

LOLC MICROFINANCE BANK LIMITED

Analyst:

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RATING DETAILS

RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 21, 2026		May 12 th , 2025	

Shareholding (5% or More)

LOLC Asia Private Limited - 100.0%

Other Information

Incorporated in 2006

Unlisted Public Limited Company

Chairman: Mr. Don Manuwelge Don Krishan Thilakaratne

CEO: Mr. Farooq Rashid

External Auditor: BDO Ebrahim & Co. Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria: Non-Bank Financial Companies

<https://docs.vis.com.pk/Methodologies-2025/NBFC-Nov-2025.pdf>

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

The assigned ratings take into account the committed strategic and financial backing of LOLC Holdings PLC. Moreover, an operational turnaround has been noted with strong portfolio growth during CY25 along with a continued shift towards secured lending, particularly gold-backed advances, which has strengthened the overall risk profile. Ongoing diversification efforts into other secured and SME-focused segments have also been noted. Asset quality indicators improved notably during the year, supported by reduced fresh delinquencies, recoveries, and write-offs, alongside strengthened provisioning coverage. The investment portfolio remains conservatively positioned in government securities and short-term placements, thereby limiting credit and market risk exposure.

The funding profile strengthened on the back of robust deposit growth, supporting balance sheet expansion and building liquidity access. However, the funding base remains largely skewed towards savings deposits, indicating sensitivity to pricing dynamics, despite gradual improvement in CASA deposits. Given continued concentration in deposit sources, liquidity indicators may point to a need for close monitoring.

Profitability trends improved due to higher income and lower provisioning charges; however, elevated operating expenses and continued margin pressure remain constraining factors, resulting in lower but still negative net returns. Going forward, further improvement in operating efficiency and portfolio yield is expected to support a more sustainable earnings profile.

Capitalization remains a key rating constraint, with the Capital Adequacy Ratio remaining only marginally above regulatory requirements amid strong balance sheet growth and accumulated losses. While internal capital generation remains limited, planned sponsor support is expected to provide near-term relief to capital buffers. The ratings remain dependent on prudent asset selection and profitability leading to a sustainable capital profile.

Company Profile

LOLC Microfinance Bank Limited (“LOLC” or “the MFB”), previously known as Pak Oman Microfinance Bank Limited, was established on March 9, 2006, as a public limited 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 MFB 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. As at Dec’25, the MFB has 88 (Dec’24: 63) branches including 1 Islamic branch (Dec’24: nil). The MFB has a license to operate nationwide while its branches are spread across all provinces of Pakistan and Azad Jammu & Kashmir other than Gilgit Baltistan.

Sponsor Profile

LOLC Holdings PLC is a global conglomerate diversified across key economic sectors including financial services, leisure, agriculture and plantations, construction and real estate, manufacturing and trading, digital and advanced technology, strategic investments, and energy. As at March 2025, the Group reported total equity of approximately LKR 604 billion (c. USD 1.9 –2.0 billion), reflecting a strong capital base. The Group is rated A (Positive Outlook) with a short-term rating of A1 by Lanka Rating Agency.

LOLC operates across 25+ countries in Asia, Africa, and other regions, including Pakistan, Singapore, Sri Lanka, Indonesia, the Philippines, Nigeria, Kenya, and the UAE, with further expansion plans underway. The Group offers a comprehensive range of financial services, including banking, leasing, insurance, and securities, and maintains one of the largest global microfinance networks, demonstrating growth and performance across diverse markets.

Governance and Management

BOARD OF DIRECTORS

Table 1: Board of Directors

Name of Director	Position
Mr. Don Manuwelge Don Krishan Thilakarathne	Chairman / Non-Executive Director
Mr. Motini V. Warnakula	Non-Executive
Mr. F Kankanamalage Conrad Prasad Niroshan Dias	Non-Executive
Mr. Dulip Rasika Samaraweera	Non-Executive
Mr. Khawar Siddique Khokhar	Independent Director
Mr. Muhammad Aslam	Independent Director
Mr. Kanewal Gamage Don Chandana Jayanath	Non-Executive Director
Ms. Enoka Jayampathy Nishanthi	Non-Executive Director
Mr. Farooq Rashid	Executive Director/Chief Executive Officer

The Board of Directors (BoD) of LOLC Microfinance Bank Limited comprises nine members, including the Chairman, six non-executive directors, two independent directors, and the Chief Executive Officer (CEO) as the sole executive member. The Board remains predominantly non-executive in nature, reflecting strong oversight with representation from the sponsoring group alongside independent directors.

The Chairman, Mr. Don Manuwelge Don Krishan Thilakarathne, continues to lead the Board, while non-executive directors include senior professionals from the wider LOLC Group, bringing extensive experience in financial services, credit management, recoveries, IT, and corporate governance. Independent oversight is provided by two directors, namely Mr. Khawar Siddique Khokhar and Mr. Muhammad Aslam, both of whom bring diversified regulatory, technical, and legal expertise from Pakistan’s financial and regulatory landscape.

During the review period, the Board witnessed one key change: Ms. Sarajika Sunjeevani Kotakadeniya resigned from the Board, and Ms. Enoka Jayampathy Nishanthi was inducted as a non-executive director. The induction further strengthened the Board’s financial and taxation expertise, given her extensive experience within the LOLC Group.

The Board operates through three key committees, namely the Board Audit Committee (BAC), Board Human Resource and Compensation Committee (BHRCC), and Board Risk Management Committee (BRMC), ensuring structured oversight of audit, human resource, remuneration, and risk-related matters. The Audit Committee is chaired by an independent director, supporting governance transparency and financial discipline.

Overall, the Board reflects a strong governance framework with a blend of international group representation, sector expertise, and independent oversight, supporting effective strategic direction and risk management of the institution.

CEO & MANAGEMENT

The management team is spearheaded by Mr. Farooq Rashid. He brings over 27 years of experience working in Microfinance Industry as well as Commercial Bank. 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.

Other senior leadership and functional heads comprise seasoned professionals with extensive and relevant industry experience. The MFB currently has two vacant senior management positions, including Head of Collections and Recovery and Head of Compliance, the latter following the segregation of the previously combined Risk and Compliance function into separate roles of Head of Risk and Head of Compliance. The LOLC Microfinance Bank Limited follows a functionally based organogram to ensure clear segregation of duties and strong governance. The structure flows from the Board and CEO to specialized functional heads across key areas such as finance, risk, compliance, IT, and operations. It is further strengthened by independent oversight through Internal Audit, the Audit Committee, and an Anti-Fraud Unit.

The MFB maintains a broadly comprehensive policy framework covering key functional areas including risk, credit, compliance, IT, and governance, which reflects an adequate level of institutionalization and supports overall control environment. Core risk and credit-related policies, including the Risk Management Policy, Risk Appetite Framework, and Credit Policy, remain current, providing comfort around underwriting discipline and risk oversight. However, a notable proportion of policies, particularly within compliance, HR, operations, and certain governance areas may benefit from an upgrade, indicating gaps in policy review discipline and weakening the effectiveness of internal controls.

AUDITOR'S OPINION

BDO Ebrahim & Co. Chartered Accountants, which is an 'A' category and QCR rated firm, has provided an unqualified and unmodified opinion, affirming that the Company's financial statements comply with accounting standards and accurately portray the MFB's financial position as of CY25.

IT INFRASTRUCTURE

Core banking operations are managed through the in-house FUSION system, which remains fully integrated with Oracle E-Business Suite and a wide range of enterprise applications supporting financial management, compliance, human resources, and operational workflows. The MFB's IT infrastructure is hosted on a secure PTCL cloud environment, with primary and disaster recovery data centers in place, ensuring resilience, scalability, and compliance with regulatory requirements. All branches are connected through a dedicated MPLS (Multiprotocol Label Switching) network, supported by multi-layered security protocols to ensure uninterrupted and secure operations.

LOLC continues to strengthen its digital capabilities through the deployment of a mobile-based digital lending platform with contactless biometric verification, along with digital onboarding and debit card issuance services. As a member of the 1Link national switch, debit card services are operational, while further digital payment functionalities are being rolled out in phases. Additionally, a comprehensive mobile banking solution is under development, with expected launch in 2026, aimed at enhancing customer accessibility and service delivery.

Information security frameworks have been further enhanced through the implementation of advanced tools such as Cortex XDR and SIEM solutions, supported by a 24x7 Security Operations Center (SOC) for real-time monitoring and incident response. Additional controls, including privileged access management, patch management, network monitoring, and vulnerability management, are being implemented to further strengthen the Bank's cybersecurity posture.

Business Risk

INDUSTRY UPDATE

The microfinance industry experienced a contraction in 2025, with total assets declining by 3.6% to PKR 1.03trn, primarily due to a 35.2% reduction in investments in government securities. Credit growth remained modest at 11.2%, with the Gross Loan Portfolio (GLP) up 15.5% to PKR 536.0bn, alongside a 13.3% increase in deposits to PKR 830.5bn. Borrowings reduced by 55.0% to PKR 91.8bn. Capital adequacy remained a critical concern as the total capital to total RWA ratio shifted from a positive 2.6% in late 2024 to a negative 1.2% by the end of 2025.

Asset quality showed mixed signals during 2025. While the Non-Performing Loans (NPLs) to total loans improved slightly from 9.7% in Dec'24 to 9.1% in Dec'25, the underlying volume of NPLs actually rose to PKR 48.9bn (Dec'24: PKR 44.9bn). To mitigate this, institutions significantly increased their coverage, with provisions to NPLs jumping from 95.3% in Dec'24 to 138.1% in Dec'25. Consequently, provisioning charges for the year surged by 22.9%, reaching PKR 48.2bn in 2025.

Operational shifts were also evident in the sector's earnings and reach. The net interest margin improved from 13.9% to 15.6%, and the cost-to-income ratio saw a healthy decline from 89.8% to 70.6%. However, the sector remained loss-making, reporting a profit after tax of negative PKR 2.1bn in 2025. The total number of clients decreased from approximately 9.3mn to 8.3mn, individual lending continued to dominate the portfolio, accounting for 98.8% in 2025.

PRODUCTIVITY

Table 2: Operations

Productivity	Dec'23	Dec'24	Dec'25
No of loan Officers & Recovery officers	564	394	398
No. of branches	86	87	89
No of active Borrowers	47,917	43,602	46,210
LOs/Branch	7	5	4
Active Borrowers/LO	85	111	116
Active Borrowers/Branch	557	501	519
Average Loan Size	85,185	102,574	240,258

LOLC continued to focus on operational efficiency during CY25, reflected in a relatively stable loan officer base and improved productivity metrics. The number of loan and recovery officers slightly increased to 398 (Dec'24: 394), while the branch network expanded to 89 (Dec'24: 87).

Active borrowers recovered to 46,210 (Dec'24: 43,602), indicating a rebound in lending activity. Productivity per officer improved further, with Active Borrowers per LO increasing to 116 (Dec'24: 111), highlighting better case loading and efficiency at the individual level. However, LOs per branch declined to 4 (Dec'24: 5), suggesting leaner branch staffing.

The average loan size witnessed a significant increase to PKR 240,258 (Dec'24: PKR 102,574), reflecting a strategic shift toward higher-ticket lending, alongside inflationary impacts. Overall, the Bank's productivity indicators for Dec'25 demonstrate continued consolidation with improving efficiency, though maintaining balance between staff capacity, portfolio growth, and risk management remains critical.

LOAN PORTFOLIO

Table 3: Product-Wise

(PKR Mn)	CY23	%	CY24	%	CY25	%
AGRI Loan	344	8.4%	138	3.1%	97	0.9%
Busines Kafalat Loan (BKL)	386	9.5%	439	9.8%	830	7.5%
Female Loan	308	7.5%	394	8.8%	214	1.9%
Gold Loan	69	1.7%	1,589	35.5%	8,052	72.5%
Group Loan	-	0.0%	-	0.0%	-	0.0%
Mortgage Loan	165	4.0%	143	3.2%	110	1.0%
Salary Loan	129	3.2%	103	2.3%	93	0.8%
Commercial Vehicle	-	-	-	-	803	7.2%
Individual Loan	2,680	65.7%	1,667	37.3%	895	7.5%
Scooty / Bike Loan	-	-	-	-	8	0.1%
Gross Loan Portfolio	4,082	100%	4,472	100%	11,102	100%

The LOLC Microfinance Bank Limited recorded a significant expansion in its Gross Loan Portfolio (GLP), which increased sharply to PKR 11,102 mn in CY25 (CY24: PKR 4,472 mn). The growth was primarily driven by a strong shift in portfolio composition toward secured lending, particularly gold-backed financing.

During the year, the product mix witnessed a material realignment, with Gold Loans emerging as the dominant segment, increasing to 72.5% of the GLP (CY24: 35.5%). In contrast, Individual Loans declined significantly to 7.5% (CY24: 37.3%), reflecting the Bank's continued strategic shift away from unsecured micro-lending. Business Kafalat Loans contributed 7.5% to the portfolio, while Commercial Vehicle financing emerged as a new segment at 7.2%, supporting diversification within secured asset-backed lending. Other traditional products, including Agri, Mortgage, and Salary loans, continued to decline in share, reflecting a clear transition in portfolio focus. Going forward, the management has plans to decrease the gold backed portfolio concentration to below 60% while increasing its focus towards Commercial Vehicles and other products. The MFB is also launching some new products including salary and solar financing.

Table 4: Segregations

	CY23	%	CY24	%	CY25	%
Conventional Loans	4,082	100%	4,472	100%	11,102	100%
Shariah Loans	-	0%	-	0%	-	0%
Gross Loan Portfolio	4,082	100%	4,472	100%	11,102	100%
Secured vs Unsecured						
Secured Loans	293	7%	1,773	40%	9,055	82%
Unsecured Loans	3,789	93%	2,700	60%	2,047	18%
EMI vs Bullet						
EMI	3,669	90%	2,745	61%	2,954	27%
Bullet	413	10%	1,727	39%	8,149	73%
Group vs Individual						
Group	-	0%	-	0%	-	0%
Individual	4,082	100%	4,472	100%	11,102	100%

In line with this shift, the secured portion of the portfolio increased substantially to 82% (CY24: 40%), while unsecured lending reduced to 18% (CY24: 60%). This transition was largely driven by the expansion of gold-backed lending. Similarly, the repayment structure also shifted significantly, with bullet-based lending increasing to 73% (CY24: 39%), while EMI-based lending declined to 27% (CY24: 61%), reflecting the short-tenor nature of the growing secured portfolio.

The Bank continued to maintain a fully individual lending model, with no exposure to group-based lending. In addition, the portfolio remained entirely conventional in CY25, although the MFB continues to progress on its strategic roadmap toward Islamic banking transition for which it has opened a separate Islamic branch, launched Islamic products and plans to open 20 Islamic windows in existing branches during the on-going year with an Islamic portfolio of Rs. 15mn as of Mar'26.

Table 5: Size-Wise

Size-wise Loan Break-up (PKR Mn)	CY25	# of Clients	%
Up to PKR 50,000	51	2,744	0.5%
PKR 50,001 - PKR 100,000	523	12,914	4.7%
PKR 100,001 - PKR 250,000	1,678	15,679	15.1%
PKR 250,001 - PKR 500,000	2,785	9,511	25.1%
PKR 500,001 and above	6,065	5,362	54.6%
Total	11,102	46,210	100.0%

The portfolio remains skewed toward higher ticket sizes, with loans above PKR 500,000 accounting for 54.6% of total GLP. Mid-sized loans between PKR 250,001 and PKR 500,000 contribute a notable 25.1%, while loans in the PKR 100,001 to PKR 250,000 range represent 15.1%. Lower ticket segments, although comprising a relatively small share in value terms, account for a significant portion of the borrower base. Overall, the distribution reflects a relatively more diversified portfolio compared to last year, while maintaining strategic emphasis on higher-value, secured exposures to support portfolio quality and operational efficiency.

PROFITABILITY

Table 6: Profitability

Income Statement Extract (PKR Mn)	FY23	FY24	FY25
Return on Markup Bearing Assets	39.2%	37.0%	28.1%
Cost of Funds	17.6%	19.0%	13.1%
Spreads	21.6%	18.0%	15.0%
Operating Self Sufficiency (OSS)	74.92%	68.55%	89.09%
Profit/(Loss) after taxation	-561.38	-933.53	-297.22

Total markup/return/interest income increased significantly to PKR 3,138 mn in FY25 (FY24: PKR 2,068 mn), driven by higher earning asset volumes and improved deployment of the loan book. However, the yield on markup-bearing assets declined to 28.1% in FY25 (FY24: 37.0%), reflecting continued pricing pressure and a shift in asset mix towards relatively lower-yielding exposures. On the funding side, markup/interest expense increased to PKR 1,484 mn (FY24: PKR 842 mn), although the cost of funds improved to 13.1% (FY24: 19.0%), supported by a more favorable funding environment and repricing of liabilities. The net spread still narrowed to 15.0% in FY25 (FY24: 18.0%).

Net markup/interest income improved to PKR 1,654 mn in FY25 (FY24: PKR 1,225 mn). A notable improvement was observed in asset quality charges, with provision against non-performing loans declining sharply to PKR 292 mn (FY24: PKR 809 mn), reflecting lower fresh slippages and improved recoveries. Recoveries against written-off advances also increased to PKR 249 mn (FY24: PKR 185 mn). This resulted in a substantial reduction in provisioning burden, leading to a strong increase in net markup/interest income after provision to PKR 1,610 mn (FY24: PKR 602 mn).

Non-markup income increased to PKR 277 mn in FY25 (FY24: PKR 187 mn), mainly driven by higher fee, commission, and brokerage income, along with marginal improvement in other income streams. Consequently, total income increased significantly to PKR 1,887 mn (FY24: PKR 788 mn), reflecting strong growth in core revenue generation.

However, this improvement was partially offset by a rise in operating expenses, with total non-markup/non-interest expenses increasing to PKR 2,270 mn (FY24: PKR 1,785 mn), primarily due to higher administrative expenses. As a result, the MFB reported a loss before taxation of PKR 383 mn (FY24: PKR 997 mn loss), although much reduced from prior year. After accounting for taxation adjustments, the net loss after tax narrowed to PKR 297 mn in FY25 (FY24: PKR 934 mn loss).

Overall, FY25 reflects a meaningful recovery in profitability indicators, driven by strong growth in markup income, improved asset quality trends, and lower provisioning charges. However, elevated operating costs continue to constrain full earnings recovery and lower spreads keeping the MFB in a loss position. Going forward, sustained growth in high-yield lending, continued improvement in funding efficiency, and tighter control over administrative expenses will be critical for restoring operational self-sufficiency and achieving profitability.

Financial Risk

ASSET QUALITY

Table 7: Asset Quality

Infection (PKR '000s)	CY23	CY24	CY25
Gross Advances	4,138.7	4,511.1	11,151.1
Stage 1 - Provisioning	-	99.4	83.9
Stage 2 - Provisioning	-	16.4	29.0
Stage 3 - Provisioning	-	257.0	230.6
Specific Provisioning	276.3	-	-
General Provisioning	37.4	-	-
Net Advances	3,825.0	4,138.3	10,807.6
NPLs	645.9	551.8	357.5
NPLs written off	872.1	960.2	302.8
Tier 1 Equity	2,477.4	1,264.8	1,079.6
Gross Infection	15.6%	12.2%	3.2%
Net Infection	9.6%	6.9%	1.2%
Incremental Infection	13.4%	17.5%	1.4%
Specific Provisioning Coverage (Stage 3)	42.8%	46.6%	64.5%
General Provisioning Coverage (Stage 1 & 2)	1.1%	2.9%	1.0%

Net NPLs/Tier 1 Equity	14.9%	23.3%	11.8%
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As of end-Dec'25, the Bank's asset base expanded significantly, with gross advances rising sharply to PKR 11,151.1 mn (Dec'24: PKR 4,511.1 mn), reflecting strong portfolio growth during the year. In parallel, asset quality indicators improved materially, with Non-Performing Loans (NPLs) declining to PKR 357.5 mn (Dec'24: PKR 551.8 mn), supported by recoveries and write-offs. Coupled with portfolio expansion effects, both gross and net infection ratios witnessed a marked improvement, declining to 3.2% (Dec'24: 12.2%) and 1.2% (Dec'24: 6.9%), respectively, indicating a substantially cleaner portfolio profile.

Moreover, the incremental infection ratio remained contained at 1.4% (Dec'24: 17.5%) - notable in terms of a significant slowdown in fresh delinquencies during the year. Loan write-offs declined notably to PKR 302.8 mn (Dec'24: PKR 960.2 mn), reflecting lower stress recognition and improved recoverability trends. On the provisioning side, coverage strengthened further, with Stage 3 (specific) provisioning coverage increasing to 64.5% (Dec'24: 46.6%), indicating enhanced loss absorption capacity. However, general provisioning coverage for Stage 1 and Stage 2 exposures moderated to 1.0% (Dec'24: 2.9%).

INVESTMENT MIX

The MFB's investment portfolio expanded notably to PKR 1,863.7 mn as of Dec'25 (Dec'24: PKR 567.4 mn), reflecting a strong build-up following the sharp growth in the deposit base during the year. The increase was primarily driven by placements in short-term, high-quality instruments, indicating a continued conservative investment strategy focused on liquidity preservation.

In terms of composition, the portfolio remained heavily tilted towards low-risk sovereign exposures, although the mix showed some diversification compared to the prior year. Federal Government Securities (comprising Market Treasury Bills) increased substantially to PKR 1,354.3 mn, however their share declined to approximately 72.6% of total investments (Dec'24: ~90.3%), due to the increase of Term Deposit Receipts (TDRs) in the portfolio. TDRs stood at PKR 500.0mn, accounting for around 26.8% of total investments, indicating increased placement activity with banking counterparties to optimize short-term yield while maintaining liquidity.

The FVOCI portfolio remained relatively small, with aggregate exposure to Term Finance Certificates (TFCs) and Sukuk. TFC exposure of PKR 5.9 mn remained fully impaired, while Sukuk exposure stood at PKR 19.2 mn, with a net carrying value of PKR 9.4 mn after provisioning and fair value adjustments. Overall, non-sovereign exposures remain limited and fully/partially provided for, thereby containing residual credit risk in the investment book.

On an overall basis, the investment portfolio continues to exhibit a low-risk and liquidity-oriented profile, dominated by short-term government securities and high-quality placements. While the addition of TDRs has slightly reduced sovereign concentration, the portfolio remains strongly skewed towards risk-free or near risk-free instruments, with minimal exposure to market and credit risk.

LIQUIDITY & LEVERAGE PROFILE

Table 8: Liquidity & Leverage

(PKR Mn)	CY23	CY24	CY25
Liquid Assets	1,514.3	2,645.9	5,987.6
Deposits	928.9	5,434.7	15,487.9
Borrowing	1,982.3	-	1,177.0
Liquid Assets to Deposits and Borrowings (LADB)	52.0%	48.7%	35.9%
Advances to Deposits (ADR)	4.5	0.8	0.7
CA (%)	1.5%	0.5%	1.4%
CASA (%)	1.5%	1.7%	20.8%
Liquid Assets/TA	22.7%	33.3%	30.6%

The MFB's funding profile demonstrated strong expansion during CY25, supported by substantial deposit mobilization and a concurrent strengthening of liquid asset buffers. Liquid assets increased significantly to PKR 5,987.6 mn (CY24: PKR 2,645.9 mn), primarily driven by rapid growth in customer deposits partly deployment into short-term liquid placements. As a result, liquid assets as a percentage of total assets remained healthy at 30.6% (CY24: 33.3%), reflecting continued maintenance of an adequate liquidity buffer despite balance sheet expansion.

Deposits posted a sharp increase to PKR 15,487.9 mn (CY24: PKR 5,434.7 mn), indicating successful scale-up of the MFB's liability franchise and improved market penetration. This expansion was largely driven by savings deposits, which remained the dominant component at 92.7% of total deposits (CY24: 98.3%), although their share slightly moderated due to gradual diversification into fixed deposits. Fixed deposits increased meaningfully to PKR 1,056.2 mn (CY24: PKR 66.2 mn), raising their share to 6.8% of total deposits, while current deposits remained marginal at 0.5%. Borrowings were also limited at PKR 1,177.0 mn (CY24: NIL). This contributed to an improvement in overall funding structure flexibility.

Table 9: Deposits Breakup

(PKR Mn)	CY23	CY24	CY25
Fixed Deposits	0.3	66.2	1,056.2
Saving Deposits	914.7	5,341.3	14,357.3
Current Deposits	14.0	27.2	74.4
Total Deposits	928.9	5,434.7	15,487.9
FD/TD	0.0%	1.2%	6.8%
SD/TD	98.5%	98.3%	92.7%
CD/TD	1.5%	0.5%	0.5%

In terms of deposit mix, the Current Account (CA) ratio improved slightly to 1.4% (CY24: 0.5%), while CASA deposits strengthened materially to 20.8% (CY24: 1.7%).

Overall, the liquidity profile reflects a transition towards a larger but more structured balance sheet, with strong deposit inflows supporting liquidity buffers while gradual improvements in CASA and deposit diversification enhance funding stability. However, the continued dominance of savings deposits indicates that funding remains relatively rate-sensitive, and further CASA deepening will be critical to improving long-term cost efficiency and liquidity resilience. Deposit concentration remained very high wherein top 10 and top 25 depositors consist of 33% and 51% (CY24: top10: 32%, top25: 47%) of the total deposits, further indicating risk of volatility in available fund balances and potential for liquidity strain. The Liquid Assets to Deposits and Borrowings (LADB) ratio moderated to 35.9% (CY24: 48.7%), reflecting increased deployment of funds into the lending portfolio. In the context of a concentrated funding profile, this liquidity indicators require closer monitoring.

CAPITALIZATION

Table 10: Capitalization

Capitalization (PKR '000s)	CY23	CY24	CY25
Share Capital	3,220.0	3,220.0	3,500.9
Share Premium	52.0	52.0	52.0
Statutory & General Reserves	98.2	98.2	98.2
Depositors' Protection Fund	32.5	33.0	33.0
Accumulated Profit	(515.8)	(1,790.3)	(2,088.7)
Equity	2,886.9	1,612.9	1,595.4
(Deficit)/Surplus on Revaluation of Assets	0.2	0.9	23.9
Total Equity	2,887.1	1,613.8	1,619.3
Capital Adequacy Ratio (CAR)	48.0%	28.9%	15.5%

The MFB's core equity position (excluding revaluation surplus) continued to weaken during CY25, declining to PKR 1,595.4 mn (CY24: PKR 1,612.9 mn), driven by increased accumulated losses, which increased to PKR 2,088.7 mn (CY24: PKR 1,790.3 mn), reflecting continued pressure on internal capital generation despite significant balance sheet expansion during the year. The MFB recorded an increase in share capital to PKR 3,500.9 mn (CY24: PKR 3,220.0 mn), reflecting a rise of PKR 280.9 mn during the year. However, the growth in paid-up capital was effectively absorbed by rising accumulated losses. This highlights a continued reliance on external capital support rather than internally generated profits to sustain the capital base. When including the revaluation surplus, total equity improved marginally to PKR 1,619.3 mn (CY24: PKR 1,613.8 mn), supported by a higher revaluation reserve of PKR 23.9 mn (CY24: PKR 0.9 mn). However, the contribution of revaluation gains remains limited and does not materially alter the overall capital strength of the Bank.

The Capital Adequacy Ratio (CAR) declined significantly to 15.5% (CY24: 28.9%), reflecting strong growth in risk-weighted assets alongside constrained core capital formation. Although the CAR remains marginally above the regulatory minimum threshold of 15.0%, the narrowing buffer indicates increased sensitivity to further credit expansion or asset quality shocks. Overall, the capitalization profile reflects a stressed but compliant capital position.

As per the management, the sponsor is injecting an equity of USD 3.0 mn (~PKR 840 mn), of which USD 2.0 mn has already been received as of March 2026, while the remaining USD 1.0 mn is expected by end-April 2026. This capital injection is expected to strengthen the MFB's Capital Adequacy Ratio (CAR), which is currently standing at around ~16.5-17%. Going forward, sustained profitability improvement will be essential to maintain capital adequacy buffers and support future balance sheet growth.

Financial Summary	(PKR Mn)			
	CY22A	CY23A	CY24A	CY25A
Balance Sheet				
Cash and Bank Balances with SBP and NBP	96.3	111.8	460.0	1,165.6
Balances with other Banks and/NBFIs/MFBs	1,119.2	1,215.4	1,673.3	3,467.7
Net Investments	312.0	412.3	567.4	1,863.7
Net Advances	5,286.8	3,825.0	4,138.3	10,807.6
Operating Fixed Assets	339.4	387.7	439.9	678.2
Deferred Tax Assets	100.6	316.6	409.0	527.7
Other Assets	425.9	402.3	268.3	1,067.1
Total Assets	7,680.3	6,671.1	7,956.2	19,577.6
Deposits	2,413.8	928.9	5,434.7	15,487.9
Borrowings	1,982.3	1,982.3	0.0	1,177.0
Other Liabilities	759.0	872.8	907.7	1,293.4
Tier-1 Equity	2,390.7	2,477.4	1,264.8	1,079.6
Net Worth	2,525.2	2,887.1	1,613.8	1,619.3
Income Statement	CY22A	CY23A	CY24A	CY25A
Net Mark-up Income	1,828.7	1,499.7	1,225.4	1,653.9
Net Provisioning / (Reversal)	660.7	926.2	623.8	43.6
Non-Markup Income	196.9	231.6	186.7	276.9
Operating Expenses	1,239.9	1,554.9	1,781.6	2,269.7
Profit Before Tax	124.9	-749.8	-996.5	-382.6
Profit after tax	114.7	-561.4	-933.5	-297.2
Ratio Analysis	CY22A	CY23A	CY24A	CY25A
Gross Infection (%)	14.3%	15.6%	12.2%	3.2%
Net Infection (%)	12.2%	9.6%	6.9%	1.2%
Incremental Infection (%)	18.6%	13.4%	17.5%	1.4%
General Provisioning Coverage (%)	2.2%	1.1%	2.9%	1.0%
Specific Provisioning Coverage (%)	16.5%	42.8%	46.6%	64.5%
Net NPLs to Tier-1 Capital (%)	27.6%	14.9%	23.3%	11.8%
Capital Adequacy Ratio (%)	37.9%	48.0%	28.9%	15.5%
Markup on Earning assets (%)	38.1%	39.2%	37.0%	28.1%
Cost of Funds (%)	12.6%	17.6%	19.0%	13.1%
Spreads (%)	25.6%	21.6%	18.0%	15.0%
OSS (%)	104.0%	74.9%	68.5%	89.1%
ROAA (%)	1.5%	-7.8%	-12.8%	-2.2%
ROAE (%)	4.7%	-20.7%	-41.5%	-18.4%
Advances to Deposits Ratio (%)	228.7%	445.5%	83.0%	72.0%
Liquid Assets to deposits & borrowings (%)	33.9%	52.0%	48.7%	35.9%
A - Actual Accounts				
P - Projected Accounts				

REGULATORY DISCLOSURES Appendix I

Name of Rated Entity	LOLC Microfinance Bank				
Sector	Microfinance Bank				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	21-May-26	A-	A2	Stable	Reaffirmed
	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.				
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Due Diligence Meeting Conducted	Name	Designation		Date	
	Mr. Farooq Rashid	Chief Executive Officer		23 rd April, 2026	
	Mr. Nizar Noor Ali	Chief Commercial Officer			