Pakistan Microfinance Network

PAKISTAN MICROFINANCE REVIEW
Annual Assessment of the Microfinance Industry

2011

FINANCIAL SERVICES FOR ALL

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HIGHLIGHTS

Year	2009	2010	2011
Active Borrowers	1.4 million	1.6 million	1.7 million
Gross Loan Portfolio	PKR 16.8 billion	PKR 20.2 billion	PKR 24.8 billion
Active Women Borrowers	0.6 million	0.8 million	0.9 million
Branches	1,221	1,405	1,550
Total Staff	PKR 11,557	PKR 12,005	PKR 14,202
Total Assets	PKR 30.4 billion	PKR 35.8 billion	PKR 48.6 billion
Deposits	PKR 7.2 billion	PKR 10.1 billion	PKR 13.9 billion
Total Debt	PKR 23.2 billion	PKR 27.5 billion	PKR 38.3 billion
Total Revenue	PKR 6.4 billion	PKR 7.5 billion	PKR 10.1 billion
OSS	104.6 percent	99.7 percent	108.4 percent
FSS	86.8 percent	81.7 percent	100.5 percent
PAR > 30	3.4%	4.1%	3.2%

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ACRONYMS & ABBREVIATIONS

AC & MFD
Agriculture and Microfinance Division

ADB
Asian Development Bank

BPS
Basis Points

CAR
Capital Adequacy Ratio

CIB
Credit Information Bureau

CGAP
Consultative Group to Assist the Poor

CNIC
Computerized National Identity Card

CPP
Client Protection Principles

CPI
Consumer Price Index

CPC
Consumer Protection Code

DFID
Department for International Development, UK

DPF
Depositor's Protection Fund

ECA
Eastern and Central Europe

EUR
Euro

FIP
Financial Inclusion Program

FMFB
The First Microfinance Bank Ltd.

FSS
Financial Self Sufficiency

FY
Financial Year

GBP
Great Britain Pound

GDP
Gross Domestic Product

GLP
Gross Loan Portfolio

GNI
Gross National Income

GoP
Government of Pakistan

IAFSF
Improving Access to Financial Services Support Fund

IFAD
International Fund for Agricultural Development

IFC
International Finance Corporation

JIWS
Jinnah Welfare Society

KBL
Khushhali Bank Ltd.

KF
Kashf Foundation

KIBOR
Karachi Inter-Bank Offering Rate

KMFBL
Kashf Microfinance Bank Ltd.

KP
Khyber Pakhtunkhwa

MCGF
Microfinance Credit Guarantee Facility

MCR
Minimum Capital Requirement

MENA
Middle East and North Africa

MFB
Microfinance Bank

MFCG
Microfinance Consultative Group

MF-CIB
Microfinance Credit Information Bureau

MFP
Microfinance Provider

MFI
Microfinance Institution

MIS
Management Information System

NADRA
National Database and Registration Authority

NGO
Non-Governmental Organization

NFLP
National Financial Literacy Program

NMFB
Network Microfinance Bank Limited

NPLs
Non Performing Loans

NRSP
National Rural Support Programme

OSS
Operational Self Sufficiency

PAR
Portfolio at Risk

PBA
Pakistan Banks' Association

PKR
Pakistan Rupee

PMN
Pakistan Microfinance Network

PPAF
Pakistan Poverty Alleviation Fund

PRISM
Programme for Increasing Sustainable Microfinance

PRSP
Punjab Rural Support Program

PTA
Pakistan Telecom Authority

ROA
Return on Assets

ROE
Return on Equity

RSP
Rural Support Programme

SBI
Shore Bank International

SBP
State Bank of Pakistan

SC
The Smart Campaign

SECP
Securities and Exchange Commission of Pakistan

SPTF
Social Performance Task Force

SME
Small and Medium Enterprise

SRSO
Sindh Rural Support Organization

TMFB
Tameer Microfinance Bank Ltd

UBL
United Bank Limited

USD
United States Dollar

USSPM
Universal Standards for Social Performance Management

WPI
Wholesale Price Index

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FOREWORD

On behalf of the editorial Board it is my privilege to present the Pakistan Microfinance Review 2011.

These are indeed exciting times for microfinance in Pakistan as the sector matures, new players such as mobile network operators, banks and international funds, high net worth individuals or groups are becoming interested in investing in institutions that serve the bottom of the pyramid markets. While the industry faces new challenges and opportunities with an increasingly complex business environment requiring strengthening of Governance and Risk Management Frameworks there are opportunities in terms of promising segments that they serve in the emerging market economy.

The global agenda for responsible finance is well reflected in terms of new Initiatives such as SMART campaign and the principle of client protection being launched in Pakistan.

The year 2011 is a watershed period for the microfinance sector in Pakistan as it is for the first time that the industry achieved sustainability despite a challenging macroeconomic environment, rains and floods in Sindh, security situation and persistent energy crises in the country. Though the growth in outreach remained modest the microfinance banks continue to witness unprecedented uptake in deposit mobilization and balance sheet strengthening through re-capitalization. The sector is proving successful in making the transition to commercial finance and witnessed the launch of first money market financing instrument and a number of new products & services for credit as well as remittances. The portfolio at risk remains within acceptable thresholds reflecting positively on the quality of portfolio.

The industry witnessed continued growth in branchless banking transactions despite the deployment of only two models and saw MFBs and MFIs linking up to provide financial services to the microfinance clientage. With nationwide launch of Microfinance–CIB, the industry will have the option to better manage credit risk and reward clients with good credit history.

Given these positive developments and the upgraded business environment ranking by Economist Intelligence Unit a number of deep pocket investors expressed interest in exploring the market for potential investment and a number of transactions were successfully concluded.

In presence of an enabling environment and the industry attaining sustainability, the sector is poised for growth. With the entry of new players and consolidation taking place, the industry is ideally positioned for expansion and provision of a wide array of services covering the entire spectrum of microfinance.

Finally, my personal thanks to an able team at the Pakistan Microfinance Network for the time and effort that they put into this report as well as all the institutions that have been forthcoming in terms of their contribution to data and information that makes up the Pakistan Microfinance Review.

I would like to extend my gratitude to UK Aid, Citi Foundation, State Bank of Pakistan and Pakistan Poverty Alleviation Fund for their generous contribution towards the publication of this report.

Ghalib Nishtar
Chairperson-Editorial Board
Islamabad- July 2012

SECTION 1:
THE YEAR IN REVIEW

"Small loans can transform lives, especially the lives of women and children. The poor can become empowered instead of disenfranchised. Homes can be built, jobs can be created, businesses can be launched, and individuals can feel a sense of worth again." Natalie Portman

SECTION 1

THE YEAR IN REVIEW

CONTENTS

The year 2011 saw the Pakistan Microfinance sector aiming for growth, sustainability and profitability. Recent years have been challenging for Pakistan's economy with the adverse security situation, double-digit inflation and the energy crisis. The situation has been made even more demanding with unprecedented floods in both 2010 and 2011. This scenario has had a direct impact on the microfinance sector, with stagnation in credit growth and some deterioration in portfolio quality. However, this was also the year that saw a trend of consolidation, diversification in products and delivery channels, take-off in deposits and reform towards sustainability. On the policy side, Pakistan's regulatory framework for microfinance was ranked as the best globally by EIU's Global Microscope on the Microfinance Business Environment 2011.

The highlight of the year was the number of acquisitions and new players entering the sector. Attracted by the enabling environment and market potential, commercial banks, telecom companies, international and local investors entered the market either by acquiring existing players or setting up Greenfield Institutions. Branchless banking has been a key driver in this context as cellular companies and commercial banks continue to explore the sector as a platform for deployment of their branchless banking operations.

On the policy level, the State Bank of Pakistan (SBP) revised the Prudential Regulations to allow lending to microenterprises by MFBs up to PKR 500,000, subject to approval from SBP[1]. With this decision, SBP aims to meet the credit requirements of the microenterprise market and provide MFBs an opportunity to upscale their credit operations.

A number of initiatives were launched over the year while others were further expanded. Branchless banking continued to register an impressive growth in the country even though only two branchless banking models are currently operational, to the extent that the Consultative Group to Assist the Poor (CGAP) referred to Pakistan as "a laboratory for innovation". The national roll-out of the Microfinance-Credit Information Bureau (MF-CIB) is now in process with assistance from SBP, Pakistan Poverty Alleviation Fund (PPAF), IFC and all MFPs after the successful completion of the pilot in 2011. The nation-wide Financial Literacy Program of SBP also entered the implementation phase and currently its pilot phase is nearing completion. The year saw the launch of financing against gold pioneered by TMFB and entry into the home remittance market by KBL.

As the industry evolves and establishes itself as a vibrant segment of the financial industry, it is important to monitor the progress, evaluate its performance and convey it to its stakeholders. The yearly performance of the microfinance industry in the country is the subject of the Pakistan Microfinance Review (PMR). The report provides a multi layered assessment of the industry and its players.

1: As per SBP's AC&MFD Circular No. 02 of 2012, MFBs that are permitted to do so by SBP can lend up to PKR 500,000 for loans to microenterprises. These loans, however, should not exceed 40% of the bank's total portfolio.

Section 1 provides a bird's eye view of the sector, taking into account macroeconomic performance and policy, and regulatory changes likely to impact the country. Section 2 provides a detailed analysis of the industry, disaggregating the number by peer group and where, necessary by individual institution. A more nuanced view of the industry is obtained through this exercise.

Based on the macro, meso and micro level assessment, Section 3 identifies potential opportunities and challenges for the industry and its upstream and downstream constituents i.e., regulators, policy makers and investors, and clients, respectively.

It should be noted that the data used for PMR 2011 is drawn from the audited accounts of the MFPs. The discussion in Section 2 is solely based on the industry data for the year prior to publication. A more forward looking approach has been adopted in Section 1 and Section 3, with the analysis drawing upon direct engagement with various sector stakeholders as well as various data sources and publications.

1.1 MACRO ECONOMY AND THE MICROFINANCE INDUSTRY

Pakistan's economy remained under stress in 2011 dues to challenges on the security front, floods due to heavy rains in Sindh, a persistent energy crisis and low investor confidence. Economic growth was sluggish while inflationary pressures stemming from a deteriorating fiscal situation remained high. The country posted a growth rate of 2.4 percent for FY11 against an original target of 4.5 percent mainly due to devastating floods in the country in 2010. One-fifth of the country's agricultural heartland was inundated, which interrupted production processes and disrupted the subsequent supply of both labor and capital. It is estimated that 6.6 million of Pakistan's labor force was out of work for 2 to 3 months, and capital stock worth US$ 2.6 billion (1.2 percent of GDP) was lost[2]. For FY12, GDP growth is projected to be 4.2 percent; however, the agricultural outlook has once again been adversely impacted by the rains in Sindh. Revised estimates place growth between 3 to 4 percent in 2012[3].

Box 1.1: Impact of 2011 Floods on Microfinance Sector

Sindh was hit by extensive flooding for two consecutive years, first in 2010 and then in 2011 due to extraordinarily heavy rains in August. The floods damaged half of Sindh's area under cultivation. The situation was further aggravated due to the lack of drainage, which left a large tract of land waterlogged. This, combined with soil salinity, has left large tracts of land non-cultivable and the recovery period from this disaster is expected to be much longer than the 2010 floods. This is thus more likely to delay repayments to MFPs by the flood-affected borrowers. According to an initial assessment by PMN, PKR 3 billion worth of portfolio was affected (see Table A).

Table A: Non Performing Loans (NPLs) as result of Floods in Sindh in 2011

Peer Group	Total GLP in the Affected Areas (PKR millions)	Estimated NPLs due to Floods (PKR millions)	Total NPLs (PKR millions)
Microfinance Banks (MFBs)	2,599.08	1,944.94	2,099.98
Microfinance Institutes (MFIs) & Rural Support Programs (RSPs)	1,821.05	762.52	911.53
Total	**4,420.13**	**2,707.47**	**3,011.51**

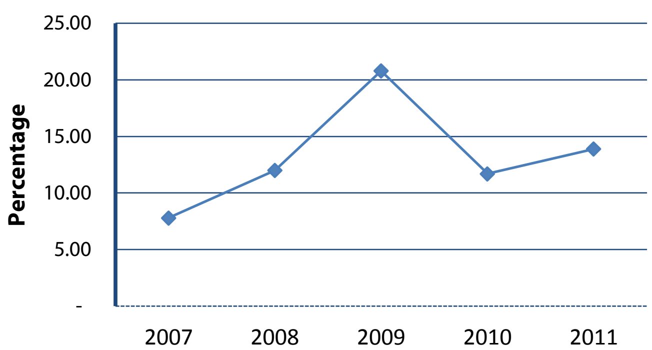
Source: PMN's Assessment of Losses due to Floods in Sindh in 2011 based on data provided by MFPs

2: Preliminary Damage Estimates for Pakistani Flood Events, 2010; Hicks, M. J. and Burton, M. L., Center for Business and Economic Research, Ball State University

3: SBP Annual Report 2010-11, (State of the Economy), State Bank of Pakistan

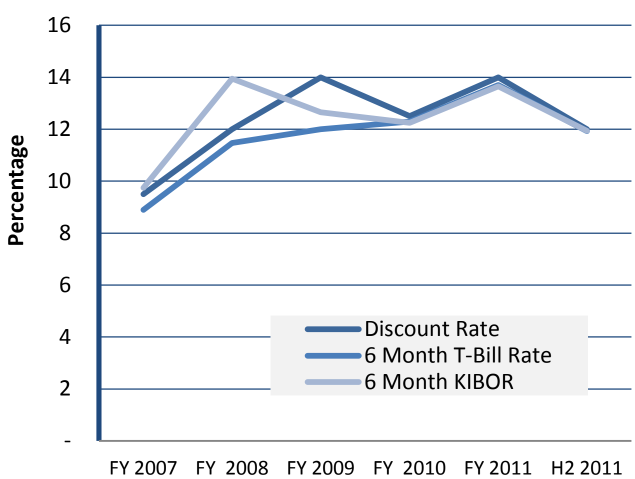
Persistent inflation remains a matter of concern. Though inflation has eased as compared to the highs in 2009 it remains in double digits (Exhibit 1.1). Credit growth driven by government borrowing and rising oil and energy prices have been key drivers of inflation, and these pressures are unlikely to ease in the coming year. This will lead to further reduction in value of loans for borrowers, requiring MFPs to upscale their loans sizes. On the other hand, erosion of purchasing power can adversely affect the repayment capacity of the borrowers leading to enhanced credit risk for the sector. Such risks can dampen the growth of the sector.

Exhibit 1.1: Consumer Price Inflation over the Years



State Bank of Pakistan, SBP

Exhibit 1.2: Discount Rate, 6 Month T- Bills and 6 Month KIBOR



State Bank of Pakistan, SBP

With a budget deficit of 6.6 percent of the GDP and pressure to limit borrowing from the central bank, the government financed over 90 percent of the gap from domestic sources, mainly commercial banks[4] . This not only crowded-out the private sector, but also complicated monetary management, as banks increasingly chose to place surplus liquidity in short-term T-bills. As a result, private sector credit only grew by 4.0 percent in FY11, as compared to an increase of 74.5 percent for government borrowing from commercial banks. Since commercial banks were able to lend to the government at attractive rates, there was little incentive to fund private businesses, including microfinance providers. MFPs which had just started tapping commercial lending as a source of funds will find it increasingly difficult to borrow from commercial banks as forecasts indicate that the government is likely to miss its fiscal targets in FY12 as well.

The State Bank of Pakistan (SBP) reduced its policy rate by 150 basis points to 12 percent in Oct 2011 and has held it steady since then. This follows its decision in July 2011 to reduce policy by 50 basis points from 14 percent to 13.5 percent. Despite the reduction in the policy rate by 200 basis points in the first half of FY 2012 (see Exhibit 1.2), interest rates remain high and commercial funding remains an expensive option for the players limiting their growth.

Though no recent poverty figures are available in the country, it is anticipated that the poverty level has been on the rise due to persistent inflation, sluggish growth in the economy and unprecedented flooding in the last two years. With 75 percent of the population concentrated around the poverty

4: State Bank of Pakistan, SBP

line unfavorable conditions like the ones mentioned above can send many below the poverty line[5]. In this situation the growth in microcredit is likely to be cautious. Moreover, with poverty moving people towards the bottom of pyramid this will likely reduce the potential market for microcredit. The launch of targeted subsidies through social safety programs by the policy makers to address the rising poverty level is a welcome step as it will take pressure of microfinance which had been categorized as a tool of poverty alleviation and allow it to focus on the goal of financial inclusion.

1.2 POLICY AND REGULATORY ENVIRONMENT

1.2.1 Upscaling of Loan Size for Microfinance Banks

State Bank of Pakistan has recently revised the amount MFBs can lend to microenterprise to PKR 500,000. Previously, MFBs could only lend up to PKR 150,000 for general purpose loans[6]. Microenterprise has been defined as "project or businesses in trading/manufacturing/services/agriculture sectors that lead to livelihood improvement and income generation. Moreover, these projects/businesses are undertaken by micro-entrepreneurs who are either self-employed or employ few individuals not exceeding 10 (excluding seasonal labor)". In addition, only MFBs that are fully compliant with minimum capital requirement (MCR) and capital adequacy ratio (CAR) shall be able to undertake microenterprise lending. Moreover, the exposure under microenterprise lending shall not be more than 40 percent of the bank's total portfolio.

Through this amendment, SBP aims to address the credit needs of the large "missing middle" microenterprise market that has traditionally remained unbanked and also provide MFBs with an opportunity to upscale their credit operations and cater to the lower end of the small and medium enterprise market (SME), which is viewed as an important market by economic planners in Pakistan due to its potential for income generation and job creation. Lending in this segment would require MFBs to upgrade their institutional capacity, invest in product development, risk management and monitoring capacity to effectively meet market demand. Also, limiting microenterprise lending to 40 percent of the total exposure means that MFBs' main market will continue to be micro borrowers.

5: Pakistan Economic Survey 2010-11

6: AC&MFD Circular No. 02 of 2012, State Bank of Pakistan (SBP)

1.3 MICROFINANCE INDUSTRY INITIATIVES

1.3.1 Branchless Banking

Branchless Banking provides an ideal platform for MFPs in Pakistan to achieve the aim of financial inclusion by leveraging the mobile technology network in the country and deliver financial services in a cost effective manner. Mobile phone subscription has reached 114 million[7] users as of December 31, 2011 whereas, in contrast there are only 25 million banking accounts[8] – mostly belonging to the high income segment. This means that only 22 percent of the population owns banks accounts whereas more than 60 percent Pakistanis have access to mobile phones.

The central bank was quick to recognize the potential of branchless banking as a tool to foster greater financial inclusion. The first set of regulations on branchless banking were issued in 2008, which were amended in 2011 after consultations with the industry players.

7: Pakistan Telecom Authority (PTA)

8: Branchless Banking News, Issue 1, 2011, State Bank of Pakistan (SBP)

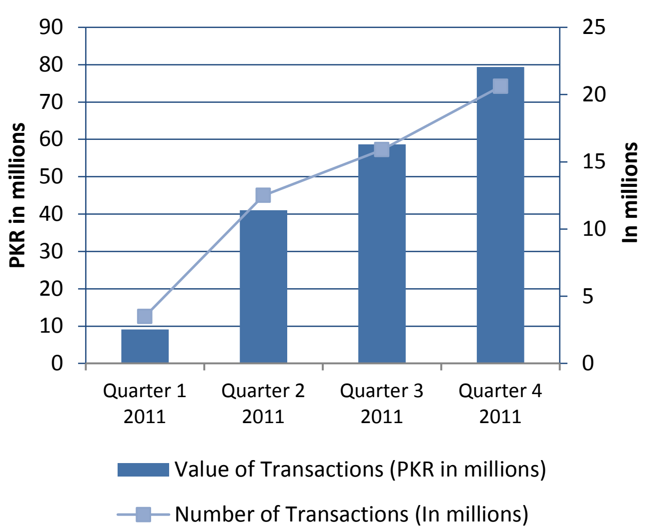
Box 1.2: SBP Initiatives in Branchless Banking

In a follow up to regulatory guidelines of branchless banking, SBP has taken a number of supportive initiatives to promote branchless banking in Pakistan. These initiatives include:

1) The launch of the Branchless Banking Newsletter which is published on a quarterly basis and provides up to date statistics and news of the sector.

2) The formation of National Consultative Group on Development of Branchless Banking. The group, chaired by head of the Development Finance Group of SBP, is composed of all important stakeholders including technology support providers, Pakistan Telecommunication Authority (PTA) and NADRA. The group aims to provide a common platform for the branchless banking eco-system developers and an opportunity to develop collective policy recommendations on critical issues. It will serve as a focal point to obtain formal feedback from all key market players on innovative ideas and initiatives to promote branchless banking.

Exhibit 1.3: Number and Value of Branchless Banking Transactions (2011)



Source: Branchless Banking Newsletter, Issues 1 & 2, State Bank of Pakistan(SBP)

These amendments, among others, included the introduction of "Level 0" account which can be opened electronically requiring no paper work, upward revision of transaction limits of the accounts and excluding utility bill payments from the transaction limit and removal of biometric information requirements at the time of account opening for lowest value account.

Changes in regulations coupled with an enabling environment have resulted in impressive growth in branchless banking over the last year. Total Branchless Banking accounts have increased to over 929,184 and the number of branchless banking agents has increased to 22,512[9]. This growth has exclusively been led by two branchless banking models 'Easypaisa' by Tameer Microfinance Bank (TMFB) and 'UBL Omni' by United Bank Limited (UBL). The total numbers of transactions processed in the year 2011 were 52.5 million having a value of PKR 188.2 billion[10]. A quarterly break-up of the figure shows that the numbers of transactions have increased from 3.5 million in first quarter of 2011 to 20.6 million in the last quarter showing an increase of six fold. Similarly, the value of transactions have increased from PKR 9.1 million to PKR 79.4 million in the same time period showing an increase of nearly 9 times as shown in the Exhibit 1.3.

With an eye on the potential of branchless banking models to reduce costs, mitigate risks, expand outreach and increase profitability in the long run, six MFIs and RSPs have collaborated with Easypaisa and UBL Omni for repayment of loans (see Table 1.1). Currently, these collaborations are in pilot stage and focus on loan repayments but there is scope for expansion in the future to

9: Branchless Banking Newsletter, Issue 1 (July-Sept 2011) & Issue 2 (Oct – Dec 2011), State Bank of Pakistan

10: Branchless Banking Newsletter, Issue 1 (July-Sept 2011) & Issue 2 (Oct – Dec 2011), State Bank of Pakistan include services such as loan disbursement, micro-insurance and micro-savings. Though costs are likely to be high initially due to investments in developing the necessary infrastructure, in the long run this model will reduce costs for MFIs, increase efficiency and allow them to expand.

The growth witnessed by branchless banking has stimulated the interest of other market players including commercial banks and other Mobile Network Operators (MNOs). Many of them are expected to enter the market in a big way by 2012 leading to a sizable expansion on the supply side of the market.

This flurry of activity has led to Pakistan becoming one of the fastest growing markets for branchless banking, and being recognized as 'a laboratory for innovation' by the Consultative Groups to Assist the Poor (CGAP)[11]. A major outcome of this has been that people belonging to the poor segment of the society for the first time have access to affordable financial services (see Box 1.3).

1.3.2 Microfinance – Credit Information Bureau (MF-CIB)

Although credit information bureaus alone cannot prevent delinquency problems, they are now considered an essential component of the market infrastructure for microfinance due to their critical role in improving credit risk management and managing multiple borrowing. The delinquency crisis in Punjab in 2008/2009 brought home the importance of credit registries and a pilot MF-CIB was launched in Lahore in 2010.

PMN, with support from the State Bank of Pakistan (SBP), Pakistan Poverty Alleviation Fund (PPAF) and International Finance Corporation (IFC), initiated the nation-wide roll out of the MF-CIB in early 2012.

11: Branchless Banking in Pakistan: A Laboratory for Innovation, Oct 2011, CGAP

Table 1.1: Branchless Banking Partnerships in Microfinance Sector

MFP	Branchless Banking Platform	Services Provided
Asasah	TMFB "Easypaisa"	Loan Repayment Loan Disbursement (via ATM)
SAFWCO	TMFB "Easypaisa"	Loan Repayment Loan Disbursement (via ATM)
Thardeep Rural Support Program (TRDP)	UBL "Omni"	Loan Repayment
Rural Community Development Society (RCDS)	UBL "Omni"	Loan Repayment
Jinnah Welfare Society (JWS)	UBL "Omni"	Loan Repayment
Kashf Foundation (KF)	UBL "Omni"	Loan Repayment

Box 1.3: Does Branchless Banking Reach Poor People?

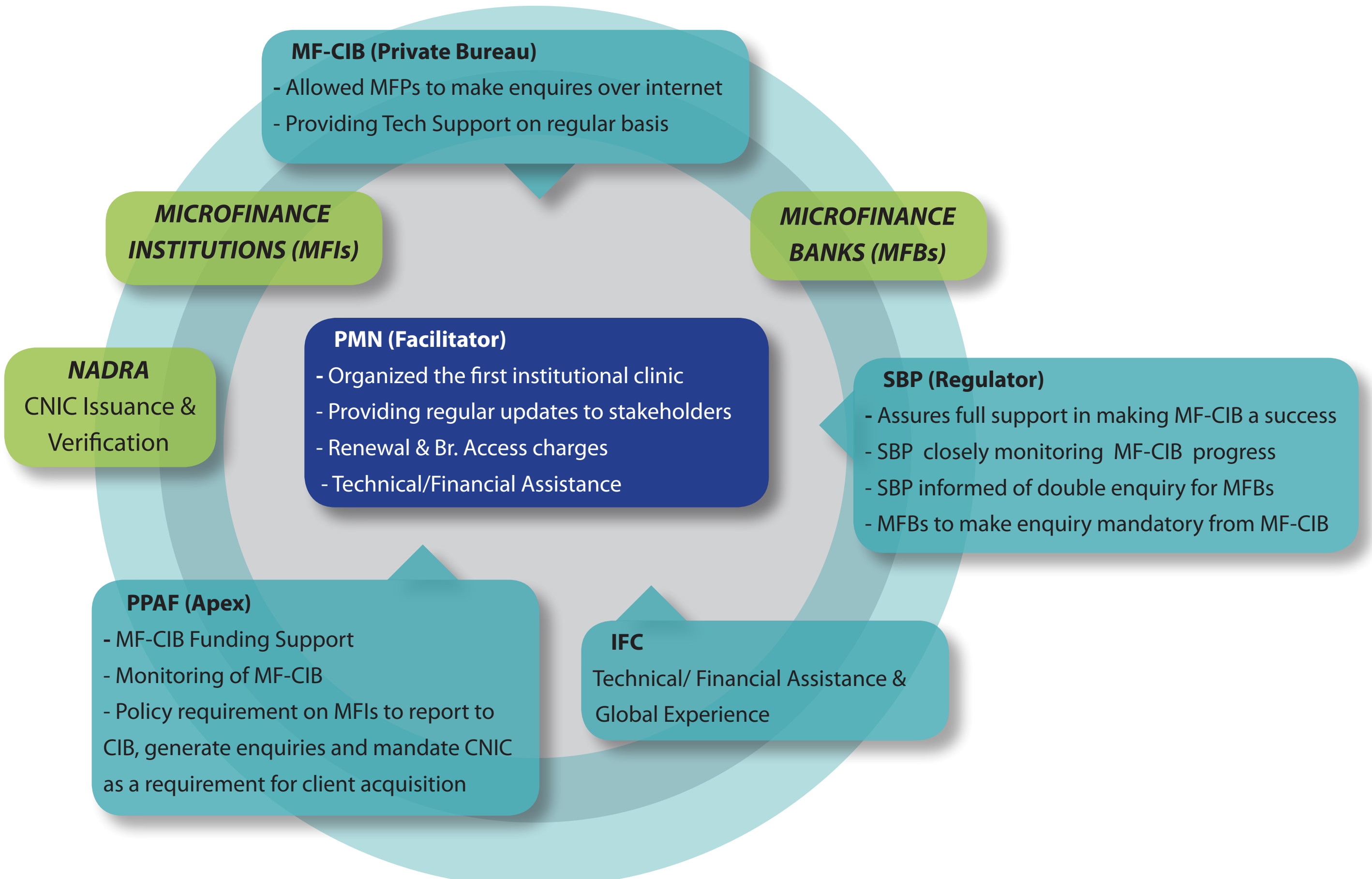
According to a study commissioned by CGAP and conducted by Coffey International Development, 327 interviews were carried out with EasyPaisa customers at 10 locations across rural, semi-urban and urban Pakistan between January and February 2011. Customers answered questions about their use of EasyPaisa, their homes and their households that allowed for a comparison of their approximate income level to a nationally representative household survey. The findings were as follow:

- Around two-fifths (41%) of EasyPaisa users live on less than USD2.50 per day (in 2005 PPP adjusted dollars). The majority of customers (69%) live on less than USD3.75 per day, but few customers (5%) were living below USD1.25 per day.
- 45% of all respondents did not have a bank account, with informal money lenders being the next highest provider of financial services.
- There was also a strong correlation between the likelihood of being poor and the likelihood of not having had a bank account among users.

The results support that notion that branchless banking services do reach poor people by providing them cheap and convenient access to financial services for the first time. Moreover, customers from all walks of life seemed to value the service and felt that it was making their lives easier.

Source:http://www.cgap.org/p/site/c/template.rc/1.9.55438/

Figure 1.1: MF-CIB Eco System



In light of the lessons learned from the pilot[12], the sector will face a number of operational and technological challenges in the countrywide launch of the credit bureau. These include acceptance of the bureau across all levels of the MFPs capacity building of staff to understand and utilize the credit report effectively, initial set up costs in branches and NADRA verification of Computerized National Identity Card (CNIC) at the operational level. On the technological side, challenges include provision of internet to all branches, real- time MIS and data security. (See Figure 1.1 and 1.2). These challenges are being met by a combination of trainings, workshops and dedicated human resources. The MIS of partner organizations are being upgraded for real time data availability and certain branches are also being provided internet facilities. In addition, the cost of initial set up is being borne by donor organizations such as the cost of NADRA verification of CNIC.

1.3.3 National Financial Literacy Program

The National Financial Literacy Program was launched in January 2012 by the State Bank of Pakistan (SBP). The program is being funded by the Asian Development Bank (ADB) through its Improving Access to Financial Service Fund (IAFSF). Other partners include Pakistan Banks Association (PBA), Pakistan Microfinance Network (PMN) and Pakistan Poverty Alleviation Fund (PPAF) and Bearing Point, which is the implementing partner.

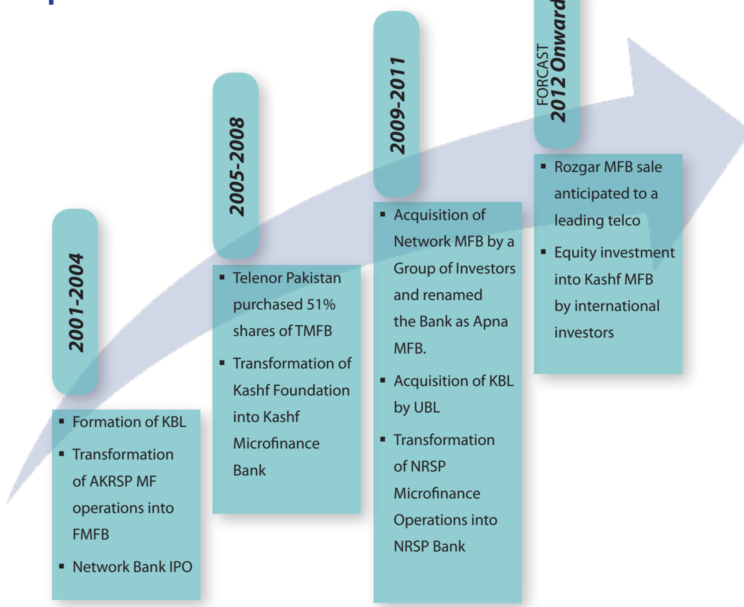
The program aims to impart basic education regarding financial concepts, products and services to masses focusing on budgeting, savings, investments, banking products and services, branchless banking, debt management, consumer rights and responsibilities. The target audience is between the ages of 18-60 and includes people from urban, peri-urban and rural areas. The emphasis of the program is on the people falling in the low-income strata. In its initial phase the program will reach out to 45,000 people and will expand in the second phase to 500,000 people across the country. Presently, the pilot phase of the program is nearing completion. Over 41,000 people have been imparted financial literacy training including 27,000 through class room training and remaining through street theatre. National rollout is likely to begin by the middle of this year.

12: Assessment Report on MF-CIB Pilot in Lahore by Shore Bank International

Figure 1.2: Technological and Operational Challenges in National Roll Out of CIB

TECHNOLOGY	OPERATIONAL
▪ Connectivity (Internet) ▪ Data Security (Branches to Head Office) ▪ Real Time MIS ▪ Electricity	▪ Staff Capacity especially understanding credit report ▪ NADRA Verification ▪ Buy–In at the all level ▪ Mismatch: Data, Data Reporting & Policy ▪ Experienced staff for Data Collection ▪ Time Management ▪ Staff Turn Over ▪ Setup cost in Branches

Figure 1.3: Transformations and Acquisitions in the Microfinance Sector



The NFLP will lead to awareness about various financial services available to the target population of microfinance; increased financial knowledge will result in more responsible borrowing resulting in improved repayment capacity through enhanced financial management. Better understanding of consumer rights will limit exploitation of the microfinance client by unscrupulous elements.

1.3.4 Acquisitions of MFBs & Entry of New Players

Acquisition of Khushhalibank Limited

Khushhalibank Limited(KBL) was acquired by a consortium led by United Bank Limited (UBL) for PKR 2.35 billion (USD 26 million) at an approximate price of PKR 20.44 per share, The consortium was selected as the highest bidder for a 67.4% shareholding equaling to 115 million shares in the bank[13]. The deal prices KBL as a whole at PKR3.48 billion.

UBL's acquisition is likely to be along the lines of Telenor Pakistan's investment towards a majority stake in Tameer Microfinance Bank with an aim of capitalizing synergies for UBL's branchless banking operation 'Omni'.

Acquisition of Network Microfinance Bank

NMFB which was previously owned by JS Group and KASB Bank was acquired by two groups of investors working in agriculture and financial services. NMFB was operating as a district level bank providing microfinance facilities in Karachi district. More importantly it was the only listed microfinance bank in the country.

The group has bought 82 percent of the shares of the bank from the main shareholders and intends to buy the remaining nine percent of the shares currently owned by the general public. The transaction is expected to close at about PKR166 million as PKR 6.75 was paid per share for 24.6 million shares.

The bank has been renamed as Apna Microfinance Bank (AMFB) and its capital base is being increased to PKR 1.5 billion from PKR 500 million allowing it to operate nationwide. The bank will primarily focus on providing financial services to farmers and agricultural markets by structuring lending products which cater to the agriculture sector.

Commencement of Operations by NRSP Bank

NRSP Microfinance Bank, which was registered and licensed in 2009, commenced operations in March 2011 after approval from SBP. It has been planned to gradually transform the micro credit operations of the country's largest provider of microfinance services (National Rural Support Programme) into a regulated privately owned microfinance bank.

The commencement of business of NRSP MFB will result in a significant increase in the market share of regulated microfinance banks (MFBs) within the overall microfinance sector. This will also lead to the increased provision of inclusive financial services in the rural areas of the country. There are multiple advantages for NRSP in obtaining the microfinance bank status. These include the ability to raise new sources of debt and equity funds, to offer savings and other non-credit services, and the opportunity to achieve scale through adopting a fully-regulated environment. Most importantly NRSP Bank would be able to intermediate deposits, an inexpensive source of funds and mobilize savings in the rural areas.

13: Other interested parties included consortiums led by Habib Bank Limited (HBL) and Hikmah Consulting which included Accion International as a partner. The acquiring consortium other then UBL included Incofin Investment Management, Shorecap II Limited, ASN-NOVIB Microkreditfonds and Credit Suisse Microfinance Fund.

The transition of NRSP's Microcredit Portfolio to NRSP Bank will be completed over a period of three years. Clients availing loans above PKR 50,000 or graduating to this amount will be shifted to the NRSP Bank over the three-year transition period.

1.3.5 Products

Although credit outreach numbers stagnated during the year, the year ended with a significant upward shift in deposit mobilization indicators. Additionally, institutions seem to have explored possibilities of broadening their product base.

Home Remittances Product by KBL

Pakistani expatriates remitted over USD 11 billion annually to the country last year. Money is largely remitted using money transfer facilities provided by global payment services firms like Western Union and Money Gram which partner with banks and money exchanges companies across the country.

KhushhaliBank Limited has partnered with Western Union to introduce international inbound remittances services across 90 KBL branches across the country. It is likely to be extended to the remaining shortly. This makes KBL the first MFB to launch such a service.

This provides MFBs an opportunity to diversify their revenue streams. Further, the small transaction amounts and the recipients' profile match the target clientage of microfinance. Thus offering such services allows MFBs to sell other microfinance products like savings and insurance. Moreover, as branchless banking services become more established and integrated, they can become ideal platforms for such services.

Financing against Gold

In many parts of Pakistan, gold has traditionally been used as a means of saving. It can be conveniently liquidated to meet the cash requirements but at a considerable discount. For certain segments of the population gold savings outpace savings via financial products. Persistent increase in gold price in the last few years provides further incentive to monetize.

Commercial banks have been giving loans to individual clients secured against gold for some time now. Tameer Microfinance Bank (TMFB) was the pioneer in the microfinance sector in terms of gold backed lending. The success of the product has attracted other MFPs: KhushhaliBank Limited (KBL) and Kashf Microfinance Bank (KMFB) launched similar products in 2011.

Microloans secured by gold provide a large untapped market for the MFPs. However, the product carries significant operational risk. Moreover, the repayment capacity and the amount of the loan should be determined independent of the collateral otherwise it can result in under or over borrowing. Further, the loan amount can easily be diverted towards the consumption purposes which can result in higher delinquencies. Also, the MFPs portfolio can be adversely affected by movement in the price of gold.

1.3.6 Equity Injection in MFIs

PPAF under its USD 8.4 million PRISM-Equity Enhancement Fund undertook the first equity injection into Jinnah Welfare Society (JWS), a Gujranwala based MFI. A number of similar transactions are in the pipeline in 2012.

The aim of these investments is to assist MFPs to expand further by enabling them to access commercial finance. Organizations are selected for placement of equity after a third party assessment and proven growth and sustainability. The organizations are required to have more than 8,000 borrowers and equity of less than PKR 150 million. Targeted MFPs tend to be ones that started off as trusts or social welfare bodies and lack equity or endowment funds of their own. The placement of equity itself takes place in two tranches with the second contingent upon successful utilization of the first tranche.

For year 2012, USD 1.2 million has been earmarked for equity injection in small sized MFIs having borrowers over 4,000. This investment in single tranches will allow them to formalize their operations and scale up their business.

1.3.7 Grants

PPAF and SBP continue to be main players in providing capacity building and institutional strengthening grants to the MFPs under various programs (see Annex F). This has allowed MFPs to make advances in human resources, management, corporate governance, internal controls, business development, cost reduction, product innovation, technology implementation and expanding outreach to untapped markets.

1.3.8 PPAF Funding to MFB

PPAF opened up its credit line to MFBs for the first time in 2011. This step is reflective of the increasing market share of MFBs and emerging trend of MFIs transitioning into MFBs. Presently, only KBL is availing this facility from PPAF under the PRISM.

1.4 CONCLUSION

The microfinance sector registered only a modest growth in credit due to continued macroeconomic pressures and floods in consecutive years in the country. Despite this the sector continued to expand while focusing on sustainability and profitability.

The macroeconomic sector is likely to remain the same as witnessed in the preceding year. Inflationary pressures are unlikely to ease in near future and interest rates are likely to remain in double digits. Widening fiscal deficit will lead to increased borrowing by government from central bank and commercial banks will result in continuation of the crowding out effect. Consequently, it will be difficult for the sector to borrow from commercial banks. On a positive note, the launch of social safety programs by the government will take pressure off from the industry and allow them to focus on achieving their goal of financial inclusion.

Keeping in view the excellent enabling environment and market potential commercial banks, cellular companies, international and local investors continued to explore the sector resulting in acquisition of two MFBs and launching of two new MFBs. We are likely to witness more acquisitions as well as entry of new players in the sector similarly to the ones witnessed in 2011.

Branchless Banking is likely to witness continued expansion with new players entering the market.

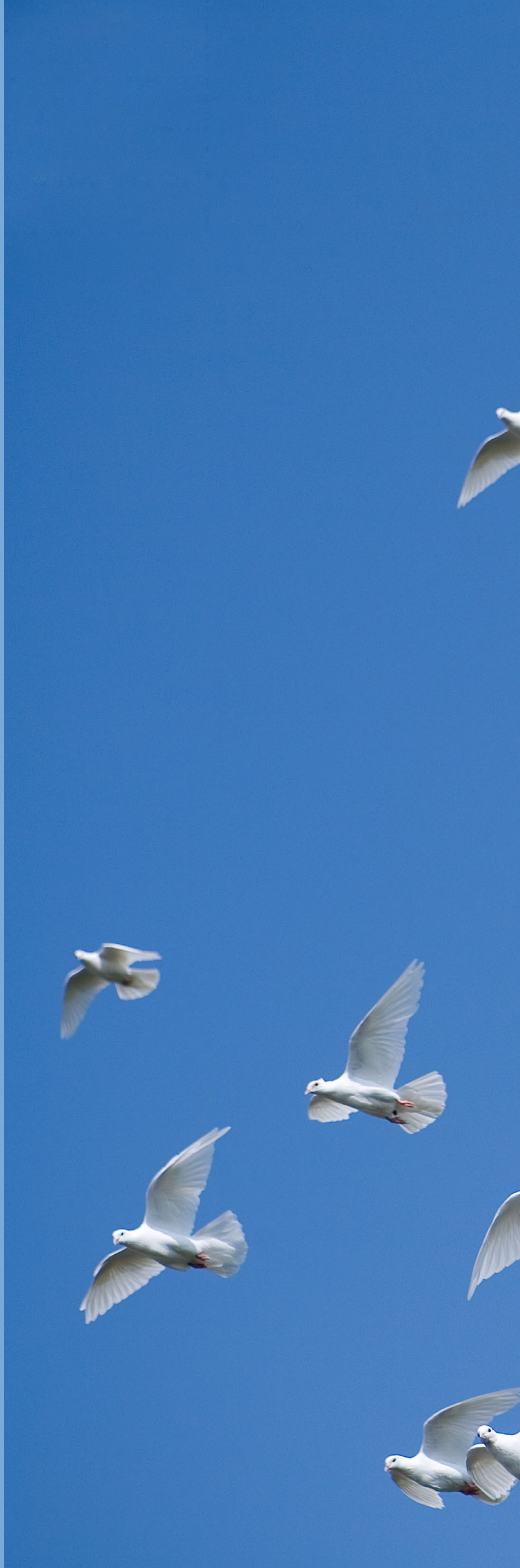
Countrywide launch of CIB is likely to alter the dynamics of the industry by assisting in reducing credit risk for the sector. Launch of products like financing against gold open a large untapped market for the MFPs. Launch of NFLP will result in enhanced consumer focus and upholding of consumer rights for the industry.

Overall, despite adverse macroeconomic conditions in the country, the industry remains buoyed by the enabling environment and new initiatives. With investments in institutional strengthening, sector infrastructure and credit enhancement, stakeholders will now be looking for growth albeit at a more sustainable and steady rate than expected in the past.


PRODUCTIVITY
MICROENTERPRISE
OUTREACH
MICROLOANS
CREDIT GROWTH
FINANCIAL LITERACY
CREDIT INFORMATION BUREAU
MICROENTERPRISE
MICROLOANS
SCALE
MICRO-ENTREPRENEURS
EFFICIENCY
PORTFOLIO QUALITY
MFIS
MICROCREDIT
MICROLOANS
SCALE
MICRO-ENTREPRENEURS
MICROFINANCE BANKS
MICROENTERPRISE
BRANCHLESS BANKING

SECTION 2:
INDUSTRY PERFORMANCE

2.1. Industry Performance
2.2. Asset and Funding Structure
2.3. Profitability and Sustainability
2.4. Risk Assessment
2.5. Efficiency and Productivity Assessment
2.6. Conclusion



"When combined with information and communication technologies, microcredit can unleash new opportunities for the world's poorest entrepreneurs and thereby revitalize the village economies they serve."
Madeleine K. Albright and John Doerr, May 2004

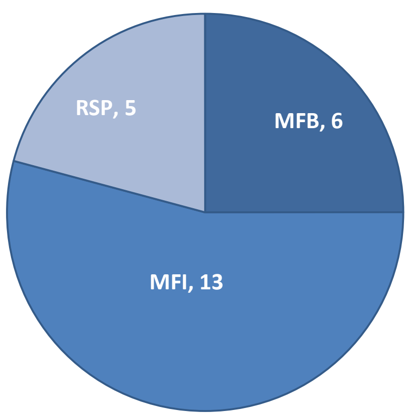
SECTION 2

INDUSTRY PERFORMANCE

CONTENTS

This section provides a detailed analysis of the financial performance of the microfinance industry in the country. Performance has been assessed on three levels; industry wide, across peer groups and institution-wise. The analysis is backed by 88 financial indicators, calculated from the audited financial statements of reporting organizations. These indictors have been compared across time and regions to develop a reliable and fair assessment. Detailed financial information is provided in the Annex A-I and A-II of the PMR. Aggregate data has been reproduced for five years whereas the peer group and institution specific data has been made available only for the year 2011.

Exhibit 2.1: Distribution of Respondents by Peer Groups



A total of 24 MFPs submitted their audited financial statements for the PMR 2011. Two new respondents - NRSP Bank and Sindh Rural Support Organization (SRSO) - are included in this year's dataset. Kashf Foundation (KF) for the third year running has not submitted the audited financial statements for the PMR 2011 and thus aggregates from 2009 onward do not include KF data[14]. For the complete list of reporting organizations refer to Annex B.

Industry players are categorized into three groups for the purposes of benchmarking and comparison: MFBs, MFIs and rural support programmes (RSPs). See Box 2.1 for detailed definitions.

The distribution of respondents (number of reporting organizations) by peer group is given in Exhibit 2.1. As shown, for 2011, the MFI peer group comprised the largest number of respondents followed by the MFBs and RSPs, respectively. The total number of respondents is 24.

2.1 INDUSTRY OVERVIEW

The asset base of the reporting organizations stood at PKR 48.6 billion (USD 540 million) of which the GLP was PKR 24.9 billion (USD 276 million). Outreach stood at 1.7 million borrowers and 1.3 million depositors.

The figures presented above vary significantly from the outreach number presented in the PMN's quarterly publication for the same period i.e. MicroWATCH, December 2011. The variation is due to the difference in the number of reporting

14: According to PMN's MicroWATCH, a quarterly update on microfinance outreach in Pakistan, KF market share stood at 14.6 percent with 296,000 borrowers and a GLP of PKR 3.3 billion as of June 30, 2011.

organizations: some of the microfinance providers (MFPs) contributing data to the MicroWATCH are not affiliated with PMN and also include organizations that have not reported for PMR 2011 including KF.

According to the MicroWATCH data for December 2011, the sector was serving 2.1 million borrowers and 3.9 million savers (savers are the sum of 1.3 million depositors intermediated by MFB and 2.6 million savers mobilized by RSPs and MFIs as part of social mobilization).

2.2 SCALE AND OUTREACH

This section focuses on outreach indicators to provide performance analysis of the industry in terms of credit growth and composition, deposit mobilization, depth of outreach and gender.

2.2.1 Scale and Outreach: Breadth

The number of borrowers stood at 1.7 million with a GLP of PKR 24.9 billion in 2011 compared to 1.5 million borrowers and a GLP of PKR 20.3 billion in 2010. The number of active borrowers grew by 6 percent from 1.5 million to PKR 1.7 million in 2011 (Exhibit 2.2). Among the MFPs, growth in borrowers was led by KBL whose borrowers increased from 325 thousand in 2010 to 352,000 in 2011; ASA-P and BRAC-P continued to witness excellent growth with borrowers increasing from 85,000 to 142,000 and 84,000 to 98,000 respectively, in the same time period. Due to ongoing transition to NRSP Bank, the number of borrowers fell from 43,000 in 2010 to 317,000 in 2011. In addition, FMFB saw a significant reduction in borrowers from 151,000 in 2010 to 119,000 in 2011. Similarly, PRSP saw its number of borrowers falling from 78,000 to 57,000 in the same time period.

Box 2.1: Peer Groups

Microfinance institution: A non-bank non-government organization (NGO) providing microfinance services. Organizations in this group are registered under a variety of regulations, including the Societies Act, Trust Act, and the Companies Ordinance. The MFI peer group includes local as well as multinational NGOs such as BRAC-Pakistan and ASA-Pakistan.

Microfinance bank: A commercial bank licensed and prudentially regulated by the SBP to exclusively service the microfinance market. The first MFB was established in 2000 under a presidential decree. Since then, seven MFBs have been licensed under the Microfinance Institutions Ordinance, 2001. MFBs are legally empowered to accept and intermediate deposits from the public.

Rural support programme: An NGO registered as a non-profit company under the Companies Ordinance. An RSP is differentiated from the MFI peer group based on the purely rural focus of its credit operations. As a group, the RSPs are registered with and supervised by the Securities and Exchange Commission of Pakistan (SECP).

Exhibit 2.2: Growth in Number of Active Borrowers and GLP from 2009-11

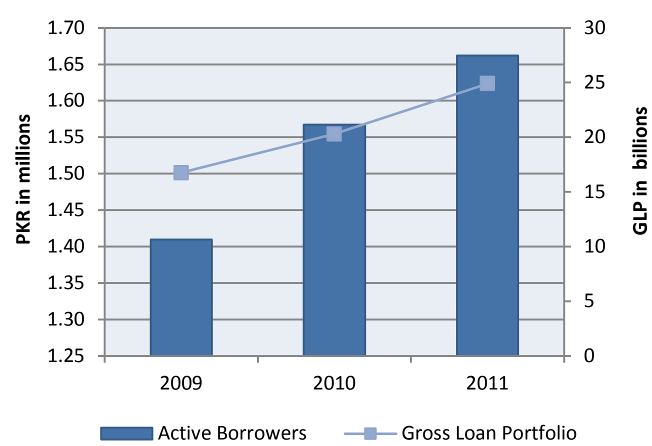


Exhibit 2.3: Share in Active Borrowers by Peer Group

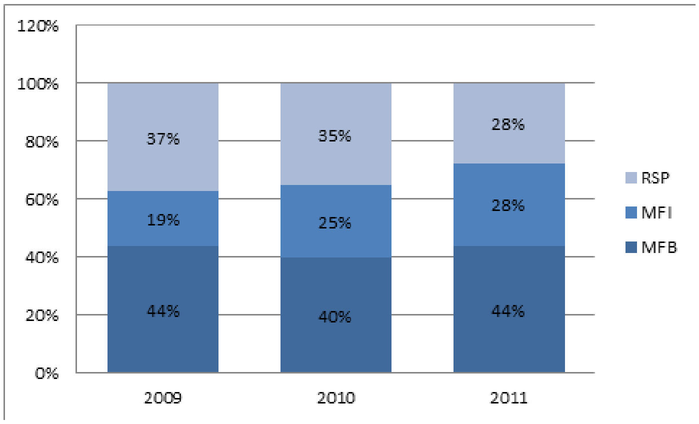


Exhibit 2.4: GLP by Peer Group 2009-11

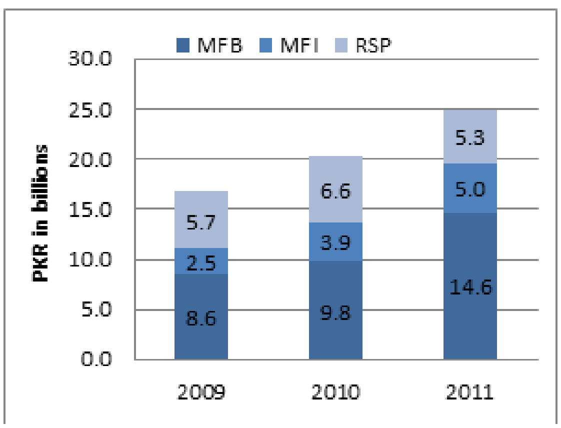
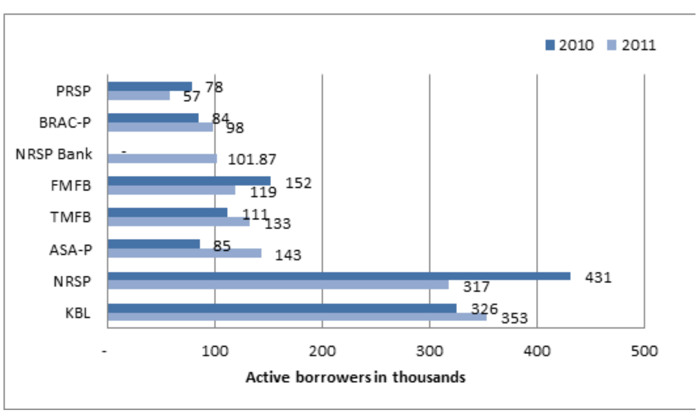


Exhibit 2.5: Active Borrowers of Eight Largest MFPs



When analyzed by peer group, the market continues to be dominated by MFBs followed by MFIs and RSPs. The market share of MFBs increased from 40 percent in 2010 to 44 percent in 2011 whereas in the same time period the share of RSPs decreased from 35 percent to 28 percent (see Exhibit 2.3). This is due to the ongoing transition of National Rural Support Program (NRSP) Microfinance Program to the recently formed NRSP Bank which has led to transfer of clients from the RSP to the Bank. Market share of MFIs continued to show an increasing trend largely due to strong performance of ASA-P and BRAC-P. Moreover, the market share of MFIs has been understated due to exclusion of KF, which is one of the larger players in the industry.

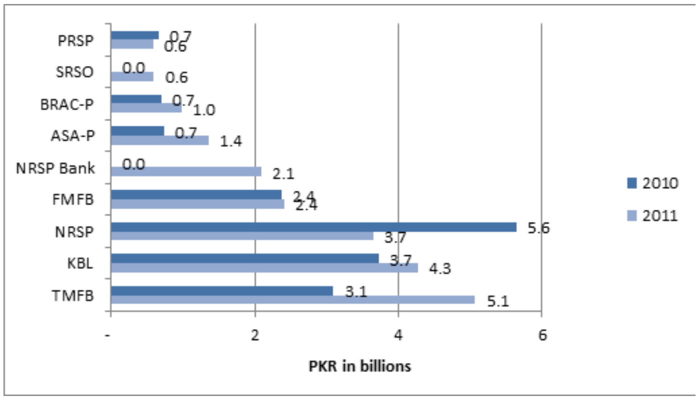
With regard to GLP, MFBs accounted for 59 percent of GLP as against 44 percent of borrowers. It is followed by RSPs and MFIs with 21 percent and 20 percent respectively as seen in Exhibit 2.4. This is due to higher average loan sizes of MFBs. With the likely entry of new green field MFBs, acquisition and repositioning of weaker MFBs and increasing average loan size, we anticipate continued increase in market share of the MFBs in the sector with regard to number of borrowers as well as GLP.

The industry in terms of outreach was dominated by eight MFPs that accounted for 80 percent of the outreach as shown in Exhibit 2.5. KBL emerged as the largest player in the market with 353,000 borrowers, followed by NRSP with 317,000 borrowers and ASA-P with 143,000 borrowers.

Moreover, nearly 80 percent of the industry's GLP is accounted by nine MFPs (see Exhibit 2.6 below). TMFB is the largest player in terms of size its portfolio having a GLP of PKR 5.1 billion despite a market share of 8.0 percent in terms of outreach. This is reflective of a higher loan size and the popularity of its secured financing product i.e. financing against gold. TMFB is followed by KBL with a portfolio size of PKR 4.3 billion and NRSP with a portfolio of PKR 3.7 billion. We are likely to witness further increase in the GLP sizes of MFBs as their average loan size increase even though their outreach may be showing modest growth.

On the savings side, the number of depositors grew by more than 37 percent, rising to 1.3 million in 2011 as compared to 1.0 million in 2010. Overall volume of deposits also expanded significantly. In fact deposits have grown nearly five times since 2007, going from PKR 2.8 billion to

Exhibit 2.6: GLP of Nine Largest MFPs



Box 2.2: New Engines of Growth -ASA-P and BRAC-P

ASA-P and BRAC-P are local affiliates of Bangladesh based microfinance organizations and both commenced operations in Pakistan in 2008. Despite being relatively new entrants into the Pakistani market, in three years, they have posted tremendous growth in outreach and have appeared as major engine of growth during the period 2008-11. They have expanded their presence and now have branches across Pakistan (see Exhibit B). Currently, both combine to hold around 14.4 percent of the market share. ASA-P has especially grown exponentially; expanding from only 18,000 borrowers in 2008 to 142,000 at end of 2011 and GLP of PKR 1.4 billion as shown in the Exhibit A. BRAC-P has doubled its borrowers over the same period, increasing from 45,000 in 2008 to 98,000 by 2011 with GLP standing at PKR 1.0 billion.

The growth witnessed by ASA-P and BRAC-P is reflective of the demand for microfinance in the country even in post 2008 scenario. In addition, the Pakistani market offers international microfinance practitioners ample opportunities in terms of growth and expansion. The growth experienced by ASA-P and BRAC-P is reflective of their experience curve and easy availability of funds in case of ASA-P. Moreover, other main players like NRSP had stagnated over this period due to the transformation process. .

Exhibit A: Number of Active Borrowers and GLP

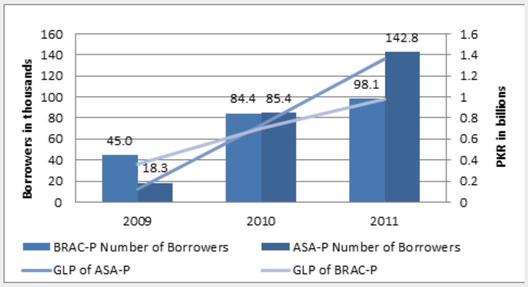


Exhibit B: Number of Branches of ASA-P and BRAC-P

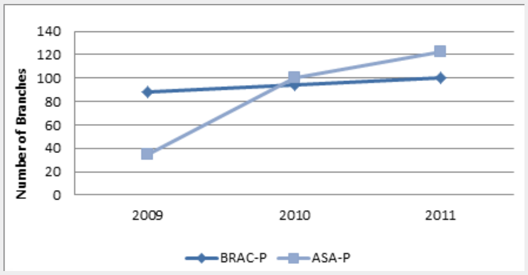


Exhibit 2.7: Growth in Deposits and Number of Depositors

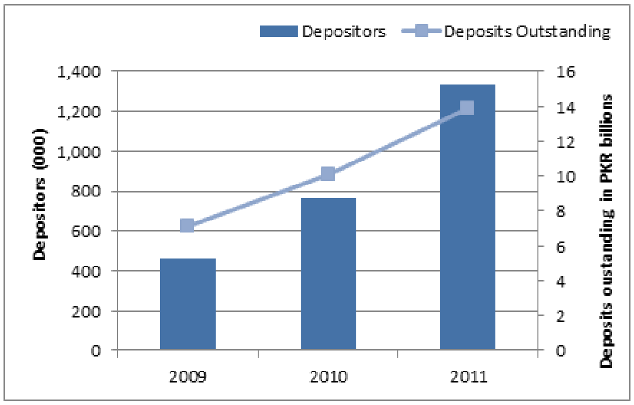


Exhibit 2.8: Deposit Growth by MFB

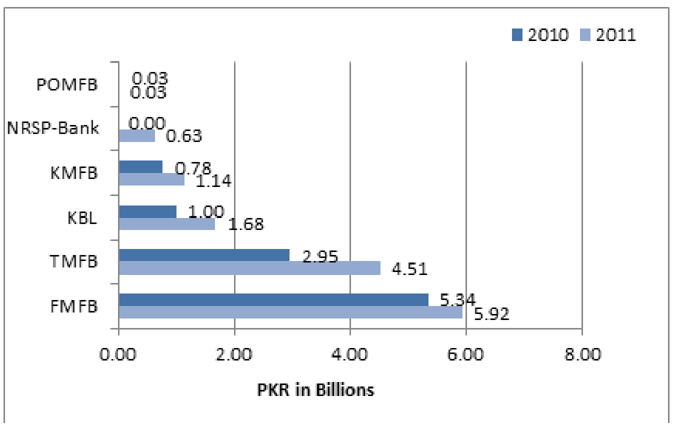
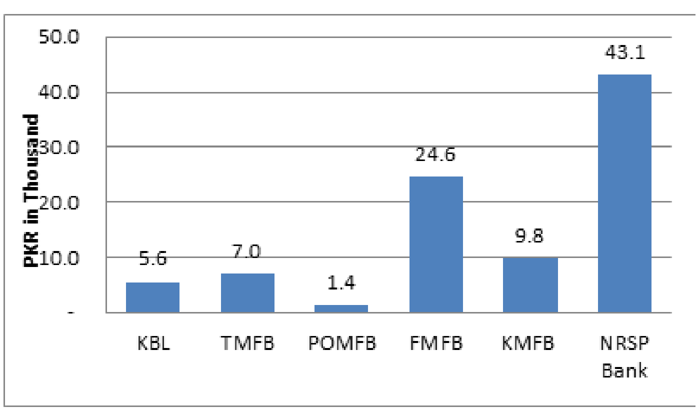


Exhibit 2.9: Average Deposit Size of MFBs



PKR 13.9 billion at the end of 2011 (Exhibit 2.7). During the year deposits of KBL grew by 67.8 percent from PKR 1.0 billion to PKR 1.7 billion whereas TMFB's deposits grew by 52.2 percent from PKR 3.0 billion to PKR 4.5 billion in the same time period, followed by KMFB which expanded its deposit base by 47 percent from PKR 0.8 billion to PKR 1.14 billion.

The past year thus showed that MFBs have been successfully mobilizing deposits and are relying on a business model where deposits shall emerge as the main source of funding in the medium to long term. Deposits provide MFBs with a cheap[15] and reliable source of funding. FMFB remained the biggest player as far as deposit mobilization is concerned with a share of 43 percent in the sector's deposit base, followed by TMFB and KBL with shares of 32 percent and 12 percent, respectively (Exhibit 2.8).

The average deposit size of the MFBs stood at PKR 10,436. However, except for FMFB and NRSP Bank the average deposit size is below the industry average as shown in the Exhibit 2.9. NRSP Bank has the highest average deposit size at PKR 43,080 followed by FMFB with PKR 24,630 showing a significant amount of institutional deposits.

2.2.2 Scale and Outreach: Depth

The depth of outreach in micro-credit operations is measured by a proxy indicator: average loan balance per borrower in proportion to per capita gross national income (GNI). A value of below 20 percent of GNI is assumed to mean that the MFP is poverty focused. Except for KMBL and TMFB, all of the MFPs fell below this benchmark

15: It may be argued by some that this is relative cheapness, since increase in operational cost is high due to small ticket size and continuous with drawl of small sums of money by the clients at the base of the pyramid. However, this can only be known definitely by conducting further research.

in 2011 (see Exhibit 2.10). Comparison across peer groups shows that MFBs tend to target the upper end of the market through relatively larger loans, with a ratio of 18.6 percent whereas MFIs and RSPs are more focused on the lower end, with ratios of 10.0 percent and 11.0 percent respectively. MFBs depth of outreach is higher among the peer groups as it is dragged up by higher loan sizes of TMFB and KMFB.

The ratio of average loan balance to per capita GNI has been on a decline for RSPs and MFIs, with only a recent upward movement for the MFBs. This could be interpreted as the sector continuing to target the poor but also has implications for appropriate loan sizes in the context of Pakistan's inflationary environment. Erosion in the value of money means that a loan of PKR 10,100 in 2007 is worth PKR 17,390 in 2011 in real terms. Inertia in loan sizes has cast doubts on the relevance of these loans for business purposes[16]. MFPs' reluctance to increase their loan sizes stems from a number of reasons: the adverse economic scenario, recent delinquency crises that have brought forth the risks of multiple borrowing and weak controls, lack of availability of funds and the transition/consolidation within the larger players. With the advent of Microfinance Credit Information Bureau (MF-CIB) MFPs ability to assess credit risk will improve considerably and may lead to an increase in loan sizes. Within peer groups, MFBs are likely to see a further rise in average loan balance given the regulatory changes that now allow them to access the lower end of the Small and Medium Enterprise (SME) market.

2.2.3 Gender Distribution

The proportion of women borrowers showed a slight improvement, increasing from 51.8 percent in 2010 to 55.2 percent in 2011. The share of women borrowers has been rising over the last few years as seen in the Exhibit 2.11. Similarly, the percentage of women depositors saw a significant increase to 19.4 percent as compared to a mere 8.4 percent in 2010.

A comparison across peer groups show that proportion of women borrowers for MFBs declined to 25.0 percent from 32.8 percent in 2010 whereas it increased for MFIs and RSPs to 82.0 percent and 71.5 percent from 79.8 percent and 52.4 percent in 2010, respectively (see Exhibit 2.12). This shift in proportions was a consequence of NRSP

16: Detailed analysis of this issue is provided by Burki. 2010. Microcredit Utilization: Shifting from Production to Consumption? PMN.

Exhibit 2.10: Depth of Outreach by Peer Groups

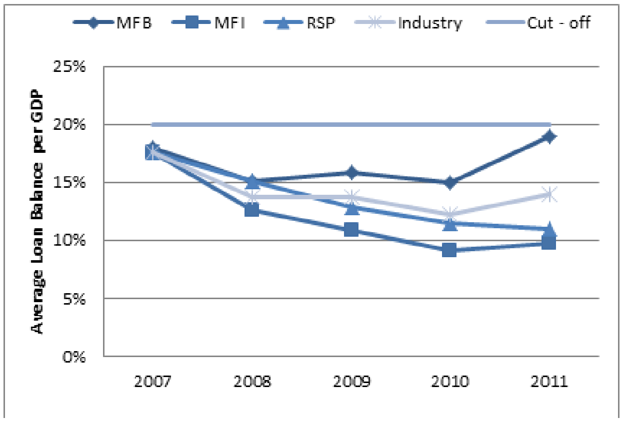


Exhibit 2.11: Outreach to Women: Credit and Deposits

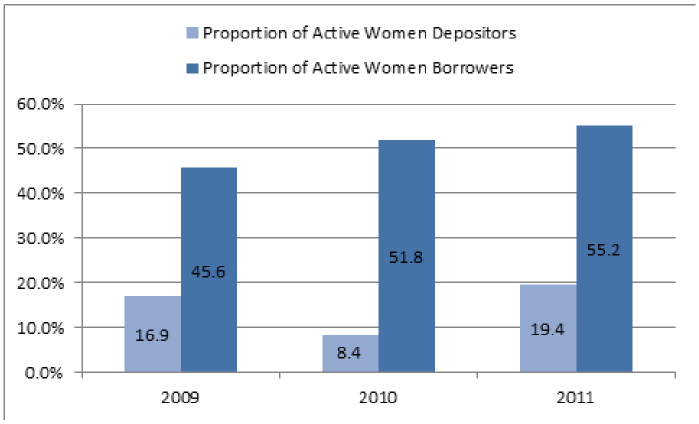
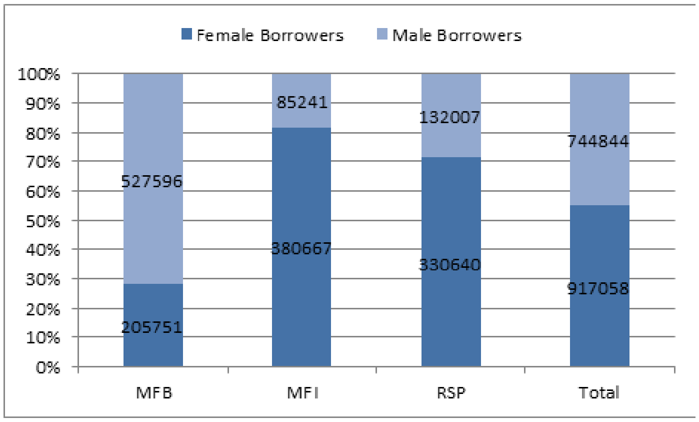


Exhibit 2.12: Gender Distribution of Credit Outreach by Peer Groups



transferring a large proportion of its male clients in the south of Punjab to its sister concern, NRSP Bank, thus increasing its own proportion of women borrowers.

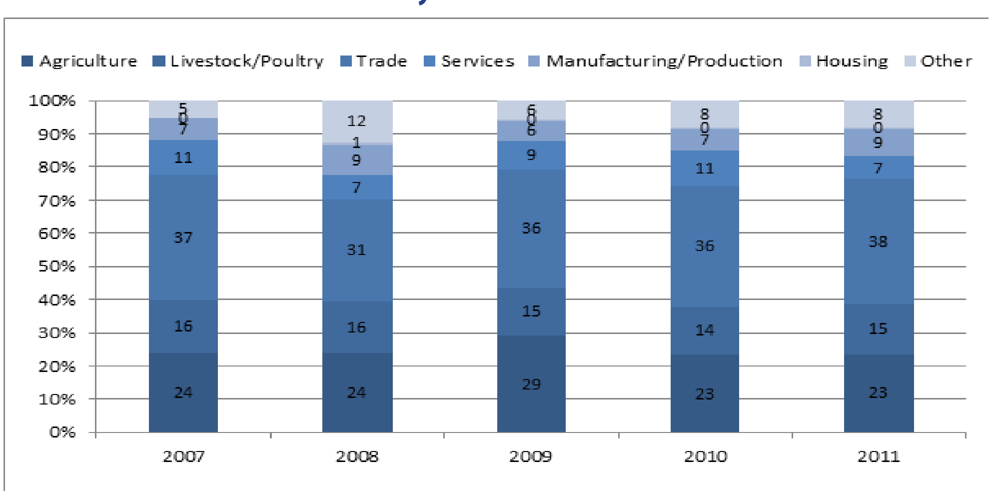
Also, SRSO, an organization reporting for the first time in the PMR, has added 38,291 women borrowers to the total. Given NRSP accounts for the bulk of RSPs' outreach and the addition of SRSO, this tipped the gender distribution of the RSPs in favor of women. On the other hand, it skewed the banks' outreach in favor of men as Tameer Microfinance Bank (TMFB) was one of the growth drivers amongst banks, and its outreach ratios with regards to gender shifted significantly during the year, with women accounting for only 35.3 percent of active borrowers in 2011 compared to 60.3 percent in 2010.

2.2.4 Portfolio Distribution by Sector

The services and trading sector continues to dominate the sector-wise distribution of microcredit, together accounting for 44.4 percent of borrowers in 2011 (Exhibit 2.13). These are followed by agriculture and livestock which collectively make up 38.5 percent of the borrowers. Manufacturing continues to be a distant third by accounting for only 8.5 percent of the borrowers. The share of housing remained negligible.

The predominant share of services and trade is reflective of the general trend in the country's economy where services sector has continued to account for over 50 percent of the GDP (see Exhibit 2.14). In addition, due to persistent energy shortfall, manufacturing even at the micro level is hardest hit. With MFBs focusing on the microenterprises we are likely to see the continuation of increase in the share of services and trade.

Exhibit 2.13: Active Borrowers by Sector



2.2.5 Rural- Urban Lending

The share of urban borrowers has been increasing over the last few years whereas lending to rural borrowers have been on a declining trend as seen in the Exhibit 2.15. In 2011, 54 percent of borrowers were from the urban areas as compared to 48 percent in 2010.

The shift has been driven by the increasing urban focus of the MFPs, especially the MFBs and the fast growing players like ASA-P and BRAC-P. With only KBL concentrating on the rural areas among the MFBs and the declining outreach of NRSP as a result on ongoing transition to NRSP Bank rural outreach fell relative to urban outreach. In addition, floods in the last two consecutive years have led to reluctance within the sector to lend further in rural areas. Resultantly rural borrowers fell from 1.2 million in 2010 to 0.9 million in 2011. On the other hand, urban borrowers increased from 0.9 million in 2010 to 1.2 million in 2011. However, with the formation of NRSP Bank and repositioning of Apna Microfinance Bank after acquisition, rural outreach should receive a boost in the coming years.

2.3 FINANCIAL STRUCTURE

This section focuses on financial indicators to provide performance analysis of the industry in terms of asset growth, funding structure, sustainability, efficiency and risk.

2.3.1 Asset Base

The total asset base of the industry stood at PKR 48.6 billion in 2011, up from PKR 35.8 billion in 2010. This increase of 35 percent is partially due to inclusion of the data of two new members this year; namely NRSP Bank and SRSO having total assets of PKR 4.1 billion and PKR 0.7 billion respectively. Most

Exhibit 2.14: Composition of GDP from 2008-2011

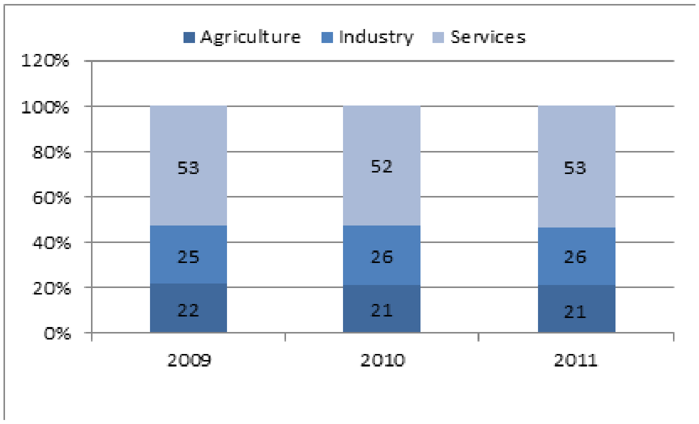


Exhibit 2.15: Active Borrowers by Urban/ Rural Areas

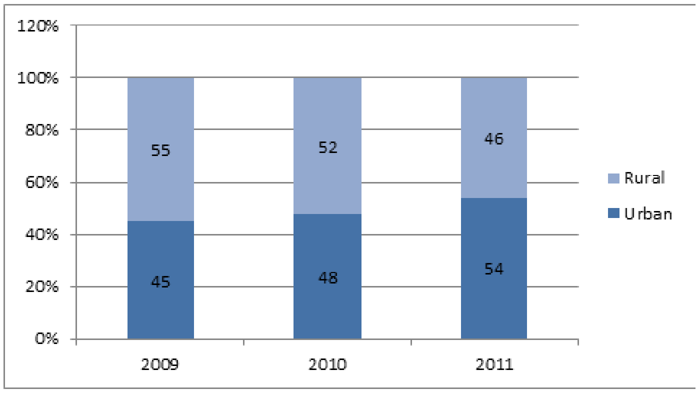


Exhibit 2.16: Total Assets by Peer Group

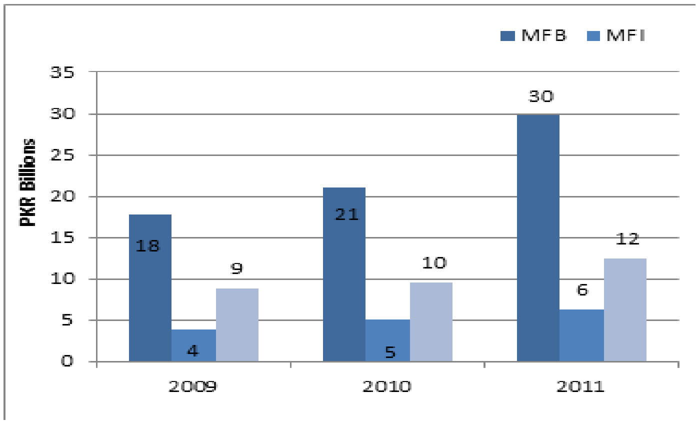
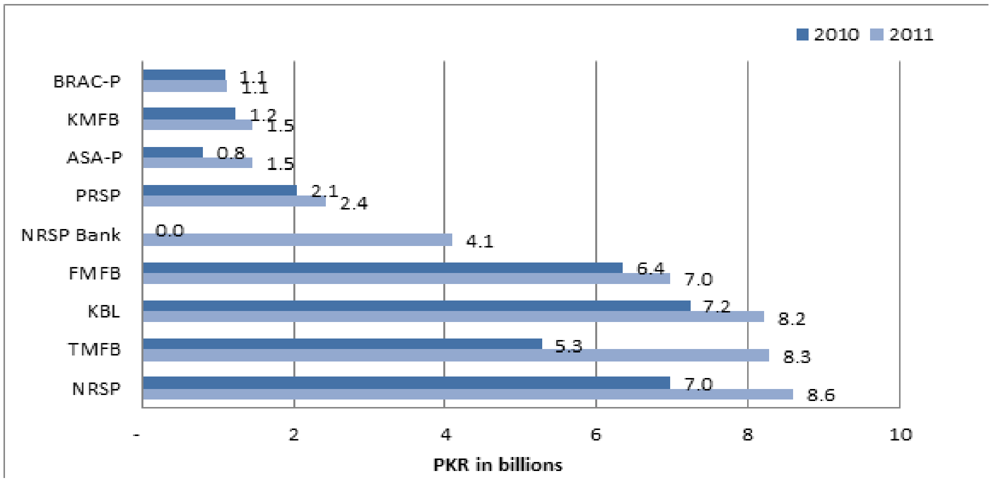


Exhibit 2.17: Asset Base of Largest 9 MFPs



of the remaining growth was driven by MFBs, which collectively increased their asset base from PKR 21 billion in the last year to PKR 30 billion in 2011 (Exhibit 2.16). Amongst the individual MFPs, TMFB registered the highest growth with its assets increasing to PKR 8.2 billion as compared to PKR 5.2 billion in the previous year. TMFB is followed by NRSP which increased the asset base to PKR 8.6 billion from PKR 6.9 billion in the previous year.

MFBs continue to expand their share in terms of assets, accounting for 61 percent of the industry's balance sheet in 2011, followed by RSPs and then MFIs. Within RSPs however, NRSP alone accounted for 69 percent of the total assets and also the largest asset base in the sector. TMFB and KBL follow close behind (Exhibit 2.17).

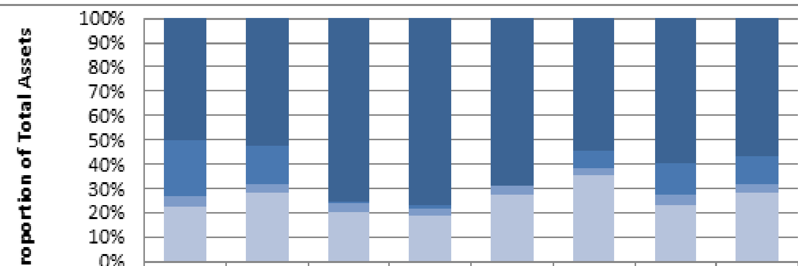
Collectively nine institutions dominate the market, of which five are MFBs. This trend is reflective of the trend of MFBs dominating the industry in the country with increasing asset base and GLP.

2.3.2 Asset Composition

The bulk of the industry's assets consist of advances, accounting for 56 percent of the total assets in 2011, down from 60 percent in 2010. However, the asset composition varies substantially across the three peer groups as shown in the Exhibit 2.18.

In case of MFBs, advances grew by 54 percent in 2010-11, but overall assets grew by a modest 2 percent as investments declined from 23 percent in 2010 to 16 percent in 2011. On the other hand, the share of advances for RSPs increased to 77 percent whereas MFIs share of advances fell from 69 percent to 54 percent in 2010-11 despite a 24 percent increase overall advances by MFIs. This was due to increase in cash and investments by the MFI sub-sector which jumped from 27 percent to 36 percent and 0 percent to 7 percent, respectively during 2010-11. Overall the amount of cash remains high in the industry due to liquidity requirements and cash management issues. A substantial amount also continues to remain invested in government securities. Importantly, the increase in Minimum Capital Requirement (MCR) by SBP requiring banks to increase MCR to PKR 1.0 billion in a phased manner by 2013 has resulted in increase in assets other than advances and entry of new players like NRSP Bank who have recently commenced operations.

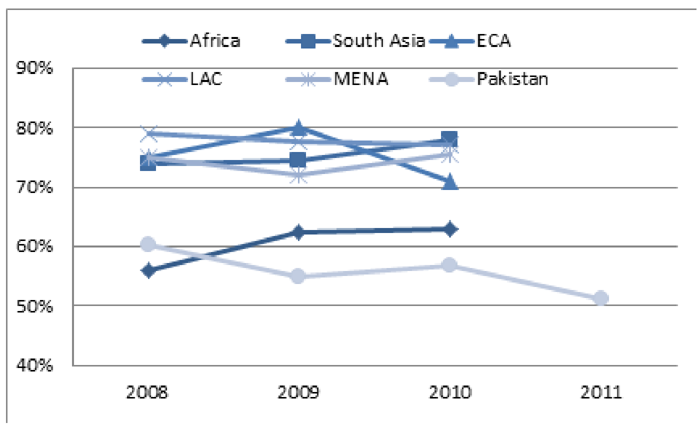
Exhibit 2.18: Asset composition by Industry & Peer Group (2010-11)



	2010 MFB	2011 MFBs	2010 RSPs	2011 RSPs	2010 MFIs	2011 MFIs	2010 Industry	2011 Industry
Advances	50%	52%	76%	77%	69%	54%	60%	56%
Investments	23%	16%	1%	2%	0%	7%	13%	12%
Fixed assets	4%	4%	4%	3%	3%	3%	4%	3%
Cash and Bank Balance	22%	28%	20%	19%	27%	36%	23%	28%

The asset utilization ratio for the sector stood at 51 percent declining from 55 percent in 2010. Trend analysis reveals that the asset utilization ratio for the industry has been declining over time (Exhibit 2.19) except for a minor improvement last year. In addition, the utilization ratio tends to vary across peer groups, with MFIs posting the highest utilization ratio of 78 percent as compared to 49 percent for MFBs and 48 percent for RSPs. The ratio remains low because of large cash holdings by MFPs and stagnant growth in the sector. MFBs focus on placing funds in government securities has kept the ratio low for the peer group. On the other hand, NRSP's transformation process has dragged the utilization ratio down for RSPs. According to MIX Market data, Pakistan has a low utilization ratio especially in context of South Asia as shown in the Exhibit 2.19.

Exhibit 2.19: Regional comparison of Asset Utilization Ratio



2.4 FUNDING PROFILE

Over time, the funding structure of the industry has witnessed an increase in debt and deposits and a reduction on the equity side (Exhibit 2.20). At present up to 29 percent of the funding for the sector comes from deposits, reflecting the increase in the deposit base of MFBs. Percentage of debt increased from 48 percent in 2010 to 50 percent in 2011 whereas equity declined by 2 percent from 23 percent to 21 percent in the same time period.

The funding structure varies significantly with the peer group as shown in Exhibit 2.21. Only MFBs are allowed to have intermediate deposits. For MFBs, deposits are a cheap and reliable source of funds and make up 48 percent of their total funding. We are likely to observe the share of deposits rising further for this group, given the growth observed in deposit mobilization. On the other hand,

Exhibit 2.20: Financing Structure of the Microfinance Industry

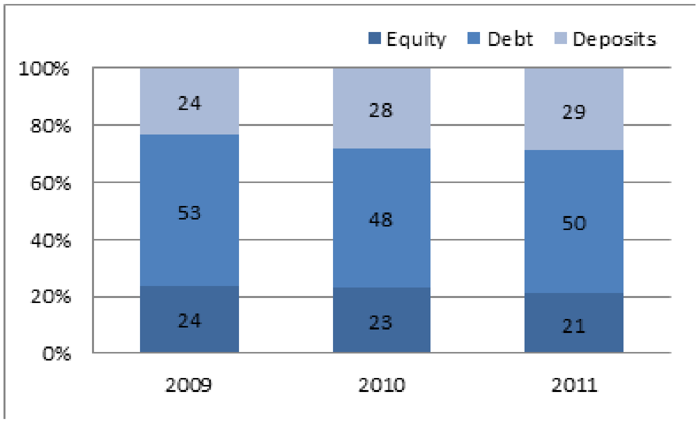


Exhibit 2.21: Funding Profile by Peer Group

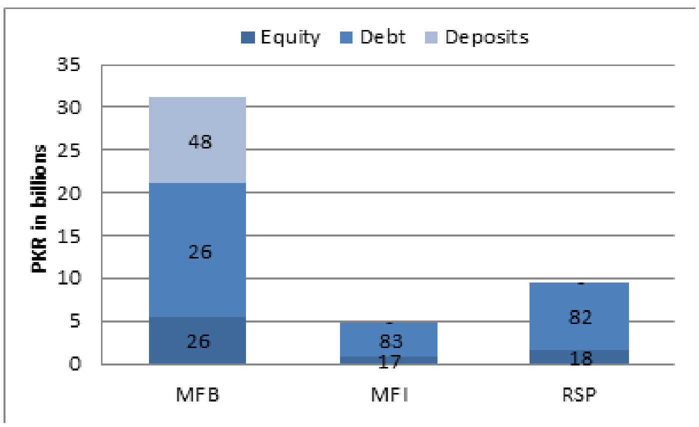
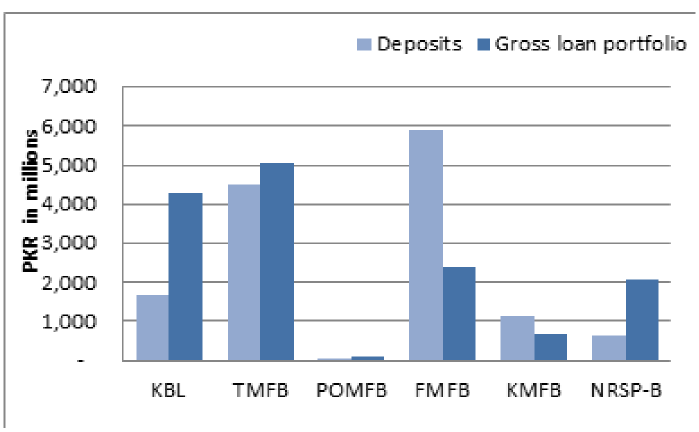


Exhibit 2.22: Deposits and GLP of Microfinance Banks



entry of a number of new players into the MFB sector, either in the form of Greenfield institutions or through acquisitions, will also raise the equity levels at least in the short term. For MFI and RSP peer groups debt remains, and will likely remain the primary source of funds which is reflected in the proportion of debt in their funding profile, i.e. 83 percent and 82 percent respectively.

The proportion of equity remains low for MFIs and RSPs with just 17 percent and 18 percent of their capital structure. Inadequate capitalization can seriously impair the ability of MFIs and RSPs to access commercial finance and expand their outreach. In order to increase the equity of MFIs, PPAF has launched an equity fund with the aim of strengthening of the financial position of mid tiered and smaller players. The first of this kind of equity placement took place last year and is discussed in the Box 2.3.

MFBs have been achieving noteworthy success in mobilizing deposits. Overall, Deposit-to-GLP ratio has improved from 50 percent last year to 56 percent in 2011. Among the players, KBL has show major improvement in deposit-to-GLP ratio (see Exhibit 2.22). Though TMFB's deposits increased by 67 percent, however, their deposit mobilization could not keep pace with the expansion in credit, causing the ratio to fall from 95 percent in 2010 to 89 percent in 2011.

The transition to commercial finance in the industry also continues. Commercial debt currently stands at PKR 12 billion for the sector against PKR 8 billion subsidized debt. The increasing trend of commercial liabilities is likely to continue as MFPs access commercial finance to expand further.

Subsidized lending to the sector is done exclusively by PPAF. However, commercial

Box 2.3: PPAF Equity Placement in Jinnah Welfare Society (JWS)

PPAF under its IFAD-PRISM-Equity Fund made its first placement in Jinnah Welfare Society (JWS), a Gujranwala based MFI. The fund is offered to dynamic MFIs so that these organizations can access commercial financing to realize their growth potential and expand into rural areas. Equity is provided to only those organizations which meet a strict criteria based on sustainability and third party assessments. In addition, the selected MFIs must have a proven microfinance model and counterpart funding ability.

The facility is likely to strengthen the financial position of the MFIs, diversify their funding sources and allow them to expand their outreach. Further placements of a similar nature, collectively to the tune of PKR 60 million, are anticipated shortly.

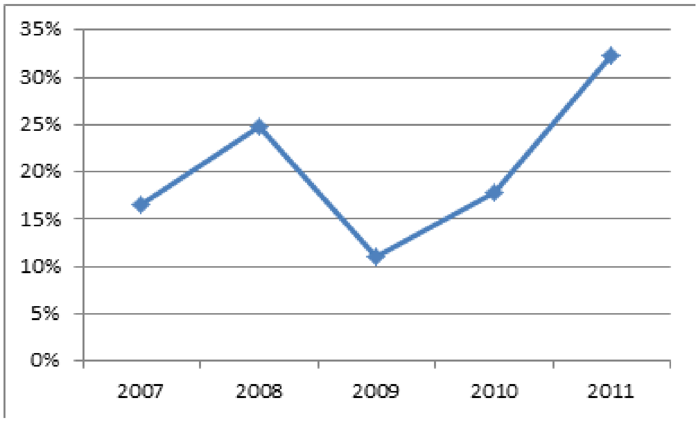
Box 2.4: Guarantee Funds: PPAF's PRISM - Credit Enhancement Facility and SBP's MFCG

At present there are two credit guarantee funds available for the industry in Pakistan. One is the SBP's Microfinance Credit Guarantee Fund (MCGF) funded by DFID and other one PPAF's PRISM Credit Enhancement Facility funded by IFAD. The aim of both the facilities is the same i.e to initiate commercial lending to MFPs by banks by guaranteeing part of their loans. However, the facilities differ in their structure. MCGF allows lending to MFP by any banks / DFIs and offers 25% first loss or 40 percent partial guarantee (pari passu) coverage to banks. The pricing is fixed at 6 months KIBOR plus 2 percent. In case of PRISM-CEF, part of bank exposure is secured by partial PPAF cash collateral. The pricing varies depending on the risk profile of the MFP.

funds are available from multiple sources including PPAF, under guarantee funds, secured lending against government securities and, to a limited extent, through the money market. Two guarantee funds: MFCG and PRISM-Credit Enhancement Facility, account for the bulk of commercial loans for the sector (details in Annex F).

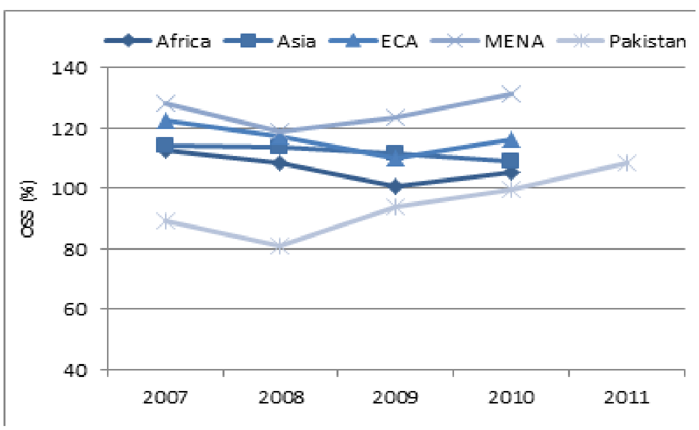
In addition, MFPs are exploring options to tap money market and fixed income capital markets for financing. With MFCG rules being amended to allow them to guarantee TFCs, we are likely to witness larger players entering the debt capital market. Also, 2011 saw TMFB issuing commercial papers for private placement making it the first MFP to issue such a security (more in Box 2.5 below).

Exhibit 2.23: Commercial Liabilities to Total Debt



> **Box 2.5: Launch of Commercial Papers by TMFB**
>
> A Commercial Paper is an unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. Maturities on commercial paper rarely range any longer than 270 days. The debt is usually issued at a discount, reflecting prevailing market interest rates . Commercial Papers are an excellent instrument for MFPs to raise funds. The short tenure of the facility matches with the normally short maturity of microloans. It can also be an ideal fund raising solution for seasonal loans. In addition, it is cheaper as compared to other longer maturity products.
>
> TMFB issued a commercial paper for PKR 200 million for a tenure of 6 months at a markup rate of 6 months KIBOR plus 2.25 maturing in May 2012. The commercial papers were privately placed with investors and received an excellent response from the market. This transaction represented the first ever for an MFP in Pakistan.
>
> Growing investor interest in the nascent commercial paper market in the country coupled with increasing awareness about the microfinance industry provide an opportunity to MFPs to tap into this relatively inexpensive funding option.

Exhibit 2.24: Regional Comparison of OSS



2.5 PROFITABILITY AND SUSTAINABILITY

The high point of the year 2011 was that the industry achieved operational and financial self-sufficiency. Overall profit was PKR 673 million with a profit margin of 6.7 percent. Unadjusted ROA and ROE were 1.6 percent and 7.7 percent, respectively for 2011. Regional comparisons reveal that the industry's OSS is now nearly equal to the average value for Asia and is ahead of Africa (see Exhibit 2.24). Overall, 13 MFPs posted an OSS over 100 as compared to 10 MFPs in 2010. The SBP relaxation to MFBs for freezing their provisioning on flood related portfolio by 2011 may create large provisions / write offs against portfolio in flood affected areas. This may adversely affect the profitability in the year to come.

Industry's FSS also showed marked improvement this year, increasing from 80 percent to above 100 percent for the first time (see Exhibit 2.25). This improvement was driven by increased net income, relatively lower inflation and less loan loss provisioning.

A break up of revenues of the industry reveals a mixed trend. Bulk of the revenue continues to come from the loan portfolio i.e. 79 percent. This is followed by income generated from investments in financial assets (12 percent) and revenue from financial services (9 percent). With the deployment of branchless banking operations of other MFBs, we are likely to witness an increase in the share of revenue from financial services.

The industry's average nominal yield on portfolio continued to exhibit an upward trend from 32.9 percent last year to over 35 percent in 2011 (Exhibit 2.27). MFBs continued to have the highest nominal yield, followed by MFIs and RSPs. Also, real yield on portfolio grew from 15.5 percent to 21.6 percent over 2010-2011, spurred by comparatively lower inflation and higher yield on portfolio. This has resulted in rationalization of the previous underpricing of assets in the sector and is reflected in the increase of total revenue ratio over the years.

Nominal yield which is a proxy for interest rates being charged by the industry, continue to show an upward trend. Regional comparisons show that the industry's nominal yield is now on a higher side (see Exhibit 2.28). Moreover, the increase in nominal yield shows the rationalization the underpricing of assets in the industry. Also, this increase needs to be seen in light of the prevailing high interest regime in the country and persistent double digit inflation.

Total expenses for the sector stood at PKR 10.1 billion in 2011. 57 percent of the total expense was made up by operating expense. Financial expenses, despite increasing by 50 percent as compared to last year due to the increasing presence of lending at commercial costs and increasing cost of funds, constituted only 33 percent of the total expense. Remainder was made up by loan loss expense.

The expense-to-total assets ratio for the industry remained high at 24 percent in comparison to other regions (Exhibit 2.29). It showed a marginal downward trend. In terms of peer groups, RSPs have the highest efficiency with an expense to assets ratio of 21 percent, followed by MFBs with 23.6 percent and MFIs with 30 percent.

Operating Expense continues to account for more than half of the total expense. The operating expense to total assets after showing an increasing trend for the last four years showed a marginal decrease in 2011, declining to 13.7 percent (see Exhibit 2.30). A comparison across regions shows this is on the higher end and in order to remain profitable and sustainable the industry will

Exhibit 2.25: FSS Trend

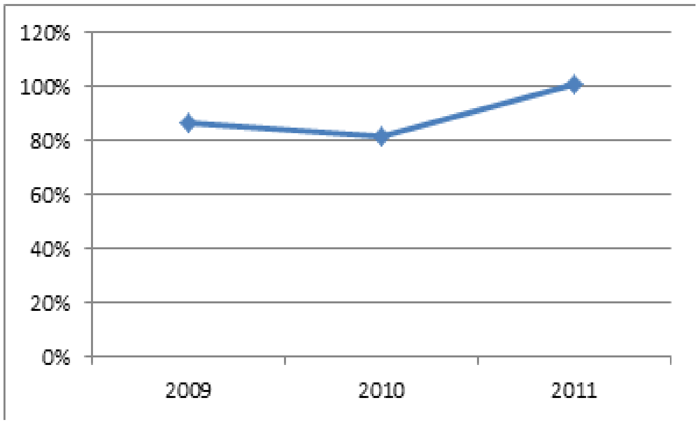


Exhibit 2.26: Revenue Streams

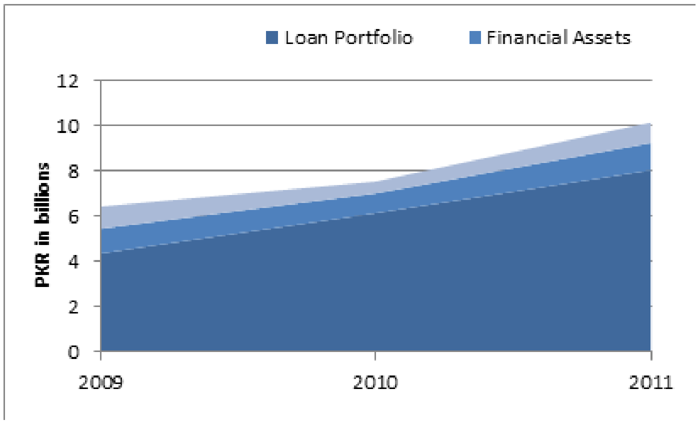


Exhibit 2.27: Total Revenue Ratio, Yield on Gross Portfolio (Nominal) and Yield on Gross Portfolio (Real)

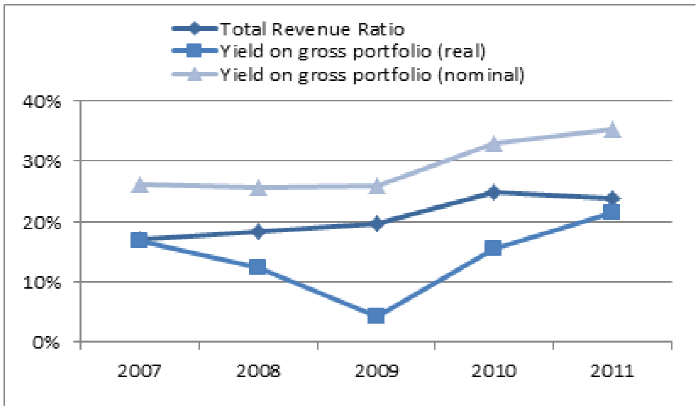


Exhibit 2.28: Regional Comparison of Nominal Yield

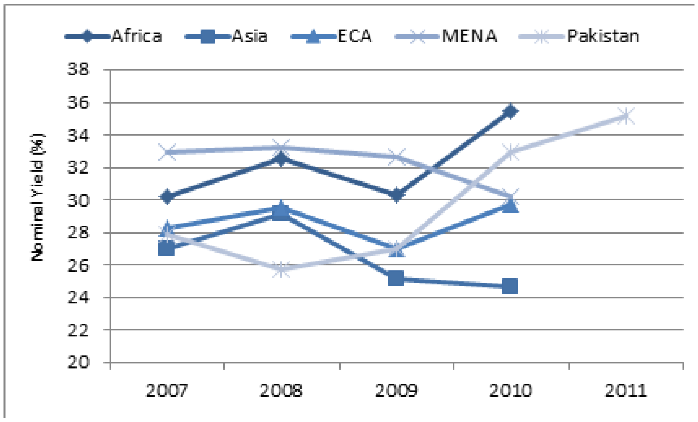


Exhibit 2.29: Regional Comparison of Expense to Total Assets

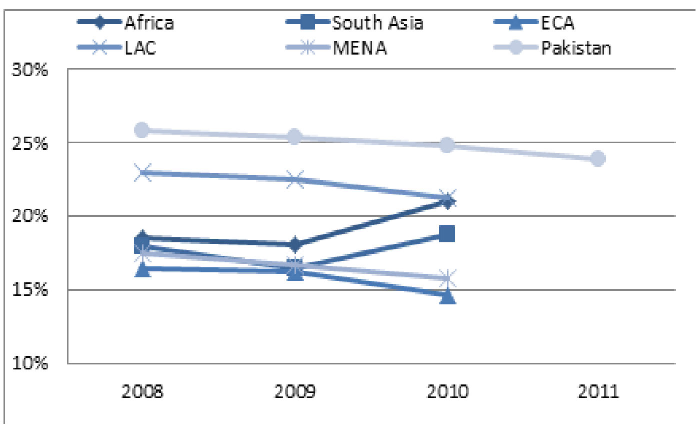
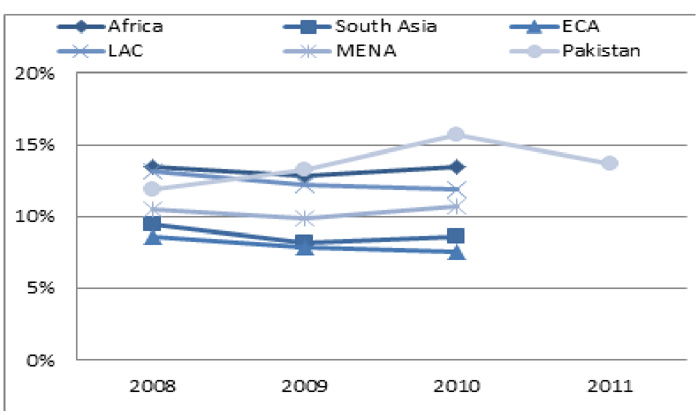


Exhibit 2.30: Regional Comparison of Operating Expense to Total Assets



need to reduce the operating expense. The main components of the operating expense are the personnel costs and administration costs.

The financial expense to total assets showed a marginal increase from 6.6 percent to 7.8 percent in 2011 (see Exhibit 2.31). This is reflective of the ongoing transition of the industry from subsidized lending to commercial lending. Among the peer groups, the ratio is highest for RSPs with 9.2 percent, followed by MFIs with 8.6 percent and lastly, by MFBs with 7 percent. The financial expense remains low for the MFBs due to their success in mobilizing deposits as a cheap and inexpensive source of financing as against to RSPs and MFIs that remain dependent upon debt as the primary source of funds.

Loan loss provision expense to total expense continued to be the same as last year at 2.4 percent largely as result of losses resulting of floods in the last two years. It was also observed to be highest among RSPs at 3.3 percent followed by MFIs at 3 percent and MFBs at 1.9 percent.

As the industry explores and adopts alternate delivery channels like branchless banking, there is potential for reduction of costs as well as enhancing scale, both of which will result in lower operational expenses by reducing both personnel and administrative expense.

Thus, the current driver of profitability lies in pricing correction. The nominal yield which is the function of portfolio yield and return of investment has reached its nadir. It is imperative that the future lies in shifting the model and building in efficiencies through improved productivities and higher proportion of assets been invested in loan books. Similarly financial costs can be reduced through deposit mobilization and building synergies between MFIs and MFBs to lower MFIs cost of funding.

2.6 EFFICIENCY AND PRODUCTIVITY

2.6.1 Efficiency

The adjusted operating expense to average GLP ratio and the adjusted personnel expense to average GLP ratios both decreased marginally in 2011 to 25.5 percent and 14.7 percent respectively from 25.7 percent and 15.1 percent in 2010.

2.6.2 Productivity

The borrowers per staff showed a slight decrease from 131 to 117 in the year 2011 due to increase in the total number of staff in the industry by more than two thousand mainly driven by additional hiring by NRSP and inclusion of new reporting partners in the data set (see Exhibit 2.33). Among the peer groups, MFBs and MFIs have the highest ratio with 134 borrowers per staff and 88 for RSPs as most of the hiring in the sector in 2011 was done by NRSP. The ratio varies among the MFPs with ORIX having the highest number of borrowers per staff at 349, OPP at 318, KBL at 163 and ASA-P at 192. Here, it is important to note that ASA-P and KBL are also among the fastest growing MFPs in the sector.

Depositors per staff ratio continued to show an upward trend with the figure going up to 94 in 2011 as compared to 64 in 2010. This mirrors the expansion in deposits being witnessed over the last few years. The ratio varies among MFBs with TMFB having 862 depositors per staff, FMFB at 250 and KMFB at 204. The high ratio for TMFB is reflective of the tremendous expansion witnessed in the bank's assets and deposit base in 2011.

Increase in productivity and efficiency in the industry is dependent upon further expansion in microcredit in terms of outreach and increasing GLP.

Exhibit 2.31: Expense to Asset Ratios

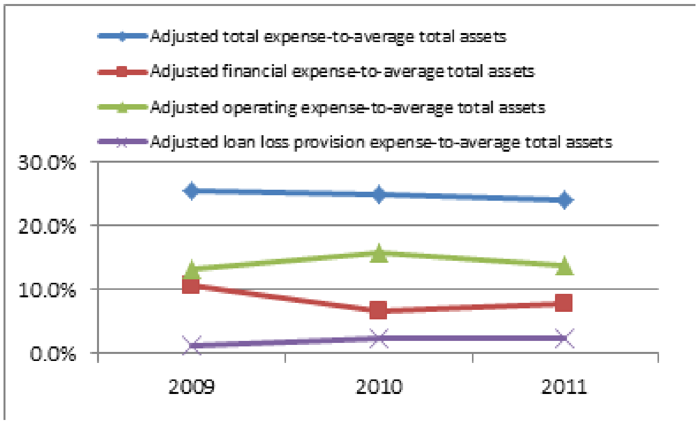


Exhibit 2.32: Adjusted Operating Expense and Personnel Expense to Average GLP

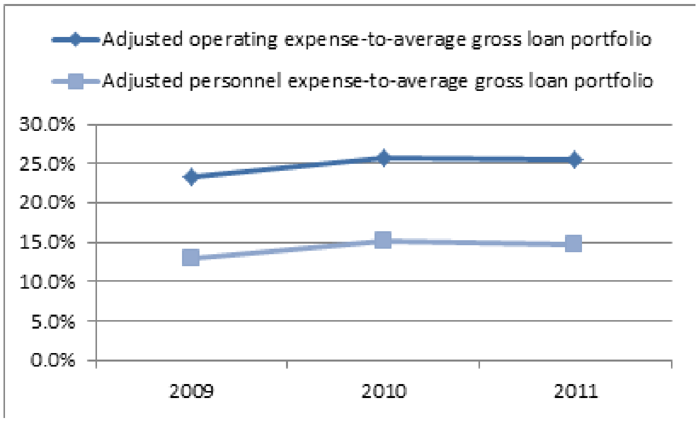


Exhibit 2.33: Productivity of MFPs

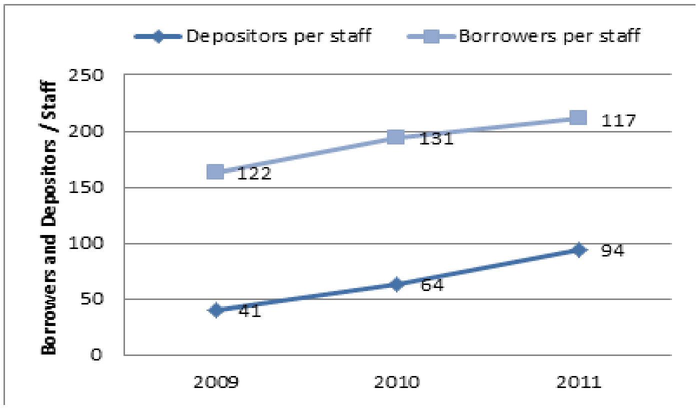


Exhibit 2.34: Personnel Allocation Ratio

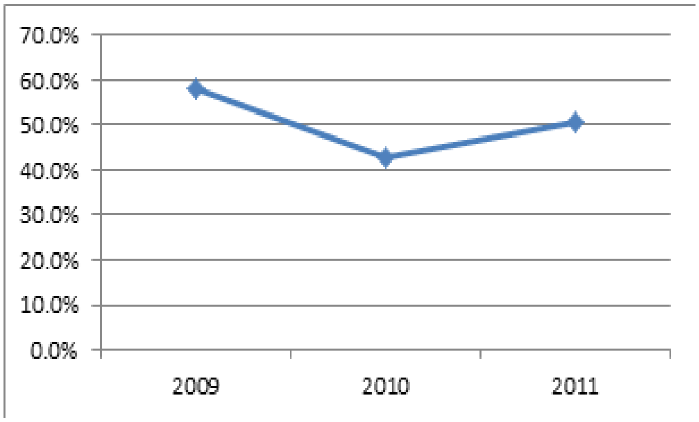
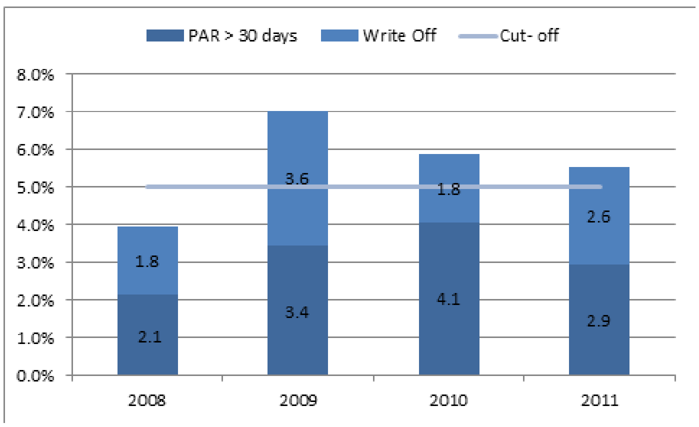


Exhibit 2.35: PAR > 30 Days and Write-Offs



The personnel allocation ratio measures the percentage of loan officers in a MFP to the total staff. This ratio increased to 51 percent in 2011 from 43 percent in 2010 as seen in Exhibit 2.34, mainly due to increase in the number of loan officers. This increase is mainly the additional hiring of loan officers by NRSP whose number increased from 643 in 2010 to 1,952 in 2011. The personnel allocation ratio varies among the three peer groups with MFBs at 42 percent, MFIs at 58 percent and RSPs at 54 percent. The low figure of personnel allocation ratio for MFBs is due to the staff being dedicated towards deposits.

2.7 RISK ANALYSIS

2.7.1 Credit Risk

Credit risk remains one of the greatest risks faced by microfinance the world over. It remains a concern for practitioners, investors and depositors around the globe[17]. For an industry that has prided itself on its enviable loan repayment record, this is a worrying trend. A risk assessment exercise for Pakistan's sector also showed that credit risk is amongst the top three risks to the sector and also amongst the fastest rising[18].

The sector has confronted major challenges in the form of floods in the last two years which particularly hit the sector's rural portfolio, and the on-going energy crisis and macroeconomic instability hurting the urban clients. Despite this the PAR past 30 days has not only remained under the 5 percent cut–off mark but in fact decreased from 4.1 percent in 2010 to 2.9 percent in 2011 (see Exhibit 2.35). This was, however, accompanied by a jump in write-offs to 2.6 percent of the GLP from 1.8 percent in the last year.

In absolute terms, PAR past 30 days decreased by nearly 12 percent. On the other hand, write-offs increased by 76 percent in 2011. This increase in write-off was expected in view of the portfolio affected as a result of devastating floods in 2010.

In the future, as a result of floods in Sindh towards the second half of the year 2011 which has left large tracts of land uncultivable, we may see an increase in PAR and accompanied write offs as many borrowers have been deprived of their source of livelihood in the affected areas.

17: Microfinance Banana Skins 2011, The CSFI survey of Microfinance Risk

18: Haq and Khalid. 2010. Risks to Microfinance in Pakistan: Findings from a Risk Assessment Survey. PMN.

Moreover, with SBP allowing MFBs relaxation for freezing their provisioning on flood affected portfolio by Dec 31, 2011 will lead to increase in large provisions / write-offs for players like FMFB and KBL whose portfolios were affected by floods.

The roll-out of a nation-wide Microfinance-Credit Information Bureau this year will become a key instrument for mitigation of credit risk over time leading to lower PAR. In order to mitigate loan delinquencies as a result of the natural calamities like floods, MFPs should explore the option of micro-insurance to hedge their risks as well as the possibility of a sector level risk mitigation fund.

2.8 CONCLUSION

The year 2011 may be called a watershed for the microfinance industry in Pakistan as it achieved sustainability for the first time despite modest growth in outreach and external challenges.

The industry continued to witness only modest growth in outreach and GLP. A host of factors including general economic conditions, natural calamities like floods in 2010 and 2011, adverse security situation, funding constraints and high costs structures led the growth in microcredit to remain low. On the whole, the market continued to remain concentrated with nine top players dominating the sector. Among the peer groups, MFBs now have majority share in the market.

Despite modest growth, MFBs continued to experience noteworthy success in mobilizing deposits as an inexpensive source of funds. Also, the ongoing transition to commercial lending continued with more players borrowing from the national apex at commercial rates and obtaining funds from commercial banks under the guarantee funds. In addition, 2011 saw some pioneering transactions on the fund raising front with the launch of commercial papers by one MFB.

The highlight of the year remained operational and financial self sufficiency achieved by the sector. Also, the profit margin was positive for the first time. Overall, the asset under-pricing that had long affected the sector seems to have been rationalized. The operating expense continues to remain high and can be addressed by utilizing the cost reduction potential offered by alternative delivery channels like branchless banking and expansion in GLP. Improvement in efficiency and productivity will likely be a result of expanding outreach and increase in GLP. Despite facing floods in consecutive years, the PAR past 30 days remained well below the five percent cutoff point and with the advent of nation-wide MF-CIB, credit risk will be further mitigated.

SECTION 3:
THE WAY FORWARD

"Microfinance recognizes that poor people are remarkable reservoirs of energy and knowledge. And while the lack of financial services is a sign of poverty, today it is also understood as an untapped opportunity to create markets, bring people in from the margins and give them the tools with which to help themselves." Kofi Annan

SECTION 3

THE WAY FORWARD

CONTENTS

Pakistan's microfinance landscape is evolving rapidly and the sector that remained credit focused, offering a generic product mix to the same target market through traditional delivery models, and struggling to attain sustainability, today, finds diversity amongst the players in the market, experimentation with credit models and delivery channels, a focus on services beyond credit, establishment of partnerships, the beginning of market segmentation and sector sustainability. These developments, coupled with a strong regulatory framework and enabling policy environment, signal the maturity of the Pakistani market.

While significant challenges remain, this section identifies and analyzes both opportunities and challenges and endeavor is to layout a roadmap for the future.

3.1. OPPORTUNITIES

3.1.1 National Roll-out of the MF-Credit Information Bureau

The country wide launch of Microfinance-Credit Information Bureau (MF-CIB) this year after a successful run of its pilot has the ability to usher in a new era of sustainable microfinance in the country. This would allow the sector to reduce their credit risk and upscale their loans which will helps the sector shrug off its cautious approach towards further expansion and growth in borrowers and portfolio.

The MF-CIB would enable the sector to mitigate credit risk by denying loans to willing defaulters and eliminate over indebtedness due to multiple borrowing. On the other hand, one of the major benefits of the bureau would be availability of credit history of borrowers. This would allow MFPs to reward the borrowers with good credit history by allowing them to upscale their loan sizes. In addition, this would lead to awareness among the borrowers about the importance of having a positive credit history leading to more responsible borrowing.

3.1.2 Take-off in Branchless Banking

Branchless Banking provides an ideal opportunity for the microfinance industry in Pakistan to utilize the alternate delivery channels provided by the cellular technology network in the country to expand to the entire length and breadth of the country and reduce their operational cost. Moreover, with the cellular market reaching saturation and the mobile network operators (MNOs) focusing on value added services for a major source of revenue, branchless banking looks all set for expansion in the country.

Branchless Banking has witnessed tremendous growth in the country in the last few years despite only two models having been deployed namely; UBL 'Omni' and Telenor's 'Easypaisa'. A number of new initiatives are in their pilot stage with national rollout expected shortly. A number of commercial banks and MNOs are all set to launch Greenfield MFBs like launch of Waseela Bank by Orascom or make acquisitions like KhushhaliBank Limited(KBL) by UBL as a platform for their branchless banking initiatives.

In addition, a number of MFIs and RSPs are forming partnership and alliances with either 'Omni' or 'Easypaisa' to utilize their delivery channels for provision of financial services last year. Initially, only loan repayments are routed through these channels, however, in future it is planned to disburse loans and extend services like micro-saving and micro-insurance through these channels. While initial investments are high due to upgrading of technology and training of personnel, these are likely to be offset by subsequent returns in terms of growth and cost reduction.

Branchless banking also provides an opportunity to diversify revenue streams though income on remittance services. Currently, earnings from Easypaisa make up about 14 percent of TMFB's revenue increasing from PKR 95 million in 2010 to PKR 205 million in 2011.

In view of an enabling regulatory environment and technological infrastructure in place, we are likely to witness continued interest in branchless banking and further expansion. The branchless banking model can assist in reaching the goal of greater financial inclusion by providing a vast array of financial services not just limited to microcredit to the unbanked segment of the population.

3.1.3 Focus of Investors

The sector seems to have attracted the attention of a diverse group of investors, national and international, due to a positive Business Environment Ranking 2011 by EIU with a large potential clientele and enabling regulatory environment. Investments in 2011 ranged from placement of funds to outright acquisitions. Privatization of KBL and acquisition of Network Microfinance Bank (NFMB) are reflective of this interest, especially the former which generated a lot of interest among the local and international investors.

Local investors seem to at least be partially motivated by the advances in branchless banking. These investors include commercial banks as well as multi-national organizations that are more interested in outright acquisitions. International investors have also been exploring the market for a long time now.

Recent interest in privatization of KBL by international funds like Accion and Blue Orchard shows that Pakistan's microfinance industry is now firmly on the international investors' radar screen.

Last year also saw Acumen Fund and International Finance Corporation taking a 16 percent stake in the NRSP Bank.[19] In addition, a number of international investors have shown their interest in acquiring or launching their own MFBs including Accion and Foundation for International Community Assistance (FINCA). Advans Group, a Luxemburg based Venture Capital Investment Company, will be launching Advans Pakistan MFB Limited by the second half of the year 2012.[20]

A mix of deep pocket local and international investors will not only strengthen the sector's balance sheet but also create spillovers of global practices, standards and trends.

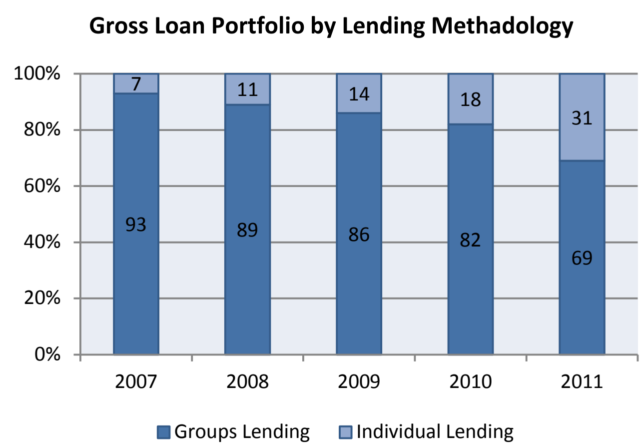
3.1.4 Developments in Micro-Insurance

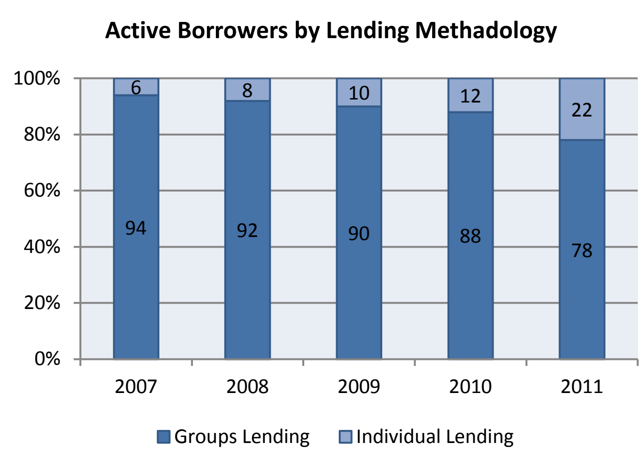
Microfinance includes in its ambit not only micro-credit but also micro-insurance, micro-savings and fund transfers. Micro-insurance allows people at the bottom of the pyramid to protect themselves against specific risks and reduce their vulnerability. Micro-insurance takes on added importance in light of the floods in the last two consecutive years

19: www.nrspbank.com/investors
20: Conversation with Advans Pakistan MFB staff

which resulted in huge losses to standing crops, livestock and property. As a result a large portfolio of the MFPs was affected as the borrowers were unable to repay their loans. Recognizing the role micro-insurance can play in such incidences and to address other vulnerabilities, sector stakeholders have begun to look at insurance seriously. Currently, micro-insurance products are largely limited to credit-life and health insurance. There is, however, a need to streamline and formalize the micro-insurance sub-sector.

Exhibit 3.1: Breakdown of GLP and Outreach by Lending Methodology





Securities and Exchange Commission of Pakistan (SECP) has taken a lead on this and is currently working with World Bank to develop regulations framework for micro-insurance in the country, likely to be finalized by end of this year.[21] In addition, keeping in view the immediate need to provide farmers with a carefully designed tool to mitigate their risk, IFAD and PPAF through a strategic partnership with the SECP have launched an action research on indexed agricultural and livestock insurance under the Program for Increasing Sustainable Microfinance (PRISM). The purpose of this initiative is to provide recommendations for the development of a sustainable market based crop and livestock insurance model which best suits the economic need and social characteristics of the country with particular focus on small and marginal income farmers.

3.1.5 Diversification in Credit Models

Over the years, it has been observed that the lending methodology of MFPs is gradually moving away from group lending to individual lending as show in the graphs below. Currently, MFBs with the exception of MFIs are taking lead in lending to individuals. The deteriorating repayment capacity of borrowers due to high inflation and worsening economic conditions have led to fast growth and popularity of collateralized lending by MFBs. This has led to a gradual increase in the share of the individual lending methodology (see Exhibit 3.1). In addition, it has been observed that there has been a movement towards smaller group sizes, with 3 -7 members[22].

One of the reasons that have led MFPs to move away from group lending is the social and political influence of that groups can

21: http://dawn.com/2011/12/06/govt-plans-to-promote-micro-insurance/ and meeting with SECP and World Bank staff, April 2012.
22: Based on interaction with MFPs

generate and inversely affect the repayment of loans similar to the experience of organized default by groups in Punjab in 2008. We are likely to observe a continuation of increase in individual lending; firstly with the SBPs revising the upper limit of the loans by MFBs and encouraging lending to micro enterprises and secondly, due to the tremendous growth and popularity of secured lending.

3.1.6 *Consolidation amongst MFBs*

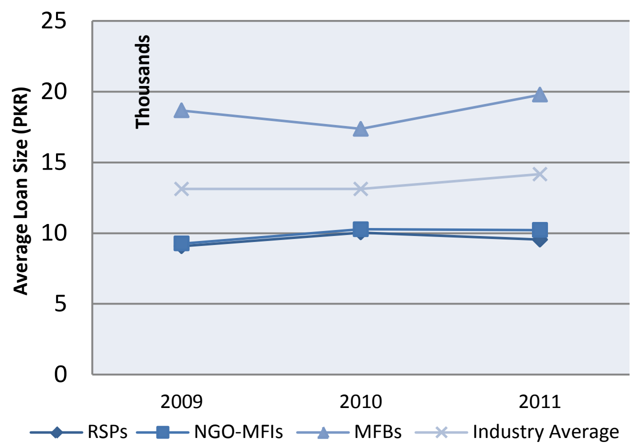
Among the MFB peer group, a wave of consolidation has begun with the acquisition of Network Microfinance Bank (NMFB) and its subsequent re-launch as Apna Microfinance Bank (AMFB) with a higher paid-up capital of PKR 1.5 billion, allowing it to expand operations countywide. Similarly, Ufone, a leading telecom company, is in the final stages of acquiring Rozgar MFB to gain access for launching its branchless banking operations[23]. A number of other strong investors are also presently exploring the market. They include commercial banks, MNOs, international investors and local investors. It is expected that other MFBs will be acquired by these investors leading to substantial equity injection and increased competition.

However, this sort of consolidation is yet to be observed among the NGO-MFIs where institutions are looking for equity to continue their expansion.

3.1.7 *Market Segmentation*

The microfinance industry is headed towards segmentation where different peer groups will be catering to different market segments as shown by their average loan sizes (see graph below). MFBs seem to be moving up market, catering to borrowers lying

Exhibit 3.2: Trend in Average Loan Size by Peer Group



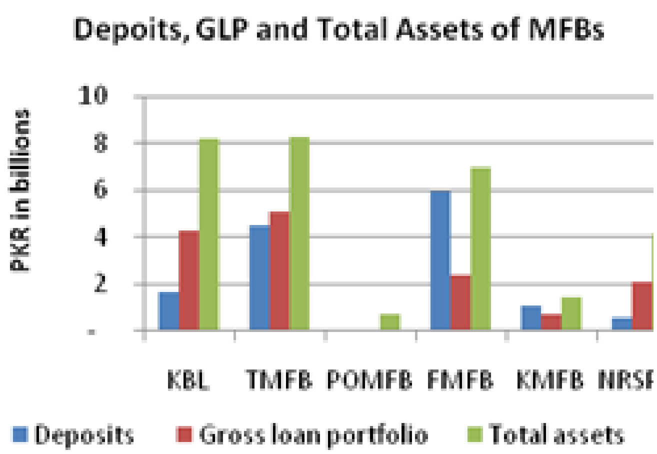
at the upper end of microcredit clientele and increasingly focusing on lending to individuals. With the up-scaling of loan size limits for MFBs by SBP in March 2012 and a focus on micro enterprise lending, the average loan sizes of MFBs are likely to rise further as they expand into lower end of Small & Medium Enterprise market, or the 'Missing Middle'. Even within MFBs we find further segmentation: MNO-led MFBs and more traditional MFBs. MNO-led MFBs are likely to cover SME and upper end of the microcredit whereas traditional MFBs with a more social mission are likely remain in the microloans market. NGO-MFIs and RSPs are expected to continue catering to the lower end of the microcredit market through the group lending, although with smaller groups.

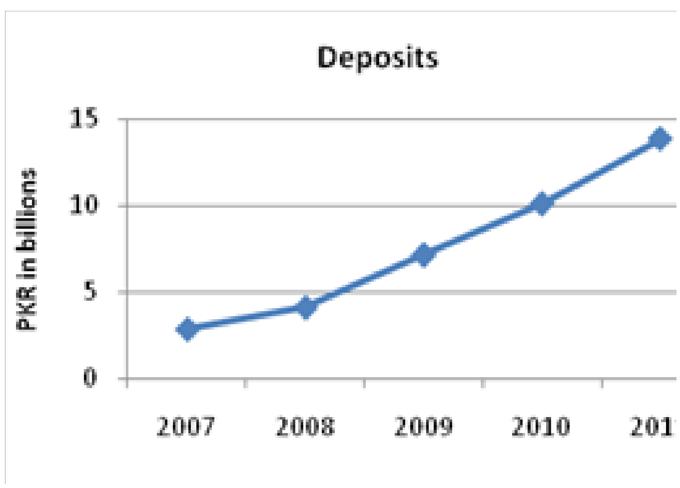
3.1.8 *Growth in Deposits*

Clearly, MFBs are focused on raising deposits: total deposits of MFBs increased from PKR 2.8 billion to PKR 13.9 billion in the last five years as seen in Exhibit 3.3. For MFBs deposits represents an inexpensive and unhindered source of funds for further expansion and up-scaling of loans. Buoyed by continued success in mobilizing deposits, it is likely

23: Branchless Banking Newsletter, Issue 2, Oct-Dec 2011, State Bank of Pakistan (SBP) to become a main source of funds for this peer group in the medium term. As stronger microfinance banks emerge through this phase of merger and acquisitions, we can anticipate the deposits to grow further. Keeping this in view, large NGO-MFIs and RSPs are contemplating transitioning to MFBs so that they intermediate deposits and so meet their ever increasing funding requirements along the lines of establishment of NRSP Bank by NRSP and Kashf Microfinance Bank (KMFB) by Kashf Foundation (KF). However, in mobilizing deposits the MFBs are likely to incur tough competition from commercial banks that have a strong and visible presence in the market. Competing effectively would require offering competitive rates and a range of services in order to retain clients.

Exhibit 3.3: Trend in MFB Deposits 2007-12





3.2 CHALLENGES

3.2.1 Funding

Funding remains one of the main challenges for the microfinance industry in Pakistan. Over the years, the sector has moved from grants for on-lending to subsidized loans as primary source of funds. Funding needs of the sector are quite diverse and are a direct result of the type of institution, its funding structure and its institutional strength. To analyze these needs, various funding options are discussed here.

GRANTS

Grants are now primarily for the purpose of capacity building and institutional strengthening and it is unlikely that the sector will have access to grants for on-lending in the future. The sector would thus have to rely on other sources of funds such as debt and deposits.

EQUITY

Though equity increased by 24 percent for the sector in the last one year, debt to equity ratio remained constant at 3.4 which is within an acceptable range. A number of MFIs and RSPs are undercapitalized with a high debt to equity ratio while some of the players are even operating with negative equity. These players are in desperate need of an equity injection in order to continue and scale up their operations and to access commercial funds. Globally, social investors and other microfinance funds can also be approached to take equity positions in the sector.

DEBT

- **Deposits:** Future projections indicate that the ability of microfinance banks to mobilize deposits will differentiate them from the non-bank MFPs, who will continue to rely on debt while the former look towards deposits as their primary source of funds. However, MFBs can continue to expect strong competition from commercial banks, which have a stronger and more visible footprint in the market, with regard to deposit mobilization. In order to compete effectively they would be required to develop a range of services and products, and offer competitive rates on deposits.

- **Beyond PPAF:** As the microfinance sector took off in the country, PPAF's ambit expanded from that of a sector developer to include quasi-regulation given its strong role in monitoring the non-bank MFPs. It remains the largest source of funding for the sector, accounting for most of the sector's debt. The credit funds available to PPAF under various programs will largely be invested in the sector by June 2012. On the other hand, reliance of MFPs, especially the mid-tier and smaller institutions, on PPAF funds is likely to continue. With the sector just beginning to access commercial funds (that too mostly limited to larger players) and only MFBs allowed to intermediate deposits, the sector could face a serious funding crisis if the PPAF funding pipeline is choked.

- **Funding under Guarantee Funds:** Currently, two guarantee funds are available to the sector: the Microfinance Credit Guarantee Facility (MCGF) administered by SBP and funded by DFID, and the PRISM-Credit Enhancement Facility of PPAF funded by IFAD. Although a number of deals have been successfully completed under these two facilities, it is unclear how successful they have been in generating interest and confidence of commercial banks to lend to the microfinance sector in the absence of such guarantee mechanisms.

- **Commercial Funding:** MFPs have found it difficult to raise funds through commercial sources. Though last year saw the launch of commercial papers by TMFB, little movement is expected on this front until concerns of lenders relating to loan security, legal structure of the borrowing entity and business viability are resolved.

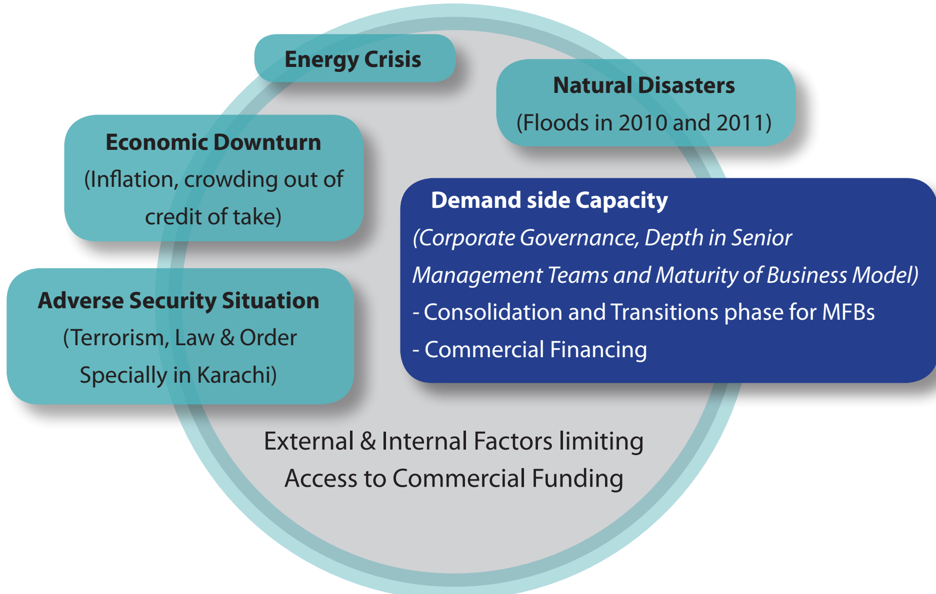
- **International Funds:** More than 80 percent of the funds being placed by Microfinance Investment Vehicles (MIVs) are in the form of debt. However, in the absence of long-term hedging instruments, this would become a highly expensive and economically unviable avenue of funding for local MFPs. Until these hedging solutions are available, we are unlikely to see any debt placement by international funds into Pakistan's microfinance sector.

3.2.2 High Operating Costs

The sector remains beset by high operating costs which are affecting its profitability. Until the sector attains scale it is anticipated that operating costs will remain high. Stagnant growth and high inflation has resulted in the costs remaining high. Using alternative delivery channels like branchless banking can lead to reduction in operating costs but entail high initial capital costs recoverable over the medium to long term.

In addition, the ongoing transition to commercial financing and increasing proportion of commercial debt in the

Figure 3.1: Internal & External Factors Affecting Growth Commercial Funding



financing structure of MFPs has led to escalating funding costs. This especially impacts non-bank MFPs which are dependent upon debt as a primary source of funds for onwards lending. With the prevailing high interest regime and ongoing transition to commercial lending, this will remain a challenge for the sector.

3.2.3 Corporate Governance

Concerns about governance have been raised in various forums by many stakeholders. Corporate governance is seen as a key determinant in any organization's success, whether it relates to transformation, reaching scale, attaining sustainability or delivering against its social goals and objectives. However, the issue has multiplied in importance as the sector has shifted towards accessing commercial funding. Without meeting the minimum standards of corporate governance, MFPs will continue to struggle when it comes to borrowing from commercial sources, such as banks.

Good corporate governance remains a major challenge for the sector at both board and management level. Boards need to be made more effective, equipped with required and diverse skills, and be able to operate independently. Gaps in risk management, financial transparency, succession planning and the family's role in business need to be addressed to improve standards of corporate governance. In the absence of a regulator and legal framework for non-bank MFIs, it has been challenging to prescribe good practice benchmarks for the entire industry as well as to monitor compliance. PPAF has identified this as an area of focus with its partners, and is pushing for reforms. First steps in this direction could include registration of all PPAF partners under Section 42 of Companies Ordinance 1984, which would bring them under the jurisdiction of Securities and Exchange Commission of Pakistan (SECP), thus requiring them to not only submit audited financial statements to SECP on an annual basis but also abide by the Code of Corporate Governance[24].

24: Please see http://www.secp.gov.pk/corporatelaws/pdf/CodeofCorporateGovernance.pdf for full text of SECP's Code of Corporate Governance

3.2.4 External Factors

Microfinance, like any other sector, is faced with a number of external challenges including adverse macroeconomic trends, security situation in Khyber-Pakhtunkhwa (KPK) and Baluchistan, a persistent energy shortfall and natural disasters. A recent study on risks to microfinance in Pakistan[25] revealed that macroeconomic trends are seen as not only the biggest risk but also the fastest rising one faced by the sector. It was also identified as the risk which the sector has lowest ability to cope with. Persistent double digit inflation and rising interest rates, on the one hand, lead to erosion in the real value of loans, making them irrelevant for enterprise purposes while on the other, driving up the borrowing costs for the sector. This latter is becoming especially important as the sector moves away from grants and subsidized lending to commercial lending.

An increase in the frequency of large scale natural disasters is also emerging as a threat to the sector's growth and sustainability. The floods in 2010 and 2011 alone affected a portfolio of PKR 3.4 billion and PKR 3.0 billion respectively, with agriculture lending taking the biggest hit. Insurance at the client level and a risk mitigation/contingency fund at the sector level are fast rising on the radar of sector stakeholders as imperative.

The country's security situation continues to remain tense, with rising violence in Karachi and the constant threat of terrorism[26]. Microfinance penetration in KPK and Balochistan stood at 1.9 percent and 1.6 percent respectively against a national average of 7.6 percent.[27] Outreach in these regions has been low historically as they are difficult markets for microfinance, but the uncertain security environment has aggravated the problem.

An overall pessimistic outlook on the economy and increased credit risk due to external threats has made MFPs cautious about growth and expansion. No newer markets were tapped and most MFPs were focused on managing their existing portfolios in 2011. Resources were diverted instead towards overcoming losses incurred due to external factors.

3.2.5 Challenges specific to Non-Bank MFP's

Need for Regulating

There is general awareness among the MFPs in Pakistan about the need for regulation of NGO-MFIs and RSPs. In addition to regulation, such a body would also give collective institutional and legal representation for the Non-Bank MFIs. This will assist the sector to address willful organizational and location specific defaults among microfinance clients such as in Punjab in 2008. As the industry continues to tap commercial lending and deposits as source of funds, access to funds will be beneficially impacted by the presence of a regulator.[28] A regulatory authority will preempt any government or political intervention arising out of hasty response to crisis affecting the sector like the one following Andra Pardesh Crisis in India 2010.

Regulatory and legal oversight would lead to improvement in corporate governance standards, greater financial transparency and greater consumer protection in the

25: Risks to Microfinance in Pakistan. Aban Haq and Zahra Khalid. 2011. PMN.

26: The PMN study on risks to microfinance cited security as the fourth largest risk faced by the sector, and only second to macroeconomic trends on the scale of fastest rising risks. It was amongst the three risks the sector is least equipped to deal with.

27: MicroWATCH, A Quarterly Update on Microfinance Outreach in Pakistan, Issue 22, Quarter 4 (Oct-Dec 2011), PMN

28: Regulating Pakistan's Non-Bank Microfinance Institutions, MicroNOTE No. 14, Mehr Shah, Dec 2011, PMN sector. It can be a catalyst for rapid growth in microfinance and assist in mitigating the affects of external factors on the industry.

Legal Recourse

One of challenges faced by the sector is lack of avenues for legal recourse for MFPs in case of willful and intentional default by clients. This takes on added importance in case of organized delinquency as witnessed in Punjab in 2007/08. Commercial banks and MFBs have access to banking courts in such cases but non-bank MFPs do not. Part of this is also due to the lack of regulatory and legal cover for the MFPs.

Currently, non-bank MFPs have to approach civil courts for taking legal action against willful defaulters which is a long, laborious and expensive option. Small loan sizes, absence of physical collateral and comparatively higher legal costs make this option impractical for these MFPs. For the sector to protect itself against such adverse scenarios and expand further, availability of legal recourse for the entire industry is of paramount importance.

Box 1: Updates from Global Initiatives: Working towards the Double Bottom Line

Universal Standards of Social Performance

The SPTF is a global task force that engages with microfinance stakeholders to develop, disseminate and promote standards and good practices for social performance management and reporting. They have recently launched the Universal Standards for Social Performance Management (USSPM) which is a set of management standards that apply to all microfinance institutions pursuing a double bottom line.
Please visit www.sptf.info for more information.

The Smart Campaign

To help the microfinance industry remain both socially focused and financially sound, The Smart Campaign (SC) is working with microfinance leaders from around the world to provide microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients. To this end, the SC developed a set of client protection principles (CPPs) for the industry, and is currently working on development of a certification program for MFIs.
www.smartcampaign.org

Seal of Excellence for Poverty Outreach and Transformation in Microfinance

The Seal of Excellence for Poverty Outreach and Transformation in Microfinance is a global initiative of the Microcredit Summit Campaign that will recognize those microfinance institutions doing the most to help families lift themselves out of poverty. The Seal has been under development since 2010 with input from a broad range of stakeholders. Currently, the Seal indicators are being beta tested with eight MFIs from different regions.
http://www.microcreditsummit.org/about/the_seal_of_excellence/

Microfinance Transparency

MFTransparency was established to promote the welfare of poor micro-entrepreneurs, and to promote the integrity of microfinance as a poverty alleviation practice. To date, it has worked on presenting information on credit products and their prices in a clear and consistent fashion for over 400 MFIs in 28 countries. MFTransparency also seeks to provide education on the considerations that MFIs face regarding interest rates and product pricing.
www.mftransparency.org

3.2.6 Client Protection

Microfinance is a double bottom line industry: microfinance providers not only aim for sustainability and profitability but also to make an impact, be it in the form of enhancing financial inclusion, generating employment, promoting entrepreneurship or increasing household incomes. Thus microfinance aims to add value to its clients' lives. But sometimes the best intentions can go awry thus every MFP needs to ensure that, at minimum, it does no harm. This is embodied by a commitment to principles of client protection. Ensuring adherence to healthy and good practice when dealing with clients not only makes business sense but also helps alleviate the political and reputation risk that is inherent in microfinance as it works with the segment of society that is vulnerable.

Addressing this challenge requires collective action at all levels in the sector. State Bank of Pakistan, PMN and PPAF are playing an important role in this regard by tackling issues of financial literacy, improved disclosure and transparency, institutional monitoring of client protection, building client awareness and strengthening complaint mechanisms. A key challenge that remains, however, is the establishment of an independent grievance redress mechanism for clients, especially clients of non-bank MFPs.

3.3 CONCLUSION

The sector faces a number of challenges on fronts like corporate governance, funding, regulation of non-bank MFPs and operating costs. However, these challenges are being addressed gradually by the sector with the involvement of all stakeholders including SBP, PPAF, donors and most importantly the MFPs themselves. With the national roll-out of the MF CIB, on one hand the sector can mitigate its credit risk and on the other it can reward borrowers with good credit histories by upscaling their loans. Branchless Banking has the potential to reduce operating costs and already a number of MFPs have launched pilots of branchless banking. Both regulation and self-regulation by the sector is taking on client protection issues in tandem with the global initiatives. With international and deep pocket investors entering the market we are likely to see stronger institutions better positioned to face the funding constraints and enter into growth.

Developments on the fronts of product and model diversification, profitability, synergies and partnerships, innovations are positive signs. A very vibrant macro sector and strengthening of the meso sector through credit bureau, financial literacy and consumer protection initiatives, and close coordination between SBP, PPAF and PMN are all necessary ingredients to ensuring a healthy and growing microfinance sector in Pakistan.

SECTION 4:
ANNEXURES

Annex AI: Performance Indicators - Industry (2006-2010)
Annex AII: Performance Indicators - Institutional and Peer Group (2010)
Annex B: Regional Benchmarks
Annex C: Sources of Data
Annex D: Adjustments to Financial Data
Annex E:Terms and Definitions
Annex F:

"I've seen the power of microfinance all over the world in the eyes of mothers and fathers. It's unmistakable—the joy and deep satisfaction they feel from being able to work hard and provide for their children and their future." Rich Stearns

ANNEXURE A-1

Performance Indicators - Industry Aggregate (2007-11)

INFRASTRUCTURE

	2007*	2008*	2009**	2010**	2011**
Total assets (PKR 000)	22,862,066	33,193,784	30,473,198	35,826,211	48,622,794
Branches (including Head Office)	1,165	1,277	1,221	1,405	1,554
Total staff	9,529	11,499	11,557	12,005	14,245
GROWTH RATE					
Total assets	30.4%	45.2%	-8.2%	17.6%	35.7%
Branches (including Head Office)	8.6%	9.6%	-4.4%	15.1%	10.6%
Total staff	**29.8%**	**20.7%**	**0.5%**	**3.9%**	**18.7%**

* Includes KF data
** Without KF data

FINANCING STRUCTURE

	2007*	2008*	2009**	2010**	2011**
Total assets (PKR 000)	22,862,066	33,193,784	30,473,198	35,826,211	48,622,794
Total equity (PKR 000)	6,418,594	8,018,344	7,297,847	8,359,260	10,361,111
Total debt (PKR 000)	16,443,471	25,175,440	23,175,352	27,466,951	38,261,683
Commercial liabilities (PKR 000)	2,723,484	6,252,075	2,577,741	4,910,265	12,332,456
Deposits (PKR 000)***	2,845,014	4,111,730	7,161,634	10,132,332	13,908,759
Gross loan portfolio (PKR 000)	12,749,983	20,001,190	16,757,846	20,295,915	24,902,901
RATIOS					
Equity-to-asset ratio	28.1%	24.2%	23.9%	23.3%	21.3%
Commercial liabilities-to-total debt	16.6%	24.8%	11.1%	17.9%	32.4%
Debt-to-equity ratio	2.56	3.14	3.18	3.29	3.39
Deposits-to-gross loan portfolio	22.3%	20.6%	42.7%	49.9%	56.1%
Deposits-to-total assets	12.4%	12.4%	23.5%	28.3%	28.7%
Gross loan portfolio-to-total assets	55.8%	60.3%	55.0%	56.7%	51.2%

* Includes KF data
** Without KF data
** Only MFB deposits included

OUTREACH

	2007*	2008*	2009**	2010**	2011**
Active borrowers	1,267,182	1,695,421	1,409,657	1,567,355	1,661,902
Active women borrowers	640,868	803,795	643,392	811,520	917,058
Gross loan portfolio (PKR 000)	12,749,983	20,001,190	16,757,846	20,295,915	24,854,747
Annual per capita income (PKR)***	57,000	81,000	86,000	105,300	107,505
Number of loans outstanding	1,351,462	1,791,688	1,409,657	1,547,197	1,661,902
Depositors****	146,258	248,842	463,361	764,271	1,332,705
Number of deposit accounts	494,709	248,842	463,361	764,271	1,332,705
Number of women depositors	508,000	44,081	78,427	64,159	259,104
Deposits outstanding	3,617,332	4,111,730	7,161,634	10,132,332	13,908,759
Proportion of active women borrowers (%)	50.6%	47.4%	45.6%	51.8%	55.2%
Average loan balance per active borrower (PKR)	10,100	11,797	11,888	12,949	14,956
Average loan balance per active borrower/per capita income	17.7%	13.78%	13.8%	12.3%	13.9%
Average outstanding loan balance (PKR)	9,400	11,163	11,888	13,118	14,956
Average outstanding loan balance / per capita income	16.6%	13.8%	13.8%	12.5%	13.9%
Proportion of active women depositors (%)	44.4%	17.7%	16.9%	8.4%	19.4%
Average saving balance per active depositor (PKR)	3,200	16,523	15,456	13,258	10,436
Active deposit account balance (PKR)	7,300	16,523	15,456	13,258	10,436

* Includes KF data
** Without KF data
*** Source: http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/EconomicGrowth.pdf
**** Only MFB deposits included

FINANCIAL PERFORMANCE

Figures in PKR '000

	2007*	2008*	2009**	2010**	2011**
Income from loan portfolio	2,746,985	4,202,506	4,352,648	6,122,154	7,998,956
Income from investments	638,909	831,602	1,087,106	870,809	1,203,306
Income from other sources	32,347	80,552	975,335	528,457	899,713
Total revenue	**3,418,241**	**5,114,660**	**6,415,089**	**7,521,420**	**10,101,975**
Less : financial expense	876,871	1,556,375	1,820,037	2,016,795	2,905,049
Gross financial margin	**2,541,370**	**3,558,285**	**4,595,052**	**5,504,624**	**7,196,926**
Less: loan loss provision expense	363,353	1,440,324	408,684	**745,660**	623,988
Net financial margin	**2,178,018**	**2,117,962**	**4,186,368**	**4,758,964**	**6,572,938**
Personnel expense	1,476,490	1,828,726	2,186,177	2,819,891	3,345,284
Admin expense	1,122,978	1,507,667	1,719,283	1,961,816	2,446,750
Less: operating expense	**2,599,468**	**3,336,393**	**3,905,460**	**4,781,707**	**5,792,035**
Net income before tax	**(421,450)**	**(1,218,432)**	**280,908**	**(22,742)**	**780,903**
Provision for tax	75,179	(1,001)	5,353	(7,047)	116,314
Net income/(loss)	**(496,629)**	**(1,217,431)**	**275,555**	**(15,696)**	**664,589**
Adjusted Financial Expense on Borrowings	299,219	242,377	87,767	-	372,524
Inflation Adjustment Expense	417,278	669,689	1,318,219	-	(3,073)
Adjusted Loan Loss Provision Expense	64,590	11,699	-	-	357,688
Adjusted Operating Expense	-	-	-	-	-
Total Adjustment Expense	**781,087**	**923,765**	**1,405,987**	**-**	**727,138**
Net Income/(Loss) After Adjustments	**(1,277,716)**	**(2,141,195)**	**(1,889,736)**	**(15,696)**	**(62,549)**
Average total assets	20,055,650	27,996,183	29,363,269	30,399,088	42,282,393
Average total equity	6,115,580	7,177,338	7,006,506	7,854,713	8,719,204
RATIOS					
Adjusted return-on-assets	(6.4%)	(7.6%)	(3.3%)	(0.1%)	(0.1%)
Adjusted return-on-equity	(20.9%)	(29.8%)	(14%)	(0.2%)	(0.7%)
Operational self sufficiency (OSS)	89.0%	80.8%	104.6%	99.7%	108.4%
Financial self sufficiency (FSS)	74.0%	70.5%	86.8%	81.7%	100.5%

* Includes KF data
** Without KF data

OPERATING INCOME

Figures in PKR '000

	2007*	2008*	2009**	2010**	2011**
Revenue from loan portfolio	2,746,985	4,202,506	4,352,648	6,122,154	7,998,956
Total revenue	3,418,241	5,114,660	5,804,616	7,521,420	10,101,975
Adjusted net operating income / (loss)	(1,202,537)	(2,113,788)	(887,558)	(22,742)	5,252
Average total assets	20,055,650	27,996,183	29,363,269	30,399,088	42,282,393
Gross loan portfolio (opening balance)	8,283,941	12,698,918	16,780,162	16,948,466	20,576,342
Gross loan portfolio (closing balance)	12,749,983	20,001,190	16,757,846	20,295,915	24,854,747
Average gross loan portfolio	10,516,962	16,350,054	16,769,004	18,622,190	22,715,544
Inflation rate ***	7.9%	12.0%	20.8%	15.0%	11.2%
Total revenue ratio (total revenue-to-average total assets)	17.0%	18.3%	19.8%	24.7%	23.9%
Adjusted profit margin (adjusted profit/(loss)-to-total revenue)	(32.5%)	(41.3%)	(24.6%)	(0.3%)	0.1%
Yield on gross portfolio (nominal)	26.1%	25.7%	26.0%	32.9%	35.2%
Yield on gross portfolio (real)	16.9%	12.2%	4.3%	15.5%	21.6%

* Includes KF data
** Without KF data
*** Source: http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/IND.pdf

OPERATING EXPENSE

	2007*	2008*	2009**	2010**	2011**
Adjusted total expense	4,620,778	7,228,448	7,454,381	7,544,162	10,096,723
Adjusted financial expense	1,593,368	2,440,032	3,140,237	2,016,795	3,304,504
Adjusted loan loss provision expense	427,943	1,452,023	408,684	745,660	1,000,184
Adjusted operating expense	2,599,468	3,336,393	3,905,460	4,781,707	5,792,035
Adjustment expense	781,087	895,356	1,320,200	-	775,651
Average total assets	20,055,650	27,996,183	29,363,269	30,399,088	42,282,393
RATIOS					
Adjusted total expense-to-average total assets	23.0%	25.8%	25.4%	24.8%	23.9%
Adjusted financial expense-to-average total assets	7.9%	8.7%	10.7%	6.6%	7.8%
Adjusted loan loss provision expense-to-average total assets	2.1%	5.2%	1.4%	2.5%	2.4%
Adjusted operating expense-to-average total assets	13.0%	11.9%	13.3%	15.7%	13.7%
Adjusted personnel expense	7.4%	6.5%	6.5%	9.3%	7.9%
Adjusted admin expense	5.6%	5.4%	5.8%	6.5%	5.8%
Adjustment expense-to-average total assets	3.9%	3.2%	4.5%	0.0%	1.8%

* Includes KF data
** Without KF data

OPERATING EFFICIENCY

	2007*	2008*	2009**	2010**	2011**
Adjusted operating expense (PKR 000)	2,599,468	3,336,393	3,905,460	4,781,707	5,792,035
Adjusted personnel expense (PKR 000)	1,476,490	1,828,726	2,186,177	2,819,891	3,345,284
Average gross loan portfolio (PKR 000)	10,516,962	16,350,054	16,769,004	18,622,190	22,715,544
Average number of active borrowers	1,143,320	1,685,382	1,387,670	1,567,355	1,661,902
Average number of active loans	1,209,237	1,635,342	1,423,467	1,567,355	1,661,902
Adjusted operating expense-to-average gross loan portfolio	24.7%	20.4%	23.3%	25.7%	25.5%
Adjusted personnel expense-to-average gross loan portfolio	14.0%	11.2%	13.0%	15.1%	14.7%
Average salary/gross domestic product per capita	2.7	2.0	2.20	2.23	2.19
Adjusted cost per borrower (PKR)	2,300	2,000	2,814	3,051	3,485
Adjusted cost per loan (PKR)	2,100	2,000	2,744	3,051	3,485

PRODUCTIVITY

	2007*	2008*	2009**	2010**	2011**
Number of active borrowers	1,267,182	1,695,421	1,399,239	1,567,355	1,661,902
Number of active loans	1,351,462	1,791,688	1,399,239	1,567,355	1,661,902
Number of active depositors	1,143,551	248,842	463,361	764,271	1,332,705
Number of deposit accounts	494,709	248,842	463,361	764,271	1,332,705
Total staff	9,529	11,499	11,441	12,005	14,202
Total loan officers	5,734	6,916	6,619	5,148	7,165
Borrowers per staff	133	147	122	131	117
Loans per staff	142	156	122	131	117
Borrowers per loan officer	221	245	211	304	232
Loans per loan officer	236	259	211	304	232
Depositors per staff	120	22	41	64	94
Deposit accounts per staff	52	22	41	64	94
Personnel allocation ratio	60.2%	60.1%	57.9%	42.9%	50.5%

* Includes KF data
** Without KF data

RISK

Figures in PKR '000

	2007*	2008*	2009**	2010**	2011**
Portfolio at risk > 30 days	396,159	426,693	578,032	829,314	793,966
Portfolio at risk > 90 days	283,676	190,350	318,824	577,972	516,623
Adjusted loan loss reserve	484,409	1,680,846	477,785	733,338	623,988
Loan written off during year	209,238	299,986	602,421	335,463	592,429
Gross loan portfolio	12,749,983	20,001,190	16,757,846	20,295,915	24,854,747
Average gross loan portfolio	10,516,962	16,350,054	16,769,004	18,622,190	22,715,544
Portfolio at risk (>30)-to-gross loan portfolio	3.1%	2.1%	3.4%	4.1%	3.2%
Portfolio at risk(>90)-to-gross loan portfolio	2.2%	1.0%	1.9%	2.8%	2.1%
Write off-to-average gross loan portfolio	2.0%	1.8%	3.6%	1.8%	2.6%
Risk coverage ratio (adjusted loan loss reserve-to-portfolio at risk >30days)	122.3%	393.9%	82.7%	88.4%	78.6%

* Includes KF data
** Without KF data

ANNEXURE A-2

Performance Indicators - Individual Institutions and Peer Groups (2011)

INFRASTRUCTURE

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Age	11	6	6	10	4	1	
Total assets (PKR 000)	8,221,480	8,281,123	747,665	6,977,978	1,452,273	4,099,292	29,779,811
Total equity (PKR 000)	2,337,034	1,458,224	705,429	781,987	204,846	834,929	6,322,450
Total liabilities (PKR 000)	5,884,446	6,822,899	42,236	6,195,991	1,247,426	3,264,363	23,457,362
Branches (including Head Office)	109	42	16	130	36	41	374
Personnel	2,161	744	150	962	569	884	5,470

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Age	17	15	11	20	3	4	20	24	9	11	19	17	
Total assets (PKR 000)	388,330	598,745	302,890	167,523	1,457,637	1,122,302	284,345	713,730	241,015	326,406	320,629	401,783	6,325,333
Total equity (PKR 000)	81,724	52,445	22,372	(14,373)	521,345	(48,380)	230,098	333,779	(111,756)	319,861	46,368	62,239	1,495,723
Total liabilities (PKR 000)	306,606	546,299	280,518	181,896	936,292	1,170,682	54,247	379,951	352,771	6,545	274,261	339,543	4,829,610
Branches (including Head Office)	22	20	17	19	123	100	18	14	23	53	8	18	435
Personnel	236	205	145	135	744	937	145	129	199	333	52	216	3,476

INFRASTRUCTURE

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Age	18	13	20	14	8	
Total assets (PKR 000)	8,606,065	2,427,782	28,668	659,295	742,457	12,464,266
Total equity (PKR 000)	1,421,805	780,423	23,668	125,952	144,288	2,496,134
Total liabilities (PKR 000)	7,184,260	1,647,360	5,000	533,343	598,169	9,968,132
Branches (including Head Office)	563	63	12	60	43	741
Personnel	3,731	978	30	256	261	5,256

	MFB Sub	MFI Sub	RSP Sub	Total
Age				
Total assets (PKR 000)	29,779,811	6,325,333	12,464,266	48,569,411
Total equity (PKR 000)	6,322,450	1,495,723	2,496,134	10,314,307
Total liabilities (PKR 000)	23,457,362	4,829,610	9,968,132	38,255,104
Branches (including Head Office)	374	435	741	1,550
Personnel	5,470	3,476	5,256	14,202

FINANCING STRUCTURE

Figures in PKR '000

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Total assets	8,221,480	8,281,123	747,665	6,977,978	1,452,273	4,099,292	29,779,811
Total equity	2,337,034	1,458,224	705,429	781,987	204,846	834,929	6,322,450
Total debt	5,884,446	6,822,899	42,236	6,195,991	1,247,426	3,264,363	23,457,362
- Subsidized debt*	3,273,565	-	-	-	-	-	3,273,565
- Commercial debt	684,062	1,801,725	-	-	-	2,446,687	4,932,474
- Deposits	1,677,010	4,512,529	25,342	5,919,718	1,141,614	632,545	13,908,759
Gross loan portfolio	4,273,802	5,070,422	101,231	2,407,144	703,944	2,088,951	14,645,494

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Weighted Avg.
Equity-to-asset ratio	28.4%	17.6%	94.4%	11.2%	14.1%	20.4%	21.2%
Commercial liabilities-to-total debt	11.6%	26.4%	-	-	-	75.0%	21.0%
Debt-to-equity ratio	2.4	4.3	0.0	7.6	5.6	3.7	3.5
Deposits-to-gross loan portfolio	39.2%	89.0%	25.0%	245.9%	162.2%	30.3%	95.0%
Deposits-to-total assets	20.4%	54.5%	3.4%	84.8%	78.6%	15.4%	46.7%
Cost of funds	4.9%	6.5%	0.8%	8.1%	21.0%	8.0%	6.7%
Gross loan portfolio-to-total assets	52.0%	61.2%	13.5%	34.5%	48.5%	51.0%	49.2%

*Below market rate

FINANCING STRUCTURE

Figures in PKR '000

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Total assets	388,330	598,745	302,890	167,523	1,457,637	1,122,302	284,345	713,730	241,015	326,406	320,629	401,783	6,325,333
Total equity	81,724	52,445	22,372	(14,373)	521,345	(48,380)	230,098	333,779	(111,756)	319,861	46,368	62,239	1,495,723
Total debt	306,606	546,299	280,518	181,896	936,292	1,170,682	54,247	379,951	352,771	6,545	274,261	339,543	4,829,610
- Subsidized debt*	260,947	330,342	270,298	154,882	-	-	217,098	291,500	222,338	-	216,543	297,969	2,261,917
- Commercial debt	19,400	210,000	-	-	820,380	744,557	-	78,136	105,894	-	-	-	1,978,368
- Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross loan portfolio	312,435	459,314	192,701	125,112	1,359,949	979,861	210,171	442,004	165,860	245,447	197,700	261,522	4,952,076

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Weighted Avg.
Equity-to-asset ratio	21.0%	8.8%	7.4%	-8.6%	35.8%	-4.3%	80.9%	46.8%	-46.4%	98.0%	14.5%	15.5%	23.6%
Commercial liabilities-to-total debt	6.3%	38.4%	0.0%	0.0%	87.6%	63.6%	0.0%	20.6%	30.0%	0.0%	0.0%	0.0%	41.0%
Debt-to-equity ratio	3.4	10.3	12.1	-10.8	1.6	-15.4	0.9	1.1	-2.9	0.0	4.7	4.8	2.83
Deposits-to-gross loan portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits-to-total assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of funds	6.6%	11.5%	6.7%	19.8%	3.8%	8.2%	37.6%	6.1%	10.4%	0.0%	6.8%	6.4%	7.7%
Gross loan portfolio-to-total assets	80.5%	76.7%	63.6%	74.7%	93.3%	87.3%	73.9%	61.9%	68.8%	75.2%	61.7%	65.1%	78.3%

*Below market rate

FINANCING STRUCTURE

Figures in PKR '000

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Total assets	8,606,065	2,427,782	28,668	659,295	742,457	12,464,266
Total equity	1,421,805	780,423	23,668	125,952	144,288	2,496,134
Total debt	7,184,260	1,647,360	5,000	533,343	598,169	9,968,132
- Subsidized debt*	2,088,328	329,813	5,000	492,845	449,807	3,365,793
- Commercial debt	4,849,929	441,684	-	-	130,000	5,421,614
- Deposits	-	-	-	-	-	-
Gross loan portfolio	3,657,845	594,825	14,800	391,021	598,686	5,257,177
						Weighted Avg.
Equity-to-asset ratio	16.5%	32.1%	82.6%	19.1%	19.4%	20.0%
Commercial liabilities-to-total debt	67.5%	26.8%	0.0%	0.0%	21.7%	54.4%
Debt-to-equity ratio	4.9	1.0	0.2	3.9	4.0	3.52
Deposits-to-gross loan portfolio	-	-	-	-	-	-
Deposits-to-total assets	-	-	-	-	-	-
Cost of funds	11.4%	5.6%	18.8%	6.0%	5.3%	9.7%
Gross loan portfolio-to-total assets	42.5%	24.5%	51.6%	59.3%	80.6%	42.2%

*Below market rate

	MFB Sub	MFI Sub	RSP Sub	Total
Total assets	29,779,811	6,325,333	12,464,266	48,569,411
Total equity	6,322,450	1,495,723	2,496,134	10,314,307
Total debt	23,457,362	4,829,610	9,968,132	38,255,104
- Subsidized debt*	3,273,565	2,261,917	3,365,793	8,901,276
- Commercial debt	4,932,474	1,978,368	5,421,614	12,332,456
- Deposits	13,908,759	-	-	13,908,759
Gross loan portfolio	14,645,494	4,952,076	5,257,177	24,854,747
	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Equity-to-asset ratio	21.2%	23.6%	20.0%	21.2%
Commercial liabilities-to-total debt	21.0%	41.0%	54.4%	32.2%
Debt-to-equity ratio	3.5	2.83	3.52	3.41
Deposits-to-gross loan portfolio	95.0%	-	-	56.0%
Deposits-to-total assets	46.7%	-	-	28.6%
Cost of funds	6.7%	7.7%	9.7%	7.6%
Gross loan portfolio-to-total assets	49.2%	78.3%	42.2%	51.2%

OUTREACH

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Active borrowers	352,962	132,728	6,569	119,204	20,014	101,870	733,347
Active women borrowers	111,195	46,899	1,889	39,884	588	5,296	205,751
Gross loan portfolio (PKR 000)	4,273,802	5,070,422	101,231	2,407,144	703,944	2,088,951	14,645,494
Annual per capita income (PKR)*	107,505	107,505	107,505	107,505	107,505	107,505	107,505
Number of loans outstanding	352,962	132,728	6,569	119,204	20,014	101,870	733,347
Depositors	301,239	641,386	18,701	240,394	116,302	14,683	1,332,705
Number of deposit accounts	301,239	641,386	18,701	240,394	116,302	14,683	1,332,705
Number of women depositors	78,332	95,293	4,574	72,904	6,878	1,123	259,104
Deposits outstanding	1,677,010	4,512,529	25,342	5,919,718	1,141,614	632,545	13,908,759
							Weighted Avg.
Proportion of active women borrowers (%)	31.5%	35.3%	28.8%	33.5%	2.9%	5.2%	28.1%
Average loan balance per active borrower (PKR)	12,108	38,202	15,410	20,193	35,173	20,506	19,971
Average loan balance per active borrower/per capita income	11.3%	35.5%	14.3%	18.8%	32.7%	19.1%	18.6%
Average outstanding loan balance (PKR)	12,108	38,202	15,410	20,193	35,173	20,506	19,971
Average outstanding loan balance / per capita income	11.3%	35.5%	14.3%	18.8%	32.7%	19.1%	18.6%
Proportion of active women depositors (%)	26.0%	14.9%	24.5%	30.3%	5.9%	7.6%	19.4%
Average saving balance per active depositor (PKR)	5,567	7,036	1,355	24,625	9,816	43,080	10,436
Active deposit account balance (PKR)	5,567	7,036	1,355	24,625	9,816	43,080	10,436

* http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/EconomicGrowth.pdf

OUTREACH

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Active borrowers	30,856	31,036	12,828	7,257	142,814	98,095	14,020	41,005	18,941	31,543	18,125	19,388	465,908
Active women borrowers	14,691	31,036	12,088	1,371	142,056	97,366	12,884	4,165	18,941	12,152	16,949	16,968	380,667
Gross loan portfolio (PKR 000)	312,435	459,314	192,701	125,112	1,359,949	979,861	210,171	442,004	165,860	245,447	197,700	261,522	4,952,076
Annual per capita income (PKR)*	107,505	107,505	107,505	107,505	107,505	107,505	107,505	107,505	107,505	107,505	107,505	107,505	107,505
Number of loans outstanding	30,856	31,036	12,828	7,257	142,814	98,095	14,020	41,005	18,941	31,543	18,125	19,388	465,908
Depositors	-	-	-	-	-	-	-	-	-	-	-	-	-
Number of deposit accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
Number of women depositors	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Weighted Avg.
Proportion of active women borrowers (%)	47.6%	100.0%	94.2%	18.9%	99.5%	99.3%	91.9%	10.2%	100.0%	38.5%	93.5%	87.5%	81.7%
Average loan balance per active borrower (PKR)	10,126	14,799	15,022	17,240	9,523	9,989	14,991	10,779	8,757	7,781	10,908	13,489	10,629
Average loan balance per active borrower/per capita income	9.4%	13.8%	14.0%	16.0%	8.9%	9.3%	13.9%	10.0%	8.1%	7.2%	10%	13%	10%
Average outstanding loan balance (PKR)	10,126	14,799	15,022	17,240	9,523	9,989	14,991	10,779	8,757	7,781	10,908	13,489	10,629
Average outstanding loan balance / per capita income	9.4%	13.8%	14.0%	16.0%	8.9%	9.3%	13.9%	10.0%	8.1%	7.2%	10.1%	12.5%	9.9%
Proportion of active women depositors (%)	-	-	-	-	-	-	-	-	-	-	-	-	-
Average saving balance per active depositor (PKR)	-	-	-	-	-	-	-	-	-	-	-	-	-
Active deposit account balance (PKR)	-	-	-	-	-	-	-	-	-	-	-	-	-

* http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/EconomicGrowth.pdf

OUTREACH

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Activeborrowers	317,381	57,200	2,153	41,645	44,268	462,647
Activewomenborrowers	237,398	26,893	1,999	26,080	38,270	330,640
Grossloanportfolio(PKR000)	3,657,845	594,825	14,800	391,021	598,686	5,257,177
Annualpercapitaincome(PKR)*	107,505	107,505	107,505	107,505	107,505	107,505
Numberofloansoutstanding	317,381	57,200	2,153	41,645	44,268	462,647
Depositors	-	-	-	-	-	-
Numberofdepositaccounts	-	-	-	-	-	-
Numberofwomendepositors	-	-	-	-	-	-
Depositsoutstanding	-	-	-	-	-	-
						Weighted Avg.
Proportionofactivewomenborrowers(%)	74.8%	47.0%	92.8%	62.6%	86.5%	71.5%
Averageloanbalanceperactiveborrower(PKR)	11,525	10,399	6,874	9,389	13,524	11,363
Averageloanbalanceperactiveborrower/ percapitaincome	11%	10%	6%	9%	13%	11%
Averageoutstandingloanbalance(PKR)	11,525	10,399	6,874	9,389	13,524	11,363
Averageoutstandingloanbalance/ percapitaincome	10.7%	9.7%	6%	9%	12.6%	10.6%
Proportionofactivewomendepositors(%)	-	-	-	-	-	-
Averagesavingbalanceperactivedepositor(PKR)	-	-	-	-	-	-
Activedepositaccountbalance(PKR)	-	-	-	-	-	-

* http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/EconomicGrowth.pdf

OUTREACH

	MFB Sub	MFI Sub	RSPSub	Total
Active borrowers	733,347	465,908	462,647	1,661,902
Active women borrowers	205,751	380,667	330,640	917,058
Gross loan portfolio (PKR 000)	14,645,494	4,952,076	5,257,177	24,854,747
Annual per capita income (PKR)*	107,505	107,505	107,505	107,505
Number of loans outstanding	733,347	465,908	462,647	1,661,902
Depositors	1,332,705	-	-	1,332,705
Number of deposit accounts	1,332,705	-	-	1,332,705
Number of women depositors	259,104	-	-	259,104
Deposits outstanding	13,908,759	-	-	13,908,759

	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Proportion of active women borrowers (%)	28.1%	81.7%	71.5%	55.2%
Average loan balance per active borrower (PKR)	19,971	10,629	11,363	14,956
Average loan balance per active borrower/per capita income	18.6%	10%	11%	13.9%
Average outstanding loan balance (PKR)	19,971	10,629	11,363	14,956
Average outstanding loan balance / per capita income	18.6%	9.9%	10.6%	13.9%
Proportion of active women depositors (%)	19.4%	-	-	19.44%
Average saving balance per active depositor (PKR)	10,436	-	-	10,436
Active deposit account balance (PKR)	10,436	-	-	10,436

* http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/EconomicGrowth.pdf

FINANCIAL PERFORMANCE

Figures in PKR '000

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Income from loan portfolio	1,284,802	1,574,087	36,175	809,805	318,828	541,680	4,565,377
Income from investments	216,469	93,004	68,850	382,255	8,838	120,831	890,247
Income from other sources	183,326	6,838	7,177	161,820	45,570	1,301	406,032
Total revenue	1,684,597	1,673,929	112,202	1,353,880	373,237	663,812	5,861,657
Less : financial expense	285,788	445,874	358	502,257	70,563	261,360	1,566,200
Gross financial margin	1,398,809	1,228,055	111,844	851,623	302,674	402,452	4,295,457
Less: loan loss provision expense	180,815	(14,870)	5,300	222,383	8,953	21,534	424,115
Net financial margin	1,217,994	1,242,925	106,543	629,240	293,721	380,918	3,871,342
Personnel expense	732,224	627,449	63,648	366,824	251,590	168,435	2,210,171
Admin expense	389,509	388,755	35,783	343,290	199,041	169,113	1,525,492
Less: operating expense	1,121,734	1,016,204	99,431	710,115	450,631	337,549	3,735,663
Net income before tax	96,261	226,721	7,112	(80,875)	(156,909)	43,369	135,678
Provision for tax	(55,304)	92,251	2,160	12,521	(11,213)	1,147	41,562
Net income/(loss)	151,564	134,470	4,952	(93,396)	(145,696)	42,223	94,117
Adjusted Financial Expense on Borrowings	327	145	3,683	160,063	45,606	-	211,648
Inflation Adjustment Expense	230	128	77	69	27	(5)	551
Adjusted Loan Loss Provision Expense	-	30,995	-	15,727	2,497	-	49,219
Adjusted Operating Expense	-	-	-	-	-	-	-
Total Adjustment Expense	557	31,268	3,760	175,860	48,129	(5)	261,418
Net Income/(Loss) After Adjustments	151,007	103,202	1,192	(269,255)	(193,826)	42,228	(167,301)
Average total assets	7,730,076	6,780,256	746,540	6,665,378	1,340,306	2,080,228	25,342,783
Average total equity	2,276,408	1,390,989	702,953	767,935	277,695	398,557	5,814,536

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Weighted Avg.
Adjusted return-on-assets	2.0%	1.5%	0.2%	-4.0%	-14.5%	2.0%	-0.7%
Adjusted return-on-equity	6.6%	7.4%	0.2%	-35.1%	-69.8%	10.6%	-2.9%
Financial expense ratio	7.1%	10.9%	0.4%	21.0%	6.8%	25.0%	12.8%
Operational self sufficiency (OSS)	106.1%	115.7%	106.8%	94.4%	70.4%	107.0%	102.4%
Financial self sufficiency (FSS)	106.0%	113.2%	103.1%	84.1%	64.5%	107.0%	97.9%

FINANCIAL PERFORMANCE

Figures in PKR '000

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Income from loan portfolio	82,425	133,563	75,924	46,160	441,520	318,075	67,195	84,071	85,764	-	57,858	83,038	1,475,592
Income from investments	-	23,886	4,790	5,670	3,651	8,061	8,709	12,565	2,010	-	-	293	69,635
Income from other sources	24,204	8,922	10,370	14,420		26,084	12,396	11,043	1,974	32,178	2,122	12,570	134,711
Total revenue	106,630	166,371	91,083	66,249	423,598	352,220	88,300	107,679	89,748	32,178	59,980	95,901	1,679,938
Less : financial expense	20,218	62,633	18,883	16,246	35,994	95,556	20,398	23,188	36,710	-	18,706	21,677	370,209
Gross financial margin	86,412	103,737	72,200	50,003	387,605	256,664	67,903	84,491	53,038	32,178	41,274	74,224	1,309,729
Less: loan loss provision expense	3,231	19,152	501	17,022	20,363	35,188	1,368	8,019	(581)	1	10,613	2,028	116,905
Net financial margin	83,181	84,585	71,699	32,982	367,242	221,476	66,534	76,472	53,619	32,177	30,661	72,197	1,192,824
Personnel expense	33,599	49,965	33,114	31,087	112,424	181,857	27,405	18,740	39,690	35,253	13,052	29,138	605,323
Admin expense	33,315	25,619	27,719	19,138	41,241	117,651	24,172	13,451	78,960	17,502	16,081	18,821	433,670
Less: operating expense	66,914	75,584	60,833	50,225	153,664	299,508	51,578	32,191	118,650	52,755	29,132	47,958	1,038,993
Net income before tax	16,267	9,001	10,866	(17,243)	213,577	(78,032)	14,957	44,280	(65,031)	(20,578)	1,528	24,238	153,831
Provision for tax	-	-	-		74,752	-	-	-	-	-	-	-	74,752

Table Continued to Next Page

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
Net income/(loss)	16,267	9,001	10,866	(17,243)	138,825	(78,032)	14,957	44,280	(65,031)	(20,578)	1,528	24,238	79,079
Adjusted Financial Expense on Borrowings	9,209	-	7,143	4,587	41,113	9,091	1,701	18,460	9,084	225	4,061	9,759	43,290
Inflation Adjustment Expense	5	6	(2)	(1)	30	1	2	29	(7)	23	5	3	55
Adjusted Loan Loss Provision Expense	4,970	-	9,291		9,532	25,294	5,146	5,031	4,257	1,473	-	7,336	23,243
Adjusted Operating Expense	-	-	-		-	-	-	-	-	-	-	-	-
Total Adjustment Expense	14,185	6	16,432	4,587	50,676	34,386	6,850	23,520	13,335	1,721	4,065	17,098	66,588
Net Income/(Loss) After Adjustments	2,082	8,995	(5,567)	(21,830)	88,150	(112,417)	8,107	20,760	(78,365)	(22,298)	(2,537)	7,140	12,491
Average total assets	342,608	559,900	248,367	188,915	1,131,934	1,113,674	242,644	670,741	331,163	274,753	272,435	344,251	5,721,381
Average total equity	73,591	62,850	16,939	(5,751)	403,481	(9,364)	131,906	303,429	(79,318)	269,523	45,604	50,107	721,251

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Weighted Avg.
Adjusted return-on-assets	0.6%	1.6%	-2.2%	-11.6%	7.8%	-10.1%	3.3%	3.1%	-23.7%	-8.1%	-0.9%	2.1%	0.2%
Adjusted return-on-equity	2.8%	14.3%	-32.9%	379.6%	21.8%	-1200.6%	6.1%	6.8%	-98.8%	-8.3%	-5.6%	14.3%	1.7%
Financial expense ratio	7.4%	15.1%	10.0%	1.6%	3.4%	11.4%	10.9%	4.9%	16.2%	0.0%	9.1%	9.5%	8.4%
Operational self sufficiency (OSS)	118.0%	105.7%	113.5%	79.3%	201.7%	81.9%	120.4%	169.8%	58.0%	61.0%	102.6%	133.8%	110.1%
Financial self sufficiency (FSS)	102.0%	105.7%	94.2%	75.2%	162.5%	75.8%	110.1%	123.9%	53.4%	59.1%	95.9%	108.0%	105.5%

FINANCIAL PERFORMANCE

Figures in PKR '000

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Income from loan portfolio	1,659,683	107,589	2,766	94,411	93,538	1,957,987
Income from investments	125,818	90,961	-	13,673	12,971	243,424
Income from other sources	303,337	5,374	430	11,611	38,217	358,970
Total revenue	2,088,839	203,925	3,196	119,696	144,726	2,560,381
Less : financial expense	815,781	91,916	941	28,023	31,979	968,640
Gross financial margin	1,273,058	112,008	2,254	91,673	112,747	1,591,740
Less: loan loss provision expense	13,527	11,089	-	7,611	50,742	82,968
Net financial margin	1,259,531	100,919	2,254	84,062	62,005	1,508,772
Personnel expense	437,823	25,653	11,041	25,036	30,238	529,791
Admin expense	384,752	15,982	6,321	28,462	52,071	487,587
Less: operating expense	822,575	41,634	17,362	53,498	82,309	1,017,378
Net income before tax	436,956	59,285	(15,108)	30,565	(20,304)	491,394
Provision for tax	-	-	-	-	-	-
Net income/(loss)	436,956	59,285	(15,108)	30,565	(20,304)	491,394
Adjusted Financial Expense on Borrowings	-	34,246	228	24,354	5,708	117,585
Inflation Adjustment Expense	(1,902)	51	(0)	(1,902)	15	(3,679)
Adjusted Loan Loss Provision Expense	152,762	92,073	-	1,917	7,895	285,226
Adjusted Operating Expense	-	-	-	-	-	-
Total Adjustment Expense	150,860	126,370	228	24,369	13,618	399,132
Net Income/(Loss) After Adjustments	286,096	(67,085)	(15,336)	6,196	(33,923)	92,262
Average total assets	7,793,066	2,238,967	25,801	586,365	574,032	11,218,230
Average total equity	1,208,757	703,973	15,634	110,670	144,384	2,183,417

						Weighted Avg.
Adjusted return-on-assets	3.7%	-3.0%	-59.4%	1.1%	-5.9%	0.8%
Adjusted return-on-equity	23.7%	-9.5%	-98.1%	5.6%	-23.5%	4.2%
Financial expense ratio	17.6%	14.6%	7.4%	8.3%	6.5%	15.8%
Operational self sufficiency (OSS)	126.5%	141.0%	17.5%	134.3%	87.7%	123.8%
Financial self sufficiency (FSS)	115.9%	75.2%	17.2%	105.5%	81.0%	103.7%

FINANCIAL PERFORMANCE

Figures in PKR '000

	MFB Sub	MFI Sub	RSPSub	Total
Income from loan portfolio	4,565,377	1,475,592	1,957,987	7,998,956
Income from investments	890,247	69,635	243,424	1,203,306
Income from other sources	406,032	134,711	358,970	899,713
Total revenue	5,861,657	1,679,938	2,560,381	10,101,975
Less : financial expense	1,566,200	370,209	968,640	2,905,049
Gross financial margin	4,295,457	1,309,729	1,591,740	7,196,926
Less: loan loss provision expense	424,115	116,905	82,968	623,988
Net financial margin	3,871,342	1,192,824	1,508,772	6,572,938
Personnel expense	2,210,171	605,323	529,791	3,345,284
Admin expense	1,525,492	433,670	487,587	2,446,750
Less: operating expense	3,735,663	1,038,993	1,017,378	5,792,035
Net income before tax	135,678	153,831	491,394	780,903
Provision for tax	41,562	74,752	-	116,314
Net income/(loss)	94,117	79,079	491,394	664,589
Adjusted Financial Expense on Borrowings	211,648	43,290	117,585	372,524
Inflation Adjustment Expense	551	55	(3,679)	(3,073)
Adjusted Loan Loss Provision Expense	49,219	23,243	285,226	357,688
Adjusted Operating Expense	-	-	-	-
Total Adjustment Expense	261,418	66,588	399,132	727,138
Net Income/(Loss) After Adjustments	(167,301)	12,491	92,262	(62,549)
Average total assets	25,342,783	5,721,381	11,218,230	42,282,393
Average total equity	5,814,536	721,251	2,183,417	8,719,204

	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Adjusted return-on-assets	-0.7%	0.2%	0.8%	-0.1%
Adjusted return-on-equity	-2.9%	1.7%	4.2%	-0.7%
Financial expense ratio	12.8%	8.4%	15.8%	12.8%
Operational self sufficiency (OSS)	102.4%	110.1%	123.8%	108.4%
Financial self sufficiency (FSS)	97.9%	105.5%	103.7%	100.5%

OPERATING INCOME

Figures in PKR '000

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Revenue from loan portfolio	1,284,802	1,574,087	36,175	809,805	318,828	541,680	4,565,377
Total revenue	1,684,597	1,673,929	112,202	1,353,880	373,237	663,812	5,861,657
Adjusted net operating income / (loss)	95,704	195,453	3,352	(256,735)	(205,039)	43,374	(125,740)
Average total assets	7,730,076	6,780,256	746,540	6,665,378	1,340,306	2,080,228	25,342,783
Gross loan portfolio (opening balance)	3,722,153	3,096,044	88,348	2,373,880	453,102	-	9,733,527
Gross loan portfolio (closing balance)	4,273,802	5,070,422	101,231	2,407,144	703,944	2,088,951	14,645,494
Average gross loan portfolio	3,997,978	4,083,233	94,789	2,390,512	578,523	1,044,476	12,189,511
Inflation rate *	11%	11%	11%	11%	11%	11%	11%
							Weighted Avg.
Total revenue ratio (total revenue-to-average total assets)	21.8%	24.7%	15.0%	20.3%	27.8%	31.9%	23.1%
Adjusted profit margin (adjusted profit/(loss)-to-total revenue)	5.7%	11.7%	3.0%	-19.0%	-54.9%	6.5%	-2.1%
Yield on gross portfolio (nominal)	32.1%	38.6%	38.2%	33.9%	55.1%	51.9%	37.5%
Yield on gross portfolio (real)	18.8%	24.6%	24.2%	20.4%	39.5%	36.6%	23.6%

* http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/IND.pdf

OPERATING INCOME

Figures in PKR '000

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Revenue from loan portfolio	82,425	133,563	75,924	46,160	441,520	318,075	67,195	84,071	85,764	-	57,858	83,038	1,475,592
Total revenue	106,630	166,371	91,083	66,249	423,598	352,220	88,300	107,679	89,748	32,178	59,980	95,901	1,679,938
Adjusted net operating income / (loss)	2,082	8,995	(5,567)	(21,830)	162,902	(112,417)	8,107	20,760	(78,365)	(22,298)	(2,537)	7,140	(44,956)
Average total assets	342,608	559,900	248,367	188,915	1,131,934	1,113,674	242,644	670,741	331,163	274,753	272,435	344,251	5,721,381
Gross loan portfolio (opening balance)	231,348	368,825	183,903	131,517	736,038	702,521	165,225	505,215	286,028	150,039	212,838	193,613	3,867,110
Gross loan portfolio (closing balance)	312,435	459,314	192,701	125,112	1,359,949	979,861	210,171	442,004	165,860	245,447	197,700	261,522	4,952,076
Average gross loan portfolio	271,891	414,069	188,302	128,314	1,047,993	841,191	187,698	473,609	225,944	197,743	205,269	227,568	4,409,593
Inflation rate *	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
													Weighted Avg.
Total revenue ratio (total revenue-to-average total assets)	31.1%	29.7%	36.7%	35.1%	37.4%	31.6%	36.4%	16.1%	27.1%	11.7%	22.0%	27.9%	29.4%
Adjusted profit margin (adjusted profit/(loss)-to-total revenue)	2.0%	5.4%	-6.1%	-33.0%	38.5%	-31.9%	9.2%	19.3%	-87.3%	-69.3%	-1.2%	3.7%	-2.7%
Yield on gross portfolio (nominal)	30.3%	32.3%	40.3%	36.0%	42.1%	37.8%	35.8%	17.8%	38.0%	0.0%	28.2%	36.5%	33.5%
Yield on gross portfolio (real)	17.2%	18.9%	26.2%	22.3%	27.8%	23.9%	22.1%	5.9%	24.1%	-10.1%	15.3%	22.7%	20.0%

* http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/IND.pdf

OPERATING INCOME

Figures in PKR '000

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Revenue from loan portfolio	1,659,683	107,589	2,766	94,411	93,538	1,957,987
Total revenue	2,088,839	203,925	3,196	119,696	144,726	2,560,381
Adjusted net operating income / (loss)	286,096	(67,085)	(15,336)	6,196	(33,923)	175,948
Average total assets	7,793,066	2,238,967	25,801	586,365	574,032	11,218,230
Gross loan portfolio (opening balance)	5,638,524	662,612	10,756	284,809	379,003	6,975,704
Gross loan portfolio (closing balance)	3,657,845	594,825	14,800	391,021	598,686	5,257,177
Average gross loan portfolio	4,648,185	628,718	12,778	337,915	488,844	6,116,440
Inflation rate *	11%	11%	11%	11%	11%	11%

						Weighted Avg.
Total revenue ratio (total revenue-to-average total assets)	26.8%	9.1%	12.4%	20.4%	25.2%	22.8%
Adjusted profit margin (adjusted profit/(loss)-to-total revenue)	13.7%	-32.9%	-479.9%	5.2%	-23.4%	6.9%
Yield on gross portfolio (nominal)	35.7%	17.1%	21.6%	27.9%	19.1%	32.0%
Yield on gross portfolio (real)	22.0%	5.3%	9.4%	15.1%	7.1%	18.7%

	MFB Sub	MFI Sub	RSP Sub	Total
Revenue from loan portfolio	4,565,377	1,475,592	1,957,987	7,998,956
Total revenue	5,861,657	1,679,938	2,560,381	10,101,975
Adjusted net operating income / (loss)	(125,740)	(44,956)	175,948	5,252
Average total assets	25,342,783	5,721,381	11,218,230	42,282,393
Gross loan portfolio (opening balance)	9,733,527	3,867,110	6,975,704	20,576,342
Gross loan portfolio (closing balance)	14,645,494	4,952,076	5,257,177	24,854,747
Average gross loan portfolio	12,189,511	4,409,593	6,116,440	22,715,544
Inflation rate *	11%	11%	11%	11%

	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Total revenue ratio (total revenue-to-average total assets)	23.1%	29.4%	22.8%	23.9%
Adjusted profit margin (adjusted profit/(loss)-to-total revenue)	-2.1%	-2.7%	6.9%	0.1%
Yield on gross portfolio (nominal)	37.5%	33.5%	32.0%	35.2%
Yield on gross portfolio (real)	23.6%	20.0%	18.7%	21.6%

* http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2012/Feb/IND.pdf

OPERATING EXPENSE

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
Adjusted total expense	1,588,894	1,478,476	108,849	1,610,615	578,276	620,438	5,987,396
Adjusted financial expense	286,345	446,147	4,118	662,390	116,195	261,355	1,778,399
Adjusted loan loss provision expense	180,815	16,125	5,300	238,110	11,450	21,534	473,334
Adjusted operating expense	1,121,734	1,016,204	99,431	710,115	450,631	337,549	3,735,663
Adjustment expense	557	31,268	3,760	175,860	48,129	(5)	261,418
Average total assets	7,730,076	6,780,256	746,540	6,665,378	1,340,306	2,080,228	25,342,783
							Weighted Avg.
Adjusted total expense-to-average total assets	20.6%	21.8%	14.6%	24.2%	43.1%	29.8%	23.6%
Adjusted financial expense-to-average total assets	3.7%	6.6%	0.6%	9.9%	8.7%	12.6%	7.0%
Adjusted loan loss provision expense-to-average total assets	2.3%	0.2%	0.7%	3.6%	0.9%	1.0%	1.9%
Adjusted operating expense-to-average total assets	14.5%	15.0%	13.3%	10.7%	33.6%	16.2%	14.7%
Adjusted personnel expense	9.5%	9.3%	8.5%	5.5%	18.8%	8.1%	8.7%
Adjusted admin expense	5.0%	5.7%	4.8%	5.2%	14.9%	8.1%	6.0%
Adjustment expense-to-average total assets	0.0%	0.5%	0.5%	2.6%		0.0%	1.0%

OPERATING EXPENSE

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Adjusted total expense	104,547	157,376	96,650	88,079	260,697	464,638	80,193	86,919	168,113	54,476	62,517	88,761	1,724,894
Adjusted financial expense	29,433	62,640	26,025	20,833	77,138	104,648	22,101	41,677	45,788	248	22,771	31,439	496,666
Adjusted loan loss provision expense	8,201	19,152	9,792	17,022	29,895	60,482	6,514	13,050	3,676	1,474	10,613	9,364	189,235
Adjusted operating expense	66,914	75,584	60,833	50,225	153,664	299,508	51,578	32,191	118,650	52,755	29,132	47,958	1,038,993
Adjustment expense	14,185	6	16,432	4,587	50,676	34,386	6,850	23,520	13,335	1,721	4,065	17,098	198,787
Average total assets	342,608	559,900	248,367	188,915	1,131,934	1,113,674	242,644	670,741	331,163	274,753	272,435	344,251	5,721,381
													Weighted Avg.
Adjusted total expense-to-average total assets	30.5%	28.1%	38.9%	46.6%	23.0%	41.7%	33.0%	13.0%	50.8%	19.8%	22.9%	25.8%	30.1%
Adjusted financial expense-to-average total assets	8.6%	11.2%	10.5%	11.0%	6.8%	9.4%	9.1%	6.2%	13.8%	0.1%	8.4%	9.1%	8.7%
Adjusted loan loss provision expense-to-average total assets	2.4%	3.4%	3.9%	9.0%	2.6%	5.4%	2.7%	1.9%	1.1%	0.5%	3.9%	2.7%	3.3%
Adjusted operating expense-to-average total assets	19.5%	13.5%	24.5%	26.6%	13.6%	26.9%	21.3%	4.8%	35.8%	19.2%	10.7%	13.9%	18.2%
Adjusted personnel expense	9.8%	8.9%	13.3%	16.5%	9.9%	16.3%	11.3%	2.8%	12.0%	12.8%	4.8%	8.5%	10.6%
Adjusted admin expense	9.7%	4.6%	11.2%	10.1%	3.6%	10.6%	10.0%	2.0%	23.8%	6.4%	5.9%	5.5%	7.6%
Adjustment expense-to-average total assets	4.1%	0.0%	6.6%	2.4%	4.5%	3.1%	2.8%	3.5%	4.0%	0.6%	1.5%	5.0%	3.5%

OPERATING EXPENSE

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Adjusted total expense	1,802,742	271,010	18,531	113,500	178,649	2,384,433
Adjusted financial expense	813,879	126,214	1,169	50,475	37,703	1,029,439
Adjusted loan loss provision expense	166,289	103,162	-	9,528	58,637	337,615
Adjusted operating expense	822,575	41,634	17,362	53,498	82,309	1,017,378
Adjustment expense	150,860	126,370	228	24,369	13,618	315,446
Average total assets	7,793,066	2,238,967	25,801	586,365	574,032	11,218,230
						Weighted Avg.
Adjusted total expense-to-average total assets	23.1%	12.1%	71.8%	19.4%	31.1%	21.3%
Adjusted financial expense-to-average total assets	10.4%	5.6%	4.5%	8.6%	6.6%	9.2%
Adjusted loan loss provision expense-to-average total assets	2.1%	4.6%	0.0%	1.6%	10.2%	3.0%
Adjusted operating expense-to-average total assets	10.6%	1.9%	67.3%	9.1%	14.3%	9.1%
Adjusted personnel expense	5.6%	1.1%	42.8%	4.3%	5.3%	4.7%
Adjusted admin expense	4.9%	0.7%	24.5%	4.9%	9.1%	4.3%
Adjustment expense-to-average total assets	1.9%	5.6%	0.9%		2.4%	2.8%

	MFB Sub Total	MFI Sub Total	RSP Sub Total	Total
Adjusted total expense	5,987,396	1,724,894	2,384,433	10,096,723
Adjusted financial expense	1,778,399	496,666	1,029,439	3,304,504
Adjusted loan loss provision expense	473,334	189,235	337,615	1,000,184
Adjusted operating expense	3,735,663	1,038,993	1,017,378	5,792,035
Adjustment expense	261,418	198,787	315,446	775,651
Average total assets	25,342,783	5,721,381	11,218,230	42,282,393
	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Adjusted total expense-to-average total assets	23.6%	30.1%	21.3%	23.9%
Adjusted financial expense-to-average total assets	7.0%	8.7%	9.2%	7.8%
Adjusted loan loss provision expense-to-average total assets	1.9%	3.3%	3.0%	2.4%
Adjusted operating expense-to-average total assets	14.7%	18.2%	9.1%	13.7%
Adjusted personnel expense	8.7%	10.6%	4.7%	7.9%
Adjusted admin expense	6.0%	7.6%	4.3%	5.8%
Adjustment expense-to-average total assets	1.0%	3.5%	2.8%	1.8%

OPERATING EFFICIENCY

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Adjusted operating expense (PKR 000)	1,121,734	1,016,204	99,431	710,115	450,631	337,549	3,735,663
Adjusted personnel expense (PKR 000)	732,224	627,449	63,648	366,824	251,590	168,435	2,210,171
Average gross loan portfolio (PKR 000)	3,997,978	4,083,233	94,789	2,390,512	578,523	1,044,476	12,189,511
Average number of active borrowers	352,962	132,728	6,569	119,204	20,014	101,870	733,347
Average number of active loans	352,962	132,728	6,569	119,204	20,014	101,870	733,347
							Weighted Avg.
Adjusted operating expense-to-average gross loan portfolio	28.06%	24.9%	104.9%	29.7%	77.9%	32.3%	30.6%
Adjusted personnel expense-to-average gross loan portfolio	18.31%	15.4%	67.1%	15.3%	43.5%	16.1%	18.1%
Average salary/gross domestic product per capita	3.2	7.8	3.9	3.5	4.1	1.8	3.8
Adjusted cost per borrower (PKR)	3,178	7,656	15,136	5,957	22,516	3,314	5,094
Adjusted cost per loan (PKR)	3,178	7,656	15,136	5,957	22,516	3,314	5,094

OPERATING EFFICIENCY

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Adjusted operating expense (PKR 000)	66,914	75,584	60,833	50,225	153,664	299,508	51,578	32,191	118,650	52,755	29,132	47,958	1,038,993
Adjusted personnel expense (PKR 000)	33,599	49,965	33,114	31,087	112,424	181,857	27,405	18,740	39,690	35,253	13,052	29,138	605,323
Average gross loan portfolio (PKR 000)	271,891	414,069	188,302	128,314	1,047,993	841,191	187,698	473,609	225,944	197,743	205,269	227,568	4,409,593
Average number of active borrowers	30,856	31,036	12,828	7,257	142,814	98,095	14,020	41,005	18,941	31,543	18,125	19,388	465,908
Average number of active loans	30,856	31,036	12,828	7,257	142,814	98,095	14,020	41,005	18,941	31,543	18,125	19,388	465,908

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Weighted Avg.
Adjusted operating expense-to-average gross loan portfolio	24.6%	18.3%	32.3%	39.1%	14.7%	35.6%	27.5%	6.8%	52.5%	26.7%	14.2%	21.1%	23.6%
Adjusted personnel expense-to-average gross loan portfolio	12.4%	12.1%	17.6%	24.2%	10.7%	21.6%	14.6%	4.0%	17.6%	17.8%	6.4%	12.8%	13.7%
Average salary/gross domestic product per capita	1.3	2.3	2.1	2.1	1.4	1.8	1.8	1.4	1.9	1.0	0.6	0.1	1.6
Adjusted cost per borrower (PKR)	2,169	2,435	4,742	6,921	1,076	3,053	3,679	785	6,264	1,672	1,607	2,474	2,230
Adjusted cost per loan (PKR)	2,169	2,435	4,742	6,921	1,076	3,053	3,679	785	6,264	1,672	1,607	2,474	2,230

OPERATING EFFICIENCY

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
Adjusted operating expense (PKR 000)	822,575	41,634	17,362	53,498	82,309	1,017,378
Adjusted personnel expense (PKR 000)	437,823	25,653	11,041	25,036	30,238	529,791
Average gross loan portfolio (PKR 000)	4,648,185	628,718	12,778	337,915	488,844	6,116,440
Average number of active borrowers	317,381	57,200	2,153	41,645	44,268	462,647
Average number of active loans	317,381	57,200	2,153	41,645	44,268	462,647
						Weighted Avg.
Adjusted operating expense-to-average gross loan portfolio	17.7%	6.6%	135.9%	15.8%	16.8%	16.6%
Adjusted personnel expense-to-average gross loan portfolio	9.4%	4.1%	86.4%	7.4%	6.2%	8.7%
Average salary/gross domestic product per capita	1.1	0.2	3.4	0.9	1.1	0.9
Adjusted cost per borrower (PKR)	2,592	728	8,064	1,285	1,859	2,199
Adjusted cost per loan (PKR)	2,592	728	8,064	1,285	1,859	2,199

	MFB Sub Total	MFI Sub Total	RSP Sub Total	Total
Adjusted operating expense (PKR 000)	3,735,663	1,038,993	1,017,378	5,792,035
Adjusted personnel expense (PKR 000)	2,210,171	605,323	529,791	3,345,284
Average gross loan portfolio (PKR 000)	12,189,511	4,409,593	6,116,440	22,715,544
Average number of active borrowers	733,347	465,908	462,647	1,661,902
Average number of active loans	733,347	465,908	462,647	1,661,902
	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Adjusted operating expense-to-average gross loan portfolio	30.6%	23.6%	16.6%	25.5%
Adjusted personnel expense-to-average gross loan portfolio	18.1%	13.7%	8.7%	14.7%
Average salary/gross domestic product per capita	3.8	1.6	0.9	2.19
Adjusted cost per borrower (PKR)	5,094	2,230	2,199	3,485
Adjusted cost per loan (PKR)	5,094	2,230	2,199	3,485

PRODUCTIVITY

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Number of active borrowers	352,962	132,728	6,569	119,204	20,014	101,870	733,347
Number of active loans	352,962	132,728	6,569	119,204	20,014	101,870	733,347
Number of active depositors	301,239	641,386	18,701	240,394	116,302	14,683	1,332,705
Number of deposit accounts	301,239	641,386	18,701	240,394	116,302	14,683	1,332,705
Total staff	2,161	744	150	962	569	884	5,470
Total loan officers	687	511	69	413	174	451	2,305
							Weighted Avg.
Borrowers per staff	163	178	44	124	35	115	134
Loans per staff	163	178	44	124	35	115	134
Borrowers per loan officer	514	260	95	289	115	226	318
Loans per loan officer	514	260	95	289	115	226	318
Depositors per staff	139	862	125	250	204	17	244
Deposit accounts per staff	139	862	125	250	204	17	244
Personnel allocation ratio	31.8%	68.7%	46.0%	42.9%	30.6%	51.0%	42.1%

PRODUCTIVITY

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
MFI													
Number of active borrowers	30,856	31,036	12,828	7,257	142,814	98,095	14,020	41,005	18,941	31,543	18,125	19,388	465,908
Number of active loans	30,856	31,036	12,828	7,257	142,814	98,095	14,020	41,005	18,941	31,543	18,125	19,388	465,908
Number of active depositors	-	-	-	-	-	-	-	-	-	-	-	-	-
Number of deposit accounts	-	-	-	-	-	-	-	-	-	-	-	-	-
Total staff	236	205	145	135	744	937	145	129	199	333	52	216	3,476
Total loan officers	134	80	65	69	467	564	56	44	127	265	35	108	2,014
													Weighted Avg.
Borrowers per staff	131	151	88	54	192	105	97	318	95	95	349	90	134
Loans per staff	131	151	88	54	192	105	97	318	95	95	349	90	134
Borrowers per loan officer	230	388	197	105	306	174	250	932	149	119	518	180	231
Loans per loan officer	230	388	197	105	306	174	250	932	149	119	518	180	231
Depositors per staff	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposit accounts per staff	-	-	-	-	-	-	-	-	-	-	-	-	-
Personnel allocation ratio	56.8%	39.0%	44.8%	51.1%	62.8%	60.2%	38.6%	34.1%	63.8%	79.6%	67.3%	50.0%	57.9%

PRODUCTIVITY

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Number of active borrowers	317,381	57,200	2,153	41,645	44,268	462,647
Number of active loans	317,381	57,200	2,153	41,645	44,268	462,647
Number of active depositors	-	-	-	-	-	-
Number of deposit accounts	-	-	-	-	-	-
Total staff	3,731	978	30	256	261	5,256
Total loan officers	1,952	448	13	180	253	2,846
						Weighted Avg.
Borrowers per staff	85	58	72	163	170	88
Loans per staff	85	58	72	163	170	88
Borrowers per loan officer	163	128	166	231	175	163
Loans per loan officer	163	128	166	231	175	163
Depositors per staff	-	-	-	-	-	-
Deposit accounts per staff	-	-	-	-	-	-
Personnel allocation ratio	52.3%	45.8%	43.3%	70.3%	96.9%	54.1%

	MFB Sub Total	MFI Sub Total	RSP Sub Total	Total
Number of active borrowers	733,347	465,908	462,647	1,661,902
Number of active loans	733,347	465,908	462,647	1,661,902
Number of active depositors	1,332,705	-	-	1,332,705
Number of deposit accounts	1,332,705	-	-	1,332,705
Total staff	5,470	3,476	5,256	14,202
Total loan officers	2,305	2,014	2,846	7,165
	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Borrowers per staff	134	134	88	117
Loans per staff	134	134	88	117
Borrowers per loan officer	318	231	163	232
Loans per loan officer	318	231	163	232
Depositors per staff	244	-	-	94
Deposit accounts per staff	244	-	-	94
Personnel allocation ratio	42.1%	57.9%	54.1%	50.5%

RISK

Figures in PKR '000

	KBL	TMFB	POMFB	FMFB	KMFB	NRSP-B	Sub
MFB							
Portfolio at risk > 30 days	252,518	34,762	6,253	68,770	11,582	-	373,884
Portfolio at risk > 90 days	107,878	11,541	1,910	19,673	6,306	-	147,308
Adjusted loan loss reserve	180,815	(14,870)	5,300	222,383	8,953	21,534	424,115
Loan written off during year	167,819	16,241	4,056	136,384	18,787	667	343,954
Gross loan portfolio	4,273,802	5,070,422	101,231	2,407,144	703,944	2,088,951	14,645,494
Average gross loan portfolio	3,997,978	4,083,233	94,789	2,390,512	578,523	1,044,476	12,189,511

							Weighted Avg.
Portfolio at risk (>30)-to-gross loan portfolio	5.9%	0.7%	6.2%	2.9%	1.6%	0.0%	2.6%
Portfolio at risk(>90)-to-gross loan portfolio	2.5%	0.2%	1.9%	0.8%	0.9%	0.0%	1.0%
Write off-to-average gross loan portfolio	4.2%	0.40%	4.3%	5.7%	3.2%	0.1%	2.8%
Risk coverage ratio (adjusted loan loss reserve-to-portfolio at risk >30days)	71.6%	-42.8%	84.8%	323.4%	77.3%	-	113.4%

RISK

Figures in PKR '000

MFI	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Sub
Portfolio at risk > 30 days	10,292	14,415	854	61,909	16,646	52,272	373	-	4,316	-	37,860	2,070	201,007
Portfolio at risk > 90 days	9,964	9,225	495	38,743	11,337	47,172	260	-	3,492	-	36,601	2,070	159,359
Adjusted loan loss reserve	3,231	19,152	501	17,022	20,363	35,188	1,368	8,019	(581)	1	10,613	2,028	116,905
Loan written off during year	3,137	18,467	8,777	15,164	-	3,604	189	10,125	18,428	563	2,664	1,565	82,683
Gross loan portfolio	312,435	459,314	192,701	125,112	1,359,949	979,861	210,171	442,004	165,860	245,447	197,700	261,522	4,952,076
Average gross loan portfolio	271,891	414,069	188,302	128,314	1,047,993	841,191	187,698	473,609	225,944	197,743	205,269	227,568	4,409,593

	SAFWCO	DAMEN	CSC	CWCD	ASA-P	BRAC-P	JWS	OPP	ASASAH	Akhuwat	ORIX	RCDS	Weighted Avg.
Portfolio at risk (>30)-to-gross loan portfolio	3.3%	3.1%	0.4%	49.5%	1.2%	5.3%	0.2%	0.0%	2.6%	0.0%	19.1%	0.8%	4.1%
Portfolio at risk(>90)-to-gross loan portfolio	3.2%	2.0%	0.3%	31.0%	0.8%	4.8%	0.1%	0.0%	2.1%	0.0%	18.5%	0.8%	3.2%
Write off-to-average gross loan portfolio	1.2%	4.5%	4.7%	11.8%	0.0%	0.4%	0.1%	2.1%	8.2%	0.3%	1.3%	0.7%	1.9%
Risk coverage ratio (adjusted loan loss reserve-to-portfolio at risk >30days)	31.4%	132.9%	58.7%	27.5%	122.3%	67.3%	366.6%	-	-13.5%	-	28.0%	97.9%	58.2%

RISK

Figures in PKR '000

	NRSP	PRSP	SRSP	TRDP	SRSO	Sub
RSP						
Portfolio at risk > 30 days	98,518	95,497	-	18,476	6,584	219,074.72
Portfolio at risk > 90 days	97,948	90,664	-	17,760	3,586	209,957.09
Adjusted loan loss reserve	13,527	11,089	-	7,611	50,742	82,968.36
Loan written off during year	150,220	357	-	-	15,215	165,792.02
Gross loan portfolio	3,657,845	594,825	14,800	391,021	598,686	5,257,177
Average gross loan portfolio	4,648,185	628,718	12,778	337,915	488,844	6,116,440
						Weighted Avg.
Portfolio at risk (>30)-to-gross loan portfolio	2.7%	16.1%	0.0%	4.7%	1.1%	4.2%
Portfolio at risk(>90)-to-gross loan portfolio	2.7%	15.2%	0.0%	4.5%	0.6%	4.0%
Write off-to-average gross loan portfolio	3.2%	0.1%	0.0%	0.0%	3.1%	2.7%
Risk coverage ratio (adjusted loan loss reserve-to-portfolio at risk >30days)	13.7%	11.6%	-	41.2%	770.6%	37.9%

	MFB Sub Total	MFI Sub Total	RSP Sub Total	Total
Portfolio at risk > 30 days	373,884	201,007	219,074.72	793,966
Portfolio at risk > 90 days	147,308	159,359	209,957.09	516,623
Adjusted loan loss reserve	424,115	116,905	82,968.36	623,988
Loan written off during year	343,954	82,683	165,792.02	592,429
Gross loan portfolio	14,645,494	4,952,076	5,257,177	24,854,747
Average gross loan portfolio	12,189,511	4,409,593	6,116,440	22,715,544
	Weighted Avg.	Weighted Avg.	Weighted Avg.	Weighted Avg.
Portfolio at risk (>30)-to-gross loan portfolio	2.6%	4.1%	4.2%	3.2%
Portfolio at risk(>90)-to-gross loan portfolio	1.0%	3.2%	4.0%	2.1%
Write off-to-average gross loan portfolio	2.8%	1.9%	2.7%	2.6%
Risk coverage ratio (adjusted loan loss reserve-to-portfolio at risk >30days)	113.4%	58.2%	37.9%	78.6%

ANNEXURE B

Regional Benchmarks 2010

	Africa	Asia	ECA[1]	LAC[2]	MENA[3]	EAP[4]	All Regions
OUTREACH							
Number of MFIs	199	212	215	374	64	140	1,204
GLP in million USD	4,782	9,013	8,935	23,494	1,214	0.4	47,443
Number of borrowers (in 000)	4,957	58,241	2,759	16,219	2,202	11	84,388
Deposits in million USD	4,890	3,305	6,423	15,302	122	13,926	43,968
Number of depositors (in 000)	17,076	26,972	2,832	15,454	90	15	62,438
Average loan balance per borrowers (in USD)	629	155	3,092	1,442	552	308	1,030
Average loan balance per borrowers per gross national income per capita (in % age)	101	15	109	32	18	17	49
FUNDING STRUCTURE							
Total assets in million USD	7,011	11,491	12,663	29,418	1,610	11,333	73,525
Gross loan portfolio in million USD	4,782	9,013	8,935	23,494	1,214	0.4	47,443
Deposits in million USD	4,890	3,305	6,423	15,302	122	13,926	43,968
Debt to equity	3.8	3.7	5.3	4.8	1.6	4.0	3.9
Capital to total assets in percentage	20.9	21.3	16.0	17.4	38.6	20.0	22.4
Gross loan portfolio to total assets in percentage	63.0	77.9	70.9	77.2	75.6	74.8	73.3
EFFICIENCY							
Operating expenses to average gross loan portfolio in percentage	21.6	11.1	10.9	15.9	14.4	6.9	13.5
Operating expense to assets in percentage	13.5	8.7	7.6	12.1	10.7	5.2	9.6
Cost per borrower in USD	152	17	318	230	79	39	139
PROFITABILITY							
Return on assets	0.8	1.4	2.3	1.6	4.7	2.7	2.3
Return on equity	4.6	8.8	7.9	7.0	8.2	11.5	8.0
Operational self sufficiency	105.1	108.9	116.1	109.4	131.1	116.9	114.6
RISK PROFILE							
Portfolio at risk > 30 days to gross loan portfolio	6.6	2.5	3.7	4.8	2.1	3.4	3.8
Portfolio at risk > 90 days to gross loan portfolio	3.9	1.6	2.6	3.1	0.7	1.9	2.3
Write- off ratio	0.7	0.0	0.3	1.4	0.3	0.4	0.5

1. Eastern Europe and Central Asia
2. Latin America and the Caribbean
3. Middle East and North Africa
4. East Asia and the Pacific

ANNEXURE C

Sources of data (2011)

MICROFINANCE BANKS (MFBS)

Kashf Microfinance Bank Ltd. (KMFB)

- KMFB provided PMN with its audited accounts. The numbers reported in the PMR match these reports. A.F. Ferguson audited the annual accounts of KMFB for the year ending at 31st December 2011.
- The financial statements have been presented as per the requirements of the State Bank of Pakistan.
- All necessary adjustments to KMFB data have been made in order to remove subsidies. Adjustments were not made for loan loss provisioning expense, as KMFB is aggressive in its policies as required by the SBP. Adjustment for cost of borrowing was not made since there was no borrowing.
- KMFB prepares accounts on a historical cost basis using the accrual system of accounting.
- Grants are initially recognized at fair value in the balance sheet when there is reasonable assurance that the grants will be received and the Bank will comply with all attached conditions.
- The following numbers have been taken from KMFB's audited financial accounts: i). rural-urban clients; ii). male-female clients; iii). Number of staff; iv). Number of credit officers; and v). Number of branches.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Khushhali Bank Ltd. (KBL)

- KBL provided PMN with its audited accounts. The numbers reported in the PMR match these reports. A.F. Ferguson audited the annual accounts of KBL for the year ending at 31st December 2011.
- The financial statements have been presented as per the requirements of the State Bank of Pakistan.
- All necessary adjustments to the KBL data have been made in order to remove subsidies. Adjustments were not made for loan loss provisioning expense, since KBL is aggressive in its policies, as required by the SBP.
- KBL prepares its accounts on historical cost basis using the accrual system of accounting.
- The related party transactions have been properly disclosed in notes to the financial statements.
- The grant income has been properly disclosed in financial statements as well as there is a proper disclosure on grants in notes to the financial statements.
- The following numbers have been taken from KBL's MIS: i). rural-urban clients; ii). male-female clients; iii). Portfolio aging; iv). Number of staff; v). Number of credit officers; and vi). Number of branches (also available in audited accounts).
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Pak Oman Microfinance Bank Ltd. (POMFB)

- POMFB reported its audited accounts in newspapers, from whence the accounts were obtained. The numbers reported in the PMR match these reports. M. Yossuf Adil Saleem and Co., audited the annual accounts of POMFB for the year ending at 31st December 2011.

- The financial statements have been presented as per the requirements of the State Bank of Pakistan.
- All necessary adjustments to the POMFB data have been made in order to remove subsidies. No adjustments were made to financial cost since POMFB was not using any concessional or commercial borrowing during the reported period. Similarly, no adjustment was made on loan loss provisioning expense; POMFB is aggressive in its policies, as required by the SBP.
- POMFB prepares accounts on historical cost basis using the accrual system of accounting.
- The related party transactions have been properly disclosed in notes to the financial statements.
- The grant income has been properly disclosed in financial statements as well as there is a proper disclosure on grants in notes to the financial statements.
- The following numbers have been taken from POMFB's MIS: i). rural-urban clients; ii). male-female clients; iii). Portfolio Aging and Write-Offs (verified from audited accounts); iv). Number of staff; v). Number of credit officers; and vi). Number of branches (also available in audited accounts).
- As per the CGAP requirements portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Apna Microfinance Bank Ltd. (Formerly Network MFB)

- Apna Microfinance Bank did not provide PMN with its audited accounts for PMR 2011.

Tameer Microfinance Bank Ltd. (TMFB)

- TMFB provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Ernst and Young Ford Rhodes Sidat Hyder and Co., audited the annual accounts of TMFB for the year ending at 31st December 2011.
- The financial statements have been presented as per the requirements of the State Bank of Pakistan.
- All necessary adjustments to TMFB data have been made in order to remove subsidies. Adjustments were not made for loan loss provisioning expense, since TMFB is aggressive in its policies as required by the SBP. Adjustment for cost of borrowing was not made since it was entirely commercial borrowing. TMFB prepares accounts on historical cost basis using the accrual system of accounting.
- The related party transactions have been properly disclosed in notes to the financial statements.
- The grant income has been properly disclosed in financial statements as well as there is a proper disclosure on grants in notes to the financial statements.
- The following numbers have been taken from TMFB's MIS: i). rural-urban clients; ii). male-female clients; iii). Number of staff; iv). Number of credit officers; and v). Number of branches (also available in audited accounts).
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

The First Microfinance Bank Ltd. (FMFBL)

- FMFB provided PMN with its audited accounts. The numbers reported in the PMR match these reports. KPMG audited the annual accounts of FMFBL for the year ending at 31st December 2011.
- The financial statements have been presented as per the requirements of the State Bank of Pakistan.
- All necessary adjustments to FMFBL data have been made in order to remove subsidies. No adjustments were made to financial cost since FMFBL did not use any concessional or commercial borrowing during the reported period. Similarly, no adjustment was made on loan loss provisioning expense; FMFBL is aggressive in its policies, as required by SBP.
- FMFBL prepares accounts on historical cost basis using the accrual system of accounting.

- The related party transactions have been properly disclosed in notes to the financial statements.
- The grant income has been properly disclosed in financial statements and there is proper disclosure on grants in notes to the financial statements.
- There is a proper disclosure regarding the loan portfolio and write-offs.
- The following numbers have been taken from FMFB's MIS: i). rural-urban clients; ii). male-female clients; iii). Portfolio Aging and Write-offs (verified from audited accounts); iv). Number of staff; v). Number of credit officers; and vi). Number of branches (also available in audited accounts).
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stake holders.

MICROFINANCE INSTITUTION (MFI)

Akhuwat

- Akhuwat provided PMN with its audited accounts. The numbers reported in the PMR match these reports. A.F. Ferguson audited the annual accounts of Akhuwat for the year ending at 30th June 2011.
- Akhuwat prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- There is proper disclosure of the movement in portfolio, loan loss provisioning, and write-offs.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; and ii). male-female clients;
- The related party transactions have been properly disclosed in notes to the financial statements.
- The grant income has been properly disclosed in financial statements. In addition, there is proper disclosure on grants in notes to the financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

ASA Pakistan limited

- ASA provided PMN with its audited accounts. The numbers reported in the PMR match these reports. KPMG has audited the annual accounts of ASA-P for the year ending at 31st December 2011.
- ASA prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices.
- There is no adjustment on cost of borrowing since ASA's actual cost is higher than the adjusted cost. Similarly, no adjustment was made to loan loss provisioning expense; ASA is aggressive in its policies.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; and ii). male-female clients;
- There is proper disclosure on the balance sheet of loan portfolio, and loan loss provision; expense charged during the year is disclosed on the income statement.
- The related party transactions have been properly disclosed in notes to the financial statements.
- The grant income should be properly presented in financial statements as well as there should be disclosure on grants in notes to the financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

ASASAH

- Asasah provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Grant Thornton has audited the annual accounts of Asasah for the year ending at 30th June 2011.

- Asasah prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- There is proper disclosure on the movement in portfolio, loan loss provisioning, and write-offs.
- The related party transactions have been properly disclosed in notes to the financial statements.
- The grant income has been properly disclosed in financial statements. Additionally, there is proper disclosure on grants in notes to the financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

BRAC-Pakistan

- BRAC-Pakistan provided PMN with its audited accounts. The numbers reported in the PMR match these reports. KPMG (Taseer Hadi and Co) has audited the annual accounts of BRAC-Pakistan for the year ending at 31st December 2011.
- BRAC prepares its financial statements under the historical cost convention and in conformity with accepted accounting policies.
- BRAC is an integrated program and, therefore, prepares separate financial accounts for all its programs. The audit is done and a consolidated audit report is prepared with clear differentiations of both revenue and costs for each program in light of accounting standards.

Community Support Concern (CSC)

- CSC provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Riaz Ahmad & Co. audited the annual accounts of CSC for the year ending at 30th June 2011.
- All necessary adjustments to CSC data have been made in order to remove subsidies. There is no adjustment on cost of borrowing since CSC's actual cost is higher then the adjusted cost. Similarly, no adjustment was made to loan loss provisioning expense; CSC is aggressive in its policies.
- CSC prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Aging on number of loans and value of portfolio (not verifiable from audited accounts); iv). Number of staff; v). Number of credit officers; and vi). Number of offices.
- There is proper disclosure on the balance sheet of loan portfolio, and loan loss provision; expense charged during the year is disclosed on the income statement.
- The grant income has been properly disclosed in financial statements and there is proper disclosure on grants in notes to the financial statements.
- The related party transactions should be presented in notes to the financial statements.
- As per the CGAP requirements portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Centre for Women Cooperative Development (CWCD)

- CWCD provided PMN with its audited accounts. The numbers reported in the PMR match these reports. KPMG (Taseer Hadi and Co) audited the annual accounts for CWCD for the year ending at 31st December 2011.
- All necessary adjustments to CWCD data have been made in order to remove subsidies. There is no adjustment on cost of borrowing since CWCD's actual cost is higher then the adjusted cost. Similarly, no adjustment was made to loan loss provisioning expense; CWCD is aggressive in its policies.

- CWCD prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Aging on number of loans and value of portfolio (not verifiable from audited accounts); iv). Number of staff; v). Number of credit officers; and vi). Number of offices.
- There is proper disclosure on the balance sheet of loan portfolio, and loan loss provision; expense charged during the year is disclosed on the income statement.
- The grant income has been properly disclosed in financial statements. Additionally, there is proper disclosure on grants in notes to the financial statements.
- The related party transactions should be presented in notes to the financial statements.
- As per the CGAP requirements portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Development Action for Mobilization and Emancipation (DAMEN)

- DAMEN provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Ernst & Young Ford Rhodes Sidat Hyder and Co., audited the annual accounts for DAMEN for the year ending at 31st December 2011.
- As DAMEN is a multi-dimensional development organization accounts for its microfinance function are kept separate.
- All necessary adjustments to DAMEN data have been made in order to remove subsidies. There is no adjustment on cost of borrowing since DAMEN's actual cost is higher then the adjusted cost. Similarly, no adjustment was made to loan loss provisioning expense; DAMEN is aggressive in its policies.
- DAMEN prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices.
- The grant income has been properly disclosed in financial statements. Additionally, there is proper disclosure on grants in notes to the financial statements.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Aging on number of loans and value of portfolio (verifiable from audited accounts); iv). Breakup for the number of loans doubtful; v). Number of staff; vi). Number of credit officers
- DAMEN has proper disclosure in terms of movement in portfolio, loan loss provisioning and write-offs.
- The related party transactions should be presented in the notes to the financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Kashf Foundation (KF)

- KF did not provide PMN with its audited accounts for PMR 2011.

Orangi Pilot Project (OPP)

- OPP provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Tanzeem & Company audited the annual accounts for OPP for the year ending at 30th June 2011.
- As OPP is a multi-dimensional development organization, accounts for its microfinance function are kept separate.
- OPP prepares four separate sets of audited accounts for four different credit projects. It would be more useful if consolidated audited accounts of the four projects are prepared.

- Revenue and expenditure are recognized on cash basis.
- OPP prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- The following numbers have not been reported by the organization: i). rural-urban clients; ii). male-female clients; iii). Aging on number of loans and value of portfolio (not verifiable from audited accounts); iv). Loan loss provisioning and write-off; v). Number of staff; vi). Number of credit officers; and vii). Number of offices.
- There is proper disclosure on the movement in loan portfolio; however, there is no disclosure on loan loss provisioning and write-offs.
- The grant income should be properly presented in financial statements and there should be disclosure on grants in notes to the financial statements.
- The related party transactions should be properly disclosed in notes to the financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Rural Community Development Society (RCDS)

- RCDS provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Ijaz Tabassum & Co. audited the annual accounts for RCDS for the year ending at 30th June 2011.
- RCDS prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices. Revenue is recognized on receipt basis.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Aging on number of loans and value of portfolio (verified from audited accounts); iv). Number of staff; v). Number of credit officers; and vi). Number of branches (also available in audited accounts).
- There should be proper disclosure on movement in portfolio, loan loss provisioning, and write-offs.
- The related party transactions have been properly disclosed in notes to financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO)

- SAFWCO provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Grant Thornton (Anjum Asim Shahid Rehman) audited the annual accounts for SAFWCO for the year ending at 30th June 2011.
- As SAFWCO is a multi-dimensional development organization accounts for its microfinance function are kept separate.
- Income and expense are booked on an accrual basis.
- All necessary adjustments to SAFWCO data have been made in order to remove subsidies.
- SAFWCO prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices using the principles of fund accounting.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Aging on number of loans and value of portfolio (not verifiable from audited accounts); iv). Number of staff; and v). Number of credit officers.
- There is proper disclosure on movement in portfolio, loan loss provisioning, and write-offs. Figures on loan loss provisioning, OLP, and loan loss reserve are disclosed in the financial statements.
- The grant income has been properly disclosed in financial statements. Additionally, there is proper disclosure on grants in notes to the financial statements.

- The related party transactions have been properly disclosed in notes to the financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Jinnah Welfare Society (JWS)

- JWS provided PMN with its audited accounts. The numbers reported in the PMR match these reports. Ijaz Tabassum & Co. audited the annual accounts for JWS for the year ending at 30th June 2011.
- JWS prepares its financial statements under the historical cost convention and in conformity with accepted accounting practices. Revenue is recognized on receipt basis.
- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Aging on number of loans and value of portfolio (verified from audited accounts); iv). Number of staff; v). Number of credit officers; and vi). Number of branches (also available in audited accounts).
- There should be a proper disclosure on the movement in portfolio, loan loss provisioning, and write-offs.
- The related party transactions have been properly disclosed in notes to financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios should be presented to represent the true and fair picture to stake holders.

Orix Leasing Pakistan Ltd. (OLP)

- OLP has provided its audited accounts for the reporting period to PMN.
- However, given that OLP's audited accounts do not disclose figures related to its Microfinance Division (MFD), the data reported in the PMR is not verifiable with audited accounts.
- OLP has separate staff and offices for microfinance. OLP's MFD has provided data specific to its microfinance operations.
- OLP prepares its financial statements under the historical cost convention in using accrual system of accounting.
- Adjustments to the data have been made as per the PMN's adjustment policies. These adjustments are in line with international practices being followed by The MIX.

RURAL SUPPORT PROGRAMME (RSP)

National Rural Support Programme (NRSP)

- NRSP has provided its audited accounts for the reporting period to PMN and the figures tally with the reported data. Ernst & Young Ford Rhodes Sidat Hyder and Co., audited the annual accounts for NRSP for the year ending at 30th June 2011.
- NRSP has prepared separate financial statements for its microfinance operations for the first time.
- All necessary adjustments to NRSP data have been made in order to remove subsidies. Adjustments have also been made for financial cost, and inflation on equity. There is no adjustment on loan loss provisioning expense, since NRSP is aggressive in its policies and all loans > 90 days past due are 100% provisioned for.
- NRSP prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- Data on distribution of clients in terms of the urban-rural mix is not provided in the disclosures. However, given that NRSP has a separate program for urban areas and rural areas and their information is available separately, the disaggregation can be made quite accurately. The data on gender segregation was taken from the MIS and is not available in notes to the accounts.

- The ageing of portfolio in rupee value is not verifiable from audited accounts. Both ageing on the number of loans and value of portfolio was obtained from the MIS. There is proper disclosure on the movement in portfolio and write-offs. It will be valuable if NRSP could provide separate disclosure on movement in provisioning of portfolio.
- Data on the number of total staff, loan officers and branches has been drawn from audited accounts.
- The related party transactions have been properly disclosed in notes to financial statements.
- As per the CGAP requirements, portfolio quality, sustainability/profitability and asset/liability management ratios are presented in the notes to financial statements.

Punjab Rural Support Programme (PRSP)

- PRSP has provided its audited accounts for the reporting period to PMN. Ernst & Young Ford Rhodes Sidat Hyder and Co., audited the annual accounts for PRSP for the year ending at 30th June 2011.
- Since PRSP is an integrated programme, the following resource allocation process was followed:

  a. The identified accounts for credit and non-credit functions were directly transferred to the respective programs.

  b. All other accounts that were common to the institution were transferred in the ratio of 60% to credit and 40% to non-credit functions.

  c. 60% of PRSP's investment income was credited to its credit operations
- All necessary adjustments to PRSP data have been made in order to remove subsidies. This also includes writing off all the GLP 360 days past due.
- PRSP prepares its financial statements under the historical cost convention, in conformity with accepted accounting practices.
- Data on distribution of clients in terms of the urban-rural mix is not provided in the disclosures. However, given that PRSP only works in rural Punjab the information can be accurately deduced. The data on gender segregation was taken from the MIS and is not available in notes to the accounts.
- The ageing of portfolio in rupee value is not verifiable from audited accounts. Both ageing on the number of loans and value of portfolio was obtained from the MIS. There is proper disclosure on movement in portfolio, loan loss provisioning and write-offs.
- Data on number of staff for PRSP as a whole is available. These numbers have been allocated between credit and non-credit functions of PRSP on the basis mentioned above. Data for credit officers has been obtained from the organization's MIS.
- The grant income has been properly disclosed in financial statements as well as there is a proper disclosure on grants in notes to the financial statements.
- The related party transactions have been properly disclosed in notes to financial statements.
- As per the CGAP requirements, portfolio quality, sustainability / profitability and asset/liability management ratios should be presented to represent the true and fair picture to stakeholders.

Sarhad Rural Support Programme (SRSP)

- SRSP is a multi-dimensional development organization. It has provided its integrated audited accounts for the reporting period to PMN and has also extracted accounts for its microfinance operations from the consolidated audited statements.
- All necessary adjustments to SRSP data have been made in order to remove subsidies. Adjustments have also been made for financial cost, and inflation on equity. There is no adjustment on loan loss provisioning expense, since SRSP is aggressive in its policies and all loans > 90 days past due are 100% provisioned for.

- SRSP prepares its financial statements under the historical cost convention in conformity with accepted accounting practices.

- The ageing of portfolio in rupee value is not verifiable from audited accounts. Both ageing on number of loans and value of portfolio was obtained from the MIS. However, there is proper disclosure on the movement in portfolio and write-offs. It will be valuable if SRSP could provide separate disclosure on movement in provisioning of portfolio as suggested previously.

- Data on the number of total staff, loan officers and branches has been drawn from audited accounts.

Thardeep Rural Development Programme (TRDP)

- TRDP has provided its audited accounts for the microfinance program (inclusive of credit and non-credit functions).

- All necessary adjustments to TRDP data have been made in order to remove subsidies.

- TRDP prepares its financial statements under the historical cost convention in conformity with accepted accounting practices.

- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Number of staff; and iv). Number of credit officers.

- The ageing of portfolio (in rupee value and number of loans) is taken from audited accounts.

Sidh Rural Support Organization (SRSO)

- SRSO has provided its audited accounts for the microfinance program (inclusive of credit and non-credit functions). Ernst & Young Ford Rhodes Sidat Hyder and Co., audited the annual accounts for SRSO for the year ending at 30th June 2011.

- All necessary adjustments to SRSO data have been made in order to remove subsidies.

- SRSO prepares its financial statements under the historical cost convention in conformity with accepted accounting practices.

- The following numbers have been taken from the organization's MIS: i). rural-urban clients; ii). male-female clients; iii). Number of staff; and iv). Number of credit officers.

- The ageing of portfolio (in rupee value and number of loans) is taken from audited accounts.

ANNEXURE D

Adjustments to Financial Data

RATIONALE

Adjustments to financial statements are made when doing benchmark analysis. Adjustments are made for two primary reasons:

- To give an institution a more accurate picture of its financial position, by accounting for factors unique to an MFP including the predominance of below-market-rate funding sources. Such factors distort an MFP's on-going performance.
- To make the data of various MFPs comparable. Thus, adjustments are made in order to bring organizations operating under varying conditions and with varying levels of subsidy onto a level playing field.

The following adjustments are made to data used for the PMR:

A. Inflation adjustment

Inflation adjustment adjusts for the effect of inflation on an MFP's equity and non-monetary assets i.e., fixed assets. Inflation decreases the real value of an MFP's equity. Fixed assets are capable of tracking the increase in price levels; their monetary value is increased. The net loss (or gain) is considered to be a cost of funds, and results in a decrease (or increase) in net operating income.

Calculation of inflation adjustment

Inflation adjustment revenue

Multiply the prior year's Net Fixed Assets by the current year's average annual inflation rate (Average Core CPI for current financial year)

Formula:

NET FIXED ASSETS (PRIOR YEAR) X AVERAGE ANNUAL INFLATION RATE (CURRENT FINANCIAL YEAR)

Inflation adjustment expense

Multiply the prior year's Equity by the current year's average annual inflation rate, (Average Core CPI for current year)

Formula:

EQUITY (PRIOR YEAR) X AVERAGE ANNUAL INFLATION RATE (CURRENT YEAR)

Net inflation adjustment expense

Subtract the Inflation Adjustment Revenue from the Inflation Adjustment Expense

Formula:

INFLATION ADJUSTED REVENUE – INFLATION ADJUSTED EXPENSE

B. Subsidies adjustment

Adjustments for three types of subsidies are made:

- A cost-of-funds subsidy from loans at below-market rates
- Current year cash donations to fund portfolio and cover expenses
- In-kind subsidies, such as rent-free office space or the services of personnel not paid by the MFP and thus not reflected on its income statement.

Additionally, for multipurpose MFPs, an attempt to isolate the performance of the financial services program is made by removing the effect of any cross-subsidization. Cash donations flowing through the income statement are accounted for by reclassifying them below net operating income on the income statement. Thus, adjustments for cash donations are not made since these are handled through a direct reclassification on the income statement. This year no MFP has disclosed receipt of in-kind subsidy.

B.1 Cost-of-funds subsidy

The cost-of-funds adjustment reflects the impact of soft loans on the financial performance of an MFP. The analyst needs to calculate the difference between what an MFP actually paid in interest on its subsidized liabilities and a shadow market rate for each country. This difference represents the value of the subsidy, considered an additional financial expense. Only funds received as loans need to be adjusted. Client deposits are not adjusted. Only loans that have a finite (1-5 years) term length are adjusted. Subordinated debt and other quasi-equity accounts are reclassified as 'other equity' on the balance sheet.

The analyst must be careful in the choice of an appropriate shadow rate thus, PMN has used the KIBOR rate on outstanding loans as reported by the State Bank of Pakistan on its website (12.5%) to make this adjustment.

Calculation of cost-of-funds subsidy

1. Calculate average balance for all borrowings. Borrowings do not include deposits or "other liabilities". If an MFI has given an average balance, see if this is more appropriate to use; if not, calculate average from last year's ending balance.
2. Multiply the average balance by the shadow market rate
3. Compare with the amount actually paid in interest and fees. If less "market" rate, impute the difference (market price minus Financial Expense paid on Borrowings) to the Subsidized Cost of Funds Adjustment Expense

B.2 Cash donations

Funds donated to cover operational costs constitute a direct subsidy to an MFP. The value of the subsidy is therefore, equal to the amount donated to cover expenses incurred in the period reported. Some donations are provided to cover operating shortfall over a period greater than one year. Only the amount spent in the year is recorded on the income statement as revenue. Any amount still to be used in subsequent years appears as a liability on the balance sheet (deferred revenue). This occurs because theoretically, if an MFP stopped operations in the middle of a multi-year operating grant, it would have to return the unused portion of the grant to the donor. The unused amount is therefore, considered as a liability.

Funds donated to pay for operations should be reported on the income statement separately from the revenue generated by lending and investment activities. This practice is meant for accurately reporting the earned revenue of an MFP. Donated funds are deducted from revenue or net income prior to any financial performance analysis because they do not represent revenue earned from operations.

Note: Costs incurred to obtain donor funds (fundraising costs) should also be separated from operating expenses, because the benefit of receiving the funds is not included.

B.3 In-kind subsidy

Imputed cost (book value) of donated/loaned-out vehicles, machinery and buildings need to be included in operating expenses. Expatriate staff salaries paid by donor or parent company, or other technical assistance, need to be accounted for. Here, imputed salaries are used instead of salaries actually received by them i.e., the salary range that a local hire would get for the same level of work-load/position is used.

Note: The analyst must use his/her judgment in deciding whether or not the in-kind donation represents a key input to the on-going operations of the MFP. An appropriate basis for valuation is important. This could include selecting a percentage of the total cost and attributing it to program expense. The percentage may be selected on the basis of sales proportion, management input, etc.

Calculation of in-kind subsidy

Sum of in-kind subsidies by operating expense account, added to unadjusted numbers for each account.

C. Loan loss provisioning

PMN standardizes loan loss provisioning for MFPs to a minimum threshold or risk. MFPs vary tremendously in accounting for loan delinquency. Some count the entire loan balance as overdue the day a payment is missed. Others do not consider a loan delinquent until its full term has expired. Some MFPs write off bad debt within one year of the initial delinquency, while others never write off bad loans, thus carrying forward a default that they have little chance of ever recovering.

The analyst applies a standard loan loss provisioning to all MFPs and adjusts, where necessary, to bring them to the minimum threshold. In some cases, these adjustments may not be precise. Portfolio aging information may only be available on different aging scales.

Calculation of loan loss provisioning

Step 1:
Multiply the PAR age categories by the following reserve factors:
PAR up to 89 days no provisioning
PAR 91 – 180 x 0.50
PAR 181 – 360 x 1.00
Renegotiated loans x 0.50

Step 2:
Sum above reserve calculations. If sum is more than current reserves make calculated reserve new Loan Loss Reserve. If not, keep current reserves.

Step 3:
Add the Unadjusted Loan Loss Provision Expense to the difference between the Adjusted Net Loan Portfolio and the Unadjusted Net Loan Portfolio. This is the Adjusted Loan Loss Provision Expense.


$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
Jul Aug Sep Oct Nov Dec
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
300000
250000
200000
150000
100000
50000
0
May Jun Jul Aug Sep
$1,067 $1,542 $8,961 $8,999 $12,946
$7,941 $5,649 $7,156 $0 $10,840
$2,456 $5,584 $9,140 $7,915 $11,257
$4,668 $8,434 $8,193 $6,653 $8,416
$7,052 $8,603

ANNEXURE E

Terms and Definitions

Age

Number of years an organization has been functioning as a microfinance provider (MFP).

Active Saving Account Balance

It is the average balance of savings per account (not per depositor).

Adjustment Expense

Total adjustment cost related to inflation, subsidized cost of borrowing, loan loss provisioning and in-kind subsidies.

Adjusted Financial Expense Ratio

It is calculated by using standardized ageing-of-portfolio technique. The principle of conservatism is used which is why loan loss provision in audited accounts is greater than the amount computed by the analyst.

Adjusted Loan Loss Reserve

Formula:

$$\frac{\text{Adjusted Financial Expense}}{\text{Adjusted Average Total Assets}}$$

Adjusted Operating Expense

Also included in operating expense:

- Imputed cost (book value) of donated/ loaned vehicles, machinery and buildings
- Expatriate staff salaries paid by donor or parent company
- Other technical assistance paid for with donations

NOTE: Imputed salaries should be used instead of salaries actually received by such persons. For imputation, the salary range that a local hire would get for the same level of work-load/position should be used. Judgment is used to decide whether or not the in-kind donation represents a key input to the on-going operations of the MFP

Formula:

Personnel Expense + Administrative Expense

Adjusted Operating Expense Ratio

Formula:

$$\frac{\text{Adjusted Operating Expense}}{\text{Adjusted Average Total Assets}}$$

Adjusted Portfolio at Risk > (30, 60, 90 Days)

Indicates the credit risk of a borrower above the specified number of days (30, 60, 90) past his/her due date for installment payment.

Formula:

$$\frac{\text{Outstanding balance, loans overdue > (30 or 60 or 90) Days}}{\text{Adjusted Gross Loan Portfolio}}$$

Adjusted Cost per Borrower

In case of loan size differentials, generally operating expense ratio is lower (more efficient) for institutions with higher loan sizes, ceteris paribus. This indicator discounts the effect of loan size on efficient management of loan portfolio.

Formula:

$$\frac{\text{Adjusted Operating Expense}}{\text{Average Number of Active Borrowers}}$$

Adjusted Cost per Loan

Formula:

$$\frac{\text{Adjusted Operating Expense}}{\text{Average Number of Active Loans}}$$

Adjustment Expense Ratio

Formula:

$$\frac{\text{Net inflation, in kind, loan loss provision and subsidized cost-of-funds adjustment expense}}{\text{Adjusted Average Total Assets}}$$

Adjusted Financial Expense

It includes actual cost of borrowing and shadow cost of subsidized funding.

Adjusted Financial Expense on Borrowing

The cost-of-funds adjustment reflects the impact of soft loans on the financial performance of the institution. The analyst calculates the difference between what the MFP actually paid in interest on its subsidized liabilities and what it would have paid at a shadow market rate for each country. This difference represents the value of the subsidy, considered an additional financial expense.

Adjusted Loan Loss Provision Expense Ratio

Formula:

$$\frac{\text{Adjusted Net Loan Loss Provision Expense}}{\text{Adjusted Average Total Assets}}$$

Adjusted Loan Loss Provision Expense

Loan loss provision expense calculated with standardized ageing-of-portfolio technique. It is however ensured that if the actual loan loss provision expense is higher than the adjusted then the conservatism principle is followed.

Adjusted Operating Expense

It includes actual operational expenses and in-kind subsidy adjustments.

Adjusted Operating Expense Ratio

It indicates efficiency of an MFP's loan portfolio.

Formula:

$$\frac{\text{Adjusted Operating Expense}}{\text{Average Gross Loan Portfolio}}$$

Adjusted Personnel Expense

Includes actual personnel expenses (salaries and benefits), and in-kind subsidy adjustments.

Adjusted Personnel Expense Ratio

Formula:

$$\frac{\text{Adjusted Personnel Expense}}{\text{Average Gross Loan Portfolio}}$$

Adjusted Profit Margin

Formula:

$$\frac{\text{Adjusted Net Operating Income}}{\text{Adjusted Financial Revenue}}$$

Adjusted Return on Assets

Formula:

$$\frac{\text{Adjusted Net Operating Income, net of taxes}}{\text{Average Total Assets}}$$

Adjusted Return on Equity

Formula:

$$\frac{\text{Adjusted Net Operating Income, net of taxes}}{\text{Average Total Equity}}$$

Adjusted Total Expense

Includes all actual and adjusted expenses related to operations, cost of borrowings, loan losses and inflation adjustment.

Adjusted Total Expense Ratio

Formula:

$$\frac{\text{Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense) Cost}}{\text{Average Total Assets}}$$

Average Gross Loan Portfolio

Average of opening and closing balance of Gross Loan Portfolio (GLP).

Average Loan Balance per Active Borrower

Indicates average loan balance outstanding.

Average Loan Balance per Active Borrower to Per Capita Income

Used to measure depth of outreach. The lower the ratio the more poverty-focused the MFP.

Average Number of Active Borrowers

It is average of opening and closing balance of active borrowers.

Formula:

$$\frac{\text{[Active Borrowers (Opening Balance) + Active Borrowers (Closing Balance)]}}{2}$$

Average Number of Active Loans

Average of opening and closing balance of active loans

Average Outstanding Balance

It indicates the average balance of loans outstanding.

Formula:

$$\frac{\text{Adjusted Gross Loan Portfolio}}{\text{Adjusted Number of Loans Outstanding}}$$

Average Outstanding Balance to Per Capita Income

It measure of depth of outreach. The lower the ratio the more poverty-focused the MFP.

Formula:

$$\frac{\text{Average Outstanding Balance}}{\text{Per Capita Income}}$$

Average Saving Balance per Saver

It indicates average amount of saving balance per saver.

Average Total Assets

It is average of opening and closing balance of total assets.

Average Total Equity

It is average of opening and closing balance of total equity.

Borrowers per Loan Officer

It measure of loan officer productivity. It indicates the number of borrowers managed by a loan officer.

Formula:

$$\frac{\text{Number of Active Borrowers}}{\text{Number of Loan Officers}}$$

Borrowers per Staff

It measure of staff productivity. It indicates the number of borrowers managed by the staff on average.

Formula:

$$\frac{\text{Number of Active Borrowers}}{\text{Number of Total Personnel}}$$

Commercial Liabilities

It is principal balance of all borrowings, including overdraft accounts, for which the organization pays a nominal rate of interest that may be greater than or equal to the local commercial interest rate.

Commercial Liabilities-to-Gross Loan Portfolio Ratio

It indicates efficiency of an MFP's loan portfolio.

Formula:

$$\frac{\text{All liabilities with “market” price}}{\text{Gross Loan Portfolio}}$$

Deposits

Demand deposits from the general public and members (clients) held with the institution. These deposits are not conditional to accessing a current or future loan from the MFP and include certificates of deposit or other fixed term deposits.

Deposit-to-Gross Loan Portfolio Ratio

It is inverse of the advance-to-deposit ratio.

Formula:

$$\frac{\text{Deposits}}{\text{Gross Loan Portfolio}}$$

Deposit-to-Total Asset Ratio

Indicates the percentage of assets financed through deposits.

Formula:

$$\frac{\text{Deposits}}{\text{Total Assets}}$$

Equity-to-Asset Ratio

This is a simple version of the capital adequacy ratio as it does not take in to account risk weighted assets. This ratio indicates the proportion of a company's equity that is accounted for by assets.

Formula:

$$\frac{\text{Total Equity}}{\text{Total Assets}}$$

Financial Expense

It is total of financial expense on liabilities and deposits.

Financial Revenue

It is total of revenue from loan portfolio and other financial assets, as well as other financial revenue from financial services.

Financial Revenue from Other Financial Assets

It is net gains on other financial assets.

Financial Revenue from Loan Portfolio

It is total interest, fees and commission on loan portfolio.

Financial Revenue Ratio

Indicates the efficiency with which an MFP is utilizing its assets to earn income from them.

Formula:

Financial Revenue

Average Total Assets

Financial Self-Sufficiency

Formula:

Financial Revenue

Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense + Inflation Adjustment)

Gross Loan Portfolio

It is the outstanding principal for all outstanding client loans, including current, delinquent and restructured loans. It does not include:

- Loans that have been written-off
- Interest receivable
- Employee loans

For accounting purposes GLP is categorized as an asset.

Gross Loan Portfolio-to-Total Asset Ratio

Indicates the efficiency of assets deployed in high yield instruments/core business of an MFP.

Formula:

Gross Loan Portfolio

Total Assets

Inflation Adjustment Expense

Inflation decreases the real value of an MFP's equity. Fixed assets are considered to track the increase in price levels, and their value is considered increased. The net loss (or gain) is treated as a cost of funds, is disclosed on the income statement, and decreases net operating income.

Inflation Rate

Latest annualized consumer price index (CPI) as reported by the State Bank of Pakistan.

Liabilities-to-Equity Ratio (debt-equity ratio)

Formula:

$$\frac{\text{Adjusted Net Loan Loss Provision Expense}}{\text{Adjusted Average Total Assets}}$$

Total Liabilities

Total Equity

Loan Loss Provision Expense

It is the sum of loan loss provision expense and recovery on loan loss provision.

Loans per Loan Officer

Formula:

$$\frac{\text{Adjusted Net Loan Loss Provision Expense}}{\text{Adjusted Average Total Assets}}$$

Number of Active Loans

Number of Loan Officers

Loans per Staff

Formula:

$$\frac{\text{Adjusted Net Loan Loss Provision Expense}}{\text{Adjusted Average Total Assets}}$$

Number of Active Loans

Number of Personnel

Net Adjusted Loan Loss Provision Expense

It is the sum of loan loss provision expense and recovery on loan loss provision. MFPs vary tremendously in accounting for loan delinquency. Some count the entire loan balance as overdue the day a payment is missed. Others do not consider a loan delinquent until its full term has expired. Some MFPs write off bad debt within one year of the initial delinquency, while others never write off bad loans, thus carrying forward a defaulting loan that they have little chance of ever recovering.

Number of Active Borrowers

Number of borrowers with loan amount outstanding.

Number of Active Loans

The number of loans that have been neither fully repaid nor written off, and thus that are part of the MFP's gross loan portfolio.

Number of Active Women Borrowers

Number of women borrowers with loan amount outstanding.

Number of Active Women Borrowers to total Active Borrowers

It indicates percentage of women borrower to total active borrowers.

Number of Loans Outstanding

It is the number of loans outstanding at the end of the reporting period. Depending upon the policy of an MFP one borrower can have two loans outstanding; hence, the number of loans could be more than the number of borrowers.

Number of Savers

It is the number of depositors maintaining voluntary demand deposit and time deposit accounts with an MFP.

Number of Saving Accounts

One depositor can have more than two deposit accounts. Hence, the number of deposit accounts could be more than the number of depositors.

Number of Women Savers

It is the number of women savers with voluntary demand deposit and time deposit accounts.

Offices

The total number of staffed points of service (POS) and administrative sites (including head office) used to deliver or support the delivery of financial services to microfinance clients.

Operating Expense

It is total of Personnel Expense and Administrative Expense.

Operational Self-Sufficiency

Formula:

$$\frac{\text{Financial Revenue}}{(\text{Financial Expense + Net Loan Loss Provision Expense + Operating Expense})}$$

Per Capita Income

It is average income per person.

Percentage of Women Savers to Total Savers

It indicates the percentage of women in the total saving portfolio.

Personnel

It is the number of individuals actively employed by an MFP. This number includes contract employees and advisors who dedicate the majority of their time to the organization, even if they are not on the MFP's roster of employees. This number is expressed as a full-time equivalent, such that an advisor who spends 2/3 of his/her time with the MFP is accounted for as 2/3 of a full-time employee.

Personnel Allocation Ratio

The higher the indicator the more lean the head office structure of the organization. This indictor is used to measure organizational efficiency.

Formula:

$$\frac{\text{Loan Officers}}{\text{Total Staff}}$$

Risk Coverage Ratio

Indicates the provision created by an MFP against its credit risk.

Formula:

$$\frac{\text{Adjusted Loan Loss Reserve}}{\text{PAR > 30 Days}}$$

Saving Outstanding

Total value of demand deposit and time deposit accounts.

Savers per Staff

Formula:

$$\frac{\text{Number of Savers}}{\text{Number of Personnel}}$$

Loan Loss Provision Expense

It is the sum of loan loss provision expense and recovery on loan loss provision.

Loans per Loan Officer

Formula:

$$\frac{\text{Adjusted Loan Loss Reserve}}{\text{PAR > 30 Days}}$$

Total Assets

Total net asset accounts i.e., all asset accounts net of any allowance. The one exception to this is the separate disclosure of the gross loan portfolio and loan loss reserve.

Total Equity

Equity represents the worth of an organization net of what it owes (liabilities). Equity accounts are presented net of distributions, such as dividends.

Formula:

Total Assets – Total Liabilities

Total Liabilities

Liabilities represent the borrowings of an organization i.e., the amount owed. Examples of liabilities include loans, and deposits. This number includes both interest and non-interest bearing liabilities of an MFP.

Total Number of Loan Officers

The number of staff members who dedicate the majority of their time to direct client contact. Front office staff include more than those typically qualified as credit or loan officers. They may also include tellers, personnel who open and maintain accounts—such as savings accounts—for clients, delinquent loan recovery officers, and others whose primary responsibilities bring them in direct contact with microfinance clients.

Loan Written Off during Year

It is the value of loans written off during the year.

Write-Off Rate

Formula:

$$\frac{\text{Loans written off during the year}}{\text{Average Gross Loan Portfolio}}$$

Yield on Gross Portfolio (Nominal)

Indicates the yield on an MFPs loan portfolio and is usually used as a proxy to look at MFPs (realized) effective interest rate.

Formula:

$$\frac{\text{Financial Revenue from Loan Portfolio}}{\text{Average Gross Loan Portfolio}}$$

Yield on Gross Portfolio (Real)

It is the number of depositors maintaining voluntary demand deposit and time deposit accounts with an MFP.

Formula:

$$\frac{\text{(Yield on Gross Portfolio (nominal) - Inflation Rate)}}{\text{(1 + Inflation Rate)}}$$

ANNEXURE F

GRANTS & FUNDING

Table A: Grants Administered by PPAF

Fund Name	Volume	Tenor	Amount Disbursed in PKR (millions)	Amount Undisbursed in PKR (millions)	Purpose	Source of Funds
PPAF - III	USD 5.5 million	2009-13	95.7	399.93	For Capital & Operating Cost	World Bank
PRISM-Technical Support/ Institutional Strengthening Fund for MFI	USD 0.5 million	2008-13	5	40.0 (This does not include 19.8 million which has been committed but not yet disbursed)	To provide MFIs with necessary professional support to enable them to strengthen their institutions to secure commercial finance.	IFAD
PRISM-Knowledge Management and Policy Support	USD 1.8 million	2008-13	51	111.0 (This does not include 11.7 million which has been committed but not yet disbursed)	To promote a conducive environment for growth in microfinance and increasing understanding of microfinance by commercial sector players and improving awareness of MFIs of the operations of commercial banks.	IFAD

Type B: Grants Administered by SBP

Fund Name	Institutional Strengthening Fund (ISF)
Volume	GBP 10 million
Tenor	2008-2013
Amount Disbursed in PKR (millions)	819.0
Amount Undisbursed in PKR (millions)	458
Purpose	Improvements in human resources, management, governance, internal controls, business development, cost reduction mechanisms, product innovation and technology implementation
Source of Funds	Department for International Development (DFID)

Table 2.1: Funding to MFPs under the MFCG

MFB/MFI	Lender	Amount (Million)	Exposure (Million)
Tameer MFB	BAF	50	20
Tameer MFB	JS Bank	100	40
Kashf Foundation	MCB Bank	225	90
NRSP	Syndicate: HBL,NBP, ABL, MCB, UBL, AKBL, NIB & FBL	1200	300
Tameer MFB	ABL	100	40
Tameer MFB	Standard Charted	600	150
Tameer MFB	UBL	300	75
Tameer MFB	Faysal Bank	100	25
Kashf Foundation	Silkbank Ltd	150	60
Tameer MFB	MCB Bank Ltd	100	25
Tameer MFB	NBP	200	80
Khushali Bank	Soneri bank Ltd	100	40
Total		**3,225**	**945**

Table 2.2: Funding to MFPs under PPAF's PRISM-Credit Enhancement Facility

MFPs	Total Facility	PPAF	Bank Financed	Name of Bank
NRSP	350	250	100	FWBL
KF	350	250	100	SCB
ASASAH	55	50	5	HBL
OCT-OPP	180	150	30	HBL
JWIS	22	20	2	HBL
SAFWCO	60	50	10	HBL
RCDS	28	25	3	HBL
BRAC-P	500	250	250	HBL
KF- Phase II	500	250	250	HBL
NRSP- Phase II	500	250	250	Silk Bank
DAMEN	60	40	20	HBL
CSC	75	50	25	HBL
NRSP	400	250	150	Faysal Bank
	3,080	**1,885**	**1,195**	**Bank leveraged 39%**