



The Pakistan Credit Rating Agency Limited

TELENOR MICROFINANCE BANK LIMITED

	UPDATE [MAR-17]	PREVIOUS [APR-16]
Long-Term	A+	A+
Short-Term	A1	A1
Outlook	Stable	RW

REPORT CONTENTS
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MARCH 2017

Profile & Ownership

- Commenced operations in September 2005; incorporated under the Microfinance Institution Ordinance 2001
- Renamed Telenor Microfinance Bank, effective Jan17, post full acquisition by Telenor Group
- In Mar16, Telenor Bank become 100% owned subsidiary of Telenor ASA through Telenor Pakistan (51%) and Telenor Pakistan B.V. (Amsterdam based [49%]) subsequently
- Operates through a nationwide network of 74 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. Ms. Tine Wollebeck is the Chairperson. She has over 34 years of experience in the financial sector and is the SVP of Telenor Financial Services
- 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. Ali Riaz Chaudhry is the new CEO, with 20+ years of experience in banking and finance. Previously he was the Senior Advisor, Group Financial Services at Telenor.
- A new executive committee is in place reporting to the CEO, comprising all department heads
- 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
- Loan Book grew by 28% YoY at end-Dec16; secured loans declined - constituting 38% of total advances (end-Dec15: 53%); this is in line with SBP regulations requiring reduction in gold backed loan to 35% by 2017
- Focus will be on increasing the unsecured portfolio, thus increasing credit risk.
- Infection ratio remained robust (end-Dec16: 0.6%)
- Investments portfolio (end-Dec16: 32% of total assets) solely comprises Market Treasury Bills, limiting market risk
- In Apr16, Branchless Banking system FUNDAMO has been replaced by Ericsson in order to cater high volume of transaction

Performance

- During CY16, NIMR increased by 19% due to volumetric growth, although spreads reduced (end-Dec16: 13%)
- Branchless Banking segment reported a net profit of PKR 63mln in comparison with a loss of ~PKR9mln at end-Dec15; primarily on the back of increased depositors and use of Easypaisa
- The bank posted a net profit of PKR 895mln registering a growth of 5% YoY
- Going forward, focus will be on increasing mobile accounts

Financial Risk

- Telenor Bank's funding constitutes deposits which grew by 78% during CY16; CASA deposits increased to 52.6% at end-Dec16 (end-Dec15: 35.6%)
- Liquidity profile remained strong as reflected by liquid assets-to-deposits and borrowings ratio of 63% at end-Dec16 (end-Dec15: 43%)
- CAR declined YoY (end-Dec16: 31%, end-Dec15: 37%) - a factor of increase in unsecured loans. However, CAR remained strong to the regulatory requirement (15%)

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, however, mainly in high cost deposits. The spreads remained strong, though declined YoY. Telenor Bank accounted for 27% of system share in MFB industry deposits. The Bank is gradually building its non-gold-securitized loan portfolio; as per MFB regulations, gold backed loan portfolio can be kept at maximum 35%; 38% for Telenor Bank at end-Dec16. The financial risk profile of the Bank is strong, with high liquidity. Portfolio at risk of 0.6% at end-Dec16 reflects a strong risk evaluation framework. The branchless banking (BB) operations – Easy Paisa – is in the process of being fully transferred to Telenor Bank. Starting Jan-17, the Bank would retain 100% revenue from Easy Paisa (14% previously), which would augment the topline, while profitability would gradually transpire. Easy Paisa at end-Sep16 holds 48% of the market share in number of BB deposits of the country (end-Dec15: 64%) – a facet of increased competition in the growing industry. Overall profitability, supported by low loss provisioning remained sanguine. The ratings take comfort from association with a strong sponsor – Telenor Group – majority owned by the Government of Norway.

KEY RATING DRIVERS

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

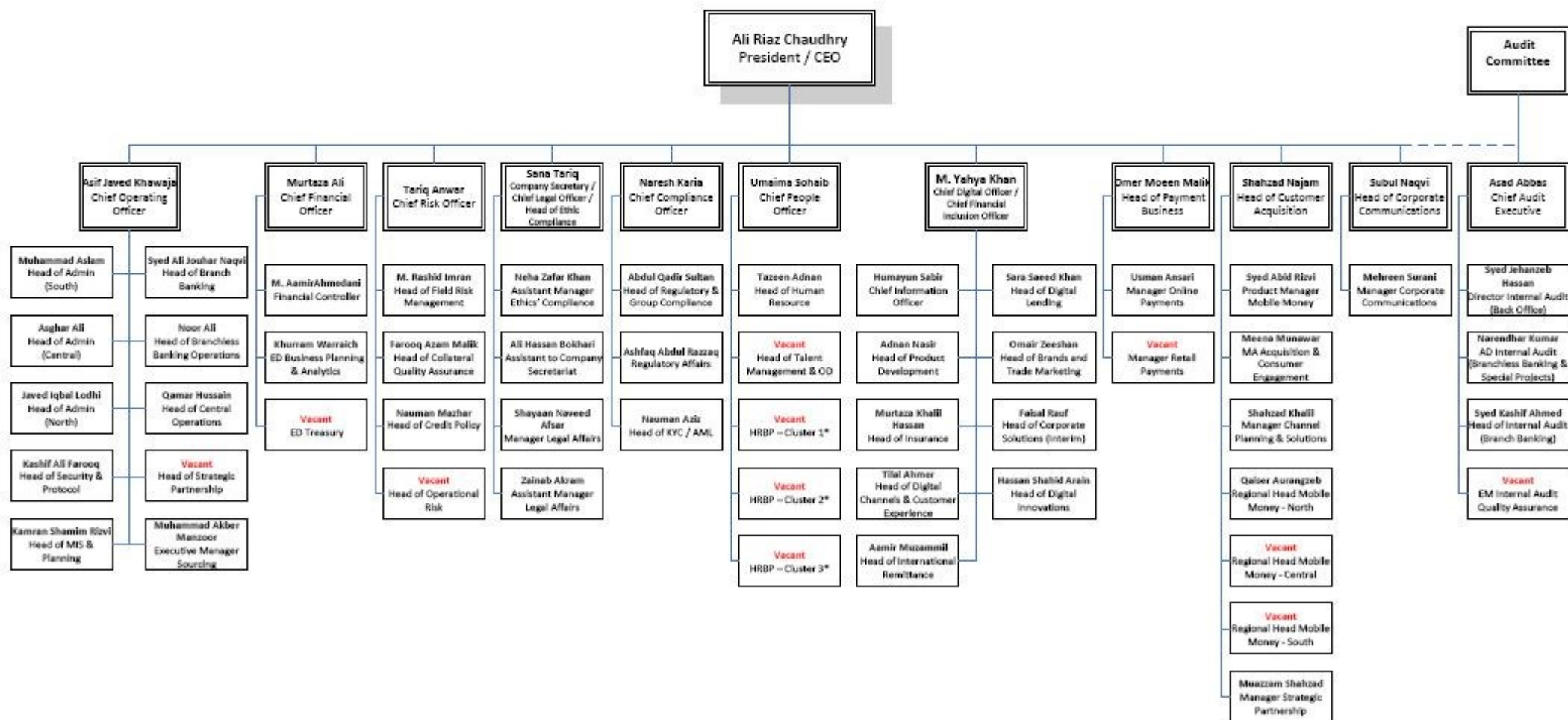
**Profile –Board of Directors: Telenor Microfinance Bank Limited
as at December 31, 2016**

	Name [Qualification] (Year of Birth)	Representation	Occupation	Overall Experience	Committees	Association With Board (since)	Participation in Meetings [Total:5] (during CY16)
1	Mr. Ali Riaz Chaudhary [BA. Honors. University of Kent] (1972)	Telenor Group Limited	CEO of Telenor Microfinance Bank Limited	19 years of experience in the financial sector in various senior roles, leading big ticket projects	Nil	2016	2/2
2	Ms. Tine Wollebakk [Master of Science (cand.Merc) International Business] – (1966)	Telenor Group Limited – NED	Chairperson SVP and Global Head of Telenor Financial Services	34+ years of experience in the financial sector with in various high level leading roles	▪ People Committee	2016	1/1
3	Mr. Roar Bjaerum [MSc. The Norwegian School of Economics and Business Administration; MBA. Norwegian University of Science and Technology] (1966)	Telenor Group Limited - NED	Head of Financial Services - Telenor ASA, Norway	17 years of experience in the financial industry, both as a consultant and line manager across a variety of functional areas.	▪ Audit ▪ Risk	2008-11 2014- to-date	5/4
4	Mr. Irfan Wahab Khan [MA Mobile and Personal Communications, University of Westminster, UK] (1969)	Telenor Pakistan (Pvt.) Limited- NED	CMO- Telenor Pakistan (Pvt.) Limited	▪ 9years experience with Telenor Group Extensive experience in the field of marketing and product coordination	▪ People Committee (Chairman)	2013	5/5
5	Mr. Salim Raza [MA, Oxford University]. (1946)	Independent	Senior Banker	Ex-governor SBP Ex-President NBP	▪ Risk (Chairman) ▪ Audit (Chairman) ▪ People Committee	2007	5/5
6	Mr. Aslam Hayat 1. [LLM from King's College, University of London] 2. [LLB from Punjab University Law College, Lahore]	Telenor Group Limited- NED	Chief Corporate Affairs and Security Officer, Telenor Pakistan	30+ Years of experience, in corporate affairs and has been involved in various regulatory positions in regard to the Telecom sector and with Telenor since inception of the Company in Pakistan	Nil	2016	5/4

7	Mr. Henning Thronsen [Master of Business and Economics from Norwegian School of Management, Oslo] [The Norwegian Army School Officer] (1966)	Telenor Group Limited-NED	Head Project & Corporate Finance, Telenor Group	24+ Years of experience from treasury and finance related positions in large international corporates	<ul style="list-style-type: none"> ▪ Audit ▪ Risk 	2016	5/5
8	Uzma Khan [Masters in Business Administration (MBA)], [Quaid-e-Azam University, Islamabad, Pakistan]	Independent Director	CEO, INJAZ Pakistan	28+ Years of in key Banking positions involving leading country level teams across various financial organizations	Nil	2016	N/A (Appointed recently)

Profile –Senior Management: Telenor Microfinance Bank Limited as at December 31, 2016						
Sr. #	Name [Qualification] [Year of Birth]	Designation	Reporting Line	Experience		
				Overall (years)	With the group (since)	At current position (since)
1	Mr. Ali Riaz Chaudhary BA 1972	CEO & President	BoD	20	2015	01-May-2016
2	Mr. Murtaza Ali CA 1978	Chief Financial Officer	CEO	17	2005	23-May-2016
3	Mr. Khawaja Asif MBA 1970	Chief Operating Officer	CEO	24	2016	08-June-2016
4	Mr. Tariq Anwar BA 1966	Chief Risk Officer	CEO	26	2005	08-June-2016
5	Ms. Sana Tariq LLM 1985	Chief Legal Officer & Company Secretary	CEO	8	2014	18- August- 2014
6	Mr. Naresh Karia CA 1975	Head of Compliance	CEO	19	2011	04-March-2011
7	Mr. Yahya Khan FCA 1971	Head of Easy Paisa(CFIO & CDO)	CEO	22	2014	01- January- 2017
8	Ms. Umaima Sohaib MBA 1978	Chief People Officer	CEO	12	2013	21-May-2016

Organisation Chart – Telenor Microfinance Bank (As of February 20, 2017)



Telenor ASA has various wholly owned, associated companies, and business units contributing to its revenue. Details of its major business is as below

Telenor ASA - (as of Dec-16)	USD Mln
Revenue	15,771.24
Assets	24,740.16
Equity	6,647.40

Telenor ASA Companies - (as of Dec-16)	Shareholding	Owned Through*	Revenue - USD mln
Norway	Wholly Owned		3,124
Denmark	Wholly Owned		1,480
Sweden	Wholly Owned		609
Hungary	Wholly Owned		532
Montenegro	Wholly Owned		467
Serbia			
Bulgaria	Wholly Owned		380
Myanmar	Wholly Owned		842
Pakistan	100%	Telenor Pakistan B.V	1,047
India	100%	Telewings Communications Services Pvt. Ltd	724
Grameenphone (bangladesh)	55.80%	Telenor Mobile Communications AS	1,481
Digi (Malaysia)	49%	Telenor Asia Pte Ltd	1,605
Dtac (thailand)	42%	Telenor Asia Pte Ltd	2,358
		Total	14,649

*these companies are wholly owned subsidiaries of Telenor ASA

Telenor Micro Finance Bank Limited

BALANCE SHEET	PKR Mln		
	31-Dec-16	31-Dec-15	31-Dec-14
Earning Assets			
Advances	15,850	12,129	8,907
Investments (Government Securities)	11,568	3,784	3,776
Deposits with Banks	2,551	1,103	709
Lending to Financial Institutions	323	347	-
	30,292	17,363	13,392
Non Earning Assets			
Non-Earning Cash	3,125	1,603	1,380
Net Non-Performing Finances	(14)	(4)	35
Fixed Assets & Others	2,901	2,094	1,587
	6,012	3,694	3,002
TOTAL ASSETS	36,304	21,057	16,393
Interest Bearing Liabilities			
Deposits	27,830	15,679	12,261
Branch Banking	23,851	10,183	7,931
Branchless Banking	3,979	5,495	4,330
Borrowings	-	85	239
	27,830	15,764	12,501
Non Interest Bearing Liabilities	3,888	1,605	1,049
TOTAL LIABILITIES	31,718	17,369	13,549
EQUITY (including revaluation surplus)	4,576	3,657	2,821
Deferred Grants	10	31	23
Total Liabilities & Equity	36,304	21,057	16,393

INCOME STATEMENT	PKR Mln		
	31-Dec-16 Annual	31-Dec-15 Annual	31-Dec-14 Annual
Interest / Mark up Earned	4,487	3,503	3,055
Interest / Mark up Expensed	(1,113)	(663)	(766)
Net Interest / Markup revenue	3,373	2,840	2,289
Branchless Banking pre-tax profits	63	(9)	94
Other Operating Income	560	350	303
Total Revenue	3,996	3,182	2,686
Other Income	-	167	99
Non-Interest / Non-Mark up Expensed	(2,486)	(1,987)	(1,649)
Pre-provision operating profit	1,510	1,362	1,136
Provisions	(141)	(80)	(116)
Pre-tax profit	1,369	1,282	1,021
Taxes	(474)	(431)	(312)
Net Income	895	852	709

Ratio Analysis	31-Dec-16	31-Dec-15	31-Dec-14
Performance			
ROE	22%	26%	28%
Cost-to-Total Net Revenue	70%	72%	70%
Provision Expense / Pre Provision Profit	9%	6%	10%
Capital Adequacy			
Equity/Total Assets	13%	17%	17%
Capital Adequacy Ratio as per SBP	31%	39%	64%
Loan Loss Coverage			
Non-Performing Advances /Gross Advances	0.6%	0.5%	0.8%
Loan Loss Provisions / Non-Performing Advances	114.9%	106.5%	53.3%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	63%	43%	47%
Advances / Deposits	57%	77%	73%
CASA deposits / Total Customer Deposits	41%	36%	27%
Intermediation Efficiency			
Asset Yield	18%	21%	23%
Cost of Funds	5%	4%	6%
Spread	13%	17%	17%
Outreach			
Branches	74	66	57

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.
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.	A1: A strong capacity for timely repayment.
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.	A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C: An inadequate capacity to ensure timely repayment.
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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Regulatory and Supplementary Disclosure

Name of Issuer
Sector
Type of Relationship

Telenor Microfinance Bank Limited (Previously Tameer Microfinance Bank Limited)
Microfinance
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
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
Sector Research

Microfinance Institutions Methodology
Banking | Microfinance - Viewpoint | Feb-17

Rating Analysts

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[Rating Team Statement](#)

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

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