



Credit Rating Company Limited

MICROFINANCE BANKS 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 expansion was primarily driven by a substantial 136.9% increase in investments, particularly in government securities, reflecting a strategic pivot toward lower-risk, yield-accretive assets. In contrast, growth in net advances remained subdued at 10.9%, significantly lagging behind inflation, suggesting weakened real credit offtake and cautious lending amidst heightened credit risk. Deposits grew by 22.8%, however, borrowings more than tripled, leveraging opportunities available for enhanced spreads in the interbank market.

Asset quality remained under significant stress, with non-performing loans increasing by 64.9% during the year. The gross infection ratio spiked to 9.68% by end-Dec'24, up from 6.68% in the previous year. The risk profile of the portfolio deteriorated, as reflected by a 47.9% increase in loss category, 161.1% rise in doubtful loans and a 130.5% increase in substandard loans. While provisioning increased by 53.6%, driven partly by the adoption of IFRS-9, it lagged the pace of NPL growth, putting additional pressure on capital buffers.

Despite stronger markup income ($\uparrow 24.5\%$) and a higher net profit margin (NIM) ($\uparrow 170\text{bps}$), profitability remained strained with net losses doubling to Rs 16.2b, marking the sixth consecutive year of losses. Operating self-sufficiency (OSS) dipped slightly to 75.2% from 78.8% in CY23, driven by rising provisioning costs and administrative expenses.

Amid limited credit expansion, liquidity levels improved substantially. Liquid assets to funding (deposits, borrowings, bills payable) rose to 49.6% as of Dec'24 from 35.0% as of Dec'23, mainly comprising of risk-free government securities. While this has helped bolster short-term liquidity indicators, it also reflects the sector's cautious stance on fresh lending due to rising credit costs.

Capitalization levels weakened, despite a 39.9% increase in paid-up capital, net losses eroded capital buffers, keeping total equity flat. The sector's overall Capital Adequacy Ratio (CAR) dropped sharply to 2.6% as of Dec'24 (Dec '23: 7.6%), far below the 15% regulatory requirement. Tier 1 CAR also declined to a concerning 0.1%, indicating severe strain on core capital and an urgent need for recapitalization across several institutions.

Client outreach expanded by 64%, reaching over 9.28 million, primarily driven by growth in nano lending and digital wallet users, particularly across two key microfinance banks. Notably, the number of female clients rose by 149.5% to exceed 3 million, highlighting the sector's focus on financial inclusion and gender-targeted initiatives. However, male clients still dominate in terms 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. Going forward, the sector's resilience hinges on structural reforms: enhancing credit underwriting standards, accelerating digital transformation, optimizing cost structures, and building robust capital buffers.

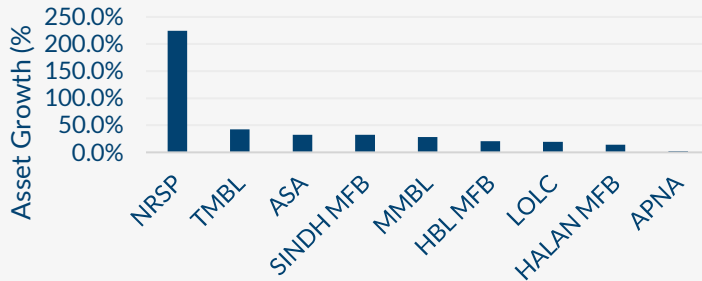
FINANCIAL SOUNDNESS INDICATORS (PKR in Billions)				
BALANCE SHEET	31-Dec-22	31-Dec-23	31-Dec-24	31-Mar-25
Gross Advances	361,457	407,790	463,993	470,900
Net Advances	342,358	379,946	421,227	414,805
Investments (net)	228,199	163,477	387,305	265,375
Total Assets	752,982	771,336	1,068,533	985,974
Borrowings	137,025	58,461	204,233	85,116
Deposits	515,760	597,023	732,959	764,587
Liabilities	709,261	733,937	1,031,310	957,211
Paid up Capital	42,196	42,379	59,280	65,480
Equity	43,721	37,399	37,223	28,764
INCOME STATEMENT	CY22	CY23	CY24	1QCY25
Net Profit Income	51,289	70,752	93,180	31,834
Profit Before Tax	(21,558)	(10,835)	(25,484)	(2,568)
Profit After Tax	(17,155)	(8,118)	(16,212)	(2,236)
RATIO ANALYSIS	31-Dec-22	31-Dec-23	31-Dec-24	31-Mar-25
Gross infection (%)	6.70%	6.70%	9.70%	9.30%
Net Infection (%)	1.50%	-0.20%	0.50%	-3.00%
Total Provisioning (%)	78.80%	102.30%	95.30%	128.60%
Net NPL/ Tier-1 CAR	12.90%	-2.20%	21.40%	-239.00%
Operational Self Sufficiency OSS	69.80%	78.80%	75.20%	79.00%
Advances/Deposits	66.40%	63.60%	57.50%	54.30%
Liquid Assets to (Deposits, Borrowings and Bills Payable)	30.50%	34.60%	49.60%	43.90%
Tier 1 CAR (%)	8.10%	4.70%	0.10%	-1.00%
CAR (%)	10.90%	7.60%	2.60%	1.20%
ROA	-2.70%	-1.10%	-1.90%	-0.90%
ROE	-34.10%	-19.70%	-49.60%	-27.10%
Net Profit Margin (NIM)	10.10%	12.20%	13.90%	15.50%
Policy rate (%)	16.00%	22.00%	13.00%	12.00%

Entity	MCR Compliant*	CAR Compliant*	Profitable*	Government Support	VIS	PACRA
Apna Microfinance Bank	No	No	No	No	-	BB/A4 (Negative)
ASA Microfinance Bank (Pakistan) Limited	Yes	Yes	Yes	No	-	A-/A-2 (Stable)
FINCA Microfinance Bank Limited	No	No	No	No	A-/A-2 (Rating Watch - Developing)	BBB+/A-3 (Rating Watch - Negative)
Halan Microfinance Bank (Formerly: Advans Pakistan Microfinance Bank Ltd)	Yes	Yes	No	No	BBB / A-3 (Positive)	-
HBL Microfinance Bank Limited	Yes	Yes	No	No	A+/A-1 (Stable)	A+/A-1 (Stable)
Khushhali Microfinance Bank Limited	Yes	No	No	No	A-/A-2 (Rating Watch - Negative)	-
LOLC Microfinance Bank Limited	Yes	Yes	No	No	A-/A-2 (Stable)	-
Mobilink Microfinance Bank Limited	Yes	Yes	No	No	A/A-1 (Stable)	A/A-1 (Stable)
NRSP Micro Finance Bank Ltd	Yes	No	Yes	Yes	A-/A-2 (Stable)	A-/A-2 (Stable)
Sindh Microfinance Bank	Yes	Yes	Yes	Yes (Sub-Sovereign)	A/A1 (Stable)	A/A1 (Stable)
Easypaisa Bank Limited (formerly Telenor Microfinance Bank Limited)	Yes	Yes	Yes	No	-	A+/A-1 (Stable)
U Microfinance Bank Limited (formerly Rozgar Microfinance Bank Limited)	Yes	No	No	Yes (Indirect Support)	A+/A-1 (Stable)	A+/A-1 (Stable)
Apna Microfinance Bank	No	No	No	No	-	BB/A4 (Negative)
ASA Microfinance Bank (Pakistan) Limited	Yes	Yes	Yes	No	-	A-/A-2 (Stable)

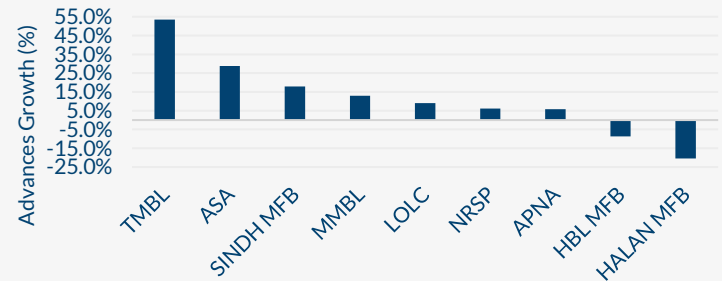
*As Per available financials (December 31, 2024)



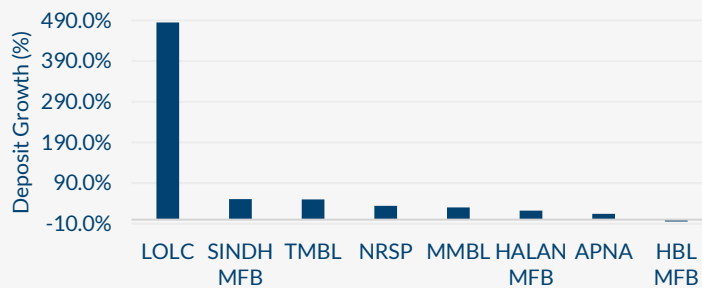
Asset Growth YoY - FY 2024



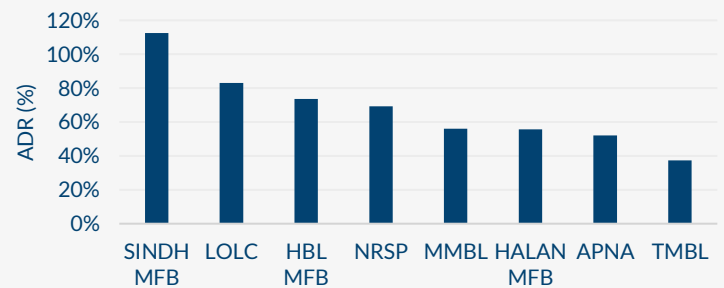
Advances Growth YoY - FY 2024



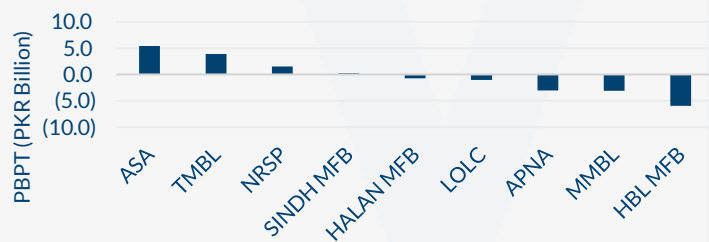
Deposit Growth YoY - FY 2024



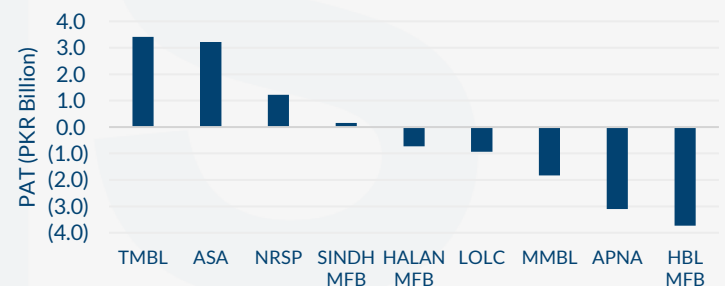
Advance to Deposit Ratio - FY 2024



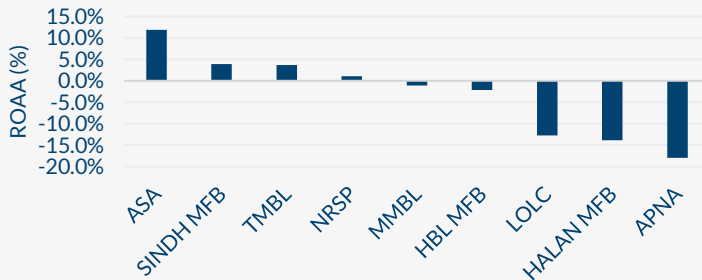
Profit/(Loss) before Provisions and Tax - FY2024



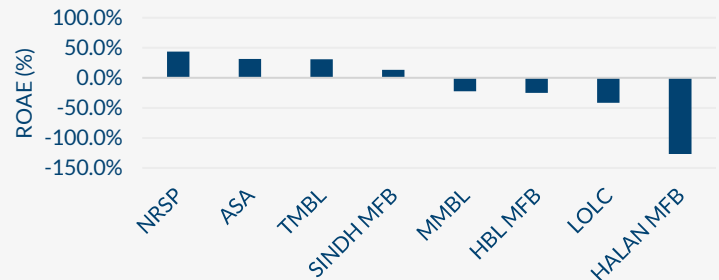
Profit/(Loss) after Tax - FY 2024



Return on Average Asset - FY 2024



Return on Average Equity - FY 2024



REFERENCES:

- SBP Financial Soundness Indicators and Quarterly Compendium of the Banking System
- SBP Financial Stability Review – 2024

RESEARCH & PUBLICATIONS

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