The Pakistan Credit Rating Agency Limited

# Rating Report

# Telenor Microfinance Bank Limited

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**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 30-Apr-2024 | A | A1 | Stable | Maintain | Yes |
| 29-Apr-2023 | A | A1 | Stable | Maintain | Yes |
| 30-Apr-2022 | A | A1 | Stable | Downgrade | Yes |
| 30-Apr-2021 | A+ | A1 | Negative | Maintain | - |
| 30-Apr-2020 | A+ | A1 | Negative | Maintain | - |
| 30-Oct-2019 | A+ | A1 | Stable | Maintain | - |
| 30-Apr-2019 | A+ | A1 | Stable | Maintain | Yes |
| 07-Nov-2018 | A+ | A1 | Stable | Maintain | Yes |

## Rating Rationale and Key Rating Drivers

Telenor MFB ('the Bank') is associated with robust sponsors - Telenor Group (~55%) and the AliPay (Hong Kong) Holding Limited (~45%). Telenor MFB is a mid-tier player in Pakistan’s microfinance sector with a 4.5% share in the total gross loan portfolio as of end-Dec23. The bank's business profile emanates from its nationwide network of more than 213,000 registered branchless banking agents, serving over 13 million customers every month. The bank is in the process of transitioning from a microfinance bank to a digital retail bank. In this regard, certain milestones achieved as the Bank has been granted a NOC and an in-principal approval from SBP for a digital banking license, the only operational bank in Pakistan to achieve this so far, this is attributable to the largest digital footprint of the bank in the country through EasyPaisa, Pakistan’s first mobile banking platform launched in 2009. The conversion shall entail the grant of the Digital Retail Bank license which shall replace the existing Microfinance Bank license. Organogram has been redesigned with verticals of payment solutions, productive lending, and consumptive lending. At end-Dec23, the net advances of the bank increased by 56% to stand at PKR 17.6bln (end-Dec22: PKR 11.3bln). The NPLs of the bank increased to PKR 1.1bln (end-Dec22: PKR 736mln). Consequently, the infection ratio of the bank inched down to 6.2% (end-Dec22: 6.4%). During the period, the bank successfully disbursed a significant amount of PKR 21.5bln (end-Dec22: PKR 4bln) through digital lending. The deposit base of the bank increased to stand at PKR 50,938mln (end-Dec22: PKR 46,598mln) tilted toward demand deposits with a concentration of ~83%. The average cost of the deposit base of the bank stands at 1.8%, one of the lowest in the industry. During CY23, the NIMR of the bank strengthened by 90% to stand at PKR 12.7bln (CY22: PKR 6.7bln) with a major contribution of income from core banking operations. The fee and commission income enhanced to PKR 12.9bln (CY22: PKR 6.5bln) with a major concentration of income from branchless banking. Subsequently, the Bank reported a net profit of PKR 502mln (CY22: Loss of PKR 7,092mln). At end-Dec23, the CAR of the bank remained the strongest in the industry clocked in at 21.9% (end-Dec22: 19%) owing to a successive capital injection from the sponsors in the hour of need. The management has undertaken a redesign of the business model, balancing the secured and unsecured (EMI) portfolio as per market dynamics and growth potential. The digital strategy will be a key driver in the execution of the model, an essential change in the character of the bank. Hence, the rating watch is placed to capture the transition of the bank.

The maintenance in rating represents the bank's plan for growth is in place and the business profile has demonstrated improvement in CY23. The sustenance and growth of critical parameters are projected to flow in quarters to come. The bank’s successful completion of the transition from a microfinance bank to a digital retail bank will impact the ratings accordingly.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Telenor Microfinance Bank Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology \| Rating Modifiers(Apr-23),Methodology \| Microfinance Institution Rating(Oct-23) |
| **Related Research** | Sector Study \| Microfinance(Sep-23) |
| **Rating Analysts** | Muhammad Usman Ameer \| usman.ameer@pacra.com \| +92-42-35869504 |

## Profile

**Structure** Previously a wholly owned subsidiary of Telenor Pakistan B.V, the bank's ownership changed in November 2018 when Ant Financial, an affiliate fintech company of Alibaba Group, acquired around 34% share through its investment arm, Alipay (Hong Kong) Holding Limited

**Background** Telenor Microfinance Bank Limited, incorporated on August 1, 2005, under the Companies Ordinance, 1984 (now Companies Act, 2017) with SECP, commenced operations in September 2005

**Operations** The bank offers diverse lending and insurance products tailored to industry-specific needs. These include loans for individual entrepreneurs, salaried persons, and microenterprises. Furthermore, the bank has started offering nano loans for basic needs.

## Ownership

**Ownership Structure** The Bank is jointly owned by Telenor Pakistan B.V, a joint stock company based in Amsterdam with 55% shareholding (December 31, 2022: 55%) and Alipay (Hong Kong) Holding Limited with 45% (December 31, 2022: 45%) shareholding.

**Stability** The ownership structure of the bank did not change during the period under review and is expected to remain stable, going forward.

**Business Acumen** Telenor ASA, the parent company of the Telenor Group is a subsidiary of the Government of Norway. It is one of the world's major mobile operators headquartered in Oslo, Norway, with operations across 13 countries. The Ant-Financial is one of the leading fintech conglomerates globally. The bank is well poised to benefit from Ant Financial's strategic vision and direction.

**Financial Strength** Telenor ASA, the parent company of Telenor Group, is majority owned by the Norwegian government (55% share). Based in Oslo, Norway, Telenor ASA is a major global mobile operator in 13 countries, listed on the Oslo Stock Exchange. The recent sponsorship from Ant Financial, the fintech arm of Alibaba Group, is seen as a positive development due to its strong financial backing.

## Governance

**Board Structure** Overall control of the bank vests with eight members of the Board of Directors. Currently, four directors, including the Chairman - Mr. Irfan Wahab, represent the Telenor Group. Likewise, Ant Financial is represented by two directors, while two directors on the board are independent.

**Members' Profile** The board members carry extensive experience in the telecom industry and financial services. The inclusion of Ant Financials' high-profile individuals has added strength to the overall board members' profile.

**Board Effectiveness** The board, drawing on extensive expertise in the financial and telecom industries, offers strategic counsel to the bank and conducts regular evaluations of management performance, including the assessment of growth targets.

**Transparency** EY Ford Rhodes Chartered Accountants are the external auditors of the bank. They expressed an unqualified opinion on the financial statements of the bank for the year ended December 31, 2023.

## Management

**Organizational Structure** The bank has eleven departments, each led by a department head who reports to the CEO. The head of internal audit reports to the Audit Committee. The Senior Management team brings significant experience to their roles

**Management Team** The management team comprises qualified individuals with experience in their respective fields. Mr. Kashif Ahmad has been the acting President and CEO of the bank since July 2023 and carries with him over 2.5 decades of experience in the banking industry. Other members of top management are also very experienced.

**Effectiveness** Telenor has established several management committees to effectively manage and oversee operations. One such committee is the executive committee, is in place which comprises the CFO, CHRO (Chief Human Resource Officer), and, CRO (Chief Risk Officer) reports directly to the CEO. An asset-liability committee is also in place.

**MIS** Detailed MIS reports are generated to support the senior management in timely and effective decision-making. Daily MIS includes reports about disbursements, repayments, recoveries, and deposits, separately for core and branchless banking operations.

**Risk Management Framework** The Bank has a robust Risk Division Unit tasked with overseeing all associated risks. The bank has meticulously developed and deployed a comprehensive credit policy manual, which encompasses guidelines for its risk management framework. On top of that, TMFB has successfully developed and deployed an in-house system to assess customers' credit history and evaluate their credit scores to make more informed lending decisions.

**Technology Infrastructure** In its branch operations, Telenor Microfinance Bank Employs Core Banking Application as its primary banking software, while Ericson's platform is used for branchless operations. Additionally, the bank has implemented solar power setups at select branches to mitigate the challenges posed by electricity load shedding.

## Business Risk

**Industry Dynamics** The microfinance Bank's asset quality witnessed significant impairment due to multiple factors, the high inflationary environment amidst a slowdown in the economy, and the high interest rate. In the Microfinance sector, MFBs maintained the highest share of the total GLP at ~77%. MFBs' bottom line experienced a negative growth of ~52.7% (CY22: ~112.3%). Thereby, MFBs' equity continued to decline in CY23 by ~14.5%. The NPLs increased to ~9.5% (~8.8% in CY22). The Sector's GLP clocked in at PKR~408bln as of End-Dec'23, up ~12.8% since End-Dec'22, when it recorded at PKR~361bln. In terms of GLP, the top 3 MFBs during 1HCY23 were Habib MFB, Khushhali MFB, and U MFB. In terms of deposits, U MFB, Khushhali MFB, and Habib MFB are the leading MFBs.

**Relative Position** Telenor MFB is a mid-tier player in Pakistan's microfinance sector with a 4.5% share in the total gross loan portfolio as of the end of Dec 23. In the branchless banking domain, the bank is the leading and veteran player in the industry. The bank is committed to strengthening its position in branchless banking with its digital arm by the name of EasyPaisa.

**Revenue** During CY23, mark-up income earned by the Bank increased 73% to stand at PKR 13,778mln (CY22: PKR 7,967mln). The fee and commission inccome increased by 97% to stand at PKR 12.8bln (CY22: PKR 6.5bln).

**Profitability** During CY23, PAT amounted to PKR 502mln (CY22: Loss of PKR 7,092mln), indicating signs of recovery, mainly due to enhanced topline and healthy income from branchless banking.

**Sustainability** With Telenor Group as the major 55% shareholder and Ant Financial Services Group holding 45% of TMB's shares, the Bank is committed to creating long-term sustainable shareholders' value. Being one of the largest branchless banking service platforms in the country. The Bank's platform is geared towards the provision of the best user experience via a vast suite of innovative products for payments, deposits, and lending requirements of its valued customers, in pursuit of this the bank has been granted IPA by SBP for DRB.

## Financial Risk

**Credit Risk** At end-Dec23, the Bank's net advances clocked in at PKR 17,580mln (At end-Dec22: PKR 11,291mln), depicting a growth of 56%. The Bank's non-performing loans increased to PKR 1,146mln (end-Dec22: PKR 736mln). Consequently, the infection ratio inched down to 6.2% (end-Dec22: 6.4%).

**Market Risk** At end-Dec23, the Bank's total investment increased to PKR 28,588mln (end-Dec22: PKR 27,972mln). The investment portfolio of the bank comprises government securities only.

**Funding** At end-Dec23, the total deposits of the bank increased by 9% to stand at PKR 50,938mln (end-Dec22: PKR 46,598mln).

**Cashflows & Coverages** Subsequent equity injections from shareholders between the year 2018-2021 aggregating in total to USD 235 million.

**Capital Adequacy** At end-Dec23, the equity base increased to PKR 8,009mln (end-Dec22: PKR 6,071mln) attributable to capital injection from the sponsors. Consequently, the Capital Adequacy Ratio increased to 21.9% (end-Dec22: 19%).

PKR mln

| Telenor Microfinance Bank Limited<br>Public Unlisted Company | Dec-23<br>12M | Dec-22<br>12M | Dec-21<br>12M | Dec-20<br>12M |
|---|---|---|---|---|
| **A BALANCE SHEET** | | | | |
| 1 Total Finances - net | 17,432 | 10,857 | 9,788 | 10,623 |
| 2 Investments | 28,588 | 27,972 | 17,753 | 11,855 |
| 3 Other Earning Assets | 12,045 | 8,508 | 10,457 | 13,074 |
| 4 Non-Earning Assets | 18,117 | 15,788 | 15,417 | 16,245 |
| 5 Non-Performing Finances-net | 148 | 433 | 981 | 468 |
| **Total Assets** | 76,330 | 63,558 | 54,395 | 52,265 |
| 6 Deposits | 50,938 | 46,598 | 39,043 | 36,964 |
| 7 Borrowings | - | - | - | - |
| 8 Other Liabilities (Non-Interest Bearing) | 17,383 | 10,890 | 9,476 | 10,137 |
| **Total Liabilities** | 68,321 | 57,488 | 48,519 | 47,100 |
| **Equity** | 8,009 | 6,071 | 5,877 | 5,165 |
| **B INCOME STATEMENT** | | | | |
| 1 Mark Up Earned | 13,778 | 7,967 | 9,693 | 11,723 |
| 2 Mark Up Expensed | (1,046) | (1,254) | (1,927) | (2,771) |
| 3 Non Mark Up Income | 14,107 | 8,563 | 2,046 | 1,455 |
| **Total Income** | 26,839 | 15,276 | 9,812 | 10,407 |
| 4 Non-Mark Up Expenses | (24,173) | (20,474) | (17,323) | (18,814) |
| 5 Provisions/Write offs/Reversals | (1,432) | (1,534) | (2,934) | (2,015) |
| **Pre-Tax Profit** | 1,234 | (6,732) | (10,444) | (10,422) |
| 6 Taxes | (732) | (359) | (321) | (282) |
| **Profit After Tax** | 502 | (7,092) | (10,765) | (10,704) |
| **C RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| Net Mark Up Income / Avg. Assets | 18.2% | 11.4% | 14.6% | 15.8% |
| Non-Mark Up Expenses / Total Income | 90.1% | 134.0% | 176.5% | 180.8% |
| ROE | 7.1% | -118.7% | -195.0% | -162.0% |
| **2 Capital Adequacy** | | | | |
| Equity / Total Assets | 10.5% | 9.6% | 10.8% | 9.9% |
| Capital Adequacy Ratio | 21.9% | 19.0% | 24.9% | 18.9% |
| **3 Funding & Liquidity** | | | | |
| Liquid Assets / (Deposits + Borrowings Net of Repo) | 82.4% | 83.9% | 82.9% | 57.1% |
| (Advances + Net Non-Performing Advances) / Deposits | 34.5% | 24.2% | 27.6% | 30.0% |
| Current Deposits / Deposits | 82.8% | 83.3% | 69.0% | 58.3% |
| SA Deposits / Deposits | 17.2% | 14.4% | 8.1% | 9.7% |
| **4 Credit Risk** | | | | |
| Non-Performing Advances / Gross Advances | 6.2% | 6.4% | 17.0% | 16.5% |
| Non-Performing Finances-net / Equity | 1.8% | 7.1% | 16.7% | 9.1% |

## Credit Rating

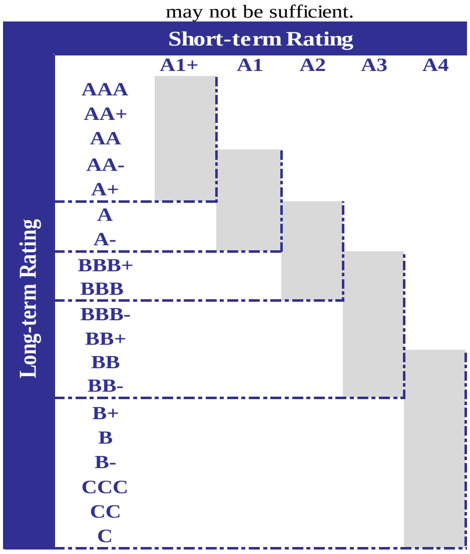
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long-term Rating

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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 Rating

| Scale | Definition |
|---|---|
| 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 |
| A4 | The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient. |




*The correlation shown is indicative and, in certain cases, may not hold.*

**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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

## Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**Rating Team Statements**
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

**Restrictions**
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

**Conduct of Business**
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

**Independence & Conflict of interest**
(12) 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 fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

**Monitoring and review**
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
**Probability of Default**
(22) 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; | Chapter III | 14-3(f)(vii)
**Proprietary Information**