

## Microfinance Banks

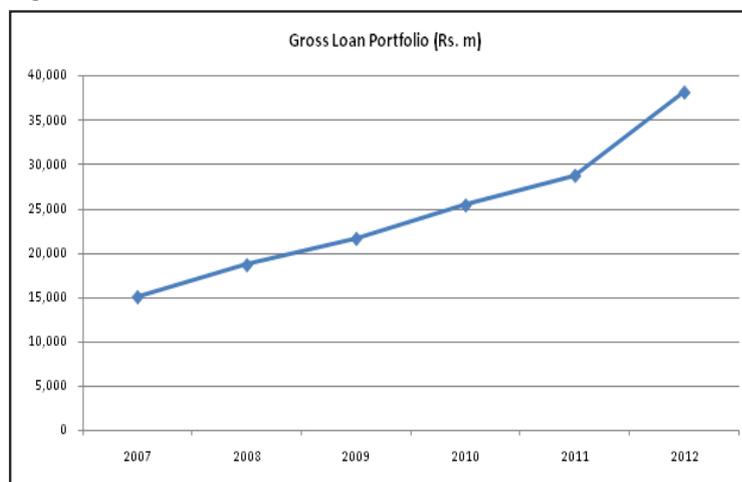
*Given the economic conditions of the country, microfinance market offers huge potential for growth...*

*Microfinance industry of Pakistan comprises 38 Microfinance Providers including 11 Microfinance Banks that dominate the market in terms of lending portfolio. Remaining are specialized microfinance institutions, including rural support programs and multi-sector non-governmental organizations.*

Microfinance industry of Pakistan comprises 38 Microfinance Providers (MFPs) including 11 Microfinance Banks (MFBs) that dominate the market in terms of lending portfolio. Remaining are specialized microfinance institutions, including rural support programs and multi-sector non-governmental organizations. Given the economic conditions of the country, microfinance market offers huge potential for growth; market penetration was recorded at a mere 8.6% at end-Dec'12.

Growth in advances generated by the sector has remained steady over the years; growth momentum picked up pace during 2012 as presented in the following graph. Significant increase in number of active borrowers was also witnessed during this period as compared to the preceding year. Nation-wide gross loan portfolio (GLP) stood at Rs. 38b at end-Dec'12 (end-Dec'11: Rs. 29b).

Figure 1: Gross Loan Portfolio



Karachi, Lahore and Faisalabad have been identified as areas with high number (>100,000) of active borrowers. Group lending remained the dominant lending methodology however its share has been declining on a timeline basis in tandem with growth of some MFBs; around 56% (FY11: 69%; FY10: 82%) of the loans were extended under this methodology. MFBs continue to dominate the sector in terms of both, active borrowers and GLP, with a market share of 39% and 55%, respectively. Khushhali Bank Limited remained the largest provider of microcredit in terms of active borrowers with a market share of 20% while Tameer Microfinance Bank Limited held the largest market share in terms of gross loan portfolio at 17.5%.

Around 44% of outstanding loans have been extended to females. However, in terms of savings, males contributed around 79% of total savings. Majority of the borrowers belonged to the trade sector (30%), agriculture (22%) and livestock (16%). Quality of loans also witnessed improvement as Portfolio at Risk (PAR - 30) stood lower at 1.4% (FY11: 3.3%).

According to the governing rules, only microfinance banks and rural support programs are permitted to mobilize deposits. Number of savers increased to 4.7m by end-Dec'12 (end-Dec'11: 3.9m). Total savings were higher at Rs. 25b by end-Dec'12 (end-Dec'11: Rs. 15.5b); of these more than 90% have been mobilized by MFBS. Greatest increase in savings outreach was witnessed in the city of Karachi.

There is considerable gap between the amount borrowed and the amount being saved; the same has widened during 2012. Given that borrowers generally belong to low income households, their capacity to save is limited. While MFBS enjoy a larger share of total deposits mobilized, almost 59% of the savers have been accessed by Rural Support Programs (RSPs). Average saving balance with RSPs is much lower at Rs. 652 vis-à-vis Rs. 12,167 for MFBS.

MFBS have also tapped institutional investors to generate deposits. While MFBS have to compete with commercial banks in this domain, higher pricing on loans allows them to offer more favorable returns to depositors.

In addition to these, branchless banking services are also gaining popularity. Given the high penetration of mobile phones in the Pakistani market, there is significant potential for expansion of mobile banking operations. Two additional institutions have launched their branchless banking services during 2012 and a number of other players are planning to enter the market. The number and activity of m-wallet accounts has been improving. By end-Sept'12, m-wallet accounts doubled to 1.8m (end-Dec'11: 0.9m). Number of agents were recorded at 31,637 (end-Dec'11: 22,512) at end-Sept'12, of which around 2,666 are shared agents.

### Regulatory Framework - MFBS

MFBS are regulated by the State Bank of Pakistan (SBP). As per regulations, MFBS have to ensure compliance with the minimum capital requirements as given in the table below by end-Dec'13. The regulator has allowed a transitional arrangement whereby existing MFBS were required to increase their paid-up capital (net of losses) to Rs. 800m if licensed to operate at national level and Rs. 250m if licensed to operate at district level by end-2012.

For housing loans, maximum allowable loan size by the regulator is up to Rs. 500,000 to a single borrower with annual household income of up to Rs. 600,000, while for general loans, the loan ceiling is Rs. 150,000 with annual income of Rs. 300,000. In addition to these, MFBS are allowed to lend up to Rs. 500,000 to microenterprises that are businesses set up by micro entrepreneurs who are either self employed or employ less than 10 individuals. Credit Information Bureau (CIB) reports are required to be generated for loans exceeding Rs. 50,000.

	<b>Dec'12</b>	<b>Dec '11</b>
Active Borrowers	2,355,943	2,073,071
GLP (Rs. m)	38,238	28,845
Average Loan size (Rs.)	16,230	13,914
Active Savers	4,682,422	3,933,496
Savings (Rs. m)	24,974	15,508
Average Savings (Rs.)	5,334	3,943

*Source: MicroWATCH, PMN*

<b>Outreach</b>	<b>Paid-up Capital by Dec'13</b>
District	Rs. 300m
Region	Rs. 400m
Province	Rs. 500m
Nation-wide	Rs. 1,000m

Jahangir Kothari Parade (Lady Lloyd Pier)

Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

*Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.*

*Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs).*

*Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.*



Jahangir Kothari  
Parade

## National Excellence, International Reach

JCR-VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve

the domestic financial markets. With its international reach, JCR-VIS is positioned to aim for an international mark. In this regard, the global experience of our principal, Japan Credit Rating Agency, Ltd. has been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors.

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

# JCR-VIS Credit Rating Company Limited

Founder Shareholder of Islamic International Rating Agency, Bahrain  
JV Partner in CRISL, Bangladesh  
Member Association of Credit Rating Agencies in Asia

## **KARACHI**

VIS House - 128/C, 25th lane off Khayaban-e-Ittehad  
D. H. A. Phase VII, Karachi - Pakistan

## **LAHORE**

VIS House - 61-A/1, Street # 17  
Cavalry Ground, Lahore - Pakistan

Tel: (92-21) 35311861-70 Fax: (92-21) 35311872-73  
Website: [www.jcrvis.com.pk](http://www.jcrvis.com.pk)

Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities. Copyright 2012 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.