BEFORE THE
COMPETITION COMMISSION OF PAKISTAN

IN THE MATTER OF

FIRST PHASE REVIEW

ACQUISITION OF SHAREHOLDING OF FIRST MICROFINANCE BANK LIMITED BY HABIB BANK LIMITED.

CASE: 776/Merger-CCP/15

Commission	Ms. Vadiyya Khalil **Chairperson**
	Mr. Shahzad Ansar **Member**
	Mr. Ikram Ul Haque Qureshi **Member**

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ORDER

I **Background**

1 On 21 December 2015, the Competition Commission of Pakistan (the "Commission") received a pre-merger notification pursuant to Section 11(3) of the Competition Act 2010 (the "Act") and Regulation 3 and 5 of the Competition (Merger Control) Regulations 2007 (the "Merger Regulations") by which Habib Bank Limited ("HBL" or "Acquirer") intends to acquire shares of First Microfinance Bank Limited ("FMFBL") by way of share subscription agreement. The Commission's review of the intended merger is as under:

II **Merger Parties**

2 **Acquirer**
HBL is a banking company incorporated under the Companies Ordinance 1984. It is listed on Pakistan Stock Exchange (ex. Karachi Stock Exchange, Lahore Stock Exchange, and Islamabad Stock Exchange). HBL is principally active in commercial banking and financial services in Pakistan and overseas. Its shares are held by Agha Khan Funds for Economic Development, a Swiss entity. Total mark-up/return/interest and non-mark-up/interest income of HBL for the financial year ending 31 December 2014 remained more than PKR and value of total assets remained PKR for the same period.

3 **Target**
FMFBL, an unlisted public company in Pakistan and its shares are held by Agha Khan Development Network (AKDN), which in turn are held by Agha Khan Agency for Microfinance ("AKAM" (a Swiss entity), shares) and Agha Khan Rural Development ("AKRD" (a non-profit company registered under s.42 of the Companies Ordinance, 1984), up to shares). The company is licensed to operate as a microfinance service provider under the Microfinance Institutions Ordinance 2001. It specializes in micro-credit, micro-deposit, micro-insurance schemes, including investment plans to facilitate low income households and individuals to meet their day-to-day operations as well as their medium to long-term financial goals. Total mark-up/return/interest of FMFBL for the financial year ending on 31 December 2014 was PKR and value of the total assets remained PKR for the same period.

III **Transaction**

4 The transaction involves acquisition of 5 @ PRK per share) shares of FMFBL by HBL. The estimated cost of the intended merger is PKR

5 The intended merger meets the notification thresholds prescribed under Regulation 4(2)(a),(b), (c) & (d) by having acquirer's assets valuing more than PKR 300 million and combined assets being more than PKR 1 billion, and turnover of acquirer more than PKR 500 million and combined turnover being more than PKR 1 billion. The intended merger's value exceeds PKR 100 million and percentage of voting share to be acquired exceeds 10% of the total shareholding of FMFBL.

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IV **Relevant Market**

Relevant product market

6 The relevant product market in this case is micro-finance banking, which comprises the provisions of micro-credit, micro-deposit, micro-insurance, including investment plans to facilitate low income households and individuals to meet their day-to-day operations as well as their medium to long-term financial goals.

Relevant geographic market

7. The geographic market for the intended merger is determined to be the whole of Pakistan.

V **Findings of the Phase-I investigation on the competition assessment**

8 The competition assessment in Phase-I has resulted in the following findings:

<u>Microfinance Sector in Pakistan</u>

<u>Premerger</u>

SN	Entity	Sponsors	Assets (%)	Profits (%)
1.	Tameer	Telenor		
2.	Khushali Bank	UBL	[redacted]	[redacted]
3.	NRSP M/Bank	NRSP		
4.	Pak Oman	Govt. of Oman		
5.	First Microfinance Bank	AKAM/AKRSP		
6.	Fina Microfinance	Finca Int'l		
7.	APNA Microfinance	AM		
8.	U Microfinance	PTCL		
9.	Others	-		
	Total	[redacted]	[redacted]	[redacted]

Source: data supplied by KBL and HBL

At present, there is one commercial bank, namely UBL, active in the microfinance sector.

<u>Post-merger</u>

SN	Entity	Sponsors	Assets (%)	Profits (%)
1.	Tameer	Telenor		
2.	Khushali Bank	UBL	[redacted]	[redacted]
3.	NRSP M/Bank	NRSP		
4.	Pak Oman	Govt. of Oman		
5.	First Microfinance Bank	HBL (51%) AKDA (49%)	[redacted]	[redacted]
6.	Fina Microfinance	Finca Int'l		
7.	APNA Microfinance	AM		
8.	U Microfinance	PTCL		
9.	Others	-		
	Total	[redacted]	[redacted]	[redacted]

Source: merged data supplied by KBL and HBL

a. The intended merger involves acquisition of 51% shareholding in FMFBL. The Acquirer is engaged in commercial banking and asset management services in Pakistan and overseas.

b. In contrast to conventional commercial banking, the microfinance sector in Pakistan is supported, licensed by a separate legal framework adopted and supervised by the State Bank of Pakistan (SBP). The relevant market investigation above suggests that HBL will be the second commercial bank entering in the microfinance banking segment, post-merger.

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c. The merging entities are active in the banking and financial sector, however, their operations are differentiated based on their customer (for FMFBL-poor and neglected segment of society with a view of alleviating poverty) and outreach. The acquisition is a part of the long term strategy of HBL to be a leader in financial inclusion with emphasis on alternate delivery channel and branchless banking, but also on serving customers who are in the low-income bracket, by creating differentiated and cost-effective models, hence the intended merger.

d. Fundamentally, collection of micro-deposits from customers is a common segment of business in both types of banking sector. However, the microfinance (credit and deposit) loan cycles are shorter than traditional commercial loans (with terms from typically six months to a year with payment plus interest paid off on weekly to monthly basis). The above-data suggests that experience of private commercial banks in Pakistan's microfinance is still relatively new and limited. Nonetheless, a few patterns are emerging, and a number of challenges continue to require attention.

e. The merging entities work under Agha Khan Development Network (AKDN). The parties have submitted that AKDN is not a legal corporate entity but merely an umbrella description to refer Agha Khan Network. Moreover, there is not parent or subsidiary relationship between the Acquirer (HBL) and the Target (FMFBL).

f. Post-merger, there will be no change in the market share of the merging entities as they are active in dissimilar markets. The intended merger does not meet the presumption of dominance as is envisaged under section 2(1)(e) read with section 3 of the Act.

VI Conclusion

9 In conclusion, there is no evidence that the intended merger is likely to result in substantial lessening of competition by creating or strengthening of dominant position in the relevant market. The intended merger is hereby authorized under Section 31(1) (d) (i) of the Act.

10 It is so ordered.

(Shahzad Ansar)
Member

(IkramUlHaque Qureshi)
Member

(Vadiyya Khalil)
Chairperson

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Islamabad 29th January, 2016