



**NETWORK MICROFINANCE BANK LIMITED (NMBL)**

**Ratings** (November 2006)

**Network Microfinance Bank Limited**

New	
<b>Entity</b>	
Long Term	BBB
Short Term	A3

**Financial Data**

PKR (mln)

	30-Sep-06 (unaudited)	31-Dec-05
Total Assets	112.8	108.3
Total deposits	5.7	10.6
Equity	78.0	81.9
Net loss	(3.9)	(7.8)
Equity/Total Asset	69.17	75.58

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**Rating Rationale**

**Assessment**

- NMBL’s ratings reflect its reasonably designed governance standards and a prudent growth stance that is expected to help in retaining an adequate capital structure. Meanwhile, the profitability is likely to remain constrained compared to other financial institutions, given the nature of the bank’s business rendering a high cost structure. However, this is in line with the sponsor’s socially motivated strategy to use banking as a vehicle to help in poverty alleviation.
- While the microfinance industry in Pakistan has grown substantially in recent years, there still remains a lot of room for growth, given the fact that the current microfinance framework covers only a nominal proportion of financing needs. NMBL, pursuing development initiatives in an evolving industry, has recently commenced its operations. Based on the expertise of sponsors, the bank is applying a model, which supports and promotes affordable, self-help-based incremental development initiatives. Currently, with an average loan size of PKR 27,000, the bank’s customer base comprises more than two thousands clients. With the gradual loan expansion, the management is targeting to increase its loan size to PKR 40,000. Alongwith the head office, the bank has opened three service centers in low income areas to extend the outreach, and also operates two mobile units. The bank, as part of its strategic objective, offers income generation products other than home loans. Currently, the management’s focus is to build its asset base while empowering micro entrepreneurs, including women through individual based financing. Meanwhile, the bank plans to start deposit mobilization with modest targets in terms of progressive expansion.
- Although the bank generated reasonable income from its lending and treasury operations, owing to the initial establishment cost it incurred net loss, thereby resulting in negative performance indicators during 2005 and onwards. The management aims to continue providing microfinance services to underprivileged communities in a sustainable manner, and is hopeful of breaking-even in two years. Subsequent to this, the bank’s operations will be expanded nation-wide, along with adding to the product range. Meanwhile, NMBL’s cost structure will remain relatively high owing to the relatively high administration expenses. These could normalize over the long run with the expansion of the asset base.
- At the early stage of its operations, the bank has witnessed a nominal infection in its loan portfolio. However, the impairment is fully provided, and the management, in addition to specific provision, is providing general provision at the rate of 5% of the outstanding balance to manage potential risk of loss. Given the nature of business, characterized by large number of small borrowers, the concentration risk is low but this places added pressure on management to mitigate the potential credit risk through effective post-disbursement monitoring. This is being done through continuous and close liaison with clients. As a risk management measure, the bank also obtains social guarantee from at least two neighbors of the borrower.
- The bank, in compliance with the minimum capital requirement to carry district-wide operations, maintains predominantly equity based capital structure. The bank’s limited operations have been funded through its own equity base. The funding base mainly comprises borrowings from The Pakistan Poverty Alleviation Fund (PPAF), followed by deposits. Currently, the bank’s deposits are dominated by accounts of sponsors and employees. However, going forward, with the volume expansion, the deposit base will be augmented gradually.

**Background**

- NMBL, established under the Microfinance Institution Ordinance 2001, is listed on Karachi Stock Exchange. The bank started its operations in January 2005, with the principle objective to provide microfinance services to poor and underprivileged communities. The main sponsors of the bank are Jahangir Siddiqui & Co. Limited and Network Leasing Corporation Limited, collectively holding 50% of the banks equity. Currently, NMBL can only operate district-wide owing to minimum level of capital base as prescribed under the law. The bank carries out its operations through head office in Karachi as well as through mobile bank branches.
- The Chief Executive Officer of the bank, a qualified Chartered Accountant, received microfinance training from various international institutions. She has accumulated rich experience of domestic microfinance sector during her stay of around 10 years with Network Leasing Corporation Limited. The bank’s operations are divided into various departments headed by branch managers. While branch managers are responsible for operational level decision-making, the policy decisions are taken by the CEO in consultation with the board.