State Bank of Pakistan

Financial Stability Review 2025

Financial Stability Review

2025

May 05, 2026

State Bank of Pakistan

Financial Stability Review

Annual Report
of the Board of Directors of State Bank of Pakistan
for the year 2025

Financial Stability Department

Published with one volume

Annual Report on Financial Stability Review

Printed at Pakistan Security Printing Corporation (Pvt.) Ltd., Publications Section, Karachi

No. of Pages: 176

Web link:

Date of Printing: May 2026

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Support from the following departments is gratefully acknowledged and appreciated:
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Logistics: Corporate Services & Strategic Planning and External Communications.

The Financial Stability Review (FSR) is the annual report of the Board of Directors of State Bank of Pakistan (SBP) prepared and published in terms of requirements prescribed in sub section (3) of section 39 of the State Bank of Pakistan Act, 1956 as amended in January 2022.

Chapters

Box Items

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Data Convention and Coverage

The FSR 2025 uses CY for the Calendar Year, FY for the Fiscal Year (starting in July of a CY and ending in June of the following CY), Q1-Q4 for the four quarters of the corresponding CY or FY and H1-H2 for the two halves of a CY or FY, as the case may be. Exact dates are given in long form (e.g., November 29, 2021) while specific months are given in short form (e.g., September 2021).

The review is generally based on the data reported in the unaudited or audited accounts (where available) of financial institutions for different components as follows:

- Banking sector (conventional and Islamic banks), Development Finance Institutions (DFIs), Microfinance Banks (MFBs), and Payment Systems are based on unaudited financial statements reported to SBP through Quarterly Reporting Chart of Accounts (RCOA) and various other returns.
- Non-Bank Financial Institutions (NBFIs) is based on monthly reports submitted to Securities & Exchange Commission of Pakistan (SECP) through Specialized Companies Return System (SCRS) and data extracted from the website of Mutual Funds Association of Pakistan (MUFAP).
- Insurance and Takaful companies are based on audited and unaudited financial statements extracted from the insurers' websites and regulatory returns submitted to SECP.

The data pertaining to the corporate sector has been obtained from SECP, SBP, PSX, Capital Stake, Bloomberg and the financial statements of companies.

Governor's Remarks

Global economic conditions gradually normalized towards the end of CY25, showing resilience to strong headwinds of trade-related uncertainties and geopolitical tensions. According to IMF, the global economy grew steadily by 3.4 percent, while inflation declined to 4.1 percent compared to 5.8 percent last year. Amid easing inflation, major central banks relaxed their policy stance, and global financial conditions remained relatively accommodative, albeit with some variations across jurisdictions.

On the domestic front, the year 2025 presented both significant challenges and opportunities. While the spillovers from global uncertainties added to challenges, a stabilizing economy amid well-coordinated fiscal and monetary policies provided room to make progress on reforms. More specifically, SBP navigated a complex economic environment, implemented decisive monetary policy actions, and continued to take strategic initiatives to strengthen the soundness and efficiency of financial sector. As a result of SBP's prudent, timely and well-calibrated policy responses, inflation returned within the target range of 5-7 percent; SBP's FX reserves further strengthened, mainly via strategic purchases from interbank market; and the economic growth recovered gradually without putting excessive pressures on inflation and external account. This was duly complemented by the government's fiscal consolidation efforts, which improved debt dynamics. Consequently, the business confidence remained upbeat throughout the year.

At the same time, SBP's prudential policy and oversight frameworks reinforced financial system stability. Particularly, the banking sector, which contributes around 80 percent of the financial sector's assets, exhibited steady performance and maintained its financial soundness. The sector maintained strong solvency, supported by healthy earnings and better risk management. Asset quality indicators improved, with non-performing loans contained, while liquidity conditions remained satisfactory. Encouragingly, the stress testing exercise conducted by SBP reaffirms the banking sector's capacity to withstand plausible adverse shocks over the projected horizon of three years. Moreover, with the cumulative cut of 1,150 bps in the SBP policy rate since June 2024, financial conditions have eased, which are expected to further improve the repayment capacity of borrowers.

Given Pakistan's vulnerability to climate-related risks and increased frequency of extreme weather events, climate-change is one of the leading themes of our Strategic Vision-2028. SBP issued Framework for Effective Management of Climate-related Risks and Guidelines on Climate Stress Testing to strengthen the risk management frameworks of banks, Development Finance Institutions, and Microfinance banks (MFBs). The risk-based supervisory framework has been updated to also cover climate-related risks. Moreover, for MFBs, the government, in collaboration with the SBP, rolled out Climate Risk Fund-I under World Bank's Resilient and Accessible Microfinance (RAM) initiative to promote climate resilient farming and provide liquidity support to small farmers affected by the floods.

Leveraging digital technologies and innovation to enhance financial literacy as well as access to finance for underserved segments of society remained a key priority of SBP during the year. Under National Financial Inclusion Strategy (NFIS) 2024-28, SBP launched a comprehensive financial literacy policy, the 'National Financial Education Roadmap (NFER) 2025-29', in April 2025. SBP launched Pakistan's first Financial Inclusion Index (P-FII) which aims to comprehensively measure the progress on access, usage and quality of financial services across the country. Amid central bank's continued efforts to promote financial inclusion, the level of inclusion further improved from 67 percent to 69 percent while the gender gap reduced to 29 percent by end December 2025 from 33 percent a year ago. We are now well positioned to achieve our strategic milestones on inclusion at 75 percent of the adult population and a reduction in gender gap to 25 percent by June 2028.

Our digitalization agenda also achieved major mileposts, including the implementation of PRISM+ and the rollout of QR code-based payments through RAAST. As an enabler for the financial sector, SBP launched Regulatory Sandbox Framework to allow controlled experimentation with emerging payment solutions. The RAAST adoption continued to gain strong momentum with its outreach expanding to around 48 million users and processing almost two billion transactions with value of around Rs 50 trillion. Overseas Pakistanis also increased their footprint as the gross inflows in Roshan Digital Accounts (RDA) crossed US$ 11 billion, while the number of expatriates with active RDAs exceeded 890,000 by end 2025. These improvements have also supported the robust inflows of workers' remittances to the country.

While the rapid adoption of digitalization provides convenience to customers and enhances the efficiency and delivery of financial services, specifically payment-related, the increased digitalization and use of technologies also entail cybersecurity and data privacy risks. SBP continued its vigilance of the cyber-related risks of its regulated entities and took various measures to strengthen the cyber resilience of institutions and protection of customers. Besides, SBP, in collaboration with financial institutions and law enforcement agencies, conducted various customer awareness campaigns on cybersecurity risks, which are expected to help in reducing financial frauds and enhancing digital resilience. Moreover, acknowledging the importance of practical counterfactual drills for effectively managing crises, SBP in collaboration with Pakistan Banks Association (PBA), conducted an industry-wide cybersecurity simulation exercise in January 2026. The drill followed a dual-track approach, covering both technical and management aspects of cyber threats. This initiative is expected to substantially help the banking sector in identifying the gaps and improving the cybersecurity profile.

In line with the changing environment and emerging best practices, SBP continuously strives to improve its macroprudential policy framework. In pursuance of Section 4C(j) of SBP Act 1956, SBP developed and published the Macroprudential Policy Framework (MPPF), which outlines the objectives, institutional framework, assessment mechanism, set of policy tools and communication strategy for the macroprudential surveillance 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 stressed scenarios to contain systemic risks and ensure stability of the banking sector, in particular, and the financial sector, in general.

While the macroeconomic environment is susceptible to risks emanating from ongoing conflict in the Middle East, SBP is vigilant to the evolving economic and financial developments and stands ready to take necessary measures to effectively address emerging risks to financial stability and support efficient provision of financial services and credit in the economy.

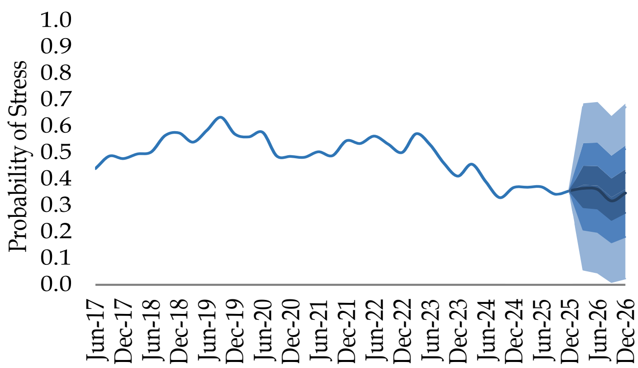
Jameel Ahmad

Key Highlights of
Financial Stability Review 2025

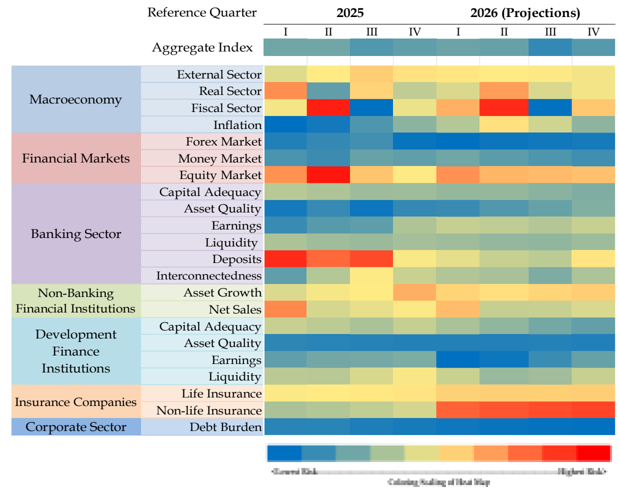
Key Highlights

Risks to financial stability receded in CY25....

Financial Sector Vulnerability Index (FSVI)

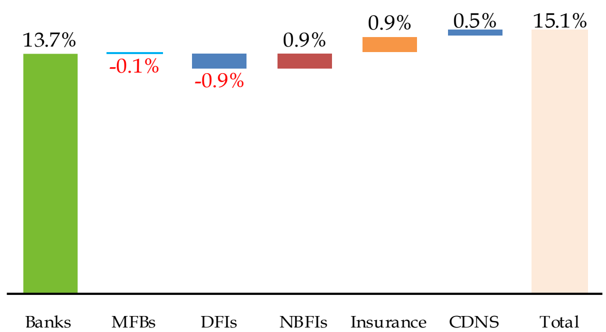


Financial Sector Heat Map



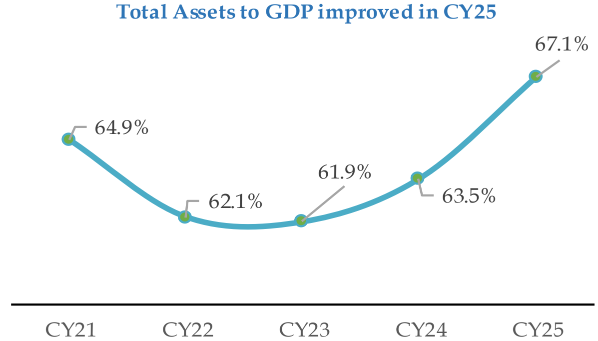
...with banking sector leading the growth...

Contribution in Growth of Financial Sector's Assets



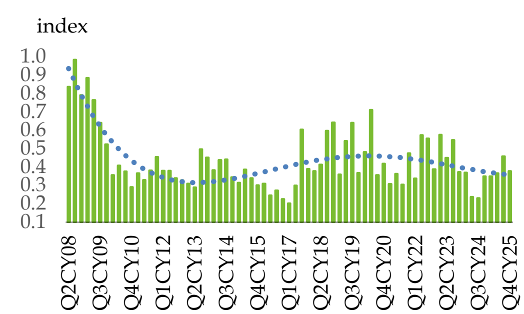
... and financial deepening further strengthening.

Total Assets to GDP improved in CY25

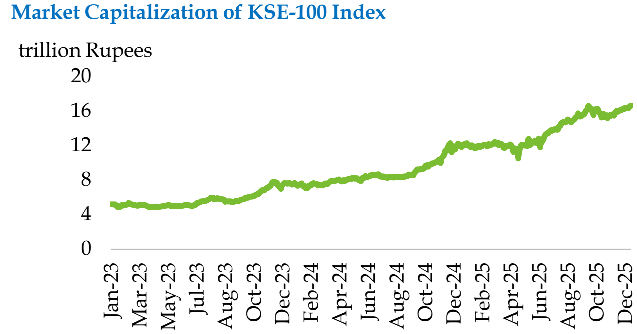


Stress in financial markets remained contained, while equity market posted significant gains

Financial Markets Stress Index

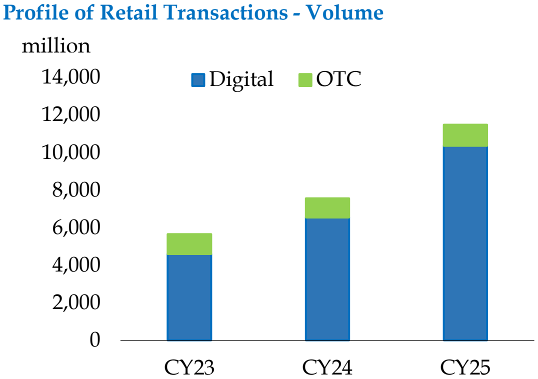


Market Capitalization of KSE-100 Index

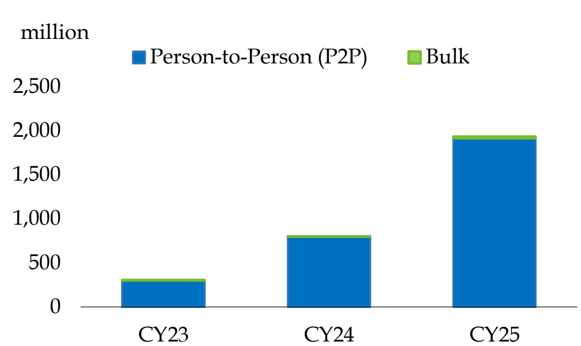


Financial Market Infrastructures (FMIs) remained resilient and continued to function smoothly while digital transactions maintained their growth momentum

Profile of Retail Transactions - Volume



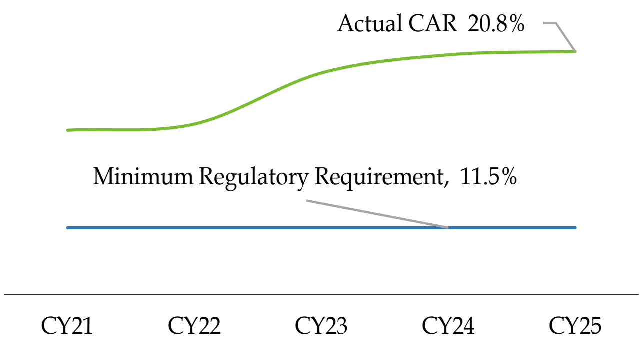
Trend in Raast Transactions - Volume



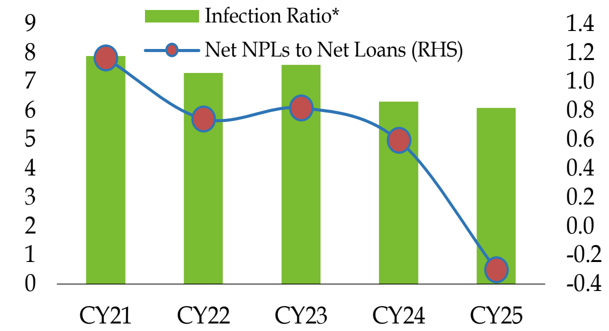
Data sources: State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Bloomberg

Risks to the banking sector remained contained and the sector remained resilient with capital buffers further strengthening

Capital Adequacy Ratio (CAR)



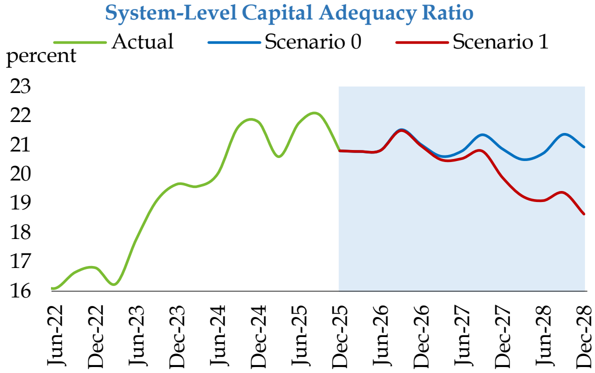
Assets Quality Indicators



*Non-Performing Loans to Gross Loans

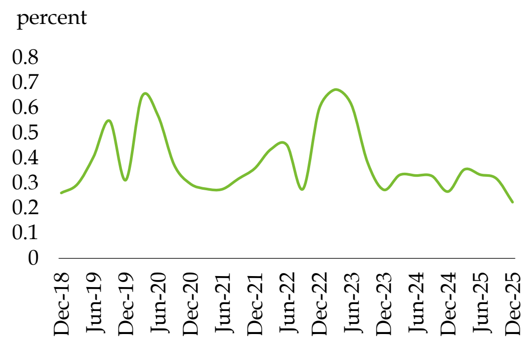
Risks to solvency are expected to remain contained in the medium-term

System-Level Capital Adequacy Ratio



Financial soundness of corporate sector improved in CY25

Weighted average 1 year PD of Corporate Sector

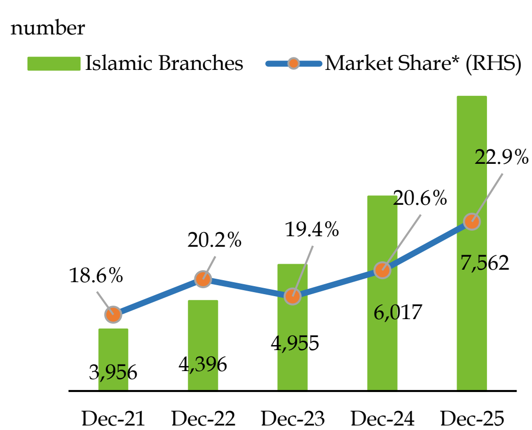


Market perceives Global geopolitical risk, among the top five prevailing risks, to financial stability

Top 10 Risks identified

With market share rising, the Islamic Banking Institutions made further inroads with a healthy branch expansion

Branch Network and Market Share* of IBIs



*Market share in Total Assets of Banking Sector

Data sources: State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Bloomberg

The Overview

1. Overall Performance of Financial Sector[1]

Pakistan's financial sector posted steady performance and maintained resilience during the year 2025. The asset base of the financial sector expanded by 15.1 percent and the financial depth—measured in terms of assets to GDP ratio—increased to 67.1 percent **(Table 1)**. Encouragingly, risks to financial stability subsided during the year under review.

Despite strong headwinds driven by volatile trade policies, associated uncertainties, and geopolitical tensions, the global output showed a steady growth of 3.4 percent.[2] In addition, major central banks—in the wake of receding inflation—continued to lower their policy rates during much of CY25, which contributed to a relative ease in global financial conditions (**see Chapter 1**).

Domestic macroeconomic conditions were also characterized by a supportive environment. For instance, price stability gradually took hold, external buffers strengthened amid contained current account deficit and financial inflows, and investor confidence improved. Against this backdrop, the real GDP grew by 3.1 percent in FY25 from 2.6 percent in FY24. The growth momentum got further traction in later half of CY25, i.e., national output expanded by 3.8 percent in H1FY26, as the coordinated and forward-looking monetary and fiscal policies continued to support the macroeconomic conditions. Moreover, two successful reviews under Extended Fund Facility (**EFF**) along with arrangements under Resilience and Sustainability Facility (**RSF**) further augmented the investor confidence.[3] In this context, country's credit rating improved, and risk

Assets Composition of Financial Sector — **Table 1**

	CY23	CY24	CY25
Assets - billion Rupees			
MFBs	771	1,069	1,029
DFIs	2,338	1,979	1,352
NBFIs	3,447	6,204	6,844
Insurance*	2,949	3,375	4,029
CDNS	3,179	3,227	3,553
Banks	46,364	53,693	63,231
Total	**59,048**	**69,547**	**80,039**
YoY Growth in Assets (percent)			
MFBs	2.4	38.6	-3.7
DFIs	63.3	-15.3	-31.7
NBFIs	34.5	80.0	10.3
Insurance*	14.3	14.4	19.4
CDNS	-6.2	1.5	10.1
Banks	29.5	15.8	17.8
Overall Financial Sector	**27.0**	**17.8**	**15.1**
Percent Share in Total Assets			
MFBs	1.3	1.5	1.3
DFIs	4.0	2.8	1.7
NBFIs	5.8	8.9	8.6
Insurance*	5.0	4.9	5.0
CDNS	5.4	4.6	4.4
Banks	78.5	77.2	79.0
Assets as a percentage of GDP**			
MFBs	0.8	1.0	0.9
DFIs	2.5	1.8	1.1
NBFIs	3.6	5.7	5.7
Insurance*	3.1	3.1	3.4
CDNS	3.3	2.9	3.0
Banks	48.6	49.0	53.0
Overall Assets	**61.9**	**63.5**	**67.1**

*Insurance data is available up to Sep-2025.

**GDP for Dec-25 is provisional.

Sources: SBP, SECP, CDNS, and PBS

[1] The analyses presented in this report were prepared on data outturns for CY25 and finalized in the last week of April 2026, using data and information as of then. At certain places the availability of data is as of September 2025, which are specified in the relevant chapters.

[2] International Monetary Fund. (2026). *World Economic Outlook April*

[3] First and 2nd reviews were successfully completed in May 2025 and December 2025. RSF was approved in May 2025, and first review was completed successfully in December 2025.

premium observed a significant decline during the year under review.[4]

With improved output and moderation in global commodity prices, YoY inflation eased to 5.6 percent in December-25 —falling within the SBP's target range. This, along with improved outlook for inflation, allowed SBP to further reduce the policy rate by 250 basis points (bps) in CY25 to 10.5 percent (following a cumulative 900 bps cut in CY24). Moreover, the current account balance, despite widening of trade deficit, remained contained due to strong inflow of workers' remittances and favorable international commodity prices.[5]

Besides, developments on the fiscal front remained encouraging. The fiscal deficit narrowed to 5.4 percent (of GDP) in FY25 from 6.8 percent in FY24 with primary balance remaining in surplus. In H1FY26, fiscal balance also turned into a surplus of 0.4 percent. In the wake of anchored inflation expectations, narrowing imbalances, and traction in economic recovery, investor confidence remained upbeat as manifested by Business Confidence Index (**BCI**), which stayed above the threshold level of 50 in CY25 (**see Chapter 1**).

2. Financial Markets

The average volatility in domestic financial markets remained slightly higher during the year, mainly driven by equity market.[6] Bullish sentiment continued to drive equity prices up and the KSE-100 index—with 51.2 percent growth—surged to 174,054 by end of CY25. Nonetheless, trade tariff uncertainty and geopolitical tensions had a material but transitory impact on investor confidence. Foreign investors continued to be net sellers while mutual funds and individuals absorbed most of the selling pressure. Noticeable improvement in country's FX reserves—mainly supported by strategic purchases in the interbank market—and reduced SBP's forward liabilities kept FX market sentiment calm, resulting in stability of rupee-dollar parity. Money market also continued to function in an orderly manner under central bank's effective monetary management (**see Chapter 2**).

3. Banking Sector

The banking sector maintained steady operational and financial performance and resilience during CY25. Balance sheet of the banking sector expanded by 17.8 percent against 15.8 percent a year ago. Strong balance sheet growth was primarily driven by investments in government securities. Accordingly, the share of investments in the asset-mix increased to around 62 percent from 55.5 percent in previous year. Advances, however, declined by 6.0 percent, reflecting higher base effect of last year's ADR-linked tax policy, which incentivized the banks to substantially expand their lending portfolio and slow down deposit mobilization in Q4CY24. Adjusting for the base impact, the advances showed a decent growth, manifesting improved macro-financial conditions.[7]

On funding side, deposits accelerated and grew by 24.7 percent, reversing the impact of sharp slowdown in CY24. Accordingly, banks' reliance on borrowing subsided in CY25, with its share

[4] Fitch, S&P Global, and Moody's upgraded Pakistan's credit rating, respectively, in April 2025, July 2025, and August 2025. Broadly, these agencies changed the credit rating due to sustained progress over fiscal consolidation, implementation of structural reforms, contained external liquidity risks, and recovery in international reserves. Moreover, Average Credit Default Swap (CDS) on 5 years bond declined to 719 bps in CY25 from 1,780 bps in CY24 and 4,770 bps in CY23.

[5] Current account deficit stood at US$ 0.4 billion as compared to a surplus of US$ 0.5 billion in CY24. Trade deficit (goods & services) widened to US$ 34.0 billion in CY25 from US$ 26.7 billion in CY24. Workers' remittances amounted to US$ 40.2 billion in CY25 against US$ 34.7 billion in CY24.

[6] Average volatility increased to 0.50 percent in CY25 from 0.38 percent in CY24. The volatility is calculated by using Exponential Weighted Moving Average (EWMA) on daily percent changes of Weighted Average Overnight Repo Rate, interbank PKR/USD exchange rate and KSE-100 index.

[7] For instance, in Q3CY25, the advances recorded a YoY growth of 11.2 percent.

in asset base falling to 25.1 percent from 27.9 percent in previous year.

The *credit risk*, being the major financial risk in banks' asset portfolio, remained contained and well provided for. Non-performing loans (**NPLs**) to gross loans ratio declined to 6.1 percent in December 2025, against 6.3 percent in December 2024. Importantly, the coverage for infection further improved, as the loan-loss allowances and provisions rose to 107.7 percent of NPLs (103.9 percent in December 2024). Besides the large exposure to low-risk sovereign securities, a high share of credit-worthy borrowers in banks' loan portfolio (e.g., rated borrowers constitute around 62 percent of banks' corporate and commercial loans), indicates contained credit risk.

The *market risk* of the banking sector has been quite contained. Even in the face of significant rise in the holding of government securities, interest-rate risk remained subdued because of larger share of securities with shorter repricing maturity. Moreover, limited exposure to FX and equities underpins banks' resilience even against severe shocks in market prices.

The *liquidity profile* of the banking sector remained strong during CY25. The treasury securities—representing the substantial part of asset base, i.e. 58.6 percent—have an active secondary market, which helps banks in managing daily liquidity needs. The sector continued to comply with Basel III liquidity metrics such as Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**), which stood at 215.0 percent and 174.3 percent at end December 2025, respectively.

After-tax *earnings* of the banks increased by 11.2 percent. As this growth was mainly volume driven, key earning indicators slightly moderated — after-tax return on assets (**ROA**) moderated to 1.2 percent (1.3 percent in last year) and after-tax return on equity (**ROE**) contracted to 19.8 percent (21.5 percent a year ago). The tax charges on banks' pre-tax profits rose to 54.3 percent in CY25 from 52.9 percent in CY24.

Banking sector's *solvency* further strengthened as Capital Adequacy Ratio (**CAR**) improved to 20.8 percent at end 2025 (20.6 percent at end 2024). The prevailing CAR level remains well above the domestic and international minimum benchmarks of 11.5 percent and 10.5 percent, respectively. The overall solvency position of banking sector is well supported by steady earnings, comfortable financial buffers, and contained risk exposures. Further, sound credit ratings of individual banks also reflect the creditworthiness of the sector (**see Chapter 3**).

Islamic Banking Institutions (IBIs) continued their growth momentum during CY25, reaching around 23.0 percent of the total banking sector assets. With the highest-ever branch expansion during the year, IBIs assets grew by 30.7 percent and outpaced growth of their conventional counterparts for the second consecutive year. Investments and financing both witnessed remarkable growth during the year under review, supported by a notable growth in deposits. The credit risk subsided as the non-performing financing (NPF) to total gross financing ratio dropped to 2.4 percent by CY25 from 3.5 percent a year ago. However, key earning indicators i.e., ROA and ROE moderated to 1.8 percent (2.8 percent in CY24) and 24.7 percent (36.0 percent in CY24), respectively (**see Box 3.1 in Chapter 3**).

4. Microfinance Banks

The asset base of **Microfinance Banks** (**MFBs**) *contracted* by 3.7 percent in CY25 (38.5 percent growth in CY24). The contraction was driven by the migration of an institution to banking sector as a full-fledged digital bank. After considering this structural adjustment, the assets of the sector, however, grew by 7.3 percent. While infection ratio slightly fell to 9.1 percent from 9.7 percent in CY24, provisioning coverage rose to 138.1 percent from 95.2 percent in previous year. Over the last few years, the sector's borrowers have faced some severe exogenous shocks such as the COVID-19 pandemic, heavy floods, elevated inflation and economic downturn. Accordingly, the sector faced loan losses, and its aggregate earnings are in red for the last seven years.

Encouragingly, pre-tax losses significantly reduced to Rs 2 billion in CY25 from Rs 25 billion last year. However, the consistent losses have eroded the capital base of the sector, with aggregate CAR falling to negative 1.2 percent. The sector contributes only 1.3 percent to the total assets of the financial sector and poses relatively lower systemic risk. Nonetheless, the MFBs hold importance from financial inclusion standpoint. The sector caters to the financial needs of low-income and financially underserved segments of the population, and its customer base is significantly higher than that of the commercial banks. SBP, through its active engagement and proactive intervention, is ensuring that the MFB sector revives, remains resilient, and continues to play its due role in financial inclusion and poverty alleviation.[8] Accordingly, SBP played an active role in the restructuring and recapitalization of distressed institutions and revised prudential regulations to support financial stability and sustainability of microfinance banks (**see Chapter 5**).

5. Non-Bank Financial Sector

Non-Bank Financial Sector posted a mixed performance during CY25**.** The asset base of **Development Finance Institutions (DFIs)** *contracted* by 31.7 percent in CY25 (15.3 percent *contraction* in CY24). The shrinking balance sheet reflects sustained decline in exposure towards government securities as well as borrowings, driven by squeezed spread between yields on investments and funding cost. Advances, nonetheless, rebounded by 23.2 percent in CY25. The thrust for portfolio rebalancing came from declining interest rates and improving economic activity which stimulated credit demand by borrowers. Along with noticeable improvement in asset quality indicators, earnings and solvency of the sector remained strong in the year under review (**see Chapter 6.1**).

The asset base of **Non-Bank Financial Institutions** (**NBFIs**) expanded by 10.3 percent in CY25 against an exceptional 80.0 percent growth in last year, which occurred due to one-off effect of ADR-linked tax policy on banks that diverted funding to NBFIs sector in the last few months of CY24. Mutual funds—having 66.3 percent share in NBFI sector's assets—experienced subdued growth of 2.2 percent largely owing to high-base effect of substantial inflows received in Q4CY24 that reversed during the year under review. While money market funds decelerated and income funds contracted, equity funds exhibited strong expansion in the wake of strong stock market performance. Nonetheless, in terms of the asset composition, two-thirds of the funds remained concentrated in money market and income funds.

The lending segment, however, grew by 21.5 percent in CY25 due to improved macroeconomic environment and easier financial conditions. From systemic risk standpoint, the interconnectedness between the banking and NBFI sectors and associated risks remained contained and well-managed (**see Chapter 6.2**).

The asset base of the **insurance sector** expanded by 19.4 percent during 9MCY25 (23.4 percent in 9MCY24). Premium revenues of the life segment expanded by 13.2 percent as individual new business and single-premium policies surged amid economic recovery. The premiums of non-life segment exhibited a growth of 8.8 percent during 9MCY25, mainly due to surge in auto sales (**see Chapter 6.3**).

6. Non-Financial Corporate Sector

In the wake of declining interest rates and reduction in finance costs, debt servicing

[8] The new Financial Inclusion Index published by SBP increased to 58.1 in 2024 from 54.8 in 2023

capacity of the **Non-Financial Corporate Sector** improved in CY25.[9] The data of selected firms indicate that although sales revenue faced pressures, a decent growth in other income and a fall in finance cost supported profitability. However, earnings indicators such as **ROA** and **ROE** moderated mainly due to increased taxation expenses. The sectoral performance presented a mixed picture: while textile, power, and petroleum sectors witnessed moderate increase in sales, the sales of fertilizer and sugar sectors declined. However, auto sector posted a strong growth in sales and revenues. Encouragingly, the probability of default – mainly reflecting market valuations, asset volatility and financial buffers – of the selected firms improved, mirroring healthy macroeconomic environment, and the investors' confidence in the prospects of firms. The credit worthiness and repayment capacity of top 30 borrowing groups of the banking sector also remained sound during CY25 (**see Chapter 7 and Box 7.1**).

7. Financial Market Infrastructures

Financial Market Infrastructures (FMIs) continued to facilitate payments through steady performance during CY25. Pakistan Real-time Interbank Settlement Mechanism (**PRISM**), which handles large value payments, kept functioning smoothly and handled an even larger value of transactions compared with last year. Retail transactions witnessed impressive growth both in value and volume terms. While *digital transactions* continue to dominate volume of transactions, OTC transactions still lead in value terms.

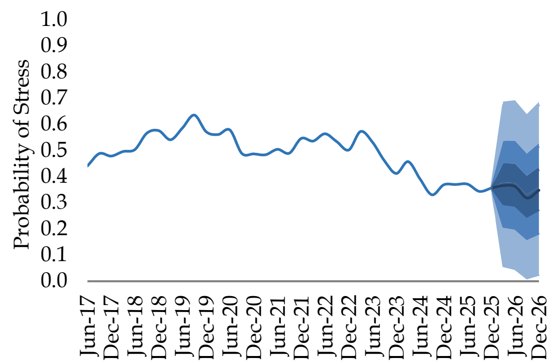
The policy makers took a number of measures to improve the efficiency of FMIs. For instance, PRISM+ was implemented – a next-generation platform designed to modernize and strengthen the national payment infrastructure. SBP also rolled out QR code-based payments through RAAST.

Besides, National Clearing Company of Pakistan (**NCCPL**) successfully transitioned to T+1 settlement mechanism. The transition to one-business-day trade settlement aims to enhance the operational efficiency of securities market transactions and is aligned with global regulatory standards. Furthermore, SECP in collaboration with the Central Depository Company (**CDC**) and the Insurance Association of Pakistan (**IAP**), launched Pakistan's first motor insurance repository. This centralized repository aims to revolutionize the motor insurance landscape by enhancing transparency, improving underwriting practices, and combating insurance fraud (**see Chapter 8**).

8. State of Overall Financial Stability

The overall assessment of the state of financial stability**,** as measured by Financial Sector Vulnerability Index, reveals that most of the risks subsided in CY25 on the back of macroeconomic stability and improved macro-financial conditions (**Figure 1A and 1B**).[10]

Financial Sector Vulnerability Index (FSVI) **Figure 1A**

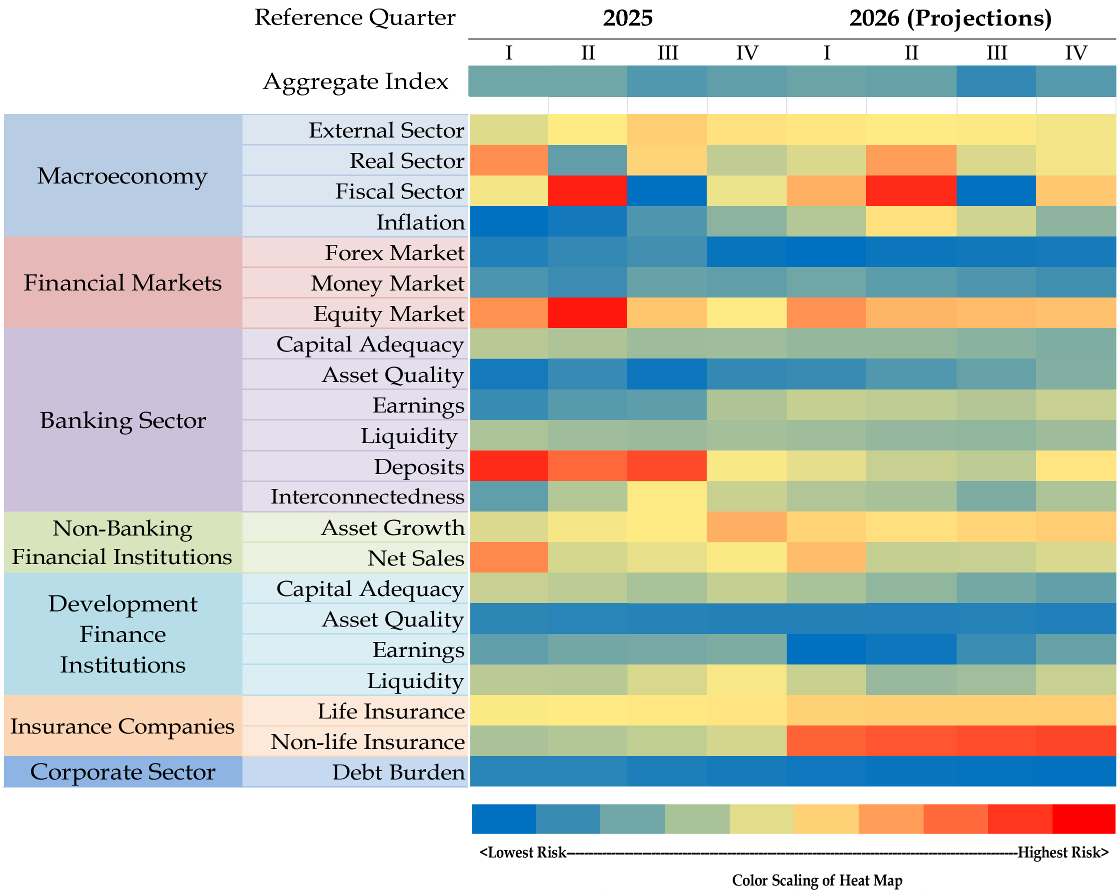


Source: State Bank of Pakistan Staff Estimates

[9] Analysis is based on financials of select listed firms at Pakistan Stock Exchange.

[10] Financial Sector Vulnerability Index (FSVI) represents an equally weighted average index of risks arising from the seven key areas i.e. the banking sector, Development Finance Institutions (DFIs), financial markets, non-bank financial institutions (NBFIs), Insurance sector, non-financial corporate sector, and the macro-economy. The risk spectrum ranges from 0 and 1, implying 'least risk' and 'highest risk', respectively. The individual sub-indices of key sectors form the basis of Financial Sector Heatmap. For

Financial Sector Heat Map — Figure 1B



Source: State Bank of Pakistan Staff Estimates

9. SBP's Policy Measures in Key Areas

SBP's regulatory and supervisory frameworks along with adequate safety nets are likely to preserve the general confidence in banking system and safeguard financial system stability. These frameworks are regularly reviewed and updated in line with emerging best practices and local environment dynamics. In CY25, SBP took additional measures in critical areas such as digital financial services, cybersecurity, climate risk, Islamic banking, and financing to priority segments.

For instance, to further promote digital financial services, Digital Retail Bank (**DRB**) licenses were granted to two banks, viz., Easypaisa Bank Limited and Mashreq Bank Pakistan Limited. Moreover, instructions were issued 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. In addition, SBP introduced a regulatory sandbox framework to facilitate controlled testing of innovative digital financial products and services within a defined regulatory environment (**see Appendix A**).

detailed methodology, see https://www.sbp.org.pk/FSR/2017/Appendix-A.pdf and https://www.sbp.org.pk/FSR/2018/Appendix-A.pdf

With rapid penetration of digital services, SBP continued to take measures to ensure the safety and resilience of cyber and information security regime. For instance, guidelines were issued to strengthen the security of digital banking products and services. Moreover, SBP introduced 'Cyber Shield', a strategic framework designed to consolidate the safety and robustness of the national financial ecosystem by establishing a multi-phased roadmap for regulated entities to enhance their systems. Particularly, SBP—in collaboration with Pakistan Banks Association—conducted first industry-wide cybersecurity drill in January 2026. The drill assessed technical readiness, decision making and management readiness for crisis responses (**see Box 3.2**). SBP also issued a Technology Risk Management Framework for Payment Institutions to strengthen governance, cybersecurity, and operational resilience across EMIs, PSOs, and PSPs.

On climate front, SBP has continued to take measures to bolster climate resilience of the banking sector. A regulatory framework for Effective Management of Climate-related Financial Risks was issued to ensure that financial institutions effectively identify climate risk drivers and integrate climate-related financial risk considerations into their governance, business strategy, and risk management frameworks. SBP also issued guidelines on climate stress testing, which will help the regulated entities to assess the impact of climate-related physical and transition risks on credit, market, operational and liquidity risks, and set minimum regulatory expectations in this area. In addition, SBP advised Banks/DFIs to use Pakistan Green Taxonomy (**PGT**)—notified by the government – as a reference guide for formulating and updating their green banking policies.

SBP also continued to lay enabling regulatory infrastructure in collaboration with relevant stakeholders to support *priority segments* during the year under review. For instance, SBP facilitated a government Risk Coverage Scheme for Small Farmers & Underserved Areas. This comprehensive scheme aims to enhance financing to small and marginalized farmers as well as the farmers in unserved and underserved areas. Moreover, SBP revised prudential regulations for SMEs to align the regulatory framework to the changing business environment and to promote sustainable, responsible, and inclusive SME finance.

The transformation of conventional banking to Islamic banking—as per the April 2022 verdict of the honorable Federal Shariat Court (**FSC**) and subsequent constitutional amendment in 2024 —remains a crucial task. In this regard, the Committee for Transformation (**CT**) of conventional banks to Islamic banking has made considerable progress against the intended targets. Furthermore, SBP has been actively pursuing to align Shariah compliance framework with internationally recognized best practices. Accordingly, SBP has adopted a total of forty-five (45) Accounting and Auditing Organization for Islamic Financial Institutions (**AAOIFI**) standards and ten (10) Islamic Financial Services Board (**IFSB**) standards. It is noteworthy that Shariah-compliant Standing Ceiling Facility and Open Market Operations (OMO-injection) facilities were operationalized against PSX-issued Government of Pakistan Ijara Sukuk (**GIS**).

10. Financial Stability Outlook

While the recently achieved macroeconomic stability presents a sanguine outlook for financial stability[11], the uncertainty around the conflict in the Middle East may pose downside risks. A protracted and widespread conflict may

[11] Encouragingly, Pakistan successfully concluded staff level agreement with the IMF on Third Review under the Extended Fund Facility (EFF) and Second Review under the Resilience and Sustainability Facility (RSF) in March 2026. The disbursement of the installment is expected to be approved by the IMF Board in early May 2026.

keep oil prices higher for longer and disrupt global supply chains. Consequently, inflationary pressures may resurge, and the external account could come under strain, potentially affecting the growth momentum. The latest Systemic Risk Survey, conducted in January 2026, also indicates that independent experts foresaw geopolitical risk as the topmost risk at present as well as six months down the road (**see Box 1**). This risk may have spillover effect on the banking and financial sector of Pakistan. Nonetheless, the banking sector is well positioned to withstand severe shocks as it is supported by strong financial cushions, prudent and time-tested supervisory and crisis management frameworks that have effectively weathered severe macroeconomic stresses in the past.

The results of our latest stress tests also strengthen this view, indicating that the banking sector in general and large systemically important banks in particular are expected to remain solvent, exhibit resilience and can withstand even severe shocks over the projected horizon of three years (**see Chapter 4).** Preserving the hard-earned stability gains as well as improvement in productivity growth and export competitiveness are crucial policy priorities as these will determine the durability of a sustainable macroeconomic momentum. Being cognizant of prevailing and emerging risks, SBP will continue to endeavor to utilize the available toolkit and capabilities to achieve price stability, ensure financial stability, and promote sustainable economic growth.

Box 1: SBP's Systemic Risk Survey

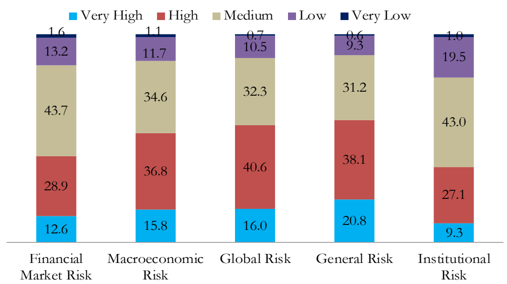
SBP conducted the 17th wave of its biannual Systemic Risk Survey (SRS) in January 2026. The survey aims to capture the perceptions of market participants about various risks to the financial system of Pakistan and their confidence in the stability of the financial system. The survey is designed to gauge the present and near term (over the next six months) perceptions of the respondents across five broad risk categories: global, macroeconomic, financial markets, institutional, and general.

The respondents of the current iteration of the SRS covered a wide spectrum of participants, including senior executives of bank and non-bank financial institutions, financial journalists, and others. The response rate for the current wave was 47 percent— higher than 43 percent response rate for the 16th wave.

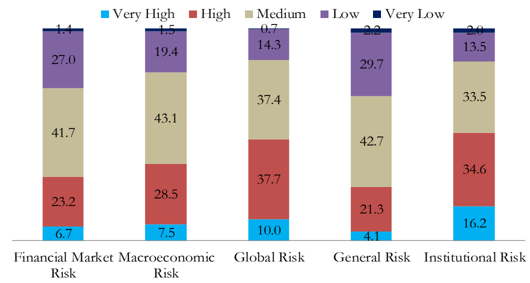
Summary of Results

1. The respondents, on aggregate, perceive risks emanating from "General", "Global", and "Macroeconomic" categories to be the major risks to the financial system **(Figure A)**. Perception regarding "General Risk" was driven by "Global Geopolitical Risk". Over the period of next six months, risk perceptions are higher for Global Geopolitical risks. (**Figure B)**.
2. In terms of key risks at present, top five risks (in descending order) were "Global Geopolitical risks", "Geopolitical risk for Pakistan", "Volatility in Commodity Prices", "Natural Disasters", and "Cybersecurity Risk". Over the next six months, risk perceptions regarding these categories are expected to subside except Global Geopolitical Risk and Domestic Terrorism. **(Figure C)**.
3. Regarding the stability of the financial system of Pakistan, the respondents reposed a fair amount of confidence in the system. Conversely, most of the respondents exhibited strong confidence on the stability of the banking system and also showed their confidence on the ability of regulators to ensure the stability of the financial system **(Figure D)**.
4. A comparison with the last wave (16th) indicates that the risk perception has improved across most of the risk categories. However, a significant deterioration in risk perception was seen in most of Macroeconomic Risk categories, highest being in "Global Geopolitical Risk" **(Figure E)**.

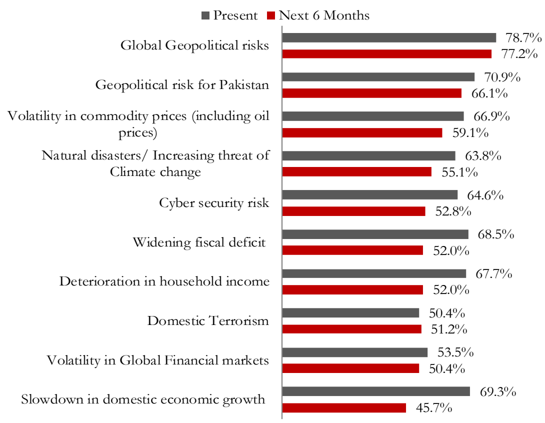
Perception on Sources of Systemic Risk-Present Figure-A



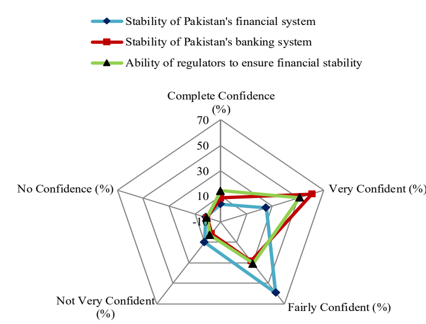
Perception on Sources of Systemic Risk- Next 6 Months Figure-B



Top Ten Risk Identified Figure-C



Confidence in Financial Stability Figure-D



Comparison of SBP's Systemic Risk Survey (SRS) Results (16th and 17th Wave) Figure-E

	Risk Categories	16th Wave (July-25) Present (Average)	17th Wave (Jan-26) Present (Average)
Global	Slowdown in global growth	2.4	2.5
	Sovereign default	2.7	3.0
	Lack of funding from abroad	2.5	2.4
	Volatility in commodity prices	2.1	2.2
Macroeconomic	Volatility in Global Financial markets	2.6	2.5
	Global Geopolitical risks	2.1	1.9
	Slowdown in corporate sector growth	2.5	2.5
	Slowdown in Agriculture	2.4	2.5
	Slowdown in infrastructure development	2.7	2.7
	Deterioration in household income	2.4	2.2
	Slowdown in domestic growth	2.3	2.2
	Deterioration of BoP	2.2	2.2
	Widening fiscal deficit	2.2	2.2
	Increase in domestic inflation	2.3	2.4
	Sovereign rating downgrade	2.6	2.7
	Volatility in real estate prices	2.9	3.0
	Energy crisis	2.3	2.4
	Political uncertainty	2.2	2.4
Financial Market	Foreign exchange rate	2.0	2.3
	Equity price risk	2.7	2.8
	Interest rate	2.7	2.7
	Liquidity risk	2.6	2.8

	Risk Categories	16th Wave (July-25) Present (Average)	17th Wave (Jan-26) Present (Average)
Institutional	Asset quality deterioration	2.6	2.6
	Shortfall in capital requirements	2.8	2.8
	Excessive private sector credit	2.9	3.0
	Concentration risk in PSC	2.7	2.8
	Access to funding	2.8	2.9
	Disruption in financial markets	2.7	2.9
	Cyber security risk	2.1	2.1
	Regulatory	2.7	2.7
	Legal	2.8	2.8
	Concentration risk in mutual funds	3.1	3.0
	Operational risk	2.6	2.7
	AML/CFT Risks	2.6	2.6
General	Terrorism	2.4	2.4
	Geopolitical risk for Pakistan	2.1	2.1
	Natural disasters	2.1	2.1
	Domestic Social unrest	2.5	2.5

1 3 5

Very High Very Low

Global and Domestic Developments

1

Global economy grew steadily during CY25, resisting trade tensions and geopolitical disruptions. Global trade, supported by the rise in AI and tech-related demand, recovered during the year, with emerging markets and developing economies (EMDEs) outpacing the advanced economies (AEs). Inflation continued its downward trend, driven by decrease in commodity prices, especially oil and food prices. Financial conditions improved amid robust growth in equity markets. Equity markets in EMDEs outperformed others due to increased exports in tech sector and the weakening of US dollar. The global growth prospects, however, still face challenges, posed by trade and geopolitical tensions, and fears of lower-than-expected returns on AI-related investments. During CY25, domestic economic activity continued to gain traction amid improving macroeconomic conditions and enhanced policy credibility. CPI Inflation dropped further, while the current account deficit remained contained, and the primary balance recorded a surplus for third consecutive year. Foreign exchange reserves rose significantly, reinforcing external sector stability and strengthening market confidence. These gains were supported by improved supply chain conditions, prudent and well-coordinated monetary and fiscal policies, and relatively lower international commodity prices. Progress under the IMF's Extended Fund Facility program and its timely reviews and disbursements further bolstered investor sentiment. In addition, robust workers' remittance inflows, exchange rate stability and a reduction in the country risk premium collectively contributed to enhancing macroeconomic stability and strengthening overall economic resilience during the year. Going forward, ensuring policy consistency and reform continuity remains critical to achieving durable growth, maintaining price stability, and improving productivity, competitiveness and debt sustainability to ensure macro-financial stability and sustained economic growth in medium- to long-term.

1 Global and Domestic Developments

1.1 Global Economic Dynamics

Despite trade uncertainty, global economy remained resilient …

Global economy, growing by 3.4 percent, exhibited steady performance in CY25 (**Table 1.1**).[1] Despite unusual trade uncertainty, a number of factors supported economic momentum, including surging technology related investment, accommodative fiscal and monetary policies, broadly eased financial conditions, and adaptability of the private sector to US tariffs.

Advanced Economies (AEs) witnessed slight deceleration in their growth during CY25. The pace of economic activity in the US remained lower. However, strong AI-related investments, lower interest rates, and continued fiscal support aided the economy. Moreover, declining energy prices, ebbing interest rates, and targeted fiscal measures contributed towards growth in other AEs.

Emerging markets and Developing Economies (EMDEs) registered 4.4 percent growth. Economic prospects improved for China due to policy support, which helped contain the impact of slowdown in real estate sector.[2] Rising AI-related investment increased the global demand for semiconductors and related equipment. This results in higher exports of these items from Asian economies, contributing positively towards growth in EMDEs.

Gulf Cooperation Council (GCC) region—a major export destination and vital source of remittance for Pakistan—manifested noticeable revival in economic activity during CY25. The continued diversification in growth drivers of these countries primarily scaled up economic growth.

Global Economy: Real GDP Growth **Table 1.1**

			percent
	2024	**2025**	**2026***
World	3.4	3.4	3.1
Advanced Economies	1.8	1.9	1.8
EMDEs	4.5	4.4	3.9
EMDEs - Asia	5.4	5.5	4.9
USA	2.8	2.1	2.3
Euro Area	0.9	1.4	1.1
GCC	2.2	4.4	2.0
UK	1.1	1.3	0.8
Japan	-0.2	1.2	0.7
China	5.0	5.0	4.4
Türkiye	3.3	3.6	3.4
India	7.1	7.6	6.5
Russia	4.9	1.0	1.1
Saudi Arabia	2.6	4.5	3.1
UAE	4.0	5.8	3.1
Pakistan**	2.6	3.1	3.6

*Projections

**Fiscal Year

Source: IMF WEO and REO

…along with increased global trade.

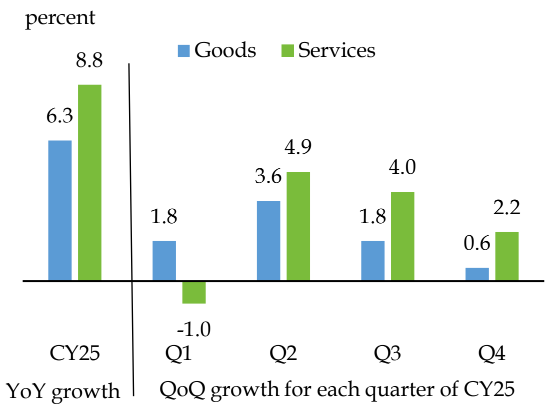
Global trade in CY25 exceeded $35 trillion, an increase of around $2.2 trillion from CY24.[3] Trade in services, particularly in information and business services, mainly drove this growth, followed by trade in goods. **(Figure 1.1)**. In volume terms, global trade has increased by 4.1% in CY25.

[1] International Monetary Fund. (2026, January). *World Economic Outlook Update: Global Economy: Steady amid Divergent Forces.*

[2] Fiscal expansion, front-loading of exports towards and European and Asian partners, and acceleration in domestic demand contributes towards positive outlook of Chinese economy.

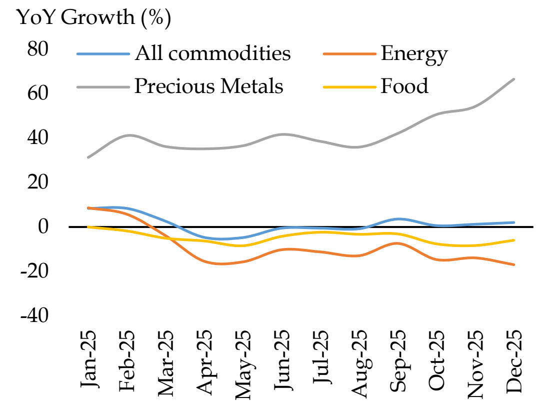
[3] UN Trade and Development (UNCTAD) Global Trade Update – December 2025

Growth in Trade of Goods and Services **Figure 1.1**



Source: UNCTAD

International Commodity Prices Index **Figure 1.2**



Source: International Monetary Fund

During H1-CY25, households and businesses frontloaded their consumption and investment in anticipation of higher tariffs. This temporarily boosted global activity in early 2025.[4] Moreover, bilateral trade agreement between US and various countries, especially the deal between US and China on rare earth minerals abated the trade tensions in H2CY25.

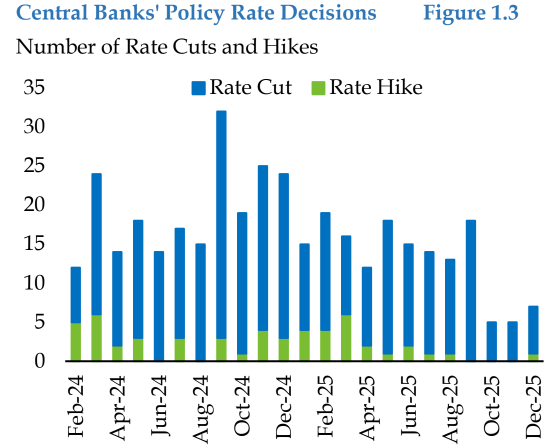
Global inflation continued to decline…

Global headline inflation fell to 4.1 percent from 5.8 percent in previous year. Decline in energy prices, softened consumer demand, and weak labor market conditions kept downward pressure on inflation. However, precious metals prices profoundly increased as investors hedged them amid rising geopolitical uncertainty **(Figure 1.2)**. Also, a few central banks increased their inventory of gold reserves. It is noteworthy that despite geopolitical stress, global oil prices declined on the back of increased supply and tepid global demand.

accompanied by a synchronized monetary easing…

Major central banks continued to ease monetary policy throughout the year, albeit with varying pace. Despite trade uncertainty and above-target inflation levels, AEs eased monetary policy in a calibrated manner amid concerns of economic slowdown and weak labor demand.[5] While emerging market central banks either cut or maintained key interest rates depending on the domestic inflation dynamics **(Figure 1.3)**.

Central Banks' Policy Rate Decisions **Figure 1.3**



Source: CB Rates.com

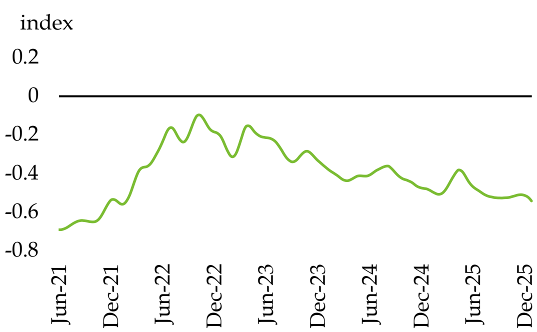
[4] World Economic Outlook, October 2025

[5] This year, the US Federal Reserve cut rates by a total of 75 basis points, the European Central Bank (ECB) 100 basis points, the Bank of England (BoE) 100 basis points, and the Reserve Bank of Australia 75 basis points, while the Bank of Japan (BoJ) raised its rates by 50 basis points.

contributing to accommodative financial conditions…

Financial conditions generally remained favorable during CY25 driven by lowering interest rates, weakening of US dollar against major currencies, and strong equity prices **(Figure 1.4)**. The tightening in financial conditions amid trade tariffs shocks in April-2025 proved short-lived, though. In emerging markets, external financing risks abated due to a weaker dollar, resulting in eased financial conditions.[6]

Financial Conditions Index **Figure 1.4**



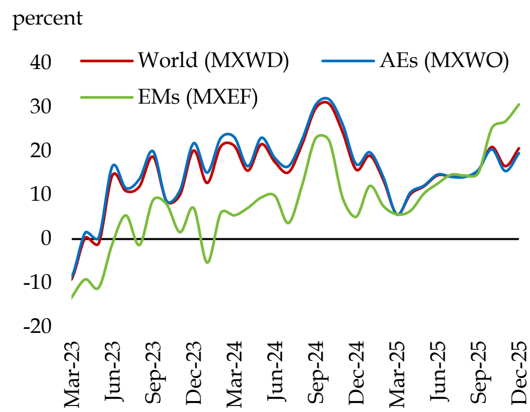
Note: Values below zero represent expansionary financial conditions, where credit is more accessible and market stress is lower than historical norms.
Source: St louis Fed

equity markets sentiment remained strong…

Global equity markets, with 21.6 percent growth in CY25, manifested strong investors' confidence. The performance was mainly contributed by EMDEs and USA equity markets. **(Figure 1.5)**.[7]

While Asian markets benefited from artificial intelligence boom as tech companies and chipmakers saw surges in demand, boost in European markets was backed by defense spending plans and improved economic prospects. Depreciation of US dollar against major currencies also provided a tailwind to international stocks.

MSCI Equity Price Indices (YoY change) **Figure 1.5**

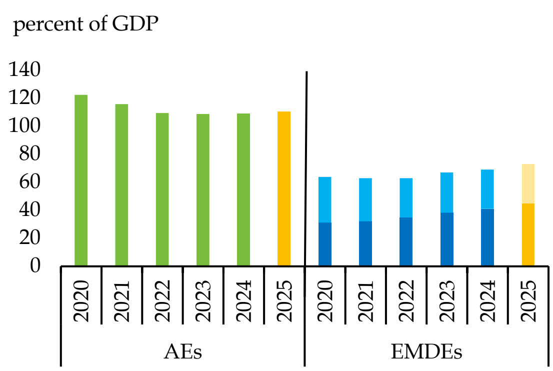


Source: Bloomberg

While debt levels remained stable in AEs, EMDEs debt increased in local currency.

The sovereign debt reached 110 percent of GDP for AEs by the end of CY25 (109 percent in CY24). However, in EMDEs case, the ratio rose to 73 percent from 70 percent in the previous year **(Figure 1.6)**. However, reliance on foreign currency borrowing reduced in some EMDEs, but progress has been uneven, and the currency

General Government Debt **Figure 1.6**



Note: Light colored columns represent the external debt of EMDEs as part of overall debt.
Source: International Monetary Fund

[6] Global Financial Stability Report, October 2025, Chapter 1, "Shifting Ground beneath the Calm: Stability Challenges amid Changes in Financial Markets"
[7] During CY25, S&P 500 posted total returns of approximately 17.9%, while the tech-heavy NASDAQ Composite jumped around 21.1%. In Asia, the Shanghai Composite Index gained approximately 18.4% during the year, while the Nikkei 225 returned about 26%, making it one of the top-performing major global equity markets of the year.

composition of government borrowing still varies considerably across economies.

1.2 Domestic Economic Developments

Macroeconomic stability gained traction in CY25…

Building upon the gradual recovery in CY24, the macroeconomic environment further improved in CY25. Economic activity paced-up, inflation fell further, current account deficit remained contained, Rupee stability largely remained intact, fiscal position improved, and SBP's FX reserves increased.

The visible shift in macroeconomic environment was underpinned by coordinated macroeconomic policies, disciplined implementation of IMF program, favourable international commodity prices, and eased global financial conditions. Against this backdrop, sovereign credit ratings improved, and the country's risk premium declined.

The economic growth was primarily driven by the industrial sector, supported by a stronger expansion in large-scale manufacturing (LSM) reflecting a gradual recovery in domestic demand amid decline in inflation and reduction in interest rates. The agriculture and services sectors further complemented the growth momentum, benefiting from improved input availability[8] and increased activity across general government and financial services in line with improvements in economic conditions **(Table 1.2, Figure 1.7)**.

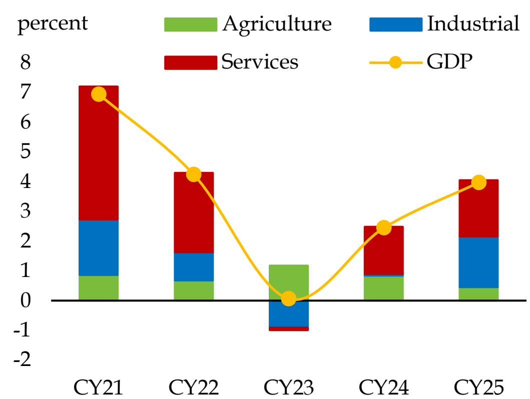
Key Economic Indicators of Pakistan* **Table 1.2**

	2021	2022	2023	2024	2025
Real Sector			(percent)		
Real GDP Growth (FY)	5.8	6.2	-0.2	2.6	3.1
Real GDP Growth (CY)	7.0	4.2	0.1	2.4	4.0
Industrial Sector Growth	9.9	5.0	-5.0	0.4	9.2
Agricultural Sector Growth	3.8	3.0	5.0	3.5	1.9
Service Sector Growth	7.7	4.6	-0.1	2.7	3.3
LSM Growth (Average YoY)	17.5	6.7	-9.1	0.5	3.0
Inflation (Average)	9.5	19.9	30.8	12.6	3.5
External Sector			(billion US$)		
SBP Reserves (End-of-Period)	17.7	5.6	8.2	11.7	16.1
Current Account Balance	-12.3	-12.2	-1.0	0.5	-0.4
Exports (Goods & Services)	35.6	39.0	36.2	40.3	40.6
Imports (Goods & Services)	76.5	76.6	58.1	67.0	74.7
Remittances	31.1	29.9	26.4	34.7	40.2
PKR/USD Rate (End-of-Period)	176.5	226.4	281.9	278.6	280.1
Fiscal Sector			(percent)		
Fiscal Deficit (as % of GDP, FY)	-6.1	-7.9	-7.8	-6.8	-5.4
Revenue Growth (YoY)	17.5	16.9	34.3	37.2	16.9
Expenditure Growth (YoY)	11.3	31.1	30.3	16.9	8.5
Monetary Sector			(percent & trillion Rupees)		
Credit to Private Sector (YoY Growth)	19.6	13.4	-1.1	23.7	1.0
Government Budgetary Financing	3.6	5.6	7.2	6.3	4.1
Domestic Sources	1.7	5.7	7.0	6.7	3.4
External Sources	1.9	-0.1	0.2	-0.4	0.7

*All data are on Calendar Year unless stated otherwise.

Source: Ministry of Finance, Pakistan Bureau of Statistics and State Bank of Pakistan

GDP Growth & Sectoral Contributions **Figure 1.7**



Source: Pakistan Bureau of Statistics

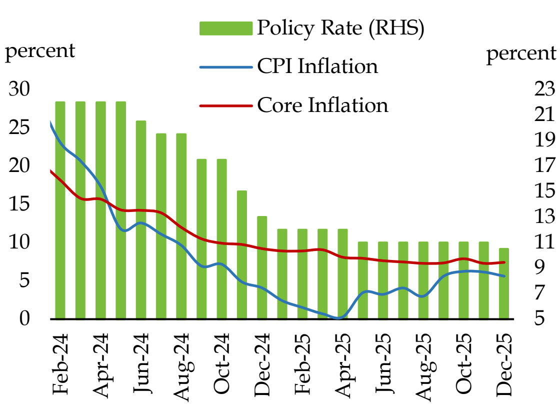
monetary policy stance further eased…

The early months of CY25 witnessed further slowdown in inflationary pressures due to moderate demand conditions, supportive

[8] Fertilizer offtake remained stable with low Urea prices and improved water availability, particularly in second half of CY25. Credit to agriculture and services sector also increased significantly.

supply-side dynamics, and the lagged impact of earlier policy-rate cuts along with favourable base effect. Nonetheless, inflation re-surfaced since May2025, reflecting decaying favourable base effect from food prices and persistent behaviour of core inflation **(Figure 1.8)**. In this context, SBP adopted a cautious approach by delivering three cuts in policy rate of 250 basis points cumulatively bringing policy rate down to 10.5 percent in CY25.[9] As a consequence of prudent monetary and fiscal policies as well as benign international commodity prices inflation fell in the target range of 5-7 percent.

Interest Rates and Inflation **Figure 1.8**

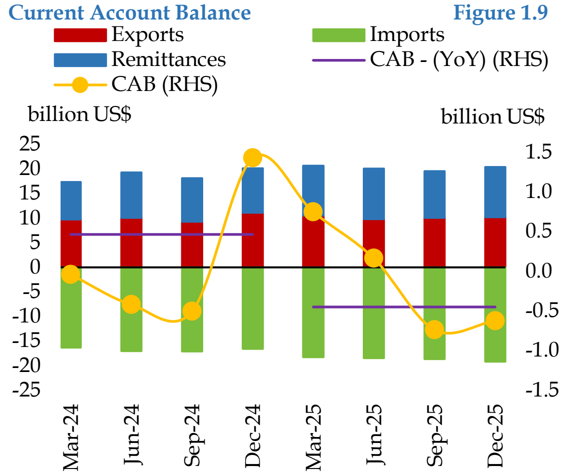


Source: State Bank of Pakistan and Pakistan Bureau of Statistics

External account posed improvement due to increasing remittances and softening of global commodity prices, …

On external front, the exports grew by 0.8 percent in CY25 compared to 11.3 percent in previous year primarily due to decline in food group. The decline was particularly driven by exports of rice and sesame seeds due to re-entry of India in the rice market and restoration of sesame seeds' supply lines from Ethiopia and Sudan. Low global commodity prices, rise in trade uncertainties amid hikes in trade tariffs, and rising geopolitical tensions also contributed to the subdued growth. On the contrary, imports grew by 11.5 percent, predominantly due to higher volumes, consistent with improving economic activity **(Figure 1.9).** As a result, the trade deficit widened to US$ 34.0 billion. Nevertheless, strong growth of 15.9 percent in workers' remittances more than compensated for trade deficit, keeping current account deficit just to US$ 0.4 billion in CY25.

Current Account Balance **Figure 1.9**



Source: State Bank of Pakistan

A mix of favourable domestic and global factors propelled workers' remittances during CY25. On the domestic front, robust growth in first half of CY25, is explained by the impact of incentives and subsidies introduced in CY24 that encouraged inflows through formal channels and remained effective till end of June-2025. Nevertheless, despite discontinuation of a few incentives and reduction in subsidy, remittances remained steady in second half of CY25, mainly due to stable exchange rate and reduced kerb premium. Moreover, labour demand remained strong in the host countries, especially in the Gulf region due to upbeat growth dynamics.

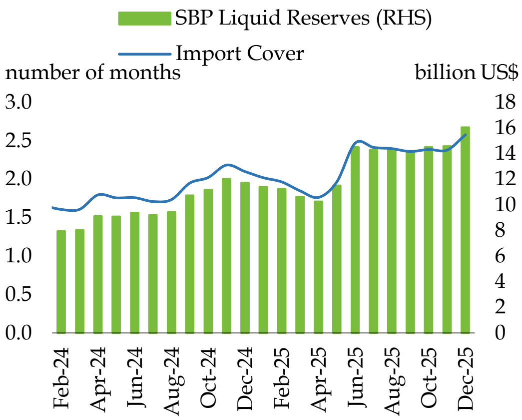
…and supported build SBP's FX reserves

The subdued current account deficit in CY25 reinforced Rupee stability and enabled SBP to undertake strategic purchases from the inter-bank market, leading to rebuilding of external

[9] The year under review recorded three policy rate cuts: i) by 100 bps on 27 January 2025, ii) 100 bps on 5 May 2025, and iii) 50 bps on 15 December 2025.

buffers. Moreover, timely materialization of planned official financing inflows, including disbursements under the IMF's Extended Fund Facility and the Resilience and Sustainability Facility, alleviated external financing pressures and reduced macroeconomic uncertainty. In this backdrop import cover increased to approximately 2.6 months **(Figure 1.10)**.

SBP Reserves and Import Cover **Figure 1.10**



Source: State Bank of Pakistan

Encouragingly, the spread between the open market and interbank exchange rates remained confined due to continued enforcement of targeted administrative and regulatory measures to curb speculative demand for foreign exchange and improved market discipline. These developments, together with improved confidence in macroeconomic management, helped maintain exchange rate stability with only a marginal depreciation of 0.6 percent against the US dollar during CY25.

Fiscal imbalance continued to shrink…

With 35.5 percent reduction, fiscal deficit further narrowed to Rs 4.1 trillion in CY25 from Rs 6.3 trillion in CY24. Notably, primary balance remained in surplus for the third consecutive calendar year. Notwithstanding these measures, FBR collections fell short of Rs. 493.6 billion against the intended calendar year target, primarily due to lower inflation, decelerating imports affecting sales tax and customs duties, and persistent structural weaknesses in tax compliance and enforcement.

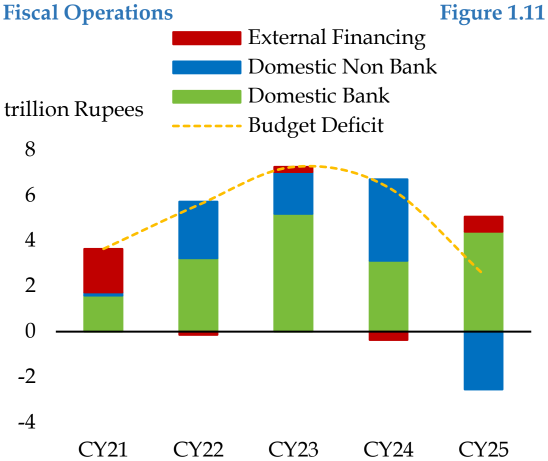
The first half of CY25 witnessed a broad-based expansion in revenue, primarily driven by federal tax and non-tax revenue mobilization amid increased tax rates on salaried class, higher withholding tax rates and withdrawal of zero-ratings and sales tax exemptions on several items.[10] The expenditure also grew significantly due to higher development spending, defense spending, subsidies, grants and expenditure on running of the civil government. These developments translated into a budget deficit of Rs 4.6 trillion.

During second half of CY25, revenue growth remained subdued amid lower withholding tax collection and slightly lower SBP profit compared to last year, driven by declining average interest rates. In contrast, PDL collections maintained an increasing momentum. However, fiscal expenditure growth observed substantial moderation, primarily driven by reduced domestic mark-up payments amid lower interest rates. Resultantly, fiscal surplus of Rs 0.5 trillion was recorded in H2CY25.

On financing side, the government availed 82.1 percent of the total required financing from domestic sources. Within domestic financing, almost all of the deficit requirements were financed through banking sector, while non-bank recorded net retirements **(Figure 1.11)** (**for details see Chapter 3 on Banking sector**).

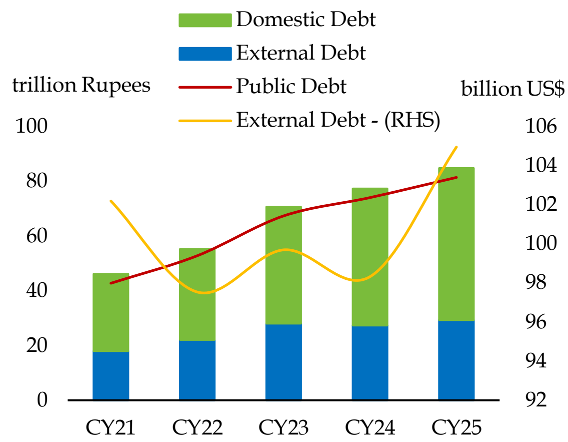
[10] The changes in tax policy were announced as part of 2024-2025 federal budget that became effective on July 01, 2024.

Fiscal Operations **Figure 1.11**



Source: Ministry of Finance

Pakistan Debt Profile **Figure 1.12**



Source: State Bank of Pakistan

Debt dynamics reflected domestic borrowing and exchange rate effects…

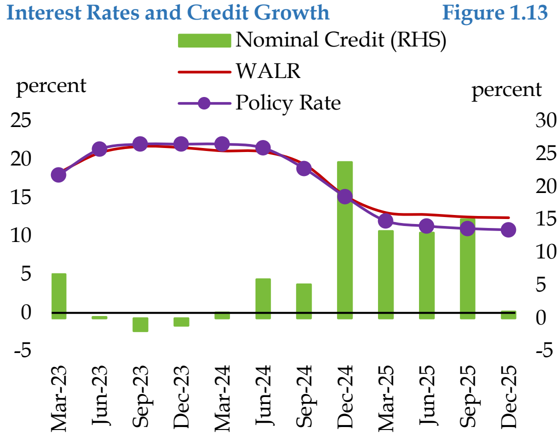
Public debt-to-GDP ratio increased to 70.7 percent in June 2025 from 67.7 percent in June 2024. This rise was largely attributable to an expansion in domestic debt. Encouragingly though, several proactive debt management initiatives contributed towards strengthening of the public debt profile. These included a strategic shift toward longer-term instruments to reduce refinancing and rollover risks, re-profiling of existing debt to extend maturities, and diversification of financing sources to secure relatively lower funding cost. These measures supported improvements in the maturity structure and risk composition of public debt.[11]

External public debt, increased by 6.7 percent to US$ 105.0 billion in CY25.[12] The rise primarily reflected higher gross disbursements during the year, partly offset by repayments, along with valuation effects arising from appreciation of major international currencies against the US dollar **(Figure 1.12)**.

Private sector credit growth increased…

With the onset of monetary easing and consequent gradual reduction in borrowing costs, growth in private sector credit (PSC) accelerated during CY25. However, on year-end basis, PSC recorded a contraction in December 2025, primarily due to base effects emanating from banks' sharp portfolio adjustments in December 2024 to cope with ADR-linked tax policy. Otherwise, the average YoY growth for four quarters was 10.6 percent, showing elevated business confidence and stable macroeconomic conditions **(Figure 1.13)**.

Interest Rates and Credit Growth **Figure 1.13**



WALR = Weighted Average Lending Rate

Source: State Bank of Pakistan

[11] The State of Pakistan's Economy, Annual Report, 2024-25.

[12] Includes Government debt from IMF and Foreign exchange liabilities.

Credit expansion was particularly pronounced in consumer finance, wholesale and retail trade, information technology, agriculture, and transportation and storage, reflecting strengthening domestic demand and investment activity. However, growth in the manufacturing and energy sectors remained subdued during CY25.

Government's exposure to the banking sector further increased...

The government's reliance on the banking sector (in terms of banking sector' exposure to government) further increased to 64.6 percent in CY25 from 59.1 percent in CY24. This continued reliance reflected a less developed capital market and lack of alternative sources for financing of fiscal deficit.

Amid improving economic conditions, the banking sector continued to exhibit steady performance throughout the year. Financial soundness indicators pertaining to solvency, earnings, and liquidity improved, supported by decent profitability, adequate capital buffers, and strong liquidity positions. Asset quality indicators suggested that credit risk remained contained, with manageable levels of non-performing loans and adequate provisioning coverage (**for details Chapter 3: The Banking Sector**).

Going forward

Global growth is expected to remain resilient in the near term, with headline inflation continuing to decline. However, risks remain tilted to the downside due to potential trade tensions, geopolitical conflicts, and the possibility of financial market corrections if expectations around AI-driven productivity weaken. High fiscal deficits and rising public debt could also tighten global financial conditions. Conversely, stronger AI-related investment and easing trade tensions may support growth. Domestically, economic activity in 2026 is likely to strengthen, supported by lower inflation, improved confidence, and stable external balances. However, continued fiscal consolidation, structural reforms, and consistent policy implementation will remain essential to sustain macroeconomic stability, enhance competitiveness, and ensure durable long-term growth.

2

Financial Markets' Behavior

The average volatility in domestic financial markets remained slightly higher in CY25, mainly driven by an upbeat equity market. Bullish sentiment continued to drive up equity prices; however, trade tariff uncertainty and geopolitical tensions had a material but short-lived impact on investors' confidence. Foreign investors continued to be net sellers while mutual funds and individuals absorbed most of the selling pressure. FX market conditions remained broadly stable owing to a contained current account deficit and noticeable improvement in SBP's FX reserves resulting in stability of rupee-dollar parity. Money market continued to function in an orderly manner under the effective SBP monetary management. Monetary policy stance further eased amid ebbing inflationary pressures. Liquidity conditions, however, varied during the year: overnight Repo Rate largely remained above policy rate, suggesting elevated liquidity pressures.

2 Financial Markets' Behavior

Global financial markets manifested resilience against trade tariffs shock….

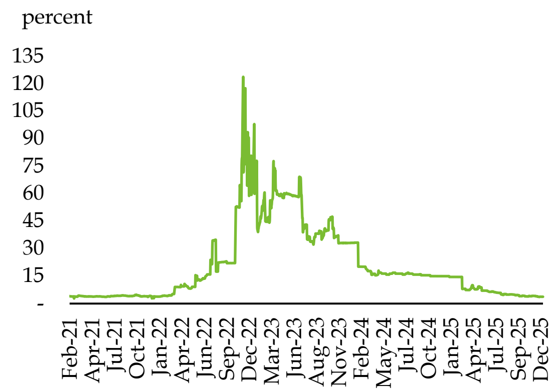
Global financial markets witnessed abrupt risk pricing amid historic hike in trade tariffs by the US across all trading partners on April 02, 2025.[1] Risk appetite in equity markets fell, sovereign bonds yields dropped, corporate bonds spreads widened, and emerging markets currencies came under stress.[2] Nonetheless, the volatility proved short-lived as markets appeared to shrug off the potential macroeconomic implications of tariffs owing to the evolving nature of tariffs policy. The exceptionally strong optimism in equity markets—prevailing over much of CY25—was reinforced by continued dovish stance of major central banks.[3]

It is noteworthy that longer-term bond yields in advanced economies—despite monetary easing—remained elevated[4] due to concerns over fiscal sustainability and price stability **(see Chapter 1)**.[5]

Domestic macro financial conditions improved further…

Macro-financial conditions further improved during CY25 as manifested by several indicators, such as growing economic activity, healthy current account position, enhanced SBP's FX reserves, improved fiscal balance, reduced inflationary pressures, further cuts in policy rate, receding country's risk premium (**Figure 2.1**) and improved country's credit ratings.[6] Particularly, achievement of various targets and benchmarks under IMF's Extended Fund Facility (EFF) as well as Resilience and Sustainability Facility (RSF) strengthened macroeconomic fundamentals, thus putting the economy on a sustainable growth trajectory.[7]

Pakistan's 5 year CDS **Figure 2.1**



Source: Bloomberg

Nonetheless, volatility in financial markets edged a bit up…

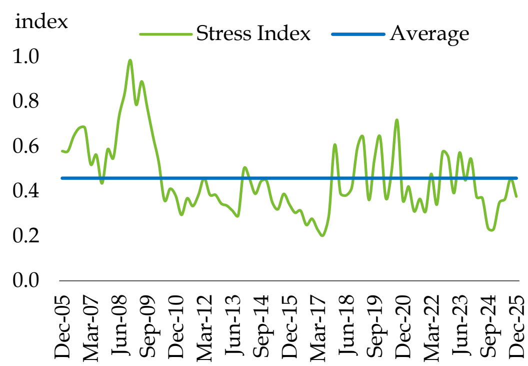
The average volatility in domestic financial markets remained slightly higher during CY25, mainly driven by equity market (**Figure 2.2 & 2.3**). The risk-on sentiment continued throughout CY25, driving KSE-100 index up by 51.2 percent to 174,054 (84.3 percent growth in

---

[1] Effective tariffs rate surged to above 20 percent, a level not seen in a century.
[2] IMF (2025). Global Financial Stability Review. *October*
[3] Federal Reserve and ECB delivered three cuts, by 25 bps each time, during CY25. Also, Bank of England and Bank of Canada reduced interest rates by 100 bps through four cuts during CY25.
[4] BIS (2025). Quarterly Review: International banking and financial market developments. *September*
[5] The Economist. (2025, December 21). The five biggest market developments of 2025.
[6] Fitch, S&P Global, and Moody's upgraded Pakistan's credit rating respectively in April 2025, July 2025, and August 2025; Broadly, these agencies changed the credit rating due to sustained progress over fiscal consolidation, implementation of structural reforms, contained external liquidity risks, and recovery in international reserves.
[7] Real GDP growth increased by 3.1 percent in FY25 from 2.6 percent in FY24, the momentum continued from June 2025 onwards, as the economy grew by 3.8 percent in H1FY26; Current account deficit stood at US$ 0.45 billion; SBP's FX net reserves increased to US$ 16.1 billion at end December 2025 from US$ 11.7 billion in December 2024. Fiscal deficit (percent of GDP) reduced to 5.4 percent in FY25 from 6.8 percent in FY24; In H1FY26, fiscal balance turned into surplus of 0.4 percent; 12MMA inflation declined to 3.6 percent in December 2025 from 12.6 percent in December 2024; Policy rate was further reduced by 250 bps to 10.5 percent in CY25.

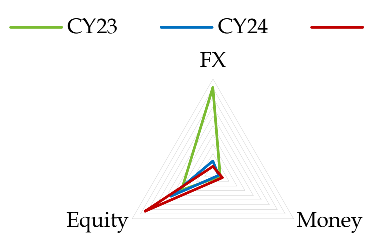
CY24). Nevertheless, short-lived episodes of stress—emanating from external factors such as US trade tariffs policy and heightened geopolitical tensions on regional and domestic fronts—momentarily undermined investors' confidence. The FX market, on the other hand, continued to witness lower stress amid benign current account position and build-up of FX reserves. Money market continued to function in an orderly manner due to SBP's effective monetary operations to ensure that the policy rate remains within the corridor.

Financial Markets Stress Index **Figure 2.2**



Source: SBP Staff Calculations

Financial Markets Stability Map **Figure 2.3**



Note: Volatility in the respective markets is calculated using Exponential Weighted Moving Average (EWMA) method. Daily Overnight repo rate, KSE-100 index and Interbank PKR/USD Exchange Rate are used as indicators for the money, equity and foreign exchange markets, respectively.

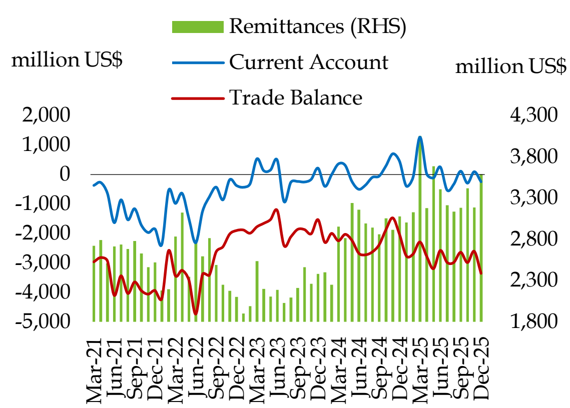
Source: State Bank of Pakistan

2.1 FX Market

Contained current account deficit along with higher financial inflows supported FX liquidity conditions…

FX market witnessed muted volatility amid broader positive developments. Current account balance turned slightly negative in CY25 as compared to a surplus in CY24. This was despite a noticeable rise of 27.5 percent in trade deficit of goods & services. Imports of goods & services grew by 11.5 percent—amid improving economic activity—while exports of goods & services registered a marginal growth of 0.8 percent in CY25.[8] Nonetheless, robust growth in workers' remittances cushioned the impact of widened trade deficit and kept current account balance in check (**Figure 2.4**).[9] The relatively higher financial inflows and favorable global commodity prices also supported external account balance.[10]

Trend in Current Account Balance **Figure 2.4**



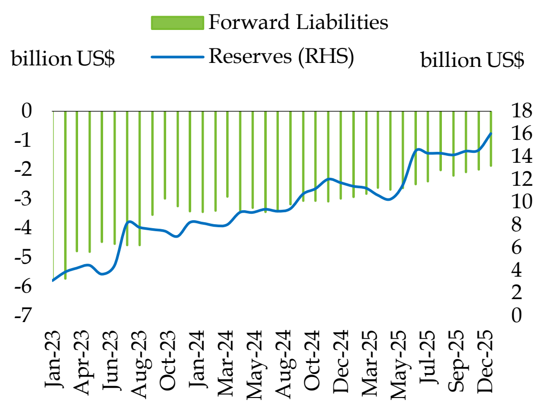
Source: State Bank of Pakistan

Importantly, successful IMF reviews under EFF and RSF programs during CY25 delivered US$ 2.2 billion of inflows, resulting in improved FX

[8] Trade deficits in goods and services amounted to US$ 34.0 billion in CY25 against US$ 26.7 billion in CY24.
[9] Workers' remittances increased to US$ 40.2 billion in CY25 from US$ 34.7 billion in CY24.
[10] Net financial inflows amounted to US$ 2.4 billion in CY25 against US$ 1.1 billion in CY24. Global commodity price index averaged 167 in CY25 against 165 in CY24

liquidity, strengthening of market confidence, and reinforcing macroeconomic stability.[11]
In the wake of benign current account dynamics, SBP kept building FX reserves. SBP's net reserves increased by 37.1 percent to US$ 16.1 billion in CY25. Although official inflows supported build-up of FX reserves, the accumulation in FX buffers has been largely driven by strategic purchases.[12] It is noteworthy that SBP has been consistently reducing its forward liabilities over the last three years; a manifestation of strengthened FX reserves (**Figure 2.5)**. In CY25, SBP reduced forward liabilities further by US$ 1.1 billion.

SBP's FX Reserves and Forward Liabilities **Figure 2.5**

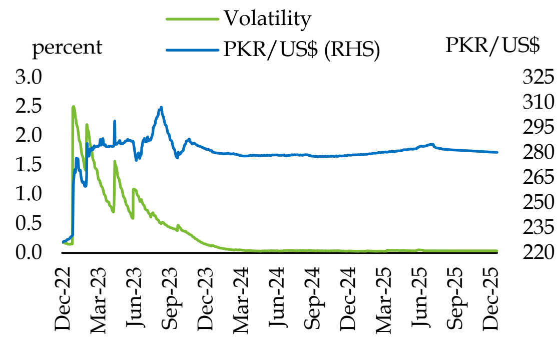


Source: State Bank of Pakistan

Rising FX buffers kept Rupee-Dollar parity stable …

Amid rising FX reserves, exchange rate volatility remained subdued and rupee-dollar parity averaged at Rs 281.2, showing a mild depreciation of 0.9 percent in CY25 (**Figure 2.6)**. The movement in exchange rate remained range-bound, which reflected orderly conditions in the FX market. Also, nominal broad US$ index, on average, didn't change much during CY25, suggesting stronger domestic macroeconomic fundamentals in determining rupee strength.[13]

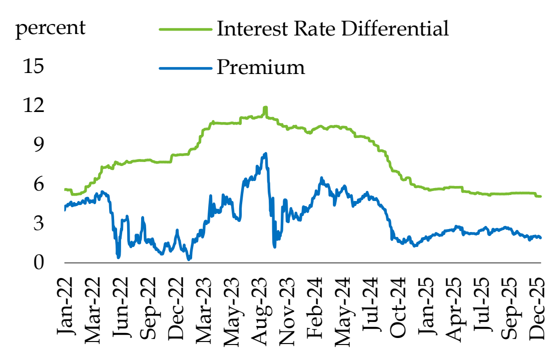
Exchange Rate and its Volatility* **Figure 2.6**



*Volatility is measured using Exponential Weighted Moving Average Method based on daily data.
Source: State Bank of Pakistan

The improved liquidity conditions coupled with narrowing interest rate differentials —due to subsiding inflationary pressures in domestic economy—kept forward premium at a lower level in the year reviewed (**Figure 2.7).** On average, 6M forward premium compressed to 2.3 percent in CY25 from 4.1 percent in CY24. In addition, fluctuations in premium between open- and interbank-market exchange rates remained within a confined range, indicating FX market stability during CY25 (**Figure 2.8)**. The open market premium averaged Rs 1.0 in CY25, slightly above Rs 0.6 witnessed in CY24. The structural reforms in Exchange Companies

Trend in 6M Forward Premium **Figure 2.7**

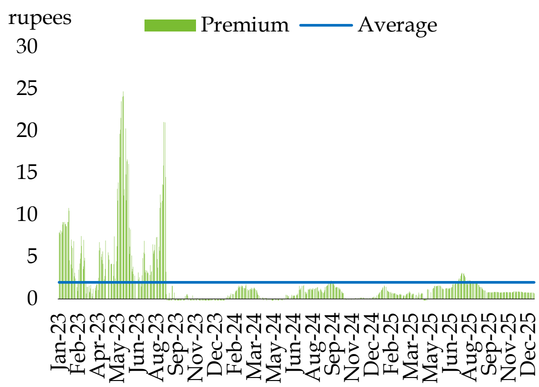


Note: Interest rates differential represent 6M KIBOR minus 6M SOFR.
Source: State Bank of Pakistan

[11] First two reviews of EFF were successfully completed in May 2025 and December 2025, respectively. Also, first review of RSF was completed in December 2025.
[12] SBP's interbank FX purchases amounted to US$ 6.9 billion in CY25.
[13] US Dollar index against major global currencies averaged 123.1 in CY25 against 123.2 in CY24.

(**ECs**) initiated during H2CY23 continued to play a vital role in bringing improved market discipline, strengthening FX reserves by enhancing remittances inflows through formal channels and curbing speculative trading.

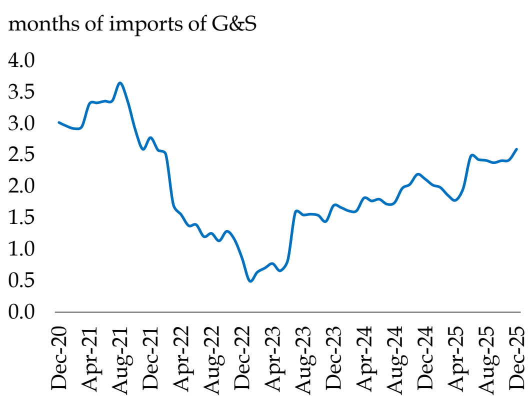
Trend in Open Market Premium **Figure 2.8**



Source: State Bank of Pakistan

With rising external account buffers, imports cover steadily improved to 2.2 months from 1.8 months in CY24 and 1.0 months in CY23, on average (**Figure 2.9**). The growing imports capacity manifests enhanced macroeconomic resilience of the domestic economy against external shocks.

Import Coverage Ratio **Figure 2.9**

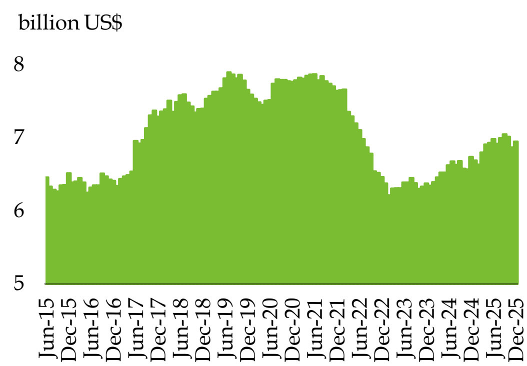


Source: State Bank of Pakistan

The steady revival in FE-25 deposits continued

Foreign currency deposits (FCD) kept rising—albeit gradually—for another year (**Figure 2.10)**. These deposits averaged US$ 6.9 billion in CY25, higher than US$ 6.6 billion in CY24 and US$ 6.3 billion in CY23. The gradual rise in FE-25 deposits appears to indicate improved confidence among market participants. Encouragingly, with a limited exposure to FX risks, the results of sensitivity (stress testing) analysis show that even after a severe 30 percent hypothetical depreciation of rupee against USD, all banks remain compliant with the requirement of minimum CAR.

Trend in FE-25 Deposits **Figure 2.10**



Source: State Bank of Pakistan

2.2 Money Market

Monetary policy was further eased amid dissipating inflationary pressures…

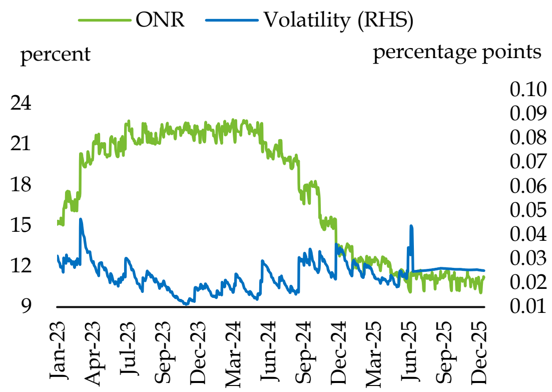
The disinflation trend continued during CY25 owing to coordinated and prudent monetary and fiscal policies. The inflation based on National CPI (**12MMA**) declined to 3.6 percent in December 2025 from 12.6 percent in December 2024. Resultantly, SBP further reduced policy rate cumulatively by 250 basis points to 10.5 percent in CY25.[14]

[14] Policy rate was reduced by 100 bps each on January 27 and May 05. On December 15, 2025, it observed another 50 bps cut bringing cumulative reduction to 250 bps in CY25

Money market volatility remained subdued…

Overnight Repo Rate (ONR) continued to move within the interest rate corridor and witnessed muted average volatility in CY25 (**Figure 2.11).**[15]

Trend in ONR and its Volatility **Figure 2.11**

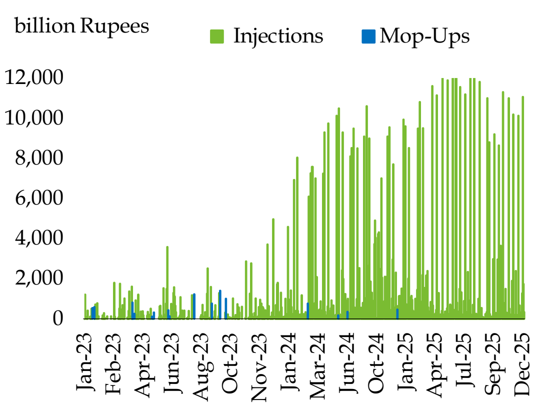


Source: State Bank of Pakistan

Money market dynamics reveals that liquidity pressures remained elevated in CY25, as implied by a smaller but positive average gap between ONR and policy rate (19 basis points in CY25 vs. 12 basis points in CY24). There were 187 positive instances of a positive gap versus 61 negative ones.[16]

Further analysis reveals that despite strong deposits inflow during CY25, more than two-fold increase in government budgetary borrowing from the banking sector along with decent credit demand appears to feed tight liquidity conditions, thereby maintaining slightly upward pressure on ONR.[17] This was evident from higher OMOs injections by SBP during the year under review. The average injection size increased to Rs 1,964 billion from 1,662 billion in CY24 (**Figure 2.12)**. However, tenors of injections have noticeably declined over the course of previous two years.[18]
In addition to higher OMOs injections, liquidity assistance provided to the banks through SBP's ceiling facility also increased in CY25. On average, banks availed liquidity assistance worth Rs 137.1 billion as compared to Rs 109.6 billion in CY24. Nonetheless, the year under review also witnessed some periods of eased liquidity conditions (e.g., 61 instances of negative gap between ONR and policy rate).

OMOs Injections and Mop-ups **Figure 2.12**



Source: State Bank of Pakistan

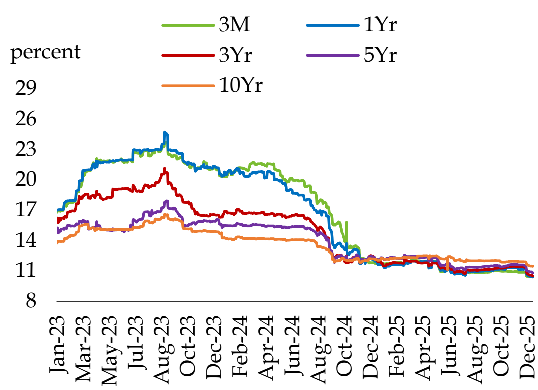
Secondary market yields on government securities continued to fall across all maturities…

Yields on government securities in the secondary market not only further lowered across short and long- ends, but yield curve also nearly flattened in CY25 **(Figure 2.13)**.[19] Moreover, the decline in average yields was higher in CY25 as compared to previous year.

[15] ONR volatility averaged at 2.5 bps in CY25 as compared to 2.2 bps in CY24.
[16] A positive deviation of ONR from SBP policy rate may imply relatively tight liquidity conditions in money market and vice versa
[17] Deposits showed an increase of 24.7 percent in CY25. However, such high growth was partially due to base effect as deposits mobilization remained noticeably weak in Q4CY24 due to ADR linked tax policy, which was later abolished. Deposits increased by 19.5 percent during Mar-25 to Dec-25. Government budgetary borrowing, on cash basis, increased by Rs 7,555 billion in CY25 against Rs 2,729 billion in CY24. Advances contracted by 6.0 percent in CY25, reflecting the strong base effect, as banks sharply expanded lending during Q4CY24. However, during March 2025 to December 2025, advances witnessed 12.9 percent growth due to economic recovery and easing financial conditions.
[18] In CY23, average tenor was 29 days which declined to 13 and 10 days, respectively, in CY24 and CY25
[19] Average yields on 3M, 6M, and 1Y securities fell by 7.6 percent, 7.4 percent and 6.8 percent respectively in CY25. Average yields on 4Y, 3Y, and 10Y securities fell by 4.0 percent, 2.8 percent, and 1.5 percent respectively in CY25.

The analysis reveals that during CY25, the fall in yields was more pronounced at the short end (e.g., less than one year) suggesting improved anchoring of inflation expectations—in line with eased monetary policy stance. The transition of yield curve from inversion in CY24 to flattening reflects market's confidence on marked progress on key macroeconomic challenges resulting in improved economic prospects.[20]

Yields on Government Securities **Figure 2.13**



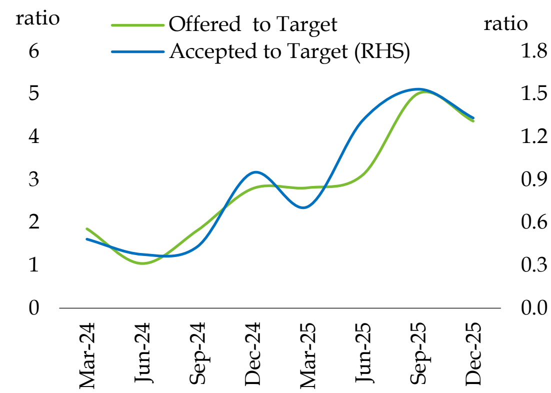
Source: Mutual Funds Association of Pakistan

With further decline in yields, revaluation surplus of the banking sector on government securities surged to Rs 623.7 billion in CY25 from Rs 306.7 billion in CY24 (**see Chapter 3**).[21]

Driven by government's preference, banks' investments were concentrated in longer-tenor securities…

Banks' investments in federal government securities increased by Rs 9.2 trillion to Rs 37.0 trillion in CY25. Around 70 percent increase in investments came from PIBs followed by Sukuk and MTBs.[22] It appears that—to further improve debt maturity profile—the government capitalized yield curve flattening by shifting debt from MTBs to PIBs and Sukuk. For instance, acceptance to target ratio in MTBs auctions declined to 0.8 in CY25 from 1.0 in CY24. On the contrary, the ratio increased to 1.2 from 0.6 in case of fixed rate PIBs (**Figure 2.14)**. Similarly, government acceptance remained higher in floating rate PIBs (semiannual) during CY25.[23]

Offered and Acceptance Ratio of Fixed Rate PIBs **Figure 2.14**



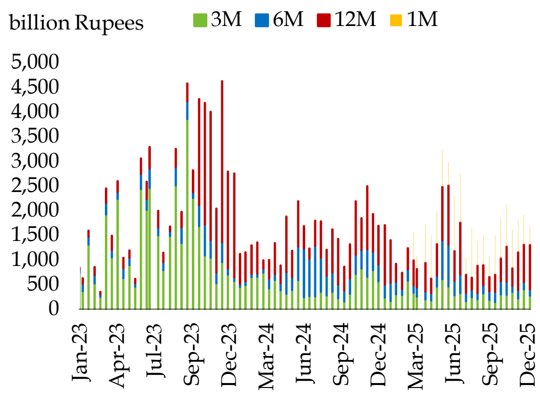
Source: State Bank of Pakistan

Banks' bidding behavior in the debt auctions for MTBs reveals that even though banks offered higher than the government target, offered to target ratio declined during CY25 compared to past year.[24] Moreover, within MTBs, banks preferred to invest in 1M and 12M treasury bills (**Figure 2.15)**.[25] In case of fixed rate PIBs, banks offered to target ratio increased to 3.9 from 2.0 in CY24. Within fixed rate PIBs, 65 percent of the total funds offered for PIBs, pertained to 5 years and above tenors (**Figure 2.16).** Amid the accommodative stance of monetary policy,

[20] Mehl, A. (2009). The yield curve as a predictor and emerging economies. Open Economies Review, 20(5), 683-716.
[21] The Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit and Loss (FVTPL) categories of government securities, which form more than 90 percent of the government securities of banks, are subject to mark-to-market adjustments.
[22] Investments in Sukuk and MTBs comprised 15.9 percent and 8.6 percent, respectively, of the total increases in federal government securities in CY25.
[23] Acceptance to target ratio increased to 1.2 in CY25 from 1.0 in CY24
[24] Offered to target ratio declined to 2.6 in CY25 from 3.1 in CY24
[25] Banks preferred to invest around 70 percent (in 1M and 12M treasury bills) of the total funds offered for treasury bills during CY25

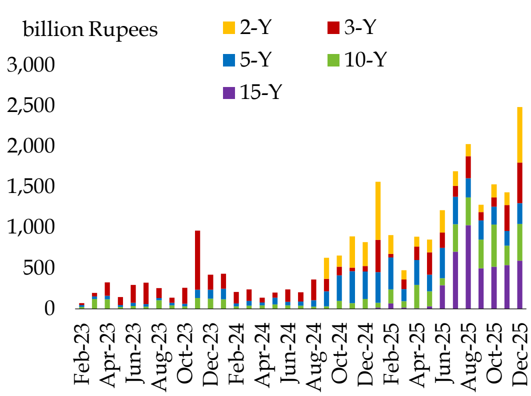
banks' interest in floating rate PIBs remained noticeably higher in CY25.[26]

Bidding Behavior in T-bills Auctions **Figure 2.15**



Source: State Bank of Pakistan

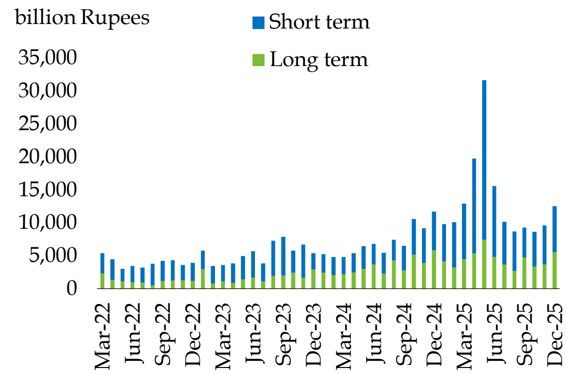
Banks' Bidding for Fixed Rate PIBs **Figure 2.16**



Source: State Bank of Pakistan

In the secondary market, trading volume of government securities surged to 88.2 percent in CY25 as compared to 31.3 percent in CY24. It suggests substantial interest of market in government securities. The trading, however, remained tilted towards short-tenor securities (66 percent share in total trading value vs. 52 percent in CY24) (**Figure 2.17**).

Secondary Market Trading **Figure 2.17**



Source: State Bank of Pakistan

Latest stress testing results suggest resilience of banking sector to market shocks…

The results of sensitivity (stress testing) analysis show that under the most severe shock scenario, i.e. a parallel upward shift in the yield curve by 300 basis points, all banks remain compliant with the requirement of minimum CAR (**for detail see Market Risk section in Chapter 3**).

2.3 Equity Market

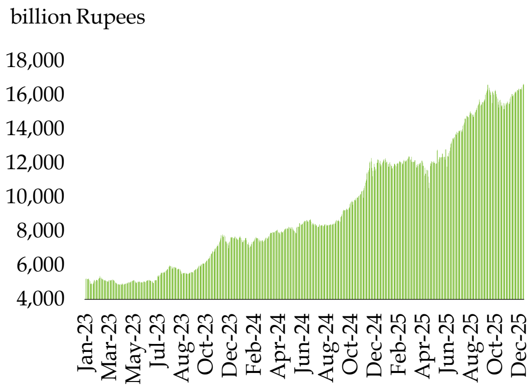
Risk-on sentiment continued during CY25…

Bullish sentiments prevailed in stock market throughout CY25. The KSE-100 index—with 51.2 percent growth—surged to 174,054 by end of CY25 (84.3 percent growth in CY24) and remained one of the best performers in the world.[27] Accordingly, market capitalization of the top 100 listed companies increased by 38.4 percent to Rs 16,639 billion in the year under review **(Figure 2.18).**

The continued bullish momentum was driven by improved macroeconomic prospects. Significant progress on inflation, lower interest rates, sustained improvement in fiscal balance, currency stability, and external account

[26] Offered to target ratio increased to 4.3 from 2.5 in CY24
[27] Pakistan Set for Up to 16 IPOs as Three-Year Stock Rally Tops 300%

Market Capitalization of KSE-100 Index **Figure 2.18**

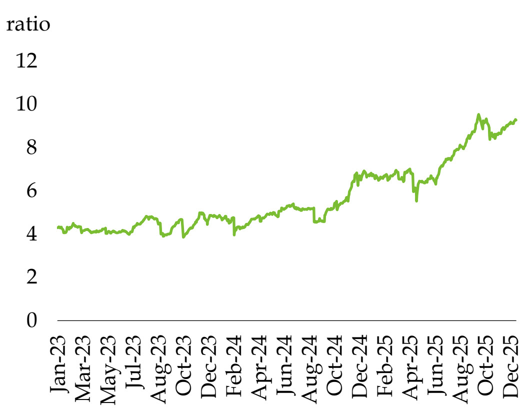


Source: Bloomberg

resilience backed by coordinated macroeconomic policies propelled investor confidence. Particularly, manifested discipline under EFF IMF program underpinned market optimism during CY25. The material transition from large macroeconomic imbalances to credible growth trajectory was also reflected in the upgrades of country's credit ratings by international rating agencies.[28]

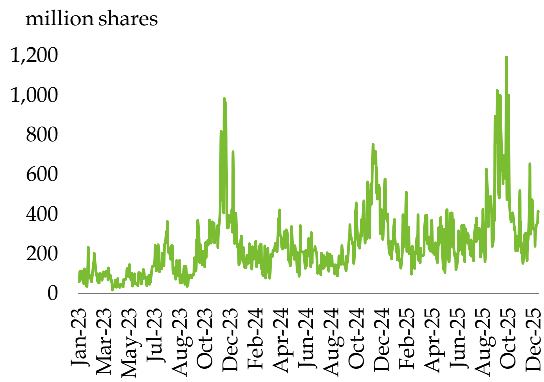
In this backdrop, Price to Earning (**P/E**) ratio continued trending upward, averaging 7.6 in CY25 from 5.1 in CY24 **(Figure 2.19)**. Also, average trading volume of KSE-100 increased to 331 million shares from 250 million shares in CY24 **(Figure 2.20)**.

Price to Earning Ratio **Figure 2.19**



Source: Bloomberg

Daily Trading Volume of KSE-100 **Figure 2.20**



Source: Bloomberg

Nonetheless, the market experienced short-lived bouts of heightened volatility…

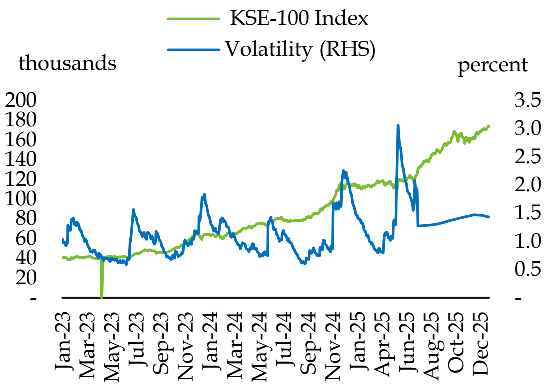
In the first half of CY25, KSE-100 index increased by 9.1 percent while the second half witnessed an impressive growth of 38.5 percent. The lackluster performance in H1CY25 was due to the unprecedented uncertainty around US trade tariffs policy as well as domestic and regional geopolitical tensions that led to some short-lived stress episodes (**Figure 2.21)**. For instance, on April 07,2025 the index declined by 3.3 percent owing to elevated concerns on trade tariffs policy. Also, domestic geopolitical tensions dented investor confidence, leading to 12.6 percent decline in the index between April 22 and May 08, 2025. However, market rebounded significantly afterwards, driven by ease in the conflict, successful completion of first review under EFF as well as approval of financing arrangement under RSF.[29] The stress re-surfaced—between June 12 and June 23, 2025—due to another regional conflict involving a neighboring country, which caused the index to drop by 6.4 percent. However, volatility receded as the tensions receded.

[28] Fitch, S&P Global, and Moody's upgraded Pakistan's credit rating respectively in April 2025, July 2025, and August 2025. Broadly, these agencies changed the credit rating due to sustained progress over fiscal deficit, implementation of structural reforms, contained external liquidity risks, and recovery in international reserves

[29] KSE-100 index shot-up by 13.3 percent within just two days after May 08,2025

In H2CY25, investor confidence continued to surge, broadly due to a persistent improvement in macroeconomic indicators, reduction in tariff rate, and improved geopolitical leverage.[30, 31]

KSE-100 Index and its Volatility **Figure 2.21**

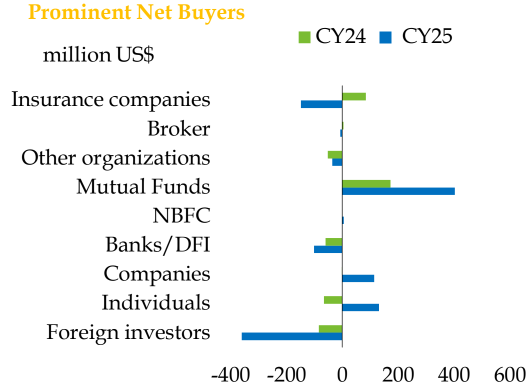


Source: State Bank of Pakistan

Mutual funds and individual investors were largest net buyers in CY25…

Mutual funds continued to be the largest net buyers of equities for another year followed by individual investors (**Figure 2.22).** The ebbing interest rates and attractive returns on stocks have been driving mutual funds to increase their exposure to equities. With 54.7 percent increase in investments towards equities during CY25, mutual funds exposure in stocks (as percent of their total assets) increased to 14.3 percent from 9.5 percent in CY24 and 9.1 percent in CY23. Money market and income funds continued to be top priority asset classes for mutual funds in the year under review (**see Chapter 6.2)**.[32]

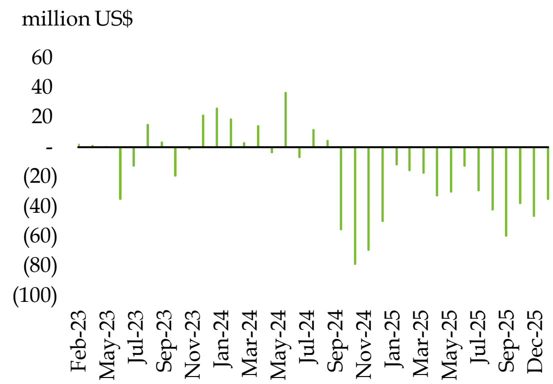
Mutual Funds and Individuals were Prominent Net Buyers **Figure 2.22**



Source: National Clearing Company of Pakistan Limited

It is noteworthy that foreign investors continue to be net sellers. (**Figure 2.23**). This could possibly be due to profit taking behavior amid robust returns delivered by equity market.

Foreign Portfolio Investment (Net) **Figure 2.23**



Source: State Bank of Pakistan

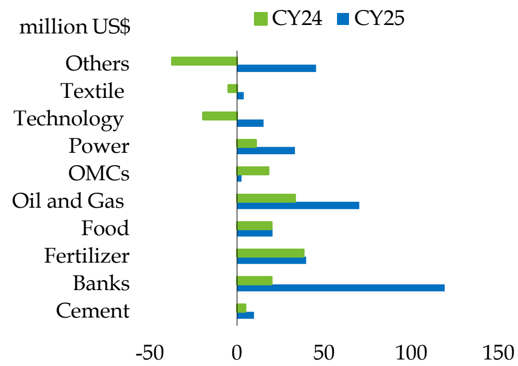
Sector-wise analysis reveals that the local investors' exposure was highest in banks' stocks followed by Oil and Gas, and fertilizer (**Figure 2.24).**

[30] Against 29 percent tariff on Pakistan's goods exports to US announced on April 02, 2025, the rate was reduced to 19 percent on August 01, 2025.

[31] On September 17, 2025, Pakistan and Kingdom of Saudia Arabia signed a Strategic Mutual Defense Agreement

[32] Money market and income funds represented 43.4 percent and 23.2 percent, respectively, of the total assets of mutual funds in CY25

Net Buying was Highest in Banks Stocks **Figure 2.24**

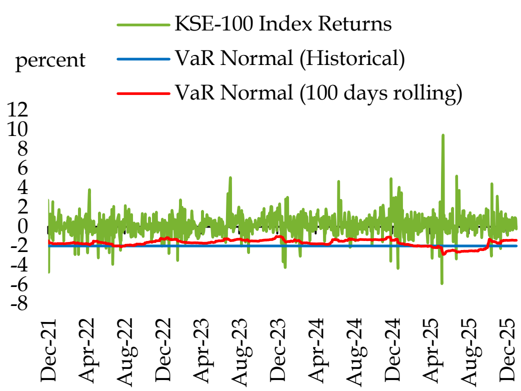


Source: National Clearing Company of Pakistan Limited

Risks in equity market normalized after increasing momentarily…

The analysis of a 100 days rolling Value at Risk (VaR) suggests that average magnitude of decline in equity prices was higher in CY25 as compared to previous two years. Moreover, within CY25, downward movement in stocks' prices sharply increased during second quarter, reflecting the impact of uncertainty on trade tariffs and geopolitical tensions. However, risks gradually normalized afterward (**Figure 2.25**). Moreover, daily returns of KSE-100 index breached Value at Risk (VaR) normal seven times as compared to fifteen times in CY24.

Value at Risk of KSE-100 Index Returns **Figure 2.25**



Source: Pakistan Stock Exchange and SBP Staff Estimates

It is noteworthy that due to conservative regulatory regime of SBP, banks maintain a limited exposure to the equity market, which makes them less sensitive to volatility in the market. This is evident from banks' investment in equities, which stood at a meager 2.5 percent of banks' regulatory capital at end December 2025.

In addition, the latest sensitivity analysis (stress testing) results also suggest that even in a shock scenario of 36.1 percent decline in equity prices (KSE-100 index), which is equal to historically highest quarterly decline in the index, banks remain CAR compliant.

3

The Banking Sector

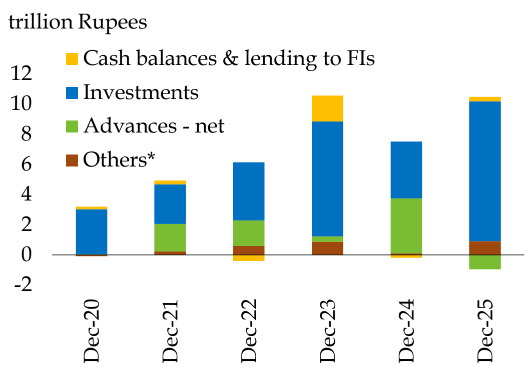
The banking sector maintained its soundness during CY25. Asset base of the sector expanded by 17.8 percent to reach Rs 63.2 trillion, mainly driven by investments. Advances declined over the year, mainly reflecting the higher-base effect of strong growth in Q4CY24 when ADR-linked tax policy incentivized the banks to sharply expand their advances and shed deposits. Nevertheless, in line with economic recovery and easing financial conditions, Q4CY25 recorded healthy increase of Rs 1.6 trillion in advance. Earnings indicators moderated mainly due to translation of lower policy rates to earning assets and increased corporate tax rate on banking companies during CY25. Asset quality indicators reflected muted risk to solvency on a net basis amid adequate provisioning coverage, easing financial conditions and improvement in repayment capacity of borrowers, especially of non-financial corporate firms. Gross NPLs recorded a notable, broad-based decline. Liquidity profile in terms of liquid assets vis-à-vis short-term liabilities remained comfortable – supported by the increased investments in government securities. Banks' exposure to currency and equity price risks remained contained, while market risk also remained muted due to rising share of floating rate instruments and falling weighted average duration of fixed income securities. Solvency indicators such as Capital Adequacy Ratio (CAR) strengthened further to 20.8 percent and remained well above the minimum regulatory requirements. Islamic Banking Institutions (IBIs) maintained their growth momentum, their market share in banking sector's asset base further improved to 22.9 percent. With sound financial position, IBIs contributed to the overall stability of banking sector.

3 The Banking Sector

The banking sector maintained its steady performance and resilience during CY25, thus also anchoring overall financial stability in the economy as it plays a crucial role in monetary and payment systems and manages around 80 percent of the financial sector's asset base.

Asset base of the banking sector expanded by 17.8 percent in CY25, compared to 15.8 percent in last year (**Figure 3.1 and Table 3.1**). This expansion was mainly driven by investments (mostly government securities), while advances on the other hand contracted, reflecting higher-base effect of last year when ADR-linked tax policy encouraged the banks to substantially expand their loan book and slowdown deposit mobilization especially towards the end of CY24. However, filtering the ADR related impact shows that advances in fact grew during CY25, which is in line with easing financial conditions and improving economic activity. Similarly, deposit mobilization got significant traction during the year, i.e., deposits grew by 24.7 percent (9.1 percent in CY24), which bodes well for financial deepening.

Yearly Flows in Assets of Banking Sector **Figure 3.1**



*Others include Fixed assets, Deferred Taxes and Other Assets

Source: State Bank of Pakistan

Key Statistics and FSIs of Banking Sector **Table 3.1**

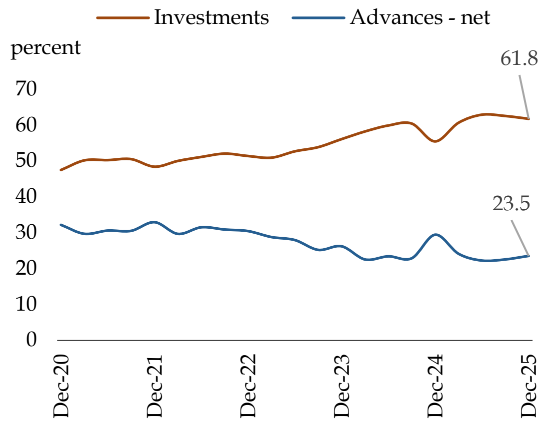
Balance Sheet	CY23	CY24	CY25
	billion Rupees		
Total Assets	46,364	53,693	63,231
Advances - Net	12,178	15,805	14,857
Investments - Net	26,019	29,791	39,066
Borrowings From Financial Institutions	11,673	15,006	15,849
Deposits	29,128	31,792	39,659
Total Liabilities	43,577	50,390	59,227
Net Assets	2,787	3,303	4,004
Profit/(Loss) Before Tax	1,287	1,368	1,565
Profit/(Loss) After Tax	642	644	716
	percent		
Risk Weighted CAR	19.7	20.6	20.8
NPLs to Total Loans	7.6	6.3	6.1
Provision to NPLs	92.7	103.9	107.7
Net NPLs to Net Loans	0.6	-0.3	-0.5
Net NPLs to Capital	2.7	-1.2	-1.8
Return on Assets (Before Tax)	3.1	2.7	2.7
Return on Assets (After Tax)	1.6	1.3	1.2
Return on Equity (Before Tax)	54.4	45.8	43.3
Return on Equity (After Tax)	27.1	21.5	19.8
Liquid Assets/Total Assets	63.5	60.3	66.2
Liquid Assets/Total Deposits	101.1	101.9	105.6
Advances/Deposits	41.8	49.7	37.5

Note: Based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

Source: State Bank of Pakistan

The balance sheet of the sector, however, continued to remain tilted towards investments (mostly government securities), which constitute around 62 percent of asset base in CY25 (55.5 percent in CY24), reflecting the government's heavy reliance on banking sector for budgetary support in the backdrop of limited capital market, constrained access to external sources and low saving rate in the economy, while private sector's credit demand remained moderate in the wake of improving economic conditions (**Figure 3.2**).

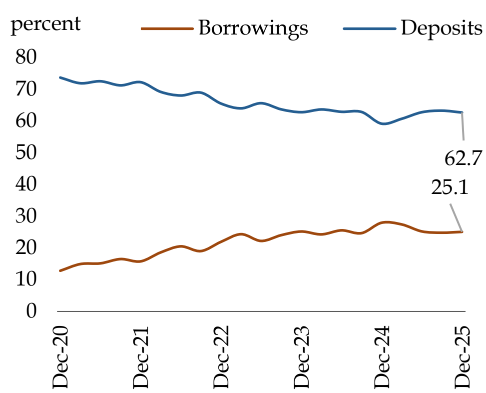
Share in Total Assets of Banking Sector **Figure 3.2**



Source: State Bank of Pakistan

As deposit mobilization rebounded during the year, mainly reflecting recovery from the sharp deceleration in CY24 amid the ADR-linked tax policy, the reliance of banking sector on borrowings to fund assets growth moderated during CY25 (**Figure 3.3**).

Total Assets Financed by Deposits and Borrowing of Banking Sector **Figure 3.3**



Source: State Bank of Pakistan

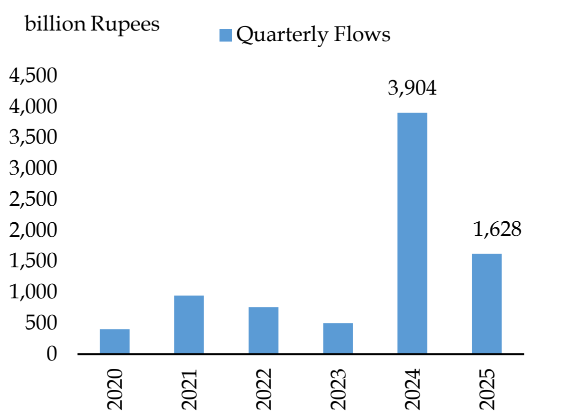
Total investment portfolio of banking sector predominantly comprises government securities (94.8 percent share), these securities rose by 32.9 percent or Rs 9.2 trillion in CY25, higher than Rs 3.3 trillion increase in CY24, reflecting government's reliance on banking sector for budgetary support. Though the overall fiscal deficit of the government remained lower in CY25 than last year, the government retired financing to non-bank sources resulting in relatively higher borrowing from the banking sector. Instrument wise, the major increase in government securities was in PIBs (mainly floating rate) followed by Sukuk and short tenor treasury bills. Auction data for CY25 show that banks tried to deploy funds in the long-term securities, especially in semi-annual floating PIBs. This behavior was consistent with the declining policy rate environment, wherein the government tried to take advantage of falling interest rates and banks aimed to lock in funds in long-term securities (for details **see Chapter 2: Financial Markets**).

Advances declined showing the impact of high base effect from the ADR-linked tax policy in CY24 …

Advances fell by 6.0 percent in CY25 compared to a notable rise of 29.8 percent in CY24. However, the decline in CY25 needs to be carefully interpreted. That is, the significant increase in advances in CY24 was a one-off phenomenon amid the ADR-linked tax policy on banks' income from government securities, which induced banks to sharply extend advances and contain deposit mobilization to achieve ADR threshold. As the policy was withdrawn by the government from tax year 2025 onwards, the early quarters of 2025 witnessed net retirements of advances, which also resulted in overall decline in advances during CY25.

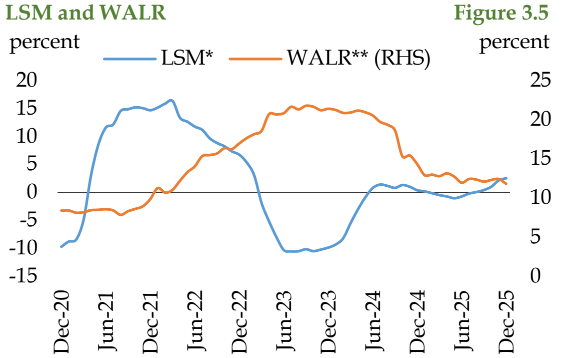
Within overall advances, domestic advances, which constitute around 93 percent of the total loan portfolio of banks, declined by 7.0 percent (or Rs 1.1 trillion) in CY25. The decline was mainly driven by domestic private sector, though a few sectors such as agribusinesses, chemicals & pharma, and automobiles increased their borrowing during CY25. However, with the easing financial conditions and improving economic activity, Q4CY25 recorded a healthy credit-offtake of Rs 862 billion in private advances, which was spread across various sectors such as agribusinesses, textile, chemicals & pharma, sugar and automobiles (**Figure 3.4 and Figure 3.5**).

Quarterly Flows of Advances in Q4CY **Figure 3.4**



Source: State Bank of Pakistan

LSM and WALR **Figure 3.5**



* 12 MMA YoY change
** rate on Gross disbursements (excluding interbank and zero-mark up)
Source: State Bank of Pakistan and Pakistan Bureau of Statistics

Inventories, working capital requirements, and fixed investment needs were the major factors for loan demand from businesses while the falling costs and better availability of funds also induced demand for loans.[1]

Another important aspect of credit offtake during CY25 was that while corporates made net retirements to banks, the advances of SMEs recorded a notable increase of Rs 248 billion, both in fixed investment as well as working capital loans. On demand side, improving macroeconomic environment and business confidence, falling inflation, and easing financial conditions contributed to the rise in credit demand. On the supply side, various schemes of Government and initiatives of SBP to promote SME financing boosted credit to SMEs.[2] Just like SMEs, these initiatives also helped in improving advances flow to agriculture, which rose by Rs 96 billion in CY25 (Rs 76 billion increase in CY24).

Consumer financing that rebounded in CY24 after posting contraction in CY23, continued its rising momentum and recorded a notable increase of 22.3 percent (Rs 187 billion) to reach Rs 1,024 billion by end CY25.[3] This growth was driven by auto financing (Rs 66 billion), reflecting the upbeat demand for passenger cars in the backdrop of improving macro-financial conditions.[4] Similarly, personal loans rose significantly by Rs 56 billion (compared to Rs 7 billion in CY24); this relatively higher increase, however, also reflects graduation of an MFB to become first digital commercial bank of Pakistan.

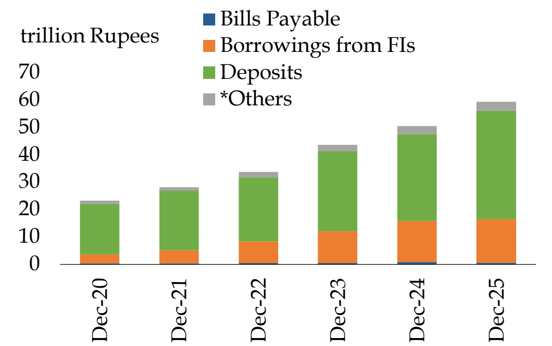
The domestic **public sector advances** expanded moderately by 1.4 percent during the year under review and their share in total loans of the banking sector slightly rose to 22.9 percent at end CY25 (21.2 percent in last year), as the overall domestic private advances contracted during CY25. Disaggregated data shows that the increase in public sector mainly emanated from a few energy-related PSEs, which increased their borrowing for working capital needs while commodity finance contracted in CY25.

Deposits mobilization revived from the ADR-related slowdown in CY24…

[1] Source: Bank Lending Survey conducted by SBP for Q4CY25
[2] It includes CM Punjab Asaan Karobar Card, Prime Minister's Youth Business and Agriculture Loan Scheme (PMYB&ALS) and Risk Coverage Scheme for SMEs. To highlight a few, the Revision in financing limits for SMEs, Enhancement in clean financing limit, and Incentive for export-based SMEs are among the major initiatives of SBP. For details see: SH&SFD Circular No. 05 of 2025
[3] These numbers reflect domestic portfolio of banks.
[4] Sales of passenger cars rose by 35.1 percent in CY25 to 131,611 units in CY25 from 97,419 units in CY24.

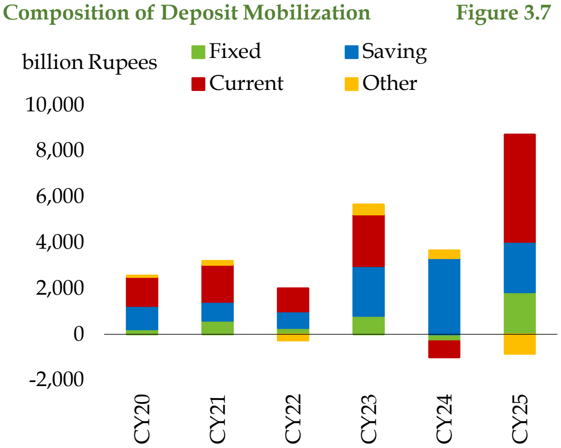
On funding side, deposit mobilization rebounded by Rs 7,868 billion or 24.7 percent in CY25 – substantially higher than Rs 2,664 billion increase in CY24. This notable growth, which is also well-above the last 10-year average of 13.3 percent, reflects recovery from the sharp slowdown in deposit mobilization amid ADR-linked tax policy in CY24.[5] Though the increase in deposits was broad-based across all the categories during CY25, the major increase in deposits mobilization was in current accounts followed by saving and fixed deposits (**Figure 3.6 and Figure 3.7**).

Funding Composition of Banking Sector **Figure 3.6**



* Others include Sub-ordinated loans, Liabilities against Assets subject to Finance Lease, deferred tax liabilities and other liabilities
Source: State Bank of Pakistan

Composition of Deposit Mobilization **Figure 3.7**

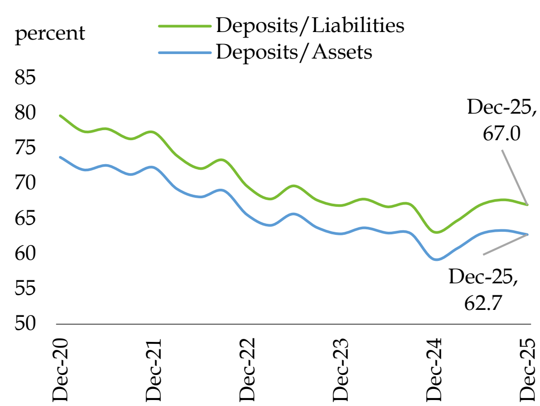


Source: State Bank of Pakistan

Data by deposit holders shows that the major impetus to deposit mobilization emanated from personal followed by NBFIs and private businesses categories. While the amendments in SBP policy on minimum saving rate, especially for IBIs, seem to be an important contributory factor in enhancing saving deposits; some of the customers may have preferred to place funds at fixed rate to lock returns amid the expectation of decline in policy rate.[6] Besides, the digitization initiatives of SBP such as Raast and banks' own strategy to enhance the share of non-remunerative deposits also contributed to deposit mobilization.[7]

With the healthy increase in deposit mobilization, the share of deposits in overall funding revived to 67.0 percent by December 2025 from 63.1 percent in December 2024 (**Figure 3.8**).

Deposits to Total Liabilities and Total Assets of Banking Sector **Figure 3.8**



Source: State Bank of Pakistan

while reliance on borrowings subsided by end CY25…

Amid a healthy deposit mobilization during CY25, the reliance of banking sector on borrowing subsided by end CY25. Growth in borrowing decelerated to 5.6 percent in CY25

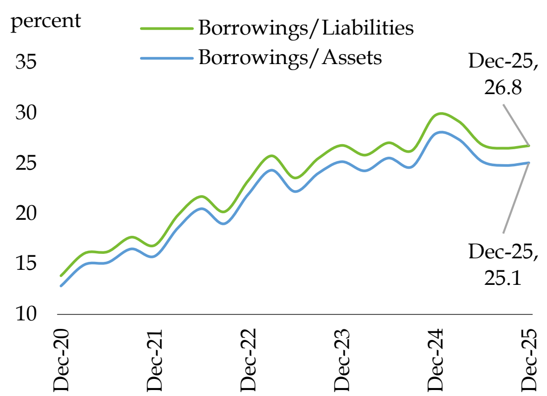
[5] Average of YoY growth from CY15 to CY24

[6] For instance, increase in deposits of IBIs explains around 40 percent of deposit mobilization during CY25. Moreover, 56.5 percent of the increase in saving deposits of banking sector was contributed by IBIs during CY25.

[7] Amid these dynamics, the share of current deposits rose to 41.2 percent by end CY25 from 36.6 percent at end CY24, fixed deposits to 17.3 percent in CY25 from 15.8 percent in CY24 and that of savings deposits fell to 40.4 percent from 43.4 percent in CY24.

from 28.5 percent in the same period last year. Last year, banking sector sharply increased their borrowing amid the sharp decline in deposits in Q4CY24. However, the situation reversed in CY25, as the government abolished the ADR-related tax policy on banks from tax year 2025 onwards, and banks' deposit mobilization revived. The share of borrowing in funding base fell to 25.1 percent from 27.9 percent, which bodes well for the overall stability dynamics (**Figure 3.9**). However, at around 85 percent, the composition remained tilted towards borrowing from central bank in CY25 (82.3 percent in CY24).

Borrowings to Total Liabilities and Total Assets of Banking Sector **Figure 3.9**



Source: State Bank of Pakistan

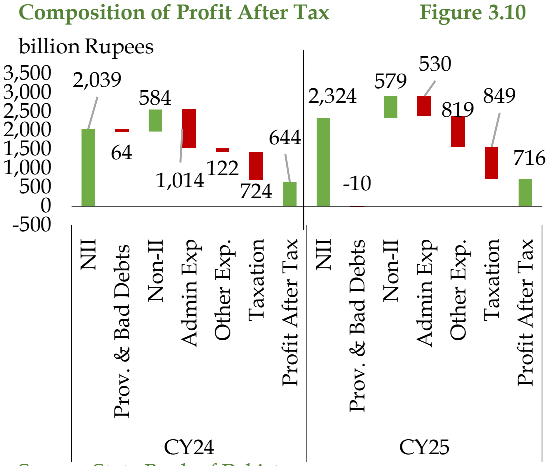
Earnings remained steady…

Earnings of the banking sector improved; after-tax profit of the banking sector rose by 11.2 percent to Rs 716 billion in CY25 from Rs 644 billion in CY24. With strong growth in earning assets and equity, the bottom-line indicators i.e. ROA and ROE, respectively, moderated to 1.2 percent (1.3 percent in CY24) and 19.8 percent (21.5 percent in CY24). ROA remained slightly above its long-term average of 1.19 percent, however, ROE for CY25 was still well-above its long-term average of 15.4 percent.[8]

On a YoY basis, earnings rebounded by 11.2 percent in CY25 from 0.2 percent in CY24. The major push to earnings came from net interest income, where a larger decline in interest expenses compared to interest income boosted income. Further, there was a relatively lower fall in benchmark interest rate such as SBP policy rate (250 bps in CY25 compared to 900 bps decline in CY24), along with rising volume of earnings assets helped in higher interest income.[9]

However, non-interest income moderated by 0.7 percent in CY25, mainly due to lower trading gains on sale of government securities and quoted shares compared with last year (**Figure 3.10**).[10] Last year, not only were the gains on sales of securities higher due to large downward adjustment in secondary market yields but significant gains on securities were due to sale of treasury bills amid the buyback of MTBs by government in H2CY24.

Composition of Profit After Tax **Figure 3.10**

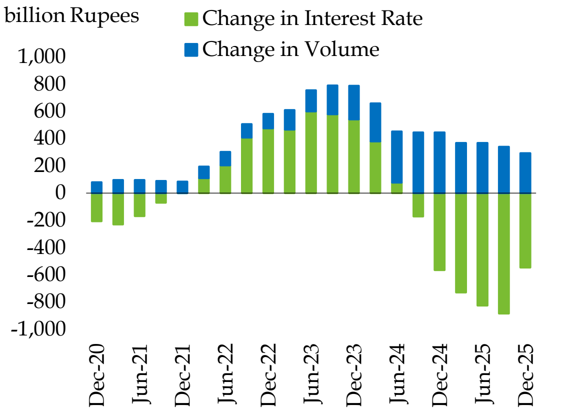


Source: State Bank of Pakistan

[8] Average of ROA and ROE from March 2010 to December 2025.
[9] The Weighted Average Lending rate (excluding zero-markup and excluding interbank) fell by 252 bps in CY25 compared to 707 bps in CY24, while Weighted Average Deposit rate (excluding zero-markup and excluding interbank) fell by 233 bps in CY25 compared 836 bps fall in CY24. Further, the 3-month KIBOR was around 11 bps above the SBP policy rate on average, suggesting that the market followed the benchmark rates and exhibited its normal behavior with respect to policy rate, suggesting that outstanding loans were repriced according to their repricing cycle and terms.
[10] Gains on sale of government securities amounted to Rs 77 billion in CY25, compared to gains of Rs 94 billion in CY24 and gains of Rs 6 billion in CY23.

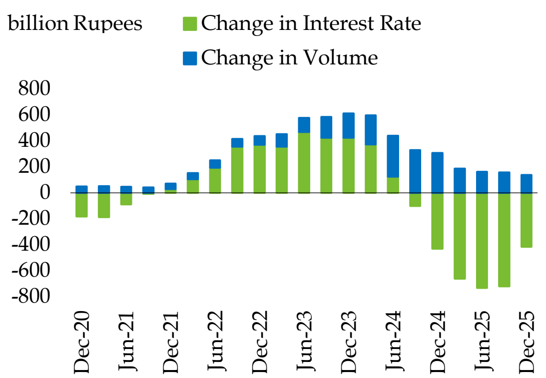
A rate-volume analysis of YoY changes in interest earnings and interest expenses shows that the rate component was more pronounced and drew down both income and expenses on interest bearing assets and interest-bearing liabilities (**Figure 3.11 and Figure 3.12**).

Change in Interest Earned on Average Interest bearing Assets due to .... **Figure 3.11**



Source: State Bank of Pakistan

Change in Interest Expenses on Average Interest bearing Liabilities due to .... **Figure 3.12**



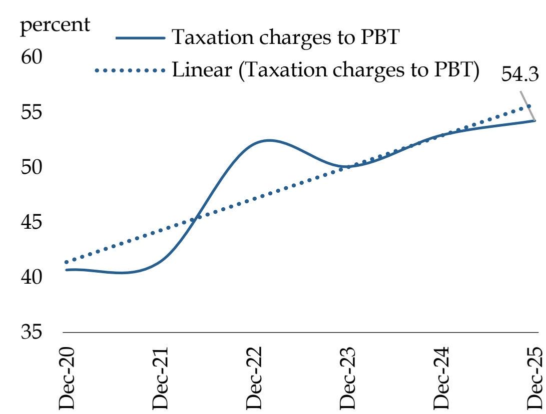
Source: State Bank of Pakistan

In line with rising share of investments in balance sheet of the banking sector, the proportion of interest/markup earnings from investments is on a consistent rise since March 2019 and has reached around 70 percent of total interest income, manifesting concentration in earnings from one major source i.e., government securities.

On the expense side, growth in operating expenses further decelerated to 18.7 percent in CY25 from 20.1 percent in CY24 and 32.5 percent in CY23, potentially reflecting the impact of falling inflation on administrative expenses, which helped keep operating expenses in check amid the rising branch network during CY25.[11] The provisioning expenses, which recorded an increase last year, declined as the gross NPLs fell during CY25. The absence of a one-off extra ordinary expense booked by a major bank last year also supported earnings in CY25.

However, tax charges to profit before tax further rose to 54.3 percent in CY25 from 52.9 percent of pre-tax profit in CY24, and continued to drag profitability. The rising taxation in relation to profit before tax reflects the impact of increased income tax rates on banks introduced through The Income Tax (Amendment) Ordinance 2024, dated December 28, 2024 (**Figure 3.13**).

Trend in Taxation Charges to Profit Before Tax of Banking Sector **Figure 3.13**



Source: State Bank of Pakistan

The extended DuPont analysis of after-tax ROE of the banking sector shows that the banking sector maintained its operating efficiency and interest margins improved; however, taxation dragged the ROE of the sector (**Table 3.2**).

[11] Branch network of banking sector grew by 1,138 to 18,846 branches by end December 2025. Data source: https://www.sbp.org.pk/publications/Quarterly/Dec-2025.htm

Extended Du Pont Breakup of Banking Sector's after-tax ROE — Table 3.2

	CY22	CY23	CY24	CY25
Impact of tax i.e. PAT/PBT (a)	0.48	0.50	0.47	0.46
Operating efficiency i.e. PBT/NII (b)	0.60	0.68	0.67	0.67
Interest Margin i.e. NII/Interest Income (c')	0.34	0.30	0.27	0.39
Yield on Assets i.e. Interest Income/Assets (d)	0.10	0.16	0.15	0.10
Leverage i.e. Assets/Equity (e)	16.65	17.31	16.75	16.03
ROE (f = a x b x c x d x e)	16.9%	27.1%	21.5%	19.8%

Source: State Bank of Pakistan

A stable and objective taxation policy for banks is vital for financial stability and financial inclusion ….

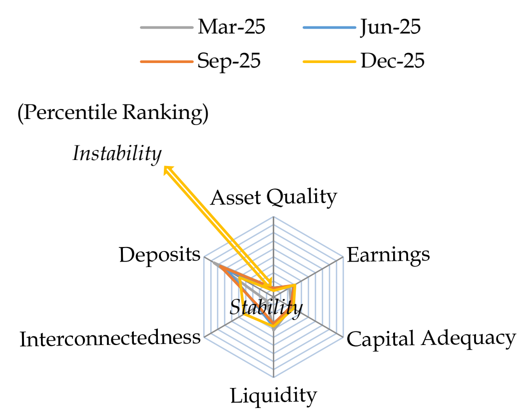
Objective and balanced tax policy is a key determinant of effective incentive structure in the economy. It has significant bearing on firms' business models and incentive to invest in resources for enhancing productivity. The banking sector in Pakistan operates under a higher corporate tax rate; moreover, an additional super tax at 10 percent applies on banks for posting higher absolute earnings.[12] Banks generally post higher absolute earnings, inter alia, due to prudential minimum capital requirement of Rs 10 billion that naturally warrants higher absolute earning to achieve desired return for shareholders and create cushions to absorb unexpected losses and support financial stability. Thus, higher effective tax rates can have implications for firms' ability and incentive to build financial cushions and make capital investments to improve efficiency.

Similarly, ADR-linked tax policy that was applicable in CY22 and CY24 had unintended consequences for financial deepening and inclusion. Because in the backdrop of muted credit demand, slow economic growth and government's high fiscal needs vis-à-vis limited availability of investable funds due to low saving rate in the economy, this tax policy created an incentive to slow down the deposit mobilization and rapidly increase loan portfolio for achieving the desired ADRs.

Key risks to financial stability subsided over the year

The banking sector stability map (BSSM)[13] shows that risks to financial stability have subsided along various dimensions, including Asset Quality, Capital Adequacy and Interconnectedness as the year 2025 progressed (**Figure 3.14**). The most important improvement was along the dimension of deposits, which reflects the receding impact of the ADR-linked policy in CY24, as its withdrawal helped in reviving deposit mobilization. The dynamics of key risks are discussed in the next sections.

Banking Sector Stability Map — Figure 3.14



Source: State Bank of Pakistan

3.1 Credit risk

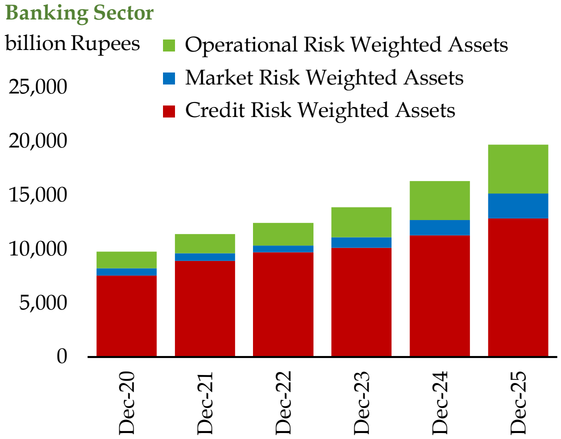
Credit risk is the major financial risk of the banking sector; it constitutes around 65 percent

[12] The tax rate for banking companies rose to 44 percent (for tax year 2025) from 39 percent as per The Income Tax (Amendment) Ordinance 2024 dated December 28, 2024. Tax rate for any other company (except a small company) is 29 percent. Source: Income Tax Ordinance 2001, FBR

[13] BSSM ranks the Financial Soundness Indicators of the current period vis-à-vis their historical level. It is based on percentile rankings (scaled from 1 to 10) of various indicators, and the summary score of these indicators in a particular dimension e.g. asset quality. A ranking close to 10 value on the summary statistic suggests increased risks but not necessarily immediate stability concern. This is because the summary statistic is based on percentile rankings of historical series and the actual indicators for the quarter may still be in comfortable position or above the minimum regulatory requirement. Methodology of BSSM is based on Dattels, P., McCaughrin, R., Miyajima, K., & Puig, J. (2010). "Can you map global financial stability?" *IMF Working Papers*, 1-42

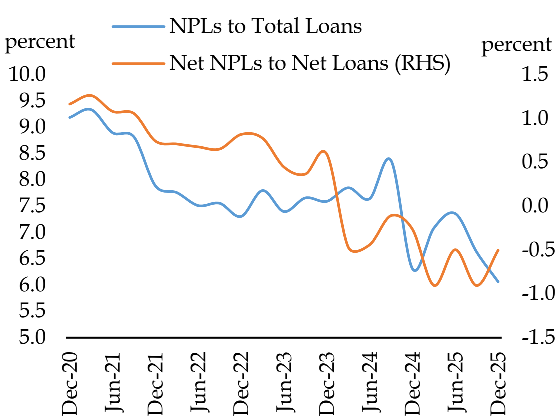
of the banking sector's total risk weighted assets (**Figure 3.15**). Nevertheless, the asset quality indicators manifested no serious concerns. The non-performing loans (NPLs) to gross loans ratio fell to 6.1 percent in December 2025 from 6.3 percent in December 2024 (**Figure 3.16**). Banks are holding adequate provisioning against the existing stock of NPLs, and the total credit loss allowances and provisions exceed the NPLs i.e. provisioning to NPLs ratio improved to 107.7 percent by end December 2025 from 103.9 percent at end December 2024.

Composition of Risk Weighted Assets of Banking Sector **Figure 3.15**



Source: State Bank of Pakistan

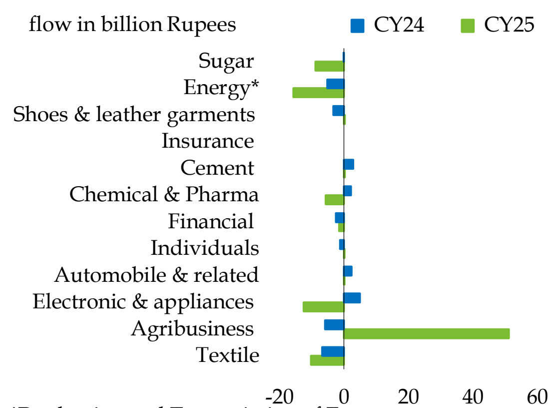
Asset Quality Indicators of Banking Sector **Figure 3.16**



Source: State Bank of Pakistan

Gross NPLs recorded a substantial fall of Rs 104 billion during CY25 as compared to an increase of around Rs 73 billion during CY24. The fall in gross NPLs in CY25 occurred in domestic as well as overseas operations of the banking sector. The reduction in NPLs was broad-based across all quarters of CY25, however, the decline in NPLs of a few overseas branches played an important role amid their recovery and settlement efforts. The domestic NPLs declined across various business sectors of the economy such as energy, textile, sugar, and auto, reflecting the improving economic conditions, falling inflation and revival in domestic demand (**Figure 3.17**).

Sector wise Change in Gross NPLs **Figure 3.17**



*Production and Transmission of Energy
Source: State Bank of Pakistan

Sector-wise changes show that energy sector was leading the decline in the NPLs (Rs 16 billion), as the cashflow position in the sector improved amid the reduction of circular debt by the government.[14] The NPLs of textile sector fell by Rs 10 billion, as despite a volatile global economic environment and domestic challenges such as floods, the sector's exports grew in dollar terms in CY25.[15] Various other sectors such as sugar, chemical & pharmaceuticals and automobiles also witnessed a decline in their NPLs during CY25.

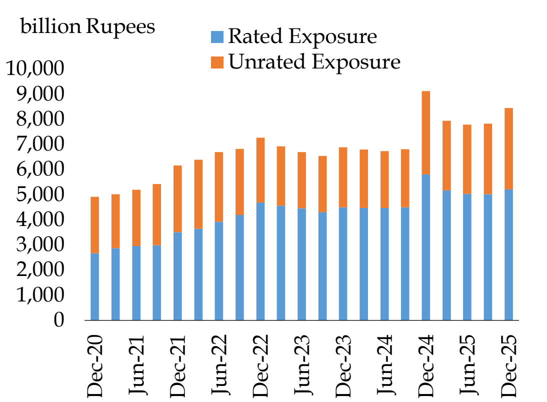
[14] For details see Press Release No 393 dated September 25, 2025, Finance Division, Government of Pakistan

[15] Textiles' exports rose by 5.8 percent in CY25 to US$ 17.7 billion in CY25, as compared to YoY increase of 5.9 percent in CY24. (Source: State Bank of Pakistan)

In line with the fall in NPLs, the Credit loss allowance and General provisions also fell by Rs 71 billion in CY25, compared to an increase of Rs 187 billion in CY24. The decline in Expected Credit Loss (ECL) allowance was across all three stages. The decline in Stage-3 ECL reflects mostly the fall in non-performing loans, Stage-1 and Stage-2, on the other hand, imply better economic outlook, as the ECL is heavily built on 'prospective approach' and incorporates business and economic considerations/data, which have shown improvement in CY25.[16]

It is worth mentioning that the major loan portfolio of the banks comprises of credit to large corporate borrowers. Around 62 percent of the corporate and commercial credit portfolio of banks comprise rated borrowers, which usually have an established business track record and well-developed corporate governance framework (**Figure 3.18**). Moreover, within rated exposure, around 52 percent carries credit risk weight of 20 percent, reflecting better credit worthiness of borrowers.

Rated and Unrated Corporate Exposure of Banking Sector **Figure 3.18**



Source: State Bank of Pakistan

These high rated borrowers have the option to access the capital market for their financing needs; however, they prefer bank borrowing due to several reasons including more flexible credit lines with banks and limited outreach of domestic capital market in the country.

SBP recognizes the importance of a developed capital market for financial stability and sustainable economic growth. That is why SBP is not only coordinating with Securities and Exchange Commission of Pakistan (SECP) for the development of the market, but has also tailored its regulations to promote, strengthen corporate governance standards in firms and incentivizes firms with large credit needs to access capital market.

Stress test results show that banking sector in general has adequate resilience to credit risks factors..

The results of latest single factor sensitivity analysis (stress tests) show that the banking sector in general has adequate resilience to extreme but plausible shocks to different credit risk factors, reflecting both contained risk exposures as well as adequate capital cushions that banks have for unforeseen losses (**Table 3.3**).

Stress Testing (Sensitivity Analysis) of Banking Sector (Credit Shocks) **Table 3.3**

Description of shock	Number of Banks with CAR*			
Pre-Shock Position	< 0%	0% - 8%	8% - 11.50%	> 11.5%
	0	0	0	29
Post-Shock Position	**< 0%**	**0% - 8%**	**8% - 11.50%**	**> 11.50%**
10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss.	-	-	4	25
Default of top 3 private sector borrowers/Groups (fund based) exposures, including outstanding or limit which ever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions.	-	1	1	27
Default of top 3 private sector borrowers/Groups (fund based and Non-Fund based) exposures, including outstanding or limit which ever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions.	-	1	2	26
All NPLs under substandard downgrade to doubtful and all doubtful downgrade to loss.	-	-	-	29
Increase in provisions against NPLs equivalent to 25% of Net NPLs.	-	-	1	28
Increase in NPLs to Loans Ratio (NPLR) equivalent to the historical maximum quarterly increase in NPLs to Loans Ratio of the individual banks.	-	2	1	26
Increase in NPLs of all banks equivalent to the historical maximum quarterly rise	-	-	1	28
Increase in NPLs to Loans Ratio of Textile Sector of the banks equivalent to the historical maximum quarterly increase in these banks.	-	-	1	28
Increase in NPLs to Loans Ratio of Consumer Sector of the banks equivalent to the historical maximum quarterly increase in these banks.	-	-	-	29
Increase in NPLs to Loans Ratio of Agriculture & SME Sector of the banks equivalent to the historical maximum quarterly increase in these banks.	-	-	2	27

* Excluding Digital banks and PPCBL

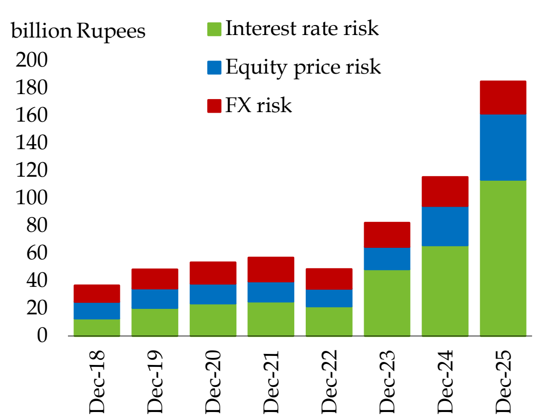
Source: State Bank of Pakistan

[16] International Financial Reporting Standard (IFRS) 9 requires provisioning against financial instruments (loans and investments) on Expected Credit Loss (ECL) approach, instead of Incurred Credit Loss approach that was being followed under IAS-39.

3.2 Market Risk

Market risk accounts for a relatively small share of the capital requirements of the banking sector, which in general has sufficient cushions to absorb any significant price shocks (**Figure 3.15**). Over the last few years, a substantial increase in banks' holding of government securities has increased their exposure to interest-rate risk that dominates the overall market risk profile (**Figure 3.19)**, while significant fluctuation in the financial-asset prices has highlighted the significance of market risk. Nevertheless, the banking sector has quite effectively weathered these fluctuations due to adequate capital cushions and effective management of their repricing profile by reducing the duration of government securities. Banks' exposures to FX and equity price risk remain contained, inter alia, due to prudent regulatory limits on holding of equity stocks and open FX positions.

Capital Charge for Market Risk **Figure 3.19**



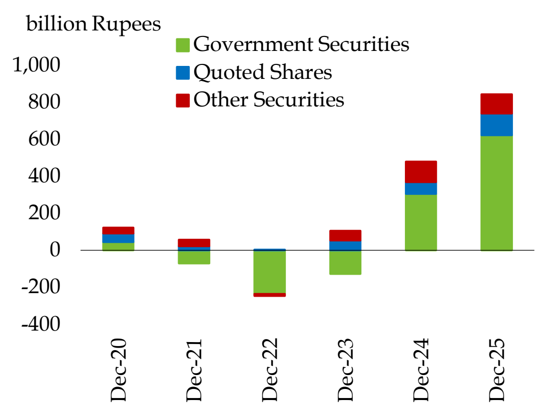
Source: State Bank of Pakistan

Revaluation surplus strengthened by end of CY25

A large part of banks' holding of government securities are subject to marked-to-market requirements, indicating that substantial part of interest rate risk is accounted for in the capital requirements and risk management process of banks.[17]

During CY25, SBP reduced the policy rate by a cumulative 250 bps (900 bps reduction in CY24), which resulted in revaluation surpluses on fixed-income securities that mainly comprise government securities. Similarly, as the equity market continued its upbeat momentum in CY25, the revaluation surplus on quoted shares also rose (**Figure 3.20**).

Revaluation Surplus/Deficit on Securities **Figure 3.20**



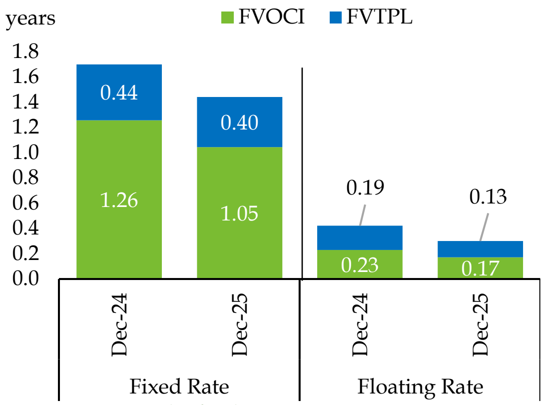
Source: State Bank of Pakistan

Share of floating-rate government securities further increased…

The banking sector continued to increase the combined share of floating rate portfolio in their government securities. The rising share of floating-rate securities reduces the effective duration of fixed-income securities and their sensitivity to changes in interest rates, reflecting a conservative approach in asset-liability management. Not only did the weighted average duration of floating rate portfolio fell further when compared to last year, the weighted average duration of fixed rate government bonds also fell during CY25 (**Figure 3.21**).

[17] Around 97 percent of securities are classified as Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit and Loss (FVTPL) categories. These categories are subject to marked-to-market requirements as per applicable IFRS-9

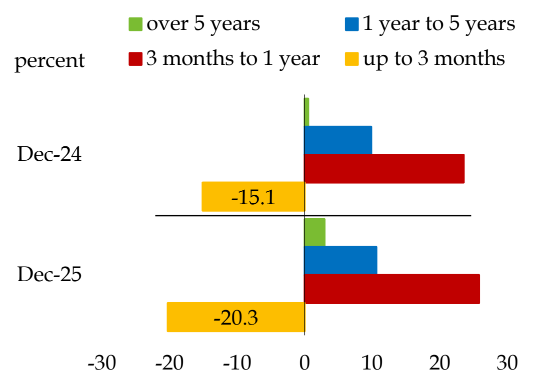
Weighted Average Duration of Government Securities **Figure 3.21**



Source: State Bank of Pakistan

Similarly, banking sector also maintained quite contained repricing gaps between rate-sensitive assets (RSA) and liabilities (RSL), especially for 3-months and above maturity buckets (**Figure 3.22**).

Gap of Rate Sensitive Assets and Liabilities as Percent of Total Assets **Figure 3.22**



Source: State Bank of Pakistan

Banks show strong resilience to changes in market rates …

The banking sector maintains adequate resilience to severe shocks in market prices i.e. yield curve, equity prices and exchange rates. The results of the latest single factor sensitivity stress testing show that the banks in general remain compliant with the minimum CAR requirement even in the face of severe adverse movements in prices (see **Table 3.4**).

Stress Testing (Sensitivity Analysis) of Banking Sector (Market Shocks) Table 3.4

Description of shock	Number of Banks with CAR*			
	< 0%	0% - 8%	8% - 11.50%	> 11.5%
Pre-Shock Position	**1**	**0**	**0**	**28**
Post-Shock Position	**< 0%**	**0% - 8%**	**8% - 11.50%**	**> 11.50%**
Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities.	-	-	2	27
Upward shift coupled with steepening of the yield curve by increasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the historical maximum quarterly increase .	-	-	2	27
Downward Shift plus flattening of the yield curve by decreasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the historical maximum quarterly increase.	-	-	-	29
Impact of Increase in interest rate by 100bps on investment portfolio only	-	-	1	28
Depreciation of Pak Rupee exchange rate by 30%.	-	-	-	29
Depreciation of Pak Rupee exchange rate by 25.29% equivalent to the quarterly high depreciation of rupee against dollar.	-	-	-	29
Appreciation of Pak Rupee exchange rate by 7.06% equivalent to the quarterly high level of appreciation of rupee against dollar.	-	-	-	29
Fall in general equity prices equivalent to maximum decline in the index.	-	1	1	27
Fall in general equity prices by 50%.	1	-	1	27

* Excluding digital banks and PPCBL

Source: State Bank of Pakistan

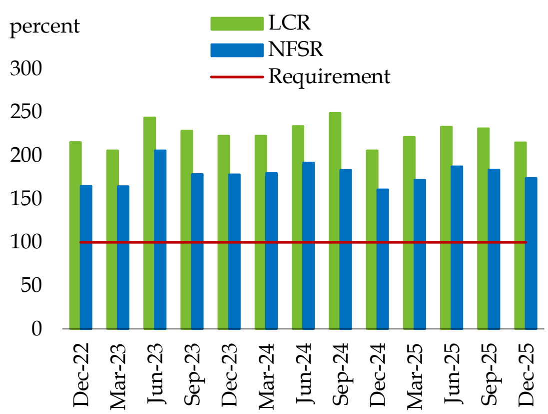
3.3 Liquidity Risk

Balance sheet-based indicators suggest a comfortable liquidity profile during CY25…

The banking sector maintained a comfortable liquidity profile during CY25, which is reflected in liquidity-related financial soundness indicators (FSIs) of the sector. Liquid assets fully covered total deposits and short-term liabilities during CY25 (i.e., relevant FSIs were above 100 percent). The satisfactory liquidity profile reflects significant investments in liquid (government) securities by banks. The treasury instruments have a reasonably developed and active secondary market, which helps banks in managing daily liquidity needs.

The Basel-III standard liquidity ratios i.e., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) of the banking sector complied with the prescribed minimum benchmarks of 100 percent for all quarters of CY25. Both LCR and NSFR remained comfortably above the 100 percent regulatory requirement, suggesting a satisfactory liquidity profile (**Figure 3.23**).

Liquidity Indicators of Banking Sector **Figure 3.23**



Source: State Bank of Pakistan

Liquidity conditions in the interbank market remained mixed albeit the growth in deposits revived during CY25…

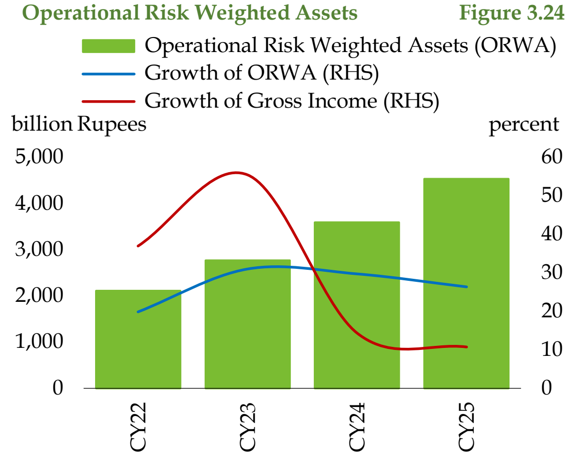
The liquidity conditions remained relatively tight, the average OMOs injections spiked mid-CY25. The market continued to rely on shorter tenors of OMOs in an easing monetary policy cycle, a behavior adopted in late December 2023 amid the expectation of sharp fall in SBP policy rate. The tenor-weighted average size of OMOs injection rose to Rs 2,307 billion in CY25 (Rs 1,717 billion in CY24). Nonetheless, due to SBP's active monetary policy operations, the money market functioned smoothly without any significant disruption or deviations from the policy rate (for details see the section on Money Market in **Chapter 2**).

The stress testing (sensitivity analysis) results of hypothetical liquidity shocks also suggest that most of the banks can survive withdrawal of up to 10 percent of customer deposits beyond five days. However, in a more severe hypothetical shock of withdrawal of up to 50 percent wholesale deposits and unsecured borrowings, a few non-systemic banks (with low market share) may face liquidity constraints beyond three days.[18]

3.4 Operational Risk

Operational risk is the second major driver of banks' risk weighted assets, contributing 23.0 percent of the TRWAs. The growth of Operational Risk Weighted Assets (ORWAs) decelerated (**Figure 3.24**), reflecting a slower growth in gross income which is key determinant of operational risk.[19]

Operational Risk Weighted Assets **Figure 3.24**



Source: State Bank of Pakistan

Amid the policy support of SBP and changing market demand, the use of digital finance and innovation in delivery of services have significantly increased. These developments not only promoted financial inclusion and enhanced efficiency and convenience in financial services but also increased the cyber security risks. Miscreants are using a variety of social engineering and fraudulent methods to obtain important financial information from customers.

[18] The results of stress testing (sensitivity analysis) are available at: https://www.sbp.org.pk/ecodata/fsi/qc/2025/QC-%20Dec-25.pdf

[19] Gross income forms the basis of calculating the ORWA under Basic Indicators approach (BIA) of Basel-III standards and is used by most of the banks in Pakistan. Capital charge for operational risk under the BIA is a fixed percentage of the average annual gross income of a bank over past three years.

Besides, the increased exposure to technology and digital platforms makes financial institutions vulnerable to multiple types of cyberattacks, such as phishing, ransomware, and data breaches. The result of 17th wave of **SBP's Systemic Risk Survey** shows that the market participants have also identified cyber security risk among the top ten prevailing risks to financial stability (**see Box 1 on SBP's Systemic Risk Survey**).

SBP remains vigilant to cybersecurity concerns and has been taking several measures to strengthen cyber resilience of banks. Besides establishing a dedicated cybersecurity risk supervision function last year, technological innovation is already a strategic theme under SBP's Vision 2023-28, which has brought renowned emphasis on the promotion of innovation and use of technologies as well as to cybersecurity and privacy of data. The proactive supervision of cybersecurity related issues of the regulated entities will help in containing the intensity of cybersecurity related incidents and cyber threats. Customer awareness campaigns are also helping in mitigating the cybersecurity risk by educating users on phishing, strong passwords, and Two-factor authentication (2FA), directly reducing financial fraud and enhancing digital resilience. These initiatives, supported by SBP, banks and FIA Cybercrime Wing, promote safer online behavior in banking and e-commerce, creating a more informed and cautious user base.

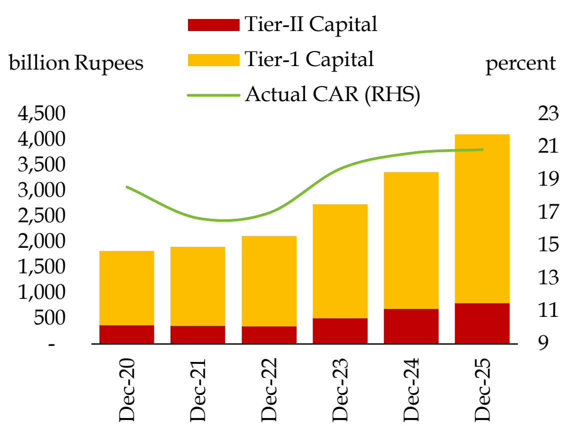
Acknowledging the importance of practical drills for effectively managing the crises, SBP and Pakistan Bank Association (PBA) conducted a dedicated industry-wide cyber security simulation exercise in January 2026. The drill followed dual-track approach, covering both technical and management aspects of cyber threats. This initiative is expected to substantially help the industry in identifying the gaps and improving the cybersecurity profile (**see Box 3.2 for details**).

3.5 Solvency

Solvency indicators remained above the minimum regulatory requirement during CY25

Headline solvency indicators of the banking sector such as CAR further improved to 20.8 percent by end CY25, when compared to 20.6 percent by end December 2024. The uptick in CAR emanated from higher growth in regulatory capital that outpaced growth in total risks weighted assets. While Tier-I Capital increased due to steady earnings, the Tier-II capital rose on the back of revaluation gains on securities (**Figure 3.25**).

Solvency Indicators of Banking Sector **Figure 3.25**

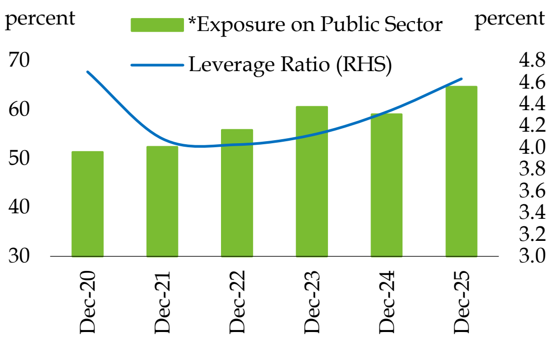


Source: State Bank of Pakistan

A major part of banks' exposure is in government securities, which are treated as per Basel framework to reckon the adequacy of capital for credit and market risks. These securities require no capital charge (involving zero risk weight) for credit risk and relatively low capital charge in respect of market risk. However, to prevent the build of excessive leverage even in non-risky assets and address any model issues in calculating the relative riskiness of assets, a non-risk based regulatory requirement i.e., Leverage Ratio, is also applicable on banks in Pakistan as a backstop tool. Banks are required to maintain minimum leverage ratio of 3.0 percent as per Basel standards.

The leverage ratio of Pakistan's banking sector has come down in the last few years due to increase in assets base and exposure, particularly the investment in government securities. After falling to 3.7 percent in March 2023, the ratio continued to improve and reached 4.6 percent in December 2025 (**Figure 3.26**). Importantly, the ratio is higher than both the minimum requirement of 3.0 percent and its long-term average of 4.4 percent.

Banks' Exposure to Public Sector and Leverage Ratio **Figure 3.26**



* Exposure to Public Sector = Investment in Government Securities + Public Sector Advances
Source: State Bank of Pakistan

While the government continued its fiscal consolidation initiatives, a sustained reduction in government borrowings from banking sector is essential for a more optimal balance sheet structure of the sector and increasing the share of private sector in the overall financial intermediation.

The creditworthiness and soundness of individual banks have a profound bearing on the overall stability of the financial system. The ratings assigned by independent credit rating agencies to banks also suggest that these institutions in general have satisfactory creditworthiness, indicating that they have adequate ability to honor their financial obligations and keep flow of credit to the economy. A comparison of banks' credit ratings over the last three years shows that the number of banks and their market share with better credit ratings have further improved.[20]

Banking sector shows adequate resilience to key financial risks in terms of both contained risks exposures and capital buffers. Besides the results of stress tests (sensitivity analysis), this resilience is also validated in the detailed scenario analysis (macro stress tests), which assesses impact of emerging economic environment and severe macroeconomic shocks (hypothetical) that could emerge in next three years (**for further details on the scenario analysis, see chapter 4**).

[20] For details see Governor's Annual Report 2024-2025 available at: https://www.sbp.org.pk/reports/annual/Gov-AR/pdf/2025/Gov-AR.pdf

Box 3.1: Islamic Banking Institutions: Financial Performance and Recent Initiatives to Promote Islamic Finance

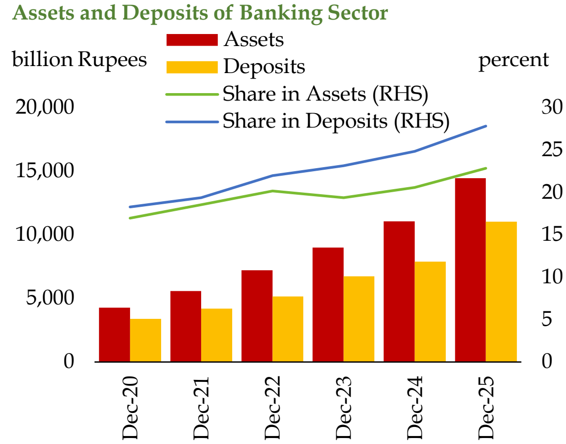
The network of Islamic Banking Institutions (IBIs) consists of twenty-two (22) institutions, including six (6) full-fledged Islamic banks and windows of sixteen (16) conventional banks carrying out standalone Islamic banking operations. With further growth, IBIs now constitute around 23 percent share in total assets and 27.8 percent share in total deposits of the banking sector at end December 2025 (**Figure 3.1.1**). Within IBIs, the full-fledged Islamic banks continued to dominate the market with 58.3 percent share in total assets and 56.7 percent of total deposits of IBIs.

During CY25, the branch network of IBIs expanded by 1,545 to reach a total of 7,562 branches by end December 2025, which are dispersed over 146 districts of the country. Notably, the branch expansion was the highest-ever annual expansion in any calendar year. Moreover, Islamic banking branches (IBBs) of conventional banks increased by 678 to reach 2,931 by end December 2025. Mashreq Bank Pakistan Limited, a Digital Bank, has also started Islamic operations on full-scale in the last quarter of 2025. The significant expansion of the Islamic banking outreach reflects a continued focus on providing Shariah-compliant products and services, while catering to the growing demand of faith-sensitive customers.

The IBIs continued their growth momentum during CY25 and for the second consecutive year outpaced the growth of their conventional counterparts (**Table 3.1.1**). Assets of Islamic banks increased by Rs 3,397 billion (30.7 percent growth) in CY25 to reach Rs 14,467 billion by end December 2025. On the funding side, deposits of IBIs rose by Rs 3,132 billion (39.6 percent growth) during CY25, which was also higher than the growth of their conventional counterparts. Among other factors, the rebound in deposits mainly reflects recovery from the slowdown amid the ADR-linked tax policy during CY24 and the positive effect of recent SBP initiative on changes in profit sharing on saving deposits of IBIs.[21]

Both investments and advances (net) contributed to the expansion in asset base of IBIs. Investments rose by Rs 1,617 billion, mainly driven by growth in Government of Pakistan Ijarah Sukuk (GIS) during CY25. IBIs' financing also rose by Rs 1,617 billion and offset the decline in advances of their conventional counterparts. However, the major increase was in advances of the corporate sector, as a few energy-related public sector entities and commodity procurement agencies increased their borrowing from IBIs during CY25. Apart from public sector, advances of textile, sugar and chemical & pharmaceutical sector also rose during the year under review.

Share of Islamic Banking Institutions in Assets and Deposits of Banking Sector **Figure 3.1.1**



Source: State Bank of Pakistan

Performance of Islamic Banking Institutions **Table 3.1.1**

	CY24	CY25	CY24	CY25
	IBIs		Conventional Banks	
billion Rupees				
Total assets	11,070	14,467	42,623	48,765
Investments-net	4,988	6,605	24,803	32,461
Advances-net	4,037	5,654	11,768	9,203
Deposits	7,905	11,037	23,887	28,622
Borrowings	1,405	1,350	13,601	14,498
YoY Change (percent)				
Total assets	23.1	30.7	14.1	14.4
Investments - net	17.8	32.4	13.9	30.9
Advances - net	21.1	40.0	33.1	-21.8
Deposits	17.1	39.6	6.7	19.8
Borrowings	61.1	-3.9	25.9	6.6
Share within Total Assets (percent)				
Investments - net	45.1	45.7	58.2	66.6
Advances - net	36.5	39.1	27.6	18.9
Deposits	71.4	76.3	56.0	58.7
Borrowings	12.7	9.3	31.9	29.7
FDR/ADR*	51.1	51.2	49.3	32.2

* FDR=Financing to Deposits ratio and ADR=Advances to Deposits ratio

Source: State Bank of Pakistan

Islamic Banking Institutions maintained their soundness

The financial soundness of IBIs improved along key risk dimensions such as assets quality, liquidity and solvency (**Table 3.1.2**). By maintaining a sound financial position, IBIs contributed to the overall stability of banking sector.

[21] For details see IFPD Circular No. 09 of 2024

The non-performing financing (NPF) to total gross financing ratio improved to 2.4 percent by end December 2025. The overall asset quality indicators remained at a comfortable level. The loans loss allowances and provisioning coverage of more than 100 percent and negative net NPF ratios suggested a muted credit risk to solvency from the delinquent portfolio of IBIs.

Earning indicators such as ROA and ROE moderated slightly, as after-tax profit fell to Rs 229 billion in CY25 from Rs 273 billion in CY24. The drag on earnings emanated from lower net profit income, which fell on year-on-year basis due to falling yields on earnings assets. Accordingly, IBIs contribution in after tax profit of the banking sector fell to 31.9 percent in CY25 from 42.3 percent of the after-tax earnings of the banking sector in CY24, but still higher than their market share in the overall banking sector.

Financial Soundness Indicators of Islamic Banking Institutions — **Table 3.1.2**

			percent
	Dec-23	**Dec-24**	**Dec-25**
Asset Quality			
NPFs to Total Financing	3.8	3.5	2.4
Provision to NPFs	91.5	117.7	119.7
Net NPFs to Net Financing	0.3	-0.6	-0.5
Net NPFs to Capital	1.7	-3.0	-2.7
Earnings			
ROA before Tax	4.9	5.1	3.4
ROA after Tax	2.8	2.8	1.8
ROE before Tax	75.5	65.6	45.3
ROE after Tax	43.2	36.0	24.7
Liquidity			
Liquid Assets to Total Assets	49.1	47.1	52.2
Liquid Assets to Total Deposits	65.4	66.0	68.4
Liquid Assets/Short term Liabilities	112.1	101.4	117.2
Financing to Deposits	49.4	51.1	51.2
Customer Deposits to Total Financing	177.1	171.5	167.9
Capital			
Total Capital to Total RWA	20.7	19.8	17.5
Tier 1 Capital to Total RWA	17.3	16.3	15.4
Capital to Total Assets	7.3	7.9	7.2

Source: State Bank of Pakistan

Liquidity related FSIs also improved on the back of increased investments in Sukuk. Particularly, the liquid assets more than fully covered short term liabilities at end December 2025.

Solvency indicators such as CAR slightly moderated to 17.5 percent by end CY25, as higher growth in risk weighted assets, on the back of significant increase in advances, outpaced the growth in capital. Nonetheless, the CAR was well above the minimum regulatory requirement of 11.5 percent (**Table 3.1.2**).

B. Update on implementation of FSC's judgement

It may be recalled that the Federal Shariat Court (FSC) announced its judgement with respect to 'Riba' case on April 28, 2022. In pursuance of FSC's judgement, the federal government constituted a high-level Steering Committee (SC) in December 2022, entrusted with the vital task of providing strategic guidance for the effective implementation of FSC's judgment on Riba. SBP also established a high-level Committee for Transformation (CT) of conventional banking into Islamic. Under the CT, seven working groups and their 36 work streams/sub-work streams are actively engaged and meeting frequently to perform assigned tasks. The Committee, working groups and workstreams have held more than 500 meetings and are working proactively to provide policy and operational recommendations.

The working groups have made considerable progress in alignment with the set of action plans/key performance indicators set forth. Some key developments/work include: introduction of a dedicated chapter on Islamic Banking in BCO 1962 to provide explicit legal coverage for Islamic banking operations; complete assessment of legal and regulatory framework to ensure its alignment with the Shariah principles; development and launch of a comprehensive awareness creation campaign with variety of activities; roll-out of capacity building strategy constituting 16 different actionable items catering to the needs of different stakeholder and issuance of broad guiding parameters to facilitate banks in their conversion from conventional to Islamic. Further, SBP is working on the development of various solutions including hybrid/ Asset light Sukuk (ALS) structures in a bid to facilitate and provide liquidity management solutions for Islamic banking industry. Furthermore, SBP and MoF are working on developing an Assets Register of Government owned entities, which will enable quicker and simpler Sukuk issuances.

C. Policy Initiatives:

i. Facilitation in Commencement of Islamic Operations

During CY25, financial institutions exhibited growing interest in initiating Islamic operations, driven by strong demand for Shariah-compliant financial products. The trend was particularly evident among banks, microfinance banks, and development finance institutions, indicating a gradual expansion of Islamic finance activities and an enhanced responsiveness to evolving market needs.

During CY25, SBP granted approval to one digital bank, Mashreq Bank, and two microfinance banks, Mobilink Microfinance Bank and LOLC Microfinance Bank, to commence Shariah-compliant operations. Further, SBP accorded in-principal approvals to five institutions: Samba Bank Limited, HBL Microfinance Bank, ASA Microfinance Bank, Sindh Microfinance Bank, and Pak Libya Holding Company to initiate Islamic banking operations. SBP remained actively engaged with these institutions, providing guidance and necessary support to facilitate the initiation of Islamic business operations.

ii. Profit Sharing on Saving Deposits of Islamic Banking Institutions (IBIs)

SBP has been taking measures to enhance depositors' protection, promote fairness and transparency in profit distribution by Islamic banking institutions (IBIs). Accordingly, IBIs are advised to pay a minimum profit rate of 75 percent of the weighted average gross yield of all investment pools, effective from January 1, 2025.[22] These measures aimed to ensure that the returns offered to depositors are closely aligned with the performance of underlying Islamic banking investment pools.

iii. Adoption of International Standards for the Islamic Banking Industry

To further enhance the Shariah compliance framework and promote uniformity in practices and products across the Islamic banking sector, SBP continued to align its regulatory framework with international best practices by adopting standards issued by global standard-setting bodies, including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

During the period under review, SBP adopted three (03) additional AAOIFI Shariah standards, covering controls on Gharar, rules for profit calculation, and sale of commodities in organized markets, bringing the total number of adopted AAOIFI Shariah standards to forty-five (45) by end December 31, 2025. Moreover, six (06) IFSB standards were adopted during the period under review, increasing the number of adopted IFSB standards to ten (10). The adoption of international standards is expected to enhance regulatory consistency, market discipline, and systemic resilience, while strengthening stakeholder confidence in the Islamic banking sector and supporting its sustainable growth.

iv. Awareness Creation and Capacity Building Initiatives

SBP facilitated the Islamic banking industry in developing a comprehensive awareness campaign that pivots on the penetrating power of social media for creating awareness of Islamic banking among all strata of population. The campaign focuses on 9 distinct activities designed to build a robust narrative and systemically dispel misconceptions.

Further, in alignment with SBP's strategic goal of transforming the banking system into a Shariah-compliant framework, a comprehensive Capacity Building Strategy (CBS) for Islamic banking and finance has been developed encompassing sixteen (16) specific action items. These actions are designed to address the capacity-building needs of various stakeholder groups, including regulated entities, academic institutions (both universities and Madaris), and relevant government departments.

In addition to the awareness creation campaign and capacity building strategy, SBP regularly engages with the industry stakeholders through various awareness and capacity building activities. During CY25, SBP, through its subsidiaries, SBP BSC and NIBAF, intensified its engagement with government officials, academia, and Madaris to promote awareness and understanding of Islamic banking and finance. Under these initiatives, 60 awareness and

[22] IFPD Circular No. 09 of 2024

sensitization sessions were conducted nationwide for university students and faculty, along with 22 sessions specifically organized for Madaris students.

Similarly, a range of specialized and customized capacity-building programs were conducted for key stakeholder groups, including government departments, Shariah scholars, academia, journalists, and the judiciary. These programs were designed to enhance participants' understanding of Islamic finance and to enable them to play a more informed and effective role in the development of the Islamic banking industry.

v. Other Initiatives

a) Assessment of Knowledge, Attitudes, and Practices in Islamic Banking

SBP conducted a Knowledge, Attitude, and Practices (KAP) study to assess the perceptions and preferences of both users and non-users of Islamic banking during CY25. The study examined the factors influencing adoption or non-adoption of Islamic banking, identified challenges faced by customers, and collected both positive and negative feedback to guide future regulatory improvements.

The survey, carried out digitally, engaged over 21,700 respondents representing both the supply and demand sides of the industry. This large-scale exercise provided valuable insights into customer behavior and institutional practices, representing a key milestone in efforts to further strengthen the Islamic banking framework.

b) Shariah Advisors Forum

SBP reactivated and convened Shariah Advisors Forum (SAF), which met twice in 2025 to discuss and address key structural and operational challenges in Islamic banking and finance. The forums were deliberately outcome-oriented, with a clear focus on moving beyond discussion to actionable and implementable solutions. The forums provided an opportunity to Shariah scholars and SBP to discuss the challenges being faced by the industry and way forward.

Box 3.2: Building Systemic Resilience: The First Industry-wide Cyber Security Drill

The financial sector heavily relies on interconnected IT systems, essentially exposing it to cyber security risks. The disruptions in the event of a cyber-attack, that may turn systemic, will have considerable adverse implications for the stability of the financial system. At a time when the adoption and use of digital financial services is growing at an exponential pace in Pakistan, preparedness to take immediate and decisive action to mitigate a crisis and ensure a smooth flow of financial services becomes ever more critical.

Crisis simulation exercises (CSEs) are an integral part of forward-looking financial stability strategy and play a pivotal role in assessing pre-crises preparedness through identifying gaps and help strengthen fundamental components of financial stability. By simulating adverse scenarios such as liquidity shocks, market volatility, bank runs, operational disruptions, cyber incidents etc., these exercises identify vulnerabilities and strengthen contingency planning through enhancing coordination, institutional learning, and systemic resilience.

Once viewed as an operational issue, cyber risk now poses cross-border financial stability risks. The World Economic Forum's Global Risks Report 2025 identifies cyber espionage and warfare among the top near-term risks, while the Bank for International Settlements and the Financial Stability Board emphasize cyber resilience as critical to global stability. Domestically, the State Bank of Pakistan's 17th Systemic Risk Survey (January 2026) identifies cyber security as one of the significant risks to the financial system. Strengthening cyber resilience through robust standards, coordinated regulation, and integration into macroprudential frameworks is therefore essential to preserving financial stability.

Acknowledging the criticality of cyber risk, the Coordination Committee of SBP and Pakistan Bank Association (PBA) resolved to undertake a dedicated industry-wide cyber security simulation exercise. Subsequently, Pakistan's first ever industry wide cyber security drill was conducted in January 2026 through a dual-track approach comprising both technical and management drills. The coverage of the exercise was broad including thirty-four financial institutions, which comprised all Commercial/Islamic/Digital banks as well as major PSO/PSP viz. 1-Link and NIFT. The well-coordinated cyber drill assessed technical readiness, decision making and management readiness for crisis response.

- The *technical drill* was intended for Incident Responders – Security Operation Centre (SOC) Analysts, threat hunters and Incident Response (IR) teams, with the objective of detecting, investigating, and responding to simulated cyber-attacks.
- The *technical decision-making exercise* was designed for senior IT and Information Security personnel to test incident response procedures and decision-making capabilities under high-pressure scenarios.
- Participants in the *management drill* also included C-Suite executives who are part of their respective crisis management teams. This exercise assessed time-critical strategic decision making, public relations handling, business continuity activation and regulatory engagement.

The hypothetical crisis scenario was structured to simulate a sophisticated cyber incident resulting in material disruptions to critical digital channels and key third-party service providers. The drill required both technical and senior management functions to operate in a coordinated and disciplined manner, demonstrating robust analytical capabilities, cross-functional integration, and the capacity to take timely, risk-informed decisions under conditions of elevated operational stress. Participants were taken through a controlled and progressive escalation sequence, commencing with the detection of a security alert, advancing to the confirmation of an incident, and culminating in the declaration of an enterprise-wide crisis. This staggered approach provided clarity on escalation thresholds, decision rights, notification requirements, and governance protocols applicable at each phase of the event lifecycle. The simulation underscored the importance of effective communication, clearly delineated roles and responsibilities, and synchronized action across technology, operations, risk management, communications, legal, and executive leadership functions. By requiring coordinated engagement at tactical, operational, and strategic levels, the drill reinforced the imperative of institution-wide alignment and mature crisis management frameworks to safeguard operational resilience, continuity of critical services in the face of evolving cyber threats to ensure financial stability.

The successful completion of the industry-wide cyber drill stands as a testament to the strong coordination and effective collaboration among all participating stakeholders. This achievement underscores the financial sector's commitment to safeguarding the integrity, confidentiality, and availability of critical financial systems and services.

The drill further demonstrates the industry's collective resolve to remain proactive, adaptive, and resilient in navigating an increasingly complex and dynamic cyber threat landscape.

Going forward, and in line with recommendations of the International Monetary Fund, the SBP intends to institutionalize a systematic, multi-year cyber drills program, aligned with internationally recognized best practices, including the G-7 Fundamental Elements of Cyber Exercise Programmes, to ensure a structured, consistent, and progressively maturing approach to cyber resilience testing across the financial sector.

4

Resilience of the Banking Sector

The stress scenario used in this assessment is not a forecast of macroeconomic and financial conditions. It is a hypothetical, coherent, tail-risk setting designed specifically to assess the resilience of the banking sector against hypothesized deterioration in macroeconomic conditions. Under the baseline scenario, the solvency level of the banking sector remains stable, however, under stress scenario it comes under strain but remains well above the domestic regulatory benchmark over the projected three-year horizon. Systemically important large banks carry sufficiently higher capital buffers and are expected to sustain the impact of the assumed shocks over the assessment period. Similarly, the medium and small sized banks are also expected to remain resilient to the shocks. The credit growth under the baseline scenario is projected to remain healthy. However, under the stress scenario, loans' growth is projected to be lower –even showing decline. Considering the uncertainty regarding global commodity markets and macro financial conditions, SBP continues to closely watch the evolving situation and remains ready to take actions necessary to safeguard financial stability.

4 Resilience of the Banking Sector

4.1 Overview and Scenario Design

The State Bank of Pakistan uses various tools to gauge the stability of the financial system. One such tool is the Macro Stress Testing (MST), which evaluates the ability of the banking sector to absorb shocks from adverse macroeconomic and financial developments, emanating both domestically and globally. The MST exercise maps the impact on credit, market and operational risks, and ultimately, on solvency position of the banking sector.

This MST exercise simulates two scenarios to evaluate the impact on the solvency position. First, the *baseline or business as usual* (S_0) scenario reflects the most probable economic trajectory. Second, the *hypothetical stressed* (S_1) scenario assumes severe but plausible macroeconomic and financial conditions. Spanning a three-year projection horizon from Q1CY26 to Q4CY28, this exercise assumes a dynamic balance sheet, which estimates the credit portfolios and delinquency rates in response to shifting macro-financial risk factors. By utilizing a suite of vector auto-regressive (VAR) models, SBP projects the trajectory of gross non-performing loans ratio (GNPLR) and lending volumes to determine their impact on the eligible capital (EC) and risk-weighted assets (RWAs), which consist of exposures to credit, market and operational risks.

Beyond the consolidated system-level analysis, the MST also captures cross-sectional heterogeneity by categorizing banks into three categories with respect to their asset size, i.e. small, medium, and large.

4.2 The Baseline Scenario (S_0)

Following the consolidation phase in CY24, the domestic economy maintained a steady recovery throughout CY25. This stabilization was underpinned by a significant moderation in inflationary pressures, the strategic rebuilding of foreign exchange buffers, and a contained current account deficit. Coupled with continued fiscal consolidation and a calibrated monetary policy stance, these developments effectively kept the exchange rate stable.

Furthermore, successful engagement with the IMF bolstered investor confidence and reduced country risk premium, which helped strengthen the overall stability of the macroeconomy.[1] Based on the above-mentioned developments of CY25, a baseline scenario (S_0) has been devised under which the outlook centers around three main assumptions regarding domestic and global risk factors.

Continuity of a coordinated policy environment and smooth implementation of structural reforms are assumed.

The S_0 assumes continuity in the policy environment over the projection horizon. The progression of the IMF program, alongside strengthening macroeconomic fundamentals, characterized by policy discipline and improved country risk ratings, has mitigated the risk of abrupt policy shifts.

While recent fiscal reforms in the tax and energy sectors have been instrumental in sustaining economic growth[2], the successful conclusion of the current IMF program, scheduled to end in October 2027, is expected to yield the necessary

[1] In August 2025, Moody's upgraded Pakistan's rating from *positive* to *stable* and in April 2025, Fitch Ratings upgraded the rating from CCC+ to B- with stable outlook.
[2] Regional Economic Outlook, Middle East and Central Asia, October 2025, IMF.

fiscal space to address deep-rooted structural rigidities. The timely resolution of these structural bottlenecks could potentially spur growth beyond the baseline projections.

The NCPI inflation remained within the medium-term target range for much of CY25 due to continued prudent policy mix, lower global commodity prices, and favorable base effects. Nonetheless, the ongoing geopolitical conflict in the Midde-East is expected to push inflation slightly above the medium-term target range.

Geopolitical tensions pose a downside risk to the global and domestic economic outlook

By the end of CY25, the global outlook was expected to remain favorable on the back of technology-related investments and accommodative financial conditions. However, the outbreak of War in the Middle East, in late February 2026, could affect global economic activity. Further, global inflation was also expected to maintain its downward trajectory; however, the outbreak of war in Middle East began to disrupt the global supply chains and is expected to bring about a strong rebound in global inflation. To curb the inflationary pressure, the monetary authorities across the globe are expected to take corrective measures and the financial conditions may tighten.

The ongoing War in the Middle East is expected to have adverse impact on the domestic economy in numerous ways. First, the closure of sea routes and consequent disruption of global oil supply are anticipated to exert upward pressure on domestic fuel prices, primarily through an expected increase in international oil prices. Second, the country's exports to the Middle East are also expected to fall. Third, a temporary halt in the oil production activity, as announced by several Middle Eastern countries, is expected to reduce the inflow of remittances and further weigh on the country's current account deficit.[3]

Improved agriculture supply is expected to ease price pressure

The agriculture sector demonstrated notable turnaround in the aftermath of the 2025 climatic disruptions. A rebound in production was facilitated by improved input offtake (specifically fertilizers), increased mechanization through higher machinery imports, and relatively higher disbursements of agricultural credit.[4] Improved supply is expected to ease price pressure which rose during the second half of CY25 due to floods-related market frictions and seasonal higher demand.[5]

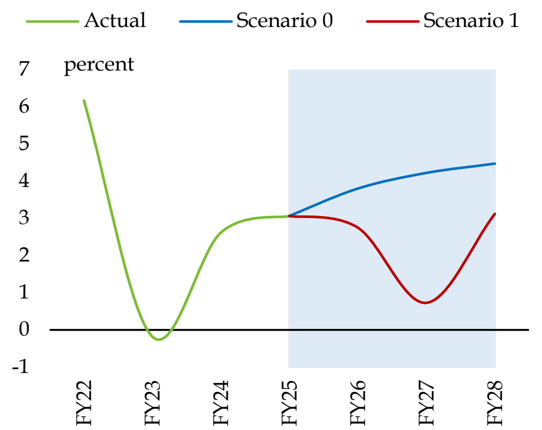
Despite the recovery, the sector remains the primary conduit for downside risks. Unfavorable weather patterns, volatility in water availability, and increasing frequency of climate-related events[6] pose persistent threats to yields. Such disruptions could exert renewed supply-side pressure on food inflation.

Overall growth is expected to remain on track and inflation within target range over the medium term

Under S_0, growth is expected to grow by 3.8 percent in FY26. However, for the next two years of the projection period, it is expected to reach 4.2 percent during FY27 and stabilize at 4.5 percent in FY28 (**Figure 4.1**).

[3] Bloomberg, 2026. Gas Prices Surge as Qatar Shuts World's Largest LNG Export Plant (dated: March 02, 2026)
[4] Ministry of Finance Monthly Economic Update & Outlook, February 2026.
[5] SBP Monetary Policy Report, February 2026.
[6] NDMA has projected 22-26 percent above average rainfall for 2026 monsoon. Webinar report on recent floods in Pakistan: Is it an impact of climate change? A way forward. National Institute of Public Policy, 30 October 2025.

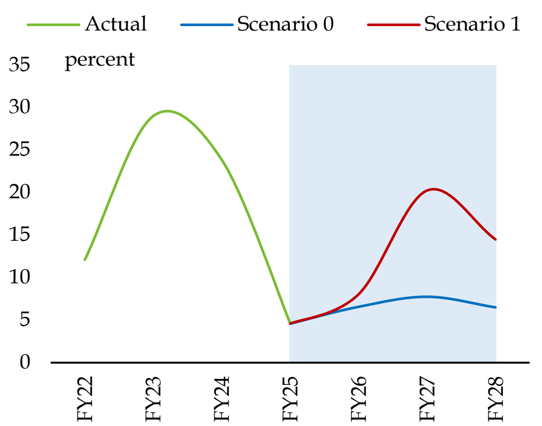
Real GDP Growth **Figure 4.1**



Source: SBP Calculations

Inflation is expected to rise to 6.6 and 7.7 percent in FY26 and FY27, respectively, before receding to 6.5 percent in FY28, within the medium-term target level of 5-7 percent (**Figure 4.2**).

Inflation **Figure 4.2**



Source: SBP Calculations

4.3 The Hypothetical Stressed Scenario (S_1)

Unlike the S_0, the hypothetical stressed scenario (S_1) assumes a significant departure from the current macroeconomic path, characterized with heightened geopolitical volatility and disruption in domestic structural reforms. Three key assumptions made under S_1 are discussed below.

The severity of the ongoing conflicts and trade frictions could slow down global economy and raise international commodity prices even further

S_1 incorporates a prolonged and marked escalation in geopolitical tensions across the Middle East and surrounding countries, triggering severe disruptions in the global supply chain and trade routes. The resulting negative supply shock is expected to cause a considerable slowdown globally and resurgence in global commodity prices, particularly food and energy.

S_1 also assumes resurgence of protectionist global trade policies which may further prolong the uncertainty and weigh heavily on global economy.

For the domestic economy, these global headwinds could translate into stress on the external account through widening current account deficit and depletion in the country's foreign exchange reserves. Under these circumstances, external borrowing would be costlier with higher country-risk premiums, ultimately, exerting pressure on the exchange rate.

Macroeconomic imbalances could lead to abrupt policy shifts and disrupt the pace of structural reforms

The S_1 also assumes discontinuity of structural reforms, particularly in the taxation and energy sector, leading to a higher fiscal deficit. Increased domestic financing needs are expected to elevate sovereign yields, further strengthen the sovereign-bank nexus and crowd out private sector credit. Moreover, due to the general elections scheduled in FY29, higher government spending is anticipated towards the end of projection period, expanding the fiscal deficit and exerting pressure on the local currency.

Recurrence of severe climate-related events may pose a significant downside risk to the domestic economy.

S_1 also assumes an extreme climate event including catastrophic rains leading to floods, specifically urban floods during the first year of the projection horizon. The anticipated recurrence of climate losses could induce severe agriculture and infrastructure losses, which may lead to increased government expenses and higher food imports, leading to widening twin deficits with higher debt accumulation. Moreover, uncertainties over the water supply from a neighboring country, during dry season, are also expected to hamper the productivity of the agriculture sector.

The assumptions made under S_1 could lead to external account pressure and high inflation during the projection period.

In S_1, economic growth is projected at 2.8 percent during FY26, declining to 0.7 percent in FY27 before recovering to 3.1 percent in FY28. Th supply shocks emanated from severe floods and intensified geopolitical tensions is assumed to raise inflation to 8.1 percent during FY26, however, it is expected to increase beyond the target range to 20.3 percent in FY27 and 14.5 percent in FY28.

4.4 Stress Testing Results: System Level

At the outset, some caveats are noted on using the data on advances and risk weighted assets (RWAs). Specifically, during Q4CY24, the advances portfolio expanded sharply, with banks extending Rs. 3,913 billion in gross advances, reflecting a 30.1 percent QoQ growth, largely driven by the ADR-linked tax policy. This surge mechanically lowered the gross non-performing loans ratio (GNPLR)[7] and capital adequacy ratio (CAR)[8] due to inflated denominators. For stress-testing purposes, advances and RWAs were normalized using the average YoY growth of the past five years (excluding 2020), resulting in adjusted GNPLR and CAR of 7.3 percent and 21.8 percent, compared to realized ratios of 6.3 percent and 20.6 percent, respectively, as of December 2024.

a) Impact on Credit Riskiness

The results of the MST exercise indicate that the GNPLR under S_0 is likely to slightly increase by 35 bps over initial seven quarters followed by a 59 bps decline towards the end (**Figure 4.3**). The initial rise in loan delinquency ratio was due to the lagged effects of assumed economic challenges e.g., slight downward adjustment in economic activity, short-term upward trend in inflation followed by an appropriate monetary policy response, which may lead to a slight surge in NPLs. As a result, the GNPLR is expected to peak at 6.4 percent, up from the current level of 6.1 percent, before settling at 5.8 percent by the end of projection period i.e., Q4CY28. On average, advances are projected to grow by around 13.6 percent over CY26–CY28 under S_0.

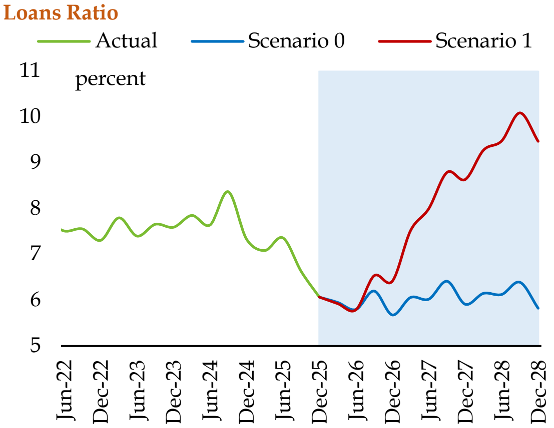
The asset quality indicator, under hypothetical stressed scenario, S_1, on the other hand, follows an upward trajectory because of the assumed sharp economic slowdown amid elevated global commodity prices and domestic supply shocks. The initially subdued rise in the infection ratio may reflect relatively strong creditworthiness of borrowers and the inherent lags in the recognition of NPLs. Under prudential

[7] GNPLR = Gross Non-Performing Loans ÷ Gross Advances
[8] CAR = Eligible Capital ÷ Risk Weighted Assets

regulations, asset quality deterioration typically materializes gradually (time-based criterion), causing the infection ratio to respond with a delay to emerging macroeconomic stress, even when underlying credit risk begins to rise earlier, which is also evident from the rise in infection in the latter half of projection period.

The growth in advances may also be affected by the assumed deterioration of macroeconomic dynamics. Under S_1, the lending portfolio is projected to grow on average, by 6.1 percent over the projection period. The delinquency rate rises gradually and peaks at around 10 percent before taking a slight dip and settling at 9.5 percent towards the end of projection horizon (**Figure 4.3**). The slow onset of infection ratio might be due to factors stated under stressed scenario.

System-Level Gross Non-Performing Loans Ratio **Figure 4.3**

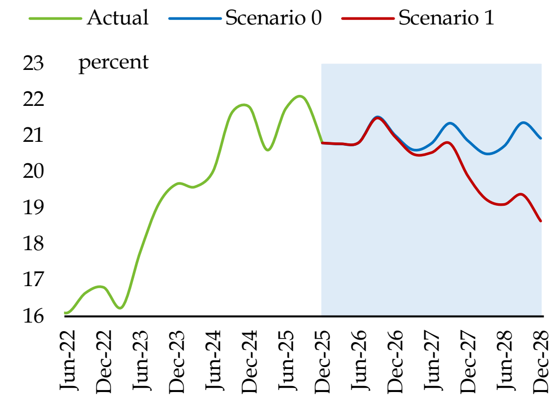


Source: SBP Calculations

b) Impact on Solvency

The impact on solvency is measured via CAR of the banking system. The incremental NPLs have been adjusted in the projected EC and RWAs. The CAR of the system slightly improves in baseline scenario. Under S_0, the CAR rises by merely 13 bps by the end of CY28 from the prevailing level of 20.8 percent. However, in the stress scenario, it falls by 217 bps from the current level (**Figure 4.4**).

System-Level Capital Adequacy Ratio* **Figure 4.4**



* Regulatory Benchmark is 11.5 percent.
Source: SBP Calculations

However, under both scenarios, the banking industry maintains its CAR above the domestic and global minimum benchmarks of 11.5 percent and 10.5 percent, respectively, during the entire projection horizon.

Despite the assumed significant slowdown in real economic activity, the banking sector is expected to remain resilient and maintain adequate solvency buffers. This can be attributed to several structural and regulatory factors. First, the sector currently maintains capital buffer of around 930 bps above the regulatory benchmark of 11.5 percent, indicating strong loss-absorbing capacity. Second, the 100 bps capital conservation buffer released during the COVID-19 period has not yet been reinstated, effectively providing banks with additional space to absorb potential shocks. Third, the favorable repricing structure of banks' earning assets, amid assumed monetary policy conditions, provides further resilience by supporting interest income during periods of stress. Finally, historical trends show that banks tend to reallocate their asset portfolios toward low-risk government securities[9] during

[9] The exposure of banks to the public sector stands at 64.6 percent of total assets at the end of CY25.

economic downturns, thereby reducing credit risk exposure. Within SBP's robust regulatory and supervisory framework, banks also generally adopt conservative lending practices, prioritizing borrowers with stronger creditworthiness and greater capacity to withstand macroeconomic shocks.

4.5 Results: Cross Sectional Dynamics of Banking Segments

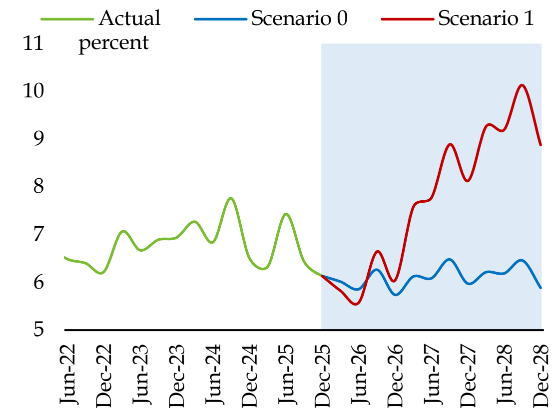
In line with the system-level credit risk analysis, infection ratios of banking segments, viz., small, medium and large sized banks,[10] have also been projected separately. This aspect of the banking industry is included to assess how cross-sectional heterogeneity affects the resilience of banks against various macroeconomic risks.

For the GNPLR, system-level projections of NPLs and gross advances are distributed proportionately based on the contribution of each segment to the aggregate loan portfolio of the banking system as of December 2025. Similarly, capital is also distributed proportionately to compute segment level CARs.

(a) Large Banks

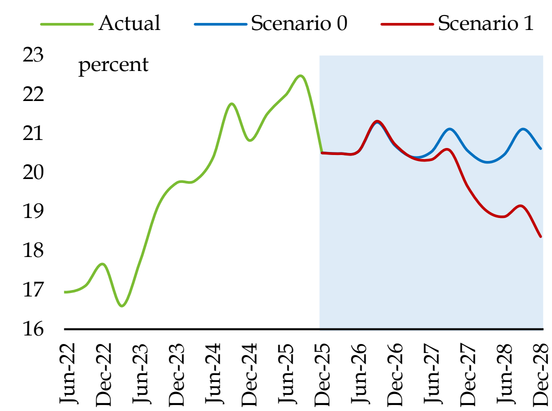
The large banks segment – comprising around 77.2 percent of the banking sector's assets – witnesses a decrease of 25 bps in GNPLR by end CY28 from its current level of 6.1 percent in the baseline. Under stress, however, the infection ratio may rise gradually by 275 bps by the end of projection horizon (**Figure 4.5**). The CAR may increase by 11 bps in the baseline scenario but may fall by 214 bps in the stressed scenario from prevailing level of 20.5 percent over the projection span (**Figure 4.6**). Remarkably though, the CAR remains 912 and 688 bps higher than the local benchmark, respectively under S_0 and S_1.

Large Banks - Gross Non-Performing Loans Ratio — **Figure 4.5**



Source: SBP Calculations

Large Banks - Capital Adequacy Ratio* — **Figure 4.6**



* Regulatory Benchmark is 11.5 percent.
Source: SBP Calculations

The large banks are expected to remain well-positioned to withstand adverse shocks over the simulation horizon, reflecting their stronger capital positions and stable funding structures. Owing to their extensive outreach and diversified deposit base, large banks benefit from relatively lower costs of funds, enabling them to maintain higher-quality loan portfolios. Moreover, Domestic Systemically Important

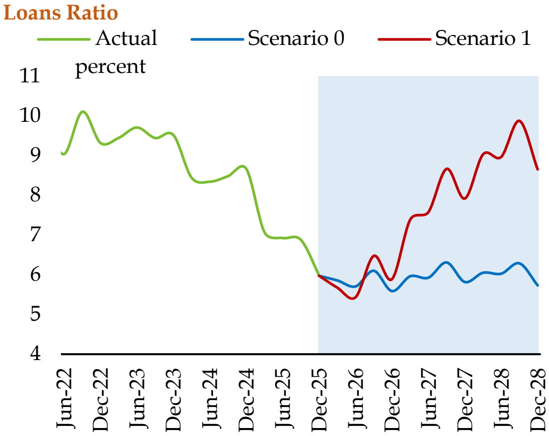
[10] The categorization has been done based on size of banks' balance sheet. The banks with assets above 70th percentile of the entire banking sector are termed as 'Large' while below 30th percentile are categorized as 'Small'. The banks falling in between these two thresholds are categorized as 'Medium' sized banks.

Banks (D-SIBs), which account for 42.8 percent of banking sector assets, are expected to remain well-capitalized and resilient under stressed scenarios, supported by additional capital surcharge requirements under SBP's prudential framework.

(b) Medium-sized Banks

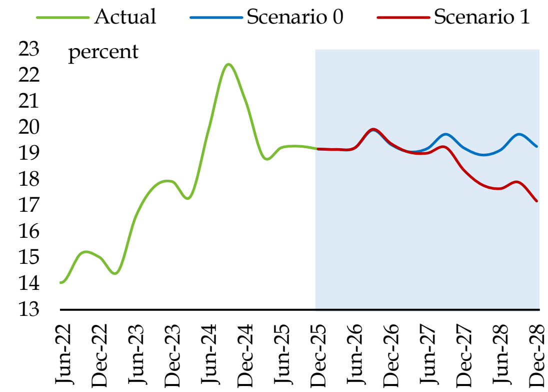
By the end of the projection period, the infection ratio of medium-sized banks (having market share of around 18.6 percent) decreases by 24 bps in S_0, from existing level of 6.0 percent. However, it may increase by 268 bps in S_1 (**Figure 4.7**). The CAR, correspondingly, is likely to rise by 10 bps in S_0 but decline by 200 bps in S_1 compared with the prevailing reading of 19.2 percent. The medium-sized banks are, therefore, also expected to remain compliant with the regulatory CAR standards, even under the stressed scenario (**Figure 4.8**).

Medium Banks - Gross Non-Performing Loans Ratio **Figure 4.7**



Source: SBP Calculations

Medium Banks - Capital Adequacy Ratio* **Figure 4.8**



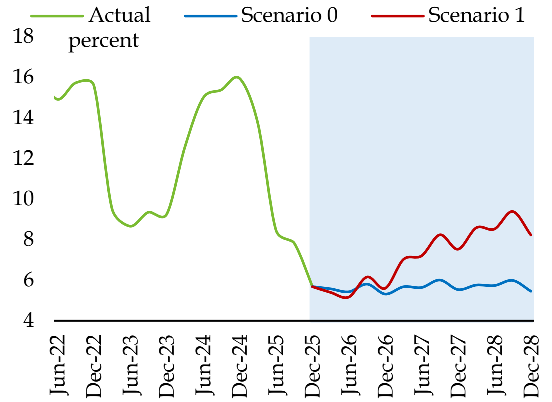
* Regulatory Benchmark is 11.5 percent.
Source: SBP Calculations

The level of CAR for medium-sized banks remains 778 and 568 bps percentage points above the minimum regulatory requirement in S_0 and S_1, respectively. Although medium-sized banks maintain relatively lower pre-shock capital buffers compared to large and small banks, they are also expected to withstand the assumed macro-financial shocks under the stressed scenario, supported by their satisfactory capital positions.

(c) Small Banks

Small banks – contributing around 4.3 percent of the banking sector assets – turn out to be the most resilient segment in both baseline and stressed scenarios, compared to large and medium-sized banks. From its existing level of 5.7 percent, the loan delinquency rate decreases by 23 bps in S_0, whereas it rises by 255 bps under S_1, by the end of horizon (**Figure 4.9**).

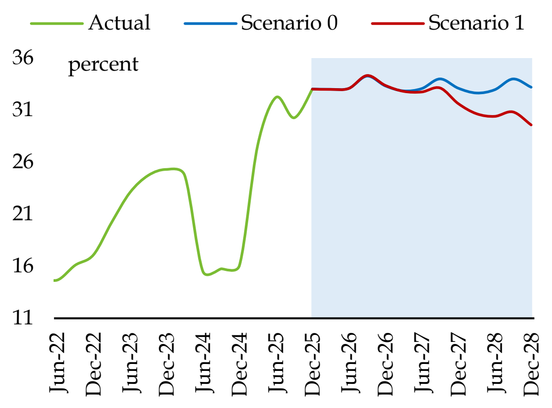
Small Banks - Gross Non-Performing Loans Ratio **Figure 4.9**



Source: SBP Calculations

In terms of solvency, the CAR of small banks rises by 17 under S_0 and falls by 344 bps under S_1 from the prevailing level of 33.0 percent (**Figure 4.10**). The CAR, however, remains a solid 2,170 bps higher than the local benchmark in S_0 while also staying a healthy 1,808 bps above the minimum requirement under S_1. Over time, this segment has strengthened its resilience by substantially building capital buffers.

Small Banks - Capital Adequacy Ratio* **Figure 4.10**



* Regulatory Benchmark is 11.5 percent.
Source: SBP Calculations

Overall, under the baseline scenario, the delinquency ratio is expected to remain stable whereas the solvency of the banking sector portrays an encouraging picture with capital adequacy staying well above the domestic regulatory benchmark. Under the hypothetical stress scenario as well, the banking sector is expected to withstand a severe slowdown induced by adverse global and domestic macroeconomic conditions, including the global commodity market pressures. Thus, with stronger solvency buffers, the sector is expected to continue catering to credit needs of the economy even under stressed macroeconomic conditions, though at a slower pace.

In terms of size, all the segments of the sector (small, medium, and large) can withstand the assumed stressed conditions as well. Encouragingly, the large size banks, whose stability has particular significance for economy and financial system, carry higher capital buffers and are thus able to sustain the impact of hypothesized shocks for the projection period of three years. Also, the other two segments of banks meet the solvency criteria during the projection horizon. Furthermore, the domestic banking sector has generally performed quite reasonably during severe downturns, such as the external sector crises in 2008, COVID-19 pandemic and flash floods of 2022. This is visible in the results of the stressed scenario (S_1), as the sector remains well capitalized and resilient.

However, the exact severity, duration, and paths of assumed global commodity markets and macro financial conditions due to intensely spreading geopolitical tensions in the Middle East, specifically, and Eastern Europe, generally, remain highly uncertain. Consequently, the stress testing results should be interpreted with caution, given the inherent limitations of the underlying assumptions and modelling framework. SBP continues to closely watch the evolving situation and remains ready to take necessary actions to safeguard financial stability.

Box 4.1: Climate Risk Scenario Analysis

According to the Climate Risk Index, Pakistan is ranked as 15th most vulnerable country to Climate Change.[11] Weather-related disasters have become frequent, intense, and unpredictable; and result in loss of lives, destruction of vital infrastructures, homes, and businesses. Keeping in view the importance of climate risk for financial sector, SBP has been proactively engaging with stakeholders to incorporate climate-related vulnerabilities in their risk management frameworks. The climate risk has been included in stress testing framework and the central bank has been conducting climate risk stress testing exercise and publishing the same annually in its FSR since 2018.[12] Recently, SBP issued Climate Stress Testing Guideline (CST 2025)[13] and Regulatory Framework for Effective Management of Climate-related Financial Risks[14] in 2025 to further strengthen the climate risk assessment framework of financial sector.

The Sector-District Climate Vulnerability

Building upon the previous work, this box assesses the vulnerability of banking sector to floods as it is the most important risk emanating from changing climate patterns. More precisely, this box explores the impact of floods on credit risk of the banking sector by looking into quarterly district wise advances of Banks and MFBs. Since vulnerability to floods varies across business sectors and geographical regions, the box assesses the resilience of banking sector along both these dimensions.

To serve this purpose, Climate Vulnerable Exposure (CVE) is calculated for each District-Sector combination using district and sector vulnerability scores. The sectoral vulnerability scores have been taken from CST 2025,[15] whereas, the vulnerability for districts is taken from the National Disaster Management Plan 2025 (NDMP).[16] The NDMP assigns scores to all districts of Pakistan, depending upon their vulnerability to natural disasters.

Based on the level of vulnerability, sectors are scored as *Low*, *Medium* and *High* whereas districts are scored as *Extremely low*, *Low*, *Medium* and *High*.[17] The weight is calculated for every District-Sector exposure to estimate CVE using following formula:

$$CVE_{i,j} = \alpha_{i,j} \times Fund\ Based\ Exposure,$$
where i is the district and j is the sector.

Weights for Vulnerable Districts and Sectors — **Table 4.1.1**

		Sectoral Vulnerability		
		High (100%)	**Medium (30%)**	**Low (10%)**
District Vulnerability	**High (100%)**	1.00	0.30	0.10
	Medium (50%)	0.50	0.15	0.05
	Low (20%)	0.20	0.06	0.02
	E. Low (0%)	0.20	0.06	0.02

Source: Climate Stress Testing Guidelines 2025, State Bank of Pakistan

Table 4.1.1 shows the calculated weights for unique District-Sector combinations: weights are calculated by multiplying independent weights assigned to districts and sectors. For instance, if the physical risk of a given district and a given sector are medium and high, respectively, then 50 percent (50% × 100%) of the Fund Based Exposure (FBE) of that sector in the district will be taken as CVE. The Total CVE is then calculated by adding CVEs for all District-Sector combinations.

As per the NDMP 2025, the shares of *High* and *Medium* flood hazard districts are, respectively, around 17 and 38 percent of total districts. Moreover, 51 percent of banks' exposure is in climate vulnerable sectors. This puts around 1

[11] Please note that this ranking is a long-term ranking, covering 1991-2024 period. During 2022, CRI placed Pakistan as the country most affected by Climate Change.
[12] For details see FSR 2023 and FSR 2024.
[13] Climate Stress Testing Guideline (CST 2025)
[14] Regulatory Framework for Effective Management of Climate-related Financial Risks
[15] Selected sectors of banks and all sectors of MFBs are considered as climate vulnerable, respectively.
[16] National Disaster Management Plan 2025
[17] Extremely low = Scores of 1 and 2; Low= Score of 3; Medium= Score of 4; High= Score of 5

percent of banks' exposure and 17 percent of MFBs' exposure in *high-high* categories. Moreover, geographically, 2 percent and 25 percent of total exposures are in highly vulnerable districts for banks and MFBs, respectively, indicating a divergent risk profile for banks and MFBs with regards to floods **(Table 4.1.2)**. Total weighted CVE is then calculated for each District-Sector combination. An analysis of CVEs shows that MFBs are more vulnerable to climate shock than the banks: 43 percent of MFB exposure is in the most vulnerable category, while for banks, the share is only 8 percent **(Table 4.1.2)**. On sectoral basis, agriculture, construction and consumer financing are the most vulnerable sectors. Almost half of total exposure in these sectors has been classified as 'climate vulnerable' across banks and MFBs.

Stress Scenario Analysis – Vulnerability to Floods

The vulnerability to floods is considered under two scenarios: a hypothetical and an historical one.

Stress Scenario 1: In this hypothetical scenario, locational-sectoral CVE is stressed by 5, 10 and 20 percent, respectively. The impact of shocks on banks' credit risk is relatively subdued, as they have lower exposure in vulnerable districts and sectors (**Figure 4.1.1**). The infection ratio barely budges in small shock while increases by 200 basis points (bps) in extreme scenario. However, MFBs appear to be more vulnerable to floods; as a result, their non-performing loans ratio (NPLR) surges by 200 and 800 bps post-shock under small and large shocks, respectively. This could be because of (i) a higher concentration of their portfolio in flood-prone districts and (ii) relatively low net worth of their borrowers.

Stress Scenario 2: In this historical scenario, vulnerable portfolio in flood affected districts is stressed equivalent to the actual growth in credit delinquencies observed during the one-year period following the floods of 2022. Since SBP allowed banks and MFBs to restructure and reschedule significant amounts of loans during the episode, the scenario will assess the impact of floods with and without regulatory relief to gauge the full impact of shock on exposures.

As expected, banks remained highly resilient under this shock, with infection ratio almost unchanged under shock with regulatory relief and inching up by 50 bps in shock without regulatory relief. This is result of low share of flood-affected districts in overall lending portfolio of banks. However, due to high share of lending portfolio in affected districts and the low net-worth of borrowers, the impact of shocks is significant for MFBs **(Figure 4.1.2)**.

In conclusion, MFBs are more prone to climate-related risks than banks as their loans are concentrated in highly vulnerable

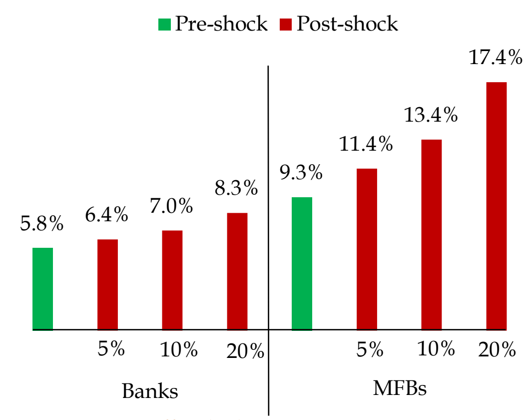
Share of Advances and CVE in District-Sector Combinations **Table 4.1.2**

			District Vulnerability		
			Low	Medium	High
Share of Advances					
Sector Vulnerability	Banks	Low	0	4	0
		Medium	1	31	1
		High	2	11	1
	MFBs*	Medium	9	17	8
		High	22	26	17
Share of CVE					
Sector Vulnerability	Banks	Low	0	2	0
		Medium	1	39	3
		High	3	44	8
	MFBs*	Medium	1	6	6
		High	11	32	43

* The share of low vulnerable sectors is negligible for MFBs.

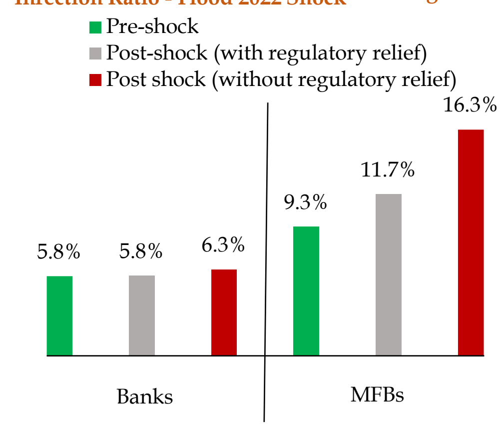
Source: SBP Staff Calculations

Infection Ratio - Shocks to CVE **Figure 4.1.1**



Source: SBP Staff Calculations

Infection Ratio - Flood 2022 Shock **Figure 4.1.2**



Source: SBP Staff Calculations

districts and sectors. However, this does not pose any significant risk to the stability of overall financial sector as share of MFBs in combined loan portfolio of banks, DFIs and MFBs at 3.2 percent is very small.

Box 4.2: Carbon Markets and Financial Stability – Emerging Risks and Opportunities for Pakistan

Introduction

Carbon markets are a key tool for mobilizing private capital for climate mitigation and channeling funds from advanced economies to developing countries where mitigation is relatively more cost-effective. These markets put a price on greenhouse gas (GHG) emissions, operating through two main structures:

i. Compliance Carbon Markets (CCMs), such as cap-and-trade schemes put limits on the amount of carbon emissions that a firm can generate and allow efficient firms to sell their surplus carbon allowances in the market. EU's Emissions Trading System (ETS) is a leading example of CCM, and

ii. Voluntary Carbon Markets (VCMs) involve private entities voluntarily trading in carbon credits.

Carbon markets can help generate the required funding for climate objectives and complement the bank funding which is a primary source of finance in Pakistan like any typical developing economy. It is estimated that the country needs total funding of US$ 348 billion between 2023 to 2030 to meet its emission reduction commitment and adaptation requirements; on the other hand, annual climate finance received in last decade was US$ 1.4 – 2.0 billion.[18] However, as the financial institutions increase their exposure to carbon-linked instruments, these markets can create new risk channels that may affect banks and financial institutions' financial performance and soundness.

Current State of Pakistan's Carbon Market Landscape

Pakistani firms have so far accessed the international carbon markets mainly through the Clean Development Mechanism under Kyoto Protocol of 1997 and VCMs. To date, over 23 million carbon credits have been issued for domestic mitigation projects.[19] However, given the country's profile in terms of potential to mitigate carbon emissions and build resilience and adaptability, carbon markets still remain largely untapped with minimal direct exposure of domestic investors as well as the financial sector.

Policy makers in Pakistan have taken a number of initiatives to create an enabling regulatory environment for carbon markets. In this connection, the Ministry of Climate Change and Environmental Coordination (MoCC&EC) issued **Policy Guidelines for Trading in Carbon Markets** in November 2024, covering both VCMs and envisaging the creation of a national CCM. Once operational, the CCM will require high-emission firms to purchase carbon allowances, thus increasing their incentive to participate in carbon markets. Moreover, with the expansion in scope of EU's Carbon Border Adjustment Mechanism (CBAM),[20] Pakistani exporters will also face increasing pressure to decarbonize, potentially increasing domestic demand for carbon credits. Meanwhile, the **Pakistan Green Taxonomy** (PGT) has been issued to standardize definitions and classifications of climate-aligned activities and SECP has issued **ESG Disclosure Guidelines** enabling listed companies to disclose climate-related risks and activity-level data under a standardized reporting framework aligned with PGT. These initiatives are expected to support the growth of carbon markets by, inter alia, supporting Monitoring, Reporting, and Verification (MRV) systems. This could make carbon credit projects more investable for banks and capital market participants.

The development of carbon markets may also support capital-market deepening and risk mitigation within the financial system. A functional national CCM could support capital market participation in mitigation projects by providing a domestic carbon price benchmark, predictable compliance demand, and enhanced MRV infrastructure, improving price discovery and investor confidence. It can help hedge transition risk for banks in a broad sense by dispersing long-horizon climate risks across capital markets, stabilizing borrower cash flows, and limiting the need for banks to warehouse climate-related risks over extended periods. However, these effects are expected to materialize gradually.

[18] United Nations Pakistan – Common Country Analysis 2024 update (2025)
[19] Source: World Bank (2025). State and Trends of Carbon Pricing Dashboard. Available at: https://carbonpricingdashboard.worldbank.org/
[20] The compliance phase of CBAM entered into force on January 01, 2026.

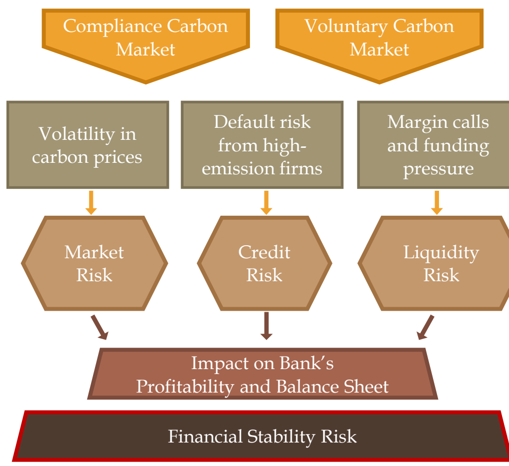
Risk Channels for the Financial Sector

Credit Risk: Carbon markets raise compliance costs for high-emission firms, potentially lowering their profitability and increasing their credit risk. ETS participants face not only higher costs but also exposure to carbon price volatility, increasing uncertainty for future cash flows. Evidence from the EU and US suggests that banks charge a "carbon premium" (higher lending spreads) for firms with higher emissions, especially under stress scenarios.[21,22] For Pakistan, SBP's FSR 2024 presented a scenario in which carbon taxes adversely impacted the profitability and repayment capacity of non-financial corporates (NFCs) in high-emission sectors.[23] While carbon taxes and carbon markets differ in mechanism, both act through carbon pricing. Thus, carbon markets, in whatever variant, could potentially introduce credit risks to Pakistani banks, especially as exposure to high-emission borrowers remains significant.

Market Risk: Carbon prices can be volatile, with abrupt price movements due to inflexible allowance supply (fixed quota) and exogenous shocks, particularly in capped systems like the EU ETS. Banks directly exposed to carbon instruments, such as allowances or carbon-linked derivatives, face potential mark-to-market losses. While current data indicate no exposure for Pakistani banks, the risk could arise if domestic carbon markets deepen and financial institutions begin trading or holding carbon-linked assets.

Liquidity Risk: Liquidity pressures can arise through funding withdrawals, margin calls, and impaired asset sales, especially during periods of market stress. In VCMs, banks involved in underwriting or pre-financing carbon projects may face difficulty in offloading credits in thin and fragmented markets. Furthermore, evidence from Europe shows that banks with higher exposure to transition risk face elevated funding costs in repo markets, especially during stress episodes.[24] While such a carbon premium has not been observed in Pakistan, this may reflect limited emissions data and early-stage development of climate risk pricing frameworks (**Figure 4.2.1**).

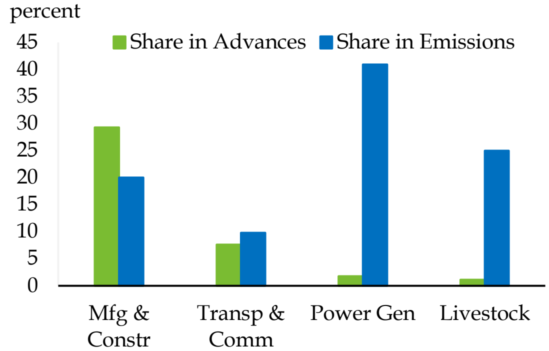
Carbon Markets Risk Transmission **Figure 4.2.1**



Financial Stability Implications and Supervisory Outlook

Pakistan's financial system is materially exposed to transition risks as more than one-third of banking sector credit is directed toward high-emission sectors (**Figure 4.2.2**). As Pakistan advances toward a low-carbon trajectory, abrupt shifts in regulation, pricing, or investor preferences could stress the balance sheets of both borrowers and their lenders. Recognizing these risks, SBP issued the **Regulatory Framework for Effective Management of Climate-Related Financial Risks**, ensuring that financial institutions integrate

Banking Sector Exposure to High Emissions Sector **Figure 4.2.2**



Source: Pakistan 2024 Biennial Transparency Report and SBP Staff Estimates (illustrative)

[21] For details on US evidence, see: Dong, Y., Hengge, M., Valencia, F. and Varghese, R. (2025). Carbon risk in loan pricing: commitment channels and real effects. IMF Working Paper WP/25/250. International Monetary Fund. Available at: https://www.imf.org/-/media/files/publications/wp/2025/english/wpiea2025250-source-pdf.pdf

[22] For details on EU evidence, see: Altavilla, C., Boucinha, M., Pagano, M. and Polo, A. (2024). Climate risk, bank lending and monetary policy. ECB Working Paper Series No. 2969. European Central Bank. Available at: https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2969~0f4c56a156.en.pdf

[23] Financial Stability Review 2024. State Bank of Pakistan.

[24] Source: Giuzio, M., Kahraman, B. and Knyphausen, J. (2026). Climate change, bank liquidity and systemic risk. ECB Working Paper No. 2026/3168. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6039155

climate-related financial risk considerations into their governance, strategy and risk management frameworks, and **Climate Stress Testing (CST) Guidelines** in December 2025, mandating scenario analyses for both physical and transition risks. While current stress tests use carbon taxes as a transition risk proxy, the increasing relevance of carbon markets may warrant their inclusion in future CST frameworks.

While CST Guidelines offer a minimum set of shocks, the Network for Greening the Financial System (NGFS) provides a broader perspective on climate scenarios, which explicitly build carbon pricing paths to capture carbon-market effects.[25] For instance, in its 2022 stress tests, the ECB applied NGFS scenarios by embedding carbon price trajectories to assess credit and market risk impacts,[26] while the Oesterreichische Nationalbank (i.e., Austrian Central Bank) used NGFS-based carbon price shocks to estimate sectoral insolvency and capital effects,[27] offering a useful template for SBP to incorporate explicit carbon price modelling in future climate stress tests. However, to safeguard financial stability, the transition to a low-carbon economy should be gradual, well-coordinated and should appropriately signal regulatory expectations.

[25] NGFS Scenarios Portal
[26] For details, see: ECB Climate Risk Stress Test 2022
[27] For details, see: OeNB Climate Risk Stress Test 2021

5

Microfinance Banks

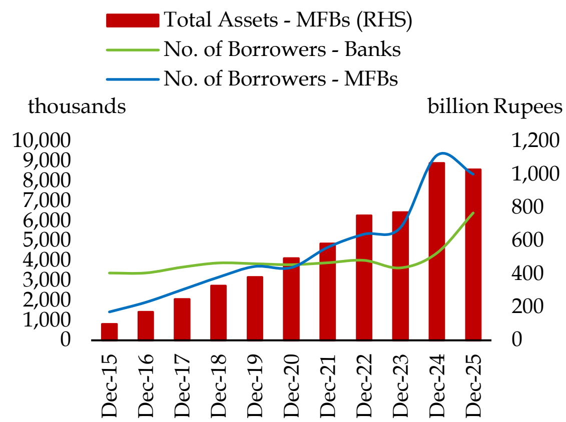
5 Microfinance Banks

MFBs are key drivers of financial inclusion for low-income, underserved urban and rural customers...

The year 2025 has been important for MFBs for gaining momentum towards a gradual turnaround in some key areas while continuing to struggle with others. One of its members, Telenor Microfinance, transitioned to become a full-fledged digital bank, viz., Easypaisa Digital Bank. On the regulatory front, SBP revised the prudential regulations for the sector in areas of governance, operations, consumer protection and risk management to ensure financial stability and sustainability of the MFBs.[1]

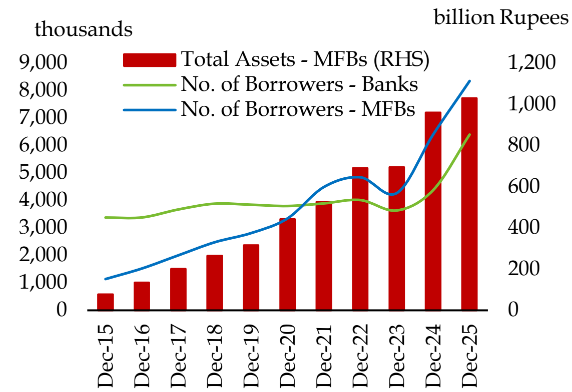
The sector has been an enforcer for growth of financial inclusion in the country, even though the total assets of the sector account for 1.3 percent of all financial sector assets, which pose low likelihood of triggering systemic risk. The comparison of Compound Annual Growth Rate (CAGR) in borrowers' base of banking sector and MFBs during the 10 years between CY15 and CY24 (before transition of one MFB to become a digital bank) suggests that MFBs are an effective channel for achieving the targets of the **National Financial Inclusion Strategy**.[2] However, the broad customer base of MFBs also exposes the sector to credit risk through low-income clientele, posing challenges to its portfolio quality and financial sustainability (**Figure 5.1** & **5.2**).

Growth in MFB Sector **Figure 5.1**



Source: State Bank of Pakistan

Growth in MFB Sector (Adjusted for departed MFB) **Figure 5.2**



Source: State Bank of Pakistan

The sector experienced a contraction in its balance sheet footing…

The asset base of MFBs witnessed a contraction of 3.7 percent (which grew by 38.5 percent in CY24). The decline in assets of existing MFBs (adjusted for the departed MFB) was mainly brought by investments, which fell by Rs 75 billion or decline of 23.1 percent. Adjusted for the migration of a MFB to a full-ledged digital

[1] ACFID Circular No. 01 of 2025

[2] CAGR of the number of borrowers in banking sector is 2.6 percent and for MFBs is 20.6 percent from CY15 to CY24. The number of borrowers of MFBs fell to 8.3 million by end Dec 2025 from 9.3 million in December 2024, while the number of borrowers of banking sector rose to 6.4 million at end December 2025 from 4.6 million in December 2024. A major factor in the increase in borrowers of banking sector was the fact that an MFB was able to become a digital bank, which is now part of the banking sector.

bank, the assets of the 11 remaining MFBs, however, showed an expansion of 7.3 percent in CY25.

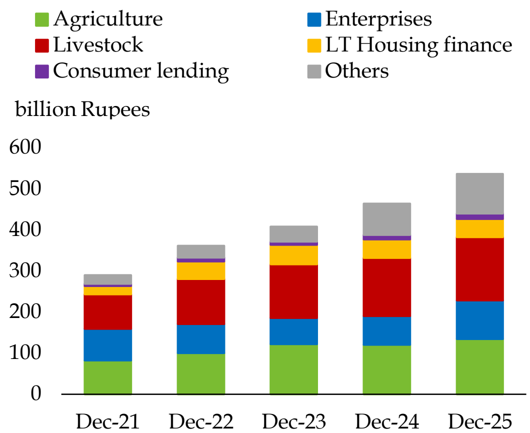
…overall, the picture was reflected in both borrowings and deposits…

On liability side, deposits recorded a healthy growth of 13.3 percent (or increase of Rs 97 billion) while borrowing declined by 55.0 percent (Rs 112 billion) in CY25. The borrowings from banks normalized after a major spike in CY24. MFBs took advantage of more accessible advances from banks in Q4CY24, due to ADR-related tax regulations, which resulted in multifold growth in borrowings which were retired in the next quarters until normalization Q4CY25. Accordingly, the share of assets financed by deposits rose to 80.7 percent in CY25 from 68.6 percent in CY24 while the share of borrowing to assets fell to 8.9 percent in CY25 from 19.1 percent in CY24.

Loans portfolio recorded a broad-based increase during the year….

Despite the departure of an MFB to the banking sector, the advances (net) portfolio of MFBs grew by 11.2 percent in CY25 (10.9 percent in CY24), which was broad-based across all the business segments (**Figure 5.3**).

Break-up of Advances **Figure 5.3**



Source: State Bank of Pakistan

Advances to enterprises experienced an increase of 35.2 percent, which was the highest growth among other segments with Rs 24 billion. Loans for the livestock and agriculture sectors experienced increases of Rs 11 billion (8.3 percent) and Rs 13 billion (11.5 percent), respectively. The expansion in advances to these three segments can be partly attributed to Prime Minister's Youth Business and Agriculture Loan Scheme (PMYB&ALS), which started in December 2022.[3] The objective of the scheme was to provide microloans for business and agriculture to small borrowers. In February 2025, PMYB&ALS introduced a 'Tier-4' with new loan products targeting students and prospective overseas workers.[4] To boost agriculture financing, GoP introduced a Risk Coverage Scheme for Small Farmers and Underserved Areas, which also partly contributed to the growth in advances to the sector.[5]

Consumer lending experienced a rise of 17.8 percent in CY25. However, adjusting for the base effect due to migration of one MFB, the portfolio of remaining MFBs experienced more than ten-fold rise from Rs 1 billion in CY24 to Rs

[3] IH&SMEFD Circular No. 12 of 2022
[4] SH&SFD Circular No. 01 of 2025
[5] ACFID Circular No. 02 of 2025

12 billion in CY25. Major thrust came from bullion based collateralized lending, where a significant increase in gold prices incentivized individuals to avail higher microloans. Long-term housing finance, on the other hand, experienced a modest increase of 0.1 percent.

Asset quality shows improvement during CY25...

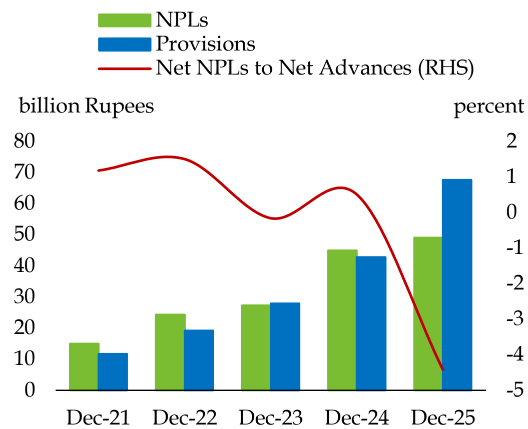
The soundness of the sector had slightly improved, albeit still under stress. The infection ratio fell to 9.1 percent in CY25 from 9.7 percent in CY24. Adjusted for the former MFB, the infection ratio was 9.4 percent in CY24. The falling trend in infection ratio is encouraging. However, the total NPLs have gone up from Rs 44 billion in CY24 to Rs 48 billion in CY25. The infection ratio declined because gross advances grew by 15.5 percent, increasing the total loan portfolio. Although NPLs rose, advances grew faster, causing the infection ratio to fall.

Further, MFBs have started transitioning from unsecured to secured financing, resulting in improved asset quality and solvency. The secured loan portfolio of the MFB sector rose to Rs 244 billion in CY25 from Rs 188 billion in CY24, mainly due to 26.2 percent increase in gold-backed lending.

The legacy issues of MFBs have seen some reprieve in CY25, with improved macroeconomic conditions amid continued stability. MFBs faced asset quality concerns since the onset of COVID-19 pandemic, which were further compounded by the floods in the summer of 2022, consequent inflationary pressures and tighter financial conditions during CY23 and CY24.

However, there is also an improvement in the provisioning coverage for NPLs in CY25, improving to 138.1 percent from 95.2 percent in CY24. The MFBs have raised their provisioning from Rs 42 billion to Rs 67 billion in CY25, to build financial cushion and resilience against shocks. As a result, the net infection ratio (net NPLs to net advances) fell to a *negative* 4.0 percent from 0.5 percent in CY24 (**Figure 5.4**). The capital impairment ratio (net NPLs to Capital) stood at 388.2 percent and depicts a decrease in credit risks from delinquencies as provisioning coverage has gone above 100.[6]

Asset Quality Indicators **Figure 5.4**



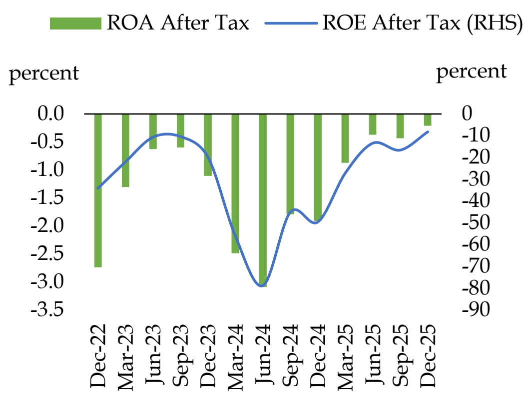
Source: State Bank of Pakistan

The sector continues to contain losses …

Although the MFBs sector has registered losses for the seventh consecutive year, those losses have come down recently. For instance, the size of the pre-tax loss has been significantly reduced from Rs 25 billion in CY24 to Rs 2 billion in CY25. Consequently, the sector's after-tax ROA improved to *negative* 0.2 percent in CY25 from *negative* 1.9 percent in CY24, whereas the after-tax ROE stood at *negative* 8.2 percent in CY25 versus a *negative* 49.6 percent in CY24 (**Figure 5.5**). There is also a significant improvement in the Operational Self Sufficiency (OSS) from 75.2 percent in CY24 to 84.7 percent in CY25. The administrative expenses also decelerated for the first time by 8.5 percent in the year under review, which had grown by 145 percent in the last five years.

[6] Net NPLs and regulatory capital of MFBs both became negative since June 2025.

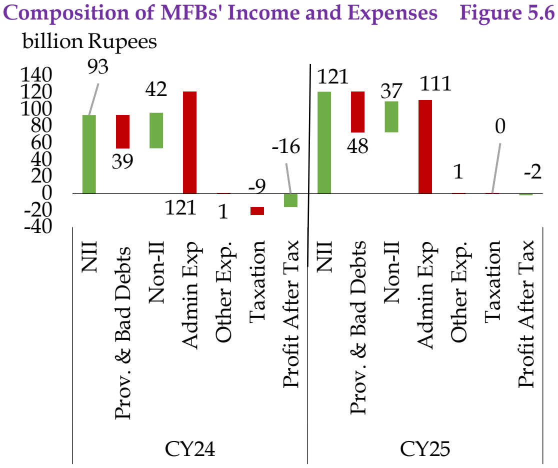
Earning Indicators **Figure 5.5**



Source: State Bank of Pakistan

Furthermore, profitability analysis of MFBs indicates that the net interest income has grown by 30 percent (YoY) versus 31.7 percent in CY24 (**Figure 5.6**). This is in line with improving macroeconomic conditions and easing financial conditions with a cumulative reduction of 250 bps in the policy rate during CY25. However, the non-interest income fell by 12.9 percent on a YoY basis, which had grown in CY24 by 25.7 percent. The fall in non-interest income mainly emanated from in Fees, Commission & Brokerage Income, which fell by 13 percent in CY25. Despite the decline in non-interest income, the cost-to-income ratio has substantially improved from 89.8 percent in CY24 to 70.6 percent in CY25.

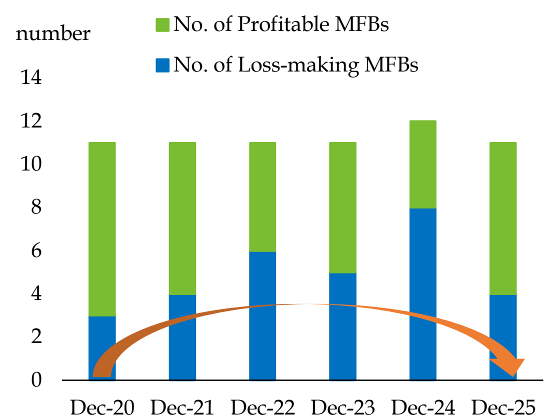
Composition of MFBs' Income and Expenses **Figure 5.6**



Source: State Bank of Pakistan

The total number of loss-making entities in the sector dropped to four (out of 11). This is an improvement from CY24 when there were eight (out of 12) loss-making entities (**Figure 5.7**). Higher administrative expenses are an inherent feature of the microfinance banking model, given their extensive and low-income borrower base and the need for continuous engagement with their customers. Amid persistent NPLs in the sector, provisioning expenses increases the burden further. However, in CY25, the sector has shown resilience and improvement with some issues they have been struggling with for the last few years.

Count of MFBs Relative to Earnings **Figure 5.7**



Source: State Bank of Pakistan

Liquidity indicators show a decline...

The liquidity position of the sector has slightly deteriorated with a decrease in total liquid assets of around 30.0 percent (from Rs 466 billion in CY24 to Rs 326 billion in CY25). In CY24, the liquid assets to total assets ratio was 43.6 percent, which went down to 31.7 percent in CY25. The driver behind this was the drop in investments (net), as MFBs reduced their exposure to government securities.

The contraction in asset portfolio (which was mainly due to decline in investments) translated into a concomitant drop in MFBs' borrowings. Borrowing mainly financed rise in investments and hence asset expansion in the past few years. The decline in investments in CY25 also resulted in fall in the liquid assets to short-term liabilities ratio to 36.7 percent in CY25 from 61.2 percent in CY24 (**Table 5.1**).

Financial Soundness Indicators (FSIs) of MFBs **Table 5.1**

percent

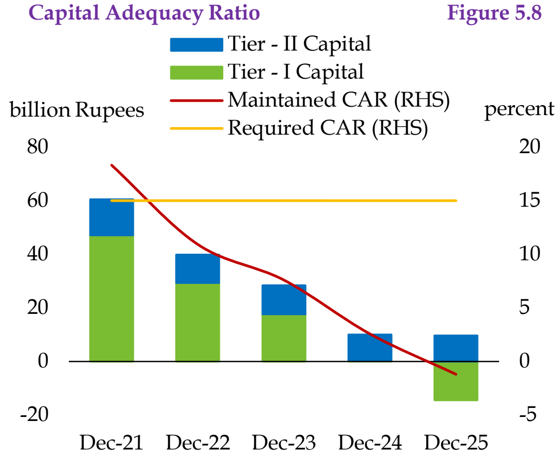
	Dec-22	Dec-23	Dec-24	Dec-25
Capital				
Total Capital to Total RWA	10.9	7.6	2.6	-1.2
Tier 1 Capital to Total RWA	8.1	4.7	0.1	-3.6
Asset Quality				
NPLs to Total Loans	6.7	6.7	9.7	9.1
Provision to NPLs	78.8	102.3	95.3	138.1
Net NPLs to Net Loans	1.5	-0.2	0.5	-4.0
Net NPLs to Capital	12.9	-2.2	21.4	388.2
Earnings				
ROA before Tax	-3.4	-1.5	-3.0	-0.2
ROE before Tax	-42.9	-26.4	-77.9	-7.3
Operational Self Sufficiency (OSS)	69.8	78.8	75.2	84.7
Liquidity				
Liquid Assets to Short Term Liabilities	31.9	42.1	61.2	36.7

Source: State Bank of Pakistan

Solvency indicators dropped further below the minimum required level…

The solvency position of MFBs remains a major concern, as the capital adequacy ratio (CAR) dropped to *negative* 1.2 percent in CY25 from 2.6 percent in CY24 – significantly below the regulatory requirement of CAR of 15 percent (**Figure 5.8**). Adjusted for the departed MFB, the historical CAR of the sector indicates further stress as the sector's Tier-1 Capital became negative in CY24 before further deterioration in CY25. While profitability indicators have improved significantly, the sector is still experiencing losses albeit in lesser amounts, which has contributed to declining CAR. The aggregate CAR of MFBs has been below minimum regulatory requirement since June 2022 and was triggered by the heavy floods of 2022, which severely affected the income levels of MFBs' low net worth borrowers and resulted in substantial delinquencies. Later, macroeconomic shocks further dented the capital position of MFBs. However, not all MFBs have CAR below minimum regulatory requirement, i.e., only four (out of the 11) MFBs are CAR non-compliant compared with five (out of 12) in CY24. SBP is closely engaged with these undercapitalized MFBs, and significant progress has been made toward their re-capitalization.[7]

Capital Adequacy Ratio **Figure 5.8**



Source: State Bank of Pakistan

Keeping in view the solvency issues of the MFBs and their importance from the financial inclusion perspective, SBP continued its enhanced supervision of the sector and engagement with individual institutions.

MFBs continue to lead financial inclusion objectives through branchless banking...

Despite their small share in the financial sector, MFBs have been instrumental in widening financial inclusion through Branchless Banking (BB). The BB accounts provide easy access and a cost-effective way of delivering financial services to the unbanked and underserved population. MFBs account for around 42.4 percent of the total BB accounts of banks and

[7] MFBs collectively injected Rs 22 billion in CY25 as additional capital, compared Rs 17 billion in CY24.

MFBs combined in CY25 (80 percent in CY24).[8] During CY25, the number of BB accounts rose by 18.9 percent (10.6 percent in CY24), reaching 150 million with MFBs serving 63 million of those accounts.

MFBs are positioned for sustainable and inclusive growth amid improving financial conditions

With a broad base of customers under their ambit, MFBs are the primary drivers of financial inclusion, which makes their success a potent catalyst towards further growth despite their limited size in assets of overall financial sector.

The last few years have been challenging for the MFB sector. However, the squeezing losses of the sector suggest a silver lining. MFBs have started to control their administrative expenses, which was often a major drag on earnings due to their very nature of operations and scattered borrower clientele.

Going forward, in a rapidly changing environment, the success of the sector depends on how the institutions adjust their business model to the changing landscape, especially in the wake of a thrust for digitization. With the revision in the PRs for MFBs, the operating environment is expected to become more conducive and will help in improving solvency position of the sector.

[8] With Easypaisa Digital Bank formerly known as Telenor Microfinance, the MFB sector accounted for 80 percent of all Branchless Banking accounts before the bank's conversion from an MFB to a digital bank.

Development Finance Institutions 6.1

The balance sheet of Development Finance Institutions (DFIs) contracted owing to a continued decline in investments in government securities and a concomitant retirement of borrowings. In contrast, advances portfolio registered a healthy growth. However, the overall asset mix remained concentrated in government securities. Earnings remained healthy, mainly supported by a considerable growth in net interest income, while non-interest income remained steady due to modest dividend growth and a decline in gain on securities. Indicators for solvency, i.e., CAR, and profitability, viz., ROA and ROE, improved on the back of healthy earnings.

6.1 Development Finance Institutions

Asset Base of DFIs continued to shrink in CY25 ….

The asset base of DFIs contracted by 31.7 percent in CY25, following a 15.3 percent decline in CY24 (**Table 6.1.1**). The contraction in both years was primarily driven by fall in investments. However, the sector's asset mix shifted towards advances, in line with the improving macroeconomic conditions. Investments, largely consisting of government securities, witnessed a steep decline of 38.5 percent during the year under review. Accordingly, their share in asset base dropped to 74.9 percent (83.2 percent in CY24); however, it remained the largest component of total assets.

The advances, on the other hand, recorded strong growth of 23.2 percent in CY25, compared to a marginal increase of 1.5 percent in CY24. With this expansion, their share in asset base inched up to 17.4 percent (9.7 percent in CY24). In terms of composition, private sector advances, which constitute around 95.5 percent of DFIs' advances, increased by 21.5 percent, while domestic public sector exposure rose by 16.2 percent.

Key Variables and Financial Soundness Indicators — **Table 6.1.1**

	CY21	CY22	CY23	CY24	CY25
billion Rupees					
Investments (net)	338	1,168	2,025	1,648	1,013
Advances (net)	140	188	188	191	235
Total Assets	539	1,430	2,338	1,979	1,352
Borrowings	348	1,223	2,117	1,652	1,003
Deposits	34	38	45	78	79
Equity	136	145	144	191	234
NPLs	15	15	15	17	16
percent					
CAR	38.7	36.5	43.3	52.5	56.7
NPLs to Advances	9.5	7.3	7.4	8.0	6.3
Net NPLs to Net Advances	1.6	0.9	(1.2)	(0.4)	(0.7)
ROA (After Tax)	2.4	1.6	0.9	1.2	2.3
ROE (After Tax)	8.9	10.1	13.3	17.1	16.8
Cost to Income Ratio	32.5	26.9	24.0	20.6	18.7
Liquid Assets to Short-term Liabilities	98.0	98.2	95.9	110.1	95.1
Advances to Deposits	412.6	493.4	417.7	243.6	298.8

Source: State Bank of Pakistan

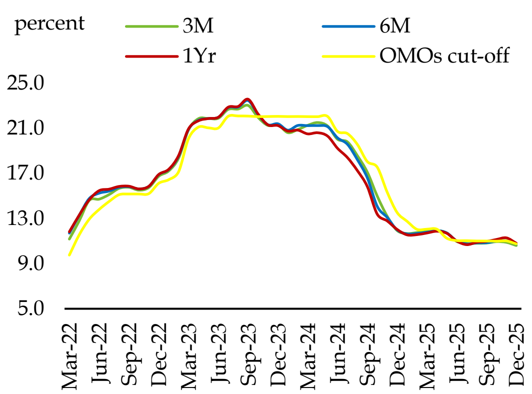
Investment in government securities continued to moderate…

The decline in investment portfolio was broad-based, including government securities, bonds and TFCs. However, the fall was primarily driven by government securities, which constitute around 94.6 percent of total investments. These securities contracted sharply by 40.8 percent in CY25, compared to a decline of 19.2 percent in CY24. Earlier in CY23, DFIs substantially expanded their asset base mainly by investing in liquid government securities – financed through borrowings – in a rising interest rate environment. However, due to unfavorable market dynamics the DFIs' Net Interest Margin (NIM)[1] turned negative in H1CY24, inducing DFIs to reduce investments and expensive borrowings. With easing

[1] Net Interest Margin (NIM) is defined as = Net Interest Income (NII) / average earning assets.

monetary cycle leading to convergence of rates across tenors, the margins between yield on investments and cost of borrowing squeezed. Thus, DFIs continued to further slash their holdings of government securities and retired borrowings (**Figure 6.1.1**).

Secondary Market Yields and Cut-off rate on OMOs Injection **Figure 6.1.1**



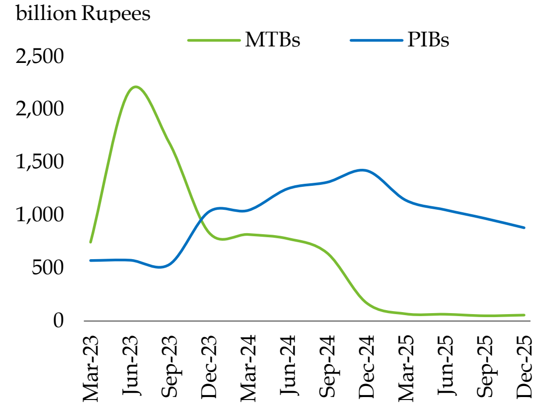
Source: MUFAP and State Bank of Pakistan

Within government securities, DFIs reduced exposure in both short-term MTBs and longer tenor PIBs. On the other hand, investments in equity stock, which is a small fraction of overall investments (1.1 percent), increased by 9.4 percent to Rs 11.4 billion, as portfolio value increased due to the booming stock market during the year.

While investments declined across all tenors, PIBs continued to dominate the portfolio …

During CY25, contraction was recorded in short term MTBs and long term PIBs. The MTBs shrank by 66.9 percent to Rs 57 billion by end December 2025 (decline of 79.4 percent in CY24), whereas PIBs declined by around 38 percent to Rs 883 billion (increase of 37.7 percent in CY24). This broad-based reduction suggests a portfolio rebalancing strategy by DFIs, foreseeing further decline in yields. However, government securities remained skewed towards PIBs, which accounted for 93.3 percent of total risk-free securities. Within PIBs, DFIs preferred to invest in floating-rate instruments that have relatively lower sensitivity to changes in interest rates **(Figure 6.1.2)**.

Stock of MTBs and PIBs **Figure 6.1.2**

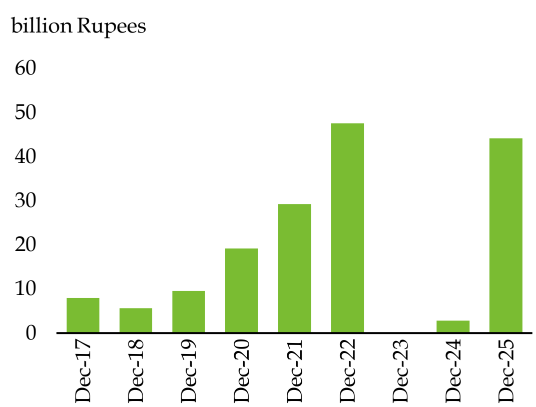


Source: State Bank of Pakistan

Advances growth rebounded strongly….

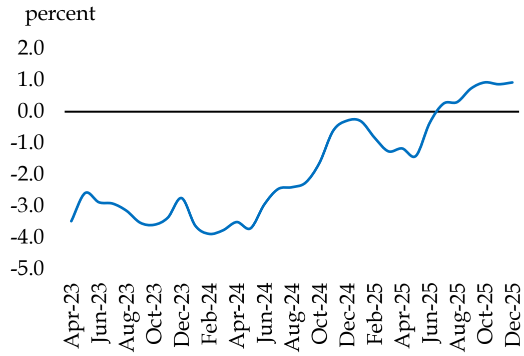
Advances witnessed healthy growth of 23.2 percent compared to a nominal increase of 1.5 percent in CY24, pushing their share in the overall asset base to 17.4 percent, up from 9.7 percent in CY24. The strong thrust for portfolio rebalancing came from declining interest rates, which stimulated credit demand by borrowers and, at the same time, increased spreads on lending by DFIs **(Figure 6.1.3 and Figure 6.1.4)**.

Yearly flow of Advances (Net) **Figure 6.1.3**



Source: State Bank of Pakistan

Recovering Spread between Lending and Deposit Rates* **Figure 6.1.4**

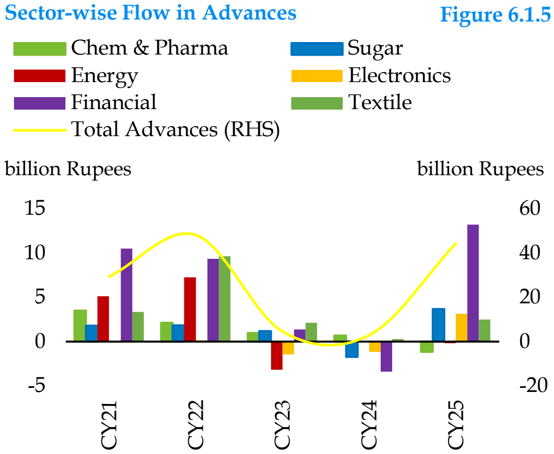


* Weighted Average Rates

Source: State Bank of Pakistan

Corporate sector remained the main user of financing, largely for fixed investment purposes, followed by working capital requirements. The growth momentum was broad-based, with both public and private sector advances contributing to the increase. Sector-wise data reveals that within the private sector advances, disbursements increased to financial, transportation, electronics and sugar sectors, however, net retirements in other sectors such as cement and chemicals slightly moderated these gains. Just like CY24, the growth in public sector advances during CY25 was largely supported by housing finance extended by a single DFI **(Figure 6.1.5)**.

Sector-wise Flow in Advances **Figure 6.1.5**

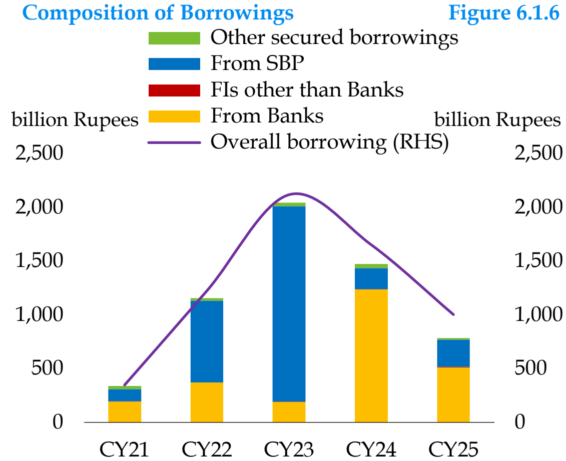


Source: State Bank of Pakistan

Borrowings continued to decline in line with the fall in investments…

Borrowing has remained the major source of funding for DFIs in recent years, as the sector cannot raise checking deposits from the public. However, continuing the declining trend observed last year, borrowings contracted by 39.3 percent or Rs 649 billion during the period under review (22 percent or Rs 466 billion decline in CY24). DFIs opted to retire borrowings using proceeds from maturing investments amid declining yields, which reduced the incentive to maintain a large investment portfolio funded through relatively costly borrowings. It may be recalled that DFIs observed negative net interest income during H1CY24, on the back of a higher fall in yields compared to funding costs, which remained relatively sticky (**Figure 6.1.1**). Likewise, CY24, the composition of borrowings in CY25 remained tilted towards bank funding, largely in the form of long-term financing (**Figure 6.1.6).**

Composition of Borrowings **Figure 6.1.6**

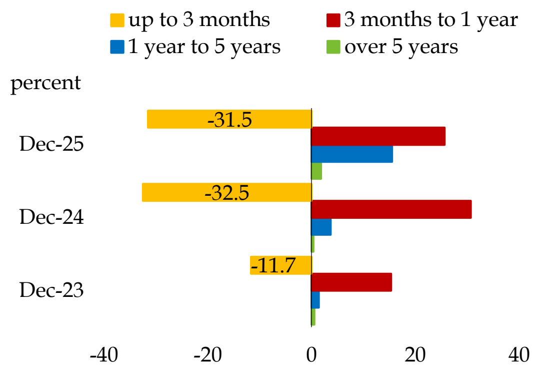


Source: State Bank of Pakistan

Maturity mismatch widened amid significant redemption of short-term investments…

The maturity-wise analysis of rate sensitive assets (RSA) and liabilities (RSL) indicates that DFIs remain liability sensitive at short tenors but asset sensitive at longer ones, with average gaps remaining stable (**Figure 6.1.7**). This was broadly aligned with redemption of short-term investments and build up in long-term assets in a falling rate environment.

Gap of Rate Sensitive Assets (RSA) and Liabilities (RSL) as Percent of Total Assets **Figure 6.1.7**



Source: State Bank of Pakistan

Majority of earning assets continued to be repriced in the short term…

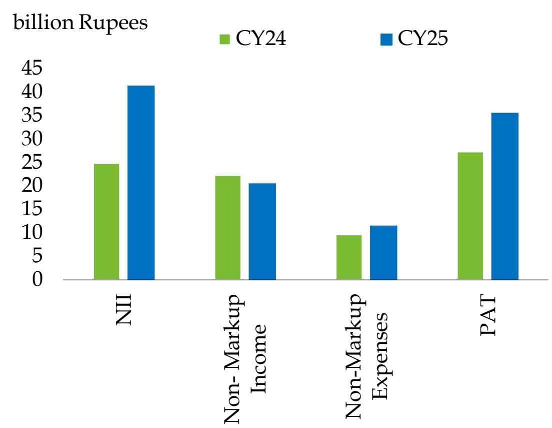
A significant portion of earning assets had relatively shorter maturity, i.e., up to one year. For instance, at the end of CY25, around 57 percent of earning assets were under one year bucket compared with 86 percent in CY24. In line with the prevailing easing monetary policy, DFIs accumulated more earning assets in 'over one year' bucket during CY25 relative to CY24 to lock funds at higher rates. Within earning assets, the investments, which constitute the major share (84 percent), around 53 percent were repriced within one year in CY25. In contrast, around 73 percent of advances were repriced within that tenor. An asset mix dominated by treasury investments, implies a conservative strategy of DFIs, especially in lending activity, which is unlike their specialized purpose of project-based financing for development purposes.

Profitability improved owing to a significant rise in net-interest income …

After-tax profit of DFIs increased by 30.2 percent to Rs 35.6 billion in CY25 (Rs 27.3 billion in CY24), owing to a healthy growth in net interest income. Net markup income rose significantly by 66.2 percent to Rs 41.4 billion (Rs 24.9 billion in CY24), as DFIs optimized their investment portfolio in a declining interest rate environment, and managed funding–placement mix with increased utilization of long-term bank credit lines and a reduced reliance on OMOs facilities.[2] Non-interest earnings decreased by 8 percent or Rs 1.8 billion, as dividend income, which forms a major part of non-markup income, largely remained stable at Rs 17.1 billion (Rs 17.6 billion in CY24). Besides, the gains on sales of securities declined slightly to Rs 2.1 billion (Rs 2.9 billion in CY24).

On the other hand, non-interest expenses grew at a moderate pace of 18.5 percent to Rs 11.6 billion in CY25 (Rs 9.8 billion in CY24), primarily driven by higher operating expenses (**Figure 6.1.8**).

Earnings of DFIs **Figure 6.1.8**



Source: State Bank of Pakistan

Growth in earnings improved ROA, though ROE moderated....

With a robust growth in earnings and a contraction in asset base, the after-tax return on assets (ROA) improved to 2.3 percent during CY25 (1.2 percent in CY24). However, return on equity (ROE) fell slightly to 16.8 percent during CY25 (17.1 percent in the preceding year), as the

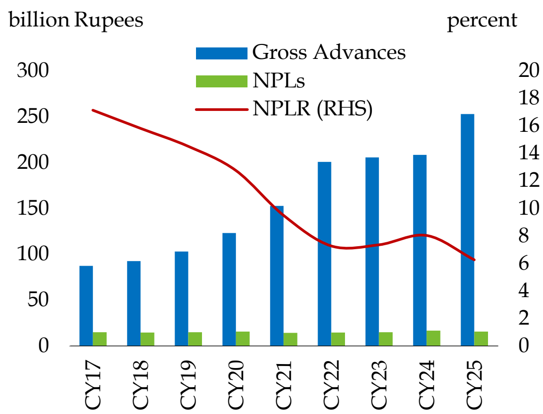
[2] SBP allowed all DFIs to participate in Open Market Operations in 2022. For details see DMMD Circular No. 11 of 2022.

impact of higher earnings was partly offset by a modest increase in equity.

Asset quality indicators improved with expansion in advances…

NPLs to advances ratio improved to 6.3 percent by the end of CY25 from 8.0 percent in CY24 **(Figure 6.1.9)**. The improvement in the infection ratio was driven by robust growth in advances, Rs 44 billion during the year, along with marginal decrease of Rs 0.9 billion (Rs 2 billion increase in CY24) in gross NPLs. The provisioning coverage further strengthened to 101.5 percent during CY25 (78.6 percent last year). Accordingly, net NPLs to net loans and capital impairment ratios improved to -0.1 percent in CY25 (1.9 percent in CY24) and -0.1 percent (1.9 percent in CY24), respectively.[3] These ratios remained in a comfortable range, indicating that the solvency risk to DFIs is well contained.

Asset Quality of DFIs in CY25 **Figure 6.1.9**



Source: State Bank of Pakistan

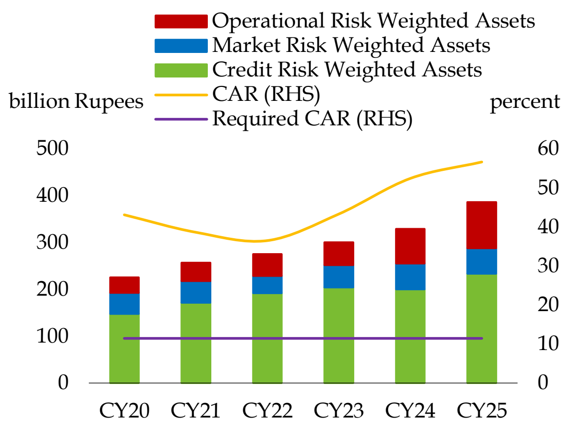
CAR of the DFIs sector improved in line with robust earnings…

The aggregate CAR of DFIs has historically remained well above the required requirement of 11.5 percent, supported by a strong asset base largely concentrated in risk-free government securities, whereas the share of lending has relatively remained low and directed towards resilient and high-potential sectors. During the year under review, CAR further improved to 56.7 percent (52.3 percent at end CY24).

The improvement in CAR stemmed from relatively higher growth (26.7 percent) in regulatory capital compared to risk-weighted assets, supported by healthy earnings and revaluation surpluses. Accordingly, both key components of capital, Tier-I and Tier-II, registered growth during CY25. Total risk weighted assets (TRWAs), however, grew at a slower pace of 17.3 percent in CY25 compared to capital, which further improved the solvency ratio.

Further analysis of DFIs' regulatory capital requirement shows the credit risk, which forms the major part of RWAs, i.e., 60.4 percent, expanded moderately owing to strong growth in advances. In tandem with credit RWAs, Operational RWAs surged by a notable 33.8 percent, on the back of higher gross income in recent years, which forms the basis of operational risk under the Basic Indicator Approach (BIA) for calculation of capital requirement for operational risk. However, market risk weighted assets slightly contracted by 1.2 percent **(Figure 6.1.10).**

CAR and Risk Weighted Assets of DFIs **Figure 6.1.10**



Source: State Bank of Pakistan

[3] Negative ratio indicates higher ECL (Expected Credit Loss) allowance available relative to non-performing loans.

In view of relatively limited prospects of earnings amid shrinking yields on government securities, DFIs have started to adopt alternative strategies to unlock new growth avenues. Towards this end, DFIs diversified their operations by investing in digital banks, venture capital initiatives, and launching a dedicated Islamic Finance division to provide a broader array of Sharia-compliant financial products. At the same time, DFIs are focusing on expanding advances to strengthen core income and reduce reliance on returns from investments in risk-free securities.

Way Forward…

DFIs were established to promote development finance and support capital formation in the economy. However, various challenges have hindered their growth, leading them to adopt a conservative business approach. The sector faces structural constraints, including limited access to the capital market, which also lacks depth, a low national savings rate, and subdued demand for long-term financing due to multiple factors. DFIs have limited access to deposits compared to commercial banks, and unlike their counterparts in other jurisdictions, do not benefit from concessional lending schemes for development objectives. Given these limitations, DFIs need to adopt innovative ways to promote development finance and support the capital formation process in the country. In this regard, exploring options such as alternative financing models and public–private partnerships could help DFIs play a more effective role in the development of the country.

6.2 Non-Bank Financial Institutions

In CY25, the NBFI 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 (NBFIs) [1], 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
Lending	Modarabas	65	56	57	68
	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 segment[2] 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 VIIIA - 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 NBFI sector assets ...

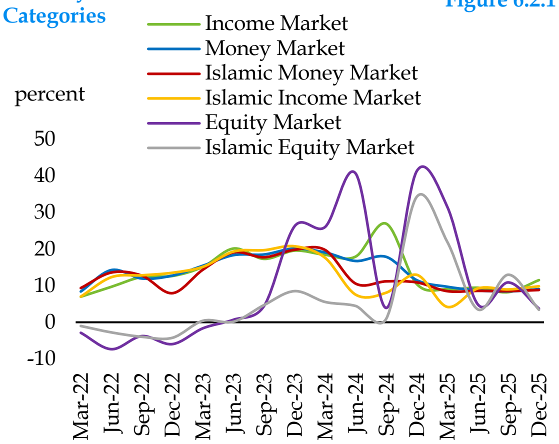
The mutual funds segment recorded a modest growth of 2.2 percent in CY25, compared to an exceptional expansion of 98.9 percent in CY24. As a result, its asset share within the NBFI industry declined to 66.3 percent in CY25 from 71.5 percent in CY24. Excluding the first-quarter outflows in CY25, the mutual 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**).

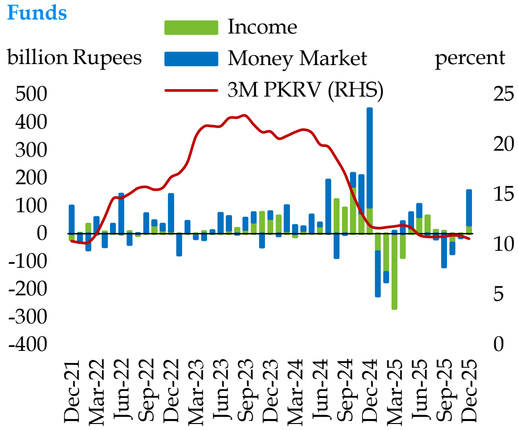
Monthly Returns of Mutual Funds Categories **Figure 6.2.1**



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.

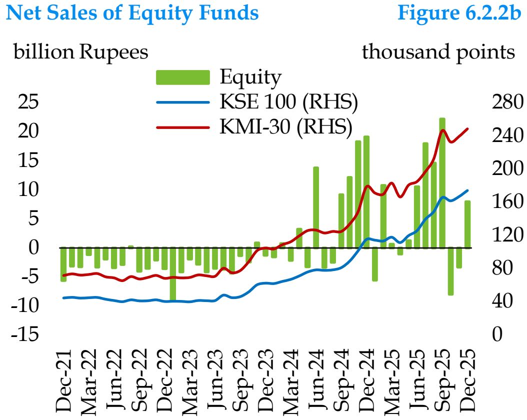
Net Sales of Money and Income Funds **Figure 6.2.2a**



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**



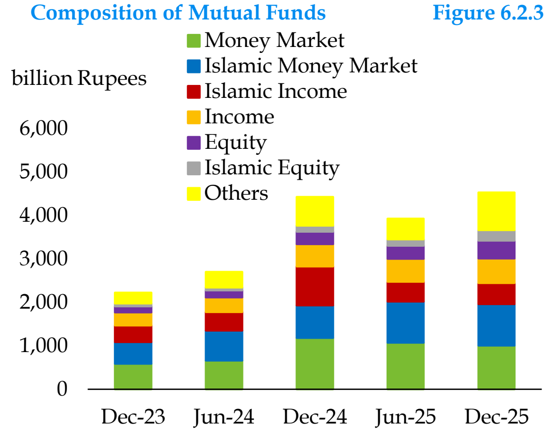
Source: Mutual Funds Association of Pakistan & Pakistan Stock Exchange

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…

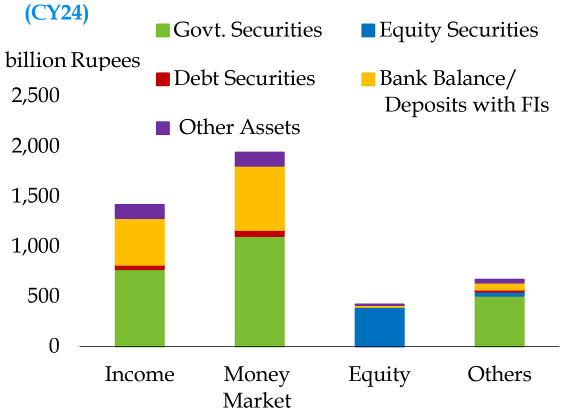
With respect to asset allocation, government securities and bank balances or deposits with financial institutions have historically dominated the portfolios of income and money market funds. A significant compositional shift was observed in CY24, when the share of government securities increased sharply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

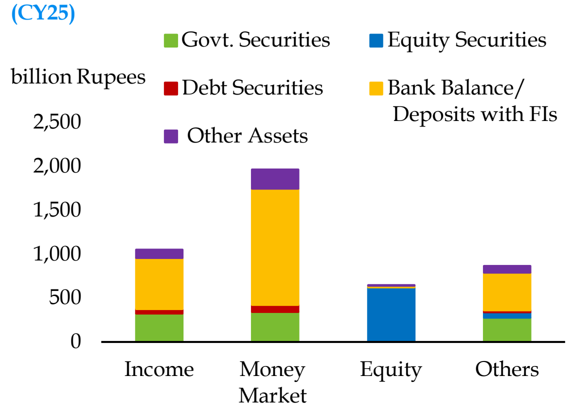
However, the rapid adjustment in asset allocation across two consecutive years underscores the sensitivity of fund-flows to tax and regulatory measures, highlighting the importance of policy stability in maintaining balanced financial intermediation. Such policy-induced reallocations can amplify short-term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

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



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]

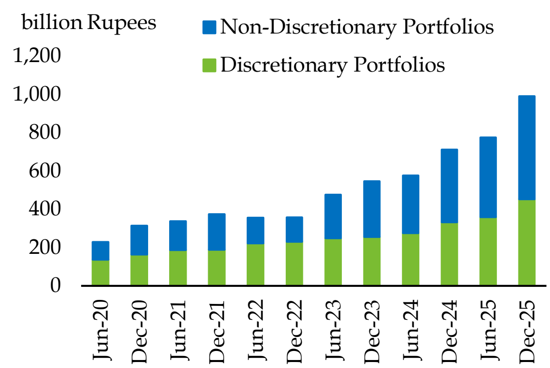
Reforms were also introduced focusing on revising the Total Expense Regime for mutual funds and pension funds. As part of the amendments, the existing Total Expense Ratio (TER) capping regime was replaced with caps on management fees. These reforms are aimed at promoting transparency, cost efficiency,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

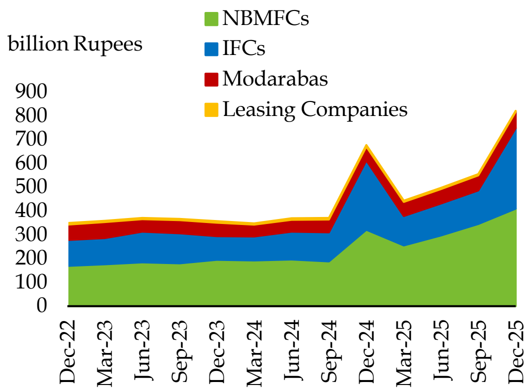
6.2.2 NBFIs: Lending Segment

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.

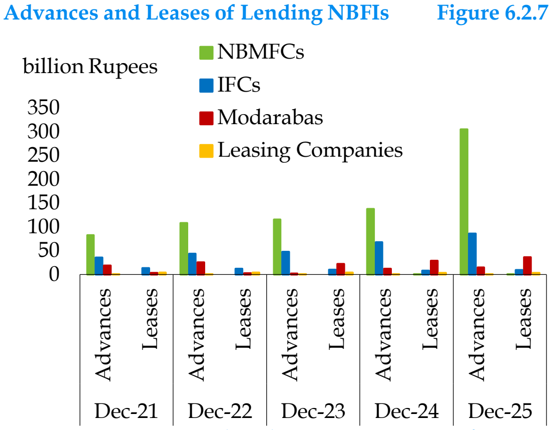
Assets of Lending NBFIs **Figure 6.2.6**



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 NBFI 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 NBFI 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 NBFI 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.

6.3 Insurance & Takaful Companies

The insurance sector recorded robust asset growth during 9MCY25, supported by strong investments and recovery in premium generation. In the non-life segment, asset expansion was driven by growth in investment portfolios, particularly equities. Gross premiums expanded moderately, led by a substantial increase in motor business in line with higher automobile sales, while Fire & Property contracted and Agriculture remained negligible. Net premium growth outpaced gross premiums, accompanied by a rise in the overall retention ratio, reflecting greater risk absorption and reduced reliance on reinsurance. Profitability remained supported by strong investment income amid buoyant equity markets, though earnings growth slowed compared to last year. On the other hand, the life segment sustained double-digit asset growth, primarily driven by higher investments in government securities alongside increased equity exposure. Gross premiums rebounded strongly, reversing last year's contraction, with expansion concentrated in individual single-premium products and supported by improved economic conditions and distribution efficiencies. Claims growth remained contained relative to premiums, with a notable decline in surrender claims signaling improved policyholder resilience, leading to a significant improvement in the claims ratio. Going forward, macroeconomic stability, financial market conditions, and geopolitical dynamics will remain key determinants of sectoral performance. For the non-life segment, underwriting discipline, claims management, reinsurance strategy, and market risk exposures will shape resilience, while for the life segment, product mix, expense containment, investment yields, and persistency trends will be critical for sustaining profitability.

6.3 Insurance & Takaful Companies

The asset base of the insurance & Takaful Companies expanded by 19.4 percent (YoY) in 2025[1], moderating from growth of 23.4 percent in the corresponding period of last year. Although both life and non-life sectors contributed to the growth, the life segment continued to account for the largest share in the asset base (**Table 6.3.1**).[2] Nonetheless, the sustained double-digit expansion suggests that balance sheet strength remains intact, supporting the sector's capacity to meet long-term liabilities.

In contrast, gross premium growth recorded a notable improvement, rising by 11.9 percent during 9MCY25, compared with 3.3 percent in 9MCY24. This marked acceleration points to a recovery in underwriting activity and improved demand conditions. The rebound in premium growth, alongside moderating asset expansion, may signal a shift from balance sheet-driven growth toward stronger core insurance activity. If sustained, this trend could enhance profitability and improve the sector's resilience by strengthening revenue streams. However, continued monitoring is warranted to assess whether the acceleration is driven by genuine expansion in coverage or reflects price adjustments.

Growth in the sector will help increase the insurance penetration in Pakistan, which stood at a very low level of 0.7 percent as of end CY24. The low level of penetration underscores both the difficulty of reaching broader segments of the population and a substantial gap in harnessing the sector's growth potential. The industry faces several challenges, including weak enforcement of mandatory insurance requirements under existing laws, limited data sharing for effective monitoring, inadequate coverage for informal sector workers, and a lack of standardized products.

The dominance of life and family takaful reflects the long-term savings and protection preferences of households and institutions, as well as the structural orientation of the industry toward life-based products. While this provides a relatively stable premium base, it also implies concentration risk, particularly in the event of income shocks or shifts in institutional policies

Snapshot of Insurance Industry **Table 6.3.1**

Segment	As of Sep, 2025		During 9MCY25			
	Assets	Share	Gross Premium	Share	Net Premium	Net Claims
	million Rupees	percent	million Rupees	percent	million Rupees	million Rupees
Life	3,371,418	83.7	294,368	57.8	287,527	264,631
Family Takaful*	67,355	1.7	20,484	4.0	19,995	12,944
Non-Life	498,860	12.4	164,893	32.4	75,791	40,254
General Takaful*	9,381	0.2	1,860	0.4	1,465	980
Reinsurance	81,721	2.0	28,027	5.5	6,998	4,843
Total	4,028,735	100.0	509,632	100.0	391,777	323,653

* Latest available information

Source: Unaudited/audited Accounts of Insurers

[1] Unless otherwise stated, the data in this chapter pertains to first nine months of calendar year (9MCY25)

[2] The insurance industry in Pakistan remained concentrated in the life and family Takaful segments, which together accounted for 85.4 percent of the overall industry. These segments contributed 61.8 percent of the industry's gross premiums, highlighting their continued centrality to the sector's business and revenue generation.

regarding employee or public health insurances. A more diversified product-mix over time could help mitigate concentration risks and broaden the industry's resilience to cyclical pressures.

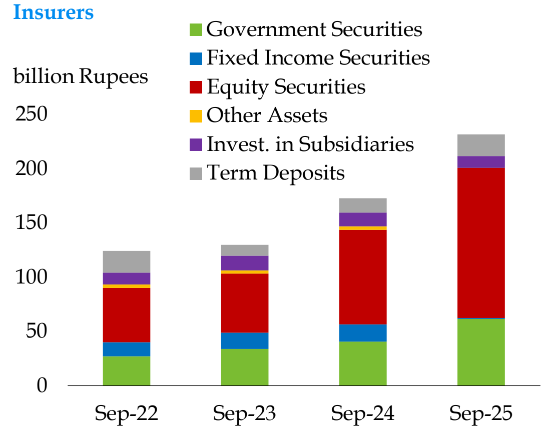
6.3.1 Non-life Insurance and General Takaful Segment

The asset base of the non-life insurance sector expanded by 21.7 percent on YoY basis in September 2025, compared with 19.8 percent in the previous year, reflecting continued balance sheet growth. The increase was primarily driven by expansion in investment portfolio, which accounted for 60.9 percent of the overall rise in total assets. This underscores the sector's continued reliance on income from investment as a key earnings pillar. After-tax earnings rose by 6.3 percent on the back of strong investments income. The earnings growth, however, decelerated from last year's level of 37.1 percent in 9MCY24, amid weak underwriting results.

Amid an upbeat stock market, the growth in equities portfolio drove investments…

Equities remained the preferred asset class for the non-life sector. Amid a buoyant domestic equity market, the sector's equity portfolio continued to expand, recording a growth of 58.8 percent YoY in September 2025. The sustained shift towards equities reflects insurers' pursuit of higher yields in a favorable market environment, albeit with market risk implications. Meanwhile, exposure to government securities also registered a strong growth of 51.7 percent in September 2025, increasing the share of treasuries in investments, which provided some portfolio diversification (**Figure 6.3.1**).

Investment Portfolio of Non-life Insurers **Figure 6.3.1**



Source: Unaudited / audited Accounts of Insurers

Motor and health segments supported growth in gross premium, while higher retention ratios strengthened net premium expansion…

Gross premiums expanded by 8.8 percent in 9MCY25, moderating from a strong 16.9 percent growth in the previous year, primarily driven by higher business volumes in the motor and health segments. The robust expansion in the Motor segment was supported by a surge in automobile sales during the reviewed period.[3] In contrast, the fire & property segment, which constitutes the largest share of gross premiums, contracted by 6.5 percent. Meanwhile, the agriculture segment remained marginal, accounting for only 0.2 percent of total gross premiums, highlighting persistently low insurance penetration in this line. This low uptake is largely driven by structural factors, including limited access to formal credit, given that most crop insurance is linked to agricultural lending, small landholdings, and high exposure to weather-related risks, which constrain the commercial viability of insurance products.

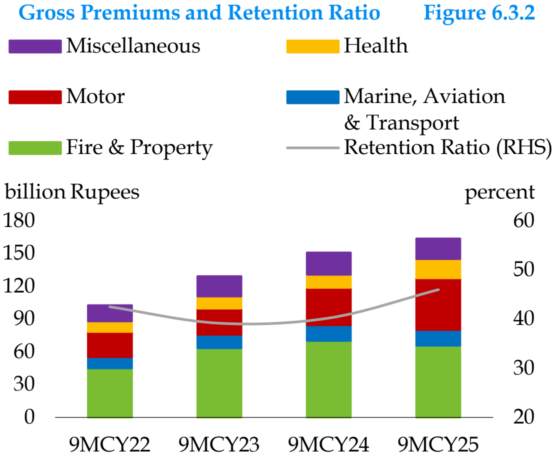
Net premiums recorded a robust 24.3 percent increase in 9MCY25, outpacing the 20.0 percent growth observed last year, with the motor segment contributing the largest share (62.9 percent), followed by health. The strong performance in net premiums was supported by

[3] Automobile sales rose by 40.9 percent in 9MCY25 on YoY basis. Source: Pakistan Automotive Manufacturers Association

higher retention ratios, particularly in motor and health, indicating greater risk absorption by insurers and enhanced underwriting confidence in these portfolios. In contrast, insurers maintained a relatively conservative stance in the fire & property segment, where retention remained low at 20.4 percent, which reflects continued reliance on reinsurance for large and potentially volatile exposures.

A stronger growth in net premiums relative to gross premiums, alongside an increase in the retention ratio from 40.2 percent to 46.0 percent in the reviewed period, signals a strategic shift toward greater risk absorption and reduced dependence on external reinsurance support **(Figure 6.3.2)**. This transition was further reflected in a moderation in reinsurance expense from 13.2 percent to 1.6 percent during the reviewed period. The evolving retention dynamics suggest improved capital buffers and underwriting confidence; however, higher retained exposures may elevate sensitivity to claims, warranting continued monitoring from a risk management perspective.

Gross Premiums and Retention Ratio **Figure 6.3.2**

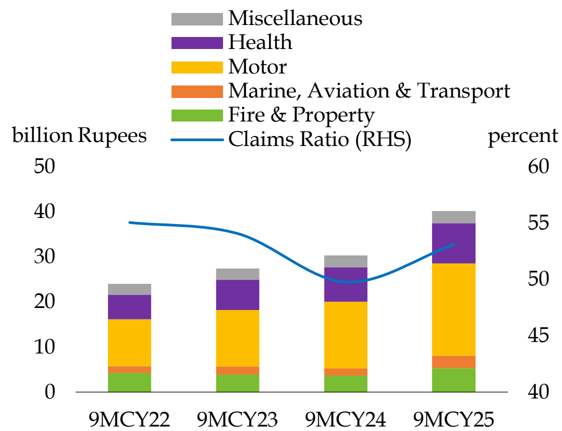


Source: Unaudited/audited Accounts of Insurers

Claims surged, especially in the Motor segment, leading to a slight deterioration in claims ratio…

On the expense side, net claims increased sharply by 34.1 percent, significantly higher than the 11.4 percent growth recorded in the previous year. The claims were predominantly driven by the motor segment, followed by health (**Figure 6.3.3**). Heavy rainfall and urban flooding episodes in major cities during the third quarter of 2025 may have contributed to the surge in motor claims. Moreover, the pronounced rise in net claims in motor and health is consistent with the higher retention ratios observed in these segments, which increased insurers' claims absorption. Consequently, the overall claims ratio for the sector increased to 53.1 percent from 50.2 percent in the period under review **(Figure 6.3.3)**, pointing to a squeeze in underwriting margin.

Net Claims and Claims Ratio **Figure 6.3.3**



Source: Unaudited/audited Accounts of Insurers

Profitability moderated as weaker underwriting performance was offset by robust investment income growth…

Amid the rise in claims ratios and net commission expense, underwriting results declined by 8.1 percent in 9MCY25, in sharp contrast to the strong 129.6 percent growth recorded in 9MCY24. However, the impact on overall profitability was cushioned by a solid 34.8 percent increase in investment income, supported by a strong equity market performance and portfolio expansion. Consequently, the sector remained profitable, with profit before tax increasing by 15.3 percent in 9MCY25, albeit at a slower pace compared to the robust 37.1 percent growth in 9MCY24.

However, rising dependence on investment income to offset weaker underwriting performance may increase the sector's vulnerability to financial market volatility, making profitability increasingly sensitive to asset price changes.

While the rise in claims ratios and the moderation in underwriting performance exerted some pressure on profitability, the non-life insurance sector continued to demonstrate comfortable capitalization, sustained profitability, and stable returns on assets, suggesting manageable pressures **(Table 6.3.2)**.

Soundness of Non-Life Insurance **Table 6.3.2**

percent

Description	Sep-22	Sep-23	Sep-24	Sep-25
Equity to Assets	35.3	32.5	34.7	36.2
Claims Ratio	55.1	54.1	50.2	53.1
Combined Ratio	94.6	94.1	88.8	90.8
Premium Retention	42.5	39.2	40.2	46.0
Return on Assets (pre-tax)	4.3	6.2	7.1	6.8

Source: Unaudited/audited Accounts of Insurers.

General Takaful operators continued to provide niche Shariah-compliant solutions, with limited systemic footprint…

Pakistan's two standalone dedicated general takaful operators continued to operate on a limited scale relative to conventional non-life insurers, with their market share remaining modest.

Nonetheless, general takaful has exhibited steady expansion over the past two decades. From a negligible base in 2006, it has grown to represent 14 percent of the non-life insurance segment by 2024.[4] This upward trajectory signals increasing market acceptance and improving operational capacity within takaful operators.

Within general Takaful, growth has been broad-based across major lines of business. Health and Fire takaful have recorded the most pronounced expansion, with combined premiums increasing from Rs 2 billion in 2020 to Rs 6 billion in 2024. Motor takaful remains a key segment, reaching Rs 13 billion in 2024 and continuing to anchor the overall portfolio. Marine Takaful, while comparatively smaller, has also demonstrated gradual growth, rising from Rs 1 billion in 2020 to approximately Rs 2 billion in 2024.

Overall, gross general Takaful premiums increased from Rs 12 billion in 2020 (9.8 percent of non-life sector) to Rs 31 billion in 2024 (12.8 percent), reflecting a more than twofold expansion over the period. This growth underscores strengthening demand across multiple classes of business and indicates a gradual consolidation of general takaful's role within the broader non-life insurance market.

While detailed financial disclosures for 9MCY25 were not publicly available at the time of reporting, the segment's overall footprint suggests that its performance is unlikely to materially alter the sector's aggregate risk profile. Given its comparatively small asset base and contribution to total premiums, developments in general takaful have limited systemic implications; however, the segment contributes to product diversification and financial inclusion by offering Shariah-compliant risk-sharing solutions. Continued enhancement of disclosure and transparency practices would further support more comprehensive sectoral assessment going forward.

The capital position of the domestic non-life reinsurer improved modestly despite weaker profitability…

Profit before tax of the domestic non-life reinsurer declined by 40.3 percent in 9MCY25, in contrast to 49.1 percent growth recorded in 9MCY24, primarily reflecting a sharp deterioration in underwriting performance. Underwriting results contracted significantly by

[4] SECP (2024). Report on Insurance Industry Statistics 2024.

97.9 percent as the net premium declined and claims surged, while investment income registered a marginal decline of 1.5 percent, offering limited offset to technical losses. The decline in profitability warrants close monitoring, given the reinsurer's central role in risk absorption within the insurance ecosystem. Nevertheless, capitalization strengthened during the period, with the capital-to-assets ratio improving to 28.8 percent in September 2025 from 25.0 percent a year earlier, indicating the presence of adequate buffers despite earnings pressure.

Going forward, strong underwriting and effective risk management will be key to resilience…

The non-life segment is expected to sustain growth supported by improving activity and ongoing digitization initiatives, including motor insurance repository, licensing digital-only insurer, and marine insurance automation; nevertheless, the sector also faces growing exposure to external risks including climate-related events. Although capital buffers remain adequate, sustained underwriting discipline and prudent risk transfer will remain central to profitability in 2026, especially if equity markets correct after a strong run. Moreover, the weakening underwriting performance of the domestic reinsurer observed in 9MCY25 warrants close monitoring, given the reinsurer's role in system-wide risk absorption.

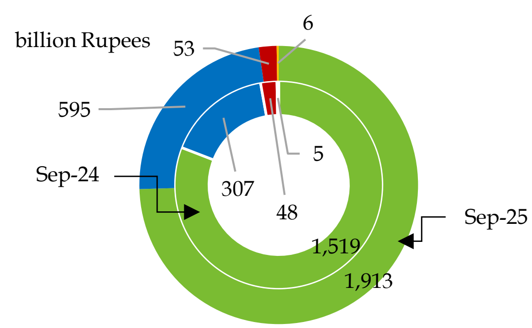
6.3.2 Life Insurance and Family Takaful Segment

The asset base of life segment expanded by 20 percent on YoY basis in September 2025, lower than 23.8 percent growth recorded in the same period of the previous year. The expansion was largely driven by an increase in investments, especially in government securities, indicating low risk and conservative risk appetite during the reviewed period.

Investment grew significantly in equities along with government securities…

The total investments of the life insurance segment surged by 36.7 percent year-on-year basis in September 2025. It was mainly due to expansion in investments pertaining to government securities, reflecting shift in asset allocation strategies due to the evolving economic recovery and risk appetite. Though investments in treasuries rose to Rs 1.9 trillion from Rs 1.5 trillion in last year, their share fell to 74.7 percent September 2025 from 81.1 percent in September 2024. Similarly, the segment increased its exposure in equities, which grew at 90.4 percent in September 2025, leading to a rise in their share to 19.5 percent from 14.0 percent year-on-year basis (**Figure 6.3.4**). This increase reflects response to improved equity market conditions. However, it also introduces greater market risk exposure, which could affect portfolio returns in the event of adverse equity market movements.

Life Segment Investments **Figure 6.3.4**



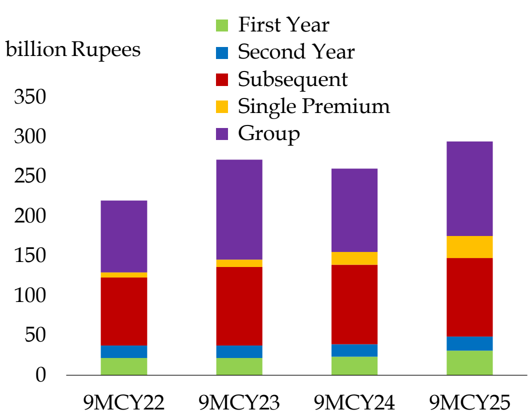
Source: Unaudited/audited Accounts of Insurers

Expansion in gross premium was driven by expansion in single and group premiums…

Gross premiums expanded by 13.2 percent in 9MCY25, marking a significant recovery from the contraction of 4.1 percent in the same period of the previous year. Expansion was heavily skewed towards investment-oriented products with individual single premiums contributing 69 percent, as inflationary pressures receded, interest rates stabilized and purchasing power of households improved amidst economic recovery. Along these lines, individual premiums from new business marked 32.4 percent growth, reflecting rise in digital insurance platforms and efficiency of bancassurance. Second year and subsequent premiums cumulatively contributed 10.9 percent, underscoring the sector's accelerated new business growth along with effective persistency and retention.

In addition, group premiums, which account for 40.5 percent of total gross premiums, demonstrated a 13.8 percent growth, linked with stricter corporate compliance and rising cost of employee health benefits. To cover spiked costs, employers increased coverage limits, directly impacting sector's premium growth (**Figure 6.3.5**).

Gross Premiums for Life Sector **Figure 6.3.5**



Source: Unaudited/audited Accounts of Insurers

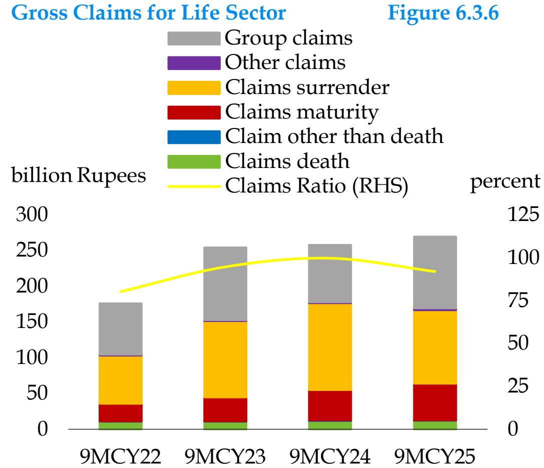
Growth in group policies claims outpaced contraction in individual policy claims…

Gross claims accelerated to 4.6 percent in CY25, a substantial increase from 1.4 percent in CY24. The growth in gross claims was primarily driven by a massive 25.8 percent surge in group polices claims, which effectively offset a significant 4.9 percent contraction in the individual policy claims segment. The contraction in individual claims is a positive indicator of market stability signifying risky portfolios observed in previous year have subsided.

Further, surrender claims, which contribute 60.7 percent to total gross claims, dropped sharply in period under review. In 9MCY24, surrenders spiked by 14.1 percent as inflation forced policyholders to cash out. In 9MCY25, it reversed with 15.5 percent decrease, implying improved economic resilience as policyholders were no longer compelled to liquidate their policies for immediate liquidity needs. Mortality-related claims remained virtually flat, a stark contrast to the 11.6 percent rise in 9MCY24, suggesting normalization of post-pandemic mortality volatility.

The claims ratio improved noticeably to 92 percent in 9MCY25, marking a significant recovery from the near-breakeven point of 99.9 percent in CY24. This turnaround was driven by premium growth which outpaced the claims growth by nearly threefold (**Figure 6.3.6**).

Gross Claims for Life Sector **Figure 6.3.6**



Source: Unaudited/audited Accounts of Insurers

Profitability squeezed despite strong top-line recovery …

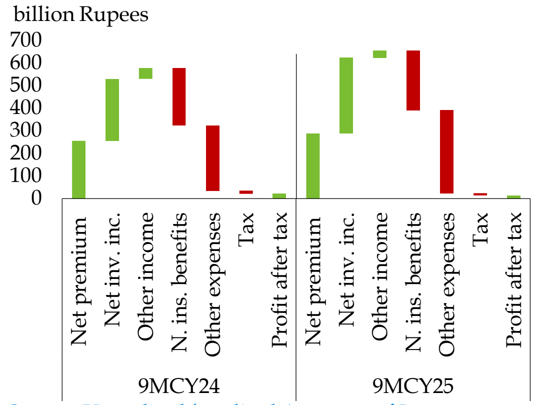
Despite strong top-line recovery with net income rising by 13.4 percent (reaching Rs 656 billion) in 9MCY25, life insurance segment faced profitability squeeze with profit after tax contracting by 32.5 percent to Rs 14 billion (Rs 20.7 billion in 9MCY24). This was driven by divergence between revenue and expense growth as an absolute increase in expenses, largely due to reserve requirement and volatility losses, significantly outpaced the increase in revenue.

Primarily, main sources of income for life insurance segment are premium revenue and investment income. Net premium revenue rebounded significantly by 12.7 percent in 9MCY25, reversing the contraction of 4.5 percent during the same period last year. This aligns with the surge in single premium policies. However, investment income contracted by 2.1 percent in 9MCY25, indicating reduced yields on government securities due to stabilized interest rate environment.

On the expense side, net insurance benefits witnessed a modest growth of 4.2 percent in line with claims growth in 9MCY25. Acquisition expense spiked massively by 24.1 percent, outpacing the net premium revenue by twofold in 9MCY25 (9.8 percent in 9MCY24). Primary driver of the surge in expenses was 'Other expenses' that increased to Rs 309 billion in 9MCY25 (Rs 239 billion in the same period last year). It is in line with increase in single premium business in 9MCY25 as reserves needed to be set aside, implying asset accumulation phase for future book value while sacrificing immediate profit-booking – a sound risk management strategy.

Consequently, after-tax profit decreased to Rs 14 billion in 9MCY25 from PKR 21 billion in 9MCY24 (**Figure 6.3.7**).

Earnings Components for Life **Figure 6.3.7**



Source: Unaudited/ audited Accounts of Insurers

Financial performance and soundness indicators slightly deteriorated…

Although underwriting stability was restored in September 2025 as claims ratio improved to 92 percent from 99.9 percent in September 2024, profitability shrunk. As return on assets (ROA) ratio contracted to 0.7 percent in 9MCY25 from 1.3 percent from previous period, as the cost of acquiring new assets outpaced the profits generated from them. Further, the expense ratio increased as acquisition expense surged, indicating higher operational costs relative to revenue. On solvency front, the equity to assets ratio deteriorated during the period under review, demonstrating modest rise in leverage risk. The drop in ROA to 0.7 percent in 9mCY25 reflects that rapid expansion in asset base is not generating sufficient yield to cover acquisition costs and liability reserves (**Table 6.3.3**).

Performance Indicators of Life Insurers **Table 6.3.3**

			percent
Description	**Sep-23**	**Sep-24**	**Sep-25**
Claims Ratio	94.8	99.9	92.0
Expense Ratio	16.8	20.3	20.6
Equity to Assets	2.9	3.0	2.9
Return on Assets (Pre-tax)	1.4	1.3	0.7

Source: Unaudited/audited Accounts of Insurers

Family takaful sector exhibits steady growth over the past two decades…

Over the past two decades, the family takaful segment has gradually strengthened its position within the insurance industry. From a nominal presence in 2006, family takaful now accounts for approximately 17 percent of the life insurance market as of September 2025. This progression reflects increasing consumer awareness, broader product offerings, and a gradual deepening of Shariah-compliant financial intermediation within the insurance landscape.

Its presence is significantly more pronounced within the private sector, while penetration within the public sector remains limited. This divergence suggests that demand for Shariah-compliant protection products is primarily being driven by private sector participants, while public sector engagement remains relatively underdeveloped.[5]

The strong private sector concentration may indicate untapped potential within public sector institutions and state-owned enterprises. Policy alignment, awareness initiatives, and product customization could help broaden outreach.

Additionally, sustained growth in family takaful may enhance financial inclusion by attracting segments that prefer Shariah-compliant long-term savings and protection solutions.

Initiatives are being introduced by the regulator to modernize and expand the insurance sector …

Securities and Exchange Commission of Pakistan (SECP) has proposed to develop a national-level insurance scheme for informal sector workers to strengthen social protection and is pursuing reforms to expand mandatory health and group coverage. It is also promoting life, motor, agriculture, and disaster insurance, enhancing digital distribution, and increasing local risk retention, The efforts are especially important given Pakistan's high vulnerability to climate change.

Moreover, the SECP is improving the ease of doing business, facilitating access to capital and reinsurance, adopting risk-based supervision and IFRS-17 standards, and encouraging innovation in an effort to support financial stability and market development.[6] In this regard, a key milestone was the issuance of Pakistan's first digital-only non-life insurance license to Digi Insurance Limited in July 2025.[7]

Outlook for the insurance industry hinges on evolving market conditions…

Looking ahead, the insurance sector's performance in 2026 will remain closely linked with macro-financial conditions, particularly the durability of disinflation, the pace of economic recovery, and domestic financial-market trends. With ease in monetary conditions and inflation being maintained within the medium-term target range, the premium affordability and demand might enhance, especially for retail life and health products. However, near-term uncertainty from climate-related disruptions remains material. In addition, any renewed volatility in global commodity prices and geopolitical conditions could affect underwriting costs and reinsurance pricing dynamics, with second-round effects on premium rates and retention decisions.

From a structural and supervisory perspective, 2026 is expected to be shaped by ongoing modernization initiatives that can influence both penetration and risk transmission. Rapid rise in digital channel premiums and digital-only insurer model developments may intensify competition, improve outreach, and lower distribution frictions, but also elevate market-conduct and operational risk considerations. More importantly for consumer confidence, the Life Insurance Policy Finder[8] can reduce informational frictions and help unlock long-

[5] SECP (2024). Report on Insurance Industry Statistics 2024.
[6] SECP (2024). Five Year Strategic Plan – Journey to an Insured Pakistan
[7] For details, please see SECP Press Release dated July 22, 2025.
[8] Press Release: SECP Introduces Life Insurance Policy Finder Service for Public Facilitation

pending claims, supporting trust and market development, but potentially increasing realized claims outflows in the near term. In parallel, higher minimum capital requirements and the enabling framework for subordinated debt, anchored in the broader transition toward a risk-based solvency approach, should support resilience.[9] Finally, with IFRS-17 implementation deferred to 2027, 2026 will remain a transition year in which preparedness becomes increasingly important for supervisory comfort and comparability.[10]

The life segment is likely to benefit from continued normalization of policyholder behavior (lower surrenders) and demand recovery; however, the profitability profile may remain sensitive to product mix skewed toward single-premium business, acquisition cost dynamics, and the interaction between easing yields on government securities and rising market risk from higher equity allocations.

Overall, the sector is expected to remain broadly resilient in 2026, but evolving risk transmission, via higher market-linked exposures, enforcement-driven expansion of motor coverage, potentially higher claim realization in life, and climate-related tail risks, warrants continued risk-focused surveillance and engagement with the regulator.

[9] PR No. 277 SECP's Policy Board approves amendments to the insurance regulatory framework
[10] SECP SRO 1336 Effective date for applicability of IFRS 17

7

Corporate Sector

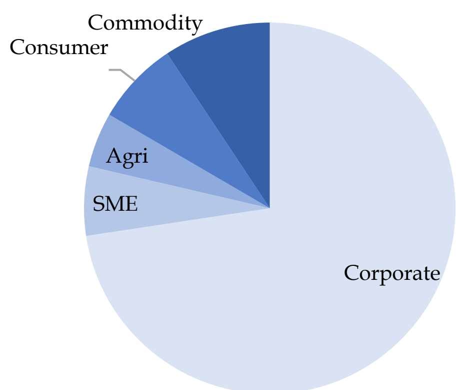
Corporate sector's financial health and performance remained steady, amidst gradually improving economic conditions and monetary easing during CY25. Overall, the corporate sector was able to maintain its profitability primarily on the back of reduction in finance cost along with an increase in other income. Although, the tax burden of the sector increased; however, the bottom line remained steady as compared to last year. Moreover, the reduction in finance cost and monetary easing also helped in improving the debt-servicing capacity and liquidity position of the sector, which was also reflected in firms' credit ratings and market-based indicators. Similarly, large borrowing groups of the banking sector exhibited adequate solvency, credit worthiness, and repayment capacity with stable financial health and performance. As a result, the delinquencies in banks' corporate loans remained within the manageable range. Going forward, sustained improvements in macro financial conditions and emerging global geopolitical environment remain key determinants of corporate sector's performance.

7 Corporate Sector

A sound corporate sector is critical for a stable financial system

The corporate sector holds significant importance for the performance and stability of the banking and financial sector of Pakistan. Banking sector's lending exposure to large corporate sector firms constitutes more than two-thirds of the total loan portfolio. The corporate sector's financial performance and repayment capacity, therefore, have a direct bearing on the overall stability of the banking and financial system **(Figure 7.1)**.

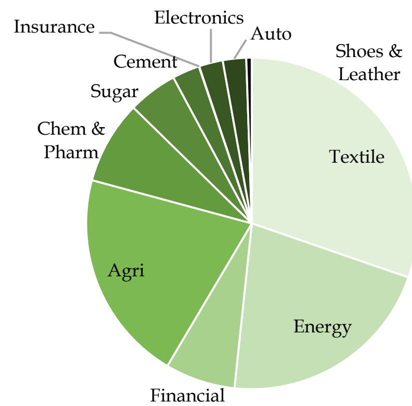
Segment-wise Share in Bank Advances **Figure 7.1**



Source: State Bank of Pakistan

In terms of sector-wise share in total loans, textile has the highest share of loans followed by energy and agriculture sectors **(Figure 7.2)**. Other sectors such as cement, sugar, auto and chemicals & pharmaceuticals constitute a relatively smaller portion of the banks' lending exposure. Nonetheless, all these sectors make a significant contribution to economic growth, and in turn their financial soundness is linked to overall performance of the economy. Adverse shocks to the economy, could weaken the repayment capacity of these sectors and thereby deteriorate the asset quality of the banking sector.

Sector-wise Share in Bank Advances **Figure 7.2**



Source: State Bank of Pakistan

Improving economic conditions and a revival in demand led to steady after-tax profit for the corporate sector...

The corporate sector exhibited operational and financial resilience in CY25 (**Table 7.1**).[1] Though corporate sector advances moderated on yearly basis in CY25, this decline was in comparison to one-off significant increase in advances in CY24 primarily due to ADR-linked tax policy. Barring this one-off increase in advances in December 2024 quarter, the growth in advances from March 2025 to December 2025 mainly stemmed from improvement in macro-financial conditions as the economic activity picked up and the finance cost reduced due to cut in the policy rate while availability of credit also improved.

[1] The analysis is conducted on a sample of around 400 non-financial companies listed on Pakistan Stock Exchange, serving as a representative subset of the larger non-financial corporate sector.

Financials of Listed Non-financial Companies on PSX — Table 7.1

	CY24	CY25	YoY Growth
	billion Rupees		percent
Balance Sheet			
Non-Current Assets	6,381	6,967	9.2
Current Assets	9,997	10,422	4.3
Total Assets	**16,378**	**17,389**	**6.2**
Shareholders' Equity	6,610	7,321	10.8
Non-Current Liabilities	1,981	2,139	8.0
Current Liabilities	7,787	7,929	1.8
Total Equity & Liabilities	**16,378**	**17,389**	**6.2**
Income Statement			
Sales	19,720	19,242	-2.4
Cost of sales	16,754	16,337	-2.5
Gross profit / (loss)	2,965	2,905	-2.0
General, admin. & other expenses	1,112	1,144	3.0
Other income / (loss)	630	681	8.2
EBIT	2,484	2,442	-1.7
Financial expenses	631	554	-12.2
Profit / (loss) before taxation	1,760	1,818	3.3
Tax expenses	565	653	15.6
Profit / (loss) after tax	1,195	1,165	-2.5
Financial Ratios			
	percent		
Gross Profit Margin	15.0	15.1	
Net Profit Margin	6.1	6.1	
Return on Equity	18.1	15.9	
Return on Assets	7.3	6.7	
Asset Turnover	120.4	110.7	
Capital to Total Assets	40.4	42.1	
	units (times)		
Current Ratio	1.3	1.3	
Debt Equity Ratio	1.5	1.4	
Debt to Capital Employed	1.2	1.1	
Financial Leverage	2.5	2.4	
Interest Coverage Ratio	4.6	5.3	

Analysis of annualized financial data of around 400 listed NFCs.

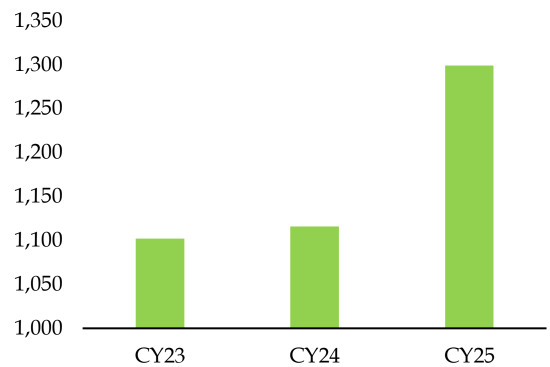
Source: State Bank of Pakistan

7.1 Financial Assessment of Corporate Sector

The corporate sector witnessed moderate balance-sheet growth in CY25, as the asset base of the selected firms increased by 6.2 percent, mainly due to increase in non-current assets.[2] The growth in non-current assets was driven by increase in long-term investments which bodes well for enhancement of production capacity of the corporate sector (**Figure 7.3**).

Long-term Investments — Figure 7.3

billion Rupees



Source: State Bank of Pakistan

On the liabilities side, non-current liabilities experienced a significant increase in debentures/TFCs as some firms made use of monetary easing to raise debt at lower, fixed rates for longer terms through these instruments.[3]

Despite the growth in asset base, total revenue of selected firms declined compared to last year. The main reason for the decline in total revenue is large reduction in sales in the fuel and energy sector, which drove down total revenue despite an uptick in sales in other business sectors. Resultingly, gross profit and operating profit declined, which was offset by an increase in other incomes and a decline in finance cost.[4] Thereby, elevating the profit before tax of the corporate sector (**Figure 7.4**). The increased tax burden (tax to pre-tax profit ratio) dragged the bottom-line but still after-tax profit of the

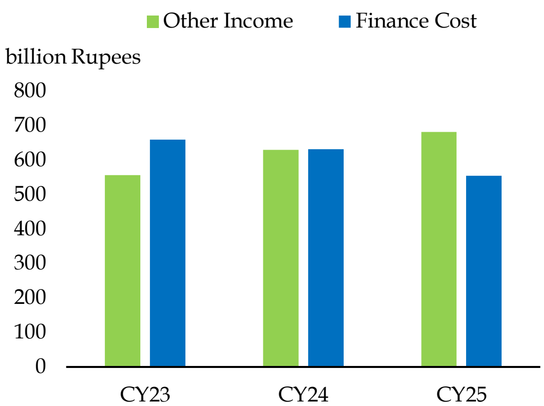
[2] In this section, balance sheet is as of June 2025, and income statement is for complete CY24 and CY25. In both cases, the comparisons are on year-on-year basis.

[3] Debentures/TFCs are both long term, fixed income instruments used by firms to raise capital from investors.

[4] 'Other Income' rose abnormally in CY25 and was concentrated mainly in textile, manufacturing and chemicals sectors. Interest rate continued the declining trend of CY24; the benchmark rates such as policy rate fell by 250 bps in CY25 (900 bps fall in CY24).

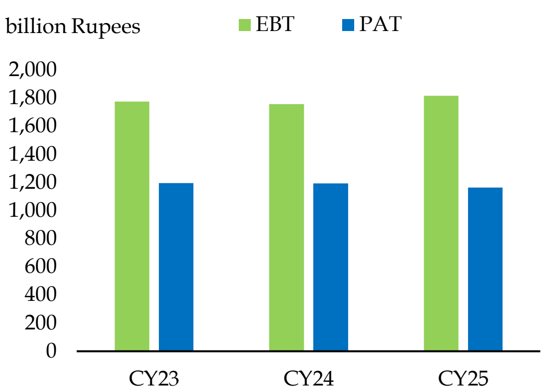
corporate sector showed slight growth (**Figure 7.5**).

Factors Impacting Profit Before Tax **Figure 7.4**



Source: State Bank of Pakistan

Earning Before Tax (EBT) and Profit After Tax (PAT) **Figure 7.5**



Source: State Bank of Pakistan

While total revenue (sales) of corporate sector slightly declined, the performance indicators related to gross margin and net operating margin improved, along with improvement in liquidity, debt-repayment capacity, and solvency indicators. The bottom-line indicator, i.e., ROE slightly slackened, as the capital base of the sector also rose which, however, bodes well for the soundness of these large firms and their ability to meet long-term capital requirements on sustainable basis **(Table 7.1)**.

DuPont analysis further reveals that lower interest expense eased the debt burden of the corporate sector. However, despite a favorable debt to equity ratio and a stable operating profit margin compared with last year, higher tax expense and a decline in the asset-utilization ratio (due to lower sales relative to total assets) reduced Return on Equity (ROE) in CY25 **(Table 7.2)**.[5]

ROE - DuPont Analysis **Table 7.2**

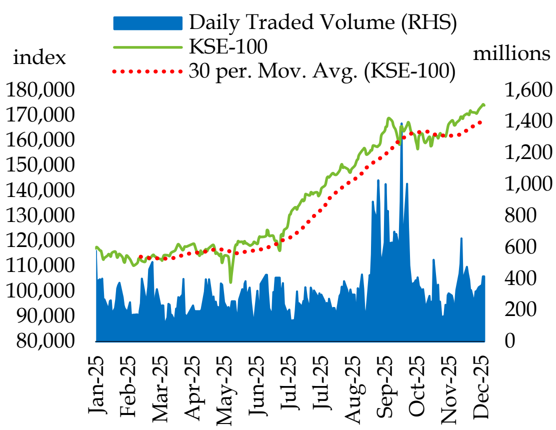
	Ratio (unless specified)	
	CY24	CY25
Tax Retention Rate (PAT/EBT) (A)	0.7	0.6
Interest Burden (EBT/EBIT) (B)	0.7	0.7
Operating Profit Margin (EBIT/Revenue) (C)	0.1	0.1
Asset Use Efficiency (Net Sales/Avg. TA) (D)	1.2	1.1
Financial Leverage (TL&SHE/SHE) (E)	2.5	2.4
Return on Equity (ROE) % (A×B×C×D×E)	**18.1**	**15.9**

Source: State Bank of Pakistan

7.2 KSE-100 Index

The KSE-100 index posted substantial growth that was well supported by listed firms' steady performance **(Figure 7.6)** as evidenced through stable growth in the Price-to-book ratio (P/B) and Price-to-Earnings ratio (P/E).

KSE-100 Index During CY25 **Figure 7.6**



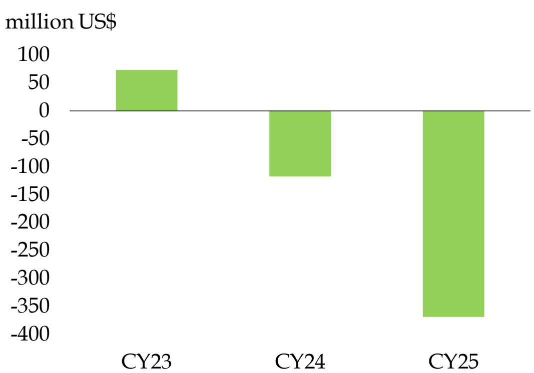
Source: Pakistan Stock Exchange

[5] The DuPont analysis is a framework for analyzing a company's fundamental performance by breaking down the various drivers of Return on Equity (ROE) such as tax retention rate, profitability and asset utilization.

Moreover, the continued improvement in macroeconomic conditions, ongoing stabilization measures, and prospects of acceleration in economic growth further supported the index.

Specifically, in the second half of CY25, the index showed steady growth, attributed to positive momentum in key sectors such as commercial banks, oil and gas and fertilizer sectors amid market expectations of declining interest rates and a stable exchange rate. Despite net selling by foreign investors in the stock market (**Figure 7.7**), higher purchases by mutual funds more than offset the outflow.

Net-Foreign Investor Portfolio Investment **Figure 7.7**



Source: National Clearing Company of Pakistan

7.3 Sectoral Analysis

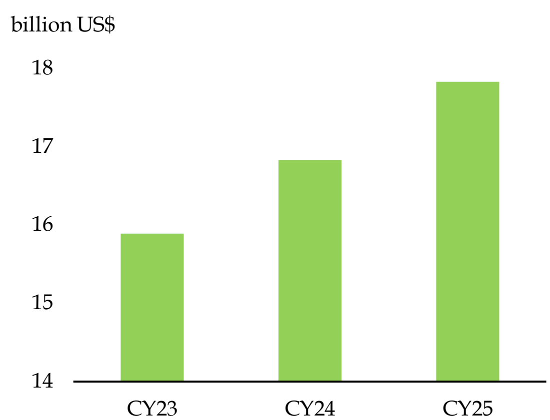
The performance[6] and soundness of a few leading sectors, to which the banking sector has a sizeable exposure, are discussed in the following paragraphs:

Textile

Pakistan's textile exports exhibited moderate growth of 5.9 percent, amounting to US$ 18.0 billion in CY25. This growth in textile exports was driven by recovery of demand from key export markets, lower prices of raw materials, and comparatively favorable tariffs under the US-Pakistan trade deal.[7] Furthermore, the increase in textile exports was also supported by improving global and domestic macroeconomic conditions due to factors such as easing of global inflation, reduction in international cotton prices, relatively stable USD/PKR exchange rate and domestic monetary easing that lowered finance costs and stimulated investment.

Although Pakistan's textile exports moderately increased in CY25 (**Figure 7.8**), the sector faces some chronic structural issues such as low domestic cotton production, high dependence on imported cotton, high input costs and low value addition of the sector.[8]

Moderation in Textile Export **Figure 7.8**



Source: State Bank of Pakistan

[6] The discussion on financial performance of each sector within this section is based on analysis of financial statements compiled by State Bank of Pakistan. Please refer to consolidated financials of sectors in Annexure 7.1.

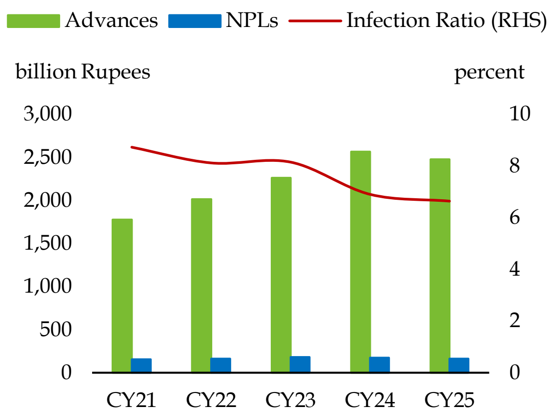
[7] Key markets include United States of America (USA) and United Kingdom (UK). From 7th August 2025, Pakistan textile products are subject to tariff of 19 percent, which is less than India (25 percent), Vietnam (20 percent) and Bangladesh (20 percent), giving Pakistan a competitive edge in one of the largest export markets.

[8] Cotton production reduced marginally to 5.3 million bales till December 2025 that was lower than the target of 5.5 million bales for this time. For FY26, production target is 10.18 million bales which, given current cotton production trend, seems difficult to achieve. The country is expected to have an actual production of 6.8 million bales, i.e. 34 percent short of target.

The government has implemented the National Tariff Policy, 2025-30, to improve country's trade balance.[9] This policy will aid in growth of textile exports through rationalization of import tariffs and phased removal of duties on imported raw materials.

Bank advances to the textile sector increased throughout CY25 (**Figure 7.9**) as the interest rates fell by 250 basis points (bps) to 10.5 percent during the period. This improved repayment capacity and overall infection ratio of sector.

Textile Sector's Infection Ratio **Figure 7.9**



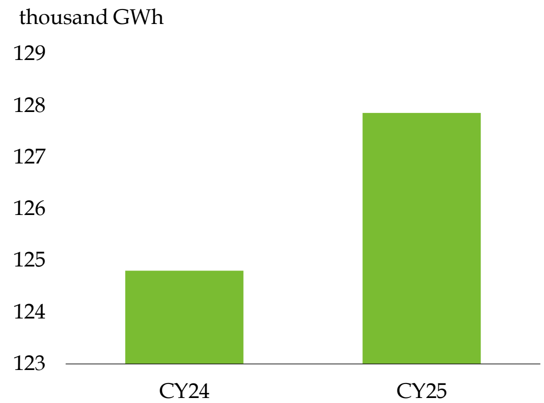
Source: State Bank of Pakistan

The aggregate profit of textile sector - based upon the overall selected sample, increased by 19 percent, primarily driven by the spinning and weaving sub-sectors due to higher profit margins (27 percent) and reduced finance cost. Moreover, the strong performance of the composite subsector also contributed to the overall strong growth of textile sector revenues in CY25. On overall basis, the textile sector displayed steady performance and satisfactory repayment capacity, which bodes well for overall financial soundness of the sector.

Power Sector

The power sector comprises of firms involved in the generation and distribution of electricity. Due to the revival of domestic demand in CY25, electricity consumption also increased, causing overall power generation to *increase* by 2.5 percent on YoY basis to 127,866 GWh (**Figure 7.10**).

Power Generation **Figure 7.10**



Source: State Bank of Pakistan

Pakistan's power sector faces chronic issues such as systemic inefficiencies, underutilized generation capacity, transmission and distribution losses, low recoveries by distribution companies, and growing circular debt, which are further accentuated by global oil price changes and movements in rupee-dollar parity.[10] Moreover, movements in global oil prices and exchange rate also add another layer of vulnerability to the sector. Due to these structural challenges, costs of electricity are also relatively high, which impinges on the competitiveness of firms and cost of living.

The source of power generation (thermal, hydel, renewable energy etc.) is an important factor for the generation cost of electricity, which in turn

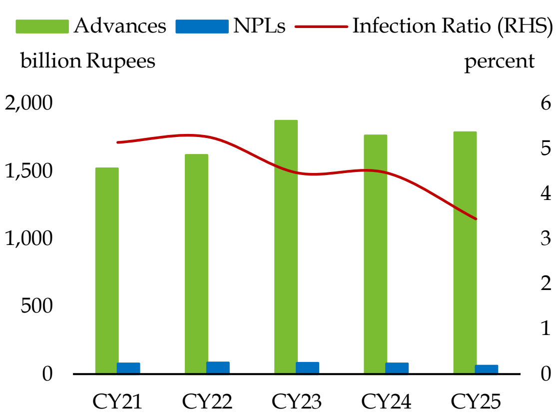
[9] Under the National Tariff Policy, 2025-30, the government is taking steps such as reduction in overall tariff rate, readjustments of tariff slabs and reduction in Customs Duty (CD) rates, elimination of Additional Customs Duty (ACD)

[10] Power sector circular debt was around Rs 1.6 trillion at end September 2025. Circular Debt Report - September 2025, Ministry of Energy (Power Division)

determines the price of electricity for the end consumers. Generation from thermal sources cost the highest, with renewable energy being the cheapest source.[11] The power mix remains dominated by thermal sources with growing share of hydropower, nuclear and renewables (mainly solar) which now collectively account for over 40 percent of the capacity. Rooftop solar solutions are also rapidly expanding for residential, commercial and industrial use. The uptake of rooftop solar solutions has been aided by supportive policy measures such as net metering,[12] exemptions on customs duties and sales tax for import of solar panels and related equipment and availability of subsidized financing for solar projects.

In terms of advances, loans to power sector remained almost steady at last year's level, while NPLs slightly declined during the year. (**Figure 7.11**)

Power Sector's Infection Ratio **Figure 7.11**

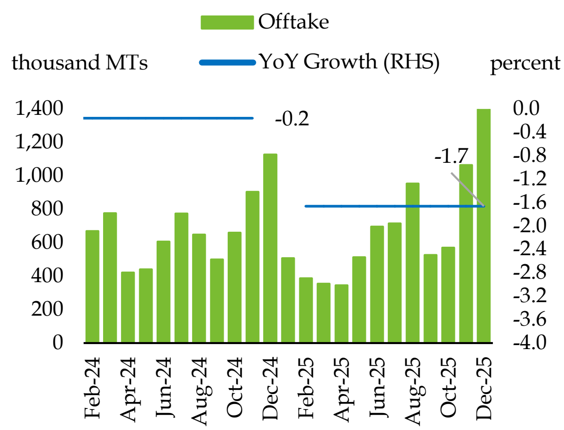


Source: State Bank of Pakistan

Fertilizer Sector

Fertilizer offtake slightly declined by 1.7 percent to 8.1 million metric tons in CY25. This decline on YoY basis was primarily attributed to a significant fall of 17.8 percent in DAP sales, which more than offset the 2.3 percent increase in Urea sales on YoY basis. Urea off-take moderated during the Kharif season on the back of floods in the country from July-September 2025 (**Figure 7.12**).

Fertilizer Offtake **Figure 7.12**



Source: State bank of Pakistan

The low urea off-take from July-September 2025 was, however, offset by a strong pick-up in the last month of CY25, mainly due to concessionary schemes announced by the Punjab Government.[13] The announcement of government schemes coincided with aggressive discounts by fertilizer marketing companies and robust demand for upcoming Rabi season. However, there was a significant decline in DAP offtake, specifically during Q4CY25, due to elevated international prices, resulting in shift

[11] In CY25, average generation cost of power (from thermal sources) comprised around 50 percent of the end-consumer tariff, net of taxes. The cheapest sources of fuel are renewable energy sources followed by hydel energy. HSD and RFO continued to be the most expensive fuel sources for power supply. However, their combined share in the country's generation mix is around 2.5 percent of total generation mix of the country. On the other hand, power produced from local coal has been the cheapest among fossil fuels during CY25 at an average cost of Rs. 11.6/kWh. The cost of imported coal clocked in at Rs. 17.2/kWh in CY25.

[12] The National Electric Power Regulatory Authority (NEPRA) announced the official Distributed Generation and Net Metering Regulations vide SRO 892(1)/ 2015.

[13] Interest free loans scheme to small farmers was announced by the Punjab government through Kissan Card for purchase of Agriculture inputs such as fertilizers and seeds.

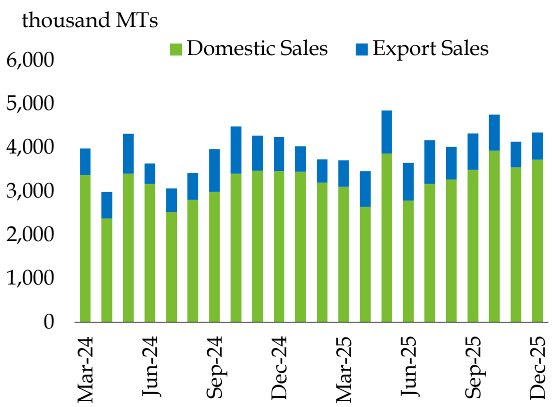
towards other available alternatives, and lower usage.

Feedstock gas, supplied via natural-gas pipelines, is the primary raw material for the fertilizer industry. To support the agricultural sector, the government has historically provided feedstock gas at subsidized rates, helping keep fertilizer prices affordable for farmers. However, as part of agricultural market reforms subsidy on feedstock gas has been removed; this may cause short-term friction but will help viability of the sector in the long-term.

Cement Sector

Cement sector witnessed a 6 percent increase in production, crossing 40 million tons in CY25 (37.6 million tons in last year) while total sales of the sector increased by 9 percent (YoY) to 49.2 million tons in the same period. The higher sales compared to production reflect drawdown of inventory. Within overall sales, both domestic sales and exports grew by 9 percent in CY25, showing broad-based demand for cement (**Figure 7.13**).

Breakdown of Cement Sales **Figure 7.13**



Source: State Bank of Pakistan

The rise in cement production was mainly due to recovery in construction activity and revival in consumer confidence on the back of economic stabilization. Expansion in domestic sales was also driven by higher government allocations for infrastructure spending and reduction in tax on immovable property. [14, 15]

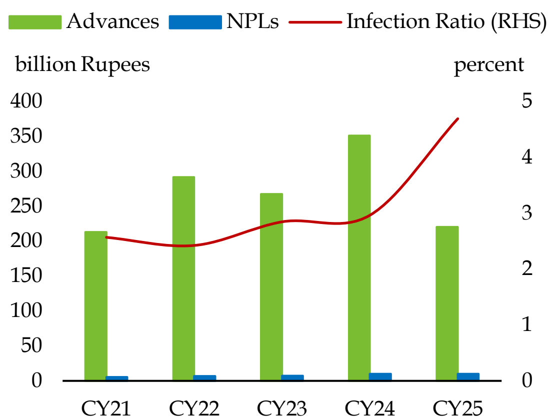
Incidentally, energy costs constitute around 50-60 percent of cement sector's total cost of production. As coal is a cheaper source of energy, imported coal is extensively used by cement companies in the cement manufacturing process. Accordingly, cement prices in Pakistan are very sensitive to fluctuations in international coal prices and exchange rate.[16]

Cement exports are about one-fifth of total cement sales and are a valuable source of sales diversification when the domestic environment is not conducive. South-based cement manufacturers are able to export cement at a lower cost due to proximity to the seaport while North-based manufacturers have advantage of export to Afghanistan and Central Asia. Recently, Pakistan's cement exports have increased to Africa (Kenya, Tanzania and Mozambique), adding to the diversification of export destinations.

Banking sector's advances to the cement sector decreased in CY25 mainly due to the higher base effect of sharp increase in lending towards the end of CY24, a large part of which was retired in CY25. On the other hand, NPLs of the cement sector remained steady at last year's level, thus leading to an increase in infection ratio of the sector (**Figure 7.14**).

[14] As per Public Sector Development Programme 2025-26 (Revised), despite resource constraints, the government reaffirmed allocations for major dams, highways and low-cost housing schemes.
[15] As per Finance Act, 2025, advance withholding tax rates on purchase of immovable property (Section 236K) have been reduced by 1.5 percent for each slab. While for the sale or transfer of immovable property the advance withholding tax rates (Section 236 C) have increased by 1.5 percent for each slab.
[16] The price of cement is highly dependent on the price of coal. the price of coal fluctuated between US$ 80 -100/ton for most of CY25.

Cement Sector's Infection Ratio **Figure 7.14**

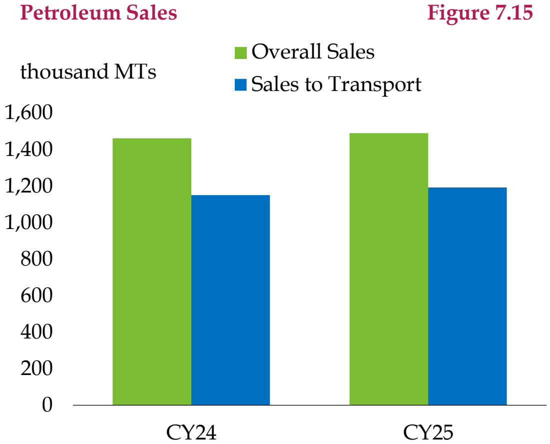


Source: State Bank of Pakistan

Petroleum sector

Petroleum sector sales increased by 2 percent to 14.9 million metric tons in CY25 as compared to the previous year. The increase in sales was driven by relatively lower average Petroleum, Oil and Lubricants (POL) product prices, as global crude oil prices also remained low. Detailed analysis shows that the sales to industry, agriculture and government sectors witnessed a decline; this reduction was, however, more than offset by increase in sales to the transport sector and the overseas sector (petroleum exports) (**Figure 7.15**).

Petroleum Sales **Figure 7.15**



Source: State Bank of Pakistan

In Pakistan, the pricing of petroleum products is based on five components: i) Ex –refinery price, ii) Petroleum Developmental Levy[17] and Carbon Levy,[18] iii) In-land Freight Equalization Margin, iv) distribution margin of Oil Marketing

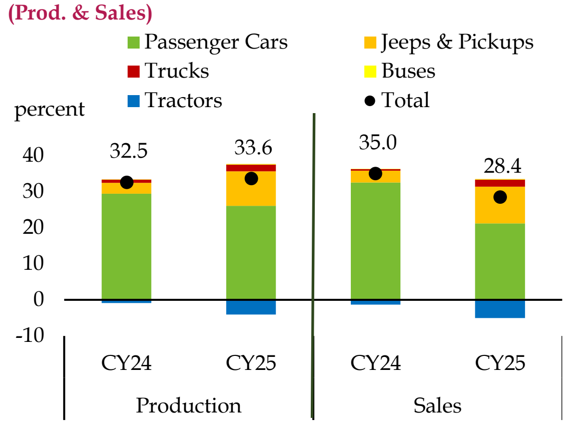
Companies and v) commission of petrol pump dealers. Given the afore-mentioned components of petroleum price, taxes and levies imposed by the government are the major determinants of petroleum price in Pakistan.

On an aggregate level, the profitability of oil and gas exploration and oil and gas marketing companies remained satisfactory with the sector demonstrating sufficient repayment capacity.

Automobile sector

The automobile sector performed exceptionally well in CY25. Both automobile production and auto sales witnessed a broad-based increase of 34 percent and 28 percent, respectively (**Figure 7.16**). This growth was, inter alia, supported by the easing of import policy restrictions, minimal plant shutdowns, improvement in economic growth, and lowering interest rates which also augmented the increase in bank loans to the sector.

Growth in Automobile Industry (Prod. & Sales) **Figure 7.16**



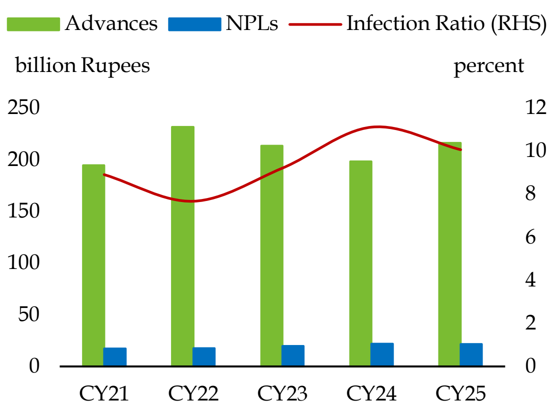
Source: Pakistan Automotive Manufacturers Association

[17] The petroleum levy is a discretionary, variable tax collected by federal government with maximum cap of Rs.90/liter for FY26 on motor gasoline (MOGAS) and high-speed diesel (HSD)
[18] The Carbon Levy is collected at Rs. 2.5/liter for FY26.

The production and sales of sub-segments such as trucks, jeeps and pickups exhibited strong growth with moderation in passenger cars while tractors and buses observed negative growth due to sales tax imposed on these segments.[19]

The profitability ratios of the automobile sector and ability to meet short-term obligations improved significantly in CY25. The advances of the sector grew significantly during the year with moderation in NPLs, thereby improving the infection ratio of the sector (**Figure 7.17**).

Automobile Sector's Infection Ratio **Figure 7.17**

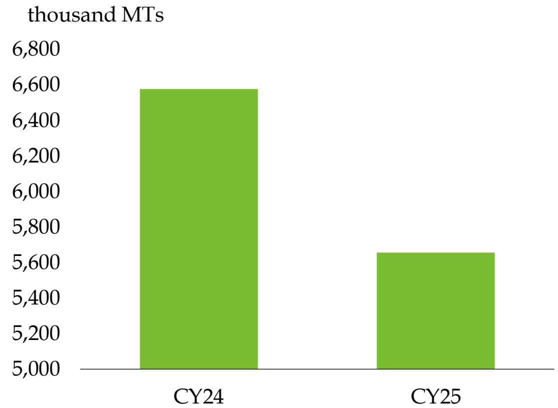


Source: State Bank of Pakistan

Sugar sector

Sugar production declined by 14 percent in CY25 to 5.6 million tons due to lower rainfall and high temperatures, which negatively affected the yield and sucrose content of sugar cane. In order to stabilize sugar prices due to lower production in CY25, the federal government allowed imports up to 300,000 metric tons during the year[20]. At an overall level, the government is trying to promote competition in the sugar sector with reforms in key areas such as price controls, import / export permissions and zoning. The proposed reforms have the potential to improve overall efficiency of sugar sector in the long-term (**Figure 7.18**).

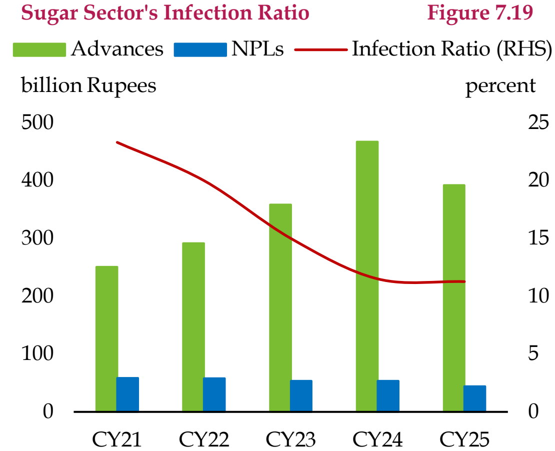
Sugar Production **Figure 7.18**



Source: State Bank of Pakistan

Advances to sugar sector declined in CY25; however, NPLs also reduced thereby moderating the infection ratio (**Figure 7.19**).

Sugar Sector's Infection Ratio **Figure 7.19**



Source: State Bank of Pakistan

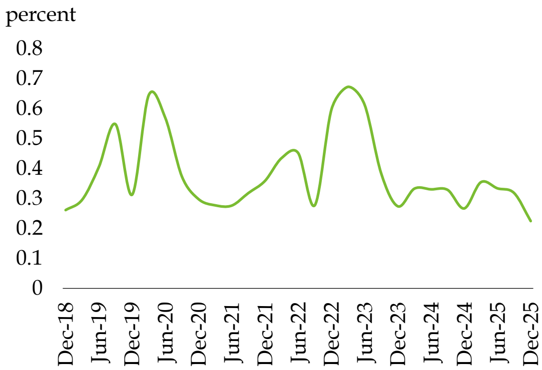
Market-based indicators of the corporate sector improved in line with improving macroeconomic conditions …

In line with recovery of the corporate sector and gradually improving economic conditions, the weighted average 1-year probability of default (PD) of selected firms of the corporate sector improved, as their valuations significantly

[19] The sales tax issue was resolved in December 2024 and during the month tractor sales increased.
[20] Press Release – Ministry of National Food Security & Research, July 31, 2025

increased over the year under review (**Figure 7.20**).[21]

Weighted Average 1 Year PD of Corporate Sector | Figure 7.20



Source: Bloomberg

As such, corporate firms maintained financial soundness and steady operating performance in improving macro-financial conditions.

…banking sector's leading borrowing firms demonstrated steady financial standing and adequate repayment capacity…

Given that banks' loan portfolio is mainly concentrated in large corporate firms, these firms and business groups have systemic importance for the entire banking sector. An assessment of the banking sector's **top 30 borrowing groups**, including their 214 identified firms, indicates that these firms account for around 30 percent of banks combined loan portfolio.

In CY25, top borrowing groups showed slight deterioration in financial performance amid incorporation of risks on forward-looking basis post IFRS-9 implementation. Despite this deterioration the overall borrowers continued to show adequate debt repayment capacity. However, the banks, as per their general lending behavior continued to prefer lending to better rated firms (for details see **Box 7.1**).

Credit risk rating profile shows satisfactory solvency position of corporate sector…

Third-party credit ratings provide an independent assessment of a firm's solvency, and capacity to honor financial obligations.

The number of rated firms in Pakistan increased from 583 in CY24 to 598 in CY25. Firms in Pakistan generally rely on debt financing from banks or internal sources such as retained earnings, while reliance on capital markets remains contained.[22]

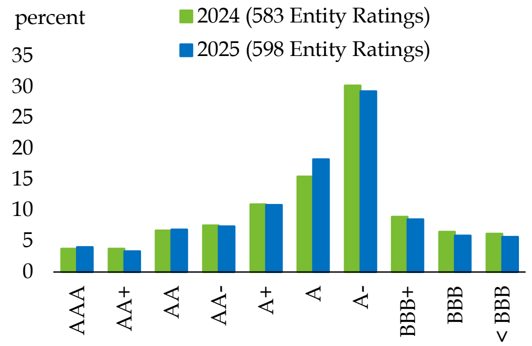
In Pakistan, the risk-ratings market is dominated by two domestic credit rating agencies - the Pakistan Credit Rating Agency (PACRA) and VIS Ratings, with a combined tally of 598 rated firms.[23] The ratings universe is concentrated mostly in high rating categories (investment grade: AAA to BBB), representing 94.3 percent of the total rated firms **(Figure 7.21)**.

[21] The one year ahead probability of default (PD) demonstrates firms' credit risk and ability to honor short-term obligations. The PD is sourced from Bloomberg Inc. The overall PD here is a weighted average of 424 companies listed on the PSX. The weights are based on market capitalization at the end of December 2025. $PD_w = 100 \times \sum(PD_i \times \frac{C_i}{\sum C_i})$, where C_i is the market cap of firm i.

[22] To facilitate the growth of capital market and improve corporate governance regime, SBP aims to encourage firms to get themselves rated. Along with other tools, SBP incentivizes the large firms to get themselves rated by applying higher capital charge on banks' exposures on unrated firm whose total exposure exceeds Rs 3 billion.

[23] Only entity ratings are considered. The Credit Rating Agencies (CRAs) also issue other ratings, including Asset manager, IFS, Performance ranking etc.

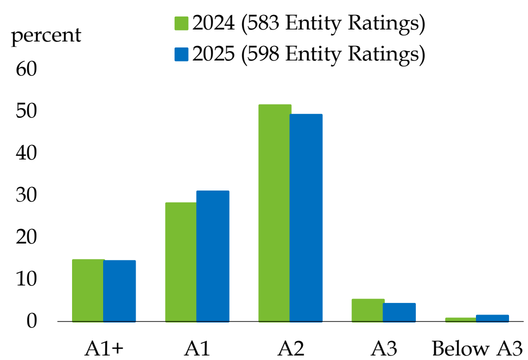
Long-term Ratings of Companies **Figure 7.21**



Source: Pakistan Credit Rating Agency and VIS Credit Rating Company Limited

This phenomenon indicates that majority of such entities are large corporate firms having sound financial cushion and solvency, established business records, market competitiveness, and well-developed governance mechanisms. Whereas, in terms of short-term ratings, a large majority of the firms (94.5 percent) were rated as A2 and above, which represents satisfactory capacity for timely repayment **(Figure 7.22)**.

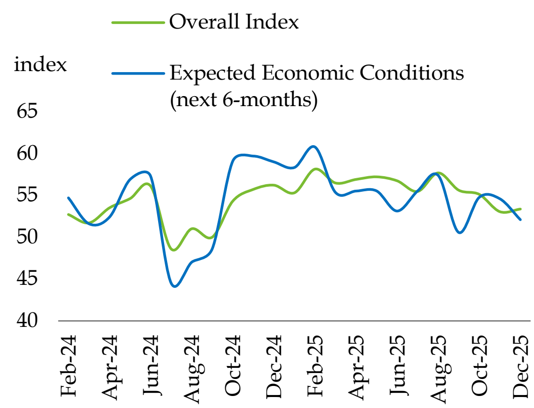
Short-term Ratings of Companies **Figure 7.22**



Source: Pakistan Credit Rating Agency and VIS Credit Rating Company Limited

The overall performance of corporate sector has shown steady operating performance and its solvency, liquidity and debt repayment capacity remained steady. However, the sector is vulnerable to supply chain disruptions and external shocks emanating from geopolitical tensions in the region (**Figure 7.23)**. Going forward, the performance of corporate sector will largely hinge on effectiveness of economic stabilization measures, economic conditions, 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.

Business Confidence Index **Figure 7.23**



Source: State Bank of Pakistan

Consolidated Sectoral Financial Statements and Ratio Analysis **Annexure 7.1**

	CY24	CY25	YoY Growth
	billion Rupees		percent
Textile			
Non-Current Assets	1,029.1	1,131.3	9.9%
Current Assets	1,022.8	1,153.6	12.8%
Total Assets	**2,051.9**	**2,284.9**	**11.4%**
Shareholders' Equity	**830.0**	**919.7**	**10.8%**
Non-Current Liabilities	328.5	344.2	4.8%
Current Liabilities	893.4	1,021.1	14.3%
Total Liabilities	**1,221.9**	**1,365.3**	**11.7%**
Sales	2,129.6	2,130.6	0.0%
Cost of sales	1,888.8	1,904.9	0.9%
Gross profit / (loss)	**240.8**	**225.7**	**-6.3%**
Other income / (loss)	47.4	57.1	20.7%
EBIT	**185.5**	**171.5**	**-7.5%**
Financial expenses	125.4	97.8	-22.0%
Profit / (loss) before income taxes and Levies	**60.1**	**73.8**	**22.8%**
Levies	26.0	19.4	-25.2%
Tax expenses	3.8	18.4	380.6%
Profit / (loss) after tax	**30.3**	**35.9**	**18.6%**
Financial Ratios			
i. Net Profit Margin (%)	1.4	1.7	
ii. Asset Turnover (%)	105.8	98.3	
iii. Return on Assets (%)	1.5	1.7	
iv. Return on Equity (%)	3.8	4.1	
v. Gross Profit Margin (%)	11.3	10.6	
vi. Current ratio (Times)	1.1	1.1	
vii. Debt to Equity Ratio (Times)	1.5	1.5	
viii. Interest Coverage Ratio (Times)	1.5	1.8	
Sugar			
Non-Current Assets	201.6	217.8	8.0%
Current Assets	147.0	194.6	32.4%
Total Assets	**348.6**	**412.4**	**18.3%**
Shareholders' Equity	**151.6**	**159.2**	**5.0%**
Non-Current Liabilities	40.8	53.1	30.0%
Current Liabilities	156.2	200.1	28.1%
Total Liabilities	**197.0**	**253.2**	**28.5%**
Sales	705.5	846.6	20.0%
Cost of sales	587.3	738.2	25.7%
Gross profit / (loss)	**118.1**	**108.5**	**-8.2%**
Other income / (loss)	19.4	18.7	-3.8%
EBIT	**99.7**	**87.9**	**-11.8%**
Financial expenses	46.5	69.4	49.1%
Profit / (loss) before income taxes and Levies	**53.1**	**18.5**	**-65.3%**
Levies	6.1	6.1	1.1%
Tax expenses	6.7	3.4	-48.9%
Profit / (loss) after tax	**40.4**	**8.9**	**-77.9%**
Financial Ratios			
i. Net Profit Margin (%)	5.7	1.1	
ii. Asset Turnover (%)	217.1	222.5	
iii. Return on Assets (%)	12.4	2.3	
iv. Return on Equity (%)	29.7	5.7	
v. Gross Profit Margin (%)	16.7	12.8	
vi. Current ratio (Times)	0.9	1.0	
vii. Debt to Equity Ratio (Times)	1.3	1.6	
Cement			
Non-Current Assets	920.1	1,039.2	*12.9%*
Current Assets	293.6	376.7	*28.3%*
Total Assets	**1,213.7**	**1,415.9**	***16.7%***
Shareholders' Equity	**641.0**	**807.0**	***25.9%***
Non-Current Liabilities	307.9	324.2	*5.3%*
Current Liabilities	264.8	284.7	*7.5%*
Total Liabilities	**572.7**	**608.9**	***6.3%***
Sales	669.9	710.8	*6.1%*

Cost of sales	486.4	489.1	*0.5%*
Gross profit / (loss)	**183.4**	**221.7**	***20.9%***
Other income / (loss)	38.4	59.0	*53.8%*
EBIT	**173.7**	**223.6**	***28.8%***
Financial expenses	41.9	30.7	*-26.6%*
Profit / (loss) before income taxes and Levies	**131.8**	**192.9**	***46.4%***
Levies	3.3	1.5	*-53.3%*
Tax expenses	49.0	62.8	*28.2%*
Profit / (loss) after tax	**79.5**	**128.5**	***61.7%***
Financial Ratios			
i. Net Profit Margin (%)	11.9	18.1	
ii. Asset Turnover (%)	0.5	0.5	
iii. Return on Assets (%)	5.8	9.8	
iv. Return on Equity (%)	11.8	17.8	
v. Gross Profit Margin (%)	27.4	31.2	
vi. Current ratio (Times)	1.1	1.3	
vii. Debt to Equity Ratio (Times)	0.9	0.8	
viii. Interest Coverage Ratio (Times)	4.1	7.3	
Automobile			
Non-Current Assets	123.9	125.8	*1.5%*
Current Assets	375.9	466.1	*24.0%*
Total Assets	**499.9**	**591.8**	***18.4%***
Shareholders' Equity	**200.6**	**249.4**	***24.4%***
Non-Current Liabilities	17.9	18.0	*0.4%*
Current Liabilities	281.4	324.4	*15.3%*
Total Liabilities	**299.3**	**342.4**	***14.4%***
Sales	720.2	899.6	*24.9%*
Cost of sales	614.6	752.8	*22.5%*
Gross profit / (loss)	**105.6**	**146.8**	***39.1%***
Other income / (loss)	30.6	30.8	*0.8%*
EBIT	**94.9**	**131.0**	***38.0%***
Financial expenses	12.1	11.1	*-8.6%*
Profit / (loss) before income taxes and Levies	**82.8**	**119.9**	***44.8%***
Levies	2.0	1.7	*-15.3%*
Tax expenses	29.3	42.3	*44.4%*
Profit / (loss) after tax	**51.6**	**76.0**	***47.4%***
Financial Ratios			
i. Net Profit Margin (%)	7.2	8.4	
ii. Asset Turnover (%)	138.2	164.8	
iii. Return on Assets (%)	9.9	13.9	
iv. Return on Equity (%)	26.4	33.8	
v. Gross Profit Margin (%)	14.7	16.3	
vi. Current ratio (Times)	1.3	1.4	
vii. Debt to Equity Ratio (Times)	1.5	1.4	
viii. Interest Coverage Ratio (Times)	7.8	11.8	
Power			
Non-Current Assets	1,378.3	1,504.6	*9.2%*
Current Assets	3,820.7	3,677.9	*-3.7%*
Total Assets	**5,199.0**	**5,182.5**	***-0.3%***
Shareholders' Equity	**1,820.2**	**1,960.1**	***7.7%***
Non-Current Liabilities	541.6	560.3	*3.5%*
Current Liabilities	2,837.2	2,662.1	*-6.2%*
Total Liabilities	**3,378.8**	**3,222.4**	***-4.6%***
Sales	2,809.5	2,503.9	*-10.9%*
Cost of sales	2,252.1	2,010.0	*-10.7%*
Gross profit / (loss)	**557.4**	**493.9**	***-11.4%***
Other income / (loss)	200.8	150.0	*-25.3%*
EBIT	**595.1**	**492.0**	***-17.3%***
Financial expenses	81.4	59.2	*-27.3%*
Profit / (loss) before income taxes and Levies	**513.7**	**432.9**	***-15.7%***
Levies	12.7	4.7	*-63.3%*
Tax expenses	121.2	144.5	*19.2%*
Profit / (loss) after tax	**379.7**	**283.7**	***-25.3%***
Financial Ratios			
i. Net Profit Margin (%)	13.5	11.3	
ii. Asset Turnover (%)	63.0	60.3	

iii. Return on Assets (%)	8.5	6.8	
iv. Return on Equity (%)	25.3	18.8	
v. Gross Profit Margin (%)	19.8	19.7	
vi. Current ratio (Times)	1.3	1.4	
vii. Debt to Equity Ratio (Times)	1.9	1.6	
viii. Interest Coverage Ratio (Times)	7.3	8.3	
Petroleum			
Non-Current Assets	849.1	942.8	*11.0%*
Current Assets	2,273.1	2,329.6	*2.5%*
Total Assets	**3,122.2**	**3,272.4**	***4.8%***
Shareholders' Equity	**1,341.8**	**1,461.9**	***9.0%***
Non-Current Liabilities	243.2	270.9	*11.4%*
Current Liabilities	1,537.3	1,539.6	*0.1%*
Total Liabilities	**1,780.5**	**1,810.5**	***1.7%***
Sales	6,309.0	5,744.4	*-8.9%*
Cost of sales	5,869.8	5,397.9	*-8.0%*
Gross profit / (loss)	**439.1**	**346.6**	***-21.1%***
Other income / (loss)	99.5	98.4	*-1.1%*
EBIT	**393.2**	**310.2**	***-21.1%***
Financial expenses	95.4	75.5	*-20.9%*
Profit / (loss) before income taxes and Levies	**297.8**	**234.7**	***-21.2%***
Levies	14.5	16.6	*15.0%*
Tax expenses	97.5	90.7	*-7.0%*
Profit / (loss) after tax	**185.8**	**127.4**	***-31.4%***
Financial Ratios			
i. Net Profit Margin (%)	2.9	2.2	
ii. Asset Turnover (%)	248.4	215.6	
iii. Return on Assets (%)	7.3	4.8	
iv. Return on Equity (%)	17.6	10.9	
v. Gross Profit Margin (%)	7.0	6.0	
vi. Current ratio (Times)	1.5	1.5	
vii. Debt to Equity Ratio (Times)	1.3	1.2	
viii. Interest Coverage Ratio (Times)	4.1	4.1	

Source: SBP Staff Estimates

Box 7.1: Financial Performance and Soundness of Top Borrowing Groups of the Banking Sector

The corporate sector constitutes a large portion of the banking system's advances portfolio, accounting for 64.3 percent of gross domestic loans as of December 2025. The sector includes a number of large business conglomerates against which banks maintain sizeable exposures, which pose concentration risks with potential systemic implications for the stability of the banking sector. To address this issue, SBP has put in place regulatory prudential limits on banks' exposure to a single borrower, borrowing group, and related party.[24] Prudential regulations also define the concept of "large exposure" and prescribe an aggregate limit on such exposures. Against this backdrop, this Box examines the repayment capacity, and overall financial health of firms within the top borrowing groups, based on the following parameters:

a. Banks' internal assessment of the creditworthiness of large borrowers and borrowing groups, as reflected in the Obligor Risk Rating (ORR) assigned to each corporate-sector borrower. The ORR scale ranges from 1 to 12, where ratings from 1 to 9 represent performing categories, and ratings from 10 to 12 denote non-performing categories.
b. Borrowers' repayment behavior and capacity, particularly with respect to the interest coverage ratio and presence of any overdue amounts in servicing their loan obligations to banks.
c. The latest financial indicators of major corporate borrowers, along with selected market-based indicators that reflect investors' valuation and perception of these firms.

To accomplish this task, thirty (30) large borrowing groups, comprising 214 corporate borrowers having highest funded exposure, have been identified based on an internal exercise. This assessment considered factors such as the ownership structure of the firm, regulatory returns, financial statements of the firms and information available on groups'/firms' websites etc. Further, groups with a fund-based exposure of Rs 40 billion and above are considered for this assessment, given their systemic risk implications.

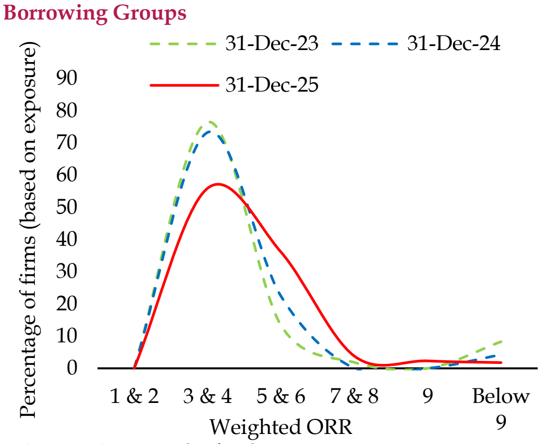
a) Obligor Risk Rating Based Analysis

During CY25, domestic economic activity continued to gain traction amid improving macroeconomic conditions and enhanced policy credibility, decline in CPI inflation and fiscal consolidation.

The 214 identified firms together constitute around 29.5 percent of the corporate domestic loan portfolio of banks and DFIs at end of December 2025.[25]

Based on ORRs of different entities of the borrowing groups, overall average rating (weighted by size of loans) of each group was compiled. To assess the dynamics of credit worthiness of these groups, distributions of the weighted ORRs for last three years have been plotted in **Figure 7.1.1**. Assessment indicates that, on average, over half of the top 30 groups have at least good to medium (3 & 4) ratings. Nonetheless, major chunk of the firms in large borrowing groups, around 98 percent, have been consistently rated in performing category, viz., 1 to 9.

Internal Credit Rating of Top 30 Borrowing Groups — **Figure 7.1.1**



Source: State Bank of Pakistan Estimates

Outstanding exposure (fund based) to top 30 borrowing group decreased by 18.4 percent (YoY) in CY25 as corporate loans declined as well by around 17.7 percent in CY25. This decline was observed mainly due to normalization/cooling off of prior year's significant rise in advances towards end of CY24 on back of bank's aggressive efforts to increase Advances-to-Deposit Ratio in the wake of ADR-linked tax policy. There was some

[24] Regulation R-1 of SBP Prudential Regulation for Corporate/Commercial Banking.
[25] This share was 28.7 percent at end of December 2024

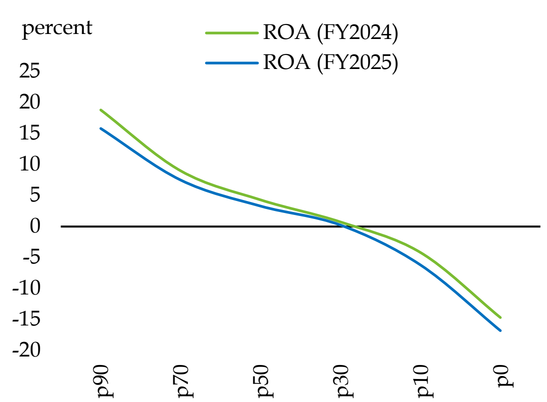
migration witnessed within performing category firms '1 – 9' during CY25 i.e. around 17.4 percent of firms in rating '3 & 4' moved into lower rating bin of '5 & 6' mainly due to moderation in earnings and adverse outlook of some firms involved in international trade on back of higher anticipated tariffs and energy cost. In terms of repayment capacity, however, the overall distribution implies that despite some shifting in weighted ORRs, borrowers' credit quality and repayment capacity remained steady. Except for a few groups (around 1.8 percent of total exposure), which fell under non-performing/overdue category, by and large the top 30 borrowing groups exhibited strong repayment capacity in CY25. The non-performing borrowing groups constituted 4.2 percent of total exposure in prior year i.e. CY24. It is important to note that around 61.6 percent of banks' corporate and commercial loan portfolio comprises of borrowers who have been rated by independent external rating agencies.

b) Financial Soundness and Market Performance

Out of the 214 identified firms with funded exposure in top 30 borrowing groups, 59 firms were listed on PSX. To analyze the financial soundness of these firms and assess how they are valued by the market, an assessment of these listed firms was carried out using their financial and market-based indicators based on available data for the financial year ended in 2024 and 2025.[26]

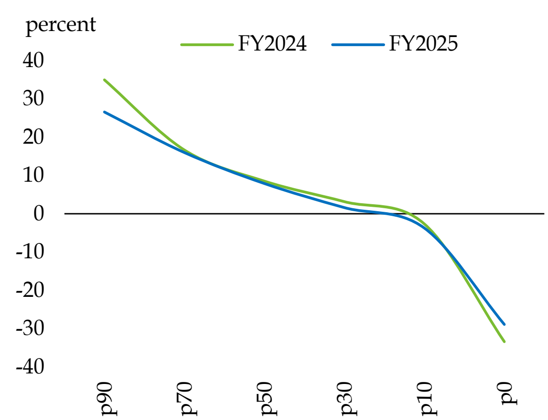
Despite improvement in overall macroeconomics conditions, the performance of selected firms in Top 30 borrowing groups shows mixed trends in earnings during financial year (**FY**) 2025[27] owing to decline in core topline performance amid higher taxation. However, other income rose, and finance cost declined due to monetary easing leading to improvement in repayment capacity of the firms. However, on average, FY25 saw slight decline in the financial (earnings) performance of the firms vis-à-vis their asset and equity base (**Figure 7.1.2 and Figure 7.1.3**).

Percentile Standing of Companies vis-a-vis ROA **Figure 7.1.2**



Source: Capital Stake

Percentile Standing of Companies vis-a-vis ROE **Figure 7.1.3**

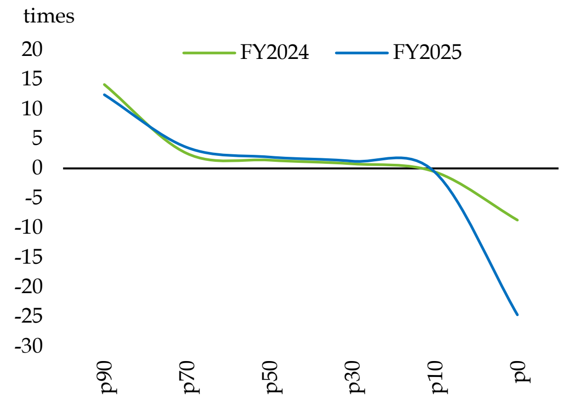


Source: Capital Stake

Resultantly, the financial indicators related to repayment capacity of the firms improved and majority of the firms in the sample demonstrated a comfortable interest coverage ratio (**Figure 7.1.4**). Sample firms faced a sluggish trend in current ratio over the year under review; however, the ratio of most of the firms remained in a comfortable zone, showing availability of ample liquidity cushions to honor their short-term financial obligations (**Figure 7.1.5**). Moreover, this was also endorsed as per the SBP's published data on Financial Statements Analysis of Non-Financial Listed Companies - FY25, interest coverage ratio reflected signs of improvement as compared to FY24.

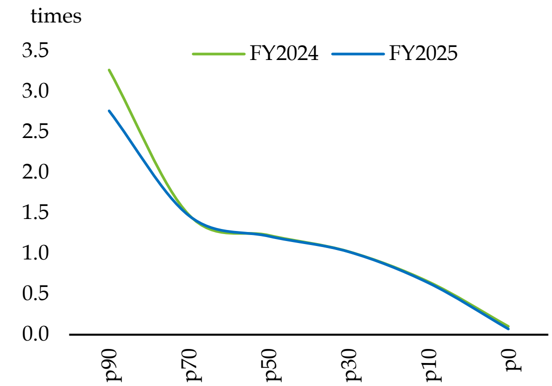
[26] Out of these, data of 9 firms was used for interim period i.e. 9-month period ended in September 2025 at the time of analysis. Where applicable, necessary adjustments have been made.
[27] FY here denotes financial year of the firm instead of usually understood fiscal year

Percentile Standing of Companies vis-a-vis Interest Coverage Ratio **Figure 7.1.4**



Source: Capital Stake

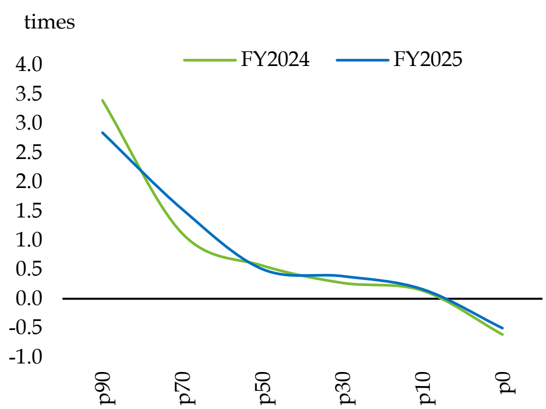
Percentile Standing of Companies vis-a-vis Current Ratio **Figure 7.1.5**



Source: Capital Stake

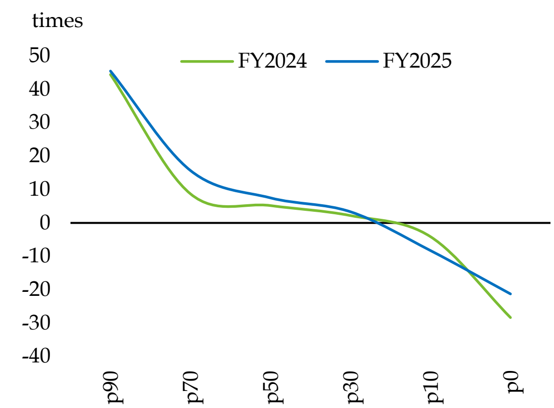
Investors, in general, held a positive sentiment about the stock/equity market, wherein the KSE-100, delivered a robust performance in CY25, posting a return of 51 percent (YoY). Despite intermittent short-term volatility, the long-term performance of the stock market highlights its structural resilience and growth potential. An analysis of market-based indicators of the selected firms shows that overall growth in price-to-book (P/B) and price-earnings (P/E) ratios of these firms signaled stable indicators (**Figure 7.1.6 and Figure 7.1.7**).

Percentile Standing of Companies vis-a-vis Price / Book Ratio **Figure 7.1.6**



Source: Capital Stake

Percentile Standing of Companies vis-a-vis Price / Earnings Ratio **Figure 7.1.7**



Source: Capital Stake

Conclusion

A year-on-year assessment of ORRs and repayment behavior of the top 30 borrowing groups in the banking sector indicates that these entities have broadly preserved their creditworthiness. The analysis reflects consistent repayment performance and a reasonably sound financial profile across most of these groups. Furthermore, the leading borrowing firms demonstrated relative financial resilience and continued to meet their financial obligations during the period under review.

8

Financial Market Infrastructure

The Financial Market Infrastructure (FMI) remained robust and continued to provide payment and allied services in a smooth manner during CY25. The services of PRISM were available throughout the period under review without any major disruptions. Digital payments continued to be the major driver behind retail payment growth, showing double digit growth in both volume and value. Raast reached the milestone of processing approximately 1,973 million transactions worth Rs 49.6 trillion via its three modules which stayed operational without any disruptions. NCCPL successfully transitioned to the T+1 settlement cycle to enhance market efficiency, while CDC launched the Shareholder Agahi digital portal to strengthen investor education and, in collaboration with the Securities and Exchange Commission of Pakistan, introduced Pakistan's first centralized motor insurance repository to improve transparency and data integration.

8 Financial Market Infrastructures

Financial Market Infrastructure (FMI) — a multi-lateral network among participating financial institutions — facilitates clearing, settling, or recording of payments, securities or any other financial transactions. In Pakistan, the FMI is composed of a) Large Value Payment System (LVPS), i.e., Pakistan Real-time Interbank Settlement Mechanism (PRISM), b) Retail Value Payment System (RVPS), including Raast, c) Interbank and ATM switch, i.e., 1-Link, d) NIFT (National Institutional Facilitation Technologies), a clearing house for paper based instruments, e)a corporate securities settlement company, i.e., National Clearing Company of Pakistan Limited (NCCPL) and f) CDC (Central Depository Company).

A sound and secure financial market infrastructure is necessary for operational efficiency and stability of financial system as it facilitates flow of transactions between different counterparties in the market. The systemic nature of FMI components makes them pivotal for the clearance and settlement of different financial transactions among all financial institutions in the country.

8.1 Payment Systems and their Performance

Provisions of the amended SBP Act, 1956 authorize SBP to ensure the soundness and efficient functioning of national payment and settlement systems.[1] The Payment Systems and Electronic Funds Transfer (PSEFT) Act, 2007 empowers SBP to regulate, operate and facilitate the national payment systems of the country.[2]

Payment Systems showed robust growth driven by digital channels

The national payment systems showed a robust growth during CY25. Both large value (PRISM) and retail modes have shown a double-digit growth in value terms during the period under review. The growth in PRISM was driven by security settlements, while the growth in volume of retail transactions was primarily driven by digital transactions, showing further traction in customer preferences for digital channels vis-à-vis cash-based payments. Maintaining the momentum, the volume of digital transactions increased by a notable growth of 53 percent **(Table 8.1).**

Profile of Payment System Mechanisms — **Table 8.1**

Volume in millions, Value in trillion Rupees, Growth in Percent

	Volume/Value			Growth	
Mechanism	**CY23**	**CY24**	**CY25**	**CY24**	**CY25**
a. PRISM					
Volume	5,412	6,099	6,131	12.7	0.5
Value	827	1,180	1,377	42.7	16.7
b. Retail Payments (i+ii)					
Volume	5,653	7,561	11,479	33.7	51.8
Value	496	557	646	12.4	15.9
i. OTC Transactions					
Volume	1,052	1,017	1,124	-3.4	10.5
Value	402	413	427	2.9	3.3
ii. Digital Transactions					
Volume	4,601	6,544	10,355	42.2	58.2
Value	94	144	219	53.3	52.0

Source: State Bank of Pakistan

PRISM – The Large Value Mode

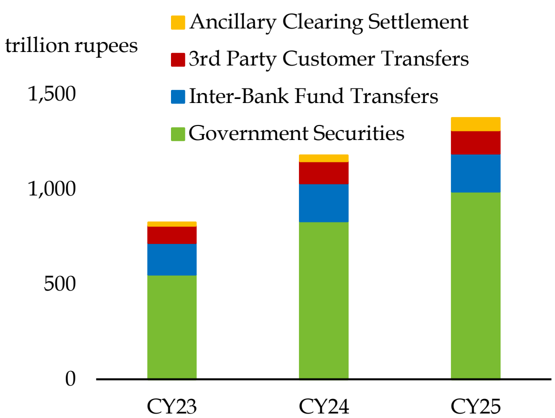
PRISM handled higher value of transactions

PRISM[3] showed 0.5 percent growth in volume and 16.7 percent growth in value terms during CY25. Value-wise, it carries around 68 percent share in total value of transactions. Disaggregated data shows that growth in PRISM transactions was largely driven by Government Securities, which held around 72

[1] The SBP Act, 1956 (amended up to January2022)
[2] PSEFT, 2007: https://www.sbp.org.pk/psd/2007/EFT_Act_2007.pdf
[3] PRISM is a Real Time Gross Settlement System (RTGS) operated by SBP that offers a powerful mechanism for providing settlement in real time on gross basis, thus minimizing the systemic risks that are inherent in large-value settlement systems.

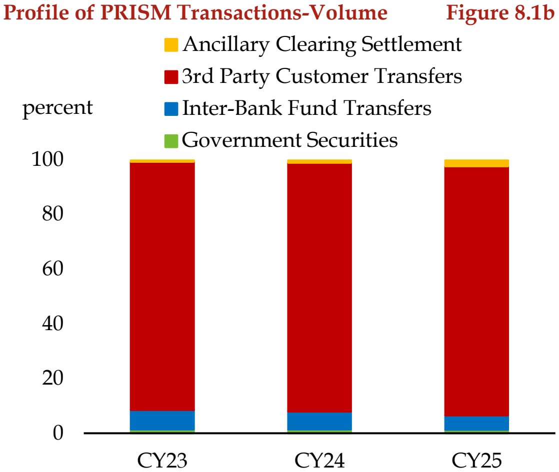
percent share in value of transactions (**Figure 8.1a**). Whereas in volume terms, third party customer transfers, having 91 percent share, drew the growth on a YoY basis **(Figure 8.1b)**. All along, PRISM continued its operation smoothly without any major disruptions.

Profile of PRISM Transactions - Value **Figure 8.1a**



Source: State Bank of Pakistan

Profile of PRISM Transactions-Volume **Figure 8.1b**



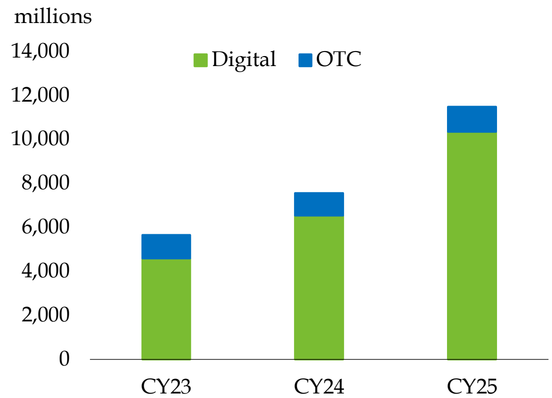
Source: State Bank of Pakistan

Retail Value Modes

Retail Transactions continued their momentum in terms of value and volume with digital modes dominating OTC modes in terms of volume

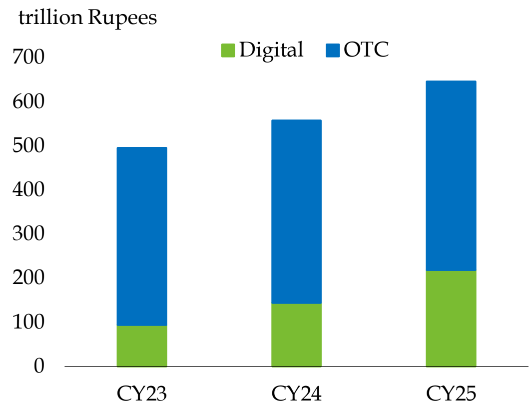
Retail payments continued to show robust growth in CY25. The volume and value of retail transactions increased by 51.8 percent and 15.9 percent, respectively, during the year. Though retail transactions have around one-third share in total value of transactions, from the volume perspective, retail transactions dominated with around 65 percent share in total volume of transactions **(Figure 8.2a and 8.2b).**

Profile of Retail Transactions - Volume **Figure 8.2a**



Source: State Bank of Pakistan

Profile of Retail Transactions - Value **Figure 8.2b**



Source: State Bank of Pakistan

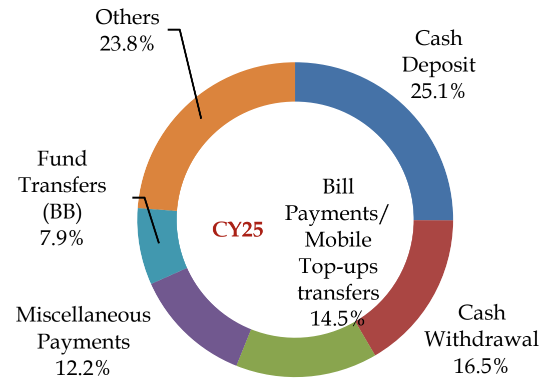
The share of digital transactions has continued to rise, reflecting sustained policy efforts by the SBP to promote digitization under the National Payment Systems Strategy (2019) and successive National Financial Inclusion Strategies (2015–18 and 2018–23). This policy direction is further reinforced in NFIS 2024–2028 and SBP Vision 2028, which sets a target for digital transactions to exceed 80 percent of total payments by June 2028. The strategy also underscores the need to deepen the digital payments ecosystem by expanding outreach to underserved segments and facilitating merchant acceptance through Raast P2M.

The increasing use of digital channels, while improving convenience for the economy, also entails risks such as unauthorized access, malware, phishing, and vishing (voice phishing). To address these risks, SBP has issued a detailed set of guidelines for strengthening the security of digital banking products and services. Under these guidelines, banks are required to develop and implement a Digital Fraud Prevention Policy for managing digital fraud risks. Further, financial institutions have been directed to ensure real-time transactional alerts for customers, along with strengthened data protection, cybersecurity safeguards, and monitoring controls, to support timely detection, reporting, and mitigation of unauthorized or suspicious transactions.[4]

With declining share in overall retail payments, OTC transactions are dominated by cash deposits and withdrawals

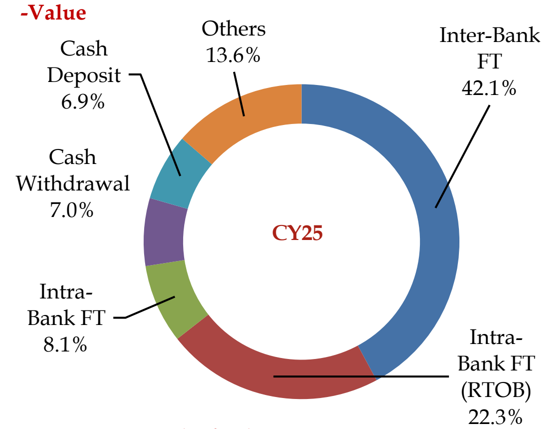
OTC transactions have moderated over the years, with a significant volume shifting towards digital modes. Overall, OTC transactions grew by 10.5 percent in volume, while in value terms these increased by 3.3 percent in CY25, showing that customers prefer large value payments through OTC modes **(Table 8.1).** Disaggregated data shows that cash deposits OTC transactions (mainly in own account), comprised of 25.1 percent while cash withdrawals accounted for 16.5 percent of the total volume of OTC transactions **(Figure 8.3a).** From value perspective, Interbank transfers (RTOB, Intrabank) comprise the bulk of OTC transactions (**Figure 8.3b**).

Composition of OTC Transactions - Volume **Figure 8.3a**



Source: State Bank of Pakistan

Composition of OTC Transactions -Value **Figure 8.3b**



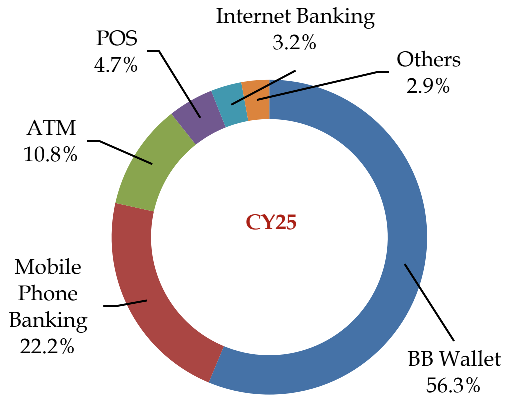
Source: State Bank of Pakistan

Digital transactions maintained their upbeat growth momentum…

Digital transactions grew by 58.2 percent and 52 percent in volume and value, respectively, during CY25. This growth in volume largely stemmed from usage of Branchless Banking (BB) wallets followed by mobile banking, which is also reflected in their dominant share in digital modes of transactions (**Figure 8.4a**). Over time, these modes have become popular among customers due to their cost effectiveness and convenience.

[4] Business Conduct & Fair Treatment of Consumers Regulatory Framework, issued vide BPRD Circular No. 4 of 2025

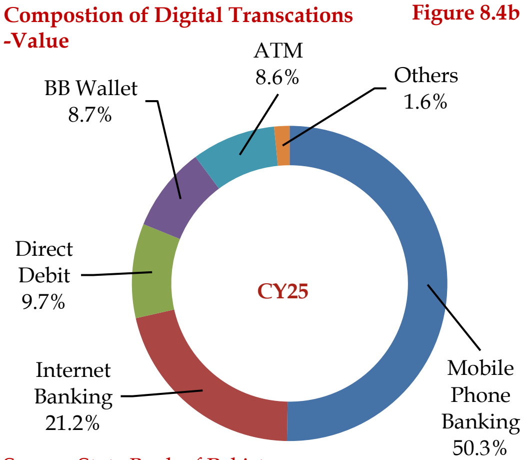
Compostion of Digital Transcations -Volume **Figure 8.4a**



Source: State Bank of Pakistan

However, in terms of value of transactions, digital channels are dominated by mobile phone banking followed by Internet banking (**Figure 8.4b**). The BB wallets have emerged as a convenient alternative to traditional payment channels, especially in the retail and low-income segments. This development demonstrates SBP's ongoing digitization efforts, with innovations such as QR-code based merchant payments contributing to rapid uptake of digital financial services.

Compostion of Digital Transcations -Value **Figure 8.4b**



Source: State Bank of Pakistan

Raast

Raast, SBP's flagship initiative, successfully completed its fifth year of uninterrupted digital payment services. This revolutionary platform has accelerated Pakistan's digitization drive and economic formalization through three operational modules: Government to Person (G2P), Person to Person (P2P), and Person to Merchant (P2M). Raast provides an instant, secure, and cost-effective platform for digital payments among individuals, merchants, businesses, and government entities.

Within Raast, various initiatives have been taken under each use case to enhance the digitization of payments. Under bulk disbursements, Raast has partnered with CDC to facilitate and execute dividend payments promptly. Furthermore, the disbursement of government salaries, GP funds, and pension payments was integrated with the module for efficient, cost-effective, and uninterrupted provision of funds. SBP is also trying to take advantage of Raast to curtail seasonal spikes of currency in circulation. For instance, on the occasion of Eid-ul-Azha during CY25, an extensive campaign was launched to onboard cattle owners, where RAAST Quick Response (QR) codes were used for payments.[5]

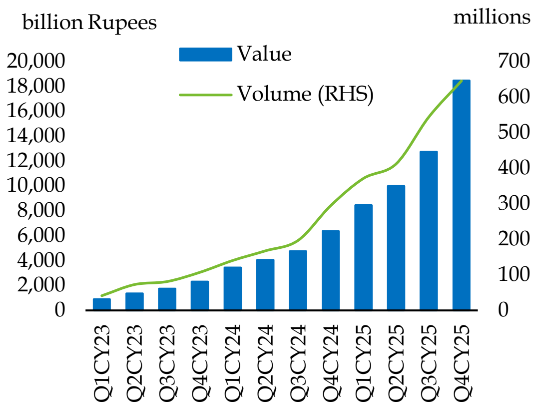
Transactions through Raast showed a strong momentum while exhibiting exponential growth in terms of both value and volume. The volume of Raast transactions increased from Rs 800 million transactions in CY24 to Rs 1,973 million transactions in CY25. In terms of value, transactions jumped from around Rs 19 trillion last year to around Rs 50 trillion. A detailed analysis reveals that the momentum in Raast transactions is primarily due to successful adoption of P2P module in the RAAST ecosystem. It contributed 97 percent in terms of volume and around 88 percent in value during

[5] Go Cashless in Cattle Markets

the period under review. Moreover, G2P, P2M and P2P modules maintained robust growth in value and volume. In fact, P2P transactions more than doubled in CY25 in volume as well as value terms. The volume in bulk payment module increased from 2.8 million to 17 million transactions, whereas value increased massively from Rs 500 billion to Rs 5,590 billion during CY25. The volume of P2P module increased from 796 million to 1,914 million transactions whereas the value of transactions rose from Rs 18.1 trillion to Rs 43.9 trillion during CY25.

Raast continued its functioning without any major interruptions throughout the year and successfully handled the increasing value and volume of the transactions **(Figure 8.5).**

Trend in Raast Transactions **Figure 8.5**



Source: State Bank of Pakistan

Recently, the Federal Government, in coordination with the SBP, approved a targeted subsidy initiative to support Regulated Entities (REs) in promoting merchant onboarding for Raast Person-to-Merchant (P2M) QR payments. This policy intervention allocates an aggregate subsidy ceiling of Rs 3.5 billion for P2M QR Code-based transactions executed between September 1, 2025, and June 30, 2026, calculated at a rate of 0.5 percent of the transaction value or Rs 100, whichever is lower. This financial incentive framework aims to accelerate the digitization of the macroeconomic landscape by subsidizing both the merchant and the customer side financial institutions equally.[6]

Developments in Payment Systems Infrastructure

The payment systems infrastructure (PSI) plays a significant role in ensuring that customer needs for financial transactions are met smoothly. The infrastructure showed growth in terms of number of branches, ATMs, registered E-commerce merchants, cards and Point of Sale (POS). While a broad-based growth was observed in the segments of PSI, the credit cards showed a significant growth of 44.6 percent in CY25, primarily due to uptick in economic activity, decreasing interest rates, discount campaigns and partnerships between restaurants and banks (**Table 8.2**).

E-Banking Infrastructure **Table 8.2**

Description	CY22	CY23	CY24	CY25
Online Branches	17,005	18,034	18,945	19,986
ATMs	17,547	18,441	19,519	20,976
POS	108,899	121,789	151,646	232,244
Total Payment Cards of which:	Number in thousands ('000)			
Credit Cards	1,914	2,004	2,151	3,111
Debit Cards	32,524	38,901	49,587	58,177
Prepaid Cards	99	91	93	177
Social welfare card	10,160	7,351	4,546	5,186

Source: State Bank of Pakistan

Branchless banking has continued its momentum

Branchless banking plays a pivotal role in extending formal financial services to underserved areas. It uses the branchless banking agent model to maximize its outreach to far-flung areas, where it is not feasible to open bank branches. The deposit base of branchless banking has expanded by 42.7 percent, reaching Rs 244 billion by end December 2025 from Rs 171 billion in the same period year. Along with this, the number of accounts in the branchless

[6] PSP&OD Circular No 03 of 2025 available at: https://www.sbp.org.pk/psd/2025/c3.htm

banking segment surged by around 19 percent in the same period and active accounts increased by 8.4 percent **(Table 8.3).**

Key Highlights of Branchless Banking **Table 8.3**

Description	CY23	CY24	CY25
No. of Agents	649,638	708,559	808,871
No. of Accounts(thousands)	114,643	126,765	150,752
No. of Active Accounts(thousands)	64,122	61,441	66,594
Deposits at period end (Rs million)	115,409	170,879	243,892
No of transactions (Rs million)	1,088	1,566	2,638
Value of Transactions (Rs billion)	5,057	7,338	10,649
Average Daily Transactions (thousands)	12,093	17,402	29,310
Average size of transactions (Rs)	4,646	4,685	4,037
Average Deposit in accounts (Rs)	1,007	1,348	1,618

Source: State Bank of Pakistan

The number of users of digital channels is increasing at an exponential pace with branchless banking app users leading at 92 million users, followed by payment cards at 67 million users by December 2025 **(Table 8.4).** EMIs user base grew by around 45 percent in CY25, recording highest growth among rest of the channels. This trend indicates a continued shift toward formal digital financial services offered by the emerging FinTechs, reflecting stronger uptake of accessible payment instruments and digital transactions. This exponential growth in user base supports the policy objectives of SBP aimed at promoting financial inclusion, enhancing formalization of financial transactions, and strengthening the digital payments ecosystem across country.

Digital Payment Channel Users (millions) **Table 8.4**

Description	CY23	CY24	CY25
BB Mobile App Users	67	64	92
Mobile Banking Users	16	21	27
EMIs' E-Wallet App Users	3	5	7
Internet Banking Users	11	13	16
Payment Cards	59	56	67

Source: State Bank of Pakistan

Keeping in view this massive uptake in digital channels' user base and rising sophistication of global and domestic cyber threats, SBP has introduced "Cyber Shield," a comprehensive Cyber Resilience Strategy for Regulated Entities (2025-2030). This strategic framework is designed to consolidate the safety and robustness of the national financial ecosystem by establishing a multi-phased roadmap for REs to enhance their systems, controls, and incident response mechanisms. The strategy focuses on five key pillars: strengthening cyber resilience of the regulated entities; improving cybersecurity governance of the regulated entities; enhancing collaboration and partnerships among regulated entities and related stakeholders; developing cyber workforce; and continuously upgrading security protocols to align with international best practices.

Furthermore, as part of the Vision 2028 agenda, SBP mandated that all REs—including banks, microfinance banks, and electronic money institutions—align their internal cybersecurity programs with the milestones prescribed in the Cyber Shield strategy. Through the implementation of this forward-looking and collaborative approach, SBP aims to ensure that the financial sector can effectively prevent, respond to, and recover from cyber-attacks, thereby safeguarding customer interests and maintaining overall financial stability. All regulated entities are required to ensure compliance with the phased implementation schedule ending in 2030.[7]

Launch of PRISM+

In line with its Vision 2028 strategic framework, SBP launched PRISM+, an upgraded Real Time Gross Settlement (RTGS) and Central Securities Depository (CSD) System. PRISM+ is built on

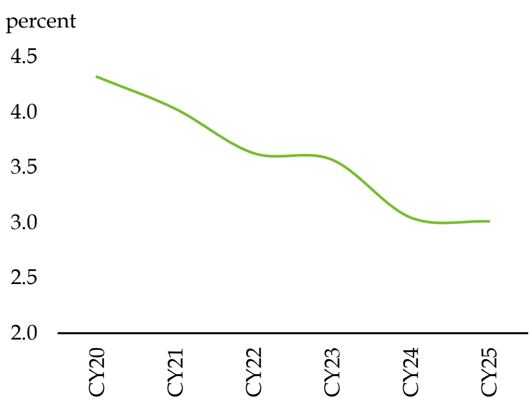
[7] CRMD Circular Letter No. 01 of 2026 available at: https://www.sbp.org.pk/CRMD/2026/CL01.htm

the ISO 20022 financial messaging standard which supports structured and data-rich financial communication, enabling enhanced transparency, interoperability, and automation across the payment and settlement ecosystem. It includes new features for liquidity management, transaction queuing and prioritization, and scheduling of future dated payments. The system offers customizable dashboards, alerts, query tools, and downloadable settlement position statements using a web-based module for real time initiation, monitoring, and approval of transactions. The new system also provides a CSD platform for money market operations such as auction of government securities, sale and purchase of securities in the secondary market, collateral management and open market operations.

ATM Efficiency

ATMs are one of the most important Alternative Delivery Channels (ADC) in the FMI. ATMs hold third largest share in volume of digital channels. ATM downtime has further reduced to 3.01 percent of activity time in CY25, which is the lowest in last five years **(Figure 8.6).** Improved service availability is further associated with enhanced credibility of the broader financial system, as assured access to cash withdrawal facilities has been observed to positively influence consumer disposition towards maintaining balances within formal banking channels. In this regard, the reduction of ATM downtime is appropriately regarded not merely as an operational performance metric, but as a structural enabler of financial inclusion and an important contributing factor to the sustained deepening of digital payment adoption across the population.

ATM Downtime **Figure 8.6**



Source: State Bank of Pakistan

8.2 FMI: Other than Payment Systems

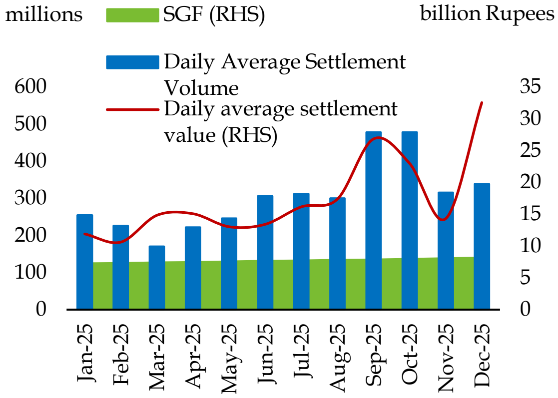
National Clearing Company of Pakistan Limited (NCCPL)

The NCCPL plays a pivotal role in ensuring smooth operations of Pakistan's capital markets. It has three major roles. First, it acts as the central counter party for all trades executed at the Pakistan Stock Exchange (PSX). It guarantees the settlement of all trades taking place, thereby decreasing the counterparty risk. Second, it is responsible for electronic transfer of security and funds between parties of a trade without any friction. Lastly, it acts as central KYC apparatus for all capital market participants. Furthermore, it also provides national custodial services, which entails providing safekeeping and asset servicing for investor securities.

NCCPL has multiple risk mitigating measures in place, including a settlement guarantee fund (SGF). Under SGF, participants regularly contribute towards a pool of money, depending on their risk profile and trading activity, so that financial losses could be covered in case a member defaults on his obligations. The fund stood at Rs 8.2 billion at the end of CY25.

Daily average settlement value stood at Rs 17.6 billion compared to Rs 8.7 billion last year. Further, trading volume has also slightly increased from last year's 235 million transactions to 304 million in CY25 **(Figure 8.7).**

Comparison of Settlement Guarantee Fund with Daily Average of Settlement **Figure 8.7**



Source: National Clearing Company of Pakistan Limited

Transition to T+1 Settlement Cycle

To enhance the operational efficiency of securities market operations and align with global regulatory standards, the NCCPL successfully transitioned the capital market settlement cycle from T+2 to T+1. This accelerated one-business-day trade settlement framework is designed to improve market liquidity, reduce risk exposure, and provide investors with faster access to funds and securities.

In parallel with these post-trade advancements, NCCPL has continued to digitize investor lifecycle management by launching an API-based KYC Information Update functionality. This digital integration empowers investors to directly update their fundamental identification data, banking details, and contact information through their respective securities broker's application, thereby replacing physical documentation hurdles with a seamless, automated process and facilitating the overall investor onboarding and maintenance ecosystem.[8]

Central Depository Company (CDC)

The CDC acts as the sole securities depository in Pakistan. It facilitates the electronic settlement of transactions on the PSX and offers other related services for equity, debt, and other financial instruments. The Company provides depository services which entail holding securities electronically for investors, thus eliminating need for physical certificates. It acts as a central party ensuring that both sides of trade are fulfilled. Lastly CDC maintains investor records and facilitates transfer and ownership of shares bought and sold. CDC has also taken multiple initiatives to facilitate investors in CY25 while ensuring uninterrupted services to investors in capital market.

Launch of Pakistan's first Motor Insurance Repository

SECP in collaboration with the CDC and the Insurance Association of Pakistan (IAP), launched Pakistan's first motor insurance repository. This centralized repository aims to revolutionize the motor insurance landscape by enhancing transparency, improving underwriting practices, and combating insurance fraud. The repository is set to address critical challenges in the industry, such as low motor vehicle insurance coverage, which currently stands at less than 3 percent in Pakistan. The initiative will be rolled out in a phased manner, starting with a centralized database for policy storage and regulatory oversight, followed by real-time insurance status verification and claims data integration.[9]

Launch of 'Shareholder Agahi'

In a landmark step towards enhancing shareholder awareness and strengthening corporate governance, the CDC and Pakistan Institute of Corporate Governance (PICG) have

[8] NCCPL Press Release
*Effective 10th February 2026
[9] CDC Newsletter-97(Jan-March)

jointly developed *Shareholder Agahi*—an innovative digital portal designed to equip shareholders with the knowledge and tools needed to make informed, impactful decisions. The Agahi portal has been developed by CDC, with the content development being done by PICG, which includes videos, courses, webinars, documents, library and guides etc. that will be available on the portal for shareholders. Furthermore, in continuation with last year's initiative of Raast aggregator module, CDC integrated Raast payment system with 20 more brokers. This breakthrough marks a step forward in building a more responsive, streamlined, transparent, and digitally empowered capital market ecosystem.[10]

[10] CDC-Newsletter-99 (July-September)

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 macro-prudential 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

Microprudential 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.

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

[30] ACFID Circular Letter No. 01 of 2025
[31] ACFID Circular No. 01 of 2025
[32] Pakistan Financial Inclusion Index, December 2025, ACFID, SBP.
[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) $AQ = \frac{1}{n}\sum_{i}^{n} aq_i,$ 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

	$\frac{1}{n}\sum A, E$ n = 2	Earnings (E)	*Net Sales*	Positive
5	Development Finance Institutions $\frac{1}{n}\sum C, AQ, E, L$ n = 4	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) $AQ = \frac{1}{n}\sum_{i}^{n} aq_i,$ $n = 3$	aq_1 = *NPLs to Total Loans* aq_2 = *Net NPLs to Capital* aq_3 = *Net NPLs to Net Loans*	Negative Negative Negative
		Earnings (E) $\mathrm{E} = \frac{1}{\mathrm{n}}\sum_{i=1}^{n} e_i,$ $n = 4$	e_1= *Return on Assets Before Tax* e_2=*Return on Equity (Avg. Equity and Surplus) Before Tax* e_3 = *Net Interest Income/Gross Income* e_4 = *Cost to Income Ratio*	Positive Positive Positive Negative
		Liquidity (L) $L = \frac{1}{n}\sum_{i=1}^{n} l_i,$ $n = 3$	l_1= *Liquid Assets/Total Assets* l_2= *Liquid Assets/Total Deposits* l_3= *Advances /Deposits*	Positive Positive Positive
6	Insurance Companies $\frac{1}{n}\sum Li, NL$ n = 2	Life (Li) $\mathrm{Li} = \frac{1}{\mathrm{n}}\sum_{\mathrm{i=1}}^{\mathrm{n}} \mathrm{li_i},$ $n = 4$	li_1= *Claims ratio* li_2= *Return on Assets before tax* li_3= *Return on Investment before tax* li_4= *Capital to Assets*	Negative Positive Positive Positive
		Non-life (NL) $\mathrm{NL} = \frac{1}{\mathrm{n}}\sum_{\mathrm{i=1}}^{\mathrm{n}} \mathrm{nli_i},$ $n = 5$	nli_1= *Claims ratio* nli_2= *Premium Retention* nli_3= *Return on Assets before tax* nli_4= *Return on Investment before tax* nli_5= *Capital to Assets*	Negative Negative Positive Positive Positive
7	Corporate Sector	Corporate Debt	*Debt Burden (average of asset/equity and debt/equity)*	Negative

Annexure I - Balance Sheet and Profit & Loss Statement of Banks

BALANCE SHEET	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
		million Rupees			
ASSETS					
Cash & Balances With Treasury Banks	2,276,963	1,829,335	2,922,048	3,005,489	3,563,672
Balances With Other Banks	253,008	265,732	395,676	374,727	406,140
Lending To Financial Institutions	1,095,663	1,132,188	1,629,493	1,379,764	1,093,264
Investments - Net	14,554,438	18,400,000	26,019,114	29,791,301	39,065,820
Advances - Net	10,120,509	11,818,241	12,178,293	15,805,050	14,857,319
Operating Fixed Assets	704,729	824,231	951,397	907,680	1,053,812
Right-of-Use Assets				169,755	230,916
Intangible Assets				76,743	140,799
Deferred Tax Assets	133,061	202,613	198,305	146,713	82,674
Other Assets	919,931	1,323,191	2,069,286	2,035,464	2,737,032
TOTAL ASSETS	**30,058,303**	**35,795,532**	**46,363,611**	**53,692,687**	**63,231,448**
LIABILITIES					
Bills Payable	328,566	439,979	409,720	701,486	554,624
Borrowings From Financial Institution	4,738,036	7,845,098	11,672,920	15,006,037	15,848,649
Deposits And Other Accounts	21,719,885	23,461,394	29,128,202	31,791,776	39,658,585
Sub-ordinated Loans	122,815	161,581	176,073	171,337	158,880
Liabilities Against Assets Subject To Finance Lease	8,025	8,268	9,873	217,693	310,406
Deferred Tax Liabilities	29,319	9,793	48,862	184,283	364,528
Other Liabilities	1,170,116	1,783,706	2,131,021	2,316,986	2,331,284
TOTAL LIABILITIES	**28,116,763**	**33,709,818**	**43,576,672**	**50,389,598**	**59,226,957**
NET ASSETS	**1,941,540**	**2,085,713**	**2,786,939**	**3,303,089**	**4,004,491**
NET ASSETS REPRESENTED BY:					
Share Capital	568,000	592,776	628,419	626,016	548,491
Reserves	445,470	509,887	652,682	731,130	942,678
Unappropriated Profit	721,894	873,629	1,209,273	1,391,551	1,767,755
Share Holders' Equity	**1,735,364**	**1,976,291**	**2,490,374**	**2,748,697**	**3,258,924**
Surplus/Deficit On Revaluation Of Assets	206,176	109,422	296,565	554,392	745,567
TOTAL	**1,941,540**	**2,085,713**	**2,786,939**	**3,303,089**	**4,004,491**

PROFIT AND LOSS STATEMENT	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
Mark-Up/ Return/Interest Earned	1,831,650	3,420,449	6,366,447	7,640,008	6,028,433
Mark-Up/ Return/Interest Expenses	992,650	2,243,024	4,463,672	5,600,804	3,704,248
Net Mark-Up / Interest Income	**839,000**	**1,177,424**	**1,902,775**	**2,039,204**	**2,324,184**
Provisions & Bad Debts Written Off Directly/(Reversals)*	50,405	58,768	61,614	64,008	(9,528)
Net Mark-Up / Interest Income After Provision	**788,595**	**1,118,656**	**1,841,161**	**1,975,197**	**2,333,712**
Fees, Commission & Brokerage Income	142,803	173,148	217,417	265,463	292,652
Dividend Income	18,003	21,681	25,684	29,087	34,510
Income From Dealing In Foreign Currencies	34,746	80,448	111,283	102,862	127,851
Income from Derivatives				7,870	2,734
Gain/Loss on Securities				124,042	84,878
Net Gain/Loss on De-recognition of Financial Assets				-	(1,311)
Other Income	43,161	23,193	37,144	54,316	38,108
Total Non - Markup / Interest Income	**238,713**	**298,470**	**391,527**	**583,640**	**579,423**
Salaries, Allowance etc.	565,230	704,573	916,191	1,013,741	529,604
Other Expenses	10,987	9,531	29,798	122,101	818,539
Total Non-Markup/Interest Expenses	**576,216**	**714,104**	**945,989**	**1,135,841**	**1,348,143**
Profit before Tax and Extra ordinary Items	451,092	703,022	1,286,699	1,422,995	1,564,992
Extra ordinary/unusual Items - Gain/(Loss)	-	-	-	55,214	-
PROFIT/ (LOSS) BEFORE TAXATION	**451,092**	**703,022**	**1,286,699**	**1,367,781**	**1,564,992**
Less: Taxation	186,870	366,532	644,475	724,142	849,420
PROFIT/ (LOSS) AFTER TAX	**264,222**	**336,490**	**642,224**	**643,638**	**715,572**

* Provisions include general and specific provisions.

Source: State Bank of Pakistan

Annexure II - Financial Soundness Indicators of the Banking Sector*

		Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
	percent					
CAPITAL ADEQUQACY						
	Risk Weighted CAR	16.7	17.0	19.7	20.6	20.8
	Tier 1 Capital to RWA	13.5	14.2	16.0	16.4	16.8
	Capital to Total Assets	6.3	5.9	5.9	6.3	6.5
ASSET QUALITY						
	NPLs to Total Loans	7.9	7.3	7.6	6.3	6.1
	Provision to NPLs	91.2	89.5	92.7	103.9	107.7
	Net NPLs to Net Loans	0.7	0.8	0.6	-0.3	-0.5
	Net NPLs to Capital^	4.0	4.6	2.7	-1.2	-1.8
EARNINGS						
	Return on Assets (Before Tax)	1.6	2.1	3.1	2.7	2.7
	Return on Assets (After Tax)	1.0	1.0	1.6	1.3	1.2
	ROE (Avg. Equity& Surplus) (Before Tax)	24.0	35.3	54.4	45.8	43.3
	ROE (Avg. Equity &Surplus) (After Tax)	14.1	16.9	27.1	21.5	19.8
	NII/Gross Income	77.9	79.8	82.9	77.7	80.0
	Cost / Income Ratio	53.5	48.4	41.2	43.3	46.4
LIQUIDITY						
	Liquid Assets/Total Assets	55.4	56.6	63.5	60.3	66.2
	Liquid Assets/Total Deposits	76.7	86.4	101.1	101.9	105.6
	Advances/Deposits	46.6	50.4	41.8	49.7	37.5

** Based on unaudited Quarterly Report of Condition (QRC) submitted by banks.*

^ Effective from June 30, 2015, Regulatory Capital as defined under Basel requirements, has been used to calculate Net NPLs to Capital ratio. Prior to Jun30, 2015 balance sheet capital was used to calculate this ratio.

Source: State Bank of Pakistan

Annexure III - Balance Sheet and Profit & Loss Statement of MicroFinance Banks

BALANCE SHEET	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
million Rupees					
ASSETS					
Cash & Balances With Treasury Banks	28,991	43,814	45,956	54,072	49,810
Balances With Other Banks	57,931	24,589	34,278	30,949	44,589
Lending To Financial Institutions	1,052	15,476	21,782	31,167	61,565
Investments - Net	133,419	228,199	163,477	387,305	250,925
Advances - Net	278,318	342,358	379,946	421,227	468,346
Operating Fixed Assets	24,689	25,210	27,680	21,680	17,229
Right-of-Use Assets				6,066	8,209
Intangible Assets				5,354	2,870
Deferred Tax Assets	4,687	14,141	21,229	32,100	45,774
Other Assets	53,017	59,194	76,988	78,612	80,150
TOTAL ASSETS	**582,104**	**752,982**	**771,336**	**1,068,533**	**1,029,467**
LIABILITIES					
Bills Payable	1,079	702	1,041	2,653	1,960
Borrowings From Financial Institution	59,022	137,025	58,461	204,233	91,887
Deposits And Other Accounts	422,998	515,760	597,023	732,959	830,477
Sub-ordinated Loans	9,041	12,391	12,447	11,759	11,081
Liabilities Against Assets Subject To Finance Lease	-	-	-	9,245	10,615
Deferred Tax Liabilities	-	-	-	-	-
Other Liabilities	33,262	43,382	64,965	70,461	57,861
TOTAL LIABILITIES	**525,401**	**709,261**	**733,937**	**1,031,310**	**1,003,882**
NET ASSETS	**56,703**	**43,721**	**37,399**	**37,223**	**25,586**
NET ASSETS REPRESENTED BY:					
Share Capital	36,609	42,196	42,379	59,280	63,180
Reserves	41,401	46,122	54,991	61,172	23,116
Unappropriated Profit	(20,829)	(44,225)	(60,275)	(85,496)	(61,796)
Share Holders' Equity	**57,181**	**44,094**	**37,096**	**34,955**	**24,500**
Surplus/Deficit On Revaluation Of Assets	(487)	(408)	213	2,268	1,086
Deferred Grants/Subsidies	9	35	90	50	5
TOTAL	**56,703**	**43,721**	**37,399**	**37,223**	**25,586**
PROFIT AND LOSS STATEMENT					
Mark-Up/ Return/Interest Earned	78,436	105,207	164,898	205,312	212,890
Mark-Up/ Return/Interest Expenses	32,067	53,918	94,147	112,132	91,713
Net Mark-Up / Interest Income	**46,368**	**51,289**	**70,752**	**93,180**	**121,177**
Provisions & Bad Debts Written Off Directly/(Reversals)	16,291	22,823	15,991	39,268	48,244
Net Mark-Up / Interest Income After Provision	**30,077**	**28,466**	**54,761**	**53,912**	**72,933**
Fees, Commission & Brokerage Income	14,720	21,631	23,839	36,461	31,722
Dividend Income	-	-	-	-	-
Income From Dealing In Foreign Currencies	-	-	(26)	-	-
Other Income	2,195	2,391	9,756	5,751	5,046
Total Non - Markup / Interest Income	**16,915**	**24,022**	**33,569**	**42,211**	**36,768**
Salaries, Allowance etc.	52,990	70,802	74,838	120,943	110,695
Other Expenses	822	3,211	24,311	671	796
Total Non-Markup/Interest Expenses	**53,812**	**74,013**	**99,149**	**121,613**	**111,490**
Profit before Tax and Extra ordinary Items	(6,820)	(21,525)	(10,819)	(25,490)	(1,789)
Extra ordinary/unusual Items - Gain/(Loss)	-	-	-	-	-
Subsidies received	25.06	33.19	16.16	(6.30)	39.80
PROFIT/ (LOSS) BEFORE TAXATION	**(6,845)**	**(21,558)**	**(10,835)**	**(25,484)**	**(1,829)**
Less: Taxation	1,235	(4,403)	(2,717)	(9,272)	231
PROFIT/ (LOSS) AFTER TAX	**(8,080)**	**(17,155)**	**(8,118)**	**(16,212)**	**(2,059)**

Source: State Bank of Pakistan

Annexure IV - Financial Soundness Indicators of the MicroFinance Banks

	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25
percent					
CAPITAL ADEQUACY					
Risk Weighted CAR	18.3	10.9	7.6	2.6	-1.2
Tier 1 Capital to RWA	14.3	8.1	4.7	0.1	-3.6
Capital to Total Assets	10.4	5.3	3.7	0.9	-0.5
ASSET QUALITY					
NPLs to Total Loans	5.2	6.7	6.7	9.7	9.1
Provision to NPLs	78.1	78.8	102.3	95.3	138.1
Net NPLs to Net Loans	1.2	1.5	-0.2	0.5	-4.0
Net NPLs to Capital^	5.4	12.9	-2.2	21.4	388.2
EARNINGS					
Return on Assets (Before Tax)	-1.3	-3.4	-1.5	-3.0	-0.2
Return on Assets (After Tax)	-1.6	-2.7	-1.1	-1.9	-0.2
ROE (Avg. Equity& Surplus) (Before Tax)	-12.7	-42.9	-26.4	-77.9	-7.3
ROE (Avg. Equity &Surplus) (After Tax)	-15.0	-34.1	-19.7	-49.6	-8.2
NII/Gross Income	73.3	68.1	67.8	68.8	76.7
Cost / Income Ratio	85.0	98.3	95.0	89.8	70.6
LIQUIDITY					
Liquid Assets/Total Assets	31.3	26.5	29.4	43.6	31.7
Liquid Assets/Total Deposits	43.1	38.6	38.0	63.6	39.2
Advances/Deposits	65.8	66.4	63.6	57.5	56.4

^ *Effective from June 30, 2015, Regulatory Capital, as defined under Basel requirements, has been used to calculate Net NPLs to Capital Ratio. Prior to Jun-15, Balance Sheet Capital was used for calculation of this ratio. Net NPLs and regulatory capital are both negative at end December 2025.*

Source: State Bank of Pakistan

Annexure V - List of Banks

Dec-24	Dec-25
A. Public Sector Com. Banks (5)	**A. Public Sector Com. Banks (5)**
1 First Women Bank Ltd.	1 First Women Bank Ltd.
2 National Bank of Pakistan	2 National Bank of Pakistan
3 Sindh Bank Ltd.	3 Sindh Bank Ltd.
4 The Bank of Khyber	4 The Bank of Khyber
5 The Bank of Punjab	5 The Bank of Punjab
B. Local Private Banks (20)	**B. Local Private Banks (21)**
1 AlBaraka Bank (Pakistan) Ltd.	1 AlBaraka Bank (Pakistan) Ltd.
2 Allied Bank Ltd.	2 Allied Bank Ltd.
3 Askari Bank Ltd.	3 Askari Bank Ltd.
4 Bank AL Habib Ltd.	4 Bank AL Habib Ltd.
5 Bank Alfalah Ltd.	5 Bank Alfalah Ltd.
6 BankIslami Pakistan Ltd.	6 BankIslami Pakistan Ltd.
7 Dubai Islamic Bank Pakistan Ltd.	7 Dubai Islamic Bank Pakistan Ltd.
8 Faysal Bank Ltd.	8 Faysal Bank Ltd.
9 Habib Bank Ltd.	9 Habib Bank Ltd.
10 Habib Metropolitan Bank Ltd.	10 Habib Metropolitan Bank Ltd.
11 JS Bank Ltd.	11 JS Bank Ltd.
12 MCB Bank Ltd.	12 MCB Bank Ltd.
13 MCB Islamic Bank Ltd.	13 MCB Islamic Bank Ltd.
14 Meezan Bank Ltd.	14 Meezan Bank Ltd.
15 SAMBA Bank Ltd.	15 SAMBA Bank Ltd.
16 Silk Bank Ltd	16 Soneri Bank Ltd.
17 Soneri Bank Ltd.	17 Standard Chartered Bank (Pakistan) Ltd.
18 Standard Chartered Bank (Pakistan) Ltd.	18 Bank Makramah Limited (formerly Summit Bank Ltd.)
19 Bank Makramah Limited (formerly Summit Bank Ltd.)	19 United Bank Ltd.
20 United Bank Ltd.	20 Easypaisa Digital Bank Limited
	21 Mashreq Digital Bank Limited
C. Foreign Banks (4)	**C. Foreign Banks (4)**
1 Citibank N.A.	1 Citibank N.A.
2 Deutsche Bank AG	2 Deutsche Bank AG
3 Industrial and Commercial Bank of China Ltd.	3 Industrial and Commercial Bank of China Ltd.
4 Bank of China Limited	4 Bank of China Limited
D. Specialized Banks (2)	**D. Specialized Banks (2)**
1 Punjab Provincial Co-operative Bank Ltd.	1 Punjab Provincial Co-operative Bank Ltd.
2 Zarai Taraqiati Bank Ltd.	2 Zarai Taraqiati Bank Ltd.
All Commercial Banks (29)	**All Commercial Banks (30)**
Include A + B + C	Include A + B + C
All Banks (31)	**All Banks (32)**
Include A + B + C + D	Include A + B + C + D

Source: State Bank of Pakistan

Annexure VI - Composition of Islamic Banking Institutions

Dec-24	Dec-25
Islamic Banks	**Islamic Banks**
1 AlBaraka Bank (Pakistan) Ltd.	1 AlBaraka Bank (Pakistan) Ltd.
2 BankIslami Pakistan Ltd.	2 BankIslami Pakistan Ltd.
3 Dubai Islamic Bank Pakistan Ltd	3 Dubai Islamic Bank Pakistan Ltd
4 Faysal Bank Ltd.	4 Faysal Bank Ltd.
5 MCB Islamic Bank Ltd.	5 MCB Islamic Bank Ltd.
6 Meezan Bank Ltd	6 Meezan Bank Ltd
Conventional Banks having Islamic Banking Branches	**Conventional Banks having Islamic Banking Branches**
1 Askari Bank Ltd.	1 Askari Bank Ltd.
2 Allied Bank Ltd.	2 Allied Bank Ltd.
3 Bank Al Habib Ltd	3 Bank Al Habib Ltd
4 Bank Alfalah Ltd	4 Bank Alfalah Ltd
5 Habib Bank Ltd	5 Habib Bank Ltd
6 Habib Metropolitan Bank	6 Habib Metropolitan Bank
7 National Bank of Pakistan	7 National Bank of Pakistan
8 Silk Bank Ltd	8 Sindh Bank Ltd
9 Sindh Bank Ltd	9 Soneri Bank Ltd
10 Soneri Bank Ltd	10 Standard Chartered Bank
11 Standard Chartered Bank	11 Bank Makramah Limited (formerly Summit Bank Ltd.)
12 Summit Bank Ltd.	12 The Bank of Khyber
13 The Bank of Khyber	13 The Bank of Punjab
14 The Bank of Punjab	14 United Bank Ltd.
15 United Bank Ltd.	15 Zarai Taraqiati Bank Ltd.
16 Zarai Taraqiati Bank Ltd.	16 Mashreq Digital Bank Limited
Grand Total 22 (6+16)	Grand Total 22 (6+16)

Source: State Bank of Pakistan

Annexure VII - List of Development Finance Institutions (DFIs)

Dec-24	Dec-25
1 House Building Finance Company Ltd.	1 House Building Finance Company Ltd.
2 PAIR Investment Company Ltd.	2 PAIR Investment Company Ltd.
3 Pak Brunei investment Company Ltd.	3 Pak Brunei investment Company Ltd.
4 Pak Libya Holding Company Ltd.	4 Pak Libya Holding Company Ltd.
5 Pak Oman Investment Company Ltd.	5 Pak Oman Investment Company Ltd.
6 Pak-China Investment Company Ltd.	6 Pak-China Investment Company Ltd.
7 Pakistan Kuwait Investment Company (Private) Ltd.	7 Pakistan Kuwait Investment Company (Private) Ltd.
8 Pakistan Mortgage Refinance Company Ltd.	8 Pakistan Mortgage Refinance Company Ltd.
9 Saudi Pak Industrial & Agricultural Investment Company Ltd.	9 Saudi Pak Industrial & Agricultural Investment Company Ltd.
10 EXIM Bank	10 EXIM Bank

Source: State Bank of Pakistan

Annexure VIII - List of Microfinance Banks (MFBs)

Dec-24	Dec-25
1 Advans Pakistan Microfinance Bank Limited	1 Halan (Formerly Advans Pakistan) Microfinance Bank Limited
2 APNA Microfinance Bank Limited	2 APNA Microfinance Bank Limited
3 FINCA Microfinance Bank Limited	3 FINCA Microfinance Bank Limited
4 Khushhali Microfinance Bank Limited	4 Khushhali Microfinance Bank Limited
5 Mobilink Microfinance Bank Limited	5 Mobilink Microfinance Bank Limited
6 NRSP Microfinance Bank Limited	6 NRSP Microfinance Bank Limited
7 Lolc Microfinance Bank Limited (Pak Oman Microfinance Bank Limited)	7 Lolc Microfinance Bank Limited (Pak Oman Microfinance Bank Limited)
8 Sindh Microfinance Bank Limited	8 Sindh Microfinance Bank Limited
9 HBL Microfinance Bank Limited (formerly The First Micro Finance Bank Ltd.)	9 HBL Microfinance Bank Limited (formerly The First Micro Finance Bank Ltd.)
10 Telenor Microfinance Bank Limited	10 U Microfinance Bank Limited
11 U Microfinance Bank Limited	11 ASA Microfinance Bank Limited
12 ASA Microfinance Bank Limited	

Source: State Bank of Pakistan

Annexures

Annexure IX - List of Non-Bank Financial Institutions

	Asset Management Companies (AMCs)/ Investment Advisors (IAs)		REIT Management Companies (RMCs)
1	786 Investments Limited	1	AKD REIT Management Company Limited
2	Aaraf Investment Advisory Limited	2	Alpha REIT Management Company Limited
3	ABL Asset Management Company Limited	3	Arif Habib Dolmen REIT Management Limited
4	AKD Investment Management Limited	4	ATMT Ventures Limited
5	Alfalah Asset Management Limited	5	Bodla REIT Management Company Limited
6	Alliance Investment Management Limited	6	CG Global REIT Management Company Limited
7	Al-Meezan Investment Management Limited	7	Cloud REIT Management Company Limited
8	Atlas Asset Management Limited	8	Fast REIT Management Company Limited
9	AWT Investment Limited	9	Greenworld REIT Management Company Limited
10	BMA Investment Advisors Limited	10	HMR REIT Management Company Limited
11	Faysal Asset Management Limited	11	Hussain Lakhani REIT Management Company Limited
12	First Capital Investments Limited	12	IMM REIT Management Company Limited
13	Al Habib Asset Management Limited	13	ISE Towers REIT Management Limited
14	HBL Asset Management Limited	14	Providential REIT Management Company Limited
15	Lucky Investment Limited	15	Rockville REIT Management Company Limited
16	JS Investments Limited	16	SB Global REIT Management Limited
17	Kifayah Investment Management Limited	17	Shields REIT Management Company Limited
18	Lakson Investments Limited	18	Sinolink REIT Management Company Limited
19	Magnus Investment Advisors Limited	19	The Lake City REIT Management Limited
20	Mahaana Wealth Limited	20	TPL REIT Management Company Limited
21	MCB Investment Management Limited	21	Veritas REIT Management Company Limited
22	National Investment Trust Limited	22	Zameen REIT Management Company Limited
23	NBP Fund Management Limited	23	Kaizen REIT Management Limited
24	Pak Oman Asset Management Company Limited	24	Mukab REIT Management Company Limited
25	Pak Qatar Asset Management Co. Limited	25	Orbit REIT Management Company Limited
26	Sarmuz Investments Limited	26	Imarat REIT Management Company Limited
27	UBL Fund Managers Limited	27	Intermarket REIT Management Company Limited
28	Vision Capital Limited	28	SBD REITS Limited
29	Federal Government Pension Fund Management Company Limited	29	Tulip REIT Management Limited

	Housing Finance Companies
1	Akhuwat Housing Finance Company Limited
2	Assan Ghar Finance Limited
3	Pakistan Housing Finance Company Limited
4	Trellis Housing Finance Limited
5	Gosha Housing Finance Company Limited

	Private Equity & Venture Capital Firms (PE&VC)
1	Fatima Gobi Ventures (Pvt) Limited
2	Ijarah Capital Partners Limited
3	NIDA Venture Capital Management Limited
4	PNO Capital Limited
5	Sai Venture Capital (Pvt) Limited
6	TMT Ventures Limited
7	Cordoba Pe Management Limited

	Discounting
1	Smart Finance Limited

	Modarabas
1	B.F. Modaraba
2	Burj Clean Energy Modaraba
3	First Elite Capital Modaraba
4	First Equity Modaraba
5	First Al-Noor Modaraba
6	First Fidelity Leasing Modaraba
7	First IBL Modaraba
8	First Imrooz Modaraba
9	First Paramount Modaraba
10	First Punjab Modaraba
11	First Treet Manufacturing Modaraba
12	First Habib Modaraba
13	Orient Rental Modaraba
14	Orix Modaraba
15	Popular Islamic Modaraba
16	Wasl Mobility Modaraba
17	Sindh Modaraba
18	Tri-Star Modaraba
19	Trust Modaraba
20	Unicap Modaraba

Source: Securities and Exchange Commission of Pakistan

Annexure IX - List of Non-Bank Financial Institutions (cont.)

	Non-Bank Microfinance Companies (NBMFCs)		**Investment Finance Companies (IFCs)**
1	Agahe Pakistan	1	4sight Finance Services (Private) Limited
2	Akhuwat Islamic Microfinance	2	Abhi (Private) Limited
3	AL-Mawakhat Microfinance Company Limited	3	Creditbook Financial Services (Private) Limited
4	Asaan Qarz Financing Services Private Limited	4	Din Global Financial Services Private Limited
5	Bluesky Financial Services Limited	5	Easy Finance Private Limited
6	Care Financial Services Private Limited	6	EDUFI Financial Services Private Limited
7	Cashew Financial Services Limited	7	Escorts Investment Bank Limited
8	Creditfix Financial Services Limited	8	Finja Lending Services Limited
9	CSC Empowerment & Inclusion Programme	9	Finleap Financial Services Private Limited
10	Damen Support Programme	10	First Credit & Investment Bank Limited
11	Farmers Development Organization	11	Goldfin Limited
12	Farmers Friend Organization	12	Infra Zamin Pakistan Limited
13	Ghazi Barotha Taraqiati Idara	13	Invest Capital Investment Bank Limited
14	Gold Lion Financials (Private) Ltd.	14	Jazzcash (Private) Limited
15	Humraah Financial Services Ltd	15	Jinglecred Digital Finance Limited
16	JWS Pakistan	16	Legend Financial Services (Pvt) Limited
17	Kashf Foundation	17	LSE Financial Services Limited
18	MG Financial Services (Pvt) Limited	18	National Credit Guarantee Company Limited
19	Mojaz Support Program	19	Neem Exponential Financial Services (Pvt.) Ltd.
20	National Rural Support Programme (NRSP)	20	Orix Leasing Pakistan Limited
21	Alkhidmat Islamic Microfinance	21	Oraan Financial Services Private Limited
22	Organization for Poverty Reduction and Community Training Program	22	Pakistan Development Fund Ltd
23	Pakisnova Microfinance Company (Private) Limited	23	Pakistan Microfinance Investment Co. Ltd
24	Punjab Rural Support Programme	24	Parwaaz Financial Services Limited
25	Rural Community Development Programme (RCDP)	25	PostEx Financial Services (Pvt) Limited
26	Digi Khata Financial Services (Private) Limited	26	QistBazaar (Private) Limited
27	Safco Microfinance Company (Pvt) Limited	27	Quark Financials Pakistan Private Limited
28	Sarhad Rural Support Programme (SRSP)	28	Security Investment Bank Limited
29	Sarmaya Microfinance (Pvt) Ltd.	29	Taleem Finance Company Limited
30	Sayya Microfinance Company	30	Trukkr Financial Services Limited
31	Shah Sachal Sami Foundation (SSSF)	31	UDL Financial Services Limited
32	Simak Financial Services (Private) Limited	32	Umeed Pay (Pvt) Limited
33	Sindh Rural Support Organization	33	Visioncred Financial Services (Pvt) Limited
34	Sirat Microfinance Limited	34	Viva Finance Private Limited
35	Soon Valley Development Program	35	Walee Financial Services Private Limited
36	TEZ Financial Services Limited	36	WASL Investment Finance Limited
37	Thardeep Microfinance Foundation	37	Zanda Financial Services Private Limited
38	Titlistec Finance Limited	38	Alif Finance (Private) Limited
39	Union Microfinance Company Limited	39	Awami Financial (Private) Limited
40	Kafalah Foundation	40	Cordoba Financial Services Limited
41	Naymet Pakistan	41	Fintech Gharana Financial (Private) Limited
42	Shaamilkar Financial Services (Private) Limited	42	Foremost financial Services (Private) Limited
	Leasing Companies	43	Ishtirak Microfinance (Private) Limited
1	Grays Leasing Limited	44	Logiserve (Private) Limited
2	Pak Gulf Leasing Company Limited	45	Palmpay (Private) Limited
3	Primus Leasing Limited		

Source: Securities and Exchange Commission of Pakistan

Annexure X - List of Insurance Companies*

Non-Life Insurance Companies			
1	Adamjee Insurance Company Limited	15	National Insurance Company Limited
2	Alfalah Insurance Company Limited	16	Premier Insurance Limited
3	Alpha Insurance Company Limited	17	Reliance Insurance Company Limited
4	Asia Insurance Company Limited	18	Security General Insurance Company Limited
5	Askari General Insurance Company Limited	19	Shaheen Insurance Company Limited
6	Atlas Insurance Limited	20	Sindh Insurance Limited
7	Century Insurance Company Limited	21	The Cooperative Insurance Society of Pakistan
8	Chubb Insurance Pakistan Limited	22	The Pakistan General Insurance Company Limited
9	Crescent Star Insurance Co. Limited	23	The United Insurance Company of Pakistan Limited
10	East West Insurance Company Limited	24	The Universal Insurance Company Limited
11	EFU General Insurance Limited	25	TPL Insurance Limited
12	Habib Insurance Company Limited	26	TRAFCO Insurance Company Limited
13	IGI General Insurance Limited	27	UBL Insurers Limited
14	Jubilee General Insurance Company Limited	28	Digi Insurance Limited (Digital only)
General Takaful Companies			
1	Pak-Qatar General Takaful Limited	2	Salaam Takaful Limited (Formerly Takaful Pakistan Limited)
3	Pak Overseas Takaful Company Limited		
Life Insurance Companies			
1	Adamjee Life Assurance Company Limited	5	Jubilee Life Insurance Company Ltd.
2	Askari Life Assurance Company Ltd. (Previously East West Life Assurance Company Limited)	6	TPL Life Insurance Limited (Previously Asia Care Health & Life Insurance Company Ltd.)
3	EFU Life Assurance Company Limited	7	State Life Insurance Corporation of Pakistan
4	IGI Life Insurance Limited	8	Postal Life Insurance Company Limited
Family Takaful Companies			
1	5th Pillar Family Takaful Limited	3	Dawood Family Takaful Limited
2	Pak Qatar Family Takaful Limited	4	Salam FamilyTakaful Limited (Digital Only Life)
Reinsurance Companies			
1	Pakistan Reinsurance Company Limited		

* Active insurers as of July 31, 2025

Source: Securities and Exchange Commission of Pakistan

List of Abbreviations

A

AD	Authorized Dealer
ADC	Alternative Delivery Channel
ADR	Advances-to-Deposit Ratio
AEs	Advanced Economies
ALS	Asset Light Sukuk
AML	Anti-Money Laundering
ATM	Automatic Teller Machine
AUM	Assets Under Management

B

BB	Branchless Banking
BCBS	Basel Committee on Banking Supervision
BC&FRF	Business Conduct and Fair Treatment of Consumers Regulatory Framework
BCI	Business Confidence Index
BCO	Banking Companies Ordinance
BSC	Banking Services Corporation
BIA	Basic Indicator Approach
BIS	Bank for International Settlements
BISP	Benazir Income Support Programme
BoE	Bank of England
bps	Basis Points
BSSM	Banking Sector Stability Map

C

CAB	Current Account Balance
CAR	Capital Adequacy Ratio
CBAM	Carbon Border Adjustment Mechanism
CBS	Capacity Building Strategy
CCM	Compliance Carbon Market
CDC	Central Depository Company
CDM	Cash Deposit Machine
CDNS	Central Directorate of National Savings
CDS	Credit Default SWAP
CET-1	Common Equity Tier-1
CFT	Combating the Financing of Terrorism
COVID-19	Corona Virus Disease
CPF	Countering Proliferation Financing
CPI	Consumer Price Index
CRA	Credit Rating Agencies
CSD	Central Securities Depository
CSE	Crisis Simulation Exercise
CST	Climate Stress Testing

CT	Committee for Transformation
CY	Calendar Year
D	
DAP	Data Acquisition Portal
DAP	Diammonium phosphate
DFIs	Development Finance Institutions
DP	Discretionary Portfolio
DPC	Deposit Protection Corporation
DRB	Digital Retail Bank
D-SIB	Domestic Systemically Important Bank
E	
EBIT	Earnings Before Interest and Taxes
EBT	Earnings Before Tax
EC	Eligible Capital
EC	Exchange Company
ECB	European Central Bank
ECL	Expected Credit Loss
ECs	Exchange Companies
EFF	Extended Fund Facility
EIA	Equity Investment Abroad
EMDEs	Emerging Markets and Developing Economies
EMI	Electronic Money Institution
ESG	Environmental, Social, and Governance
ETFs	Exchange Traded Funds
ETS	Emissions Trading System
F	
FCD	Foreign Currency Deposits
FDR	Financing to Deposit Ratio
FE	Foreign Exchange
FEEL	Foreign Exchange Exposure Limit
FI	Financial Institution
FIA	Federal Investigation Agency
FMIs	Financial Market Infrastructures
FMR	Fund Manager Report
FSB	Financial Stability Board
FSC	Federal Shariat Court
FSD	Financial Stability Department
FSI	Financial Soundness Indicator
FSR	Financial Stability Review
FSVI	Financial Sector Vulnerability Index
FX	Foreign Exchange
FY	Fiscal Year

G

G2P	Government to Person
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIS	Government Ijara Sukuk
GNPLR	Gross Non-Performing Loan Ratio
GoP	Government of Pakistan
GWh	Gigawatt hours

H

H1	First Half
H2	Second Half

I

IA	Investment Advisor
IAP	Insurance Association of Pakistan
IBB	Islamic Banking Branch
IBIs	Islamic Banking Institutions
IFAS	Islamic Financial Accounting Standards
IFS	International Financial Standard
IFC	Investment Finance Company
IFRS	International Financial Reporting Standard
IFS	International Financial Standard
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IR	Incident Response

K

KAP	Knowledge, Attitude, and Practices
KIBOR	Karachi Interbank Offer Rate
KMI-30	KSE Meezan Index-30
KSE	Karachi Stock Exchange
kWh	Kilowatt hour

L

LCR	Liquidity Coverage Ratio
LIMS	Land Information Management System
LSM	Large Scale Manufacturing
LVPS	Large Value Payment System

M

MDR	Minimum Deposit Rate
MFB	Microfinance Bank
MoCC&EC	Ministry of Climate Change and Environmental Coordination
MPPF	Macroprudential Policy Framework
MRV	Monitoring, Reporting and Verification

MST	Macro Stress Testing
MTBs	Market Treasury Bills
MUFAP	Mutual Funds Association of Pakistan
N	
NBFCs	Non-Banking Finance Companies
NBFIs	Non-Bank Financial Institutions
NBMFC	Non-Bank Microfinance Company
NCCPL	National Clearing Company of Pakistan Limited
NCPI	National Consumer Price Index
NDP	Non-discretionary Portfolio
NFC	Non-financial Corporate
NFIS	National Financial Inclusion Strategy
NFSR	Net Stable Funding Ratio
NGFS	Network for Greening the Financial System
NIBAF	National Institute of Banking and Finance
NIFT	National Institutional Facilitation Technologies (Private) Limited
NII	Net Interest Income
NIM	Net Interest Margin
NPF	Non-Performing Financing
NPL	Non-Performing Loans
NPLR	Non-Performing Loans Ratio
NSFR	Net Stable Funding Ratio
NSFSI	National Subsistence Farmers Support Initiative
O	
OMC	Oil Marketing Companies
OMOs	Open Market Operations
ONR	Overnight Repo Rate
ORR	Obligor Risk Rating
ORWA	Operational Risk Weighted Assets
OSS	Operational Self Sufficiency
OTC	Over The Counter
P	
P/B	Price-to-Book
P/E	Price-to-Earnings
P2M	Person-to-Merchant
P2P	Person-to-Person
PACRA	Pakistan Credit Rating Agency
PAT	Profit After Tax
PBA	Pakistan Banks Association
PBS	Pakistan Bureau of Statistics
PD	Probability of Default
PDL	Petroleum Development Levy

PE	Private Equity
PESIA	Performance Evaluation System for Investment Abroad
P-FII	Pakistan Financial Inclusion Index
PGT	Pakistan Green Taxonomy
PIB	Pakistan Investment Bond
PICG	Pakistan Institute of Corporate Governance
PKR	Pakistani Rupee
PKRV	Pakistan Revaluation Rate
PMYB&ALS	Prime Minister's Youth Business and Agriculture Loan Scheme
POL	Petroleum Oil & Lubricants
POS	Point of Sale
PRISM	Pakistan Real-time Interbank Settlement Mechanism
PSC	Private Sector Credit
PSE	Public Sector Enterprise
PSEFT	The Payment Systems and Electronic Funds Transfer Act 2007
PSI	Payment System Infrastructure
PSO	Payment System Operator
PSP	Payment System Provider
PSX	Pakistan Stock Exchange

Q

Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
QoQ	Quarter on Quarter
QR	Quick Response

R

RE	Regulated Entity
REIT	Real Estate Investment Trust
RHS	Right Hand Side
RMCs	Real Estate Investment Trust (REIT) Management Companies
ROA	Return on Assets
ROE	Return on Equity
RSA	Rate Sensitive Assets
RSF	Resilience and Sustainable Facility
RSL	Rate Sensitive Liabilities
RTGS	Real Time Gross Settlement System
RTOB	Real Time Online Branch
RVPS	Retail Value Payment System
RWAs	Risk Weighted Assets

S

S_0	Baseline Scenario

S_1	Stressed Scenario
SAF	Shariah Advisors Forum
SBP	State Bank of Pakistan
SC	Steering Committee
SECP	Securities and Exchange Commission of Pakistan
SGF	Settlement Guarantee Fund
SHE	Shareholder's Equity
SIB	Systemically Important Bank
SME	Small & Medium Enterprise
SOC	Security Operation Centre
SOFR	Secured Overnight Financing Rate
SRO	Self-Regulatory Organization
SRS	Systemic Risk Survey
T	
TB	Treasury Bill
TBML/TF	Trade-based Money Laundering/Terrorist Financing
TER	Total Expense Ratio
TFC	Term Finance Certificate
TL	Total Liabilities
TRWA	Total Risk Weighted Assets
T.T.	Telegraphic Transfer
2FA	Two-factor Authentication
U	
UK	United Kingdom
US/USA	United States of America
USD/US$	Unites States Dollar
V	
VAR	Vector Auto-Regressive
VaR	Value at Risk
VCM	Voluntary Carbon Market
W	
WADR	Weighted Average Deposit Rate
WALR	Weighted Average Lending Rate
Y	
YoY	Year on Year