

Appendix A

SBP – Regulatory and Supervisory Developments in CY25

State Bank of Pakistan (SBP), under the State Bank of Pakistan Act, 1956 and the Banking Companies Ordinance, 1962, is mandated to regulate and supervise banks, development finance institutions (DFIs), MFBs (MFBs), electronic money institutions (EMIs), exchange companies (ECs) and Payment System Operators and Providers (PSOs/PSPs) to ensure the soundness and stability of the financial system. In pursuit of its financial stability objective, SBP continues to strengthen prudential regulations, supervisory practices, crisis preparedness and market conduct standards, while fostering innovation and financial inclusion within a risk-based regulatory and supervisory framework.

During CY25, the global economic environment was characterized by high trade-related uncertainties, geopolitical tensions, prudent monetary policy, and softening global commodity prices, except gold prices which recorded unprecedented surge during the period under review. Domestically, macroeconomic conditions showed signs of resilience amid fiscal consolidation efforts and prudent monetary policy, though evolving risk dynamics continued to warrant vigilance. In this backdrop, SBP undertook a range of regulatory and supervisory measures to reinforce institutional resilience, enhance risk management practices, strengthen bank resolution regime, deepen financial inclusion, promote digital financial services and align supervisory expectations with emerging risks. These measures were undertaken in line with SBP Vision 2028, which emphasizes a stable,

inclusive and technologically advanced financial system capable of supporting sustainable economic growth.

An overview of the regulatory and supervisory measures implemented by SBP in CY25 is given below.

Financial Stability – A Macro Perspective

Strengthening Resolution Regime

Recovery Planning Framework for Banks and DFIs: In August 2025, a regulatory framework on Recovery Planning was introduced requiring banks to develop, maintain, and periodically update recovery plans to ensure preparedness for periods of severe financial stress. The framework sets out minimum regulatory expectations regarding governance arrangements, recovery indicators, escalation protocols, menu of recovery options, communication strategies, and testing requirements. This measure strengthens crisis preparedness and promotes early intervention capacity within regulated institutions.¹

Expansion of Deposit Protection Coverage to Digital Banks: In CY25, the deposit protection regime was operationalized for digital banks, aligning the evolving banking landscape with the statutory mandate under the Deposit Protection Corporation Act, 2016.² Two newly established Digital Retail Banks i.e., Easypaisa Bank Limited and Mashreq Bank Pakistan Limited were taken onboard as member banks of the DPC, effective October 1, 2025, ensuring that eligible depositors of these institutions receive protection comparable to that available to traditional banks.³

¹ [BPRD Circular No. 02 of 2025](#)

² [DPC Circular No. 01 of 2025](#)

³ [DPC Circular Letter No. 03 of 2025](#)

Guidelines on Core Information Requirements for Resolution Planning: To strengthen the framework for managing financial distress and support an orderly resolution regime, guidelines were introduced on core information requirements for resolution planning. Under these guidelines, banks, MFBs and DFIs are required to compile timely and relevant data that will form the basis of resolution plans, enabling SBP to identify critical functions, dependencies and other key aspects necessary for advance preparation in the event of financial stress.⁴

Transparency & Communication

Publication of SBP's Assessments of Financial Stability: SBP regularly shares its assessments of financial stability with external stakeholders to keep them abreast of emerging risks, resilience of the system, financial soundness and performance of the sector. In CY25, SBP published the Quarterly Compendium of Banking Statistics and Financial Soundness Indicators (FSIs) for December 2024, March 2025, June 2025, and September 2025 quarters. In addition, SBP released the Mid-year Performance Review of Banking Sector for H1CY25, the annual Financial Stability Review CY24 and the Governor's Annual Report for FY25.

Macroprudential Measures

Macroprudential Policy Framework: Adopting and implementing macroprudential measures is one of the defined functions of SBP as per the SBP Act. In pursuance of this function, SBP developed and published the Macroprudential Policy Framework (MPPF) in CY25.⁵ The framework outlines the objectives, institutional framework, assessment mechanism, set of policy tools and communication strategy for the macroprudential policy in Pakistan. The framework will help stakeholders understand the mechanism of financial stability assessment and the set of tools at the disposal of SBP, which may

be invoked as policy intervention(s) under certain scenarios to contain systemic risks and ensure stability of the banking sector, in particular, and the financial sector, in general.

Designation of Domestic Systemically Important Banks (D-SIBs): SBP announced the designation of D-SIBs for the year 2025 under the Framework for D-SIBs. In line with D-SIBs framework, SBP carried out an assessment based on the financial statements as of December 31, 2024. As per findings of the assessment, three banks namely National Bank of Pakistan, United Bank Limited, and Habib Bank Limited were designated as D-SIBs for the year 2025. These banks were required to comply with additional Common Equity Tier-1 (CET-1) capital requirements, in addition to implementing the enhanced supervisory requirements, as prescribed in the framework.

Financial Stability - A Micro Perspective

Macroprudential Measures

Revised Instructions for Credit Risk under the Basel Capital Adequacy Framework: In September 2025, SBP issued updated instructions on the Standardized Approach for Credit Risk as part of its ongoing adoption of the Basel III Capital Adequacy Framework in Pakistan. The revised instructions reflect the second phase of Basel III reforms, focusing on enhancements to the risk-weighting regime and related aspects of credit risk measurement, and are intended to support a more resilient capital framework in line with Basel Committee on Banking Supervision (BCBS) guidance. Under a parallel run arrangement from September 30, 2025, to June 30, 2026, banks, digital banks and DFIs are required to submit capital adequacy returns under both the existing and revised instructions, allowing SBP to evaluate

⁴ [FIRD Circular No. 01 of 2025](#)

⁵ [Macroprudential Policy Framework in Pakistan](#)

implementation challenges and industry feedback prior to full adoption.⁶

Amendments to IFRS 9 Implementation

Instructions: To support banks, DFIs and MFBs in implementing International Financial Reporting Standard 9 (IFRS 9), revisions were introduced to the IFRS 9 application instructions. These adjustments clarified that modification accounting is to be applied retrospectively and permitted financial institutions to hold general provisions in excess of expected credit loss (ECL) calculations for Stage 1 and Stage 2 up to 31 December 2026. For Islamic Banking Institutions (IBIs), the revised instructions allowed continued use of applicable Islamic Financial Accounting Standards (IFAS) where relevant and maintained existing treatment of charity funds, while requiring transparent disclosure of the potential impact if IFRS 9 were applied in full.⁷

Recognition of FX Translation Reserves as CET-1 Capital:

In January 2025, SBP amended the implementation of the Basel III Capital Adequacy Framework to permit Foreign Exchange (FX) Translation Reserves to be treated as part of CET-1 capital, effective from December 31, 2024.⁸ The update aligns with international capital recognition practices by acknowledging the equity-like nature of FX translation adjustments in regulatory capital calculations.

Foreign Exchange Policy and Operations

Revision of Trade-Based Money Laundering & Terrorist Financing Risk Framework:

The framework for managing risks associated with trade-based money laundering and terrorist financing (TBML and TF) was revised to strengthen the trade-related anti-money laundering and counter financing of terrorism (AML/CFT) regime and better align risk management requirements with evolving business practices and emerging risks. Building

on the earlier 2019 framework, the updated framework requires Authorized Dealers to enhance their internal policies, procedures and systems to identify, assess and mitigate TBML and TF risks in trade transactions, including through improved due diligence, transaction monitoring and governance measures.⁹

Policy Revision to Improve Liquidity of the Exporters:

To facilitate exporters and boost liquidity within the sector, SBP took the initiative to withdraw its "lien marking" instructions, which previously mandated Authorized Dealers to withhold 3 percent to 9 percent of export proceeds if they were realized beyond the prescribed time limit. By directing banks to immediately release all funds held under such liens, SBP has effectively eased cash flow constraints for businesses and simplified the operational environment for international trade.¹⁰

Revision of Foreign Exchange Exposure Limits for Authorized Dealers:

To respond to evolving market conditions and trade dynamics, Foreign Exchange Exposure Limit (FEEL) for Authorized Dealers was revised and set at 7.5 percent of Tier-1 capital, based on the most recent audited annual financial statements, replacing the earlier criteria where FEEL was assigned up to 25 percent of paid-up capital (net of losses). This adjustment aims to better align permissible foreign exchange exposures with the capital strength of institutions, thereby supporting prudent risk taking in foreign exchange operations. The revised limits came into effect on August 4, 2025.¹¹

Revisions in Home Remittances Incentive Framework:

During CY25, several adjustments were made to the incentives and support mechanisms for home remittances to better align them with evolving market practices and operational considerations. First, the reimbursement of Telegraphic Transfer (T.T.) charges scheme was revised by raising the

⁶ [BPRD Circular No. 03 of 2025](#)

⁷ [BPRD Circular Letter No. 01 of 2025](#)

⁸ [BPRD Circular Letter No. 02 of 2025](#)

⁹ [EPD Circular Letter No. 08 of 2025](#)

¹⁰ [EPD Circular Letter No. 07 of 2025](#)

¹¹ [DMMD Circular No. 07 of 2025](#)

minimum eligible transaction size to US\$ 200 and introducing a flat rebate of SAR 20 per qualifying transaction. Moreover, exchange companies were also brought within the ambit of this scheme.¹² Concurrently, the Exchange Companies Incentive Scheme and the Incentive Scheme for Marketing of Home Remittances were discontinued effective July 1, 2025,^{13,14} thereby consolidating the incentive structure under the revised T.T. charges reimbursement framework. These changes aim to rationalize incentive support, streamline administrative processes, and maintain focus on cost-related rebates for inward remittance flows.

Implementation of Online Reporting Mechanism regarding Equity Investments Abroad:

SBP, in pursuance of its strategic objective to enhance the efficiency and effectiveness of the financial system, introduced the Performance Evaluation System for Investment Abroad (PESIA), which is an online reporting mechanism that enables Authorized Dealers to submit data relating to Equity Investment Abroad (EIA) transactions through SBP's Data Acquisition Portal (DAP). The system has been developed to strengthen regulatory oversight, improve data accuracy and timeliness, and facilitate monitoring of EIA transactions.¹⁵

Facilitation for Foreign Investors-Revision in RFT Policy for the Services Sector: In order to promote ease of doing business and realign the relevant instructions with market dynamics, SBP after consultations with all stakeholders has issued revised instructions in December 2025 on remittance of Royalty, Franchise and Technical Service (RFT) Fees for the entities operating in agriculture, social, infrastructure and service sector projects, including international food chains. Major revisions include: (i) enhancement of limit on remittance of recurring payments from 5 percent to 8 percent of the net local sales under the respective RFT agreements,

(ii) enhancement of limit on initial lump sum or one-time fee from US\$ 100,000 to US\$ 250,000 for entities starting new operations, payable to the foreign collaborators providing RFT services, and (iii) enhancement of duration of RFT agreements to 10 years, with the possibility of renewal.¹⁶

Money Market

Launch of InvestPak Web Portal: SBP launched a web portal named InvestPak to digitize the process of investment in government securities by individuals and corporate customers across Pakistan. The portal can be accessed through web as well as mobile apps. This investment avenue has been largely untapped by retail investors in Pakistan due to lack of awareness and the requirement to physically visit bank branches. InvestPak intends to address these challenges by digitizing the entire process, making investment in government securities more accessible and convenient for the investors.¹⁷

Mudarabah Based Financing Facility: Following the Pakistan Stock Exchange's announcement on the revaluation mechanism for Government of Pakistan Ijara Sukuk (GIS), SBP extended the existing Mudarabah-based financing framework to GIS issued through the PSX. Under this arrangement, Shariah-compliant Standing Ceiling Facility and Open Market Operations (OMOs-) -injection facilities were made available against PSX-issued GIS. This measure is intended to support IBIs in managing their liquidity positions through the use of PSX-issued GIS. Further, it will support liquidity of GIS in the secondary market on PSX platform.¹⁸

Implementation of PRISM+ for Payment, Settlement, and Market Operations: A significant milestone in Pakistan's payment and settlement landscape was achieved with the

¹² [EPD Circular Letter No. 04 of 2025](#)

¹³ [EPD Circular Letter No. 05 of 2025](#)

¹⁴ [EPD Circular Letter No. 06 of 2025](#)

¹⁵ [FE Circular No. 01 of 2025](#)

¹⁶ [EPD Circular Letter No. 12 of 2025](#)

¹⁷ [DMMD Circular No. 08 of 2025](#)

¹⁸ [DMMD Circular No. 24 of 2021](#)

launch of the Pakistan Real-Time Interbank Settlement Mechanism Plus (PRISM+), a next-generation platform designed to modernize and strengthen the national payment infrastructure. PRISM+, implemented on June 16, 2025, is Pakistan's state-of-the-art payment infrastructure that integrates a Real-Time Gross Settlement (RTGS) system with a Central Securities Depository (CSD) to modernize high-value payments and the management of Government Securities. PRISM+ is based on global ISO 20022 messaging standards which offer enhanced speed, efficiency, and security for financial transactions. The system provides banks and financial institutions with advanced features such as real-time monitoring, liquidity management tools, and robust security measures.¹⁹

Alignment of Government Securities Auctions and Monetary Operations with PRISM+:

Following the implementation of PRISM+, procedural changes were introduced to align government securities auctions and monetary policy liquidity operations with the new system. Primary auctions of Market Treasury Bills (MTBs) and Pakistan Investment Bonds (PIBs), including buyback operations, were transitioned to PRISM+. Conventional open market operations (injections and mop-up) are also conducted through the platform, while Shariah-compliant OMOs and Bai Muajjal operations continue under existing arrangements. The revised procedures cover bid submission, valuation of tagged securities based on applicable rates and haircuts, allocation methodologies, and settlement processes.²⁰

Islamic Banking

Transformation of Conventional Banking into Islamic:

Under the Government constituted high-powered Steering Committee, SBP has formed a Committee for Transformation of conventional banking into Islamic (CT). Under CT, a total of seven Working Groups and 36 allied Work Streams have been formed on

diverse areas such as legal & regulatory reforms, awareness creation & capacity building, adoption of international standards, developing Shariah compliant liquidity management solutions (e.g. Sukuk structures), and information technology ecosystem. The working groups have made considerable progress in line with their action plans. Key developments include the introduction of a dedicated chapter on Islamic Banking in BCO 1962 to provide explicit legal coverage for Islamic banking operations and complete assessment of legal and regulatory framework to ensure its alignment with the Shariah principles.

Facilitation in Commencement of Islamic Operations:

The period under review witnessed a growing interest from financial institutions to establish Islamic banking operations.

Accordingly, SBP has granted three approvals (one for Digital Bank and two for MFBs) to commence Shariah-compliant operations. Additionally, SBP has issued in-principle approvals to five other institutions to commence Islamic banking operations. Throughout this process, SBP has maintained active engagement with these institutions, providing guidance and support to ensure a smooth rollout of their Islamic business operations.

Liquidity Management Solutions: For providing the banking industry with viable liquidity management solutions and conversion of existing conventional public debt into Islamic, SBP in collaboration with key stakeholders is actively working on devising various Sukuk structures including Hybrid Sukuk.

Additionally, SBP and MoF are working on developing an Assets Register of Government owned entities, which will enable quicker and simpler Sukuk issuances.

Adoption of International Standards for the Islamic Banking Industry:

To strengthen the Shariah compliance framework and foster uniformity within the Islamic banking industry, SBP has actively pursued to align regulatory

¹⁹ [DI&SD Circular No. 1 of 2025](#)

²⁰ [DMMD Circular No. 05 of 2025](#)

framework with internationally recognized best practices. This includes the adoption of standards issued by prominent global standard-setting bodies, notably the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). By the end of September 2025, SBP had adopted a total of forty-five AAOIFI standards and ten IFSB standards. This alignment with international standards is anticipated to improve regulatory consistency, reinforce market discipline, and bolster systemic resilience, while strengthening stakeholder confidence and promoting the sustainable growth of the Islamic banking industry.²¹

Market Research - Assessment of Knowledge, Attitudes, and Practices in Islamic Banking:

SBP conducted a comprehensive Knowledge, Attitude, and Practices (KAP) study during CY25 to evaluate perceptions of Islamic banking among users and non-users. The study explored key factors influencing adoption or non-adoption, challenges faced by customers, and compiled constructive feedback. This survey, carried out digitally after a ten-year interval, gathered data from over 21,700 respondents representing both the supply and demand sides of the industry. This large-scale effort provided critical insights to further strengthen the Islamic banking framework.

Digital Financial Services

Enhancing Digitization Initiatives in Banks:

SBP strengthened digitization and self-service banking by directing banks to expand deployment of Cash Deposit Machines (CDMs) to at least 25 percent of their branch network by CY28. Banks were required to submit phased implementation plans and ensure compliance with operational, security, and customer protection standards, including instant credit, biometric verification, dispute resolution timelines, and CCTV coverage. These measures aim to reduce branch dependency, improve cash

management efficiency, and enhance customer convenience through secure self-service channels.²²

Technology Risk Management Framework for Payment Institutions: SBP issued a Technology Risk Management Framework for Payment Institutions to strengthen governance, cybersecurity, and operational resilience across EMIs, PSOs, and PSPs. The framework establishes baseline, risk-based requirements aligned with the size, nature, and complexity of payment institutions' operations. It aims to mitigate technology and cyber risks, with mandatory compliance timelines and enforcement provisions to enhance the overall resilience of the payments ecosystem.²³

Licensing of Digital Retail Banks: SBP continued progress on digital transformation of the financial sector under the Licensing and Regulatory Framework for Digital Banks introduced in 2022. Following successful completion of pilot operations, Digital Retail Bank (DRB) licenses were granted to Easypaisa Bank Limited and Mashreq Bank Pakistan Limited during CY25. Raqami Islamic Digital Bank Limited was granted a pilot license in May 2025. These developments reflect ongoing progression in the rollout of the digital banking licensing initiative and underscore support for diversification and technological adoption within the financial sector.

Raast Participation Criteria: SBP issued Raast Participation Criteria to standardize access to Pakistan's instant payment system for banking and non-banking institutions. The criteria define participant categories and minimum eligibility requirements for existing and prospective Raast participants. This measure aims to broaden Raast accessibility, promote innovation and competition, and support wider adoption of instant, secure digital payments across the economy.²⁴

²¹ [IFPD Circular No. 03 of 2025](#)

²² [PSP&OD Circular Letter No 01 of 2025](#)

²³ [PSP&OD Circular No 04 of 2025](#)

²⁴ [PSP&OD Circular No 01 of 2025](#)

Enhancing Digital Payments Acceptance: SBP issued instructions to enhance digital payment acceptance by requiring all regulated entities to provide digital payment acceptance solutions such as QR, POS, e-commerce gateways, and Raast P2M integration. The framework standardized merchant onboarding, classification, and transaction limits, while mandating Raast integration and deployment of at least one digital acceptance channel for all merchants. These measures aim to expand merchant digitization, promote interoperable payments, and support broader cashless economy objectives.²⁵

Allocation of Subsidy for Raast Person-to-Merchant (P2M) QR Payments: During CY25, SBP facilitated the rollout of a government-funded subsidy scheme to promote merchant adoption of Raast Person-to-Merchant (P2M) QR payments under the Prime Minister's Cashless Economy initiative. A subsidy of Rs 3.5 billion was allocated to support Raast QR transactions, incentivizing both acquiring and issuing institutions through shared transaction-based support. The measure aimed to accelerate merchant onboarding, reduce acceptance costs, and scale interoperable digital payments nationwide.²⁶

Steps to Operationalize Regulatory Sandbox Framework: During CY25, SBP put in place a Regulatory Sandbox framework to facilitate controlled testing of innovative digital financial products and services within a defined regulatory environment. In May 2025, detailed Guidelines for the Regulatory Sandbox were issued, setting out eligibility criteria, application procedures, testing parameters and supervisory expectations for participants seeking to trial solutions that could contribute to financial inclusion, efficiency or competition in the financial sector.²⁷ The framework is designed to balance innovation with risk management by allowing firms to test new offerings under

appropriate safeguards and oversight. Subsequently, in August 2025, a formal invitation for applications was launched for the first cohort of the Sandbox, opening a window for eligible entities to submit proposals for inclusion in the testing cohort.²⁸ These developments mark the initial phases of implementing an innovation-friendly regulatory testing environment aligned with broader strategic objectives for digital financial services.

Measures to Promote SME and Agriculture Financing

Risk Coverage Scheme for Small Farmers & Underserved Areas: In August 2025, SBP facilitated the implementation of Government of Pakistan's 'Risk Coverage Scheme for Small Farmers & Underserved Areas'. The scheme provides first-loss risk coverage of up to 10 percent to banks for lending to subsistence and small farmers in Punjab and Sindh, and to farmers of all landholding sizes in Khyber Pakhtunkhwa, Balochistan, AJK and Gilgit-Baltistan. The scheme also offers a subsidy of Rs 10,000 per borrower to banks, to the extent of the net increase in number of borrowers each year, in order to help meet the operational costs of onboarding new borrowers.²⁹ The scheme will remain valid for three years (FY26-FY28), during which a cumulative disbursement of Rs 300 billion and 750,000 new borrowers is anticipated.

Introduction of the National Subsistence Farmers Support Initiative (Zarkhez-e): Under the Government of Pakistan's Risk Coverage Scheme for Small Farmers and Underserved Areas, the National Subsistence Farmers Support Initiative (NSFSI) was launched to expand collateral-free agricultural financing to small and marginal farmers. Under this initiative, an end-to-end digital platform,

²⁵ [PSP&OD Circular No 02 of 2025](#)

²⁶ [PSP&OD Circular No 03 of 2025](#)

²⁷ [External Communications Department | Press Release May 20, 2025](#)

²⁸ [External Communications Department | Press Release August 25, 2025](#)

²⁹ [ACFID Circular No. 02 of 2025](#)

renamed Zarkhez-e for user-friendliness, was developed in consultation with banks and MFBs to facilitate collateral-free access to agricultural credit through a centralized online portal and the Land Information Management System (LIMS). The platform enables farmers or tenants to apply for agricultural financing without visiting bank branches and supports agronomic assessment, linkage to selected banks/MFBs and onboarding of agri-merchants for input supply. A key feature of the scheme is in-kind disbursement of at least 75 percent of the financing for quality agricultural inputs, with the remainder available in cash, along with agri-advisory services. SBP encouraged banks and MFBs to complete integration with the portal and onboard agri-merchants to ensure broad and uniform rollout of the initiative.³⁰

Revision of Prudential Regulations for MFBs:

In May 2025, SBP issued updated Prudential Regulations for MFBs to align the regulatory framework with evolving market conditions and risk management expectations. The revised regulations consolidate existing directives and set out minimum benchmarks across governance, operations, consumer protection and risk management to support the financial stability and sustainability of MFBs.³¹

Launch of Pakistan's Financial Inclusion

Index: At the end of CY25, SBP unveiled Pakistan's first Financial Inclusion Index (P-FII), a comprehensive measure of the access, usage and quality of financial services across the country.³² The P-FII establishes a baseline for monitoring progress on financial inclusion, showing an overall score of 58.1 for 2024. Going forward, the index will be institutionalized as a core policy tool for monitoring progress of SBP's financial inclusion initiatives.

³⁰ [ACFID Circular Letter No. 01 of 2025](#)

³¹ [ACFID Circular No. 01 of 2025](#)

³² [Pakistan Financial Inclusion Index](#), December 2025, ACFID, SBP.

Revised Prudential Regulations for SME

Financing: SBP revised the Prudential Regulations for SME Financing to make them principle-based, remove structural barriers, encourage banks to leverage technology, and foster partnerships with fintechs and other non-financial service providers for scalable and sustainable SME financing. The revised regulations aim to assist banks in better addressing their unique risk factors and dynamic environment by giving more discretion in business decisions.³³

Mera Ghar Mera Ashiana – Affordable

Housing Finance Scheme: In September 2025, SBP facilitated the implementation of Government of Pakistan's markup subsidy and risk sharing scheme namely "Mera Ghar Mera Ashiana". Under the scheme, eligible borrowers can get financing of up to Rs 2.0 million in tier-1 and up to Rs 3.5 million in tier-2 with a fixed pricing of 5 percent and 8 percent respectively. Government of Pakistan provides a risk coverage of 10 percent of the outstanding portfolio under the scheme on first loss basis.³⁴

Climate Risks and Sustainable Finance

Pakistan Green Taxonomy: The Government of Pakistan notified the Pakistan Green Taxonomy (PGT) in September 2025 to promote green and sustainable economic activities. The PGT provides a science-based classification system for identifying green economic activities and investments in the country, offering a single, common, and consistent definition of "green" across the board. Subsequently, SBP advised banks/DFIs to use PGT as a reference guide for formulating and updating their green banking policies.³⁵

Regulatory Framework for Effective Management of Climate-related Financial

³³ [SH&SFD Circular No. 05 of 2025](#)

³⁴ [SH&SFD Circular No. 03 of 2025](#)

³⁵ [SH&SFD Circular No. 06 of 2025](#)

Risks: In December 2025, SBP issued the regulatory framework for effective management of climate-related financial risks to strengthen financial sector's resilience to climate risks. The Framework is designed to ensure that FIs effectively identify the climate risk drivers and integrate climate-related financial risk considerations into their governance, business strategy, and risk management frameworks. All FIs are required to ensure compliance with the Framework by June 30, 2029.³⁶

Climate Stress Testing Guidelines: In line with international standards and best practices, SBP issued Climate Stress Testing (CST) Guidelines for REs as a supplement to existing Guidelines on Stress Testing 2020. The new section aims to help FIs assess the impact of climate-related physical and transition risks on credit, market, operational and liquidity risks, and to set minimum regulatory expectations on this subject. The guidance will enable the FIs to better gauge the impact of climate-related risks on their lending portfolio and financial position.³⁷

Consumer Facilitation and Protection

Consolidated Customer Onboarding Framework: In July 2025, a Consolidated Customer Onboarding Framework was introduced to streamline and standardize account opening requirements across the banking sector by integrating previously fragmented instructions into a single framework covering both individual and entity customers. The framework adopts a risk-based approach, clarifies AML/CFT/CPF compliance expectations, and prescribes defined turnaround times (TATs) to improve efficiency and consistency in account opening. The revised framework extends digital onboarding facilities to entity customers, previously available only for individuals, and introduces a Standardized Account Opening Form for individual

customers with minimum essential information requirements. These measures are intended to facilitate account opening, reduce procedural frictions, and support financial inclusion while maintaining necessary safeguards.³⁸

Business Conduct and Fair Treatment of Consumers Regulatory Framework: In October 2025, SBP introduced the Business Conduct and Fair Treatment of Consumers Regulatory Framework (BC&FRF) to strengthen and harmonize regulatory instructions on business conduct and fair treatment of financial consumers across FIs. The framework consolidates, updates and enhances existing guidance into a single regulatory text aligned with best international practices, with clear expectations on responsible conduct, transparency and consumer protection.³⁹

Facilitation Framework for BISP Sahulat Accounts: A revised Facilitation Framework-Benazir Income Support Programme (BISP) Sahulat Account was introduced to enhance financial inclusion of BISP beneficiaries by streamlining account onboarding and payment processes. Under the updated framework, banks and MFBs participating in a pilot phase across selected major cities were required to establish secure arrangements with BISP for receiving beneficiary details and to undertake appropriate screening before opening inactive accounts. Subsequent activation of accounts was to be completed through biometric verification or validated alternative checks, with beneficiaries receiving facilities such as cheque books or PayPak debit cards for withdrawal. Supporting measures included provisions for dedicated coordination functions within banks and employee training to facilitate onboarding and disbursement processes, along with mechanisms for handling beneficiary complaints and ongoing support.⁴⁰

³⁶ [SH&SFD Circular No. 07 of 2025](#)

³⁷ [FSD Circular No. 01 of 2025](#)

³⁸ [BPRD Circular No. 01 of 2025](#)

³⁹ [BPRD Circular No. 04 of 2025](#)

⁴⁰ [BPRD Circular Letter No. 17 of 2025](#)

Appendix B

Indicators used to derive Financial Sector Vulnerability Index (FSVI)

FSVI was first introduced in FSR 2016, and since then it has been modified and regularly published in the subsequent reviews. In FSR-2018, few modifications were made in terms of coverage, indicators and methodology (See Appendix A in FSR-2018).

To recall, FSVI is a composite index derived from averaging the sub-indices of macro-economy, financial markets, banking sector, Non-Banking Financial Institutions, Development Finance Institutions, Insurance Companies and Corporate Sector. The complete list of indicators used within each dimension is given in the table below:

Financial Sector Vulnerability Index (FSVI) and Financial Sector Heat Map (FSHM): Risk Areas, Risk Dimensions and Indicators				Table 1
Sr. No.	Risk Area	Risk Dimension	Risk Indicator(s)	Impact on Financial Stability
1	Macro-economy $\frac{1}{n} \sum Ex, R, F, In$ n = 4	External Sector (Ex) $Ex = \frac{1}{n} \sum_{i=1}^n ex_i,$ n = 3	ex_1 = Total Liquid Foreign Reserve Position (with SBP) as percent of GDP ex_2 = Current Account Balance (surplus) as Percentage of GDP ex_3 = Balance of Trade as Percentage of GDP ex_4 = Terms of Trade Index ex_5 = Real Effective Exchange Rate Index	Positive Positive Positive Positive Negative
		Real Sector (R)	Real GDP Growth	Positive
		Fiscal Sector (F)	Fiscal Deficit as Percentage of GDP	Negative
		Inflation (In)	CPI inflation	Negative
2	Financial Markets $\frac{1}{n} \sum FE, MM, CM$ n = 3	Foreign Exchange (FE)	Exponential Moving Weighted Average (EMWA) Volatility of Mark-to-market Revaluation Exchange Rate	Negative
		Money Market (MM)	Exponential Moving Weighted Average (EMWA) Volatility of Overnight Repo Rate	Negative
		Capital Market (CM)	Exponential Moving Weighted Average (EMWA) Volatility of KSE-100 Index	Negative
3	Banking Sector $\frac{1}{n} \sum C, AQ, E, L, D, I$ n = 6	Capital Adequacy (C) $C = \frac{1}{n} \sum_{i=1}^n c_i, n = 3$	c_1 = Capital Adequacy Ratio (CAR) c_2 = TIER 1 (CAR) c_3 = Capital to Asset Ratio	Positive Positive Positive
		Asset Quality (AQ) $AQ = \frac{1}{n} \sum_{i=1}^n aq_i,$ n = 4	aq_1 = NPLs to Total Loans aq_2 = Net NPLs to Capital aq_3 = Provisions to NPLs aq_4 = Loss to NPLs	Negative Negative Positive Negative
		Earnings (E) $E = \frac{1}{n} \sum_{i=1}^n e_i,$ n = 6	e_1 = Return on Assets Before Tax e_2 = Return on Equity (Avg. Equity and Surplus) Before Tax e_3 = Net Interest Margin e_4 = Net Interest Income/Gross Income e_5 = Cost to Income Ratio e_6 = Trading Income to Total Income	Positive Positive Positive Positive Negative Negative
		Liquidity (L) $L = \frac{1}{n} \sum_{i=1}^n l_i,$ n = 4	l_1 = Liquid Assets/Total Assets l_2 = Liquid Assets/ Short term liabilities l_3 = Borrowings/Assets	Positive Positive Negative
		Deposits (D) $D = \frac{1}{n} \sum_{i=1}^n d_i,$ n = 2	d_1 = Deposits to Assets d_2 = Deposit growth (YoY)	Positive Positive
		Interconnectedness (I) $I = \frac{1}{n} \sum_{i=1}^n i_i,$ n = 2	i_1 = Call lending and borrowing/Total Assets i_2 = Financial Liabilities (SBP exclusive)/Total Assets	Negative Negative
4	Non-Banking Financial Institutions	Assets (A)	Asset Growth (YoY)	Positive

	$\frac{1}{n} \sum_{n=2} A, E$	Earnings (E)	Net Sales	Positive
5	Development Finance Institutions $\frac{1}{n} \sum_{n=4} C, AQ, E, L$	Capital Adequacy (C) $C = \frac{1}{n} \sum_{i=1}^n c_i, n = 3$	$c_1 = \text{Capital Adequacy Ratio (CAR)}$ $c_2 = \text{TIER 1 (CAR)}$ $c_3 = \text{Capital to Asset Ratio}$	Positive Positive Positive
		Asset Quality (AQ) $AQ = \frac{1}{n} \sum_{i=1}^n a_{qi}, n = 3$	$a_{q1} = \text{NPLs to Total Loans}$ $a_{q2} = \text{Net NPLs to Capital}$ $a_{q3} = \text{Net NPLs to Net Loans}$	Negative Negative Negative
		Earnings (E) $E = \frac{1}{n} \sum_{i=1}^n e_i, n = 4$	$e_1 = \text{Return on Assets Before Tax}$ $e_2 = \text{Return on Equity (Avg. Equity and Surplus) Before Tax}$ $e_3 = \text{Net Interest Income/Gross Income}$ $e_4 = \text{Cost to Income Ratio}$	Positive Positive Positive Negative
		Liquidity (L) $L = \frac{1}{n} \sum_{i=1}^n l_i, n = 3$	$l_1 = \text{Liquid Assets/Total Assets}$ $l_2 = \text{Liquid Assets/Total Deposits}$ $l_3 = \text{Advances /Deposits}$	Positive Positive Positive
6	Insurance Companies $\frac{1}{n} \sum_{n=2} Li, NL$	Life (Li) $Li = \frac{1}{n} \sum_{i=1}^n li_i, n = 4$	$li_1 = \text{Claims ratio}$ $li_2 = \text{Return on Assets before tax}$ $li_3 = \text{Return on Investment before tax}$ $li_4 = \text{Capital to Assets}$	Negative Positive Positive Positive
		Non-life (NL) $NL = \frac{1}{n} \sum_{i=1}^n nli_i, n = 5$	$nli_1 = \text{Claims ratio}$ $nli_2 = \text{Premium Retention}$ $nli_3 = \text{Return on Assets before tax}$ $nli_4 = \text{Return on Investment before tax}$ $nli_5 = \text{Capital to Assets}$	Negative Negative Positive Positive Positive
7	Corporate Sector	Corporate Debt	Debt Burden (average of asset/equity and debt/equity)	Negative

