RATING REPORT

LOLC Microfinance Bank Limited

REPORT DATE:
May 12, 2025

RATING ANALYST:

Musaddeq Ahmed Khan
musaddeq@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	A-	A2	A-	A2
Outlook/ Rating Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Maintained*	
Rating Date	*May 12th, 2025*		*May 07th, 2024*	

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 27 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 26 years of experience working in Microfinance Industry as well as Commercial Bank.

RATING RATIONALE

The assigned ratings of LOLC Microfinance Bank Limited ('LOLC' or the 'Bank') reflect the institution's strategic transition toward a more resilient and risk-mitigated business model. The Bank is backed by LOLC Holdings, a global financial conglomerate with a footprint in multiple emerging markets. This ownership provides both operational expertise and financial backing. Over the review period, the Bank shifted its lending strategy significantly, scaling down unsecured and agriculture-related exposures while ramping up secured, short-tenor products, particularly gold-backed loans. This pivot has reduced overall portfolio risk and improved asset quality indicators as observed in improving infection ratios, though the rising share of bullet repayment loans necessitates vigilant monitoring to preempt asset quality slippages.

On the operational front, the Bank continued to streamline its loan officer base while enhancing per officer productivity. The reduction in headcount was a deliberate move, supported by technological enhancements in core banking and customer service delivery. Despite a contraction in the active borrower base, the average loan size increased, suggesting a tilt toward larger, higher-value lending relationships.

The Bank demonstrated significant deposit mobilization during the period, allowing it to fully retire its prior borrowing obligations. This shift in funding mix—toward deposit-led financing—contributed to an improved liquidity profile, though the reliance on fixed-term deposits continues to exert pressure on funding costs and underscores the challenges in cultivating broad based liquidity access. Management is aiming towards building a CASA base and shortening the average deposit tenor, to manage the cost of funds more effectively.

Profitability remained under strain due to margin compression and elevated operating expenses, resulting in continued losses. However, internal projections suggest a gradual improvement, with breakeven expected over the medium term, driven by loan book expansion, cost rationalization, and deposit pricing optimization.

The capitalization profile, while compressed due to recent losses and IFRS-9 implementation, remains compliant with regulatory thresholds. Plans for moderate growth alongside a low risk weighted, secured lending strategy are expected to support capital adequacy going forward. The Bank's roadmap for full-scale Islamic banking conversion is a key strategic development that, if executed well, could support long-term franchise value. Going forward, the ratings are dependent on the Bank's ability to sustainably improve profitability metrics, maintain asset quality, and successfully execute its strategic transition toward secured and Shariah-compliant operations.

Sector Update

The microfinance sector in Pakistan experienced expansion during 2024, underpinned by a 38.5% increase in total assets, reaching PKR 1.07 trillion. This growth was largely reflected in a sharp rise in investments, which surged by 136.9%, and a relatively weak 10.9% uptick

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 a BBA from Kennesaw State University, USA.

in net advances, with the latter being significantly below inflation. Deposits grew by 22.8%, however, borrowings more than tripled, leveraging opportunities available for enhanced spreads in the interbank market.

On the asset quality front, non-performing loans (NPLs) rose substantially by 64.9%, with the gross infection ratio climbing from 6.68% as of Dec'23 to 9.68% as of Dec'24. The risk profile of the portfolio deteriorated, as reflected in a 47.9% increase in loss category, 161.1% rise in doubtful loans and a 130.5% increase in substandard loans. This was owing to several factors, including carryover losses from the pandemic era, the severe floods of 2022 and the wheat crisis more recently. Total provisioning increased by 53.6% with the sector wide implementation of IFRS-9, in preparation to build necessary buffers for future credit events.

During CY24, profitability remained under pressure despite stronger markup income (↑24.5%) and a higher net interest margin (↑170bps). Operating self-sufficiency (OSS) dipped further to 75.2% from 78.8% in CY23, while net losses doubled to PKR 16.2 billion after tax, driven by rising provisioning costs and elevated interest expenses.

With minimal credit offtake, substantial surplus liquidity remained available with liquid assets to funding (deposits, borrowings, bills payable) rising to an average 49.6% as of Dec'24 from 35.0% as of Dec'23. Capitalization levels weakened, as despite a 39.9% increase in paid-up capital, total equity remained flat, reflecting losses. The sector's overall Capital Adequacy Ratio (CAR) dropped sharply to 2.6% as of Dec'24 from 7.6% as of Dec'23, with Tier 1 CAR also declining to a concerning 0.1%, indicating severe strain on core capital and an urgent need for further recapitalization.

In terms of outreach, the total number of clients grew by an impressive 64% to over 9.28 million. Female clients surged by 149.5%, reaching over 3 million, reflecting enhanced financial inclusion efforts and gender-focused strategies, even as male clients still dominate in term of proportion at 67.3% as of Dec'24 down from 78.5% as of Dec'23. Individual lending rose by 15.5% to PKR 455.41 billion, while group lending declined by 35.8%, indicating a structural shift toward personalized credit products.

Despite the strong asset growth and client outreach, the sector faces challenges stemming from elevated credit risks and rising provisioning needs. Weak profitability has adversely impacted the capitalization levels of the sector. Looking ahead, the sector's resilience will depend on tighter credit screening, digitization of lending processes, enhanced recovery mechanisms, while continuing to promote inclusive finance.

Audit Opinion

The financial figures presented in this report are based on the initialed accounts audited by BDO Ebrahim & Co. Chartered Accountants, a Category 'A' firm on the SBP's Panel of Auditors. However, the formal audit report has yet to be issued, pending approval from the Board of Directors.

About the Sponsor

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 1.63b as at Mar'24, the Group is currently present across Asia and Africa, in 20+ 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 in pipeline. 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 FY24, 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.

IT infrastructure

LOLC is steadily advancing its IT infrastructure to support operational efficiency, service delivery, and future growth. The Bank operates a centrally managed IT environment with primary and disaster recovery data centers, supported by a dedicated MPLS (Multiprotocol Label Switching) network and multiple layers of security. Core banking operations are managed through its in-house system, FUSION, integrated with Oracle E-Business Suite and various support systems for compliance, HR, and customer management. The Bank is also expanding its digital footprint through initiatives such as a mobile-based digital lending platform, digital onboarding, debit card issuance, and a mobile banking solution expected by Q3 2025. As a member of the 1Link national switch, the Bank has rolled out debit cards, with further services in development. To strengthen information security, the Bank utilizes tools like Cortex XDR and Splunk SIEM, operates a 24x7 Security Operations Center, and is implementing additional measures in privilege access, patching, network monitoring, and vulnerability management. These developments are aimed at enhancing operational resilience and supporting the Bank's financial inclusion objectives.

Board and Management Team

The Bank's Board of Directors (BoD) comprises nine members, including six non-executive directors—one of whom serves as the Chairman—two independent directors, and the Chief Executive Officer (CEO) as the sole executive member. The Chairman and the non-executive directors are experienced Sri Lankan professionals nominated by the shareholder. During the review period, Mr. Motini V. Warnakula and Mr. Kanewal Gamage Don Chandana Jayanath were appointed as non-executive directors, replacing Mr. Rohana Kumara Wanni Achchige and Mr. P.L. Chamika Rasintha Cooray Wijewarnasooriya.

Members	Status
Mr. Don Manuwelge Don Krishan Thilakaratne	Chairman
Mr. Motini V. Warnakula	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. Kanewal Gamage Don Chandana Jayanath	Non-Executive Director
Mr. Khawar Siddique Khokhar	Independent Director
Mr. Muhammad Aslam	Independent Director
Mr. Farooq Rashid	Executive Director/Chief Executive Officer

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.

During the review period, key appointments were made at the senior management level, including the induction of Mr. Mr. Nizar Noor (Chief Commercial Officer), Mr. Mr. Arsalan Aziz (Head – Collection & Recovery), and Mr. Muhammad Ali (Chief Risk Officer). These changes were part of the Bank's ongoing efforts to strengthen its operational and risk management functions. There are no major vacancies left to fill at senior management level.

Productivity indicators

Productivity indicators	CY22	CY23	CY24
Branches + Service Centers	83	86	87
No. of loan officers (LOs)	649	641	357
No. of active borrowers	61,738	47,917	43,602
Average loan size (PKR)	89,418	86,372	103,461
Active Borrowers / LO	95	74	122
Active Borrowers / Branch	744	557	501
LO / Branch	8	7	4

In line with these industry-wide trends, the Bank also recorded a reduction in its LO headcount during CY24. This was aligned with the Bank's strategy to enhance operational efficiency. The Bank continued to rationalize its case loading (Active Borrowers per LO), indicating an improvement in productivity at the individual LO level. On the other hand, the Bank's physical footprint expanded slightly, with the number of branches and service centers increasing to 87 as of end-CY24 (CY23: 86), supporting continued outreach while operational processes were recalibrated.

The number of active borrowers also declined during the year. The average loan size increased to PKR 103,461 (CY23: PKR 86,372), reflecting both inflationary trends and a strategic shift toward secured and higher-ticket lending. Overall, the Bank's productivity indicators for CY24 reflect a measured strategic pivot toward consolidation and efficiency enhancement. However, the long-term sustainability of productivity improvements remains contingent on achieving an optimal balance between staffing adequacy, operational capacity, and credit risk management. Continued investment in staff training, retention strategies, and technology-led efficiency measures will be critical in supporting the Bank's operational objectives going forward.

Financial Analysis

Credit Risk

Gross Loan Portfolio

The Bank's Gross Loan Portfolio (GLP) grew modestly during CY24, reaching PKR 4,472.5 mn (Dec'23: PKR 4,082.0 mn) by end-Dec'24, while maintaining a stable market share of 1.0%. While GLP remained below the internal target of PKR 5,000.0 mn for the year, the Bank was able to achieve this milestone in Mar'25. Going forward, the Bank aims to close CY25 with a micro-credit portfolio of PKR 8,000 mn.

Portfolio Risk Segregations

Product Mix (PKR in mn)	Dec'22	%	Dec'23	%	Dec'24	%
Individual Loan - Karobari Qarza	3,982.7	72.5%	2,680.3	65.7%	1,666.7	37.3%
Gold Loan	4.6	0.1%	69.2	1.7%	1,589.3	35.5%
Bara Karobar Loan	442.2	8.0%	386.5	9.5%	438.8	9.8%
Hunermand Khatoon Qarza	293.0	5.3%	308.2	7.5%	393.7	8.8%
Mortgage Loan	53.1	1.0%	164.8	4.0%	142.9	3.2%
AGRI Loan	512.2	9.3%	343.9	8.4%	137.7	3.1%
Salary Loan	205.8	3.7%	129.1	3.2%	103.4	2.3%
Fori Qarza	0.2	0.0%	-	0.0%	-	0.0%
Leasing	0.1	0.0%	-	0.0%	-	0.0%
Gross Loan Portfolio	**5,493.9**	**99.9%**	**4,081.8**	**100.0%**	**4,472.5**	**100.0%**

During CY24, the Bank implemented a significant realignment in its loan product mix, strategically shifting towards secured lending to mitigate credit risk. The Individual Loan – Karobari Qarza, traditionally the largest unsecured product, decreased to 37.3% (CY23: 65.7%) of the GLP, though it remained the largest individual segment. The Gold Loan portfolio increased its share to 35.5% of the GLP (CY23: 1.7%), reflecting the strategic emphasis on secured, short-term lending backed by gold collateral.

Additionally, the Bara Karobari Loan, targeting established businesses and asset purchases, slightly increased to 9.8% (CY23: 9.5%). The Hunermand Khatoon Qarza, supporting female entrepreneurs, also saw an increase to 8.8% (CY23: 7.5%). Conversely, there was a decline in agriculture-related lending, with the Agri Loan share falling to 3.1% (CY23: 8.4%). Mortgage Loans remained relatively stable at 3.2% (CY23: 4.0%), while Salary Loans slightly decreased to 2.3% (CY23: 3.2%). Product development remains aligned with a cautious growth strategy focused on risk containment. The Bank is prioritizing shorter-tenor products, particularly gold loans with a typical duration of six months, while offering extended one-year terms to repeat and high-quality borrowers.

Secured vs Unsecured (PKR in mn)	Dec'22	%	Dec'23	%	Dec'24	%
Secured Loans	165.2	3.0%	233.9	5.7%	1,732.2	38.7%
Unsecured Loans	5,328.7	97.0%	3,847.9	94.3%	2,740.3	61.3%
Gross Loan Portfolio	**5,493.9**	**100.0%**	**4,081.8**	**100.0%**	**4,472.5**	**100.0%**

The Bank had set a target of 30% for secured loans in CY24 and exceeded this, with the secured portion reaching 38.7% (CY23: 5.7%) of GLP. This was driven by the rapid scale-up of the gold loan portfolio. Further product development is underway, with plans to introduce additional secured variants of existing products over CY25 to strengthen portfolio resilience.

EMI vs Bullet (PKR in mn)	Dec'22	%	Dec'23	%	Dec'24	%
EMI	4,977.2	90.6%	3,953.9	96.9%	2,745.4	61.4%
Bullet	516.7	9.4%	127.9	3.1%	1,727.1	38.6%
Gross Loan Portfolio	**5,493.9**	**100.0%**	**4,081.8**	**100.0%**	**4,472.5**	**100.0%**

The repayment structure also diversified, with EMI-based loans declining to 61.4% (CY23: 96.9%), while bullet repayment loans surged to 38.6% (CY23: 3.1%), driven primarily by short-tenor gold loans repaid in a single installment.

Group vs Individual (PKR in mn)	Dec'22	%	Dec'23	%	Dec'24	%
Group Based	-	0.0%	-	0.0%	-	0.0%
Individual	5,493.9	100.0%	4,081.8	100.0%	4,472.5	100.0%
Total	**5,493.9**	**100.0%**	**4,081.8**	**100.0%**	**4,472.5**	**100.0%**

In alignment with industry trends, the Bank maintained its commitment to individual lending models, completely avoiding group-based lending structures prevalent in the microfinance sector. This strategic choice mitigates risks associated with dummy borrowers and client over-leveraging, thereby enhancing portfolio integrity and credit quality.

Conventional vs Shariah (PKR in mn)	Dec'22	%	Dec'23	%	Dec'24	%
Conventional Loans	5,493.9	100.0%	4,081.8	100.0%	4,472.5	100.0%
Shariah Loans	-	0.0%	-	0.0%	-	0.0%
Gross Loan Portfolio	**5,493.9**	**100.0%**	**4,081.8**	**100.0%**	**4,472.5**	**100.0%**

The SBP has directed all anks to develop a strategic roadmap for transitioning toward full-fledged Islamic banking operations by 2028. In response, the Bank has initiated preparatory steps in early CY24, including obtaining SBP's approval to launch a pilot Islamic banking unit. As of Dec'24, the Bank's loan portfolio remains entirely conventional; however, a strategic pivot is now underway.

The pilot phase is scheduled to commence by second half of CY25, following completion of supporting infrastructure. The initial plan includes converting selected branches. Subject to the successful outcome of the pilot and subsequent regulatory approvals, the Bank intends to gradually expand the Islamic banking network across the country in phases.

In parallel, the Bank has submitted a comprehensive plan for full conversion to SBP and is currently awaiting feedback. Board-level approval has been secured, and the conversion strategy is being overseen by a dedicated team with prior experience in Islamic banking. The Bank has also established a Shariah Advisory Board comprising qualified members.

The Bank has internally committed to completing the transition before 2027. The management's approach is to leverage existing systems and operational capabilities from its conventional banking setup to ensure a smooth migration. Overall, the successful execution of this strategic shift will require substantial planning, phased implementation, and close coordination with the regulator to ensure full compliance and operational readiness.

Size-wise Breakup (PKR in mn)	Dec'23	No. of Clients	Dec'24	No. of Clients
Upto PKR 25,000	0.3	62	0.0	34
PKR 25,001 - PKR 50,000	123.7	5099	124.8	5,133
PKR 50,001-PKR 100,000	413.3	10280	771.8	16,918
PKR 100,001 and 250,000	2,228.7	27115	1,482.9	15,011
PKR 250,001 and 500,000	1,152.4	5138	1,556.2	5,805
PKR 500,001 and above	163.6	223	536.8	701
Total	**4,081.8**	**47,917**	**4,472.5**	**43,602**

The largest client segment by size remains the PKR 50,001–100,000 bracket, comprising 38.8% (Dec'24: 21.5%) of total borrowers. This reflects a growing focus on moderate-sized loans with manageable risk profiles. Meanwhile, the share of lower ticket sizes (less than PKR 50,000) remained negligible in terms of portfolio value. As of Dec'24, loans exceeding PKR 250,000 accounted for 46.8% (Dec'23: 32.2%) of the GLP, representing 15.0% (Dec'23: 11.2%) of the total client base. This rebalancing is aligned with the Bank's risk-adjusted returns strategy and supports operational efficiencies in portfolio management.

During the year, the Bank obtained approval from the State Bank of Pakistan (SBP) to enhance its credit limit from PKR 500,000 to PKR 2,000,000. This regulatory development enabled the Bank to expand lending under secured and higher-value loan segments, particularly gold-backed. Consequently, the number of clients with loans exceeding PKR 500,000 more than tripled to 701 (Dec'23: 223), contributing to an increase in the share of this segment within the overall loan portfolio.

Asset Quality

Asset Quality (PKR in mn)	CY22	CY23	CY24
Net Advances	5,286.8	3,825.0	4,138.3
NPLs	789.0	645.9	551.8
NPLs Written-Off	730.9	872.1	960.2
Tier-1 Equity	2,390.7	2,477.4	1,264.8
Gross Infection	***14.3%***	***15.6%***	***12.2%***
Net Infection	***12.2%***	***9.6%***	***6.9%***
Incremental Infection	***18.6%***	***13.4%***	***17.5%***
Specific Provisioning Coverage	***16.5%***	***42.8%***	***46.6%***
General Provisioning Coverage	***2.2%***	***1.1%***	***2.9%***
Net NPLs/Tier-1 Equity	***25.1%***	***14.9%***	***23.3%***

As of end-Dec'24, the Bank's Non-Performing Loans (NPLs) declined to PKR 551.8 mn (Dec'23: PKR 645.9 mn), reflecting an overall improvement in asset quality. This contributed to an improvement in the gross and net infection ratios, which stood at 12.2% (Dec'23: 15.6%) and 6.9% (Dec'23: 9.6%), respectively. However, the incremental infection[1] ratio rose to 17.5% (Dec'23: 13.4%), suggesting an increase in fresh delinquencies during the year. Loan

[1] *Incremental Infection ratio: (ΔNPLs + NPLs Written Off)/ (Avg. Net Advances + NPLs Written Off)*

write-offs during the year amounted to PKR 960.2 mn (Dec'23: PKR 872.1 mn), showing an uptick. Following the implementation of IFRS-9, provisioning coverage increased, with specific provisioning coverage rising to 46.6% (Dec'23: 42.8%) and general provisioning coverage[2] increasing to 2.9% (Dec'23: 1.1%), thereby enhancing the Bank's loss-absorption capacity. Despite the decline in net NPLs, the Net NPLs to Tier-1 equity ratio increased to 23.3% (CY23: 14.9%), primarily on account of a reduction in the Bank's core equity. This highlights a relatively higher capital sensitivity to residual credit risk.

Investment Mix

The Bank's investment portfolio increased to PKR 567.4 mn as of Dec'24 (Dec'23: PKR 412.3 mn). The credit risk associated with the investment book declined during the year, as federal government securities—entirely comprising Treasury Bills—now represent 90.3% (CY23: 45.4%) of the portfolio. Given the short-term tenor of these instruments, the portfolio is also exposed to minimal market risk. In terms of asset quality, non-performing Term Finance Certificates (TFCs) amounting to PKR 5.9 mn and non-performing Sukuk of PKR 10.0 mn are fully provided for, thereby limiting the residual credit risk from these exposures.

Liquidity and Leverage Profile

Liquidity	CY22	CY23	CY24
Liquid Investments	275.7	187.1	512.6
Cash and balances with SBP and NBP	96.3	111.8	460.0
Balances with other banks and MFBs	1,119.2	1,215.4	1,673.3
Liquid Assets	**1,491.3**	**1,514.3**	**2,645.9**
Deposits	2,413.8	928.9	5,434.7
Borrowings	1,982.3	1,982.3	-
Liquid Assets to Deposits & Borrowing (%)	**33.9%**	**52.0%**	**48.7%**
Advances to Deposits (x)	**2.3**	**4.5**	**0.8**
CA (%)	**0.3%**	**1.5%**	**0.5%**
CASA (%)	**0.3%**	**1.5%**	**1.7%**
Liquid Assets/Total Assets	**19.4%**	**22.7%**	**33.3%**

The Bank's liquidity position remained adequate as of end-Dec'24, despite a relative decline in the Liquid Assets to Deposits and Borrowings (LADB) ratio to 48.7% (CY23: 52.0%). Significant expansion in the deposit base, which grew by 485.1% on a year-on-year basis, reaching PKR 5,434.7 mn (Dec'23: PKR 928.9 mn), outpaced the broader industry trend, leading to an increase in its market share of total deposits to 0.7% (CY23: 0.2%). The deposit mobilization was part of a deliberate strategy implemented in CY24 to establish a more stable funding base.

The substantial deposit inflows enabled the Bank to fully retire its outstanding borrowing facility from SBP. As credit offtake remained limited, fresh deposits were allocated towards bank placements with liquid assets rising to PKR 2,645 mn (Dec'23: PKR 1,514.3). As a result of the sharp increase in deposits, the Advances-to-Deposit Ratio (ADR) declined

[2] *General provisioning coverage: (Stage-1 ECL + Stage-2 ECL)/ (Gross Advances – NPLs)*

notably to 0.8x (CY23: 4.5x), reflecting a base effect from the deposit growth outpacing growth in the lending book.

In terms of deposit composition, the proportion of individual deposits declined to 55.5% (Dec'23: 80.9%) by end-Dec'24, indicating a relatively higher inflow from institutional clients during the period. Although deposit concentration improved on a timeline, the top 10 depositors still accounted for 31.5% (CY23: 67.0%) of the total deposit base, indicating a degree of concentration risk that remains on the higher side.

The majority of incremental deposits were channeled in the form of fixed-term deposits, accounting for 98.3% (CY23: 98.5%) of total deposits, in line with historical trends. However, being usually more rate sensitive, these are more vulnerable to calls on liquidity. The Bank intends to diversify its funding profile by securing both local borrowing lines and foreign currency facilities, with support from its group treasury, to supplement its deposit base. Discussions are underway with multiple counterparties to establish contingency funding arrangements, with a long-term target of achieving a 70:30 mix between deposits and borrowings. While fixed-term deposits continue to form the bulk of the deposit base, the Bank has initiated measures to build a CASA (Current Account Savings Account) portfolio, following the successful integration of 1Link and the pilot launch of debit cards, with broader customer rollout expected in the second half of CY25. The Bank is also recalibrating its term deposit strategy, with a preference for shorter tenors to reduce funding costs. Average maturity of the TDR portfolio is expected to reset by mid-CY25, which, along with new deposit pricing strategies, is projected to bring down the overall cost of deposits to 14–15% by Oct'25. Going forward, successful execution of the CASA strategy and diversification of funding sources will be critical in enhancing the Bank's liquidity profile and improving funding cost efficiency.

Profitability

Profitability	CY22	CY23	CY24
Return on Markup Bearing Assets (%)	*38.1%*	*39.2%*	*37.0%*
Cost of Funds (%)	*12.6%*	*17.6%*	*19.0%*
Net Spread (%)	*25.6%*	*21.6%*	*18.0%*
OSS (%)	*104.0%*	*74.9%*	*68.5%*
ROAA (%)	*1.5%*	*-7.8%*	*-12.8%*
ROAE (%)	*4.7%*	*-20.7%*	*-41.5%*

Total markup income declined to PKR 2,067.8 mn in CY24 (CY23: PKR 2,183.2 mn), primarily due to reduced markup from performing advances amid restrained credit origination during the year. While absolute markup income from investments and deposit accounts increased slightly, the overall yield on investments and deposit accounts declined, reflecting the impact of lower policy rates. Consequently, the yield on earning assets contracted to 37.0% in CY24 (CY23: 39.2%). On the funding side, markup expense increased to PKR 842.5 mn (CY23: PKR 683.4 mn), while the average cost of funds rose to 19.0% (CY23: 17.6%) despite monetary easing. This increase was largely attributable to the Bank's deposit composition, which continues to be heavily skewed towards fixed-term deposits carrying higher markup rates. As a result, the Bank's net markup income declined to PKR

1,225.4 mn (CY23: PKR 1,499.7 mn), with net interest spread narrowing to 18.0% (CY23: 21.6%).

Operating expenses increased to PKR 1,781.6 mn in CY24 (CY23: PKR 1,554.9 mn), primarily due to higher compensation costs, despite a lower headcount relative to the previous year. Simultaneously, non-markup income declined, on account of reduced fee and commission income. The credit loss allowance also decreased, supported by higher recoveries against written-off exposures and lower provisioning during the year. The combined impact of lower net markup income, reduced non-markup revenue, and elevated operating expenses resulted in a deterioration of the Operational Self-Sufficiency (OSS) ratio to 68.6% in CY24 (CY23: 74.9%). Consequently, the Bank reported a net loss of PKR 933.5 mn for the year (CY23: PKR 561.4 mn).

Management anticipates a gradual recovery in profitability metrics, primarily driven by expected expansion in the lending book, cost rationalization measures, and optimization of deposit pricing strategies. Internal forecasts indicate that the Bank is likely to achieve monthly breakeven on an operational basis by Sep'25. Operational efficiency measures—such as rationalization of the loan officer workforce, and optimization of branch productivity—are also expected to lower the cost-to-income ratio over time. However, given the lag effect of higher funding costs and the time required for the full deployment of incremental assets, the Bank anticipates reporting a net loss of approximately PKR 300 mn for CY25. Continued focus on high-yielding, secured lending products and the execution of deposit cost optimization strategies are expected to support progressive improvement in net interest margins. Over the medium term, sustained portfolio expansion, diversification of funding sources, and containment of overheads will remain key drivers in restoring operational self-sufficiency and profitability.

Capitalization

As of Dec'24, the Bank's total equity base declined to PKR 1,613.8 mn (Dec'23: PKR 2,887.1 mn), primarily due to the net loss incurred during the year, along with the impact of the initial adoption of IFRS-9, which resulted in a deficit adjustment of PKR 337.3 mn. This reduction in equity also translated into a lower Tier-1 capital position, which stood at PKR 1,264.8 mn by year-end (Dec'23: PKR 2,477.4 mn).

Risk-weighted assets (RWA) also declined to PKR 4,488.7 mn (Dec'23: PKR 5,307.0 mn), primarily reflecting a portfolio shift from unsecured to secured lending, which carries a lower risk weighting. Despite the contraction in RWAs, the decline in the capital base was more pronounced, leading to a significant reduction in the Capital Adequacy Ratio (CAR), which was reported at 28.9% (CY23: 48.0%) as of Dec'24.

Nevertheless, the Bank's equity stood in compliance with the minimum capital requirement of PKR 1.0 bn applicable to microfinance banks operating at a nationwide scale at year-end, post which recurring net losses may cause total equity to fall further. In case of shortfall of MCR, the sponsors remain committed to inject necessary capital. On the other hand, CAR remains above the regulatory minimum threshold of 15.0%, providing the Bank with a reasonable cushion to absorb potential losses and support future growth. Management

	anticipates a moderation in CAR to around 16–17% by end-CY25, reflecting the impact of planned portfolio expansion and the corresponding increase in RWAs.

LOLC Microfinance Bank Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**31-Dec-22**	**31-Dec-23**	**31-Dec-24**
Cash and Bank Balances with SBP and NBP	96.34	111.79	460.01
Balances with other Banks and/NBFIs/MFBs	1,119.24	1,215.42	1,673.31
Net Investments	312.03	412.27	567.40
Net Advances	5,286.76	3,825.03	4,138.26
Operating Fixed Assets	339.42	387.73	439.91
Deferred Tax Assets	100.63	316.56	409.03
Other Assets	425.91	402.28	268.25
Total Assets	7,680.32	6,671.06	7,956.16
Deposits	2,413.80	928.92	5,434.71
Borrowings	1,982.28	1,982.28	0.00
Other Liabilities	759.03	872.79	907.69
Tier-1 Equity	2,390.67	2,477.42	1,264.84
Net Worth	2,525.21	2,887.07	1,613.76
Paid-Up Capital	2,308.30	3,220.00	3,220.00
INCOME STATEMENT	**CY22**	**CY23**	**CY24**
Net Mark-up Income	1,828.67	1,499.71	1,225.36
Net Provisioning / (Reversal)	660.71	926.18	623.81
Non-Markup Income	196.89	231.57	186.68
Operating Expenses	1,239.93	1,554.92	1,781.57
Profit Before Tax	124.92	(749.82)	(996.52)
Profit after tax	114.66	(561.38)	(933.53)
RATIO ANALYSIS	**CY22**	**CY23**	**CY24**
Market Share - Advances	1.53%	1.01%	0.97%
Market Share - Deposits	0.47%	0.16%	0.74%
Gross Infection (%)	14.29%	15.61%	12.23%
Net Infection (%)	12.22%	9.57%	6.93%
Incremental Infection (%)	18.64%	13.43%	17.53%
General Provisioning Coverage (%)	2.19%	1.07%	2.93%
Specific Provisioning Coverage (%)	16.49%	42.77%	46.58%
Net NPLs to Tier-1 Capital (%)	27.56%	14.92%	23.31%
Capital Adequacy Ratio (%)	37.88%	48.00%	28.91%
Markup on Earning assets (%)	38.13%	39.22%	37.02%
Cost of Funds (%)	12.58%	17.64%	19.03%
Spreads (%)	25.55%	21.58%	17.99%
OSS (%)	104.03%	74.92%	68.55%
ROAA (%)	1.54%	-7.82%	-12.76%
ROAE (%)	4.65%	-20.74%	-41.48%
Advances to Deposits Ratio (%)	228.70%	445.54%	83.01%
Liquid Assets to deposits & borrowings (%)	33.92%	52.02%	48.69%

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	Outlook/ Rating Watch	Rating Action
		RATING TYPE: ENTITY		
12-May-2025	A-	A2	Stable	Reaffirmed
07-May-2024	A-	A2	Stable	Maintained
28-Apr-2023	A-	A2	Negative	Maintained
30-Apr-2022	A-	A2	Stable	Maintained
30-Apr-2021	A-	A2	Rating Watch - Developing	Maintained
30-Apr-2020	A-	A2	Rating Watch – Negative	Maintained
25-Apr-2019	A-	A2	Stable	Reaffirmed
27-Apr-2018	A-	A2	Stable	Reaffirmed
29-Sep-2017	A-	A2	Stable	Upgrade
28-Apr-2017	BBB+	A3		Rating Watch-Positive
28-Apr-2016	BBB+	A3	Stable	Reaffirmed
29-Apr-2015	BBB+	A3	Stable	Reaffirmed
29-Apr-2014	BBB+	A3	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Gration Joseph	CFO	18th April 2025
Mr. Ilsam Awfer	COO	
Mr. Muhammad Ali	CRO	