



The Pakistan Credit Rating Agency Limited

TELENOR MICROFINANCE BANK LIMITED (TELENOR BANK)

RATING REPORT

	UPDATE [NOV-17]	PREVIOUS [APR-17]
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Entity Rating

Long Term	A+	A+
Short Term	A1	A1
Outlook	Stable	Stable

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Nov 2017

Profile & Ownership

- Commenced operations in September 2005; incorporated under the Microfinance Institution Ordinance 2001
- In Mar16, Telenor Bank become 100% owned subsidiary of Telenor ASA through Telenor Pakistan (51%) and Telenor Pakistan B.V. (Amsterdam based [49%])
- The bank has been now fully acquired by Telenor Pakistan B.V. and is renamed as Telenor Microfinance Bank, effective Jan17
- Operates through a nationwide network of 83 branches; head office in Karachi
- In collaboration with Telenor Pakistan, pioneered branchless banking in Pakistan; also offers loans, savings and insurance products. Easypaisa, post-acquisition, is fully acquired on the Bank's balance sheet

Governance

- Board comprises eight members including the CEO. Mr. Petter-Børre Furberg is the Chairperson. He has over 30 years of experience in the financial sector and has also served as the CEO of Telenor Myanmar
- The board has four nominees of Telenor ASA, one of Telenor Pakistan, and two independent directors
- Three sub-committees under the board; Audit, People, and Risk Management

Management

- Mr. Shahid Mustafa, with 20+ years of experience in banking and finance, has replaced the outgoing CEO Mr. Ali Riaz Chaudhry in Sep'17
- Executive committee, comprising all department heads, reports to the CEO
- New positions; Chief Digital Officer, Head of Customer Acquisition, Head of Payments Solutions, and Head of Corporate Communications have been added
- Experienced and professional management team

Risk Management

- A separate Risk Division is in place; comprehensive mechanism for assessing credit worthiness and non-performing portfolio
- Centralized multi-tier credit approval process; stringent income assessment conducted for loans greater than PKR 100,000
- Last year, Branchless Banking system FUNDAMO has been replaced by Ericsson in order to cater high volume of transaction

Asset Risk

- Loan Book grew by 48% YoY at end-Jun17; secured loans declined - constituting ~31% - 32% of total advances; meeting the SBP's regulation requiring reduction in gold backed loan to 35%
- Focus will be on increasing the unsecured portfolio, thus increasing credit risk.
- Infection ratio slightly inched up; however remained robust (end-Jun17: 1.1%)
- Investments portfolio (end-Jun17: 19% of total assets) solely comprises Market Treasury Bills, limiting market risk

Performance

- Sustained its market positioning; Market share Jun'17: GLP: ~12%, Savings: ~20%
- Volumetric growth lead to 18% increase in NIMR; spreads reduced to 6.7%
- Income from branchless banking remained significant (Jun'17: PKR 4bln); primarily on the back of increased depositors and use of Easypaisa
- Along with the expansion in banks operations, non-markup expenses doubled, mainly on account of increased personnel and marketing expenses related to Branchless Banking
- This led to a decrease of 34% in the net profit of Telenor Bank
- Going forward, focus will be on increasing mobile accounts capturing the captive market, along with strengthening the core banking operations

Financial Risk

- Telenor Bank's funding constitutes deposits which grew by 29% during IH17; CASA deposits form 42% of the total deposit base
- Liquidity profile remained strong as reflected by liquid assets-to-deposits and borrowings ratio of 43% at end-Jun17 (end-Jun16: 58%)
- CAR declined (Sep17: 22%, Dec16: 31%, Dec15: 37%) - a factor of increase in unsecured loans.
- Though CAR is compliant with regulatory requirement, management needs to develop contingency measures as the expansion of portfolio might further pressurize the CAR

RATING RATIONALE

The ratings of Telenor Microfinance Bank Limited reflect strong business profile emanating from growing customer base and diversified revenue stream of the Bank. The deposit base witnessed escalated growth, mainly in the term deposits. The spreads remained strong, though minor declined YoY. Telenor Bank accounted for 20% of system share in MFB industry deposits for Jun'17. The Bank is gradually building its non-gold loan portfolio; reached ~31% by end- Jun17 in line with MFB regulations. The financial risk profile of the Bank is strong, with high liquidity. Portfolio at risk of 1.1% at end-Jun17 reflects a strong risk evaluation framework. Beginning this year, branchless banking (BB) operations – Easypaisa – have been fully transferred to Telenor Bank. The retention of 100% revenue from Easypaisa has further augmented the income. Going forward, growth and consistency of the BB market share remains important, as the industry is becoming more competitive. Earning better profitability from Easypaisa would remain integral. Overall profitability, supported by low loss provisioning remained sanguine. The ratings take comfort from association with a strong sponsor – Telenor Group.

KEY RATING DRIVERS

The ratings are dependent upon maintaining market position of the Bank. Herein, growing volumes in branchless banking should continue transpiring into profitability. Sustaining of robust asset quality is imperative. Successful execution of new business strategy by new management remains important.

Telenor Micro Finance Bank Limited

	PKR Mln		
BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15
Earning Assets			
Advances	20,181	15,850	12,129
Investments (Government Securities)	7,363	11,568	3,784
Deposits with Banks	2,454	2,551	1,103
Lending to Financial Institutions	80	323	347
	30,079	30,292	17,363
Non Earning Assets			
Non-Earning Cash	2,681	3,125	1,603
Net Non-Performing Finances	55	(14)	(4)
Fixed Assets & Others	5,905	2,901	2,094
	8,641	6,012	3,694
TOTAL ASSETS	38,719	36,304	21,057
Interest Bearing Liabilities			
Deposits	29,147	27,830	15,679
Branch Banking	25,096	23,851	10,183
Branchless Banking	4,051	3,979	5,495
Borrowings	-	-	85
	29,147	27,830	15,764
Non Interest Bearing Liabilities	4,658	3,888	1,605
TOTAL LIABILITIES	33,805	31,718	17,369
EQUITY (including revaluation surplus)	4,892	4,576	3,657
Deferred Grants	22	10	31
Total Liabilities & Equity	38,719	36,304	21,057
INCOME STATEMENT	30-Jun-17	31-Dec-16	31-Dec-15
Interest / Mark up Eamed	2,779	4,487	3,503
Interest / Mark up Expensed	(803)	(1,113)	(663)
Net Interest / Markup revenue	1,976	3,373	2,840
Direct Branchless Banking pre-tax profits	1,360	63	(9)
Other Operating Income	328	560	350
Total Revenue	3,664	3,996	3,182
Other Income	-	-	167
Non-Interest / Non-Mark up Expensed	(3,049)	(2,486)	(1,987)
Pre-provision operating profit	615	1,510	1,362
Provisions	(90)	(141)	(80)
Pre-tax profit	525	1,369	1,282
Taxes	(210)	(474)	(431)
Net Income	315	895	852
Ratio Analysis	30-Jun-17	31-Dec-16	31-Dec-15
Performance			
ROE	7%	22%	26%
Cost-to-Total Net Revenue	90%	70%	72%
Provision Expense / Pre Provision Profit	15%	9%	6%
Capital Adequacy			
Equity/Total Assets	13%	13%	17%
Capital Adequacy Ratio as per SBP	22%	31%	39%
Loan Loss Coverage			
Non-Performing Advances /Gross Advances	1.1%	0.6%	0.5%
Loan Loss Provisions / Non-Performing Advances	75.4%	114.9%	106.5%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	43%	63%	43%
Advances / Deposits	69%	57%	77%
CASA deposits / Total Customer Deposits	42%	41%	36%
Intermediation Efficiency			
Asset Yield	20%	20%	21%
Cost of Funds	6%	5%	4%
Spread	14%	15%	17%
Outreach			
Branches	83	74	66

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		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	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.
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.	

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 surveil the opinion due to lack of requisite information

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Name of Issuer Telenor Microfinance Bank Limited (Previously Tameer 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
23-Nov-16	A+	A1	Stable	Maintained
28-Apr-17	A+	A1	Stable	Maintained
28-Apr-16	A+	A1	RW	Maintained
04-Feb-16	A+	A1	RW	Maintained
27-Feb-15	A+	A1	Stable	Maintained
27-Feb-14	A+	A1	Stable	Upgrade
22-Mar-13	A	A1	Stable	Maintained
20-Apr-12	A	A1	Stable	Maintained

Related Criteria and Research

Rating Methodology Microfinance Institutions Methodology
Sector Research Banking | Microfinance - Viewpoint | Feb-17

Rating Analysts

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[Rating Team Statement](#)**Rating Procedure**

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[Probability of Default \(PD\)](#)

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