

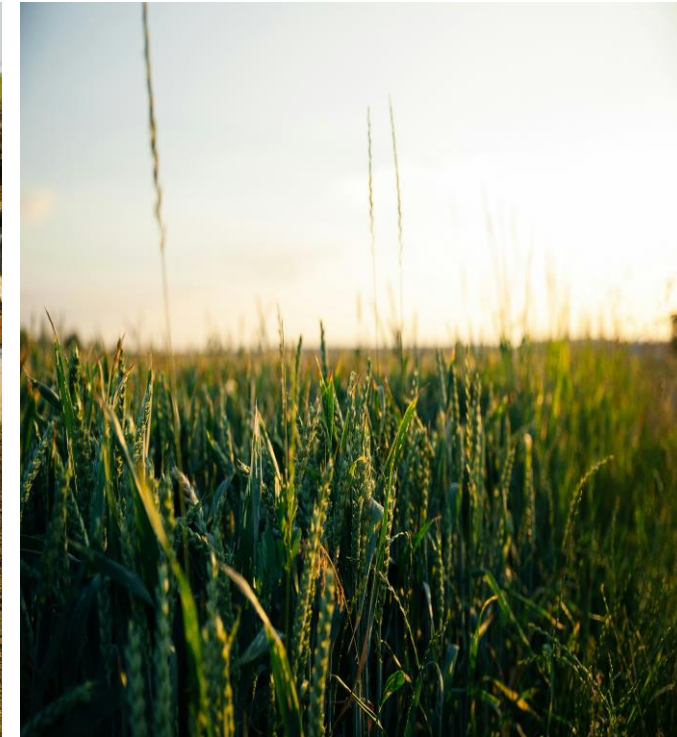
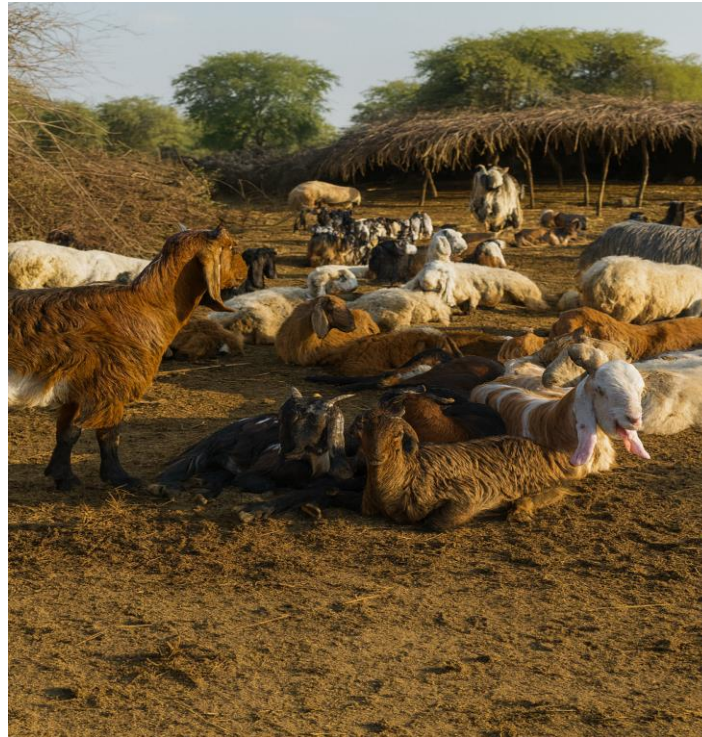


Microfinance

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Microfinance at a Crossroads: Sector Outlook for Pakistan – FY25

Outlook: Negative

The Microfinance Ecosystem in Pakistan comprises Microfinance Banks and Digital Banks (MFBs), Microfinance Institutions (MFIs), and Rural Support Programmes (RSPs) and FinTechs. These are collectively referred to as Microfinance Providers. Within this landscape, MFBs hold a commanding position, accounting for ~77% of the sector's Gross Loan Portfolio (GLP) and standing as the only segment funded primarily through customer deposits. Given their systemic significance and unique funding model, the performance of MFBs warrants distinct attention from that of MFIs and RSPs.

Pakistan's Microfinance Sector entered FY25 in a phase of cautious recovery. After recent years of macroeconomic turbulence including COVID-19 disruptions, the 2022 floods, economic contraction and inflationary pressures the sector began stabilizing in CY24. The economic indicators have improved modestly by October 2025, with inflation easing to ~5.6 %, positive GDP growth, stable currency, lower interest rates and uptick in manufacturing industries. GDP growth expectations for FY26 range between ~2.6 % and ~3.6 % (ADB-IMF projections), suggesting a mildly conducive macro backdrop for Microfinance expansion. However, the large-scale flooding in 2025 have created some uncertainty although initial estimates suggest that damage is not as expansive as it was in 2022.

Despite macro normalization, the Sector continues to face high credit risk, weak capital buffers (especially for MFBs), and uneven performance of MFBs. On the other hand, MFIs have improved their profitability due to higher net interest income and substantial growth in lending portfolio. The industry's near-term trajectory will depend on its ability to rebalance portfolios, strengthen capital, and deepen outreach through technology-enabled inclusion.

Microfinance Banks

Credit Risk: Pakistan's Microfinance Banks (MFBs) comprise both telco-backed and conventional institutions, each following distinct operating models but sharing similar exposure across market segments. The Sector remains highly concentrated, with the top five MFBs accounting for ~87% of the total Gross Loan Portfolio (GLP) in CY24. Exposure remains skewed towards livestock and agriculture, which together present ~57% of outstanding loans. This results in high susceptibility to weather patterns and commodity cycles leading to volatile rural income. Climate risk and extreme weather patterns have become more common in Pakistan due to global warming and pollution.

Credit stress has been persistent over the past five years for MFBs. The infection ratio increased from ~5.2% in CY21 to ~9.7% in CY24, before easing to ~8.3% by 1HCY25. Non-performing loans (NPLs) have mirrored this pattern—rising in nominal terms through CY24 before improving modestly in CY25. Meanwhile, net

NPLs turned negative (-PKR ~12.3Bn in 1HCY25) as provisioning outpaced impaired assets, limiting potential drag on the equity.

Although improved risk management and gradual macro recovery have helped slow deterioration, the Sector's credit profile remains vulnerable to concentration and environmental shocks. Future resilience will depend on diversification into non-agricultural segments, adoption of secured microcredit models, and proactive management of loans to pre-empt borrower distress.

Particulars	Units	CY21	CY22	CY23	CY24	1HCY25
NPLs - Period End	%	5.2%	6.7%	6.7%	9.7%	8.3%
Net NPLs (NPLs less Provisions)	PKR Mn	3,280	5,138	-616	2,130	-12,329
Equity	PKR Mn	56,703	43,721	37,399	37,223	15,894
Net NPLs as a % of Equity	%	5.8%	11.8%	-1.6%	5.7%	-77.6%

Profitability: A closer look at the Sector's income and cost structure reveals that the weighted average spreads of MFBs have risen sharply—from ~11.9% in CY21 to ~23.1% in CY24, reaching ~25.2% in 1HCY25. The widening spread reflects elevated lending rates and a portfolio shift towards higher-yield assets. However, despite stronger margins, profitability remains under pressure. The Sector posted a loss after tax of PKR ~16.2Bn in CY24 and PKR ~-1.8Bn in 1HCY25, with ROE persistently negative at ~-49.6% and ~-13.4%, respectively.

High administrative and operational costs, often equivalent to or exceeding Net Mark-up/Interest Income, continue to erode earnings in case of few MFBs. Consequently, non-core income is insufficient to offset provisioning expenses amid rising delinquencies, keeping the bottom line negative.

Particulars	Units	CY21	CY22	CY23	CY24	1HCY25
Weighted Average Spreads ¹	%	11.9%	19.3%	18.9%	23.1%	25.2%*
Profit/(Loss) After Tax	PKR Mn	-8,080	-17,155	-8,118	-16,212	-1,828
ROE	%	-15.0%	-33.1%	-19.7%	-49.6%	-13.4%

**Note: Data is based on ~3 PACRA-rated players*

Capital: The Capital Adequacy Ratio (CAR) of the Sector declined to negative ~1.6% in June'25 (from ~2.6% in CY24). This falls well below the SBPs' minimum regulatory requirement of ~15%. Moreover, the Sector's equity eroded by ~57.3% of its value from PKR ~37.2Bn in CY24 to PKR ~15.9Bn as of End-June'25. However, this is largely driven by 2 MFBs and if we take these out, the sectors CAR stands at 13.6%.

Particulars	Units	CY21	CY22	CY23	CY24	1HCY25
Equity	PKR Mn	56,703	43,721	37,399	37,223	15,894
% Change in Equity	%	13.0%	-22.9%	-14.5%	-0.5%	-57.3%
Capital Adequacy Ratio	%	18.3%	10.9%	7.6%	2.6%	-1.6%

Liquidity: After falling into a distressed capital position, liquid assets as a percentage of deposits and borrowings declined to ~38.0% as of 1HCY25 from ~49.6% in CY24. This indicates liquidity stress, primarily driven by two under duress MFBs.

Funding: One of the more optimistic factors for the Sector was the MFBs' funding avenue. The rise in digital wallets and agent networks (Easypaisa, JazzCash, etc.) expanded financial access and convenience, supporting higher deposit mobilization across the microfinance sector in early to mid-CY25. The Sector's deposit base grew to PKR ~794.2Bn as at 1HCY25 (CY24: PKR ~728.8Bn), registering a growth of ~9.0%. Meanwhile, the total number of deposit accounts also increased by ~7.3%, clocking in at ~127.6Mn accounts as of 1HCY25 (CY24: ~118.9Mn). Moreover, the Sector's reliance on borrowings remains limited as a source of its funding as it declined sharply to ~88.8Mn (CY24: ~204.2Mn).

Microfinance Institution & Rural Support Programs

During CY24, the MFIs & RSPs segment accounted for ~23.0% of the Sectors' GLP. The infection ratio of this segment remained very low compared to MFBs clocking in at ~1.1% in FY25, an improvement from FY24 (~1.3%). MFIs maintain lower infection ratios than MFBs due to their smaller, community-driven lending models, cautious credit expansion and deeper borrower engagement. These factors collectively foster stronger repayment discipline and reduce default risk. Generally being smaller in scale as compared to MFBs helps them manage their asset portfolio through borrowed funds. Effective liquidity management is crucial for these MFIs, given their inherently high operating costs. On average, ~60% of the borrowings of MFIs are from commercial banks, while the next highest share pertains to foreign lenders (~12%), followed by PMICandSBP.

MFIs posted strong profitability of PKR ~5.7Bn in FY25 on the back of higher net interest income and sizeable growth in lending portfolio. The average loan size of MFIs increased to PKR ~60,684, leading to increase in portfolio and relatively lower costs.

Conclusion

The Microfinance sector is gradually recovering from recent challenging years. Few MFBs still face significant challenges and remain in a vulnerable position. The sector is eventually moving towards more secured lending and limiting its exposure to micro loans that had significantly high NPL. MFIs on the other hand, have performed well despite macro challenges. Prudent lending approach and optimal balance of technology use and traditional lending methods have proved effective in prevailing economic environment. With interest rates coming down, the funding cost of the sector is expected to rationalize, resulting in better spreads. Meanwhile, strengthening capitalization of MFBs and focus on recoveries would lead to further stabilization of the sector.

It seems that recent floods have not dented the country's economic recovery materially. The impact of floods remains uncertain and could impact MFPs, going forward.

¹Weighted Average Spreads have been worked out by weighting interest rates by corresponding amounts of loans/deposits.

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Microfinance Comparative Landscape

Selective Indicators	Pakistan			India			Bangladesh		
	CY22	CY23	CY24	FY22	FY23	FY24*	FY22	FY23	FY24*
Regulator	State Bank of Pakistan Securities and Exchange Commission of Pakistan			Reserve Bank of India			Bangladesh Bank		
Gross Loan Portfolio - Microfinance Sector (USD Bn)	2.4	1.9	2.1	36.3	42.2	51.8	17.1	17.2	17.1
Gross Loan Portfolio - Microfinance Banks (USD Bn)	1.7	1.4	1.7	14.5	14.4	17.2	2.3	2.2	2.2
No of Microfinance Providers	33	34	38	202	211	208	739	731	724
Branches	4,058	4,050	4,145	16,890	18,739	20,348	23,543	25,336	26,071
Borrowers (Mn)	9.4	9.6	12.3	58.0	66.0	79.0	29.7	31.5	32.2
NPL Ratio (%)	6.7%	6.7%	9.7%	5.6%	2.7%	2.1%	6.7%	5.2%	8.1%
Deposits (USD Bn)	2.5	2.1	2.6	21.1	24.1	27.7	8.5	8.4	8.4
ROA (%)	-2.7%	-1.1%	-1.9%	1.2%	2.9%	3.9%	2.9%	5.1%	4.7%
ROE (%)	-33.1%	-19.7%	-49.6%	5.2%	14.7%	17.7%	11.8%	14.7%	14.3%

*Note: *FY for Bangladesh is June-end, for India is March-end, .*

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Pakistan | Macro-Profile

Sector-wise Particulars	FY21	FY22	FY23	FY24	FY25
Real Sector					
GDP (Nominal) PKR Bn	55,836	66,658	83,651	105,143	113,748
GDP (Real) PKR Bn	36,582	38,843	38,761	39,734	40,970
Real GDP Growth %	5.8%	6.2%	-0.2%	2.5%	3.0%
LSM Growth (%)	11.5%	11.9%	-9.8%	0.9%	-1.5%
Fiscal Sector					
Fiscal Deficit (% of GDP)	-7.0%	-7.1%	-7.0%	-7.4%	-5.6%
Government Debt (PKR Bn)	38,704	47,832	60,840	68,914	77,888
Local (PKR Bn)	26,625	31,085	38,809	47,160	54,471
Foreign (PKR Bn)	12,079	16,747	22,031	21,754	23,417
Govt. Debt (% of GDP)	69.3%	71.8%	72.7%	65.5%	68.5%
Monetary Sector					
Monetary Policy Rate %)(Period-End)	7.0%	13.8%	22.0%	20.5%	11.0%
Avg. Exchange Rate (USD/PKR)	160.5	191.9	247.7	283.2	279.7
Avg. CPI Inflation (%)	8.9%	12.2%	29.2%	23.4%	4.5%
External Sector					
FX Reserves SBP (USD Mn)	17,299	9,815	4,445	9,390	14,506
Remittances (USD Mn)	29,450	31,279	27,332	30,251	38,299
Trade Balance (USD Mn)	-28,155	-39,050	-24,819	-22,177	-26,785
Current Account Balance (USD Mn)	-2,820	-17,481	-3,275	-2,072	2,113

Sep'25 Updates

- Avg. ER as at Sep, 2025:
USD/PKR~281.5
- Inflation as at (Sep, 2025 End):~5.6%

GDP Growth Projections | FY26

- 3.25% YoY (SBP)
- 3.6% YoY (IMF)
- 2.6% YoY (WB)
- 3.0% YoY (ADB)

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Sector Overview

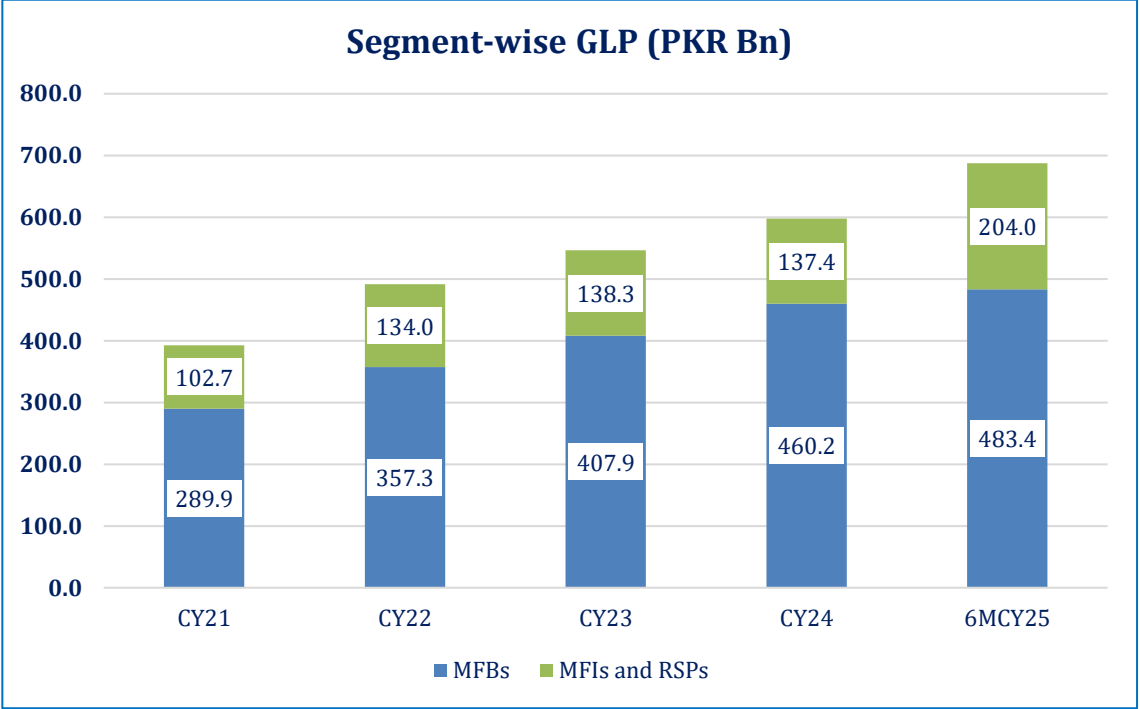
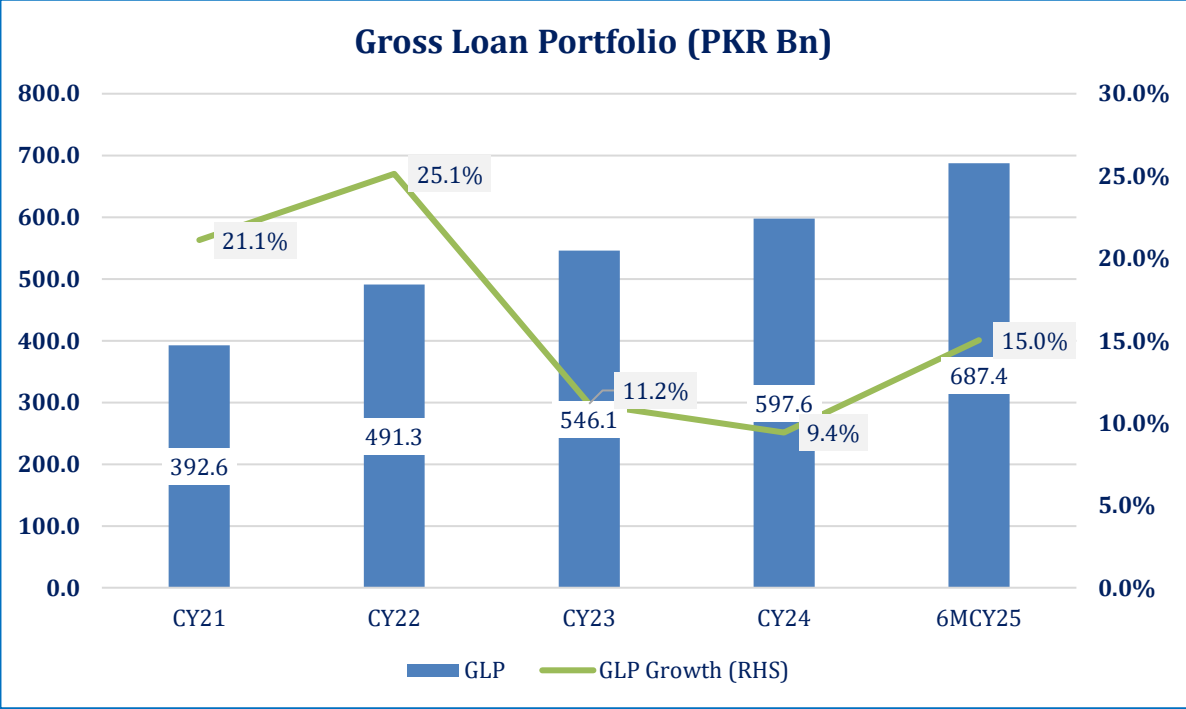
GLP (MFBs + MFIs + RSPs & Others)	CY21	CY22	CY23	CY24	6MCY25
Outreach					
Number of Branches	3,823	4,058	4,050	4,145	4,500
Growth (YoY)	-0.1%	6.1%	-0.2%	2.3%	8.6%
Gross Loan Portfolio					
Gross Loan Portfolio (PKR Bn)	392.6	491.3	546.1	597.6	687.4
Growth (YoY)	21.1%	25.1%	11.2%	9.4%	15.0%
Active Borrowers (Mn)	8.2	9.4	9.6	12.3	12.2
Growth (YoY)	15.9%	16.0%	2.1%	28.1%	-0.8%
Average Loan Size	45,476	52,266	56,885	48,585	56,344
Funding					
Value of Deposits (PKR Bn)	422.5	514.3	597.0	728.8	794.2
Growth (YoY)	12.9%	21.7%	16.1%	22.1%	9.0%
Number of Deposit Accounts (Mn)*	78.7	94.0	108.7	118.9	127.7
Growth (YoY)	22.8%	19.4%	15.6%	9.4%	7.4%
Average Deposit Size (PKR)	5,367	5,474	5,489	6,129	6,219
Growth (YoY)	-8.1%	2.0%	0.3%	11.7%	1.5%

Note: Number of Deposit Accounts also include Mobile Wallets.

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Gross Loan Portfolio

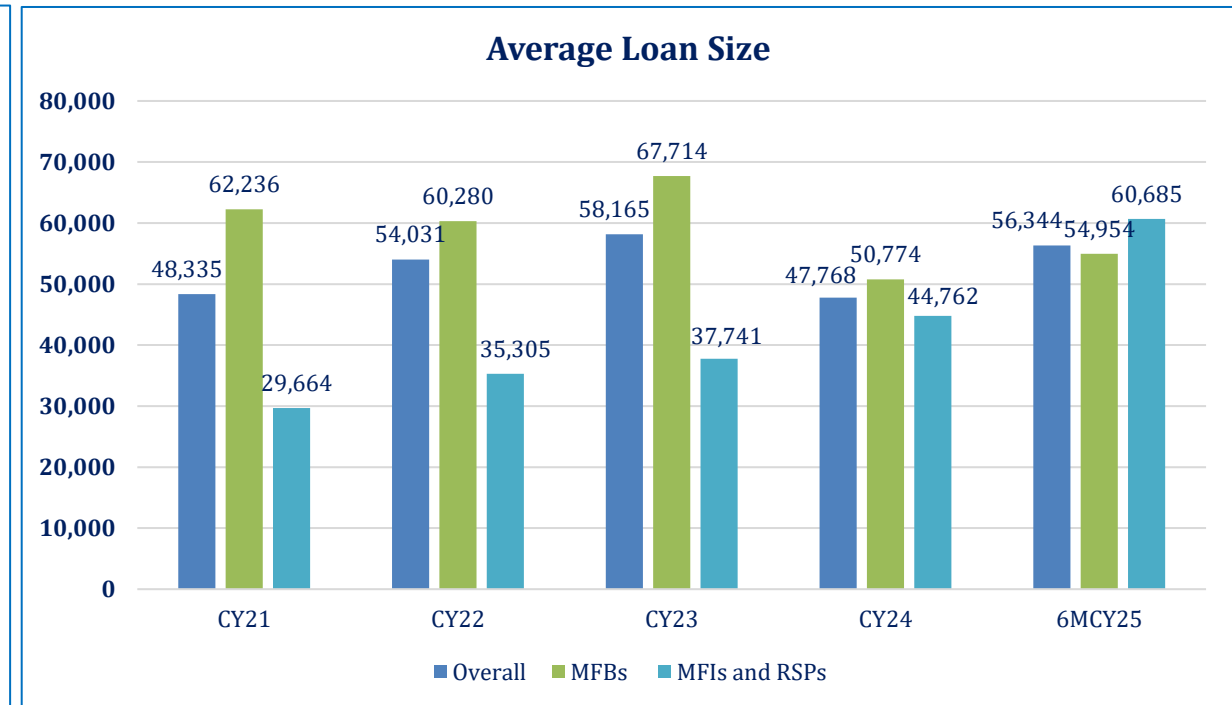
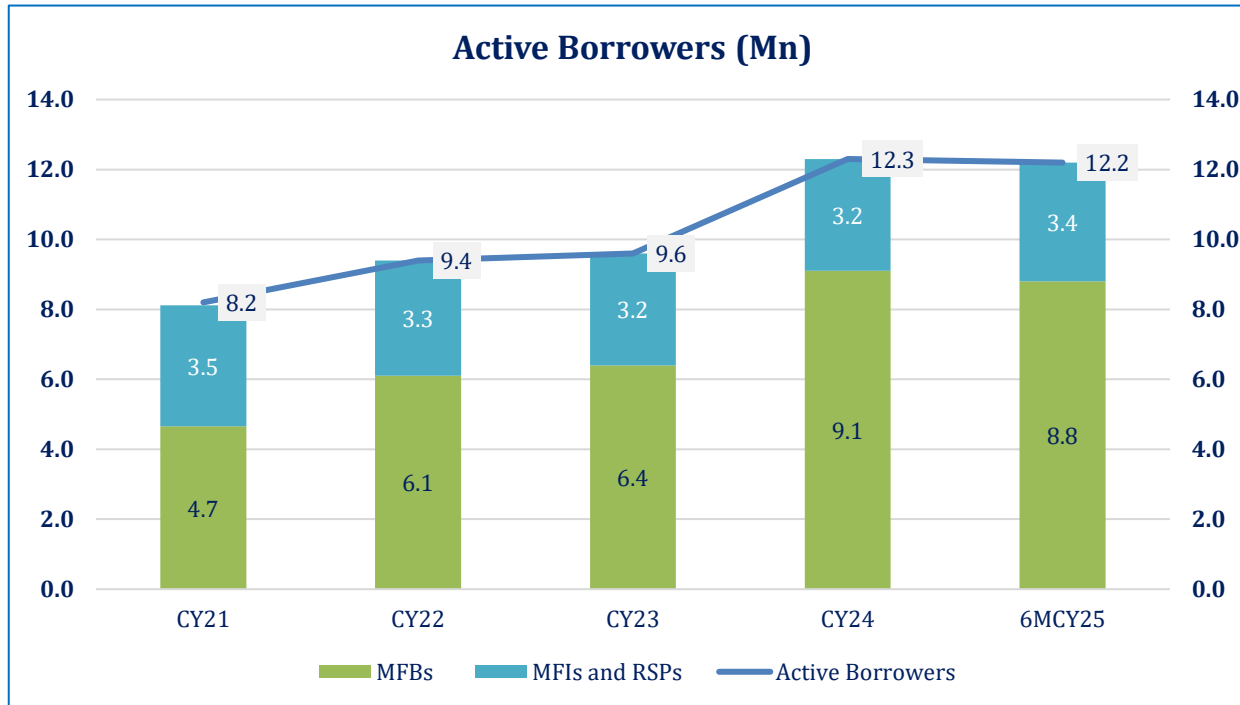
- During CY24, the Sector's overall Gross Loan Portfolio (GLP) stood at PKR ~597.6Bn (CY23: PKR ~546.1Bn), reflecting a YoY increase of ~9.4%. The growth was primarily driven by higher borrower outreach through digital expansion and diversified lending across critical segments such as livestock. Over the past four years (CY21–24), the Sector's GLP has recorded a CAGR of ~13.0%. As of 6MCY25, the GLP further increased to PKR ~687.4Bn. In terms of segmental distribution, Microfinance Banks (MFBs) continued to hold the dominant share, accounting for ~77.0% of the Sector's GLP in CY24, while the remaining ~23.0% was collectively contributed by Microfinance Institutions (MFIs) and Rural Support Programmes (RSPs).
- MFBs' GLP registered a YoY growth of ~12.8% in CY24, underscoring their continued expansion momentum. In contrast, the GLP of MFIs and RSPs stood at PKR ~137.4Bn (CY23: PKR ~138.3Bn), reflecting a YoY decline of ~0.7%. Over the four-year period from CY21–CY24, the GLP of MFBs and MFIs & RSPs grew at a CAGR of ~14.1% and ~8.3%, respectively, highlighting the relatively stronger growth trajectory of MFBs.



Microfinance

Active Borrowers

- The Sector's active borrower base expanded steadily from 8.2Mn in CY21 to a peak of 12.3Mn in CY24, before stabilizing at 12.2Mn in 6MCY25, reflecting sustained outreach momentum. Growth was largely driven by MFBs, whose borrower base nearly doubled over the period, supported by digital on-boarding and product diversification, while MFIs and RSPs remained relatively stable. The recent moderation indicates growth normalization amid tighter lending practices, funding availability, and prudent portfolio management, especially in micro loans.
- The average loan size rose from PKR ~45,470 in CY21 to a peak of PKR ~56,885 in CY23, dipped to PKR ~48,585 in CY24, and recovered to PKR ~60,685 in 6MCY25. The fluctuation reflects portfolio recalibration and pricing adjustments. MFBs maintained higher ticket sizes than MFIs and RSPs, though the recent convergence driven by a steady rise in MFI and RSP loan sizes, now have surpassed MFBs. This suggests alignment in lending structures across the Sector.



Microfinance Banks

An Overview

Microfinance Banks

Looking Back on the Years

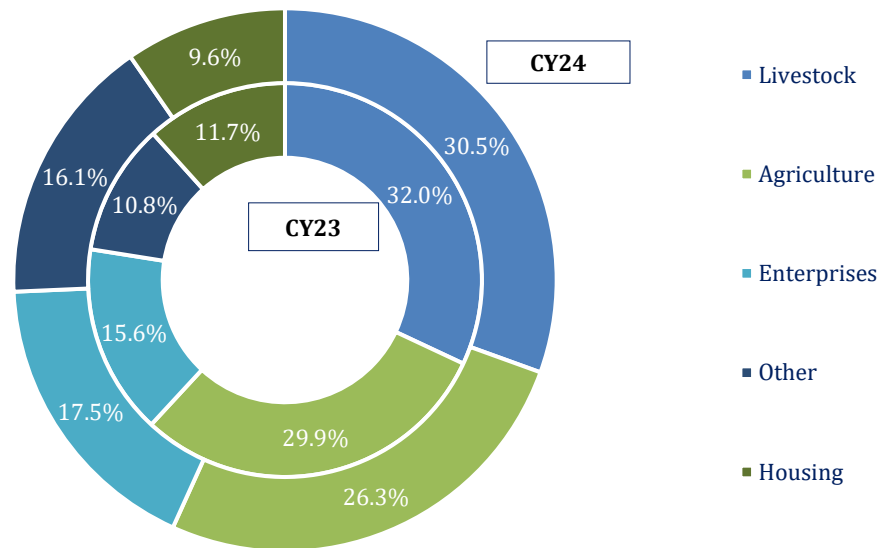
Particulars	Unit	CY21	CY22	CY23	CY24	6MCY25
Gross Loan Portfolio	PKR Bn	289.9	357.3	407.9	460.2	483.4
GLP Growth	%	21.7%	23.2%	14.2%	12.8%	5.0%
Active Borrowers	Mn	4.7	6.1	6.4	9.1	8.8
Average Loan Size	PKR	62,236	60,280	67,714	50,774	54,954
Number of Deposit Accounts	Mn	78.7	90.8	105.8	118.9	127.6
Value of Deposits	PKR Bn	422.5	511.1	589.6	728.8	794.2
Average Deposit Size	PKR	5,368	5,629	5,573	6,129	6,219
Investments	PKR Bn	133.5	228.2	163.5	387.3	217.0
Equity	PKR Bn	56.7	43.7	37.4	37.2	15.9
Profit Before Tax	PKR Mn	(6,845)	(21,558)	(10,835)	(25,484)	(5,059)
Profit After Tax	PKR Mn	(8,080)	(17,155)	(8,118)	(16,212)	(1,828)

Microfinance Banks

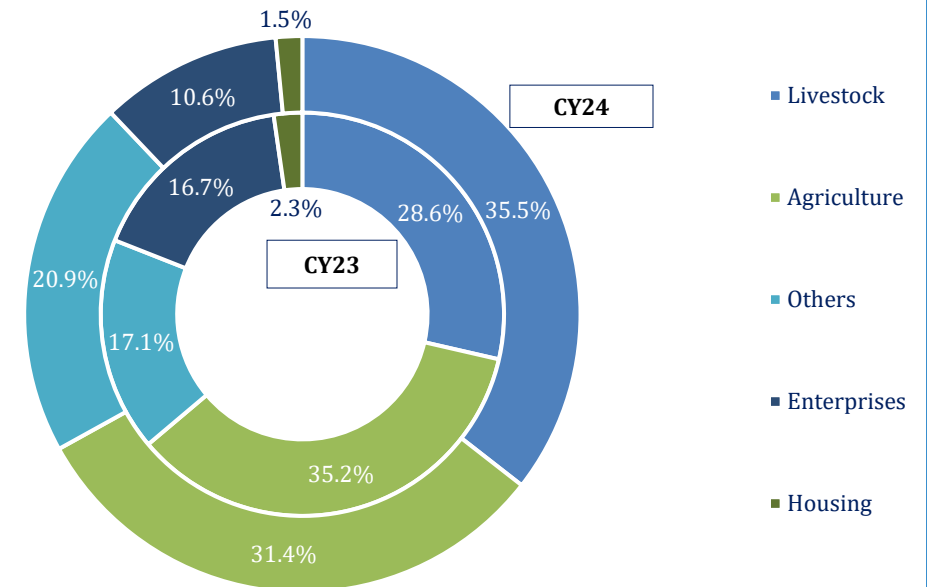
Sector Wise Gross Loan Portfolio (GLP)

- The livestock sector remained the largest contributor to MFBs' GLP at ~30.5% in CY24 (CY23: ~32.0%), with the portfolio rising to PKR ~141.6 Bn (YoY 8.6%), supported by the Punjab government's interest-free Livestock Card Scheme. The agriculture segment ranked second at ~26.3% (CY23: ~29.9%), with its GLP largely stable at PKR ~121.8 Bn (CY23: PKR ~121.9 Bn).
- Livestock and agriculture remained the major contributors to NPLs as well at ~35.5% and ~31.4%, respectively, reflecting persistent stress in rural lending. The uptick in livestock NPLs stems from rapid credit expansion under government schemes, while enterprise and housing segments (at ~16.7% and ~10.6%) maintained relatively stable asset quality owing to stronger collateral structures and prudent lending practices.

Sector-wise GLP (%)



Sector-wise NPL (%)

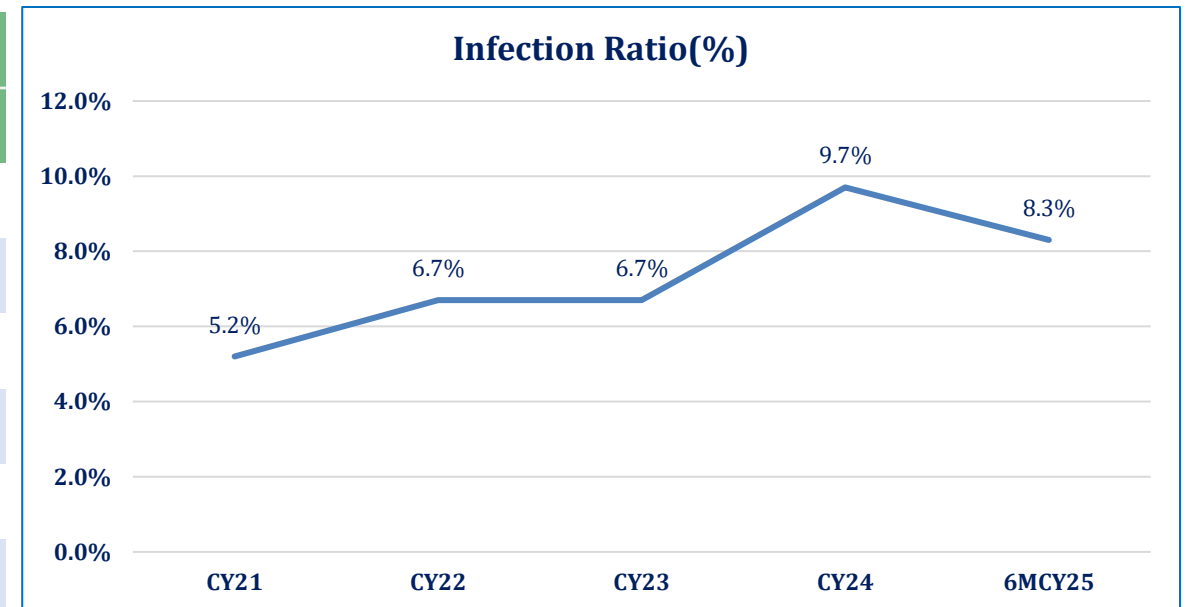


Microfinance Banks

Non-Performing Loans

- A key area of concern for the MFB Sector is the sharp escalation in credit risk across segments, largely driven by post-COVID stress and low recoveries. Higher NPL ratio in micro loans further exacerbated issues. These coupled with economic challenges in CY23 and 1HCY24, raised the NPLs of MFBs to PKR~45.0Bn (CY23: PKR~27.2Bn) in CY24, recording a YoY increase of ~65.4%. While during 6MCY25, the NPLs increased to PKR~57.1Bn (~8.3% of the GLP).
- The infection ratio increased to ~9.7% from ~6.7% in CY24, indicating a notable deterioration in asset quality across MFBs. In 6MCY25, the NPLs further increased in absolute terms but the infection ratio dropped to ~8.3% mainly on the back of higher expansion in GLP.
- The sharp increase in livestock and agriculture delinquencies during CY24, reflects stress from rapid portfolio growth, climatic shocks, and general economic slowdown. Meanwhile, enterprise and housing segments maintained low ratios due to stronger collateral. This has led to several MFBs focusing on secured lending (gold and other products) to curb high infection levels. The pressure on asset quality persists but is expected to moderate to an extent due to relatively better economic environment and prudent lending practices.

Sector-Wise Infection Ratio			
Particulars	CY23	CY24	6MCY25
Livestock	6.0%	11.3%	8.7%
Agriculture	7.9%	11.6%	10.2%
Enterprises	7.2%	5.8%	3.6%
Housing Finance	1.3%	1.5%	1.5%
Others	8.0%	20.4%	18.3%
Total	6.7%	9.7%	8.3%

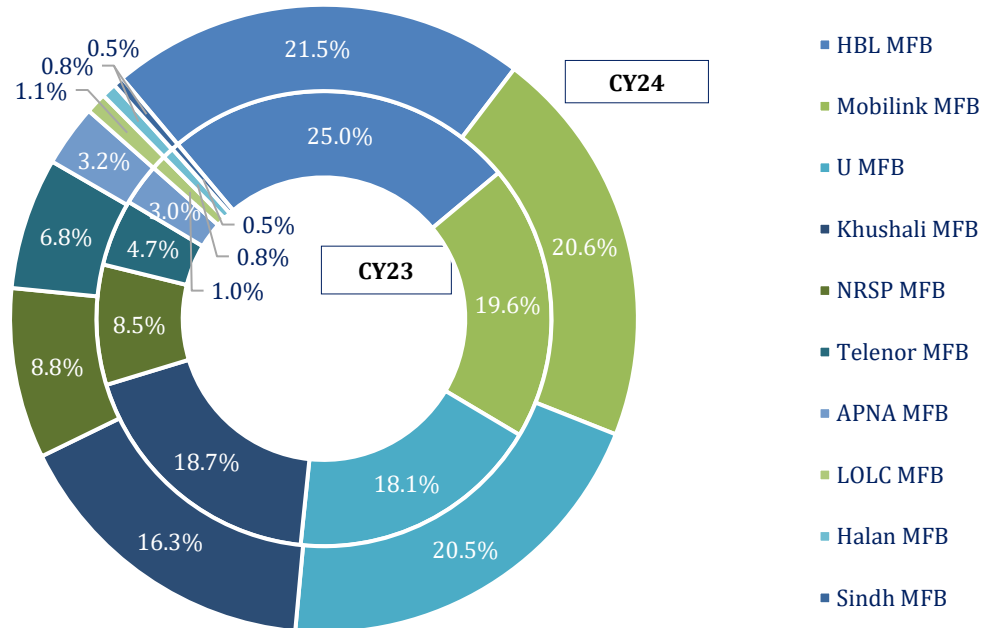


Microfinance Banks

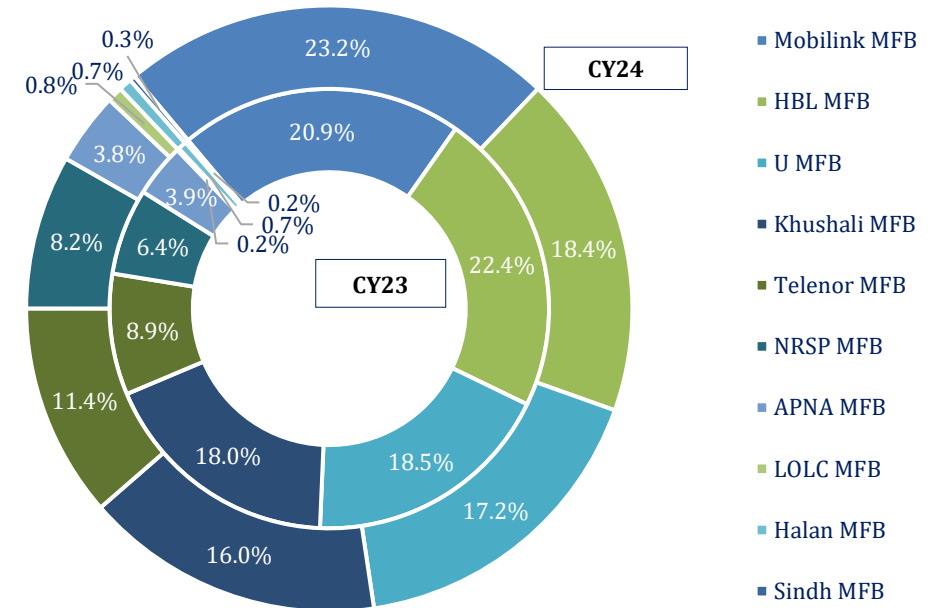
Market Share – GLP and Deposits

- HBL MFB and Mobilink MFB remained market leaders in terms of Gross Loan Portfolio (GLP) with a combined share exceeding ~40%, though both saw slight moderation from previous year. The market remains highly concentrated, with the top four MFBs collectively holding almost ~80% of total GLP, reflecting limited diversification within the Sector.
- Mobilink MFB and HBL MFB led the market in terms of deposits, holding ~23.2% and ~18.4% share, respectively, followed by U MFB and Khushhali MFB with ~17.2% and ~16.0%. The top 4 MFBs collectively commanded ~75% of total sector deposits, indicating dominant funding capacity among leading players, while smaller MFBs maintained modest deposit bases with limited market traction.

Market Shares - GLP (%)*



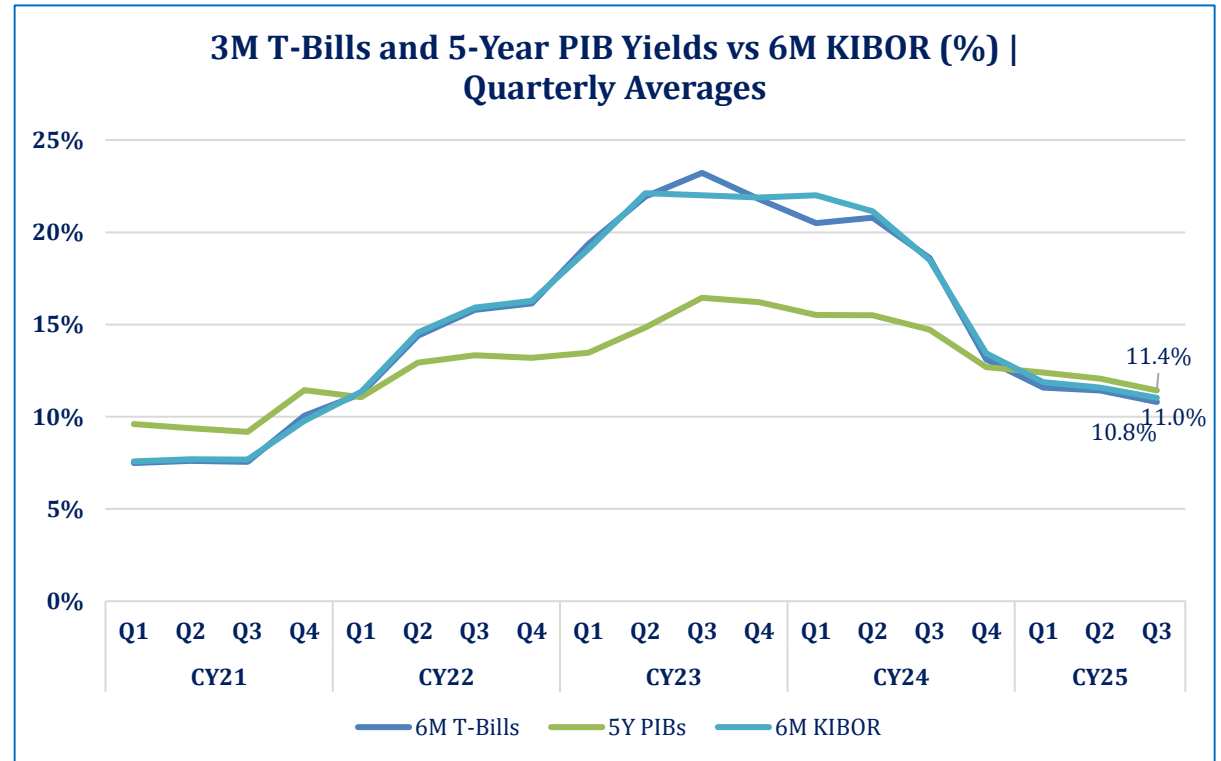
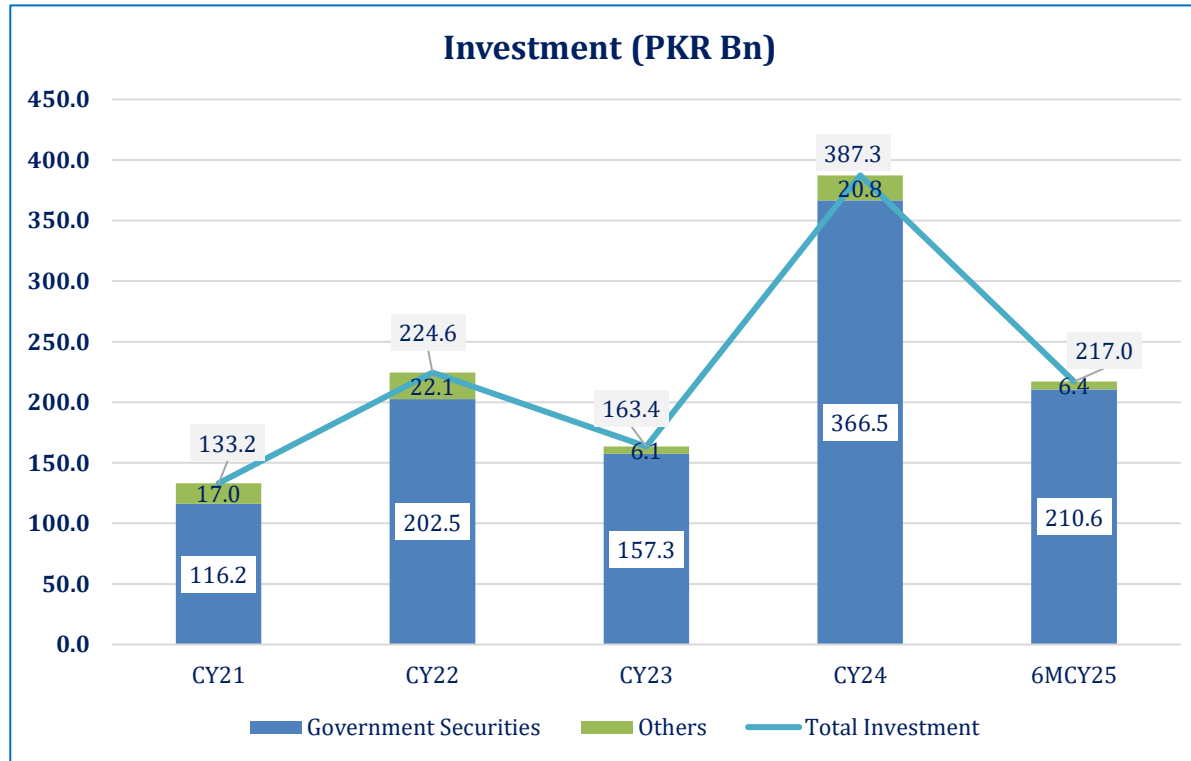
Market Shares - Deposits (%)*



Microfinance Banks

Investments

- During CY24, MFBs' total investments surged to PKR ~387.3Bn (CY23: PKR ~163.4Bn), marking a sharp YoY rise of ~137%, driven by higher policy rate and attractive returns on Government securities (PIB, T-bill, Sukuks). This shift towards safer assets amid heightened credit risk and weak loan demand indicated conservative approach. Investment in government securities grew ~133% YoY to PKR ~366.5Bn, while exposure to mutual funds rose ~241%, reflecting active liquidity deployment during high interest rate environment. By 6MCY25, investments moderated to PKR ~217.0Bn in line with declining policy rate and a gradual rebalancing toward core lending.

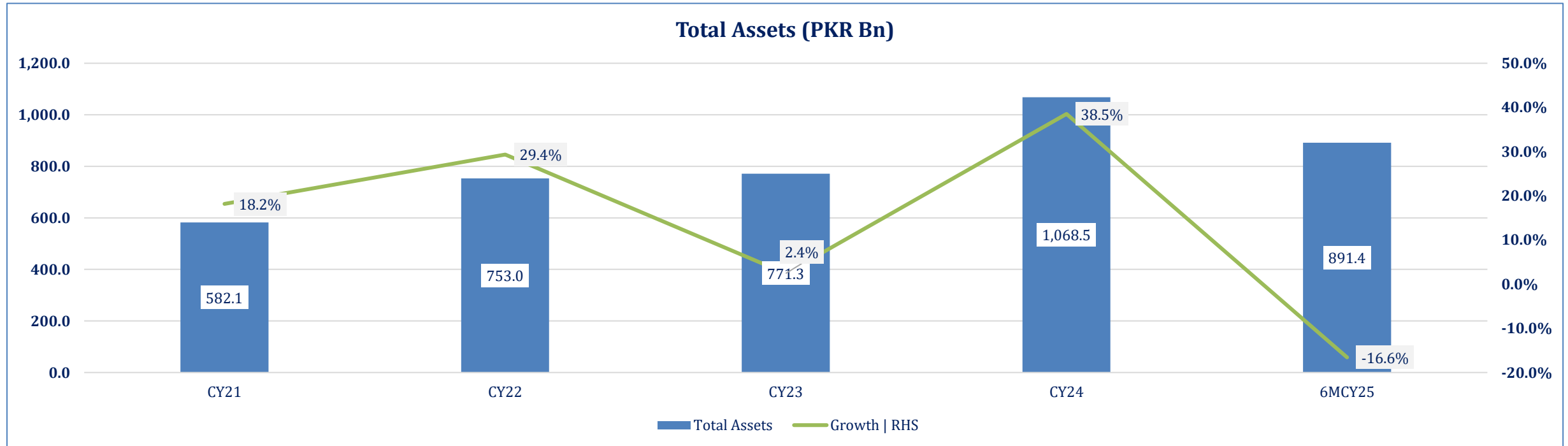


During 2QCY23, the 5-Yr PIBs trading was nil. The rate of return used is the average of 1QCY23 and 3QCY23.

Microfinance Banks

Total Assets

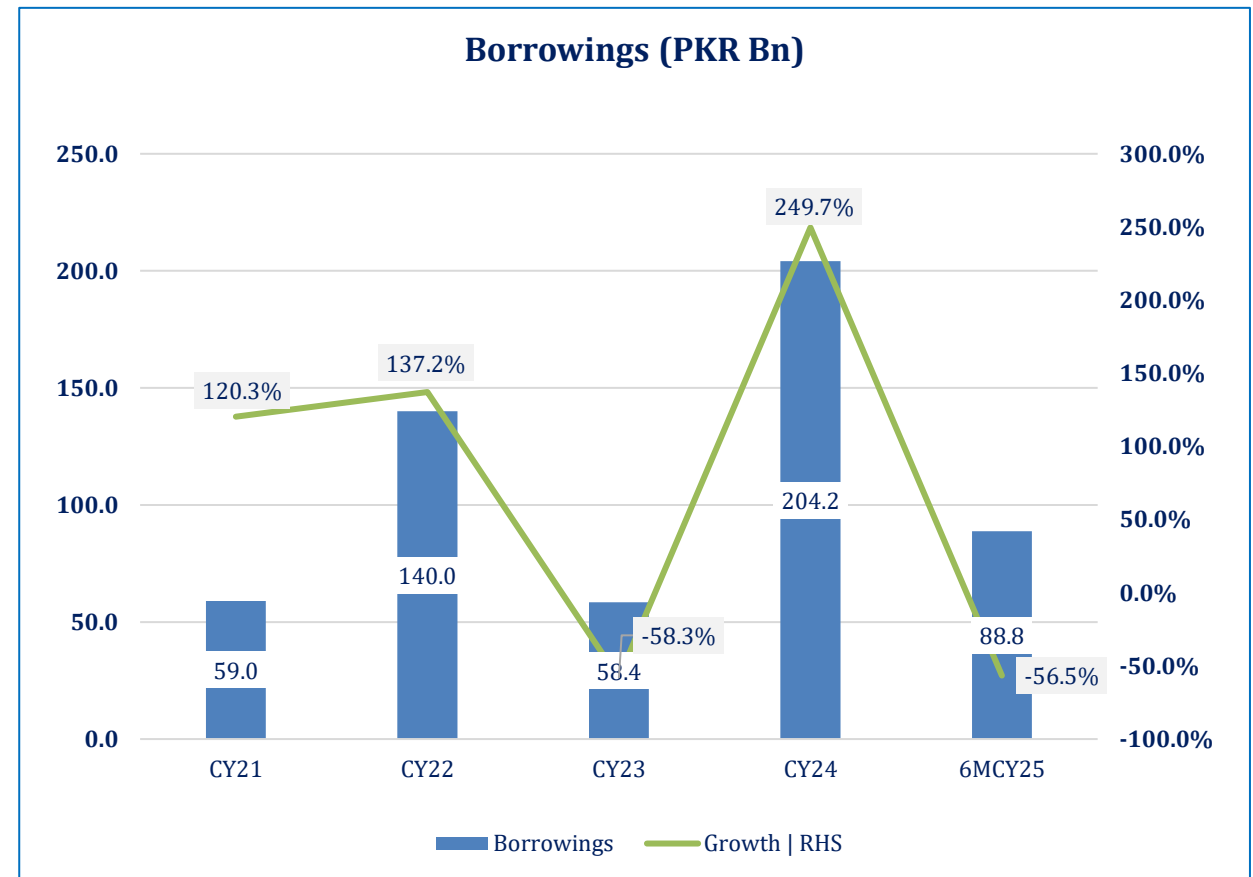
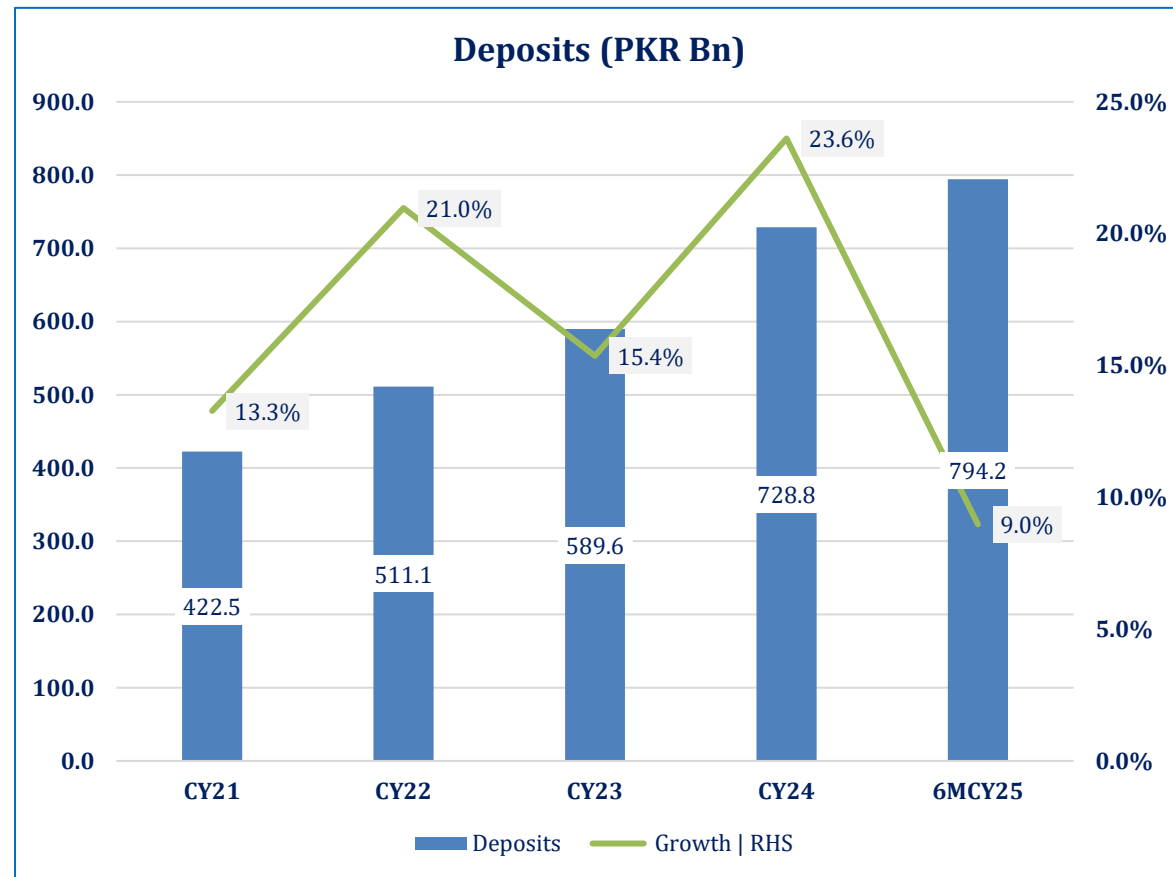
- Total asset base of MFBs was recorded at PKR~1,068.5Bn in CY24 (CY23: PKR~771.3Bn), a YoY increase of ~38.5%. During the 4 years (CY21-24), the asset base of the segment increased at a CAGR of ~16.7%. Collectively, net advances and investments make up ~75.7% of the segment's total asset base (CY24). The massive growth in MFBs' assets during CY24 was primarily driven by a surge in investments in government securities, supported by higher borrowings and deposit mobilization in the respective period. The total assets declined by ~16.6% in 6MCY25 to stand at PKR~891.4Bn.
- The decline in MFBs' total assets in 6MCY25 was primarily driven by lower investment portfolios as interest rates came down and credit off take remained moderate.



Microfinance Banks

Funding

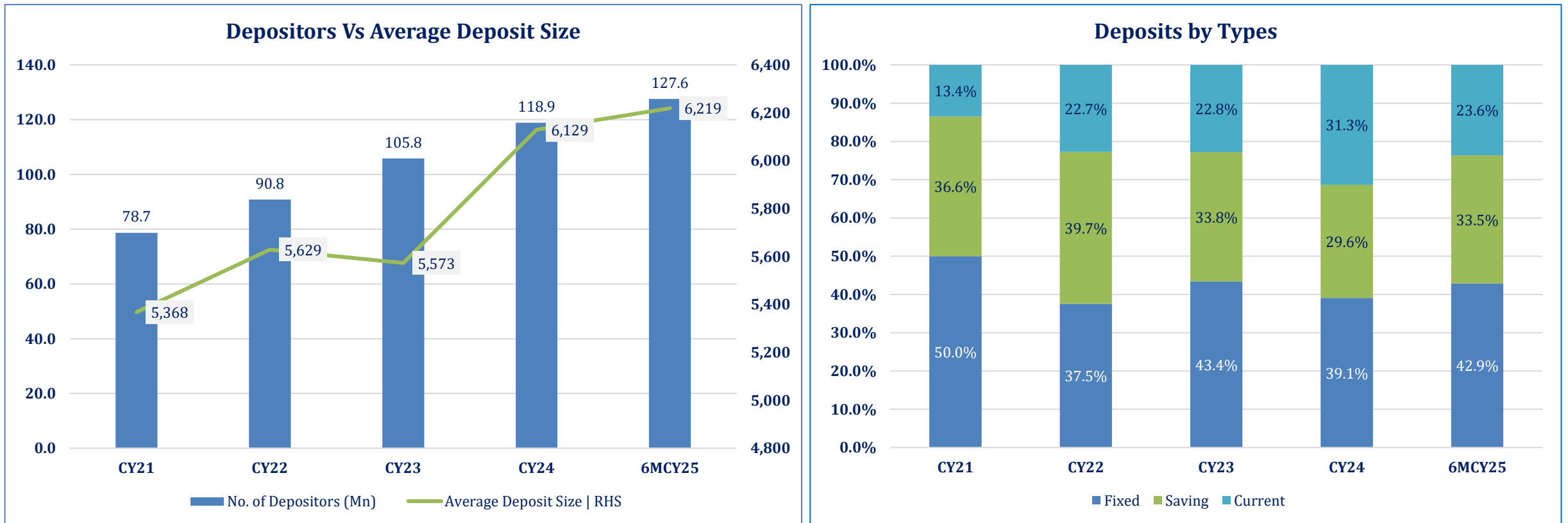
- For CY24, the deposit base of the segment increased to PKR~728.8Bn (CY23: PKR~589.6Bn), a YoY increase of ~23.6%. Borrowing for the Sector rose significantly by ~249.7% to reach PKR~204.2Bn (CY23: PKR~58.4Bn), as the as MFBs' increasingly relied on external funding to support asset expansion. A sharp decline was seen in 6MCY25, as the Sector adjusted its balance sheet amid easing interest rates and reduced investment in government securities.



Microfinance Banks

Deposits

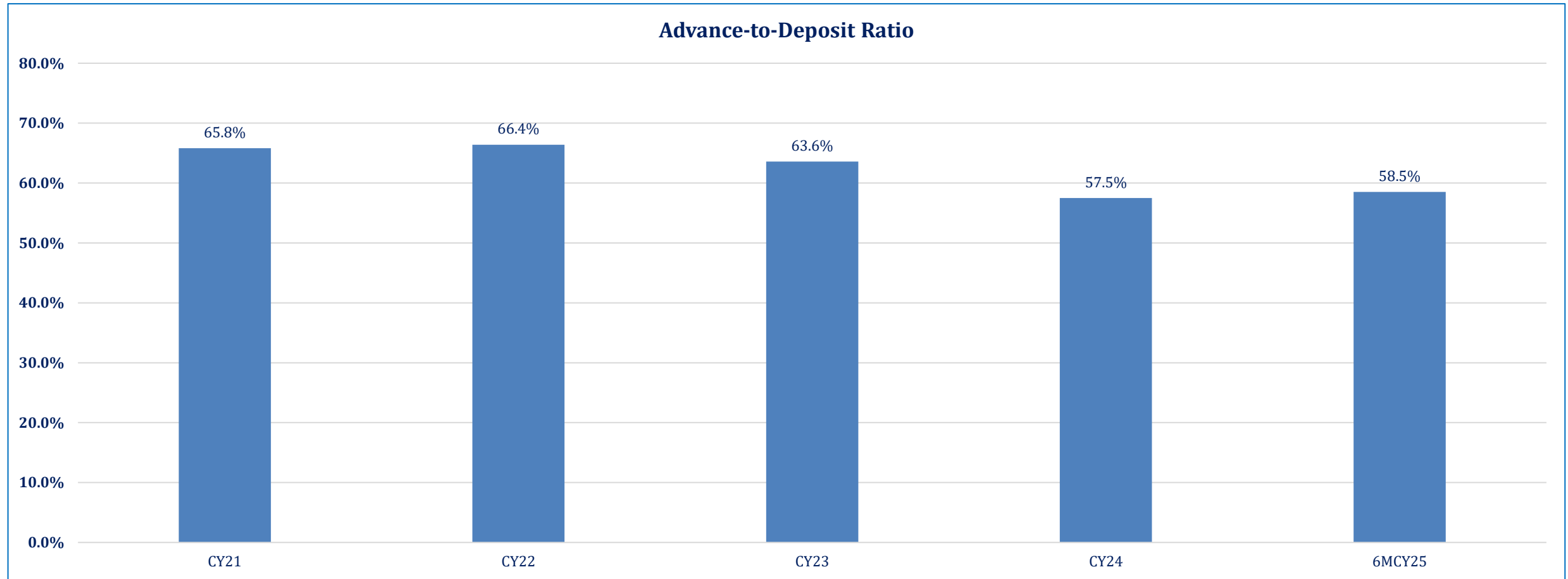
- During CY24, the total number of deposit accounts increased to ~118.9Mn (CY23: ~105.8Mn), a YoY growth of ~12.4%. Meanwhile, average deposit size also increased by ~10.0% YoY to PKR~6,129 in the period (CY23: PKR~5,573), on the back of higher deposit value. In 6MCY25, deposits accounts increased to ~127.6Mn while average deposit size increased slightly to PKR~6,224.
- Furthermore, MFBs' deposit mix largely comprises Fixed Deposits and Saving Accounts, which collectively formed ~68.7% of the segment's deposit base during CY24, while Current Accounts constituted ~31.3% of the MFBs deposit base.



Microfinance Banks

Advance-to-Deposit Ratio (ADR)

- The Advance-to-Deposit Ratio (ADR) of MFBs declined from ~66.4% in CY22 to ~57.5% in CY24, before inching up to ~58.5% in 6MCY25. The drop reflects a reallocation toward low-risk government securities and a cautious lending stance amid rising credit risk and capital constraints.



Microfinance Banks

Capital Adequacy Ratio (CAR)

- The segment's Capital Adequacy Ratio (CAR) declined sharply from ~5.7% at end-Jun'24 to a negative ~1.6% by end-Jun'25, well below the 15% regulatory minimum, driven by substantial loan-loss provisioning and the conversion of an MFB into a digital bank. Sector equity also contracted from PKR ~56.7Bn in CY21 to PKR ~37.2Bn by CY24, underscoring severe capital stress across the industry.
- Out of the top five MFBs (in terms of GLP) two remain compliant to the minimum capital adequacy ratio requirement by SBP in CY24 as compared to three in CY23.

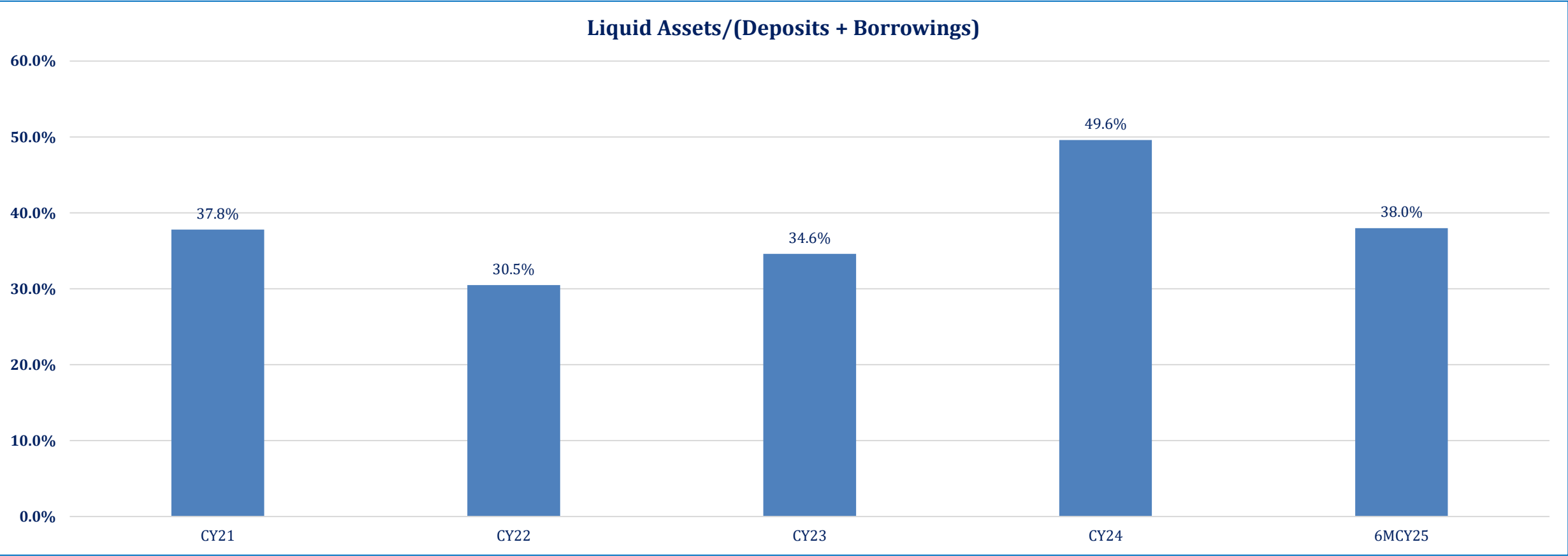
Capital Adequacy Ratio		
MFBS	CY23	CY24
LOLC MFB	48.0%	28.9%
Sindh MFB	47.2%	45.1%
Telenor MFB	21.9%	36.9%
U MFB	18.2%	9.4%*
Mobilink MFB	16.2%	19.2%
Halan MFB	15.1%	15.3%
HBL MFB	15.3%	17.1%
Khushali MFB	-46.0%	-57.6%
NRSP MFB	-6.0%	1.0%
Apna MFB	-141.0%	-226.0%

Note: *CAR for U MFB is for Mar'24.

Microfinance Banks

Liquidity

- The liquidity ratio of MFBs, measured as Liquid Assets to (Deposits + Borrowings), improved markedly from ~34.6% in CY23 to ~49.6% in CY24, before easing to ~38.0% in 6MCY25. The sharp rise in CY24 reflected higher investment in government securities, while the subsequent moderation indicates partial redeployment of liquidity as interest rates softened and lending conditions began to stabilize.



Microfinance Banks

Financial Performance

Selective Indicators	CY21	CY22	CY23	CY24	6MCY25
Capital					
Capital Adequacy Ratio	18.3%	10.9%	7.6%	2.6%	-1.6%
Tier 1 Capital to Total RWA	14.3%	8.1%	4.7%	0.1%	-4.3%
Assets Quality					
Gross NPLs (% of GLP)	5.2%	6.7%	6.7%	9.7%	8.3%
Provision Coverage (% of NPL)	78.1%	78.8%	102.3%	95.3%	131.9%
Net NPLs	1.2%	1.5%	-0.2%	0.5%	-3.0%
Drag on Equity	5.4%	12.9%	-2.2%	21.4%	221.5%*
Earnings					
Net Interest Margins	11.2%	10.1%	12.2%	13.9%	13.3%
ROA after Tax	-1.6%	-2.7%	-1.1%	-1.9	-0.4%
ROE after Tax	-15.0%	-33.1%	-19.7%	-49.6	-13.4%
Cost Per Borrower (PKR)	11,427	14,276	18,069	13,956	16,539
Admin Expense to Total Assets	10.2%	11.3%	10.2%	14.2%	12.8%
Liquidity					
Liquid Assets to Total Assets	31.3%	26.5%	29.4%	43.6%	34.1%
Liquid Assets to Total Deposits	43.1%	38.6%	38.0%	63.6%	42.8%
Liquid Assets to Short Term Liabilities	42.4%	31.9%	42.1%	61.2%	56.9%

Note: *Higher Drag on Equity is primarily attributable to the contraction in the Equity Base.

A photograph of a traditional wooden textile loom in a workshop. The loom is made of dark wood and has many colorful threads (pink, yellow, orange, and purple) wound around it. The threads are arranged in a striped pattern. The workshop has a rustic feel with wooden beams and a window in the background. A semi-transparent blue box is overlaid on the center of the image, containing the title text.

Microfinance Institutions

At a Glance

Microfinance Institutions

Snapshot

Particulars	Units	FY21	FY22	FY23	FY24	FY25
Gross Loan Portfolio	<i>PKR Bn</i>	102.7	134.0	117.0	113.4	204.0
Growth	<i>%</i>	19.4%	30.5%	-12.7%	-3.1%	79.9%
Active Borrowers	<i>Mn</i>	3.5	3.2	3.1	2.8	3.4
Average Loan Size	<i>PKR</i>	29,664	35,306	37,741	40,500	60,684
Equity	<i>PKR Bn</i>	8.5	10.9	13.7	13.2	16.3
Profit After Tax	<i>PKR Mn</i>	1,329.3	2,300.2	2,941.0	2,904.3	5,647.7

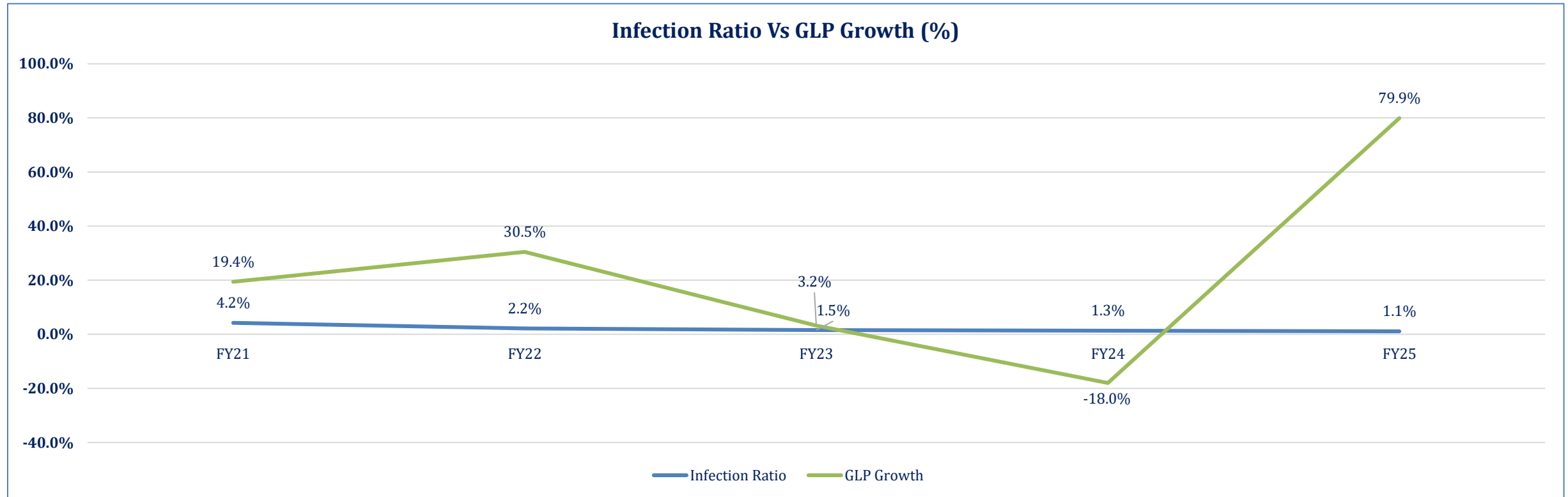
Note: Data is based on ~6 PACRA-rated players.

Source: PMN, Financial Statements 18

Microfinance Institutions

Non-Performing Loans

- During FY24, MFIs' Non-Performing Loans decreased to PKR~607.9Mn (FY23: PKR~653.5Mn) a YoY decrease of ~7.0%. While during FY25, Non-Performing Loans further declined to PKR~587.9Mn. The GLP for the Segment rose sharply by ~79.9% YoY to reach PKR~204.0Bn (FY24: 113.4Bn). This stemmed mainly from an expansion in housing-focused lending supported by subsidized provincial initiatives taken by the GoP.
- During FY24, infection ratio decreased to ~1.3% (FY23: ~1.5%), as NPLs declined for the period. The infection ratio further lowered to ~1.1% in FY25.

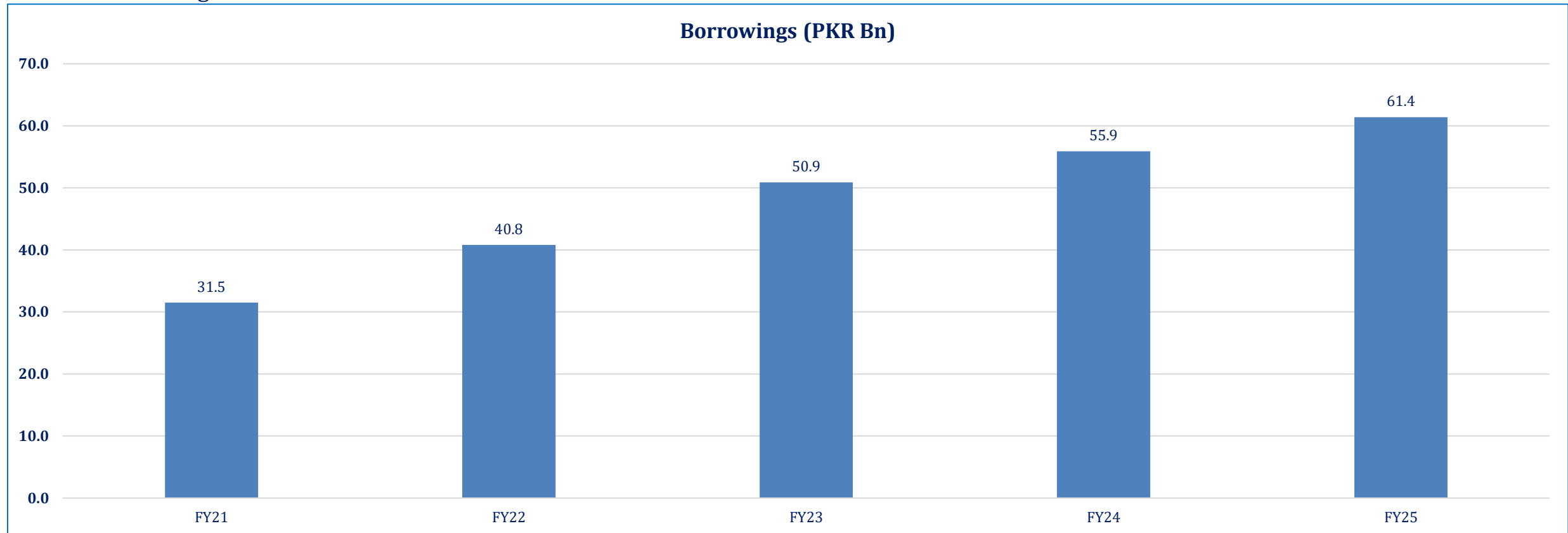


Note: Data is based on ~6 PACRA-rated segment players.

Microfinance Institutions

Borrowings

- Borrowings of MFIs have shown a steady upward trend, rising from PKR ~31.5Bn in FY21 to PKR ~61.4Bn in FY25, reflecting a CAGR of around 18%. The consistent increase indicates greater reliance on external funding to sustain portfolio growth. The trend also highlights sectoral dependence on concessional and wholesale credit lines, underscoring potential liquidity risk in the absence of diversified and stable funding sources.



Microfinance Institutions

Financial Performance

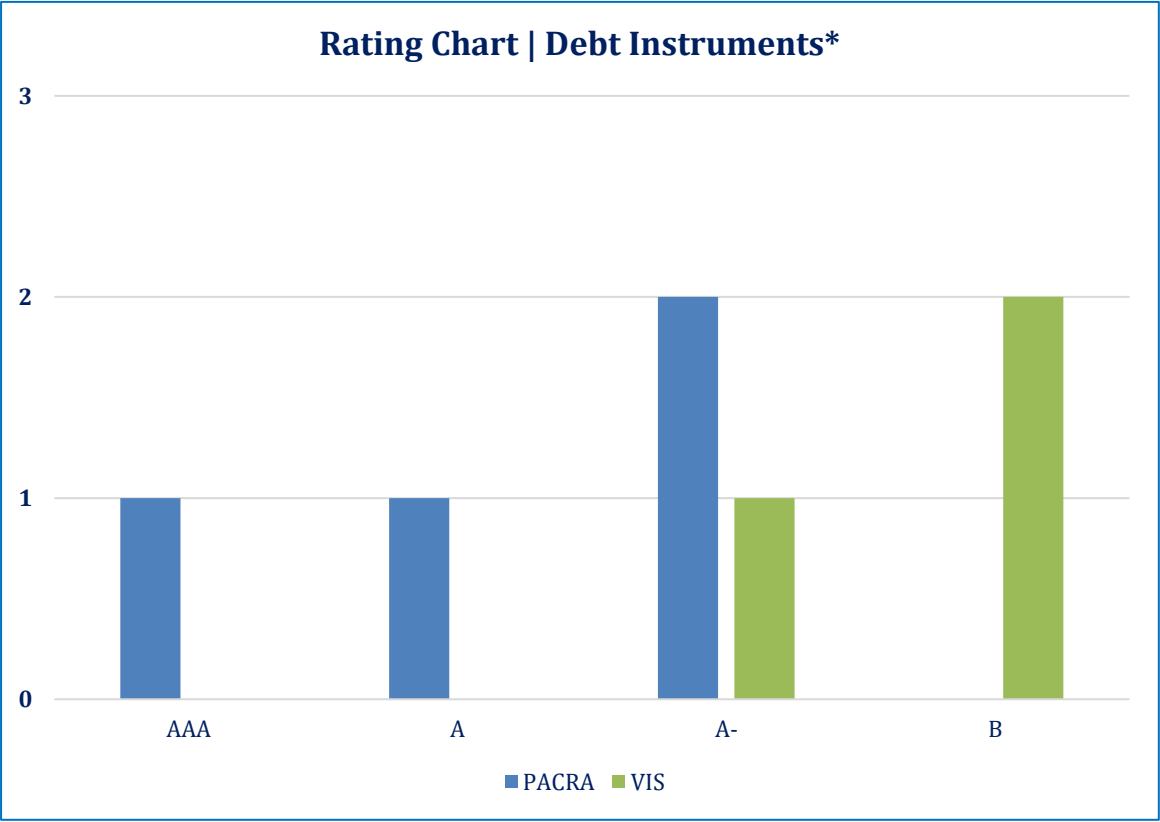
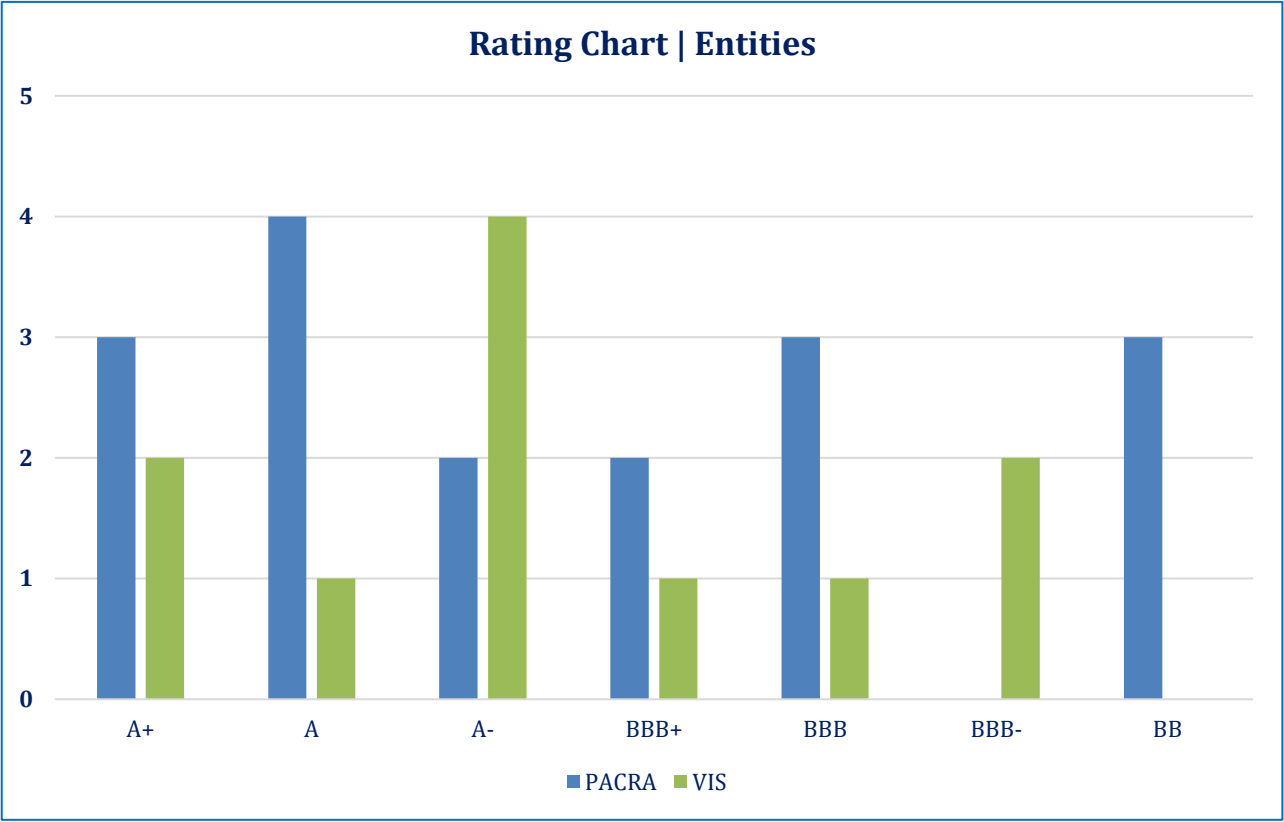
Operating Performance	FY21	FY22	FY23	FY24	FY25
Mark-up/Return/Interest Earned	8,290	11,118	15,994	21,584	25,043
Mark-up/Return/Interest Expensed	-3,235	-4,399	-7,558	-11,348	-10,508
Net Mark-up / Interest Income	5,055	6,718	8,436	10,236	14,534
Administrative expenses	-4,453	-5,515	-6,908	-7,131	-7,863
ROE	15.7%	21.1%	21.4%	22.0%	23.1%
ROA	2.5%	5.6%	4.3%	3.9%	6.5%
Operational Self Sufficiency	105.8%	103.4%	98.6%	102.2%	107.7%
Cost Per Borrower (PKR)	5,993	7,308	8,011	8,978	7,432
Profit / (Loss) before taxation	1,332	2,300	2,941	2,905	5,649
Profit / (Loss) after taxation	1,329	2,300	2,941	2,904	5,647*

Note: Data is based on ~ 6 PACRA-rated segment players.* Lower cost of funds for MFIs, coupled with an ~80% increase in GLP and higher net markup income during the period, contributed to improved profitability for the segment.

Microfinance

Rating Curve

- PACRA rates 17 entities in the Microfinance Sector. Rating bandwidth of the Sector lies between A+ to BB. While PACRA also rates 4 Debt instruments.



*Note: *Debt Instrument for Kashf Foundation is secured.*

Microfinance

SWOT Analysis

- Financial Inclusion drive
- Strong regulatory support
- Innovative products
- Technology Integration

- Increasing NPLs for MFB
- Natural Disasters and Climate Risk
- Economic Instability
- Portfolio Concentration Risk



- High operational cost
- Risk Management
- Low financial literacy
- Limited access to capital

- Expanding Rural Outreach
- Government support for SME's
- Islamic Microfinance
- Increased focus on women entrepreneurs
- Fintech and Digital finance.

Microfinance

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