6.2 Non-Bank Financial Institutions

After a challenging year in CY23, the Non-bank financial institutions exhibited impressive growth in CY24 amid the improving macroeconomic and financial conditions. The growth was broad-based with significant contributions from both the asset management and lending segments. Along with the improving economic and financial conditions, inflow of funds from the banking sector to NBFI sector also contributed to its growth. The easing financial conditions also led to a revival in the lending segment in CY24, which had experienced a slowdown in CY23. Going forward, the performance of NBFIs will depend upon the evolving domestic and geopolitical economic conditions.

6.2 Non-Bank Financial Institutions

Relatively improved macro-economic and financial conditions in Pakistan in CY24, compared to CY23, provided a strong foundation for the growth of the Non-Bank Financial Institutions (NBFIs).[1] Resultantly, the NBFI sector increased its asset share in a financial system predominated by the banking sector. The share improved from about 5.8 percent in CY23 to 8.9 percent in CY24. NBFIs play important role through a broad array of non-bank financial services that supplement the banking sector and meeting the diverse financial needs of the economy.

The receding inflationary pressures marked the beginning of easing monetary policy cycle in Mid-CY24, which reduced borrowing costs for NBFIs (especially lending segment) and boosted capital market growth, while ADR related tax policy on the banking helped provide favorable conditions for the sector in CY24 after a challenging year in CY23. The sector posted an impressive growth of 80.0 percent in terms of assets in CY24 as compared to 34.5 percent in CY23, driven both by the Asset Management[2] segment, with a growth of 78.9 percent, and lending[3] segment, with a growth of 89.4 percent, in CY24. However, in terms of volume, the major push came from the asset management segment as it dominates the NBFIs sector with 89.1 percent share (**Table 6.2.1**).

Asset Profile of NBFIs — Table 6.2.1

billion Rupees

		Dec-21	Dec-22	Dec-23	Dec-24
Asset Management	**AMCs/IAs (own assets)**	**46**	**48**	**58**	**79**
	Mutual Funds	1,192	1,574	2,232	4,439
	Pension Funds	40	44	61	96
	Portfolios	374	358	547	712
	Total AUMs	**1,605**	**1,976**	**2,840**	**5,246**
	RMCs	8	9	13	14
	REITS	67	168	168	176
	PE & VC Firms	0	0	0	0
	PE Funds	10	12	10	11
Lending	Modarabas	57	65	56	57
	Leasing Companies	5	6	6	7
	Housing Finance Cos.	0	1	1	1
	IFCs	78	109	100	292
	NBMFCs	146	168	195	321
	Total Assets	**2,023**	**2,563**	**3,447**	**6,204**

Source: Securities and Exchange Commission of Pakistan

6.2.1 NBFIs: Asset Management Segment

The asset management (AM) segment, dominated by Mutual Funds and Portfolios, posted a significant growth of 78.9 percent in CY24 as compared with 39.6 percent in CY23. The Assets Under Management (AUM)[4] registered a substantial growth of 84.7 percent in CY24 against 43.7 percent in CY23, driven by strong growth in both the Mutual Funds and Portfolios.

[1] NBFIs for the purpose of this analysis include NBFCs, Real Estate Investment Trusts (REITs), and Modaraba Companies. As per section 282A of the repealed Companies Ordinance, 1984 (wherein Part VIIIA - consisting of sections 282A to 282N – does not stand repealed and is applicable to NBFCs), Nonbanking finance companies (NBFCs) include companies licensed by the Commission to carry out any or more of the following forms of business, namely: Investment finance services, Leasing, Housing Finance Services, Venture Capital Investment, Discounting Services, Investment Advisory Services, Asset Management Services, and any other form of business which the Federal Government may, by notification in the official Gazette specify from time to time. Non-bank Microfinance Companies (NBMFCs) are also included in NBFCs.

[2] The Asset Management (AM) segment includes: Asset Management Companies (AMCs), Investment Advisors (IAs), Real Estate Investment Trusts (REITs), Mutual Funds, Pension Funds, Private Equity (PE) Funds, and Discretionary/ Non-discretionary Portfolios.

[3] Lending NBFIs (also referred to as the non-AM segment) include Leasing Companies, Modarabas, Investment Finance Companies, Housing Finance Companies, Non-Bank Microfinance Companies (NBMFCs), etc.

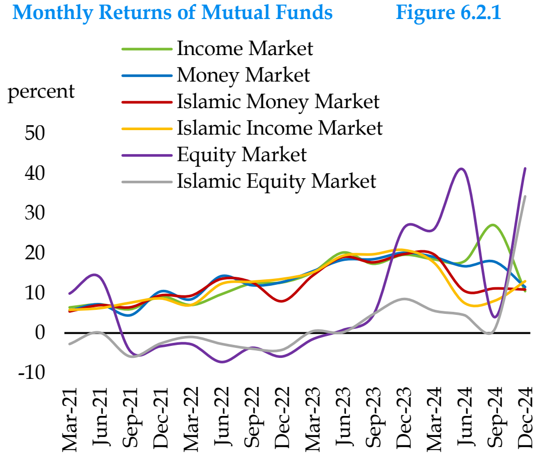
[4] Assets Under Management (AUM) include assets of mutual funds, pension funds, and portfolios under management of AMCs/ IAs.

Mutual fund assets almost doubled, further extending their asset share in the NBFI sector ...

The mutual funds posted a significant growth of 98.9 percent in CY24 compared to 41.8 percent in CY23, leading to an increase in their share in the NBFIs' overall asset base to 71.5 percent in CY24 from 64.7 percent in CY23. The increase in assets was broad based in terms of growth rate; however, in terms of volume, significant contributions came from conventional money market funds and Islamic income funds. The major thrust in growth came towards the end of the year as the ADR related tax policy seemed to divert a substantial amount of funds from the banking sector towards the NBFI industry. This is supported by the fact that around 88.6 percent of the total increase in Mutual fund assets was in the banks' associated AMCs.

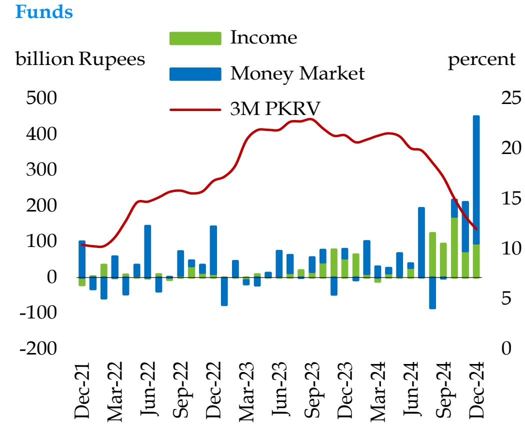
Stable, low-risk debt instruments remained the preferred investment option for the investors, as evidenced by substantially higher net sales in CY24 compared to CY23—driving AUM growth for the second consecutive year (**Figure 6.2.1 and 6.2.2a**).

Monthly Returns of Mutual Funds — Figure 6.2.1



Source: Mutual Funds Association of Pakistan

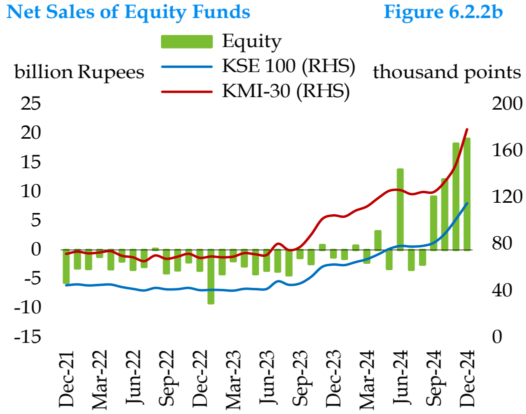
Net Sales of Money and Income Funds — Figure 6.2.2a



Source: Mutual Funds Association of Pakistan

Concurrently, the equity funds – buoyed by a historic rise in the KSE-100 index, improved economic outlook, favorable IMF program developments, and easing inflationary pressures – recorded an impressive growth of 107.2 percent in CY24 compared to a meager 19.7 percent growth in CY23. Consequently, their asset base more than doubled—from Rs 203 billion in CY23 to Rs 420 billion in CY24. This growth in equity funds also seemed to be driven by net sales, i.e., fresh investments (**Figure 6.2.2b**).

Net Sales of Equity Funds — Figure 6.2.2b



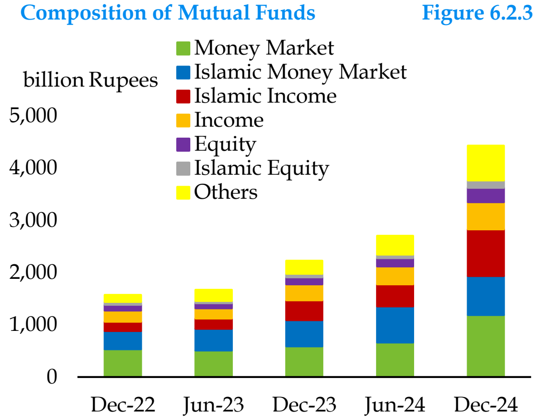
Source: Mutual Funds Association of Pakistan & Pakistan Stock Exchange

Despite a slight reduction in the number of Asset Management Companies/Investment Advisors—from 29 in CY23 to 28 in CY24—their own asset base grew by 34.9 percent in CY24 against a growth of 20.7 percent in CY23. Additionally, the total number of managed funds and plans increased from 345 to 403.

Money market funds continued to dominate while income fund made marginal gains…

Money market funds posted an impressive growth of 77.7 percent in CY24 compared to 23.2 percent in CY23, and continued to dominate the mutual funds' asset mix. However, its asset share continued to decline for the second year in a row, reaching 43.6 percent in CY24 from 48.8 percent in CY23 (and 56.2 percent in CY22). Income funds also posted a significant growth of 105.9 percent in CY24 compared to 76.0 percent in CY23. Share of income funds in mutual funds' assets, however, increased marginally from 30.8 percent in CY23 to 31.9 percent in CY24 (**Figure 6.2.3**).

Composition of Mutual Funds **Figure 6.2.3**



Source: Securities and Exchange Commission of Pakistan

Money market and income funds, jointly, accounted for a combined 75.5 per percent of mutual fund assets in CY24, down from 79.6 percent in CY23. These funds, being providers of relatively stable returns with lower risks remained the preferred option for risk averse investors. However, equity funds also posted impressive growth in CY24 to marginally improve their asset share from 9.1 percent in CY23 to 9.5 percent in CY24.

Moreover, Islamic income funds grew at a remarkable rate of 135.2 percent in CY24, further improving on its impressive growth rate of 116.5 percent in previous year. As such, Islamic income and money market funds grew at a combined rate of 86.0 percent, keeping up momentum with their conventional counterparts which grew at combined 91.1 percent. Compared with the saving accounts of Islamic banks, these Islamic funds provide better returns to religiously sensitive investors.[5]

Given the continuous preference of money market by investors as an investment avenue, SECP, as the regulator, has taken different initiatives to enhance market liquidity and support the development of the debt securities market. In this regard, the regulator permitted Money Market Schemes in 2024 to invest in listed government debt securities with maturities of up to one year until December, 2025. This extension was aligned with the regulator's earlier reforms, which enabled Money Market Schemes to invest in government securities and Sukuk with maturities exceeding six months.

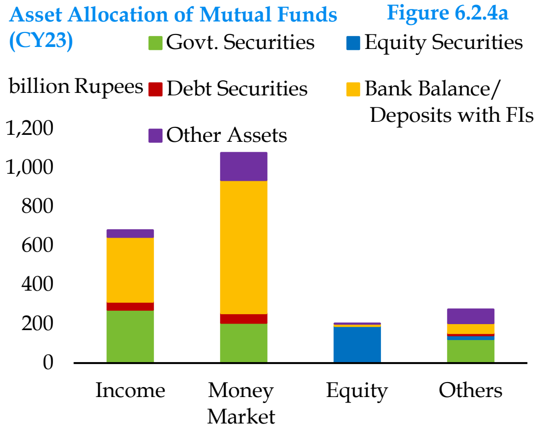
Overall mutual funds maintained a low risk profile…

In terms of assets allocation, government securities and bank balances/deposits with FIs further increased their asset share in the income and money market funds segment. However, a significant shift in the composition of funds was seen as the share of government securities increased from 27.1 percent in CY23 to 53.7 percent in CY24, while that of bank balances/deposits with FIs decreased from 48.2 percent to 26.9 percent. This diversion may also be related to ADR related tax policy, as the banks tried to expand advances and reduce deposits to contain the additional tax burden. Nevertheless, mutual funds maintained their

[5] However, SBP, in 2024, decided that, effective January 01, 2025, Islamic Banking Institutions (IBIs) shall pay profit on their PKR saving deposits (excluding deposits of financial institutions, public sector enterprises and public limited companies) equivalent to at least 75 percent of the weighted average gross yield of all pools of an IBI. For details, please see IFPD Circular No. 09 of 2024.

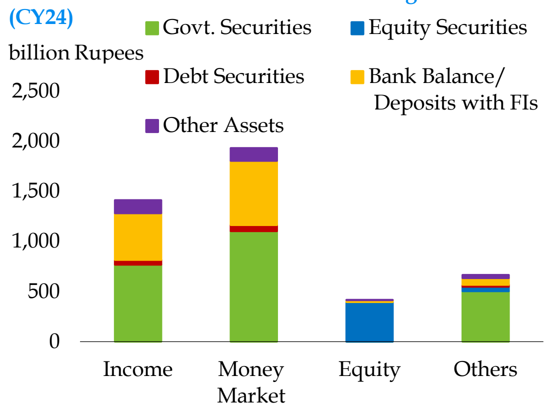
low overall risk profile given the contained credit risk, and ready liquidity of these investments (**Figure 6.2.4a and 6.2.4b**).

Asset Allocation of Mutual Funds (CY23) **Figure 6.2.4a**



Source: Securities and Exchange Commission of Pakistan

Asset Allocation of Mutual Funds (CY24) **Figure 6.2.4b**



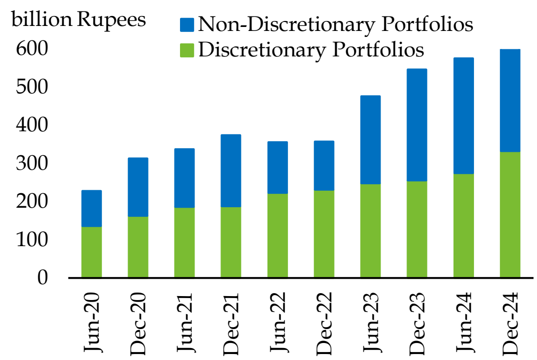
Source: Securities and Exchange Commission of Pakistan

Portfolios posted strong but decelerated growth from previous year...

Portfolios recorded a growth of 30.1 percent against a growth of 52.9 percent in CY23. This growth was driven by both discretionary and non-discretionary portfolios, which had respective asset shares of 46.8 percent and 53.2 percent by the end of CY24.

The asset share of Portfolios (Under Management)[6] in the NBFI industry reduced to 11.5 percent in CY24 from 15.9 percent in CY23. However, it continues to have the second highest market share in the NBFIs after the mutual funds (**Figure 6.2.5**).

Classification of Portfolios by Investment Decision Making **Figure 6.2.5**



Source: Securities and Exchange Commission of Pakistan

Activity in the REIT sector remained subdued in CY24 …

The REIT[7] sector, introduced in the past few years to broaden investment access to real estate for smaller investors, has yet to gain significant momentum amidst a subdued real estate market in the past couple of years. Nevertheless, seven more REIT Management Companies (RMCs) were licensed in CY24, taking the total number of RMCs to 31. However, only 5 of these RMCs were offering REIT schemes to investors as of end CY24.

As a result of widespread outreach efforts by the regulator, coupled with amendments to the REIT Regulations, the total number of REIT Schemes increased to twenty-two as of end CY24. Six new REIT schemes comprising three

[6] Portfolios (Under Management) are investments of eligible investors (person offering a minimum of Rs 3 million investment) managed by investment advisors. Under “Discretionary Portfolios”, investment decisions are made and executed by the investment advisor on behalf of clients. While under a “Non-Discretionary Portfolio”, investment decisions are executed as per the written instructions of the clients.

[7] Real Estate Investment Trusts (REITs) are investment schemes that own and most often actively manage income-producing real estate. Through such schemes, investors may own, operate or finance income generating property across various categories of real estate. For further details, please see: https://invest.gov.pk/sites/default/files/2020-08/REITS%20FAQs.pdf

Developmental REIT Schemes, one Hybrid REIT Scheme and two Rental REIT Schemes were registered in CY24. The fund size of REIT schemes grew by a modest 4.7 percent in CY24 compared to 0.5 percent in CY23.

Pension funds registered strong growth in CY24 amidst regulator's efforts to transform the pension landscape in the country …

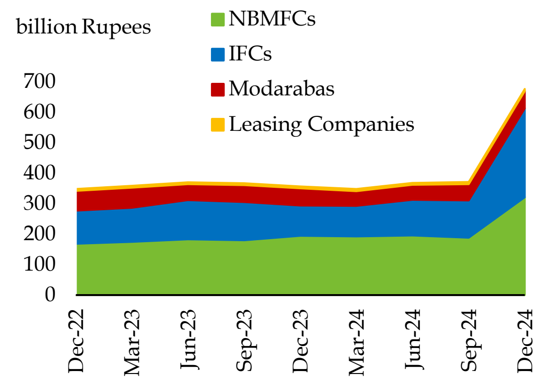
Pension funds posted a strong growth of 56.5 percent in CY24 compared to 39.3 percent in CY23. Resultantly, its asset base increased to Rs 96 billion in CY24 from Rs 61 billion in CY23.

The regulator introduced the Employer Pension Funds (EPF) scheme to allow employers in both public and private sectors to establish fully funded, defined contribution pension plans for their employees during CY24. This strategic initiative aims to elevate Pakistan's pension solutions to global standards while maintaining the fundamental principles of the Voluntary Pension System (VPS) framework. As of end CY24, 75 VPS schemes were operational, with Rs 91.4 billion assets under management.

6.2.2 NBFIs: Lending Segment

Following a challenging period in CY23, the lending segment registered an impressive growth of 89.4 percent in CY24 as compared to only 2.4 percent in CY23. The segment operated in a relatively favorable conditions in CY24, as the interest rates were lowered in the latter half of CY24 after remaining at elevated levels during CY23. The extension of credit lines from banks to the Non-Bank Microfinance Companies (NBMFCs) and Investment Finance Companies (IFCs) towards the end of CY24 also contributed to the growth in the lending segment. Consequently, NBMFCs and IFCs exhibited significant growth in the lending segment while Modarabas experienced only marginal growth during the year under review (**Figure 6.2.6**).

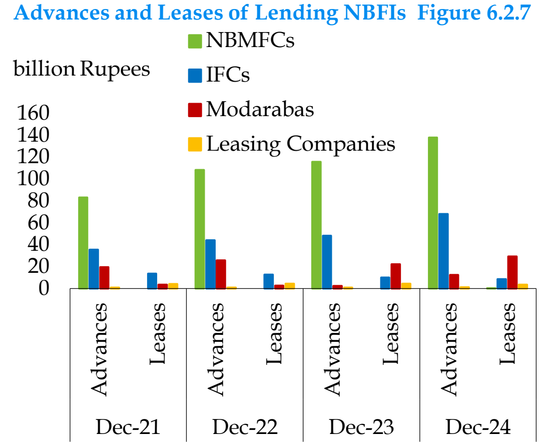
Assets of Lending NBFIs **Figure 6.2.6**



Source: Securities and Exchange Commission of Pakistan

Owing to the declining interest rates, the advances portfolio of the lending NBFIs also improved, expanding by a decent 13.4 percent in CY24 as compared to 8.3 percent in CY23. NBMFCs maintained their highest share in the advances portfolio of the lending NBFIs. (**Figure 6.2.7**).

Advances and Leases of Lending NBFIs **Figure 6.2.7**



Source: Securities and Exchange Commission of Pakistan

NBMFCs continued to dominate the lending segment, despite a decline in their asset share…

The asset base of NBMFCs registered an impressive growth of 65.0 percent in CY24 compared to 15.6 percent in CY23, mainly owing to receipt of credit lines from the banking sector. However, their asset share in the lending segment experienced a decline in CY24 due to faster growth exhibited by other sectors in the lending segment.[8]

NBMFCs increased their investments significantly in CY24 as they looked to capitalize on the inflow of funds. The investment portfolio of the NBMFCs increased from Rs 6 billion in CY23 to Rs 124 billion in CY24. Consequently, the share of investments in the asset mix of the NBMFC increased significantly to 38.7 percent in CY24 from a paltry 3.2 percent in CY23. Further, as the interest rates started to come down, particularly in the latter half of the year, and the economic conditions improved with easing of inflationary pressures, the expansion in the advances portfolio of the NBMFCs also showed signs of revival. Their advances portfolio grew by a decent 18.9 percent in CY24 compared to 7.0 percent in CY23. However, owing to the significant growth in investments, the share of advances portfolio in the asset base declined by 17 percentage points in CY24.

After showing resilience during the challenging CY23, the NBMFCs went on to register strong growth in CY24 owing to relatively favorable macro-financial conditions. Further improvement in economic conditions can help NBMFCs to provide useful funding to small businesses as they continue to face high operating costs due to their peculiar nature of business.

Asset base of IFCs almost tripled in CY24 …

With the improving macro-financial conditions, the asset base of the IFC sector increased by 192.5 percent (a contraction of 8.2 percent in CY23. The new funds were almost entirely placed in the investment portfolio, taking it to Rs 195 billion in CY24 from Rs 17 billion in CY23.

The advances portfolio also registered strong growth of 41.4 percent in CY24 as compared to 9.5 percent in CY23.

However, the concentration in the IFC sector increased with two of the largest institutions now constituting about 78.8 percent of assets of the sector, up from 68.9 percent in CY23. This was primarily driven by an increase in the asset base of one of the firms which received bulk of credit lines extended by the banking sector in CY24.

Modaraba sector saw muted activity in CY24 …

In contrast, Modarabas[9] segment experienced only a marginal asset base growth of 1.2 percent in CY24, following a contraction of 14.1 percent in CY23.

The advances portfolio of Modarabas, however, experienced a strong growth of about 46 percent reaching Rs 12 billion in CY24 from Rs 8 billion in CY23, in a declining interest rate environment during the latter half of the year under review.

Leasing sector saw little activity in CY24…

The leasing sector also experienced muted activity in CY24 in line with the trend of previous few years. The asset base of the sector increased marginally to reach Rs 7 billion in CY24 from Rs 6 billion in CY23.

Interconnectedness between banking and Mutual Funds sector remained contained in CY24…

The Banking sector continued to have significant stake in the mutual fund sector in terms of equity in associated AMCs/IAs, even though their share declined slightly in CY24 compared to CY23. Further, given the relative large size of the banking sector and its ample equity to withstand shocks vis-à-vis the size of AUM of AMCs/ IAs and the nature of the mutual fund sector's risk profile, any probability of buildup

[8] The share of the NBMFCs in the assets of lending segment reduced to 47.4 percent in CY24 from 54.4 percent in CY23.

[9] The Modarabas are Islamic financial institutions, which are allowed to conduct any business, provided it is Shariah-compliant and approved by the Religious Board of Modarabas. For example, Modarabas can undertake Ijarah (leasing), Murabaha (cost plus sale), Musharakah (partnership), Diminishing Musharakah, Salam (deferred delivery sale) and Istisna financing activities; invest in the stock market; trade halal commodities; conduct project financing activities; manufacture items; among other activities.

and transfer of systemic risk from AM segment to banks remained minimal.[10]

The banks owned AMCs/IAs managed around 81.9 percent of the total assets under management in CY24 (79.1 percent in CY23), which underlines the banks' interest in the NBFI sector's performance although their direct investment in mutual funds has remained modest over the years (**Table 6.2.2**).

However, the concerns of systemic risk from NBFIs to banks remained manageable due to a number of factors such as relatively smaller size of inter-sectoral exposure, SBP's effective regulatory regime in the form of prudential regulatory exposure limits, appropriate risk weights, and coordination mechanism between SBP and SECP.

Moving forward, the performance of the NBFI sector will depend upon the trajectory of economic activity, traction of stabilization measures as well as progress under the ongoing IMF program, domestic political stability and any potential spillovers of ongoing geo-political conflicts on international commodity markets. These factors will have a discernible impact on macro-financial environment through interest rates, exchange rates and economic activity, which will ultimately trickle into preferences of investors as well as the strategy and growth of NBFI sector.

Asset Management Segment's Flow of Funds and Exposure to the Banking Sector

Table 6.2.2

Description	Dec-22			Dec-23			Dec-24		
	Total Value (i)	Banks share (ii)	Banks share in Total* (iii= ii/i)	Total Value (iv)	Banks share (v)	Banks share in Total* (vi= v/iv)	Total Value (vii)	Banks share (viii)	Banks share in Total* (ix= viii/vii)
	billion Rupees		percent	billion Rupees		percent	billion Rupees		percent
1. Equity of AMCs/ IAs	33	18	55.4	43	25	58.7	62	33	54.2
2. Assets Under Management of AMCs/ IAs	1,976	1,537	77.8	2,840	2,247	79.1	5,246	4,299	81.9
3. Mutual Funds exposure in top 20 equity securities	62	5	8.4	56	7	11.7	282	33	11.8

*Banks share for the respective head means:
1.Equity of Bank-owned AMCs /IAs
2.Mutual/Pension Funds and Portfolios being managed by bank-owned AMCs /IAs
3.Mutual Fund investments in ordinary shares of banks

Source: Securities and Exchange Commission of Pakistan

[10] Banks' asset size of Rs 54 trillion and equity base of Rs 3 trillion against AUM' total assets size of Rs 5 trillion.