Sector's outreach growth rate - over ~6% in the 4QCY17.

OWNERSHIP

- Mobilink Microfinance bank (herein referred to as "the bank") is a wholly owned subsidiary of Global Telecom Holding S.A.E which in turn is majorly owned by Veon (formerly Vimplecom) – one of the world's leading telecom groups. Veon also owns Pakistan Mobile Communications Limited (Jazz – formerly Mobilink) - one of Pakistan's largest telecommunication companies.
- The bank also offers branchless banking services, branded as JazzCash, through strategic alliance with the cellular operator, Jazz, a related party, under the branchless banking license from SBP.

GOVERNANCE

- The bank's Board of Directors comprises of 7 members including the CEO, 3 directors from Veon, one director from Jazz and two independent directors.
- Mr. Amir Hafeez Ibrahim is the Chairman of the Board. He also serves as the CEO of Jazz.
- The Board has four sub-committees; (i) Audit (ii) HR & Compensation (iii) Risk Management & Compliance & (iv) IT Committee.

MANAGEMENT

- The CEO, Mr. Ghanzanfar Azam has an overall experience of ~32 years in the telecom sector and is assisted by a team of qualified and experienced professionals.
- Recent amendments in organogram brought clarity, focus and efficiency in role transition; team cohesiveness remains important

RISK MANAGEMENT

- Separate Risk Management department is in place to oversee risks including credit, operational and market risks.
- Sound technological infrastructure to support core and branchless banking operations;
- Multi-tier credit approval process to enhance mechanism for credit worthiness assessment.

ASSET RISK

- Prominent rise in gross loan portfolio of ~69%YoY was witnessed at End-Dec'17, i.e., PKR~10,002mln (End-Dec'16: PKR~5,934mln), supported by initiation of operations at 10 new branch locations in CY17 (CY16: 51 branches).
- Healthy asset quality demonstrated from constricted infection ratio of ~0.3% - being one of the finest amongst the peers, despite a small portion of gold-backed loans (~13%) in the total loan book.
- The highest chunk of loan book remains tilted towards agricultural loans followed by livestock and enterprise loans.
- Investments majorly include Market T-bills which reduce the market risk to an acceptably low level.

PERFORMANCE

- The bank's market captivation in terms of gross loans stood at ~5%. Average loan size of the bank remained larger than the peers. Share in terms of deposits however witnessed a marginal drop to~8% despite an increase in number of depositors owing to smaller average deposit size in comparison to industry.
- ~56% of the bank's deposits emanate from branchless banking domain which provides the bank with a competitive edge to develop a significantly low cost deposit base breeding into healthier spread and net margins for the bank.
- Rationalized distribution of deposits due to smaller average ticket size per depositor. CASA accounted for ~82% of the deposit base.
- Net Interest/Markup revenue surged hugely by ~114% clocking in at PKR~2,107mln in CY17 (CY16: PKR~986mln) – backed on account of low cost branchless deposits translating into upgraded operating results.
- Branchless banking margins dwindled to PKR~301mln in CY17 (CY16: PKR~421mln) as a result of higher agent commissions and biometric verification systems. Net income from Branchless banking is shared among the bank and Jazz in the ratio 30:70. At end-Dec'17, number of active BB agents recorded was ~73,301. Going forward, the bank is eying on optimizing its competitive edge in digital banking through increasing its Mobile-wallets base in collaboration with its cellular super agent – Jazz.
- Bottom-line of the bank clocked in at PKR~612mln in CY17 (CY16: PKR~231mln)

FINANCIAL RISK

- External funding of the bank is solely fueled by deposits which clocked in at PKR~14,943mln at End-Dec'17 (End-Dec'16: PKR~10,306mln).
- Deposits highly concentrated by individual savings followed by corporates and financial institutions.
- Liquidity profile remained adequate as witnessed from liquid assets-to-deposits and borrowing ratio of ~58%, though reduced from CY16 (~68%). Going forward, cautious approach towards liquidity management is imperative .
- The bank remained compliant with capital adequacy requirements and minimum capital requirements of SBP. At End-Dec'17, CAR stood at ~25% - backed on account of equity injection by sponsors of PKR ~1.2bln in Dec-17 resulting in notable increase in tier-I capital. The net equity of the bank stood at PKR~3,104mln at End-Dec'17.

Microfinance
Financials Summary

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Mobilink Microfinance Bank Limited

PKR mln

BALANCE SHEET	31-Dec-17	31-Dec-16	31-Dec-15
Earning Assets			
Advances	9,971	5,932	1,350
Investments	4,528	1,495	125
Deposits with Banks	3,047	4,743	2,402
	17,546	**12,170**	**3,878**
Non Earning Assets			
Non-Earning Cash	1,071	748	267
Net Non-Performing Finances	(152)	(73)	(8)
Fixed Assets & Others	2,115	1,389	754
	3,035	**2,064**	**1,013**
TOTAL ASSETS	**20,581**	**14,234**	**4,891**
Funding			
Deposits	**14,943**	**10,306**	**3,197**
Branch Banking	6,513	6,187	1,616
Branchless Banking	8,430	4,119	1,581
Borrowings	-	-	-
	14,943	10,306	3,197
Non Interest Bearing Liabilities	2,533	1,408	693
TOTAL LIABILITIES	**17,476**	**11,714**	**3,890**
EQUITY (including revaluation surplus)	3,105	2,519	1,000
Deferred Grants	-	-	-
Total Liabilities & Equity	**20,581**	**14,233**	**4,891**

INCOME STATEMENT	31-Dec-17	31-Dec-16	31-Dec-15
Interest / Mark up Earned	2,617	1,241	353
Interest / Mark up Expensed	(510)	(255)	(55)
Net Interest / Markup revenue	**2,107**	**986**	**299**
Branchless Banking Income (excluding admin expenses)	301	529	482
Other Operating Income	240	178	49
Total Revenue	**2,647**	**1,693**	**830**
Other Income	1	-	-
Non-Interest / Non-Mark up Expensed	(1,652)	(1,291)	(1,018)
Pre-provision operating profit	996	402	(188)
Provisions	(116)	(67)	(5)
Pre-tax profit	881	335	(194)
Taxes	(269)	(104)	157
Net Income	**612**	**231**	**(37)**

Ratio Analysis	31-Dec-17	31-Dec-16	31-Dec-15
Performance			
ROE*	22%	13%	-4%
Cost-to-Total Net Revenue	62%	76%	123%
Provision Expense / Pre Provision Profit	12%	17%	-3%
Capital Adequacy			
Equity/Total Assets	15%	18%	20%
Capital Adequacy Ratio as per SBP	25%	15%	45%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	58%	68%	87%
Advances / Deposits	66%	57%	42%
CASA deposits / Total Customer Deposits	82%	77%	94%
Intermediation Efficiency			
Asset Yield	18%	15%	12%
Cost of Funds	4%	4%	2%
Spread	14%	12%	10%
Outreach			
Branches	61	51	41

**Undiluted ROE ~38%*

The Pakistan Credit Rating Agency Limited

ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.
CCC **CC** **C**	**Very high credit risk.** "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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