RATING REPORT

Mobilink Microfinance Bank Limited

REPORT DATE:

May 07, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	A	A-1	A	A-1
Rating Date	*May 07, 2024*		*May 08, 2023*	
Rating Action	*Reaffirmed*		*Initial*	
Rating Outlook	*Stable*		*Stable*	

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
https://docs.vis.com.pk/docs/MicroFinance-Oct-2023.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Mobilink Microfinance Bank Limited

OVERVIEW OF INSTITUTION

Mobilink Microfinance Bank Limited (MMBL) was incorporated in 2010 as a public limited company under Microfinance Institution's Ordinance, 2001. The Bank received its microfinance operations license from the State Bank of Pakistan (SBP) in 2011, enabling nationwide operations. Presently, MMBL operates through a network of 109 branches across Pakistan, with its registered office in Islamabad.

Profile of Chairman

Mr. Aamir Hafeez Ibrahim, currently serving as Chairman of the Board, holds an undergraduate degree in Accounting from the University of Texas and an MBA from IMD in Switzerland. With over two decades of international experience as a senior executive across various industries, Mr. Aamir presently holds the position of CEO at Jazz. His extensive career also includes senior leadership roles at Ford Motor Company, Jaguar & Land Rover.

Profile of C.E.O.

Mr. Ghazanfar Azam currently holds the positions of President and CEO at MMBL. He is a graduate of IBA, Punjab University, and brings extensive experience in commercial, consumer, retail, SME, and micro-banking. Mr. Ghazanfar embarked on his career with Pakistan's largest commercial bank, HBL,

RATING RATIONALE

Rating Rationale

The ratings assigned to Mobilink Microfinance Bank Limited (MMBL) are supported by its ownership structure, with complete ownership held by VEON Microfinance Holding B.V, a leading global telecom group, and its association with Pakistan's largest cellular operator, Jazz (formerly Mobilink). These ratings take into account the implicit support available from the sponsor, both financial and technological, which strengthens the Bank's market presence through synergies. MMBL's business model incorporates a combination of conventional micro-credit services and branchless banking operations. Leveraging the sponsor's network and brand name, particularly through JazzCash, MMBL has experienced growth in its branchless banking domain, expanding primarily through mobile-wallet accounts.

Going forward, MMBL aims to sustain growth primarily through expanding deposit outreach, with a particular emphasis on those acquired via digital platforms. Ratings are supported by strong liquidity access, facilitated by the bank's superior presence in the digital sphere, which provides cost-effective funding for growth. High utilization of digital channels has also enhanced efficiency in lending operations. Our key concerns are emerging asset quality trends. The high cost of risk is so far largely absorbed by wide margins and rapidly increasing business volumes. Nevertheless, assigned ratings are based on the continued containment of the rising cost of risk within the Bank's risk absorption capacity, underscored by improving earnings generation, and overall maintained liquidity and capital buffers.

Auditor's Opinion

Yousuf Adil Chartered Accountants has provided an unqualified and unmodified opinion, affirming that the Company's financial statements comply with accounting standards and accurately portray the Company's financial position as of December 2023.

Corporate Profile

Mobilink Microfinance Bank Limited (MMBL) was established in Pakistan on 29th November, 2010, as a public limited company under the Companies Ordinance, 1984. It received its microfinance operations license from the State Bank of Pakistan (SBP) on September 12, 2011, enabling nationwide operations. The Securities and Exchange Commission of Pakistan (SECP) granted the certificate of commencement of business on 13th February, 2012, followed by SBP's certificate on 20th April, 2012. MMBL primarily focuses on providing microfinance banking and associated services to underserved communities under the Microfinance Institution Ordinance, 2001. Additionally, it offers Branchless Banking Services through an agreement with Pakistan Mobile Communications Limited (PMCL), a related entity, under SBP's Branchless Banking license. Presently, MMBL operates through a network of 109 operational branches across Pakistan, with its registered head office in Islamabad.

As of 27th March, 2020, it became a subsidiary of VEON Microfinance Holdings B.V (VMH), following the transfer of 99.99% shareholding from Global Telecom Holdings (GTH). This transfer, involving a change in control, was duly registered with SBP and SECP. The ultimate parent company of MMBL is VEON Limited, headquartered in Amsterdam, Netherlands. Shareholding structure of MMBL as of Dec'23 is tabulated below:

Shareholding Pattern (Dec'23)	%
VEON Microfinance Holding B.V	99.99%
Others	0.01%
Total	100.00%

At end-CY23, the Board of Directors (BoD) at MMBL comprised seven-members, four non-executive directors, one independent director, one executive director (the CEO of the bank), and the Chairman. 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 *before gaining further experience at Union Bank, Prime Commercial Bank, and Bank Alfalah.*

Commercial Officer. He has over two decades of international experience as senior executive across multiple industries and continents. Composition of the BoD is tabulated below:

Name	Status
Mr. Aamir Hafeez Ibrahim	Chairman
Mr. Ghazanfar Azam	President/CEO
Mr. Salman Sarwar Butt	Independent Director
Mr. Murtaza Ali	Non-Executive Director
Mr. Muhammad Tamoor Sabir	Non-Executive Director
Mr. Syed Ali Naseer	Non-Executive Director
Ms. Ayla Majid	Non-Executive Director

Four BoD committees have been constituted 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). An independent director chairs the BAC, and there is a focus on promoting diversity through female representation on the Board. A few changes were witnessed at the management level during the period under review as Chief Credit Officer and Chief Operating Officer resigned from their respective positions. Key positions of Chief Financial Officer, Chief Operating Officer, and Chief People's Officers were vacant at the time of review. Stability in senior management is deemed critical for sustained growth of the Bank going forward.

Productivity Analysis

The industry continues to face a significant challenge due to the high attrition rate among loan officers (LOs). This high turnover rate presents difficulties in portfolio management, creates training and skill gaps, leads to a lesser understanding of products, and places an increased burden on existing staff. These challenges impede both asset acquisition and the Bank's efforts in loan recovery. To address these risks, portfolio benchmarks for LOs have been adjusted and modifications made to the remuneration package to encourage the retention of field staff. Consequently, the total count of loan officers (LOs) employed by the Bank increased by the end of CY23, while the number of LOs per branch remained consistent compared to CY22. While the number of active borrowers declined the average portfolio size per LO saw an uptick. The decrease in the number of active borrowers has been a result of the Bank undertaking a strategic shift in its lending approach, focusing on lending to fewer but more creditworthy borrowers, thereby increasing the ticket size to expand the loan portfolio. As a result, there has been a reduction in the active borrowers per loan officer and per branch ratios during the period. Productivity indicators are tabulated below:

PRODUCTIVITY	CY21	CY22	CY23
No. of Loan Officers	937	953	970
No. of Branches/Locations	105	109	109
No. of Active borrowers	2,019,287	2,574,698	2,340,788
LOs/Branch	8	8	8
Average loan/LO (Rs. mn)	40.9	53.3	68.8
Active borrowers/LO	2,155	2,702	2,413
Active borrowers/branch	19,231	23,621	21,475

Financial Analysis

Credit Risk

Gross Loan Portfolio (GLP)

The Bank's Gross Loan Portfolio (GLP) experienced a sizable uptick of 30.6% and was reported at Rs. 76.9bn (Dec'22: Rs. 58.9 bn). As of Dec'23, new advances extended amounted to Rs. 55.6 bn, marking an increase from Rs. 37.4 bn as of Dec'22. Moreover, advances recovered during the period totaled Rs. 34.4bn, up from Rs. 21.2 bn in Dec'22. Meanwhile, Non-Performing Loans (NPLs) have also risen to Rs. 5.4 bn (Dec'22: Rs. 2.6 bn) as of Dec'23, despite total NPLs written off amounting Rs. 3.6 bn (Dec '22: Rs. 1.4 bn). Trends point to heightened credit risk in the Bank's loan portfolio and reflective of general economic conditions. The GLP also encompasses Nano loans totaling Rs. 7.7 bn, of which Rs. 1.7 bn have been categorized as non-performing. The Nano loans utilize enhanced technology and are applied for digitally, with disbursements made directly to the customer's digital account, using an automated scoring criteria.

Microcredit Portfolio Risk Segregation

In CY23, the growth in advances was mainly due to increased lending in Livestock, Agriculture, and General Purpose segments, which accounted for 93.3% of the loan portfolio, up from 90.8% in CY22. Agriculture and Livestock sectors are significant contributors to Pakistan's economy. Given the limited access to formal financial services for smallholder farmers, MMFB aims to bridge this gap by providing tailored financial products to rural clients, including agricultural loans. General Purpose loans entail higher credit risk due to their typically unsecured nature. Lacking collateral, lenders have limited recourse in the event of borrower default, heightening the risk of potential losses.

Segments	CY21	%	CY22	%	CY23	%
Livestock	14,256	37.2%	22,911	45.1%	37,631	56.4%
Agriculture	17,272	45.0%	17,301	34.0%	15,721	23.6%
Enterprise	3,302	8.6%	3,532	7.0%	3,495	5.2%
Housing	735	1.9%	1,142	2.2%	989	1.5%
General Purpose	2,806	7.3%	5,925	11.7%	8,930	13.3%
Total	**38,370**	**100.0%**	**50,810**	**100.0%**	**66,766**	**100.0%**

With unsecured loans comprising a significant portion of MMFB's portfolio in CY23, the Bank has implemented a risk mitigation strategy by offering loans backed by Gold. This shift is reflected in the rise of secured lending to 44.0% (compared to 41.2% in CY22) in MMFB's loan portfolio. The Bank introduced its 'Agri Plus Loan' to address the requirements of Agriculture and Livestock farmers involved in crop farming/cultivation. This loan is categorized into two sections: General Category Loan, ranging from Rs. 50,000 to Rs. 350,000, and Microenterprise Loan, from Rs. 350,001 to Rs. 3,000,000. For loans exceeding Rs. 350,000, gold or gold ornaments are considered as collateral for financing purposes. Management has stated their commitment to enhancing the efficiency of gold collateral-based lending by streamlining the process, which includes reducing turnaround times through revamping of gold collateral handling and assessment procedures.

Secured/Unsecured (Rs. mn)	CY21	%	CY22	%	CY23	%
Secured	14,632	38.1%	20,937	41.2%	29,402	44.0%
Unsecured	23,738	61.9%	29,873	58.8%	37,364	56.0%
Total	**38,370**	**100.0%**	**50,810**	**100.0%**	**66,766**	**100.0%**

In terms of repayment, the percentage of Bullet loans within the GLP rose to 91.0% (CY22: 75.4%) in CY23, while the proportion of EMI loans in the loan portfolio declined to 9.0% (CY22: 24.6%). This increase in the proportion of Bullet loans is attributed to heightened lending activity in the Livestock and Agriculture segments, which typically involve lump sum payments at the end of the loan term.

Bullet/EMI (Rs. mn)	CY21	%	CY22	%	CY23	%
Bullet	30,773	80.2%	38,310	75.4%	60,783	91.0%
EMI	7,597	19.8%	12,499	24.6%	5,983	9.0%
Total	**38,370**	**100.0%**	**50,810**	**100.0%**	**66,766**	**100.0%**

In accordance with the Bank's policy, group lending has been curtailed to mitigate the credit risk, associated with such mechanisms. Furthermore, MMBL does not intend to introduce group lending in the foreseeable future.

Group/Individual (Rs. mn)	CY21	%	CY22	%	CY23	%
Group Based	-	-	-	-	-	-
Individual	38,370	100.0%	50,810	100.0%	66,766	100.0%
Total	**38,370**	**100.0%**	**50,810**	**100.0%**	**66,766**	**100.0%**

The average loan size continued to rise in CY23 at Rs. 28,523 (CY22: Rs. 19,734 and CY21: Rs. 19,002), primarily driven by the progression of existing clients towards successive loan cycles. This increase in average loan size over time can also be attributed to SBP's adjustment of the maximum regulatory credit limits for housing and enterprise loans, from Rs. 1.0 mn to Rs. 3.0 mn in CY21. Consequently, the proportion of loans falling in the Rs. 100,000 and above bracket has increased to 78.5% compared to 71.2% in the previous year. Conversely, there has been a decline in the proportions of loans within the Rs. 25,000 – Rs. 100,000 categories during CY23.

Description	CY22 (Rs. mn)	%	CY23 (Rs. mn)	%
Up to Rs. 25,000	4,747	9.3%	8,062	12.1%
Rs. 25,000 - Rs. 50,000	446	0.9%	252	0.4%
Rs. 50,001-Rs. 75,000	2,669	5.3%	1,633	2.4%
Rs. 75,001-Rs. 100,000	6,748	13.3%	4,404	6.6%
Rs. 100,000 and Above	36,199	71.2%	52,415	78.5%
Total	**50,810**	**100.0%**	**66,766**	**100.0%**

Asset Quality

The NPLs have shown an upward trajectory, reaching Rs. 5.4bn as of Dec'23 (Dec'22: Rs. 2.6 bn). Consequently, both gross and net infection rates have deteriorated to 7.0% (CY22: 4.4%) and 2.6% (CY22: 1.4%), respectively, despite Rs. 3.6 bn in loans (Dec'22: Rs. 1.5 bn), having been written off during the year. As such incidence of new non-performance is notable at 9.5% (CY22: 5.9%). These trends underscore the accumulation of credit risk in the loan portfolio. However, total provisioning coverage has risen to 113.5% (CY22: 103.3%) due to an increase in the credit loss allowance against advances. The provisions coverage of Stage-3 assets stood at 64.6% (CY22: 69.9%), with Stage-1 and Stage-2 provisions coverage being 2.9%(CY22: 0.9%) and 21.1% (CY22: 25.6%) of gross exposures in these categories respectively and collectively mitigating the heightened risk of credit losses.

Infection (Rs. mn)	CY21	CY22	CY23
NPLs	1,247	2,604	5,373
NPLs written off	437	1,479	3,577
Gross Infection	3.2%	4.4%	7.0%
Net Infection	2.1%	1.4%	2.6%
Incremental Infection	5.2%	5.9%	9.5%
Specific Provisioning Coverage	35.3%	69.9%	64.6%
Total Provisioning Coverage	72.7%	103.3%	113.5%
Net NPLs/Tier-1 Equity	13.1%	13.3%	27.2%

Investment Mix

The investment portfolio increased by Rs. 25.0 bn, amounting to Rs. 33.4 bn as of Dec'23 (Dec'22: Rs. 8.4 bn), primarily driven by higher deposits channeled into investments, followed by a slightly lower proportion directed towards micro-credit lending, while the remaining deposits were allocated to balances held with financial institutions. As the investment portfolio solely comprises government securities, the associated credit risk is considered minimal. Additionally, due to the short-term nature of MMBL's investments, there is negligible market risk involved.

Liquidity and Leverage

The Liquid Assets to Deposits and Borrowings (LADB) ratio increased to 44.6% (CY22: 29.7%), owing to a relatively conservative asset allocation, with rapid growth in deposits reflected in significantly high allocation towards investments. Deposits posted a significant uptick of Rs. 54.5 bn as of Dec'23, reaching Rs. 113.3 bn (Dec'22: Rs. 64.8 bn), particularly in the last quarter of the year, which contributed more than half the YoY growth, and driven mainly by an increase in corporate deposits. MMBL has maintained a significant cost advantage, attributable to a larger volume of branchless banking deposits, comprising a substantial portion of total deposits and predominantly held in current accounts. As such, deposits remained the dominant source of funds, funding 82.6% (CY22: 79.5%) of total assets in CY23.

Liquidity (Rs. mn)	CY21	CY22	CY23
Liquid Assets	21,243	20,303	54,172
Deposits	58,658	64,765	119,286
Borrowings	-	1,473	245
Subordinated Debt	-	2,015	2,030
LADB	36.2%	29.7%	44.6%
ADR	65.4%	91.0%	64.5%
CA	60.1%	65.8%	49.8%
CASA	83.0%	89.7%	71.8%

MMBL's short-term borrowings primarily comprise secured running finance facilities, the balance of which decreased to Rs. 0.2 bn (Dec'22: Rs. 1.4 bn). Additionally, during CY22, the Bank issued a rated, unsecured subordinated Tier II Term Finance Certificate (TFC) amounting to Rs. 2.0 bn with a maturity period of seven years, and scheduled to mature in CY29.

Total equity of the Bank increased to Rs. 7.0 bn as of Dec'23 (Dec'22: Rs. 5.9 bn), primarily driven by retained profit for the year. Meanwhile, risk weighted Assets (RWAs) also increased to Rs. 52.8 bn as of Dec'23 (Dec'22: Rs. 42.5 bn), primarily stemming from the expansion of micro-credit lending portfolio. As growth in Tier-1 and Tier-2 capital outpaced the increase in RWAs, MMBL reported a slightly higher CAR of 16.2% compared to 15.8% in CY22, remaining compliant with the minimum regulatory requirement of 15.0% for microfinance banks.

Profitability

The markup earned on advances increased to Rs. 27.1bn in CY23 (CY22: Rs. 15.7 bn), primarily driven by higher yield on advances at 42.5% (CY22: 33.7%) and an overall increased return on interest bearing assets at 32.9% (CY22: 28.0%), attributable to the prevailing elevated benchmark rate. Despite a rise in the cost of funding to 6.2% (CY22: 4.4%), MMBL reported a wider spread, not only on a timeline but also relative to peers, at a high 26.7% (CY22: 23.6%). Expected Credit Loss (ECL) allowance rose sharply to Rs. 8.3 bn (CY22: Rs. 1.4 bn), in response to the heightened credit risk, stemming from borrowers' deteriorating repayment capacity amidst weakening macroeconomic conditions. Out of the total ECL of Rs. 8.3 bn, Rs. 1.0bn pertains to outstanding payments owed from customers stemming from person-to-person and person-to-government transfer transactions, which have been pending for an extended period. This Rs. 1.0bn was removed from the financial records in CY21, but reinstated in CY23 and an expected credit loss provision taken against this amount. The remaining ECL stands at Rs. 7.3 bn mostly against the micro-credit portfolio.

Non-markup income increased to Rs. 10.4 bn (CY22: Rs. 6.5 bn), owing to higher income from branchless banking. On the other hand, administrative costs rose to Rs. 25.3 bn (CY22: Rs. 18.5 bn) attributable to higher allowances, salaries, and commissions paid to a related entity - Pakistan Mobile Communication Limited (PMCL). Nevertheless, the Operational Self-Sufficiency Ratio (OSS) strengthened, reaching 131.8% (CY22: 112.2%), and reflecting a robust surplus of recurring income over expenses, supporting the bottom-line which increased to Rs. 1.0 bn (CY22: Rs. 0.9 bn). As business backed by the mobile operator grows, commissions to PMCL are likely to rise. Continued growth in business is anticipated with positive expectations for revenue increase over the next year. Emerging asset quality trends point to increasing cost of risk, as well as the inflationary impact on overheads which has so far balanced off the significant increase in revenues overall. Going forward, if asset charge-offs taper off, earnings may post considerable gains.

Mobilink Microfinance Bank Limited (MMBL) Annexure I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**Dec 31, 2021**	**Dec 31, 2022**	**Dec 31, 2023**
Cash & balances with SBP and NBP	4,736	6,345	9,667
Balances with other Banks/NBFIs/MFBs	3,241	5,611	11,116
Net Investments	13,266	8,347	33,388
Net Advances	37,463	56,213	70,810
Other Assets	7,922	1,350	7,002
Total Assets	69,159	81,478	144,379
Total Deposits	58,658	64,765	119,286
Borrowings	-	1,473	245
Subordinated Debt	-	2,015	2,030
Other Liabilities	4,360	7,335	15,835
Paid-Up Capital	2,714	2,714	2,714
Tier-1 Equity	6,415	5,890	6,983
Net Worth	6,141	5,890	6,983
INCOME STATEMENT	**CY21**	**CY22**	**CY23**
Net Mark-up Income	9,385	14,550	24,764
Net Provisioning / (Reversal)	988	1,462	8,340
Non-Markup Income	6,203	6,513	10,395
Operating Expenses	13,544	18,475	25,332
Profit Before Tax	1,056	1,126	1,487
Profit After Tax	728	958	1,033
RATIO ANALYSIS	**CY21**	**CY22**	**CY23**
Gross Infection (%)	3.2	4.4	7.0
Incremental Infection (%)	5.2	5.9	9.5
Total Provisioning Coverage (%)	72.7	103.3	113.5
Net Infection (%)	2.1	1.4	2.6
Net NPLs to Tier-1 Capital (%)	13.1	13.3	27.2
Capital Adequacy Ratio (%)	16.1	15.8	16.2
Yield on Mark-up Bearing Assets (%)	23.2	28.0	32.9
Cost of Funds (%)	3.2	4.4	6.2
Markup Spreads (%)	20.0	23.6	26.7
OSS (%)	106.5	112.2	131.8
ROAA (%)	1.2	1.3	1.1
ROAE (%)	12.6	15.9	16.1
Advances to Deposits (%)	65.4	91.0	64.5
Liquid Assets to Total Deposit & Borrowings (%)	36.2	29.7	44.6

REGULATORY DISCLOSURES — Annexure II

Name of Rated Entity	Mobilink Microfinance Bank Limited
Sector	Microfinance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see below
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
07/05/2024	A	A-1	Stable	Reaffirmed
08/05/2023	A	A-1	Stable	Initial

Due Diligence Meeting/s Conducted

Name	Designation	Date
Mr. Adil Ali Abbasi	Chief Financial Officer	4th April, 2024
Ms. Zehra Khalikdina	Chief Risk Officer	4th April, 2024