JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh
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Press Release

JCR-VIS Reaffirms Ratings of Telenor Microfinance Bank Ltd (previously Tameer Microfinance Bank Limited) at A+/A-1

Karachi, April 28, 2017: JCR-VIS Credit Rating Company Limited (JCR-VIS) has reaffirmed the entity ratings of Telenor Microfinance Bank Limited (TMBL) (previously Tameer Microfinance Bank Limited) at 'A+/A-1' (Single A Plus/A-One). Outlook on the assigned rating is 'Stable'. The previous rating action was announced on April 28, 2016.

The assigned ratings to TMBL incorporate implicit support of the Bank's sponsor 'Telenor Pakistan B.V' a Netherland Based Company which is 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 also derive strength from TMBL's healthy liquidity, capitalization and asset quality indicators. Going forward, ratings will continue to depend on strong sponsor support, sound capitalization levels, maintenance of competitive edge in alternate delivery channels integrated with robust quality of portfolio and sound underwriting policies.

During 2016, management has streamlined the underwriting process through implementation of a more risk optimized lending model with independent verification process. 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. Portfolio mix witnessed a noticeable change over the last 18 months and is now in compliance with regulatory requirement with gold backed loan portfolio representing around 35% of gross advances. Credit risk has remained lower than industry average despite significant increase in the portfolio.

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. Despite increase in the proportion of fixed deposits, current account deposits witnessed noticeable growth and are highest amongst peers. 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. With significant growth in unsecured portfolio, Capital Adequacy Ratio (CAR) decreased in 2016. Given the projected growth in financing portfolio, CAR of TMBL is expected to decline but remain above regulatory requirement.

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 (EP) profit and loss account in TMBL accounts would significantly increase the topline as well the relevant costs. Impact of consolidation of EP on profitability profile of TMBL will be tracked by JCR-VIS.

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.

With the change in ownership during 2016, 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, conversion of FCs into branches and health and safety measures have been introduced.

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

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Applicable Rating Criteria: Microfinance Institutions (May 2016)
http://jcrvis.com.pk/kc-meth.aspx/