

## RATING REPORT

### Telenor Microfinance Bank Limited (TMB)

**REPORT DATE:**

April 30, 2022

**RATING ANALYSTS:**

Arsal Ayub, CFA

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#### RATING DETAILS

| Rating Category       | Indicative Rating |            | Previous Rating |            |
|-----------------------|-------------------|------------|-----------------|------------|
|                       | Long-term         | Short-term | Long-term       | Short-term |
| <b>Entity Rating</b>  | A                 | A-1        | A               | A-1        |
| <b>Rating Date</b>    | April 30, '22     |            | April 30, '21   |            |
| <b>Rating Outlook</b> | Stable            |            | Negative        |            |

#### COMPANY INFORMATION

|                                                   |                                                                     |
|---------------------------------------------------|---------------------------------------------------------------------|
| <b>Incorporated in 2005</b>                       | <b>External auditors:</b> M.s. EY Ford Rhodes Chartered Accountants |
| <b>Public Limited Company</b>                     | <b>Chairman:</b> Mr. Irfan Wahab Khan                               |
| <b>Key Shareholder(s):</b>                        | <b>Chief Executive Officer:</b> Mohammad Mudassar Aqil              |
| <b>Telenor Pakistan B.V – 55.0%</b>               |                                                                     |
| <b>Alipay (Hong Kong) Holding Limited – 45.0%</b> |                                                                     |

#### APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Microfinance Banks (June 2019)

<https://www.vis.com.pk/kc-meth.aspx>

**Telenor Microfinance Bank Limited (TMB)**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

Telenor Microfinance Bank Limited (TMB) was incorporated in 2005 as a limited company under the Companies Ordinance, 1984.

**Profile of Chairman**

Mr. Irfan Wahab Khan is the EVP, Head of Emerging Asia cluster Telenor Group, Chairman of Telenor Myanmar, Chairman Telenor Microfinance Bank, Director to the Grameenphone Board and CEO of Telenor Pakistan since 2016. Prior to that, Mr. Irfan served as Deputy CEO Telenor Pakistan for two years. Since joining Telenor in 2004, he has held a number of executive positions across Telenor Group including Executive Vice President Telenor Pakistan, CEO Telenor LDI, Group Vice President Devices & Distribution Telenor Group and Chief Marketing Officer Telenor Pakistan.

Mr. Khan holds a Masters degree in Mobile and Personal Communications from University of Westminster London UK. He also holds qualifications in Financial Management from Harvard Business School, executive diploma in Marketing from London Business School and Advance Management from INSEAD and a Qualified Board Director from IMD. He is also a lifetime Alumni of INSEAD.

**Profile of CEO**

Mudassar Aqil is the President and Chief Executive Officer of Telenor Microfinance Bank. Mudassar is an accomplished executive with over 25 years of banking experience in the US and Pakistan with demonstrable success in areas of organizational restructuring, digital finance, FinTech

Telenor Microfinance Bank Limited (‘TMB’ or ‘the Bank’) is a subsidiary of Telenor Pakistan B.V (TP), (a Netherland based company owned by Telenor ASA) having major shareholding in the Bank. As on December 31, 2021, TMB’s operations were spread across 66 branches (Dec’20: 89 branches) nationwide.

Commencing operations in 2005, the Bank grew quickly to become one of the largest microcredit provider in the country and the market leader in the Branchless Banking segment, though its flagship product “Easypaisa”. However, given operational challenges faced by the bank in its lending operations, the Bank had embarked on phase of consolidation, wherein lending operations were halted and the Bank had to undertake significant credit impairment during the 3-year period 2018-2020. The Bank’s strategy plan has subsequently been revised to focus on the Branchless Banking (BB) segment, with advances growth also envisaged by way of leveraging on the Easypaisa platform. TMB is viewed as a hybrid of a leading fintech company and a medium-sized microfinance bank.

**Key Rating Drivers:**

**Strong sponsor profile and demonstrated support is a key rating driver.**

The assigned ratings reflects robust financial profile of both sponsors, TP and AF. Key shareholders have demonstrated support to the entity by way of continued equity infusion. Recently, TMB’s Board has approved a capital plan for injecting USD 71m during the period 2022-24.

**As a result of consolidation, market positioning in the microfinance sector has weakened on a timeline, warranting improvement in the same**

Subsequent to undertaking a de-risking of the balance sheet in 2020, TMB’s strategy had envisaged growth in lending operations in 2021. However, given pandemic related challenges and heightened credit risk environment, growth in advances portfolio remained flat in 2021. As a result, the Bank’s market share, both in terms of deposits and advances, declined on a timeline. Furthermore, the envisaged growth in BB segment revenues did not materialize either, mainly being affected by SBP’s measures to reduce transactional charges. Given the launch of new platforms to further reduce transaction charges, the management has identified a few new areas for growing its BB segment revenues. VIS will continue to closely monitor changes in the same on a timeline.

**The Ratings are supported by TMB’s liquidity profile**

From a liquidity purview, TMB is well placed in its peer group with 83% coverage of deposits and borrowings by liquid assets. Furthermore, its Branchless Banking (BB) segment, which operates under the brand name ‘Easypaisa’ (EP), allows the Bank to attract low cost retail deposits, which is viewed positively.

**Profitability indicators are projected to improve**

TMB’s profitability indicators remained under pressure 2021, with actual loss coming in above the budgeted loss. The reasoning mainly being a further contraction in spread and inability to scale up BB segment revenues in line with envisaged targets. As per the Bank’s strategy plan, profitability indicators are projected to improve going forward, which will be achieved by a mix of higher NIM and BB segment revenues. Furthermore, overall

partnerships, and business growth.

Before joining Telenor Microfinance Bank, Mudassar was the President and CEO of FINCA Microfinance Bank and previously also served as the Vice President for M&T Bank in New York.

provisioning burden is likely to be much lower going forward, given that significant amount of provisions have already been taken and credit quality of the portfolio is notably better, as can be ascertained from the improvement in yield on advances noted in Q1'2022.

**TMB's sponsors have approved USD 71m equity infusion during the period 2022-24**

In line with sponsor commitments, TMB received equity infusion of Rs. 11.6b in 2021, which allowed the Bank maintain its CAR above 18%. Subsequent to the year end, key shareholders have already made part of the planned equity infusion i.e. USD 22m (Rs. 3.9b) in Q1'2022.. As per management, depending on the actual profitability performance of 2022, another equity infusion will be made in Q4'2022 to ensure the Bank complies with minimum CAR requirement.

## Corporate Profile

Incorporated in 2005, Telenor Microfinance Bank operates as a public limited company under Microfinance Institutions Ordinance, 2001. The Bank provides microfinance services to the underserved and low-income segments of the society with the objective of poverty alleviation. As of Dec'21, TMBL was operating with a network of 66 branches nationwide (Dec'20: 89; Dec'19: 120).

### Shareholding Pattern

TMB's shareholding pattern comprises two key shareholders:

- **Telenor Pakistan B.V. (55%):** Telenor Pakistan B.V (TP), (a Netherland-based company owned by Telenor ASA) owns majority shareholding in the bank. Telenor ASA is a Norwegian majority state-owned multinational telecommunications company headquartered at Fornebu in Bærum, close to Oslo. It is one of the world's largest mobile telecommunications companies with operations worldwide, but focused in Scandinavia and Asia.
- **Ant Financial - (Alipay (Hong Kong) Holding Limited (45%) (AF):** Originated from Alipay and officially established in 2014, AF is a technology company focused on serving small and micro enterprises, as well as individuals. Brands under AF include Alipay, Ant Fortune, Zhima Credit and MYbank. Alipay is the world's leading online and mobile payments platform with over 800 million users

Key shareholders have undertaken sizable equity infusions over the years. Initially, there was an equity infusion of Rs. 7.4b (USD 45m) in 2020 followed by another equity infusion of Rs. 11.6b (~USD 71m) in 2021. The equity infusions were undertaken to support the Bank's equity base, which experienced significant equity erosion on a timeline, with accumulated losses

rising to Rs. 38.0b as of Dec'21 (Dec'20: Rs. 27.2b; Dec'19: Rs. 16.6b).

In November 2021, Telenor Group announced that it was mulling options for sale of its 55% stake in TMB and subsequently one leading commercial bank, MCB, announced that it was undertaking due diligence for potential acquisition of Telenor's stake. As of report date, there are at least 2 commercial banks evaluating TMB for a potential acquisition.

The Company's budget plan envisages additional equity infusion of Rs. 7.5b in 2022, which would cover the projected loss of Rs. 6.6b envisaged for the period. As per management calculations, this will allow the Bank to maintain the impact on CAR, which is envisaged to stand at 15% as of Dec'22 i.e. the minimum regulatory requirement.

## Board of Directors (Board)

Since our last review, the Board hasn't undergone any significant change, with the exception of a change in nominee director of Ant Financial, with Mr. Hua Hao joining the Board in place of Mr. Ji Xu. TMB's Board comprises 8 directors, including the CEO, 2 independent directors and 5 nominee directors, 2 from TP and 3 from AF.

There are 3 committees at Board level, which include Board Audit Committee (BAC), Board Risk Management Committee (BRMC) and Board People Committee (BPC).

## Management Team

The management team is headed by Mr. Mudassar Aqil, who was appointed as President & CEO in November 2019. Since our last review, there have been two changes in senior management positions, which include Head of IT and CFO designations.

M.s. EY Ford Rhodes Chartered Accountants was the external auditor of the Bank for 2021; the same is classified as panel 'A' category auditor by State Bank of Pakistan. The Bank's staff strength stood at 3,240 as of December 2021 (Dec'20, 2,592). The increase in work force is mainly emanating from contractual workforce, which increased from 299 to 1,040, while the permanent workforce declined from 2,293 to 2,200.

## **Strategy**

In our previous review, we had noted that TMB had undertaken a major di-risking of its balance sheet, by writing off losses and halting lending operations. It was envisaged that the Bank's ADR would be increased to 38% by Dec'21. Nevertheless, the Bank's ADR remained depressed, and stood at 30% as of Dec'21 (Dec'20: 34%; Dec'19: 67%). Accordingly liquidity ratios of TMB remained elevated, with liquid assets to deposits and borrowings remain elevated, increased from 76% as of Dec'20 to 83% as of Dec'21.

As per management's strategy plan, disbursements are expected to be ramped up in 2022, with ADR envisaged to grow to 44% by Dec'22. The growth in loan book will be aided by the newly developed cash less lending model through the Easypaisa (EP) application (app). Furthermore, branch network - which has already been almost halved from Dec'19 level of 120 to 66 presently - is expected to be further retrenched. The traditional branch network is being replaced with the introduction of Cashless Sales Centers (CSC), the prototype version of which was established in 2021. These CSC's feature cash less operations, with disbursements directly through the EP wallet. Recovery units are also being closed down, as loan repayment will entirely be done by payments to through the vast network of EP agents and existing branch/ CSC network.

On the lending front, TMB has developed a branchless lending algorithm, while approval for lending through branches is centralized for more comprehensive credit oversight. Furthermore, lending operations have largely been concentrated in EMI products, which now comprise 54% of the lending book as of Mar'22 (Dec'21: 49%; Dec'20: 28%). EMI loans generally feature lower loss given default.

In 2021, the Bank has implemented the phase-1 of T-24 Core Banking System. Going forward, the Bank's strategy document envisages significant capital expenditure for 2022, which is planned to be increased from Rs. 1.3b in 2021 to Rs. 4.7b in 2022 and Rs. 2.6b in 2023; these planned expenditures are in large part to support the planned growth in branchless banking infrastructure and part of it pertains to CSC expansion plans.

## **Branchless Banking**

TMB's Branchless Banking (BB) operations posted promising results in 2021, with strong growth in Monthly Active Users (MAUs), which increased to 10m MAUs. The strong growth in MAUs drove the growth in deposit base, with BB deposits increasing from Rs. 18.8b to Rs. 24.4b (up 30% YoY).

On the profitability front, revenue from BB operations remained flat at Rs. 5.7b. There was a 15% decline in money transfer fees, which was compensated by 58% increase in commissions on cash collection for corporate clientele. In line with strategy, customer incentives on BB were notably reduced from Rs. 2.6b in 2020 to Rs. 0.7b in 2021. Reduction in customer incentives, allowed the Bank to post a BB segment profit of Rs. 672m, sans any advertisement expense on BB, since a breakup of this is not available in the financial statements.

Going forward, the management envisages strong growth of 47% in BB segment revenues. In order to accomplish this growth target the management is working on establishing a number of new avenues, which include data monetization and cash less lending through the app. Furthermore, the BB segment deposits are expected to cover the attrition in branch deposits given planned closures; accordingly BB segment deposit growth is envisaged at 25% for 2022.

## Financial Analysis

### Asset Mix

Subsequent to undertaking a de-risking of the balance sheet in 2020, TMB's strategy had envisaged growth in lending operations in 2021. However, given pandemic related challenges and heightened credit risk environment growth in advances portfolio remained flat 2021. Resultantly, the (gross) Advances to Deposits Ratio dropped further to 30% as of Dec'21 (Dec'20: 34%; Dec'19: 67%). In terms of asset composition, a significant portion of lending to FIs, classified in Cash & Cash Equivalents (CCEs) below, was moved into treasury bills. With a significant chunk of the asset base being deployed in liquid investment avenues, liquidity indicators remained strong.

Asset base depicted posted growth of 4% in 2021, which was partly driven by the growth in deposit base and partly on account of uptick in equity. Asset growth is envisaged to remain on the lower side, as branch banking operations are further reigned back, which will translate in attrition in branch banking deposits; this is likely to be compensated by the growth in BB segment deposits.

Table 1: Asset Mix

|                         | Dec'19    | Dec'20    | Dec'21   |
|-------------------------|-----------|-----------|----------|
| Cash & Cash Equivalents | 26%       | 31%       | 27%      |
| Investments             | 23%       | 23%       | 33%      |
| Advances - Net          | 33%       | 21%       | 20%      |
| Other Assets            | 19%       | 25%       | 21%      |
| Total Assets            | Rs. 60.9b | Rs. 52.3b | Rs.54.5b |

### Credit Risk

Given elevated credit risk profile of the MFB sector, the management kept the lending ambitions in check. Branch banking network was further rolled back with closure of 23 branches during the year and the number of clientele further fell by

42%. As per management, the decline in clientele is mainly representative of loss of nano-loan portfolio, which was a digital lending product with bullet payment at maturity. However, given credit risk issues with bullet payment loans, these have been rolled back and as a result unsecured bullet maturity loans constitute 11% of the loan book as of Mar'22 vis-à-vis 34% as of Dec'20.

Table 2: Productivity Indicators

|                                                      | Dec'19  | Dec'20  | Dec'21  |
|------------------------------------------------------|---------|---------|---------|
| No. of branches                                      | 120     | 89      | 66      |
| Total number of active clients                       | 896,694 | 305,619 | 177,987 |
| Total number of Loan Officers (LOs)                  | 1,403   | 875     | 1,375   |
| LOs/branch                                           | 12      | 10      | 21      |
| Active borrowers/LO                                  | 639     | 349     | 129     |
| Active borrowers/branch                              | 7,472   | 3,434   | 2,697   |
| Gross outstanding portfolio per loan officer (Rs. m) | 19.6    | 14.5    | 8.6     |
| Average loan size (Rs.)                              | 30,624  | 41,642  | 66,275  |

Given that the number of loan officers increased during the period, the productivity indicators of TMB fell, as also illustrated in the table above.

### Asset Quality Indicators

Table 3: Asset Quality (Rs. m)

|                           | Dec'19   | Dec'20   | Dec'21   |
|---------------------------|----------|----------|----------|
| Gross Advances- Secured   | 7,143.9  | 4,862.4  | 3,959.6  |
| Gross Advances- Unsecured | 20,316.7 | 7,864.1  | 7,836.5  |
| Total Gross Advances      | 27,460.6 | 12,726.5 | 11,796.1 |
| Specific Provisioning     | 3,993.2  | 1,572.5  | 957.5    |
| General Provisioning      | 3,468.4  | 63.0     | 68.7     |
| Net Advances              | 19,998.9 | 11,091.0 | 10,769.9 |
| NPLs- Secured             | 105.1    | 93.5     | 192.3    |
| NPLs- Unsecured           | 5,676.6  | 2,010.4  | 1,815.0  |
| Total NPLs                | 5,781.7  | 2,103.9  | 2,007.3  |
| NPLs written off          | 2,601.1  | 7,755.8  | 3,491.0  |
| Capital                   | 8,305.7  | 5,131.6  | 6,007.3  |
| Secured Gross Infection   | 1.5%     | 1.9%     | 4.9%     |
| Unsecured Gross Infection | 27.9%    | 25.6%    | 23.2%    |
| Total Gross Infection     | 21.1%    | 16.5%    | 17.0%    |
| Net Infection             | 7.6%     | 4.8%     | 9.7%     |
| Incremental Infection     | 24.0%    | 17.5%    | 23.5%    |
| Provisioning Coverage     | 129.1%   | 77.7%    | 51.1%    |
| Net NPLs to Capital       | 15.2%    | 10.2%    | 17.3%    |

In 2020, financial distress caused by the pandemic resulted in significant increase in credit risk, while Covid relief measures allowed by the SBP, kept the higher credit risk from appearing as an increase in credit risk indicators.

**Table 4: Non-Performing Loans (Rs. m)**

|                                          | Dec'19       | Dec'20       | Dec'21       |
|------------------------------------------|--------------|--------------|--------------|
| Other Assets Especially Mentioned (OAEM) | 777          | 144          | 429          |
| Substandard                              | 622          | 105          | 340          |
| Doubtful                                 | 1,047        | 581          | 684          |
| Loss                                     | 3,335        | 1,276        | 555          |
|                                          | <b>5,782</b> | <b>2,104</b> | <b>2,007</b> |

With a significant portfolio of the NPLs being written off in 2021, the gross infection remained stable, while the incremental infection depicts a truer picture of the actual delinquencies in advances portfolio in 2021. Actual write-offs in 2021 amounted to Rs. 3.5b. Provisioning charges remained elevated and amounted to Rs. 2.9b for 2021 (2020: Rs. 1.9b; 2019: Rs. 8.8b).

Given gross infection of 17.0% and net infection of 9.7%, the asset quality indicators are indicative of high credit risk. However, it is pertinent to mention that credit quality is notably better on a timeline, as can be ascertained from the yield on advances portfolio for Q1'2022.

### Investment Portfolio

The investment portfolio of the Bank grew from Rs. 11.9b to Rs. 17.7b, with its respective share in asset base increasing from 23% to 33% during 2021. The investment portfolio mainly comprises market treasury bills, featuring mark-up rates between 10.4% - 10.94% (2020: 6.86%-9.4%). Market risk emanating from these holdings is considered manageable, while credit risk is very low, as these are sovereign issuances.

### Liquidity Risk

The trend of deposit market share attrition continued in 2021, with TMB's share further falling to 9.2% (Dec'20: 9.9%; Dec'19: 15.5%). The loss of market share can be attributed to branch closures. Accordingly, growth was mainly manifested in BB

deposits, which grew by 30% in 2021, compensating for the 19% drop in branch banking deposits.

**Table 5: Deposit Mix (Rs. m)**

| Deposits Mix          | Dec'19        |     | Dec'20        |     | Dec'21        |     |
|-----------------------|---------------|-----|---------------|-----|---------------|-----|
| Fixed Deposits        | 21,902        | 53% | 11,854        | 32% | 8,966         | 23% |
| Saving deposits       | 6,021         | 15% | 3,571         | 10% | 3,143         | 8%  |
| Current deposits      | 13,247        | 32% | 21,539        | 58% | 26,934        | 69% |
| <b>Total Deposits</b> | <b>41,171</b> |     | <b>36,964</b> |     | <b>39,043</b> |     |
| <b>CASA</b>           | <b>47%</b>    |     | <b>68%</b>    |     | <b>77%</b>    |     |

As illustrated in the table above, the deposit base grew by 6%, while deposit composition seems to have notably improved, given that growth was mainly led by non-remunerative deposits. Furthermore, the growth has almost entirely manifested in retail deposits, as a result of which deposit base granularity is considered to be better than peers.

**Table 6: Individual vs Institutional Deposits (Rs. m)**

|                          | Dec'20        |     | Dec'21        |     |
|--------------------------|---------------|-----|---------------|-----|
| Individual depositors    | 35,430        | 96% | 37,386        | 96% |
| Institutional depositors | 1,533         | 4%  | 1,569         | 4%  |
| <b>Total</b>             | <b>36,964</b> |     | <b>39,043</b> |     |

From a liquidity purview, TMB is well placed in its peer group with 83% coverage of deposits and borrowings by liquid assets. Furthermore, its BB segment deposit garnering ability allows the Bank to solicit low cost retail deposits, which is viewed positively.

### Profitability

TMB's profitability indicators remained under pressure 2021, with actual loss coming in above the budgeted loss. The reasoning can be attributed to further contraction in spread and inability to scale up BB segment revenues in line with envisaged targets.

**Table 7: Profit & Loss Extract (Rs. m)**

|                       | 2019            | 2020            | 2021            |
|-----------------------|-----------------|-----------------|-----------------|
| Net Markup Income     | 5,617           | 3,210           | 2,072           |
| Non-Markup Income     | 8,538           | 7,197           | 7,741           |
| <b>Total Revenues</b> | <b>14,155</b>   | <b>10,407</b>   | <b>9,812</b>    |
| <b>Overheads</b>      | <b>(21,070)</b> | <b>(18,814)</b> | <b>(17,323)</b> |



|                         |          |          |          |
|-------------------------|----------|----------|----------|
| Operating Loss          | (6,915)  | (8,407)  | (7,511)  |
| Net Provisioning Charge | (8,869)  | (2,015)  | (2,934)  |
| Loss Before Tax         | (15,784) | (10,422) | (10,444) |
| Loss After Tax          | (16,232) | (10,704) | (10,765) |

TMB's Net Interest Margin (NIM) further contracted by 35%, following 43% contraction in the preceding year. While the contraction in the preceding year was mainly on account of drop in advances portfolio, in 2021 this was mainly a result of markup reversals on advances for revenue recognized in the preceding year. As a result, the Bank's markup on earning assets declined from 15.39% in 2020 to 10.09% for 2021. The resultant impact on spread was partly contained by cost of funding declining from 5.84% to 3.35%. Nevertheless, given the steep decline in yield on advances, TMB's spread declined from 5.2% to 3.9%.

**Table 8: Non-Markup Income (Rs. m)**

|                                               | 2019         | 2020         | 2021         |
|-----------------------------------------------|--------------|--------------|--------------|
| <b>Fee, Commission &amp; Brokerage Income</b> | <b>8,241</b> | <b>6,303</b> | <b>6,258</b> |
| - Loan Processing Fee                         | 902          | 561          | 563          |
| - Branchless Banking Income                   | 7,326        | 5,742        | 5,695        |
| - Others                                      | 14           | -            | -            |
| <b>Other Income</b>                           | <b>297</b>   | <b>894</b>   | <b>1,483</b> |
|                                               | <b>8,538</b> | <b>7,196</b> | <b>7,741</b> |

Growth in non-markup income did not emanate as envisaged, with BB segment revenues remaining flat. The 8% increase in non-markup income is mainly attributable to recoveries against write offs of Rs. 1.4b in 2021 (2020: Rs. 0.8b). Nevertheless, BB segment profitability depicted improvement on a timeline, as customer incentives were rolled back.

Given the rationalization of customer incentives from Rs. 2.6b in 2020 to Rs. 0.7b in 2021, TMB's operational overheads declined by 8% in 2021.

As per the Bank's strategy plan, the Bank is projected to post a loss of Rs. 6.6b in 2022. The reduction in bottom line losses will be achieved by a mix of higher NIM and non-markup income.

Growth in the former is planned through an increase in spread; given that the markup reversals have already been taken in 2021, the yield on earning assets was notably better in Q1'2022 at 15.57% (2021: 10.09%). The growth in non-markup income is envisaged through strong growth in BB segment revenues, where in new avenues have been identified. Furthermore, overall provisioning burden is likely to be much lower going forward, given that significant amount of provisions have already been taken.

## Capitalization

**Table 9: Capitalization (Rs. m)**

|                                  | Dec'18        | Dec'19       | Dec'20        | Dec'21        |
|----------------------------------|---------------|--------------|---------------|---------------|
| <b>Net Shareholder's Equity</b>  | <b>13,768</b> | <b>8,306</b> | <b>5,132</b>  | <b>6,007</b>  |
| - Paid-up Capital                | 3,547         | 4,278        | 4,278         | 5,479         |
| - Advance against share issuance | -             | -            | 7,443         | -             |
| - Reserves                       | 10,413        | 20,585       | 20,617        | 38,527        |
| - Accumulated Profit             | (192)         | (16,557)     | (27,205)      | (37,999)      |
| <b>Capital Adequacy Ratio</b>    | <b>35.2%</b>  | <b>24.6%</b> | <b>18.73%</b> | <b>18.26%</b> |
| <b>Leverage (Assets/Equity)</b>  | <b>4.5x</b>   | <b>7.3x</b>  | <b>10.2x</b>  | <b>9.1x</b>   |

In line with sponsor commitments, TMB received equity infusion of Rs. 11.6b in 2021, which allowed the Bank maintain its CAR above 18%. Recently, TMB's Board has approved a capital plan for injecting USD 71m during the period 2022-24.

Subsequent to the year end, key shareholders made an additional equity infusion of USD 22m (Rs. 3.9b) in Q1'2022. As per management, depending on the actual profitability performance of 2022, another equity infusion will be made in Q4'2022 to ensure the Bank complies with minimum CAR requirement.

**Telenor Microfinance Bank Limited**
**Annexure I**

| <b>FINANCIAL SUMMARY</b>                                |               |               |               |               |
|---------------------------------------------------------|---------------|---------------|---------------|---------------|
| <i>(amounts in PKR millions)</i>                        |               |               |               |               |
| <b><u>BALANCE SHEET</u></b>                             | <b>Dec'18</b> | <b>Dec'19</b> | <b>Dec'20</b> | <b>Dec'21</b> |
| Total Investments                                       | 9,008.4       | 13,773.4      | 11,855.0      | 17,752.7      |
| Net Advances                                            | 32,944.8      | 19,998.9      | 11,091.0      | 10,769.9      |
| Cash and Bank Balances                                  | 8,074.7       | 10,872.3      | 9,234.7       | 14,617.5      |
| Total Assets                                            | 62,466.0      | 60,859.9      | 52,264.9      | 54,544.9      |
| Deposits                                                | 42,274.9      | 41,170.5      | 36,963.8      | 39,042.9      |
| Borrowings                                              | -             | -             | -             | -             |
| Paid up capital                                         | 3,547.3       | 4,277.6       | 4,277.6       | 5,479.5       |
| Net Worth (excl. revaluation reserve & deferred grants) | 13,768.1      | 8,305.7       | 5,131.6       | 6,007.3       |
| CAR                                                     | 35.2%         | 24.6%         | 18.73%        | 18.26%        |
| <b><u>INCOME STATEMENT</u></b>                          |               |               |               |               |
|                                                         |               | <b>2019</b>   | <b>2020</b>   | <b>2021</b>   |
| Net Mark-up Income                                      |               | 5,617.2       | 3,210.0       | 2,071.8       |
| Net Provisioning / (Reversal)                           |               | 8,820.0       | 1,929.7       | 2,881.6       |
| Non-Markup Income                                       |               | 8,538.1       | 7,196.7       | 7,740.6       |
| Operating Expenses                                      |               | 21,070.0      | 18,813.5      | 17,323.1      |
| Profit/ (loss) before Tax                               |               | (15,784.2)    | (10,421.6)    | (10,444.3)    |
| Profit/ (loss) after tax                                |               | (16,231.5)    | (10,704.0)    | (10,765.0)    |
| <b><u>RATIO ANALYSIS</u></b>                            |               |               |               |               |
|                                                         | <b>Dec'18</b> | <b>Dec'19</b> | <b>Dec'20</b> | <b>Dec'21</b> |
| CA (%)                                                  | 26.1%         | 32.2%         | 58.3%         | 69.0%         |
| CASA (%)                                                | 48.8%         | 46.8%         | 67.9%         | 77.0%         |
| Gross Infection (%)                                     | 4.1%          | 21.1%         | 16.5%         | 17.0%         |
| Net Infection (%)                                       | 2.5%          | 7.6%          | 4.8%          | 9.7%          |
| Incremental Infection (%)                               | 5.2%          | 24.0%         | 17.5%         | 23.5%         |
| Net NPLs to Capital (%)                                 | 5.7%          | 15.2%         | 10.2%         | 17.3%         |
| Provisioning Coverage (%)                               | 88.6%         | 129.1%        | 77.7%         | 51.1%         |
| Advances to Deposits (%)                                | 80.9%         | 66.7%         | 34.4%         | 30.2%         |
| OSS (%) (Recurring Income / Administrative Expenses)    | 95.7%         | 66.6%         | 50.7%         | 49.0%         |
| ROAA (%)                                                | -4.6%         | -26.3%        | -18.9%        | -20.2%        |
| Liquid Assets to Deposits & Borrowings (%)              | 53.4%         | 71.9%         | 75.9%         | 82.9%         |

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix 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](http://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](http://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](http://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                  |                                                                                                                                                                                                                                                                                                                                                                                                                             | Appendix III               |                         |                   |                      |  |
|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------|-------------------|----------------------|--|
| <b>Name of Rated Entity</b>             | Telenor Microfinance Bank Limited (TMB)                                                                                                                                                                                                                                                                                                                                                                                     |                            |                         |                   |                      |  |
| <b>Sector</b>                           | Micro Finance Bank (MFB)                                                                                                                                                                                                                                                                                                                                                                                                    |                            |                         |                   |                      |  |
| <b>Type of Relationship</b>             | Solicited                                                                                                                                                                                                                                                                                                                                                                                                                   |                            |                         |                   |                      |  |
| <b>Purpose of Rating</b>                | Entity Rating                                                                                                                                                                                                                                                                                                                                                                                                               |                            |                         |                   |                      |  |
| <b>Rating History</b>                   | <b>Rating Date</b>                                                                                                                                                                                                                                                                                                                                                                                                          | <b>Medium to Long Term</b> | <b>Rating Outlook</b>   | <b>Short Term</b> | <b>Rating Action</b> |  |
|                                         | <b>RATING TYPE: Entity</b>                                                                                                                                                                                                                                                                                                                                                                                                  |                            |                         |                   |                      |  |
|                                         | 4/30/2022                                                                                                                                                                                                                                                                                                                                                                                                                   | A                          | Stable                  | A-1               | Maintained           |  |
|                                         | 4/30/2021                                                                                                                                                                                                                                                                                                                                                                                                                   | A                          | Negative                | A-1               | Downgrade            |  |
|                                         | 4/30/2020                                                                                                                                                                                                                                                                                                                                                                                                                   | A+                         | Rating Watch-Negative   | A-1               | Maintained           |  |
|                                         | 4/30/2019                                                                                                                                                                                                                                                                                                                                                                                                                   | A+                         | Stable                  | A-1               | Maintained           |  |
|                                         | 4/27/2018                                                                                                                                                                                                                                                                                                                                                                                                                   | A+                         | Rating Watch-Developing | A-1               | Maintained           |  |
|                                         | 4/28/2017                                                                                                                                                                                                                                                                                                                                                                                                                   | A+                         | Stable                  | A-1               | Reaffirmed           |  |
|                                         | 4/28/2016                                                                                                                                                                                                                                                                                                                                                                                                                   | A+                         | Stable                  | A-1               | Reaffirmed           |  |
|                                         | 4/17/2015                                                                                                                                                                                                                                                                                                                                                                                                                   | A+                         | Stable                  | A-1               | Reaffirmed           |  |
|                                         | 4/23/2014                                                                                                                                                                                                                                                                                                                                                                                                                   | A+                         | Stable                  | A-1               | Upgrade              |  |
|                                         | 3/27/2013                                                                                                                                                                                                                                                                                                                                                                                                                   | A                          | Stable                  | A-1               | Reaffirmed           |  |
|                                         | 12/26/2012                                                                                                                                                                                                                                                                                                                                                                                                                  | A                          | Stable                  | A-1               | Reaffirmed           |  |
| <b>Instrument Structure</b>             | N/A                                                                                                                                                                                                                                                                                                                                                                                                                         |                            |                         |                   |                      |  |
| <b>Statement by the Rating Team</b>     | 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.                                                                                                                                    |                            |                         |                   |                      |  |
| <b>Probability of Default</b>           | 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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| <b>Due Diligence Meetings Conducted</b> | <b>Name</b>                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>Designation</b>         | <b>Date</b>             |                   |                      |  |
|                                         | Mr. Omair Jafri                                                                                                                                                                                                                                                                                                                                                                                                             | CFO                        | April 19, 2022          |                   |                      |  |