

Non-Bank Financial Institutions

6.2

In CY25, the NBFIs sector sustained its expansion despite a moderation in headline growth due to base effects and reversal of short-term policy-driven inflows in the first quarter. Asset management segment continued to dominate the sector, with the portfolios emerging as the primary driver of assets under management (AUM) growth. Mutual funds also demonstrated resilience amid shifting investor preferences toward equity funds. Regulatory reforms, including digitalization initiatives, enhanced disclosure standards, and strengthened self-regulatory mechanisms, supported transparency and market development. The pension fund and REIT segments recorded notable growth, although concentration risks and market sensitivities persist. On the lending side, NBMFCs led a strong revival in advances amid easing financial conditions, while Investment Finance Companies (IFCs) and other segments normalized after exceptional growth in the previous year. Overall, systemic risk linkages with the banking sector remained contained. Nevertheless, policy consistency, prudent risk management, and vigilant supervision remain essential as the sector deepens and becomes more interconnected with the broader financial system. Going forward, the performance of NBFIs will depend upon the evolving domestic and geopolitical economic conditions.



6.2 Non-Bank Financial Institutions

Non-Bank Financial Institutions (NBFI)s¹, which, although, hold relatively smaller share, i.e. 8.6 percent of the financial sector, provide a broad array of financial services to meet the diverse financial needs of the economy. The sector maintained its stability and posted modest growth during the year under review.

The asset base of NBFI sector grew by 10.3 percent in CY25 compared to an exceptionally high growth of 80.0 percent last year (Table 6.2.1). This sharp deceleration reflects the effects of last year's high base effect and shift in government borrowings from non-bank to banking sector. Last year, the ADR-linked tax policy resulted in a substantial interim diversion of funds from the banking sector to the NBFI sector, as the banks deployed their funds in loan portfolio including lending to NBFIs. Following the withdrawal of this tax policy, the inflows were largely reversed in the first quarter of CY25, thereby dampening aggregate annual growth of NBFIs. Excluding this one-off effect, the NBFI sector demonstrated robust expansion of 23.4 percent during the remaining three quarters of CY25, suggesting that the underlying growth potential of the sector remained intact. This significant shift in flow of funds also illustrates the sensitivity of financial intermediation flows to fiscal and tax measures.

Asset Profile of NBFIs Table 6.2.1

billion Rupees

		Dec-22	Dec-23	Dec-24	Dec-25
Asset Management	AMCs/IAs (own assets)	48	58	79	108
	Mutual Funds	1,574	2,232	4,439	4,537
	Pension Funds	44	61	96	136
	Portfolios	358	547	712	992
	Total AUMs	1,976	2,840	5,246	5,665
	RMCs	9	13	14	16
	REITs	168	168	176	219
	PE & VC Firms	0	0	0	2
	PE Funds	12	10	11	10
	Modarabas	65	56	57	68
Lending	Leasing Companies	6	6	7	5
	Housing Finance Cos.	1	1	1	1
	IFCs	109	100	292	339
	NBMFCs	168	195	321	410
	Total Assets	2,563	3,447	6,204	6,844

Source: Securities and Exchange Commission of Pakistan

Within the NBFI sector, the lending segment² recorded a stronger growth rate of 21.5 percent compared to 8.9 percent in the asset management (AM) segment.³ Nevertheless, in terms of absolute contribution, asset management segment provided the larger impetus, reflecting its dominant share in sector's assets base, i.e. 88.0 percent.⁴ This indicates that while NBFIs' credit intermediation got traction, the sector's core activity and footprint remained concentrated in asset management activities.

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 VIII A - consisting of sections 282A to 282N - does not stand repealed and is applicable to NBFCs), Non-banking 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 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.

³ 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.

⁴ The asset management segment expanded by Rs 494 billion, compared to Rs 146 billion in the lending segment during CY25.

6.2.1 NBFIs: Asset Management Segment

The growth of asset management segment, which mainly comprises Mutual Funds and Portfolios, significantly decelerated to 8.9 percent in CY25, from 78.9 percent in CY24. Similarly, growth in Assets Under Management (AUMs)⁵ decelerated to 8.0 percent from 84.7 percent in the previous year, reflecting the one-off effect of ADR-linked tax policy and shift in government borrowings. This expansion was driven by growth in Portfolios, followed by Mutual Funds.

The number of AMCs and Investment Advisors (IAs) increased to 29 in CY25 from 23 in CY20. Their own asset base grew by 37.5 percent in CY25, compared to 34.9 percent in the preceding year. Additionally, the total number of managed funds and plans rose from 403 to 409, reflecting continued product innovation and market development. While diversification of products supports financial deepening, it also requires robust risk management frameworks and supervisory oversight.

Mutual funds experienced a subdued expansion in CY25, moderating their share in overall NBFIs assets ...

The mutual funds segment recorded a modest growth of 2.2 percent in CY25, compared to an exceptional expansion of 98.9 percent in CY24. As a result, its asset share within the NBFIs industry declined to 66.3 percent in CY25 from 71.5 percent in CY24. Excluding the first-quarter outflows in CY25, the mutual fund assets increased by Rs 721 billion during the remaining three quarters of the year. The revival was led by corporate participation in mutual funds, possibly driven by amendments in the SBP's Minimum Deposit Rate (MDR) policy in which the PKR saving deposits of financial institutions, public sector enterprises and public limited companies with banks were excluded from the scope of MDR. This change made mutual funds

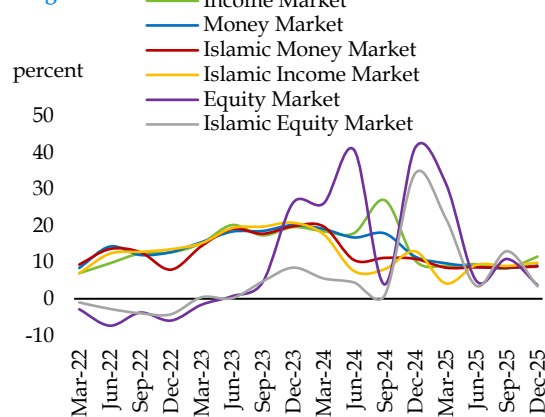
an attractive investment avenue for these categories of depositors, while investors' confidence and growth potential remained steady.

In terms of category-wise contribution, Islamic money market funds supported growth in the first half of CY25, while conventional and Islamic equity funds drove expansion in the latter half of the year. Conversely, conventional money market funds and Islamic income funds experienced net outflows, particularly in the first half, consistent with the reversal of earlier strong inflows of late CY24. Accordingly, the share of Islamic funds in mutual funds rose to 46.5 percent at end CY25 (43.1 percent in CY24).

Equity funds posted strong growth as the macro-financial conditions improved...

Historically, investors in Pakistan show a preference for stable, low-risk debt instruments. However, money market and income funds recorded net redemptions on an annual basis in CY25 in an environment of easing monetary policy stance and outflow of sharp and substantial inflow in late CY24. (Figure 6.2.1 and 6.2.2a).

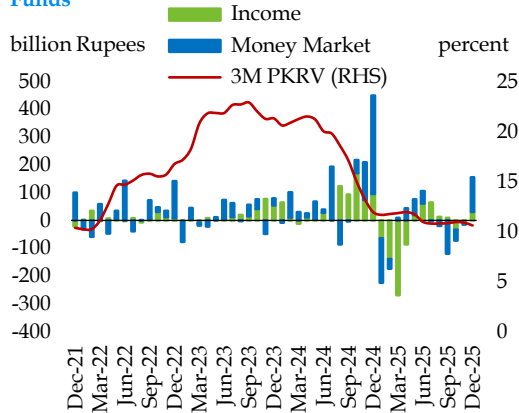
Monthly Returns of Mutual Funds Categories Figure 6.2.1



Source: Mutual Funds Association of Pakistan

⁵ Assets Under Management (AUM) include assets of mutual funds, pension funds, and portfolios under management of AMCs/IAs.

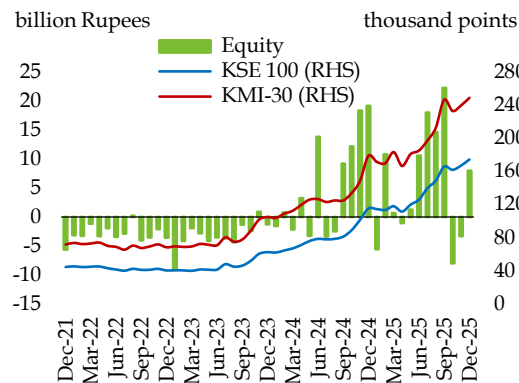
Net Sales of Money and Income Funds Figure 6.2.2a



Source: Mutual Funds Association of Pakistan

However, equity funds, particularly Islamic equity funds, emerged as the primary drivers of AUM growth in CY25. Equity funds expanded by 54.7 percent to Rs 650 billion at end CY25, compared to 107.2 percent growth in CY24. This shift in investors' preference over the last couple of years indicates a gradual improvement in risk appetite of investors amid improving macroeconomic environment and declining inflation expectations. The growth was supported by both appreciation in Net Asset Values on the back of continued rise in the KSE-100 index as well as net sales, i.e. fresh investments (Figure 6.2.2b).

Net Sales of Equity Funds Figure 6.2.2b



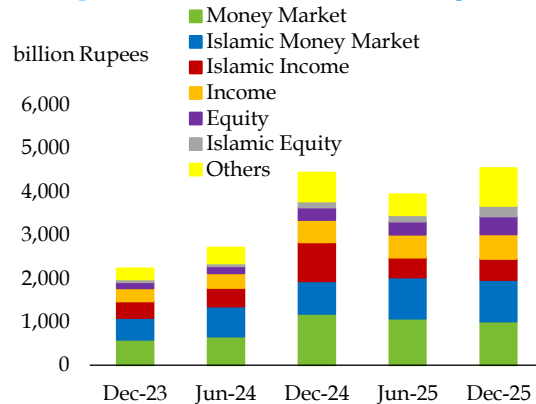
Source: Mutual Funds Association of Pakistan & Pakistan Stock Exchange

Nevertheless, money market and income funds continued to dominate mutual fund industry ...

Money market funds recorded modest growth of 1.6 percent and income funds contracted by 25.7 percent over the year under review largely due to heavy outflows of funds in Q1CY25.

Despite these shifts, the asset composition of mutual funds remains dominated by money market and income funds, which account for 43.4 percent and 23.2 percent of total fund assets at the end of CY25, respectively, compared to 43.6 percent and 31.9 percent in CY24. Meanwhile, equity funds increased their asset share to 14.3 percent in CY25 from 9.5 percent in CY24. This gradual rebalancing suggests a measured shift in investor preferences toward higher-yielding instruments, though overall allocation continues to reflect a conservative risk profile (Figure 6.2.3).

Composition of Mutual Funds Figure 6.2.3



Source: Securities and Exchange Commission of Pakistan

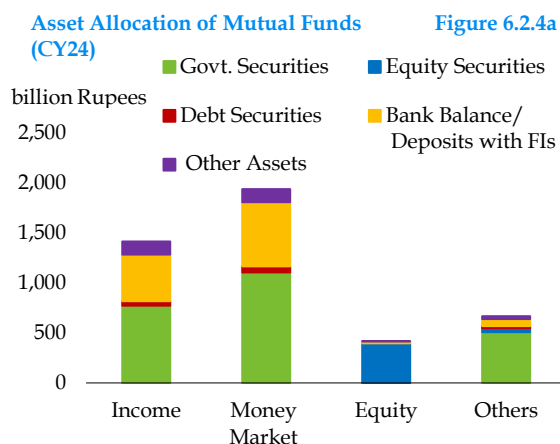
Overall mutual funds maintained a low risk profile...

With respect to asset allocation, government securities and bank balances or deposits with financial institutions have historically dominated the portfolios of income and money market funds. A significant compositional shift was observed in CY24, when the share of government securities increased sharply from 27.1 percent in CY23 to 53.7 percent in CY24, while the share of bank balances and deposits with financial institutions declined from 48.2

percent to 26.9 percent. This reallocation appears to have been associated with the ADR-related tax policy, as banks sought to expand advances and reduce deposits to manage the additional (potential) tax burden. In CY25, this shift largely reversed as the share of bank balances and deposits with financial institutions increased to 52.0 percent, while the share of government securities declined to 20.7 percent.

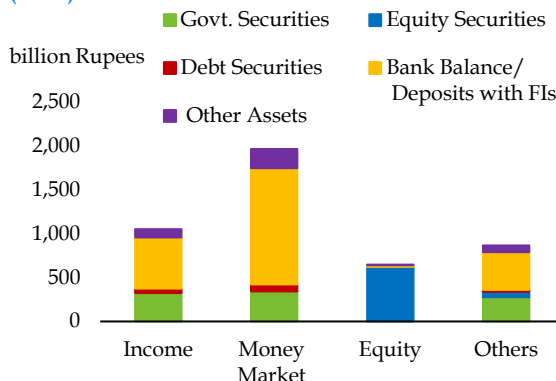
Despite these shifts, mutual funds continued to maintain a relatively low overall risk profile, given the contained credit risk and strong liquidity characteristics of both government securities and bank placements.

However, the rapid adjustment in asset allocation across two consecutive years underscores the sensitivity of fund-flows to tax and regulatory measures, highlighting the importance of policy stability in maintaining balanced financial intermediation. Such policy-induced reallocations can amplify short-term liquidity pressures in specific market segments and warrant close monitoring (Figure 6.2.4a and 6.2.4b).



Source: Securities and Exchange Commission of Pakistan

Asset Allocation of Mutual Funds (CY25) Figure 6.2.4b



Source: Securities and Exchange Commission of Pakistan

Overall, the mutual funds sector demonstrated resilience and continued expansion in CY25. Maintaining policy consistency and strengthening risk surveillance will remain critical to safeguarding its growing systemic importance.

Regulatory enhancements were introduced to further strengthen the mutual funds sector...

During CY25, the regulatory framework for mutual funds was further strengthened to promote innovation, transparency, and industry-led governance. SECP introduced a Digital AMC Framework, which includes reduced minimum equity and fund size requirements, enabled fully digital onboarding, and streamlined operational processes. These measures aim to lower entry barriers, expand retail participation, and facilitate end-to-end digital access to mutual fund investments.

In a landmark development, Mutual Funds Association of Pakistan (MUFAP) was registered as a Self-Regulatory Organization (SRO) in August 2025 under the SECP Act, 1997, which is the first such designation in Pakistan’s financial services industry.⁶ Its expanded mandate is expected to enhance transparency, strengthen

⁶ As an SRO, MUFAP will contribute to regulatory development, promote ethical and professional standards, conduct research, support standardized documentation and reporting, oversee compliance through inspections, and assist in dispute resolution and investor education. For details, please see [SECP press release](#) dated August 01, 2025.

industry practices, and foster greater investor confidence.

In addition, the regulator, in coordination with industry stakeholders, advanced reforms focused on digital transformation, development of Exchange Traded Funds (ETFs), introduction of Environmental, Social, and Governance (ESG) and infrastructure funds, and strategies to promote financial inclusion.⁷ SECP also enhanced disclosure requirements for Fund Manager Reports, and introduced key fact-statement requirements for AMCs, enabling investors to make more informed decisions.⁸

Moreover, a new category of mutual funds i.e. “Infrastructure Schemes” under open-end collective investment schemes framework was introduced in CY25, to increase the role of capital markets in channeling long-term savings into infrastructure development.⁹

Reforms were also introduced focusing on revising the Total Expense Regime for mutual funds and pension funds. As part of the amendments, the existing Total Expense Ratio (TER) capping regime was replaced with caps on management fees. These reforms are aimed at promoting transparency, cost efficiency, and alignment with international best practices in the mutual fund and pension fund sectors.¹⁰

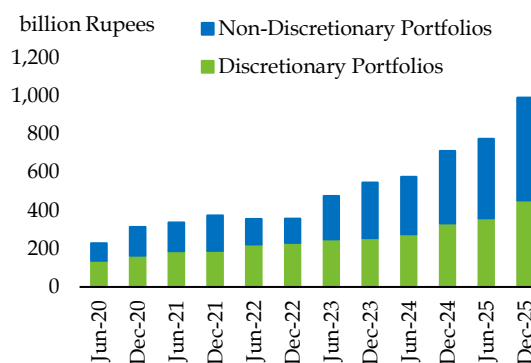
Portfolios emerged as the primary contributor to AUM growth and overall expansion of the NBFi sector in CY25...

Portfolios played a central role in the expansion of the NBFi sector during CY25. Their asset base grew at a strong rate of 39.3 percent in CY25 compared to 30.1 percent in CY24, contributing about 44 percent of overall growth of NBFi industry and 67 percent of growth of the total AUMs. This underscores the increasing

preference for managed investment structures within the non-bank financial services space and highlights the sector’s growing relevance in domestic capital market intermediation.

Both discretionary and non-discretionary portfolios (DP and NDP) recorded sizable expansion over the year, with total portfolio assets rising to Rs 992 billion in CY25 from Rs 712 billion in CY24 (**Figure 6.2.5**).¹¹ The NDP mandates witnessed a relatively larger absolute increase (Rs 160 billion) compared to DP mandates (Rs 120 billion). This suggests an increasing appetite among institutional and corporate investors for advisory-driven or execution-based investment arrangements, in the backdrop of improving market sentiments and easing macro-financial conditions. Moreover, amendment in MDR policy regarding returns on institutional deposits may also have encouraged a shift toward this sector.

Classification of Portfolios by Investment Decision Making Figure 6.2.5



Source: Securities and Exchange Commission of Pakistan

The investor composition reveals that portfolio management services remain predominantly institutional in nature with 95.1 percent share,

⁷ For details, please see [SECP press release](#) dated August 07, 2025.

⁸ These disclosures inter alia include detailed reporting of actual expenses, sales loads, portfolio turnover ratios, risk-adjusted returns, Yield to Maturity, Modified Duration, and benchmark comparisons. For details, please see [SECP press release on FMR](#) and [Key Fact Statements](#) dated March 28, 2025.

⁹ For details, please see [SECP press release](#) dated August 22, 2025.

¹⁰ For details, please see [SECP press release](#) dated April 15, 2025.

¹¹ 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.

while participation by individuals remains limited. The limited share of retail investors across both portfolio types may reflect barriers such as minimum investment requirements, risk perceptions, or relatively contained awareness among common investors regarding portfolio management services.¹² From a financial stability perspective, the predominant share of strong institutional investors may support stability through more informed investment decisions and financial cushions, though it may also potentially amplify interconnectedness and volatility especially during stress time.

In terms of asset allocation, discretionary portfolios maintained a relatively balanced distribution across government securities, equity securities, and debt instruments, while exhibiting a gradual shift toward higher market exposure. While government securities continue to account for the largest share in total discretionary assets, their share marginally lowered to 44.0 percent in CY25 from 46.6 percent in the previous year. In contrast, the allocation to equity securities increased to 30.0 percent in CY25 from 25.8 percent in CY24, indicating a measured rebalancing toward growth-oriented assets amid improving market conditions.

Overall, the evolving allocation profile reflects a calibrated risk approach, where exposure to market-based instruments is being increased cautiously while maintaining a substantial allocation to relatively safer sovereign instruments. Thus, the NBFIs discretionary portfolios are positioned for growth but remain partially defensive. While this supports return generation in improving conditions, it also increases vulnerability to market volatility and requires stronger risk oversight as the sector expands.

The REIT sector witnessed a notable recovery in CY25...

The Real Estate Investment Trusts (REITs)¹³ started to gain traction in CY25 as a structured vehicle for pooling investments in real estate projects. As of end December 2025, 25 REIT schemes were registered, spanning developmental, rental, hybrid and investment-based structures. This diversification of REIT types reflects an attempt to cater to varying investor preferences and risk profiles.

After a few years of subdued performance amid a weak real estate cycle, the sector registered a notable turnaround in CY25, posting growth of 24.1 percent and reaching Rs 219 billion in assets. This acceleration marks a significant improvement over the modest growth of 4.7 percent observed in CY24. Seven additional REIT Management Companies (RMCs) were licensed during the year, raising the total number to 38. However, only 6 entities are actively offering schemes to investors. Further, concentration remains high among the players, i.e. around two thirds of the sector's total assets are managed by a single RMC.

Geographically, around three quarters of assets are concentrated in Karachi, and ownership concentration remains elevated, with the top 20 unit-holders accounting for over 60 percent of invested assets. The high concentrations in market share, geographical allocation, and holdings could have systemic implications. Such concentration underscores the need for close supervisory oversight to build confidence in this developing asset class. Nevertheless, this situation also highlights significant opportunities for potential entrepreneurs and investors, as the real estate sector, driven by strong demand for housing and commercial units, remains largely untapped by the formal

¹² Portfolios (Under Management) are investments of eligible investors (person offering a minimum of Rs 3 million investment) managed by investment advisors.

¹³ 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>

financial sector.

The sector predominantly comprises Sharia-compliant assets, with 94.0 percent of total assets invested in Islamic REIT schemes, compared to 6.0 percent in conventional schemes, showing both the sector's ability to develop and provide Shariah-compliant products as well as the demand of investors for such products.

Moving forward, regulatory reforms introduced by the regulator at the start of CY26 are expected to streamline procedures, strengthen governance and enhance transparency in REIT operations. The amendments provide clearer timelines for the transfer of real estate or shares of special purpose vehicles and mandate earlier listing of REIT schemes to enhance their visibility and development as a capital market asset class.¹⁴

Pension funds maintained growth momentum in CY25, supported by a diversified asset mix and improving market conditions ...

Pension funds maintained strong growth momentum in CY25, expanding by 42.4 percent in CY25, albeit at a slower pace than the 56.5 percent growth in CY24. Consequently, total assets increased to Rs 136 billion in CY25 from Rs 96 billion in CY24.

The asset allocation of pension funds demonstrates a diversified structure across government securities, equity instruments, bank deposits and corporate debt securities. An increase in allocation to equities in CY25 compared to CY24 indicates improved risk appetite and potentially stronger long-term return expectations. At the same time, substantial placements in bank balances and government securities provide liquidity and capital preservation buffers.

Given the long-term liability profile of pension funds, maintaining a prudent balance between

growth oriented and capital preserving assets is critical. Continued monitoring of market risk exposure, especially equity market volatility, is essential to safeguard retirement savings and maintain confidence in voluntary pension schemes.

6.2.2 NBFIs: Lending Segment

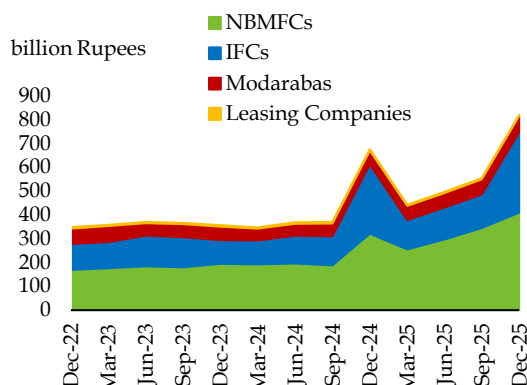
The lending segment recorded relatively decelerated growth i.e. 21.5 percent in its asset base during CY25, compared to the high expansion of 89.4 percent observed in CY24. However, the detailed analysis shows that the deceleration reflects the reversal of the surge in funds that was largely driven by short-term credit lines extended by banks to Non-Bank Microfinance Companies (NBMFCs) and Investment Finance Companies (IFCs) toward end of CY24, largely to improve their advances to deposits ratio (ADR).¹⁵

After adjusting for these reversals, the lending segment exhibited a robust underlying expansion during the following three quarters of CY25, with a significant increase of Rs 379 billion in its asset base. Improving macroeconomic conditions and easing financial conditions amid declining inflationary pressures supported this expansion. Growth was primarily driven by NBMFCs, followed by IFCs (**Figure 6.2.6**).

¹⁴ For more details, please see [SECP press release](#) dated January 05, 2026.

¹⁵ These credit lines were largely reversed in the first quarter of CY25.

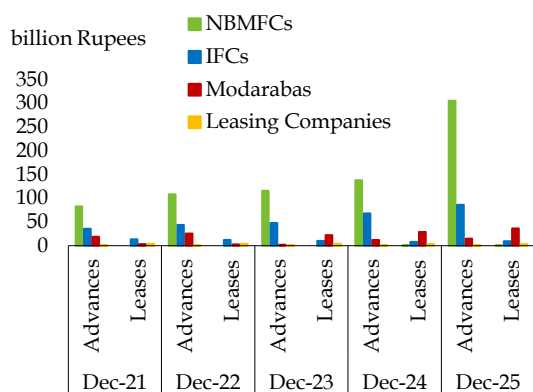
Assets of Lending NBFIs Figure 6.2.6



Source: Securities and Exchange Commission of Pakistan

Supported by the declining interest rate environment, the advances portfolio of lending NBFIs recorded a substantial expansion during CY25, growing by 85.7 percent to around Rs 408 billion (13.4 percent in CY24). This sharp acceleration reflects a marked revival in lending activity over the year. NBMFCs further consolidated their position within the sector, increasing their share in the overall advances portfolio to approximately 74.9 percent in CY25 from 62.8 percent in CY24 (Figure 6.2.7). The sharp expansion in advances reflects improving credit demand and enhanced lending capacity amid easing financial conditions. However, such rapid credit growth warrants close monitoring to ensure underwriting standards remain sound and asset quality risks are contained.

Advances and Leases of Lending NBFIs Figure 6.2.7



Source: Securities and Exchange Commission of Pakistan

NBMFCs remained the dominant players in the lending segment, with strong growth in its advances...

NBMFCs expanded their asset base by 27.7 percent in CY25 compared to 65.0 percent in CY24. While lower than the previous year's growth, this moderation partly reflects the reversal of temporary bank funding in the first quarter. Excluding these effects, underlying expansion during the remaining quarters remained strong.

The advances of NBMFCs registered a remarkable growth of 121.5 percent in CY25 compared to only 18.9 percent in CY24, driven mainly by government-subsidized housing loans. This also reflects renewed credit demand from micro and small enterprises. However, this expansion seemed to be concentrated as only one entity accounted for more than two thirds of the expansion in advances of the sector.

Given their role in serving financially underserved segments, sustained growth in NBMFCs can contribute meaningfully to financial inclusion and small business activity. However, as their business model involves higher operating costs and exposure to high-risk borrower segments, it requires vigilant governance, effective risk management, and cost rationalization on the part of institutions, while proactive supervision also remains important. In this connection, use of technology and innovation can be particularly helpful, as it offers scalability that can also be leveraged to expand outreach and manage the risks in an effective and cost-efficient manner.

IFCs' asset growth normalized in CY25 following a one-off expansion in CY24 ...

The asset base of IFCs grew by 16.1 percent in CY25 to Rs 339 billion, significantly lower than the one-off growth of 192.5 percent recorded in CY24. As in other segments, the reversal of short-term funding in the first quarter dampened the headline growth. Excluding this effect, asset expansion during the following

quarters remained steady.

Growth was largely driven by an entity established to finance public sector development and infrastructure projects.¹⁶ Advances posted moderate growth compared to CY24, supported by digital nano-lending through apps, while cash and bank balances increased notably.¹⁷ Investments of IFCs contracted compared to the previous year, largely due to the reversal of banks' credit lines that had temporarily inflated investment portfolio toward the end of CY24. However, investments did not decline sharply, as the assets of the aforementioned entity were allocated in investment holdings.

Sectoral concentration remains elevated, with the top three institutions accounting for nearly 80 percent of total IFC assets. Strengthening governance, risk management and disclosure frameworks in larger IFCs is essential to mitigate concentration related vulnerabilities.

Modarabas recorded decent overall growth in CY25, supported by increase in financing portfolio ...

Modarabas recorded a decent growth of 19.4 percent in CY25 following a muted 1.2 percent growth in CY24.¹⁸ Within asset composition, the diminishing musharaka portfolio posted a strong growth of approximately 26 percent in CY25 compared to a nominal growth of 2.0 percent in CY24, indicating a renewed focus on participatory and asset-backed financing structures.

The expansion in diminishing musharaka financing reflects improved business momentum. However, continued assessment of asset quality and earnings sustainability remains

important to ensure that growth in this segment translates into durable earnings.

Leasing sector saw subdued activity and contraction in assets in CY25...

The leasing sector continued to face subdued conditions in line with the trend over the last few years. The asset base of the sector contracted by 21.8 percent in CY25, reversing the modest expansion of 3.7 percent recorded in CY24. Contained private sector investment and demand for capital-goods financing likely weighed on leasing activity.

The prolonged contraction suggests structural challenges within the leasing model, including competition from banks, higher funding costs and limited access to long-term funding due to limited outreach and development of capital market. A strategic reassessment of business models and funding structures may help in the sustainable growth of the sector.

Interconnectedness between banking and Mutual Funds sector remained contained in CY25...

The banking sector continues to play a major role in Pakistan's NBFIs sector, particularly through its ownership stakes in associated AMCs. During CY25, banks' equity participation in these entities increased slightly compared to CY24, reaffirming their strategic interest in the asset management segment.

Despite these linkages, the probability of systemic risk transmission from the AM segment to the banking sector remains contained. The banking sector's balance sheet size and capital buffers are substantially larger relative to the assets under management of AMCs.¹⁹ Moreover, mutual funds rely on

¹⁶ The increase in assets was mainly because of inclusion of latest available data for a previously non-reporting entity.

¹⁷ SECP maintains a list of [approved digital lending apps](#), majority of which have been given IFC licenses by the regulator.

¹⁸ 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.

¹⁹ Banks' asset size of around Rs 63 trillion and equity base of around Rs 4 trillion against AUM' total assets size of Rs 5.6 trillion as of end CY25.

market-based investments rather than leveraged lending, which reduces the risk of contagion to the broader financial system.

Banks-owned AMCs and IAs collectively managed around 79.3 percent of total industry AUM in CY25, compared to 89.1 percent in CY24 (Table 6.2.2). Although this moderation indicates a gradual diversification in ownership within the NBFIs space, the dominant share still underscores the banking sector’s continued strategic interest in the performance and growth of the asset management industry. At the same time, banks’ direct investments in mutual funds have remained modest over the years, limiting their direct market risk exposure.²⁰ This distinction between ownership exposure and balance sheet exposure is critical from a financial stability perspective, as it reduces the likelihood of valuation shocks to banks’ capital positions, however, they remain exposed to any reputational risks. Systemic risk concerns arising from NBFIs have also remained manageable due to several structural and regulatory safeguards. Prudential regulations by the SBP and SECP add resilience, while coordination between the SBP and SECP enables timely information sharing and regulatory alignment. Strengthening joint supervisory reviews and enhancing data granularity on group-level exposures could further improve early risk detection and macroprudential oversight.

Macroeconomic, geopolitical and policy dynamics will drive the NBFIs sector outlook...

Looking ahead, the performance of NBFIs will remain closely tied to macroeconomic developments. The trajectory of economic activity, effectiveness of economic stabilization measures, and progress under the ongoing IMF program will shape investor sentiment and capital market dynamics. Domestic political stability and potential spillovers from ongoing geopolitical factors, especially the recent outbreak of war between US-Israel and Iran which also engulfs the GCC region, present important external risk channels. These factors will influence the macro-financial environment through movements in interest rates, exchange rates, inflation expectations, and liquidity conditions, which in turn will affect asset allocation decisions of investors and the strategic orientation of NBFIs. Nonetheless, increasing product complexity and potential search-for-yield behavior in the context of macroeconomic uncertainties warrant effective governance and risk management as well as proactive supervisory vigilance.

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

Table 6.2.2

Description	Dec-23			Dec-24			Dec-25		
	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	43	25	58.7	62	33	54.2	79	45	56.8
2. Assets Under Management of AMCs/ IAs	2,840	2,247	79.1	5,246	4,299	81.9	5,665	4,494	79.3
3. Mutual Funds exposure in top 20 equity securities	56	7	11.7	282	33	11.8	431	85	19.7

*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

²⁰ Banks’ exposure to mutual funds stood at just Rs 46 billion as of end CY25.