RATING REPORT

Telenor Microfinance Bank Limited (TMBL)

REPORT DATE:
May 5, 2017

RATING ANALYSTS:
Talha Iqbal
talha.iqbal@jcrvis.com.pk

Osman Rahi
osman.rahi@jcrvis.com.pk

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, '17*		*April 28, '16*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 2005	**External auditors:** KPMG TaseerHadi& Co. Chartered Accountants
Public Limited Company	**Chairman:** Ms. Tine Wollebekk
Key Shareholder(s):	**Chief Executive Officer:** Mr. Ali Riaz Chaudhry
Telenor Group	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria : Microfinance Institutions-May 2016   *http://www.jcrvis.com.pk/docs/Meth-MFBs201606.pdf*

Telenor Microfinance Bank Limited (TMBL)

OVERVIEW OF THE INSTITUTION

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

In 2016, Telenor Group (Telenor Pakistan B.V., a joint stock company based in Amsterdam) acquired the remaining 49% shares of Tameer Microfinance Bank. The group eventually plans to transfer its existing shareholding to Telenor Pakistan B.V. to make it a 100% wholly owned subsidiary of Telenor Pakistan B.V., subject to regulatory approvals.

TMBL's financial statements for 2016 have been audited by KPMG Taseer Hadi & Co. Chartered Accountants

RATING RATIONALE

Telenor Microfinance Bank Limited (TMBL), (Formerly Tameer Microfinance Bank) is a wholly owned subsidiary of Telenor Pakistan BV, a Netherland Based Company which is a subsidiary of Telenor Norway. Shareholding pattern of the company witnessed change in 2016. With the change in ownership, management team has witnessed turnover at key positions. Fresh inductions include qualified professionals. The new management team has introduced a number of people related initiatives including permanent contracts for contractual employees and conversion of FCs into branches. Subsequent to completion of 100% acquisition of TMBL, all revenues and costs related to Easypaisa (EP) are being reflected in the financial statements of the bank.

On the Branchless Banking (BB) front, EP continues to be the market leader in the OTC business whereas, Mobile wallet growth continues to be subject to major competition from industry. The management is in the process of deploying biometric verification devices across a significant portion of its agent network in order to comply with SBP guidelines. Going forward, growth in active m-wallet users is targeted while management is also working on payment platform and digital lending initiatives.

Credit Risk: During 2016, management has streamlined the underwriting process through implementation of a more risk optimized lending model with independent verification process. Changes include implementation of a more risk optimized lending model with three lines of defense. This includes formation of field risk team within the risk management function. As a result of optimization initiatives, increased up-sell and reduction in lending rates, growth in portfolio during 1Q17 was 57% of the increase in advances achieved in 2016. Given the significant untapped microfinance clients and based on increase in monthly retention levels and budgeted growth, increase in ENR is expected to be almost 3 times of growth achieved during full year 2016. Portfolio mix witnessed a noticeable change in 2016 with proportion of un-secured portfolio increasing to 61.3% (2015: 48%) at end-2016. At end-March'2017, the gold loan portfolio was in compliance with regulatory requirement at around 35% of gross advances. Credit risk has remained lower than industry average despite significant increase in the portfolio.

Liquidity: Liquidity profile of TMBL compares favorably with other peer microfinance banks on account of granular deposit base and higher liquid assets in relation to deposits and borrowings. Depositor profile draws support from granularity in deposit base signified by adequate depositor concentration levels, sizeable retail deposit base and healthy deposit mix (despite increase in proportion of fixed deposits in deposit mix). A sizeable proportion of current accounts have been mobilized from the branchless banking channel, representing one-third of total deposits, which is a competitive advantage for TMBL. Liquid assets in relation to deposits and borrowing, even after adjusting for deposits from BISP, are sizeable. Going forward, excess liquidity carried on the balance sheet is expected to be absorbed in order to fund rapid growth planned in loan book. However, adequate liquidity buffer is expected to continue to be maintained on balance sheet. The management also plans to raise funds from term finance certificates in order to fund growth in loan book.

Capitalization: With significant growth in unsecured portfolio during 2016, Capital Adequacy Ratio (CAR) decreased to 31% at end-2016 (2015: 37%). Given the projected growth in financing portfolio, CAR of TMBL is expected to decline but remain above regulatory requirement. Room to grow RWAs is expected to reduce by around half over the next two years from year end 2016 level assuming a 70:30 unsecured vs. secured financing mix.

Profitability: TMBL witnessed improved profitability during 2016. Going forward, profitability from branch banking is expected to continue to grow on the back of significant volumetric increase in advances portfolio. This is despite reduction in lending rates on both secured and unsecured portfolio. Consolidation of full Easypaisa profit and loss account in TMBL accounts would significantly increase the topline as well the relevant costs. Impact of consolidation of Easypaisa on profitability profile of TMBL will be tracked by JCR-VIS.

Telenor Microfinance Bank Limited (TMBL) **Appendix I**

FINANCIAL SUMMARY			*(amounts in PKR millions)*
	2016	**2015**	**2014**
Total Assets	36,304	21,058	16,393
Net Advances	15,835	12,125	8,941
Asset Quality			
Gross Infection (PAR-30) (%)	0.6%	0.5%	0.8%
Net Infection	0.53%	0.4%	0.7%
Funding & Liquidity			
Deposits	27,830	15,678	12,261
Net Advances to Deposit Ratio (%)	57%	77%	73%
Cost of Funds (%)	5.1	4.7	5.8
Capitalization			
Net worth	4,586	3,689	2,844
Net Worth % Total Assets	13%	18%	17%
Profitability			
Profit/ (loss) Before Tax	1,369	1,282	1,020
Profit/ (loss) after Tax	895	852	709
Spread	15%	17.2%	17%
Number of Branches	74	66	57
Total Number of active clients	385,417	287,285	226,870
Average loan size	41,372	42,418	39,588

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	Telenor Microfinance Bank Limited (TMBL)
Sector	Microfinance Institution
Type of Relationship	Solicited
Purpose of Rating	Microfinance Institution Rating

Rating History

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

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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings.