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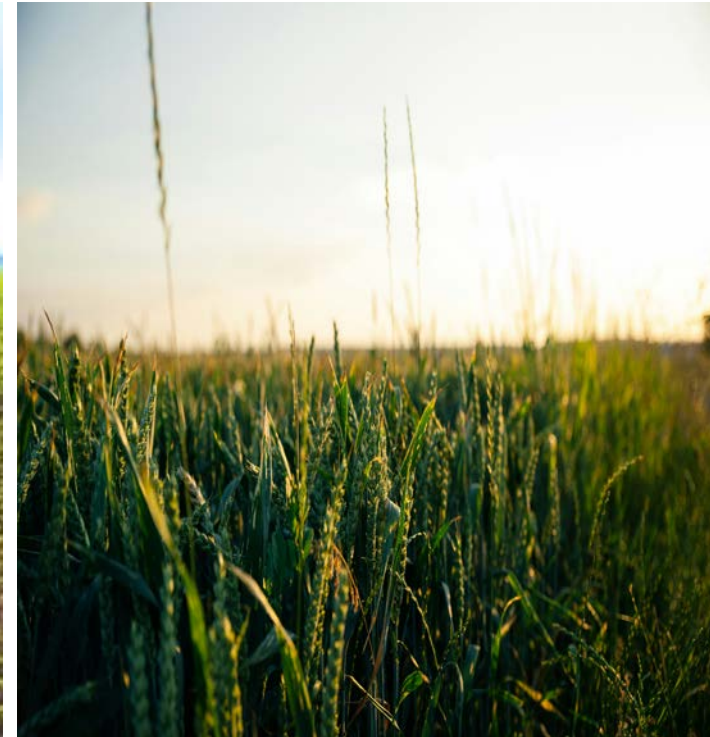
# Microfinance

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# Microfinance through the lens

## Outlook: Negative

Pakistan's Microfinance sector comprises of the Microfinance Banks - MFBs, Microfinance Institutions (MFIs) and Rural Support Programs (RSPs), collectively referred to as the 'Microfinance Providers'. The Sector is majorly dominated by MFBs as they constitute ~75% to the outstanding Gross Loan Portfolio (GLP) of the Sector, and are the only deposit-taking segment out of the three. Therefore, for the purpose of a deeper analysis in this report, MFBs will be discussed separately from the MFIs & RSPs, with major focus being on the MFBs.

The Sector continues to grapple with long-standing challenges, despite the country's economic indicators reflecting signs of recovery (*for further details, refer to the economic indicators slide*). Historically, the Sector's growth trajectory and performance indicators have remained promising, while the Sector's fast-paced progress on the technological front, such as the growth in M-Wallet Accounts and introduction of nano-lending services, has played a significant role in reshaping the country's financial landscape. Nonetheless, the Sector's systemic risks remain high. From the COVID-19 pandemic in CY20 to the hazard of floods in Jul-Aug'22 followed by economic slowdown in CY23, the Sector's resilience has been repeatedly tested. The outlook of the Sector is considered "Negative" on account of the persistently constrained performance indicators of the Sector, particularly of the Microfinance Banks (MFBs).

## Microfinance Banks

**Credit Risk:** The MFBs are a mix of telco-backed and conventional MFBs, with both categories operating with their unique business models. The credit exposure in terms of market segments and customers is, however, largely the same for all the Sector players. Out of the 12 licensed MFBs, almost ~89% of the GLP (in value terms in CY23) is constituted by 5 players only, representing concentration within the Sector. Moreover, in terms of the loan customer segments, almost ~62% of the outstanding GLP collectively pertained to the livestock and agricultural sectors in CY23. Hence, it is fair enough to deduce that any fluctuations in the output of the livestock and/or agricultural sectors bears a direct and pervasive impact on the credit risk profile of the MFBs. The period end NPLs over the five years (CY19-CY23) and 1HCY24 reflects that the Sector NPLs have been on a rising trend following CY20 (*refer to the table below*). In addition to the unavoidable factors such as climatic catastrophe and economic downturn, the expiration of SBP's loan restructuring/deferment plan, which was introduced as part of COVID-19 relief measures, also posed an unprecedented challenge to the Sector's asset health. This was majorly on account of non-recoveries against the deferred/restructured loans, which were initially anticipated to be recovered once the COVID-19 challenges were to subside. The total outstanding amount deferred/restructured against the relief scheme stood at PKR~121bln (as at Apr'21), which is ~22% of the Sector's total outstanding GLP as of End-Dec'23.

Particulars	CY19	CY20	CY21	CY22	CY23	1HCY24
NPLs - Period End (%)	5.3%	3.3%	5.2%	6.7%	6.7%	10.5%
Net NPLs ( <i>NPLs less Provisions</i> ) - PKR	3,416	-507	3,280	5,138	-616	1,571
Equity	50,421	50,175	56,703	43,721	37,399	22,651
Net NPLs as a % of Equity	7%	-1%	6%	12%	-2%	7%

**Profitability:** A closer look into the Sector's income and cost structure reveals that the MFBs' weighted average spreads have recorded between the range of 12% - 15% from CY19 - CY23, while during 1HCY24, the weighted average spreads clocked in at ~11.7%. Going forward, asset yields are expected to reprice downwards in response to the interest rate cuts while funding cost is also expected to re-adjust with a time lag. In comparison to the Commercial Banks (CBs), the MFBs spreads are higher, as CBs' spreads hover in the range from 5% - 7%. Much of the improved spreads can be attributed to the zero-cost deposit taking MFBs, i.e., the branchless banking players, however, the spreads of conventional MFBs are also adequate. The issue, therefore, lies in the Sector's exorbitantly high administrative costs. It has been observed that for most of the MFBs, the administrative costs (in value terms) are either equivalent to or surpass the Net Mark-up/Interest Income (NIMR) of the Sector players. Ultimately, the Sector's non-core income solely absorbs the impact of provisioning expense, which becomes increasingly challenging with rising delinquencies and eventually leads to bottom-line losses for the Sector.

The same is reflected in the Sector's ROE (after tax) registering in the red zone for over five years (CY19 - CY23) and then worsening in 1HCY24 to -79%.

Particulars	CY19	CY20	CY21	CY22	CY23	1HCY24
Weighted Average Spreads <sup>1</sup>	14.7%	13.6%	11.9%	8.9%	12.2%	11.7%
Core Spreads <sup>2</sup>	19.3%	20.3%	17.9%	15.8%	18.3%	15.9%
Profit/(Loss) After Tax (PKR mln)	(8,117)	(5,883)	(8,080)	(17,155)	(8,118)	(12,115)
ROE   %	-16.9%	-12.2%	-15.0%	-33.1%	-19.7%	-78.8%

**Capital:** The Sector's eroded profitability has eventually translated into a distressed capital position. Capital Adequacy Ratio (CAR) of the Sector declined to ~5.7% in June'24 (~7.6% in CY23), much below the minimum regulatory requirement of 15%. Furthermore, in absolute terms, the Sector's equity eroded by over half of its value from PKR~50bln in CY19 to PKR~23bln as at End-June'24.

Particulars	CY19	CY20	CY21	CY22	CY23	1HCY24
Equity (PKR mln)	50,421	50,175	56,703	43,721	37,399	22,651
% Change in Equity	3.0%	-0.5%	13.0%	-22.9%	-14.5%	-39.4%
Capital Adequacy Ratio (CAR) %	20.9%	19.0%	18.3%	10.9%	7.6%	5.7%

**Liquidity:** Considering the non-recoveries and stressed capital profile, the Sector's liquidity has also compromised. Liquid Assets as a percentage of deposits and borrowings declined to ~34% as at End-June'24 (~35% as at End-Dec'23). Nonetheless, the liquidity position still reflects a recovery from CY22, during which the ratio fell to ~31%.

**Funding:** One of the stabler factors in consideration is the MFBs' funding avenues. The Sector's deposit base is shifting towards zero-cost granular deposits attracting a larger number of depositors through digital platforms (easypaisa, jazzcash, UPaisa, etc.). The Sector's deposit base grew to PKR~640bln as at End-June'24 (PKR~597bln as at End-Dec'23), registering a growth of ~7%. Meanwhile, the total number of deposit accounts also increased by ~2% clocking in at ~111mln accounts as at End-June'24 (~109mln accounts as at End-Dec'23). Moreover, the Sector's reliance on borrowings remains limited as a source of its funding.

## Microfinance Institutions & Rural Support Programs

MFIs & RSPs make up around 25.2% of the sector's GLP (CY23). The infection ratio of this segment clocked in at ~2.9% in FY23, which improved further down to ~1.8% in Dec'23, much below the infection ratio of MFBs. This is most likely attributable to the smaller business size of MFIs & RSPs, cost structure, relatively limited scale of operations, their direct/ground level relationship with the borrowers and the loan rollover flexible options available to their customers in their product suite. Furthermore, MFIs & RSPs are generally smaller in scale as compared to MFBs and tend to manage their asset portfolio through borrowed funds. Liquidity management is of critical significance to the MFIs & RSPs as their costs of doing business are generally high. On average, ~60% of the borrowings of the MFIs are from commercial banks, while the next highest share pertains to foreign lenders (~12%) followed by PMIC and SBP.

## Conclusion

The Microfinance sector is currently facing significant challenges, especially the MFBs. Since MFBs have a majority share in lending portfolio and are critical for the sector, this has impacted the overall industry adversely. An immediate recourse, to tackle heightened credit risk and restore capital position is imperative. Collaborative efforts from the Sponsors and the Regulators are a pressing need for the Sector to ensure financial stability. Furthermore, the Sector also needs sustainable business reforms in the medium term to rationalize its operating/administrative costs in order to enhance its profit generation capacity.

<sup>1</sup> Weighted Average Spreads are calculated using weights of Gross GLP and Investments (net).

<sup>2</sup> Core spreads refer to Asset yield on GLP less deposit cost.



# Microfinance

## Microfinance Across Borders

Selective Indicators	Pakistan			India			Bangladesh		
	CY21	CY22	CY23	FY21	FY22	FY23	FY21	FY22	FY23
<b>Regulator</b>	State Bank of Pakistan Securities and Exchange Commission of Pakistan			Reserve Bank of India			Bangladesh Bank		
<b>Gross Loan Portfolio - Microfinance Sector (USD bln)</b>	2.4	2.4	1.9	34.9	36.3	42.2	13.9	17.1	17.5
<b>Gross Loan Portfolio - Microfinance Banks (USD bln)</b>	1.7	1.7	1.4	15.2	14.5	14.4	2.4	2.3	2.2
<b>No of Microfinance Providers</b>	33	33	34	55	55	48	739	739	731
<b>Branches</b>	3,823	4,058	4,153	14,673	14,646	17,055	20,955	23,543	25,336
<b>Borrowers (mln)</b>	9.1	9.4	10.0	59.3	58.0	66.0	27.8	29.7	31.5
<b>NPL Ratio (%)</b>	5.08%	6.70%	6.60%	1.90%	2.10%	0.90%	4.70%	6.70%	5.20%
<b>Deposits (USD bln)</b>	2.5	2.5	2.1	19.60	21.10	24.10	7	8.5	8.4
<b>ROA (%)</b>	-1.60%	-2.70%	-1.10%	0.60%	1.20%	2.90%	1.80%	2.90%	2.10%
<b>ROE (%)</b>	-15.00%	-33.10%	-19.70%	2.50%	5.20%	14.70%	-	-	-

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

# Microfinance

## Pakistan | Macro-Profile

Sector-wise Particulars	FY19	FY20	FY21	FY22	FY23	FY24
<b>Real Sector</b>						
GDP (Nominal) PKR bln	41,110	44,747	52,254	63,305	79,477	100,232
GDP (Real) PKR bln	34,916	34,587	36,582	38,839	38,775	39,685
Real GDP Growth %	3.1%	-0.9%	5.8%	6.2%	-0.2%	2.4%
LSM Growth (%)	3.4%	-11.0%	11.6%	11.9%	-9.9%	0.1%
<b>Fiscal Sector</b>						
Fiscal Deficit (% of GDP)	-7.9%	-7.1%	-6.1%	-7.9%	-7.7%	-5.6%
Government Debt (PKR bln)	31,787	35,107	38,704	47,832	60,840	68,914
<i>Local (PKR bln)</i>	<i>20,732</i>	<i>23,283</i>	<i>26,625</i>	<i>31,085</i>	<i>38,809</i>	<i>47,160</i>
<i>Foreign (PKR bln)</i>	<i>11,055</i>	<i>11,824</i>	<i>12,079</i>	<i>16,747</i>	<i>22,031</i>	<i>21,754</i>
Govt. Debt (% of GDP)	77.3%	78.5%	74.1%	75.6%	76.4%	68.7%
<b>Monetary Sector</b>						
Monetary Policy Rate (%)(Period-End)	12.3%	7.0%	7.0%	13.8%	22.0%	21.0%
Avg. Exchange Rate (USD/PKR)	136.5	158.4	160.5	191.9	247.7	283.2
Avg. CPI Inflation (%)	7.3%	10.7%	8.9%	21.3%	29.4%	12.6%
<b>External Sector</b>						
FX Reserves   SBP (USD mln)	7,285	12,132	17,299	9,815	4,445	9,390
Remittances (USD mln)	21,739	23,132	29,450	31,279	27,332	30,251
Trade Balance (USD mln)	-27,612	-21,109	-28,155	-39,050	-24,819	-22,065
Current Account Balance (USD mln)	-13,434	-4,449	-2,820	-17,481	-3,275	-665

### Aug'24 Updates

- Avg. ER as at Aug, 2024: USD/PKR~278.6
- Inflation as at (Aug, 2024 End):~9..6%

### GDP Growth Projections | FY25

- 3.6% YoY (GoP)
- 2.5%-3.5% YoY (SBP)
- 3.2% YoY (IMF)
- 2.3% YoY (WB)
- 2.8% YoY (ADB)

# Microfinance

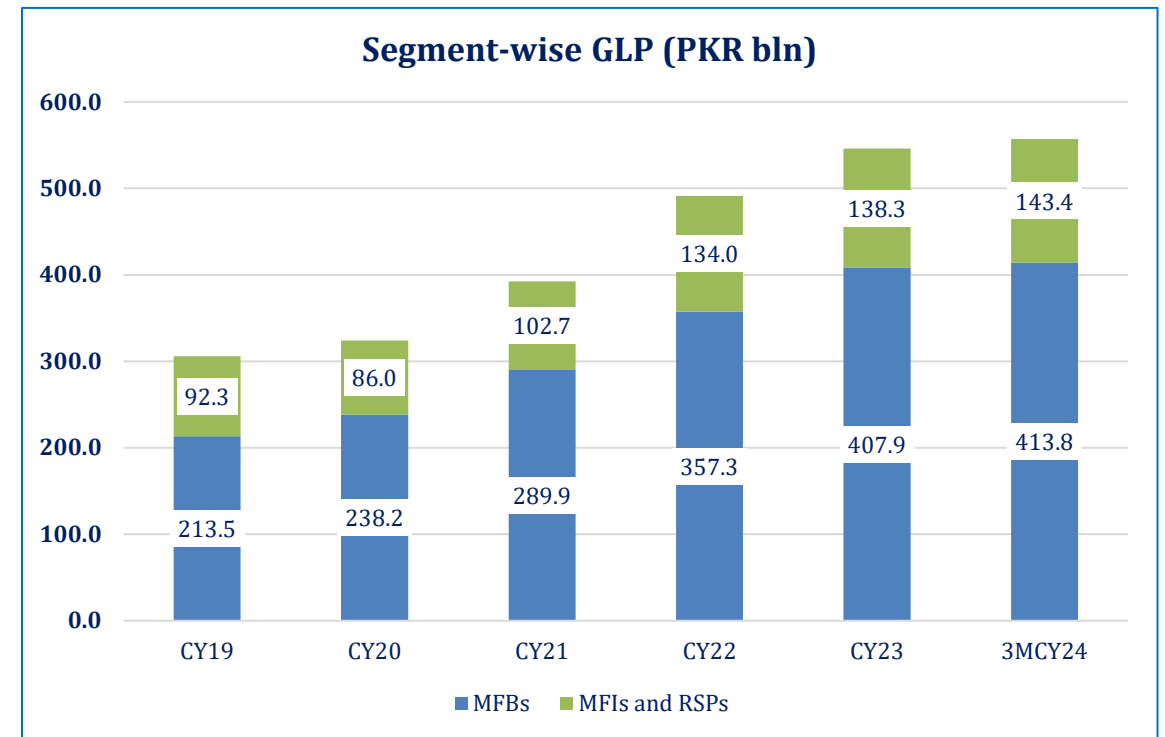
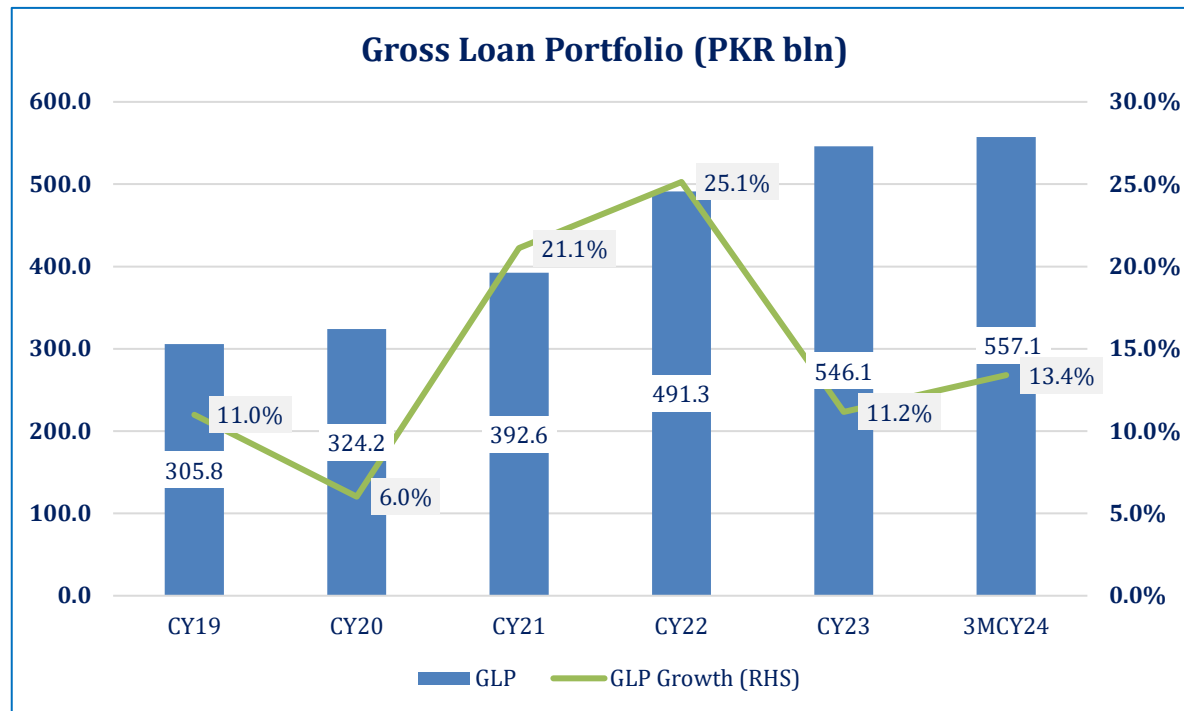
## Sector Overview

GLP   (MFBs + MFIs + RSPs & Others)	CY19	CY20	CY21	CY22	CY23	3MCY24
<b>Outreach</b>						
Number of Branches	4,036	3,828	3,823	4,058	4,153	4,140
Growth (YoY)	-5.0%	-9.7%	-0.1%	6.1%	2.3%	-0.3%
<b>Gross Loan Portfolio</b>						
Gross Loan Portfolio (PKR bln)	<b>306.0</b>	<b>324.2</b>	<b>392.6</b>	<b>491.3</b>	<b>546.1</b>	<b>557.1</b>
Growth (YoY)	11.0%	6.0%	21.1%	25.1%	11.2%	2.0%
Active Borrowers (mln)	7.3	7.0	8.1	9.1	10.7	13.2
Growth (YoY)	5.0%	-3.4%	15.9%	11.9%	17.7%	23.4%
Average Loan Size	42,173	46,269	48,335	54,031	58,165	55,689
<b>Funding</b>						
Value of Deposits (PKR bln)	<b>268.0</b>	<b>374.4</b>	<b>422.5</b>	<b>514.3</b>	<b>597.0</b>	<b>637.0</b>
Growth (YoY)	12.0%	39.9%	12.9%	21.7%	16.1%	6.7%
Number of Deposit Accounts (mln)	48.0	64.1	78.7	94.0	108.7	110.5
Growth (YoY)	35.0%	34.6%	22.8%	19.3%	15.7%	1.6%
Average Deposit Size (PKR)	5,617	5,839	5,367	5,474	5,489	5,763
Growth (YoY)	-17.0%	-14.1%	-8.1%	2.0%	0.3%	5.0%

# Microfinance

## Gross Loan Portfolio

- During CY23, the overall Gross Loan Portfolio (GLP) of the sector clocked in at PKR~546.1bln (CY22: PKR~491.3bln) a YoY increase of ~11.1%. Over the past five years (CY19-23), the sector's GLP has grown at a CAGR of ~12.3%. During 3MCY24, the sector's GLP increased to PKR~557.1bln, an increase of ~9.3% from 3MCY23. In terms of the segments, Microfinance Banks (MFBs) hold the largest share in the sector's GLP making up ~75% of the GLP in CY23 (~74% in 3MCY24). The remaining ~25% lies with the Microfinance Institutions (MFIs) and Rural Support Programmes (RSPs) collectively.
- In terms of growth, MFBs' GLP recorded a YoY increase of ~14.1% in CY23, while GLP of MFIs & RSPs clocked in at PKR~138.3bln during CY23 (CY22: PKR~134.0bln) registering a YoY increase of ~3.2%. During the five years from CY19-CY23, the GLP for MFBs and MFIs & RSPs has grown at a CAGR of ~13.8% and ~8.4% respectively.

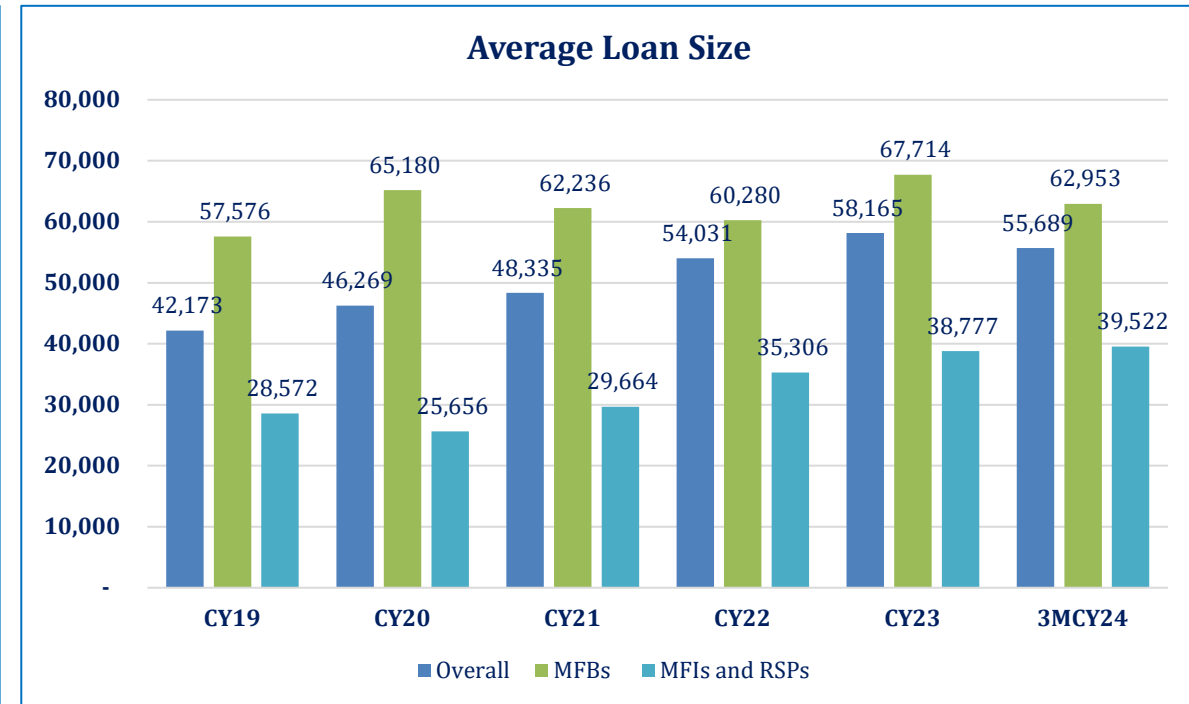
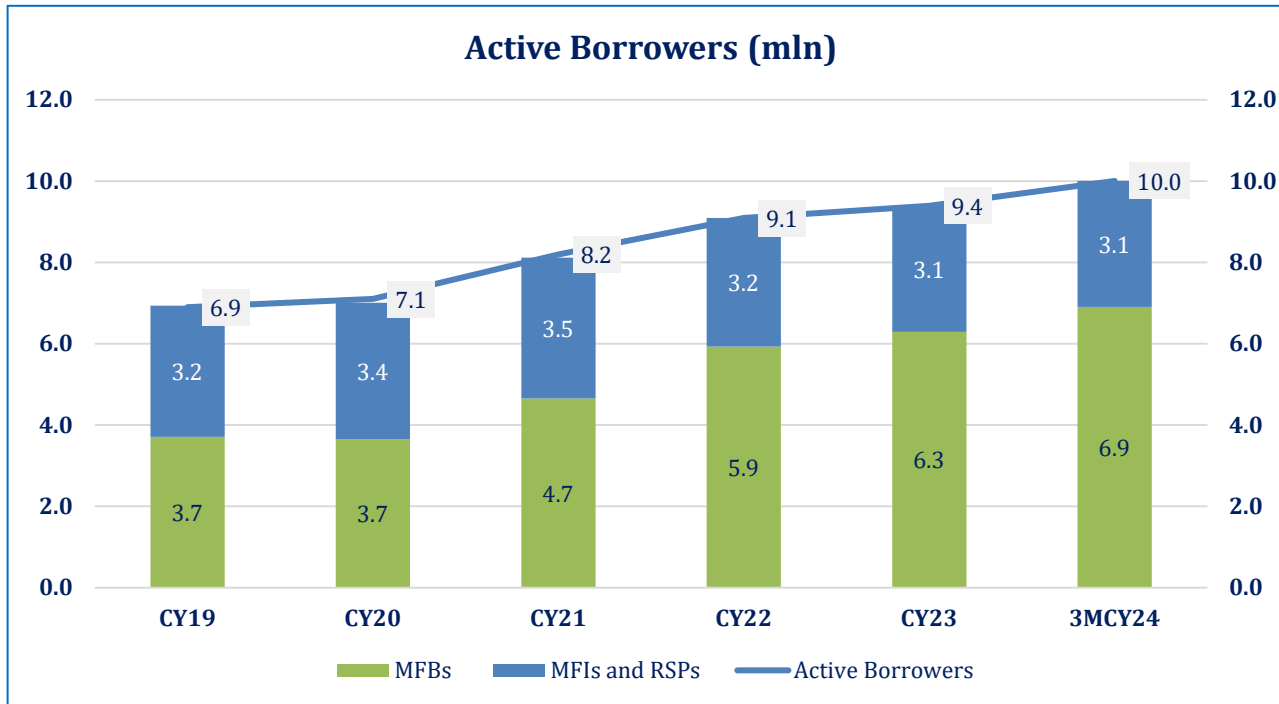




# Microfinance

## Active Borrowers

- During CY23, the sector's total number of active borrowers was recorded at ~9.4mln (CY22: ~9.1mln) a YoY increase of ~3.2%. MFBs led the segments in terms of the active borrowers (~67.0% in CY23 and ~64.8% in CY22). However, MFBs' share in the GLP value remains higher than their share in active borrowers due to the average loan size of MFBs being higher than the peer segments, i.e., MFIs & RSPs. During 3MCY24, the sector's total active borrowers were recorded at ~10.0mln, a YoY increase of ~7.5%.
- Average loan size of the microfinance sector increased to PKR~58,165 in CY23 (CY22: PKR~54,031) a YoY increase of ~7.6%, while the average loan size of the MFBs and MFIs increased by ~12.3% and ~9.8% respectively. In 3MCY24, average loan size of the microfinance sector decreased to PKR~55,689 due to an increase in the Nano-loans.





# Microfinance Banks

## An Overview



# Microfinance Banks

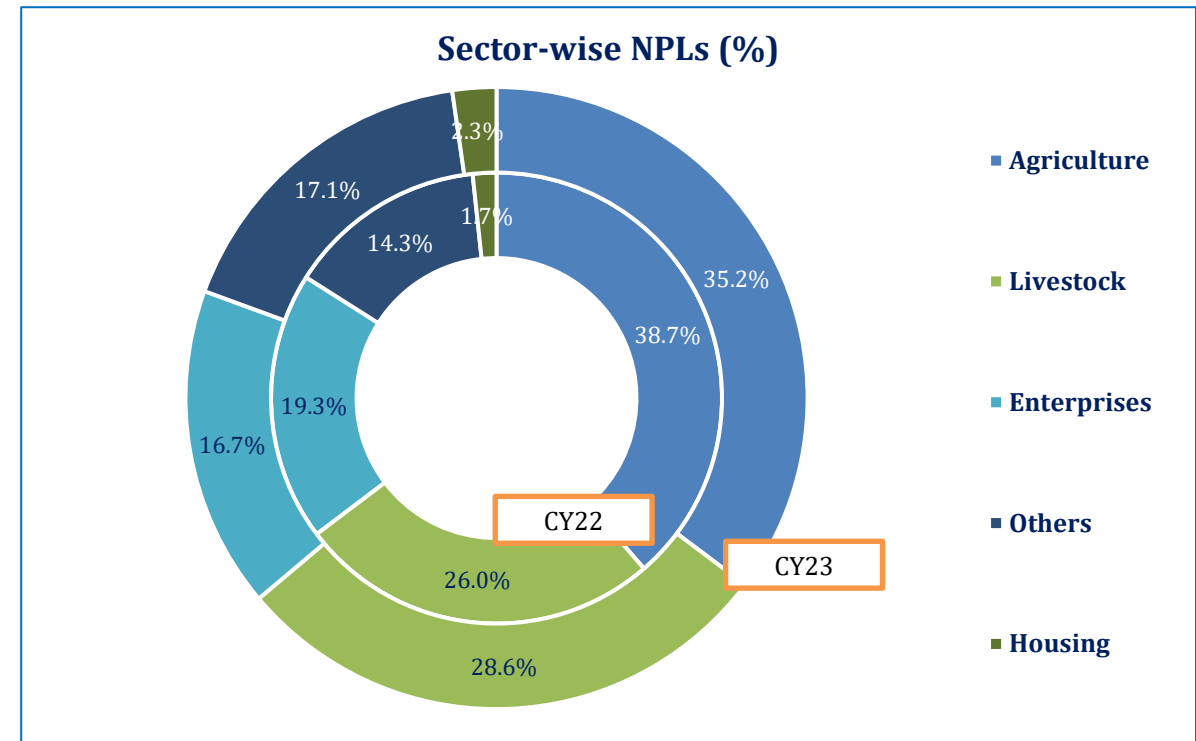
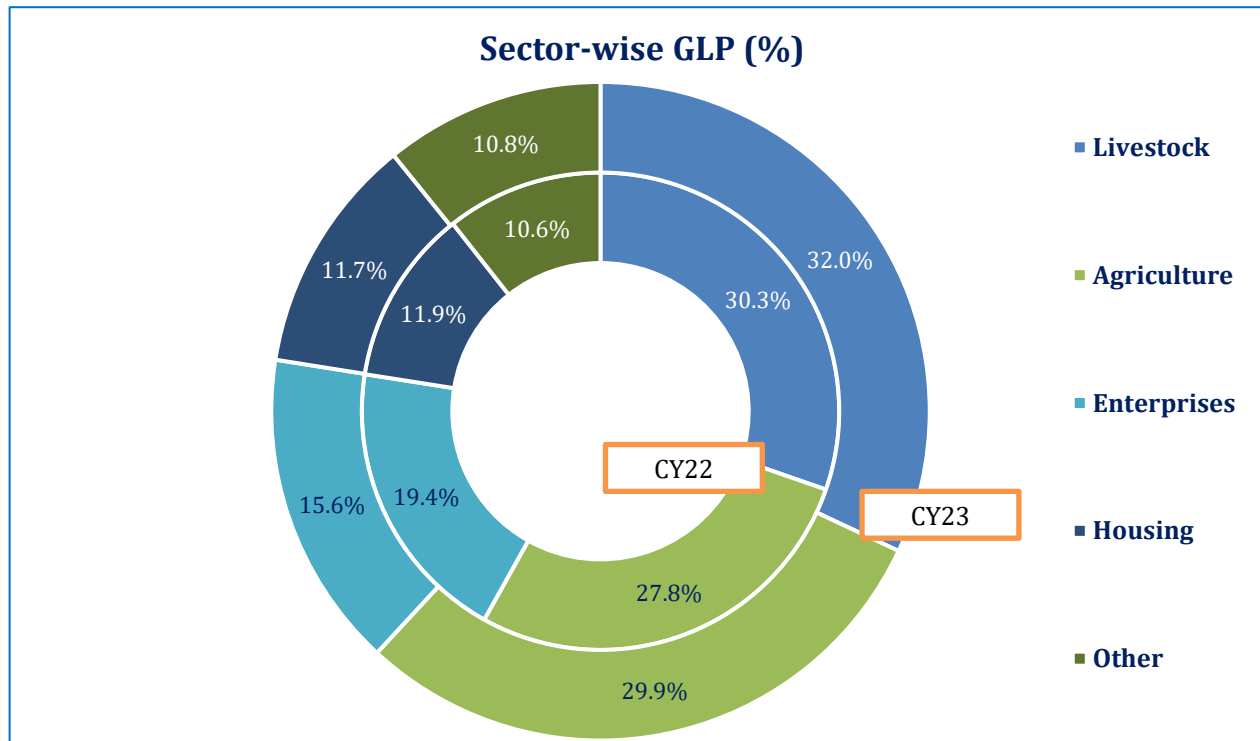
## Looking Back on the Years

Particulars	Unit	CY19	CY20	CY21	CY22	CY23	6MCY24
<b>Gross Loan Portfolio</b>	<i>PKR bln</i>	213.5	238.2	289.9	357.3	407.9	413.8
<b>GLP Growth</b>	<i>%</i>	12.6%	11.6%	21.7%	23.2%	14.2%	1.4%
<b>Active Borrowers</b>	<i>mln</i>	3.7	3.6	4.6	5.9	6.3	6.9
<b>Average Loan Size</b>	<i>PKR</i>	57,576	65,180	62,236	60,280	67,714	62,953
<b>Number of Deposit Accounts</b>	<i>mln</i>	48.0	64.1	78.7	94.0	108.7	110.5
<b>Value of Deposits</b>	<i>PKR bln</i>	268.0	374.4	422.5	514.3	597.0	637.0
<b>Average Deposit Size</b>	<i>PKR</i>	5,617	5,839	5,367	5,474	5,489	5,763
<b>Investments</b>	<i>PKR bln</i>	52.2	96.7	133.5	228.2	163.5	164.3
<b>Equity</b>	<i>PKR bln</i>	50.5	50.2	56.7	43.7	37.4	22.6
<b>Profit Before Tax</b>	<i>PKR mln</i>	(5,934)	(3,409)	(6,845)	(21,558)	(10,835)	(13,426)
<b>Profit After Tax</b>	<i>PKR mln</i>	(8,117)	(5,883)	(8,080)	(17,155)	(8,118)	(12,115)

# Microfinance Banks

## Sector Wise Gross Loan Portfolio (GLP)

- During CY23, the livestock sector contributed the highest share in MFBs' GLP at ~32.0% (CY22: ~30.3%), as livestock sector GLP clocked in at PKR~130.4bln, a YoY increase of ~18.9%. Meanwhile, agriculture sector share stood at the second highest recording at ~29.9% in CY23 (CY22:~27.8%), as its GLP clocked in at PKR~121.9bln, a YoY increase of ~21.5%.
- In terms of NPLs contribution to the MFBs GLP, agriculture held the highest share constituting ~35.2% (CY22:~38.7%) of the MFBs' NPLs, followed by the livestock sector which contributed ~28.6% to the total NPLs (CY22:~26.0%) of the MFBs segment.

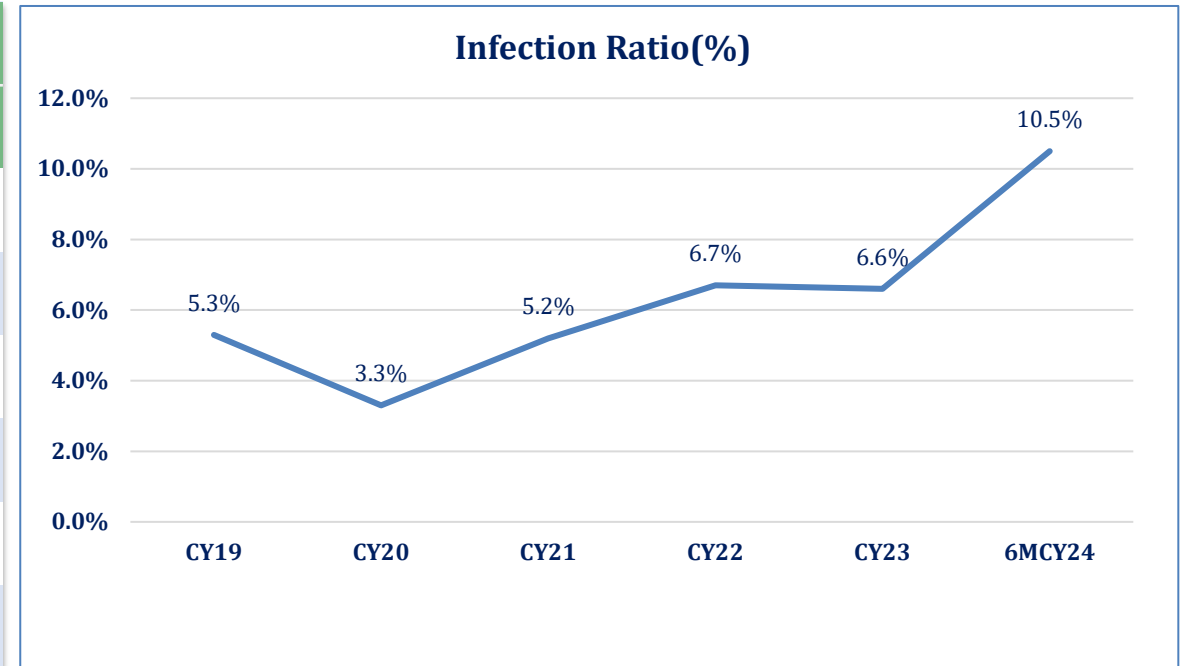


# Microfinance Banks

## Non-Performing Loans

- One of the very prominent yet alarming indicators of the MFBs performance is the significant increase in the credit risk of the segment. The segment’s credit challenges had begun surfacing in the times of the COVID-19 emergence, which were later further exacerbated by the CY22 floods. However, this was not it. Even during CY23, the NPLs of the segment increased to PKR~27.2bln in absolute terms (CY22: PKR~24.2bln) a YoY increase of ~12.3%. While during 6MCY24, the NPLs increased to PKR~43.7bln (~11% of the GLP) due to unfavorable economic conditions as well as internal challenges of the segment players leading to credit delinquency in the segment. While it seemed that the infection ratio stagnated at ~6.6% during CY23 (~6.7% in CY22), the infection ratio jumped to as high as ~10.5% in 6MCY24, raising serious and persistent concerns on the credit health of the segment.
- Among all sector groups, agriculture, which makes up the 2<sup>nd</sup> highest share in the MFBs’ GLP, recorded the highest level of infection ratio (~14.2%) followed by individual loans (classified as others: ~14.1%) and livestock (~10.1%) sectors.

Sector-Wise Infection Ratio			
Particulars	CY22	CY23	6MCY24
Livestock	5.7%	5.9%	10.1%
Agriculture	9.3%	7.8%	14.2%
Enterprises	6.6%	7.1%	7.7%
Housing Finance	0.9%	1.3%	1.5%
Others	11.9%	11.1%	14.1%
<b>Total</b>	<b>6.7%</b>	<b>6.6%</b>	<b>10.5%</b>



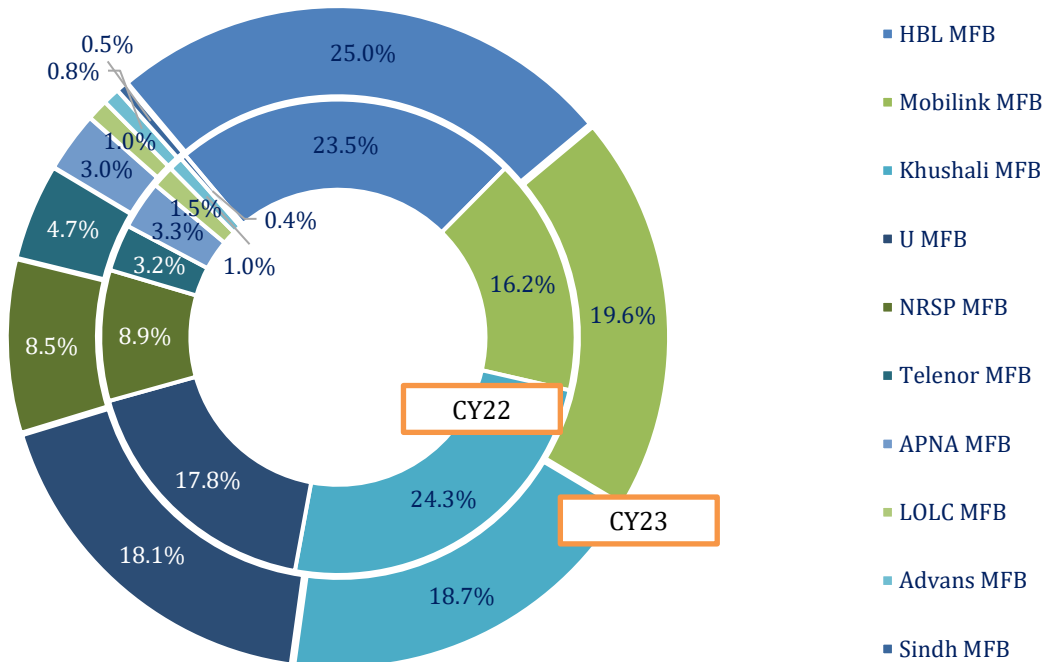


# Microfinance Banks

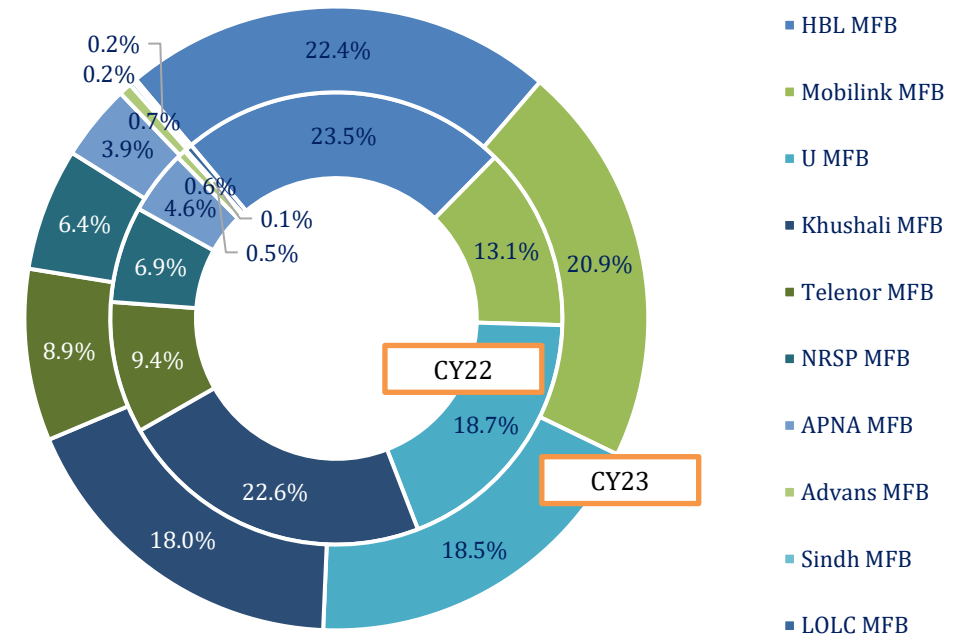
## Market Share – GLP and Deposits

- During CY23, HBL MFB remained the highest contributor to the segment’s GLP with a share of ~25% (increasing from ~23.5% from CY22). It was followed by Mobilink MFB contributing ~19.6% to the overall GLP during CY23 (CY22:~16.2%). During CY23, the top 5 MFBs contributed ~89.9% to the segment’s GLP (CY22: ~90.7%), capturing majority of the market share.
- In terms of deposits also, HBL MFB and Mobilink MFB took the top two positions, with their deposit-based market shares clocking in at ~22.4% and ~20.9% respectively in CY23. The top five players with respect to deposit base included the HBL MFB, Mobilink MFB, U-MFB, Khushhali MFB and Telenor MFB, together forming ~88.7% of the total deposit base during CY23 (CY22:~87.3%).

**Market Shares - GLP (%)**



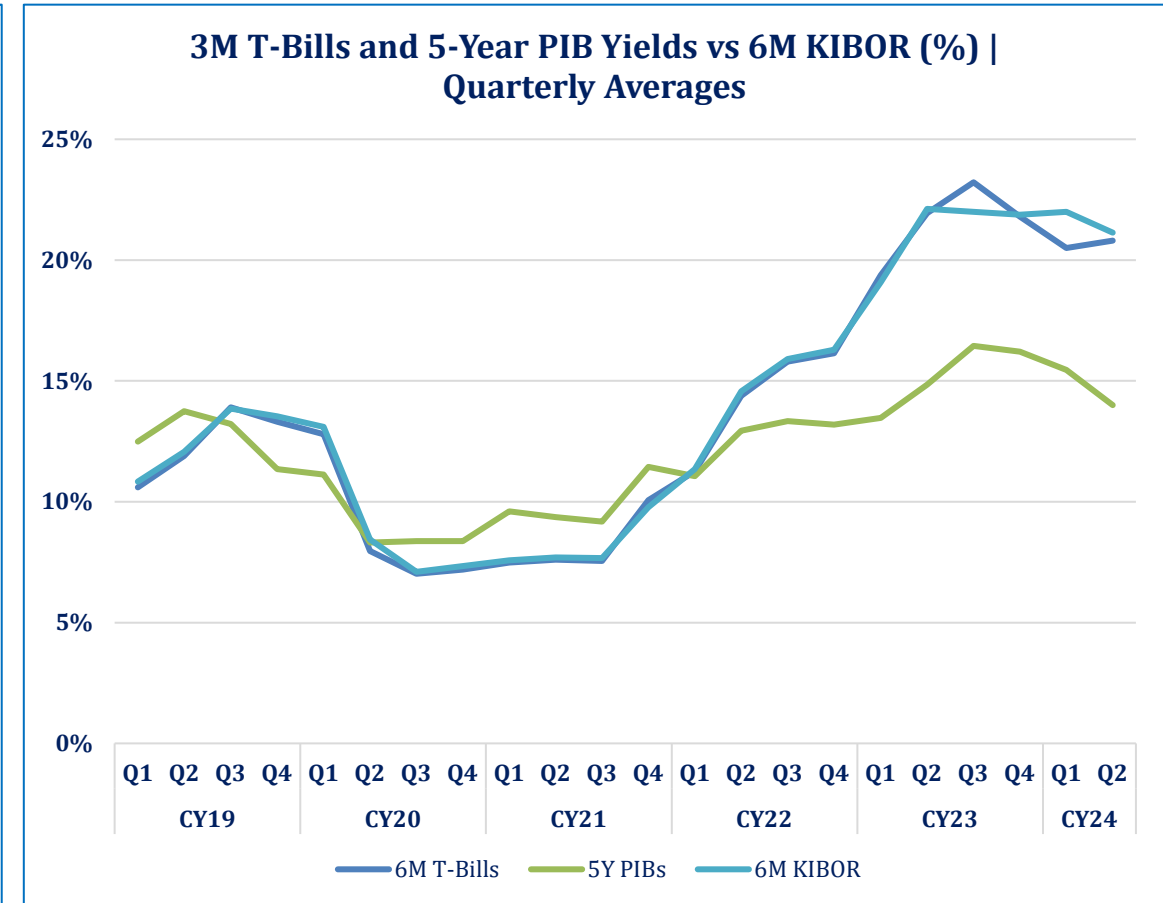
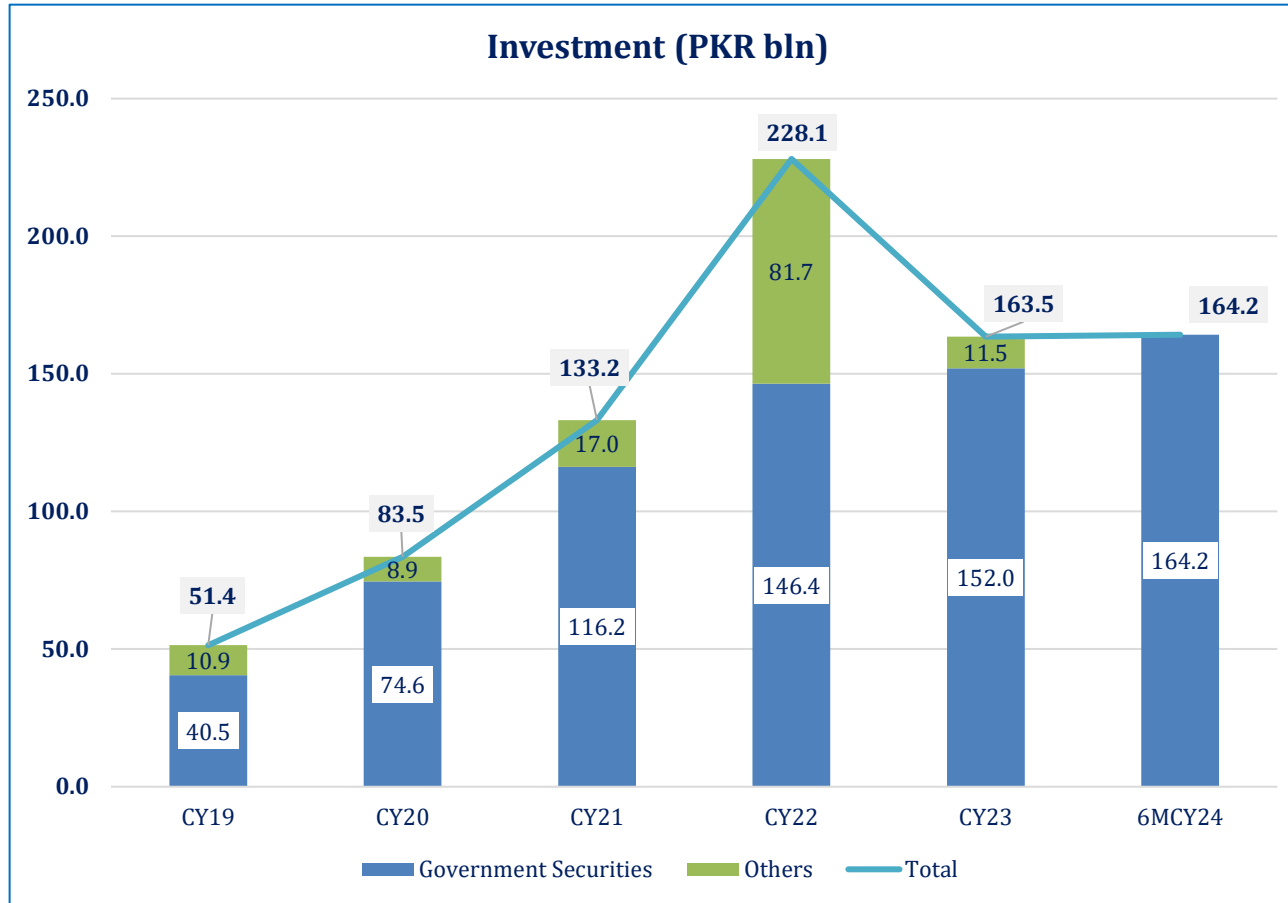
**Market Shares - Deposits (%)**



# Microfinance Banks

## Investments

- During CY23, the MFBs' overall investments (net) clocked in at PKR~163.5bln (CY22: PKR~228.1bln) a YoY decline of ~28.3%. The segment reduced its investments in mutual funds by ~85.9% YoY, while investment in the Government Securities also increased marginally by ~3.8% YoY to PKR~152.0bln. During 6MCY24, the segment's investments remained largely the same at PKR~164.2bln.

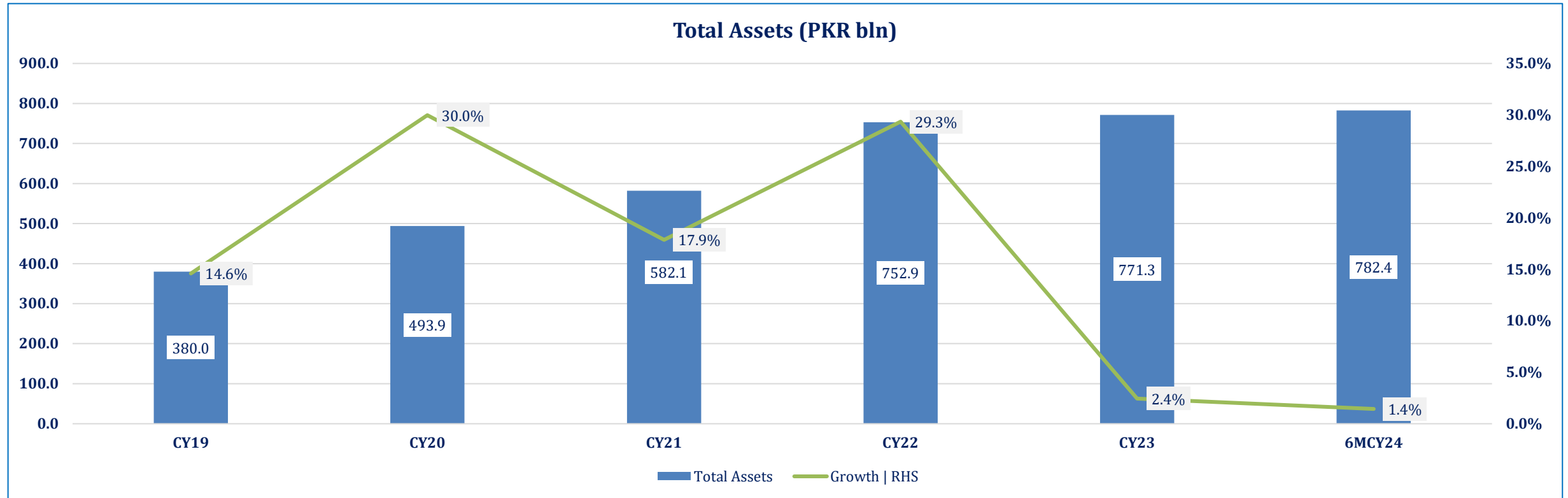


During 2QCY23, the 5-Yr PIBs trading was nil. The rate of return used is the average of 1QCY23 and 3QCY23.

# Microfinance Banks

## Total Assets

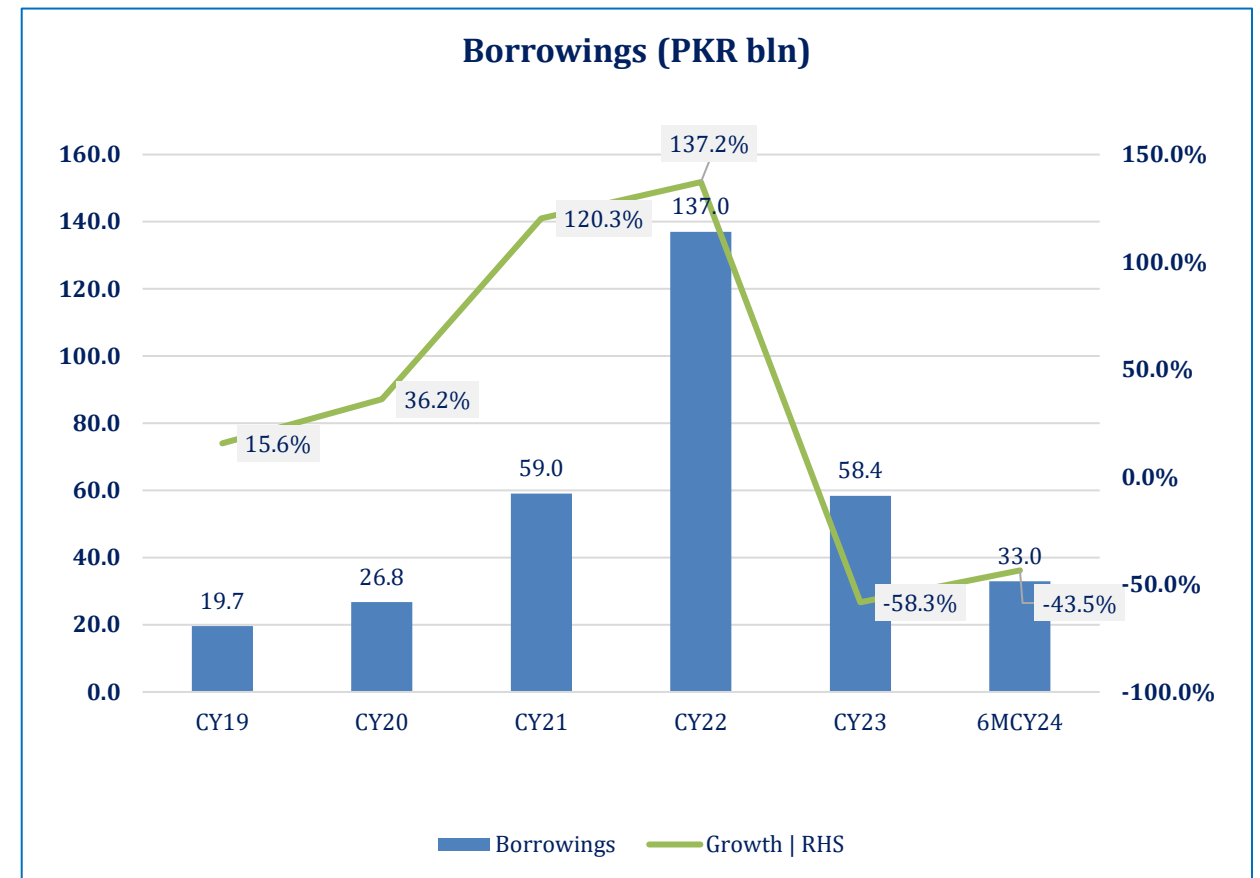
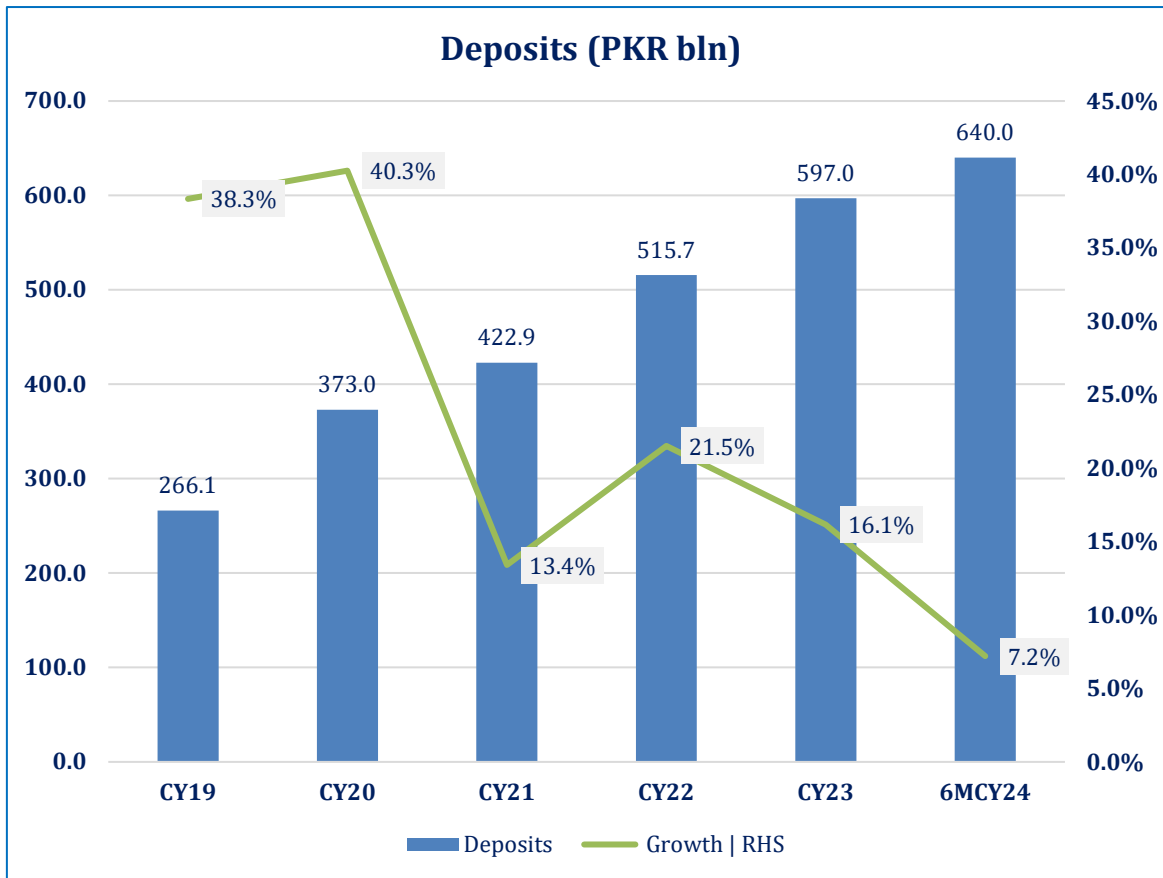
- Total asset base of the MFBs segment was recorded at PKR~771.3bln in CY23 (CY22: PKR~752.9bln) a YoY increase of ~2.4%. During the five years (CY19-23), the asset base of the MFBs segment increased at a CAGR of ~15.2%. Collectively, net advances and investments make up ~70% of the segment's total asset base (CY23). During CY22, the sector's funding base increase substantially, as the borrowings increased from PKR~59bln in CY21 to PKR~137bln in CY22, and deposit base also expanded by ~22% during the same year. Consequently, a sizable portion of the funds were invested in Government Securities investments, leading to growth in the asset base. However, in the later periods (CY23 and 6MCY24), the expansion in the asset base has remained nominal.



# Microfinance Banks

## Funding

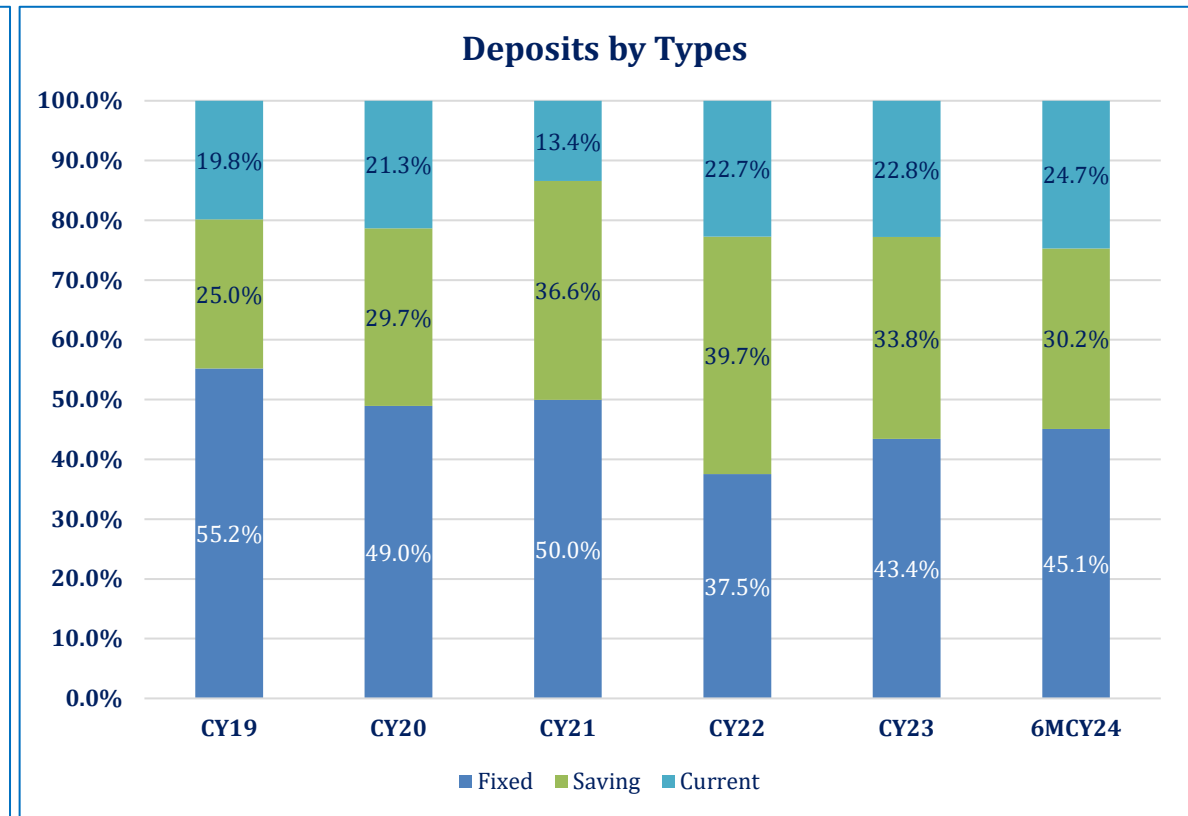
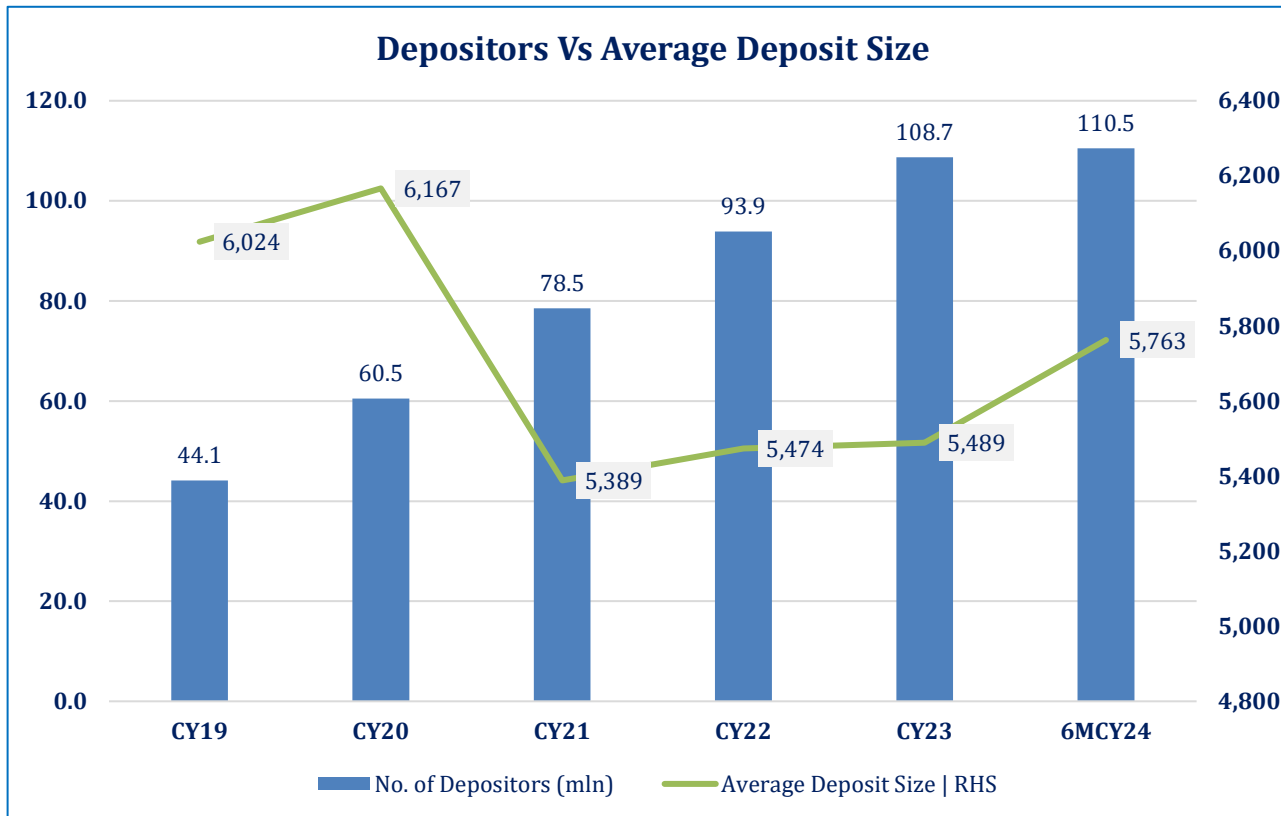
- During CY23, the deposit base of the segment increased to PKR~597.0bln (CY22: PKR~515.7bln) a YoY increase of ~16.1% while borrowings decreased to PKR~58.4bln during CY23 (CY22: PKR~137bln) a YoY decrease of ~58.3%. During CY23, MFBs were less reliant on borrowings and instead mobilized deposits to finance their asset base. While during 6MCY24, MFBs deposits further increased to PKR~640.0bln while borrowings decreased to PKR~33bln.



# Microfinance Banks

## Deposits

- During CY23, the total number of deposit accounts increased to ~108.7mln (CY22: ~93.9mln) a YoY growth of ~1.7%. Meanwhile, average deposit size remained largely the same at PKR~5,489 in CY23 (CY22: PKR~5,474). In 6MCY24, deposits accounts increased to ~110.5mln while average deposit size increased to PKR~5,763.
- Furthermore, MFBs' deposit mix largely comprises Fixed Deposits and Saving Accounts, which collectively formed ~77.2% of the segment's deposit base during CY23, while Current Accounts constituted ~22.8% of the MFBs deposit base.

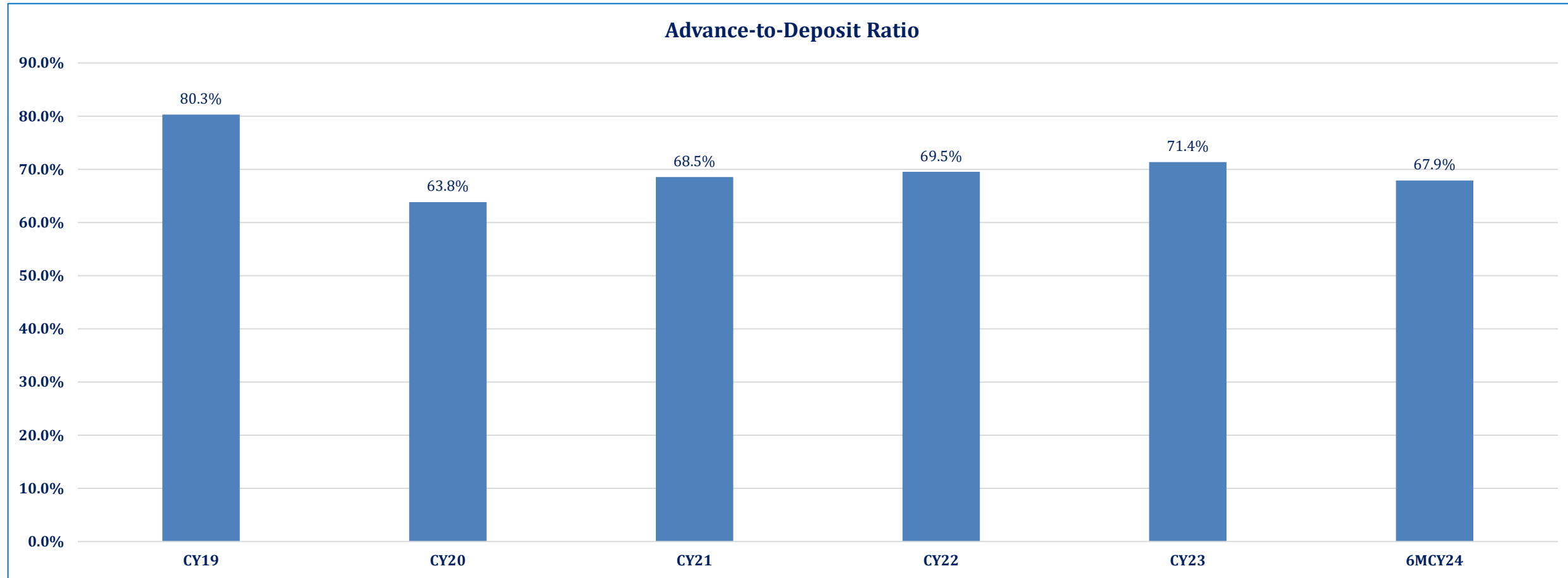




# Microfinance Banks

## Assets-to-Deposit Ratio (ADR)

- The average Advances-to Deposits Ratio (ADR) of the MFBs during the period CY19-CY23 stood at ~70.7%. The ADR clocked in at a high of ~80.3% in CY19 to registering a low of ~63.8% in CY20. The ADR stands at ~68% as of 6MCY24, reflecting a slower growth in the advances compared to the segment’s deposit base.



# Microfinance Banks

## Capital Adequacy Ratio (CAR)

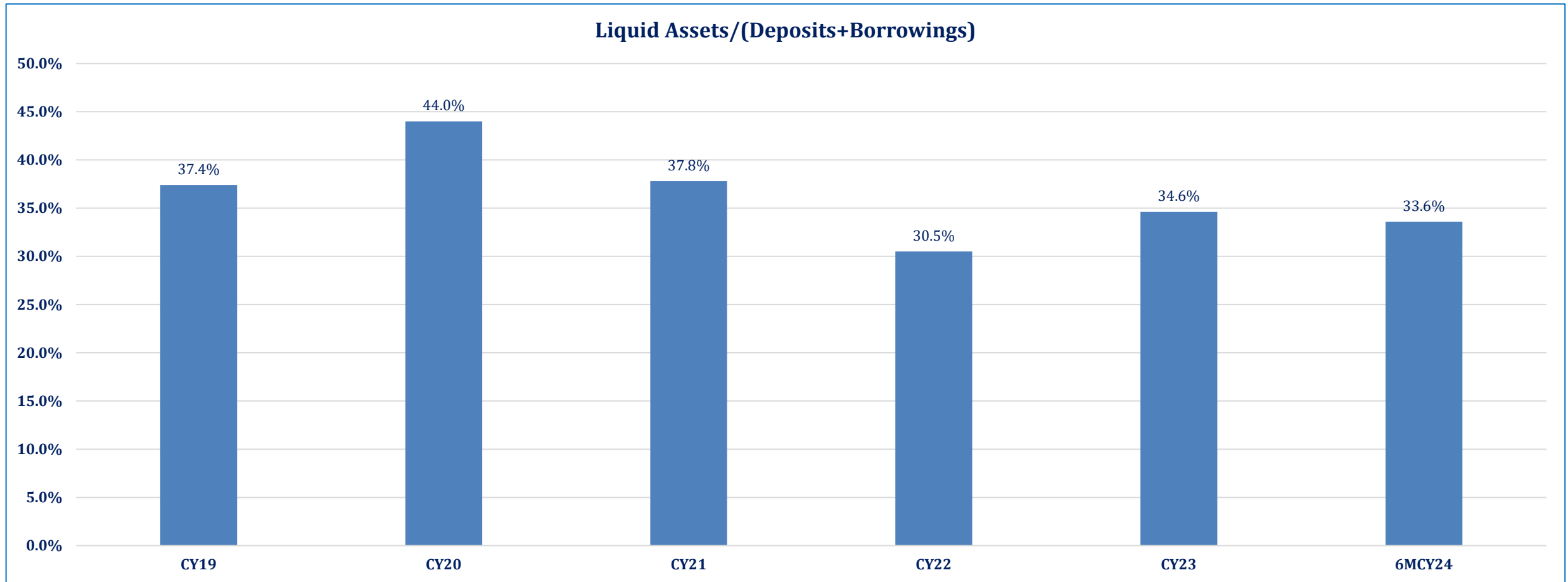
- The segment's Capital Adequacy Ratio (CAR) declined to ~5.7% in June'24 (~7.6% in CY23), much below the minimum regulatory requirement of 15%. Furthermore, in absolute terms, the Sector's equity eroded by over half of its value from PKR~50bln in CY19 to PKR~23bln as at End-June'24.
- Average CAR of top five MFBs (in terms of GLP) was recorded at ~7.5% in CY23 (CY22:~9.1%), mainly on account of one the top 5 MFBs whose equity was negative in CY23. The CAR of other 4 top MFBs remained compliant with minimum regulatory requirement but with thin margin.
- Excluding the small-sized banks (Advans, LOLC Sindh MFB and Apna MFB), the Sector's average CAR dropped to ~9.9% during the CY23 (CY22:~10.7%).

Capital Adequacy Ratio		
MFBS	CY22	CY23
<b>LOLC MFB</b>	37.9%	48.0%
<b>Sindh MFB</b>	63.4%	47.2%
<b>Telenor MFB</b>	19.0%	21.9%
<b>U MFB</b>	16.4%	18.2%
<b>Mobilink MFB</b>	15.7%	16.2%
<b>ADVANS MFB</b>	16.3%	15.3%
<b>HBL MFB</b>	15.0%	15.0%
<b>Khushali MFB</b>	11.7%	-5.7%
<b>NRSP MFB</b>	-13.2%	-6.0%
<b>Apna MFB</b>	-76.6%	-140.0%

# Microfinance Banks

## Liquidity

- The Sector's liquidity profile is analyzed by calculating the percentage of liquid assets it holds against its total funding, i.e., deposits + borrowings. During CY23, the liquidity profile increased to ~34.6% (CY22:~30.5%) while it reduced slightly to ~33.6% in 6MCY24.



# Microfinance Banks

## Financial Performance

Selective Indicators	CY19	CY20	CY21	CY22	CY23	6MCY24
<b>Capital</b>						
Capital Adequacy Ratio	20.9%	19.0%	18.3%	10.9%	7.6%	5.7%
Tier 1 Capital to Total RWA	17.8%	15.3%	14.3%	8.1%	4.7%	3.0%
<b>Assets Quality</b>						
Gross NPLs (% of GLP)	5.3%	3.3%	5.2%	6.7%	6.6%	10.5%
Provision Coverage (% of NPL)	70.0%	106.5%	78.1%	78.8%	102.3%	96.4%
Net NPLs	1.7%	-0.2%	1.2%	1.5%	-0.2%	0.4%
Drag on Equity	6.5%	-0.9%	5.4%	12.9%	-2.2%	7.2%
<b>Earnings</b>						
Net Interest Margins	14.4%	13.5%	11.2%	10.1%	12.2%	11.1%
ROA after Tax	-2.3%	-1.4%	-1.6%	-2.7%	-1.1%	-3.1%
ROE after Tax	-16.9%	-12.2%	-15.0%	-33.1%	-19.7%	-78.8%
Cost Per Borrower (PKR)	13,360	14,030	11,427	14,276	18,069	16,672
Admin Expense to Total Assets	13.9%	11.8%	10.2%	11.3%	10.2%	13.4%
<b>Liquidity</b>						
Liquid Assets to Total Assets	28.2%	35.7%	31.3%	26.5%	29.4%	29.0%
Liquid Assets to Total Deposits	40.3%	47.3%	43.1%	38.6%	38.0%	35.5%
Liquid Assets to Short Term Liabilities	47.5%	50.9%	42.4%	31.9%	42.1%	40.1%





# Microfinance Institutions

## At a Glance



# Microfinance Institutions

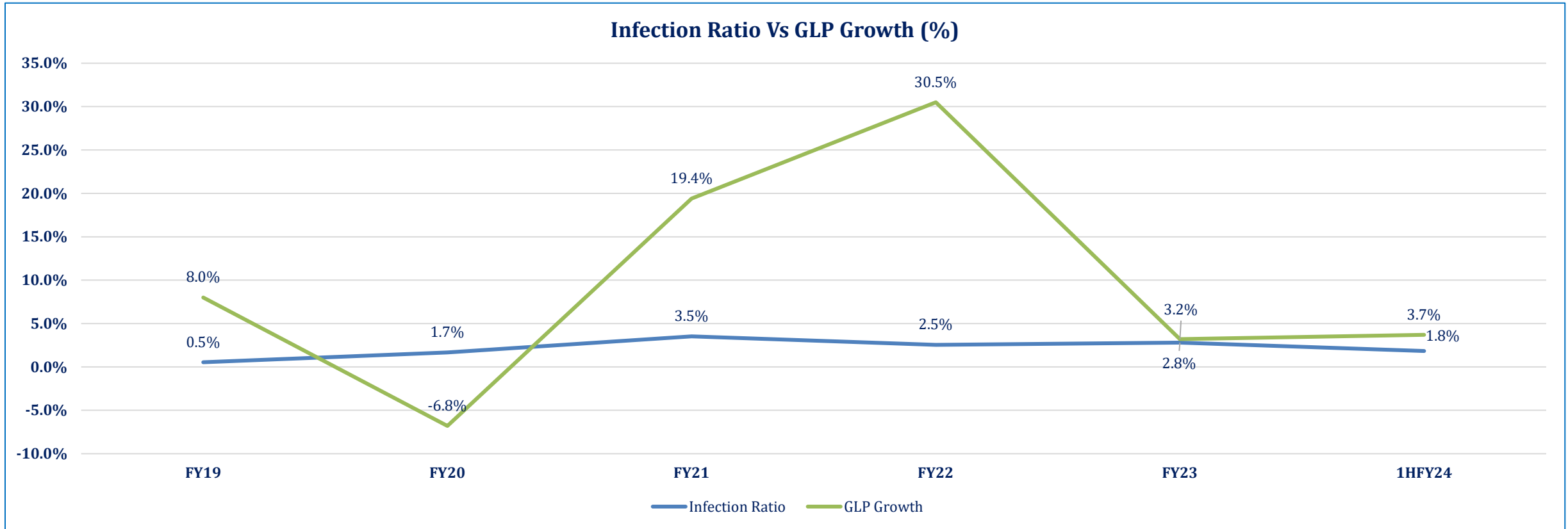
## Snapshot

Particulars	Units	FY19	FY20	FY21	FY22	FY23	1HFY24
<b>Gross Loan Portfolio</b>	<i>PKR bln</i>	92.3	86.0	102.7	134.0	138.3	143.4
<b>Growth</b>	<i>%</i>	8.0%	-6.8%	19.4%	30.5%	3.2%	3.7%
<b>Active Borrowers</b>	<i>mln</i>	3.3	3.4	3.5	3.2	3.1	3.1
<b>Average Loan Size</b>	<i>PKR</i>	28,572	25,656	29,664	35,306	38,777	39,522
<b>Equity</b>	<i>PKR bln</i>	6.2	6.5	8.5	10.9	13.7	14.7
<b>Profit After Tax</b>	<i>PKR mln</i>	1,602.0	402.2	1,329.3	2,300.2	2,941.0	843.0

# Microfinance Institutions

## Non-Performing Loans

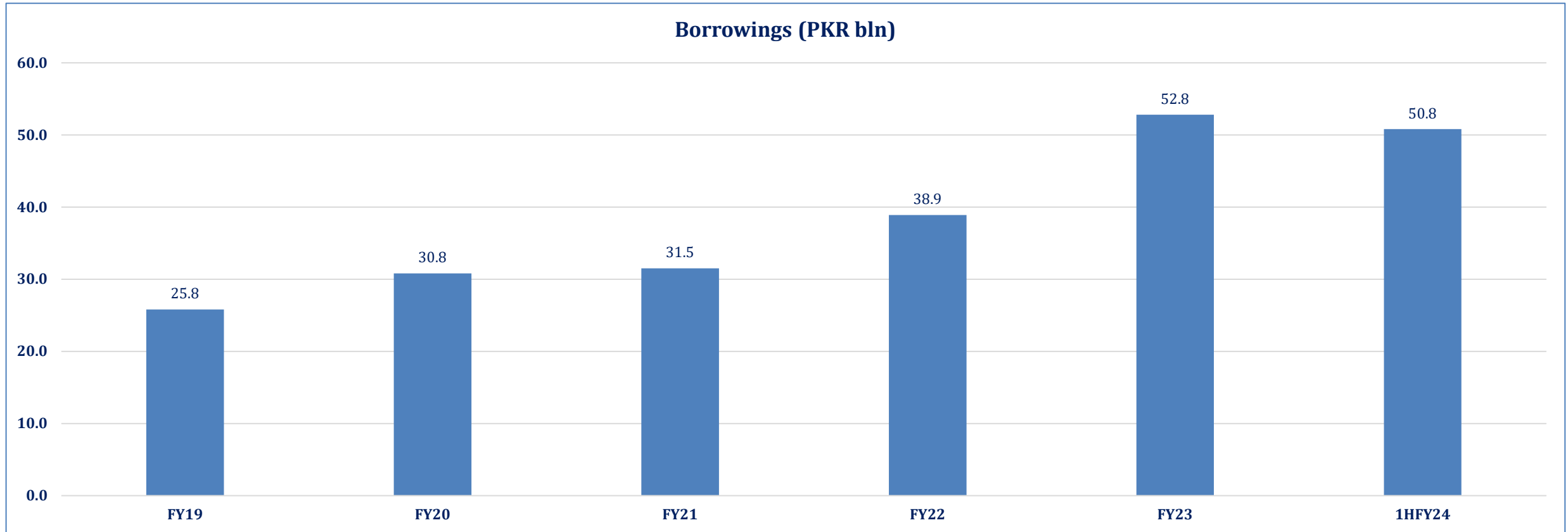
- During FY23, MFIs Non-Performing Loans decreased to PKR~653.5mln (FY22:PKR~786.4mln) a YoY decrease of ~16.8%. While during 1HFY24 Non-Performing Loans decreased to PKR~537.9mln.
- During FY23 infection ratio decreased to ~2.8% as the NPLs decreased further during FY23, while during 1HFY24 the infection ratio dropped to ~1.8% .



# Microfinance Institutions

## Borrowings

- During FY23 MFI's borrowings clocked in at PKR 52.8bln(CY22:~38.9bln) a YoY increase of ~35.7%. During the five years (FY19-23) total borrowings of the MFI's has increased at a CAGR of ~15.4%. While, during 1HFY24 borrowings decreased to ~50.8 bln due to the high interest rates.



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

# Microfinance Institutions

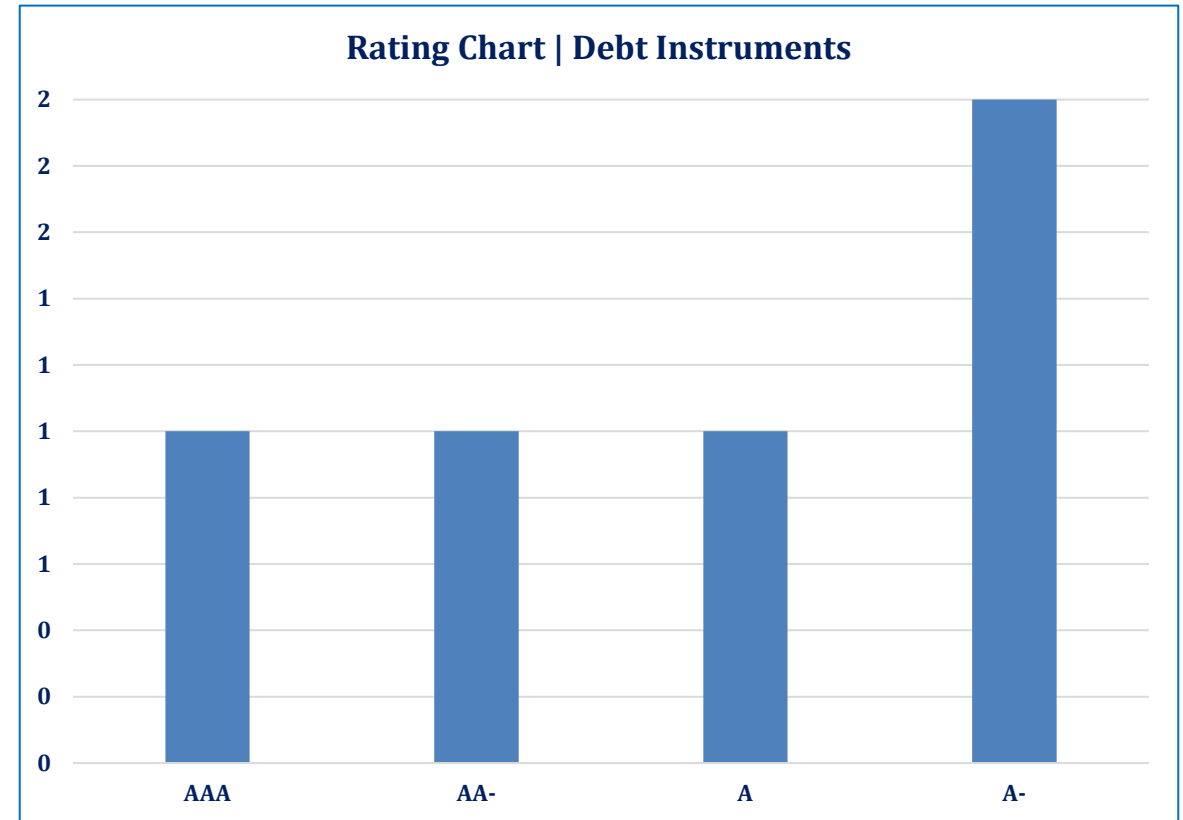
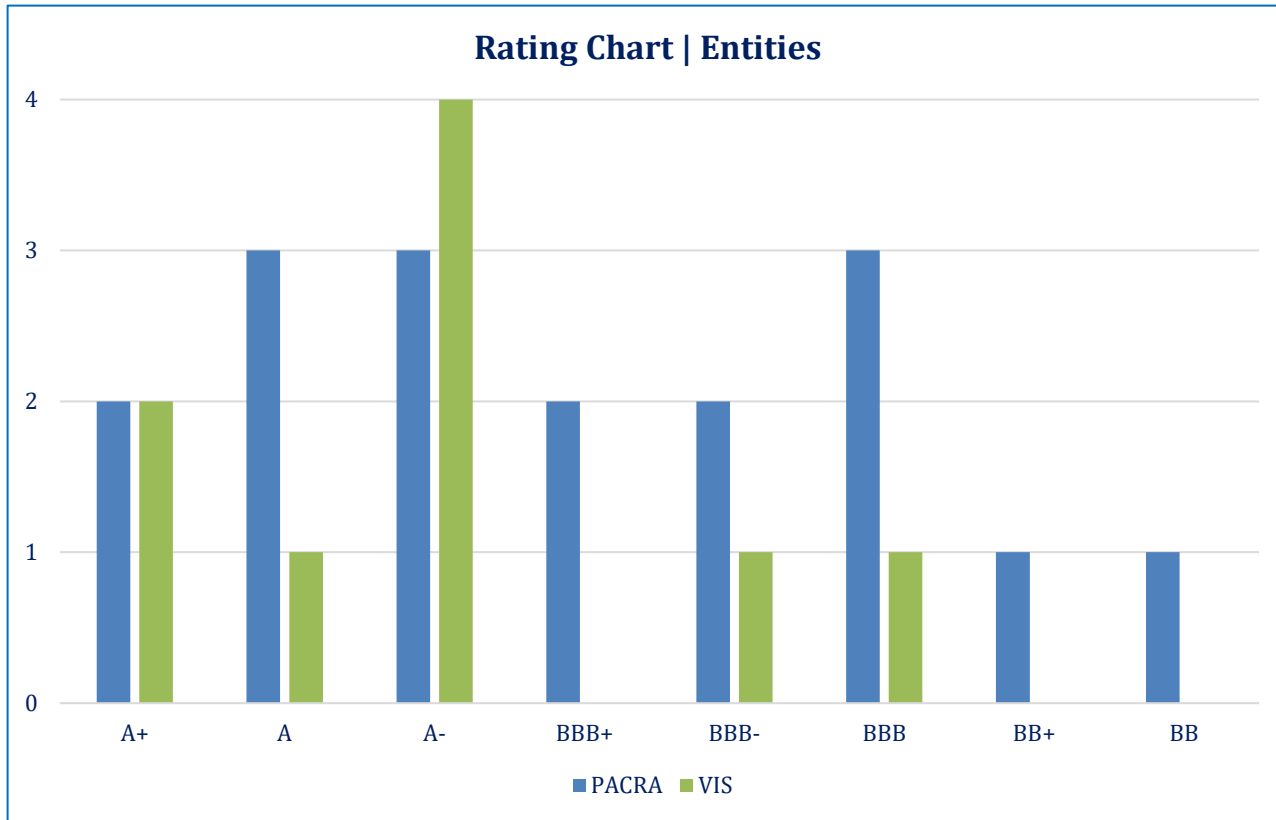
## Financial Performance

Operating Performance	FY19	FY20	FY21	FY22	FY23	1HFY24
Mark-up/Return/Interest Earned	7,611	8,402	8,290	11,118	15,994	6,893
Mark-up/Return/Interest Expensed	-2,908	-4,319	-3,235	-4,399	-7,558	-2,647
Net Mark-up / Interest Income	4,703	4,083	5,055	6,718	8,436	4,246
Administrative expenses	-3,201	-3,944	-4,453	-5,515	-6,908	-2,638
ROE	26.0%	6.2%	15.7%	21.0%	21.4%	5.7%
ROA	2.4%	0.6%	2.5%	5.6%	7.4%	2.4%
Operational Self Sufficiency	124.4%	101.7%	105.8%	103.4%	98.6%	110.9%
Cost Per Borrower (PKR)	4,067	5,743	5,993	7,308	8,011	13,391
Profit / (Loss) before taxation	1,602	409	1,332	2,300	2,941	843
Profit / (Loss) after taxation	1,602	402	1,329	2,300	2,941	843

# 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 5 Debt instruments



# Microfinance

## SWOT Analysis

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

Strengths

Weaknesses

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

- Increasing NPLs
- Natural Disasters and Climate Risk
- Economic Instability
- Regulatory Risk

Threats

Opportunities

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



# Microfinance

## Bibliography

- State Bank of Pakistan
- Banks Financial Statements
- PACRA Database
- Pakistan Bureau of Statistics
- Pakistan Microfinance Network

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