

RATING REPORT

Telenor Microfinance Bank Limited (TMB)

REPORT DATE:

May 2, 2018

RATING ANALYSTS:

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RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|-----------------|--------------------------|------------|-----------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| Entity Rating | A+ | A-1 | A+ | A-1 |
| Rating Date | April 27, '18 | | October 31, '17 | |
| Rating Outlook | Rating Watch- Developing | | Stable | |

COMPANY INFORMATION

| | |
|--|---|
| Incorporated in 2005 | External auditors: KPMG Taseer Hadi & Co. Chartered Accountants |
| Public Limited Company | Chairman: Ms. Petter-Børre Furberg |
| Key Shareholder(s): Telenor Pakistan – 99.99% | Chief Executive Officer: Mr. Shahid Mustafa |

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 (TMB)

OVERVIEW OF THE INSTITUTION

Telenor Microfinance Bank Limited (TMB) was incorporated in 2005 as a limited company under the Companies Ordinance, 1984. TMB is a subsidiary of Telenor Pakistan B.V. (TP) which holds 99.99% shareholding of the bank.

RATING RATIONALE

Telenor Microfinance Bank Limited (TMB) is a wholly owned subsidiary of Telenor Pakistan BV (TP), a Netherland Based Company which is a subsidiary of Telenor ASA. However, the bank has entered into a strategic partnership agreement with Ant Financial (AF) in Pakistan. As per this agreement, AF will invest USD 187.0m for 45% stake in TMB. Originated from Alipay and officially established in 2014, AF is a technology company focused on providing digital payment solutions for 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. The objective of this strategic partnership to further develop and make value additions in TMB's mobile payment and digital financial services.

TMB remains the second largest provider of microcredit in Pakistan with a market share of 12.3% in terms of overall Gross Loan Portfolio (GLP) in 2017. On branchless banking front, Easy Paisa (branchless banking platform of TMB) continues to be the market leader in the OTC business, while mobile wallets (m-wallets) transactions have also witnessed an increase during the outgoing year despite stiff competition in the industry. Going forward, growth in active m-wallet users remains a key strategic target of the management.

Key Rating Drivers:

Sponsor Support: The assigned ratings reflect sound financial profile of TP, current sponsor of TMB. TP is a Netherland based company and a wholly owned subsidiary of Telenor Norway. Telenor Group has a credit rating of A/A-1 (Single A/ A-One) on the international scale. Ratings would be reviewed upon successful acquisition of stake by AF in TMB and unfolding of the business plan going forward.

Credit Risk: During the outgoing year, gross advances portfolio of the bank registered sizeable increase of 57% vis-à-vis the preceding year. Growth witnessed in portfolio was on account of digitization and optimization of the lending process, which reduced the average loan turnaround time, and strategy of upsell adopted by the management. Since majority growth manifested in the unsecured portfolio, asset quality indicators declined slightly on yearly basis; however, they remain favorable vis-à-vis peers. Going forward, management expects growth trend to continue in advances portfolio, while infection ratios to remain at minimal levels as stringent measures have been adopted in lending process to curtail infection.

Capitalization: With sizeable growth in unsecured portfolio in 2017, Capital Adequacy Ratio (CAR) of the bank decreased considerably to 19.51% at end-2017 (2016: 30.56%). Given the additional equity injection by TP in 2018 and proposed equity injection by AFSG in the bank, room to increase Risk Weighted Assets (RWAs) is likely to increase to support the projected growth in advances. CAR is expected to remain comfortably above the minimum regulatory requirement, going forward.

Liquidity: Concentration in deposit base increased in 2017, while proportion of liquid assets in relation to total deposits and borrowings declined in comparison to the preceding year. Overall liquidity profile remains manageable due to presence of sizeable liquid assets in relation to deposits and borrowings. Going forward, liquidity profile of the bank is likely to be supported by additional cash inflow due to aforementioned equity injection.

Profitability: Growth was witnessed in the topline of the bank on the back of growth in advances portfolio; however, profitability of TMB decreased sizeably in 2017 due to consolidation of loss making branchless banking segment in the bank. Going forward, management expects profitability from branch banking to grow on the back of volumetric increase in advances portfolio. However, branchless banking segment may witness further increase in expenses as considerable growth in active m-wallet users remains the focus of the bank.

Telenor Microfinance Bank Limited (TMB)

Appendix I

| FINANCIAL SUMMARY | | <i>(amounts in PKR millions)</i> | |
|---------------------------------------|-------------|----------------------------------|--|
| | 2017 | 2016 | |
| Total Assets | 47,128 | 36,304 | |
| Net Advances | 24,762 | 15,835 | |
| <i>Asset Quality</i> | | | |
| Gross Infection (PAR-30) (%) | 1.0% | 0.6% | |
| Net Infection | 0.8% | 0.5% | |
| <i>Funding & Liquidity</i> | | | |
| Deposits | 36,665 | 27,830 | |
| Net Advances to Deposit Ratio (%) | 68% | 57% | |
| Cost of Funds (%) | 5.3 | 4.8 | |
| <i>Capitalization</i> | | | |
| Net worth | 5,006 | 4,586 | |
| Net Worth % Total Assets | 11% | 13% | |
| <i>Profitability</i> | | | |
| Profit/ (loss) Before Tax | 687 | 1,369 | |
| Profit/ (loss) after Tax | 417 | 895 | |
| Spread (%) | 10.7 | 11.6 | |
| Number of Branches | 85 | 74 | |
| Total Number of active clients | 535,413 | 385,417 | |
| Average loan size | 46,698 | 41,372 | |

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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| REGULATORY DISCLOSURES | | Appendix III | | | |
|-------------------------------------|---|----------------------------|-------------------------|-------------------|----------------------|
| Name of Rated Entity | Telenor Microfinance Bank Limited (TMB) | | | | |
| 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 | | | | |
| | 4/27/2018 | 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 |
| 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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