DRAFT RATING REPORT

Mobilink Microfinance Bank Limited

REPORT DATE:

May 08, 2023

RATING ANALYST:

Maham Qasim
maham.qasim@vis.com.pk

Qudsia Abbas
qudsia.abbas@vis.com.pk

RATING DETAILS		
Rating Category	Initial Rating	
	Long-term Rating	Short-term Rating
Entity	A	A-1
Rating Outlook	Stable	
Rating Date	*May 08, 2023*	

COMPANY INFORMATION	
Incorporated in 2012	**External auditors:** Yousuf Adil Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Aamir Hafeez Ibrahim
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Ghazanfar Azzam
VEON Microfinance Holding B.V 99.99%	

APPLICABLE METHODOLOGY(IES)
Methodology: Micro Finance Banks (June 2019)
https://www.vis.com.pk/kc-meth.aspx

Mobilink Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Rating Rationale

The ratings assigned to Mobilink Microfinance Bank Limited (MMBL) reflect Bank's strong ownership profile with complete shareholding vested with a leading global telecom group, Veon, along with association with Pakistan's largest cellular operator, Jazz, formerly known as Mobilink. The ratings draw comfort from implicit support available from the sponsor on both financial and technical fronts; the same has resulted in synergies strengthening the Bank's market footprint and outreach. The business model entails a mix of conventional micro-credit services and branchless banking (BB) operations. The leveraging on the sponsors' network and brand name, JazzCash, has provided growth impetus to BB domain with expansion carried out through platform of mobile-wallet accounts. Therefore, the market share of the Bank in the overall microfinance sector in terms of GLP increased to 12.0% (FY21: 9.8%) by end of the outgoing year. Further, the ratings incorporate fair asset quality indicators, albeit exhibiting weakening on a timeline on gross and incremental basis, in line with implementation of IFRS-9 resulting in additional provisioning buffers maintained resulting in negative net infection. On the flip side, triggering of a non-repayment event from recently restructured flood impacted portfolio primarily pertaining to unsecured-bullet lending, can marginally impact infection ratios going forward. The ratings factor in strong liquidity profile emanating from adequate liquid assets to deposits and borrowings held coupled with low concentration risk and sizable granularity of deposit base. Further, liquidity risk arising from maturity mismatch is also mitigated through granularity of deposit base primarily constituting of individual depositors. MMBL's spreads are one of the highest amongst peer banks owing to significant zero-cost deposits available in line with BB operations. However, the Operating Self-Sufficiency (OSS) and overall profitability indicators largely remained unchanged during the outgoing year despite sizable uptick in net markup income on account of increased provisioning and operating expenses. In addition, ratings remain constrained on account of pressure on capital adequacy with no room for growth available for the Bank as no equity injection plan is in the pipeline. Going forward, the ratings will remain sensitive to maintenance of market share and liquidity while improving capitalization of the Bank.

Corporate Profile

MMBL was incorporated in Pakistan on November 29, 2010 as a public limited company under the then applicable Companies Ordinance, 1984. The Bank obtained license for Microfinance operations from the State Bank of Pakistan (SBP) on September 12, 2011 to operate on a nationwide basis and received the certificate of commencement of business from Securities and Exchange Commission of Pakistan (SECP) on February 13, 2012 whereas certificate of commencement of business from SBP was received on April 20, 2012. The Bank's principal business is to provide microfinance banking and related services to the poor and underserved segment of the society under the Microfinance Institution Ordinance, 2001. The Bank is also offering BB Services through an agency agreement with Pakistan Mobile Communications Limited (PMCL), a related party, under the BB license from the SBP. The Bank operates through a network of 109 (FY21: 105) operational branches across Pakistan. The registered head office is based in Islamabad. The Bank is a subsidiary of Veon Microfinance Holdings B.V (VMH) (the Holding Company), with effect from March 27, 2020 upon transfer of 99.99% shareholding in the Bank, from Global Telecom Holdings (GTH), being a transfer of control between entities held under common control. The transfer is registered with SBP and SECP. The Ultimate Parent of the Bank is VEON Limited; the company has its head office in Amsterdam, Netherlands. Shareholding structure of MMBL at end-Dec'23 is tabulated below:

Shareholding Pattern	Dec'22
VEON Microfinance Holding B.V	99.99 %
Others	0.01%
Total	100.0%

At end-FY22, the Board of Director (BoD) at MMBL comprised of seven-members, four non-executive directors, two independent directors and one executive director (the CEO of the Bank). The BoD is chaired by Mr. Aamir Hafeez Ibrahim. Prior to his position as CEO of Jazz, Mr. Aamir was Jazz's Deputy CEO and Chief Commercial Officer. He has over two decades of international experience as senior executive across multiple industries and continents. Prior to joining Jazz, he was the senior vice president of Telenor Group, where he led distribution initiatives across Asia. He has also held leadership positions for Ford Motor Company, Jaguar & Land Rover. Composition of the BoD is tabulated below:

Directors	Status
Mr. Aamir Hafeez Khan	Chairman
Mr. Ghazanfar Azzam	President and CEO
Mr. Salman Sarwar Butt	Independent Director
Mr. Muhammad Tamoor Sabir	Director
Ms. Atiqa Lateef	Independent Director
Mr. Murtaza Ali	Interim CEO Jazzcash

During FY22, four BoD meetings took place; the attendance and contribution from BoD members was considered satisfactory. Four BoD committees are present to maintain effective oversight, namely Board Audit Committee (BAC), People Committee (PC), Board Risk Management and Compliance Committee (BRCC), and Board Information Technology Committee (BITC). A few changes were witnessed at the management level during the period under review as Chief of Banking Operations, Chief Credit Officer, Chief Service Officer and Chief Marketing & Communication Officer resigned from their respective positions, however the respective positions have been filled by end-Apr'23. Stability in senior management is deemed critical for sustenance and growth of the Bank going forward.

Information Technology

The department comprises of 60 experienced professionals and is led by Mr. Faisal Mehmood. Mr. Faisal brings with him over 20 years of diversified technological experience. He has experience in specialized areas including Digital Transformation, Business Process Re-engineering, Core Banking Systems, Alternative Delivery Channels, Mobile/Digital Financial Systems, Enterprise Technology Governance and Process Automations. He has performed several mid to senior management roles in commercial and microfinance banks including ABN AMRO, MCB, FINCA and NRSP. Under his leadership, IT Department is focused towards digital transformation with the following divisions in place:

- Technology Operations with IT Infrastructure & Service Delivery (Network Administration, System Administration, IT Access Management, IT Service Delivery)
- Database Administration
- IT Alternative Delivery Channels
- Core Production Administration and Support
- Project Management Office & IT Governance
- Business Applications and In-House Software Factory

MMBL has recently launched Dost App, specifically fulfilling the microfinancing needs of BB customers. However, the response from the consumer base is yet to be seen.

Risk Management Department (RMD)

The RMD, headed by Zehra Khalikdina, is a centralized unit organized into several units, each of which is specialized in one or several categories of risks. The organization of the department reflects the types of risks inherent in the Bank's products/services and the risk classifications carried out by the regulatory authorities. The department is categorized into the following specialized units:

- Credit Risk Management
- Asset and Liability Management
- Market Risk and Reporting
- Information Security Risk Management
- Operational Risk Management

Internal Audit

The Internal Audit Department (IAD) provides independent assurance that the Bank's risk management, governance, and internal control processes are functioning effectively. The department comprises of 17 experienced professionals and is led by Mr. Muhammad Siddique Ahmed. He brings in more than 22 years of international experience in various countries around the world. Prior to joining MMBL, Mr. Ahmed haD served at FINCA International, HBL Microfinance Bank and KPMG. IAD carries the responsibility of providing reasonable assurance to Management and the BAC on observing internal controls. Performance of the department is monitored by the BAC. The prime focus of IAD entails keeping an oversight and vigilance on effectiveness of internal controls & risk management systems, appropriateness of governance practices along with provision of technical expertise on need basis. The department is well equipped with CAAT (computer assisted audit techniques) to analyze the whole population of data instead of relying on legacy sampling methods. CAAT has enabled to develop a system that optimizes the time and resources of IAD.

Compliance Department

The Compliance function is spearheaded by Mr. Shahid Umer, Chief Ethics and Compliance Officer, who brings more than two decades of experience of leading compliance departments in telecommunication and financial sector. Additionally, he is a certified trainer for various topics such as Anti-Money Laundering and Anti-Bribery practices. MMBL strives to inculcate a strong compliance culture among its staff and stake holders; improve efficiency & effectiveness of governance processes; work towards zero tolerance; institute strong controls to minimize financial, reputational, operational and compliance risks; identify issues of substance for timely action; ensure compliance at entry level and achieve compliance with best practices, local and international standards and guidelines laid down by Regulators. The Compliance Department consists of following Domains:

- Anti-Money Laundering & Fraud Risk Management
- Regulatory Compliance
- Ethics & Group Compliance

Key rating drivers

Distribution Network

In line with continuation of the expansion strategy embarked by the management to improve the Bank's market footprint in the country, MMBL added 4 branches (FY21: 5) taking the total tally of branches to 109 (FY21: 105) by end-FY22. MMBL has branches in four provinces of Pakistan, Azad Jammu & Kashmir and Islamabad Capital Territory, with majority of branch and permanent booth network concentration in Punjab. The Bank plans to increase its geographical foot print by addition of 10 new locations by end of the ongoing year. The province-wise breakup of MMBL's branches is presented in the table below:

Province	FY21	FY22
Capital Territory	03	03
Punjab	77	80
KPK	11	11
Sindh	12	13

AJK	01	01
Balochistan	01	01
Total	**105**	**109**

Productivity Analysis

In line with increase in scale of operations, total number of loan officers (LOs) employed by the Bank increased by end of the ongoing year. Therefore, the number of LOs per branch remained constant at end-FY22. On the other hand, the average portfolio size per LO was recorded higher in line with growth in GLP coupled with increase in average loan size. Moreover, the average case load per LO increased during the period under review on account of higher number of active borrowers recorded owing to implementation of growth strategy. The high LOs attrition rate remains a major challenge for the industry. The high LO turnover gives way to portfolio management challenges, training and skill gap, inferior understanding of product and increase in burden on existing staff. All these challenges hamper both asset acquisition and Bank's recovery drive. As per the management, in order to manage these risks, portfolio benchmark for LOs will be rationalized and adjustments will be made in remuneration package in order to retain the field staff. Productivity indicators are tabulated below:

LO's Productivity	FY21	FY22
No. of LOs	937	953
No. of Branches/Locations	105	109
No. of Active borrowers	2,019,287	2,574,698
Average LOs/Branch	9	9
Average loan/LO (Rs. m)	40.9	53.3
Active borrowers/LO	2,155	2,702
Active borrowers/branch	19,231	23,621

On the other hand, the total client attrition including write-offs was also recorded higher at 35% at end-FY22. To rectify the same, the Bank is focusing on introducing new products and services that will help retain and attract customers along with increased focus on improved service and customer experience. Moreover, higher client attrition is also associated with staff attritions, as the departing LO also takes his/her clients with him/her as major lending in microfinance sector is relationship based. To cater to this critical issue, the Bank plans to realign benefits structure with the industry in order to retain the field staff.

Financial Analysis

Credit Risk

<u>Growth in gross loan portfolio (GLP):</u>

The Bank's GLP witnessed a sizable growth of almost 52% (FY21: 56%) and was recorded at Rs. 58.9b (FY21: Rs. 38.4b) by end-FY22 in line with positive trajectory evidenced in lending activities post COVID-19 pandemic. The loan disbursements increased to Rs. 70.8b (FY21: Rs. 50.4b) owing to increase in average ticket size (excluding nano loans) resulting from progression of clients to successive loan cycles wherein automatic increase in renewal loan is inbuilt coupled with addition of new to Bank clients. The GLP also includes Nano loans portfolio amounting to Rs. 4.7b constituting 2,298,532 active borrowers. In line with growth momentum witnessed in micro-credit lending to improve market penetration, the total number of active borrowers also increased to 2,574,698 (FY21: 2,019,287) by end-FY22. The Nano loans are being offered based on the credit score method developed; the borrower applies for the loan through the app and an AI algorithm calculates the credit score based on his/her credit history and if the borrower qualifies the loan is automatically credited to his digital account. MMBL is targeting to close FY23 with conventional micro-credit portfolio of Rs. 59.2b with an annual growth rate of around 9.0%. On the other hand, the nano loans portfolio is expected to increase to Rs. 6.9b by end-FY23. Given MMBL's CAR is under stress, there is no room for growth in micro-credit portfolio available and with no additional capital injection planned, the management has scaled down the conventional lending disbursement target to Rs. 48.8b during the ongoing year. Going forward, the asset base is projected to continue to be financed through its deposits particularly the ones contributed through the digital platform. MMBL will also be focusing on launching new products on both asset and liability side to increase its customer base with main focus on women-centric products to improve gender balance. The snapshot of advances portfolio is presented in table below:

Rs. Million	FY21	FY22
Gross Advances	38,370	58,904
Total Provision	906	2,690
Non-performing Advances	1,247	2,604
Net Advances	37,463	56,213

Microcredit Portfolio Risk Segregations:

During the outgoing year, growth in advances portfolio was mainly driven by higher lending in Livestock and General-Purpose segments; their aggregate contribution in GLP has increased notably at end-FY22. Sectoral breakdown of the advances portfolio shows that although in absolute terms agri-lending remained unchanged at Rs. 17.3b, its proportion declined at end of the outgoing year. In terms of sectoral composition, highest repayment risk is associated with general purpose loans, which are basically consumptive loans with no cash flow generation to support repayment; the proportion of same has increased during the period under review. However, the credit risk is largely mitigated as the aforementioned loans are backed against gold and have reported 0% loss rate; the management is working to improve efficiency in gold-collateral based lending through reduction in the turnaround time by revamping the gold collateral handling & assessment process. In order to safeguard portfolio and avoid asset quality weakening in times ongoing dismal economic indicators, portfolio growth is expected to be driven by collateralized and asset-backed products mainly in the Enterprise segment. The proportion of Agriculture & Livestock combined is expected to be maintained at around 80% by end-FY23. The difference between GLP reported at Rs. 58.9b as opposed to the one used for portfolio risk segregations amounting to Rs. 50.8b is on account of accrued markup of Rs. 8.1b added as per IFRS-9 to present the fair value of the portfolio. The table below shows the sectoral breakup of exposure:

Segments	Amount	FY21	Amount	FY22
Livestock	14,256	37.2%	22,911	45.1%
Agriculture	17,272	45.0%	17,301	34.0%
Enterprise	3,302	8.6%	3,532	7.0%
Housing	735	1.9%	1,142	2.2%
General purpose/Others	2,806	7.3%	5,925	11.7%
Total (In Rs. M)	**38,370**		**50,810**	

In terms of geographical distribution, the portfolio is predominantly concentrated in Punjab with the same constituting almost four fifths of the total GLP at end-FY22. In addition, in terms of type of repayment, the share of EMI increased to 24.6% (FY21: 19.8%), whereas the proportion of bullet loans decreased to 75.4% (FY21: 80.2%) by end-FY22. The higher proportion of EMI is a factor of increased focus towards general purpose loans entailing monthly installments. Going forward, the management plans to increase the proportion of EMI loans owing to high repayment risk associated with bullet lending especially in times of prevailing economic downturn. The proportion of secured loans also increased during the outgoing year; the same was largely a function of higher asset-based lending. For FY23, the growth of 9% projected in conventional micro-credit lending is likely to be supported by routing of unsecured portfolio towards secured lending to alleviate pressure on CAR. Hence, GLP is likely to be equally split between secured and unsecured portfolio.

(Rs. in millions)	FY21	%	FY22	%
Secured Loans	14,632	38.1%	20,937	41.2%
Unsecured Loans	23,738	61.9%	29,873	58.8%
Total	38,370		50,810	

As per the Bank's policy, no group-based lending is carried out to mitigate credit risk that emerges from activist involvements, loan hijacking, recovery pocketing, and loan mis-utilization. Moreover, MMBL does not even plan on implementing group lending during the rating horizon.

Product	FY21	%	FY22	%
Group Based	0	0.0	0	0.0
Individual	38,370	100.0	50,810	100.0
Total	**38,370**		**50,810**	

The average loan size including the Nano Loan portfolio was recorded higher at Rs. 19,734 (FY21: Rs. 19,002) during FY22, primarily on account of progression of existing clients towards successive loan cycles. However, the average ticket size of conventional portfolio, excluding Nano Loans, was recorded at Rs. 172,141 while Nano Loan ticket size amounted to Rs. 2,604 only. The timeline increase in average loan size was also a function of increase in the maximum regulatory credit limits of housing and micro-enterprise loans from Rs. 1.0m to Rs. 3.0m in FY21. Given, MMBL has a significant portfolio of Nano Loans the concentration of clients falling in up to Rs. 25,000 bracket is higher which is the main contributor of overall small average loan size. The breakdown of the gross loan portfolio according to loans size brackets is tabulated below:

S. No.	Description	In. Rs. (m)	No. of Clients
1	Up to Rs. 25,000	4,747.4	2,306,960
2	Rs. 25,000 - Rs. 50,000	446.4	10,700
3	Rs. 50,001-Rs. 75,000	2,669.1	41,804
4	Rs. 75,001-Rs. 100,000	6,748.1	75,241
4	Rs. 100,000 and Above	36,199.1	139,993
Total		**50,510**	**2,574,698**

<u>New Products Launched during FY22:</u>

Four new products named 'Bint-e-Hawa Business Loan', 'Mera Pakistan Mera Ghar' (MPMG), 'Running Finance Loan' and 'School Loan' were rolled out during FY22. 'Bint-e-Hawa Business Loan', with maximum credit limit of Rs. 350,000, was exclusively designed for female micro-entrepreneurs and small business owners to increase the proportion of women borrowers in the portfolio. Apart from the aforementioned, all the other three loans are launched to cater to the higher ticket size market segment with maximum credit disbursement ranging between Rs. 2.0m-3.0m; the increase in average loan size is likely to positively contribute to the efficiency indicators of the Bank.

<u>Deferred, Restructured, Rollover (DRR) Portfolio:</u>

During 2020, the SBP announced COVID-19 Relief Scheme to dampen the impact of the pandemic by deferring the loan repayments for one year. MMBL rescheduled GLP amounting to Rs. 15.5b under the COVID-19 relief scheme. Out of the total DRR portfolio, the Bank recovered almost Rs.12.0b while written-off portfolio amounted to Rs. 515.6m by end-FY22; therefore, the outstanding DRR portfolio stood at Rs. 3.0b at end-FY22. As per the management, 85% of the outstanding portfolio is expected to be recovered therefore additional write-offs are projected to be around Rs. 450m. The transition of DRR Portfolio at end-FY22 is presented in the table below:

	Amount
Rollover & restructured Portfolio (DRP) at 31st March, 2021	Rs. 15.5b
Amounts recovered till end-FY22	Rs. 12.0b
Percentage Recovered	77.4%
Written-off by end-FY22	Rs. 515.6m
To be Recovered	Rs. 3.0b

MMBL has adopted various measures to cope with the pandemic related challenges; including, special incentive programs and waivers, recovery targets and close monitoring of portfolio, communication among all departments which helped the Bank set quarterly & unit wise targets and devise a robust on ground recovery plan.

Portfolio impacted during Floods-22:

Starting from mid-June 2022, unprecedented monsoon rain triggered one of Pakistan's worst floods in decades. One-third of Pakistan's territory and around 33 million people have been impacted by the floods. In contrast to regulatory relief provided to micro-credit borrowers during Covid-19, the flood affected clients were not provided any blanket cover by the central bank. On the other hand, different portfolio segregations and clients were evaluated on case-to-case basis. According to the data provided by the management, loan portfolio amounting to Rs. 2.5b was rescheduled during FY22. Out of this portfolio majority of the portfolio pertained to agriculture and livestock sector mainly concentrated in Punjab and Sindh. All rescheduled loans, 69% of them being unsecured, entail bullet repayment structure and 96% of them pertain to rural areas. Based on the risk segregations, the restructured portfolio amounting to Rs. 1.7b is unsecured-bullet; given the repayment risk is on the higher side in bullet and clean lending therefore the same can put stress on asset quality indicators going forward.

SBP has introduced Kissan Package-2022 for farmers effected by floods. Under the Kissan Package Markup Waiver Scheme (MWS), agriculture loans that were regular as on 30th June, 2022 with outstanding balance (including markup) of up to Rs. 500,000 per loan were given waiver of entire markup amount due till September 30, 2022. According to this scheme, 50% waiver amount will be borne by Government of Pakistan (GoP) through budgetary allocation whereas remaining will be absorbed by the Bank. The total outstanding markup accrued on these loans, net of recoveries, amounted to Rs. 150m. The Bank has waived off the entire amount by directly writing off the accrued markup; however, half of the amount recorded at Rs. 75.0m has been recognized as receivable from the GoP. Moreover, rescheduling/restructuring of the principal amount pertaining to same loans for up to one year in calamity-notified areas is also approved. In line with the waiver provided by the central bank, the management is hopeful to recover the entire amount.

Implementation of IFRS-9 & its impact:

IFRS-9 has fundamentally changed the Bank's loan loss impairment method by replacing incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. From 1st Jan, 2022, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS-9. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the Effective Interest Rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Asset Quality:

In line with higher incurrence of non-repayment primarily stemming from DRR portfolio coupled with adoption of IFRS-9, the non-performing loans (NPLs) increased to Rs. 2.6b (FY21: Rs. 1.2b) at end-FY22. Therefore, the gross infection was recorded higher at end-FY22. Moreover, the advances charged off against provisions also stood higher at Rs. 1.5b (FY21: Rs. 436.6m) while no bad debts were directly charged-off to profit & loss at end-FY22. Therefore, with sizable quantum of write-offs added during the year with majority of them pertaining to normal loan portfolio, the incremental infection showed weakening and witnessed an increasing trend during the outgoing year. However, on the other hand, in line with additional provisioning recorded under IFRS-9, the net infection was recorded negative given the provisioning held amounting to Rs. 2.7b was higher than the amount of npls outstanding. As per instructions issued by SBP, the Bank used two track approach for ECL assessment on stage 3 loans. Based on that, the MMBL calculated provision /ECL both under Prudential Regulations issued by SBP for microfinance banks and IFRS-9 and higher of the two amounts has been taken for the calculation. Subsequently, the total provisioning coverage also improved and was recorded over 100% as the npl amount was lower than the provisioning cushion kept in line with implementation of IFRS-9. Furthermore, as over 80% of DRR portfolio has matured with no internal restructuring done along with higher provisioning booked under the new accounting standard, the infection ratios present an accurate picture of asset quality. However, if timely recovery is not made against the flood-impacted restructured portfolio, the same can put a drag on asset quality indicators of the Bank. Asset quality indicators are tabulated below:

Portfolio Quality Indicators	FY21	FY22
NPLs % Total Advances (gross)	3.2%	4.4%
Net NPLs % of Net Advances: Net Infection	0.9%	-0.2%
Incremental Infection	5.0%	6.3%
Total Provisioning Coverage	72.7%	103.3%

Profitability

Despite sizable growth recorded in microcredit portfolio in line with increased channeling of liquidity towards micro-lending as evident from higher ADR coupled with improvement in spreads, the profit before taxation largely remained constant at Rs. 1.1b (FY21: Rs. 1.06b) primarily owing to sizable increase in operating expenses originating from both conventional and BB operations along with higher credit loss allowance booked. As a result, despite growth in recurring non-markup income, primarily loan processing fee in line with higher GLP, the OSS was recorded slightly lower at 104.8% (FY21: 106.5%) for FY22. The improvement in spreads was majorly an outcome of higher yield of advances portfolio which in turn was a combined result of increase in pricing of conventional lending products by around 3-5% along with higher income emanating from BB operations, nano loans, amounting to Rs. 5.9b (FY21: Rs. 2.2b) during FY22. The interest income earned from BB operations is clubbed in mark-up on advances earned while the BB deposits do not carry a financial charge, therefore, the expense pertaining to the portfolio is accounted for in the administration expenses under commission to retailer/related party. Subsequently, in line with treatment of BB operations with no cost of funding booked against the nano deposits, the yield on advances is magnified. Therefore, for assessment of profitability metrics for MMBL, the OSS is a more pertinent indicator as opposed to spreads.

The considerable uptick in markup income earned to Rs. 17.3b (FY21: Rs. 11.1b) was predominantly on account of volumetric increase in GLP and higher yield on advances recorded at 41.0% (FY21: 31.6%) during FY22. The markup on advances was recorded at Rs. 15.7b (FY21: Rs. 9.9b) during the outgoing year. As discussed above, the higher markup on advances recorded resulting in subsequent improved yield on advances has an element of recording of nano loans along with price increase. Further, with implementation of IFRS-9 with accrued markup made part of the GLP to present the fair value of portfolio, the income accrued in other assets was recorded negligible at Rs. 65.0m in FY22 as opposed to Rs. 6.8b in the previous year. Therefore, with haircut of provisioning made to GLP the net advance portfolio is computed. Hence, the risk of income suspension faced previously on classification of the high-risk portfolio (restructured portfolios) resulting in adjustment of lending portfolio yield of the subsequent year has now been eliminated. Further, the aggregate income on investments and bank deposits increased to Rs. 1.6b (FY21: Rs. 1.1b) on account of increase in average yield to 17.7% (FY21: 6.6%) in line higher benchmark rates recorded during the outgoing year. Subsequently, with increase in yields of both micro-credit and investment portfolios, overall yield on interest bearing assets stood higher at 29.0% (FY21: 22.9%) during FY22. Total markup expense increased to Rs. 2.6b (FY21: Rs. 1.6b) during FY22 in line with higher deposits base along with increased cost of funding to 6.8% (FY21: 3.0%) owing to significant increase in the benchmark rates witnessed from 9.75% in Dec'21 to 16% by end-Dec'22. Despite increase in cost of funding recorded stemming from higher cost of deposits of 7.3% (FY21: 3.0%), the same is still the lowest in the sector owing to two-thirds of deposit mix constituting zero-cost current accounts primarily BB deposits. Subsequently, with higher increase in yield on earning assets in comparison to cost of funding, MMBL's spreads improved to 22.2% (FY21: 19.8%) during the outgoing year.

The non-markup income increased to Rs. 6.5b (FY21: 6.2b) largely on account of higher loan processing fee booked amounting to Rs. 1.0b (FY21: Rs. 629.5) on the back of higher number of loans disbursed during the outgoing year. However, the fee-based income generated from BB operations clubbed under non-markup income remained unchanged at Rs. 5.4b during FY22 as opposed to Rs. 5.5b in the preceding year. On the flip side, administrative expenses of the Bank were reported significantly higher at Rs. 18.5b (FY21: Rs. 13.5b) during FY22 mainly in line with increase in commission paid to related party, Pakistan Mobile Communications Limited (PMCL), amounting to Rs. 4.5b (FY21: Rs. 1.9b) representing PMCL's commission at the rate of 70% and 50% share in income and expenses respectively. Further, the commission paid to retailers/ franchisee largely remained the same at Rs. 4.8b in the outgoing year in comparison to Rs. 4.7b in FY21. Apart from BB expenses, remuneration expense and other operating expenses were also recorded higher by Rs. 2.3b due to inflationary adjustments made to administrative overheads; the increase in salary reflected higher average headcount of the Bank reported at 2,078 (FY21: 1,829) at end-FY22. Moreover, as per management, the pressure on remuneration expense was also a result of incentive amounting to Rs. 600m extended to LOs to increase the recovery of its DRR portfolio. On account of increase in administrative expenses, overhead ratio increased to 24.5% (FY21: 21.6%) despite sizable growth in asset base during FY22.

Expected credit loss allowance/provisioning was recorded higher at Rs. 1.5b (FY21: Rs. 987.9m) during FY22 in line with increased credit risk faced owing to reduction in repayment capacity of borrowers due to pandemic crisis followed by Flood-22 along with adoption of IFRS-9. With the improvement witnessed in spreads completely offset by increase in operating and provisioning expenses, profit before tax of the bank remained largely unchanged at Rs. 1.1b (FY21: Rs. 1.05b). However, despite application of super tax of 4% over and above normal tax of 29%, the taxation expense was recorded lower at Rs. 145.6m (FY21: Rs. 324.4m) due to effect of income charged at different tax rate and others. Subsequently, as a result of aforementioned tax adjustment, the Bank's bottom line was reported higher at Rs. 958.3m in FY22 in comparison to Rs.727.6m in the preceding year.

Investment Mix

Investment portfolio decreased to Rs. 8.3b (FY21: Rs. 13.3b) by end-FY22; the decrease was an outcome of liquidation of investment in T-bills and Mutual Funds as their portfolios declined to Rs. 8.3b (FY21: 13.3b) and Nil (Rs. 103.1m) respectively. The T-bill portfolio amounting to Rs. 8.3b is categorized under Investments at Fair Value through OCI under IFRS 9 having maturity period of up to three months. Investment made during the year carry markup at the rates ranging from 15.60% to 16.76% (FY21: 7.10% to 10.49%) per annum. These also include securities with maturity period of up to three months held for the purposes of Depositors' Protection Fund. The overall decline in the investment portfolio resulted from higher liquidity vested in micro-credit lending along with balances held with financial institutions. Subsequently, as the entire investment portfolio constituted of government securities (FY21: 99.0%), credit risk emanating from the same is non-existent. On the other hand, sizable funds amounting to Rs. 5.6b (FY21: 3.2b) are vested with other banks in savings and term deposits; the credit risk associated with the aforementioned portfolio is limited in line with sizable financial muscle and sound credit ratings of the counterparties. Overall, the market risk originating from the investment portfolio is manageable in line with all investment carried being short-term in nature having maturity of up to three months. Going forward, the management plans to invest in short-term securities only in the ongoing increasing benchmark rate scenario to mitigate market risk. At end-FY22, there was asset-liability mismatch in up to one month due to sizable CASA deposit falling due in the said bracket. The liquidity risk arising from maturity mismatch risk is largely mitigated through significant granularity of deposit base primarily constituting of individual depositors.

Liquidity

The overall liquidity profile of the Bank is sound as evidenced from liquid assets to total deposits and borrowings recorded at 29.7% (FY21: 36.2%) at end-FY22. On the other hand, the same has declined in line with increase in ADR ratio to 86.8% (FY21: 63.9%) owing to higher funds directed towards micro-credit lending as the Bank embarked upon a growth-focused approach during the outgoing year. Moreover, liquid assets to total assets were also reported lower at 24.9% (FY21: 30.7%) at end-FY22. In absolute terms, the Bank's total liquid assets decreased to Rs. 20.3b (FY21: Rs. 21.2b) primarily owing to divestment of government securities portfolio. Given the Bank is stressed for CAR, despite adequate liquidity, the management intends to rationalize the ADR down to 65% for FY23; the same is projected to be achieved through growth in the deposit base. Liquidity profile continues to be supported by sizable granularity and low concentration risk of the deposit base.

MMBL's deposits increased to 64.8b (FY21: Rs. 58.7b) at end-FY22; the same continues to remain the main source of funding for the Bank during the rating review period. Contrary to the microfinance sector where the increase in deposit base is driven by higher term deposits, the increase in MMBL's deposits is a function of growth in branchless current deposits recorded higher at Rs. 39.5b (FY21: Rs. 32.4b) owing to improved market penetration and reception of the Bank's BB operations. The management further intends to augment the deposit base to Rs. 99.0b during the ongoing year by focusing on current deposit growth at both branch & branchless fronts. Additional resources will be deployed at high potential branches in order to further strengthen the market outreach.

Going forward, in order to fuel sustained asset growth and manage strong liquidity position, deposit mobilization will remain critical.

The proportion of current and saving account (CASA) in the total deposits mix increased to 89.7% (FY21: 83.0%) primarily owing to sizable volumetric increase in current deposits held under BB operations during FY22. In line with increasing interest rate in the economy, the management deliberately shed high-interest bearing term deposits to rationalize the cost of funding, therefore the proportion of fixed deposit decreased on a timeline basis by end-FY22. During FY22, two new savings products were introduced mainly to attract more women customers and increase the BB deposit base. In contrast to peers, given most of the Banks's deposits pertain to BB operations and constitute largely of current deposits entailing zero cost, the cost of deposits/funding is the lowest in the industry. Moreover, as MMBL has the largest BB customer base, retaining and enhancing the quantum of current deposits is not expected to be an uphill task even with benchmark rates being at the highest ever. The management plans to close the ongoing year with a further improved CASA proportion with 20% and 38% growth predicted in current and savings account, respectively. The composition of deposit base is tabulated below:

Rs. Millions	FY21	%	FY22	%
Fixed Deposits	9,952	17.0%	6,700	10.3%
Saving Deposits	13,424	22.9%	15,457	23.9%
Current Deposits	35,282	60.1%	42,608	65.8%
Total	58,658	100	64,765	100

Concentration risk emanating from the deposit portfolio is low as top-50 depositors represent 23% of the total deposit base; the same is also on the lower side in comparison to market peers. Further, top-5 depositors including Mahana Amdani Accounts (3 accounts), Mustakbil TDR (6-months) and Sahulat Current Account accounted for 13.9% of total deposits. With MMBL being the leading digital bank with growing deposit base, withdrawal risk is largely mitigated. In addition, the proportion of the individual deposits is significant; the same increased to 78% (FY21: 60%) by end of the outgoing year in line with growth trajectory witnessed in BB current deposits. Therefore, in terms of granularity also, MMBL compares favorably to market players. The granularity is also evident from the fact that over two-thirds of the entire deposit mix in terms of value pertains to up to Rs. 25,000 bracket. The average deposit size decreased to Rs. 1,454.3 (FY21: Rs. 1,474.5) owing to growth in BB deposits by end-FY22; the size-wise breakup of deposits is presented in the table below:

		In. Rs.	No. of Clients	Proportion
1	Upto Rs. 25,000	44,134,137,548	44,519,643	68.5%
2	Rs. 25,000 - Rs. 100,000	363,867,593	7,319	0.6%
3	Rs. 100,001-Rs. 1,000,000	1,707,070,603	5,269	2.6%
4	Rs. 1,000,001-Rs. 10,000,000	4,108,919,655	1,465	6.4%
5	above Rs. 10m	14,131,538,755	115	21.9%

In order to meet operational and business requirements, the Bank procured borrowings amounting to Rs. 1.47b (FY21: Nil) by end-FY22. The Bank does not have any repo borrowings or borrowings from outside of Pakistan. The bank utilized two secured running finance facilities during the period; one of these credit facilities worth Rs. 500m secured with a tenure of 12 months carries mark-up at the rate of 1M-KIBOR + 0.85% per annum payable on quarterly basis. The second running finance facility agreement amounting to Rs 1.0b was secured with Allied Bank to finance operations and carries mark-up at the rate of 3M-KIBOR + 0.85% per annum payable on quarterly basis with a tenure of 12 months. Both the finance facilities are secured against first pari passu charge over all the present and future assets of the Bank including but not limited to advances/microcredit receivables and investments beyond CRR & SLR requirements with 25% margin (excluding land and buildings). Both facilities were almost fully utilized at end of the outgoing year. Going forward, to support lending portfolio growth, the Bank plans to focus on enhancement of deposit base with minimum reliance on external borrowings with JazzCash deposits being an additional plus.

Capitalization

The tier-1/ total equity base of the Bank decreased to Rs. 5.9b (FY21: 6.1b) in line with reduction in unappropriated profit and fair value reserve of financial assets aggregating to Rs. 1.3b at end-FY22 on account the impact of adaptation of IFRS-9 during the outgoing year. MMBL is required to maintain a statutory reserve to which an appropriation equivalent to 20% of annual profit after tax is made till the time reserve fund equals the paid-up capital of the Bank. Thereafter, an appropriation of sum not less than 5% of its annual profit after taxes in accordance with statutory requirements under the Microfinance Institutions Ordinance, 2001. Furthermore, the Bank contributes 5% of its annual profit after tax along with related income on investments to the Depositors' Protection Fund (DPF) under the Microfinance Institutions Ordinance, 2001. Given the regulatory requirements the Statutory reserves and DPF accumulated to Rs. 959.6m (FY21: Rs. 767.9b) and Rs. 317.9m (FY21: Rs. 239.2m) respectively by end-FY22. Net NPLs in relation to tier-1 capital is negative owing to allowance for impairment exceeding the quantum of npls due to implementation of IRFS-9.

MMBL issued a rated, unsecured, subordinated and privately placed Tier-II TFC worth Rs. 2.0b in Nov'22 to improve the CAR at the rate of 6M-KIBOR plus 2.10% per annum. The TFC carries a tenure of 7 years and is expected to mature in Nov'29. The issue has been assigned an initial rating of 'A-' (Single A minus). The interest will be payable on bi-annual basis starting from six months subsequent to subscription of TFCs and the principal amount of issue TFC will be redeemed in four equal semi-annual installments commencing from the end of 66th month from the issue date. Despite issuance of Tier-II to assist in capital adequacy improvement, MMBL's CAR was reported lower at 15.8% (FY21: 16.1%) at end of the outgoing year owing to sizable disbursements resulting in increase of risk weighted assets to Rs. 42.5b (FY20: Rs. 35.9b) at end of the outgoing year. However, the Bank remains compliant with the minimum regulatory requirement of 15.0% for MFBs.

Mobilink Microfinance Bank Limited (MMBL) Annexure I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**
Cash & balances with SBP and NBP	3,674	4,736	6,345
Balances with other Banks/NBFIs/MFBs	5,425	3,241	5,611
Net Investments	12,074	13,266	8,347
Net Advances	24,224	37,463	56,213
Other Assets	8,626	7,922	1,350
Total Assets	56,003	69,159	81,478
Total Deposits	46,807	58,658	64,765
Borrowings	-	-	1,473
Subordinated Debt	-	-	2,015
Other Liabilities	3,792	4,360	7,335
Paid-Up Capital	2,714	2,714	2,714
Tier-1 Equity	5,403	6,415	5,890
Net Worth	5,404	6,141	5,890
INCOME STATEMENT	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**
Net Mark-up Income	5,403	9,385	14,550
Net Provisioning / (Reversal)	202	988	1,462
Non-Markup Income	(153)	6,203	6,513
Operating Expenses	4,300	13,544	18,470
Profit Before Tax	748	1,056	1,126
Profit After Tax	530	728	958
RATIO ANALYSIS	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2022**
Gross Infection (%)	0.3	3.2	4.4
Incremental Infection (%)	1.0	5.0	6.3
Specific Provisioning Coverage (%)	33.3	35.3	-
Total Provisioning Coverage	518.3	72.7	103.3
Net Infection (%)	0.2	2.1	-
Net Infection (Total) (%)	-1.2	0.9	-0.2
Net NPLs to Tier-1 Capital (%)	-5.3	5.3	-1.5
Capital Adequacy Ratio (%)	17.8	16.1	15.8
Yield on Mark-up Bearing Assets	-	22.9	29.0
Cost of Funds (%)	-	3.0	6.8
Markup Spreads (%)	-	19.8	22.2
OSS (%)	112.0	106.5	104.8
ROAA (%)	0.9	1.1	1.3
ROAE (%)	9.8	12.6	15.9
Liquid Assets to Total Deposit & Borrowings (%)	45.2	36.2	29.7

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Annexure III

Name of Rated Entity	Mobilink Microfinance Bank Limited
Sector	Microfinance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Instrument Structure	N/A
Statement by the Rating Team	VIS, 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(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
08/05/2023	A	A-1	Stable	Initial

Due Diligence Meeting/s Conducted

Name	Designation	Date
Faisal Mehmood	CIO	22nd March 2023
Muhammad Siddique Ahmed	CIA	22nd March 2023
Atta-ur-Rehman	Chief Branch Business Officer	22nd March 2023
Taimoor Farid	CFO	22nd March 2023
Faisal Akram	Chief Bank Operations	22nd March 2023