RATING REPORT

Halan Microfinance Bank Limited

REPORT DATE:
April 30, 2025

RATING ANALYST:
Musaddeq Ahmed Khan
musaddeq@vis.com.pk

RATING DETAILS				
Rating Category	**Current Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity Rating	BBB	A3	BBB	A3
Rating Date	April 30, 2025		April 30, 2024	
Outlook/Rating Watch	Positive		Positive	
Rating Action	Reaffirmed		Maintained	

COMPANY INFORMATION	
Incorporated in 2012	**Board Chairman:** Mr. Mounir Ikram Kamal Nakhla
Public Limited Company	**CEO:** Mr. Christos Stefano Argyriou
Key Shareholders (with 5% or more):	**External Auditors:** BDO Ebrahim & Co. Chartered Accountants
- MNT-Halan Pak B.V – 99.99%	

APPLICABLE METHODOLOGY(IES)

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

APPLICABLE RATING SCALE(S)

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

Halan Microfinance Bank Limited

OVERVIEW OF THE INSTITUTION

Halan Microfinance Bank Limited (HALAN), formerly Advans Pakistan Microfinance Bank Limited, is a Public Limited Company incorporated in April 2012. under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). It is dedicated to providing trusted and innovative financial services, with a focus on supporting underserved and economically disadvantaged communities.

Profile of Board Chairman:

Mr. Mounir Nakhla is the Founder of Halan, a leading mobility and on-demand logistics platform in Africa. He has a proven track record in microfinance and entrepreneurship, having founded Tasaheel, Egypt's second-largest microfinance institution, and Mashroey, an asset-based microfinance company. Under his leadership, both institutions expanded rapidly across Egypt. Earlier, he held senior roles at Environmental Quality International, contributing to its growth in microfinance consultancy and sustainable development. Mr. Nakhla holds an MSc in Environment and Development from the London School of Economics and a BSc in International Business Studies.

RATING RATIONALE

The ratings assigned to Halan Microfinance Bank Limited ('Halan' or the 'Bank') takes into consideration the institution's transition following a change in ownership, coupled with ongoing strategic reorientation and operational strengthening, and as such reflect the international experience of its new owners in microfinance. The Bank has adopted a cautious approach to lending, realigned its credit policies, and made strides in digitizing loan processing and collections to bolster asset quality. While the transformation phase has led to consolidation in the borrower base and a slowdown in credit growth, it has also improved credit risk management and portfolio monitoring.

With fresh capital infusion in 2024 and Q1'25, the Bank's capital adequacy stands reinforced and above the regulatory environment. Furthermore, an additional capital infusion is expected by April 2025. A higher level of provisioning under IFRS-9 has diminished the impact of NPLs identified over the last 3 years, and the latent risk in the existing portfolio. Liquidity has improved notably given enhanced deposit mobilization and with increased investment in government securities, as credit extension is yet to pick pace. However, the deposit base exhibits significant and increasing concentration, which can pose liquidity constraints in case of unexpected calls on liquidity, limiting the Bank's growth potential in the near-term. The Bank is addressing these concerns through active engagement with large-ticket depositors and plans to diversify via digital and retail channels.

Going forward, plans include national expansion, product diversification, and the development of Islamic banking capabilities. These initiatives, along with further capital commitments from the sponsor, are expected to support growth, improve financial sustainability, and promote broader financial inclusion. The ratings are contingent upon the successful execution of the Bank's strategic plan, including sustained improvement in asset quality, enhancement in profitability metrics, maintenance of adequate capitalization, and continued sponsor support in the form of timely capital injections till needed.

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 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

Profile of CEO:
Mr. Christos Stefano Argyriou brings extensive experience across banking, investments, fintech, oil and gas, energy, and retail sectors He previously served as Internal Expansion Director at MNT Investments B.V., where he led MNT Halan's first international expansion into Pakistan, demonstrating a strong understanding of the local microfinance landscape. Earlier, he was part of Qalaa Holding, where he contributed to the development and management of strategic investments, including The Egyptian Refining Company, a USD 4.3 bn project, and Taqa Arabia, a leading private utility firm. He holds a Bachelor's degree in Business Administration from The American University in Cairo.

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% (CY23: 78.8%), while net losses doubled to PKR 16.2 billion after tax, driven by rising provisioning costs and elevated interest expenses in CY24.

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.

Company Profile

Halan Microfinance Bank Limited (formerly Advans Pakistan Microfinance Bank Limited) ('Halan' or the 'Bank') was established in Pakistan on April 17, 2012. The Bank previously operated as a subsidiary of Advans S.A. Sicar, based in Luxembourg, which held 99.99% of the Bank's share capital (Dec'23: 99.99%). On August 04, 2023, Advans S.A. Sicar, entered into a share sales agreement with MNT-Halan Pak B.V., a company registered in the Netherlands, for the sale of 100% of Advans Pakistan's shares. The SBP approved this arrangement on October 23, 2023, resulting in a change of the Bank's parent entity. On March 20, 2024, MNT-Halan Pak B.V. acquired the entire shareholding of Advans Pakistan Microfinance Bank Limited.

Moreover, Halan submitted its application for the national license to the SBP in the last quarter of 2024. In this regard, the first meeting with the SBP was held in the last week of April 2025. The national license is expected to be issued in Q2'25.

Sponsor Profile

MNT-Halan was established in 2021 following the merger of Halan, an Egypt-based ride-hailing platform founded in 2017 by Mr. Mounir Nakhla and Mr. Ahmed Mohsen, with MNT Investments B.V., a Netherlands-based microlender. The merger was executed through a share swap agreement, resulting in the formation of MNT-Halan—a Dutch-Egyptian financial technology entity.

Headquartered in Egypt, MNT-Halan operates as a fully integrated digital ecosystem offering a wide range of services, including micro and small business lending, consumer finance, payments, mobile wallets, card issuance, and e-commerce solutions. The platform was developed with the objective of enhancing financial inclusion by digitizing cash-based transactions and providing accessible financial services to underserved populations.

With over 1.5 mn quarterly active users and a customer base exceeding 7 mn, MNT-Halan is positioned as Egypt's first fintech unicorn. Its mobile application enables users to access a broad spectrum of services—including borrowing, payments, money transfers, and shopping—on a single platform.

Auditor's Report

The CY24 financial statements were audited by BDO Ebrahim & Co. Chartered Accountants, 'Category A' on the SBP's Panel of Auditors. The auditor issued an unmodified opinion on the financial statements. However, an emphasis of matter was included, which discloses that the Bank has recognized a deferred tax asset based on the expectation of sufficient taxable profits in future years, as projected in its financial forecasts. The preparation of these forecasts is based on management's assumptions regarding future business and economic conditions. Any significant changes in these assumptions could impact the recoverability of the deferred tax asset.

Board of Directors & Governance

Name	Designation
Mr. Mounir Ikram Kamal Nakhla	Chairman/ Non-Executive
Mr. Christos Stefano Argyriou	CEO/ Executive Director
Mr. Andreas Valavanis	Non-Executive Director
Mr. Ahmed Mohsen Soliman	Non-Executive Director
Mr. Yasir Hamid	Non-Executive Director
Ms. Yusra Arshad Gillani	Independent Director
Ms. Ayesha Gulzar	Independent Director

The Board of Directors (BoD) of Halan consists of seven members, including four non-executive directors—one of whom serves as Chairman—two independent directors, and the Chief Executive Officer (CEO) as the only executive director. The Chairman and CEO are foreign professionals nominated by the shareholders. Of the five appointed directors, four are Egyptian nationals, and one is a local nominee director. Ms. Yusra Arshad Gillani and Ms. Ayesha Gulzar continue to serve as independent directors on the Board.

For effective oversight, there are three board level committees in place namely; Board Audit Committee, Board Risk Committee, and Board Human Resource & Remuneration Committee. As per best practices, an independent director chairs the Board Audit Committee, Board Risk Committee, and the Board Human Resource & Remuneration Committee.

Loan Approval & Collection Process

Post-acquisition of the Bank, the loan approval process has been restructured to improve credit risk assessment methodologies, based on prior experiences in the domestic market. Loan applications undergo a multi-layered evaluation that includes borrower profiling, verification of income sources, credit history checks, and an assessment of repayment capacity. Credit policies have been refined to enhance risk-based decision-making, including the introduction of stringent credit underwriting standards. Recent improvements include the digitization of loan processing workflows, enabling greater transparency, faster turnaround times, and consistency in credit assessments across branches, bringing on board the sponsor group's international experience.

On the collection side, Halan has implemented several structural and procedural enhancements to strengthen portfolio quality. A centralized monitoring framework has been adopted to track delinquency trends in real time, supported by data-driven early warning systems. The collections' function has been reorganized with clearly defined escalation protocols and the introduction of performance-linked incentives for field staff. Dedicated recovery teams have been deployed to manage high-risk segments, while legal enforcement has been reinforced to address persistent defaults. These initiatives, coupled with improved reporting and accountability mechanisms, have collectively contributed to a more disciplined and results-driven recovery process.

Productivity Analysis

Productivity Indicators	CY21	CY22	CY23	CY24
No. of Loan Officers	216	317	258	238
No. of Branches	14	19	19	24
No. of Active Borrowers	15,163	19,302	17,941	13,411
LOs/Branch	15	16	13	10
Active Borrowers/LO	70	60	69	56
Active Borrowers/Branch	1,083	1,015	944	558
Average Loan Size (PKR)	164,479	180,241	200,539	240,653

At Halan, the total LO headcount has been declining over time. In response to post-acquisition operational restructuring and the macroeconomic uncertainty, the Bank adopted a portfolio consolidation strategy during the review period, emphasizing recoveries and limiting risk aggregation with fewer borrowers. This recalibration led to a decline in the Active Borrowers/LO ratio during CY24, despite a lower LO headcount. On the other hand, the average ticket size increased by end-CY24, largely attributable to elevated inflation during the first half of the year, enabling the Bank to meet the higher financing requirements of its borrower base. In parallel, Halan began positioning itself for broader market penetration, anticipating an improved economic environment and gradually transitioning towards Pan-Pakistan operations. This was reflected in the expansion of its physical footprint, with three new branches opened during the year.

Combined with the reduced LO headcount and fewer borrowers, both the LOs/Branch and Active Borrowers/Branch ratios decreased in the review period.

Going forward, Halan plans to redirect its growth strategy toward high-potential markets beyond Sindh. The Bank aims to implement a three-tiered business unit model tailored to varying market dynamics. The redesigned network will comprise full-scale branches offering both asset and deposit products, primarily located in rural areas; asset sale branches focused mainly on lending with limited deposit-taking, also targeting rural markets; and service centers—extensions of existing branches—offering only asset products, expected to be established in both rural and urban areas. Additionally, deposit sale branches, primarily focused on deposit mobilization with limited asset offerings, will be rolled out in urban locations.

Through this delivery model, Halan seeks to enhance its customer outreach, customize services to meet the specific needs of different communities, and strengthen its overall market position. Additionally, the Bank plans to introduce two women-dedicated branches, exclusively serving female clients with both asset and deposit products.

Financial Analysis

Credit Risk

Gross Loan Portfolio

Following the acquisition and subsequent change in ownership, Halan adopted a more cautious lending approach. This resulted in reduced loan disbursements, which stood at PKR 3.2 bn (Dec'23: PKR 4.1 bn), with a greater focus on recoveries, totaling to PKR 63.2 mn (Dec'23: PKR 46.7 mn) by end-Dec'24. As a result, the Bank's Gross Loan Portfolio (GLP) declined to PKR 2.6 bn as of Dec'24 (Dec'23: PKR 3.2 bn). Going forward, the GLP is projected to reach PKR 6.0 bn by end-Dec'25, supported by expected annual disbursements of PKR 9.5 bn.

Microcredit Portfolio Risk Segregation

Product Mix (PKR mn)	CY22	%	CY23	%	CY24	%
Halan Sona Sarmaya EMI	21	0.6%	9	0.3%	6	0.2%
Halan Sona Sarmaya Bullet	310	8.9%	86	2.7%	58	2.3%
Halan Tijarat Loan	2,574	74.0%	2,357	73.0%	1,547	60.3%
Halan Khatoon Tijarat Loan	-	0.0%	7	0.2%	10	0.4%
Halan Tijarat Plus Loan	472	13.6%	739	22.9%	890	34.7%
Halan Pension Finance	-	0.0%	-	0.0%	6	0.3%
Halan Salary Finance	-	0.0%	-	0.0%	49	1.9%
Halan Kissan Bullet Loan	54	1.6%	26	0.8%	0	0.0%
Halan Tijarat Minus	18	0.5%	0	0.0%	-	0.0%
Covid Restart	9	0.3%	0	0.0%	-	0.0%
Halan Kissan Restart	21	0.6%	3	0.1%	-	0.0%
Total	**3,479**	**100%**	**3,227**	**100%**	**2,567**	**100%**

In terms of product distribution, the Halan Tijaarat Loan—Halan's flagship offering—remained the largest contributor to the loan portfolio, although its share in the overall GLP declined to 60.3% in CY24 (CY23: 73.0%). This reduction was balanced by an increase in the share of the Halan Tijaarat Plus Loan, which is an extension of the Bank's main product. In the last quarter of 2024, the Bank also introduced new products, including salary loans, pension loans, and livestock loans. The salary and pension loans are aimed at individuals seeking financial support post-retirement, while livestock loans are intended to assist farmers and small-scale agricultural operators in expanding their livestock activities. These additions moderately broaden the Bank's product suite and are expected to support customer diversification, with a focus on catering to specific needs within targeted segments.

Segments (PKR mn)	CY22	%	CY23	%	CY24	%
Agriculture	268	7.7%	78	2.4%	36	1.4%
Production	563	16.2%	526	16.3%	418	16.3%
Public Works Building	1	0.0%	1	0.0%	1	0.0%
Wholesale trade	133	3.8%	102	3.2%	83	3.2%
Retail trade	1,994	57.3%	2,023	62.7%	1,585	61.7%
Services	515	14.8%	496	15.4%	439	17.1%
Other	5	0.2%	1	0.0%	6	0.2%
Total	**3,479**	**100.0%**	**3,227**	**100.0%**	**2,567**	**100.0%**

The segment-wise breakdown of the GLP indicates that the majority of advances remain concentrated in the 'Retail Trade' segment, which accounted for 61.7% in CY24 (CY23: 62.7%). Meanwhile, the 'Services' segment saw a slight increase, rising to 17.1% in CY24 (CY23: 15.4%).

Conventional vs Shariah (PKR mn)	CY22	%	CY23	%	CY24	%
Conventional Loans	3,479	100.0%	3,227	100.0%	2,567	100.0%
Shariah Loans	-	-	-	-	-	-
Total	**3,479**	**100.0%**	**3,227**	**100.0%**	**2,567**	**100.0%**

During the review period, all loans disbursed by Halan were conventional in nature. Going forward, in line with the SBP's directive to transition the banking sector towards full Islamic operations by 2028, the Bank plans to apply for an Islamic banking license in 2026. Starting in 2026, Halan will commence the development of Shariah-compliant products and services. A dedicated Shariah Board will be constituted to provide oversight and ensure compliance with Islamic banking principles. Additionally, structured training programs will be introduced to build internal capacity and improve staff expertise in Islamic finance.

Secured vs Unsecured (PKR mn)	CY22	%	CY23	%	CY24	%
Secured Loans	331	9.5%	95	2.9%	64	2.5%
Unsecured Loans	3,148	90.5%	3,132	97.1%	2,502	97.5%
Total	**3,479**	**100.0%**	**3,227**	**100.0%**	**2,567**	**100.0%**

Unsecured loans continue to constitute a significant portion of Halan's loan portfolio, constituting primarily low-income individuals who typically lack the collateral required for secured lending. Following the anticipated receipt of a national license by May 2025, the Bank intends to roll out these products on a broader scale, targeting clients requiring swift and accessible credit solutions.

EMI vs Bullet (PKR mn)	CY22	%	CY23	%	CY24	%
EMI	3,094	88.9%	3,113	96.5%	2,508	97.7%
Bullet	385	11.1%	114	3.5%	58	2.3%
Total	**3,479**	**100.0%**	**3,227**	**100.0%**	**2,567**	**100.0%**

Except for the 'Halan Sona Sarmaya Bullet,' all other offerings by the MFB feature monthly repayment schedules, resulting in a high proportion of EMI-based loans in the portfolio. Going forward, the Bank plans to revamp its loan products by introducing flexible terms, market-based fees, and broadly unsecured loans with EMI, aimed at addressing the specific needs of lower-income borrowers.

Group vs Individual (PKR mn)	CY22	%	CY23	%	CY24	%
Group Based	-	-	-	-	-	-
Individual	3,479	100.0%	3,227	100.0%	2,567	100.0%
Total	**3,479**	**100.0%**	**3,227**	**100.0%**	**2,567**	**100.0%**

In the domestic microfinance sector, the prevalence of group lending has declined due to concerns over dummy borrowers, which can result in excessive loan disbursements beyond a borrower's cash flow capacity and repayment ability.

Size wise composition (No. of clients)	CY23	%	CY24	%
Up to PKR 25,000	-	-	-	-
PKR 25,001 - PKR 50,000	19	0.1%	14	0.1%
PKR 50,001-PKR 100,000	325	1.8%	346	2.6%
PKR 100,001 and 250,000	8,500	47.4%	5,921	44.2%
PKR 250,001 and 500,000	8,912	49.7%	6,557	48.9%
PKR 500,001 and above	185	1.0%	573	4.3%
Total	**17,941**	**100.0%**	**13,411**	**100.0%**

During CY24, the Bank’s average loan size increased to PKR 240,653 (CY23: PKR 200,539), reflecting a continued concentration of clients within the higher ticket segments of PKR 100,001–PKR 250,000 and PKR 250,001–PKR 500,000, which collectively comprised 93.1% (CY23: 97.1%) of the portfolio. The predominance of unsecured lending—coupled with the allocation of larger exposures to a substantial portion of the client base—elevates Halan’s credit risk profile. However, in Q1-2025, the Bank implemented a strategic shift aimed at reducing the average loan size. This was accomplished through adjustments to its sales strategy and credit criteria, along with the introduction of new products.

Asset Quality

Asset Quality (PKR mn)	CY21	CY22	CY23	CY24
Gross Advances	2,494	3,479	3,227	2,567
Specific Provisioning	31	115	77	-
General Provisioning	33	31	31	-
Stage-1 Provisioning	-	-	-	133

Stage-2 Provisioning	-	-	-	11
Stage-3 Provisioning	-	-	-	112
Net Advances	2,430	3,333	3,120	2,311
NPLs	78	187	160	163
NPLs written off	129	170	338	335
Gross Infection	**3.1%**	**5.4%**	**4.9%**	**6.4%**
Net Infection	**1.9%**	**2.1%**	**2.6%**	**1.7%**
Incremental Infection	**6.1%**	**9.2%**	**8.7%**	**11.1%**
Specific Provisioning Coverage	**40.2%**	**61.4%**	**48.1%**	**75.2%**
General Provisioning Coverage	**1.3%**	**0.9%**	**1.0%**	**5.5%**
Net NPLs/Tier-1 Equity	**6.1%**	**11.1%**	**12.8%**	**8.0%**

Non-Performing Loans (NPLs) of the Bank increased slightly to PKR 163.0 mn by end-Dec'24 (Dec'23: PKR 159.5 mn), resulting in a worsening of the gross infection ratio to 6.4% (CY23: 4.9%). However, the net infection ratio improved to 1.7% (CY23: 2.6%), supported by higher specific provisioning following the implementation of IFRS-9, and a greater share of NPLs categorized under 'Doubtful' and 'Loss.' The incremental infection[1] rose to 11.1% (CY23: 8.7%), driven by the reported increase in NPLs, with write-offs reported at PKR 335.4 mn (CY23: PKR 337.7 mn). Specific provisioning coverage increased to 75.2% (CY23: 48.1%), while provisioning against Performing Advances (Stage 1 assets) increased to 5.5% (CY23: 1.0%) during CY24. Despite the impact of a reduction in Halan's core equity, the decline in Net NPLs—attributable to higher specific provisioning—led to an improvement in the Net NPLs to Tier-1 equity ratio, standing at 8.0% (CY23: 12.8%).

Investment Mix

The investment portfolio witnessed material expansion of PKR 1.0 bn, reaching PKR 1.8 bn as of Dec'24 (Dec'23: PKR 707.3 mn), with incremental deployment primarily directed toward T-Bills. These instruments constituted 93.0% of the total investment book, with residual maturities ranging from 9 days to one year and carrying yields between 11.75% and 12.15% (CY23: 21.33%–21.88%). The remaining 7.0% of the portfolio was allocated to Term Deposit Certificates, carrying a one-year maturity profile and a fixed return of 18.5%.

Given the predominant allocation to sovereign instruments, the credit risk inherent in the investment book remains negligible. Furthermore, owing to the short-term tenor of the instruments, exposure to market risk is minimal

Liquidity

Liquidity Indicators (PKR mn)	CY21	CY22	CY23	CY24
Investments	-	146	707	1,790
Cash and balances with SBP and NBP	260	327	391	318
Balances with other banks and MFBs	268	23	97	374
Liquid Assets	**528**	**497**	**1,195**	**2,482**
Deposits	2,272	3,207	3,777	4,616
Borrowings	100	310	182	1

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

Liquid Assets to Deposits and Borrowings (%)	**22.2%**	**14.1%**	**30.2%**	**53.8%**
Advances to Deposits (%)	**109.8%**	**108.5%**	**85.4%**	**55.6%**
CA (%)	**4.0%**	**3.3%**	**1.8%**	**1.6%**
CASA (%)	**41.9%**	**16.1%**	**25.8%**	**33.3%**
Liquid Assets/ TA	**15.7%**	**11.1%**	**24.4%**	**44.2%**

The Liquid Assets to Deposits and Borrowings (LADB) ratio improved to 53.8% (CY23: 30.2%), owing to channeling of new deposit growth in investments amid subdued credit offtake. Halan's deposit base expanded to PKR 4.6 bn (Dec'23: PKR 3.8 bn), while the Advances to Deposits Ratio (ADR) declined to 55.6% (CY23: 85.4%) in CY24.

The deposit composition further indicates that the growth was predominantly led by Savings Deposits, contributing 66.0% of the overall increase, followed by Fixed Deposits at 33.0%, with negligible contribution from Current Deposits, compromising on cost effectiveness. Term deposits dominate the funding mix as of now. Concentration risk has heightened, as the share of the top-10 depositors rose to 55.1% (CY23: 52.3%). Notably, the largest depositor alone accounted for 22.9% (CY23: 11.6%) of total deposits, indicating increased dependence on a single depositor. New growth highlights reliance on larger, cost ineffective funds even as borrowings contracted markedly to PKR 1.1 mn (Dec'23: PKR 182.3 mn) by end-Dec'24. Liquid reserves may become constrained in case of unexpected calls on liquidity, highlighting the criticality of cultivating a broad-based depositor profile to effective liquidity management.

Going forward, Halan plans to implement a structured liquidity and funding framework to support its nationwide expansion and the scaling of its loan portfolio. Retail deposits will form the core of the funding strategy, given their relative stability, cost advantages, and alignment with the Bank's focus on serving a diverse customer base, including both mass-market and high-net-worth individuals. The Bank also intends to access commercial financing to supplement loan book growth, though this will remain a limited component of the overall funding mix. Equity contributions will be utilized during the expansion phase to strengthen the capital base. To improve funding stability, the Bank plans to leverage the MNT-Halan Egypt brand to obtain term finance from wholesale lenders as a contingency mechanism to address potential interim funding gaps. Concurrently, Halan will emphasize digital deposit mobilization channels to expand outreach and maintain funding diversification.

Profitability

Profitability Indicators (PKR mn)	CY21	CY22	CY23	CY24
Return on markup bearing assets	**36.1%**	**42.5%**	**47.1%**	**38.2%**
Cost of Funding	**10.1%**	**14.6%**	**22.6%**	**23.2%**
Spread	**26.0%**	**27.9%**	**24.5%**	**15.0%**
OSS	**106.6%**	**93.9%**	**85.9%**	**71.8%**
ROAA	**2.0%**	**-2.6%**	**-7.0%**	**-13.8%**
ROAE	**8.2%**	**-14.6%**	**-50.8%**	**-126.9%**

Total markup income declined to PKR 1.6 bn in CY24 (CY23: PKR 1.7 bn), primarily attributable to reduced earnings from performing advances amid restrained credit origination. Additionally, the rising share of investments in total earning assets—coupled with the lower yield profile of these instruments following a reduction in the policy rate during the period—contributed to the contraction in yield on earning assets to 38.2% (CY23: 47.1%). Conversely, the cost of funding increased to 23.2% (CY23: 22.6%) during the period under review, irrespective of the monetary easing, which commenced in the second half of the year, leaving average rates higher than prior year and also as the deposit base remains predominantly comprised of fixed deposits bearing higher markup rates. Consequently, the Bank's spreads compressed, standing at 15.0% (CY23: 24.5%) in CY24.

Additionally, non-markup income witnessed a decline—largely due to lower fee income from loan processing—compounding the impact of suppressed net markup income and culminating in a deterioration of the Operational Self-Sufficiency (OSS) ratio to 71.8% (CY23: 85.9%) in CY24. The ongoing compression in NIM, coupled with elevated administrative expenses, further weighed on profitability, leading Halan to report a net loss of PKR 727.3 mn for the period.

Going forward, business expansion is expected to drive revenue growth over the medium term. Emerging trends in asset quality highlight the importance of managing non-performance in tandem with portfolio growth. Overheads are anticipated to remain contained, supported by a favorable macroeconomic outlook and expectations of lower inflation. These developments are projected to support a gradual improvement in earnings, with the Bank targeting break-even by Q1-CY26.

Capitalization

Despite an equity injection of PKR 825.0 mn by the Parent Company during the review period, the Bank's total equity declined to PKR 502.1 mn (Dec'23: PKR 645.1 mn), primarily due to the net loss incurred in CY24 and a PKR 240.0 mn adjustment arising from the implementation of IFRS-9. Nonetheless, the Capital Adequacy Ratio (CAR) registered a modest improvement to 15.3% (CY23: 15.1%), underpinned by a proportionally larger reduction in Risk-Weighted Assets (RWAs) relative to the Bank's total eligible capital.

Going forward, the sponsor group has committed to injecting PKR 2.6 bn over the next five years, of which PKR 825.0 mn was received in Jul'24 and another PKR 600.0 mn received in Jan'25. Further capital infusions are anticipated in the medium term to support compliance with the Minimum Capital Requirement (MCR) and for obtaining a national-level license.

Halan Microfinance Bank Limited — Appendix I

FINANCIAL SUMMARY				(in PKR millions)
BALANCE SHEET	**31-Dec-21**	**31-Dec-22**	**31-Dec-23**	**31-Dec-24**
Cash and Bank Balances with SBP and NBP	259.93	327.21	391.14	317.96
Balances with other Banks and/NBFIs/MFBs	267.76	22.82	96.71	374.34
Lending to Financial Institutions	0.00	0.00	0.00	0.00
Total Investments	0.00	146.49	707.35	1,789.58
Net Advances	2,430.14	3,332.99	3,120.05	2,310.68
Operating Fixed Assets	239.37	411.25	367.40	525.15
Other Assets	108.95	156.72	125.44	179.61
Total Assets	3,371.24	4,476.55	4,905.72	5,610.54
Total Deposits	2,272.27	3,206.86	3,776.97	4,615.62
Borrowings	100.00	310.23	182.33	1.09
Subordinated Debt	0.00	0.00	0.00	0.00
Other Liabilities	241.64	305.00	301.33	491.75
Tier-1 Equity	756.61	653.74	644.37	502.08
Net Worth	757.32	654.46	645.09	502.08
Paid Up Capital	1,725.16	1,725.16	2,045.66	2,870.66
INCOME STATEMENT	**CY21**	**CY22**	**CY23**	**CY24**
Net Mark-up Income	590.41	875.18	882.66	618.10
Net Provisioning / (Reversal)	74.24	252.54	299.04	299.87
Non-Markup Income	142.25	194.57	246.74	222.48
Operating Expenses	602.02	910.67	1,154.01	1,260.91
Profit/(Loss) Before Tax	56.40	-97.73	-323.89	-720.40
Profit/(Loss) After Tax	53.89	-102.87	-329.87	-727.34
RATIO ANALYSIS	**CY21**	**CY22**	**CY23**	**CY24**
Market Share – Advances (%)	0.86%	0.96%	0.79%	0.55%
Market Share – Deposits (%)	0.54%	0.62%	0.63%	0.63%
Gross Infection (%)	3.12%	5.38%	4.94%	6.35%
Incremental Infection (%)	6.11%	9.17%	8.70%	11.11%
Specific Provisioning Coverage (%)	40.24%	61.38%	48.13%	75.24%
General Provisioning Coverage (%)	1.32%	0.92%	0.97%	5.54%
Net Infection (%)	1.89%	2.15%	2.63%	1.65%
Net NPLs to Tier-1 Capital (%)	6.14%	11.06%	12.84%	8.04%
Capital Adequacy Ratio (%)	26.07%	16.28%	15.25%	15.30%
Markup on earning assets (%)	36.10%	42.50%	47.10%	38.23%
Cost of Funds (%)	10.11%	14.62%	22.58%	23.20%
Markup Spreads (%)	26.00%	27.88%	24.52%	15.02%
OSS (%)	106.55%	93.88%	85.90%	71.81%
ROAA (%)	2.01%	-2.62%	-7.03%	-13.83%
ROAE (%)	8.23%	-14.59%	-50.82%	-126.89%
Advances to Deposit Ratio (%)	109.76%	108.49%	85.45%	55.61%
Liquid Assets to Deposits & Borrowings (%)	22.24%	14.12%	30.19%	53.76%

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Halan Microfinance Bank Limited				
Sector	Microfinance Bank				
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				
	30-Apr-2025	BBB	A3	Positive	Reaffirmed
	30-Apr-2024	BBB	A3	Positive	Maintained
	28-Apr-2023	BBB	A3	Stable	Downgrade
	29-Apr-2022	BBB+	A3	Stable	Reaffirmed
	29-Apr-2021	BBB+	A3	Stable	Maintained
	28-Apr-2020	BBB+	A3	Rating Watch - Developing	Maintained
	26-Apr-2019	BBB+	A3	Stable	Reaffirmed
	25-Apr-2018	BBB+	A3	Stable	Reaffirmed
	16-Mar-2017	BBB+	A3	Stable	Reaffirmed
	29-Apr-2016	BBB+	A3	Stable	Reaffirmed
	28-Apr-2015	BBB+	A3	Stable	Reaffirmed
	25-Apr-2013	BBB+	A3	Stable	Initial
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	**Sr. No.**	**Name**	**Designation**	**Date**	
	1.	Mr. Kaleem Raza	CFO	17th April, 2025	