

## Press Release

### VIS Maintains Entity Ratings of Telenor Microfinance Bank Limited with 'Rating Watch-Negative' Status

**Karachi, April 30, 2020:** VIS Credit Rating Company Limited (VIS), while maintaining the entity ratings of Telenor Microfinance Bank Limited (TMB) at 'A+/A-1' (Single A Plus/A-One), has placed the same on 'Rating Watch-Negative' status. The long-term rating of 'A+' signifies good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy. The short-term rating of 'A-1' denotes high certainty of timely payment; liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor. The previous rating action was announced on April 30, 2019.

The assigned ratings to TMB incorporate sponsor profile and demonstrated support of both sponsors, Telenor Pakistan B.V (TP), (a Netherland based company owned by Telenor ASA) and Ant Financial (AF). AF is a China based company and is owned by the Alibaba Group. Ratings also reflect TMB's position as the fourth largest microfinance bank in the country in terms of outstanding gross loan portfolio and market leadership position in the Branchless Banking (BB) segment. Ratings remain dependent on achieving targeted performance benchmarks on the BB front while improving asset quality indicators and earnings profile as projected.

In line with strategic partnership agreement, TMB's key strategic focus over the medium term remains on aggressive customer acquisition (both in mobile account and mobile application platform) and encouraging high frequency and mass appeal transactions in order to facilitate in developing an ecosystem for customers. Customer acquisition witnessed noticeable growth during 2019, nevertheless expected growth in the ongoing year and beyond will have to be tracked. Given that BB segment is expected to assume an increasing proportion of overall revenues over time, risk profile emerging from the segment with higher level of customers and transactions will be a key rating driver. VIS will also track impact of competitive pressures on projected profitability indicators over the long-term.

Given the current ongoing uncertain Coronavirus pandemic scenario and accompanying impact of lockdown, status of the assigned ratings is uncertain and additional information will be necessary to take any further rating action, warranting a 'Rating Watch' status. The revision in outlook to 'Negative' takes into account weakening in advances portfolio and expected impact of economic slowdown on the same. TMB's loan portfolio decreased as the bank paused fresh lending while internal control issues have been addressed. Lending will resume during ongoing year along with increasing proportion of digital lending in the financing mix. It has been positively noted that risk assessment function and internal control framework of the bank have been strengthened. Profitability of the bank was impacted by increase in provisions against non-performing loans and expenses incurred for BB customer acquisition. Equity base witnessed increase post capital injection in 2019. With projected losses and equity attrition emanating from further planned BB customer acquisition expenditure over the rating horizon, capitalization indicators are projected to remain slightly above the minimum regulatory requirement, despite further equity injection by shareholders, which are not commensurate with the benchmarks of the assigned ratings.

For further information on this rating announcement, please contact the undersigned (Ext: 306) or Mr. Muhammad Ibad Desmukh (Ext: 205) at 021-35311861-70 (10 lines) or fax to 021-35311873.

  
Faryal Ahmad Fahcem  
Deputy CEO

Applicable Rating Criteria: Microfinance Banks (June 2019)  
<http://www.vis.com.pk/kc-meth.aspx>

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