# RATING REPORT

# Tameer Microfinance Bank Limited (TMBL)

**REPORT DATE:**
April 28, 2016

**RATING ANALYSTS:**
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## RATING DETAILS

| | Latest Rating | | Previous Rating | |
|---|---|---|---|---|
| **Rating Category** | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| **Entity Rating** | A+ | A-1 | A+ | A-1 |
| ***Rating Date*** | *April 28, '16* | *April 28, '16* | *April17, '15* | *April17, '15* |
| **Rating Outlook** | Stable | Stable | Stable | Stable |

## COMPANY INFORMATION

| | |
|---|---|
| **Incorporated in 2005** | **External auditors:** KPMG TaseerHadi& Co. Chartered Accountants |
| **Public Limited Company** | **Chairman:** Mr. Michael P. Foley |
| **Key Shareholder(s):** | **Chief Executive Officer:** Mr. Nadeem Hussain |
| Wholly owned subsidiary of Telenor Group | |

## APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria : Microfinance Institutions-Oct 2003**
*http://www.jcrvis.com.pk/images/MicroFinance.pdf*

# Tameer Microfinance Bank Limited (TMBL)

## OVERVIEW OF THE INSTITUTION

**TMBL was incorporated in 2005 and provides microfinance banking services to the underserved segment of the society. In March 2016, Telenor Group (TPL) acquired 100% shares of TMBL. TMBL's financial statements for 2015 have been audited by KPMG TaseerHadi& Co. Chartered Accountants**

**TG is an international provider of telecom, data and media communication services. The Group has presence in 13 markets in the Nordic region, Central and Eastern Europe and in Asia with over 200million mobile subscriptions and a workforce of over 36,000. Moreover, the company has a 33% stake in VimpleCom Ltd, operating in 14 markets.**

## RATING RATIONALE

The assigned ratings to Tameer Microfinance Bank Limited (TMBL) incorporate implicit support of the company's sponsor 'Telenor Group' (TG) which during the year increased its shareholding in the Bank from 51% to 100%. TG has a credit rating of A/A-1 (Single A/ A-One) on the international scale. Ratings also derive strength from TMBL's adequate liquidity profile and strong risk adjusted capitalization level which despite imposition of a cap on gold backed loans (with lower risk weight) is expected to remain healthy. Moreover, diversified revenue stream comprising income from investment & loan book and branchless banking (BB) provide support to assessment of TMBL's profitability metrics.

**Credit Risk**: TMBL is the second-largest provider of microcredit in terms of the gross loan portfolio (GLP). Market share declined marginally to around 13.1% (2014: 13.4%) at year-end'2015. GLP recorded healthy growth during 2015 given the 35% cap imposed by SBP on gold backed loan (TSQ) portfolio. While increasing in absolute terms, proportion of TSQ portfolio declined to 52% (2014: 66%) on account of healthy growth in unsecured loan book. Growth in unsecured portfolio was across a number of product lines including salary, Karobar, group, livestock and micro-enterprise. Asset quality indicators of TMBL compare favorably to peers while the same will be evident for unsecured portfolio as portfolio matures. In line with regulatory requirement, the bank has targeted to reduce its secured loan portfolio to 35% by June'2017 on account of which exposure to credit risk will be tested over time.

**Capitalization**: Capital adequacy ratio though declining to 37% at end-2015 (2014: 64%) remained well above the regulatory requirement. Despite significant increase expected in Risk Weighted Assets on account of regulatory cap imposed on gold-backed loan; CAR is expected to remain healthy given the projected growth in financing and increase in equity base on account of retained profits.

**Liquidity:** Growth in deposit base remained below projections during 2015. However, deposit mix (current account deposits are 60% of deposit mix) and granularity compares favorably to peers. Resultantly, cost of deposits is the lowest in the industry. Contribution of BB in overall current account deposits was sizeable at over 50% at year-end'2015. While remaining adequate, depositor concentration has increased on a timeline basis. Liquidity profile is supported by sizeable liquid assets in relation to deposits and borrowings.

**Easy Paisa:** TMBL has continued to maintain its leadership position in the BB business with Easy Paisa (EP) having a market share of around 55% in total BB banking transactions. While OTC transactions still represent the largest share in revenues, TMBL has managed to open a significant number of new m-wallet accounts during 2015. In the backdrop of high commission rates for agents on OTC transactions, TMBL strategizes to convert its OTC customers to m-wallet account holders. The bank has moved on to a new BB platform 'Ericsson'and has also received permission from SBP for opening of m-wallet account for other mobile operators (OMO). Despite 20% growth in revenues of EP, BB operations incurred a loss in 2015 vis-à-vis profit in 2014 on account of significantly higher NADRA verification charges for registration of m-wallet customers. . Subsequent to completion of 100% acquisition of TMBL by TG, all revenues and costs related to EP will be reflected in the financial statements of the bank. Impact of the same on financial profile of TMBL will be tracked by JCR-VIS.

**Profitability:** Profit after tax increased by 20% during 2015 despite significant NADRA verification charges incurred during the year.Going forward, profitability of TMBL is projected to grow on the back of volumetric growth in earning assets and improved profitability of BB segment with increase in volume & revenue of BB transactions. Maintaining asset quality while managing cost base will remain important in achieving projected profitability levels.

## Tameer Microfinance Bank Limited (TMBL) — Appendix I

| FINANCIAL SUMMARY | | | *(amounts in PKR millio* |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Total Assets | 21,058 | 16,393 | 15,190 |
| Net Advances | 12,125 | 8,941 | 8,311 |
| ***Asset Quality*** | | | |
| Gross Infection (PAR-30) (%) | 0.5% | 0.8% | 0.6% |
| Net Infection | 0.4% | 0.7% | 0.6% |
| ***Funding & Liquidity*** | | | |
| Deposits | 15,678 | 12,261 | 10,627 |
| Net Advances to Deposit Ratio (%) | 77% | 73% | 78% |
| Cost of Funds (%) | 4.7 | 5.8 | 8.9 |
| ***Capitalization*** | | | |
| Net worth | 3,689 | 2,844 | 2,209 |
| Net Worth % Total Assets | 18% | 17% | 15% |
| ***Profitability*** | | | |
| Profit/ (loss) Before Tax | 1,282 | 1,020 | 615 |
| Profit/ (loss) after Tax | 852 | 709 | 382 |
| Spread | 17.2% | 17% | 12.2% |
| Number of Branches | 66 | 57 | 49 |
| Total Number of active clients | 287,285 | 226,870 | 197,811 |
| Average loan size | 42,418 | 39,588 | 42,018 |

# ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

JCR-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:** JCR-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.jcrvis.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.jcrvis.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.jcrvis.com.pk/images/policy_ratings.pdf

**'SD' Rating:** An 'SD' rating is assigned when JCR-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

| | |
|---|---|
| **Name of Rated Entity** | Tameer Microfinance Bank Limited (TMBL) |
| **Sector** | Microfinance Institution |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Microfinance Institution Rating |
| **Rating History** | See table below |
| **Instrument Structure** | N/A |
| **Statement by the Rating Team** | JCR-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. |
| **Probability of Default** | JCR-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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**Rating History**

| Rating Date | Medium to Long Term | Rating Outlook | Short Term | Rating Action |
|---|---|---|---|---|
| RATING TYPE: Entity | | | | |
| **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 |