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-2022	A	A1	Positive	Maintain	-
30-Apr-2021	A	A1	Positive	Maintain	-
30-Apr-2020	A	A1	Stable	Maintain	-
18-Oct-2019	A	A1	Positive	Maintain	-
29-Apr-2019	A	A1	Positive	Maintain	-
07-Nov-2018	A	A1	Positive	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings take comfort from the bank's association with a leading global telecom group – Veon (formerly VimpelCom) - and with Pakistan's largest cellular operator – Jazz (formerly Mobilink). Sponsor’s commitment to the bank is witnessed in the form of both technical collaboration and financial support. Ensuing synergies have strengthened the bank's penetration in target markets. The bank's business model is directed towards fostering core and branchless banking simultaneously. Leveraging on the sponsors' network and brand name - JazzCash, branchless banking domain is taking on sanguine growth and is expanding through platform of Mobile-wallet accounts. The bank's current strategy is pivoted around capitalizing on its digital banking base having strong support from its super-agent cellular operator. Recent launch of Dost App, specifically fulfilling the microfinancing needs of branchless banking customers, is another step forward. However, consumer response and monetary paybacks are yet to unfold. 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 ~9% in the microfinance industry’s Gross loan portfolio as at End-Dec'21. While growth strategies for the Bank have been taken under consideration, overall performance indicators reflected a firm outlook in CY21 despite of economic slowdown, lately exacerbated by the aftermaths of global pandemic spread. Consequently, the Bank’s GLP upsurged. Asset quality impaired on account of expiry of SBP’s deferment scheme period, along-with small portion being unprovided. The Bank has been maintaining a provisioning cushion of 2% (instead of 1% required). SBP’s recent circular pertaining to further relaxation in recording provisioning expense of NPLs is expected to bring reversals for several players in the industry. Markup earned and net markup income increased in line with GLP. Consequently, the Bank reported bottom-line of PKR 728mln (CY20: 530mln). Management’s commitment to recoup the asset health and consolidate the Bank’s position within the stipulated time is an acute necessity. The bank’s footsteps in the growing SME segment, which also comprises larger ticket size, is expected to succor in this situation. Granular small ticket size deposits in the BB domain, is growing, which adds benefit to performance indicators.

The ratings are dependent upon the bank’s ability to aptly combat the emerging risks under the current scenario in order to keep its business and financial risk profile intact. Meanwhile, the bank’s propensity to protect its performance indicators amidst constrained business environment, is imperative. Positive Outlook denotes comfort on business and financial profile as depicted by a higher granularity of deposit, significant expansion in demand deposits and fast rationalizing cost of funds. This would augment the reported profitability, going forward.

Disclosure

Name of Rated Entity	Mobilink Microfinance Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Microfinance Institution Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Microfinance(Sep-21)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Structure Mobilink Microfinance Bank Limited (hereinafter referred to as "The Bank") was incorporated in February 2012, under section 32 of the Companies Ordinance, 1984 (now the Companies Act, 2017). The bank has a network of 105 branches as at End-Dec'21 (End-Dec'20: 100). The head office of the bank is situated in Islamabad.

Background The Bank commenced its operations in April 2012 and launched branchless banking services under the brand name "JazzCash" in partnership with Pakistan Mobile Communications Ltd. (Jazz), in November 2012.

Operations The Bank offers a range of micro-lending products comprising; (i) Karobar Loan, (ii) Khushhal Kisan Loan, iii) Fori Cash Loans (iv) Livestock loans (v) House Loan (vi) Tractor Loans (vii) Passbook loan & (viii) Micro-Enterprise Loan. As stated above, it also offers branchless banking services and is one of the largest digital banks in the country, with ~8 million active mobile wallet accounts.

Ownership

Ownership Structure The bank is a wholly-owned subsidiary of Global Telecom Holding S.A.E (GTH). GTH is in turn owned by VEON (formerly VimpelCom) – one of the world's largest integrated telecommunication services operators, headquartered in the Netherlands – through a majority-owned subsidiary – Wind Telecom.

Stability The ownership structure of the bank is considered stable, as it has a sole ownership of a strong sponsor.

Business Acumen VEON is an international telecommunication and technology-oriented business with a customer base of ~212 million, in ten countries. Business acumen is, therefore, considered strong.

Financial Strength VEON's total asset base clocked in at USD 15,921mln while equity stood at USD 1,505mln, as at End-Dec'21, depicting a robust financial position of the ultimate sponsor.

Governance

Board Structure The overall control vests with a seven-member board of directors. The Board currently comprises four non-executive directors, two independent directors and one executive director (the CEO of the bank). Mr. Aamir Hafeez Ibrahim is the Chairman of the Board.

Members' Profile The directors are experienced professionals, having exposure in different sectors, including microfinance and telecommunication.

Board Effectiveness The Board exercises its oversight via four committees, namely (i) Audit Committee (ii) Risk Management & Compliance Committee (iii) HR & Compensation Committee and (iv) IT Committee.

Transparency M/S A.F. Ferguson & Co. Chartered Accountants are the external auditors of the bank. They expressed an unqualified opinion on the financial statements for the year ended 2021.

Management

Organizational Structure The Bank has divided its organization structure into different departments with each department head reporting directly to the CEO, while the head of the internal audit department, reports to the Audit Committee.

Management Team Team Mr. Ghazanfar Azzam – the President and CEO – carries over ~35 years of experience in consumer, SME and micro banking segments. He is assisted by an experienced management team.

Effectiveness The Bank has five management committees in place. The committee meetings are conducted on a frequent basis to ensure smooth flow of processes.

MIS Detailed MIS reports are generated for the senior management on a daily and monthly basis pertaining to loan portfolio, disbursements, repayments, delinquencies, provisioning, recoveries, and deposits.

Risk Management Framework A separate Risk Management Department is in place to oversee various risks including credit, operational and market risks. The Risk Management Committee meets on a regular basis to ensure the risk profile of the Bank remains within the Board of Directors' approved limits.

Technology Infrastructure Backboned with strong sponsors and a natural affiliation with the telecom industry, the bank is equipped with sound technological infrastructure. It deploys Temenos (T24) as its core banking software. The bank has in place Middleware, an innovative technological platform, to facilitate branchless banking operations, ATM service, Utility bills payment, and G2P payments.

Business Risk

Industry Dynamics Pakistan Microfinance Industry (MFI) comprises of 50 microfinance providers including 30 microfinance institutions (MFIs). During CY21, active borrowers of the industry exceeded pre-COVID figure to 8.1 million borrowers after recording growth of 16% compared to CY20. Similarly, the GLP surpassed PKR 390 billion during CY21, an increase of 21% compared to CY20. The growth in active borrowers and GLP continues to be driven by the MFB peer group as they managed to add over one million clients and PKR 52 billion in GLP. NBMFC peer group also contributed to portfolio growth with an addition of PKR 16.7 billion. In case of MFBs, PAR > 30 days increased to 5.1% (CY20: 3.3%) on account of expiration of loan deferment period allowed by SBP. However, the PAR > 30 days of MFIs recovered to report at 2.9% in CY21 (CY20: 4.7%).

Relative Position The Bank catered to 22% of the active borrowers of the microfinance industry as at End-Dec'21, grabbing a 9% market share in terms of Gross Loan Portfolio. On the other hand, the bank secured a share of 13% of total deposits in the industry, as at End-Dec'21.

Revenue During CY21, mark-up income earned by the Bank increased to PKR 11,082mln (CY20: PKR 6,683mln) with a considerable increase of 66%. Loss from branchless banking in CY21 clocked in at PKR 1,088mln (CY20: PKR 643mln), indicating an increase of 69%.

Profitability Markup expense for CY21 increased by 6% to PKR 1,697mln (CY20: PKR 1,599mln). The Bank witnessed an upsurge of 73% in its non-markup expense to PKR 6,981mln (CY20: PKR 4,029mln). The Bank's provisioning expense increased to PKR 988mln (CY20: PKR 202mln), indicating a surge of 4.9x. Consequently, net income increased to PKR 728mln during CY21 (CY20: PKR 530mln).

Sustainability The bank plans to persist in strengthening its branchless banking operations. Micro-deposits continue to add strength to the bank's performance indicators. The number of M-Wallet accounts has increased, bearing low cost and thereby enhancing profitability. The bank's business model encompasses systems and practices to nurture branchless and core banking results simultaneously. In light of the safety precautions taken during the global pandemic, the importance of branchless banking, has risen manifold. On the other hand, the effect of Covid-19 will put pressure on the growth prospects, liquidity and future infection of the loan book, of all industry players.

Financial Risk

Credit Risk The Bank's net advances clocked in at PKR 37,123mln as at End-Dec'21 (End-Dec'20: PKR 24,510mln), depicting a growth of 51%. The Bank's non-performing loans increased significantly to PKR 1,247mln (End-Dec'20: PKR 68mln). The infection ratio stood at 3.2% as at End-Dec'21 (End-Dec'20: 0.3%).

Market Risk The Bank's exposure to market risk is low due to factors such as (i) nil investments in money market funds (ii) nil borrowings and (iii) a significant portion of zero cost BB deposits in the funding base.

Funding The Bank's advances to deposit ratio (ADR) clocked in at 64% at End-Dec'21 (End-Dec'20: 52%) indicating significant growth in the loan book. Funding solely constitutes deposit mobilization, which is majorly inclined towards current BB account deposits of low-ticket sizes in the range of PKR 100 to PKR 1,000. As at End-CY21, the total deposits of the bank stood at PKR 58,658mln (End-Dec'20: PKR 46,807mln), rising by 25%.

Cashflows & Coverages Liquidity profile remained comfortable with available funds invested in Government Securities that yielded sanguine returns. The bank's liquid assets-to deposits ratio denotes a healthy profile.

Capital Adequacy Capital Adequacy Ratio (CAR) stood at 16.1% as at End-Dec'21 (End-Dec'20: 17.8%), above the regulatory benchmark. Equity base increased to PKR 6,141mln (CY20: PKR 5,404mln), indicating a rise of 13.6%.

PKR mln

Mobilink Microfinance Bank Public Unlisted Company	Dec-21 12M	Dec-20 12M	Dec-19 12M	Dec-18 12M
A BALANCE SHEET				
1 Total Finances - net	37,123	24,510	14,953	12,552
2 Investments	13,266	12,074	5,252	5,409
3 Other Earning Assets	3,241	5,419	10,824	5,162
4 Non-Earning Assets	15,189	14,286	7,026	5,115
5 Non-Performing Finances-net	341	(287)	120	(124)
Total Assets	69,159	56,003	38,175	28,115
6 Deposits	58,658	46,807	29,225	22,091
7 Borrowings	-	-	-	-
8 Other Liabilities (Non-Interest Bearing)	4,360	3,792	4,091	2,059
Total Liabilities	63,018	50,599	33,316	24,151
Equity	6,141	5,404	4,859	3,964
B INCOME STATEMENT				
1 Mark Up Earned	11,082	6,683	5,304	8,522
2 Mark Up Expensed	(1,697)	(1,599)	(962)	(390)
3 Non Mark Up Income	(364)	(106)	159	362
Total Income	9,021	4,978	4,501	8,495
4 Non-Mark Up Expenses	(6,981)	(4,029)	(2,775)	(7,077)
5 Provisions/Write offs/Reversals	(988)	(202)	(460)	(197)
Pre-Tax Profit	1,052	747	1,266	1,221
6 Taxes	(324)	(216)	(345)	(403)
Profit After Tax	728	530	921	818
C RATIO ANALYSIS				
1 Performance				
Net Mark Up Income / Avg. Assets	15.0%	10.8%	13.1%	33.4%
Non-Mark Up Expenses / Total Income	77.4%	80.9%	61.7%	83.3%
ROE	12.6%	10.3%	20.9%	23.1%
2 Capital Adequacy				
Equity / Total Assets (D+E+F)	8.9%	9.6%	12.7%	14.1%
Capital Adequacy Ratio	16.1%	17.8%	23.9%	22.0%
3 Funding & Liquidity				
Liquid Assets / (Deposits + Borrowings Net of Repo)	36.2%	45.2%	62.5%	57.5%
(Advances + Net Non-Performing Advances) / Deposits	63.9%	51.8%	51.6%	56.3%
Demand Deposits / Deposits	60.1%	62.0%	63.8%	64.2%
SA Deposits / Deposits	22.9%	16.1%	13.3%	14.7%
4 Credit Risk				
Non-Performing Advances / Gross Advances	3.2%	0.3%	3.8%	1.3%
Non-Performing Finances-net / Equity	5.5%	-5.3%	2.5%	-3.1%

Credit Rating

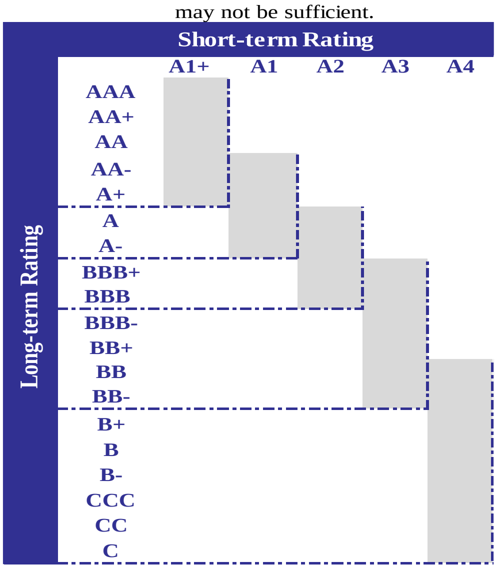
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 and in 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.** Substantial 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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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/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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

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, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

Entities
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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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