



The Pakistan Credit Rating Agency Limited

TAMEER MICROFINANCE BANK LIMITED

	NEW [APR-16]	PREVIOUS [FEB-16]
Entity		
Long Term	A+	A+
Short Term	A1	A1
Outlook	RW	RW

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Profile & Ownership

- Commenced operations in September 2005; incorporated under the Microfinance Institution Ordinance 2001
- Operates through nationwide network of 66 branches with head office in Karachi
- In collaboration with Telenor Pakistan, pioneered branchless banking in Pakistan; also offers loans, savings and insurance products
- In Mar16, Tameer Bank has become 100% owned subsidiary of Telenor Group – 51% owned by Telenor Pakistan, 49% by Telenor Pakistan B.V.

Governance

- Presently, the board comprises nine members including the CEO (one post currently vacant). With addition of two new directors during CY15, Telenor Group has six nominees on the board. The board may undergo changes in near term
- Mr. Nadeem Hussain, the CEO, will retain directorship on board after resigning from his post as CEO and President of the bank

Management

- Telenor Group – the sponsors – has nominated new President and CEO; regulatory approval in process
- Well-tiered organization structure; after completion of acquisition transaction, management structure is likely to undergo changes

Risk Management

- A separate Risk Division is in place; comprehensive mechanism for assessing credit worthiness and infected portfolio
- Loan Book grew by 36% YoY at end-Dec15; secured loans declined - constitute 53% of total advances (end-Dec15: 68%); this is in line with SBP regulations requiring reduction in gold backed loan to 35% by 2017
- Infection ratio remained robust (end-Dec15: 0.5%)
- Investments portfolio (18% of total assets, end-Dec15: 23%) solely comprises Market Treasury Bills, limiting market risk
- In Apr16, Branchless Banking system FUNDAMO has been replaced by Ericsson in order to cater high volume of transactions

Performance

- During CY15, NIMR increased marginally; spreads maintained (end-Dec15: ~17%)
- Branchless Banking segment reported a net loss of ~PKR 9mln in comparison with profit of ~PKR102mln at end-Dec14; a factor of increased NADRA verification charges (PKR 323mln) as number of account holders witnessed surge
- The cost to total net revenue remained on lower side in comparison with industry. The bank posted a net profit of PKR 852mln registering a growth of 20% YoY

Financial Risk

- Tameer Bank’s funding constitutes deposits which grew by 25% during CY15; CASA deposits increased to 71% at end-Dec15 (end-Dec14: 62%)
- Liquidity profile remained strong as reflected by liquid assets-to-deposits and borrowings ratio of 43% at end-Dec15
- On YoY basis, CAR declined (end-Dec15: ~37%, end-Dec14: 63%) - a factor of increase in unsecured loans. However, CAR remained strong (regulatory requirement 15%)

RATING RATIONALE

Telenor Group, signed a Share Purchase Agreement with other shareholders in Nov15 to enhance its shareholding in Tameer Bank - from 51% to 100%. Upon relevant regulatory approvals, share purchase transaction has been executed while regulatory filing of documents is in process. Resultantly, Telenor Bank has become wholly owned subsidiary of Telenor Group. Tameer Bank's ratings would remain on Rating Watch till the finalization of ensuing changes in governance framework, management structure, and business strategy. Tameer Bank's ratings reflect its strong business profile emanating from growing deposit base and diversified revenue stream. The bank has been successful in mobilizing low cost deposits, particularly supported by its branchless banking (BB) operations; spreads stayed healthy. Despite gradual growth in unsecured loan portfolio, asset quality remains robust - a result of superior control framework. The bank's financial profile continued to remain strong. The bank maintains its leading position in BB operations. Although it is likely to keep good share in increasing BB volumes, market share may wane as a result of increasing competition. Nevertheless, earnings from BB add strength to the overall performance. The ratings incorporate the bank's association with a well-reputed and financially sound telecom group - Telenor.

KEY RATING DRIVERS

Post-acquisition, key focus areas for Telenor Group include (i) devising business strategy while maintaining focus on microfinance operations, (ii) consolidating branchless banking operations - Easypaisa, and (iii) fortifying management team in line with ensuing business plan. Any pressure on the bank's position thereby impacting performance may affect ratings.



The Pakistan Credit Rating Agency Limited

Financials [Summary]

Tameer Micro Finance Bank Limited

BALANCE SHEET	31-Dec-15	31-Dec-14	31-Dec-13
Earning Assets			
Advances	12,129	8,907	8,282
Investments (Government Securities)	3,784	3,776	3,472
Deposits with Banks	1,103	709	564
Lending to Financial Institutions	347	-	-
	17,363	13,392	12,318
Non Earning Assets			
Non-Earning Cash	1,603	1,380	1,232
Net Non-Performing Finances	(4)	35	29
Fixed Assets & Others	2,094	1,587	1,611
	3,694	3,002	2,872
TOTAL ASSETS	21,057	16,393	15,191
Interest Bearing Liabilities			
Deposits	15,679	12,261	10,628
Branch Banking	10,183	7,931	8,738
Branchless Banking	5,495	4,330	1,890
Borrowings	85	239	1,504
	15,764	12,501	12,131
Non Interest Bearing Liabilities	1,605	1,049	850
TOTAL LIABILITIES	17,369	13,549	12,981
EQUITY (including revaluation surplus)	3,657	2,821	2,193
Deferred Grants	31	23	16
Total Liabilities & Equity	21,057	16,393	15,191

INCOME STATEMENT	31-Dec-15	31-Dec-14	31-Dec-13
	Annual	Annual	Annual
Interest / Mark up Earned	3,503	3,055	2,519
Interest / Mark up Expensed	(663)	(766)	(1,035)
Net Interest / Markup revenue	2,840	2,289	1,484
Branchless Banking pre-tax profits	(9)	102	103
Other Operating Income	350	303	217
Total Revenue	3,182	2,694	1,804
Other Income	167	99	70
Non-Interest / Non-Mark up Expensed	(1,987)	(1,649)	(1,217)
Pre-provision operating profit	1,362	1,144	657
Provisions	(80)	(116)	(42)
Pre-tax profit	1,282	1,028	615
Taxes	(431)	(312)	(234)
Net Income	851	716	382

Ratio Analysis	31-Dec-15	31-Dec-14	31-Dec-13
Performance			
ROE	47%	29%	19%
Cost-to-Total Net Revenue	89%	88%	91%
Provision Expense / Pre Provision Profit	6%	10%	6%
Capital Adequacy			
Equity/Total Assets	17%	17%	14%
Capital Adequacy Ratio as per SBP	39%	64%	65%
Loan Loss Coverage			
Non-Performing Advances /Gross Advances	0.5%	0.8%	0.6%
Loan Loss Provisions / Non-Performing Advances	106.5%	53.3%	41.3%
Funding & Liquidity			
Liquid Assets / Deposits and Borrowings	43%	47%	43%
Advances / Deposits	77%	73%	78%
CASA deposits / Total Customer Deposits	36%	27%	53%
Intermediation Efficiency			
Asset Yield	21%	23%	21%
Cost of Funds	4%	6%	9%
Spread	17%	17%	12%
Outreach			
Branches	66	57	49

Tameer Microfinance Bank Limited

Apr-16

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STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS		SHORT TERM RATINGS
AAA AA+ AA AA- A+ A A-	<p>Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.</p> <p>Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.</p> <p>High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.</p>	
BB+ BB BB-	<p>Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.</p>	
B+ B B-	<p>Highly speculative. Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.</p>	
CCC CC C	<p>High default risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.</p>	
D	<p>Obligations are currently in default.</p>	

<p>Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.</p>	<p>Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.</p>	<p>Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.</p>	<p>Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.</p>
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Name of Issuer
Sector
Type of Relationship

Tameer Microfinance Bank Limited
 Microfinance
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
28-Apr-16	A+	A1	RW	Maintained
04-Feb-16	A+	A1	RW	Maintained
27-Feb-15	A+	A1	Stable	Maintained
27-Feb-14	A+	A1	Stable	Upgrade
22-Mar-13	A	A1	Stable	Maintained
20-Apr-12	A	A1	Stable	Maintained

Related Criteria and Research

Rating Methodology
 Sector Research

Microfinance Institutions Methodology
 Banking | Microfinance - Viewpoint | Mar-16

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Rating Procedure

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[Probability of Default \(PD\)](#)

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