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 Veon (formerly Vimplecom) – one of the world's leading telecom groups. Vimplecom also owns Jazz (formerly Mobilink), Pakistan's largest teleco and the bank's super-agent in branchless banking (BB)

Governance & Management

- BoD comprises of three directors Jazz executive as representative of GTH and two independent members
- Mr. Amir Hafeez Ibrahim – CEO Mobilink – assumed charge as board Chairman in Jul16; associated with BoD since Jul15.
- Mr. Ghazanfar Azzam – the President/CEO – an experienced microfinance abd commercial banker is assisted by a qualified management team
- There has been recent changes in organogram to bring clarity of focus and efficiency in role transition; team cohesiveness remains important

Risk Management

- Separate Risk Management department overseeing various risks including credit, operational and market risks
- The bank maintains sound technological infrastructure; Temenos (T24) is its core banking software
- Branchless Banking services, branded as Mobicash, are offered through a strategic alliance with Pakistan's largest telecom operator Pakistan Mobile Communications Limited (Mobilink)
- Deposits of branchless banking increased to ~PKR 6bln (40% of BB industry) at end Jun-17. JazzCash (formerly known as MobiCash) has a network of ~71,847 agents (end-Jun17)

Asset Risk

- In Jun17, loan book reported a momentous growth (107%) to clock in at PKR 7.6bln
- Average loan size is greater than industry; overall portfolio mix remained tilted towards agricultural loans followed by livestock, and micro enterprise loans.
- Bank continues to maintain strong asset quality (impaired lending: 0.2%). Nevertheless, pursuing growth strategy, maintaining quality of its loan book becomes more important
- Digital Banking would continue to remain in focus, while maintaining the current portfolio

Performance

- With increasing core microfinance business, Mobilink Bank achieved a market share of 4% in the total GLP of the MFP industry and 11% on the savings side
- Increased lending activity and expanded investment book resulted into hefty growth in earning assets to reach at ~PKR 18.4bln; Spreads for the period remained same (11%)
- Subsequently, NII improved to PKR 877mln (up 154%). BB income, comprising 21% of total net revenue, (decreased by 6% YoY) continued to support the revenues
- Though non-markup expenses increased (~39% YoY), in line with the bank's growth mode, bottom-line remained positive (PKR 229mln)
- Going forward, the bank needs to keep up with the increasing trend line along with maintaining the quality for enhancing market outreach and hence its market share.

Funding and Capital

- Funding mix entirely constitutes deposits, which grew multifold to report at PKR 15.7bln at end-Jun17.
- Growth was mainly fueled by demand deposits (54% of total deposits), particularly BB contributing 39% in total deposits
- Proportion of CASA remained high (81%) - though decreased YoY
- Liquidity profile remained strong (liquid asset/deposits and borrowings: 78.6% at end-Jun17)
- With momentous growth, internal capital generation improved to 37%
- The bank's capital adequacy ratio (CAR) plunged to 15.3% at end-Dec16- a factor of significant growth in unsecured loans. However, this leaves no cushion when compared with minimum CAR requirement of 15% under SBP regulations.

RATING RATIONALE

The ratings take comfort from the relationship of Mobilink Microfinance Bank (formerly known as Waseela Microfinance Bank) with a leading global telecom group - Veon (formerly Vimplecom) - and with Pakistan's largest cellular operator – Jazz (formerly Mobilink). Sponsor's commitment to the bank has been witnessed in the form of both technical knowledge transfer and financial support. Ensuing synergies are likely to strengthen the bank's penetration in target markets. Leveraging on the sponsors network and renowned brand name (JazzCash), Branchless Banking domain is being reinforced with aiming to expand M-wallets accounts; 40% share in Jun'17 of industry's BB deposits. Simultaneously, the bank is aggressively increasing the core microfinance business and achieved a market share of 4% in the total GLP of the MFP industry. Although presently the operational costs are towards higher end, volumes from expansion activities should positively impact the cost structure. So far, overall asset quality is good, but this requires careful monitoring particularly against concentration – product, geography, or consumer. Overall deposit base has reported hefty growth, mainly fuelled by demand deposit and BB (contributing 39% in total deposits). Despite the growth trend, deposit base is not seasoned enough as compared to other deposit mobilization institutions. Significant growth in risk assets is fast consuming bank's CAR. Although ensuing profits would provide room, the bank needs to infuse fresh capital. The parent has injected PKR 1.3bln, related modalities to convert it to capital are in process. Going forward, growth in active m-wallet users is targeted while management is also working on payment platform and digital lending initiatives.

KEY RATING DRIVERS

Sustaining the growth trend while enhancing its market outreach remains central for the ratings. Given the expansion strategy of the bank, related risks mainly credit quality needs to be monitored carefully. With the competitive landscape, effective execution of business strategy and cohesiveness in management team remain important while maintaining the overall risk profile of the bank.

PKR mln

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15
Earning Assets			
Advances	7,581	5,932	1,350
Investments (Government Securities)	6,957	1,495	125
Deposits with Banks	3,824	4,743	2,402
	18,362	**12,170**	**3,878**
Non Earning Assets			
Non-Earning Cash	1,631	748	267
Net Non-Performing Finances	(122)	(73)	(8)
Fixed Assets & Others	1,851	1,389	754
	3,359	**2,064**	**1,013**
TOTAL ASSETS	**21,721**	**14,234**	**4,891**
Funding			
Deposits	**15,784**	**10,306**	**3,197**
Branch Banking	9,628	6,187	1,616
Branchless Banking	6,156	4,119	1,581
Borrowings	-	-	-
	15,784	10,306	3,197
Non Interest Bearing Liabilities	3,190	1,408	693
TOTAL LIABILITIES	**18,974**	**11,714**	**3,890**
EQUITY (including revaluation surplus)	2,748	2,519	1,000
Deferred Grants	-	-	-
Total Liabilities & Equity	**21,721**	**14,233**	**4,891**

INCOME STATEMENT	30-Jun-17	31-Dec-16	31-Dec-15
Interest / Mark up Earned	1,112	1,241	353
Interest / Mark up Expensed	(236)	(255)	(55)
Net Interest / Markup revenue	**877**	**986**	**299**
Branchless Banking Income (excluding admin expenses)	245	529	482
Other Operating Income	103	178	49
Total Revenue	**1,224**	**1,693**	**830**
Other Income	1	-	-
Non-Interest / Non-Mark up Expensed	(820)	(1,291)	(1,018)
Pre-provision operating profit	404	402	(188)
Provisions	(59)	(67)	(5)
Pre-tax profit	346	335	(194)
Taxes	(117)	(104)	157
Net Income	**229**	**231**	**(37)**

Ratio Analysis	30-Jun-17	31-Dec-16	31-Dec-15
Performance			
ROE	17.4%	13.1%	-3.7%
Cost-to-Total Net Revenue	67.0%	76.3%	122.7%
Provision Expense / Pre Provision Profit	14.5%	16.7%	-2.7%
Capital Adequacy			
Equity/Total Assets	12.6%	17.7%	20.4%
Capital Adequacy Ratio as per SBP	0.0%	15.3%	44.7%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	78.6%	67.8%	87.4%
Advances / Deposits	47.3%	56.9%	42.0%
CASA deposits / Total Customer Deposits	80.7%	77.3%	94.1%
Intermediation Efficiency			
Asset Yield	14.6%	15.5%	12.1%
Cost of Funds	3.6%	3.8%	2.4%
Spread	11.0%	11.7%	9.6%
Outreach			
Branches	60	51	41

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

Regulatory and Supplementary Disclosure

Name of Issuer Mobilink Microfinance Bank Limited
Sector Microfinance
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
26-Oct-17	A	A1	Stable	Maintained
28-Apr-17	A	A1	Stable	Maintained
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

Related Criteria and Research

Rating Methodology Microfinance Institution
Sector Research Microfinance | Viewpoint | Feb-17

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping
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PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable

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Conflict of Interest
PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them
The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
The analysts and members of the rating committees including the external members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees
PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
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 ii) fee mandate - signed with the payer, which can be different from the entity
PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

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