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
29-Apr-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	-

Rating Rationale and Key Rating Drivers

The ratings take comfort from the bank's relationship 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-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. 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 ~6% in the MFBs Gross loan portfolio and ~9% in the total deposits of the Microfinance industry as at End-Dec'18. Overall asset quality is healthy supported by robust recovery framework. The bank's business model is directed towards fostering core and branchless banking simultaneously. Granular small ticket size deposits in the BB domain, as growing, adds benefit to performance indicators. The ratings take comfort on the financial risk profile depicted by healthy net interest/markup revenue (NIMR) on the backdrop of low cost of funds, translating into fine bottomline, while liquidity profile remains comfortable.

The ratings are dependent upon continued momentum of growth in digital banking domain, while expanding share in core banking landscape. Meanwhile, maintenance of asset quality is of importance.

Disclosure

Name of Rated Entity	Mobilink Microfinance Bank Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology | MFI (Jun-18)
Related Research	Sector Study | Microfinance Bank(Apr-19)
Rating Analysts	Muhammad Nadeem Sheikh | nadeem.sheikh@pacra.com | +92-42-35869504

Profile

Structure Mobilink Microfinance Bank Limited (hereinafter referred to as "the bank") was incorporated in Feb-2012 under section 32 of the Companies Ordinance, 1984 (now Companies Act, 2017). The bank has a network of 61 branches as at End-Dec'18 (End-Dec'17: 61). The head office of the bank is situated in Islamabad.

Background The bank started its operations in April 2012 and launched branchless banking (BB) 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 (previously known as Sahara 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. The bank also offers branchless banking services and is one of the largest digital banks in Pakistan with over 18 million digital wallet accounts.

Ownership

Ownership Structure Mobilink Microfinance Bank is a wholly owned subsidiary of Global Telecom Holding S.A.E (GTH). GTH is in turn owned by Veon (formerly Vimplecom) – one of the world's largest integrated telecommunication services operators headquartered in Netherlands – through majority owned subsidiary – Wind Telecom.

Stability Ownership structure of the bank is considered stable.

Business Acumen VEON is an international telecommunication and technology-oriented business with more than 210 million customers. Business acumen is considered strong.

Financial Strength Veon's total asset base clocked in at USD~14,102mln and Equity at USD~2,779mln as at End-Dec'2018, depicting a robust financial position of the ultimate sponsor.

Governance

Board Structure The overall control vests in seven-member board of directors (BoD). The Board comprises four non-executive directors, one executive director and two independent directors. 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.

Financial 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 CY18.

Management

Organizational Structure The bank has divided its organization structure in different departments with each department head reporting directly to the CEO and the head of internal audit reporting to the Audit Committee.

Management Team Mr. Ghazanfar Azzam – the President and CEO – carries over ~33 years of experience consumer, SME and micro banking segments. The CEO is assisted by an experienced management team.

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

MIS Detailed MIS reports are generated for the senior management on 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. Risk Management Committee meets on regular basis to ensure risk profile of the bank remains within Board of Directors' approved limit.

Technology Infrastructure Backboned with strong sponsors and 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 comprises 45 microfinance providers including 11 Microfinance Banks (MFBs), 18 Microfinance Institutions (MFIs), 7 Rural Support Program (RSPs) and 9 others projects, MFBs dominate the Industry with a share in lending portfolio of ~69%. Growth in lending book remained relatively slow in CY18 coupled with increased infection ratio owing to delinquencies in crop linked loans and increasing interest rates in 2HCY18 which lowered the repayment capacity of the borrowers.

Relative Position The bank's share in total microfinance lending stood at ~6% in terms of Gross Loan Portfolio (GLP). GLP clocked in at PKR~12,714mln as at End-Dec'18 (End-Dec'17: PKR~10,002mln), whereas total deposit stood at PKR~22,091mln securing ~9% share in MFBs deposits.

Revenue During CY18, mark-up income increased to PKR~3,357mln with a YoY increase of ~28% (CY17: PKR~2,617mln). Income from branchless banking clocked in at PKR~5,166mln (CY17: PKR:~4,415mln).

Profitability The bank's core edge lies in keeping its cost of funds remarkably low and reaping a sizable spread. This is achieved through attracting zero cost branchless deposits, which constituted ~59% of the total deposit base as of End-Dec'18. Net Interest/Markup revenue (NIMR) was recorded at PKR~2,967mln in CY18 (PKR~2,107mln in CY17). Net income from BB operations was recorded at PKR~152mln (CY17: PKR~301mln). Net profitability for CY18 was recorded at PKR~818mln (CY17: PKR~612mln).

Sustainability The bank plans to persist strengthening its branchless banking operations. Micro-deposits continue to add strength to the bank's performance indicators. Number of M-Wallet accounts has increased substantially bearing low cost and thereby enhancing profitability. The bank's business model encompasses systems and practices to nurture BB and core banking results simultaneously. Geographical expansion is also in the pipeline which is expected to add 10 branches to the outreach network in CY19.

Financial Risk

Credit Risk Gross Loan Portfolio (GLP) clocked in at PKR~12,714mln as at End-Dec'18 (End-Dec'17: PKR~10,002mln), a growth of ~27% YoY. The bank's loan book is concentrated in two main products (i) Livestock (~54%) and (ii) Agri products (~42%) while the remaining is attributed to Enterprise loan (~4%). Infection ratio of the bank stood at ~1.3% as at End-Dec'18.

Market Risk The bank's exposure to market risk is low due to (i) increased investments in money market funds (ii) NIL borrowings and (iii) significant portion of zero cost BB deposits in the funding base.

Funding The bank's advances to deposit ratio (ADR) recorded at ~56% at End-Dec'18 indicating significant room for expansion in the loan book. Funding solely constituted deposit mobilization, which is majorly inclined towards current BB account deposits of low-ticket size in the range from PKR~100-1,000, making ~59% of the total deposit base.

Liquidity Liquidity profile remained comfortable with available funds invested in Government Securities and Mutual funds that yielded sanguine returns. The bank's liquid assets-to-deposits and borrowings ratio remained unchanged at ~58% as at End-Dec'18 (End-Dec'17:~58%).

Capital Adequacy Capital Adequacy Ratio (CAR) declined to ~22% as at End-Dec'18 (End-Dec'17: ~25%), though well above the regulatory benchmark.

PKR mln

BALANCE SHEET	31-Dec-18	31-Dec-17	31-Dec-16
Earning Assets			
Advances	12,552	9,971	5,932
Investments	5,409	4,528	1,495
Deposits with Banks	5,162	3,047	4,743
	23,123	**17,546**	**12,170**
Non Earning Assets			
Non-Earning Cash	2,135	1,071	748
Net Non-Performing Finances	(124)	(152)	(73)
Fixed Assets & Others	2,980	2,115	1,389
	4,992	**3,035**	**2,064**
TOTAL ASSETS	**28,115**	**20,581**	**14,234**
Funding			
Deposits	**22,091**	**14,943**	**10,306**
Branch Banking	9,129	6,513	6,187
Branchless Banking	12,963	8,430	4,119
Borrowings	-	-	-
	22,091	14,943	10,306
Non Interest Bearing Liabilities	2,059	2,533	2,698
TOTAL LIABILITIES	**24,151**	**17,476**	**13,004**
EQUITY (including revaluation surplus)	3,964	3,105	1,230
Deferred Grants	-	-	-
Total Liabilities & Equity	**28,115**	**20,581**	**14,234**

INCOME STATEMENT	31-Dec-18	31-Dec-17	31-Dec-16
Interest / Mark up Earned	3,357	2,617	1,241
Interest / Mark up Expensed	(390)	(510)	(255)
Net Interest / Markup revenue	**2,967**	**2,107**	**986**
Branchless Banking Income	152	301	529
Other Operating Income	362	240	178
Total Revenue	**3,481**	**2,647**	**1,693**
Other Income	-	1	-
Non-Interest / Non-Mark up Expensed	(2,063)	(1,652)	(1,291)
Pre-provision operating profit	1,418	996	402
Provisions	(197)	(116)	(67)
Pre-tax profit	1,221	881	335
Taxes	(403)	(269)	(104)
Net Income	**818**	**612**	**231**

Ratio Analysis	31-Dec-18	31-Dec-17	31-Dec-16
Performance			
ROE	23%	28%	21%
Cost-to-Total Net Revenue	59%	62%	76%
Provision Expense / Pre Provision Profit	14%	12%	17%
Capital Adequacy			
Equity/Total Assets	14%	15%	9%
Capital Adequacy Ratio as per SBP	22%	25%	15%
Non-Performing Advances /Gross Advances	1.3%	0.3%	0.0%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	58%	58%	68%
Advances / Deposits	56%	66%	57%
CASA deposits / Total Customer Deposits	79%	82%	77%
Intermediation Efficiency			
Asset Yield	17%	18%	15%
Cost of Funds	2%	4%	4%
Spread	14%	14%	12%
Outreach			
Branches	61	61	51

Rating Scale

Credit Rating Scale & Definitions

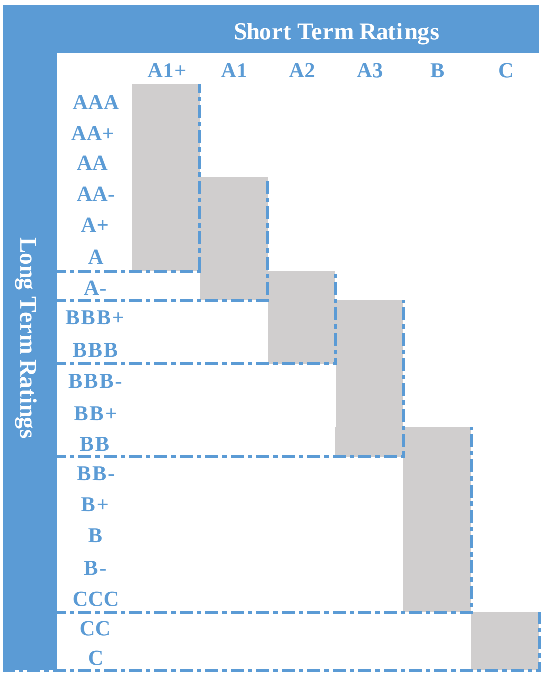
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term 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 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 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.



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) 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.

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)

Proprietary Information