



The Pakistan Credit Rating Agency Limited

# MOBILINK MICROFINANCE BANK LIMITED

	NEW [AUG-16]	PREVIOUS [MAR-16]
<b>Entity</b>		
Long Term	A	A-
Short Term	A1	A2
<b>Outlook</b>	Stable	Stable

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

**Profile & Ownership**

- Mobilink Microfinance Bank (formerly known as Waseela Microfinance) commenced operations in May 2012 as a nationwide microfinance bank
- The bank is a wholly owned subsidiary of Global Telecom Holding (GTH), which in turn, is majority owned by Vimplecom – one of the world's largest telecom groups. Vimplecom also owns Mobilink, bank's super-agent in branchless banking (BB)

**Governance & Management**

- Eight members BoD comprises five directors from GTH, two independent members, and the President/CEO; representatives of GTH are mainly group executives. One position is vacant
- Mr. Amir Hafeez Ibrahim – CEO Mobilink – assumed charge as board chairman in Jul16; associated with BoD since Jul15. Board members mainly have non-financial services industry experience
- Mr. Ghazanfar Azzam – the President/CEO – an experienced microfinance banker is assisted by a qualified management team
- With recent changes in organogram and role transition taking place, team cohesiveness is considered important for the bank

**Risk Management**

- The bank maintains sound technological infrastructure; Temenos (T24) is its core banking software
- During 1HCY16, loan book increased by ~172% to report at PKR 3.7bln
- During 1HCY16, loan book concentration in non-collateralized loans increased to ~78% (end-Dec16: ~57%)
- The bank maintains strong asset quality to date. Going forward, pursuing the growth strategy, maintaining the quality of its loan book remains important

**Performance**

- Subscriber registration for M-Wallet accounts reached around 4mln at end-Jun16. JazzCash (formerly known as MobiCash) has a current network of ~62,000 agents
- The bank's earning assets grew sizeably in CY15 and 1HCY15. Spread remained healthy
- Owing to earning assets growth, NII improved. BB income continued to support the revenues
- As the bank continued to expand its scale of operations, non-markup expenses increased (~57% YoY). During 1HCY16, net branches increased by 10
- The bank's bottom-line turned positive (profit before tax; 1HCY16: PKR 75mln, 1HCY15: loss of PKR 78mln)
- The bank has focused on re-branding since the start of year to build synergies with sister concern – Mobilink. Eying aggressive growth in operations the bank revised its targets (end-Dec16: advances: PKR 5.7bln, deposits: PKR 7.7bln). GTH injected PKR 1.3bln in Jun16 against which shares will be issued in 3QCY16; this will create room in existing capital base in line with the targeted growth in lending portfolio

**Funding and Capital**

- Funding mix entirely constitutes deposits. With addition of PKR 2.2bln, deposits increased significantly during 1HCY16 (during CY15 deposits added PKR 1.9bln). BB deposits contribution to total deposits remained significant (end-Jun16: ~50%). Proportion of CASA significantly remained high – a factor of BB deposits
- Liquidity profile remained strong
- CAR decreased to ~21% at end-Jun16 – a factor of significant growth in unsecured loans

**RATING RATIONALE**

The ratings reflect association of Mobilink Microfinance Bank (formerly known as Waseela Microfinance Bank) with a leading global telecom group - Vimplecom - and with Pakistan's largest cellular operator - Mobilink. In line with the Group's strategy, microfinance operations have been re-branded to align it with broad business objectives of the telecom business. Ensuing synergies are likely to strengthen the bank's penetration in target markets. The bank would remain focused to reinforce its branchless banking (BB) brand (renamed as JazzCash); concerted efforts are underway to tap potential of M-wallet accounts. This is expected to positively impact cost structure going forward. Regarding microfinance business, the bank is aggressively building its loan book. So far, overall asset quality is good. Amid competition, deposit mobilization remains a challenge; however, deposits from BB operations maintained their contribution in overall deposit base. The parent company has injected funds (PKR 1.3bln) to create room in existing capital base in line with the targeted growth in lending portfolio. The process of issuance of capital is underway. Branch banking operations have achieved breakeven in 1HCY16, resulting in positive bottom-line on entity-wide basis. Owing to on-going focus on growth, profitability is likely to improve. Given competitive landscape, effective execution of business strategy and cohesiveness in management team remain important while maintaining the overall risk profile of the bank.

**KEY RATING DRIVERS**

The ratings are dependent on the bank's ability to sustain improving trend in its market position while ensuring stable growth in newly built revenue streams. Given growing loan book, related risks mainly credit quality need close monitoring.



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**Mobilink Microfinance Bank Limited**

**Microfinance  
Financials [Summary]**

	30-Jun-16	31-Dec-15	31-Dec-14	31-Dec-13
	6MCY16	Annual	Annual	Annual
PKR mln				
<b>BALANCE SHEET</b>				
<b>Earning Assets</b>				
Advances	3,671	1,350	500	178
Investments (Government Securities)	656	125	327	321
Deposits with Banks	2,825	2,402	1,154	1,087
	<b>7,152</b>	<b>3,878</b>	<b>1,982</b>	<b>1,587</b>
<b>Non Earning Assets</b>				
Non-Earning Cash	433	267	122	76
Net Non-Performing Finances	(29)	(8)	(3)	(1)
Fixed Assets & Others	1,188	759	440	252
	<b>1,592</b>	<b>1,018</b>	<b>559</b>	<b>327</b>
<b>TOTAL ASSETS</b>	<b>8,744</b>	<b>4,896</b>	<b>2,541</b>	<b>1,913</b>
<b>Funding</b>				
<b>Deposits</b>	<b>5,403</b>	<b>3,197</b>	<b>1,288</b>	<b>645</b>
Branch Banking	2,693	1,616	874	402
Branchless Banking	2,710	1,581	414	243
Borrowings	-	-	-	-
	<b>5,403</b>	<b>3,197</b>	<b>1,288</b>	<b>645</b>
<b>Non Interest Bearing Liabilities</b>	<b>2,272</b>	<b>699</b>	<b>217</b>	<b>124</b>
<b>TOTAL LIABILITIES</b>	<b>7,675</b>	<b>3,897</b>	<b>1,505</b>	<b>769</b>
<b>EQUITY (including revaluation surplus)</b>	<b>1,069</b>	<b>999</b>	<b>1,036</b>	<b>1,144</b>
<b>Deferred Grants</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities &amp; Equity</b>	<b>8,744</b>	<b>4,896</b>	<b>2,541</b>	<b>1,913</b>
<b>INCOME STATEMENT</b>	<b>30-Jun-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
Interest / Mark up Earned	417	353	225	130
Interest / Mark up Expensed	(72)	(55)	(30)	(12)
<b>Net Interest / Markup revenue</b>	<b>345</b>	<b>299</b>	<b>195</b>	<b>118</b>
Branchless Banking Income (excluding admin expenses)	260	483	216	(38)
Other Operating Income	77	48	15	5
<b>Total Revenue</b>	<b>682</b>	<b>830</b>	<b>426</b>	<b>85</b>
Other Income	3	-	2	-
Non-Interest / Non-Mark up Expensed	(589)	(1,020)	(574)	(296)
Pre-provision operating profit	96	(190)	(147)	(212)
Provisions	(21)	(5)	(2)	(1)
Pre-tax profit	75	(196)	(149)	(213)
Taxes	-	157	42	(3)
<b>Net Income</b>	<b>75</b>	<b>(39)</b>	<b>(107)</b>	<b>(216)</b>
<b>Ratio Analysis</b>	<b>30-Jun-16</b>	<b>31-Dec-15</b>	<b>31-Dec-14</b>	<b>31-Dec-13</b>
<b>Performance</b>				
ROE	14.4%	-3.8%	-9.8%	-19.7%
Cost-to-Total Net Revenue	86.4%	123.0%	135.0%	203.0%
Provision Expense / Pre Provision Profit	22.1%	-2.7%	-1.1%	-0.5%
<b>Capital Adequacy</b>				
Equity/Total Assets	12.3%	20.4%	40.8%	60.1%
Capital Adequacy Ratio as per SBP	21.1%	44.7%	122.0%	240.0%
<b>Loan Loss Coverage</b>				
Non-Performing Advances /Gross Advances	n.a	n.a	0.0%	n.a
Loan Loss Provisions / Non-Performing Advances	n.a	n.a	n.a	n.a
<b>Funding &amp; Liquidity</b>				
Liquid Assets / Deposits and Borrowings	72.4%	87.4%	124.5%	230.0%
Advances / Deposits	67.4%	42.0%	38.7%	27.5%
CASA deposits / Total Customer Deposits	91.1%	94.1%	90.8%	86.6%
<b>Intermediation Efficiency</b>				
Asset Yield	15.1%	12.1%	12.6%	10.1%
Cost of Funds	3.3%	2.4%	3.1%	3.2%
Spread	11.8%	9.6%	9.5%	7.0%
<b>Outreach</b>				
Branches	51	41	41	36

Mobilink Microfinance Bank Limited

Aug-16

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## STANDARD 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		SHORT TERM RATINGS
<b>AAA</b>  <b>AA+</b> <b>AA</b> <b>AA-</b>  <b>A+</b> <b>A</b> <b>A-</b>	<p><b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p><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.</p> <p><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.</p>	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<p><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.</p>	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<p><b>Speculative.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
<b>B+</b> <b>B</b> <b>B-</b>	<p><b>Highly speculative.</b> Significant 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.</p>	
<b>CCC</b> <b>CC</b> <b>C</b>	<p><b>High default 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.</p>	
<b>D</b>	<p>Obligations are currently in default.</p>	

<p><b>Rating Watch</b> 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 with in foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p><b>Outlook (Stable, Positive, Negative, Developing)</b> 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’.</p>	<p><b>Suspension</b> 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.</p>	<p><b>Withdrawn</b> 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.</p>
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**Name of Issuer**  
**Sector**  
**Type of Relationship**

Mobilink Microfinance Bank Limited  
Microfinance  
Solicited

**Purpose of the Rating**

Independent Risk Assessment

**Rating History**

Dissemination Date	Long Term	Short Term	Outlook	Action
05-Aug-16	A	A1	Stable	Upgrade
25-Mar-16	A-	A2	Stable	Maintained
25-Mar-15	A-	A2	Stable	Upgrade
29-Apr-14	BBB+	A2	Positive	Maintained
09-May-13	BBB+	A2	Positive	Initial

**Related Criteria and Research**

Rating Methodology  
Sector Research

Microfinance Institution  
Microfinance | Viewpoint | Mar-16

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[Rating Team Statement](#)

**Rating Procedure**

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