

Press Release

Ratings of Telenor Microfinance Bank Ltd

Karachi, April 27, 2018: JCR-VIS Credit Rating Company Limited (JCR-VIS) has maintained the entity ratings of Telenor Microfinance Bank Limited (TMB) at 'A+/A-1' (Single A Plus/A-One). Ratings have been placed on 'Rating Watch-Developing' status in view of the ongoing strategic partnership agreement signed by the bank with Ant Financial (AF). The previous rating action was announced on October 31, 2017.

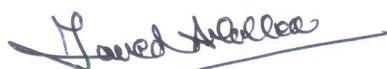
As per the strategic agreement, AF will acquire a 45% stake in the bank for USD 184.5m. AF is focused on digital payment solutions across businesses and individuals. Brands under AF include Alipay, Ant Fortune, Zhima Credit and MYbank. Post-acquisition of the stake by AF, Board control of TMB will be equally divided between AF and Telenor Pakistan B.V. (TP), the current sole sponsor of TMB. TP is a Netherland based company and a wholly owned subsidiary of Telenor ASA. Telenor Group has a credit rating of A/A-1 (Single A/ A-One) on the international scale. In addition to sponsor support, ratings also derive strength from TMB's healthy liquidity profile, capitalization and asset quality indicators. Ratings would be reviewed upon successful completion of the aforementioned strategic agreement and unfolding of the business plan going forward.

Gross Loan Portfolio (GLP) of the bank witnessed sizeable growth of 57% during 2017. Growth witnessed in the portfolio was largely due to the digitization and optimization of the lending process, which reduced the average loan turnaround time, and strategy of upsell adopted by the management. Majority of the growth was manifested in unsecured portfolio during the outgoing year. Given the increase in unsecured portfolio, asset quality indicators of the bank have slightly declined on yearly basis; however, the same are favorable vis-à-vis peers.

Capital Adequacy Ratio (CAR) declined considerably on account of growth in unsecured portfolio of the bank, but is comfortably above the minimum regulatory limit. Given the additional equity injection by TP in 2018 and proposed equity injection by AF in the bank, room to increase Risk Weighted Assets (RWAs) will increase significantly and CAR is expected to remain comfortably above the minimum regulatory requirement, going forward. Liquidity profile of the bank remains manageable due to presence of sizeable liquid assets in relation to deposits. Furthermore, liquidity profile will also be supported by the aforementioned equity injection.

Profitability of TMB registered sizeable decrease in 2017. The decline in profitability was attributed 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 significant 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.

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 021-35311861-70 (10 lines) or fax to 021-35311873.



Javed Callea
Advisor

Applicable Rating Criteria: Microfinance Institutions (May 2016)

<http://jcrvis.com.pk/kc-meth.aspx/>

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