RATING REPORT

Sindh Microfinance Bank Limited

REPORT DATE:

April 30, 2025

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	**Long-Term**	**Short-Term**	**Long-term**	**Short-term**
Entity Rating	A	A1	A	A1
Rating Date	April 30, 2025		January 09, 2025	
Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION	
Incorporated in 2015	**External auditors:** Riaz Ahmad & Company Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Mr. Syed Assad Ali Shah
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

OVERVIEW OF INSTITUTION

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.

Profile of Chairman

Mr. Syed Assad Ali Shah, a seasoned banker with 24 years of experience and a Master's degree in Economics, has been associated with Sindh Bank since its inception. He currently serves as the Deputy CEO of Sindh Bank and has also served as the bank's Focal Person for the Government of Sindh, leading strategic collaborations and public-sector initiatives.

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

RATING RATIONALE

Sindh Microfinance Bank Limited ('SMFB' or the 'MFB') has demonstrated considerable progress in consolidating its operations and expanding outreach within the Sindh province. With strategic backing from its parent, Sindh Bank Limited, the institution benefits from strong governance oversight and a stable funding source. Over the review period, SMFB has shown a healthy upward trend in its microcredit portfolio, predominantly focusing on women-centric and livestock-related lending, reinforcing its commitment to financial inclusion. The Bank's operational framework, emphasizing structured client engagement and decentralized field support, has contributed to improved staff retention and enhanced monitoring mechanisms.

The asset quality of the Bank remains sound, with infection ratios maintained at low levels due to a stringent underwriting process and the implementation of prudent provisioning practices in line with IFRS-9 standards. A highly granular and unsecured portfolio structure reflects SMFB's strategic choice to serve underserved, low-income segments without collateral, while group-based lending continues to be a cornerstone of its credit risk mitigation approach. Concurrently, the liquidity position has strengthened, supported by a rising share of liquid assets and improved asset-liability maturity alignment, although the deposit base remains highly concentrated, indicating a degree of funding risk.

Profitability has seen marked improvement, driven by growing net markup income and enhanced spreads, despite rising operating expenses due to network expansion and human resource development. The Bank's capital adequacy position remains significantly above the regulatory threshold, supported by internal profit retention, and is deemed sufficient to support its planned national-level operations.

Going forward, the ratings remain sensitive to the effective execution of SMFB's geographic expansion strategy and the associated operational scale-up. Sustaining asset quality and diversifying the deposit base, will remain the strategic cornerstones for preserving financial resilience.

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 more recently. Total provisioning increased by 53.6% with the sector wide implementation of IFRS-9, in preparation to build necessary buffers for future credit events.

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

With minimal credit offtake, substantial surplus liquidity remained available with liquid assets to funding (deposits, borrowings, bills payable) rising to an average 49.6% as of Dec'24 from 35.0% as of Dec'23. Capitalization levels weakened, as despite a 39.9% increase in paid-up capital, total equity remained flat, reflecting losses. The sector's overall Capital Adequacy Ratio (CAR) dropped sharply to 2.6% as of Dec'24

Network Microfinance Bank for five years.

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.

Auditor's Opinion

Riaz Ahmad & Company Chartered Accountants, which is 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'24.

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) 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 108 locations (CY23: 96). SMFB has applied for a Pan-Pakistan license, which is expected to be approved by mid-CY25. The MFB has fulfilled the SBP minimum capital requirement of PKR 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. As of Dec'24, SNDB's total assets stood at PKR 360.0 bn (Dec'23: PKR 300.5 bn), indicating growth in its financial position. The Bank's gross advances portfolio increased by 27%, reaching PKR 98.6 bn (Dec'23: PKR 77.5 bn), reflecting an expansion in its lending activities. SNDB's total deposits crossed the PKR 250.0 bn milestone, amounting to PKR 312.7 bn (Dec'23: PKR 223.6 bn). This growth demonstrates customer confidence in the Bank's services. The Bank's Capital Adequacy Ratio (CAR) stood at 21.42% (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 Board of Directors (BoD) at SMFB comprises eight members, including four independent directors, three non-executive directors—one of whom serves as the Chairman—and one executive director (the CEO of the MFB). Recent changes to the Board include the appointment of Mr. Syed Assad Ali Shah as Chairman, succeeding Mr. Baqir Hussain. Mr. Shah, who currently serves as the Deputy CEO of Sindh Bank, has played a pivotal role in the Bank's leadership since its inception. He has also served as the Focal Person for the Government of Sindh, facilitating strategic partnerships and public-sector initiatives. Additionally, Mr. Naqi

Raza has joined the Board as an independent director, replacing Mr. Abdul Quddus Khan. Composition of the BoD is tabulated below:

Name	Designation
Mr. Syed Assad Ali Shah	Chairman/Nominee/Executive Director
Mr. Dilshad Hussain	Nominee/Non-Executive Director
Mr. Riaz Ahmed	Nominee/Non-Executive Director
Mr. Naqi Raza	Independent Director
Mr. Sikandar Abbasi	Independent Director
Dr. Ghulam Mustafa Suhag	Independent Director
Ms. Mahin Khan	Independent Director
Mr. Shoaib Arif	CEO/President

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.

The management of SMFB considers frequent client engagement as a key pillar of its operational strategy. This approach was evident in CY24, as the number of loan officers increased, leading to a reduction in the active borrowers per loan officer to 281 (CY23: 330). The lower ratio indicates enhanced staff allocation per borrower, which is expected to strengthen portfolio monitoring and support loan recovery efforts. To improve productivity and cost efficiency, SMFB is also focusing on digital transformation, including a shift towards paperless operations.

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.

Currently, management considers the staffing and operational capacity to be optimal for existing operations; however, the planned geographic expansion post-licensing will likely necessitate further enhancements in infrastructure and personnel. Productivity indicators are tabulated below:

PRODUCTIVITY	CY22	CY23	CY24
Branches/Service Centers	90	96	108
No of Loan Officers	174	225	296
No. of Active Borrowers	66,133	74,180	83,316
Average Loan Size (PKR)	19,976	25,982	26,878
Active Borrowers/LO	380	330	281
Active Borrowers/Branch	735	773	764
LO/Branch	2	2	3

Financial Analysis

Credit Risk

Gross Loan Portfolio (GLP)

The MFB's Gross Loan Portfolio (GLP) has demonstrated growth over time, reaching PKR 2,239.4 mn as of Dec'24 (Dec'23: PKR 1,925.3 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 uplift in underserved segments. The products include:

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

The MFB's product strategy for the coming years will focus on developing offers 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. 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 and Risk Segregations

Segments (PKR in millions)	CY22	%	CY23	%	CY24	%
Livestock	90	7.0%	263	14.0%	372	15.9%
Agriculture	4	0.0%	23	1.0%	46	2.0%
Enterprise	-	0.0%	-	0.0%	0	0.0%
Housing	32	2.0%	28	1.0%	14	0.6%
General Purpose	1,195	90.0%	1,613	84.0%	1902	81.5%
Total	**1321**	**100%**	**1927**	**100%**	**2,334**	**100%**

During CY24, the growth in the loan portfolio was predominantly driven by an increase in General-Purpose and Livestock loans, which together accounted for 97.4% of total advances (CY23: 97.3%). The General-Purpose segment, primarily comprising of Sujag Aurat loans—SMFB's flagship offering aimed at promoting women-led entrepreneurship—remained the cornerstone of the portfolio. Despite the segment's high concentration, credit risk remains well-managed. Livestock financing, the second-largest segment, increased its share to 15.9% (CY23: 14.0%).

SMFB's approach toward financial inclusion and rural development is evident in its continued focus on addressing the credit needs of women and smallholder farmers through customized financial solutions. Other segments, such as housing and agriculture, represent a minor portion of the portfolio. However, the continued expansion of core products highlights the Bank's strategic focus on its niche, while maintaining sound portfolio quality. Management aims to sustain this growth trajectory by deepening penetration in existing segments and scaling operations in underserved rural areas. The anticipated approval of a nationwide license is expected to further accelerate portfolio expansion.

Secured/Unsecured (PKR in millions)	CY22	%	CY23	%	CY24	%
Secured	34	2.6%	35	1.8%	18	0.8%
Unsecured	1,287	97.4%	1,892	98.2%	2316	99.2%
Total	**1,321**	**100%**	**1,927**	**100%**	**2,334**	**100%**

EMI/Bullet (PKR in millions)	CY22	%	CY23	%	CY24	%
EMI	1,318	99.8%	1,921	99.6%	2330	99.8%
Bullet	3	0.2%	7	0.4%	4	0.2%

Total	**1,321**	**100%**	**1,927**	**100%**	**2,334**	**100%**

Group/Individual (PKR in millions)	CY22	%	CY23	%	CY24	%
Group based	1,287	97.4%	1,892	98.2%	2316	99.2%
Individual	34	2.6%	35	1.8%	18	0.8%
Total	**1,321**	**100%**	**1927**	**100%**	**2,334**	**100%**

Unsecured lending forms a substantial component of SMFB's loan portfolio, reflecting the institution's focus on serving low-income segments that typically lack access to collateral for secured borrowing. With the exception of gold-backed lending products, the MFB's entire credit offering is structured around monthly installment repayment plans, resulting in a consistently high share of EMI-based loans. This structure supports regular cash flow cycles and promotes repayment discipline among borrowers. Consistent with the MFB's operational policy, group lending continues to comprise the bulk of disbursements and has exhibited a steady upward trend. This approach not only enhances credit outreach but also serves as a mechanism to mitigate moral hazard and reduce delinquency risk through peer accountability.

Description (PKR in millions)	CY23	%	CY24	%
Up to PKR 25,000	544	28.2%	578	24.8%
PKR 25,000 - 50,000	1,121	58.2%	1,276	54.7%
PKR 50,000 - 100,000	228	11.8%	459	19.7%
PKR 100,000 - 250,000	4	0.2%	6	0.2%
PKR 250,000 and 500,000	2	0.1%	1	0.1%
PKR 500,000 and above	28	1.5%	14	0.6%
Total	**1,927**	**100.0%**	**2,334**	**100.0%**

During CY24, the MFB's average loan size increased marginally to PKR 26,878 (CY23: PKR 25,982), with the largest share of the portfolio continuing to fall within the PKR 25,000–PKR 50,000 bracket. This remains consistent with the institution's strategic focus on lower-ticket lending, underscoring its commitment to financial inclusion through small-sized loans. SMFB's lending strategy follows a graduated approach, whereby initial loan cycles offer smaller amounts to assess the borrower's repayment behavior. Customers demonstrating strong repayment performance are subsequently eligible for higher loan brackets. This model is reflected in the consistently low exposure to higher-value loans—particularly those between PKR 100,000 and PKR 500,000—which constitute only a nominal portion of the overall portfolio. Management maintains that limiting loan sizes helps ensure timely repayments, reduces default risk, and promotes credit discipline across the borrower base.

Asset Quality

Infection (PKR in millions)	CY22	CY23	CY24
Net Advances	1,302.9	1,927.4	2,097.1
NPLs	36.5	5.9	16.2
NPLs written off	6.7	122.1	22.1
Tier 1 Equity	1,012.4	1,106.0	1,254.6
Gross Infection	2.8%	0.3%	0.7%
Net Infection (%)	***2.4%***	***0.3%***	***0.01%***
Incremental Infection (%)	***2.9%***	***5.3%***	***1.6%***
Specific Provisioning Coverage (%)	***14.7%***	***43.4%***	***99.0%***
General Coverage (%)	***1.0%***	***1.0%***	***5.7%***
Net NPLs/Tier 1 Equity (%)	***3.1%***	***0.5%***	***0.0%***

As of end-Dec'24, the Bank's Non-Performing Loans (NPLs) increased to PKR 16.2 mn (Dec'23: PKR 5.9 mn), resulting in a slight rise in the gross infection ratio to 0.7% (Dec'23: 0.3%), while still remaining vastly superior to industry average. Despite the overall increase in NPLs, the incremental infection[1]ratio declined to 1.6% (Dec'23: 5.3%), reflecting a slowdown in new delinquencies. This decline is primarily attributable to

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

lower loan write-offs during the year, compared to elevated write-offs in 2023 associated with the rescheduling of loans impacted by COVID-19 and the 2022 floods. The adoption of IFRS-9 led to a notable improvement in provisioning coverage. Specific provisioning coverage increased to 99.0% (Dec'23: 43.4%), while general provisioning coverage[2] rose to 5.7% (Dec'23: 1.0%), thereby strengthening the MFB's overall loss-absorption capacity. Given that the vast majority of the non-performing portfolio is now fully provided for, both the net infection ratio and net NPLs to Tier 1 equity reduced to 0.0% (Dec'23: negligible), indicating a sound provisioning position.

Investment Mix

As of end-CY24, the MFB's investment portfolio expanded to PKR 1,133.0 mn (CY23: PKR 644.4 mn), reflecting a significant growth of 76%. The portfolio composition continues to be concentrated in Term Deposit Receipts (TDRs), which constituted 79.3% of total investments (CY23: 77.6%). TDRs, carrying interest rates in the range of 19.0% to 21.0%, are placed with tenors of up to twelve months. The concentration in TDRs exposes the investment book to relatively higher credit risk due to non-sovereign counterparty exposure. The remainder of the portfolio is allocated to government securities, primarily Treasury Bills (T-Bills), which entails minimal credit risk. Given that both TDRs and T-Bills are short-tenor instruments with maturity profiles of less than one year, the overall market risk exposure remains limited.

Liquidity and Leverage

Liquidity (PKR in millions)	CY22	CY23	CY24
Liquid Investments	54.8	144.4	233.1
Cash balances with SBP and NBP	35.3	80.4	112.0
Balances with other banks and MFBs	406.2	577.4	904.5
Liquid Assets	**496.4**	**802.2**	**1,249.6**
Deposits	600.3	1,323.3	1,991.2
Borrowings	310.0	721.0	873.8
Liquid Assets to Deposits and Borrowings	***54.5%***	***39.2%***	***43.6%***
Advances to Deposits	***220.1%***	***145.5%***	***112.5%***
CA (%)	***0.0%***	***0.0%***	***0.2%***
CASA (%)	***48.3%***	***26.4%***	***14.3%***
Liquid Assets/ TA	***24.7%***	***23.5%***	***27.6%***

As of end-CY24, the MFB's liquidity position strengthened, with the Liquid Assets to Deposits and Borrowings (LADB) ratio improving to 43.6% (CY23: 39.2%). This improvement was driven by the allocation of incremental deposits and borrowings towards liquid instruments, thereby moderately enhancing the MFB's overall liquidity buffer. Deposit base witnessed expansion, with the pace of deposit growth surpassing the growth in advances. As a result, the Advances to Deposits Ratio (ADR) declined to 112.5% (CY23: 145.5%).

The increase in deposits was underpinned by a rise in fixed deposits, which increased to PKR 1,706.6 mn (Dec'23: PKR 973.8 mn), raising their share in total deposits to 85.7% (CY23: 73.6%). Fixed deposits may tend to be more prone to being rate sensitive. Meanwhile, the share of current deposits remained negligible at 0.2% (CY23: 0.0%), indicating still developing access to low-cost funding. Deposit concentration risk remains elevated. A single related-party depositor accounted for 48.4% (CY23: 50.0%) of total deposits, while the top 10 depositors represented 91.8% (CY23: 91.5%), underscoring vulnerability to large withdrawals and the need for diversification.

On the borrowing front, funds obtained under the SBP's Line of Credit Fund decreased to PKR 495.0 mn (Dec'23: PKR 571.0 mn). Additionally, the PMIC loan was largely settled, bringing the outstanding balance down to PKR 18.8 mn (Dec'23: PKR 150.0 mn). The MFB also obtained funding from its parent institution, Sindh Bank, amounting to PKR 360.0 mn during the year. As per the asset-liability maturity profile as of Dec'24, the Bank exhibited no material cumulative funding gaps, suggesting a well-aligned maturity structure and a balanced liquidity position. This, coupled with enhanced liquid asset buffers, positions the Bank

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

adequately to manage short-term obligations and operational requirements. Moreover, access to liquidity from parent institution mitigates the risk of relatively weaker market access.

Profitability

Profitability Indicators	CY22	CY23	CY24
Return on markup bearing assets	*25.8%*	*38.8%*	*38.0%*
Cost of Funding	*12.3%*	*21.4%*	*19.2%*
Spread	*13.5%*	*17.5%*	*18.8%*
OSS	*113. 9%*	*116.0%*	*121.8%*
ROAA	*2.0%*	*3.4%*	*3.9%*
ROAE	*4.2%*	*8.6%*	*13.0%*

During CY24, SMFB's total markup income rose to PKR 1,380.7 mn (CY23: PKR 949.4 mn), driven by higher income from performing advances, attributable to both an increase in the volume of performing loans and improved yields on these assets. In addition, markup income from investments also recorded an uptick, aligned with the overall expansion of the investment portfolio. Despite the increase in income, the average return on markup-bearing assets slightly moderated to 38.0% (CY23: 38.8%). This was a result of a rising share of lower-yielding investments within the markup-bearing asset base, which diluted the overall asset yield. Markup expense also increased driven by the rise in fixed deposits and borrowings. However, the average cost of funds declined to 19.2% (CY23: 21.4%) given a decline in policy rates, which offset some of the upward pressure on funding costs. Consequently, the MFB's net markup income improved, reaching PKR 887.8 mn (CY23: PKR 619.9 mn), accompanied by a widening of net spreads, which increased to 18.8% (CY23: 17.5%).

Operating expenses recorded a significant increase during the year, primarily due to higher compensation costs associated with an expanded workforce. Credit loss allowance also increased, in line with higher provisioning during the year. Despite the rise in expenses, SMFB's Operational Self-Sufficiency (OSS) ratio improved to 121.8% (CY23: 116.0%), supported by strong growth in revenue—particularly net markup income—which outpaced the increase in operating and provisioning expenses. The MFB's net profit increased to PKR 153.7 mn (CY23: PKR 91.5 mn).

Looking ahead, profitability is expected to strengthen, supported by growth in the lending portfolio and improved net markup income. The anticipated expansion of operations following the expected approval of a national-level license in 2025 will enable SMFB to deepen its outreach, particularly in lower Punjab and other underserved regions. While this geographic expansion will likely result in higher operating expenses due to infrastructure and staffing needs, it is also expected to support revenue growth through increased lending volumes. The improving liquidity profile and declining cost of funds are expected to support net interest margins. Although credit loss allowance rose in CY24 post implementation of IFRS-9, the overall asset quality remains sound, which should help contain credit risk-related costs going forward. These factors, combined with enhanced operational capacity and internal capital generation, are expected to support a positive profitability trajectory, contingent upon the effective rollout of the national expansion strategy.

Capitalization

As of Dec'24, the MFB's total eligible capital increased to PKR 1,232.8 mn (Dec'23: PKR 1,111.5 mn), primarily supported by internal capital generation through net profitability. This was partially offset by the initial adoption impact of IFRS-9, which had a marginally negative effect on capital reserves. Risk-Weighted Assets (RWAs) rose to PKR 2,785.4 mn (Dec'23: PKR 2,365.1 mn), largely attributable to the expansion in SMFB's micro-credit portfolio. Despite the increase in both Tier-1 and Tier-2 capital components, their growth was outpaced by the rise in RWAs, leading to a moderation in the Capital Adequacy Ratio (CAR), which declined to 44.3% (CY23: 47.5%). Nevertheless, the MFB's CAR remains well above the minimum regulatory requirement of 15.0% applicable to microfinance banks, indicating a high capital buffer. In light of the MFB's ongoing efforts to secure a Pan-Pakistan license—expected by mid-2025—it remains compliant with the SBP's minimum paid-up capital threshold of PKR 1.0 bn (net of accumulated losses) required for national-level microfinance operations. SMFB's current capital position provides a sound base for future growth and supports regulatory readiness as it scales its operational footprint.

Sindh Microfinance Bank Limited (SMFB) Appendix I

FINANCIAL SUMMARY			
Balance Sheet (PKR Millions)	**Dec'22**	**Dec'23**	**Dec'24**
Cash and Bank Balances with SBP and NBP	35.34	80.43	112.00
Balances with other Banks/NBFIs/MFBs	406.22	577.37	904.49
Net Investments	54.79	644.41	1,133.04
Net Advances	1,302.90	1,903.82	2,097.15
Other Assets	208.46	208.66	284.27
Total Assets	2,007.71	3,414.69	4,530.95
Total Deposits	600.34	1,323.28	1,991.17
Borrowings	310.00	721.00	873.75
Other liabilities	85.01	264.41	411.39
Total Liabilities	995.34	2,308.69	3,276.31
Paid Up Capital	750.00	1,000.00	1,000.00
Tier-1 Equity	1,012.37	1,106.00	1,254.64
Net Worth	1,012.37	1,106.00	1,254.64
Income Statement (PKR Millions)	**CY22**	**CY23**	**CY24**
Net Mark-up Income	345.16	619.94	887.82
Net Provisioning/(Reversal)	13.82	129.57	133.56
Non-Markup Income	-	-	-
Operating Expenses	274.06	359.52	507.57
Profit Before Tax	57.24	130.80	245.48
Profit After Tax	41.41	91.49	153.75
Ratio Analysis	**CY22**	**CY23**	**CY24**
Market Share – Advances	0.37%	0.47%	0.48%
Market Share – Deposits	0.12%	0.22%	0.27%
Gross Infection (%)	2.76%	0.31%	0.72%
Incremental Infection (%)	2.88%	5.27%	1.59%
General Provisioning Coverage (%)	1.00%	0.99%	5.68%
Specific Provisioning Coverage (%)	14.75%	43.43%	98.97%
Net Infection (%)	2.36%	0.31%	0.01%
Net NPLs to Tier-1 Capital (%)	3.07%	0.54%	0.01%
Capital Adequacy Ratio (%)	63.43%	47.52%	44.26%
Markup on earning assets (%)	25.83%	38.83%	38.03%
Cost of Funds (%)	12.31%	21.37%	19.19%
Markup Spreads (%)	13.52%	17.46%	18.84%
OSS (%)	113.89%	115.98%	121.75%
ROAA (%)	2.02%	3.37%	3.87%
ROAE (%)	4.18%	8.64%	13.03%
Advances to Deposit Ratio (%)	220.05%	145.50%	112.47%
Liquid Assets to Deposits & Borrowings (%)	54.52%	39.24%	43.62%

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	see table below

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
30-Apr-2025	A	A1	Stable	Reaffirmed
09-Jan-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	17th April, 2025
Mr. Omar Rizvi	Chief Financial Officer	
Mr. Shafaeen Hassan	Financial Controller	