

Banking Publication 2025

Banking Forward: Journeying Towards Future Horizons



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1. Foreword

It is with great pleasure that we present the third edition in our annual Banking Publication series, featuring this year's theme "Banking Forward: Journeying Towards Future Horizons". Building upon the foundation established by the first two volumes, this Thought Leadership Initiative highlights emerging trends shaping Pakistan's banking industry today and into the future.

This publication is an outcome of extensive research and analysis of the industry's financial performance and 8 core themes impacting commercial banks: (1) Economy (2) Financial Inclusion (3) Priority Sector Financing (4) Digital Banking & Payments (5) Islamic Banking (6) Sustainability Reporting (7) Tax Regime and (8) Future-Ready Workforce.

Similar to last year's release, this edition highlights select key findings from our recent Consumer Banking Experience Survey and a proprietary study of digital onboarding journeys at select banks in Pakistan.

Insights also encompass notable shifts identified through a review of international banking innovations, regulatory and sectoral analyses across certain markets, alongside findings from various PwC global publications, surveys and research.

Our analysis reveals a broad spectrum of opportunities and key enablers for banks, particularly in priority sector interventions, inclusive financial services, leveraging AI for

technological prowess, operational and customer excellence, intuitive user experiences, digital engagement, data-centric solutions and strategic workforce capability development.

Alongside these opportunities, banks are experiencing several ongoing challenges, notably related to cash preferences, nascent merchant ecosystem, alternative data accessibility, portfolio quality, Islamic transformation, talent ecosystem, sustainability reporting, and integrating climate risks within overall business strategy and enterprise risk management.

Similar to the earlier two editions, this document leverages viewpoints of select industry leaders and senior professionals. Their perspectives affirm the wide range and magnitude of opportunities alongside depth of challenges faced. This year; however, we also had dialogues with senior stakeholders at entities coexisting and collaborating with banks in shaping up a holistic digital financial services ecosystem in the country.

Alongside this publication, we are sharing another comprehensive compendium on Banking Analytics that provides financial analysis and select industry trends to aid readers relate better to key messages.

We hope this document offers valuable perspectives and acts as a catalyst for initiating discussions on strategic platforms.



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We would like to thank all industry leaders and senior professionals who have contributed immensely to our strategic knowledge sharing endeavour:



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We would like to thank all industry leaders and senior professionals who have contributed immensely to our strategic knowledge sharing endeavour:



Syed Amir Ali
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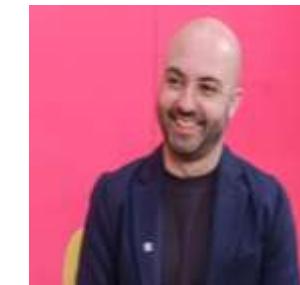
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foodpanda Pakistan

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Executive summary

Executive Summary

1. Financial Performance



2024 continued to be a year of growth for the banking industry, as reflected by most of the indicators detailed in section 3.

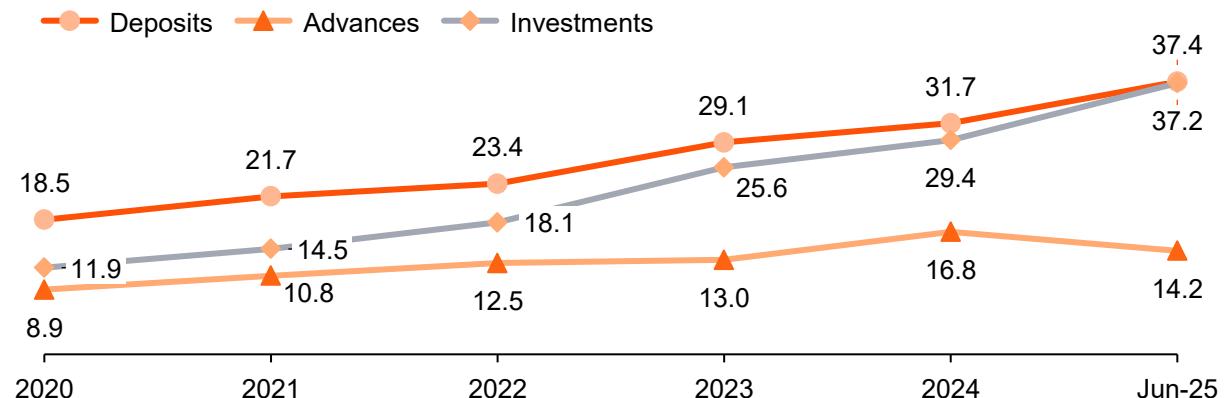
Balance sheet growth

Deposits grew modestly by 9% in 2024, compared to 24% growth in 2023, reaching Rs. 31.7 trillion. This followed a further increase of 18% to Rs. 37.4 trillion in Jun-25. Advances rose sharply by 29% to Rs. 16.8 trillion in 2024 (significantly higher than 4% recorded in 2023), driven by the need to meet Advances to Deposits Ratio requirement. However, this important benchmark declined by 15% to Rs. 14.2 trillion in Jun-25, indicating a possible return to prior financing practices.

Investments increased by 15% to Rs. 29.4 trillion in 2024, followed by a notable 27% growth, reaching Rs. 37.2 trillion by Jun-25. Borrowings also grew by 29% to Rs. 14.6 trillion in 2024, with only a 1% increase recorded as of Jun-25.

Deposits, Advances and Investments

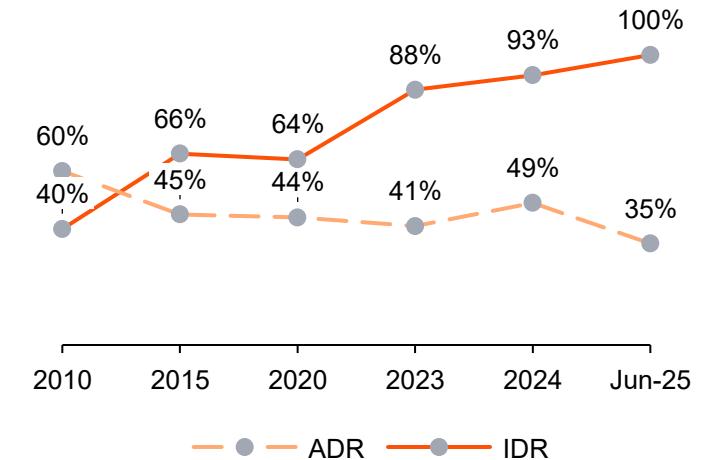
(All figures in Rs. Trillion)



Advances to Deposits and Investments to Deposits

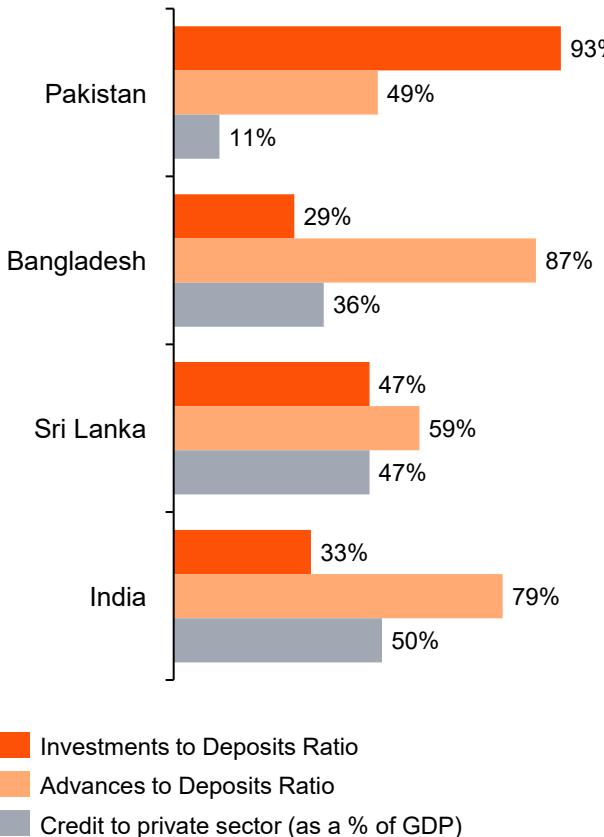
Pakistan's Advances to Deposits Ratio (ADR) has been gradually contracting, standing at 35% in Jun-25, following an increase from 41% in 2023 to 49% in 2024. Concurrently, lending to the private sector declined to 11% of GDP in 2024.

Conversely, the Investments to Deposits Ratio (IDR) has increased significantly, from 40% in 2010 to 93% in 2024, and reaching 100% as of Jun-25.



Compared to key benchmarks in other economies, these figures highlight considerable potential for further credit penetration within the country.

Pakistan vis-a-vis certain other economies



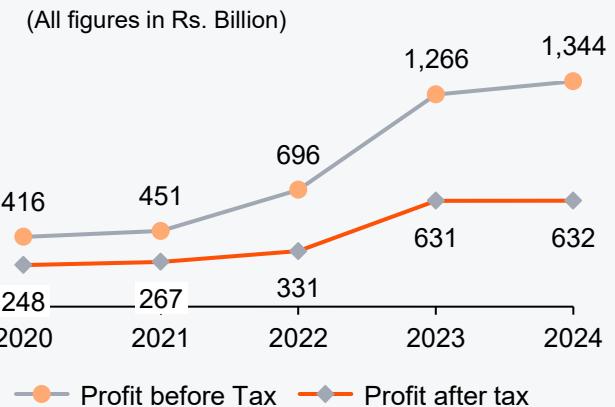
Profits and operating costs



Profitability recorded an uptick driven by declining spreads, whereas non-funded income from different avenue grew substantially.

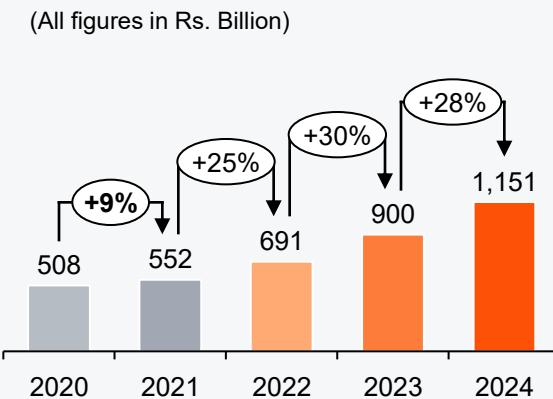
Profit Before Tax (PBT) increased by approximately 6%, while Profit After Tax (PAT) remained flat due to higher tax implications.

Profitability



Operating expenses registered an increase of 28% in 2024, almost comparable to 30% in 2023. Considering increasing cost of doing business, these expenses may continue to rise in the foreseeable future. To effectively manage their cost base, banks may consider initiating enterprise transformation programs including digital innovation, cost efficiency, process optimisation and branch re-configuration.

Operating expenses



2. Economy

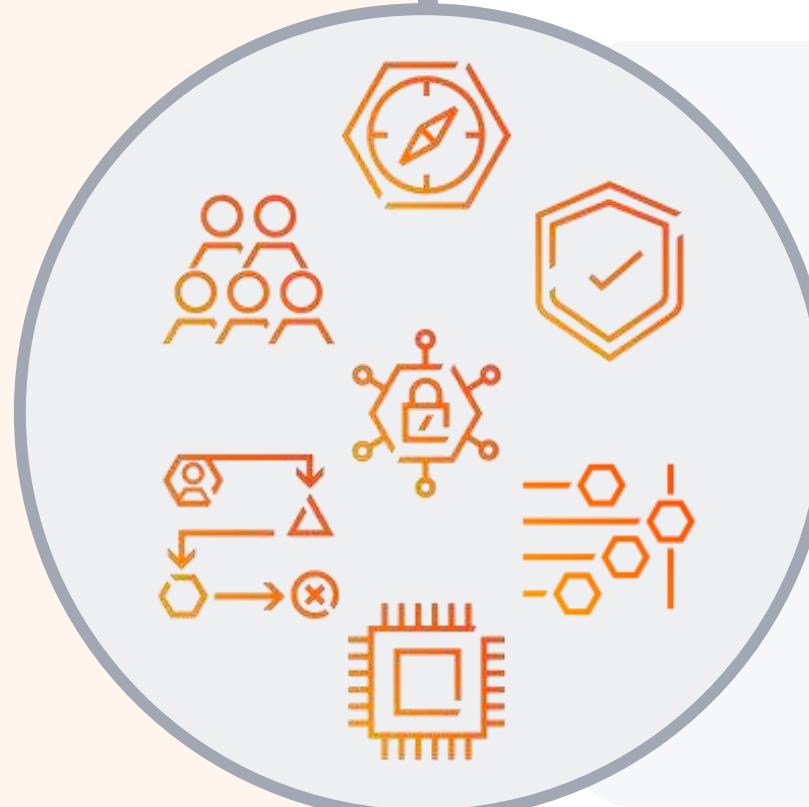


The economic outlook and positioning of the country emerged as a central theme during our conversations with industry leaders and senior professionals.

Experts recognise the positive impact of government and regulatory measures but emphasize the need for sustained fiscal discipline, comprehensive tax reforms, improved state-owned enterprise governance, and reduced government debt to maintain and enhance economic progress.

The urgent need to diversify and expand exports has been stressed upon, advocating a shift from consumption-driven growth to a value-added export base.

Experts highlight that boosting domestic investment and productivity is critical for successful import substitution, which requires removing bureaucratic hurdles, simplifying regulations, and creating an investor-friendly environment. They also opine that consistent and continuous policy implementation is vital for effective nation-building and long-term economic sustainability.



Section 4 captures detailed perspectives along several key themes:

1. Economic growth and stabilisation
2. Domestic productivity
3. Import substitution
4. Export growth and diversification
5. Challenges to the economy
6. Economic, structural and tax reforms
7. Privatization
8. Incentives/ subsidies

3. Priority Sector Financing

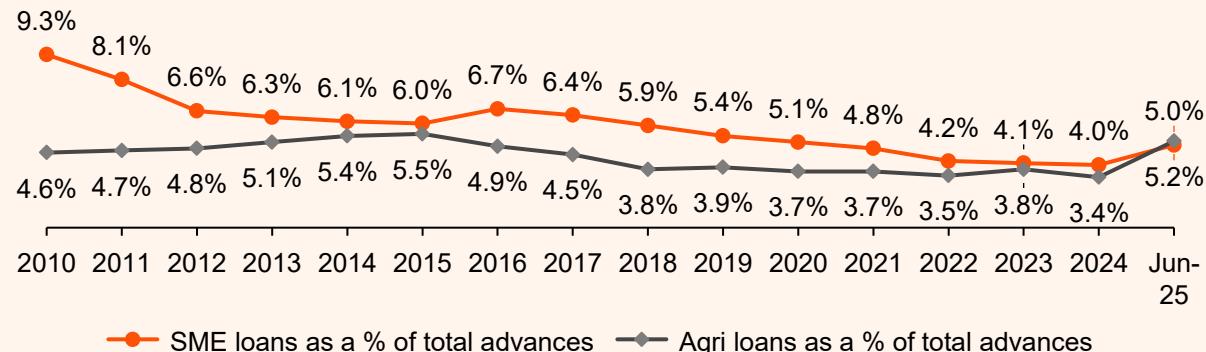


SMEs and the agriculture sector are central to Pakistan's economy, together representing millions of enterprises across formal and informal sectors. Agriculture contributes 24% to GDP, while SMEs account for 40% of GDP, 90% of enterprises, 30% of export earnings, and employ nearly 30% of the workforce.

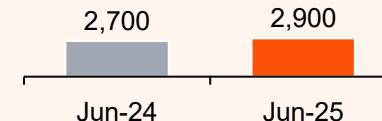
Agricultural borrowers grew by 200K reaching 2.9 million in Jun-25, while SME borrowers have increased by over 55% touching 277K over the same period.

Recent initiatives by the regulator and industry have led to significant progress, with financing to priority sectors surpassing 10% of total loans, indicating reversal of historical declining trends.

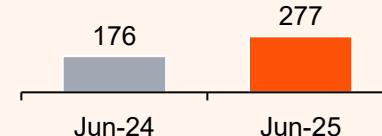
Loans to priority sectors as % of total advances



Number of borrowers - agricultural finance (in 'K')



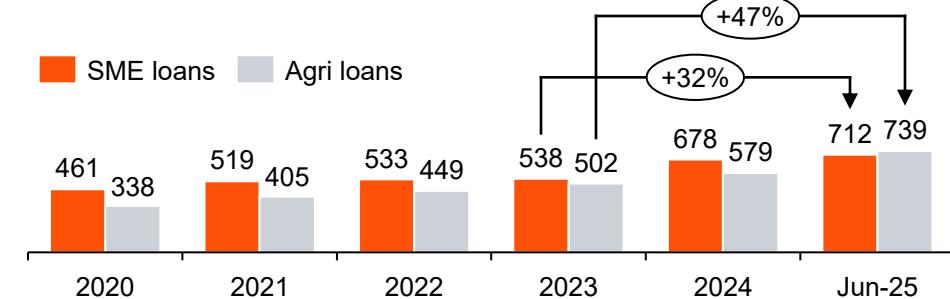
Number of borrowers - SME finance (in 'K')



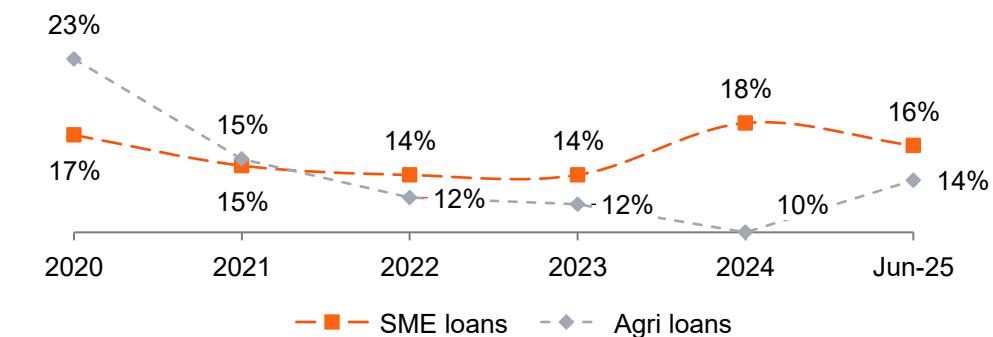
Marked rise in SME and Agri financing with divergent NPL trends

As of Jun-25, agricultural financing rose to Rs. 739 billion (5.2% of total loans) from 3.4% in Dec-2024, while SME lending increased to Rs. 712 billion, accounting for 5% of total loans.

Outstanding loan portfolio – in Rs. Billion

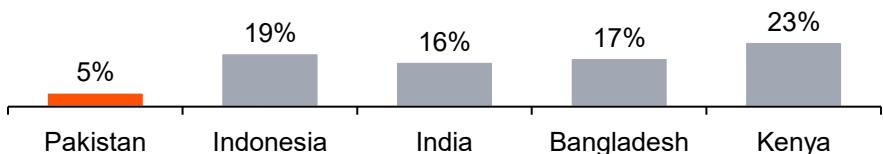


Non-Performing Loans (NPL) ratio of priority sectors



Despite this positive trend, financing levels remain low compared to regional peers, highlighting the need for expanded credit interventions.

SME credit intervention in Pakistan vis-à-vis in certain regional economies



Section 5 elucidates these trends, demand and supply-side challenges, together with global learnings from few emerging/ developed economies.

Key factors influencing lending trends include historical NPL performance, limited credit appetite, skills, inadequate capabilities and limited access to alternative data.

With the onset of the AI economy there is growing emphasis on the need to leverage digital technologies, digital public infrastructure and alternate data sources to address gaps in traditional data.

Industry stakeholders opine that SME and agricultural sectors can transform at scale should banks actively collaborate with fintechs, platform-based businesses and agriculture service providers. The requirement to develop an ecosystem through public-private partnerships has also been emphasised.

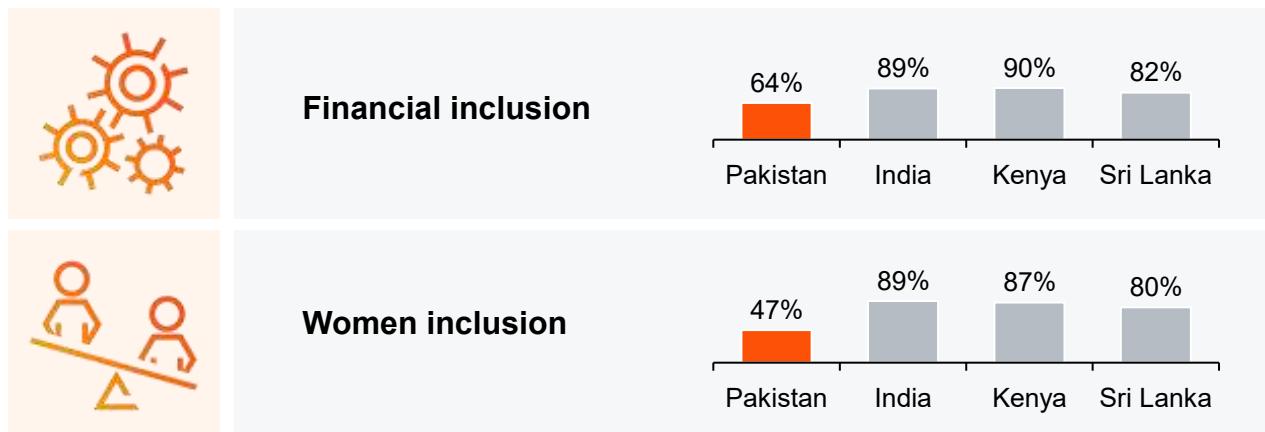
One of the most critical elements to this effect is progressing towards documentation, for which it is important to augment the national data infrastructure. Banks may also consider enhancing their credit appetite, augmenting their capacities, and building holistic propositions around business and financial needs of these niche segments.

4. Financial Inclusion



Pakistan's financial inclusion ratio has risen to 64% - reducing its share of the global unbanked adult population from 9% in 2021 to 4% in 2023.

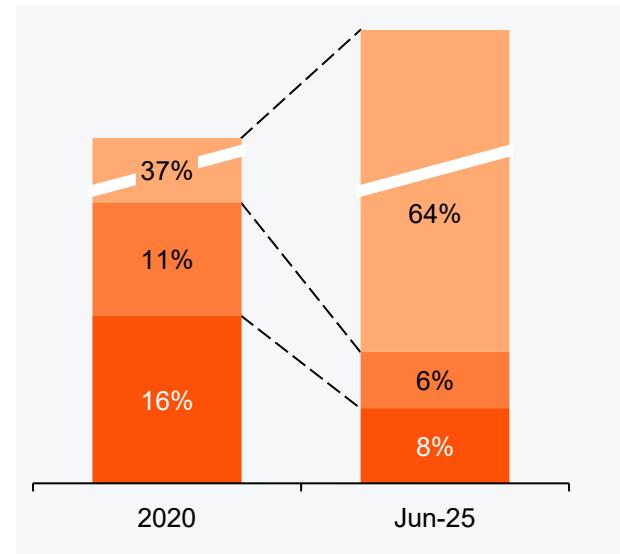
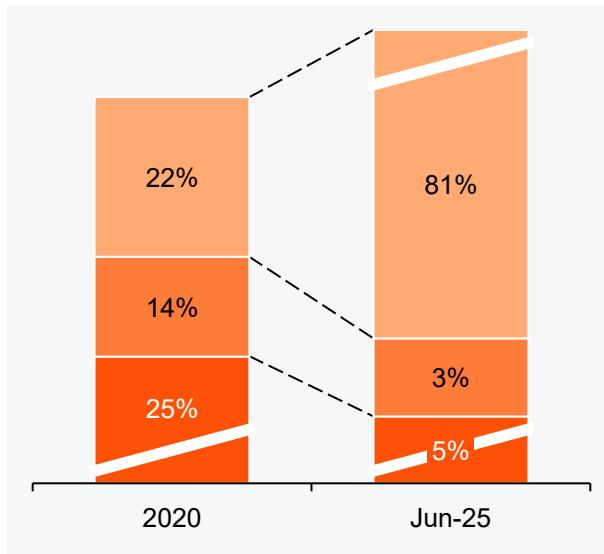
Despite notable progress, Pakistan's position relative to certain regional and emerging economies, indicates some under-penetrated space, that has been further explained in section 6.



The National Financial Inclusion Strategy (NFIS) 2024-28 aims to achieve 75% financial inclusion and reduce the gender gap to 25% by 2028.

Key focus areas entail district profiling, account opening drives, expanding access points, and launching the Asaan Business Account (ABA) with e-KYC to improve the availability of financial services in unserved and underserved areas.

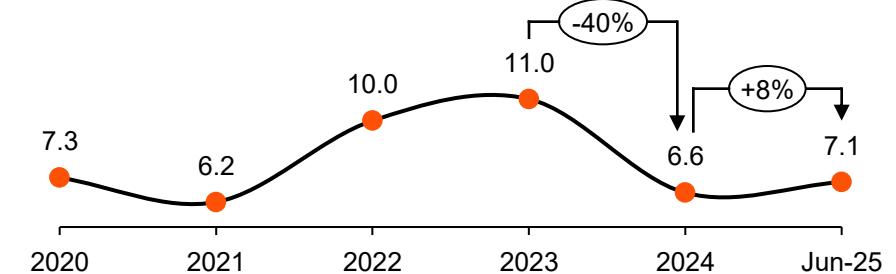
While there is a marked increase in the banked population, we also witness an increase in the number of accounts with deposit balance of less than Rs. 25K since 2020 for both individuals and businesses.



Legend: Less Than 25,000 (light orange), 25,000 to 50,000 (medium orange), 50,000 to 100,000 (dark orange)

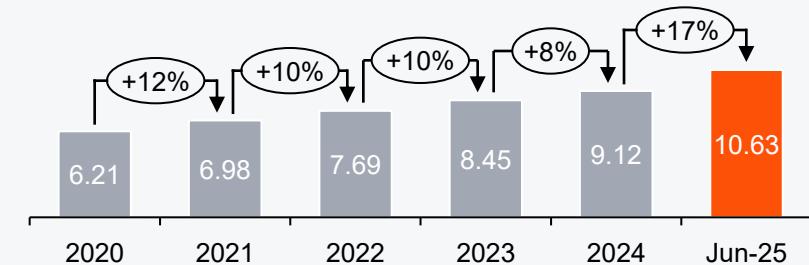
Financial inclusion remains an ongoing opportunity for growth, with persistent collaboration among regulators and the industry poised to expand the ability to offer accessible, digital, and customer-centric financial services to underserved populations.

In Jun-25, there has been a modest 8% increase in business accounts compared to Dec-24. This is encouraging given the earlier 40% decline, from 11 million to 6.6 million accounts between Dec-23 and Dec-24.



Cash in circulation (in Rs. Trillion)

Cash in circulation stands at Rs. 10.6 trillion - a two times increase since 2020, approximating 1/3rd of total deposits held at banks.



5. Digital Banking & Payments



The financial services sector is rapidly evolving due to emerging technologies, driving banks to adopt innovative solutions to meet customer demands for seamless experiences. Digital transformation is essential for competitiveness and growth, requiring ongoing adaptation to technological advances and changing customer behaviors.

Section 7 explores latest trends, opportunities and challenges, drawing insights from global economies, as well as the experience of certain best practice global players across digital banking and payments.

Leveraging AI for operational and customer excellence

Banks worldwide are increasingly leveraging advanced Artificial Intelligence (AI) technologies to revolutionise customer engagement, streamline operations, and deliver highly personalised financial services. Few examples include:



AI-driven financial assistants



Optimised lending and credit decisioning



Customer-centric communications for optimal engagement



Enhancing call center service quality

Banks in Pakistan are increasingly using AI to improve efficiency and customer service, with many deploying AI-powered virtual assistants and chatbots for 24/7 support.

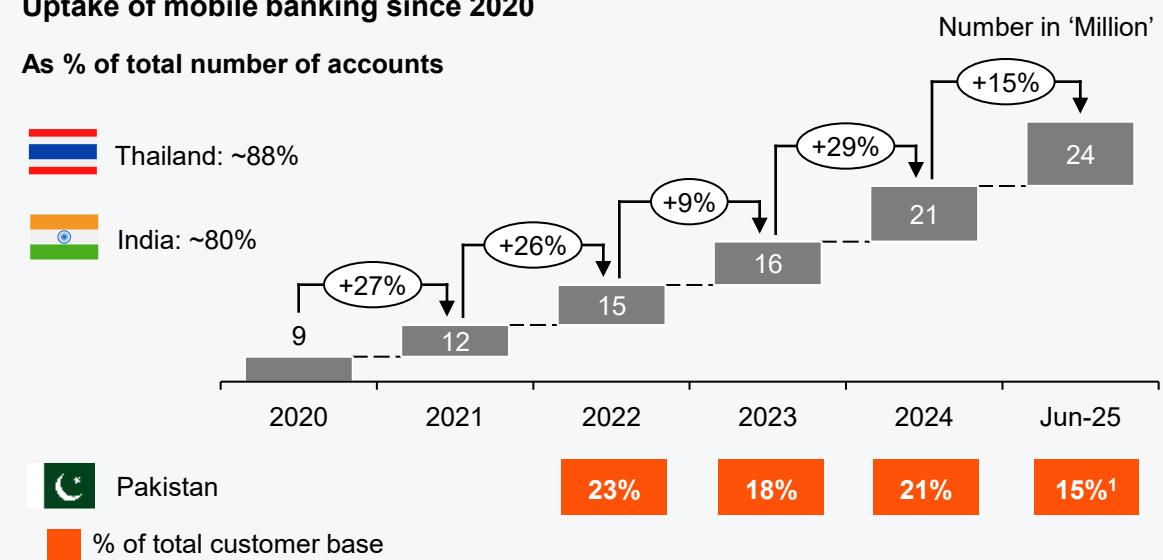
Advanced AI technologies, including Large Language Models (LLM) and Generative AI (GenAI), are being worked upon to autonomously access internal and regulatory information. While few banks are progressing to apply AI to lending and supply chain financing, chatbot use in contact centers has significantly boosted response rates and reduced abandoned interactions.

Mobile banking penetration

Mobile banking adoption continues to grow in Pakistan whilst significant potential for further expansion still exists. Presently, only 15% of all bank accounts in Pakistan are registered for mobile banking, compared to adoption rates exceeding 80% in various emerging markets.

Uptake of mobile banking since 2020

As % of total number of accounts



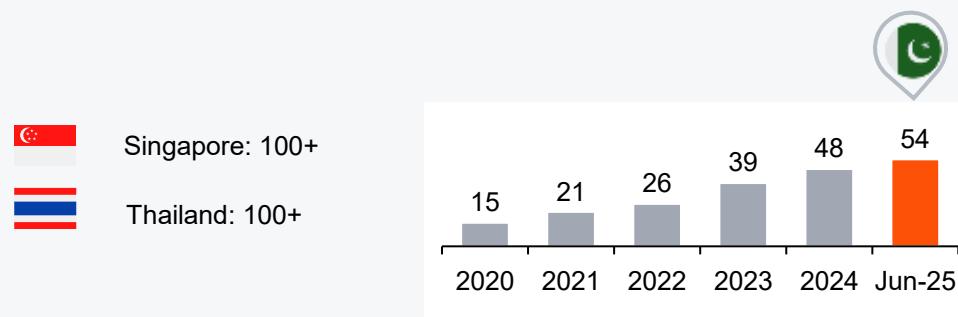
Sources: PwC proprietary insights and analysis, SBP, other central banks, media reports

¹As disclosed by SBP, the conversion of a microfinance bank into a digital bank has resulted in some structural breaks in data impacting the number of deposit accounts reported by SBP

Accelerating mobile and internet banking engagement

While mobile and internet banking transactions are on the rise, user engagement remains relatively low, with an average of approximately 54 transactions annually (or 4 per month) per user, compared to higher utilisation rates in certain other markets.

Mobile/ internet banking transactions per user



Branchless banking wallet transactions have shown steady growth, with average transactions per user increasing to approximately 54 annually from 49 in Jun-24.

Similarly, EMI e-wallet transactions per user have risen from 23 to 29 over the same period. Digital wallets are gaining trust as cash alternatives, particularly among youth, freelancers, merchants, and small businesses.

Banks making headway in digital within Pakistan have prioritised some or all the following aspects:

Expanding their app user base through brand rejuvenation, enhanced UI/UX design, and targeted campaigns



Diversifying solution suite, moving into adjacent financial products notably, consumer loans, savings, investments and insurance



Introducing app features and value-added services around customer convenience (including tax filing, entertainment, healthcare)



Creating joint offerings with non-banks for digital lending, personal financial management and loyalty



Addressing expanded financial requirements of MSMEs including deposits, collections, e-invoicing, payments, employee banking, financing, etc.



Implementing conversational banking by redirecting call center traffic to WhatsApp



Digital payments ecosystem

Cashless Pakistan program

The Government has been undertaking several initiatives under its Cashless Pakistan program, aimed to accelerate country's transition to a digital economy. Few of these include:



Nationwide abolition of right-of-way charges on internet infrastructure



Subsidy to promote merchant onboarding and encourage QR payments

Additionally, aggressive targets have been set to achieve the following by Jun-26:



Increase monthly active QR merchants from 500K to 2 million



Increase annual digital transactions from 7.5 billion to 15 billion

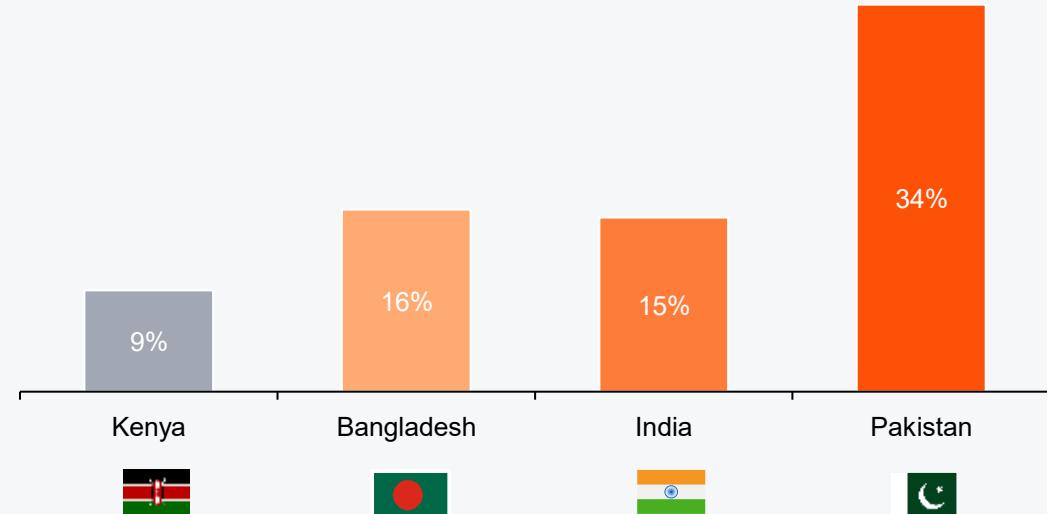


Digitise 100% of government payments



Industry experts emphasise that a large share of Pakistan's transactions remain cash-based, contributing to an undocumented economy estimated at 40% of GDP. Digitising a portion of these transactions could save Rs. 164 billion annually, while reducing the undocumented economy by 25% has the potential to unlock over Rs. 1 trillion in resources.

The cash-in-circulation ratio stands at 34%, significantly higher than other countries.

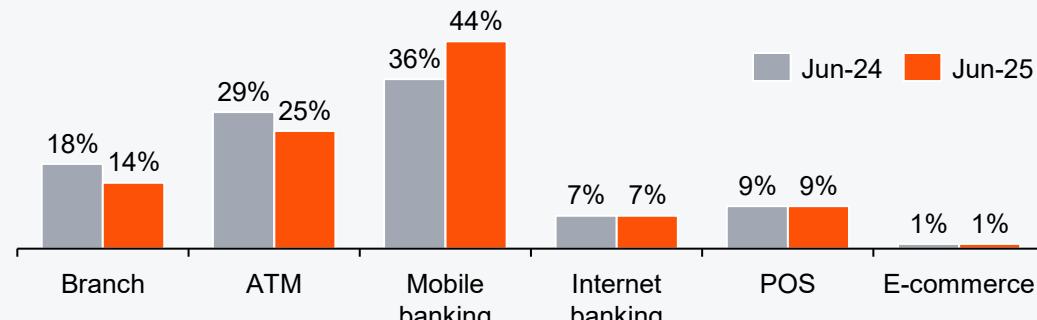


Retail payments space in Pakistan

Retail payments have experienced remarkable growth, with a Year-on-Year (YoY) increase of 38% in volume and 12% in value as of Jun-25.

This robust expansion is primarily driven by the rising adoption of mobile banking contributing to a decline in the share of paper-based and ATM transactions.

Share in retail payments volume



Despite a noticeable shift, Pakistan continues to exhibit a higher proportion of paper-based and ATM transactions relative to regional economies, highlighting significant opportunities for further digital interventions.

	Share in retail payments volume			
	Paper	Electronic	Mobile & Internet banking	ATM
Pakistan	14%	86%	51%	25%
Thailand	0.1%	99.9%	94%	3%
Singapore	0.2%	99.8%	55%	3%
India	0.3%	99.7%	92%	4%

Point-of-sale ecosystem

In Pakistan, there are over:

	2.7M	Retail shops
	825K	Service shops
	256K	Hotels
	17K	Hostels
	188K	Wholesale shops
	643K	Production shops
	119K	Hospitals
	290K	Educational institutions

Despite this substantial opportunity, only 159K merchants are currently POS-enabled, highlighting considerable potential to expand the digital payments acceptance network across abundant untapped every-day brick and mortar-based merchants.

Country	Number of POS (in '000')	Accounts per POS	Card use on POS
Pakistan	196	830	26%
Thailand	909	133	56%
India	12,000	238	40%

Opportunities to expand into e-commerce

E-commerce industry is experiencing robust growth, positioning Pakistan as the 46th largest market globally.

As of Jun-25, the number of registered e-commerce merchants has surpassed 9.5K, marking a 23% increase from 7.8K in Jun-24.

Alongside formal merchants, a large number of informal sellers operate primarily through social media, relying mainly on Cash-on-Delivery transactions but willing to accept online transfers.

Rise in e-commerce payments (on platforms registered with banks)



Surge in transaction volumes to prior year levels



Surge in transaction values to prior year levels



93% of payments (by volume – on registered platforms) are through accounts/ digital wallets

7% of these payments (by volume – on registered platforms) are through cards

Experts note that although digital payments for online purchases have increased, they still constitute only about 15% to 20% of total e-commerce transactions.

Cash-on-Delivery – Pakistan relative to certain other jurisdictions



Pakistan: **~80%**



Indonesia: **<10%**



Thailand: **<20%**



Singapore: **<5%**

PwC Pakistan's Consumer Banking Experience Survey 2024 provides insights into online shopping frequencies, purposes, and preferred platforms for purchases



27% respondents shop online more than once a week

Online shopping mostly for..



Clothing and apparel, shoes, fashion, accessories

66%



Ready-to-eat food

65%



Groceries and essentials

48%



Adoption of instant payment systems

As of Jun-25, there were 45 million RAAST ID registrations, facilitating 1.3 billion transactions valued at Rs. 29.6 trillion. Representing 14% of total retail payments, this reflects substantial growth potential, as demonstrated by comparable levels of adoption in other economies.

The Cashless Pakistan program, combined with regulatory initiatives, has driven a twofold increase in the number of QR-enabled merchants nationwide, growing from 500K in 2024 to over 1 million by Jun-25.

Key enablers to increase uptake of digital payments and P2M transactions



A user-friendly, widely accessible digital ecosystem offering transaction costs lesser than cash



A commercially sustainable ecosystem based on a model that balances affordability for merchants with economic viability for acquirers



Continuous incentivisation of digital transactions alongside disincentivising the use of cash



Raising awareness and educating customers on digital frauds, whilst strengthening fraud detection systems

Certain key initiatives for a vibrant digital banking and payments ecosystem



Pakistan Banks Association launched the national eKYC utility platform. Built on blockchain, it creates secure and verifiable KYC records for individuals.



SBP launched its regulatory sandbox following a cohort-based approach. Themes for the first cohort include (1) technology enabled solutions for inwards remittances (2) open banking (3) remote onboarding of merchants.



SBP is collaborating with a blockchain technology developer on a pilot program to introduce CBDC in Pakistan.



SBP intends to develop a regulatory framework for open banking to allow data sharing and boost tech-enabled financial inclusion.



Plans to establish and manage an industry-led Digital Payment Infrastructure Development Fund, in partnership with banks and card schemes, to expand payment acceptance infrastructure in underserved areas.

Capitalising on digital banking and payments opportunities

Industry participants are operating across a spectrum of maturity in Pakistan, with some focusing on foundational digital services and feature stacking to few others on their journeys to transform into customer-centric lifestyle platforms.

In many markets abroad, there is a shift from providing fragmented offerings to unified financial ecosystems. Particularly within Asia and now beyond, banks are transforming financial apps into daily essentials, with well-executed strategies yielding higher customer acquisition, satisfaction and loyalty.

Drawing on global trends and reflecting on the digital maturity of banks in Pakistan, a number of initiatives may be pursued to realise the potential of digital innovation, including:

- Designing data-driven digital banking and payments strategies - essential to effectively adapt and thrive as the country transitions into a digital economy
- Optimising digital onboarding journeys – delivering mobile-first, friction-free experiences that balance CX with regulatory compliance
- Enhancing user engagement through intuitive journeys, interactive features, contextual prompts, and consistent design elements
- Utilising customer data to develop advanced digital lending propositions powered by data-driven credit decisioning
- Leveraging the evolving ecosystem - particularly the increasing adoption of QR codes and e-commerce - by exploring strategic partnerships that address customer needs and create integrated solutions such as embedded financing options on e-commerce platforms
- Developing differentiated strategies for acquiring and engaging both merchants and customers in a competitive market landscape

6. Islamic Transformation

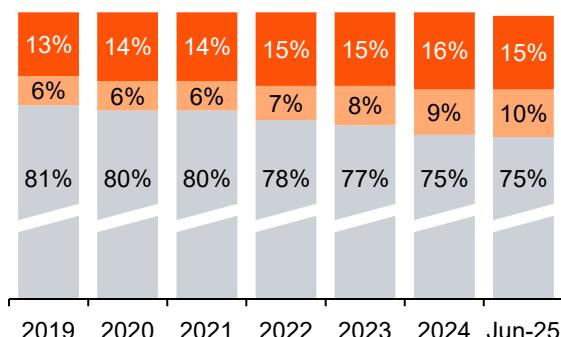


Islamic banking continued its growth trajectory, building on the momentum of recent years. Deposits and financing within Islamic banks and Islamic window operations of conventional banks have increased in recent years, indicating robust growth and promising prospects. However, our analysis also indicates that conventional banking accounted for 74% of deposit growth in the six months ending Jun-25, up from 58% in 2024.

Despite conventional banking contributing a larger share to deposit and financing growth, the market share of Islamic banking has shown an upward trend, as presented in section 8 and illustrated below, showcasing its potential as a viable and sustainable business model.

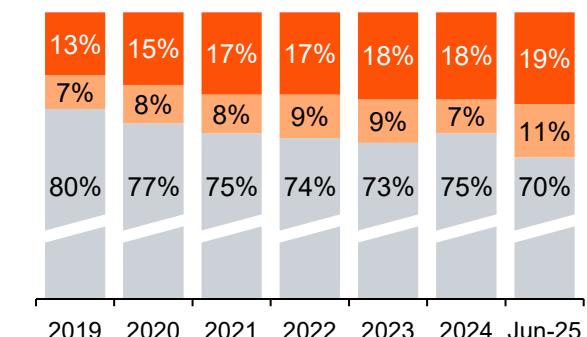
Islamic banking deposits share 25%

(19% in 2019)



Islamic banking financing share 30%

(20% in 2019)

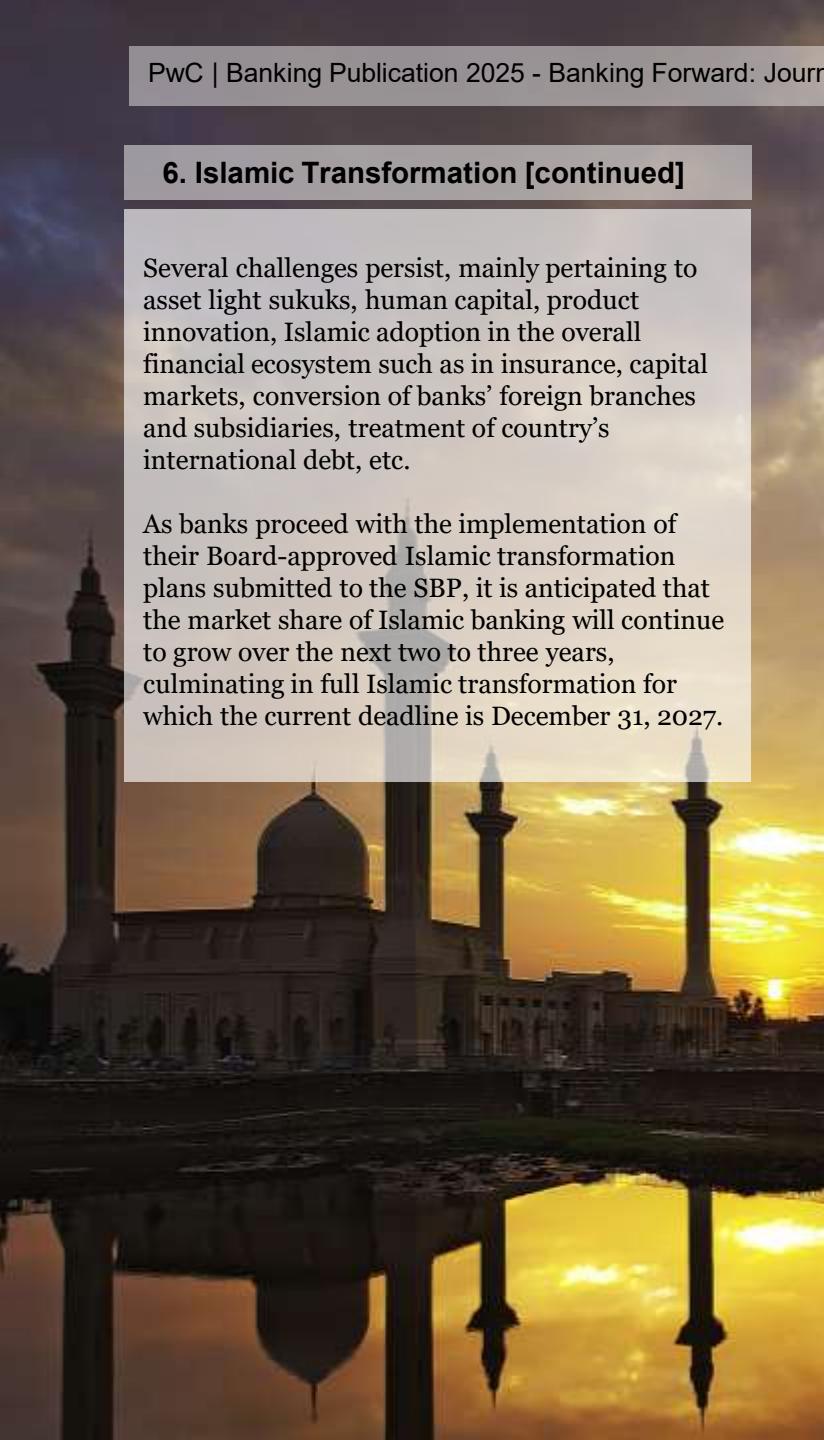


■ Islamic banks ■ Islamic windows ■ Conventional banking

6. Islamic Transformation [continued]

Several challenges persist, mainly pertaining to asset light sukuks, human capital, product innovation, Islamic adoption in the overall financial ecosystem such as in insurance, capital markets, conversion of banks' foreign branches and subsidiaries, treatment of country's international debt, etc.

As banks proceed with the implementation of their Board-approved Islamic transformation plans submitted to the SBP, it is anticipated that the market share of Islamic banking will continue to grow over the next two to three years, culminating in full Islamic transformation for which the current deadline is December 31, 2027.



7. Future-Ready Workforce



Organisations are adapting to rapid changes driven by technological disruption and evolving demographics, moving beyond cultural alignment toward strategic workforce readiness, as detailed in section 9.

Key workforce trends shaping the future



Increasing automation of core tasks will require employees to develop digital collaboration skills to foster adaptability



Talent management is evolving towards greater flexibility, personalised roles, and diverse career paths, requiring HR to focus on reskilling and inclusivity



Compensation and benefits are evolving to prioritise lifestyle incentives such as flexible hours and remote work



Transparent and ethical reward strategies (including equal pay) become essential as organisations transition from hierarchical to flexible career models



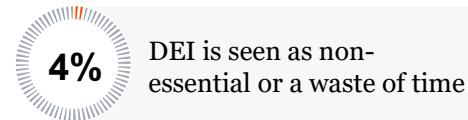
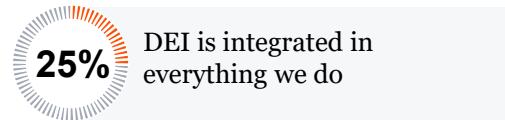
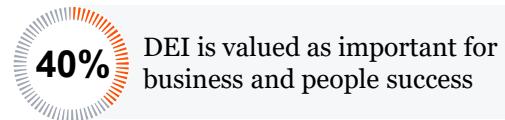
HR, traditionally viewed as a passive support function, must transform into a digital, data-driven partner to effectively navigate the evolving workplace and drive new business models



Building a strong, compelling organisational culture will become a key differentiator, as it plays a critical role in engaging and retaining employees

Diversity, Equity and Inclusion (DEI)

DEI is implemented across organisations on a spectrum that includes both strategic focus and compliance obligations.



How AI is reshaping work and workforce expectations

From the C-suite to the front line, AI is no longer just a buzzword. According to the 28th Annual Global CEO Survey - Pakistan, 75% of CEOs anticipate moderate or greater AI integration within business processes over the next three years, reflecting strong confidence in AI's potential to streamline workflows, automate tasks, and enhance digital infrastructure through advanced data analytics.

72% of respondents anticipate moderate or greater AI integration in workforce and skills development, highlighting the need to adapt capabilities for successful implementation, with 63% and 59% foreseeing similar integration in business strategy and product or service development, respectively.

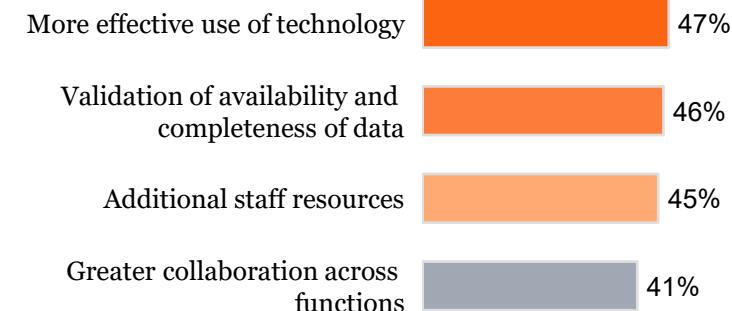
8. Sustainability Reporting



Integrating sustainability and climate risks into the overall business strategy and enterprise risk management framework has become a critical pillar for banks as explained in section 10. A consensus has emerged in recent years that Environmental, Social, and Governance (ESG) issues are crucial for the banking and overall corporate world.

In PwC's Global Investor Survey 2024, investors ranked ESG-related outcomes, such as effective corporate governance and greenhouse gas emissions reduction, among their top five priorities for businesses to deliver.

New regulations are elevating the standards for transparency and consistency in banks' management of sustainability and climate-related risks within their portfolios. In response to these requirements, along with evolving investor expectations, banks are actively integrating climate risk considerations into their enterprise risk management, stress testing, capital adequacy frameworks, and systemic risk oversight.



¹Insights from PwC's Global Sustainability Reporting Survey 2025

Key developments on sustainability reporting and related regulations in Pakistan

Banks are required to adhere to standardised sustainability reporting requirements. This regulatory initiative is primarily driven by SBP through frameworks such as the Green Banking Guidelines, the Environmental and Social Risk Management (ESRM) Manual, and the Green Taxonomy. Additionally, the Securities & Exchange Commission of Pakistan (SECP) mandates the adoption of IFRS S1 and S2 disclosure standards, alongside compliance with SRO 920 of 2024.

While awareness and maturity have developed over time, banks will need to formalize a comprehensive sustainability reporting strategy incorporating IFRS S1 and S2 requirements, particularly in relation to climate scenario analysis, stress testing, and financed emissions.



As mandatory sustainability reporting gains momentum, the banking sector in Pakistan must swiftly adapt to this transition, evolving from compliance-focused reporting to proactive strategic value creation.

The transition from reporting to SBP under the Green Banking Guidelines and ESRM to public disclosure in accordance with IFRS S1 and S2 standards will necessitate substantial transformation.

Banks need to recognise sustainability and climate risks as strategic drivers of opportunity in areas such as carbon markets, green financial instruments, transition financing for clean technologies, and climate change adaptation. Undoubtedly, these initiatives will create significant value for businesses, if leadership integrates sustainability into their core strategies and planning processes.



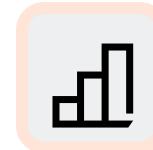
3

Industry's financial performance

Industry's financial performance

A Snapshot of Key Performance Indicators in 2024

Similar to 2023, the banking industry continued its journey of sustained performance in majority of the benchmarks during 2024.



Balance Sheet Indicators

All figures in Rs. trillion

Indicator	2024	2023	% change
Total assets	53.1	45.8	16%
Gross advances	16.8	13.0	29%
Investments	29.4	25.6	15%
Deposits	31.7	29.1	9%
Borrowings	14.6	11.3	29%
Total liabilities	49.9	43.1	16%
Non-performing loans	1.04	0.96	8%

Profit & Loss Indicators

All figures in Rs. Trillion

Indicator	2024	2023	% change
Profit before tax	1.34	1.27	6%
Profit after tax	0.63	0.63	-
Net interest income	2.01	1.88	7%
Non-funded income	0.57	0.38	50%
Operating expenses	1.15	0.90	28%

Key Ratios

Balance Sheet Ratios

Balance Sheet Ratios	2024	2023
Capital adequacy	20.4%	19.4%
Advances to deposits	49.4%	41.5%
Investments to deposits	93%	88%
Non-performing loans to advances	6.2%	7.4%

Profitability Ratios

Return on equity (before tax)	46.4%	55.4%
Return on assets (before tax)	2.7%	5.4%

Industry's financial performance

A Snapshot of Key Performance Indicators in June 2025

The journey of sustained performance continued subsequent to 2024, with further improvement in majority of the benchmarks during the first half of 2025.



Balance Sheet Indicators

All figures in Rs. trillion

Indicator	Jun-25	2024	% change
Total assets	59.1	53.1	11%
Gross advances	14.2	16.8	-15%
Investments	37.2	29.4	27%
Deposits	37.4	31.7	18%
Borrowings	14.7	14.6	1%
Total liabilities	55.5	49.9	11%
Non-performing loans	1.04	1.04	-

Profit & Loss Indicators

All figures in Rs. trillion

Indicator	Jun-25	Jun-24	% change
Profit before tax	0.79	0.60	32%
Profit after tax	0.36	0.28	29%
Net interest income	1.14	0.91	25%
Non-funded income	0.28	0.26	8%
Operating expenses	0.25	0.54	-54%

Key Ratios

Balance Sheet Ratios

	Jun-25	2024
Capital adequacy	21.1%	20.4%
Advances to deposits	35.0%	49.4%
Investments to deposits	100%	93%
Non-performing loans to advances	7.3%	6.2%

Profitability Ratios

	Jun-25	Jun-24
Return on equity (before tax)	47.5%	43.6%
Return on assets (before tax)	2.9%	3.8%



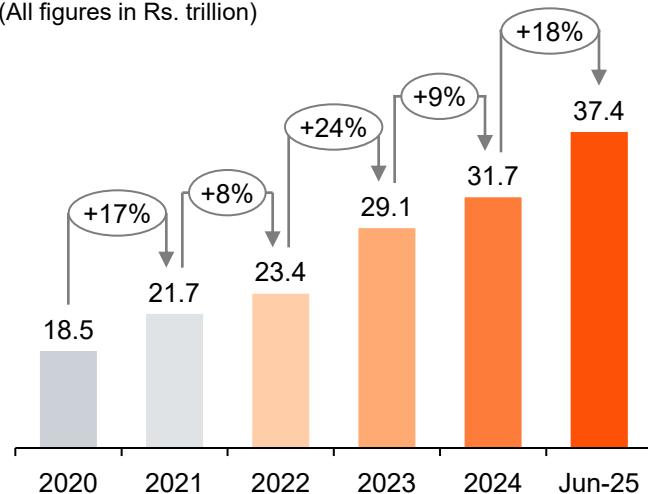
In this section, we analyse certain key areas of the sector's financial performance, related trends, opportunities and challenges. These are complemented by "Banking Analytics" within a comprehensive compendium to this publication. The information included in this section is sourced from PwC proprietary insights, analysis and industry-wide information published by SBP.

1. Deposits

Growth trends

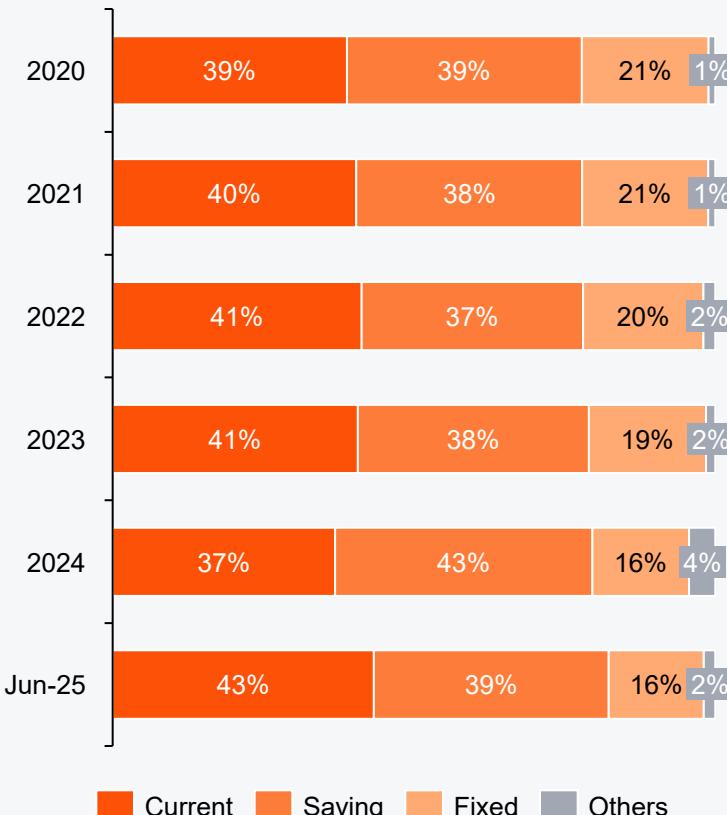
Deposits demonstrated consistent growth over the past five and a half years, as depicted in the graph. Notably, there was a rise of 9% in 2024, compared to a 24% rise in 2023 and a further increase of 18% in Jun-25, compared to 12% rise in HY 2024.

(All figures in Rs. trillion)



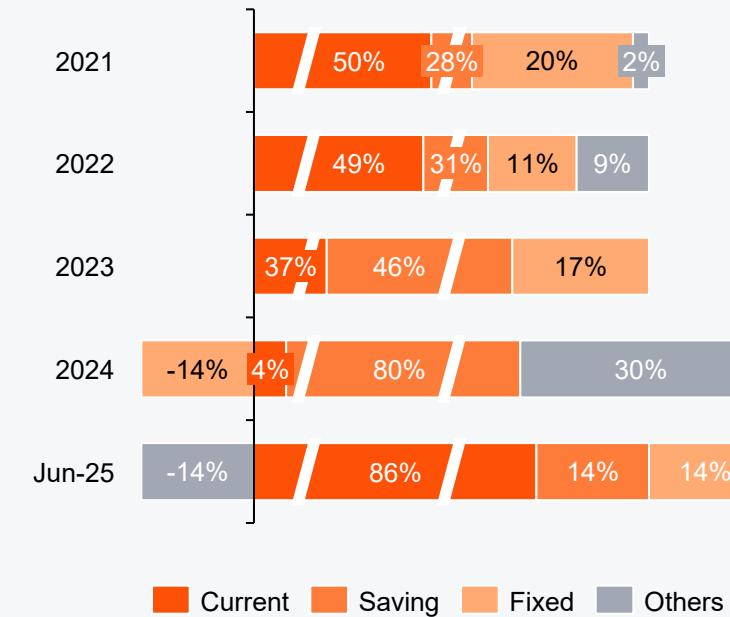
Current and CASA mix

Customer deposit mix remained broadly consistent over the years. As of Jun-25, current deposits contributed 43% of the total deposits (37% as at Dec-24 and 41% as at Dec-23) whereas CASA improved to 82% (80% at Dec-24).



Share of growth in total customer deposits

We also analysed contribution of each type of deposit, in the growth of total customer deposits, since 2021.

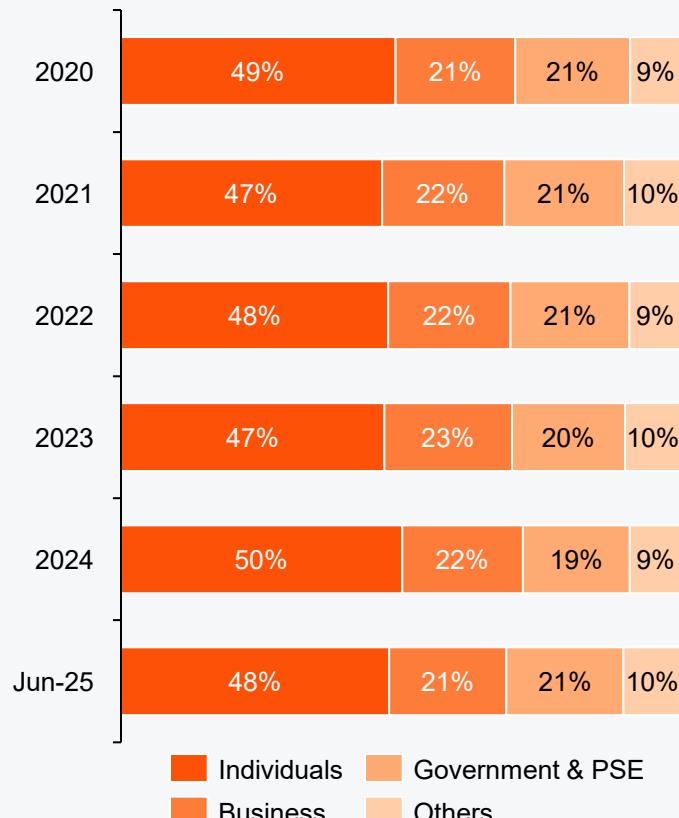


Sharp rise in the contribution of savings deposits in 2024 indicated customers' preference for higher profit rates. However, as profit rates declined in the later half of 2024 and 1st half of 2025, current deposits contributed 86% to the growth in total customer deposits, while savings deposits accounted for only 14%.



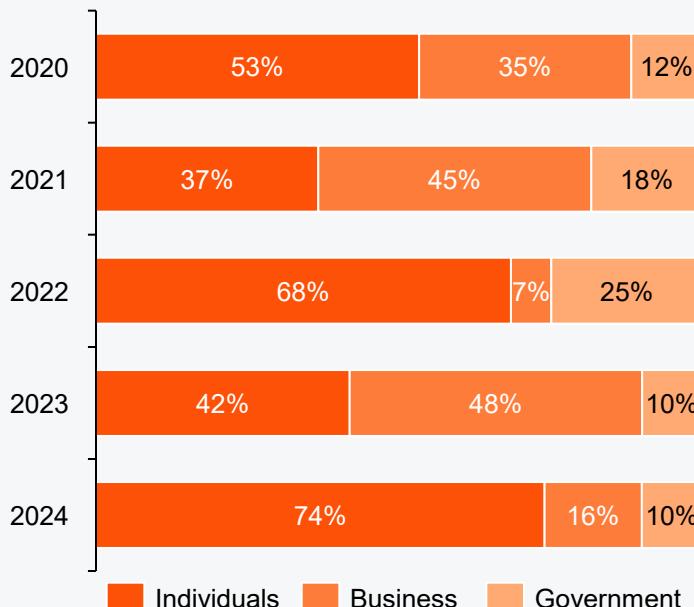
Customer segment mix

Customer segment mix showed minor variations over the years. Individual deposits accounted for 50% of the total in 2024 and 48% in Jun-25, while deposits from business, government, and public sector enterprises (PSE) collectively contributed 41% in 2024 (42% in Jun-25).



Share of growth in total deposits

Similar to deposit type-wise analysis, customer segment-wise contribution in total deposit growth was also analysed, since 2020.



Individual deposits have been the highest contributor to the growth in total deposits, with an exponential increase from 42% in 2023 to 74% in 2024, whereas business deposits contribution declined from 48% in 2023 to 16% in 2024.

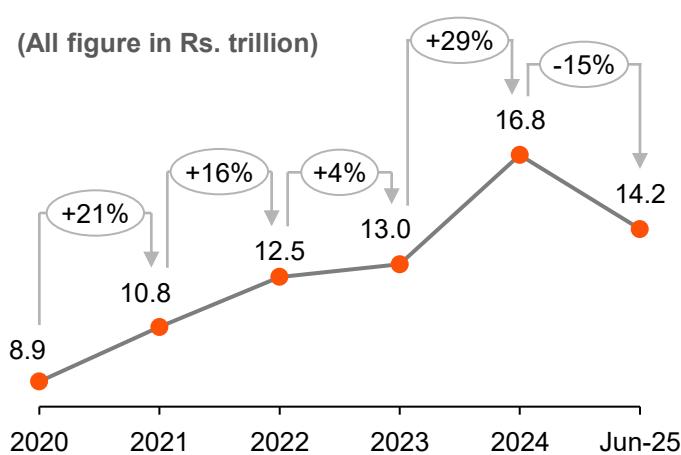
2. Advances

Growth trends

Advances demonstrated sharp YoY growth of 29% in 2024, compared to last year (2023: 4%), but declined significantly by 15% in Jun-25. The increase may be attributed to meeting the Advances to Deposits Ratio (ADR) requirement.

Despite subsequent adjustments in the policy rate witnessed during the later half of 2024 and 1st half of 2025, the decline may indicate that banks are returning to the cautious approach they have followed over the past 2-3 years by investing in risk-free government securities.

Trajectory over the years and percentage change from the previous period are highlighted below:

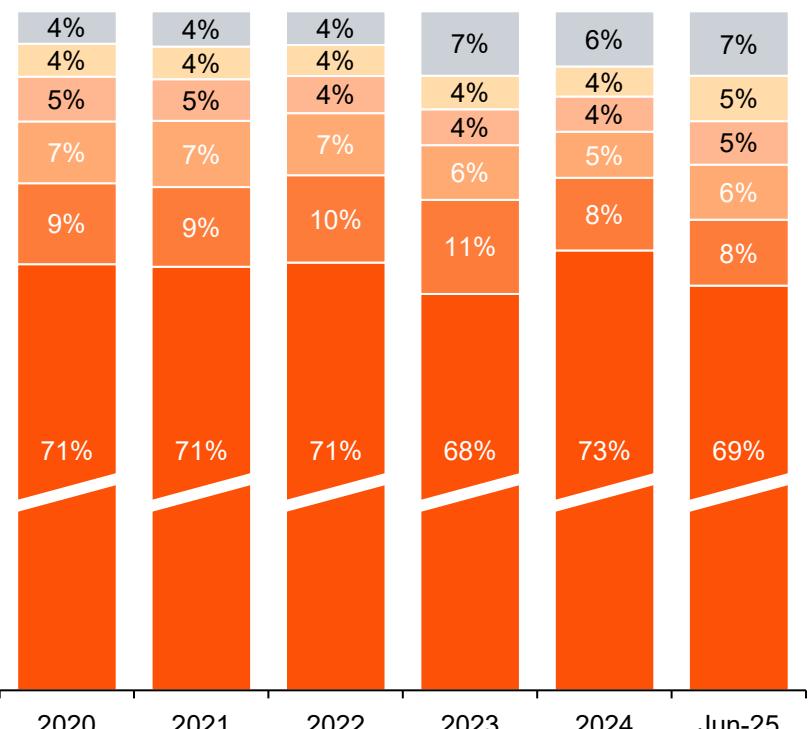




Customer segment mix



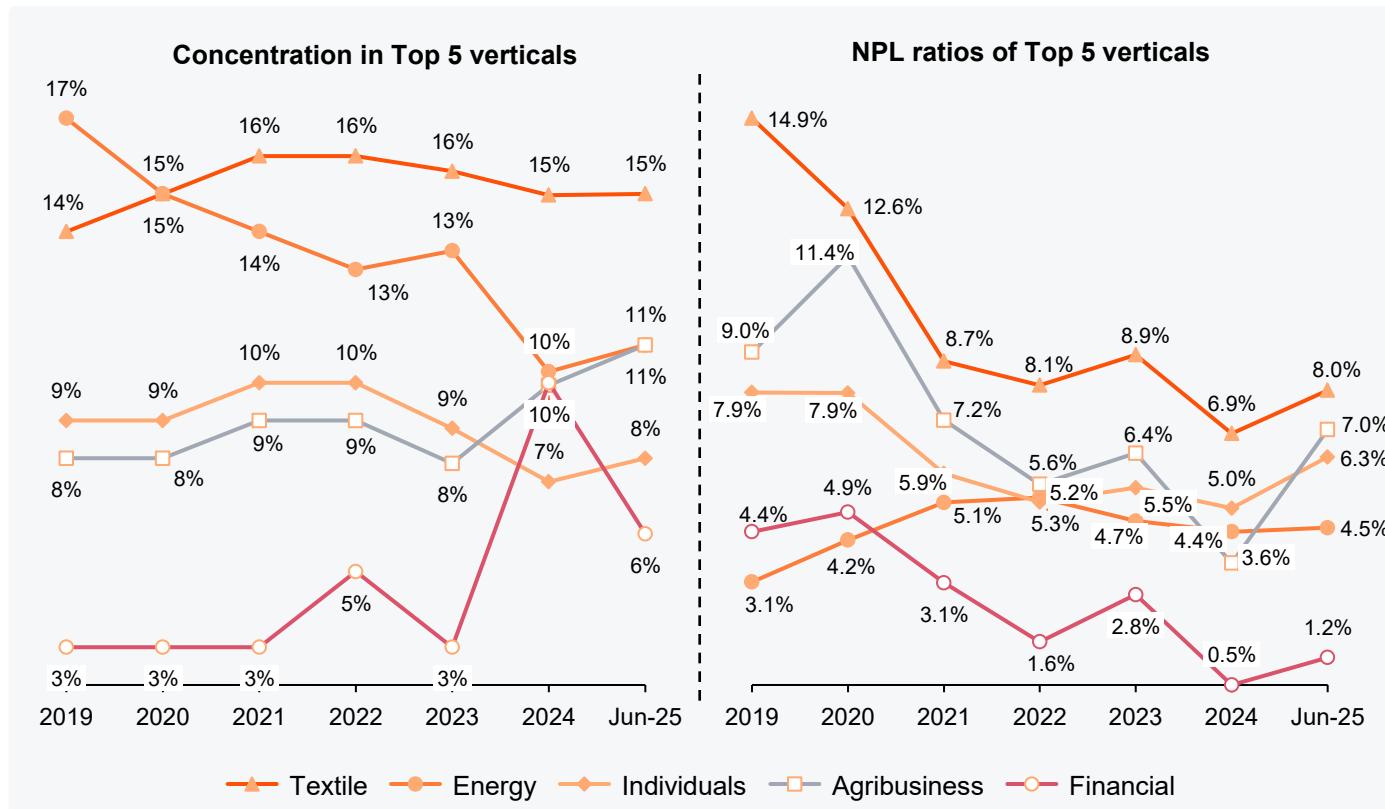
Financing to corporates declined to 69% (Dec-24: 73%), whereas a minor increase has been witnessed in other customer segments. When compared to Dec-23, commodity finance has declined to 8% (Dec-23: 11%).



█ Corporate █ Consumer █ Agri
█ Commodity █ SME █ Others

Top industries/ verticals and concentration

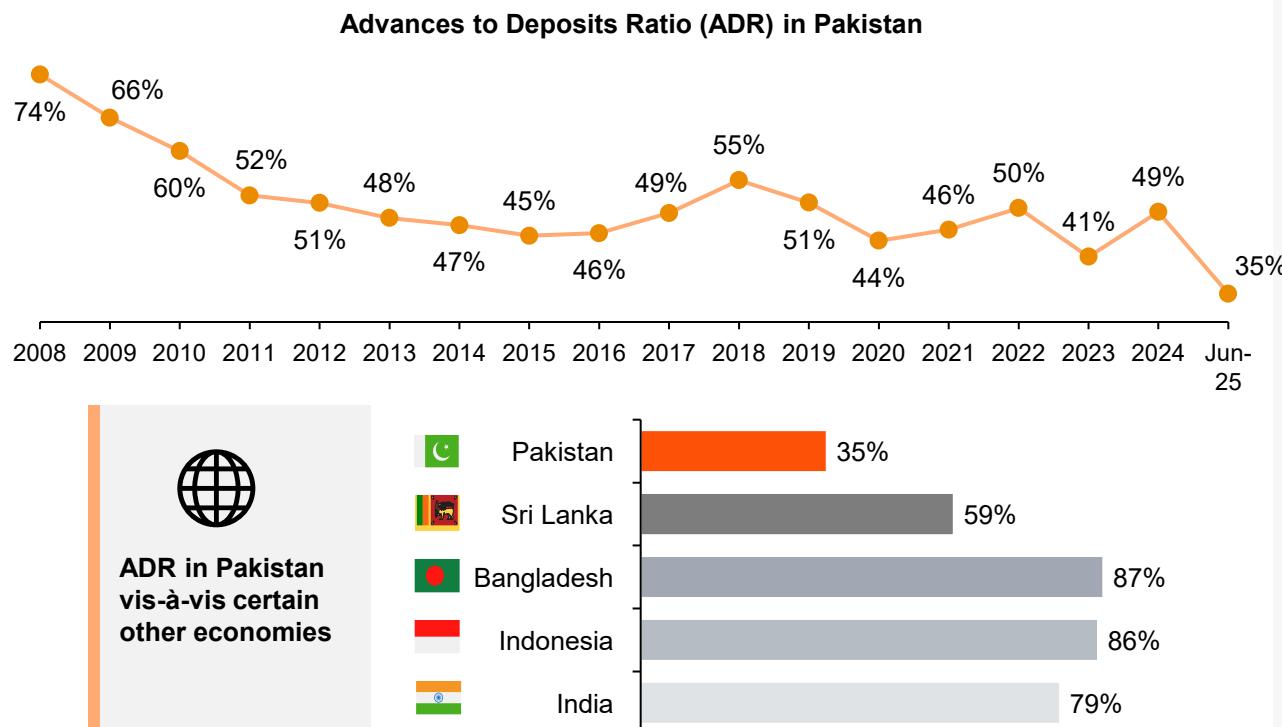
Similar to 2023, textile, production and transmission of energy, individuals and agri-business still remain the top industries/ verticals, whereas financial has replaced chemical as the 5th top sector. These sectors comprise more than 50% of the credit portfolio, with the following concentration and NPL ratios over the last 5 and a half years:





Advances to Deposits Ratio

ADR has shown a significant decline closing at 35% in Jun-25, compared to 49% in Dec-24 (41% in Dec-23). As mentioned earlier, the sharp adjustment in Dec-24 was due to regulatory pressure; however, subsequently, banks may have reverted to the earlier cautious approach. This is an area where significant impetus needs to be seen.



“

The banking sector's balance sheet is dominated by government securities and a low advances-to-deposits ratio compared to neighboring countries, mirroring Pakistan's comparatively low GDP growth rate.”

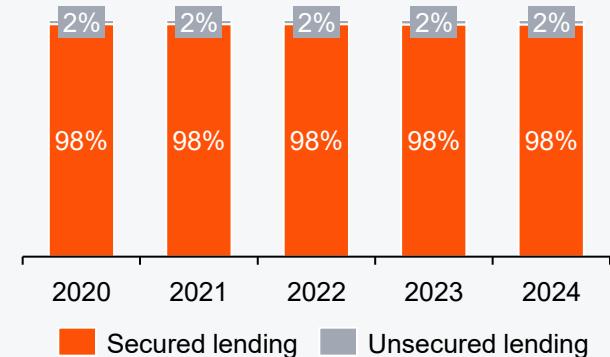
Mr. Muneer Kamal, CEO & Secretary General, Pakistan Banks Association

Potential to add in productive capital through sustainable financing strategies...

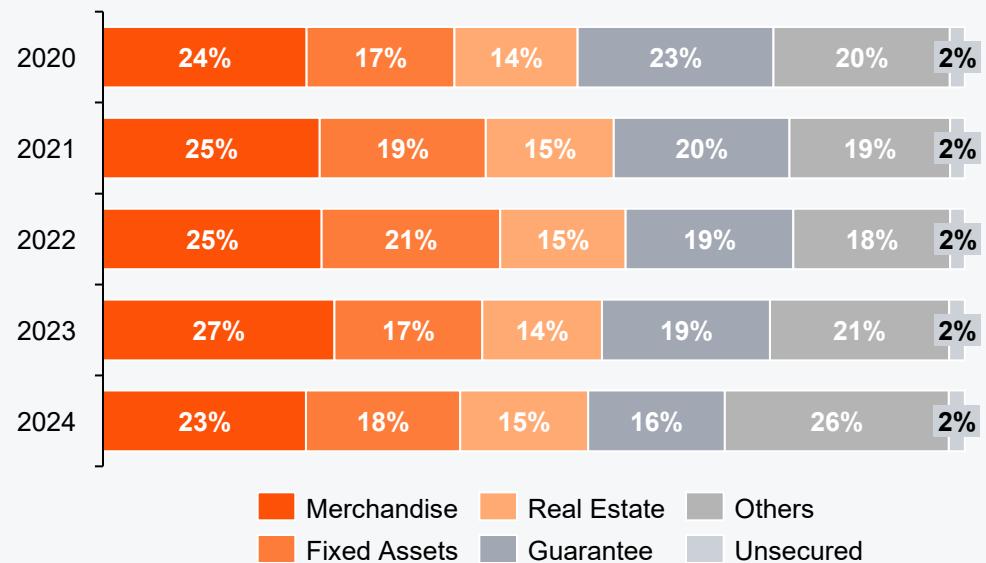


Cash-flow based financing still remains at a minimal 2% of total loans, with different types of physical and other collaterals continuing to be preferred for the large majority of portfolio (as reflected below). Banks may improvise their credit appetite and readiness to increase cash-flow based financing to priority segments.

Secured vs unsecured financing



Collateral-wise financing as a % of total loans



Consumer finance



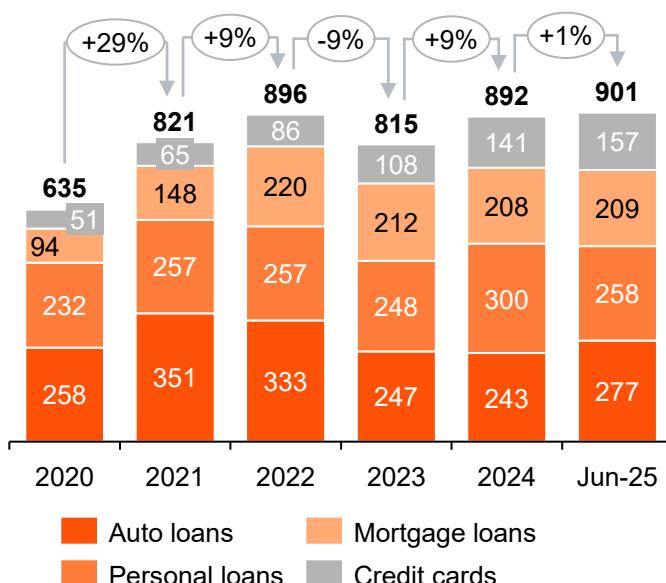
Consumer finance increased by 9% in 2024 and by a further 1% in Jun-25, constituting 6% of total advances (2024: 5% and 2023: 6%).

Since 2023, we have observed a significant increase in auto loans by approximately 12% (in Jun-25) whereas credit cards portfolio improved by 45% over the same period. Mortgage financing and personal financing contracted slightly, compared to Dec-23.

Below is the size of each product in the overall consumer finance portfolio since 2020.

Product-wise consumer finance

(All figures in Rs. billion)



Commodity finance



Commodity finance portfolio contracted by 23% in Jun-25 as compared to 2023, with component wise break-down as follows:

Commodity	Jun-25	2023	Change
	Rs. in billion	Rs. in billion	
Wheat	651	1,064	-39%
Sugar	247	101	145%
Cotton	86	70	23%
Rice	15	33	-55%
Others	80	139	-42%
Total	1,079	1,407	-23%

Corporate loans

As mentioned earlier, corporate loans constitute ~70% of total advances, with the following financing type mix:

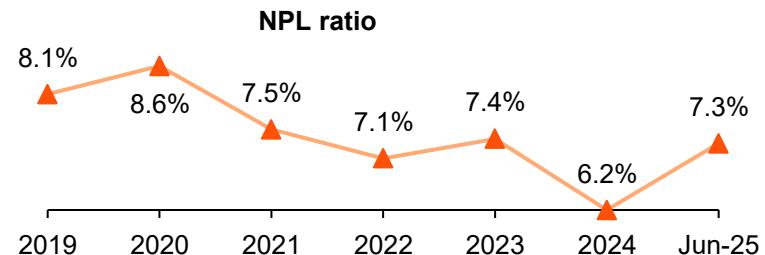
Financing type	Jun-25	2024	2023
	Concentration in percentage		
Fixed investment	45%	38%	43%
Working capital	34%	45%	35%
Trade finance	21%	17%	22%

By the end of Jun-25, corporate loans declined by 20% (compared to Dec-24) but there was an increase of 11% as compared to Dec-23. Major contraction was witnessed in working capital financing of ~40% (Rs. 2.2 trillion in Jun-25), which may be due to increase in NPLs to 8.5% (2024: 4.9%). Trade finance and fixed investments have also declined by 4% each in Jun-25, despite their NPLs remaining almost at the same levels (fixed investments NPL: 7.9% and trade finance NPL: 5.2% at Jun-25).

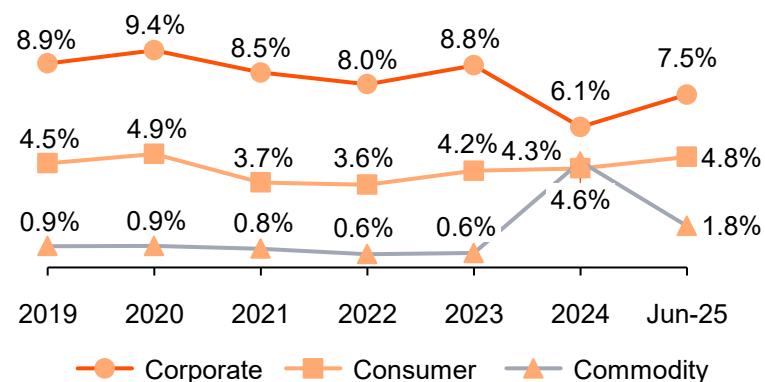
Non-performing loans



On an overall basis, NPLs slightly improved from 7.4% in Dec-23 to 7.3% in Jun-25.



Following provides a segment-wise break-down of NPLs (other than SME and Agri NPL ratios covered in section 5 on priority sector financing):

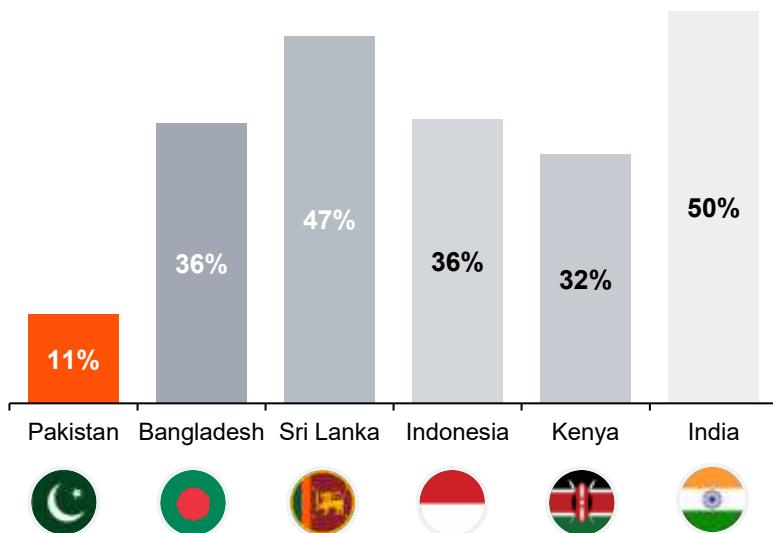


NPLs have improved as compared to 2023, which is in line with market expectations considering improvements in economic conditions and declining mark-up rate trends. If these trends continue as expected, we may witness positive impacts on overall financing and NPLs, going forward.

Financing to private sector



Overall financing to the private sector in Pakistan has further declined to 11% of GDP in 2024 (2023: 12%), which is significantly lower compared to certain other jurisdictions. As mentioned in the section on priority sector financing, a more inclusive credit strategy targeted to priority sectors/segments may help elevating this key benchmark to a reasonable level in the medium-long term.



“

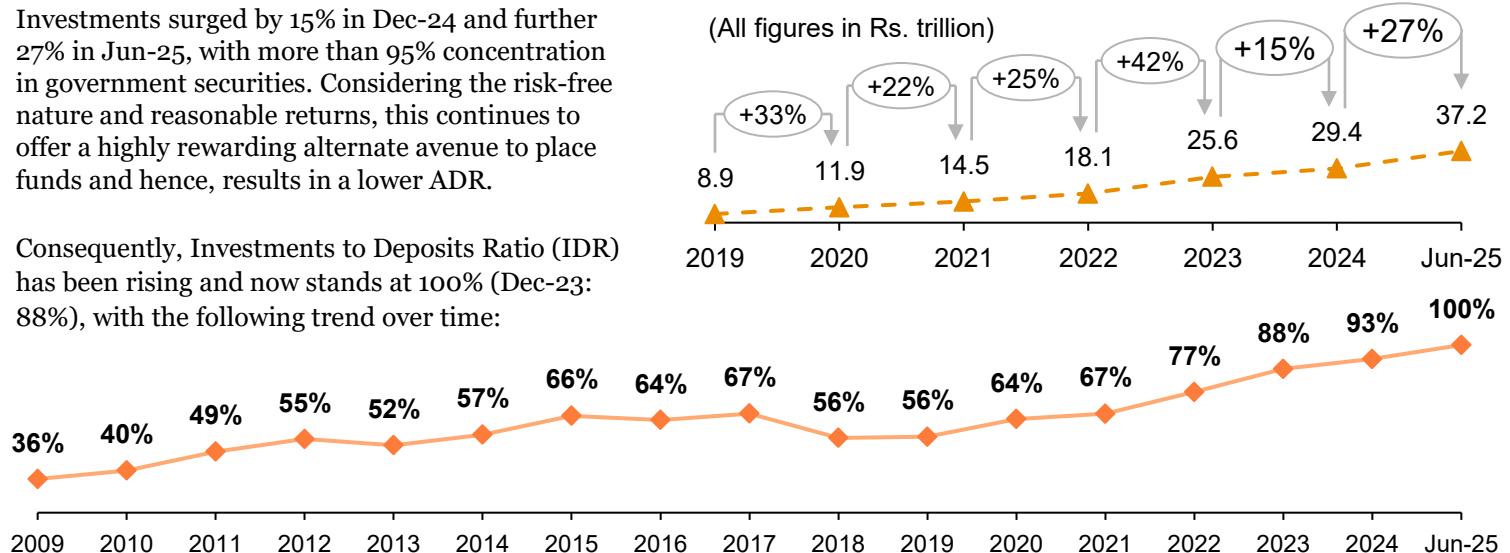
While the banking sector is currently stable and liquid, most financing is directed towards government debt rather than productive sectors, limiting economic growth.”

Mr. Muneer Kamal, CEO & Secretary General,
Pakistan Banks Association

3. Investments

Investments surged by 15% in Dec-24 and further 27% in Jun-25, with more than 95% concentration in government securities. Considering the risk-free nature and reasonable returns, this continues to offer a highly rewarding alternate avenue to place funds and hence, results in a lower ADR.

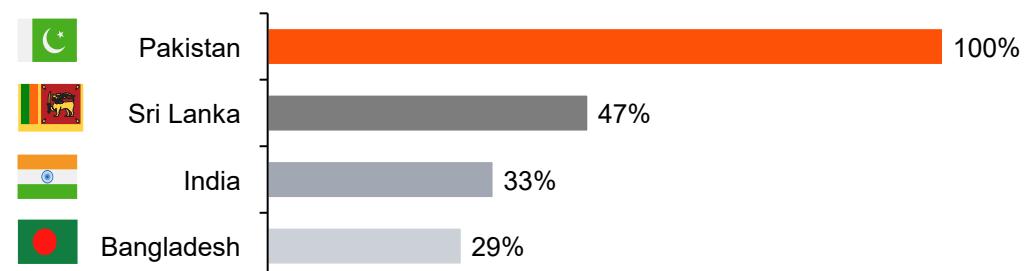
Consequently, Investments to Deposits Ratio (IDR) has been rising and now stands at 100% (Dec-23: 88%), with the following trend over time:



We are also observing a noticeable surge in investments over credit growth, particularly in Jun-25, as depicted below:

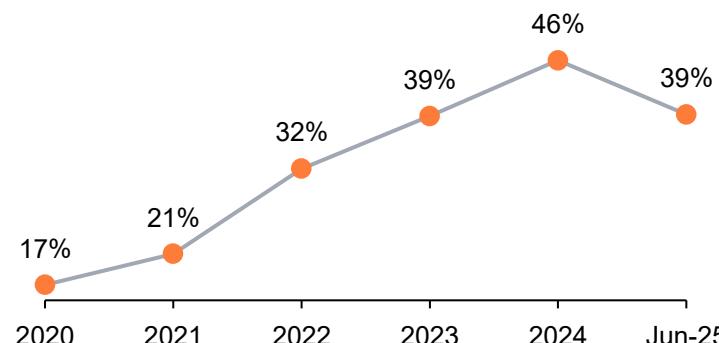
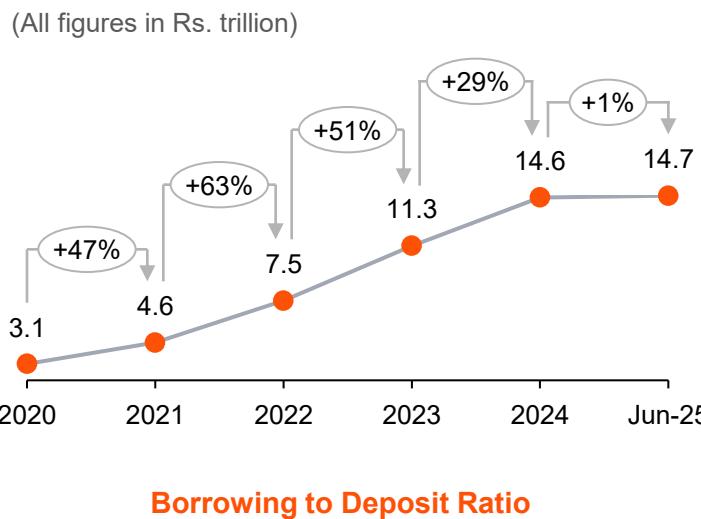
Year	June-25	2024	2023	2022	2021	2020
Investment over credit growth (times)	4.0	1.0	17.1	2.1	1.4	17.9

While historically there may have been significant focus on investments in government securities, considering the reversal of tax implications on ADR, we may witness the same trend continue in foreseeable future.



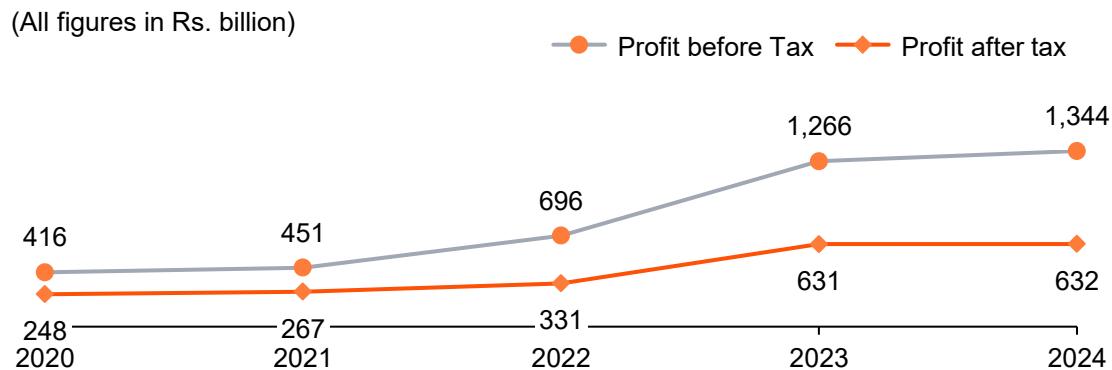
4. Borrowings

We are witnessing a rising trend in borrowings with major accretion in last four years. There was again an exponential increase of 29% in 2024 and further 1% rise in Jun-25 with borrowings closing at Rs. 14.7 trillion, compared to Rs. 11.3 trillion as of Dec-23.



5. Profitability and taxation impacts

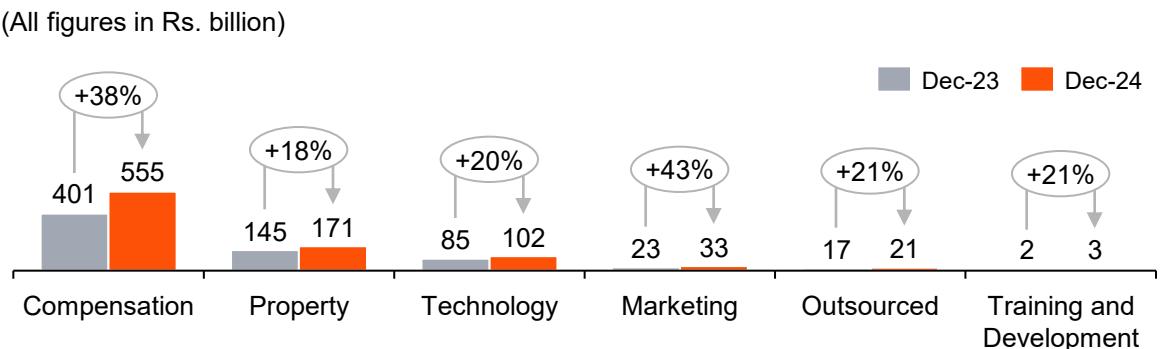
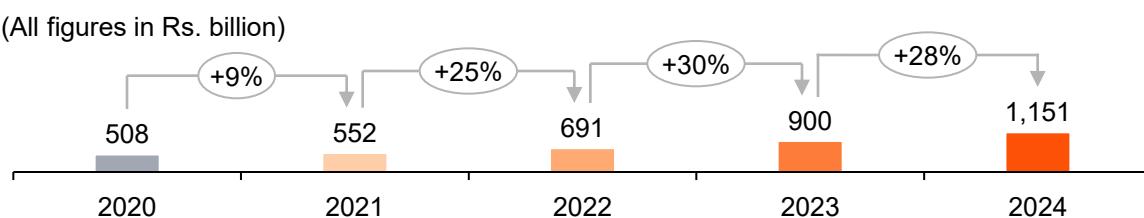
Profitability showed a minor increase on the back of declining spreads whereas non-funded income from different avenues amplified sharply. PBT increased by ~6% whereas PAT remained the same due to higher tax implications. RoA (before tax) declined sharply to 2.7% (5.4% in 2023) and RoE (before tax) closed at 46.4% (55.4% in 2023).



6. Operating expenses and Cost to Income ratio

Operating expenses have been on the rise due to higher inflationary trends and increasing cost of doing business. They registered an increase of 28% in 2024 compared to 30% accretion in 2023.

With a strong revenue base (20% growth in mark-up income), industry's cost to income ratio increased to 43% in 2024, compared to 41% in Dec-23.



With considerable cost escalations, we reiterate that to effectively manage their cost base, banks may consider initiating enterprise transformation programs including digital innovation, cost efficiency, process optimisation and branch re-configuration.

“ Escalating operating costs are challenging banks' growth strategies. Despite heavy investments in recent years in branch expansion, technology upgrades, and talent development, shrinking margins are putting long-term sustainability at risk – necessitating a sharp reassessment of priorities.”

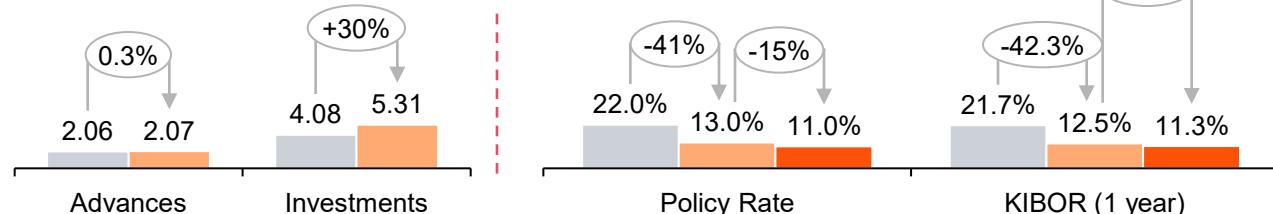
Mr. Zia Ijaz, President & CEO, Askari Bank Limited

7. Mark-up income

Mark-up income amplified considerably to Rs 7.6 trillion in Dec-24. Graphs below provide a comparison of mark-up income from advances and investments, along with SBP policy rate and one-year KIBOR as of Jun-25, Dec-24 and Dec-23.

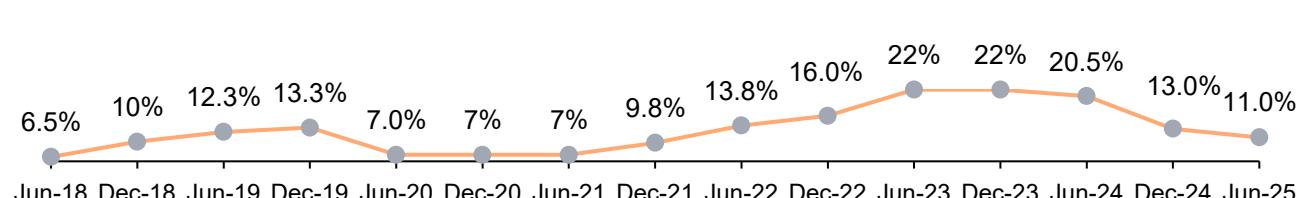
2023 2024 Jun 25

(All figures in Rs. Trillion)



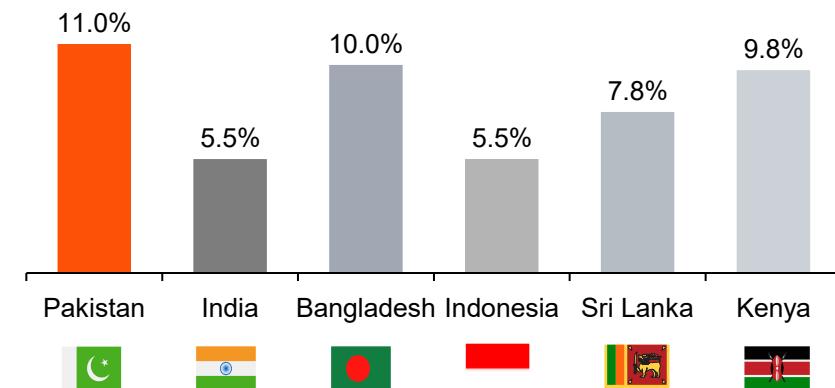
Policy rate fell to 11% in Jun-25, a reduction of 1,100 basis points since 2023, with an expectation of some more adjustments, going forward.

SBP policy rate



While declining trend in policy rate in Pakistan may continue in the future, as of Jun-25 it is still much higher relative to certain other economies.

Policy rate in Pakistan vis-a-vis certain other economies (Jun-25)



“ Reduction in inflation and interest rates, along with exchange rate stability, a primary budget surplus, and a better tax-to-GDP ratio, demonstrate Pakistan's successful macroeconomic stabilisation and enhanced economic outlook.”

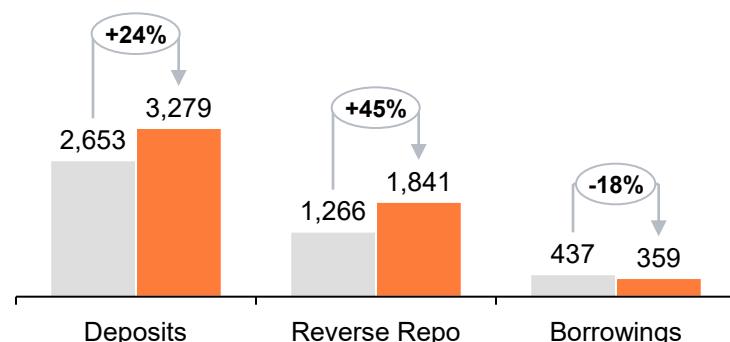
Dr. Ishrat Husain, Former Governor, State Bank of Pakistan



8. Mark-up expense

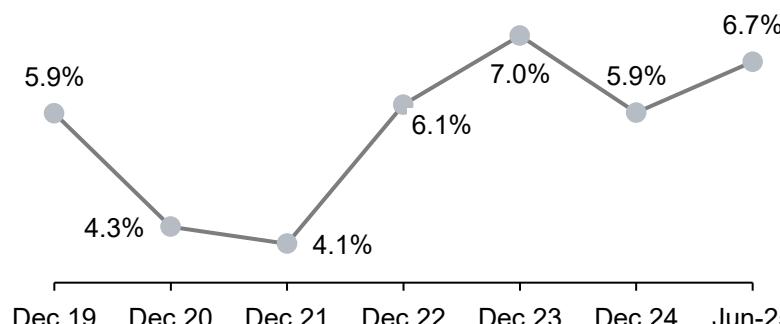
With the declining policy rate, overall increase in mark-up expense has reduced to 27% in 2024 (as compared to 96% in 2023). The component-wise breakdown along with percentage variation are as follows:

(All figures in Rs. billion) 2023 2024



Industry's spread stood at 6.7% in Jun-25 vs. 7% in 2023, with trends over time depicted below:

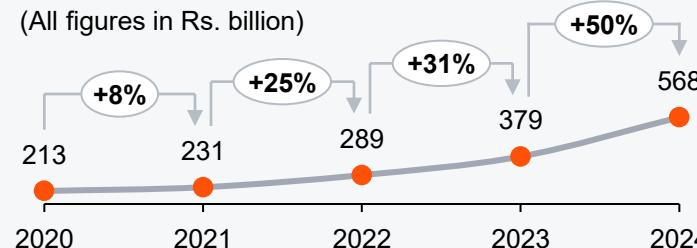
Spread between financing and deposit rates



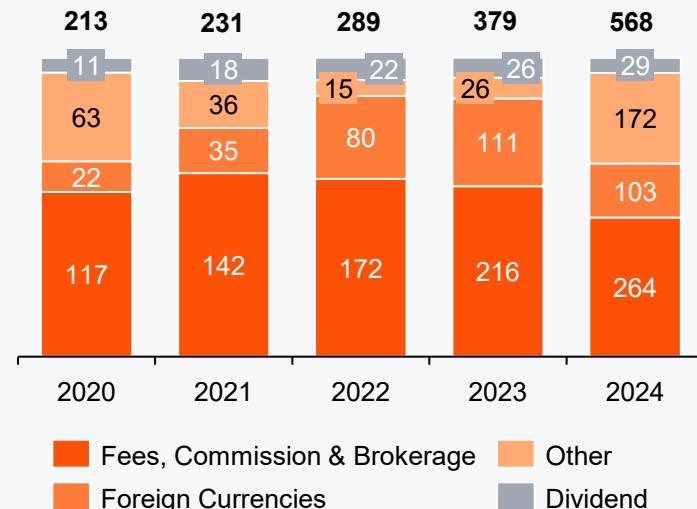
9. Non-funded income

Non-Funded Income (NFI) comprised approx. 22% of banks' total income with growth of 50% in 2024.

(All figures in Rs. billion)



Following is the break-up of NFI components over the last 5 years:



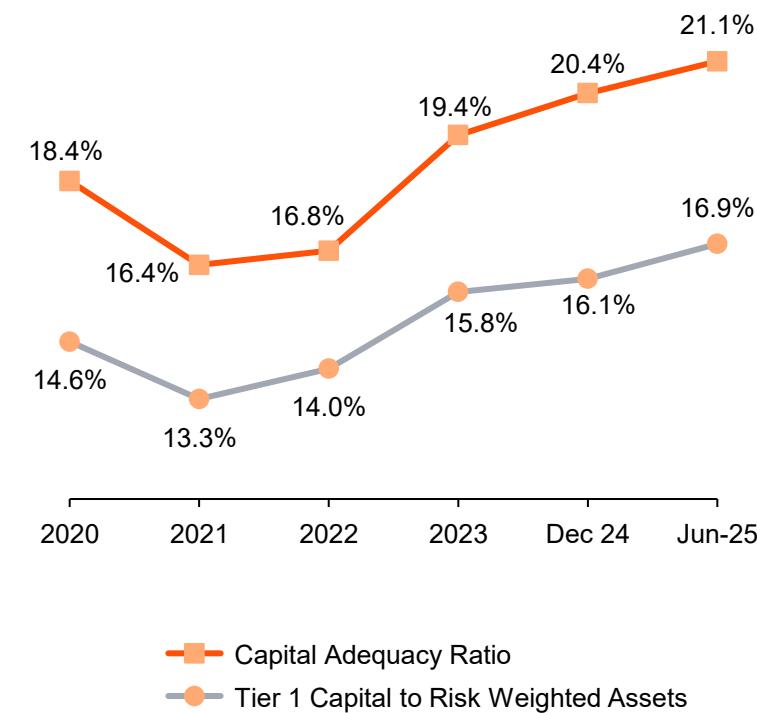
Substantial increase in others is attributable to gain on securities of Rs. 122 billion in 2024.

10. Capital adequacy

Capital Adequacy Ratio (CAR) climbed to 21.1% in Jun-25 from 19.4% in 2023, whereas Tier-1 capital to Risk Weighted Assets (RWA) ratio rose to 16.9% in Jun-25 (Dec-23: 15.8%) depicting financial soundness/ stability.

This is also propelled by sizeable investments in and earnings from risk-free government securities.

5-year trends in CAR and Tier-1 capital to RWA are provided below:



4

Economy

The economic outlook and positioning of the country emerged as a central theme during our discussions with industry leaders and senior professionals. This section synthesises their perspectives across multiple core dimensions relating to: (1) economic growth and stabilisation (2) domestic productivity (3) import substitution (4) export growth and diversification (5) challenges to the economy (6) economic, structural and tax reforms (7) privatisation and (8) subsidies.

Experts acknowledge that government and regulatory initiatives have yielded positive economic outcomes; however, to sustain and build upon these gains, it is imperative to uphold fiscal discipline through comprehensive tax reforms, improve governance of state-owned enterprises, and reduce government debt levels.

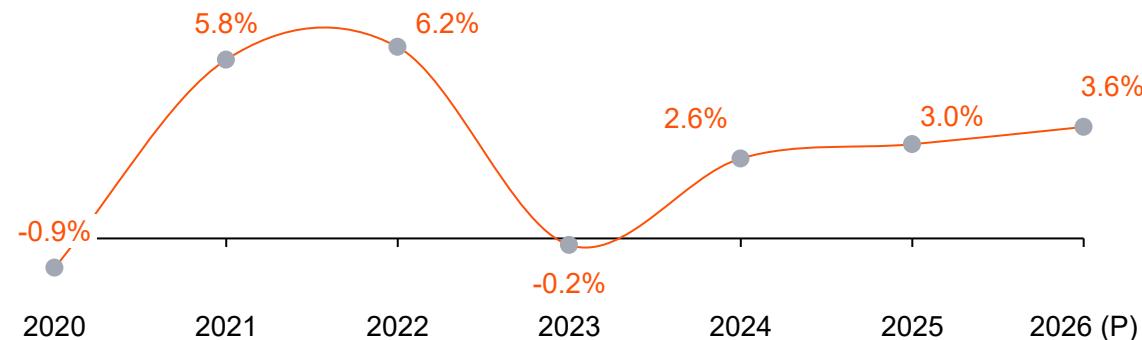
To foster economic resilience, experts emphasise the urgent need to expand and diversify exports. Given that the economy's growth is traditionally based on consumption, they advocate for a strategic shift toward a value-added export base to sustain growth, highlighting significant potential in the technology sector.

Experts have also underscored that investing in domestic industries and improving local productivity are critical drivers for successful import substitution. They noted that increasing investment levels requires eliminating bureaucratic barriers, streamlining regulatory processes, and fostering an investor-friendly environment. Furthermore, they highlighted that sustained policy consistency and continuity are fundamental to these efforts, forming the cornerstone of effective nation-building and long-term economic sustainability.



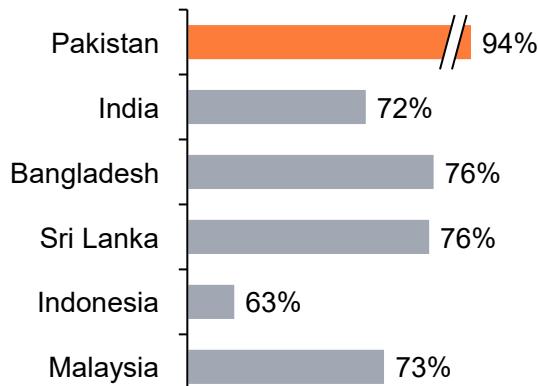
Economic and productivity indicators

GDP growth of Pakistan



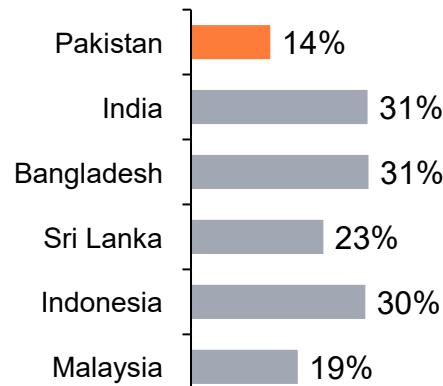
Sources: PwC proprietary insights and analysis, PBS, IMF

Final consumption expenditure % of GDP



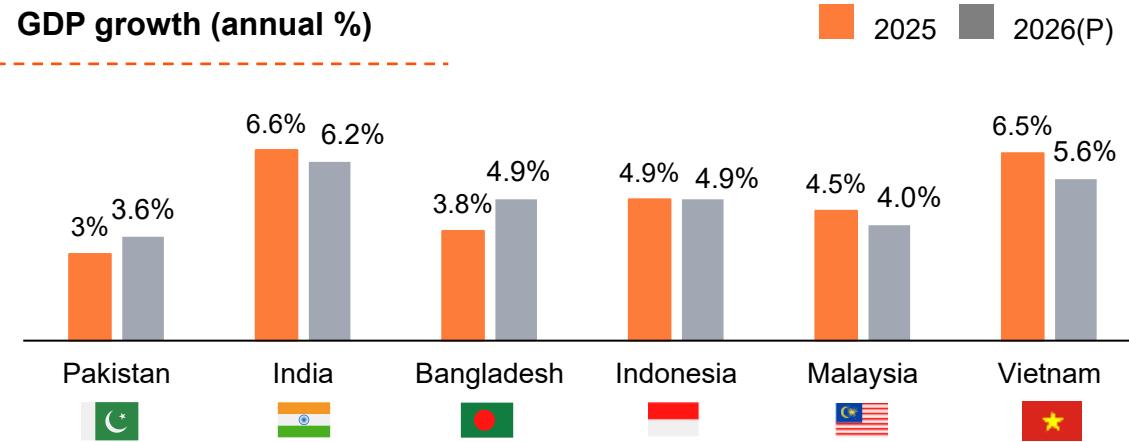
Sources: PwC proprietary insights and analysis, World Bank

Investment to GDP



Sources: PwC proprietary insights and analysis, Economic survey, CEIC

GDP growth (annual %)



Sources: PwC proprietary insights and analysis, IMF

“Performance of both the agriculture and industrial sectors has room for improvement. Investment levels remain low, around 12 to 13%, which limits the potential to achieve GDP growth exceeding 3%.”

Dr. Ishrat Husain, Former Governor, State Bank of Pakistan

“The efforts of the Government and regulator have yielded positive results. Our credit rating has improved to B-. Interest rates have been reduced by half. The stock market has reached an all-time high, and worker remittances are also at record levels.”

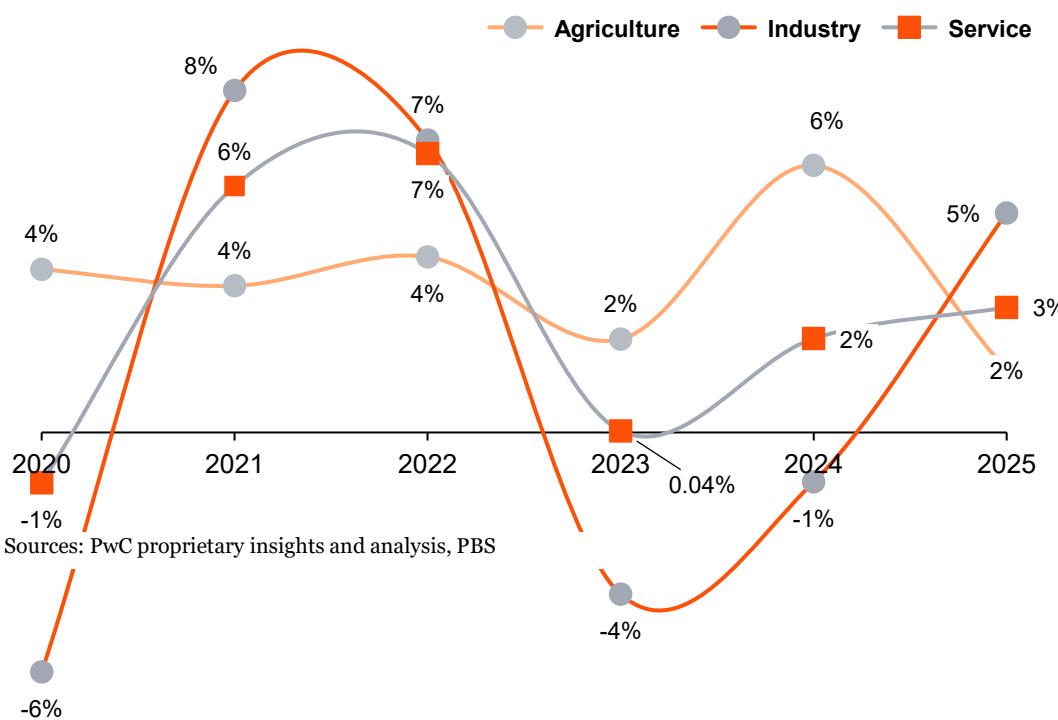
Mr. Irfan Siddiqui, Founding President & CEO, Meezan Bank Limited

“Fiscal discipline through tax reforms, improved governance of state-owned enterprises and reduction in Government’s debt levels - crucial to enable sustainable economic growth.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA

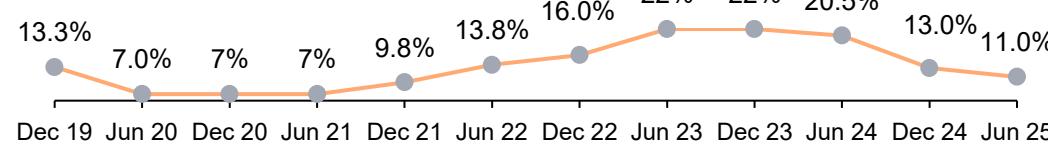
Economic and productivity indicators

Sectoral growth rate Pakistan



Sources: PwC proprietary insights and analysis, PBS

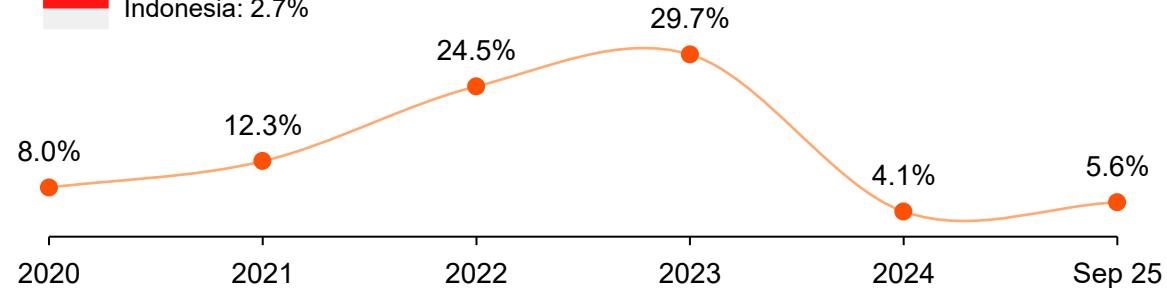
SBP policy rate



Sources: PwC proprietary insights and analysis, SBP

National CPI inflation %

	Bangladesh: 8%
	Thailand: -0.7%
	India: 1.5%
	Indonesia: 2.7%



Sources: PwC proprietary insights and analysis, SBP, other central banks

Optimising domestic productivity



Agriculture was the primary driver of GDP growth. While agriculture faces some challenges, the manufacturing sector is showing signs of recovery.

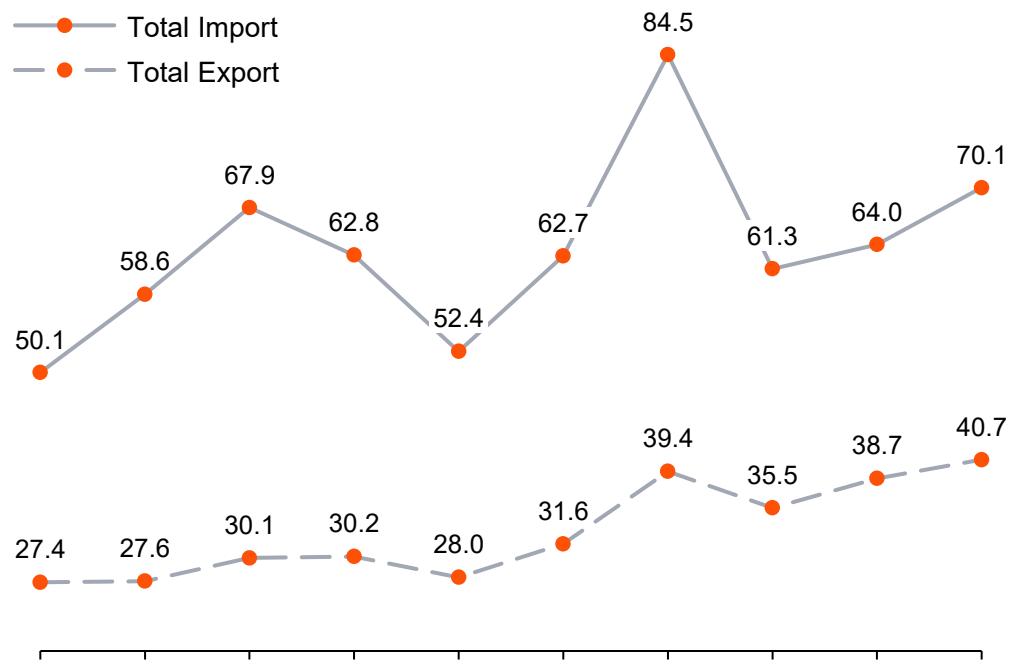
The SME sector is experiencing healthy growth, and demand in large-scale manufacturing, which had been stagnant, is improving.

With the policy rate reduced by 50%, inflation effectively managed, and positive market sentiments, economic growth is returning, and investor interest is rekindling.”

Mr. Muhammad Nassir Salim, President & CEO, HBL

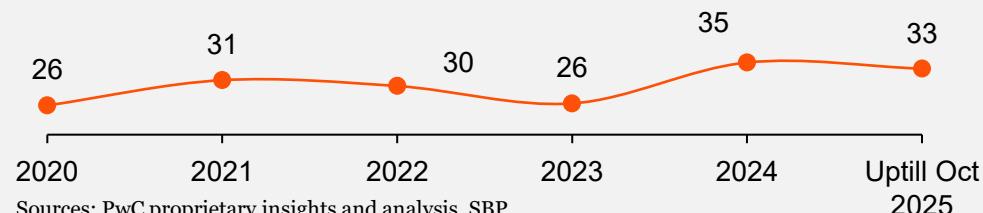
Remittance, exports and imports

Export and import trends in Pakistan (in USD billion)



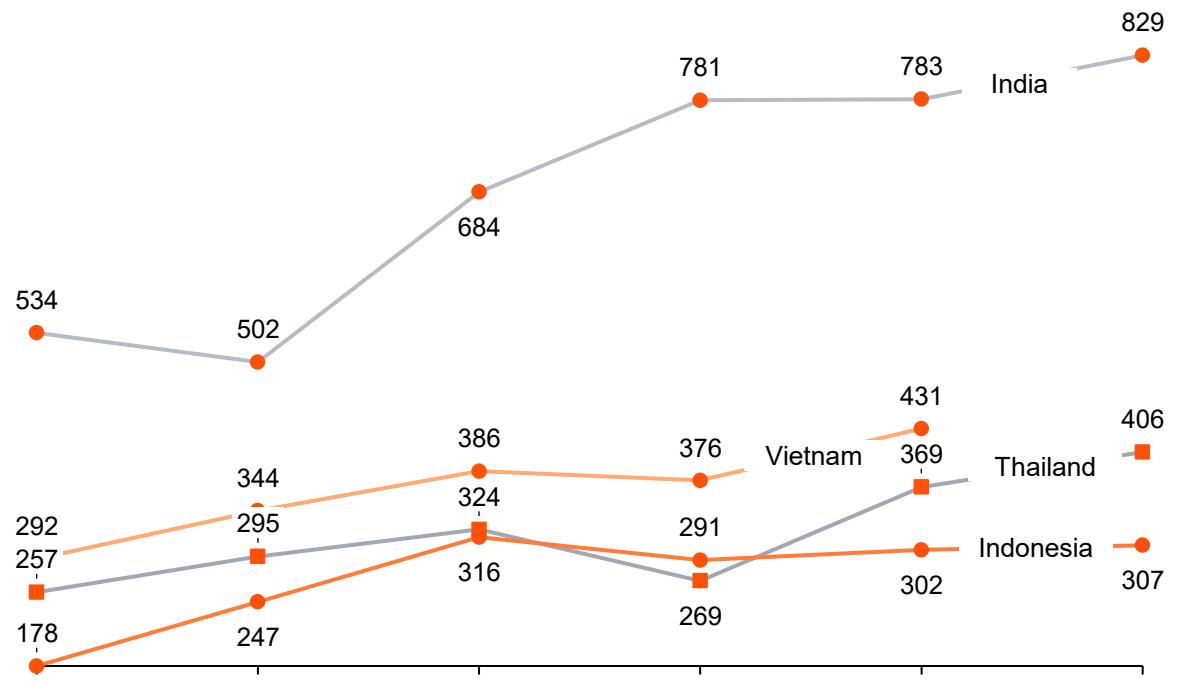
Sources: PwC proprietary insights and analysis, SBP

Total home remittance (in USD billion)



Sources: PwC proprietary insights and analysis, SBP

Export trend of certain other countries (in USD billion)



Sources: PwC proprietary insights and analysis , Central Bank



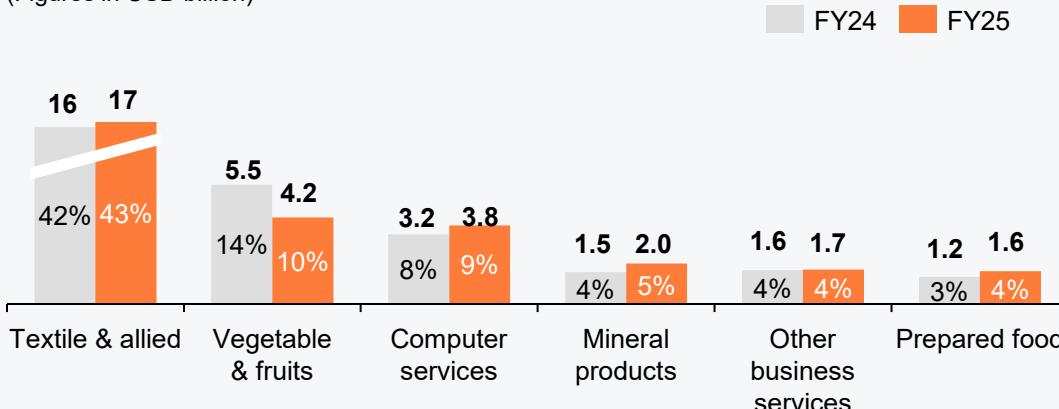
There is greater dependency on remittances in the absence of robust growth in exports."

Dr. Ishrat Husain, Former Governor, State Bank of Pakistan

Major export and import categories

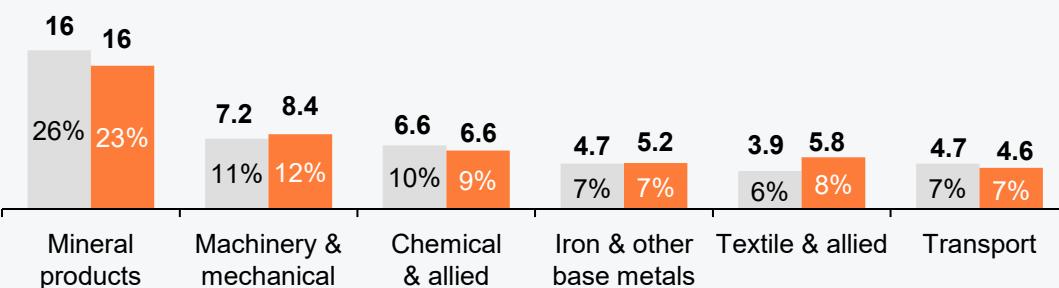
Major export categories as % of total exports – FY25

(Figures in USD billion)



Major import categories as % of total imports – FY25

(Figures in USD billion)



Sources: PwC proprietary insights and analysis, SBP

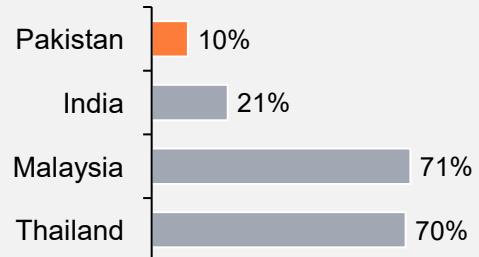
Import substitution, export growth and diversification

“

Focus on expanding and diversifying exports, currently constituting ~10% of GDP, significantly lower than countries such as India and Vietnam, by supporting competitive sectors, reforming tariffs, and implementing thoughtful import substitution strategies.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA

Exports as % of GDP



Sources: PwC proprietary insights and analysis, World Bank

“

There is a need to shift the focus towards developing a value-added export base to achieve more sustainable and diversified economic growth.”

Mr. Muhammad Nassir Salim, President & CEO, HBL

“

Currency devaluation increases exposure to currency risk, which remains largely beyond our control. Our existing production sectors do not adequately mitigate this risk, though the software industry presents promising potential in this regard.”

Mr. Muhammad Nauman Chughtai, President/ CEO, MCB Bank Limited

“

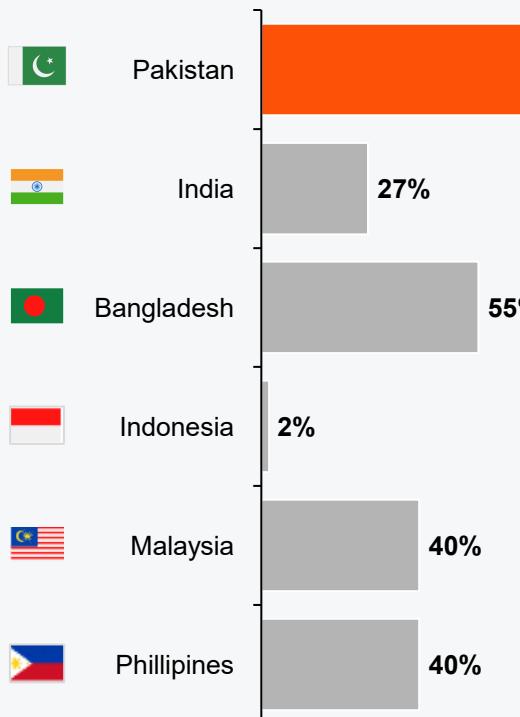
Textile export dependence poses challenges, highlighting the need to diversify despite growing IT and freelance sectors.

There is a need to invest in industries where we currently rely on imports.”

Mr. Rizwan Ata, President & CEO, BankIslami Pakistan Limited

External debt

External debt % growth from 2020 to 2024



Source: PwC proprietary insights and analysis, SBP, Central bank

Economic challenges

“ Limited export expansion constrains import liberalisation, as it could widen the current account deficit and spark borrowing.”

Dr. Ishrat Husain, Former Governor, State Bank of Pakistan

“ Rising external debt is unsustainable for the country unless it translates into measurable productivity gains.”

Mr. Muhammad Nauman Chughtai, President/ CEO, MCB Bank Limited

“ Despite recent stabilisation and improved ratings, fundamental challenges such as plateaued exports, heavy debt burdens, and limited foreign currency reserves continue to hinder sustainable economic progress.”

Mr. Muneer Kamal, CEO & Secretary General, Pakistan Banks Association

Economic and structural reforms

“

Challenges related to regulation, energy pricing, and other factors that are limiting export growth and expansion should be carefully addressed.

Stable and consistent policies build investor confidence, encouraging investment that supports long-term economic growth.”

Dr. Ishrat Husain, Former Governor, State Bank of Pakistan



“

A national economic recovery plan identifying short-to-medium term milestones is critical for Pakistan, as the country embarks on its journey of economic growth and stability.

This plan should comprehensively cover various verticals such as fiscal, trade, industry, human resource, climate change, energy and be approved by the parliament for consistent implementation.”

Mr. Yousaf Hussain, President & CEO, Faysal Bank Limited

“

Regardless of changes in administration, maintaining sustainable policies is essential. Additionally, good governance is crucial and extends beyond fiscal control to include the sanctity of contracts and an effective judicial system that addresses the current backlog - areas where current challenges remain significant.”

Ms. Sima Kamil, Former Deputy Governor, State Bank of Pakistan

“

Policy consistency and continuity are essential for effective nation-building.”

Mr. Muhammad Nauman Chughtai, President/ CEO, MCB Bank Limited

“

Improving investment levels requires removing bureaucratic hurdles and excessive red tape, streamlining regulations, and making it easier for investors to navigate licensing and other requirements. Facilitating a more investor-friendly environment will be key to boosting investment.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA



Tax reforms

“

Addressing tax imbalances and increasing the tax-to-GDP ratio from around 10% to 15% could substantially boost government revenues and reduce debt servicing burdens.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA

Subsidising housing finance

“

When housing finance was subsidised, approximately 40 related industries benefited, thereby stimulating broader economic activity. Supporting one sector in this way can naturally drive growth across others.

The current shortfall in housing finance is substantial, highlighting a critical need to develop this area. With interest rates remaining low, there is a significant opportunity to stimulate activity in housing finance, which will, in turn, promote growth in other sectors.”

Mr. Irfan Siddiqui, Founding President & CEO, Meezan Bank Limited

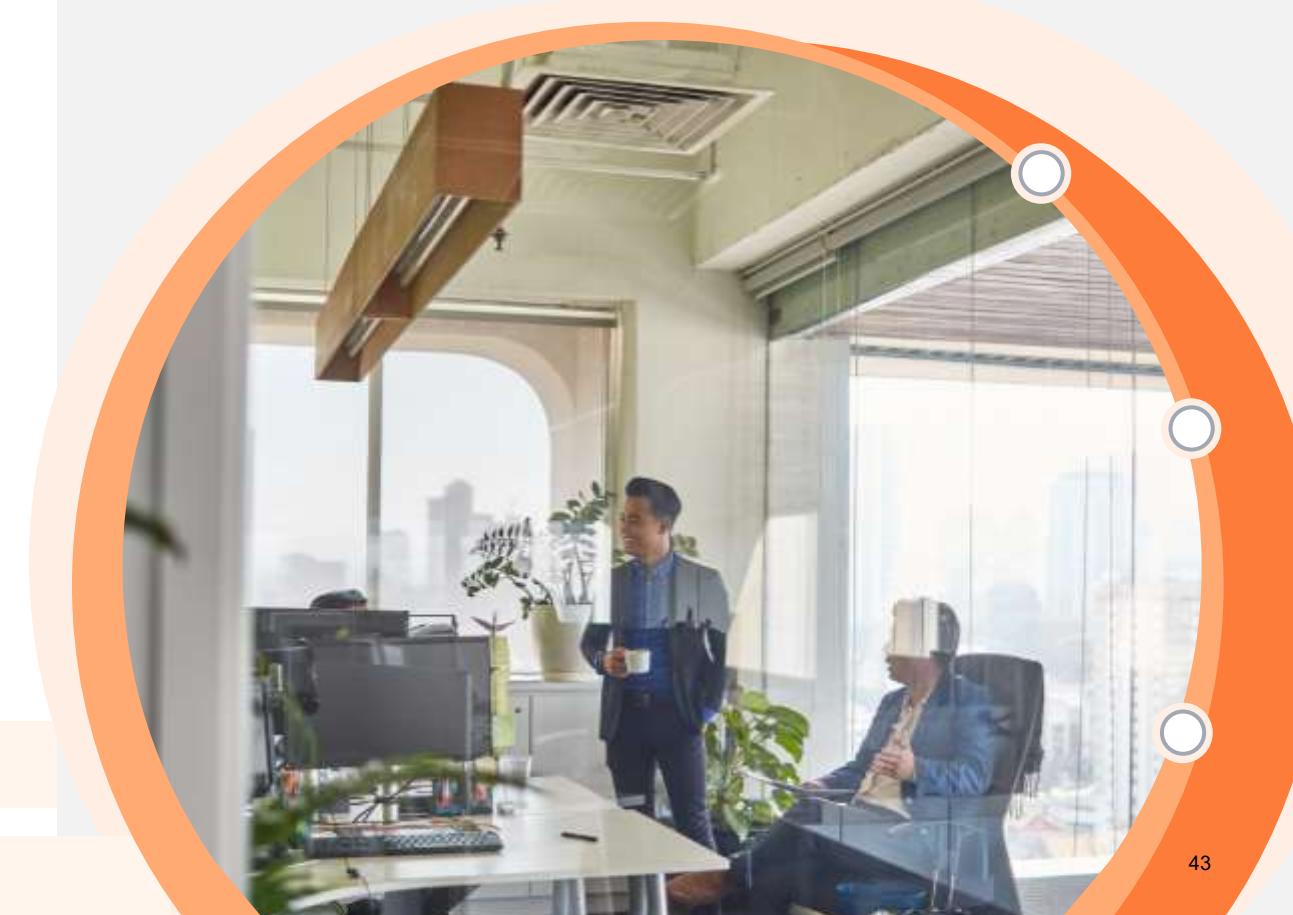


Privatization of state-owned enterprises

“

Plans to privatise State-Owned Enterprises (SOEs) are expected to enhance the economic landscape further, reflecting a favorable environment for sustained growth and investment.”

Mr. Muhammad Nassir Salim, President & CEO, HBL



5

Progress and potential: Encouraging developments in priority sector financing

Progress and potential: Encouraging developments in priority sector financing

SMEs and the agriculture sector are at the core of Pakistan's economic expansion - comprising over five million entities operating in both formal and informal sectors, including manufacturing, trade, and services.

Agriculture accounts for 24% of GDP, while SMEs contribute 40%, represent about 90% of enterprises, drive 30% of export earnings, and employ nearly 30% of the workforce. Given Pakistan's population of over 250 million, SME and agri growth is critical to address escalating poverty and unemployment levels in the country.

“ Priority financing in critical areas such as SME and agri is of utmost importance to fuel economic growth.”
Mr. Irfan Siddiqui, Founding President & CEO, Meezan Bank Limited

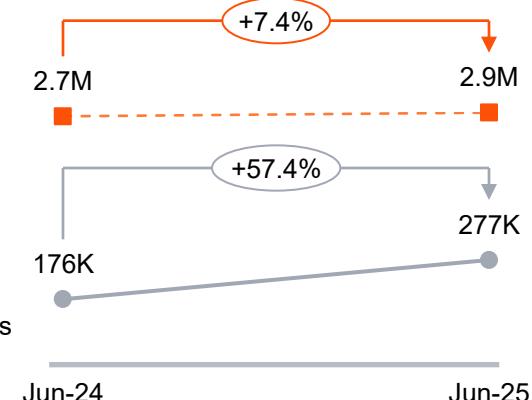
Encouragingly, the number of agricultural borrowers has increased by 200K – from 2.7 million in Jun-24 to 2.9 million in Jun-25. SME borrowers have increased by 100K to 277K over the same period.

Resultantly, percentage of SMEs borrowing from banks has increased to 5.5% in Jun-25 from 3.5% last year. Although a welcoming development, borrowing levels remain low when compared to regional economies, indicating space for credit interventions.

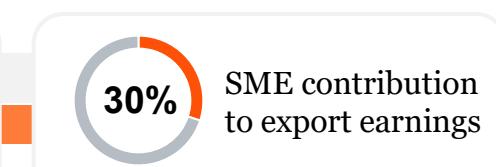
Growth in number of borrowers

— Agri borrowers

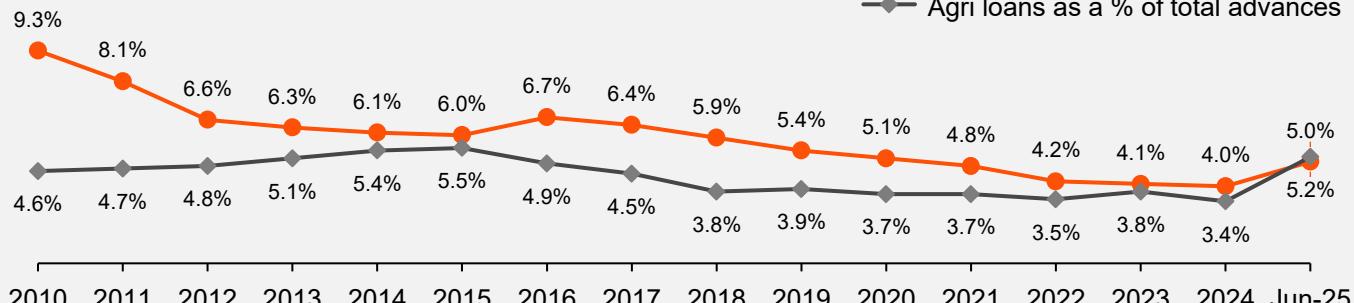
— SME Borrowers



Sources: PwC proprietary insights and analysis, SBP

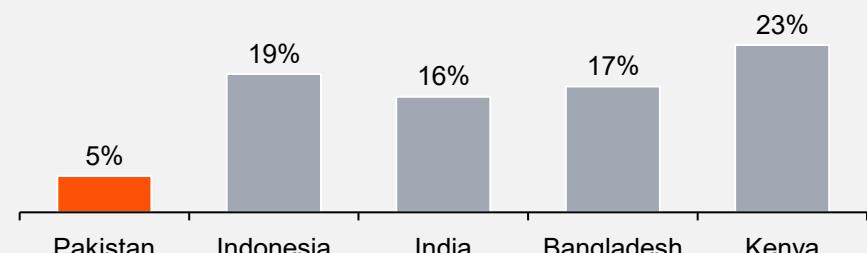


Loans to priority sectors as % of total advances



Sources: PwC proprietary insights and analysis, SBP

We also analysed SME credit intervention in Pakistan vis-à-vis in certain regional economies, signifying a sizeable opportunity:



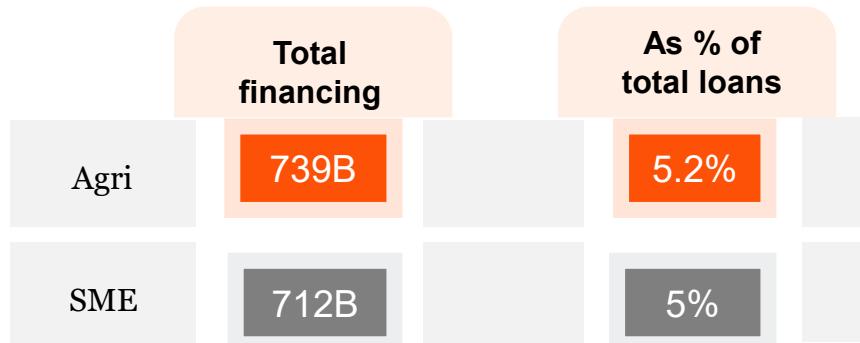
Sources: PwC proprietary insights and analysis, SBP, other central banks

Substantial growth in financing priority sectors



Recent initiatives undertaken by the regulator and the industry are indicating noteworthy advancements. Financing to these priority sectors has crossed over 10% of total loans, indicating a reversal of historical declines.

As of Jun-25, agri financing has increased to Rs. 739 billion comprising 5.2% of total loans rising from 3.4% in Dec-24, whilst SME lending has grown to Rs. 712 billion accounting for 5% of total loans.



Sources: PwC proprietary insights and analysis, SBP

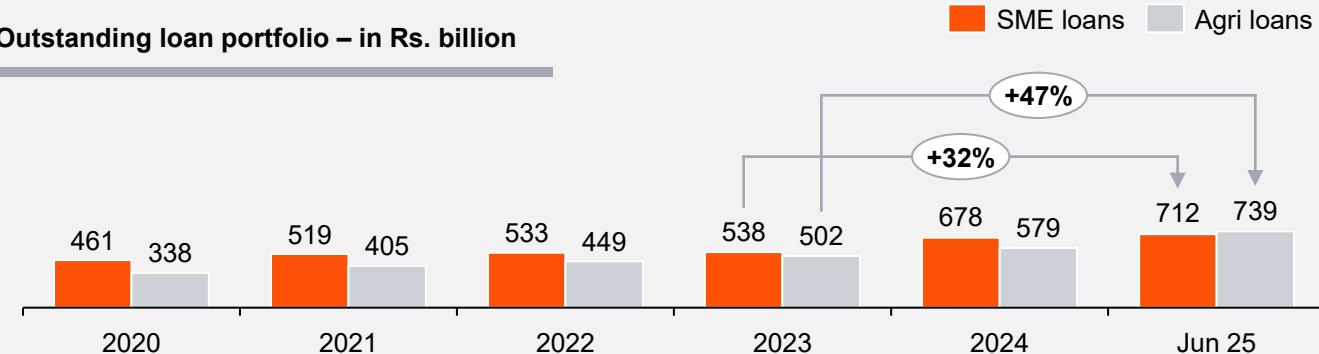
“ Financing to SMEs and agriculture in Pakistan has been very low but is now showing growth. There is need to broaden focus to include micro alongside small and medium enterprises, as microfinance continues to play a crucial role in creating interventions within the financing space.”

Mr. Muneer Kamal, CEO & Secretary General, Pakistan Banks Association

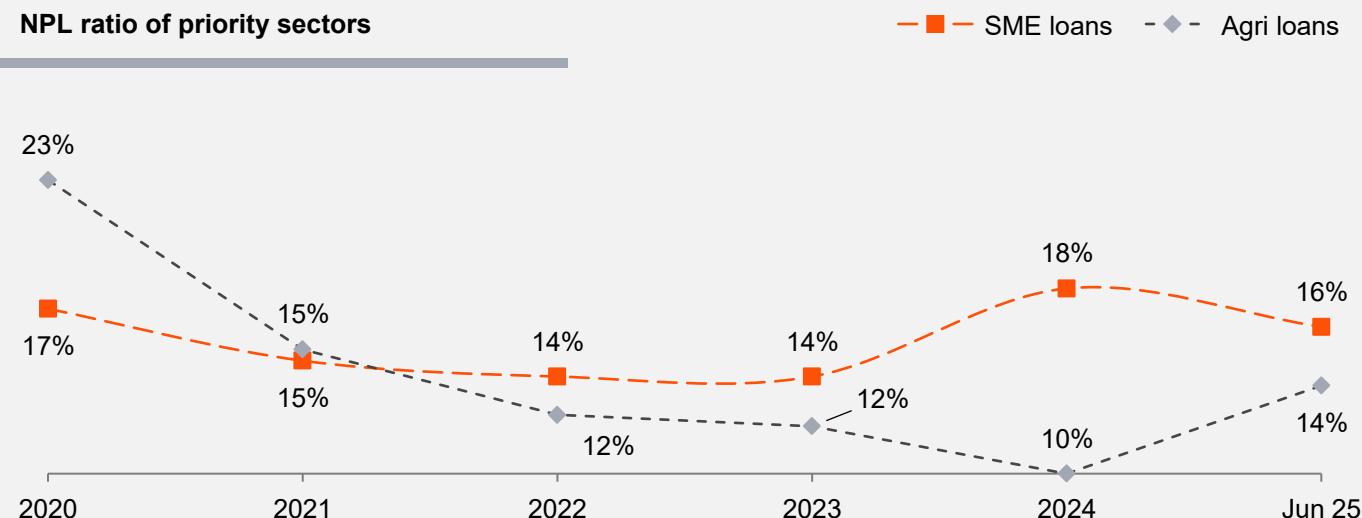
Marked rise in SME and agri financing with divergent NPL trends...



Outstanding loan portfolio – in Rs. billion



NPL ratio of priority sectors



Sources: PwC proprietary insights and analysis, SBP



Demand and supply-side challenges

Challenges exist on both, the demand and supply sides, constraining access to affordable growth financing. Demand-side challenges primarily relate to the undocumented nature of SMEs, insufficient collateral, low literacy and high cost of borrowing.

Key factors influencing lending trends include historical NPL performance, limited credit appetite, skills and capabilities. Credit bureau scores based on alternative data are not adequately available, hindering the adoption of innovative credit scoring methodologies to support digital lending. Hence, banks require extensive documentation which becomes challenging for SMEs to comply with.

“ SME lending should be based on alternative criteria such as cash flow, program-based lending, and digital behavior analytics as opposed to corporate lending models. Additionally, expert Relationship Managers are needed to provide personalised support to SMEs.”

Dr. Ishrat Husain, Former Governor, State Bank of Pakistan

“ The recent significant reduction in the mark-up rate - nearly halving - presents an opportunity to enhance penetration in these segments.”

Mr. Irfan Siddiqui, Founding President & CEO, Meezan Bank Limited

“ Banks can utilise alternative lending methods to extend credit to SMEs thus overcoming challenges such as weak credit profiles and informal structures that impede ability to lend through conventional methods.”

Ms. Maya Inayat Ismail, Chairperson, HBL Microfinance Bank



There are few banks with focused strategies, niche business, risk, people and technology models with dedicated verticals to effectively penetrate and serve these sectors alongside provision of non-financial advisory services.

Industry experts are of the view that even banks that are actively financing the priority sectors have an 85% collateralised portfolio with mere 15% being unsecured. An encouraging development is that around 55% is program-based lending at these banks increasing from prevalent levels of 35% in 2023.

Limited cluster-specific program-based lending and solutions tailored to sector's peculiarities remain a supply-side challenge. Industry stakeholders opine that whilst SMEs are expanding, there are many that are addressing their growth capital needs either through their own equity or through easy informal sources of finance which do not require any documentation or collateral.

Nonetheless, there are some entities that are willing to borrow through formal channels provided the lending process is simple, fast and does not require extensive documentation.

Government and regulatory enablement

The State Bank of Pakistan (SBP) has been at the forefront to promote inclusive and sustainable access to financial services across the country. This has also been identified as one of its strategic objectives in the Strategic Plan 2023 – 2028.

In its third edition of the National Financial Inclusion Strategy (NFIS) 2024-28, SBP has set out an action framework outlining key goals to enhance access, usage, and quality of financial services.

Key focus areas within the NFIS 2024-2028 for priority sectors

SME finance	Agriculture finance
Foster digitally enabled SME finance ecosystem	Promoting use of digital land records
Enhance women's share in SME financing	Upscaling of Electronic Warehouse Receipt Financing
Establishing Non-Financial Advisory Service (NFAS) Touch Points to facilitate SME financing to start-ups	Promoting digital finance Promoting partnerships of banks with agriculture service providers

Various initiatives recently undertaken by the Government and SBP to enable SME financing



- Revised Prudential Regulations (PRs) for SME Financing – adopted a principles-based approach, aimed at reducing barriers, promoting use of technology, and encouraging fintech partnerships for sustainable financing

“

Prudential Regulations have been revised, adopting a principle-based approach, aiming to reduce information asymmetry and promote technology adoption.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

- Collaborated with the Government to launch the Prime Minister's Youth Business and Agriculture Loan Scheme - markup subsidy and partial credit guarantee is provided by the Government to cover risks associated with small business loans

“

To enable SME financing, a risk coverage facility has been introduced to alleviate lending risks. This measure, informed by historical default data, provides tailored coverage that enhances banks' confidence to extend credit to SMEs.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

- Introduced a risk coverage facility, offering 20% first-loss protection for smaller enterprises and 10% for medium enterprises
- Promoted digital supply chain financing



- Increased financing limits for Small Entities (SEs) from Rs. 25 million to Rs. 100 million, and for Medium Enterprises (MEs) from Rs. 200 million to Rs. 500 million
- Increased clean financing limit for borrowers from Rs 5 million to Rs 10 million
- Planned to incentivise export-based SMEs

Additionally, a survey on SMEs is being conducted by the Pakistan Bureau of Statistics to determine market size and enable design of well-informed policies.

“

Government support essential for success of priority sectors worldwide – similar should be the case in Pakistan where government guarantees, fiscal support and capital relief be sought to effectively develop these sectors.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA

Few recent measures introduced by the Government and SBP to promote agriculture credit

- Launched a scoring model to assess agriculture credit performance of banks, using multidimensional criteria, including



Disbursement level



Number of borrowers



Outstanding portfolio



Sectoral and regional performance

- Serving as the implementing agency for the Financial Intermediary Loan (FIL) component of the Asian Development Bank - funded Women Inclusive Finance Sector Development Program aiming to improve women's access to financial services
- Supporting digitalisation of land records and their adoption by banks
- Launched Electronic Warehouse Receipt Financing framework to enable financing against eligible commodities stored in accredited warehouses
- Launched the Champion Bank Model to address regional agricultural financing needs
- Government funded crop and livestock insurance schemes

“

A digital, collateral-free financing product for small farmers is being introduced, utilising comprehensive borrower and land data linked to credit scoring models. The product delivers 75% of funds in-kind through approved agricultural vendors offering quality inputs at competitive prices, with the remaining 25% available as cash for miscellaneous expenses.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

“

We have developed an innovative, performance-based subsidy that incentivises banks to expand outreach by providing Rs. 10,000 for each new borrower, while also requiring robust product offerings and operational capabilities.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

Other initiatives introduced in the past to promote priority sector financing include:



Establishment of a secured transaction registry



Digitisation of land records and adoption of land record management systems by banks



Establishment of the National Credit Guarantee Company

Need to augment capabilities and collaborate

There is significant opportunity for banks to collaborate with the growing number of fintechs and platform-based businesses to develop niche solutions (e.g. gender finance, climate finance, trade and supply chain financing) and support underserved segments beyond extending vanilla banking solutions.

As part of market expansion efforts, collaborations with industry associations and development institutions may be beneficial in addressing demand-side challenges, particularly by building capacity for improved governance, financial literacy, and the preparation of books of accounts.

Experts hold the view that the agriculture sector has the potential for large scale transformation if banks collaborate with agriculture service providers to enable farmers gain access to inputs, advisory, warehousing, crop monitoring, and farm mechanisation – also an emerging area of focus for some banks active within the agri financing space.

While elevated credit risks persist, banks may consider enhancing their credit appetite, augmenting their capabilities, infrastructure, risk management frameworks and practices for conducive lending to these sectors.

“

Banks are encouraged to collaborate with microfinance banks, microfinance institutions, NGOs and other entities to meet agricultural sector's financing needs.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

“

Supporting SMEs with finance and tax education is vital for inclusion and documentation, and may propel banking sector appetite to lend to this sector.”

Mr. Irfan Siddiqui, Founding President & CEO, Meezan Bank Limited

“

Simple financing is no longer enough. Real value is unlocked by offering small farmers comprehensive support, including agronomy expertise, mechanised equipment, and assistance with crop off-take”

Mr. Muhammad Nassir Salim, President & CEO, HBL

“

Mechanisation and value addition in agriculture requires collaboration between banks, agri service providers, machinery suppliers, and large corporate buyers of agricultural produce. By working together, these stakeholders can support farmers more effectively and drive sustainable growth in the agricultural sector.”

Mr. Zia Ijaz, President & CEO, Askari Bank Limited

“

Banks need to hand-hold and support small entrepreneurs with mentorship and advisory services to foster business growth.”

Ms. Maya Inayat Ismail, Chairperson, HBL Microfinance Bank

“

Strategic partnerships and integration of digital, supply chain, and Shariah-compliant financing are key to expanding SME funding in Pakistan.”

Mr. Syed Amir Ali, Deputy CEO, Meezan Bank Limited

Transforming the ecosystem through active public-private partnerships

Developing a supportive ecosystem is fundamental for scaling, necessitating active participation from the regulator, Government, and various private organisations.

Whilst digital financing is no longer a recent phenomenon, stakeholders believe that there is a need for the overall ecosystem to transform. Certain perspectives highlight extensive use of physical documentation stemming from uncertainties over e-signature acceptance in courts, possibly leading to recourse complications.

For digital lending to effectively take off, access to alternate data of entities in the informal sector is key. With the onset of the AI economy, there is growing emphasis on the need to leverage digital technologies, digital public infrastructure and alternate data sources (including cellular and satellite feeds) to supplement gaps in traditional data necessary for lending to new borrowers or small enterprises, and to onboard customers with seasonal incomes or peculiar characteristics.

“

Need to leverage abundant data across banking and other sectors such as telecom and utilities for credit assessments and to foster robust credit culture.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA

“

Employing data-driven scorecards offers an effective approach for targeted SME financing.”

Mr. Mujahid Ali, Chief Technology and Digital Transformation, Allied Bank Limited

To enable this, collaborative efforts at the national level are necessary. There is need to onboard the Government, regulator, banking and industry stakeholders who can enable the process and contribute alternate data to optimise credit bureau infrastructure.

“

Banks are encouraged to lend digitally by collaborating with fintechs to bridge gaps in data needed traditionally.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

To foster priority sectors and provide targeted support, many emerging economies have established specialised ministries, institutions, and development banks for SMEs and agriculture.

Certain initiatives/ schemes that helped promote SME and agriculture sectors in select jurisdictions



India

Open Credit Enablement Network (OCEN)

- Digital infrastructure that simplifies and standardises the lending process – a part of the India Stack
- Enables easy access to credit by facilitating data sharing and interoperability among financial institutions
- Collaborative efforts of numerous stakeholders inside the Indian financial space, comprising financial establishments, loan service providers, and technology service providers

Trade Receivables Discounting System (TReDS)

- Introduced by Reserve Bank of India
- Unified platform for sellers, buyers and financiers – facilitates uploading, accepting, discounting, trading and settling of invoices/ bills of MSMEs and enables both receivables as well as payables factoring

Pre-sanctioned credit lines through Unified Payments Interface

- Innovative financial offering - empowers individuals and businesses to access pre-sanctioned credit lines from banks
- Facilitates the availability of low-ticket, high-volume retail loans
- Leveraging data analytics and AI, banks can identify credit line opportunities for customers and merchants engaged in UPI-based digital payments

Standup India scheme

- Government initiative that provides loans ranging from INR 1 million to INR 10 million
- To establish greenfield enterprises in the manufacturing, services, trading, and agri-allied sectors
- Aims to promote entrepreneurship among women and marginalised segments

Pradhan Mantri MUDRA Yojana (PMMY)

- Scheme facilitates loans up to INR 2 million
- For income generating small and micro enterprises engaged in the manufacturing, trading or service sectors including activities allied to agriculture such as poultry, dairy, beekeeping, etc.

Kisan Credit Card

- Launched by the Reserve Bank of India and public sector banks
- Provides farmers with timely and affordable credit
- For purchasing agricultural inputs, meeting short term credit requirements, post-harvest expenses, produce marketing loan, consumption requirement

MSME definition revised – to align classification with current economic realities and inflation

Enhancing credit guarantee scheme - including guarantees for green initiatives and women-owned SMEs

Digital MSME 2.0 - proposed initiative within India's broader policy discussions aimed at:

- Improving cybersecurity for MSMEs
- Providing/ improving cloud access and use of cloud-based applications and software
- Boost e-commerce participation and expand market access through online platforms



Bangladesh

SME & Special Programme Department established by the central bank to support SME financial inclusion

- Requires at least 15% of refinanced funds provided to its banks to be extended to women entrepreneurs at not more than 10% annual interest rates
- Is building capacity to collect gender-disaggregated data from banks to monitor implementation of its women-led SME policies

Small Enterprise Refinance Scheme for Women Entrepreneurs

- Fund increased through multiple augmentations and now stands at BDT 30 billion
- To promote women entrepreneurs and encourage their participation, refinance facility is exclusively available at a low interest rate, capped at a maximum of 5%
- Introduced incentive programmes for banks and Cottage, Micro, Small and Medium (CMSME) women entrepreneurs

Mandatory CMSME Loan Quota

- Central bank requires banks to distribute at least 27% of their total loan portfolio to CMSME
- Of this, a minimum of 75% must be directed to cottage, micro, and small enterprises, with a maximum of 25% for medium enterprises

Study underway for easier loan access

Feasibility study underway to determine if loans of up to BDT 500K can be provided without requiring a trade license, easing the barrier for micro-entrepreneurs

Skill development and digitalisation

Increased emphasis on programs and support for skill development, technology upgrades, and digitalization to enhance MSME productivity and competitiveness



Australia

National Small Business Strategy

Launched in 2025 to empower small businesses to operate efficiently and innovate, by establishing a coordinated approach between federal, state, and territory governments

Export market development grants

Reimburses eligible marketing and export-development expenses for SMEs expanding overseas

Small business cyber resilience service

Offers free, tailored support to help small businesses build cyber resilience and recover from incidents

Development of Australian business growth fund

- Under public-private partnership model between the Federal Government and six leading banks
- Purpose-built growth capital fund dedicated to investing in entrepreneurs and disruptors across the SME sector
- Alternative to bank lending and private equity funding

Energy bill relief extension

Eligible small businesses to receive energy bill relief through 2025, with up to \$150 in additional rebates

Small business energy incentive

20% tax deduction is available for businesses investing in energy-efficient equipment and electrification assets



Vietnam

National Digital Transformation Strategy

Government encouraging MSMEs to adopt digital tools, e-commerce platforms, and integrate emerging technologies such as AI, blockchain, and cloud computing into their operations

Online learning platform

- Launched by Ministry of Planning and Investment
- Offers free courses and training on management skills and digital transformation

SMEdx

- National initiative launched by the Ministry of Information and Communications
- Aimed at accelerating SME digital adoption
- Links SMEs to approved "Make in Vietnam" digital platforms for finance, HR, sales, and operations solutions

Legal support plan

- Issued by Ministry of Industry and Trade
- To provide legal information, advice, and disseminate laws to SMEs, helping them grasp regulations and minimize legal risks



Singapore

Enterprise Singapore

- Set up by the Ministry of Trade and Industry of the Government of Singapore
- Supports companies to upgrade, innovate, and improve productivity through programs and mentorship
- Helps local businesses expand into overseas markets
- Drives growth of startup and innovation ecosystem to make Singapore a hub for global trading and start-ups
- Acts as the national accreditation body to build trust in Singapore's products and services through quality and standards

Singapore Trade Data Exchange (SGTraDex)

- Digital infrastructure that facilitates trusted and secure sharing of data between supply chain ecosystem partners
- Brought together through public-private partnership model (including four leading banks)
- Enhances digital financing and document exchange process across different platforms through digitalised end-to-end workflows

S\$1 billion private credit growth fund

- Launched by the government to address financing gaps for high-growth local enterprises
- Aims to support companies that may struggle with traditional funding options, particularly those in the technology and scalability sectors

Enterprise Compute initiative

- S\$150 million initiative launched by the government to accelerate AI adoption
- Provides access to advanced computing power and AI tools in partnership with cloud providers

F&B Process Optimisation Program

Helps F&B businesses with tech adoption, menu design, and outsourcing food preparation

Corporate income tax rebate

A 50% rebate, capped at S\$40,000 (for income earned in 2024)

Progressive wage credit scheme

Government's co-funding for wage increases for lower-wage workers - raised to 40% (from 30%)



Kenya

National Policy for MSMEs (draft)

To address existing challenges and integrate government priorities e.g. value chain development, cluster development, and inclusion of medium-sized enterprises

Hustler Fund - flagship programme of the Government to enhance MSME financial inclusion

- Aims to uplift low-income individuals by providing affordable digital loans for personal use, group lending, and small businesses
- Offers single-digit interest rates and has launched personal and micro loan products
- Provides medium-to-long term finance for the purchase of machinery, equipment and working capital, either for start-ups, expansion, modernisation or rehabilitation focusing on priority sectors

National Youth Opportunities Towards Advancement

- Project targets youth with grants of KSh 50K to start/ expand businesses
- Also includes components for business training, mentorship, and financial literacy

County Aggregation and Industrial Parks (planning underway)

To promote value addition, provide working spaces, and facilitate industrial linkages for small businesses in key value chains e.g. leather, textiles, and dairy

Uwezo Fund

Women, youth and persons with disabilities can access finance to promote businesses and enterprises at grassroot level

Efficient priority sector financing in Pakistan can be enabled through collective efforts of all industry participants. One of the most critical element to this effect is progressing towards documentation, for which there is need to augment the national data infrastructure.

There are tremendous growth prospects in Pakistan - not only in cities connected to well-established road networks but well beyond where banks are yet to venture and explore untapped opportunities. To effectively pursue this potential, banks may need to not only augment existing capabilities through dedicated business verticals and enhance credit appetite, they may also have to design an all-encompassing proposition with:



Segment-focused deposit strategies and value-added services



Digital payments platforms customised to needs of different businesses



Incentives considering business necessities



Lending solutions built around unique business requirements of different clusters

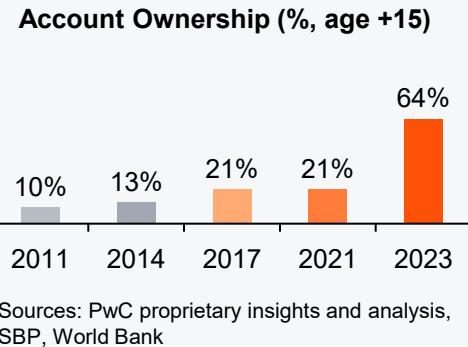
Such propositions may also be designed in tandem with non-traditional players, collaboration with whom may enable banks to explore markets and serve segments digitally without the need for costly brick and mortar structures.

6

Expanding financial access and inclusion in Pakistan

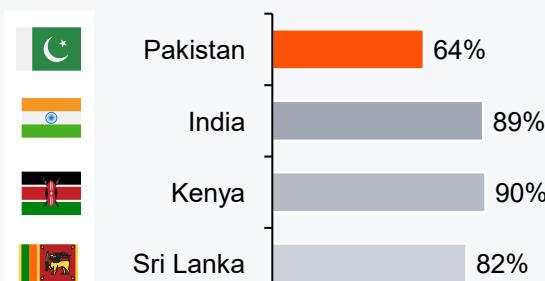
Expanding financial access and inclusion in Pakistan

Pakistan has achieved significant progress in financial inclusion, reducing its share of the global unbanked adult population from 9% in 2021 to 4% in 2023. The country's financial inclusion ratio has risen to 64% in 2023 representing an almost threefold increase since 2021.



The encouraging growth in financial inclusion sets a strong foundation for Pakistan to continue capturing untapped space relative to certain regional peers and emerging economies.

Financial inclusion ratio greater than **80%** in regional and emerging economies



Sources: PwC proprietary insights and analysis, SBP, World Bank

Key enablers to rising financial inclusion in Pakistan

The Government and regulator have championed multiple initiatives including limited KYC account schemes, digital banking, expanding access to financial services, gender mainstreaming policy, consumer protection and digital financial literacy efforts, all contributing to improved inclusion and poised to remain instrumental going forward as well.

Commonly cited reasons to remain unbanked

According to Global Findex Database 2024, commonly cited reasons for not opening bank accounts range from lack of documentation, lower trust, physical proximity of branches, to affordability of financial solutions and insufficient funds.

High costs-to-serve attributable to brick-and-mortar structures has been a challenge hindering banks globally in providing universal access to financial services. A similar situation exists in Pakistan, where there have historically been limitations in reaching unserved and underserved segments. Branches remain the primary channel for onboarding and serving the masses, as a physical presence fosters trust within the community.

Financial inclusion is increasingly recognized as a fundamental right that contributes to poverty alleviation and fosters inclusive economic growth.

In view of the above, few banks have introduced strategic inclusive banking initiatives. These banks have set-up dedicated verticals, channeling resources and developing targeted solutions to cater to financial needs beyond traditional banking services.



Inclusive banking is best realised through customised product offerings and focused awareness initiatives.”

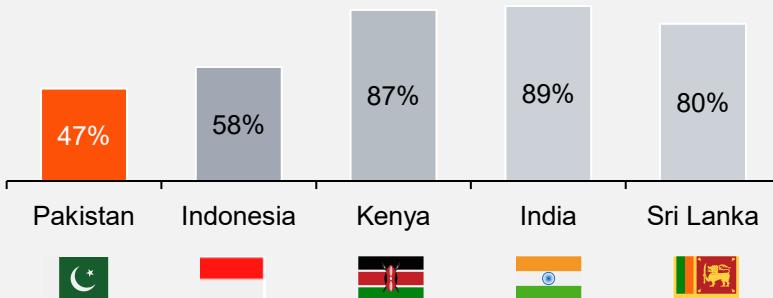
Ms. Maya Inayat Ismail, Chairperson, HBL Microfinance Bank

Women Inclusion

With overall financial inclusion rising to 64%, women inclusion has also seen significant stride, up from 14% in 2021 to 47% in 2023.



Even with substantial progress, Pakistan's standing compared to other economies indicates vast space for targeted interventions.



Sources: PwC proprietary insights and analysis, SBP, World Bank

“ Women's financial inclusion continues to be a significant challenge, with only 52% of adult females holding bank accounts compared to 82% of adult males. Concerted efforts are currently underway to reduce this gender gap to 25%.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

Key reasons for relatively lower women inclusion in Pakistan include lack of identification/ CNIC, inadequate financial literacy and mobile SIM ownership, mostly emanating from social factors that may be addressed by increasing awareness on the benefits of being banked.

“ Rising smartphone adoption has expanded access to digital tools, yet ownership and usage remain higher among men than women. Affordability constraints and cultural barriers continue to limit equal participation, underscoring the need for sustained, coordinated efforts to close the remaining digital and gender gaps.”

Mr. Aamir Ibrahim, CEO and President - Jazz, Chairman - Mobilink Microfinance Bank Limited

Banks have increasingly prioritised women-focused initiatives, leading to women constituting 25% to 35% of their customer base, an increase from an average of 22% in 2022, with active account ratios ranging from 60% to 70%.

One of the most important levers to enhance women inclusion is the role of the regulator. In 2021, State Bank of Pakistan (SBP) launched the gender mainstreaming policy “Banking on Equality: Reducing the gender gap in financial inclusion”. Notable achievements attained till Jun-25 include the following:

Female employment ratio increased to 16% in Jun-25 (from 13% in Jun-24)

81% of bank branches have dedicated women champions in place

Women Branchless Banking agents have grown to over 21K and represent 3% of total agents

82% of overall bank staff has been imparted gender sensitivity trainings

All banks have appointed female directors to their boards and established management subcommittees focused on diversity and inclusion

SBP is developing Banking on Equality 2.0, focusing on enhancing women's access to finance. As a signatory to the World Bank's Women Entrepreneurs (WE) Finance Code, SBP has encouraged banks to join voluntarily, with 22 banks pledging to take new actions, share data, and appoint leaders to support women's financial inclusion.

“Recent regulatory efforts have improved financial inclusion by increasing women's access to banking accounts, but gaps remain in offering women adequate financial products such as loans.”

Ms. Sima Kamil, Former Deputy Governor, State Bank of Pakistan

“Financial literacy is a key enabler for women inclusion - collective efforts are needed to address the lack of awareness among women on where and how to begin financial engagement.”

Mr. Muhammad Nassir Salim, President & CEO, HBL

“Empowering women through targeted financial literacy initiatives and improved access to financing is crucial for unlocking substantial economic growth.”

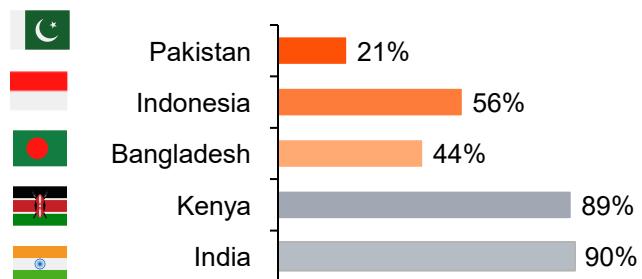
Mr. Syed Amir Ali, Deputy CEO, Meezan Bank Limited

Rural Inclusion

The Global Findex Database 2025 reports a significant advancement in Pakistan's rural financial inclusion, increasing to 21% from 15% in 2021. However, the value of deposits held by rural account holders represents 16% of the overall individual deposit balance in Jun-25, sustaining similar levels observed since Jun-22.

Few banks are actively strategising to expand access using digital as a lever alongside branch presence. These institutions have successfully optimised their rural customer base, achieving penetration rates between 25% - 35%.

Rural accounts (% age 15+)



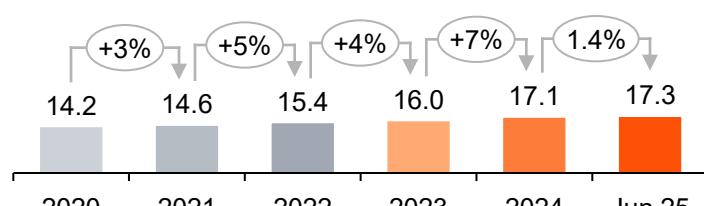
Sources: PwC proprietary insights and analysis, World Bank

Rural inclusion ratio greater than **40%** in regional and emerging economies



As of Jun-25, rural branches constitute around 25% of the total branch network in Pakistan. Whilst physical network has been expanding over time, the potential for further penetration continues to exist particularly across rural and underserved areas. This potential is further highlighted when we compare branch and ATM networks per 100K adults in Pakistan vs. other economies.

Branch network expansion in Pakistan since 2020



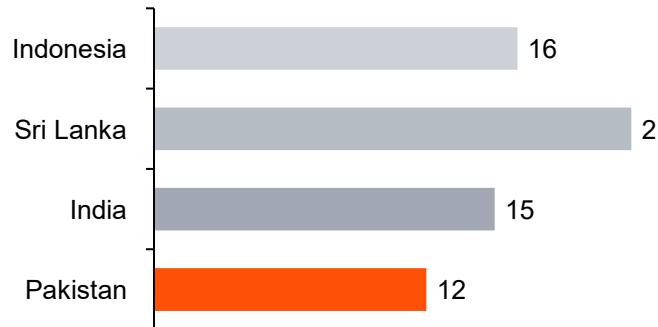
Sources: PwC proprietary insights and analysis, SBP

Unlike the declining branch trends observed in Western countries, banks in Pakistan are expected to continue expanding their branch networks, as our experience indicates that opening new branches correlates with increased deposit growth.”

Mr. Muhammad Nauman Chughtai, President/ CEO, MCB Bank Limited

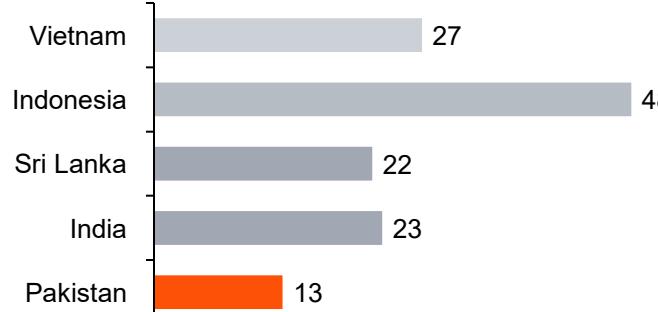
Lower ratio of branches and ATMs per 100K adults in Pakistan vis-à-vis other economies

Branches per 100,000 adults



Sources: PwC proprietary insights and analysis, SBP, World Bank

ATMs per 100,000 adults



Sources: PwC proprietary insights and analysis, SBP, World Bank

Increasing number of low value accounts

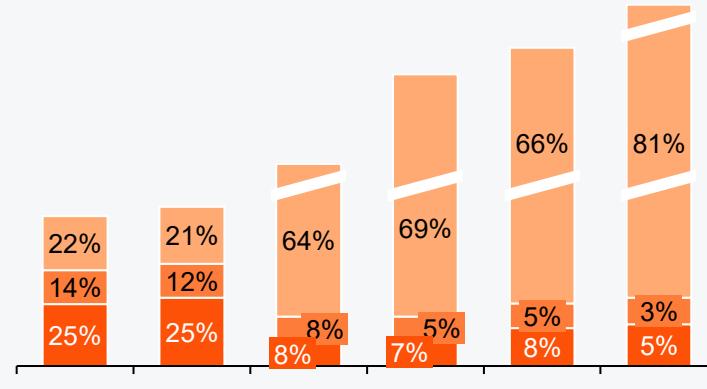
Since 2020, there has been a more than three times increase in the number of accounts held by individuals – from 53 million in 2020 to 163 million¹ in June 2025 (December 2024: 98 million).

Of these 163 million¹ accounts, there are 131 million with balance of less than Rs. 25,000 comprising ~81% of the total base for individuals. In 2020, there were 12 million such accounts, representing 22% of the aggregate.

Similar trends are noted for business accounts where low value accounts comprise ~64% of the total number of business accounts, up from 37% in 2020.

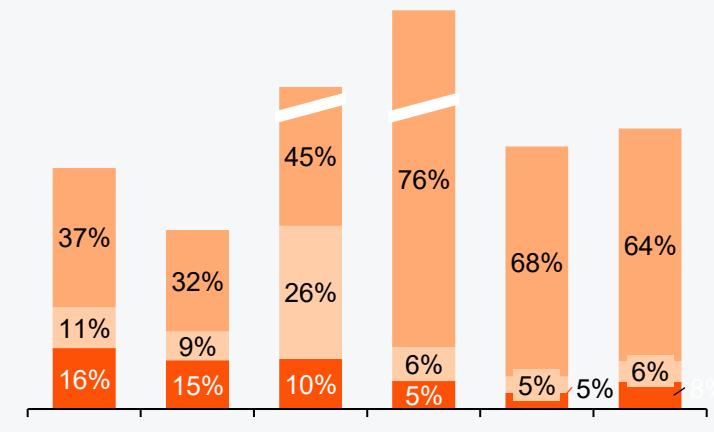
These low-value accounts have expanded 9 times over since 2020, signaling the need to optimise engagement levels.

11x increase since 2020 in the number of accounts held by individuals with deposit balances <Rs. 25,000



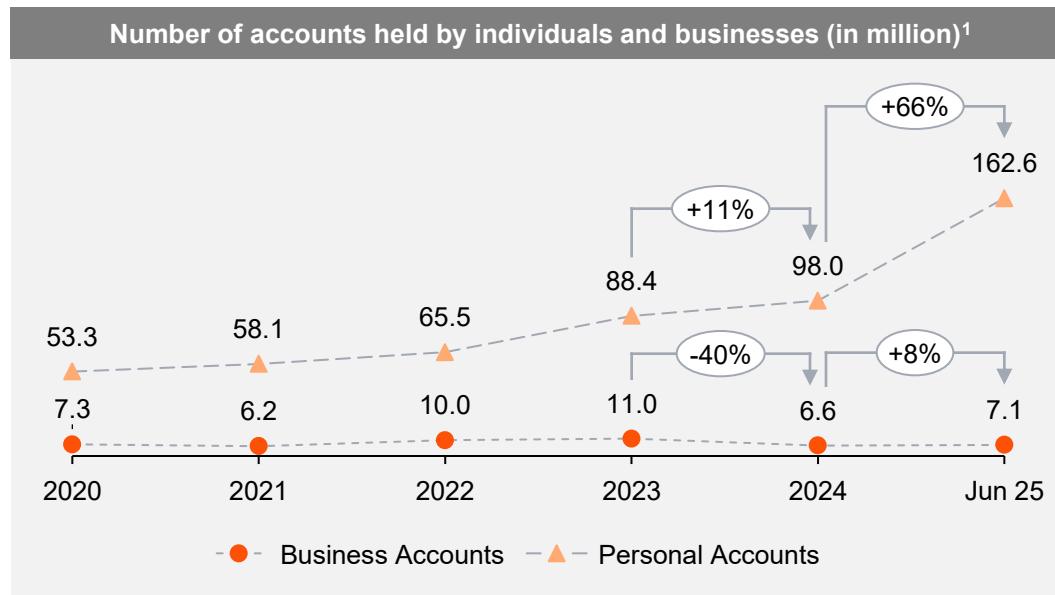
Less Than 25,000 25,000 to 50,000 50,000 to 100,000

1.7x increase since 2020 in the number of accounts held by businesses with deposit balances <Rs. 25,000



¹As disclosed by SBP, the conversion of a microfinance bank into a digital bank has resulted in some structural breaks in data impacting the number of deposit accounts reported by SBP

Over the six months following December 2024, the number of individual accounts rose by 66%, compared to a modest 8% increase in business accounts. Nevertheless, this growth in the latter is encouraging, given the earlier decline from 11 million to 6.6 million accounts between December 2023 and 2024.

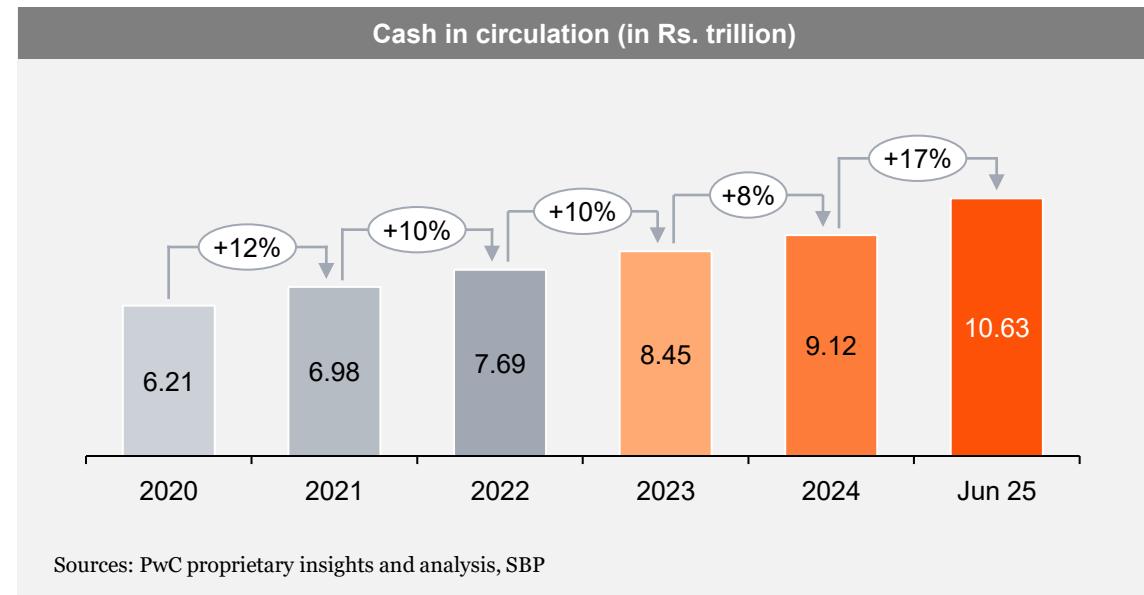


Sources: PwC proprietary insights and analysis, SBP

¹As disclosed by SBP, the conversion of a microfinance bank into a digital bank has resulted in some structural breaks in data impacting the number of deposit accounts reported by SBP

Cash dominance

Cash in circulation stands at Rs. 10.6 trillion – nearly 2 times increase since 2020 with growth rate of 71%, approximating 1/3rd of total deposits held at banks.



Cash dominance, as also covered in section 7 on digital banking and payments, may have major implications for the economy. This trend may perpetuate the reliance on cash transactions among households and businesses, thereby hindering the financial empowerment of marginalised segments.



Government and regulatory initiatives to promote financial inclusion

In 2015, Government and SBP launched the National Financial Inclusion Strategy broadly focusing on:

- 1 Facilitating account opening through mobile wallets
- 2 Promoting e-commerce
- 3 Increasing physical touchpoints for banking services
- 4 Implementing national payment gateway
- 5 Raising financial awareness
- 6 Enabling receipt and management of inward remittances in real-time



The third edition of the National Financial Inclusion Strategy (NFIS) 2024-28 was launched earlier this year. This edition aims to build upon prior achievements, resolve persistent barriers, and accelerate digital innovation.

Key priorities include boosting availability and adoption of secure digital financial services, strengthening the financial ecosystem, and increasing inclusion for

underserved and marginalised segments. The NFIS 2028 targets to improve financial inclusion to 75% and reduce the gender gap to 25% by 2028.

One of the strategic goals outlined within the Action Framework of NFIS 2024-28 is to expand the availability and usage of financial services in unserved and underserved areas. Key focus areas in this regards entail:

District profiling to identify gaps and opportunities for financial services

Account opening drives

Enabling a digital ecosystem in unserved and underserved areas

Increasing access points to serve (including agent level interoperability for cost effective financial services)

Launching Asaan Business Account (ABA) with e-KYC regulations

Government and regulatory initiatives to promote financial inclusion

Over the past two decades, SBP has undertaken several initiatives to enable inclusive economic growth, notable ones include:



Fostering diverse financial institutions through separate licensing regimes for microfinance banks, digital banks and Electronic Money Institutions (EMIs)



Facilitating account opening through mobile wallets



Interoperable inter-bank card payments platforms



Tiered approach to KYC, with Branchless Banking (including Asaan Mobile Account) enabled via mobile wallets and USSD



Limited KYC account schemes such as Asaan Account, Asaan Digital Remittance Account, Freelancer Digital Account etc.



Digital on-boarding of merchants



RAAST – instant payment system



Nation-wide Financial Literacy Programme



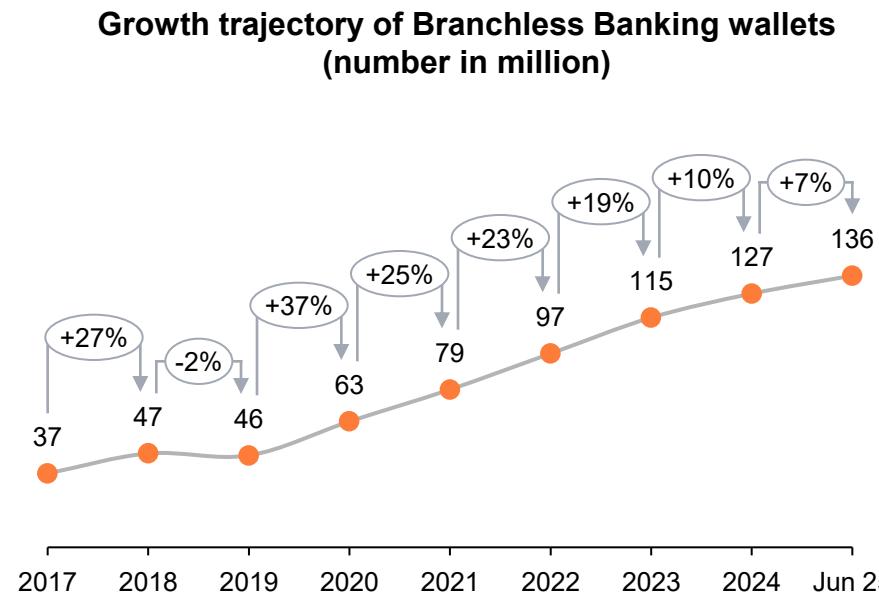
Child and Youth Financial Literacy Programme



Branchless Banking in Pakistan

In 2008, SBP launched Branchless Banking to promote financial inclusion by leveraging retail agents and mobile phones as convenient, affordable alternatives to branch-based banking.

As of Jun-25, there are 136 million wallets, holding aggregate balance of Rs. 216 billion. 31% of these wallets are held by women (vs. 51% in Bangladesh).



Sources: PwC proprietary insights and analysis, SBP

The average balance per wallet has nearly tripled, rising from Rs. 565 in Dec-17 to Rs. 1,350 by Dec-24, and further increasing by 19% to Rs. 1,600 by Jun-25.

The active account ratio over the period, however, has been unstable. Declining from 52% in 2017 to 44% in 2022, the ratio improved to 56% in 2023 but now stands at 46% in Jun-25.

The Branchless Banking proposition pivoted two key use cases for digital in banking.



Remote customer onboarding with limited KYC



Fund transfers through mobile

Innovative approaches in Branchless Banking to expand market reach

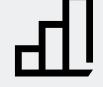
Few of the active branchless banking players have rebranded their platforms to engage tech-savvy younger customers, seeking to transition these users to mainstream banking services.

Leveraging the wallet proposition to build scale, very few banks have re-strategised and invested in brand rejuvenation. Some are exploring niche segments e.g. farmers, whilst few others focus on corporate partnerships for last-mile disbursements.

Relatively mature banks have expanded their solution suite, offering savings, remittances, nano-loans, embedded finance and white-label wallet solutions. To increase engagement, certain banks have introduced e-commerce marketplaces enabling cross-sell and up-sell to customers.

Asaan Mobile Account (AMA) Scheme – a ground-breaking initiative of international acclaim

Introduced for low-income segments, this initiative enables any Pakistani holding a valid CNIC to open bank accounts digitally, even without internet connectivity. Accounts can be opened using any mobile operator's SIM and transactions can be conducted through feature or smart mobile phones.

	Individuals onboarded	13M
	Percentage of these accounts opened by women	35 - 40%
	Number of Asaan accounts ¹ growing at an average rate of	25%
	Share of new Asaan accounts ¹ in total new individual accounts opened in the industry	30 - 40%

¹Other than AMA

Sources: PwC proprietary insights and analysis, media reports

Expanding outreach to unbanked and underserved through wide-spread agent network



Agents have been instrumental in the Branchless Banking sector, with ~732K touchpoints nationwide. Although the agent network has been gradually increasing, the active agent ratio has declined from 47% in 2022 to 37% in Jun-25. This lower activation may be attributed to model complications, commission-based structure, marginal profitability and, possibly, overall absence of a coherent approach for financial inclusion.

Agent network coverage in Pakistan

Some banks active in the Branchless Banking space and desirous of expanding agent network have entered into agreements with entities that have wider geographic footprints, such as courier companies, to extend branchless banking solutions to the masses. Comparison of Pakistan's agent coverage with Bangladesh and Kenya highlights the extent to which agent network augmentation may be considered. Ratio for 15+ population to agent outlets stands at 220 in case of Pakistan, vis-à-vis 94 and 148 for Bangladesh and Kenya respectively (refer table below).

Leveraging agency banking for financial inclusion

Agency banking has emerged as a powerful tool for financial inclusion worldwide, particularly in regions where traditional banking services are limited. Countries such as Bangladesh, Kenya, India, and others have demonstrated the effectiveness of strategic agent network expansion in reaching underserved populations.

	 Pakistan	 Bangladesh	 Kenya
Adult Population	160M	125M	36M
No. of Agents	732K	1.8M	381K
Adults per Agent	~220	~94	~148

Sources: PwC proprietary insights and analysis, SBP, other central banks

Regulatory measures may involve expanding the agency banking framework to provide agent-assisted banking access to all customer segments, offering a broad spectrum of solutions beyond simple transactional services.

Certain initiatives/ schemes that helped promote financial inclusion in certain jurisdictions

India



- Pradhan Mantri Jan Dhan Yojana – a financial inclusion programme aimed at providing universal access to banking facilities, RuPay debit card with in-built accident insurance cover
- Micro-insurance and unorganised sector pension schemes
- Introduction of Business Correspondents under agency banking model, able to render diversified services through enabling solutions
- Banks required to open at least 25% of their total number of branches in unbanked rural areas
- Providing banking access to every village within a 5 km radius/ hamlet of 500 households in hilly areas
- Financial Inclusion Index introduced by Reserve Bank of India (RBI) to measure financial inclusion, encompassing banking, investments, insurance, postal, and pension sectors. It assesses access, usage, and quality, with a score ranging from 0 (complete exclusion) to 100 (full inclusion)
- Mahila Samman Savings Certificate launched by the government for women and girls at attractive fixed interest
- Establishment of Common Service Centres for delivery of essential social welfare schemes, healthcare, financial and agriculture services in rural and remote areas

Sri Lanka



- Banks required to open a minimum of two branches in rural areas, for each new branch established in urban areas
- Introduction of agency banking
- Postal savings account system
- Introduced the National Financial Inclusion strategy – few initiatives for:
 - Consumer protection
 - Collaborations with youth-focused organisations like the National Cadet Corps and National Youth Corps
 - Women empowerment through community health network
 - Educating migrant workers on financial management and digital transfers
 - Promoting QR payments to three-wheeler and cab drivers
- Launched sustainable finance roadmap to expand financial access for underserved (particularly women and rural communities)
- Issued financial consumer protection regulations to build trust in the formal financial system
- Launched financial literacy roadmap to cultivate prudent and responsible financial behaviour

Bangladesh



- Introduction of No Frill Accounts – opened and maintained with zero balance, no levies, high interest rates offered
- School banking facilities - any student under 18 can open a school banking account by depositing minimum BDT 100
- Special accounts for street and working children, which can be opened with a minimum deposit of BDT 10 (referred to as BDT 10 accounts)
- Dedicated focus on financial services for women individuals and entrepreneurs in rural and urban areas
- Target-based specific policies being formulated on financial inclusion for youth, physically challenged, old aged, third gender, underprivileged (floating communities, urban slum dwellers, marginalised segments residing in underdeveloped areas with inadequate infrastructure)
- Introduction of agency banking
- Mainstream banks gaining immediate rural access by integrating with existing agent networks 4,500+ Digital Centers

Malaysia



- Framework formulated by central bank to advance the financial inclusion mandate. Key areas relate to:
 - Introduction of extended agency banking
 - Introduction of flexible micro-saving and micro-insurance products
 - Structured trainings for financial inclusion
 - Improving financial literacy
 - Leveraging technology to provide innovative solutions
 - Measurement of financial inclusion index
- Enhancing the role and capacity of Development Finance Institutions to support financial inclusion
- Rider Entrepreneurship Program - provides seed capital, microfinancing, and structured training in financial management and technical skills for aspiring food delivery riders



Indonesia

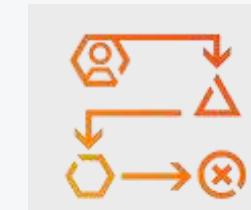
- Laku Pandai Programme
 - Three party programme between banks, agents and customers
 - Offers basic saving account, micro-insurance and micro-credit products
 - Supported by an agent network of over 400,000
- ‘One Account, One Student’ program launched by the government to promote financial literacy and inclusion
- Strengthening consumer protection frameworks for digital financial services, data privacy, and online lending
- Collaborating with international development banks for policy-based loans to support infrastructure, access for marginalised groups, and regulatory frameworks

Financial inclusion may remain a persistent challenge, but one which is addressable. There are regional success stories we can learn from where innovative players leverage technology, customer networks and data to reduce transaction costs and deliver financial products most suited to low-income consumers.

Constant collaborative efforts on part of regulators and industry stakeholders may augment overall capacity to:



Develop affordable digital financial solutions



Design customer-centric solutions that overcome behavioural barriers



Protect customers through rules for disclosure, fair treatment and recourse

7

Navigating the digital banking and payments revolution

Navigating the Digital Banking and Payments Revolution

The financial services sector has undergone rapid evolution driven by emerging technologies, compelling banks worldwide to adopt disruptive innovations to meet changing customer expectations for instant, seamless experiences.

To maintain competitiveness, grow profitably, and expand into new markets, digital transformation has become essential, although strategies must continuously evolve to keep pace with technological advances and shifting customer behaviors.

“

Banks are actively exploring digital solutions to drive business growth, streamline processes, and deliver seamless customer experiences.”

Mr. Muhammad Nauman Chughtai,
President/ CEO, MCB Bank Limited

“

While "digitalisation" may be a buzzword, its real power lies in the value created through the effective use of technology and AI. Ultimately, embracing digitalisation will be transformative for the banking industry, enabling greater financial inclusion and scalable growth.”

Mr. Zia Ijaz, President & CEO, Askari Bank Limited

In Pakistan, banks possess extensive data that can be leveraged to identify niche segments, understand customer preferences, and develop data-driven, customer-centric strategies.

Revisiting digital strategies to align with local and global trends, consumer engagement patterns, technological capabilities, and the ongoing initiatives of the Government and SBP to digitise the economy is critical for banks to thrive in today's information-driven, tech-enabled environment.

“

Increased digitisation enhances convenience and value while simultaneously promoting the development of a more formalised economy.”

Mr. Muhammad Nassir Salim,
President & CEO, HBL

1

1 Leveraging AI for operational and customer excellence

Banks worldwide are increasingly leveraging advanced AI technologies to revolutionise customer engagement, streamline operations, and deliver highly personalised financial services. Few examples include:

AI-driven financial assistants

Central to this transformation is the deployment of sophisticated AI assistants that surpass traditional chatbots by offering tailored advice and proactive financial management.

Complementing these assistants, natural language processing has further transformed customer interactions, enabling more intuitive and efficient communication.

Customer-centric communications for optimal engagement

Global banks are adopting customer lifecycle management frameworks powered by machine learning and real-time data analytics.

For instance, one universal bank analyses over 1.3 million daily customer behavioral signals - including transactions, card usage, digital footprints, and app activity - to construct detailed customer profiles, enabling highly personalised outreach and communications.



Optimised lending and credit decisioning

AI is redefining lending processes by accelerating decision-making and broadening accessibility while maintaining stringent risk assessments.

Industry reports highlight that AI-driven lending solutions can reduce operational costs by 20% to 70% in targeted areas and lower default rates by 30% to 50%, underscoring the technology's potential for both efficiency and risk mitigation.

Enhancing call center service quality

To enhance service quality, banks have also integrated AI-powered emotion analysis within their call centers.

This technology facilitates more effective coaching and agent training by providing insights into customer emotions, thereby equipping agents to respond appropriately and improving overall customer satisfaction.

Key focus areas in Pakistan

Banks active within the digital space in Pakistan are leveraging AI technologies to enhance operational efficiency and customer experience.

Several of these banks have implemented AI-powered virtual assistants and chatbots to provide 24/7 customer support for tasks including account inquiries, fund transfers, bill payments, credit card statements, and locating branches or ATMs.

In addition to customer-facing applications, banks are developing advanced Large Language Models (LLMs) and Generative AI technologies, which reference internal policies and regulatory documents to provide precise information autonomously.

Very few banks are transforming their lending processes through AI for digital credit and supply chain financing.

Chatbot implementations are also taking place in contact centers – with a bank reporting over 95% response rate, reducing abandoned chats to under 5%.

“

Leveraging mobile banking platforms and artificial intelligence is essential for banks to maintain competitive edge and enhance customer experience in a rapidly changing digital landscape.”

Mr. Syed Amir Ali, Deputy CEO, Meezan Bank Limited

2

Optimising digital onboarding journeys

We conducted a comprehensive study on digital onboarding in Pakistan, analysing the customer experience across certain commercial banks, offering customers the flexibility to open full-service current accounts through their mobile.

Various aspects were analysed, encompassing:



User Interface (UI) and User Experience (UX)



Number of screens, fields and clicks



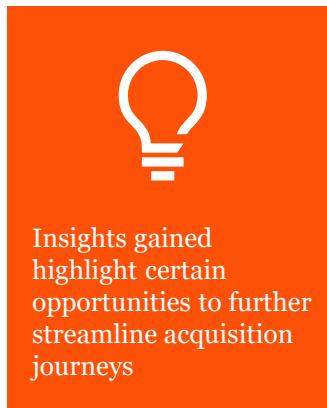
Application functionalities



Navigation and support



Time taken to complete the application and to activate the account



- ~73 clicks on average to open an account
- ~45 fields required
- ~25 minutes to complete the online application
- ~8 days to activate the account

Certain journey disruptors

- Biometric verification through a separate app
- Frequent time-outs and refresh requirements
- Repeated requests for location
- Low file upload capacity
- Technical issues experienced in facial recognition and fingerprint scanning features

Opportunities for optimal journeys

- Mobile-first strategy for digital customer acquisition
- Design thinking for friction-free experiences
- Robust system architecture with optimised workflows for minimal interruptions
- Stronger governance around conversion, abandonment, TATs
- Balancing CX and compliance

3

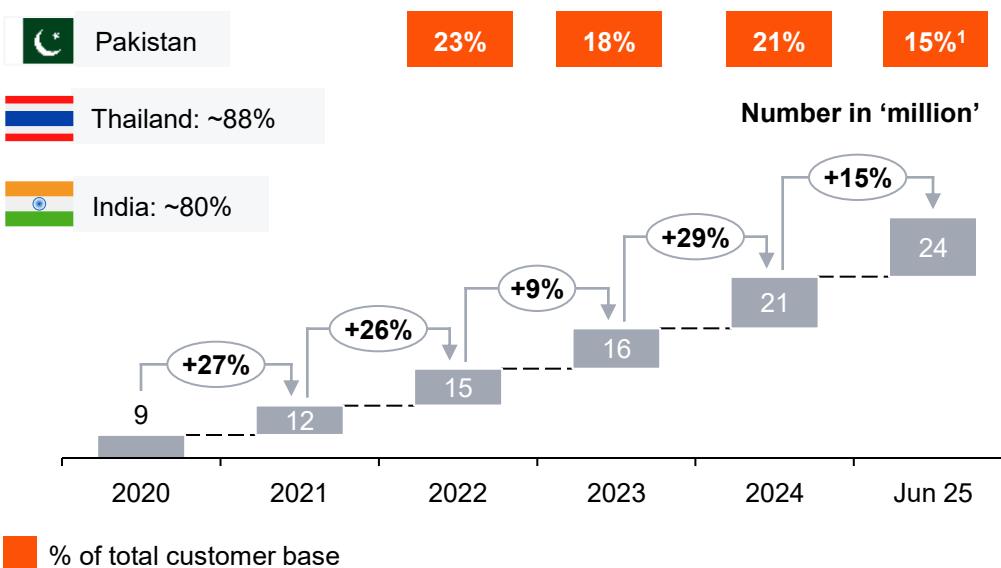
Driving digital channel engagement

Mobile banking adoption continues to grow in Pakistan whilst significant potential for further expansion exists. Presently, only 15% of all bank accounts in Pakistan are registered for mobile banking, compared to adoption rates exceeding 80% in various emerging markets.



Rising uptake of mobile banking since 2020

As % of total number of accounts

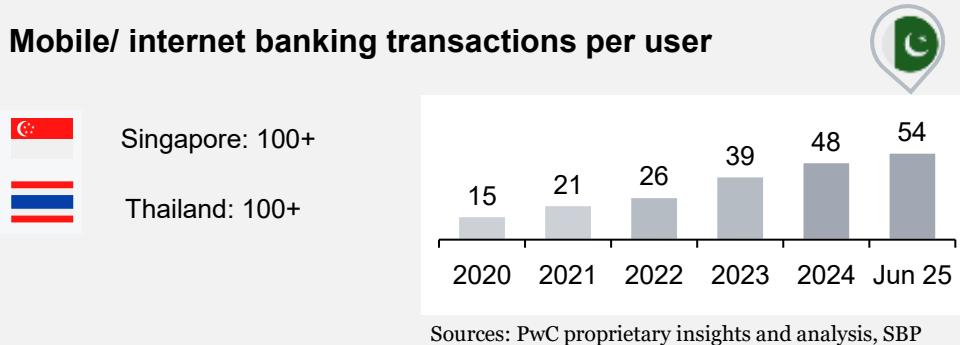


Sources: PwC proprietary insights and analysis, SBP, other central banks, media reports

¹As disclosed by SBP, the conversion of a microfinance bank into a digital bank has resulted in some structural breaks in data impacting the number of deposit accounts reported by SBP

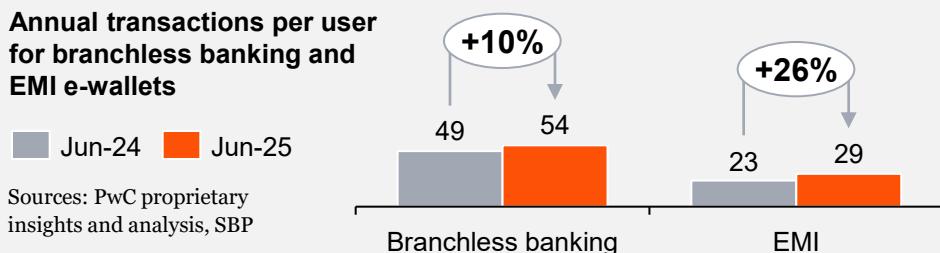
While mobile and internet banking transactions are increasing, there remains substantial opportunity to enhance user engagement. Annual transactions per user approximate 54 (around 4 per month, compared to 3 in December 2023), showing minimal growth over the past year and remaining at levels lower than those reported in certain other countries.

Mobile/ internet banking transactions per user



Branchless banking wallet transactions have steadily increased alongside a rise in usage of Electronic Money Institutions' (EMI) e-wallets. Digital wallets are becoming increasingly trusted alternatives to cash, especially among youth, freelancers, merchants, and small businesses.

Annual transactions per user for branchless banking and EMI e-wallets



“ Widespread use of mobile wallets facilitates easier cash management for businesses and reduces risks associated with cash handling.”

Mr. Muntaqa Peracha, Managing Director & Chief Executive Officer, foodpanda Pakistan

Transforming banking with mobile-first, data-driven, personalised solutions



Customer preferences have shifted. They expect fewer apps, intuitive control, and frictionless experiences. In view of this trend, banks worldwide have embraced mobile-first strategies, designed seamless journeys, and delivered hyper-personalised services by leveraging strategic partnerships and customer data to provide lifestyle-oriented solutions.

According to a global research firm:



of consumers express interest in using a single app to manage their daily activities



say they will use a super app more if it also includes lifestyle services alongside financial ones

In many markets, there is a shift from providing fragmented offerings to unified financial ecosystems. Particularly within Asia and now beyond, banks are transforming financial apps into daily essentials, with well-executed strategies yielding higher customer acquisition, satisfaction and loyalty.

Certain prominent examples of integrated platforms consolidating multiple financial services into a seamless, unified user experience



Grab in Singapore – ride hailing, food and grocery delivery, digital payments, insurance, investments and lending



Revolut in UK – financial super app - currency exchange, crypto, stock trading, and budgeting



Gojek in Indonesia – ride hailing, food delivery, logistics and financial services

These super-apps design interconnected journeys powered by data, context, and UI clarity. Resultantly, banks in these economies are shifting from competing solely with other banks to contending with platform-based enterprises that integrate mobility and financial services within a single ecosystem.



of surveyed banks are creating partner ecosystems, focusing on customer engagement and delivering strong customer experiences

Sources: PwC Global - Digital Banking Survey 2023: Southeast Asia Landscape



Employ ecosystem partnerships for customer acquisition and engagement, co-creation and loyalty

Sources: PwC Pakistan's study of trends at select 40+ banks across various regions

Key focus areas in Pakistan



While most banks continue to focus on foundational digital services and feature stacking, very few institutions have been successful in transforming into comprehensive lifestyle platforms for everyday customer needs. Many continue to face challenges integrating with the broader ecosystem given its size and maturity, and delivering seamless experiences, largely due to legacy system constraints.



In Pakistan, while we don't yet have a dominant super app; multiple banks have mobile apps, but usage is low because the ecosystem is fragmented."

Mr. Mujahid Ali, Chief Technology and Digital Transformation,
Allied Bank Limited

Banks making headway have prioritised some or all the following four aspects:



Diversifying solution suite, moving into adjacent financial products notably, consumer loans, savings, investments and insurance



Introducing app features and value-added services around customer convenience (including tax filing, entertainment, healthcare)



Creating joint offerings with non-banks for digital lending, personal financial management and loyalty



Growing into a one window solution addressing e2e financial requirements of MSMES – deposits, collections, e-invoicing, payments, employee banking, financing, etc.



Significant investment is essential to provide consumers with a comprehensive suite of solutions comparable to branch services, as there is a growing preference to avoid in-person branch visits."

Mr. Muhammad Nauman Chughtai, President/ CEO,
MCB Bank Limited

A. Expanding app access through rejuvenation



As part of their traffic migration strategies, most banks are focusing on expanding their app user base through brand rejuvenation, enhanced UI/ UX design, and targeted marketing campaigns. Few are prioritising the development of interfaces in local vernacular to improve user adoption.

Enhancing user experience through smart journeys, engaging interactions, contextual nudges, and consistent design presents a significant opportunity for banks to improve customer retention and differentiate themselves in a competitive market.

“

Banking apps need to be simple, symbolic, with easily understandable interfaces - preferably in simple Urdu - to increase adoption among the masses.”

Ms. Sima Kamil, Former Deputy Governor, State Bank of Pakistan

B. Enhancing efficiency through conversational platforms



Some banks are actively implementing conversational banking by utilising social media platforms to redirect call center traffic to channels such as WhatsApp. These banks are expanding beyond the existing menu systems to incorporate fund transfers and bill payments, establishing the platform as a comprehensive transactional channel.

Conversational banking has experienced significant growth, with participating banks reporting increases of over 40% in processed service requests, more than 35% in transaction volumes, and over 60% in transaction values.

This initiative has substantially increased call center capacity by streamlining front-end processes, allowing resources to be reallocated towards more efficient service delivery and sales activities.

C. Collaborating with ecosystem players for customer acquisition and service



Consistent with trends observed in previous years, a select number of banks continue to form partnerships with fintech firms and platform-based businesses to enhance outreach, drive lead generation, develop co-created solutions, and monetize data for new revenue streams.

Recently, there is emphasis on establishing strategic alliances aimed at:

- Digitising the supply chain, offering embedded finance to individuals and MSMEs 
- Expanding the agent network 
- Extending card acceptance points alongside offering discounts to promote card usage 
- Developing use-cases for digital payments based on daily hierarchy of household spending 

Banks in Pakistan have the potential to benefit from the evolving ecosystem, especially with the ongoing growth in e-commerce and national level initiatives to promote digitalisation. By thoughtfully exploring strategic partnerships that resonate with customer needs, banks can develop relevant propositions within this ecosystem.

Such efforts may help strengthen customer engagement and build loyalty over time – a strategic imperative now as consumers have an increasing array of digital solutions to choose from, with 2 digital banks live, 3 preparing for launch and digital wallet solutions offered by 6 EMIs gaining popularity (5.8 million wallets as of Jun-25 up from 3.7 million in Jun-24).

4 Digital Lending

Echoing developments over recent years, only a limited number of banks currently offer customers the ability to apply for loans digitally, with even fewer providing approvals and disbursements within minutes.

The product suite continues to encompass a broad spectrum, from traditional offerings such as credit cards to innovative solutions including Buy Now, Pay Later (BNPL), advance salary, embedded finance, and working capital loans.

Unfortunately, lending activities may be challenged due to infection ratios varying between 25% and 85% across different products - slightly elevated compared to last year's levels - which necessitates that banks review and adjust their credit risk models accordingly.

There are significant opportunities to leverage customers' transactional data to develop algorithms that enable data-powered credit decisioning. Industry experts emphasise the importance of enhancing national data infrastructure and increasing access to alternative data-based credit bureau scores to accelerate digital lending.

“

Data-driven approach to financing presents a broader and more inclusive opportunity to transform consumer banking in Pakistan.”

Mr. Muhammad Hamayun Sajjad, Chief Executive Officer, Mashreq Pakistan

“

Successful digital financing depends on robust, high-quality data, which can be enhanced by empowering Pakistan's data bureaus to include diverse customer behaviors (including trends of utility payments) and fostering a system that incentivises good repayment habits.”

Mr. Jahanzeb Khan, President & CEO, easypaisa digital bank



Market potential for data-centric digital lending nonetheless exists, also evident by the increasing number of SECP licensed lending NBFCs. Currently, there are

13 SECP approved nano-lending apps

9 for other lending including earned wage access, BNPL, B2B financing and education finance



5 Digital payments ecosystem

Digital payments in the country are transitioning from being primarily a regulatory focus to becoming a central catalyst for economic growth, as the industry advances from strategic planning to active implementation.

A. Cashless Pakistan

To accelerate Pakistan's transition to a cashless economy, the Government has recently launched several initiatives under the Cashless Pakistan program, aiming to foster a digital and documented economy by building on three key verticals:



1. Conversion

Shifting existing cash-based transactions by the Government (local, provincial, federal) into digital channels

2. Inclusion

Ensuring all citizens - especially women and underbanked segments, have access to financial services

3. Adoption

Promoting the use of digital payments across businesses, public institutions, and consumers



Significant headway has been made under this program, marked by key accomplishments such as:



Right-of-way charges on internet infrastructure have been abolished nationwide to reduce costs and expand connectivity



Rs 3.5 billion subsidy introduced to promote merchant onboarding and encourage digital payments through QR codes



10 million full-mandate bank accounts have been opened for BISP women beneficiaries



QR deployments at NADRA offices and retail outlets in Islamabad



Integration of instant payment system with gas and electricity billing systems, facilitating electronic bill payments for nearly twelve million consumers

Additionally, targets have been set to achieve the following by Jun-26:



Increase monthly active QR merchants from 500K to 2 million



Increase annual digital transactions from 7.5 billion to 15 billion



Digitise 100% of government payments (G2P and P2G)



Cashless Economy initiative marks a critical inflection point by aligning public-sector payments, incentives, and digitisation efforts to help normalize digital transactions at scale and reinforce trust across the ecosystem."

Mr. Aamir Ibrahim, CEO and President - Jazz, Chairman - Mobilink Microfinance Bank Limited



Industry experts believe that a significant portion of transactions still occur in cash, with Pakistan's undocumented economy estimated to be around 40% of GDP, resulting in inefficiencies and revenue leakages. Digitising even a modest share of cash transactions could save the country approximately Rs. 164 billion annually, while reducing the undocumented economy by 25% could unlock over Rs. 1 trillion in additional resources.

“

Rs. 11.5 trillion remains outside the formal banking system. Redirecting even 20-30% of this cash into banks would boost liquidity, enabling greater lending to priority sectors.”

Mr. Saleem Ullah, Deputy Governor,
State Bank of Pakistan

“

There are opportunities for growth in the broader ecosystem, particularly in expanding access to fundamental infrastructure such as reliable internet connectivity in various regions. This infrastructural gap may also be contributing to continued reliance on cash transactions, in marked contrast to countries such as China, Korea, and the UK, where digital payments are predominant.”

Mr. Mujahid Ali, Chief Technology and Digital Transformation, Allied Bank Limited



B. National priorities

In 2025, digital payments continue to be a national priority for central banks across several developing economies such as Thailand, Indonesia, India and Kenya. Building on the foundational work of previous years, the focus has shifted from mere adoption to building more secure, efficient, and interconnected payment ecosystems.

These national strategies are typically centered on a set of key initiatives around:



Robust payment infrastructure and security



Digital IDs and remote account opening



Achieving ecosystem interoperability



E-tax and e-document systems to promote ease of doing business



Enhancing regional and international payments



Consumer protection and data privacy



Expanding instant payment systems, card acceptance points and merchant solutions



Literacy projects to promote e-payments

SBP's National Payments Systems Strategy aligns with the pillars of regional peers, while the Strategic Plan 2023-2028 emphasises making digital payments as convenient, efficient, and cost-effective as cash.

Unfortunately, cash continues to be the preferred medium due to perceived low risk and convenience, despite the presence of hidden costs.

“

Digitising cash transactions requires initiatives such as merchant onboarding, supply chain digitisation, and open banking, coupled with making digital payments as convenient and cost-effective as cash.”

Mr. Saleem Ullah, Deputy Governor, State Bank of Pakistan

“

Large amounts of cash circulate inefficiently in Pakistan's economy - for banks, the real competition lies in digitising cash which is expensive, risky, and difficult to manage.”

Mr. Jahanzeb Khan, President & CEO, easypaisa digital bank

“

Cash remains the dominant competitor to digital payments due to its familiarity and long-established trust. Moving everyday transactions away from cash requires digital alternatives that are reliable, secure, and easy to use.”

Mr. Aamir Ibrahim, CEO and President - Jazz, Chairman - Mobilink Microfinance Bank Limited



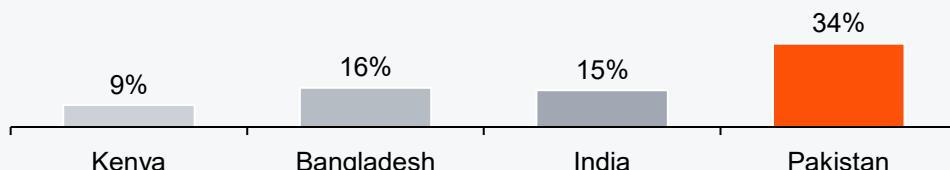
C. Cash's stronghold indicates some signs of weakening

Recent government and regulatory initiatives are anticipated to yield results in the short to medium term, with early indications of positive trend reversals beginning to emerge.

Cash accounted for 24% of the total volume of retail payments in Jun-24, decreasing to 19% by Jun-25.

The cash-in-circulation ratio has marginally decreased to 34% from 35% in Dec-23. Although it has reduced from 39% in 2022, it is still higher than other countries.

Pakistan's cash-in-circulation higher at 34% Vs. less than 20% in select economies



Sources: PwC proprietary insights and analysis, SBP, other central banks

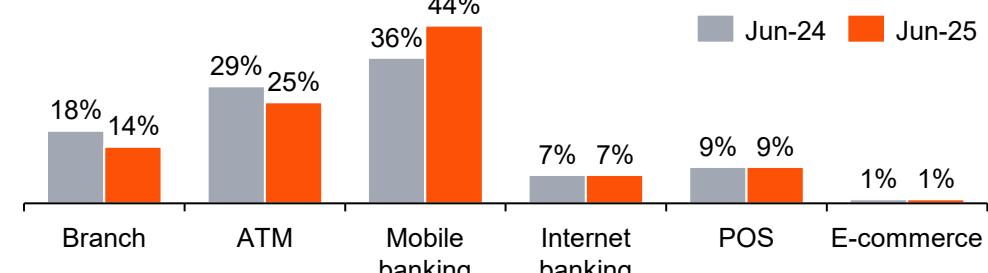


D. Retail payments space in Pakistan

Retail payments have experienced remarkable growth, with a year-on-year increase of 38% in volume and 12% in value as of Jun-25.

This robust expansion is primarily driven by the rising adoption of mobile banking, internet banking, and card usage, which has contributed to a decline in the share of paper-based and ATM transactions in Pakistan.

Share in retail payments volume



Sources: PwC proprietary insights and analysis, SBP

The recent increase in transaction limits by banks has enabled customers to perform larger-value transactions through mobile and internet banking platforms, thereby reducing the need to visit bank branches for such purposes. This development reflects enhanced customer trust in digital channels and is further evidenced by a rise in the average transaction values processed via these platforms.

The need for branches nonetheless will continue to exist particularly within rural areas and for the segments of our society preferring face-to-face interactions.

“

Brick and mortar structures will continue to exist. There still remains a huge segment of the population, including rural residents and urban traders, who may be reluctant to engage digitally.

This trend may shift in the next five to ten years as younger generations reach the age of financial independence and begin actively participating in the banking sector.”

Mr. Muhammad Nauman Chughtai, President/CEO, MCB Bank Limited

“

The brick-and-mortar branch model is anticipated to remain relevant over the next decade; however, the pace of new branch openings may slow over the next three to five years.”

Mr. Zia Ijaz, President & CEO, Askari Bank Limited

“

In Pakistan's current context, physical branches are expected to remain relevant for at least the next decade.”

Mr. Mujahid Ali, Chief Technology and Digital Transformation, Allied Bank Limited

Electronic Money Institutions (EMIs) gaining traction

Transactions on EMI wallets experienced a robust volume growth of 94% in Jun-25, with value growth reaching 108%, compared to 215% last year. Average value per transaction remained steady at Rs. 2.8K, consistent with the previous year.



94%
Volume Growth



108%
Value Growth



Rs. 2.8K
Average Transaction Value

Branchless Banking wallets

Branchless Banking wallet transactions recorded a volume growth of 48%, up from 33% in Jun-24. Value growth stood at 58%, maintaining levels similar to Jun-24, with the average transaction value at Rs. 3.3K.



48%
Volume Growth



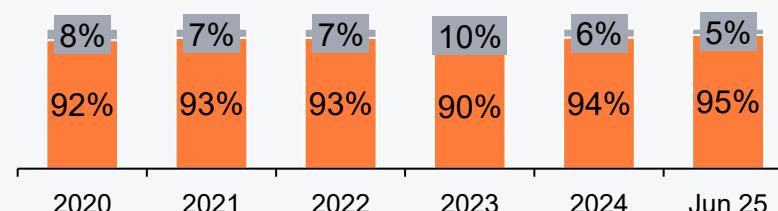
58%
Value Growth



Rs. 3.3K
Average Transaction Value

The share of Over-the-Counter (OTC) transactions has decreased phenomenally; from 37% in 2017 to 8% in 2020, down to 5% in Jun-25.

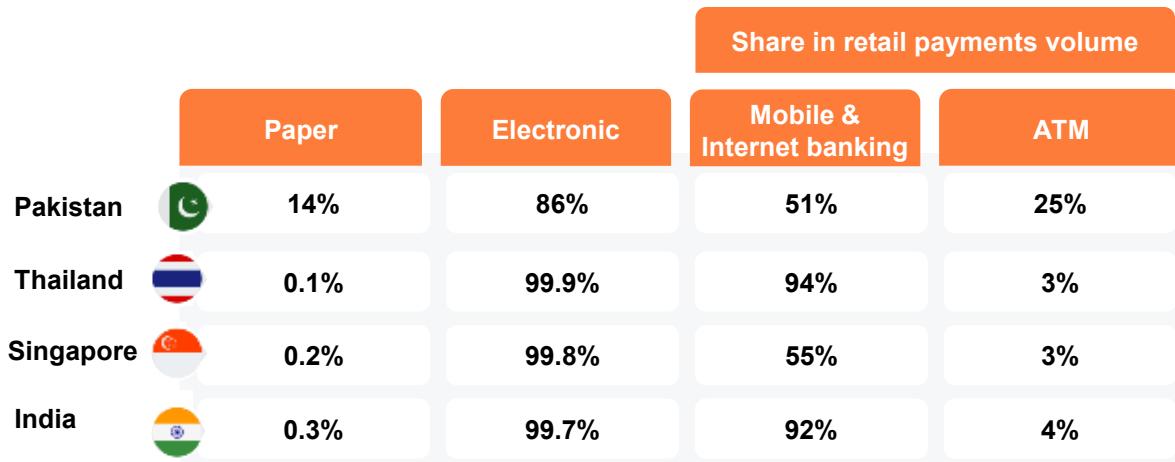
Branchless Banking transaction composition – OTC Vs. m-wallets



Over-the-Counter
Mobile Wallet

Sources: PwC proprietary insights and analysis, SBP

Despite a noticeable shift in channel utilisation, Pakistan continues to exhibit a higher proportion of paper-based and ATM transactions relative to regional economies, highlighting significant opportunities for further digital interventions.



Sources: PwC proprietary insights and analysis, SBP, other central banks

There is an opportunity for the industry to work together in encouraging behavioral shifts by implementing structured loyalty and digital engagement programs.

Government and regulatory support play a vital role in building a comprehensive ecosystem that encourages digital payments and progressively reduces dependence on cash. Current initiatives demonstrate encouraging developments, which should be sustained and advanced. A crucial requirement moving forward is the design of a clear, actionable roadmap to cultivate a dynamic digital banking and payments environment, with measurable key performance indicators to track ecosystem progress.

“

Comprehensive national digital strategy focused on the financial sector must be established, incorporating support mechanisms such as funding for fintechs, which are essential for the sector's long-term success.”

Mr. Yousaf Hussain, President & CEO, Faysal Bank Limited

E. Strengthening the merchant ecosystem

SBP has undertaken several measures to promote the merchant ecosystem in Pakistan, primarily by developing a robust digital payments infrastructure, creating an enabling regulatory environment, and providing incentives for adoption. Certain recent initiatives entail:



Simplified merchant onboarding framework: which includes reduced documentation requirements to facilitate the onboarding of small businesses



Launch of RAAST P2M service: enables merchants to accept digital payments via QR codes, IBANs, and Request to Pay (RTP) features, with transactions credited in real-time



Mandatory digital acceptance solutions: Banks are required to provide merchants with at least one digital payment acceptance solution (POS, e-commerce checkout, or RAAST QR code)



Subsidy program for RAAST P2M: Government-approved subsidy Rs. 3.5 billion for RAAST P2M QR code-based transactions to incentivise adoption



Abolition of Merchant Discount Rate (MDR) floor: to encourage card acceptance and make digital payments more cost-effective for businesses



Go cashless campaigns: for public awareness launched in collaboration with the banking industry



Digitising government payments and receipts: to build familiarity and trust in digital systems

Merchant-centric banking services

Very few banks in Pakistan are actively pursuing merchants (both offline and online) as a dedicated segment through easy-to-navigate portals with structured offerings tailored around business needs. Certain banks have developed merchant payments solutions offering internet payment gateways, digital invoicing, direct transfers, soft POS, mobile POS (mPOS) and soundboxes.

Few others have introduced or are planning to launch business apps for MSMEs featuring QR payments, RTP, prepaid card issuance, B2B payments with higher limits, digital invoicing, order management and auto reconciliations.

To deepen merchant engagement, these banks are leveraging transactional data to offer collateral-free merchant financing options with repayment conditions synced to sales.

“

Banks are actively pursuing targets to onboard merchants for digital payments acceptance. However, while onboarding may be relatively easier, the real challenge lies in driving merchants' ongoing digital engagement and activity.”

Mr. Muhammad Nauman Chughtai, President/ CEO, MCB Bank Limited

90% of banks' useful customer data comes from payments

Sources: PwC Global - Payments 2025 & Beyond

To create and sustain strong merchant loyalty, banks in Pakistan may need to develop targeted strategies to acquire and actively engage merchants within a competitive environment driven by regulatory initiatives promoting widespread QR adoption.

Point-of-Sale ecosystem

According to the Economic Census 2023 conducted by the Pakistan Bureau of Statistics, there are:



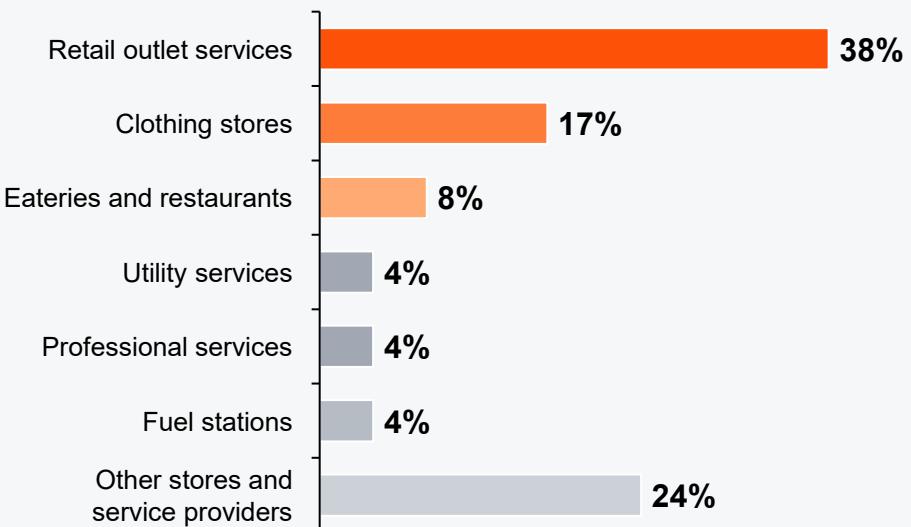
Despite this substantial opportunity, only 159K merchants are currently POS-enabled, with a year-on-year growth of 61% as of Jun-25, highlighting considerable potential to expand the digital payments acceptance network across abundant untapped every-day brick and mortar-based merchants.

“

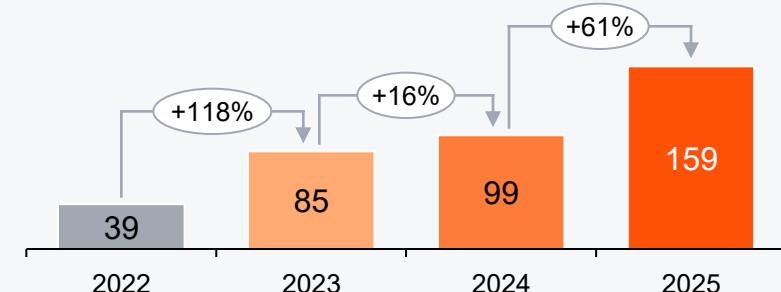
Pakistan's retail sector remains largely cash-based and requires foundational digital infrastructure and greater ecosystem participation to enable digitalisation.”

Mr. Jahanzeb Khan, President & CEO, easypaisa digital bank

POS distribution by merchant sector in Pakistan

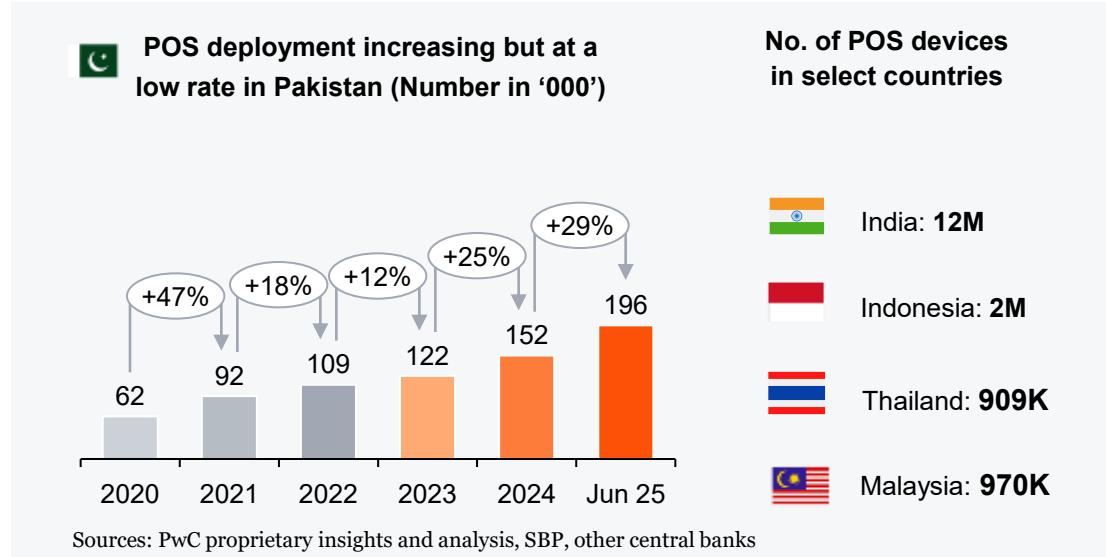


Increasing number of POS-enabled merchants
(Number in 'K')



Sources: PwC proprietary insights and analysis, SBP

POS deployment has been steadily increasing, driven primarily by regulatory initiatives aimed at enhancing card acceptance infrastructure, alongside the entry of new players from both the banking and non-banking sectors into the acquiring space.



POS penetration and utilisation in Pakistan is lower compared to select regional economies

Country	Number of POS (in '000')	Accounts per POS	Card use on POS
Pakistan	196	830	26%
Thailand	909	133	56%
India	12,000	238	40%

Sources: PwC proprietary insights and analysis, SBP, other central banks

To protect their margins, avoid MDR and documentation requirements, merchants generally discourage accepting card payments. Resultantly, deployed POS machines remain underutilised.

Transactions per POS



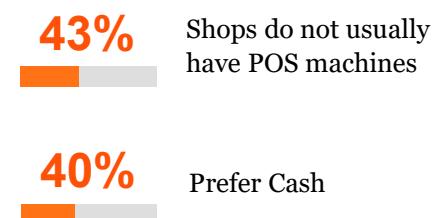
Sources: PwC proprietary insights and analysis, SBP, other central banks

POS devices per 100K adults



Sources: PwC proprietary insights and analysis, SBP, other central banks

PwC Pakistan's Consumer Banking Experience Survey 2024 presents certain interesting insights on factors that impact card usage on POS (based on % respondents).



F. National instant payment systems and the QR ecosystem

Instant payment systems have become a fundamental component of modern financial infrastructure worldwide. Advocated by regulators as a powerful tool for expanding financial inclusion, these systems aim to digitise low-value, high-volume retail transactions, thereby simplifying everyday payments and documenting the economy.

Typically, national payment systems support a wide array of use cases, including peer-to-peer (P2P) payments, merchant transactions, payments to government entities (P2G), direct debits, bill settlements, donations, and bulk disbursements such as social welfare and salary payments.

These transactions are generally free of charge, operate under lower transaction limits, and feature average transaction values ranging from USD 30 to USD 500 depending on the country.

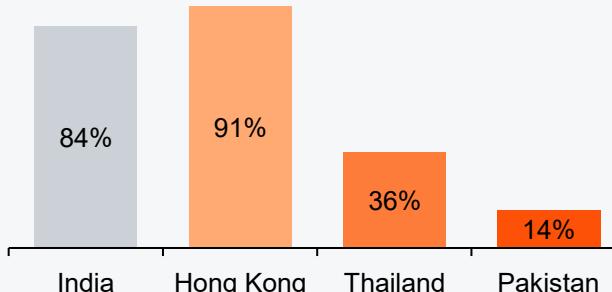
Research indicates that a 1% increase in transaction volumes on these platforms is strongly correlated with a 0.03% growth in GDP, as has been the case in India.

Adoption of instant payment systems



The level of adoption is influenced by the maturity of the digital ecosystem, the availability of alternative cash payment methods, and the incentives provided. User-centric design facilitates easier consumer adoption, complemented by the convenience of making and receiving payments using bank accounts or digital wallets linked to mobile phone numbers or email addresses.

Transactions through instant payment systems as a % of total retail payments



Sources: PwC proprietary insights and analysis, SBP, other central banks

Brazil's Pix



Since its launch 4.5 years ago, PIX has been adopted by approximately 160 million individuals and 17 million businesses.

In 2024 alone, PIX processed 68.7 billion transactions, averaging 5.7 billion per month, representing a significant 52% increase over the previous year. The total transaction value reached an estimated USD 5 trillion, with an average ticket size of USD 73.

This remarkable growth was primarily driven by a 90% year-on-year increase in person-to-business transactions.

Thailand's Prompt Pay



PromptPay has over 81 million registrations, exceeding the national population of just over 70 million, with many users linked via multiple identifiers such as phone numbers and citizen IDs. This total also includes approximately 370K corporate registrations.

In 2024, average daily transactions reached 67 million, with an average transaction value of USD 65.

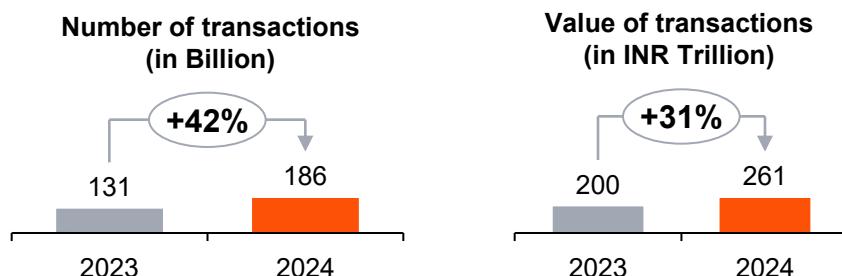


India's Unified Payments Interface (UPI)



UPI has achieved widespread adoption across India, serving 491 million individuals and 65 million merchants. With over 55% of rural India utilising UPI for digital payments, the platform demonstrates strong penetration beyond urban areas and offers support for over 26 regional languages.

Transaction activity on UPI continues to surge, with approximately 186 billion transactions conducted in 2024 - a substantial increase from 131 billion in 2023 - totaling a transaction value of INR 261 trillion compared to INR 200 trillion in 2023. While transaction volume growth moderated to 42% in 2024 from higher rates exceeding 80% in previous years, the platform's scale remains formidable.



Sources: PwC proprietary insights and analysis, central bank

Approximately 62% of UPI volume in 2024 consists of person-to-merchant (P2M) payments, with an average transaction size of USD 7 (INR 620), while P2P payments account for 72% of total transaction value, with an average ticket size of USD 32 (INR 2.7K).

Over 75% of UPI transactions are processed through wallets operated by payment banks and Third-Party Application Providers, highlighting the ecosystem's diversity. Banks now offer UPI-linked credit lines up to USD 335 (INR 30K), empowering individuals and small businesses with flexible liquidity options. 62% of UPI pre-approved credit line users in 2025 are first-time borrowers, reinforcing UPI's role in financial inclusion.

QR leading the way in instant payments



QR has emerged as a user-friendly and low-cost alternative for digital payment acceptance, serving as a significant growth driver for P2M transactions. The affordability of QR solutions, combined with the widespread adoption of smartphones, makes this payment method appealing to both merchants and consumers, further accelerating its usage and acceptance.

“

QR codes are effective and cost-efficient. We can draw inspiration from China's WeChat and Alipay super app ecosystems, which dominate digital payments with millions of users.”

Mr. Mujahid Ali, Chief Technology and Digital Transformation, Allied Bank Limited

Few examples of QR adoption in countries with both QR and POS devices



India



Indonesia



Thailand



Pakistan

No. of QR points	676 million	37 million	8 million	1 million
QR multiple of POS	58	16	9	6

Sources: PwC proprietary insights and analysis, SBP, other central banks

Key drivers of QR adoption globally



Regulatory enablement in establishing interoperable systems and mandating participation for large financial institutions



Enhanced user experience through convenient interfaces and the use of simple identifiers (aliases such as phone numbers)



Zero/ low cost to merchants and users



Incentivisation offered by governments, regulators, banks and other ecosystem partners e.g. waived MDR, subsidised cost of POS devices for acquirers, discounts and cash-backs for consumers



Strong smartphone adoption and widespread availability of internet connectivity



Open API architecture empowering banks and fintechs to develop innovative overlay services



Digital payment acceptance is simplified for micro and small merchants through the use of smartphones alone



Cross-border linkages expanding reach and interoperability of payment systems

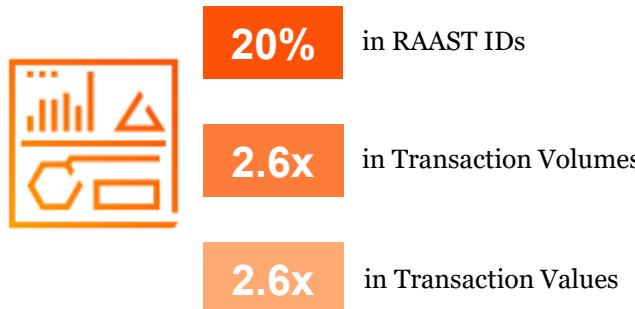


Uptake of RAAST in Pakistan

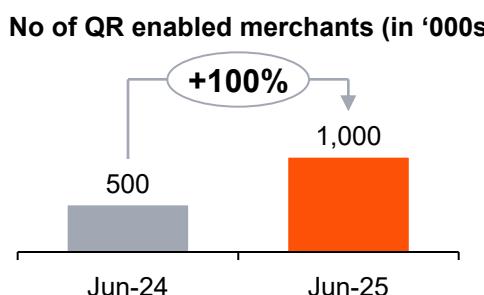


As of Jun-25, RAAST ID registrations reached 45 million, facilitating 1.3 billion transactions valued at Rs. 29.6 trillion.

Increase since Jun-24



The Cashless Pakistan program, combined with regulatory initiatives, has driven a twofold increase in the number of QR-enabled merchants nationwide, growing from 500K in 2024 to over 1 million by Jun-25.



Sources: PwC proprietary insights and analysis, SBP

A user-friendly, widely accessible digital ecosystem that offers transaction costs lesser than cash is crucial for driving the adoption of digital payments and P2M transactions.

Industry experts opine that a key success driver for P2M is a commercially sustainable ecosystem based on a model that balances affordability for merchants with economic viability for acquirers. As such, there is need for a roadmap for alternative monetisation strategies.

“

Despite progress, Pakistan's digital payments ecosystem still trails regional and global benchmarks, with merchant economics and usage habits limiting adoption.”

Mr. Aamir Ibrahim, CEO and President - Jazz, Chairman - Mobilink Microfinance Bank Limited

There is also a need to continuously incentivise digital transactions and disincentive the use of cash. One notable example continually cited by stakeholders is the reduced sales tax rate applicable for certain services in the province of Punjab and the need to introduce similar incentivisation across Pakistan.

A critical element impeding adoption at scale is the rising risk of digital frauds. In the wake of scam sophistication, there is a pressing need to raise awareness and educate customers whilst strengthening fraud detection systems to protect consumers.

“

The industry carries a collective responsibility to strengthen security, reduce scams, and invest in customer education. Leveraging advanced technologies is essential to protecting users and ensuring that trust keeps pace with the growth of digital payments.”

Mr. Aamir Ibrahim, CEO and President - Jazz, Chairman - Mobilink Microfinance Bank Limited

“

Encouraging documentation through incentives, such as discounts for digital payments, can gradually expand the formal economy, increase GDP, and foster business growth.”

Mr. Muntaqa Peracha, Managing Director & CEO, foodpanda Pakistan

G. Opportunities to expand into e-commerce

The e-commerce industry is experiencing robust growth, positioning Pakistan as the 46th largest market globally. In 2023, the sector generated \$5.2 billion in revenue. According to the 2024 Pakistan E-commerce Industry Report, this revenue is projected to increase to \$6.7 billion by 2029, reflecting the sector's ongoing expansion and the country's rising digital economy.

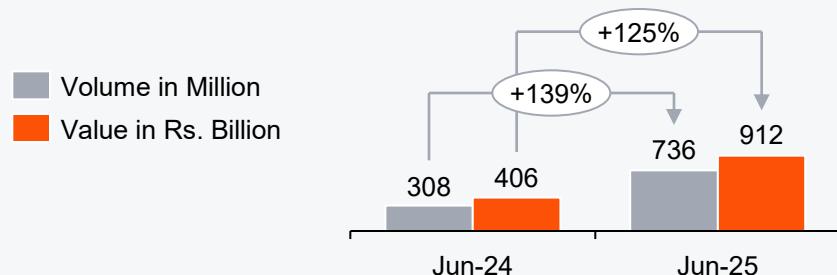
As of Jun-25, the number of registered e-commerce merchants has surpassed 9.5K, marking a 23% increase from 7.8K in June 2024. Industry experts note that, in addition to these formal merchants, there are hundreds of thousands of informal sellers operating within a consumer-to-consumer network primarily through social media platforms. These sellers typically conduct transactions on a Cash-on-Delivery basis, often not accepting card payments but are willing to accept online transfers.

“

Number of e-commerce merchants has surged over recent years, but challenges in integrating with financial services persist, highlighting a gap, banks can fill.”

Mr. Muhammad Hamayun Sajjad, Chief Executive Officer,
Mashreq Pakistan

Uptick in e-commerce payments (at e-commerce platforms registered with banks)



Sources: PwC proprietary insights and analysis, SBP

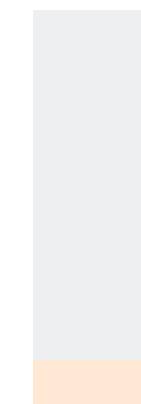
9.5K registered e-commerce merchants



2.4x surge in transaction volumes to prior year levels

2.2x surge in transaction values to prior year levels

Rs. 1.3K average transaction value



93% of these payments (by volume) are through accounts/ digital wallets

7% of these payments (by volume) are through cards

Sources: PwC proprietary insights and analysis, SBP

“

While KLI cities have relatively higher credit and debit card transactions, mobile wallet usage is significantly more prevalent in tier 2 cities.”

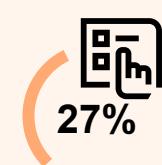
Mr. Muntaqa Peracha, Managing Director & CEO, foodpanda Pakistan



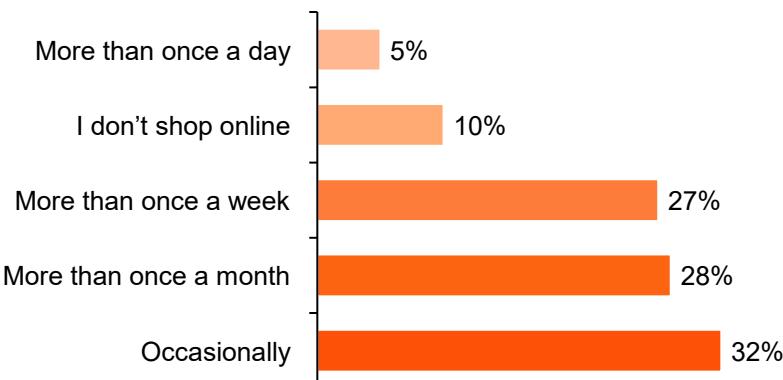
54% of surveyed consumers willing to make account-to-account payments if the option is available - demonstrating largely unaddressed opportunity with this payment method

Sources: PwC Global – Future of Retailer Payments

PwC Pakistan’s Consumer Banking Experience Survey 2024 provides insights into online shopping frequencies, purposes, and preferred platforms for purchases



respondents shop online more than once a week...



Online shopping mostly for...

66%



Clothing and apparel, shoes, fashion, accessories

65%



Ready-to-eat food

48%



Groceries and essentials

30%



Ride-hailing services/ transport

27%



Health and beauty products

25%



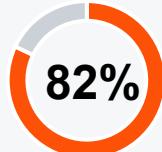
Tickets (airlines, train, bus, cinemas, etc.)

22%



Electronic appliances

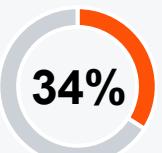
Majority prefer shopping through online shopping apps and marketplaces than the brands' online websites



Online shopping apps/ websites
(e.g. daraz, foodpanda, Careem)



Brand's online websites



Social media platforms



Other

PwC Global's Consumer Market Insights reveal that



63% of surveyed individuals purchase directly from a brand's website



While digital payments for online purchases have risen, the share of these payments remains approximately 15% - 20% despite the overall growth in e-commerce transactions.

Cash on Delivery – Pakistan relative to certain other jurisdictions



Pakistan: ~80%



Thailand: <20%



Indonesia: <10%



Singapore: <5%

This is primarily driven by the continuing strong preference for Cash-on-Delivery, largely due to limited trust in the refunds process, and is further intensified by various structural and logistical challenges in Pakistan's e-commerce sector.



Trust and refunds are key to scaling digital payments on e-commerce platforms.

Cash payments remain incentivised by consumer perceptions of low risk and friction, despite hidden costs in the delivery and logistics chain, which are significant and impact service providers."

Mr. Muntaqa Peracha, Managing Director & CEO, foodpanda Pakistan

Sources: PwC proprietary insights and analysis, other central banks, media reports

6

Other key initiatives for a vibrant digital banking and payments ecosystem

1. Launch of Pakistan Real-Time Interbank Settlement Mechanism Plus (PRISM+)

As part of its efforts to modernise Pakistan's financial infrastructure, SBP launched PRISM+ - a payment infrastructure that integrates Real-Time Gross Settlement (RTGS) system with Central Securities Depository (CSD), in its efforts to revolutionise high-value payments and the management of government securities.

Built on the ISO 20022 financial messaging standard, PRISM+ offers financial institutions enhanced capabilities including real-time monitoring, liquidity management, and strong security features.

2. Launch of the Regulatory Sandbox

SBP launched its regulatory sandbox to provide a controlled environment for testing innovative financial products and technologies. A cohort-based approach is followed. Themes for the first cohort include:



Technology enabled solutions for inwards remittances



Open Banking



Remote onboarding of merchants

3. Development of Central Bank Digital Currency (CBDC)

SBP is collaborating with a blockchain technology developer based in Japan on a pilot program to introduce CBDC in Pakistan. This initiative aims primarily to enhance financial inclusion, especially in rural areas, while also reducing the costs associated with cash handling and transactions.

“

Digital currencies are new frontiers. While it is important to stay informed and proactive about the opportunities presented, close monitoring and oversight is even more critical.”

Mr. Muhammad Nassir Salim, President & CEO, HBL

4. Launch of national eKYC utility platform by Pakistan Banks Association

The decentralised eKYC platform, built on blockchain, creates secure and verifiable KYC records for individuals. The platform aims to streamline onboarding, reduce compliance costs, enhance anti-money laundering efforts, and standardise customer data.

5. Promote open banking

SBP intends to develop a regulatory framework for open banking to allow data sharing and boost tech-enabled financial inclusion.

6. Develop payment acceptance ecosystem in unserved and underserved areas

There are plans to establish and manage an industry-led Digital Payment Infrastructure Development Fund, in partnership with banks and card schemes, to expand payment acceptance infrastructure in underserved areas.

Digital Banks

In 2023, SBP announced its selection of five successful applicants, and two of these have commenced commercial operations as digital banks in 2025.

Established with the objectives of promoting financial and credit inclusion, expanding access to affordable financial services, delivering superior customer experiences, and fostering innovation in banking, these players are expected to enhance the vibrancy of the digital banking and payments ecosystem - mirroring the impactful interventions digital banks have delivered globally.

Industry stakeholders believe that Pakistan offers numerous opportunities for digital banks, particularly in their ability to penetrate niche segments through simplified, seamless journeys by leveraging scalable and agile technologies.

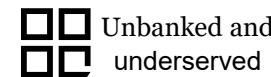


Digital banks can significantly impact the financial landscape by: (a) broadening financial inclusion (b) expanding digital payments (c) building customer trust (d) delivering innovative solutions especially for entrepreneurs and SMEs (e) fostering innovation leveraging emerging technologies (f) playing a pivotal role in supporting the Government's cashless economy initiatives."

Mr. Muhammad Hamayun Sajjad, Chief Executive Officer, Mashreq Pakistan

A. Niche segment focus

PwC research and analysis indicates that digital banks across various regions in the world on average focus on four segments:



Unbanked and underserved



Urban youth



MSMEs



Sole-proprietors/ self-employed individuals

50-60%

of the customer base of digital/ challenger banks across the globe generally comprises underserved

Sources: PwC proprietary insights and analysis, CGAP



	UK	South Africa	Brazil	Singapore	Philippines		
Niche Segments	Starling	Monzo	TymeBank	NuBank	GXS Bank	MariBank	UNO Digital Bank
Underserved/ unbanked			●	●	●	●	
Females			●				●
Urban youth	●	●	●	●	●	●	
Millennials	●	●			●		●
Self-employed/ sole-proprietors/ sole-traders	●	●	●	●			●
MSMEs	●	●	●	●	●		

Sources: PwC proprietary insights and analysis, banks' websites, media reports



Experts hold the view that segments digital banks in Pakistan may likely create interventions in could be youth, women, freelancers, blue collar workers, smallholder farmers, MSME value chain - including offline merchants and distributors.

“ There is significant opportunity for digital banks to serve underserved and unbanked populations in Pakistan, especially youth, women and SMEs.”

Mr. Jahanzeb Khan, President & CEO,
easypaisa digital bank

B. Evolving suite of solutions and accomplishments

Digital banks typically launch with basic offerings such as deposit accounts, cards, and remittance services focused on lifestyle-based, contextual banking, scaling over 2-3 years to expand into lending.

Some extend their capabilities by offering mature, value-added solutions such as white-labeled technology and Banking-as-a-Service, with product portfolios comprising both proprietary services and collaborative innovations created with fintechs, non-bank players, and technology companies.

A notable example of achieving scale through ecosystem banking is Starling Bank. Launched in 2017 with payment services and cards, it soon partnered with multiple fintechs to build an extensive ecosystem offering diverse B2C and B2B financial products.

The case of Starling Bank in the UK

In 2018, launched:

- Personal accounts for 16 and 17 year olds
- Joint accounts
- Business accounts for sole-traders and Single Director Limited companies
- Banking-as-a-Service
- Business overdrafts
- Buy Now Pay Later (BNPL)
- International payments
- Starling marketplace for consumers and SMEs – integrated with over 80 third parties for offerings from insurance and mortgages through to pensions, loyalty schemes, business and investment services
- Current account switching service

2018 (Launched in 2017)



356K Number of customers



GBP 2.9M Total revenue



GBP 27M Loss

2019



1M Number of customers



GBP 18M Total revenue

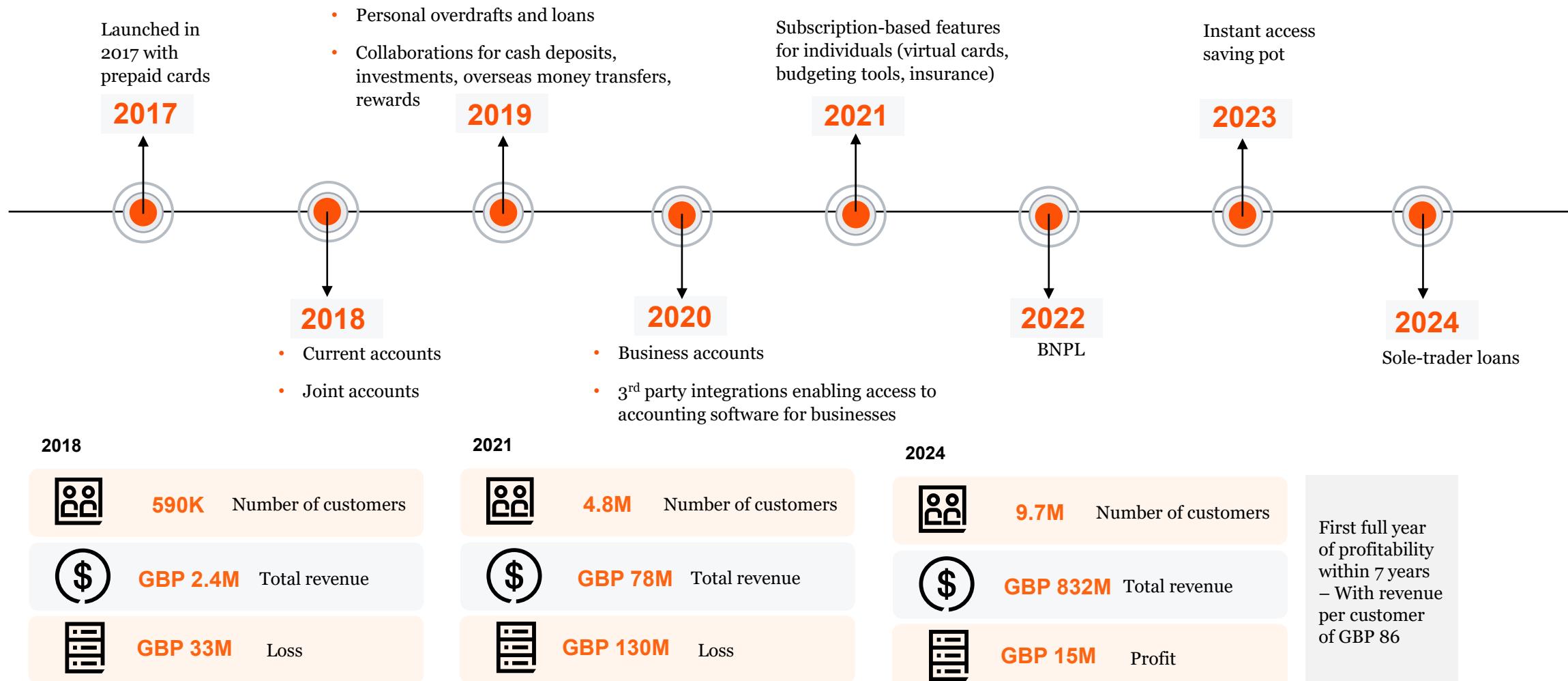


GBP 49M Loss

Sources: PwC proprietary insights and analysis, banks' websites and annual reports



The case of Monzo Bank in UK - initial focus on current accounts and cards

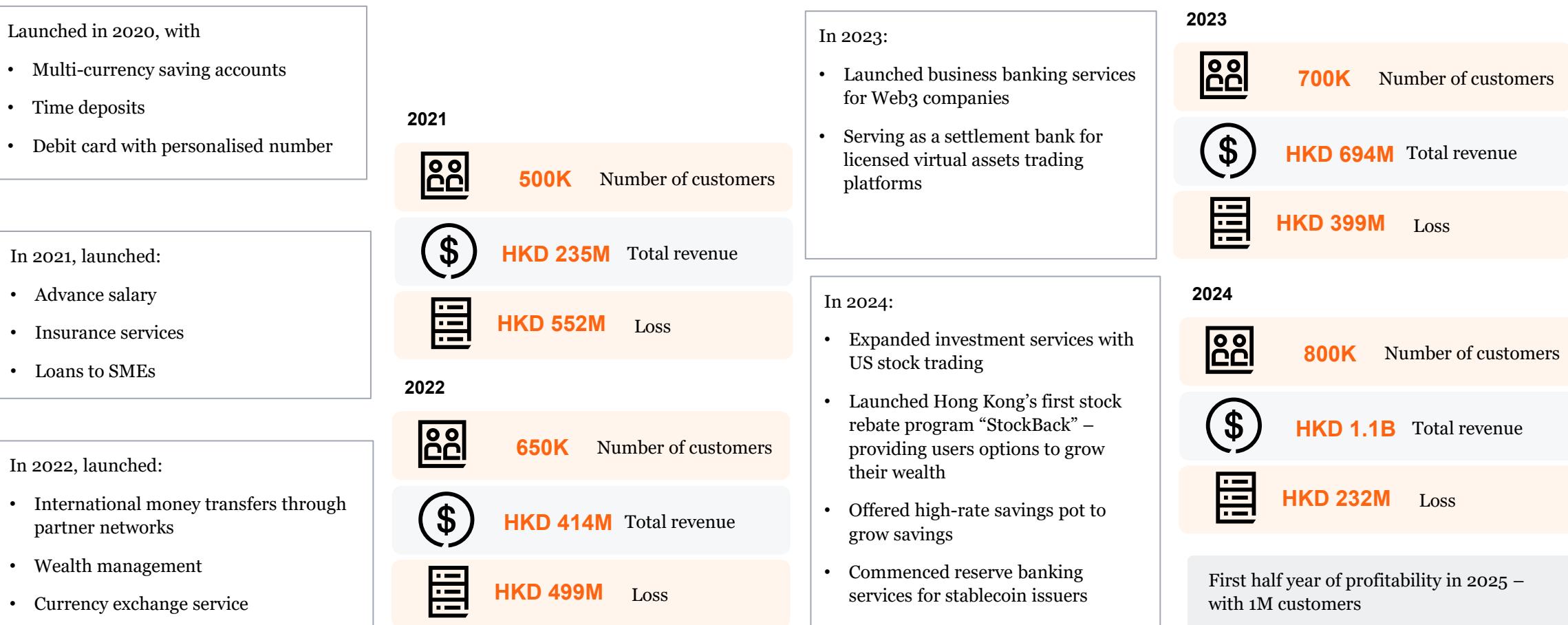


Sources: PwC proprietary insights and analysis, banks' websites and annual reports

Digital banks also gain synergistic advantages by leveraging their sponsor ecosystems, a trend particularly evident in Asia. A prominent example is ZA Bank in Hong Kong, which utilises Insurtech and fintech expertise to integrate into the crypto ecosystem, thereby capitalising on a first-mover advantage.

ZA Bank has established itself as a comprehensive digital financial platform, providing easy access to stock trading, cryptocurrencies, and innovative savings options, complemented by personalised banking services that adapt to the evolving needs of its customers. It is the first licensed bank in Asia to enable retail cryptocurrency trading using fiat currency through the ZA Bank App, effectively incorporating digital assets into regular banking activities.

ZA Bank in Hong Kong



Challenges impacting success

Digital banks may face challenges in their initial stages due to limited revenue generation opportunities, as their offerings are often confined to deposit accounts and transactional services for individual customers.

Narrow profit margins are common when credit products are still under development and there is limited focus on MSMEs or ecosystem collaborations. Expanding lending capabilities, B2B propositions, and fostering strategic business and ecosystem partnerships are essential for unlocking additional revenue streams and improving profitability.

Meanwhile in Pakistan....

A critical operational challenge for digital banks is effectively managing cash-in and cash-out processes, which may require regulatory support, industry collaboration, or third-party networks.

Experts cite additional challenges which include limited documentation, prevailing cash preferences, limited alternative data for credit bureau scoring, access to reliable connectivity, and the low levels of digital and financial literacy among the general population.

The country's limited tech-savviness poses a notable risk of social engineering fraud, requiring digital banks to exercise heightened vigilance.

“ Digital banks in Pakistan are likely to face challenges associated with persistent preference for cash.”

Mr. Muhammad Hamayun Sajjad,
Chief Executive Officer, Mashreq Pakistan

“ Digital banks need to gain customer trust by offering superior customer experience and by deploying cutting-edge AI technology to safeguard against the complex frauds.”

Mr. Jahanzeb Khan, President & CEO,
easypaisa digital bank



8

Islamic transformation: Continuing the growth momentum

Islamic transformation: Continuing the growth momentum

Islamic banking in Pakistan continued its growth trajectory, building on the momentum of recent years.

This growth is driven by rising consciousness among the population; particularly the youth, proactive regulatory support and landmark developments such as the Federal Shariat Court's directive for full Islamic transformation by 2027 and the 26th Constitutional Amendment mandating the elimination of Riba within the same timeframe.

During the last year, we have witnessed a surge in branch conversions, with many banks initiating or expanding their branch conversion journeys, which were predominantly based on:



Converting small branches with relatively no financing and trade



Focusing on easily convertible current deposits



Branches in areas with higher Islamic sentiments

On the other hand, several challenges continue to persist, mainly pertaining to asset light sukuks, human capital, product innovation, Islamic adoption in the overall financial ecosystem such as in insurance, capital markets, conversion of banks' foreign branches and subsidiaries, treatment of country's international debt, etc.

In the backdrop of SBP's regulation on profit sharing on savings deposits of Islamic Banking Institutions, customers' continued preference for Shariah compliant banking services as well as requirement for conventional banks to fully convert, Islamic banking is expected to continue its progress, showcasing its potential as a viable and sustainable business model.

“

Islamic transformation is keeping pace on the back of constitutional amendment, regulator's enablement and customer demand. Availability of liquidity instruments is the key challenge which is vital for sustaining the momentum.”

Mr. Irfan Siddiqui, Founding President & CEO, Meezan Bank Limited

Growth in Islamic banks, Islamic windows and conventional banking

Deposits and financing within both Islamic banks and Islamic window operations of conventional banks have increased in recent years, indicating robust growth and promising prospects.

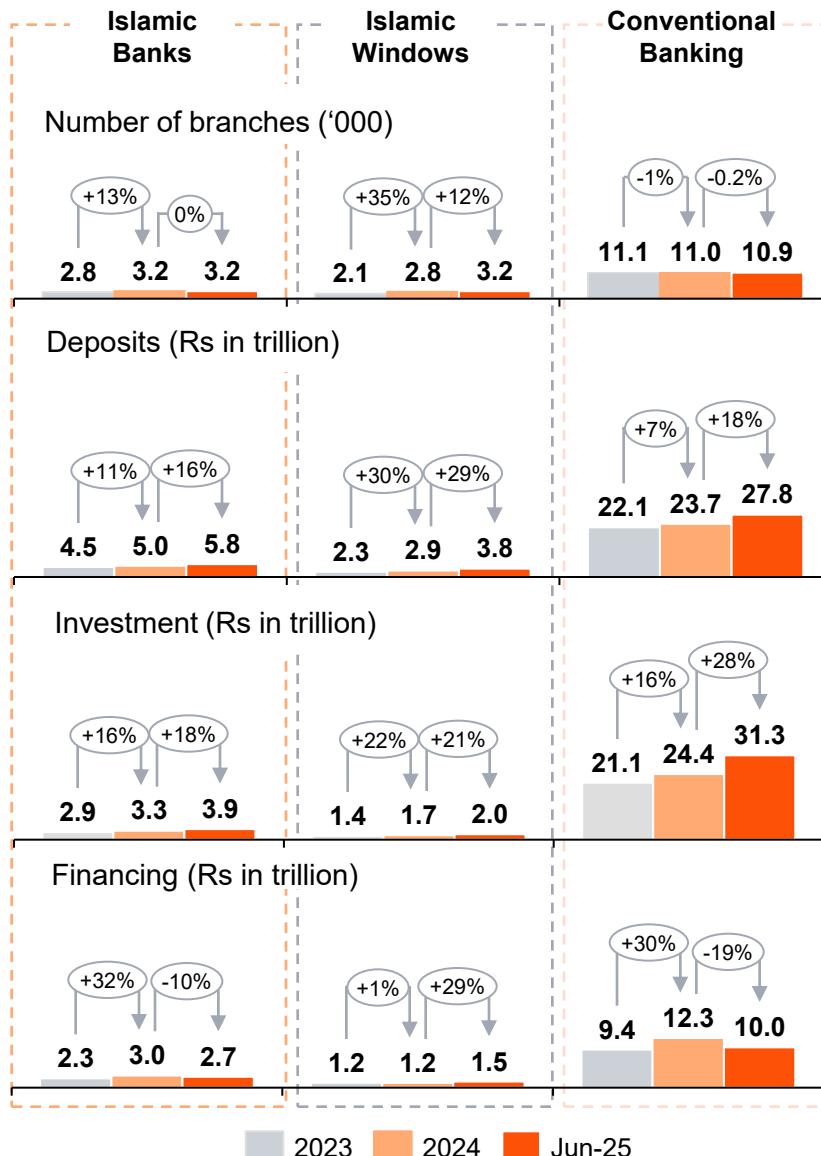
However, our analysis also indicates that conventional banking has contributed 74% of share in deposits growth in 6 months till Jun-25 (58% in 2024), as depicted on the next page.

On the other hand, deposits CAGR (for last 5.5 years) is highest in case of Islamic windows at 28% compared to 21% at Islamic banks and 15% for conventional banking.

Financing trends mirror this pattern, with Islamic windows achieving a CAGR of 20% followed by Islamic banks at 18% and conventional banking at 7%.

Insights on YoY growth for Islamic banks, Islamic windows and conventional banking are provided on the next page. Shares of growth trends in deposits and financing are also presented on the next pages.

Growth trends for Islamic banks, Islamic windows and conventional banking



Islamic and conventional deposits

Deposits across all segments continued to expand in Jun-25, with Islamic banks recording growth of 16% (up from 11% in Dec-24), Islamic windows achieving 29% growth (30% in Dec-24), and conventional banking deposits rising by 18%, improving from 7% in 2024.

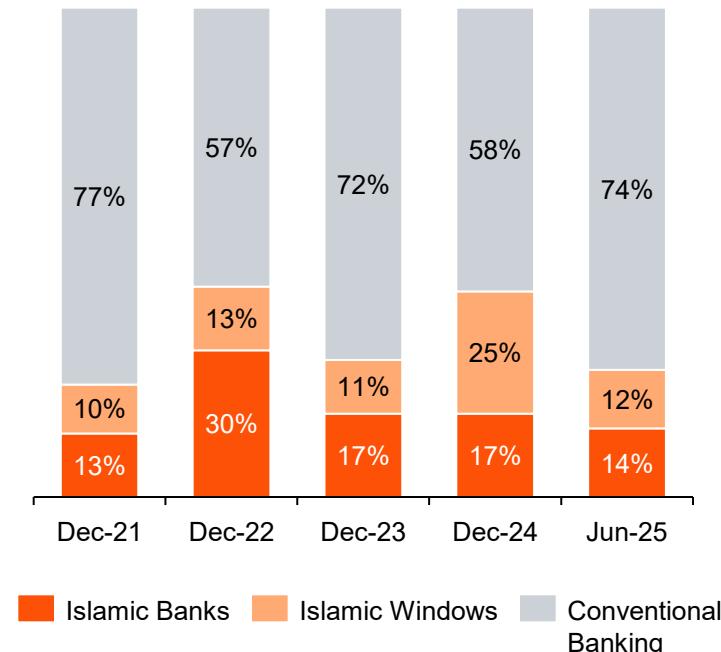
Contribution of Islamic banks, Islamic windows and conventional banking in the growth of total deposits



As depicted in the graph on the right, conventional banking remains the primary driver of deposit growth, contributing 74% of incremental deposits in Jun-25, up from 58% in Dec-24.

Islamic banks accounted for 14% of growth (17% in Dec-24), while Islamic windows contributed 12% (25% in Dec-24). Higher shares in Dec-24 likely reflect the impact of branch conversions by a few select banks.

We have also analysed trends in Islamic and conventional deposits by account type (current, savings and term) and customer type (individual, business and government) including share of growth since 2021 in the following pages.



Islamic and conventional deposits by account type

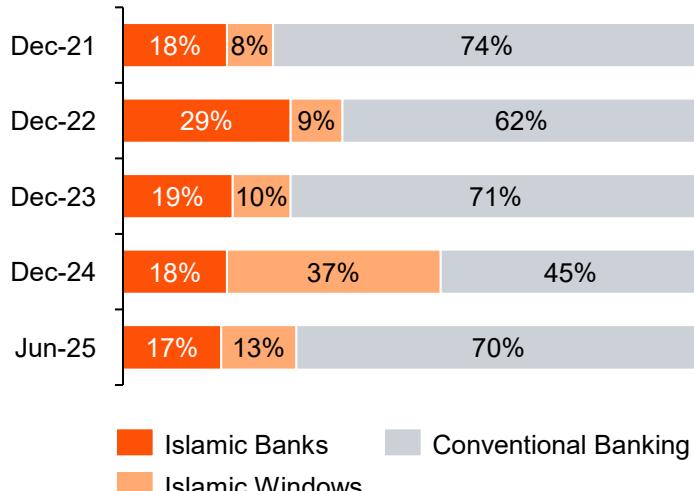
1. Current deposits

In the case of current deposits, Islamic banks posted a growth of 26% (Dec-24: 14%), while Islamic windows achieved 34% growth, moderating from 67% previously. Conventional banking current deposits rose by 23%, improving from 7% in 2024.

Contribution of Islamic banks, Islamic windows, and conventional banking to overall current deposits growth



Major contribution to the growth of current deposits comes from conventional banking with a 70% share in Jun-25 (45% in Dec-24, 71% in Dec-23). Higher contribution of Islamic windows in 2024 may be due to conversion of conventional deposits into Islamic banking.



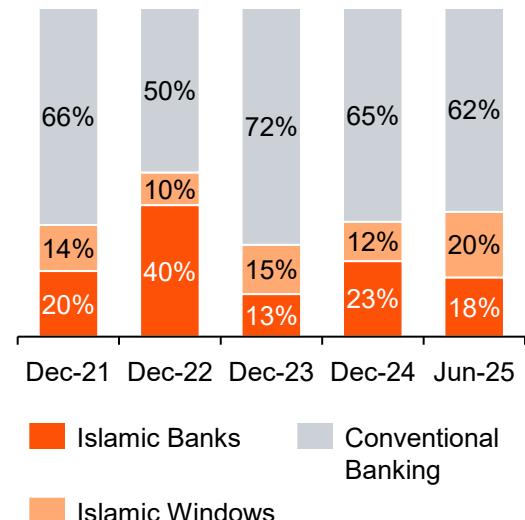
2. Savings deposits

Islamic banks savings deposits posted a growth of 12% (24% in Dec-24), while Islamic windows grew by 22% (19% in Dec-24). Conventional banking savings deposits increased by 9%, moderating from 14% in 2024.

Share of growth in saving deposits



The major growth contribution in savings deposits is again from conventional banking, with a 62% share in Jun-25 (65% in Dec-24); however, it is on a declining trend considering the 72% share of growth in Dec-23. This may indicate gradual inclination towards Islamic which may further increase considering SBP's regulation on profit sharing on savings deposits of Islamic Banking Institutions.



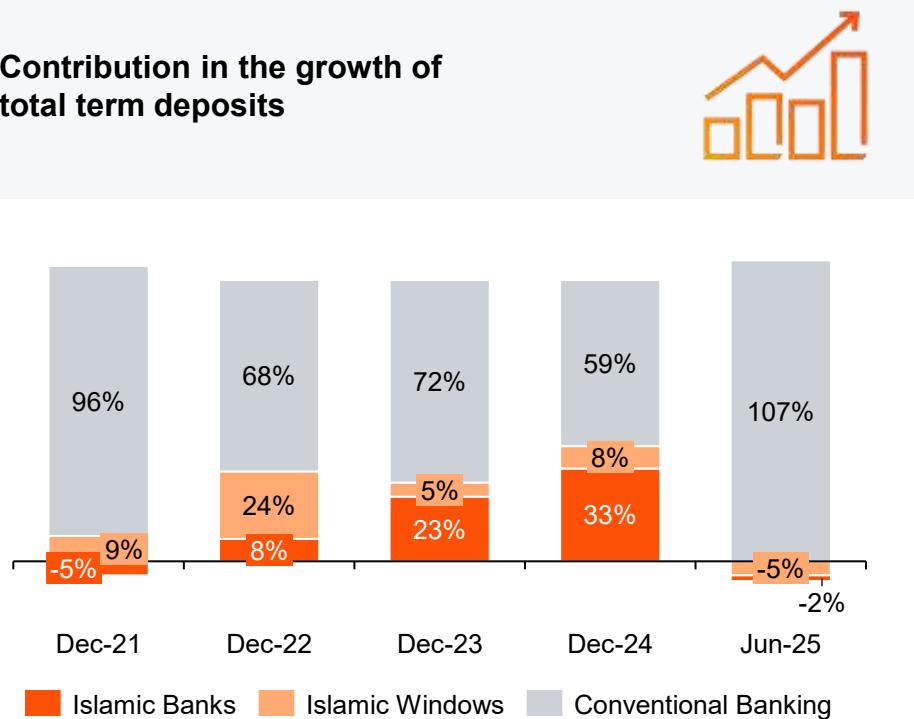
It is important to recognise that, while there is a growing demand for Islamic banking, conventional banking continues to experience sustained growth."

Mr. Nauman Chughtai, President & CEO, MCB Bank Limited

3. Term deposits

Islamic banks recorded a 2% decline in term deposits, an improvement from the 21% decrease seen in Dec-24, while Islamic windows contracted by 12%, compared to a previous 13% reduction. In contrast, conventional banking posted a 19% rise, improving from decrease of 8% in 2024.

Contribution in the growth of total term deposits



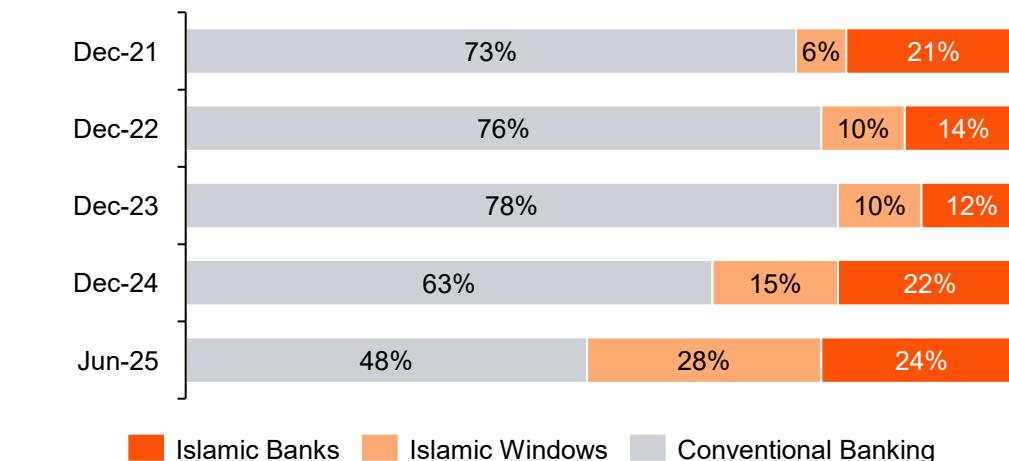
Share of growth of conventional banking term deposits is 107% in Jun-25, compared to 59% in Dec-24. This may be attributed to higher rates offered in conventional banking as compared to Islamic term deposits.

Islamic and conventional deposits by customer type

1. Individual deposits

Individual deposits held by Islamic banks have increased by 23% (33% in Dec-23), at Islamic windows by 50% (45% in Dec-23) and at conventional banks by 10% (17% in 2023).

Contribution of Islamic banks, Islamic windows and conventional banks in the growth of total individual deposits



Conventional banking contributed 48% to overall growth in individual deposits as of Dec-24 (63% in Dec-23). However, this share is on a declining trajectory, likely due to increasing customer preference for Islamic banking and the fact that conversion initiatives have so far been largely focused on individual current deposits.

2. Business deposits

For business deposits, Islamic banks did not show any change in Dec-24 as compared to 22% increase in Dec-23. Islamic windows recorded a 13% rise (36% increase in Dec-23), while conventional banking posted a modest 4% growth (versus 32% last year).

In terms of contribution to overall business deposits growth, conventional banking accounted for 71% (slightly lower than 76% in Dec-23), whereas Islamic windows significantly improved their share to 29% from 9% in the previous year.

3. Government deposits

Islamic banks government deposits recorded a 9% decline in Dec-24 (versus a 29% increase in Dec-23), while Islamic windows posted marginal growth compared to a strong 30% rise last year. Conversely, conventional banking government deposits increased by 8% (15% increase in 2023).

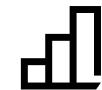
In terms of contribution to overall growth, conventional banking accounted for more than 100% in Dec-24, up from 86% in Dec-23, driven by negative contribution from Islamic banks.

“ Growth of Islamic banking is fueled predominantly by increasing customer demand, prompting banks to broaden their Shariah-compliant offerings alongside enablement from SBP.”

Mr. Yousaf Hussain, President & CEO, Faysal Bank Limited

Islamic and conventional financing

Share of growth in financing

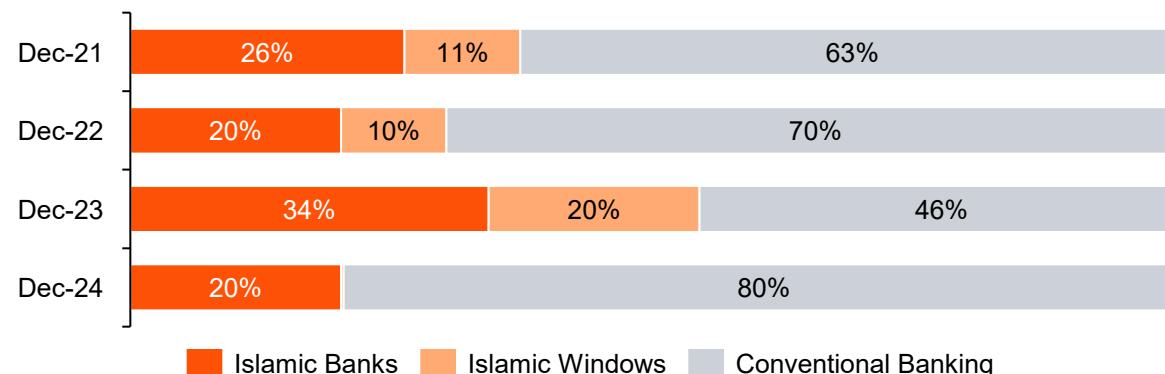


The banking industry's overall financing portfolio contracted by 15% in Jun-25, reversing the strong 29% growth recorded in Dec-24.

Notably, Islamic windows emerged as the only growth driver, posting a 29% increase in Jun-25, while both Islamic banks and conventional banking portfolios experienced declines during the same period.

Islamic banking financing registered marginal growth of 1% in Jun-25, a sharp slowdown compared to 21% growth in Dec-24. In contrast, conventional banking financing fell by 19% in Jun-25, following a robust 30% increase in Dec-24.

Share of growth in financing of Islamic banks, Islamic windows and conventional banking



Most of the growth came from conventional financing, which had an 80% share in Dec-24, compared to 46% in Dec-23. Meanwhile, the share of growth for Islamic banking reduced to 20% in Dec-24, from 54% in Dec-23.

Segment-wise share of Islamic financing



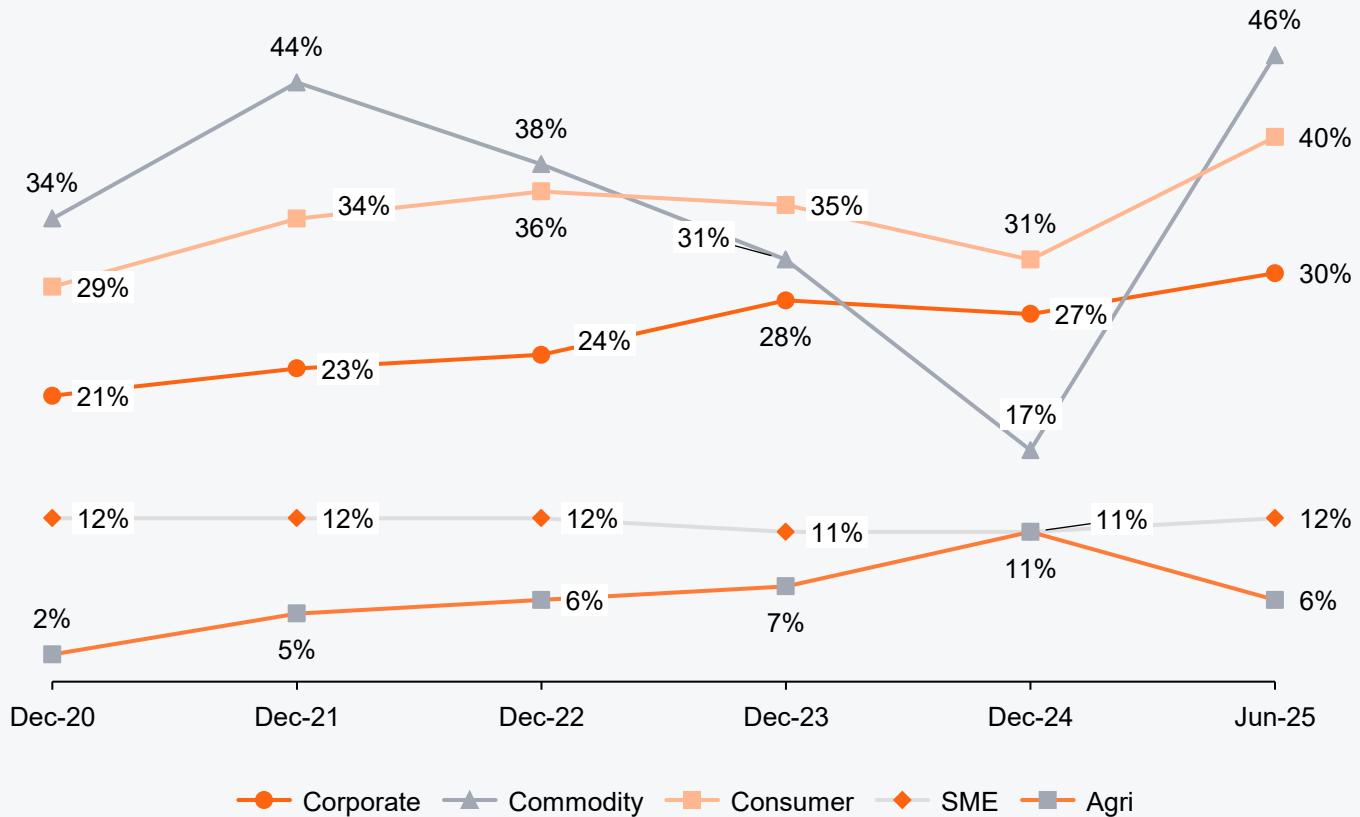
Corporate financing remains the cornerstone of Islamic financing, representing approximately 74% of the total portfolio. Islamic share within corporate financing has demonstrated steady growth, rising from 21% in Dec-20 to 30% by Jun-25, underscoring strong adoption in the segment.

Commodity financing ranks second, contributing around 12% to total Islamic financing, with the Islamic mix in total commodity finance improving significantly from 34% in Dec-20 to 46% in Jun-25.

Consumer finance accounts for 9% of the Islamic portfolio, with its share in total consumer financing advancing from 29% to 40% over the same period, reflecting robust momentum across retail segments.

Conversely, Islamic SME and Agri financing remain underpenetrated, jointly contributing only 3% to the Islamic financing portfolio, primarily due to limited product availability and documentation challenges. Islamic SME financing has remained flat, closing at 12% of total SME financing in Jun-25, same as in Dec-20.

Agri financing shows positive traction, with its Islamic mix improving from 2% in Dec-20 to 6% in Jun-25. Both SME and Agri financing present untapped potential for strategic expansion through innovative product development and simplified processes.



“While committed to Islamic transition, banks face unresolved structural issues such as development of asset-light models for government debt and managing correspondent bank relationships, which may impact pace of conversion.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA

Islamic banking market share

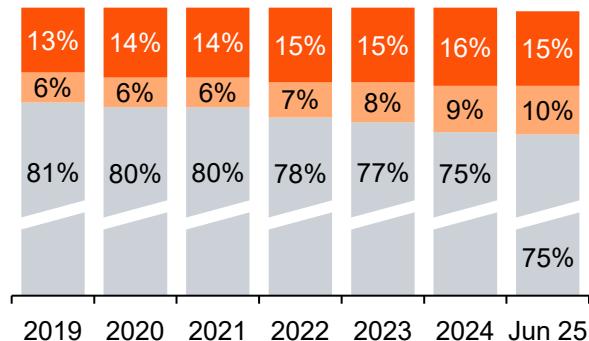
Although conventional banking has contributed more to the growth of deposits and financing, the market share of Islamic banking has been steadily increasing, as shown below. This increase indicates willingness of banks and viability of Islamic banking business.

As banks are in process of implementing their Board approved Islamic transformation plans submitted to SBP, we may witness further increase in this share in the next 2-3 years till complete Islamic transformation for which the current deadline is December 31, 2027.

Islamic banking deposits share

25%

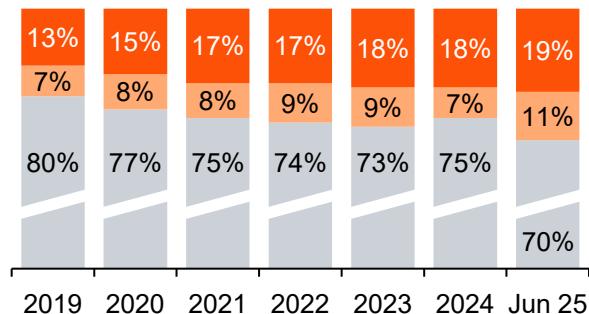
(19% in 2019)



Islamic banking financing share

30%

(20% in 2019)



■ Islamic banks ■ Islamic windows ■ Conventional banking

“

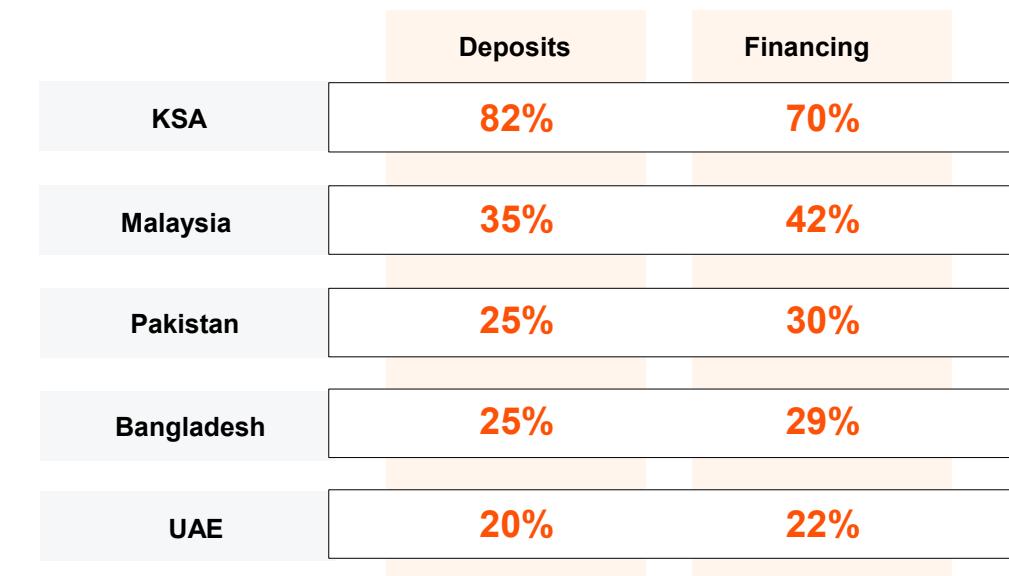
There are significant growth and inclusion opportunities for Islamic Banking, driven by strong customer demand and preference not just in the mass market but also in underserved segments, including women.”

Mr. Muhammad Hamayun Sajjad, Chief Executive Officer, Mashreq Pakistan

Islamic banking in key Islamic countries

Pakistan will be one of the first countries in the world with a fully Shariah-compliant banking industry, once all conventional banks complete their conversion journeys.

We analysed the current mix of Islamic banking with respect to deposits and financing in few Islamic countries. Our analysis reveals that the Kingdom of Saudi Arabia continues to report the highest Islamic banking portfolio followed by Malaysia, and then Pakistan (with 25% deposits and 30% financing portfolios).



Islamic transformation journey in Pakistan

As the above trends demonstrate, the industry is continuing with a cautious approach; with few banks having initiated their transformation journey pursuing gradual branch and deposit conversion, whereas few others are pursuing asset-led transformation and offering predominantly Islamic for secured consumer financing. It is expected that the conversion momentum will accelerate now in pursuance of their respective conversion plans.

We reiterate that Islamic transformation will require significant efforts on part of the banks and will only be possible with absolute support, ownership and stringent oversight by the sponsors, Board of Directors and the senior management.

Another critical aspect is to consider this transformation as a strategic proposition rather than regulatory compliance, that would require banks to not only convert on one hand but also to grow Islamic banking on the other, by revamping their business strategies and operating models in line with their conversion plans.

“ The broader financial ecosystem - including equity markets, insurance, asset management companies, and brokerage firms - must fully embrace Shariah compliance to ensure seamless integration.”

Mr. Rizwan Ata, President & CEO, BankIslami Pakistan Limited

“ Transitioning to Shariah-compliant financial services is a massive challenge - the process needs careful, well-planned implementation alongside extensive training of a large work force.”

Mr. Muneer Kamal, CEO & Secretary General, Pakistan Banks Association

“ There are certain challenges in full transition by 2027, notable ones include: (1) limited sukuk issuance (2) near non-existence of Islamic capital markets (3) lack of suitable Islamic financial structures for global lenders.”

Mr. Yousaf Hussain, President & CEO, Faysal Bank Limited



9

Future-ready workforce: Trends, challenges and strategies

Future-ready workforce: Trends, challenges and strategies

Organisations today are navigating accelerated changes driven by emerging trends, from technological disruption to demographic shifts. The focus has progressed from cultural alignment to strategic workforce readiness. Success now depends on how effectively institutions govern talent ecosystems, embrace diversity as a driver of innovation, and reskill their people for evolving roles. These trends are giving rise to flexible work models, shared talent networks, and a workforce that values purpose, agility, and digital fluency.

Key workforce trends shaping the future

How we work and the nature of work we do is rapidly evolving. In the medium term, many white-collar jobs will be – at least partially – lost to digitisation, while demographic shifts will bring extra pressures to the workforce. HR teams are facing challenges due to younger generation's new attitudes to work, fewer employees ready with requisite future-based skill set and the pressure to deliver quick solutions in an increasingly fast-paced and unpredictable business environment.

“

Preparing youth with market-relevant skills is crucial for economic employment.”

Mr. Muhammad Nassir Salim, President & CEO, HBL

“

Pakistan's youthful demographic presents a unique advantage, yet as our population ages, the urgency for cultivating a globally employable, skilled workforce becomes critical.”

Syed Amir Ali, Deputy CEO, Meezan Bank Limited

Following are a few key workforce related trends for the future:



Future of work and digitisation

While many roles may remain intact, core tasks are increasingly automated – a shift that can cause workforce anxiety. To navigate this change, leaders and employees must build the skills to collaborate with digital systems, fostering adaptability and confidence in a rapidly evolving environment.

Talent management

Talent management is evolving - driven by flexibility, self-designed roles and diverse career paths. HR will have to efficiently manage this with reskilling and inclusivity at the core of workforce readiness.

Compensation and benefits

Compensation and benefits are undergoing change as lifestyle incentives, such as flexible hours and remote work, become central to employees. The need for open, clear and ethically strong reward strategies, such as equal pay, will become more important as organisations move from hierarchical models to more flexible career models.

HR transformation

HR is often seen as a passive, service-oriented support function. But given the demands of tomorrow's workplace and business environment, HR is at a crossroads and will need to transform. HR will have to evolve into a fully digital function, using big data to guide workforce decisions and build new business models.

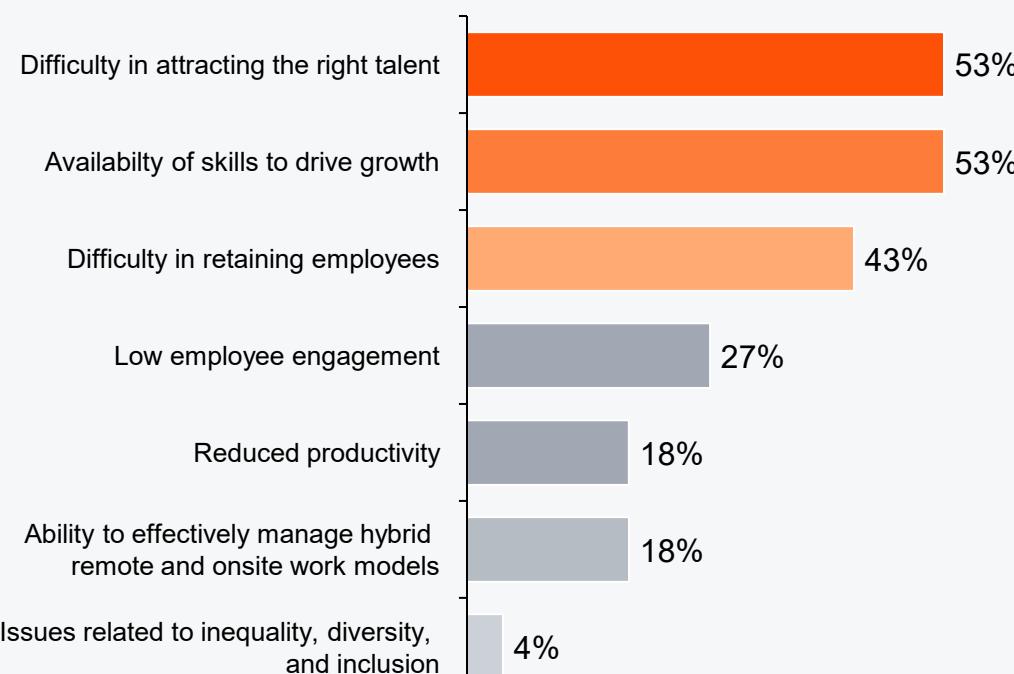
Culture and change

Digitisation is increasingly recognised as the primary catalyst for cultural transformation. Agility and employees' ability to embrace change are therefore vital. Building a strong, compelling organisational culture will become a key differentiator, as it plays a critical role in engaging and retaining employees.

Talent management – key concerns and success drivers

As per the PwC HR Pulse Survey 2025, organisations continuously face talent-related challenges, with difficulty in attracting the right talent and skills availability identified as top concerns. Employee retention followed closely reflecting the dual pressure of acquiring and retaining critical capabilities for growth.

Other concerns, such as low employee engagement, hybrid work complexities and reduced productivity, were less prominent. Diversity, Equity, and Inclusion (DEI) ranked lowest, indicating a lower short-term priority. Notably, talent attraction, skills availability, and retention also emerged as key concerns in last year's survey, indicating a continued pattern in workforce priorities.



Organisational culture and success drivers

PwC HR Pulse Survey 2025 revealed suboptimal management or leadership practices and lack of clear direction or vision are the most cited challenges in retaining high-performing employees. Limited career growth opportunities and workload imbalance, along with organisational culture and work environment were also noted as key barriers.

The survey also revealed cultural and talent practices which are considered most effective in driving long-term success, highlighting a culture that prioritises openness, continuous development, and clarity.

Factors contributing to successful talent management



Diversity, Equity and Inclusion

PwC's recent HR Pulse Survey explored how Diversity, Equity, and Inclusion (DEI) is perceived and embedded within organisations by assessing the current level of DEI maturity. The findings reveal a broad spectrum of perspectives, ranging from strategic integration to compliance-driven approaches, offering insight into DEI's areas where DEI strategies and practices may still be evolving. This is evident from the fact that 7% of respondents believe DEI is a compliance-driven process whereas 4% viewed it as non-essential or a waste of time - highlighting that there remains a segment where DEI is either misunderstood or not fully embraced at a strategic level.

Insights from PwC HR Pulse Survey 2025

40% DEI is valued as important for business and people success

17% DEI is critical to our business strategy, vision, and purpose

7% DEI is compliance driven – we do it because we must

25% DEI is integrated in everything we do

4% DEI is seen as non-essential or a waste of time

In terms of concerns related to DEI, the top issue reported was difficulty measuring DEI outcomes. This was closely followed by perceived politicisation, a signal that for some, DEI efforts risk becoming divisive rather than unifying if not managed carefully and transparently.

“ Increasing women's participation in the workforce is both an economic and social necessity - raising it to global average of 35% could significantly boost the economy, potentially increasing GDP by \$100 billion.”

Mr. Zafar Masud, President & CEO, The Bank of Punjab and Chairman, PBA

Taken together, these findings show that while DEI is increasingly recognised for its value, progress remains uneven - particularly around implementation, measurement, and strategic alignment.



Leading organisations approach DEI as they do for any other strategic business goal; by setting clear ambitions, developing strategy along with a roadmap, allocating resources, measuring progress, communicating internally as well as externally and holding people to account.

Banks need to transform their approach to DEI, focusing on what will make the biggest impact on the attraction, retention and engagement of a high performing workforce, allowing the organisation to achieve outcomes such as increased innovation and a compelling employee value proposition.

“ Pakistan's female documented workforce participation stands at 26%, significantly lower than regional peers such as Saudi Arabia (36%), Bangladesh (33%), and Sri Lanka (40%), due in part to systemic barriers and lack of documentation.”

Ms. Sima Kamil, Former Deputy Governor, State Bank of Pakistan

“ Empowering first-generational women entering frontline roles requires equipping them with essential skills for success.”

Ms. Maya Inayat Ismail, Chairperson, HBL Microfinance Bank

From awareness to action: How AI is reshaping work and workforce expectations

As the debate around AI's impact on productivity, growth, and jobs heats up, employees are weighing in with growing confidence. According to PwC's Global Workforce Hopes and Fears Survey 2025, optimism about AI's potential far outweighs anxiety. While daily usage remains relatively low, the findings reveal a clear opportunity for leaders: to ignite motivation, accelerate reinvention, and unlock the next wave of growth.



of workers in Financial Services (FS) industry say they're confident AI will increase their job security over the next three years.

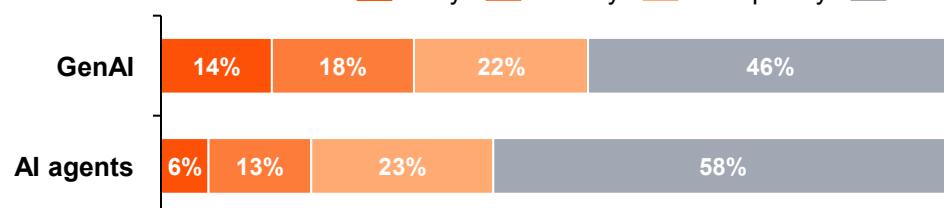


of FS workers learned new skills at work in the past year that are helping their careers.

Awareness of GenAI is rising fast, but daily use remains surprisingly low. Just 14% of workers say they use GenAI every day. That's only a modest uptick from 2024's 12%, and still far below the expectations voiced by global executives. Even fewer, just 6% are engaging with agentic AI, the next frontier where intelligent systems autonomously handle tasks and make decisions.

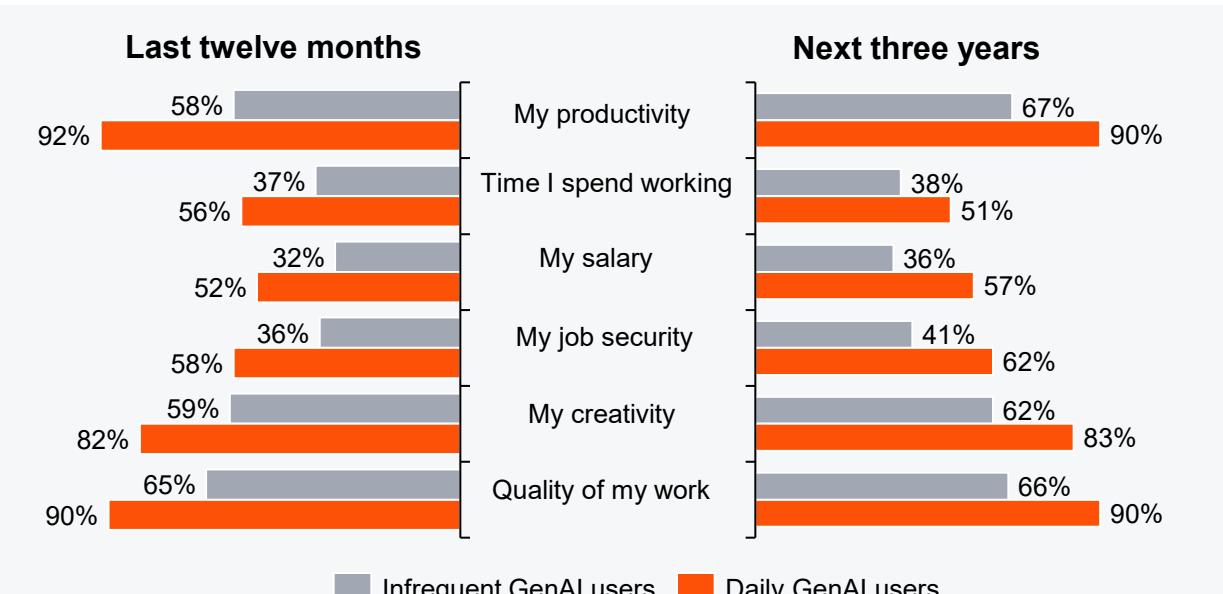
Interestingly, while less than half of the workforce expects technology to significantly reshape their roles in the next three years, 70% of daily GenAI users expect major job impacts from technology. For leaders, this signals a clear opportunity: bridge the adoption gap, inspire confidence, and harness AI's full potential to drive transformation.

■ Daily ■ Weekly ■ Infrequently ■ Never



From the C-suite to front line, AI is no longer just a buzzword, it's becoming a daily tool. As per PwC's Global Workforce Hopes and Fears Survey 2025, 54% of employees say they've used AI on the job. Most of these infrequent users are already seeing the benefits: about three-quarters say AI is increasing productivity and enhancing the quality of their work, whereas the most frequent users - those tapping into generative AI daily - lead the charge. Nine in ten of these power users say AI is not only improving their performance but unlocking new potential.

As per the survey, workers are twice as likely to be curious or excited about AI's impact on their work as they are to be worried or confused. Responses below are an aggregate of "increase slightly," "increase moderately" and "increase significantly" for the last 12 months and the next three years.

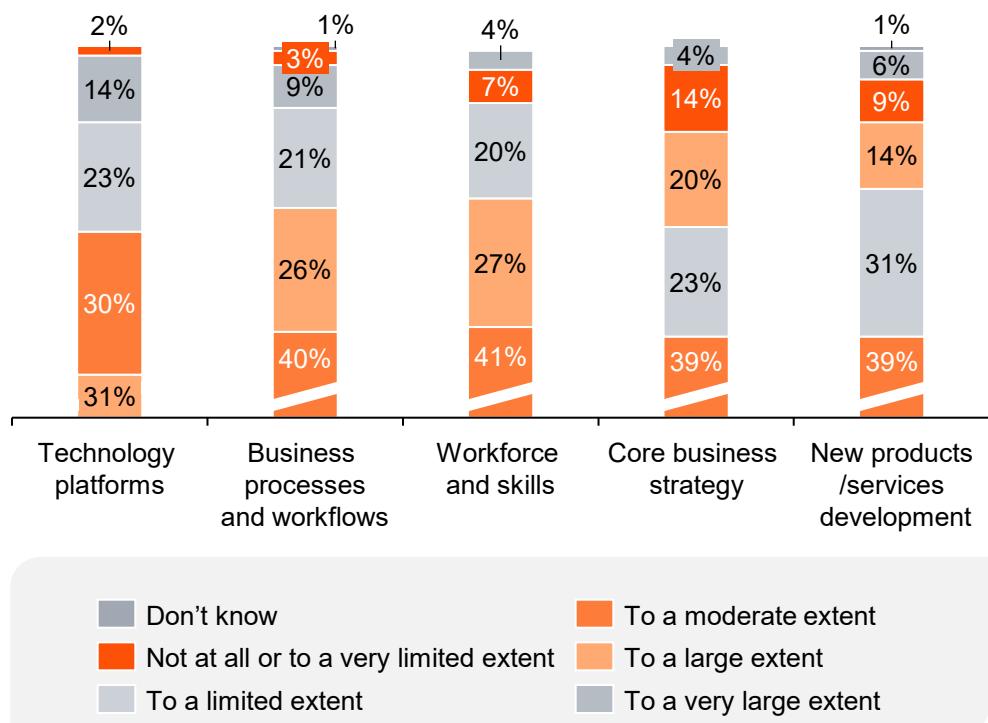


“ Banks may consider adopting AI tools, including for functions such as HR policy management, to achieve time efficiency and support digital transformation proactively, rather than waiting to be disrupted.”

Mr. Mujahid Ali, Chief Technology and Digital Transformation, Allied Bank Limited

Artificial Intelligence – adoption expectations

According to the 28th Annual Global CEO Survey—Pakistan, 75% of respondents expect at least moderate AI integration into business processes and technology platforms over the next three years. This reflects strong confidence in AI's ability to streamline workflows, automate routine tasks, and enhance digital infrastructure through advanced data analysis.



72% of respondents expect at least moderate AI integration in workforce and skills development, underscoring the need to reshape capabilities for effective adoption. However, only 63% foresee similar integration into business strategy and 59% into product or service development, reflecting a more cautious outlook on AI's role in innovation and strategic alignment.

Creating skill pathways

According to PwC's Global Workforce Hopes and Fears Survey 2025 and as mentioned earlier, employees who feel their skills will stay relevant are nearly twice as motivated as those who don't. Motivation increases by 73% when workers are supported to upskill, yet many remain frustrated by limited opportunities to learn or apply their capabilities. This is also evident from the graph below, which indicates that non-managerial staff lag behind executives in access to learning new skills.



There are many ways for employers to address the widely expressed frustration of receiving too little upskilling or too few chances to demonstrate existing skills. The advance of AI makes this imperative even more urgent: leaders should spell out which skills matter most in the future; connect those to business strategy; and create visible, equitable upskilling pathways. But just providing those pathways isn't enough: without opportunities to test and apply new capabilities on the job, employers risk losing much of the value of upskilling.



There is need to prioritise practical education and skills development to capitalise on Pakistan's demographic dividend, while urgently addressing population growth.”

Ms. Sima Kamil, Former Deputy Governor, State Bank of Pakistan

Steps leaders can take to mobilise the workforce behind reinvention

1
Reallocate staff to roles that maximise impact, driving profitability and engagement

2
Adopt a skills-first approach to align talent with business needs and boost motivation

3
Ensure job stability and financial security to strengthen confidence, drive motivation

4
Foster optimism about future roles which can nearly double employee motivation

“ Ensuring a future ready and capable workforce requires extensive skill development across all levels – from primary and higher education to vocational training.”

Mr. Irfan Siddiqui, Founding President & CEO, Meezan Bank Limited

“ We need to strategically capitalise on our abundant human resources by prioritising development of labour-intensive industries.”

Mr. Rizwan Ata, President & CEO, BankIslami Pakistan Limited

Motivate to innovate - and reinvent

Motivation thrives where employees feel safe and find meaning in their work. Employee motivation is just as critical as technology and skills for banks to manage current trends and cultural drivers effectively. This is especially true in an environment marked by uncertainty and rapid change, where motivation supports sustained performance and innovation.

As per PwC's Global Workforce Hopes and Fears Survey 2025, following are few factors resulting in higher level of motivation, with average percentage increase in motivation:

101% Optimism

Workers who are highly optimistic about the future of their role within their organisations are about twice as motivated as those who are not.

91% Skill relevance

Workers who believe their skills will remain relevant are almost twice as motivated as those who expect no skill relevance.

51% Job security

Workers with high confidence in their job security are 51% more motivated than peers with no confidence.

13% GenAI use

Workers who use GenAI daily are 13% more motivated than workers who don't use GenAI.

10

Unlocking value through sustainability reporting

Unlocking value through sustainability reporting

The integration of sustainability and climate risks within the overall business strategy and enterprise risk management has become an essential pillar for banks. This shift fundamentally addresses a multitude of business and regulatory challenges for banks to better align themselves with global trends and applicable regulations, by anticipating risks and meeting the growing demand for stringent investor focused sustainability reporting.

A consensus has emerged in recent years that environmental, social, and governance (ESG) issues are crucially important for the corporate world. In PwC's Global Investor Survey 2024, investors placed ESG-related outcomes such as effective corporate governance and greenhouse-gas emissions reduction among their top five priorities for business to deliver.

“ Pakistan's food-energy-water nexus is under stress due to environmental and resource management challenges, necessitating a focus on adaptation to sustain future resilience.”

Dr. Ishrat Husain, Former Governor, State Bank of Pakistan

“ There is an urgent need for improved building and planning standards to avoid environmental damage, especially in light of the 2025 floods that highlighted nature's power and the consequences of ignoring it.”

Ms. Maya Inayat Ismail, Chairperson, HBL Microfinance Bank

Navigating through the sustainability landscape

New regulations are raising the bar for transparency and consistency in banks' approach to manage sustainability and climate related risks in their portfolios. Based on these requirements as well as investor expectations, banks are now in process of embedding climate risk into ERM, stress testing and capital adequacy frameworks, and systemic risk oversight.

Regulators, investors and international lenders are now placing greater emphasis on transparency. In order to access international capital and maintain good relationships with multilateral banks and foreign investors, Pakistani banks are under increasing pressure to demonstrate effective safeguards to both sustainability and climate related risks. This external demand serves as a strong catalyst for greater transparency in sustainability and climate risk management practices that are financially material, as well as in the associated reporting.

As the current regulatory and market landscape evolves globally from voluntary to regulatory compliance so too will be the banking sector's approach to transition planning. Banks will need to move faster to lead the transition to low-carbon economy. This will require ownership at the top, rigorous board and leadership oversight, technology, process and ERM transformation leading to reinvigoration of business strategy, related financial planning, effective data management and integration of sustainability into risk management.

Based on above, following are the key areas for development:

Undertake mandatory sustainability reporting



Comply with current and anticipated sustainability regulations



From transition to transformation – Addressing sustainability and climate related risks and opportunities

As per PwC's Global Sustainability Reporting Survey 2025, respondents pointed to several factors that would improve the reporting process: more effective use of technology, earlier confirmation of the availability and completeness of data, increased staff resources, and greater cross-functional collaboration among the top few.

Factors that may improve the reporting process



As per the survey, repeatable and high-quality reporting can only be achieved by committing meaningful resources across multiple functions, supported by investments in technology and people. Isolated sustainability reporting teams armed only with spreadsheets may struggle.

Key developments on sustainability reporting and related regulations in Pakistan

Banks in Pakistan are expected to comply with detailed and standardised sustainability reporting requirements. The current regulatory push is led by State Bank of Pakistan (SBP) through various guidelines including Green Banking Guidelines, Environmental and Social Risk Management (ESRM) Manual and Green Taxonomy as well as by Securities & Exchange Commission of Pakistan (SECP) mandating adoption of IFRS S1 & S2 disclosure standards and SRO 920 of 2024.

While awareness and some degree of maturity has been achieved over the years, banks need to formalise a comprehensive sustainability reporting strategy with due integration of IFRS S1 & S2 reporting requirements especially climate scenario analysis, stress testing and financed emissions to align with latest edition of Pakistan's Nationally Determined Contributions (NDCs 3.0).

Key regulatory developments within the last few years include:

ESRM by SBP

SBP launched its ESRM Manual in November 2022. A set of monitoring and evaluation indicators for banks to report sustainability and climate related performance improvement over time have also been launched in conjunction with the Manual.

The regulatory expectation for full implementation of the manual was within 3 years from its issuance which is November 2025. Hence, banks are expected to be fully compliant with the requirements by 2025.

SRO 920 article 10 A COCG

Introduction of a new regulation (10A) outlining the Board's role in overseeing sustainability risks and opportunities, including environmental, social, and governance factors.

The Board is tasked with setting sustainability strategies, promoting diversity, equity, and inclusion (DE&I), managing sustainability risks such as climate-related issues, and may establish a dedicated sustainability committee with at least one female director. Annual reporting on sustainability integration into business strategy is also required.

Adoption of IFRS S1 & S2 by SECP

SECP issued directions for organisations to follow the requirement of sustainability disclosure standards issued by ISSB i.e. IFRS S1 and S2, referred to as "Sustainability disclosure standards" in a phased manner.

Green Taxonomy by SBP

Pakistan's commitment to sustainable development and climate resilience necessitated the development of a green taxonomy that provides clear and science-based definitions of economic activities to increase capital flows into sectors that are critical for achieving its climate and environmental goals.



Pakistan is highly vulnerable to climate change, risking a significant loss of ~ 30% of GDP by 2050 if no action is taken. Organised businesses are increasingly focused on adopting sustainable practices. SBP and the PBA are developing sustainability models and reporting frameworks to guide the financial sector's transition."

Mr. Muneer Kamal, CEO & Secretary General, Pakistan Banks Association

IFRS S1 and S2 sustainability disclosure standards

On December 31, 2024, SECP notified the adoption of IFRS Sustainability Disclosure Standards in a phase-wise manner in Pakistan.



General requirements for disclosure of sustainability-related financial information

requires disclosure of information about sustainability-related risks and opportunities that could reasonably be expected to affect an organisation's cash flows, its access to finance or cost of capital.



IFRS-S2

Climate related disclosures

set out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities.

These standards are issued by the International Sustainability Standards Board (ISSB) and recommended for adoption in Pakistan by the Institute of Chartered Accountants of Pakistan (ICAP). Developed to address information needs of current and prospective investors, lenders, and other creditors, these standards aim to provide consistent, comprehensive, and decision-useful disclosures, enabling stakeholders to evaluate an organisation's exposure to sustainability-related risks and opportunities, as well as its approach to managing them.

Phase-wise applicability



Phase I -

Period beginning on or after July 1, 2025

- Listed companies with turnover greater than Rs. 25 billion in last two consecutive financial years as per their financial statements; or
- Employees (permanent and contractual) greater than 1,000 in number; or
- Total assets greater than Rs. 12.5 billion (at least 2 criteria have to be met)

Phase II -

Period beginning on or after July 1, 2026

- Listed companies with turnover greater than Rs. 12.5 billion in last two consecutive financial years as per their financial statements; or
- Employees (permanent and contractual) greater than 500 (in number); or
- Total assets greater than Rs. 6.25 billion (at least 2 criteria have to be met)

Phase III -

Period beginning on or after July 1, 2027

- All other listed companies (other than those falling in Phase I and Phase II) and PICs.

Certain other considerations:

- Reporting in first year of application of IFRS S1 and S2 may comprise of IFRS S2 disclosures. The first reporting may be made within 9 months from the close of financial year.
- Requirement of providing assurance in accordance with International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, will be applicable from 2nd year of reporting by respective companies.
- The external auditors will be required to provide assurance on Sustainability Disclosure Standards from 2nd year of reporting.

Unlocking value by using sustainability data

As per PwC's Global Sustainability Reporting Survey 2025, a large majority of organisations that have already reported globally say they gained value, beyond compliance, from data and insights collected for reporting purposes. About a quarter (28%) say they saw significant value. The survey report revealed important lessons on how to link sustainability reporting to value creation.

Organisations seeing significant value are more likely to use sustainability data and insights to inform business decisions.



are using this information to a large or very large extent to inform business strategy whereas only about a tenth (11%) are among those not seeing significant value.

The same pattern holds true when it comes to using the information to a large or very large extent to inform decisions related to compliance with other regulations, risk management, corporate finance/ investment and workforce transformation.

Organisations obtaining significant value are more likely to have increased investment in sustainability reporting over the last year.



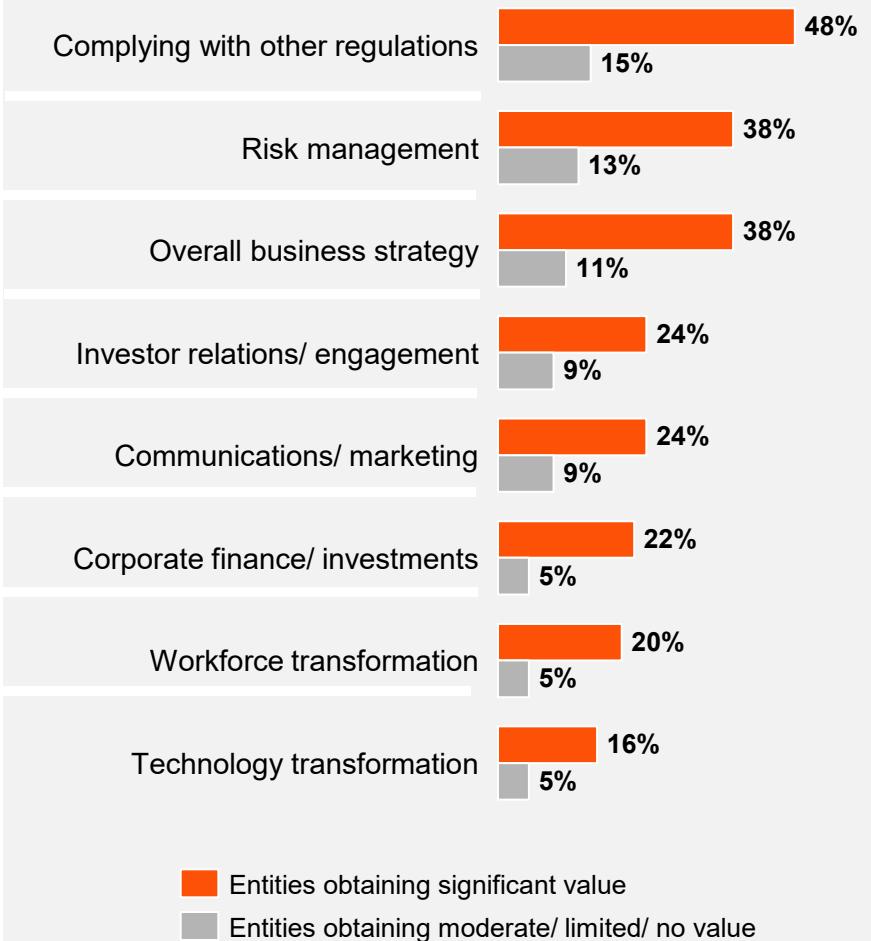
say they significantly increased resources over this period, versus a quarter (26%) for all survey respondents. Similarly, 40% had increased investment of senior leadership time, compared to 16% for all respondents.

“

Rising global temperatures, fueled by greenhouse gas emissions, have made sustainability an urgent imperative. The next frontier is ESG, a transformative trend redefining the future of banking, driving resilience, innovation, and responsible growth.”

Syed Amir Ali, Deputy CEO, Meezan Bank Limited

Leveraging sustainability reporting data and insights to inform the following business decisions or strategies:



Challenges in current sustainability reporting

As per PwC's Global CSRD Survey 2024, the biggest obstacles to sustainability reporting implementation facing organisations are data availability/ quality and the complexity of their value chains.

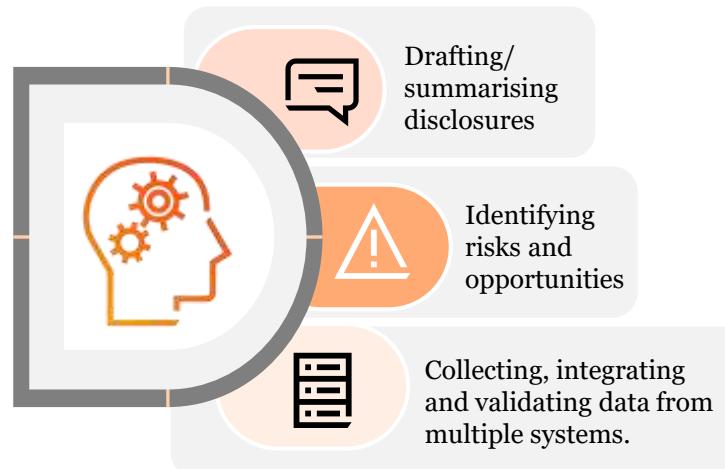


Banks should identify and address the key obstacles encountered during implementation as teams gather, verify, and consolidate the data needed for reporting.

Without careful focus on the core principles of data strategy - specifically how sustainability data is defined, sourced, governed, and processed, banks risk creating inefficient and error-prone processes.

Use of AI for sustainability reporting

Use of AI for sustainability reporting almost tripled to 28%, from 11% last year. Following are the most common AI use cases for sustainability reporting:



For each of the use cases, many respondents, as per the PwC's Global Sustainability Reporting Survey 2025, were at the stage of exploring or piloting AI tools, versus the later step of embedding them into workflows.

This finding highlights the fact that most organisations are still at an early stage of adopting the technology for sustainability reporting.

Use of other technologies

Following are responses in relation to use of other technologies for sustainability reporting as compared to the prior year:



From transition to transformation

Sustainability remains an important topic for investors, with institutional resilience, risk and opportunity management, and quantification of impact being important factors in their decision-making. As per PwC's Global Investor Survey 2024:

1/3rd of investors rate climate change among the top threats over the next 12 months to the organisations that they invest in.

75% of investors see climate change as a driver for organisations to create, deliver and capture value in the next 3 years.

71% of investors agree that institutions should embed ESG/ sustainability directly into their corporate strategy.

3/4th of investors say they put more trust in sustainability information reported by the organisations they invest in if it has been assured.

44% of those surveyed agree that to a large or very large extent, corporate reporting about sustainability performance (e.g., on environmental and social issues) contains unsupported claims.

As PwC's Global CEO Survey 2025:

1/3rd

business leaders say that the investments made on sustainable development over the last 5 years have led to an increase in their income.



As mandatory sustainability reporting gains traction, banking industry in Pakistan needs to move quickly to adjust to this shift and change from a skeptical reporter that meets minimum compliance to a strategic value driver.

This transition of Pakistani banks from reporting to SBP on Green Banking Guidelines and ESRM to public reporting under the IFRS S1 and S2 standards will require significant transformation.

Pakistani banks must view sustainability and climate risks as strategic opportunity drivers for carbon markets, green financial instruments, transition financing for clean technology and climate change adaptation.

They may also consider integrating sustainability and climate risks management frameworks reinforced with efficient governance and strategy.

Additionally, banks need to recognise the importance of collaborating with a broader range of financially significant stakeholders who can influence the current and future direction of financial markets toward green and responsible banking paradigms.

Without doubt, this activity will generate value-creation opportunities for businesses, if leaders bring sustainability into their strategies and planning.

“

Pakistan, despite its minimal CO2 emissions, faces severe climate related threats, underscoring the need for robust mitigation strategies including climate resilient infrastructure.”

Syed Amir Ali, Deputy CEO, Meezan Bank Limited

Transforming portfolios for a low-carbon future

With the mandatory adoption of IFRS S1 and S2, the financial industry will face growing pressure to measure and manage their financed emissions - those arising from investment and lending activities. Globally, financed emissions have become a critical metric for financial institutions seeking to understand and mitigate their climate impact. They will play a central role in shaping banks' decarbonisation strategies.

Leveraging the Partnership for Carbon Accounting Financials (PCAF) framework enables banks to quantify Scope 3 financed emissions with greater accuracy and comparability. However, in markets such as Pakistan, where most stakeholders are not yet aligned on calculating and reporting their greenhouse gas (GHG) footprints, this presents significant challenges. Data acquisition is only one piece of this complex puzzle; additional hurdles include financial, technological, market, and transition challenges.

Yet, getting the financed emissions equation right can unlock substantial opportunities. Financial institutions can reposition portfolios toward low-carbon sectors, finance renewable energy projects, and invest in GHG reduction or removal initiatives - paving the way for future trade in carbon and renewable energy credits. This transformation is not merely compliance-driven; it represents a strategic evolution. By aligning capital flows with global decarbonisation goals, banks can create long-term value and strengthen resilience in a rapidly changing economic landscape.

GHG emissions may not be the only factor shaping the future of responsible and green banking for a financial institution, other financially material aspects such as data security, financial inclusion, business ethics and ensuring environmental and social safeguards in the upstream and down stream value chain may be equally important in terms of risks and opportunities for the financial institution.



11

Taxation of banking sector - recent developments, challenges and outlook

Taxation of banking sector – recent developments, challenges and outlook

The tax landscape for Pakistan's banking sector remains complex, high-rate, and enforcement-intensive. Banking companies are subject to a special regime under the Seventh Schedule to the Income Tax Ordinance, 2001, with elevated headline rates and multiple overlaying levies. Recent changes have increased normal corporate rates for banks up to **44%** for income year 2025 and with super tax of **10%**, aggregate rate increased to 54% for 2024 and **53%** for 2025.

In lieu of increased rates on banking companies, higher tax rates on income from federal government securities have been rolled back from 2024 and onwards. At the same time, obligations on banks as withholding and collection agents continue to expand, particularly around digital commerce and cross-border payments, amid heightened scrutiny from both federal and provincial authorities. Courts have delivered notable relief on select issues (including provincial WWF for trans-provincial entities), while certain revenue-favoring positions persist at the appellate level including tax on windfall income levied for 2021 and 2022.

1. Framework and scope: Seventh Schedule regime

Banking companies are taxed under the Seventh Schedule to the Income Tax Ordinance, 2001. The Schedule operates as a single-basket regime whereby income from all sources, as disclosed in the annual accounts, is brought to tax after specified upward and downward adjustments.

Purpose of this single-basket approach:



Align taxation with the prudentially regulated financial statements of banks (as supervised by the State Bank of Pakistan),



Minimise book-tax differences



Create a clear, predictable link between audited results and taxable income.

Recent amendments have introduced various rules requiring significant adjustments to the profit of banking companies to arrive at taxable income. Particularly the adjustments related to IFRS 9 Expected Credit Losses (ECL) model must be negated regardless of the assets to which they pertain. In practice, banks must carefully reconcile the taxable income under the Schedule to the audited accounts and keep clear, well-supported records of all add-backs and deductions (e.g. provisions and investment related adjustments).



Banks are expected to:

- Refresh their tax provision models to reflect current rates and any updated adjustment rules
- Understand the impact of IFRS 9 related adjustments on their taxable income and ensure no valid claim is left unclaimed
- Maintain line-by-line mapping from financial statement captions to Seventh Schedule adjustments
- Ensure all relevant adjustments are timely incorporated in their reporting systems to make accurate compliance of monthly advance tax payments
- Ensure timely oversight by the Board of Directors, of the effective tax rate sensitivities arising from these changes

2. Headline tax rates and super tax

For banking companies, the normal corporate tax rate has been increased relative to non-financial corporates. For tax planning and investor communications, senior management should calibrate effective tax rate guidance against the following trajectory:

Tax year	Normal rate	Highest super tax rate	Indicative effective tax rate
2025	44%	10%	54%
2026	43%	10%	53%
2027 and onwards	42%	10%	52%

3. Windfall taxes: status and residual risk



The previously controversial “windfall” levy on “unexpected” income, profits or gains due to economic factors was applicable for tax years 2022 and 2023. The levy has been challenged at all high court levels in Pakistan and is currently sub judice before the Supreme Court of Pakistan.

Judicial status and contest

The Sindh High Court, by short order dated 20 February 2025, dismissed banks’ petitions challenging the levy, following which recoveries proceeded from Sindh based banking companies. The Peshawar High Court has confirmed the validity of section 99D and its retrospective nature, but also

ruled that the same cannot apply on profits already distributed. The favorable interim order earlier issued by the Lahore High Courts was also revoked, following which recoveries proceeded from Punjab based banks as well. Petitioner banks in Sindh have approached the Supreme Court, and the eventual ruling will be sector-wide in impact.

Key challenge points



Alleged retrospective application and excessive delegation under section 99D through SRO 1588(I)/2023

Potential discriminatory application

The caretaker government’s competence to issue the SRO

Money Bill implications

Lack of definitions of “windfall” and the triggering “economic factors”

Timing issues (including the introduction of Rule 7CB from Tax Year 2023).

4. Digital economy withholding and platform payments

Section 6A introduced tax on payments for digitally ordered goods or digitally delivered services, routed through locally operated e-commerce platforms. Banks acting as payment intermediaries are designated withholding agents for payments to sellers on such platforms, requiring withholding at

1% on all such payments.

Ambiguities exist in how the withholding regime would operate due to inconsistencies between the charging provisions, withholding provisions, and the rate schedule. These issues may result in divergent implementation across the banking sector and potential disputes with the tax authority. Industry participants, in this regard, may consider seeking clarification from the FBR to promote consistent application.

Operationally, the withholding obligation on the banking companies would require them to not only

update their information systems and enhance their capability wherever required, but will also need to integrate their systems for effective merchant KYC including platform-onboarding, payment coding and ability to reliably identify qualifying transactions and apply the correct rate under section 153(2A).

5. Other bank-collection obligations

Through Finance Act 2025, tax withholding obligations have also been imposed on the banking companies maintaining Investor Portfolio Securities (IPS) accounts on behalf of holder of a debt security. Such banks are now required to deduct **15%** withholding tax on capital gains earned on debt securities in IPS accounts.

The provision has been introduced to do away with the potential arbitrage where investors were able to avoid tax withholding by early exiting the market, and to ensure consistency between interest and capital gains tax withholdings. There are complications in capital gains computations subjected to tax withholding in certain cases where holders of the security frequently change. Banks will have to upgrade their systems to be able to identify these cases and give appropriate cost reliefs wherever relevant.



Banks are also obligated to collect **5%** adjustable advance tax on certain outward remittances made via credit, debit or prepaid cards to non-residents under section 236Y.

Further, banks are required to withhold tax on cash withdrawal from persons not appearing on the Active Taxpayers List where single-day cash withdrawals exceed Rs. 50,000.

For tax year 2025, the applicable rate will be **0.8%**.

Given frequent amendments to withholding and collection provisions, controls should include:



6. Multi-jurisdictional oversight and compliance complexity

Banks face layered oversight from federal authorities, four provincial revenue authorities, and revenue bodies in AJK and Gilgit-Baltistan. This entails frequent audits, inquiries and reconciliations across income tax, sales tax on services and allied levies.

The resulting compliance cost is non-trivial and warrants a centralised tax governance model, consolidated audit management and defensible documentation with respect to tax withholding obligations, service tax nexus, and financial statement reconciliations under the Seventh Schedule.

7. WWF/ WPPF: Trans-provincial entities

Workers' Welfare Fund (WWF) and Workers' Profit Participation Fund (WPPF) obligations arise under provincial statutes post-18th Amendment. For trans-provincial banking entities, provincial WWF levies have been subject to challenge. The Sindh High Court has held that WWF is a federal levy under the WWF Ordinance, 1971, and therefore provincial WWF does not apply to trans-provincial entities such as banks.

The decision is currently sub judice before the Supreme Court where the apex court has directed to maintain status quo. This precedent offers meaningful relief; however, banks should assess province-by-province exposure, maintain protective filings where appropriate, and reflect the litigation posture in provisioning.

8. Litigation landscape and appellate positions

The sector has seen a mix of favorable and adverse rulings before the Appellate Tribunal (Karachi Bench), including:



Issues generally decided in favor of banks

- Provisioning for bad debts on gross/net advances (1%, 5% bands)
- Dividend income taxable at concessional rates
- Concessional employee loans
- Non-withholding on accrued markup
- Provisions against other assets
- Disallowance of actuarial loss as a mere provision
- Provision for diminution in value of investments (prior to addition of Explanation in 2017)
- Treatment of donations and goodwill amortisation in line with Seventh Schedule adjustments



Issues decided against banks

- Surcharge under section 4A
- Turnover determination for minimum tax under section 113
- Claim of general provisioning
- Provision for diminution in value of investments (post-2017 Explanation)
- Super tax under section 4B for relevant years

9. Outlook and action points for governance

The tax environment remains dynamic, with headline rates for banks elevated till at least tax year 2027 and super tax currently flat at **10%** above the applicable income threshold. The rollback of windfall levies is positive for stability; however, the statutory architecture permitting such measures persists and could be re-invoked. Digital economy withholding will continue to expand as the tax base formalises, increasing banks' operational obligations as payment intermediaries.

Given elevated statutory rates and broad withholding obligations, banks may consider stringent board-level oversight focusing on the following three pillars:



Accuracy and completeness of Seventh Schedule adjustments and reconciliations to audited accounts

End-to-end withholding/collection compliance across digital payments, cross-border card remittances, ATL-based differential rates, and provincial services tax nexus

A structured litigation strategy that prioritises matters with sector-wide precedential impact

Transcribed
summary insights
from few industry
leaders

12



Mr. Muhammad Nauman Chughtai

President/ CEO, MCB Bank Limited

Building resilience through policy and infrastructure development

- Policy consistency and continuity are essential for effective nation-building.
- Rising external debt is unsustainable for the country unless it translates into measurable productivity gains.
- Currency devaluation increases exposure to currency risk, which remains largely beyond our control. Our existing production sectors do not adequately mitigate this risk, though the software industry presents promising potential in this regard.
- Our current capacity is limited, with growth experiencing some unevenness but continuing steadily.



Adapting banking services to digital preferences



- Due to their substantial bandwidth requirements, many software companies and freelancers choose to operate from neighboring countries such as the UAE. Although some activities occur locally, comprehensive industry-wide infrastructure development and a threefold expansion of internet capacity are essential.
- There is a critical need to prioritise water conservation through the construction of small reservoirs and dams to mitigate the increasing impact of floods driven by climate change. Greater emphasis and funding must be directed towards climate control and water management initiatives.
- Digitalisation benefits the country by facilitating broader inclusion and documentation.
- While there has been substantial progress in consumer adoption of digital services, advancements on the corporate front remain constrained due to limitations in banking technology.
- Banks are actively exploring digital solutions to drive business growth, streamline processes, and deliver seamless customer experiences.
- Significant investment is essential to provide consumers with a comprehensive suite of solutions comparable to branch services, as there is a growing preference in certain segments to avoid in-person branch visits.
- This trend also affects our business, necessitating appropriate staffing adjustments at bank branches.

Digital reluctance sustains needs for branches



- Brick and mortar structures will continue to exist - there still remains a huge segment of the population, including rural residents and urban traders, who may be reluctant to engage digitally.
- Unlike declining branch trends observed in Western countries, banks in Pakistan are expected to continue expanding their branch networks, as our experience indicates that opening new branches correlates with increased deposit growth.
- This trend may shift in the next five to ten years as younger generations reach the age of financial independence and begin actively participating in the banking sector.

Driving continuous merchant engagement beyond onboarding



- Banks are actively pursuing targets to onboard merchants for digital payments acceptance. However, while onboarding may be relatively easier, the real challenge lies in driving merchants' ongoing digital engagement and activity.

Critical need for proactive cybersecurity investments



- Cybersecurity presents a significant and ongoing challenge in today's technology landscape, necessitating continuous investment.
- The rapid escalation of cyber threats has profoundly impacted businesses, and despite substantial investments in infrastructure, complete security remains unattainable.
- Banks, which handle vast amounts of sensitive data, must maintain robust and resilient systems. However, upgrades and investments are often reactive, while cyberattacks evolve at a pace that is difficult to consistently match.
- Although banks maintain dedicated information security teams, staffing these units remains a challenge.
- This issue is further intensified by the limited availability of skilled professionals in our markets, many of whom are drawn to opportunities abroad.

Islamic transformation



- It is important to recognise that, while there is a growing demand for Islamic banking, conventional banking continues to experience sustained growth.
- While the government and regulator are actively advancing initiatives—such as the development of an asset register by the State Bank of Pakistan - establishing the required structures may require additional time.



Mr. Zia Ijaz

President & CEO, Askari Bank Limited

Scaling agriculture finance through strategic partnerships

- To enhance the agricultural value chain and support farmers more effectively, there is an increasing focus on fostering partnerships among agricultural service providers - such as fertilizer companies, government agencies and the farming community.
- A promising approach involves initiatives such as agri malls, where service providers establish agreements to purchase farmers' produce upon harvest. In this model, banks can play a pivotal role by financing these agricultural service providers, enabling them to procure produce effectively. Concurrently, farmers' outstanding loans can be offset or settled through these transactions, fostering a streamlined, mutually beneficial financial ecosystem.
- A key challenge being collaboratively addressed with stakeholders is the establishment of fair pricing for agricultural produce.
- Many agricultural service providers operate hundreds of outlets in rural areas, and if banks collaborate with these providers, it could create thousands of accessible points ("deras") for farmers to engage with financial and agricultural services.
- These outlets already supply essential inputs such as fertilizers and seeds, and could also offer machinery rental services, addressing farmers' limited ability to purchase expensive equipment outright.
- Mechanisation and value addition in agriculture require such collaboration between banks, agri service providers, machinery suppliers, and large corporate buyers of agricultural produce. By working together, these stakeholders can support farmers more effectively and drive sustainable growth in the agricultural sector.



Embracing digital, yet preferring branches for high value transactions



- When evaluating the Pakistani market, it is essential to recognise the cultural mindset of customers. While the brick-and-mortar branch model is anticipated to remain relevant over the next decade, the pace of new branch openings may slow over the next five to seven years.
- Customer trust is a key factor behind this preference. Physical branch presence signals credibility, safety and permanence.
- The vast majority of banking transactions are now conducted electronically; however, their aggregate value remains significantly lower than that of over-the-counter transactions. Although several banks have substantially increased digital transaction limits, this alone did not meaningfully shift high-value activity away from the counter to digital channels. Recently, as the country's digital ecosystem scales, the enhanced transaction thresholds have resulted in a visible rise in digital transaction values, reflecting a gradual shift in customers' willingness to execute large-value transactions electronically.

- Broader efforts are underway at the governmental level to digitise services and promote the cashless economy, complemented by awareness campaigns launched by banks. These initiatives are likely to reduce branch footfall.
- Alongside rising inflation and narrowing margins, this trend necessitates that banks minimise operating costs by adopting lean and smart branch models. In such models, branches may not only handle transactional services but also function as advisory centers for SMEs and lending clients.

Rising pressures: cybersecurity, cost of doing business, and competition



- Cybersecurity remains a critical concern for our banking sector, given the sensitive nature of customer data held by banks. While the probability of a cyber incident may be low, the potential impact is substantial. Hence, it is imperative for banks to invest in specialised skill sets and deploy AI-driven security frameworks and solutions to effectively protect their systems.
- A further concern is the banking sector's heavy reliance on foreign currency-denominated hardware and software, such as core banking systems provided by overseas vendors. This dependence poses risks and calls for deeper strategic consideration.
- Looking ahead, digitalisation along with increased competition from telco-based banks and fintech companies will have a profound impact on the industry. Unlike traditional banks, these newer players are more agile, willing to take risks, and able to experiment rapidly.
- Banks, often constrained by bureaucratic processes and siloed operations, must become more agile themselves by adopting digital and flexible solutions. It is important to integrate digitalisation into daily workflows and customer interactions in a way that delivers genuine value.
- While "digitalisation" may be a buzzword, its real power lies in the value created through the effective use of technology and AI. Ultimately, embracing digitalisation will be transformative for the banking industry, enabling greater financial inclusion and scalable growth.



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Advancing AI adoption in the banking industry

- Artificial intelligence (AI) now plays a pivotal role, particularly with developments such as Generative AI (GenAI) and Large Language Models (LLMs) such as ChatGPT.
- Initially, banks implemented reactive chatbots, however; modern AI models offer more advanced, context-aware assistance that can handle operational queries, policy interpretations, and compliance requirements. Prompt quality directly impacts the effectiveness of AI responses, acting as intelligent agents capable of going beyond basic query handling.
- Banks may consider adopting AI tools, including for functions such as HR policy management and backend reconciliations, to achieve time efficiency and support digital transformation proactively, rather than waiting to be disrupted.



- Given increasing regulatory compliance demands, banks have significantly expanded their compliance teams. They are now exploring AI-driven automation to reduce manpower needs while ensuring regulatory compliance through the implementation of programmable rules.
- AI systems face significant threats such as "data poisoning," where hackers often skilled as security analysts or technologists; manipulate data to corrupt AI models. This type of cyberattack involves maliciously injecting false or misleading data into systems, potentially undermining security measures. Due vigilance, stringent controls such as the "four eyes principle", and clear governance policies are essential to mitigate these risks and protect the integrity of AI-driven banking systems.
- Regulators may consider establishing robust governance frameworks for AI use, balancing innovation with security.

Digital payments and lending



- Close to 90% of transactions are digital, leaving only about 10% in cash or paper-based forms. The focus is on transitioning this segment to digital methods.
- QR codes are effective and cost-efficient initiatives. We can draw inspiration from China's WeChat and Alipay super app ecosystems, which dominate digital payments with millions of users.
- In Pakistan, while we don't yet have a dominant super app; multiple banks have mobile apps, but usage is low because the ecosystem is fragmented. Chinese platforms benefit from unified APIs, whereas Pakistan has multiple disparate options.

- SME credit demand is low as many small enterprises are reluctant to take loans, especially given weak market conditions. A promising approach involves using data-driven scorecards to enable targeted SME lending.
- There are opportunities for growth in the broader ecosystem, particularly in expanding access to fundamental infrastructure such as reliable internet connectivity in various regions. This infrastructural gap may also be contributing to a continued reliance on cash transactions, in marked contrast to countries such as China, Korea, and the UK, where digital payments are predominant.

Relevance of branches



- In Pakistan's current context, physical branches are expected to remain relevant for at least the next decade.
- Nonetheless, banks have started to rationalise their branch network with a recent trend of branch merging emerging in the market
- Certain banks are leveraging the 'phygital' model, with self-service kiosks, transforming branches into service hubs

Reinventing workforce strategy for tech-centric growth



- There is a need for resources who can bridge the business and technology domains by understanding and communicating tech concepts, thereby facilitating product configuration and collaboration.
- In 2015, approximately 90% of the workforce consisted of MBAs and generalists, with only 10% being technologically adept. This ratio must be reversed to maintain competitive advantage, aiming for 90% tech-savvy professionals and 10% generalists.
- Unfortunately, attrition rates on the technology side are considerably high.
- The rise of freelancers and the evolving expectations of Gen-Z employees necessitate that we adapt our organisational policies and culture accordingly. Persisting with rigid structures may lead to internal chaos; consequently, we must be prepared to make strategic trade-offs.
- Continuous training programs remain a vital component of the organisational development strategy to ensure employees' skills remain relevant and up to date.



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Acronyms

Acronyms		Acronyms		Acronyms	
ADR	Advances to Deposits Ratio	CBDC	Central Bank Digital Currency	ESG	Environment, Social & Governance
Agri	Agriculture	CCO	Chief Compliance Officer	G2P	Government-to-Person
AI	Artificial Intelligence	CEE	Central & Eastern Europe	GDP	Gross Domestic Product
AML	Anti Money Laundering	CEO	Chief Executive Officer	GenAI	Generative Artificial Intelligence
APAC	Asia Pacific	CNIC	Computerised National Identity Card	GRc	Governance, Risk and Compliance
APIs	Application Programming Interfaces	COO	Chief Operating/ Operations Officer	HR	Human Resource
ATM	Automated Teller Machine	COSO	Committee of Sponsoring Organisations	ID	Identification
B2B	Business to Business	CRO	Chief Risk Officer	IDR	Investments to Deposits Ratio
B2C	Business to Customer	CX	Customer Experience	IFRS	International Financial Reporting Standards
BaaS	Banking-as-a-Service	DEI	Diversity, Equity and Inclusion	IT	Information Technology
BNPL	Buy Now Pay Later	EMEA	Europe, Middle East & Africa	KYC	Know Your Customer
CAR	Capital Adequacy Ratio	EMI	Electronic Money Institutions	LLM	Large Language Model
CASA	Current and Savings Accounts	ERM	Enterprise Risk Management	LoD	Line of Defence
				MDR	Merchant Discount Rate

Acronyms	
ML	Money Laundering
mPOS	Mobile Point of Sale
MSME	Micro, Small & Medium Enterprises
NBFC	Non-Banking Finance Company
NFI	Non-Funded Income
NFIS	National Financial Inclusion Strategy
NPL	Non-Performing Loans
PBA	Pakistan Banks Association
P&L	Profit and Loss
P2G	Person-to-Government
P2M	Person-to-Merchant
P2P	Person-to-Person
POS	Point of Sale
PSO/ PSP	Payment System Operator/ Payment System Provider
QR	Quick Response

Acronyms	
RoA	Return on Assets
RoE	Return on Equity
RoI	Return on Investment
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SOE	State-Owned Enterprises
SIM	Subscriber Identity Module
SME	Small & Medium Enterprises
TF	Terrorism Financing
UI	User Interface
UK	United Kingdom
USSD	Unstructured Supplementary Service Data
UX	User Experience
YoY	Year-on-Year

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