

VIS

Credit Rating Company Limited

MICROFINANCE SECTOR

GLOBAL MICROFINANCE

The global microfinance sector had expanded into a USD ~250–300bn+ industry by 2025, supported by strong structural demand. A large unbanked population, and policy emphasis on inclusive finance, with Asia-Pacific accounting for the largest share of activity. Growth remained robust, generally in the low double digits, driven by digitalization, mobile-based lending platforms, and fintech partnerships that have significantly lowered customer acquisition and servicing costs. However, 2025 also highlighted the sector's cyclical vulnerabilities, as rapid credit expansion in certain regions led to rising borrower over-indebtedness and asset quality stress, with portfolio-at-risk levels increasing materially in key markets. This, coupled with elevated funding costs amid tight global monetary conditions, compressed profitability despite inherently high lending yields.

Looking ahead to 2026, the sector is expected to maintain steady growth momentum, supported by continued financial inclusion initiatives and digital transformation. Asset quality is anticipated to gradually stabilize, as lenders strengthen underwriting standards and moderate disbursement growth. However, some risks still remain. These include possible changes in regulations, borrowers being affected by climate-related issues, and fluctuations in funding due to broader emerging market conditions. Overall, while the microfinance sector continues to show strong long-term potential, it is sensitive to economic cycles and is gradually moving toward a more stable model through consolidation, diversification, and a greater focus on sustainable growth.

MICROFINANCE STRUCTURE IN PAKISTAN

Pakistan's microfinance sector operates under a dual-regulator, tiered legal framework established through the Microfinance Institutions (MFI) Ordinance, 2001, which bifurcates the industry into two structurally distinct segments. The first comprises Microfinance Banks (MFBs) – deposit-taking institutions licensed and supervised by the State Bank of Pakistan (SBP) under dedicated Prudential Regulations. SBP maintains a separate regulatory and supervisory framework for MFBs, distinct from that applicable to the broader banking sector, in recognition of the unique dynamics and social mandate of microfinance. Under the Ordinance, MFBs may be licensed at three operational tiers: national-level, provincial-level, and district-level. While this tiered structure remains in force for licensing purposes, the May 2025 revised Prudential Regulations have significantly raised and unified the minimum capital standard: all MFBs, irrespective of their operational category, are now required to maintain a minimum paid-up capital (net of losses) of at least PKR 2 billion, to be achieved by existing MFBs in a phased manner. National and provincial MFBs must raise their capital to PKR 2 billion by June 2027, while the Capital Adequacy Ratio (CAR) requirement remains at 15% of risk-weighted assets. As of 2025, ten MFBs operate under SBP's regulatory umbrella. Telenor Microfinance Bank has been converted from a microfinance bank to a Digital Retail Bank, now operating under the name "Easypaisa Bank Limited," becoming the first institution to receive a Digital Retail Bank license from the SBP.

The second segment comprises Non-Bank Microfinance Companies (NBMFCs) regulated by the Securities and Exchange Commission of Pakistan (SECP) under the Non-Banking Finance Companies and Notified Entities (NBFC&NE) Regulations, 2008. This segment includes for-profit NBMFCs alongside Rural Support Programs (RSPs) operating as Section 42 not-for-profit entities. Unlike MFBs, NBMFCs are not permitted to accept public deposits; they fund their operations primarily through borrowings from commercial banks, grants, and government and development finance channels. The sector's policy and market infrastructure are further supported by the Pakistan Microfinance Network (PMN) as the national industry association, and the Pakistan Microfinance Investment Company (PMIC) as the wholesale

apex lender, which channels multilateral funding from institutions including the World Bank, ADB, and IFC into the sector.

Microfinance Industry Performance Indicators						
		(in '000)	MFBs		NBMFC	
			24-Dec	25-Dec	24-Dec	25-Dec
Credit Outreach	Active Borrowers	No.	9,006	9,835	3,134	3,603
	Average Loan Size	PKR	50.8	55.5	44.8	85.5
Loan Portfolio by Gender	Male	No.	6,018	7,129	576	686
	Female	No.	2,988	2,797	2,564	2,917
Segment Distribution	Agriculture	%	27.9	25.2	5.6	1.9
	Livestock/Poultry		29.8	27	19.5	9.4
	Trade/Services		16.8	17.5	50.3	25.1
	Manufacturing/Production		0.2	0.3	11.2	7.3
	Housing		10.1	8.1	8.2	53.2
	Nano Loans		6.3	6.8	-	0
Active Depositors	Branches	No.	8,930	11,247	3,362	12,170
	Mobile Wallets		106,487	128,404	-	-
Deposits Value	Branches	PKR	465,271,224	551,987,382	1,547,810	2,639,500
	Mobile Wallets		162,968,684	238,029,328	-	-

Source: PMN

Microfinance Banks (MFBs)

The microfinance banking sector in Pakistan showed early signs of stabilization in CY25, as underlying credit demand remained resilient despite the lagged effects of macroeconomic tightening and climate-related disruptions. Gross advances expanded by 15.5% to PKR 536.0 billion, signaling firm core borrower demand, At the same time, the sector adopted a more conservative balance sheet stance, with elevated provisioning pushing the provisioning coverage to 138.1%.

On the funding side, the surge in concessional borrowings seen in CY24 to capitalize on high-yield government securities began to unwind in CY25 with monetary easing. Consequently, borrowings declined by 55%, accompanied by a notable contraction in the investment book and a moderation in total assets.

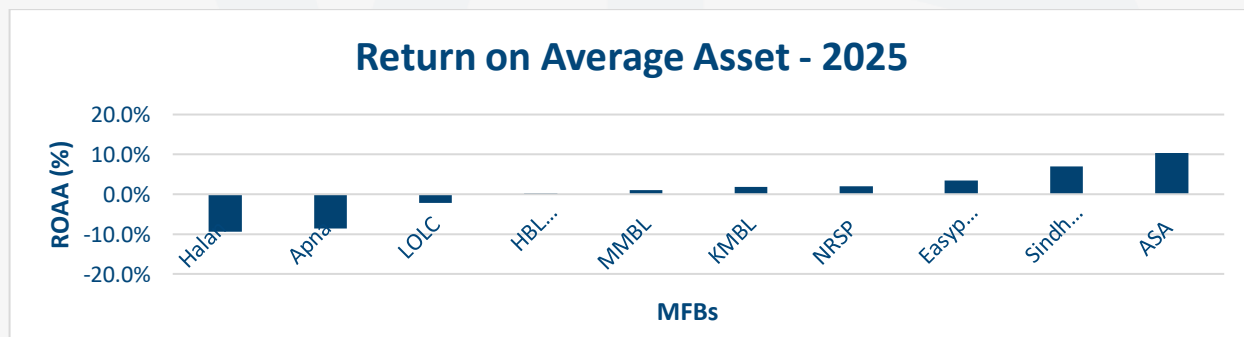
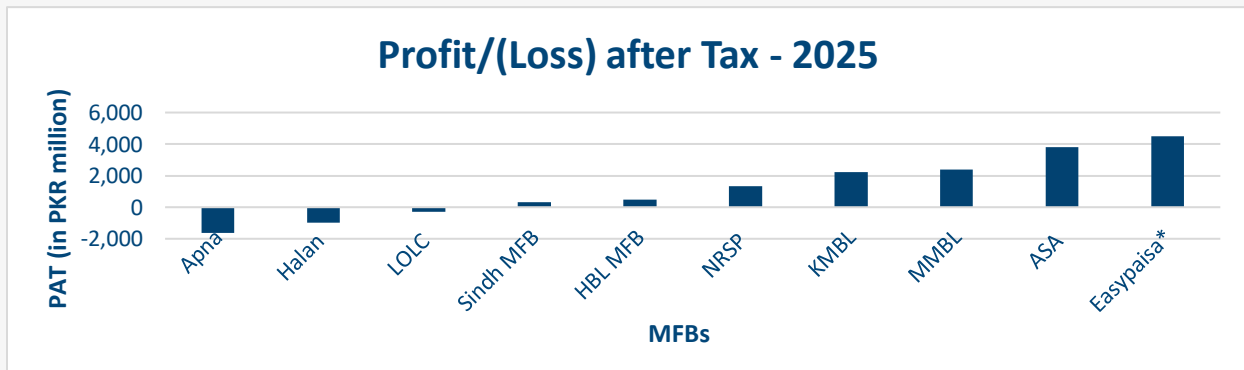
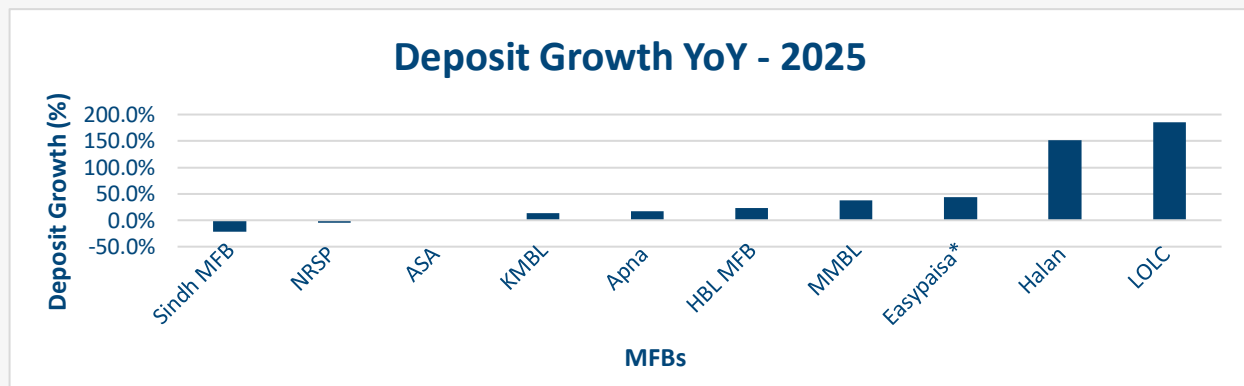
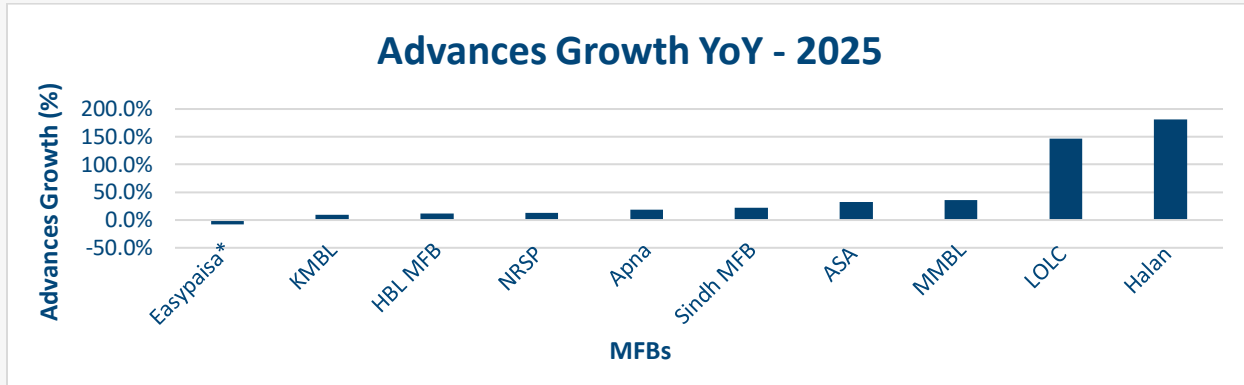
Asset quality trends point to partial stabilization rather than a full recovery. The gross infection ratio improved to 9.1%, although this was partly a function of loan book expansion rather than a meaningful decline in absolute non-performing loans. The sector's elevated provisioning levels

remain a key mitigant. Stress composition continues to vary across segments: agriculture and livestock portfolios remain vulnerable due to structural and climate-related risks, while consumer lending has shown marked improvement.

Profitability in CY25 was primarily supported by the easing monetary cycle. Lower funding costs drove an increase in net interest income and expanded margins, as asset yields adjusted more gradually. Although the sector remains marginally loss-making, the significant narrowing of losses and improvement in operational self-sufficiency signals an inflection point. However, solvency remains the key structural constraint. Accumulated losses have eroded capital, pushing the aggregate capital adequacy ratio into negative territory and well below regulatory requirements. Importantly, this weakness is concentrated in a few distressed institutions rather than being broad-based across the sector.

Financial Indicators (in PKR million)			
	Dec-23	Dec-24	Dec-25
Balance Sheet			
Gross Advances	407,790	463,993	535,984
Net Advances	379,946	421,227	468,346
Net Investments	163,477	387,305	250,925
Total Assets	771,336	1,068,533	1,029,467
Borrowings	58,461	204,233	91,887
Deposits	597,023	732,959	830,477
Liabilities	733,937	1,031,310	1,003,882
Paid up Capital	42,379	59,280	63,180
Equity	37,399	37,223	25,586
Income Statement			
Net Interest Income	70,752	93,180	121,177
Profit After Tax	-8,118	-16,212	-2,059
Ratios (in %)			
Gross Infection	7	10	9
Net Infection	0.0	1.0	-4.0
Total Provisioning Coverage	102	95	138
Net NPL/Tier-1 CAR	-2.0	21	388
Operational Self Sufficiency (OSS)	79	75	85
Liquid Assets to (Deposits, Borrowings, and Bill Payable)	35	50	35
Capital Adequacy Ratio	8	3	-1.0
ROA	-1.0	-2.0	0.0
ROE	-20.0	-50.0	-8.0

Sources: SBP



Note: The data is included for all microfinance banks for which financial statements were available as of December 31, 2025. *For EasyPaisa Digital Bank Limited, the data pertains to the nine-month period ended CY25.

Source: VIS Database

Microfinance Banks -Key Indicators & Ratings						
Entity	MCR Compliant*	CAR Compliant*	Profitable*	Government Support	VIS**	PACRA**
Apna Microfinance Bank	Yes	No	No	No	-	BB/A4 (Negative)
ASA Microfinance Bank (Pakistan) Limited	Yes	Yes	Yes	No	A-/A2 (Positive)	A-/A2 (Stable)
ABHI Microfinance (Formerly: FINCA Microfinance Bank Limited)	N/A	N/A	N/A	No	A-/A2 (Rating Watch - Developing)	BBB+/A3 (Negative)
Halan Microfinance Bank (Formerly: Advans Pakistan Microfinance Bank Ltd)	Yes	Yes	No	No	BBB+ / A3 (Stable)	-
HBL Microfinance Bank Limited	Yes	Yes	Yes	No	A+/A1 (Positive)	A+/A1 (Stable)
Khushhali Microfinance Bank Limited	Yes	No	Yes	No	A-/A2 (Rating Watch - Developing)	-
LOLC Microfinance Bank Limited	Yes	Yes	No	No	A-/A2 (Stable)	-
Mobilink Microfinance Bank Limited	Yes	Yes	Yes	No	A+/A1 (Stable)	A/A1 (Stable)
NRSP Micro Finance Bank Ltd	Yes	Yes	Yes	Yes	A-/A2 (Stable)	A-/A2 (Stable)
Sindh Microfinance Bank	Yes	Yes	Yes	Yes	A/A1 (Stable)	A/A1 (Stable)
Easypaisa Bank Limited (formerly Telenor Microfinance Bank Limited)	Yes	Yes	Yes	No	-	A+/A1 (Stable)
U Microfinance Bank Limited* (formerly Rozgar Microfinance Bank Limited)	N/A	N/A	N/A	Yes (Indirect Support)	A+/A1 (Stable)	A+/A1 (Stable)

* Includes data for all microfinance banks for which financial statements were available as of December 31, 2025.

**Ratings outstanding as of May 25, 2026.

NON-BANK MICROFINANCE COMPANIES (NBMFCS)

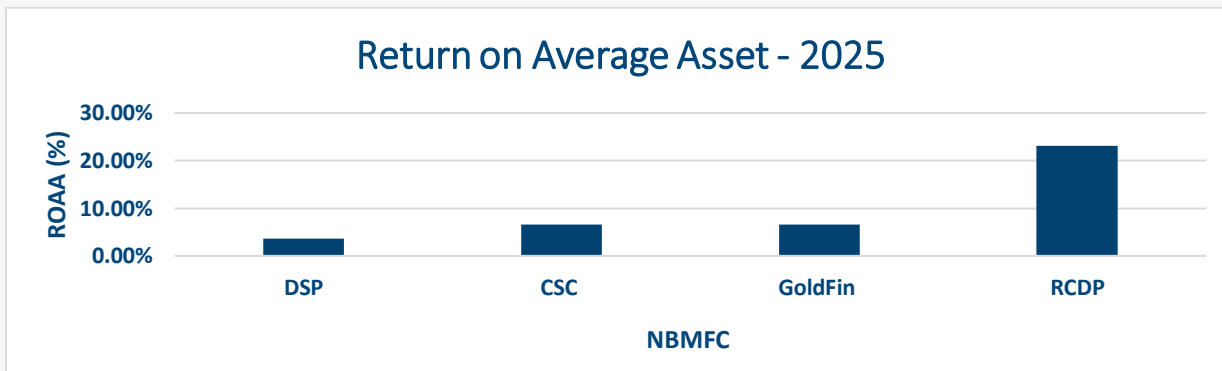
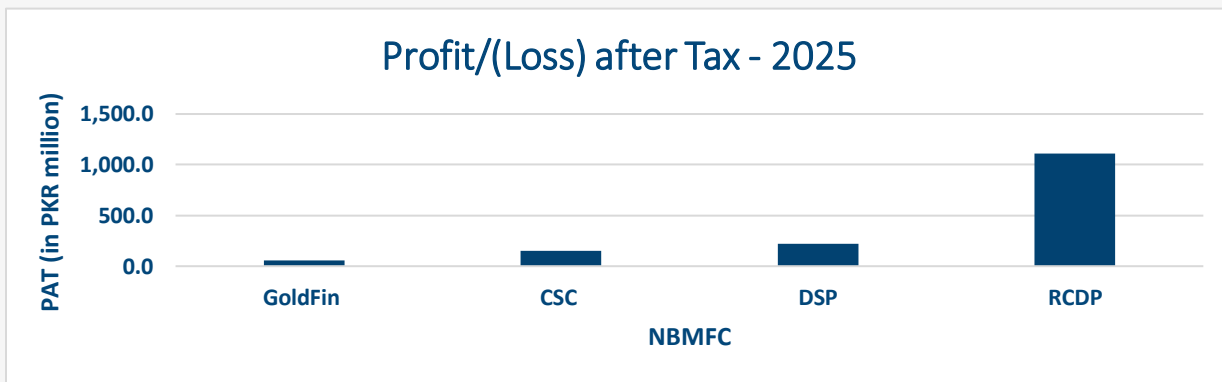
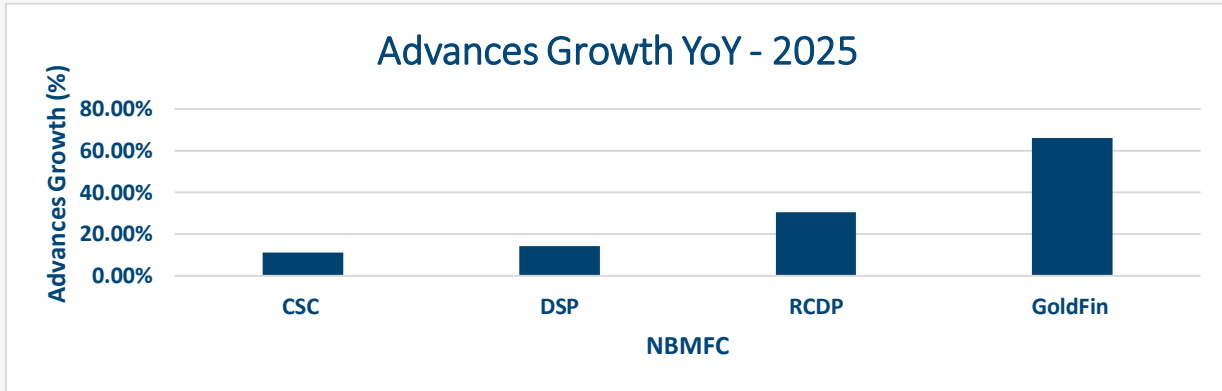
The Non-Banking Microfinance Companies (NBMFC) sector in Pakistan exhibited strong growth in CY25, underpinned by a significant expansion in its lending book alongside a shift in portfolio mix. The gross loan portfolio more than doubled to PKR 308 billion, far exceeding the 15% increase in active borrowers, signaling a clear transition toward higher ticket lending—particularly in enterprise and housing finance. The pronounced growth in housing loans, now forming a meaningful share of the overall portfolio, reflects the sector's alignment with government-backed affordable housing initiatives.

On the funding side, the sector remains heavily reliant on wholesale borrowings, which continue to constitute the majority of liabilities, while deposits contribute only marginally. This structural dependence on external funding exposes NBMFCs to potential liquidity pressures, particularly in a tightening monetary environment or in the event of constrained bank lending.

Asset quality has shown signs of stabilization, with stress from COVID-19 and flood-related disruptions largely subsiding. However, PAR>30 has shown volatility, spiking to 6.01% before normalizing to 3.9% in January 2026 end. From a solvency standpoint, net worth has remained stable, supported by sustained equity growth and ongoing support from sponsors and development finance institutions. CAR remained sound at 17% at end-Dec 2025.

Financial Indicators (figures in million)		
	24-Dec	25-Dec
Assets	313,233.7	403,247.4
Gross Loan Portfolio	140,329.6	308,016
Deposit Value	1,547.8	2,639.5
Equity	50,950.9	73,947
PAR>30 Days (%)	1.6	6
Liabilities	253,629.7	330,103.1

Source: PMN



Note: Data pertains only to VIS-rated NBMFCs for which financial statements were available as of June 30, 2025.

Non-Bank Microfinance Companies - Key Indicators & Ratings				
Entity*	MER Compliant*	Profitable*	Government Support	VIS-Ratings**
GoldFin Limited (FY)	Yes	Yes	No	A-/A2 (Stable)
Rural Community Development Programs (FY)	Yes	Yes	No	BBB+/A2 (Stable)
Taleem Finance Company Limited (CY)	Yes	Yes	No	BBB/A2 (Stable)
Damen Support Programme (FY)	Yes	Yes	No	BBB/A3 (Stable)
CSC Empowerment & Inclusion Programme	Yes	Yes	No	BBB-/A3 (Positive)

*The data pertains to VIS-rated NBMFCs only.

** Ratings outstanding as of May 25, 2026.



Sources

- Secondary Research Firms (Fortune Business Insights, Precedence Research, Mordor Intelligence)
- State Bank of Pakistan (SBP)
- Pakistan Microfinance Network (PMN)
- VIS Database
- Companies' Financials

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