RATING REPORT

Sindh Microfinance Bank Limited

REPORT DATE:

January 09, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity Rating	A	A1
Rating Date	*January 09, 2025*	
Outlook/Rating Watch	*Stable*	
Rating Action	Initial	

COMPANY INFORMATION

Incorporated in 2015	**External auditors:** Riaz Ahmad & Company Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Mr. Baqir Hussain
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Shoaib Arif
Sindh Bank Limited – 99.99%	

APPLICABLE METHODOLOGY(IES)

Methodology: Micro Finance Banks
https://docs.vis.com.pk/docs/MicroFinance-Oct-2023.pdf

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

Sindh Microfinance Bank Limited

OVERVIEW OF INSTITUTION	RATING RATIONALE
Sindh Microfinance Bank Limited ('SMFB' or the 'MFB') was incorporated on March 27, 2015, as a public unlisted company limited. The Bank obtained its microfinance banking license from the State Bank of Pakistan (SBP) on October 16, 2015, allowing it to operate within the Sindh Province.	

Rating Rationale

The assigned ratings of Sindh Microfinance Bank Limited ('SMFB' or the 'MFB') reflect its strategic importance as a wholly owned subsidiary of Sindh Bank Limited (SNDB), a financially stable institution with a long-term entity rating of AA-, extending quasi-sovereign support to the MFB. SMFB's ratings are supported by its strong capitalization, as evidenced by a CAR of 44.0% as of Sep'24, well above the regulatory requirement, and a consistent increase in its equity base.

SMFB's operational resilience is supported by its structured governance framework and strong internal controls. The MFB has implemented measures to address industry challenges, such as high attrition among loan officers, including enhanced remuneration packages and support systems. These initiatives have contributed to improved staff retention and operational efficiency. The rating is further underpinned by SMFB's proactive approach to managing asset quality, which includes borrower-centric practices, stringent operational controls, and effective monitoring systems for loan officers. Additionally, the integration of collection and disbursement responsibilities, along with real-time KYC assessments, helps maintain strong asset quality and operational efficiency.

The MFB has demonstrated significant growth in its Gross Loan Portfolio (GLP), with diversified loan products targeting underserved segments, particularly women empowerment initiatives. While asset quality remains strong with a gross infection ratio of 0.9% and provisioning coverage of 517.2% as of Sep'24, managing non-performance in tandem with portfolio growth remains important. Liquidity metrics have improved, with the Liquid Assets to Deposits and Borrowings (LADB) ratio reaching 70.4% in 9MCY24. While deposit concentration risk and reliance on related-party funding require attention, the stickiness of major deposits mitigates immediate liquidity concerns. The asset-liability maturity analysis further strengthens this position, revealing no significant funding gaps, as borrowings are scheduled to mature in the same period as corresponding loan obligations. Investment reserves are adequately positioned vis-à-vis deposit balances, and the portfolio's maturity profile is structured to service borrowings. As such, liquidity and funding pressures remain well-managed, supporting the MFB's ongoing growth and stability.

With plans for national expansion following the anticipated Pan-Pakistan license approval in CY25, the ratings incorporate potential execution risks associated with scaling operations. However, the management's cautious and strategic approach is expected to mitigate these risks, presenting opportunities for growth in market share, revenue diversification, and geographic reach. Maintaining a strong focus on asset quality, liquidity, and capital adequacy will remain critical to supporting sustainable expansion and safeguarding the institution's financial stability.

Auditor's Opinion

Riaz Ahmad & Company Chartered Accountants, which is a QCR rated firm and categorized as 'Category A' on the SBP's Panel of Auditors, has provided an unqualified and unmodified opinion, affirming that the MFB's financial statements comply with accounting standards and accurately portray the MFB's financial position as of Dec'23.

Corporate Profile

Sindh Microfinance Bank Limited ('SMFB' or the 'MFB') was incorporated on March 27, 2015, as a public unlisted company limited by shares under the repealed Companies Ordinance, 1984 (now replaced by the Companies Act, 2017). The Bank obtained its microfinance banking license from the State Bank of Pakistan (SBP) on October 16, 2015, allowing it to operate within the Sindh Province. Subsequently, it received a certificate of commencement of business from the Securities & Exchange Commission of Pakistan (SECP)

Profile of Chairman

Mr. Baqir Hussain, an HR professional with over 30 years of diverse experience, has worked with leading financial institutions and prominent players in the insurance industry. Holding a Master's degree in Economics, he currently serves as the Head of Human Resource & Training at Sindh Bank Ltd.

Profile of CEO

Mr. Shoaib Arif holds a Master's degree in Economics and has two decades of experience in the microfinance sector. He has served as Chief Operating Officer at ASA Pakistan Limited, one of Pakistan's largest microfinance institutions, and as Chief Executive Officer at ASA Kabul-Afghanistan. He also worked as Chief Operating Officer at Network Microfinance Bank for five years.

on November 30, 2015, and a certificate of commencement of banking business from the SBP on April 15, 2016.

SMFB is a wholly owned subsidiary of Sindh Bank Limited. Its primary objective is to provide microfinance services to poor and underserved segments of society, as outlined in the Microfinance Institutions Ordinance, 2001. The Bank operates through a network of branches and service centers across Sindh Province, comprising 21 branches (2023: 19) and 83 service centers (2022: 72) as of September 2024.

SMFB has applied for a Pan-Pakistan license, which is expected to be approved by mid-CY25. The MFB has fulfilled the State Bank of Pakistan's (SBP) minimum capital requirement of Rs. 1.0 bn, enabling it to expand its microcredit services nationwide.

Sponsor Profile

The sponsor, Sindh Bank Limited ('SNDB' or the 'Bank'), is a well-established and reputable financial institution with a proven track record in the financial services sector. As of Sep'24, SNDB's total assets stood at Rs. 369.6 bn (Dec'23: Rs. 300.5 bn), indicating growth in its financial position. The Bank's gross advances portfolio increased by 53.8%, reaching Rs. 119.2 bn (Dec'23: Rs. 77.5 bn), reflecting an expansion in its lending activities.

SNDB's total deposits crossed the Rs. 250.0 bn milestone, amounting to Rs. 262.6 bn (Dec'23: Rs. 223.6 bn), following a 35% increase in customer accounts. This growth demonstrates customer confidence in the Bank's services.

The Bank's Capital Adequacy Ratio (CAR) stood at 25.48% (minimum requirement: 11.50%), highlighting its strong capital position. Additionally, SNDB holds a long-term entity rating of AA- and a short-term rating of A1+.

Governance

The organizational structure highlights the governance and management hierarchy under the Board of Directors (BoDs), which oversees the entire organization. The Audit Committee and the Chief Executive Officer (CEO) & President, Mr. Shoaib Arif, report directly to the Board. Key functional heads report to the CEO, including Mr. Abid Saghir (Head of Internal Audit), Mr. Fawad Soomro (Head of Banking Business), Mr. Nasir Hussain (Head of Risk & Compliance), Mr. Omar Niaz Rizvi (CFO & Company Secretary), Ms. Sanam Parveen (Head of HR & Admin), Mr. Fahad Saif (Head of Operations), and Mr. Farooq Ahmed (Head of IT).

The BoD at SMFB consists of eight members, including three non-executive directors (one of whom serves as the chairman), four independent directors, and one executive director (CEO of the MFB). The BoD is chaired by Mr. Baqir Hussain, a seasoned banker and HR professional with over 30 years of diversified experience in various banks and financial institutions. He began his career at the Pakistan Industrial Credit and Investment Corporation (PICIC) and has held senior positions at NIB Bank, Burj Bank, Al Baraka Bank Pakistan, and Jubilee Life Insurance. His achievements across these organizations reflect his expertise and leadership. He holds a Master's degree in Economics and a BSBA from the United States.

Composition of the BoD is tabulated below:

Name	Designation
Mr. Baqir Hussain	Chairman/Non-Executive Director
Mr. Dilshad Hussain	Non-Executive Director
Mr. Sikandar Abbasi	Independent Director
Mr. Abdul Quddus Khan	Independent Director
Dr. Ghulam Mustafa Suhag	Independent Director
Ms. Mahin Khan	Independent Director
Mr. Riaz Ahmed	Non-Executive Director
Mr. Shoaib Arif	CEO/President

Five board committees have been established to maintain oversight: the Risk Management Committee (RMC), Board Audit Committee (BAC), Human Resource & Remuneration Committee (HRRC), Director's Nomination Committee (DNC), and Procurement & IT Committee (PITC). The RMC and BAC are chaired by independent directors. During the third quarter of the ongoing year, Ms. Mahin Khan joined the Board, reflecting efforts to promote diversity through increased female representation.

Productivity Analysis

The industry continues to face a significant challenge due to the high attrition rate among loan officers (LOs). This turnover poses difficulties in portfolio management, creates training and skill gaps, reduces product familiarity, and increases the workload on existing staff. To address these challenges, the MFB has revised portfolio benchmarks for LOs and modified their remuneration packages. Additionally, as part of a structured support system, the MFB provides accommodation for LOs, typically located 200 kilometers from their hometowns, along with comprehensive living and food arrangements. These measures have successfully improved field staff retention, while the number of LOs per branch has remained consistent over the years.

The MFB has a presence in all districts of Sindh, and the current need for outlet expansion within the province appears limited. SMFB's expansion strategy focuses on gradually increasing its presence in lower Punjab after obtaining a national-level license in 2025, with plans to expand further across the country. Until then, the growth in the number of active borrowers is anticipated to remain constrained. Consequently, with the number of LOs growing at a faster rate than active borrowers, the ratio of active borrowers per loan officer has declined. Productivity indicators are tabulated below:

PRODUCTIVITY	2021	2022	2023	9M2024
Branches/Service Centers	80	90	96	104
No of Loan Officers	122	174	225	286
No. of Active Borrowers	53,993	66,133	74,180	81,870
Average Loan Size (Rs.)	17,740	19,976	25,982	26,682
Active Borrowers/LO	443	380	330	286
Active Borrowers/Branch	675	735	773	787
LO/Branch	2	2	2	3

Financial Analysis

Credit Risk

Gross Loan Portfolio (GLP)

The MFB's Gross Loan Portfolio (GLP) has demonstrated growth over time, reaching Rs. 2,184.4 mn as of Sep'24 (Dec'23: Rs. 1,927.4 mn; Dec'22: Rs. 1,321.1 mn), reflecting SMFB's ongoing efforts to scale its lending operations.

SMFB offers a diverse range of loan products tailored to meet the specific needs of its clientele. Each product is designed with distinct features to provide financial support and facilitate economic upliftment in underserved segments. The products include:

Product	Financing Limit	Tenure (Months)	Installments
Livestock Loan	Rs. 20,000 - 120,000	10 - 12	EMI
Fisheries Loan	Rs. 20,000 - 120,000	10 - 12	EMI
Agricultural Loan	Rs. 20,000 - 120,000	10 - 12	EMI
Sujaag Aurat Loan	Rs. 20,000 - 120,000	10 - 12	EMI
Sawari Loan	Rs. 20,000 - 120,000	10 - 12	EMI
Karobar Loan	Rs. 20,000 - 120,000	10 - 12	EMI

1. Livestock Financing

Designed for farmers engaged in livestock rearing, this product addresses working capital needs for activities such as purchasing livestock and related inputs.

2. Fisheries Loans

Focused on supporting fishermen, this product provides short-term working capital for operational necessities like ice, food supplies, and diesel, enabling them to achieve better pricing in auction markets.

3. Agricultural Loans

Targeted at small-scale farmers for financing seeds, fertilizers, and pesticides, this product caters to both landowners with less than 5 acres and landless farmers, with repayments aligned to harvest seasons.

4. Sujaag Aurat Loans

This group lending product exclusively empowers women through small-scale financing, encouraging entrepreneurship and economic participation.

5. Sawari Loans

Catering to the demand for vehicles in urban areas and agriculture-related equipment in rural regions, this product supports mobility and agricultural productivity.

6. Karobar Loans

Intended for small businesses, partnerships, or sole proprietorships, these loans finance working capital and fixed capital investments, with a preference for women entrepreneurs.

The MFB's product strategy for the coming years will focus on developing offerings aligned with its core objective of women empowerment. While the core customer base will remain unchanged, SMFB plans to evolve its services and products to address the diverse needs of its clients as its infrastructure and outreach expand. Going forward, the GLP is set to include Nano Loans, targeted at existing customers with a strong repayment history, typically up to 10% of the primary loan amount, to diversify the portfolio and contribute to organic growth. Additionally, SMFB plans to introduce renewable energy products, such as solar panels and biogas converters, to meet the demand for sustainable energy solutions in semi-urban and rural areas, financed through approved suppliers and international funding. To support skill development, the MFB aims to collaborate with vocational training institutes aligned with its mission of empowering women. Micro health and life insurance products will also be rolled out in partnership with insurance providers to protect low-income borrowers from health-related financial risks. Furthermore, the MFB intends to develop infrastructure for small savings collection and peer-to-peer transfers through branchless banking, subject to SBP licensing.

Microcredit Portfolio Risk Segregation

In CY23, the increase in advances was primarily driven by higher lending in the Livestock and General-Purpose segments, which together comprised 97.3% (CY22: 97.3%) of the loan portfolio. The Agriculture and Livestock sectors are significant contributors to Pakistan's economy. Recognizing the limited access to formal financial services for smallholder farmers, SMFB seeks to address this gap by offering tailored financial products to rural clients, including livestock financing and agricultural loans. The General-Purpose segment primarily includes Sujaag Aurat loans, the MFB's flagship product.

Segments	CY21	%	CY22	%	CY23	%	9MCY24	%
Livestock	88	9.2%	90	6.8%	263	13.6%	334	15.3%
Agriculture	10	1.0%	4	0.3%	23	1.2%	37	1.7%
Enterprise	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Housing	28	2.9%	32	2.4%	28	1.5%	25	1.1%

General Purpose	832	86.8%	1,195	90.5%	1,613	83.7%	1,789	81.9%
Total	**958**	**100.0%**	**1,321**	**100.0%**	**1,927**	**100.0%**	**2,184**	**100.0%**

Unsecured loans constitute a significant portion of the MFB's loan portfolio, as SMFB's clientele primarily consists of low-income individuals who often lack the collateral required for secured lending.

Secured/Unsecured (Rs. mn)	CY21	%	CY22	%	CY23	%	9MCY24	%
Secured	29	3.0%	34	2.6%	35	1.8%	30	1.4%
Unsecured	929	97.0%	1,287	97.4%	1,892	98.2%	2,155	98.6%
Total	**958**	**100%**	**1,321**	**100%**	**1,927**	**100%**	**2,184**	**100%**

Except for gold-backed product lending, all other offerings by the MFB feature monthly repayment schedules, contributing to a consistently high proportion of EMI-based loans in the portfolio over time.

EMI/Bullet (Rs. mn)	CY21	%	CY22	%	CY23	%	9MCY24	%
EMI	956	99.8%	1,318	99.8%	1,921	99.6%	2,180	99.8%
Bullet	2	0.2%	3	0.2%	7	0.4%	5	0.2%
Total	**958**	**100%**	**1,321**	**100%**	**1,927**	**100%**	**2,184**	**100%**

In line with the MFB's policy, group lending has accounted for the majority of total lending, showing a steady increase over time. In 9MCY24, it constituted 98.6% of total lending (CY23: 98.2%; CY22: 97.4%), thereby mitigating moral hazard and delinquency risks.

Group/Individual (Rs. mn)	CY21	%	CY22	%	CY23	%	9MCY24	%
Group based	929	97.0%	1,287	97.4%	1,892	98.2%	2,155	98.6%
Individual	29	3.0%	34	2.6%	35	1.8%	30	1.4%
Total	**958**	**100%**	**1,321**	**100%**	**1927**	**100%**	**2,184**	**100%**

During 9MCY24, the MFB's average loan size stood at Rs. 26,682 (CY23: Rs. 25,982; CY22: Rs. 19,976). The proportion of loans within the Rs. 25,000–Rs. 50,000 category increased slightly to 59.0% (CY23: 58.2%), reflecting the MFB's emphasis on lower-ticket lending. SMFB's lending model is designed to assess the repayment performance of customers in lower loan amount categories over initial loan cycles. Based on their payment history, customers are gradually eligible for higher loan amounts. This approach is evident from the limited proportion of loans in the Rs. 100,000–Rs. 250,000 and Rs. 250,000–Rs. 500,000 categories, which remained low at 0.2% (CY23: 0.2%) and 0.1% (CY23: 0.1%) by end-Sep'24, respectively. The management has stated that maintaining lower loan sizes enables customers to manage timely repayments, thereby reducing the probability of default and ensuring credit discipline across the portfolio.

Description	CY23 (Rs. mn)	%	9MCY24 (Rs. mn)	%
Up to Rs. 25,000	544	28.2%	590	27.0%
Rs. 25,000 - 50,000	1,121	58.2%	1,290	59.0%
Rs. 50,000 - 100,000	228	11.8%	274	12.6%
Rs. 100,000 - 250,000	4	0.2%	3	0.2%
Rs. 250,000 and 500,000	2	0.1%	2	0.1%
Rs. 500,000 and above	28	1.5%	25	1.1%
Total	**1,927**	**100%**	**2,184**	**100%**

Portfolio oversight and credit discipline

SMFB employs a comprehensive and structured approach to managing asset quality, focusing on operational controls and borrower-centric practices to limit Non-Performing Loans (NPLs) and maintain infection ratios at acceptable levels. A key aspect of its strategy is maintaining appropriately sized loans to align with borrowers' repayment capacities, reducing the likelihood of default. LOs operate within strict parameters, including the use of circuit breakers that monitor their activities during credit appraisal. These circuit breakers ensure compliance with operational protocols, such as maintaining disbursements within a 13-15 km radius from service centers, with each center catering to four distinct areas.

To further strengthen asset quality, the MFB minimizes risks of collusion by assigning LOs to areas where they lack personal affiliations, ensuring impartiality in loan disbursement and monitoring. By integrating collection and disbursement responsibilities within a single team, SMFB ensures accountability and continuity throughout the loan cycle. During collections, its staff conducts thorough Know Your Customer (KYC) assessments, enabling real-time evaluation of borrowers' financial conditions and early identification of potential repayment challenges.

Asset Quality

By the end of Dec'23, NPLs were reported at Rs. 5.9 mn (Dec'22: Rs. 36.5 mn). As a result, the gross infection rate improved to 0.3% (CY22: 2.8%), while net infection remained minimal throughout CY23. However, the incidence of new non-performance rose to 5.3% (CY22: 2.9%), primarily driven by the substantial quantum of NPLs written off during the year, which reduced the outstanding NPLs as of Dec'23 and increased the proportional impact of new NPLs on incremental infection. The write-offs were associated with the rescheduled loan portfolio impacted by COVID-19 and the 2022 floods. The MFB's total provisioning coverage increased significantly to 363.0% (CY22: 49.8%) in CY23.

During 9MCY24, the gross infection ratio deteriorated slightly, reaching 0.9% due to higher NPLs of Rs. 18.8 mn as of Sep'24. In contrast, the incremental infection ratio improved to 1.2%, supported by a lower volume of NPLs written off during the period. The MFB's total provisioning further strengthened to 517.2% (Dec'23: 363.0%). Provision coverage for Stage-1 assets stood at 3.4%, while Stage-2 and Stage-3 assets were provisioned at 99.4% each of their respective gross exposures.

Infection (Rs. mn)	CY21	CY22	CY23	9MCY24
NPLs	11	37	6	19
NPLs written off	6	7	122	11
Gross Infection	1.1%	2.8%	0.3%	0.9%
Net Infection	0.7%	2.4%	0.3%	0.0%
Incremental Infection	1.5%	2.9%	5.3%	1.2%
Specific Provisioning Coverage	39.1%	14.7%	43.4%	99.4%
Total Provisioning Coverage	126.0%	49.8%	363.0%	517.2%
Net NPLs/Tier-1 Equity	0.7%	3.1%	0.5%	0.0%

Investment Mix

The investment portfolio increased by Rs. 589.6 mn, reaching Rs. 644.4 mn as of Dec'23 (Dec'22: Rs. 54.8 mn), primarily driven by higher borrowings allocated to investments, with the excess growth in investments over borrowings funded through deposits. By end-Dec'23, the MFB's investment portfolio composition shifted, with T-Bills comprising 22.4% (Dec'22: 100%) and Term Deposit Receipts (TDRs) accounting for 77.6%, thereby introducing higher credit risk. By end-Sep'24, T-Bills accounted for 20.3% of SMFB's total investments, while TDRs represented 79.7%.

Liquidity and Leverage

The Liquid Assets to Deposits and Borrowings (LADB) ratio improved to 63.7% in CY23 (CY22: 54.5%), driven by a significant allocation to short-term liquid investments, financed through incremental borrowings and supplemented by deposit inflows. The deposits experienced a substantial increase of Rs. 722.9 mn as of Dec'23, reaching Rs. 1,323.3 mn (Dec'22: Rs. 600.3 mn), with the growth predominantly driven by term deposits. While deposit concentration risk exists, as a single depositor accounts for 50.0% of the total deposit base, management considers the deposit to be sticky given its affiliation with a related entity. The nature of the relationship and the stability of the deposit do not pose an immediate concern regarding funding or liquidity. The Advances to Deposits Ratio (ADR) declined during the period, reflecting constrained growth in advances as the MFB's plans to expand operations nationwide are yet to materialize.

Liquidity (Rs. mn)	CY21	CY22	CY23	9MCY24
Liquid Assets	951	496	1,302	1,752

Deposits	271	600	1,323	1,937
Borrowings	750	310	721	551
Subordinated Debt	-	-	-	-
LADB	93.2%	54.5%	63.7%	70.4%
ADR	353.4%	220.1%	145.7%	112.8%
CA	0.0%	0.0%	0.0%	0.1%
CASA	7.8%	48.3%	26.4%	17.4%

Borrowings from the State Bank of Pakistan (SBP) increased significantly to Rs. 571.0 mn by Dec'23 (Dec'22: Rs. 310.0 mn), as the MFB utilized an additional Rs. 261.0 mn under the SBP's Line of Credit Fund (LOCF) scheme. The additional funding was sanctioned in two tranches of Rs. 250.0 mn and Rs. 11.0 mn, respectively, at a concessional markup rate of six months KIBOR -1.0%. Furthermore, by end-Dec'23, SMFB secured an additional Rs. 150.0 mn from the Pakistan Microfinance Investment Corporation (PMIC) in two equal tranches, priced at six months KIBOR + 2.5%. The asset-liability maturity analysis as of Dec'23 indicates no significant funding gaps, suggesting that the MFB maintains a balanced liquidity position.

In 9MCY24, the LADB ratio improved further, reaching 70.4%, while the ADR continued its downward trend. Going forward, maintaining effective liquidity management and addressing the depositor concentration risk will be important from the ratings perspective.

Profitability

Markup earned on advances increased to Rs. 780.7 mn in CY23 (CY22: Rs. 390.8 mn), driven by a higher yield on advances at 48.7% (CY22: 35.0%) and an increased return on interest-bearing assets at 38.8% (CY22: 25.8%), attributable to the elevated benchmark rate during the period. Despite the cost of funding rising to 21.4% (CY22: 12.3%), SMFB reported a wider spread of 17.4% (CY22: 13.5%). The provision against non-performing advances was increased to Rs. 125.4 mn in CY23 (CY22: Rs. 11.5 mn) to cover loan impairment risk amid weakening macroeconomic conditions. SMFB reported no non-markup income during the period, while administrative expenses rose by 31.1% due to inflationary pressures. Nevertheless, the Operational Self-Sufficiency Ratio (OSS) strengthened to 116.0% (CY22: 113.9%), reflecting an excess of recurring income over expenses and supporting the bottom line, which increased to Rs. 91.5 mn (CY22: Rs. 41.4 mn).

During 9MCY24, the MFB reported an annualized return on markup-bearing assets of 38.4%, while the annualized cost of funding stood at 20.7%, resulting in a stable spread of 17.7%. The Expected Credit Loss (ECL) allowance was recorded at Rs. 74.0 mn (9MCY23: Rs. 120.7 mn). The Operational Self-Sufficiency Ratio (OSS) further strengthened to 122.1%, underscoring the MFB's capacity to cover expenses through recurring income. 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 can position the MFB to post considerable gains in earnings.

Capitalization

As of Dec'23, SMFB reported total equity of Rs. 1,106.0 mn (Dec'22: Rs. 1,012.4 mn), while Risk-Weighted Assets (RWAs) rose to Rs. 2,356.1 mn (Dec'22: Rs. 1,605.5 mn), driven primarily by the expansion of its micro-credit lending portfolio. However, the growth in Tier-1 and Tier-2 capital trailed the increase in RWAs, resulting in a decrease in the Capital Adequacy Ratio (CAR) to 47.2% (CY22: 63.4%). By Sep'24, the CAR further declined to 44.0%, albeit remaining above the minimum regulatory requirement of 15.0% for microfinance banks. Despite the anticipated transition to Pan-Pakistan operations, with the license expected by mid-2025, the MFB remains cautious in its growth outlook, indicating that its capital base is likely to remain sufficient in the foreseeable future.

Sindh Microfinance Bank Limited (SMFB) Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	**CY21A**	**CY22A**	**CY23A**	**9MCY24M**
Cash and Bank Balances with SBP and NBP	22.9	35.3	80.4	105.9
Balances with other Banks/NBFIs/MFBs	452.6	406.2	577.4	582.2
Net Investments	475.6	54.8	644.4	1,063.9
Net Advances	944.5	1,302.9	1,905.9	2,087.0
Other Assets	100.2	120.4	74.1	32.2
Total Assets	2,085.4	2,007.7	3,414.7	4,095.2
Total Deposits	271.0	600.3	1,323.3	1,937.2
Borrowings	750.0	310.0	721.0	551.3
Subordinated Debt	-	-	-	-
Other Liabilities	95.0	85.0	264.4	279.1
Paid Up Capital	750.0	750.0	1,000.0	1,000.0
Tier-1 Equity	969.3	992.4	1,072.2	1,165.0
Net Worth	969.3	1,012.4	1,106.0	1,224.7
Income Statement (PKR Millions)	**CY21A**	**CY22A**	**CY23A**	**9MCY24M**
Net Mark-up Income	283.7	345.2	619.9	620.8
Net Provisioning/(Reversal)	13.2	11.5	125.4	74.0
Non-Markup Income	-	-	-	-
Operating Expenses	(222.4)	(274.1)	(359.5)	(362.7)
Profit Before Tax	45.8	57.2	130.8	177.8
Profit After Tax	27.3	41.4	91.5	124.8
Ratio Analysis	**CY21A**	**CY22A**	**CY23A**	**9MCY24M**
Gross Infection (%)	1.1%	2.8%	0.3%	0.9%
Incremental Infection (%)	1.5%	2.9%	5.3%	1.2%
Provisioning Coverage – Total (%)	126.0%	49.8%	363.0%	517.2%
Provisioning Coverage – Specific (%)	39.1%	14.7%	43.4%	99.4%
Net Infection (%)	0.7%	2.4%	0.3%	0.0%
Net NPLs to Tier-1 Capital (%)	0.7%	3.1%	0.5%	0.0%
Capital Adequacy Ratio (%)	73.3%	63.4%	47.5%	44.0%
Markup on earning assets (%)*	19.2%	25.8%	38.8%	38.4%
Cost of Funds (%)*	6.2%	12.3%	21.4%	20.7%
Markup Spreads (%)	13.0%	13.5%	17.4%	17.8%
OSS (%)	115.3%	113.9%	116.0%	122.1%
ROAA (%)*	1.4%	2.0%	3.4%	4.4%
ROAE (%)*	2.9%	4.2%	8.6%	14.3%
Advances to Deposit Ratio (%)	353.4%	220.1%	145.7%	112.8%
Liquid Assets to deposits & borrowings (%)	93.2%	54.5%	63.7%	70.4%

**Annualized, if required*

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Annexure II
Name of Rated Entity	Sindh Microfinance Bank Limited
Sector	Microfinance Bank (MFB)
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				
09/01/2025	A	A1	Stable	Initial

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/s Conducted

Name	Designation	Date
Mr. Shoaib Arif	Chief Executive Officer	6th December. 2024
Mr. Shafaeen Hassan	Financial Controller	