



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Mobilink Microfinance Bank Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Apr-2023	A	A1	Stable	Maintain	-
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	-

#### Rating Rationale and Key Rating Drivers

The bank's ratings are fortified by its association with Veon (previously VimpelCom), a premier global telecom group, and Jazz (previously Mobilink), the largest cellular operator in Pakistan. The bank's sponsor has displayed unwavering commitment by offering technical collaboration and financial backing, allowing the bank to penetrate its target markets with greater efficiency. The bank's business model prioritizes both core and branchless banking, utilizing the sponsor's network and brand name, JazzCash, to accelerate growth in the branchless banking sphere via mobile wallet accounts. Presently, the bank's strategy revolves around capitalizing on its digital banking infrastructure, fortified by support from its super-agent cellular operator. One such manifestation is the recent release of the Dost App to meet the microfinancing needs of branchless banking customers. The management remains self-assured in maintaining its margins and positioning the bank as a pioneering mobile banking services provider in the face of mounting competition. As at End Dec'22, the bank captured an 11.58% market share in the microfinance industry's gross loan portfolio. Nevertheless, the surge in the gross loan portfolio has resulted in an unfavorable impact on the bank's asset quality. NPL's quantum recorded an increase YoY (end-Dec22: PKR 2.6bln, (end-Dec21: PKR 1.2bln). Further, higher provisioning expenses were recorded YoY. With the sizable increase in key policy rate YoY harnessing of NPLs remain vital. The bank's markup earned and net markup income rose proportionally, resulting in a net profit of PKR 972mln in the current year, up from PKR 728mln in the prior year. The bank's progress in the burgeoning SMP segment, which includes larger ticket sizes, is expected to provide support. Additionally, granular small ticket-size deposits in the branchless banking domain contribute positively to the bank's performance indicators.

The bank's ratings are contingent upon its capacity to effectively mitigate emerging risks under the prevailing circumstances to preserve its business and financial risk profile. At the same time, the bank's ability to safeguard its performance indicators in a challenging business environment is crucial.

#### Disclosure

<b>Name of Rated Entity</b>	Mobilink Microfinance Bank Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Microfinance Institution Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Microfinance(Sep-22)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504



## Profile

**Structure** Mobilink Microfinance Bank Limited ("the Bank") was incorporated in February 2012 under section 32 of the Companies Ordinance, 1984 (now Companies Act, 2017). The bank has a network of 109 branches.

**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** Mobilink Microfinance 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 15,096mln while equity stood at USD 776mln, as of end-Dec'22, depicting a robust financial position of the ultimate sponsor.

## Governance

**Board Structure** The overall control vests in the six-member board of directors (BoD). The Board 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 Yousuf Adil Chartered Accountants (Category A as per SBP Panel) are the External Auditors of the bank. They expressed an unqualified opinion on the financial statements of the bank for the year ending December 31, 2022.

## 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** Mr. Ghazanfar Azzam, the President, and CEO, carries over 37 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, A TM service, Utility bills payment, and G2P payments.

## Business Risk

**Industry Dynamics** Pakistan Microfinance Industry (MFI) comprises 50 microfinance providers including 30 microfinance institutions (MFIs). Active Borrowers continued the increasing trend as 8.5 million borrowers were achieved during CY22, an increase of 5.6% compared to CY21. Similarly, the GLP surpassed PKR 448bln during CY22, an increase of 26.1% compared to the GLP in CY21. The further analysis explains the major contribution to the growth of active borrowers and GLP was contributed by the MFB peer group where Mobilink MFB was at the top of the list due to the significant adoption of digital credit and greater outreach to the customer base. NBMFCs peer group also contributed to the increase by adding 94,000 active borrowers and PKR 2.6bln in GLP. In the case of MFBs, PAR > 30 days slightly increased to 5.3% (CY21: 5.2%). However, the PAR > 30 days of MFIs recovered to report at 4.1% in CY22 (CY21: 5.5%).

**Relative Position** The Bank catered to 30% of the active borrowers of the microfinance industry as of end-Dec'22, grabbing an 11.58% market share in terms of Gross Loan Portfolio. On the other hand, the bank secured a share of 14% of total deposits in the industry, as of end-Dec'22.

**Revenue** During CY22, mark-up income earned by the Bank increased to PKR 17,335mln (CY21: PKR 11,082mln) with a considerable increase of 56%. Income from branchless banking in CY22 clocked in at PKR 5,428mln (CY21: PKR 5,479mln), reflecting a largely maintained position.

**Profitability** Markup expense for CY22 increased by 64% to PKR 2,785mln (CY21: PKR 1,697mln). The Bank witnessed an upsurge of 32% in its non-markup expense to PKR 18,475mln (CY21: PKR 13,543mln). The Bank's provisioning expense (expected credit loss allowance) increased to PKR 1,462mln (CY21: PKR 988mln), indicating a surge of 48%. Consequently, net income increased to PKR 958mln (CY21: PKR 728mln).

**Sustainability** The bank plans to persist in strengthening its branchless banking operations. The number of M-Wallet accounts has increased bearing the low cost and thereby enhancing profitability. The bank's business model encompasses systems and practices to nurture BB and core banking results simultaneously.

## Financial Risk

**Credit Risk** The Bank's net advances clocked in at PKR 56,213mln as of end-Dec'22 (end-Dec'21: PKR 37,463mln), depicting a growth of 51%. The Bank's nonperforming loans increased significantly to PKR 2,604mln (End-Dec'21: PKR 1,247mln) reflecting the expected deterioration in asset quality. Further, the amount written off sizably increased YoY. The infection ratio stood at 4% as of end-Dec'22 (End-Dec'21: 3%). Going forward, harnessing infection remains essential.

**Market Risk** The Bank's total investment significantly reduced during the period and stood at PKR 8,347mln during the period (end Dec'21: PKR 13,168mln).

**Funding** The Bank's advances to deposit ratio (ADR) clocked in at 74.6% at E\end-Dec'22 (end-Dec'21: 64%) due to growth in the loan book. As of end-Dec'22, the total deposits of the bank stood at PKR 64,765mln (end-Dec'21: PKR 58,658mln), rising by 10%. Total borrowings reported are PKR 3,488mln where the subordinated debt of PKR 2.0bln and borrowings are of PKR 1.47bln.

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

**Capital Adequacy** The Capital Adequacy Ratio (CAR) stood at 15.7% as of end-Dec'22 (End-Dec'21: 16.1%), above the regulatory benchmark. The equity base decreased to PKR 5,890mln (end-Dec21: PKR 6,141mln), indicating a dip of 4%.



PKR mln

**Mobilink Microfinance Bank**  
**Listed Public Limited**

Dec-22	Dec-21	Dec-20	Dec-19
12M	12M	12M	12M

**A BALANCE SHEET**

1 Total Finances - net	56,300	37,123	24,510	14,953
2 Investments	8,347	13,266	12,074	5,252
3 Other Earning Assets	5,611	3,241	5,419	10,824
4 Non-Earning Assets	11,306	15,189	14,286	7,026
5 Non-Performing Finances-net	(86)	341	(287)	120
<b>Total Assets</b>	<b>81,478</b>	<b>69,159</b>	<b>56,003</b>	<b>38,175</b>
6 Deposits	64,765	58,658	46,807	29,225
7 Borrowings	3,488	-	-	-
8 Other Liabilities (Non-Interest Bearing)	7,335	4,360	3,792	4,091
<b>Total Liabilities</b>	<b>75,588</b>	<b>63,018</b>	<b>50,599</b>	<b>33,316</b>
<b>Equity</b>	<b>5,890</b>	<b>6,141</b>	<b>5,404</b>	<b>4,859</b>

**B INCOME STATEMENT**

1 Mark Up Earned	17,335	11,082	6,683	5,304
2 Mark Up Expensed	(2,785)	(1,697)	(1,599)	(962)
3 Non Mark Up Income	(2,751)	(364)	(106)	159
<b>Total Income</b>	<b>11,798</b>	<b>9,021</b>	<b>4,978</b>	<b>4,501</b>
4 Non-Mark Up Expenses	(9,232)	(6,981)	(4,029)	(2,775)
5 Provisions/Write offs/Reversals	(1,462)	(988)	(202)	(460)
<b>Pre-Tax Profit</b>	<b>1,104</b>	<b>1,052</b>	<b>747</b>	<b>1,266</b>
6 Taxes	(146)	(324)	(216)	(345)
<b>Profit After Tax</b>	<b>958</b>	<b>728</b>	<b>530</b>	<b>921</b>

**C RATIO ANALYSIS**

**1 Performance**

Portfolio Yield	26.6%	30.4%	25.7%	28.6%
Minimum Lending Rate	27.6%	30.7%	29.1%	29.7%
Operational Self Sufficiency (OSS)	108.3%	110.9%	112.8%	130.2%
Return on Equity	15.9%	12.6%	10.3%	20.9%
Cost per Borrower Ratio	4,020.0	4,976.5	5,119.1	N/A

**2 Capital Adequacy**

Net NPL/Equity	-1.5%	5.5%	-5.3%	2.5%
Equity / Total Assets (D+E+F)	7.2%	8.9%	9.6%	12.7%
Tier I Capital / Risk Weighted Assets	11.1%	14.2%	16.0%	21.9%
Capital Adequacy Ratio	15.7%	16.1%	17.8%	23.9%
Capital Formation Rate [(Profit After Tax - Cash Dividend) / Equity]	15.6%	13.5%	10.9%	23.2%

**3 Funding & Liquidity**

Liquid Assets as a % of Deposits & Short term Borrowings	31.3%	36.2%	45.2%	62.5%
Demand Deposit Coverage Ratio	47.7%	60.2%	73.0%	98.0%
Liquid Assets/Top 20 Depositors	152.8%	128.4%	165.1%	N/A
Funding Diversification (Deposits/(Deposits+Borrowings+Grants))	94.9%	100.0%	100.0%	100.0%
Net Advances to Deposits Ratio	86.8%	63.9%	51.8%	51.6%

**4 Credit Risk**

Top 20 Advances / Advances	0.0%	0.0%	0.0%	0.0%
PAR 30 Ratio	4.4%	3.2%	0.3%	3.8%
Write Off Ratio	0.0%	0.0%	0.0%	0.0%
True Infection Ratio	4.4%	3.2%	0.3%	3.8%
Risk Coverage Ratio (PAR 30)	103.3%	72.7%	518.4%	79.5%

### 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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	
BB	<b>Moderate risk.</b> 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.
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

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

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(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

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(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)

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(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 | Clause 11-(A)(p).

(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)

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(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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