

SECTOR STUDY | OCTOBER 29, 2026

Microfinance

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Microfinance

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Pakistan Microfinance FY27: Earnings to hold up; recapitalization key.

Outlook: Stable

Microfinance sector in Pakistan comprises Microfinance Banks (MFBs), Microfinance Institutions (MFIs), Rural Support Programmes (RSPs) and FinTechs, collectively referred to as Microfinance Providers. MFBs continue to dominate the sector as they accounted for ~64.0% of the Sector's Gross Loan Portfolio (GLP) as at 8MCY26 (CY25: ~64.6%). They are also the only segment funded primarily through customer deposits and are supervised by the State Bank of Pakistan (SBP). Given their scale and deposit-based funding, MFBs carry the greatest systemic weight and are assessed separately from MFIs and RSPs.

Pakistan's Microfinance Sector built strong momentum in CY25. After stabilizing in CY24, the Sector returned to robust growth. This was supported by easing inflation, lower interest rates and recovery in economic activities. Real GDP grew ~3.7% YoY in FY26, led by rebound in large-scale manufacturing (~5.0% YoY). However, new challenges emerged in CY26. The US–Iran conflict disrupted shipping through the Strait of Hormuz and pushed international oil prices above USD ~118/bbl in Mar'26. The pass-through of higher fuel and electricity costs drove inflation up from ~7.3% in Mar'26 to a peak of ~11.7% in May'26. It eased slightly to ~10.3% in Sep'26 but remains well above SBP's ~5–7% target range. The SBP was proactive and raised the policy rate by 100bps to ~11.5% in Apr'26 to cushion the effects of these events. To contain second-round effects and anchor inflation expectations, the SBP raised the rate by a further 50bps to ~12.0% in Oct'26. The conflict in the Middle East is still ongoing resulting in high energy prices. These have also trickled to food and transportation sectors. Another recent development has been wheat supply disruptions, further fueling inflation. With inflation expected to stay above the target range for most of FY27, interest rates are likely to remain elevated. Together, these pressures weigh on the Microfinance Sector from both sides. Higher interest rates are likely to raise funding costs for Microfinance Providers, while rising living costs can impact the repayment capacity of low-income borrowers. Agriculture lending also continues to bear the after-effects of the Jun–Sep'25 monsoon floods, which peaked in Aug'25 with flash floods in Khyber Pakhtunkhwa and riverine flooding across Punjab. Climate related events have been more frequent and intense, impacting the lending portfolio adversely. Despite stronger lending growth, the Sector still faces high credit risk and weak capital buffers. Asset quality has stabilized on strong provisioning, but agriculture stress is rising. Aggregate CAR remains below the regulatory minimum due to deep deficits at a few MFBs. Sponsors of major MFBs have approved recapitalization plans. MFIs have sustained strong profitability on the back of rapid growth in housing loans. However, this has increased their reliance on government programme funding. The Sector's outlook depends on stronger capital, contained agriculture stress, absorbing inflation and wider digital outreach.

Microfinance Banks

Credit Risk: Pakistan's MFBs comprise both telco-backed and conventional institutions, each following distinct operating models but sharing similar exposure across market segments. The segment remains concentrated, with the top four MFBs accounting for ~69.4% of MFBs' GLP in CY25 (CY24: ~72.0%). Exposure remains skewed towards livestock and agriculture, which together represented ~50.8% of GLP in 6MCY26 (CY25: ~53.8%). This leaves the portfolio susceptible to weather patterns, commodity cycles and volatile rural incomes. The CY25 floods, livestock disease outbreaks and higher input costs weighed on farmers' repayment capacity. Encouragingly, enterprise lending has gained traction, with its share rising to ~22.8% of GLP in 6MCY26 (CY25: ~16.9%). This reflects MFBs' gradual shift towards other segments that have exhibited stronger asset quality.

Credit stress at MFBs eased slightly, with the infection ratio declining to ~9.1% in CY25 (CY24: ~9.7%). It remained at that level in 6MCY26. The ratio masks rising stress in agriculture, where the infection ratio climbed to ~14.0% in 6MCY26 (CY24: ~11.6%), reflecting legacy defaults alongside subdued fresh lending. Livestock improved to ~10.3% (CY25: ~11.5%) and enterprises infection ratio was at ~3.1% (CY25: ~3.8%). Infection ratio eased to ~6.9% in 8MCY26. Provisioning has strengthened, with coverage of ~151.6% of NPLs in 8MCY26 (CY25: ~138.1%), showing no further drag on equity.

Going forward, the government's Risk Coverage Scheme for Small Farmers and Underserved Areas are expected to share part of lenders' credit risk on crop, dairy and livestock financing through Jun'28. Alongside SBP's Women Microfinance Credit Guarantee Facility, this should support lending to underserved segments. However, the credit profile remains vulnerable to concentration and climate shocks. Continued diversification into enterprise and secured lending, together with proactive recovery practices, will be key to containing asset-quality risk.

Particulars	Units	CY21	CY22	CY23	CY24	CY25	8MCY26
NPLs - Period End	%	5.2%	6.7%	6.7%	9.7%	9.1%	6.9%
Net NPLs (NPLs less Provisions)	PKR Bn	3.3	5.1	-0.6	2.1	-19.5	-22.7
Equity	PKR Bn	56.7	43.7	37.4	37.2	56.5	80.6
Net NPLs as a % of Equity	%	5.8%	11.8%	-1.6%	5.7%	-34.5%	-28.2%

Profitability: MFBs' weighted average spreads widened to ~37.3% in CY25 (CY24: ~39.6%). This was mainly driven by higher portfolio yields. Digital nano loans formed a larger share of lending and are priced well above traditional products. Lower deposit costs after successive policy rate cuts also supplemented spreads in CY25. These widened further to ~45.1% in 6MCY26. Portfolio yields continued to rise while a higher share of low-cost current accounts kept deposit costs contained.

The segment returned to profit in CY25, posting profit after tax of PKR ~15.0Bn (CY24: loss of PKR ~16.2Bn). Core earnings also improved as net interest margins widened and operating costs eased, though elevated provisioning partly offset these gains. Profit before tax was a more modest PKR ~5.0Bn. ROA turned positive at ~3.0% (CY25: ~-0.2%), while ROE of ~52.4% is inflated by the segment's thin equity base.

Operating costs remain a key constraint. Administrative expenses rose to ~14.5% of total assets in 8MCY26 (CY25: ~11.4). For several MFBs, costs remain close to or above net interest income. This leaves earnings reliant on investment income and sensitive to interest rate movements.

Particulars	Units	CY21	CY22	CY23	CY24	CY25	8MCY26
Weighted Average Spreads ¹	%	11.9%	19.3%	18.9%	33.1%	37.3%	45.1%*
Profit/(Loss) After Tax	PKR Mn	-8,080	-17,155	-8,118	-16,212	14,976	17,831**
ROE	%	-15.0%	-33.1%	-19.7%	-49.6%	-8.2%	52.4%

*Figure pertains to 6MCY26. **8MCY26 PAT figure is prorated

Capital: MFBs' Capital Adequacy Ratio (CAR) fell to ~-1.2% in CY25 (CY24: ~2.6%), driven by elevated provisioning and continued losses at a few MFBs. It improved slightly to ~-0.7% in 6MCY26, before deteriorating to ~-14.5% in 8MCY26. It remains well below SBP's minimum requirement of ~15%. Equity rose to PKR ~56.5Bn in CY25 (CY24: PKR ~37.2Bn) and further to PKR ~80.6Bn in 8MCY26, supported by profits and fresh capital injections. The aggregate deficit is concentrated in a few institutions. Seven of the ten MFBs reported a CAR above the regulatory minimum in 6MCY26. Khushhali MFB (~47.2%), Apna MFB (~278.0%) and ABHI MFB (~-6.3%) remained undercapitalized. The ROE for the segment remained negative at ~-8.2%.

Particulars	Units	CY21	CY22	CY23	CY24	CY25	8MCY26
Equity	PKR Bn	56.7	43.7	37.4	37.2	56.5	80.6
% Change in Equity	%	13.0%	-22.9%	-14.5%	-0.5%	51.8%	42.7%
Capital Adequacy Ratio	%	18.3%	10.9%	7.6%	2.6%	-1.2%	-14.5%

Liquidity: MFBs' liquid assets as a percentage of deposits and borrowings declined to ~35.3% in CY25 (CY24: ~49.6%). This is mainly due to reduction in investments in government securities and strong deposit mobilization. The CY24 level was unusually high because MFBs held large borrowing-funded investments in government securities. In CY25, MFBs partly reduced these holdings as yields fell, while lending and deposits grew. This brought the ratio back in line with historical levels. The ratio recovered to ~37.7% in 6MCY26, as the Apr'26 policy rate hike made government securities more attractive again. The advance-to-deposit ratio stood at ~58.1% in 8MCY26 (CY25: ~56.4%). This indicates comfortable liquidity, but also shows that the deposit base is not fully used for lending.

Funding: Deposits remain the segment's key funding source. MFBs' deposit base grew ~29.8% YoY to PKR ~946.1Bn in CY25 (CY24: PKR ~728.8Bn). It rose further to PKR ~1,100.5Bn in 8MCY26, up ~36.4% YoY. Growth was led by digital MFBs through wider outreach on mobile platforms. Mobile wallet deposits made up ~28.3% of the deposit base in 8MCY26 (CY25: ~25.4%). Deposit accounts increased to ~153.8Mn in 8MCY26 (CY25: ~118.9Mn), while the average deposit size rose to PKR ~7,154 (CY24: PKR ~6,775). The share of current deposits rose to ~25.8% in 6MCY26 (CY25: ~21.9%), while saving and fixed deposits were ~39.1% & ~35.1%. This should help contain funding costs. Borrowings declined to PKR ~82.2Bn in 8MCY26 (CY25: PKR ~204.2Bn), as MFBs replaced costlier borrowings with deposits.

Microfinance Institutions & Rural Support Programmes

The MFIs and RSPs segment accounted for ~36.0% of the Sector's GLP in 8MCY26 (CY25: ~35.4%). The segment's GLP grew ~73.5% YoY (FY25: ~79.9%) to PKR ~354.0Bn in FY26 (FY25: PKR ~204.0Bn), with a CAGR of ~21.4% during FY22–FY26. Growth was primarily driven by larger-ticket housing loans extended under provincial government-backed housing schemes. The average loan size rose to PKR ~94,543 (FY25: PKR ~60,684), shifting the segment's portfolio toward longer-tenor, higher-value lending. Active borrowers increased by ~9% to ~3.7Mn (FY25: ~3.4Mn). This was markedly slower than MFBs, despite MFIs' lower base.

The infection ratio eased to ~0.8% in FY26 (FY25: ~1.0%), indicating very strong asset quality. MFIs maintain lower infection ratios than MFBs owing to their community-driven lending models and deeper borrower engagement. However, the decline partly reflects rapid portfolio expansion, especially in housing loans, because newly disbursed loans have had limited time to season. Repayment performance therefore warrants close monitoring as these loans mature. Borrowings rose ~66.6% YoY to PKR ~158.1Bn (FY25: PKR ~94.9Bn). This was largely driven by provincial funds placed with MFIs for onward disbursement under the housing programme. As non-deposit-taking institutions, MFIs remain reliant on external funding to support portfolio expansion. The growing reliance on government programme funding has heightened concentration risk, as any delay or discontinuation of these facilities could constrain liquidity and future lending.

Profitability remained strong, with profit after tax of PKR ~11.6Bn in FY26 (FY25: PKR ~8.2Bn) and ROE of ~22.4% (FY25: ~20.3%). Interest expense fell to PKR ~14.0Bn (FY25: PKR ~17.1Bn). Operational self-sufficiency improved to ~92.9% (FY25: ~82.1%). Larger-ticket housing loans cut cost per borrower to PKR ~5,609 (FY25: PKR ~7,535).

Conclusion

The Sector has returned to profitability following several years of losses. However, the recovery remains uneven and fragile. MFBs' aggregate capital adequacy continues to be negative, and few MFBs remain in a vulnerable position. Rising inflation and higher interest rates are expected to increase funding costs and may weaken the repayment capacity of rural and low-income borrowers. Agriculture-related credit losses and elevated operating costs are expected to continue absorbing a significant portion of MFBs' improved margins.

MFIs, in contrast, have recorded rapid portfolio growth driven by housing finance, while sustaining strong asset quality. This growth, however, has increased the segment's reliance on a single product and on external funding. The seasoning of housing loans and continued access to provincial and commercial financing will therefore remain key considerations going forward.

Going forward, the Sector's growth prospects remain supported by expanding digital outreach and a steadily growing deposit base. Government and donor-backed initiatives are also expected to facilitate credit to women, small farmers and underserved regions. Sustainable growth will, however, depend on the recapitalization or consolidation of weaker MFBs, diversification into secured and Islamic lending, and prudent credit-risk management. Progress on these fronts would strengthen the Sector's resilience and support deeper financial inclusion across the country.

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

Sector Highlights

8MCY26 at a Glance

PKR~998.4Bn Sector GLP (CY25: PKR ~869.9Bn)	~16.2Mn Active borrowers (CY25: ~13.4Mn)	~4.5% Infection ratio (CY25: ~4.4%)	PKR~61,429 Average Loan Size (CY25: PKR~64,918)
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Sector Overview	MFBs	MFIs FY26
<ul style="list-style-type: none"> GLP grew ~14.8% to PKR ~998.4Bn (CY25: PKR ~869.9Bn), led by MFBs' small-ticket digital loans. Borrowers rose ~20.9% to ~16.2Mn (CY25: ~13.4Mn). Average loan size fell to PKR ~61,630 (CY25: PKR ~64,918). Deposits rose ~16.0% to PKR ~1,100.5Bn (CY25: PKR ~948.7Bn). 	<ul style="list-style-type: none"> GLP rose ~13.8% to PKR ~639.2Bn (CY25: PKR ~561.9Bn). Borrowers rose ~26.6% to ~12.5Mn (CY25: ~9.8Mn). Infection ratio down to ~6.9% (CY25: ~9.1%). Deposits at PKR ~1,100.5Bn (CY25: PKR ~946.1Bn). CAR was at ~-0.7% in 6MCY26 (CY25: ~-1.2%) but deteriorated to ~-14.5% in 8MCY26. ROA at ~3.0% (CY25: ~-0.2%). 	<ul style="list-style-type: none"> GLP grew ~73.5% YoY to PKR ~354.0Bn on housing loans (FY25: PKR ~204.0Bn). Infection ratio eased to ~0.8% (FY25: ~1.0%). Borrowings rose ~66.6% YoY to PKR ~158.1Bn (FY25: PKR ~94.9Bn). ROE rose to ~22.4% (FY25: ~20.3%). Average loan size for MFIs increase to PKR ~94,881 (FY25: PKR ~61,252), mainly on higher value housing loans.

Bottom line: Sector lending and outreach kept growing through 8MCY26, led by MFBs' digital loans, while MFIs expanded fast on housing loans. MFBs' capital remains negative and stress in agriculture lending is rising.

Microfinance Comparative Landscape

Selective Indicators	Pakistan			India			Bangladesh		
	CY23	CY24	CY25	FY23	FY24	FY25*	FY23	FY24	FY25*
Regulator	State Bank of Pakistan Securities and Exchange Commission of Pakistan			Reserve Bank of India			Microcredit Regulatory Authority Bangladesh Bank		
Gross Loan Portfolio - Microfinance Sector (USD Bn)	1.9	2.2	3.1	42.2	52.4	44.3	17.2	16.7	17.4
Gross Loan Portfolio - Microfinance Banks (USD Bn)	1.4	1.7	2.0	14.4	17.3	14.5	2.2	1.4	1.4
No. of Microfinance Providers	34	38	41	211	229	212	731	724	693
Branches	4,050	4,145	4,145*	18,739	20,348	24,523	25,336	26,071	27,113
Borrowers (Mn)	9.6	12.1	13.5	66.0	78.0	78.0	31.5	32.2	33.7
NPL Ratio (%)	6.7%	9.7%	9.1%	2.7%	2.1%	4.5%	5.2%	8.1%	8.5%
Deposits (USD Bn)	2.1	2.6	3.4	18.1	25.3	27.8	8.4	8.2	9.0
ROA (%)	-1.1%	-1.9%	-0.2%	2.9%	3.9%	-2.7%	5.1%	4.7%	3.5%
ROE (%)	-19.7%	-49.6%	-8.2%	14.7%	17.7%	-11.5%	14.7%	14.3%	10.8%

Note: *FY for Bangladesh is June-end, for India is March-end. * Number of Branches for CY25 pertain to previous year data.

Pakistan | Macro-Profile

Sector-wise Particulars	FY22	FY23	FY24	FY25	FY26	3MFY27
Real Sector						
GDP (Nominal) PKR Bn	66,658	83,651	105,143	114,039	126,870	-
GDP (Real) PKR Bn	38,843	38,761	39,734	41,042	42,562	-
Real GDP Growth %	6.2%	-0.2%	2.6%	3.2%	3.7%	3.5 – 4.5%**
LSM Growth (%)	11.9%	-9.8%	0.9%	-0.7%	6.1%	1.9%*
Fiscal Sector						
Fiscal Deficit (% of GDP)	-7.1%	-7.0%	-6.8%	-5.4%	-2.6%	-
Government Debt (PKR Bn)	47,832	60,840	68,914	77,888	83,642	82,953*
<i>Local (PKR Bn)</i>	31,085	38,809	47,160	54,471	59,441	58,757*
<i>Foreign (PKR Bn)</i>	16,747	22,031	21,754	23,417	24,201	24,196*
Govt. Debt (% of GDP)	71.8%	72.7%	65.5%	68.3%	66.0%	65.9%***
Monetary Sector						
Monetary Policy Rate (%) (Period-End)	13.8%	22.0%	20.5%	11.0%	11.5%	11.5%
Avg. Exchange Rate (USD/PKR)	191.9	247.7	283.2	279.3	280.5	277.6
Avg. CPI Inflation (%)	12.2%	29.2%	23.4%	4.5%	7.1%	10.2%
External Sector						
FX Reserves SBP (USD Mn)	9,815	4,445	9,390	14,506	18,378	21,511
Remittances (USD Mn)	31,279	27,332	30,251	38,300	41,585	10,875
Trade Balance (USD Mn)	-44,890	-25,861	-25,287	-29,639	-35,582	-10,161
Current Account Balance (USD Mn)	-17,481	-3,275	-2,072	1,838	-391	-874

Note: *Figures pertain to 2MFY27. **Real GDP Growth Rate for 3MFY27 pertains to FY27 forecast by the SBP. *** Figure pertains to projected figure for FY27.

Sector Overview

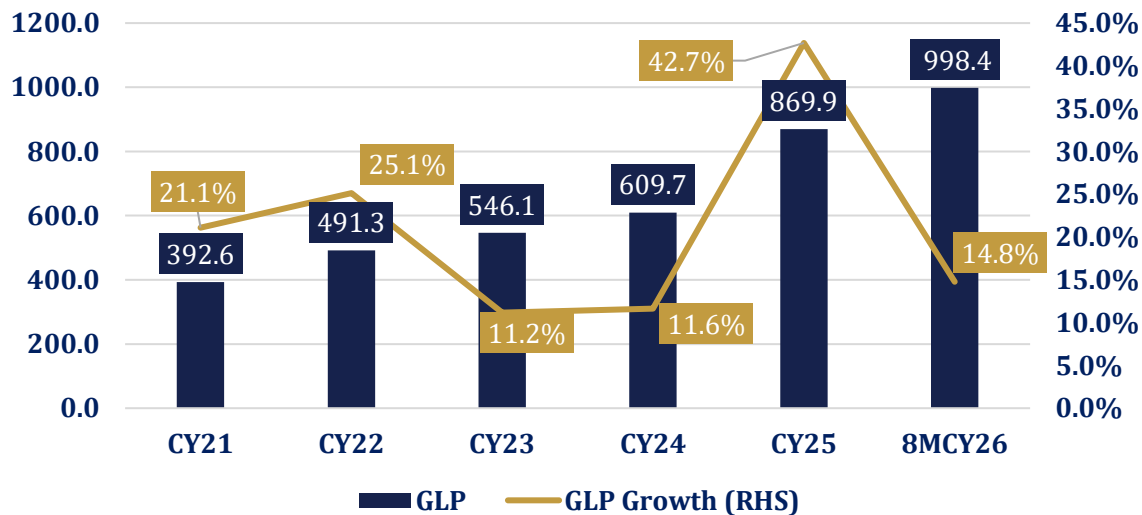
GLP (MFBs + MFIs + RSPs & Others)	CY21	CY22	CY23	CY24	CY25	8MCY26
Outreach						
Number of Branches	3,823	4,058	4,050	4,145	4,145*	4,145*
Growth (YoY)	-0.1%	6.1%	-0.2%	2.3%	-	-
Gross Loan Portfolio						
Gross Loan Portfolio (PKR Bn)	392.6	491.3	546.1	609.7	869.9	998.4
Growth (YoY)	21.1%	25.1%	11.2%	11.6%	42.7%	14.8%
Active Borrowers (Mn)	8.2	9.4	9.6	12.3	13.4	16.3
Growth (YoY)	15.9%	16.0%	2.1%	28.1%	8.9%	20.9%
Average Loan Size	45,476	52,266	56,885	49,569	64,918	61,429
Funding						
Value of Deposits (PKR Bn)	422.5	514.3	597.0	728.8	948.7	1,100.5
Growth (YoY)	12.9%	21.7%	16.1%	22.1%	30.2%	16.0%
Number of Deposit Accounts (Mn)*	78.7	94.0	108.7	118.9	151.8	153.9
Growth (YoY)	22.8%	19.4%	15.6%	9.4%	27.7%	1.4%
Average Deposit Size (PKR)	5,368	5,471	5,492	6,130	6,250	7,150
Growth (YoY)	-8.1%	2.0%	0.3%	11.7%	2.0%	14.4%

Note: Number of Deposit Accounts also include Mobile Wallets. Figures are inclusive of EasyPaisha Digital Bank.* Number of Branches for CY25 & 7MCY26 pertain to previous year data.

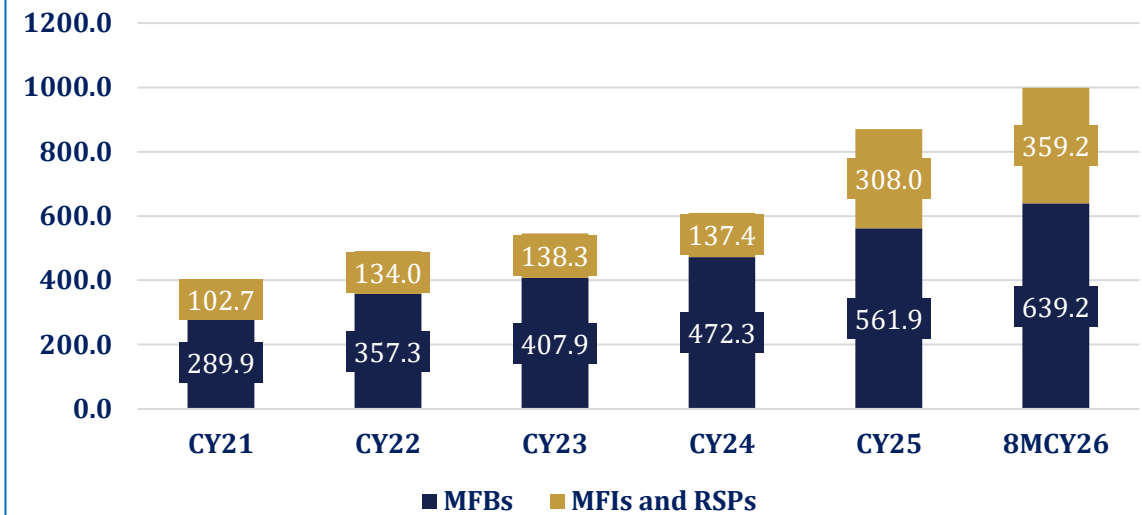
Gross Loan Portfolio

- During CY25, the Sector's Gross Loan Portfolio (GLP) grew by ~42.7% YoY to PKR ~869.9Bn (CY24: PKR ~609.7Bn). This sharp growth was primarily driven by higher borrower outreach through digital expansion and a big surge in the GLP of Microfinance Institutions (MFIs). Microfinance Banks (MFBs) continued to hold the larger share at ~64.6% of the Sector's GLP, with MFIs and RSPs accounting for the remaining ~35.4%. The growth trend carried into CY26, with the Sector's GLP rising further to PKR ~998.4Bn by 8MCY26.
- MFBs' GLP grew by ~19.0% YoY to PKR ~561.9Bn in CY25 and increased further to PKR ~639.2Bn by 7MCY26. MFIs and RSPs saw the sharper rise, with their combined GLP more than doubling to PKR ~308.0Bn in CY25 (CY24: PKR ~137.4Bn) and reaching PKR ~359.2Bn by 8MCY26. Akhuwat Microfinance was the major driver of this segment's growth, largely on the back of housing loans under the Punjab Government's housing schemes.
- Going forward, policy initiatives such as the State Bank of Pakistan's Women Microfinance Credit Guarantee Facility and the IFC's USD ~10Mn financing for a MFB are expected to support lending to underserved segments. However, capital constraints and asset-quality risks remain key challenges, necessitating stronger capitalization and prudent credit-risk management.

Gross Loan Portfolio (PKR Bn)

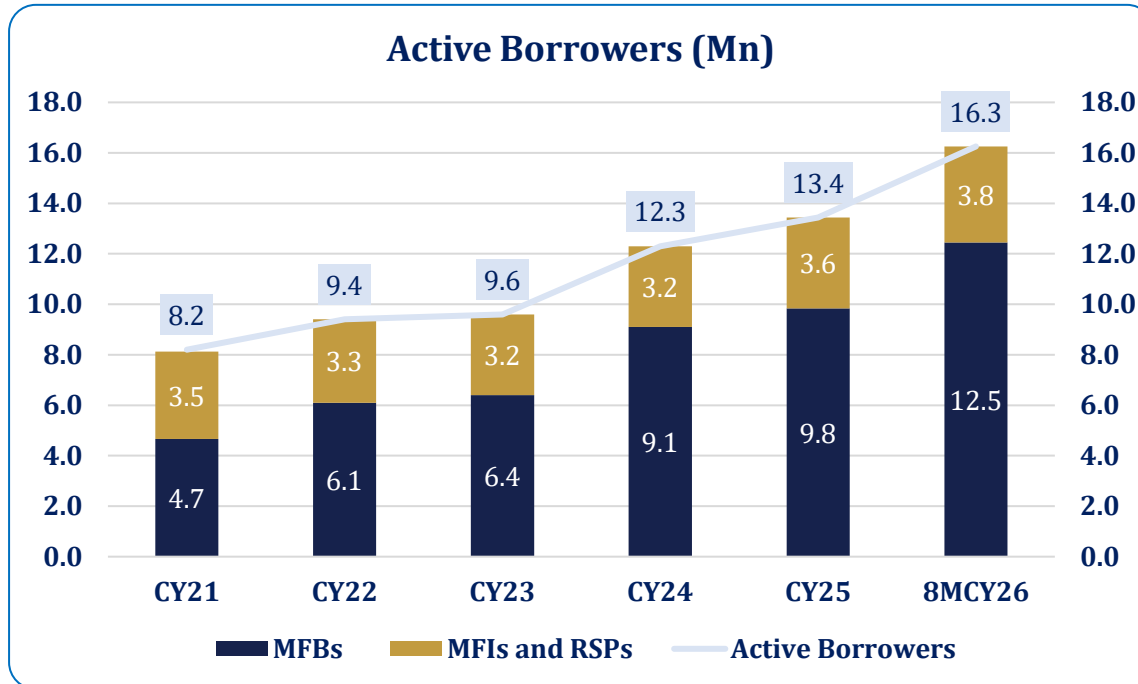
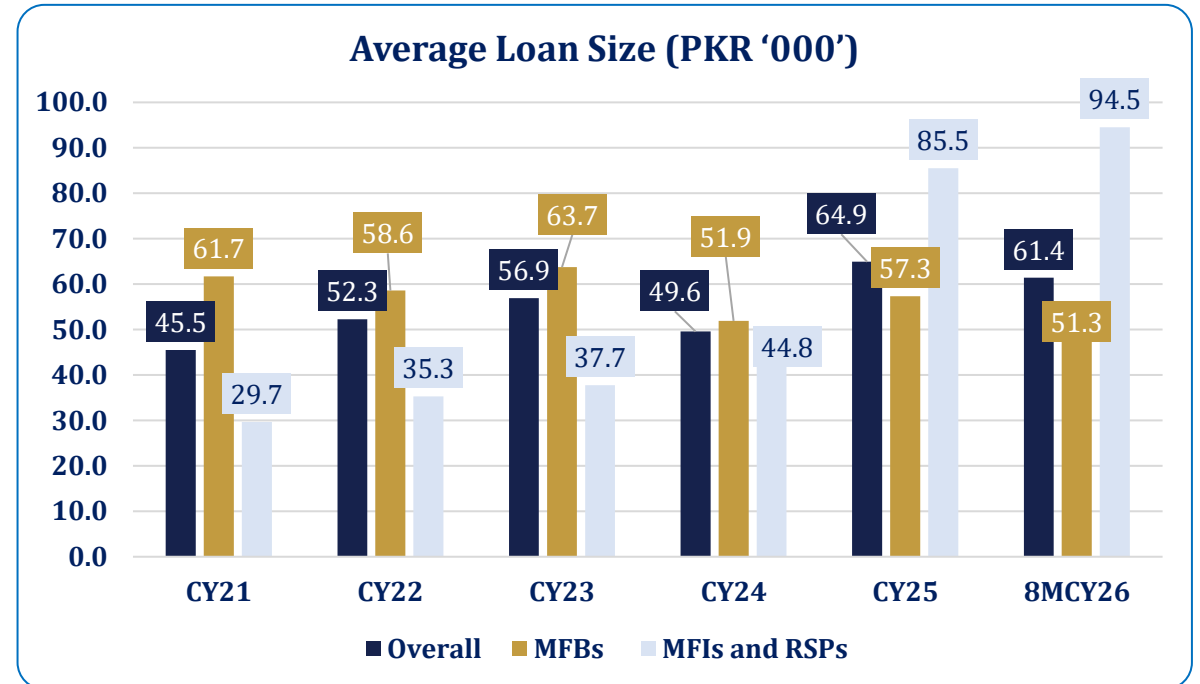


Segment-wise GLP (PKR Bn)



Active Borrowers

- The Sector's active borrower base increased to ~13.4Mn in CY25 (CY24: ~12.3Mn), driven mainly by MFBs through digital onboarding and a broader range of lending products. The borrower base expanded further to ~16.3Mn by 8MCY26, a rise of ~20.9%. This growth was again led by MFBs, which used their mobile wallet bases to extend small-ticket digital loans. Branch-led lending to women entrepreneurs also expanded, supported by funding from development finance institutions.
- In CY25, the Sector's average loan size rose to PKR ~64,918 (CY24: PKR ~49,569), mainly because MFIs and RSPs extended larger housing loans. The average loan size was PKR ~61,429 in 8MCY26. This was only due to MFBs, with their average loan size dropping to PKR ~51,329, as their small-ticket digital loans grew at a faster pace. In contrast, MFIs and RSPs continued to extend larger loans, pushing their average loan size up to PKR ~94,526.



SECTOR STUDY | MICROFINANCE

Microfinance Banks

An Overview



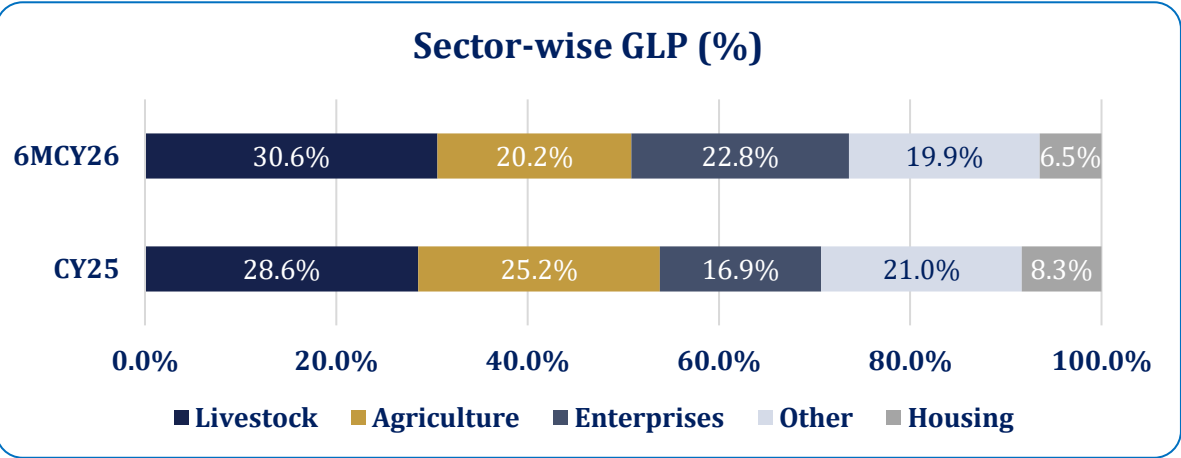
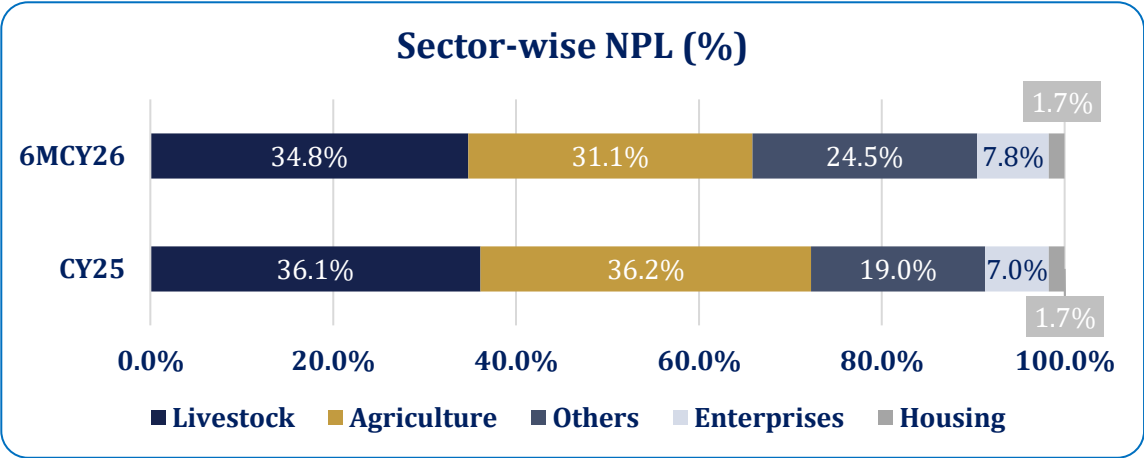
Looking Back on the Years

Particulars	Unit	CY21	CY22	CY23	CY24	CY25	6MCY26
Gross Loan Portfolio	PKR Bn	289.9	357.3	407.9	472.3	561.9	614.7
GLP Growth	%	21.7	23.2	14.2	15.8	19.0	9.4
Active Borrowers	Mn	4.7	6.1	6.4	9.1	9.8	11.9
Average Loan Size	PKR	61,681	58,574	63,734	51,901	57,337	51,655
Number of Deposit Accounts	Mn	78.7	90.8	105.8	118.9	139.7	149.7
Value of Deposits	PKR Bn	422.5	511.1	589.6	728.8	946.1	1071.8
Average Deposit Size	PKR	5,368	5,629	5,573	6,130	6,772	7,160
Investments	PKR Bn	133.5	228.2	163.5	387.3	364.2	423.2
Equity	PKR Bn	56.7	43.7	37.4	37.2	56.5	72.8
Profit Before Tax	PKR Mn	(6,845)	(21,558)	(10,835)	(25,484)	4,993	20,331
Profit After Tax	PKR Mn	(8,080)	(17,155)	(8,118)	(16,212)	14,976	13,036

Note: Figures are inclusive of EasyPaisa Digital Bank.

Sector Wise Gross Loan Portfolio (GLP)

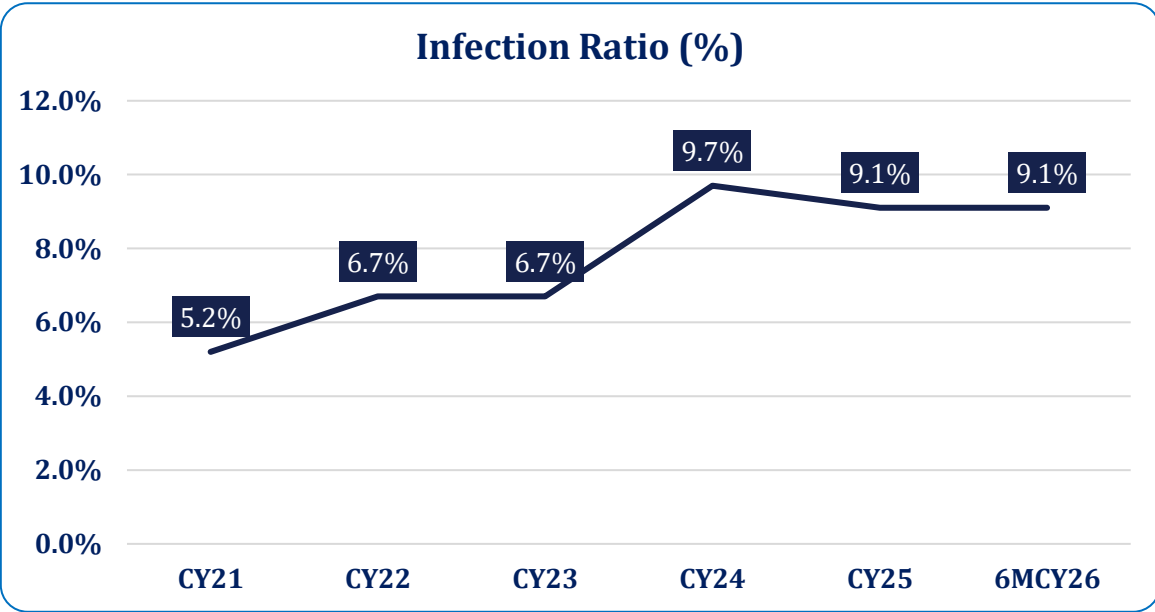
- Livestock remained the largest contributor to MFBs’ GLP, with its share rising to ~30.6% in 6MCY26 (CY25: ~28.6%). Advances increased to PKR ~183.0Bn (CY25: PKR ~153.2Bn), reflecting continued financing needs for animal rearing, dairy production and feed procurement. Agriculture’s share declined to ~20.2% (CY25: ~25.2%), with advances falling to PKR ~121.1Bn (CY25: PKR ~135.2Bn). This reflects a more cautious lending approach by MFBs amid rising climate related risks and growing competition from commercial banks in small-farmer financing. Enterprise financing recorded the strongest growth, with its share rising to ~22.8% (CY25: ~16.9%) and advances increasing to PKR ~136.3Bn (CY25: PKR ~90.4Bn). Growth was supported by the national policy push toward SME financing and MFBs’ inclination to lend to SMEs. The other sectors and housing declined to ~19.9% (CY25: ~21.0%) and ~6.5% (CY25: ~8.3%).
- Livestock was the largest contributor to MFBs’ NPLs as well at ~34.8% in 6MCY26 (CY25: ~36.1%), with NPLs rising to PKR ~18.9Bn (CY25: PKR ~17.7Bn). Agriculture performed slightly better despite lower loans, with NPLs easing to PKR ~16.9Bn (NPL Share 6MCY26: 31.1%; CY25: ~36.2%). Higher input and feed costs and animal-health risks continue to weigh on repayment capacity in both segments. The share of other sectors rose to ~24.5% (CY25: ~19.0%), indicating emerging stress beyond agriculture and livestock. Enterprise segment’s share increased to ~7.8% (CY25: ~7.0%), though at a slower pace than its lending growth. Housing’s share remained stable at ~1.7% (CY25: ~1.7%).
- Going forward, the government’s Risk Coverage Scheme for Small Farmers and Underserved Areas is expected to support eligible crop, dairy and livestock financing through Jun’28 by sharing part of lenders’ credit risk. Recent livestock financing initiatives are expected to improve farmers’ access to credit for essential inputs and enhance productivity. Meanwhile, livestock disease-control initiatives could further improve productivity. Growing shares of enterprise, consumer and housing finance point to a more diversified lending mix. However, persistent input-cost pressures and climate-related risks will require prudent credit assessment and effective recovery practices to contain asset-quality risks across the portfolio.



Non-Performing Loans

- MFBs’ infection ratio improved to ~9.1% in CY25 (CY24: ~9.7%), indicating an improvement in asset quality across MFBs. Agriculture and livestock remained the most stressed segments, with infection ratios rising to ~13.1% (CY24: ~11.6%) and ~11.5% (CY24: ~11.3%), respectively. The 2025 floods, disease outbreaks and higher input costs weighed on farmers’ repayment capacity. Enterprises and consumer lending NPLs remained low at ~3.8% (CY24: ~5.8%) and ~4.2% (CY24: ~20.4%), respectively.
- The infection ratio remained stable at ~9.1% in 6MCY26. Agriculture rose further to ~14.0%, reflecting persistent defaults from previous periods alongside subdued fresh lending to the segment. Other sectors increased to ~11.2% (CY25: ~8.3%). Livestock improved to ~10.3%, supported by stronger FY26 sector growth as higher milk and meat output supported farmers’ repayment capacity. Enterprises improved to ~3.1%, as MFBs focused on higher-quality and secured lending under the broader push toward micro financing. Provisioning coverage stood at ~129.7% in 6MCY26 (CY25: ~138.1%), indicating that NPLs remain fully provided for and credit losses are adequately cushioned.

Sector-Wise Infection Ratio			
Particulars	CY24	CY25	6MCY26
Agriculture	11.6%	13.1%	14.0%
Livestock	11.3%	11.5%	10.3%
Enterprises	5.8%	3.8%	3.1%
Housing Finance	1.5%	1.9%	2.4%
Others	12.6%	8.3%	11.2%
Total	9.7%	9.1%	9.1%



Market Share – GLP

- Mobilink MFB and HBL MFB remained market leaders in GLP, with a combined share of ~38.9% in CY25 (CY24: ~37.5%). Mobilink MFB overtook HBL MFB with ~21.0% share in Loans (CY24: ~18.4%). Its GLP grew ~36.1% YoY to PKR ~118.2Bn, supported by its focus on small-business lending. Introduced Shariah-compliant digital and retail micro-products further increased its share in CY25.
- HBL MFB's share moderated to ~17.9% (CY24: ~19.1%), as its portfolio growth lagged faster-expanding peers. U MFB and Khushhali MFB lost ground to ~15.6% (CY24: ~18.2%) and ~14.9% (CY24: ~16.3%), respectively.
- ABHI MFB emerged as the fastest-growing player in the microfinance landscape, expanding its GLP market share to ~6.8% (CY24: ~4.1%). This asset expansion was fueled by a ~90.7% YoY growth in its deposit base.

Market Share – GLP (%)		
Particulars	CY24	CY25
Mobilink MFB	18.4%	21.0%
HBL MFB	19.1%	17.9%
U MFB	18.2%	15.6%
Khushhali MFB	16.3%	14.9%
ABHI MFB	4.1%	6.8%
NRSP MFB	7.9%	6.6%
ASA MFB	5.3%	5.8%
EasyPaisa DB	6.0%	4.8%
APNA MFB	2.8%	2.8%
LOLC MFB	0.9%	2.0%
Halan MFB	0.5%	1.3%
Sindh MFB	0.5%	0.5%

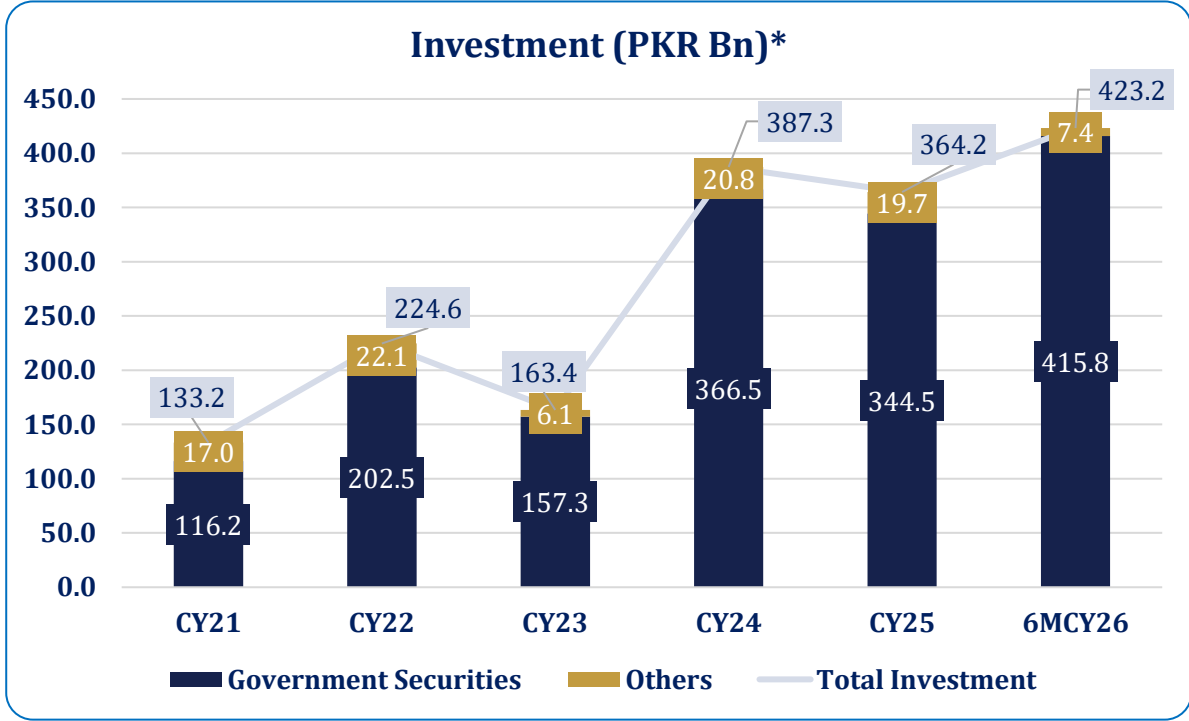
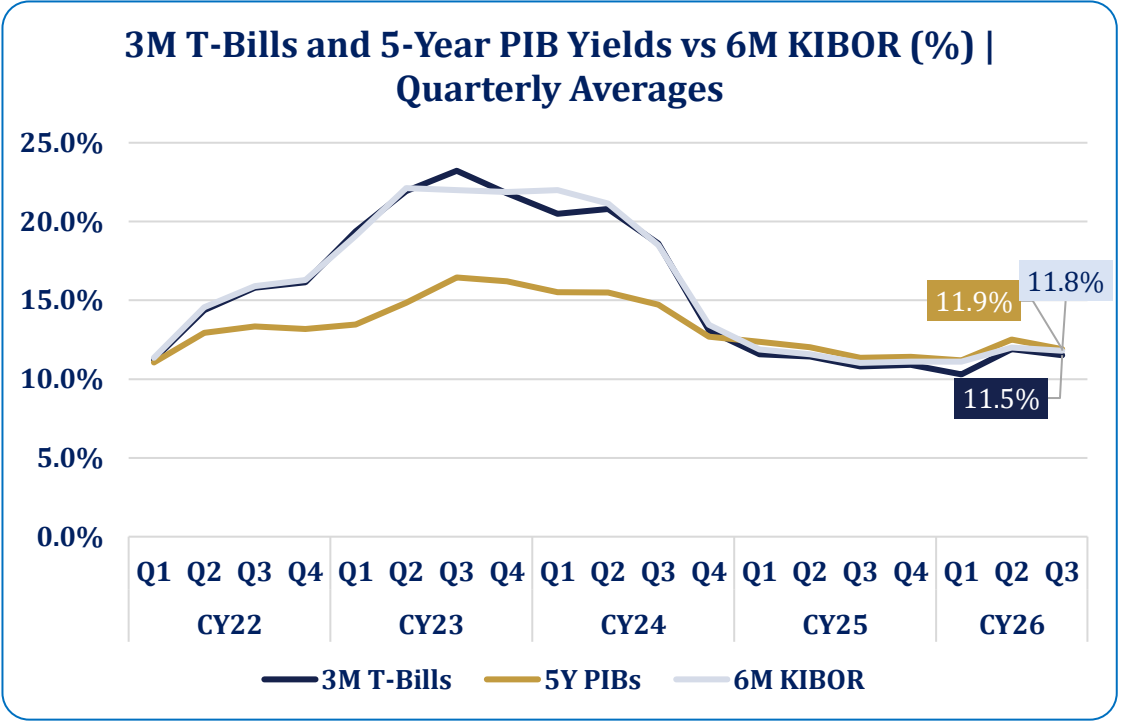
Market Share – Deposits

- Mobilink MFB led the market in deposits with a share of ~22.3% (CY24: ~21.7%), as its deposits grew ~38.1% YoY to PKR ~213.9Bn. U MFB followed at ~16.3% (CY24: ~16.1%). EasyPaisa Digital Bank recorded the most notable gain, rising to ~13.3% (CY24: ~10.7%). Its deposits grew ~67.6% YoY to PKR ~127.7Bn after its transition to a digital retail bank. However, its advances-to-deposit ratio of ~21.1% indicates limited deployment of these deposits into lending.
- Khushhali MFB and HBL MFB lost share to ~13.7% (CY24: ~16.4%) and ~15.7% (CY24: ~17.2%), respectively. The top four MFBs collectively held ~68.0% of total deposits (CY24: ~71.4%), indicating still high concentration.

Market Share – Deposits (%)		
Particulars	CY24	CY25
Mobilink MFB	21.7%	22.3%
U MFB	16.1%	16.3%
HBL MFB	17.2%	15.7%
Khushhali MFB	16.4%	13.7%
EasyPaisa DB	10.7%	13.3%
ABHI MFB	5.1%	7.2%
NRSP MFB	7.7%	5.4%
APNA MFB	3.6%	3.1%
LOLC MFB	0.8%	1.6%
Halan MFB	0.6%	1.2%
Sindh MFB	0.3%	0.2%

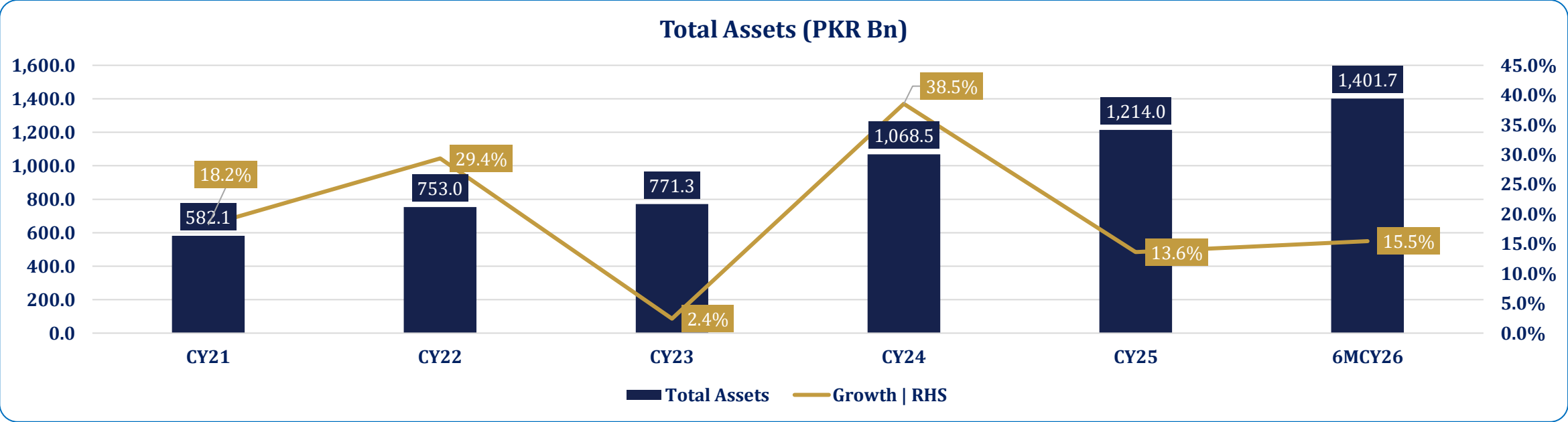
Investments

- During CY25, MFBs’ total investments declined by ~6.0% YoY to PKR ~364.2Bn (CY24: PKR ~387.3Bn). This came on the back of successive policy rate cuts which lowered yields on government securities and MFBs redirecting liquidity towards lending. Investment in government securities fell ~6.0% YoY to PKR ~344.5Bn (CY24: PKR ~366.5Bn), while other investments declined ~5.3% YoY to PKR ~19.7Bn (CY24: PKR ~20.8Bn).
- The trend reversed in 6MCY26, with total investments rising ~16.2% to PKR ~423.2Bn. Investments in Government securities increased ~20.7% to PKR ~415.8Bn, as the 100bps policy rate hike in Apr’26 lifted yields. Other investments fell sharply to PKR ~7.4Bn. Investments in government securities are expected to rise with policy rate increasing by 50bps recently to 12%.



Total Assets

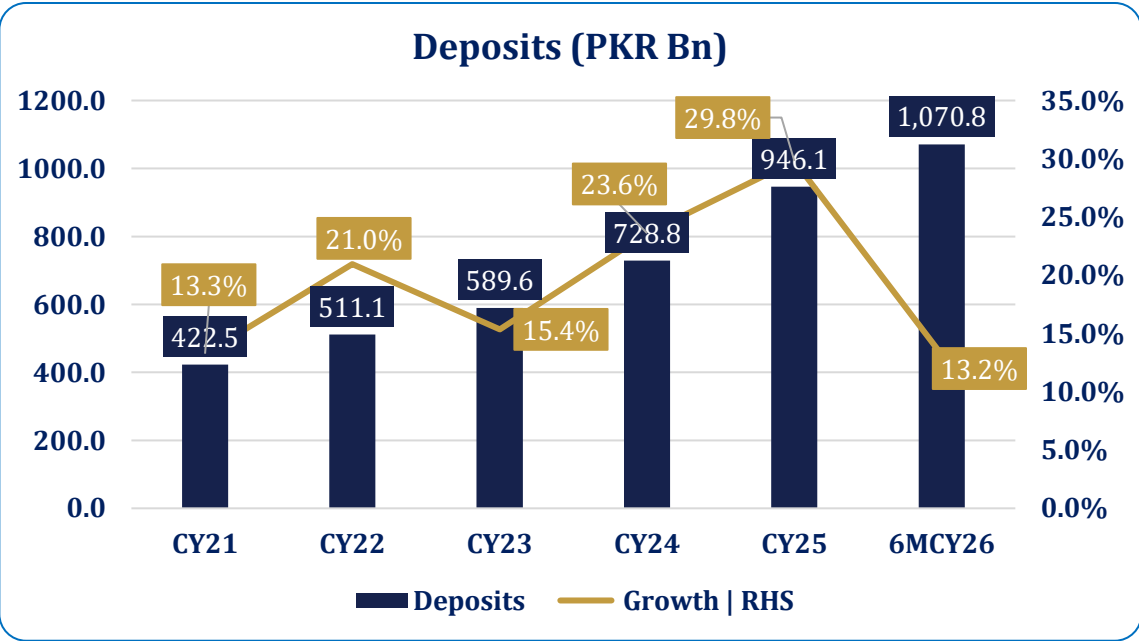
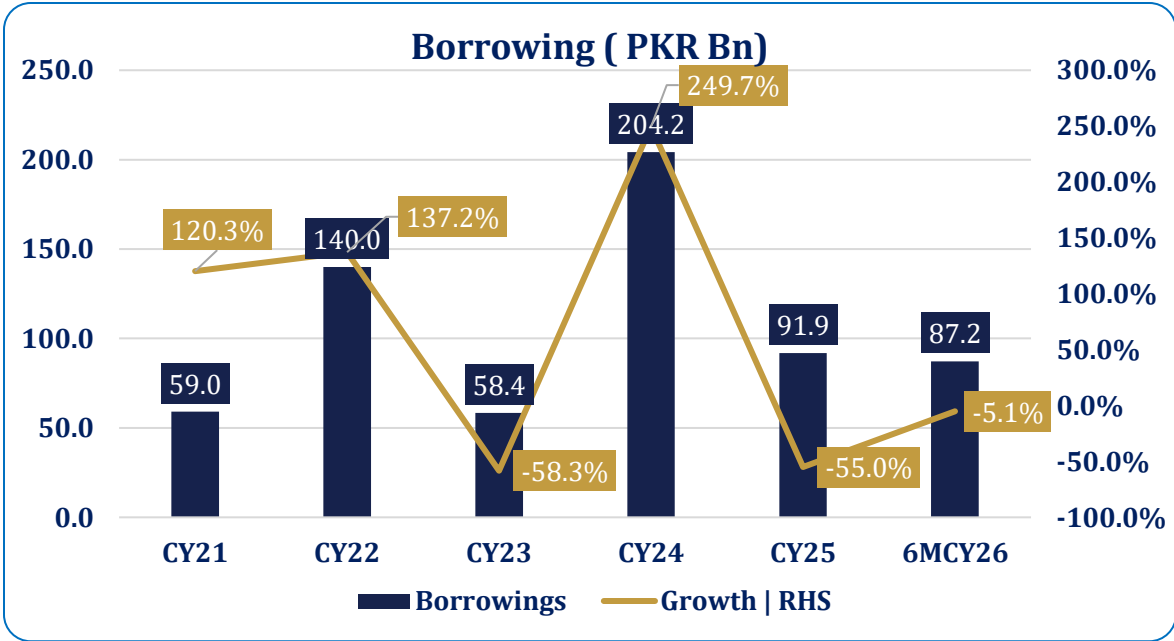
- Total asset base of MFBs was PKR ~1,214.0Bn in CY25 (CY24: PKR ~1,068.5Bn), a YoY increase of ~13.6%. During the 5 years (CY21–25), the asset base of the segment has increased at a CAGR of ~15.8%. Collectively, net advances and investments made up ~70.6% of the segment’s total asset base in CY25. Growth moderated significantly from ~38.5% in CY24, as the investment-led expansion of the previous year reversed amid lower interest rates. Asset growth during CY25 was instead driven by lending, with gross advances rising ~17.1% YoY while investments declined ~6.0% YoY.
- Total assets increased further by ~15.5% in 6MCY26 to stand at PKR ~1,401.7Bn. The growth was driven almost equally by lending and investments, as higher yields following the Apr’26 policy rate hike renewed MFBs’ preference for government securities. However, asset growth continues to outpace MFBs’ capital base, which remains negative.



Note: Figures are inclusive of EasyPaisha Digital Bank.

Funding

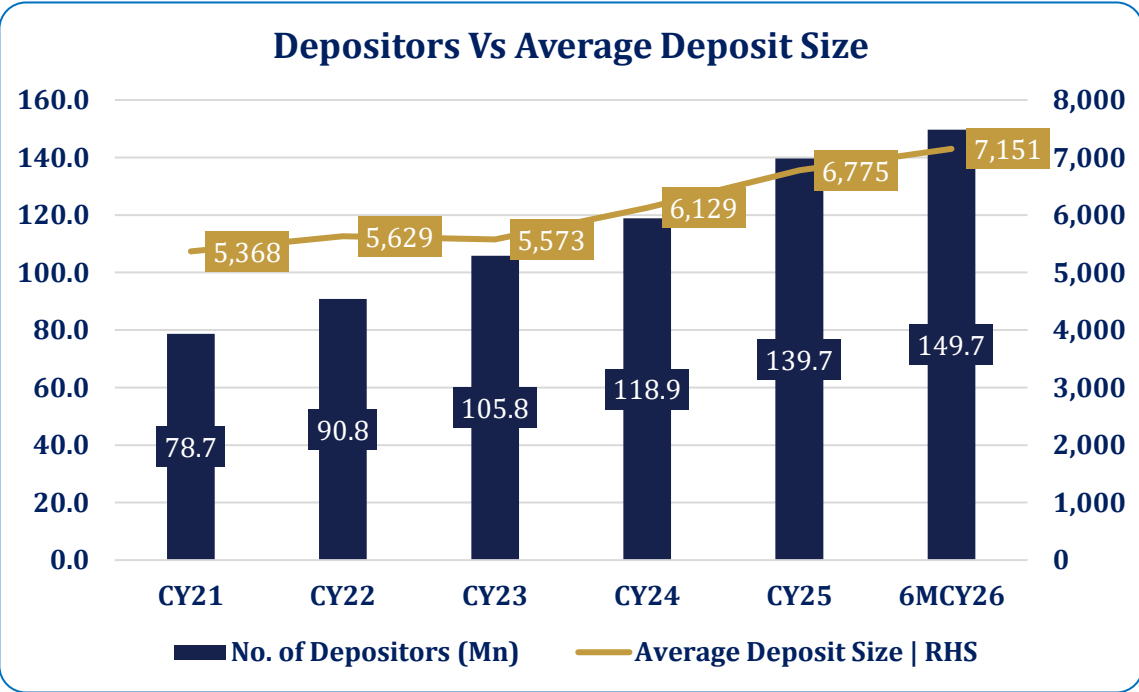
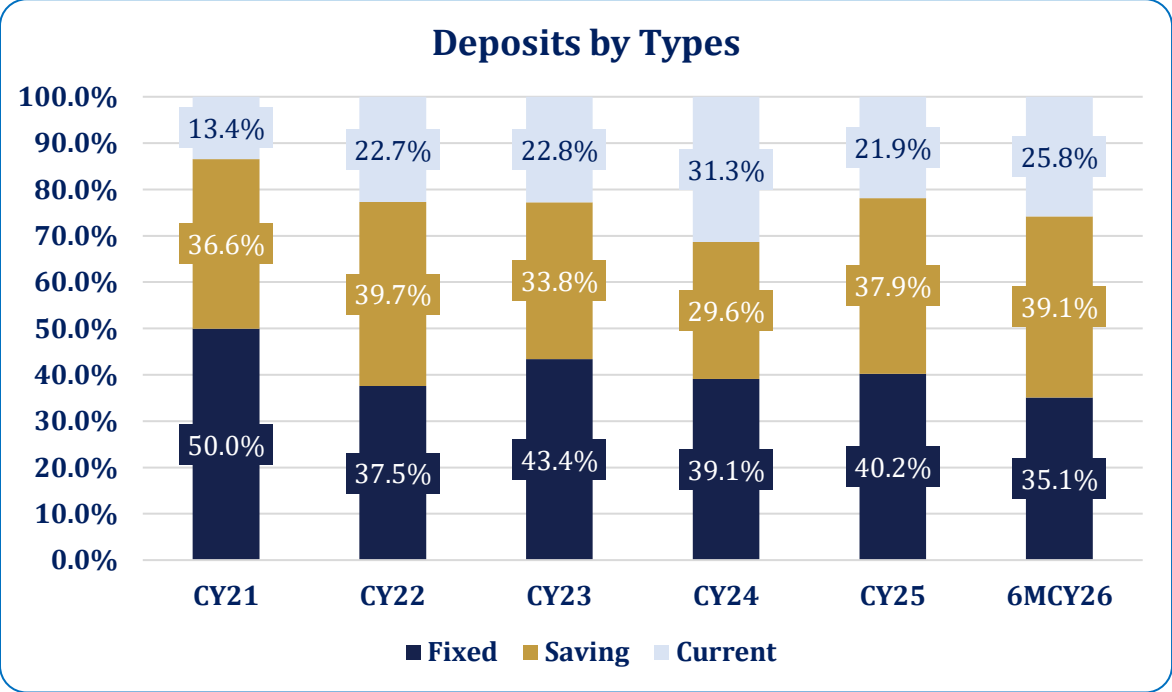
- For CY25, the deposit base of the segment increased to PKR ~946.1Bn (CY24: PKR ~728.8Bn), a YoY increase of ~29.8%. Growth was largely driven by digital MFBs, supported by wider customer outreach through mobile platforms. Lower deposit rates offered by commercial banks also made MFB deposits more attractive. Meanwhile, borrowings declined by ~55.0% to PKR ~91.9Bn (CY24: PKR ~204.2Bn). In CY24, MFBs had raised borrowings to invest in high-yielding government securities. As interest rates fell, MFBs replaced costlier borrowings with deposits to fund their investments and lending.
- In 6MCY26, deposits rose further by ~13.2% to PKR ~1,070.8Bn, while borrowings eased ~5.1% to PKR ~87.2Bn. This reflected MFBs' continued reliance on deposits as the core funding source. Going forward, deposits are expected to remain the primary funding source for MFBs, supported by continued digital outreach and financial inclusion initiatives. However, inflation remains elevated due to higher energy prices. This has pushed up interest rates further. This may raise MFBs' cost of deposits and enhance competition from commercial banks.



Note: Figures are inclusive of EasyPaisha Digital Bank.

Deposits Accounts

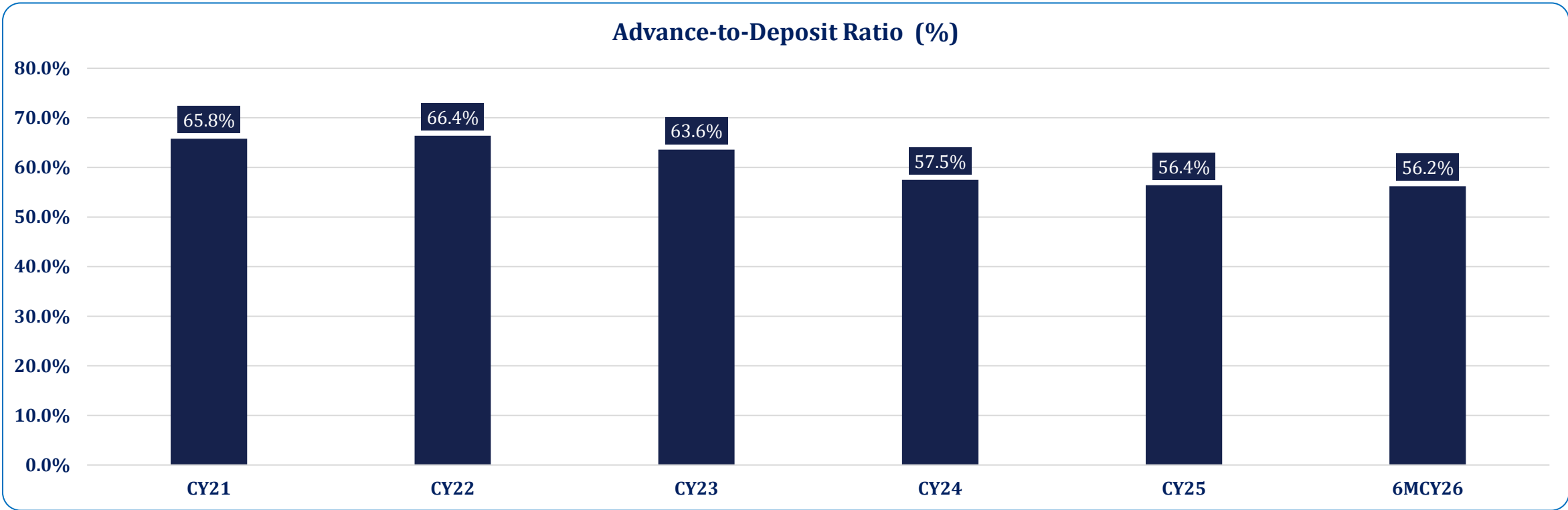
- During CY25, the total number of deposit accounts increased to ~139.7Mn (CY24: ~118.9Mn), a YoY growth of ~17.5%, supported by wider digital onboarding. Average deposit size also rose by ~10.5% YoY to PKR ~6,775 (CY24: PKR ~6,129), indicating relatively higher balances per account but the average account balance remains quite low. In 6MCY26, deposit accounts increased further to ~149.7Mn, while average deposit size stood at PKR ~7,151.
- MFBs’ deposit mix is dominated by fixed and saving deposits, which collectively formed ~78.1% of the deposit base in CY25 (CY24: ~68.7%). The share of saving deposits increased to ~37.9% (CY24: ~29.6%), while current accounts declined to ~21.9% (CY24: ~31.3%). This shift toward return-bearing deposits partly offset the benefit of lower interest rates on MFBs’ funding costs. In 6MCY26, current accounts rose to ~25.8%, while fixed deposits eased to ~35.1%.



Note: Figures are inclusive of EasyPaisa Digital Bank.

Advance-to-Deposit Ratio (ADR)

- The Advance-to-Deposit Ratio (ADR) of MFBs declined to ~56.4% in CY25 (CY24: ~57.5%), extending a downward trend from its peak of ~66.4% in CY22. Deposits outpaced lending, as elevated credit risk (particularly in agriculture) and capital constraints kept MFBs cautious. The surplus was largely invested in government securities.
- The ADR remained broadly stable at ~56.2% in 6MCY26, as lending and deposits grew at similar pace. The low ratio reflects comfortable liquidity, but also points to under-utilization of the deposit base. This leaves MFBs’ earnings more reliant on investment income, which remains sensitive to interest rate movements.



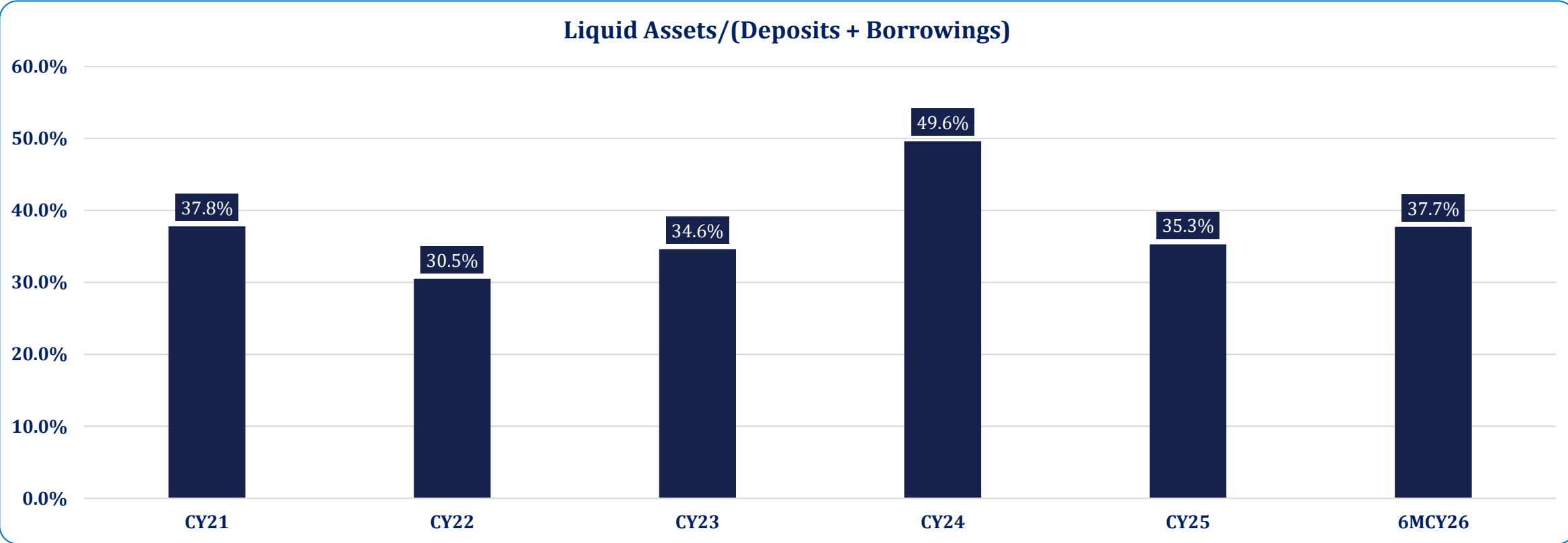
Capital Adequacy Ratio (CAR)

- The Sector's Capital Adequacy Ratio (CAR) turned negative at ~-1.2% in CY25 (CY24: ~2.6%), well below the ~15% regulatory minimum. The decline was driven by elevated loan-loss provisioning, with provisioning coverage rising to ~138.1% (CY24: ~95.3%), alongside continued losses at a few MFBs. The CAR was at ~-0.7% in 6MCY26, supported by the Sector's return to profitability and fresh capital injections at some MFBs. The negative equity remains a major concern for the Sector.
- Out of the top five MFBs (in terms of GLP), only two remained compliant with SBP's minimum capital adequacy requirement in CY25 (unchanged from CY24).

Capital Adequacy Ratio			
MFBs	CY24	CY25	6MCY26
LOLC MFB	28.9%	15.5%	16.9%
Sindh MFB	44.3%	44.7%	42.7%
Easypaisa MFB	36.9%	20.4%	23.8%
Abhi MFB	-108.3%	-20.3%	-6.3%
Mobilink MFB	19.2%	19.5%	16.2%
Halan MFB	15.3%	15.7%	15.4%
HBL MFB	17.1%	18.8%	16.4%
Khushali MFB	-57.6%	-55.0%	-47.2%
NRSP MFB	1.0%	16.6%	17.2%
Apna MFB	-226.0%	-257.0%	-278.0%

Liquidity

- The liquidity ratio of MFBs (measured as liquid assets to deposits and borrowings) declined to ~35.3% in CY25 (CY24: ~49.6%) as investments in government securities reduced and deposit mobilization remained strong. The liquidity ratio in CY24 was unusually high, as MFBs held large borrowing-funded investments in government securities. In CY25, these holdings were partly reduced as yields fell, while lending and deposits grew. This brought the ratio back in line with historical levels. The ratio rose to ~37.7% in 6MCY26, as higher interest rates made government securities more attractive.



Financial Performance

Selective Indicators	CY21	CY22	CY23	CY24	CY25	6MCY26
Capital						
Capital Adequacy Ratio	18.3%	10.9%	7.6%	2.6%	-1.2%	-0.7%
Tier 1 Capital to Total RWA	14.3%	8.1%	4.7%	0.1%	-3.6%	-3.1%
Assets Quality						
Gross NPLs (% of GLP)	5.2%	6.7%	6.7%	9.7%	9.1%	9.1%
Provision Coverage (% of NPL)	78.1%	78.8%	102.3%	95.3%	138.1%	129.7%
Net NPLs	1.2%	1.5%	-0.2%	0.5%	-4.0%	-3.1%
Drag on Equity	5.4%	12.9%	-2.2%	21.4%	NA	NA*
Earnings						
Net Interest Margin	11.2%	10.1%	12.2%	13.9%	15.6%	18.5%
ROA after Tax	-1.6%	-2.7%	-1.1%	-1.9%	-0.2%	1.3%
ROE after Tax	-15.0%	-33.1%	-19.7%	-49.6%	-8.2%	47.8%
Cost Per Borrower (PKR)	11,427	14,276	18,069	13,956	15,056	16,246
Admin Expense to Total Assets	10.2%	11.3%	10.2%	14.2%	11.4%	13.2%
Liquidity						
Liquid Assets to Total Assets	31.3%	26.5%	29.4%	43.6%	31.7%	33.2%
Liquid Assets to Total Deposits	43.1%	38.6%	38.0%	63.6%	39.2%	41.3%
Liquid Assets to (Deposits + Borrowing)	37.8%	30.5%	34.6%	49.6%	35.3%	37.7%

*Note: *No drag on equity, as NPLs are fully provided for.*

SECTOR STUDY | MICROFINANCE

Microfinance Institutions

At a Glance



Snapshot

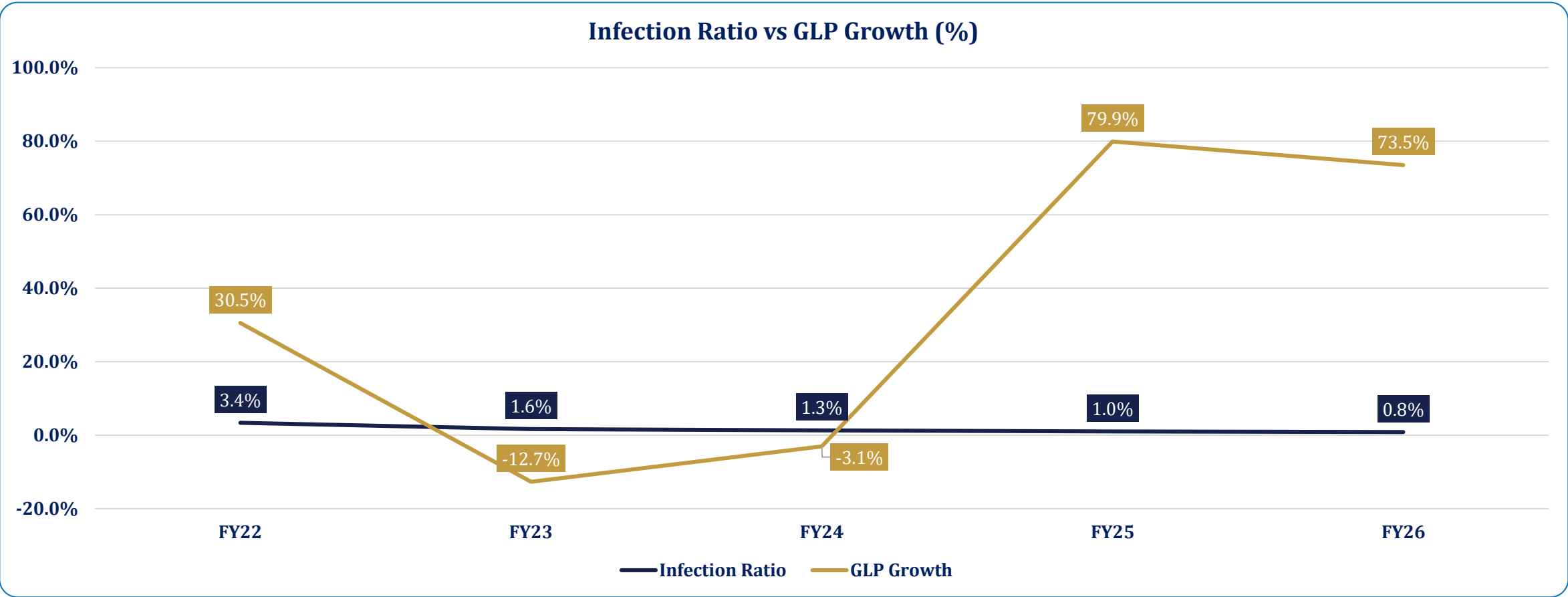
- MFIs' GLP grew by ~73.5% YoY in FY26 (FY25: ~79.9%). Growth was primarily driven by larger-ticket housing loans extended under provincial government-backed housing schemes. This is shifting the segment's portfolio toward longer-tenor, higher-value lending. It has also reduced the cost per borrower significantly, impacting profitability positively. GLP has grown at a CAGR of ~21.4% during FY22-FY26.
- The number of active borrowers increased by ~9%, markedly at a lower pace when compared to MFBs, despite a lower base.

Particulars	Units	FY22	FY23	FY24	FY25	FY26
Gross Loan Portfolio	PKR Bn	134.0	117.0	113.4	204.0	354.0
Growth	%	30.5	-12.7	-3.1	79.9	73.5
Active Borrowers	Mn	3.2	3.1	2.8	3.4	3.7
Average Loan Size	PKR	35,306	37,741	40,500	60,684	95,543
Equity	PKR Bn	24.3	30.7	33.1	40.6	51.9

Note: Data for Equity is based on ~9 PACRA-rated players. Figures include RSPs.

Non-Performing Loans

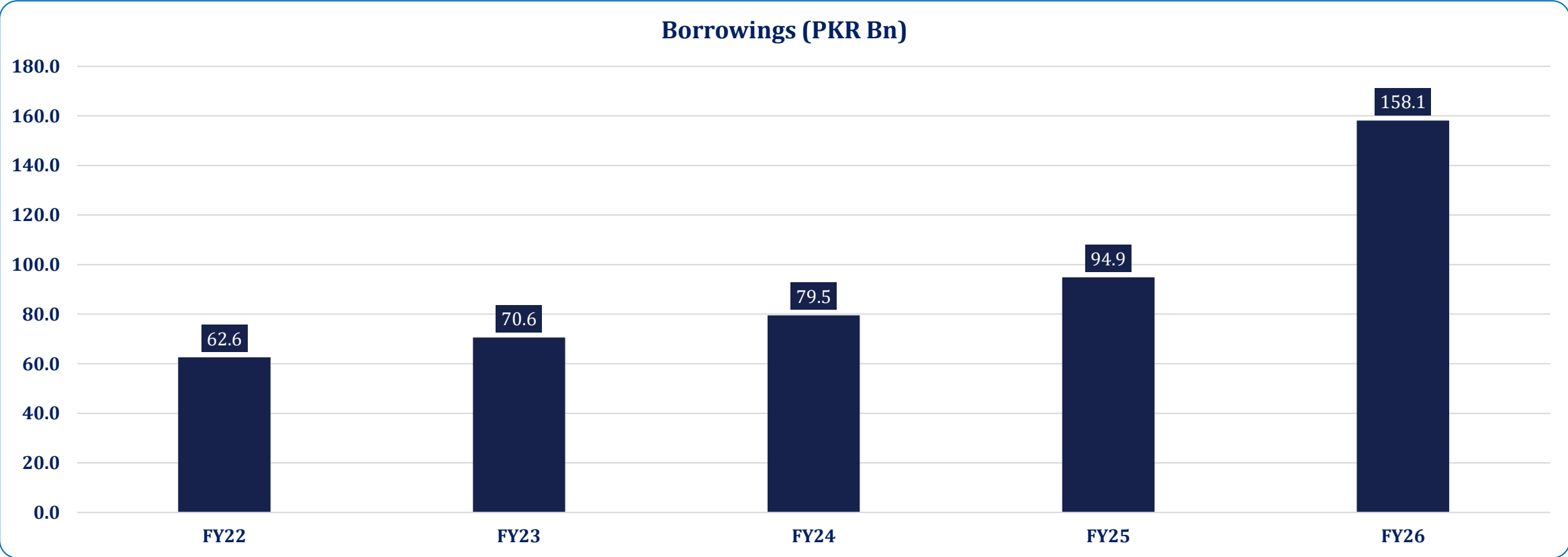
- MFIs infection ratio declined to ~0.8% in FY26 (FY25: ~1.0%), indicating very strong asset quality. However, this partly reflects rapid portfolio expansion, especially in the housing loans. The newly disbursed loans have had limited time to season. Repayment performance therefore warrants close monitoring as these loans mature.



Note: Data is based on ~9 PACRA-rated players. Figures include RSPs.

Borrowings

- MFIs’ borrowings rose by ~66.6% YoY to PKR ~158.1Bn in FY26 (FY25: PKR ~94.9Bn). The increase was largely driven by provincial funds placed with MFIs for onward disbursement under housing programme. As non-deposit-taking institutions, MFIs remain reliant on external funding to support portfolio expansion. The growing reliance on government programme funding has heightened concentration risk, as any delay or discontinuation of these facilities could constrain liquidity and future lending.



Note: Data is based on ~9 PACRA-rated players. Figures include RSPs.

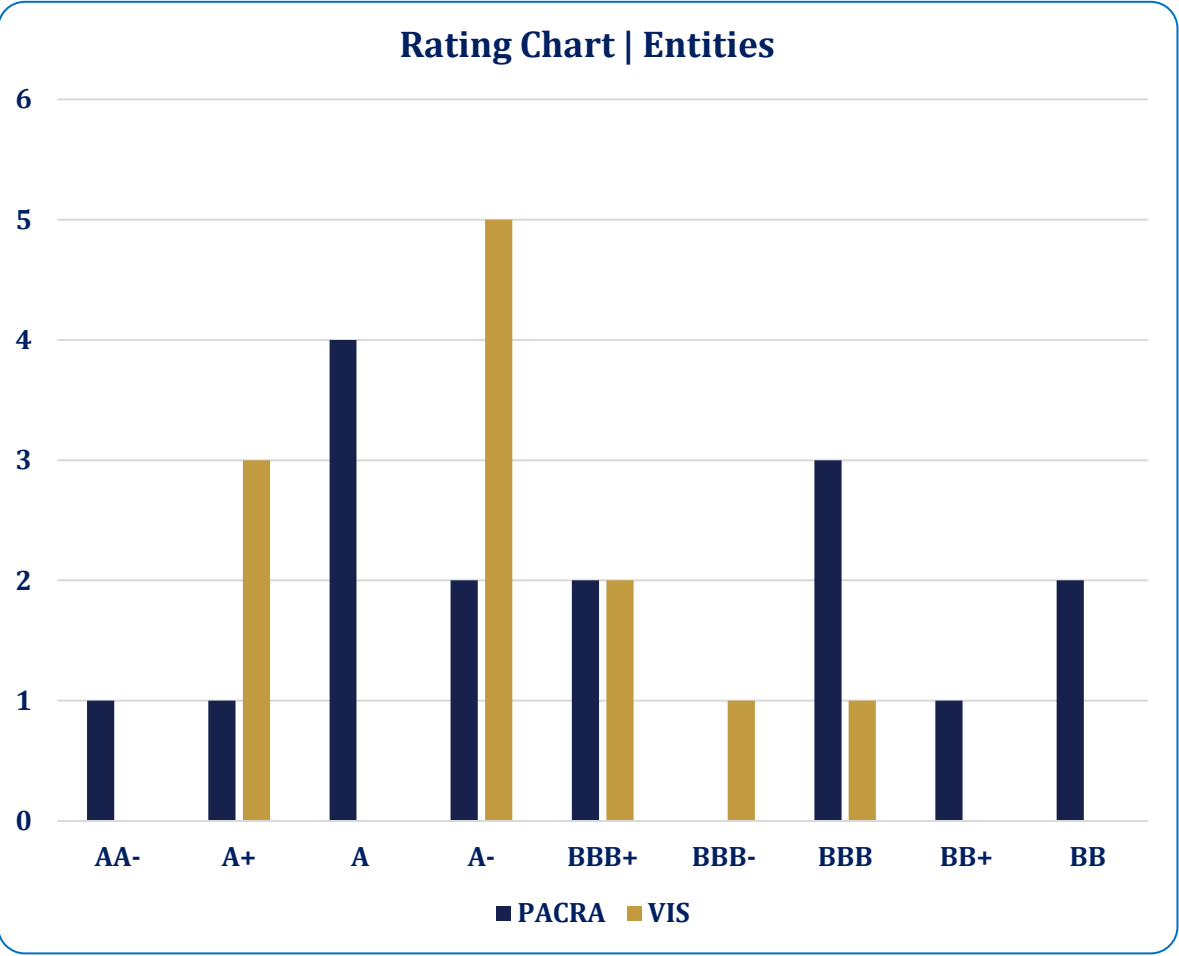
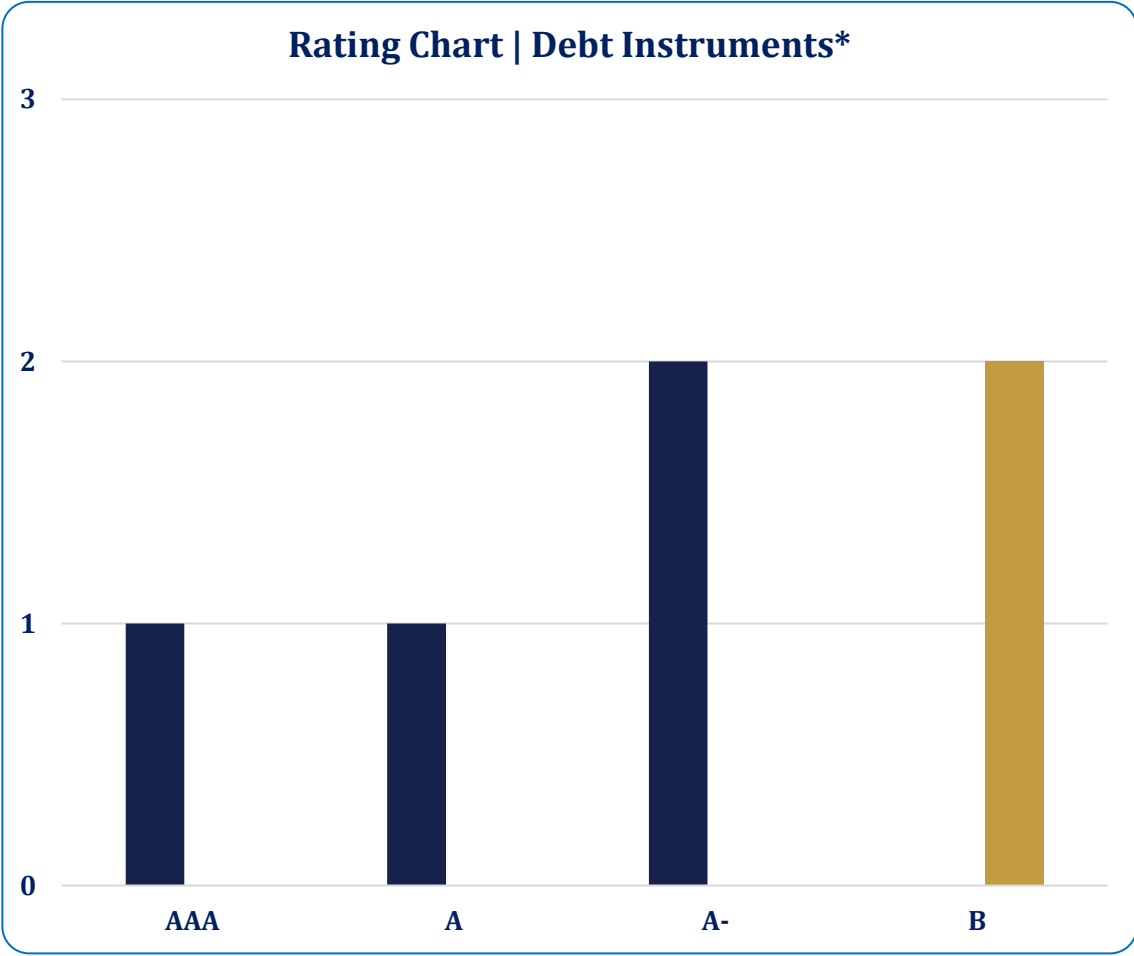
Financial Performance

Operating Performance	FY22	FY23	FY24	FY25	FY26
Mark-up/Return/Interest Earned	18,737	26,236	34,020	41,670	45,653
Mark-up/Return/Interest Expensed	-6,262	-11,010	-15,700	-17,120	-13,973
Net Mark-up / Interest Income	12,475	15,226	18,320	24,550	31,680
Administrative expenses	-13,571	-16,528	-22,641	-27,392	-27,381
ROE	15.2%	15.0%	8.2%	20.3%	22.4%
ROA	3.9%	4.2%	2.2%	5.6%	5.3%
Operational Self Sufficiency	83.3%	77.0%	74.5%	82.1%	92.9%
Cost Per Borrower (PKR)	7,308	8,011	8,978	7,535	5,609
Profit / (Loss) before taxation	3,695	4,604	5,927	9,917	13,571
Profit / (Loss) after taxation	3,695	4,604	2,701	8,249	11,630

Note: Data is based on ~9 PACRA-rated players. Figures include RSPs. Tax expense from FY24 onwards pertains to a single MFI.

Rating Curve

- PACRA rates 16 entities in the Microfinance Sector. Rating bandwidth of the Sector lies between AA- to BB. Moreover, PACRA also rates 4 Debt instruments.



*Note: *Debt Instrument for Kashf Foundation is guaranteed by a AAA rated financial institution.*

SWOT Analysis

Strengths

- Large, growing deposit base
- Strong provisioning coverage
- Digital outreach driving growth
- Strong MFI asset quality

Weaknesses

- Weak capitalization
- High operating costs
- Concentration in agriculture and livestock lending
- MFIs' reliance on external funding
- Low financial literacy and inclusion

Opportunities

- Recapitalization and new sponsors
- Risk-sharing and credit guarantee schemes
- Digital and Islamic microfinance
- Women and SME financing
- Untapped rural outreach

Threats

- Rising interest rates and inflation
- Stress in agriculture lending
- Climate and natural disaster risk
- Dependence on government schemes

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- PACRA Database

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