RATING REPORT

LOLC Microfinance Bank Limited

REPORT DATE:
May 07th, 2024

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Negative	
Rating Action	Maintained		Maintained	
Rating Date	*May 07th, 2024*		*April 28th, 2023*	

COMPANY INFORMATION

Incorporated in 2006	**External auditors:** BDO Ebrahim & Co. Chartered Accountants
Unlisted Public Limited Company	**Chairman of the Board:** Mr. Don Manuwelge Don Krishan Thilakaratne
Key Shareholders (with stake 5% or more):	**Chief Executive Officer :** Mr. Farooq Rashid
LOLC Asia Private Limited – 100.0%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Micro Finance Banks
https://docs.vis.com.pk/docs/MicroFinance-Oct-2023.pdf

VIS Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

LOLC Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

LOLC Microfinance Bank Limited was incorporated in March 2006 as an unlisted public limited company under Microfinance Institutions Ordinance 2001. The Bank's principal activity is to provide microfinance services to the poor and underserved.

Profile of Chairman

Mr. Krishan Thilakaratne is a Professional Banker with 26 years of experience in Management, Credit, Channel Management, Marketing, Factoring, and Portfolio Management. He specializes in Islamic Finance and is a frequent Speaker at International Islamic Finance Forums. His professional qualifications include CIMA and membership in the Associateship of the Institute of Bankers of Sri Lanka (AIB). He has also completed a Strategic Leadership training programme in Microfinance at Harvard Business School.

Profile of CEO

Mr. Farooq Rashid brings over 25 years of experience working in Microfinance Industry as well as Commercial Bank.

RATING RATIONALE

The ratings for LOLC Microfinance Bank ('LOLC MfB' or 'the Bank') takes into consideration its 100% ownership by LOLC Asia Pvt Limited, which is in turn owned by LOLC Group Sri Lanka – a well-diversified conglomerate, with investments across various sectors including financial services, insurance, manufacturing, trading, plantation, renewable energy, and leisure. LOLC MfB has received financial and operational support from the group since its acquisition of the Bank in Pakistan. Recent changes in governance structure and in management have been noted. Going forward, management aims to increase its deposit base through TDRs and launch new CASA products in order to fund portfolio growth plans in the medium term.

With sizable product concentration in microenterprise loans, which were impacted by economic downturn, the fall in disbursements and higher recoveries, combined with increased write-offs during the outgoing year, resulted in a smaller gross loan portfolio. Given that almost the entire portfolio comprises unsecured lending, credit risk faced by the Bank is elevated, causing the recent strategic shift to reduce the proportion of unsecured loans to 70% of the total portfolio by end of the ongoing year. The improvement in micro-credit risk segregations and asset quality indicators noted over the past years support ratings assigned.

The reduction in spreads has been noted due to low yield of microcredit portfolio in line with suspended income on non-performing loans, higher cost of funding originating from policy rate hikes during the outgoing year and lag in passing the increase in policy rates to borrowers. Significantly high proportion of borrowings in the funding mix, which are re-priced at periodic intervals, have negatively impacted the spreads in a rising benchmark rate scenario.

Dependence on borrowings for funding and concentration of deposits has implications for liquidity, marking generally weak market access. The upcoming repayments on borrowings will also hamper availability of funds for growth. However, given the sizable liquid assets maintained in relation to deposits as well as the predictable nature of outflows on borrowings vis-a-vis expected inflows from the micro-credit portfolio, has eased liquidity concerns to an extent, relative to prior year. The capitalization profile remains sound as Capital Adequacy Ratio remains well above the regulatory requirement owing to equity injections more than compensating for losses in 2022 and 2023, and a fall in gross loan portfolio. Going forward, enhancement of profitability indicators on the back of better access to liquidity for growth, will be key drivers for any improvement in assigned ratings.

Audit Opinion

BDO Ebrahim & Co. Chartered Accountants has provided an unqualified and unmodified opinion, affirming that the Company's financial statements comply with accounting standards and accurately portray the Company's financial position as of December 2023.

About the Group

LOLC Holdings is a global conglomerate which has diversified into key economic growth sectors across financial services, leisure, agriculture and plantations, construction and real estate, manufacturing and trading, digital technology, strategic investments, advance technology, and mining. With reported equity of USD 1.33b as at Mar'23, the Group is currently present across Asia and Africa, in 25 countries including Pakistan, namely; Singapore, Sri Lanka, Cambodia, Myanmar, Indonesia, Philippines, Zambia, Zimbabwe, Nigeria, Tanzania, Malawi, Egypt, Kenya, Ghana, Sierra Leone, Rwanda, DR Congo, Tajikistan, Kyrgyzstan, Kazakhstan, Maldives, Mauritius, Australia and UAE with further strategic expansion plans held in pipelines.

Prior to joining LOLC Microfinance Bank, he was member of senior leadership of NRSP Bank. He has also worked at Mobilink Microfinance Bank and Askari Bank Limited at various senior positions. He holds an MBA degree from Brenau University, USA and BBA degree from Kennesaw State University, USA.

The LOLC Group offers a comprehensive range of financial services, including banking, leasing, insurance, and securities. In terms of microfinance banks, LOLC operates in more than 20 countries, having demonstrated significant growth and achievements in MY23, amidst diverse economic landscapes.

About the Company

LOLC Microfinance Bank Limited, previously known as Pak Oman Microfinance Bank Limited, was established on March 9, 2006, as a publicly listed company under the Companies Ordinance, 1984 (repealed with the introduction of the Companies Act, 2017 on May 30, 2017). It obtained its license from the State Bank of Pakistan (SBP) on April 12, 2006. The Bank commenced its operations on May 6, 2006, with its principal focus on providing microfinance services to the marginalized and underserved sectors of society, in accordance with the Microfinance Institutions Ordinance, 2001. The Head Office of the Bank is situated at Park View Plaza, Bearing No. CB-6300, near Royal Palace Hotel, Jhelum road, Rawalpindi.

In 2016, the Bank's Board of Directors reached an agreement with LOLC PLC, the Parent Company, which acquired a 50.1% stake in the Bank. In 2021, the Board of Directors once again entered into an agreement with LOLC PLC, which acquired the remaining 49.9% stake. These shares were transferred to LOLC Asia Private Limited on February 24, 2022. The Bank's name was changed to LOLC Microfinance Bank Limited, approved by SECP in Oct'22, and SBP in Dec'22. The change is effective from January 01, 2023.

Key Rating Drivers

Board and Management Team

Table: Board of Directors

Members	Status
Mr. Don Manuwelge Don Krishan Thilakaratne	Chairman
Mr. Rohana Kumara Wanni Achchige	Non-Executive Director
Mr. F. Kankanamalage Conrad Prasad Niroshan Dias	Non-Executive Director
Ms. Sarajika Sunjeevani Kotakadeniya	Non-Executive Director
Mr. Dulip Rasika Samaraweera	Non-Executive Director
Mr. Khawar Siddique Khokhar	Independent Director
Mr. Muhammad Aslam	Independent Director
Mr. Farooq Rashid	Executive Director/Chief Executive Officer
Mr. P.L. Chamika Rasintha Cooray Wijewarnasooriya	Executive Director/Chief Operating Officer

During the rating review period the Chairman of Board of Directors (BoD), Mr. Ishara Chinthaka Nanayakkara, resigned from his position, and was replaced by Mr. Don Manuwelge Don Krishan Thilakaratne. Additionally, Mr. Rohana Kumara Wanni Achchige was brought on Board as a Non-Executive Director (NED). During CY23, five BoD meetings took place; the attendance and contribution from BoD members was considered satisfactory. In order to ensure effective oversight, three board level committees are in place; these include Board Audit Committee (BAC), Board Human Resource and Remuneration Compensation Committee (BHRCC) and Board Risk Management Committee (BRMC). BAC is headed by an independent director.

Changes observed in the senior leadership team during the period under review included hiring of Mr. Adnan Amir as new Head of Audit. Additionally Mr. Ahmed Raza Mangat resigned from the position of Head of Legal and was replaced by Mr. Naeem Hussain (Manager Legal) tentatively. Vacancy of Head of Legal Division is still vacant.

LOLC Microfinance Bank operates a centrally managed IT infrastructure, utilizing a dedicated MPLS network to connect branches to its datacenter hosted by a Co-Location service provider. Key systems include the in-house FUSION core banking application integrated with Oracle E Business Suite, alongside various supporting applications for operational efficiency. The Bank has launched a mobile-based digital lending application with advanced features and plans to introduce Mobile Banking and Internet Banking by the second quarter of 2024. Concurrently, it's upgrading its hardware infrastructure to meet growing business demands. Additionally, it's evaluating the migration of its datacenter to a cloud platform, with plans to conclude the project by the second quarter of 2024, following State Bank of Pakistan's approval for cloud-based services.

Productivity indicators

The industry continues to face a significant challenge due to the high attrition rate among loan officers (LOs). This high turnover rate presents difficulties in portfolio management, creates training and skill gaps, and places an increased burden on existing staff. Over the past three years, LOLC MfB also faced a decline in the total number of Loan Officers (LOs) employed, with a minor decrease of 1.23% (CY22: 21.0%) in CY23. LOLC MfB experienced limited growth in its network by addition of only 1 branch and 2 service centers, increasing total number of branches and service centers to 86 branches. There were no conversion of service centers to branches during the outgoing year. The majority of the branches are in Punjab followed by Sindh, KPK, Baluchistan and in Azad Kashmir and Federal Capital area, respectively. There has also been a decline in the number of active borrowers over the same period resulting in decline in active borrower per branch. Subsequently, with lower number of active loans coupled with decrease in microcredit portfolio, average loan size also dropped to Rs. 85,185 (Dec'22: 88,987) as at Dec'23. The decrease in the number of active borrowers can be attributed to several factors. Firstly, there is a decline in demand from individuals seeking loans, mainly due to their reduced repayment capacity amidst deteriorating economic conditions and the rising benchmark rate. Additionally, the Bank has undertaken a portfolio consolidation strategy, which was implemented with increased focus on recoveries and curtailing aggregation of risk with fewer borrowers amid current economic downturn. Overall the Bank's productivity indicators deteriorated with limited growth. Productivity indicators of the Bank are tabulated below:

Table: Productivity indicators

Productivity indicators	CY21	CY22	CY23
Branches + Service Centers	76	83	86
No. of loan officers (LOs)	822	649	641
No. of active borrowers	55,982	61,738	47,917
Average loan size (Rs.)	99,740	88,987	85,185
Active Borrowers / LO	68	95	74
Active Borrowers / Branch	737	744	557
LO / Branch	11	8	7

Microcredit Portfolio

The Bank's Gross Loan Portfolio (GLP) experienced significant decline over the last year, reaching Rs. 4.1b (Dec'22: Rs. 5.5b) by end of Dec'23, lagging behind the target of Rs. 6.0b for CY23. Loan disbursements amounted to Rs. 3.6b (CY22: Rs. 4.6b), while loan recoveries amounted to Rs. 5.8b (CY22: Rs. 5.9b). The same was an outcome of implementation of portfolio consolidation strategy during the outgoing year with increased focus on recoveries amid weakening asset quality indicators. LOLC MfB aims to conclude CY24 with a conventional micro-credit portfolio of Rs. 5.0b. Advances include Rs. 794.9m (CY22: Rs. 789.0m) which have been placed under nonperforming status as detailed below:

Table: Product wise advances

Portfolio at Risk Ratio	CY21	PAR %	CY22	PAR %	CY23	PAR %
Normal and Watchlist	5,477		4,731		3,344	
OAEM	-	0.0%	262.3	4.8%	196.8	4.8%
Sub-Standard	25.4	0.5%	194.7	3.5%	231.1	5.6%
Doubtful	76.3	1.4%	328.7	6.0%	305.8	7.4%
Loss	21.7	0.4%	3.2	0.1%	61.2	1.5%
Gross Advances and PAR	**5,600.0**	**2.2%**	**5,520.5**	**14.3%**	**4,138.7**	**19.2%**

The Portfolio at Risk (PAR) Ratio serves as a key metric for assessing loan delinquency. Overtime PAR has increased significantly reaching 19.2% (CY22: 14.3%) at end-CY23.

Portfolio Risk Segregations

The product portfolio ranges from Livestock, Agricultural Microbusiness to Enterprise Loans and House Loans catering to both individuals and group customers.

Table: Product wise advances

Advances (Rs in M.)	CY21	CY21 (%)	CY22	CY22 (%)	CY23	CY23 (%)
Micro enterprise loan	3,604.6	64.4%	3,627.0	65.7%	2,484.6	60.0%
Bara karobar loan	954.6	17.0%	798.0	14.5%	579.5	14.0%
Micro agri loan	633.3	11.3%	508.0	9.2%	343.8	8.3%
Hunermand Khatoon Qarza	0.0	0.0%	292.0	5.3%	308.2	7.4%
Salary loan	244.7	4.4%	206.0	3.7%	129.1	3.1%
House loan	15.4	0.3%	53.0	1.0%	164.8	4.0%
Gold loan	0.0	0.0%	5.0	0.1%	69.2	1.7%
Bullet zarai karza	126.6	2.3%	4.0	0.1%	0.0	0.0%
Fori karza	0.0	0.0%	0.2	0.0%	0.0	0.0%
Lease	2.8	0.0%	0.0	0.0%	0.0	0.0%
Micro assets loan	0.8	0.0%	0.0	0.0%	0.0	0.0%
Micro business loan	0.5	0.0%	0.0	0.0%	2.7	0.1%
Livestock loan	0.3	0.0%	0.0	0.0%	0.0	0.0%
Staff loan	16.5	0.3%	26.6	0.5%	56.9	1.4%
Total	**5,600.0**	**100.0%**	**5,519.8**	**100.0%**	**4,138.7**	**100.0%**

During the outgoing year, the proportion of micro enterprise loans fell. On the other hand proportion of new products such as Gold Loans and Mortgaged Backed Loans increased in order to increase the proportion of secured lending. In addition, the Bank was able to increase the proportion of its recently launched product 'Hunarmand Khatoon Karza' to facilitate women led/headed businesses in a bid for improved gender equality. Staff loans account for Rs. 56.9m (Dec'22: Rs. 26.6m), while gold loans account for Rs. 69.2m (Dec'22: Nil) of the total GLP at end Dec'23. The title documents of houses for house loans are held by the Bank as collateral and interest at 6 months KIBOR (CY22: 6 months KIBOR) is charged.

The portfolio mix is tilted towards EMI loans; the proportion of the same increased during the rating review period. Given higher proportion of EMI loans, recovery ratio is comparatively favorable with effective management of credit risk. Going forward, the management is focusing towards shifting their portfolio towards secured loans; their proportion in the overall GLP has increased slightly during the outgoing year; however, the same remains low against the target 25% for CY23, given the general slack in new loans extended. To increase secured lending, more focus is on new products such as gold loans and mortgaged backed loans. With the routing of unsecured loans towards collateralized loans the management plans to increase the proportion of secured lending to at least 30% at end-CY24.

Table: Advances Concentration Bullet vs Installment

Advances (Rs in M.)	CY21	(%)	CY22	(%)	CY23	(%)
Bullet	760	13.6%	517	9.4%	128	3.1%
Installment	4824	86.4%	4977	90.6%	3954	96.9%
Total	**5,584**	**100%**	**5,494**	**100%**	**4,082**	**100%**

Table: Advances Concentration Secured vs Unsecured

Advances (Rs in M.)	CY21	(%)	CY22	(%)	CY23	(%)
Secured	15	0.3%	58	1.0%	234	5.7%
Unsecured	5568	99.7%	5436	99.0%	3848	94.3%
Total	**5,584**	**100%**	**5,494**	**100%**	**4,082**	**100%**

The average loan size in CY22 increased which can be attributed to the SBP's adjustment of the maximum regulatory credit limits for housing and enterprise loans, from Rs. 1.0m to Rs. 3.0m in CY21. However the average loan size was recorded lower in CY23 at Rs. 85,185 (CY22: Rs. 88,987). Consequently, the proportion of loans falling in the Rs. 75,001 – Rs. 100,000 bracket has increased to 13.7% compared to 3.5% in the previous year.

Table: Size-wise Composition

Description (Rs in M.)	CY21	(%)	CY22	(%)	CY23	(%)
Up to Rs. 25,000	651	11.7%	23	0.4%	0	0.0%
Rs. 25,000 - Rs. 50,000	2690	48.2%	185	3.4%	124	3.0%
Rs. 50,001-Rs. 75,000	1179	21.1%	446	8.1%	316	7.7%
Rs. 75,001-Rs. 100,000	474	8.5%	195	3.5%	557	13.7%
Rs. 100,000 and Above	590	10.6%	4646	84.6%	3084	75.6%
Total	**5,584**	**100%**	**5,494**	**100%**	**4,082**	**100%**

Asset Quality

NPLs of the Bank marginally increased to Rs. 794.9m as opposed to Rs. 789.0 in CY22. Accordingly, gross and net infection ratios increased on a timeline basis by year-end 2023. Further, the advances written off directly and against provisions also stood higher at Rs. 889.1m (Dec'22: Rs. 730.9m) during the year. Given higher NPLs in the Loss category compared to previous year, the specific provisioning coverage notched higher at the end of the outgoing year. The general provisioning is maintained against unsecured microcredit advances net of specific provision at 1.0% in accordance with requirements of SBP's prudential regulations. Owing to increase in Tier-1 equity base and high specific provisioning, net NPLs as a percentage of Tier 1 equity edged lower at 20.6% (CY22: 26.1%), suggesting sufficient loss absorption capacity vis-à-vis asset quality. Through concerted efforts, the Bank managed to recover Rs. 93.1m (CY22: Rs. 75.9m) against written off advances during CY23. The asset quality indicators are presented in the table below:

Table: Asset Quality Indicators

Asset Quality (Rs in M.)	CY21	CY22	CY23
Net Advances	5,372.0	5,286.8	3,825.0
NPLs	390.5	789.0	794.9
NPLs Written-Off	158.2	730.9	872.1
Tier-1 Equity	2,306.9	2,390.7	2,477.4
Gross Infection	***7.0%***	***14.3%***	***19.2%***
Net Infection	***4.9%***	***12.2%***	***13.4%***
Incremental Infection	***8.7%***	***18.6%***	***16.2%***
Specific Provisioning Coverage	***31.6%***	***16.5%***	***34.8%***
Provisioning Coverage	***58.4%***	***29.6%***	***39.5%***
Net NPLs/Tier-1 Equity	***10.6%***	***25.1%***	***20.6%***

Asset & Investment Mix

Total assets of the Bank decreased by 13.1% YoY to Rs. 6.7b (Dec'22: 7.7b) as at Dec'23 largely on account of decrease in net advances of the Bank. Investment portfolio of the Bank increased substantially to Rs. 412.3m (Dec'22: Rs. 312.0m) by end-Dec'23; The credit risk emanating from investment portfolio increased as compared to last year, since federal government securities now account for only 45.4% (CY22: 88.4%) of the investment mix. A significant 93.9% (CY22: 88.4%) of the entire investment is held to Maturity at amortized cost, the same is not susceptible to mark-to-market losses due to interest rate fluctuations. Given that these securities comprise a relatively smaller part of liquidity reserves, the Bank may have the capacity to hold these to maturity. In addition, the non-performing TFCs amounting to Rs 5.9m and non-performing Sukuk amounting to 10.0m are fully provided.

Table: Asset & Investment Mix

Asset Mix (Rs in M.)	CY21	(%)	CY22	(%)	CY23	(%)
Cash and Bank	88	1%	96	1%	112	2%
Balances with other banks/NBFIs/MFBs	894	12%	1,119	15%	1,215	18%
Investments-net	286	4%	312	4%	412	6%
Advances-net	5,372	75%	5,287	69%	3,825	57%
Operating Fixed Assets	286	4%	339	4%	388	6%
Other Assets	176	2%	426	6%	402	6%
Deferred Tax Assets – net	79	1%	101	1%	317	5%
Total	**7,181**	**100%**	**7,680**	**100%**	**6,671**	**100%**

Liquidity and Leverage Profile

The liquidity profile of the Bank has improved with increasing liquid assets in relation to deposits and borrowings. While significant reliance on borrowings as a key funding source implies weak market access, the Bank is better able to manage outflows, as it receives inflows from the credit portfolio. A lower allocation to advances and higher liquid reserves at end of CY23, has eased liquidity concerns.

Table: Liquidity Indicators

Liquidity	2021	2022	2023
Investments	286.4	312.0	412.3
Cash and balances with SBP and NBP	88.0	96.3	111.8
Balances with other banks and MFBs	894.4	1,119.2	1,215.4
Liquid Assets	**1,268.8**	**1,527.6**	**1,739.5**
Deposits	1,771.3	2,413.8	928.9
Borrowings	2,482.3	1,982.3	1,982.3
Liquid Assets to Deposits & Borrowing (%)	***29.8%***	***34.7%***	**59.8%**
Advances to Deposits (x)	***3.2***	***2.3***	**4.4**
Liquid Assets/Total Assets	***17.7%***	***19.9%***	***26.1%***

LOLC MfB deposit base witnessed a significant YoY decline of 62% and stood at Rs. 0.9b (Dec'22: 2.4b) as at Dec'23. In terms of deposit mix, the proportion of individual deposits has increased to 80.9% (Dec'22: 40.6%) by the end of Dec'23. Deposit concentration though improved, remains on the higher side, given top 5, and top 10 depositors' concentration at 58% (CY22: 59%), and 67% (CY22: 80%) respectively. Proportion of fixed deposits remains significantly high and mitigates the risk of unpredictable withdrawals. Although borrowings are due to be repaid in large part in the short-term, indicating liquidity management challenges, a deposit mobilization strategy and timely reprofiling of liability base to extend average duration would alleviate stress; deposit base breakups are provided in the tables below:

Table: Composition of deposits

Deposits (Rs in M.)	CY21	(%)	CY22	(%)	CY23	(%)
Individuals	84.5	4.8%	981.0	40.6%	751.9	80.9%
Institutions	1,686.8	95.2%	1,432.8	59.4%	177.0	19.1%
Total Deposits	**1,771.3**	**100.0%**	**2,413.8**	**100.0%**	**928.9**	**100.0%**

Table: Deposits Breakup

Deposits (Rs in M.)	CY21	(%)	CY22	(%)	CY23	(%)
Saving Deposits	0.1	0.0%	0.1	0.0%	0.3	0.0%
Fixed Deposits	1,764.7	99.6%	2,407.2	99.7%	914.7	98.5%
Current Deposits	6.5	0.4%	6.5	0.3%	14.0	1.5%
Total Deposits	**1,771.3**	**100.0%**	**2,413.8**	**100.0%**	**928.9**	**100.0%**

Profitability

LOLC MfB total markup earned faced downward pressure during the outgoing year at Rs. 2.2b (CY22: Rs. 2.4b), despite slightly higher yields at 39.2% (CY22: 38.1%). There was a commensurate drop in income from advances as performing advances fell as at Dec'23. This was partially offset by increase in income from cash and bank balances with other banks and MfBs. On the other hand, there was upward pressure on markup expense during the year, which was reported at Rs. 683.4m (CY22: 564.8m), with the increase in policy rates at an average cost of deposits of 15.5% (CY22: 12.6%) in CY23, being steeper than the increase in yields. Hence spread reduced to 20.5% (CY22: 25.1%) during the outgoing year. Further the provision against non-performing loans and advances have increased significantly, to Rs. 1.0b (CY22: Rs. 736.6m) for CY23. While, non-markup income increased during the year, administrative expenses also rose, standing at Rs. 1.6b (CY22: Rs. 1.2b) in CY23, reflective of inflation. After taking current and deferred taxation into account, LOLC MfB reported a net loss of Rs. 561.4m in CY23, compared to a net profit of Rs. 64.9m in CY22. On the same lines, Operational Self-Sufficiency (OSS) ratio deteriorated over the year, reaching 77.0% (CY22: 104.9%). Management has indicated that the Bank will close CY24 with a net loss; however, on a MoM basis, the Bank is projected to become profitable from Sep'24 onwards.

Capitalization

Table: Capitalization

Capitalization (Rs. in M.)	CY21	CY22	CY23
Share Capital	2,308.3	2,308.3	3,220.0
Share Premium	-	52.0	52.0
Statutory & General Reserves	149.3	98.2	98.2
Depositors' Protection Fund	-	30.4	32.5
Accumulated Profit	(51.7)	36.2	(515.8)
(Deficit)/Surplus on Revaluation of Assets	0.2	0.1	0.2
Total Equity	**2,406.1**	**2,525.2**	**2,887.1**
Capital Adequacy Ratio (CAR)	**39.1%**	**37.9%**	**48.0%**

Paid-up capital increased to Rs. 3.2b (Dec'22: 2.3b) as at Dec'23, owing to 91.17m right share issuance at Rs 10 each to LOLC Asia (Private) Limited. Despite the increase in share capital, the total equity base augmented to only Rs. 2.9b (Dec'22: 2.5b) as at Dec'23 given the loss incurred during the year CY23. Equity of the Bank is in compliance with the minimum capital requirement of Rs. 1.0b stipulated for Microfinance Banks with nationwide operations. Capital Adequacy Ratio was reported significantly above requirements at 48.0% (CY22: 37.9%) at the end of the outgoing year due to decrease in risk weighted assets amounting to Rs. 5.3b (Dec'22: Rs. 6.7b) in addition to the capital injection. The Bank is comfortably placed in terms of CAR against the minimum regulatory requirement of 15.0% for Microfinance Banks. With the planned growth in GLP, LOLC MfB may experience a reduction in CAR to about 30%, nevertheless remaining significantly above minimum requirements.

LOLC Microfinance Bank Limited Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*		
BALANCE SHEET	**31-Dec-21**	**31-Dec-22**	**31-Dec-23**
Cash and Bank Balances with SBP and NBP	88.0	96.3	111.8
Balances with other Banks and/NBFIs/MFBs	894.4	1,119.2	1,215.4
Net Investments	286.4	312.0	412.3
Net Advances	5,372.0	5,286.8	3,825.0
Other Assets	176.5	425.9	402.3
Total Assets	7,180.9	7,680.3	6,671.1
Total Deposits	1,771.3	2,413.8	928.9
Borrowings	2,482.28	1,982.28	1,982.28
Other Liabilities	521.2	759.0	872.8
Tier-1 Equity	2,306.9	2,390.7	2,477.4
Net Worth	2,406.1	2,525.2	2,887.1
Paid-Up Capital	2,308.3	2,308.3	3,220.0
INCOME STATEMENT	**CY21**	**CY22**	**CY23**
Net Mark-up Income	1,349.7	1,828.7	1,499.7
Net Provisioning / (Reversal)	315.5	736.6	1,002.2
Non-Markup Income	317.6	272.8	324.7
Operating Expenses	1,020.9	1,239.9	1,554.9
Profit Before Tax	323.8	124.9	-749.8
Profit after tax	215.9	114.7	-561.4
RATIO ANALYSIS	**CY21**	**CY22**	**CY23**
Gross Infection (%)	7.0%	14.3%	19.2%
Net Infection (%)- Specific	4.9%	12.2%	13.4%
Incremental Infection (%)	8.7%	18.6%	16.2%
Provisioning Coverage (%)- Total	58.4%	29.6%	39.5%
Provisioning Coverage (%)- Specific	31.6%	16.5%	34.8%
Net NPLs to Tier-1 Capital (%)	11.1%	26.4%	20.6%
Capital Adequacy Ratio (%)	39.1%	37.9%	48.0%
Markup on Earning assets (%)	30.9%	38.1%	39.2%
Cost of Funds (%)	7.2%	13.1%	18.7%
Spreads (%)	23.7%	25.1%	20.5%
OSS (%)	120.6%	104.9%	77.0%
ROAA (%)	3.7%	1.5%	-7.8%
ROAE (%)	9.4%	4.7%	-20.7%
Advances to Deposits Ratio (%)	316%	229%	446%
Liquid Assets to deposits & borrowings (%)	29.8%	34.7%	59.8%

REGULATORYDISCLOSURES Appendix II

Name of Rated Entity	LOLC Microfinance Bank
Sector	Micro Finance Bank (MFB)
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
07-May-2024	A-	A-2	Stable	Maintained
28-April-2023	A-	A-2	Negative	Maintained
30-April-2022	A-	A-2	Stable	Maintained
30-April-21	A-	A-2	Rating Watch - Developing	Maintained
30-April-20	A-	A-2	Rating Watch – Negative	Maintained
25-April-19	A-	A-2	Stable	Reaffirmed
27-Apr-18	A-	A-2	Stable	Reaffirmed
29-Sep-17	A-	A-2	Stable	Upgrade
28-April-17	BBB+	A-3		Rating Watch-Positive
28-April-16	BBB+	A-3	Stable	Reaffirmed
29-April-15	BBB+	A-3	Stable	Reaffirmed
29-April-14	BBB+	A-3	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Gration Joseph	CFO	April 19th, 2024
Mr. Sultan Muhammad	Head of Compliance	April 19th, 2024