Banking Publication 2025

Banking Forward: Journeying Towards Future Horizons

Summary of Key Insights

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:

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Summary of Key Insights

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.

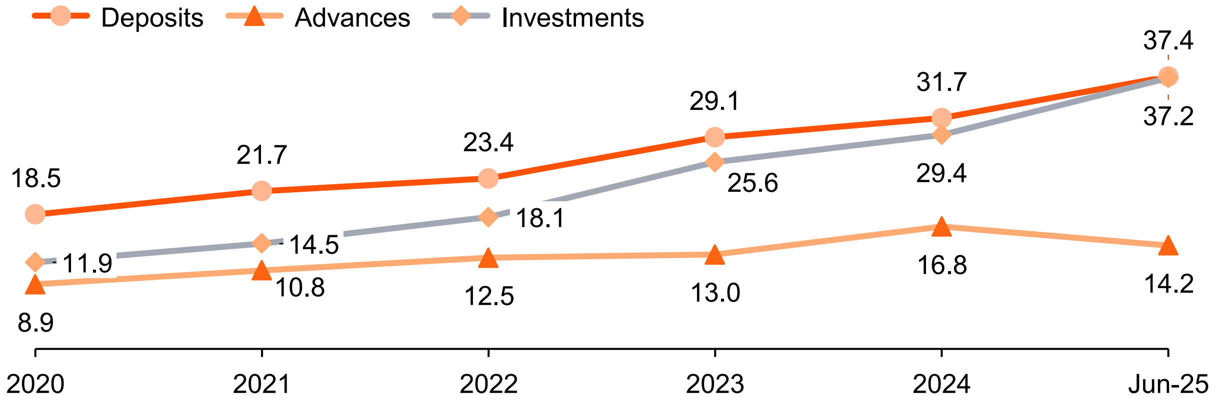
Balance sheet growth

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

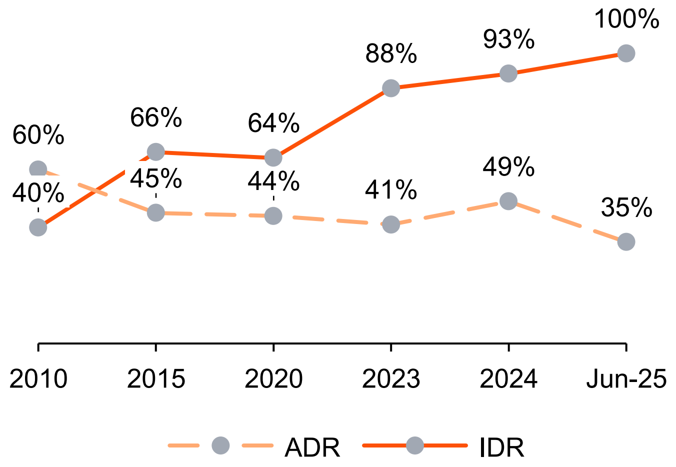
(All figures in Rs. Trillion)



Advances to Deposits and Investments to Deposits

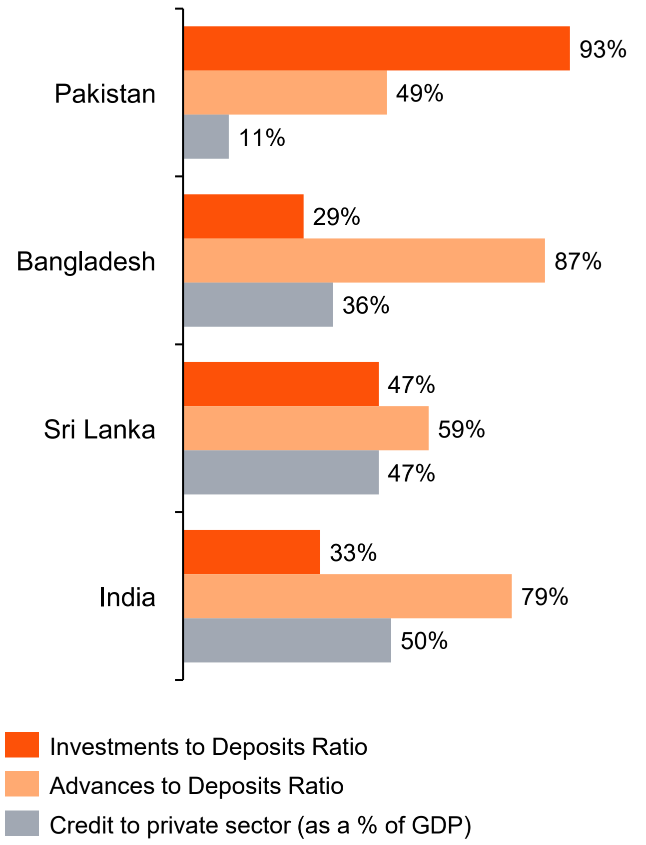
Pakistan's Advances to Deposits Ratio (ADR) has been gradually contracting, standing at 35% in Jun-25, following an increase from 41% in 2023 to 49% in 2024. Concurrently, lending to the private sector declined to 11% of GDP in 2024.

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



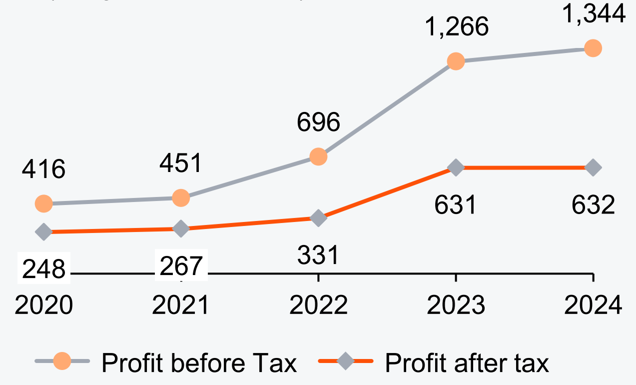
Profits and operating costs

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

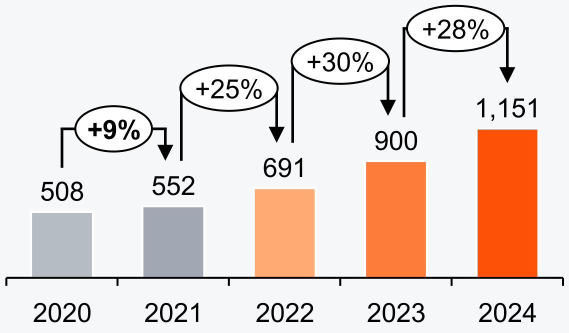
(All figures in Rs. Billion)



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

(All figures in Rs. Billion)



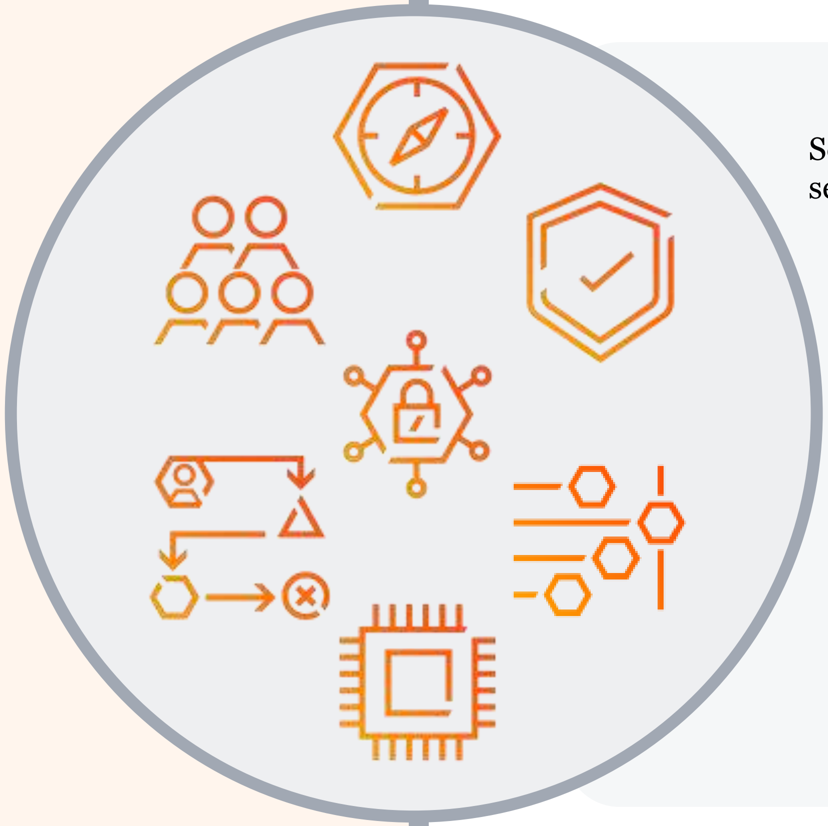
2. Economy

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

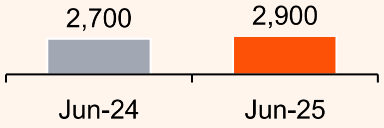
3. Priority Sector Financing

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.

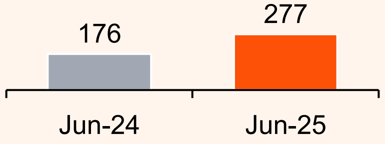
Agricultural borrowers grew by 200K reaching 2.9 million in Jun-25, while SME borrowers have increased by over 55% touching 277K over the same period.

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.

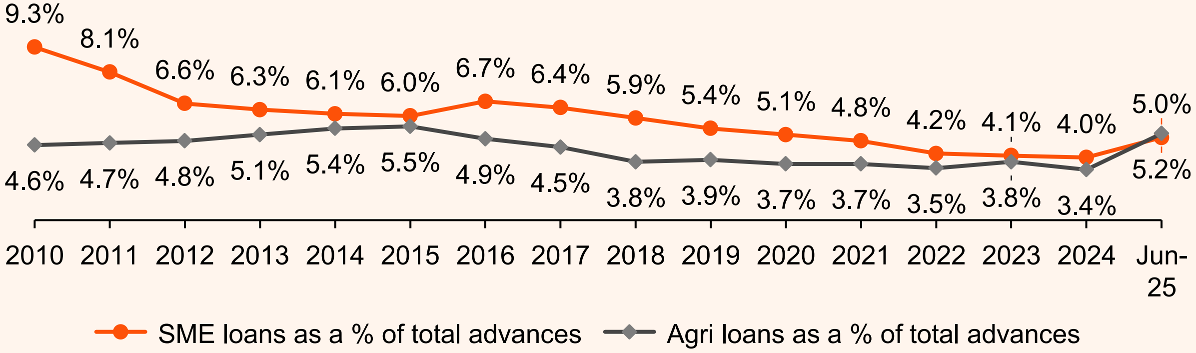
Number of borrowers - agricultural finance (in 'K')



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



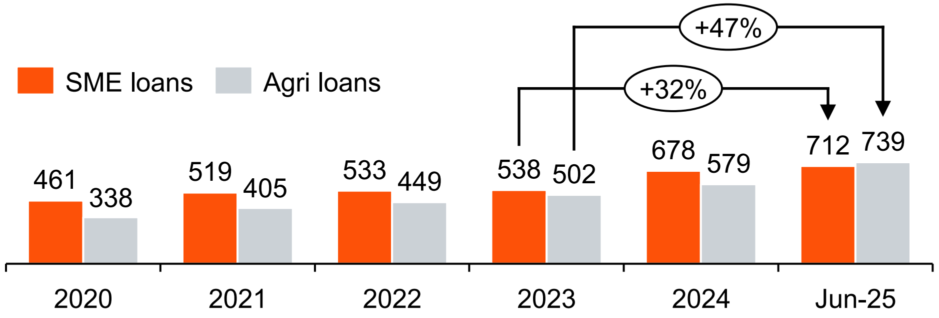
Loans to priority sectors as % of total advances



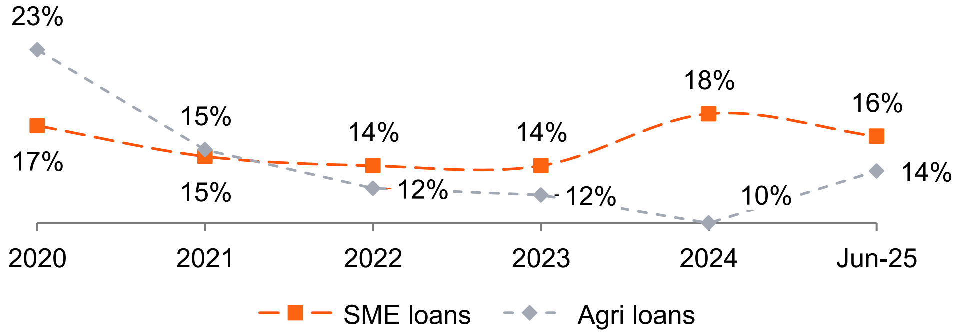
Marked rise in SME and Agri financing with divergent NPL trends

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

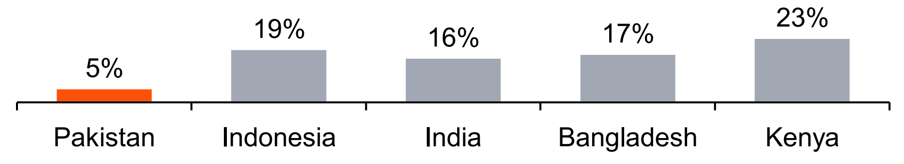


Non-Performing Loans (NPL) ratio of priority sectors



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.

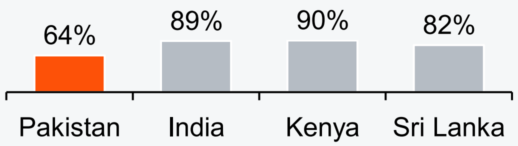
One of the most critical elements to this effect is progressing towards documentation, for which it is important to augment the national data infrastructure. Banks may also consider enhancing their credit appetite, augmenting their capacities, and building holistic propositions around business and financial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

4. Financial Inclusion

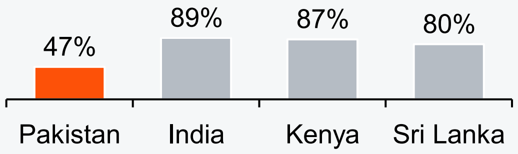
Pakistan's financial inclusion ratio has risen to 64% - reducing its share of the global unbanked adult population from 9% in 2021 to 4% in 2023.

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.

Financial inclusion



Women inclusion



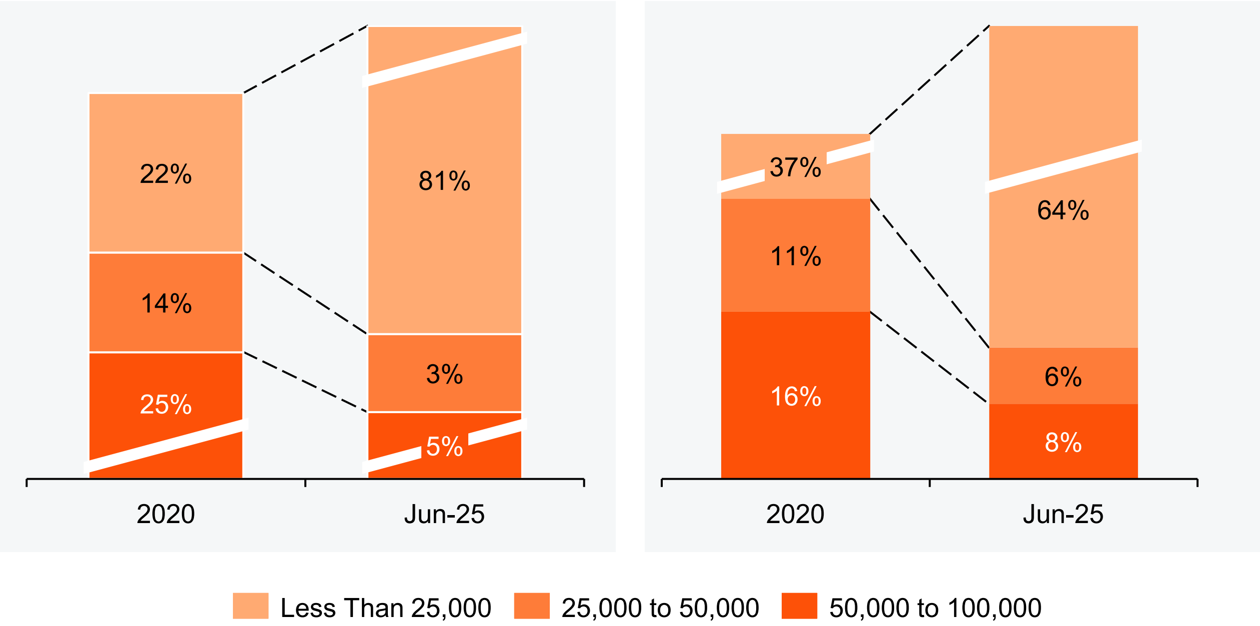
The National Financial Inclusion Strategy (NFIS) 2024-28 aims to achieve 75% financial inclusion and reduce the gender gap to 25% by 2028.

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.

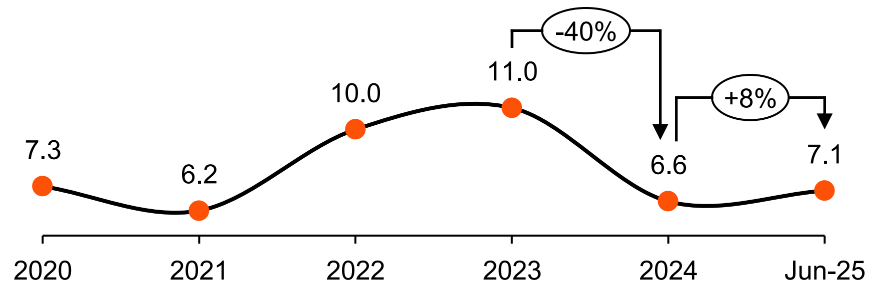
While there is a marked increase in the banked population, we also witness an increase in the number of accounts with deposit balance of less than Rs. 25K since 2020 for both individuals and businesses.

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

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

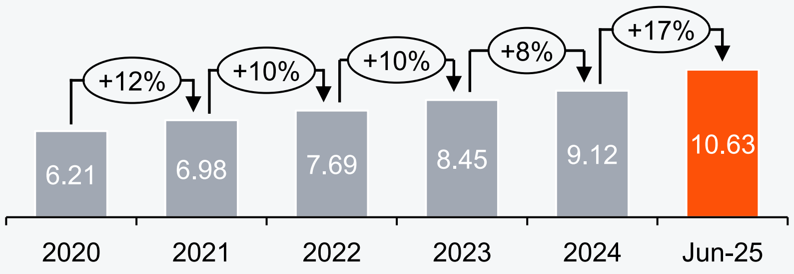


In Jun-25, there has been a modest 8% increase in business accounts compared to Dec-24. This is encouraging given the earlier 40% decline, from 11 million to 6.6 million accounts between Dec-23 and Dec-24.



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.



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.

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.

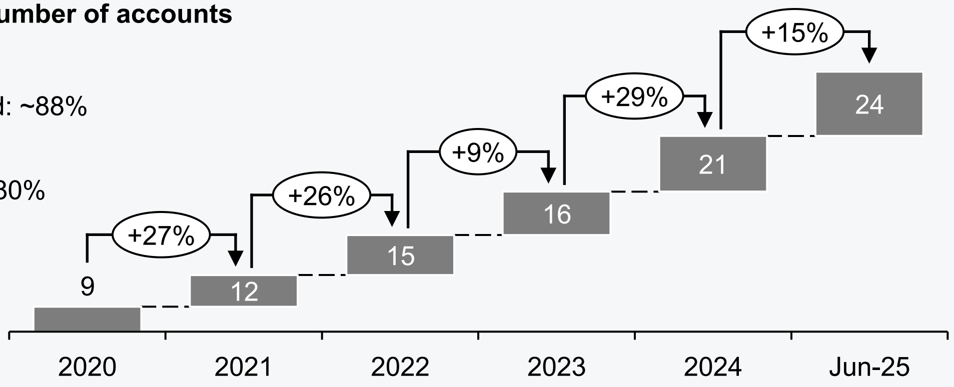
Uptake of mobile banking since 2020

Number in 'Million'

As % of total number of accounts

Thailand: ~88%

India: ~80%



	2020	2021	2022	2023	2024	Jun-25
Pakistan			23%	18%	21%	15%[1]

% of total customer base

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

[1]As 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

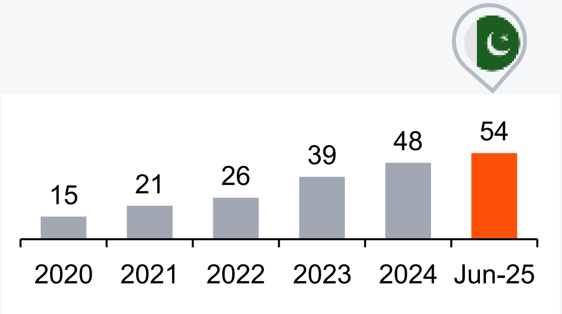
Accelerating mobile and internet banking engagement

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

Singapore: 100+

Thailand: 100+



Sources: PwC proprietary insights and analysis, SBP

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:

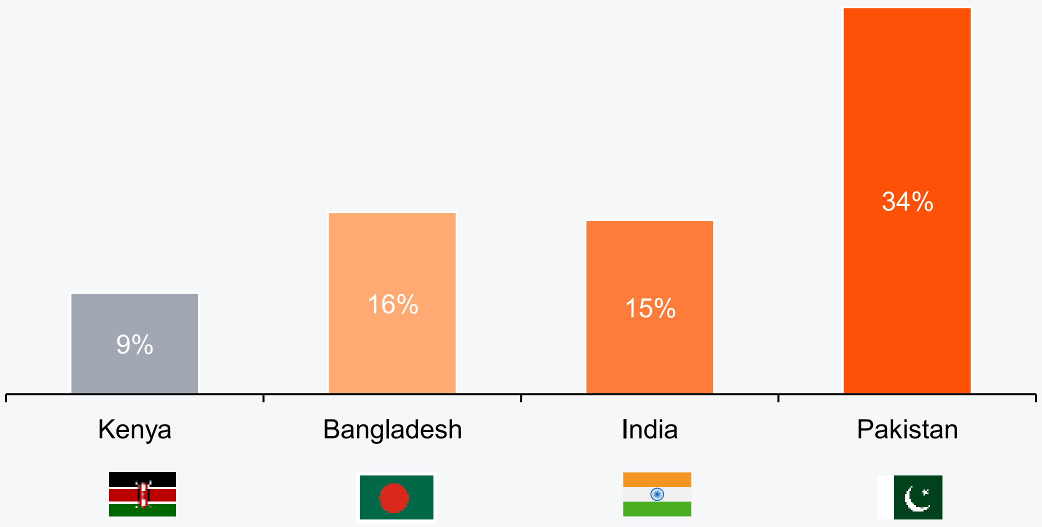
- Nationwide abolition of right-of-way charges on internet infrastructure
- Subsidy to promote merchant onboarding and encourage QR payments

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.

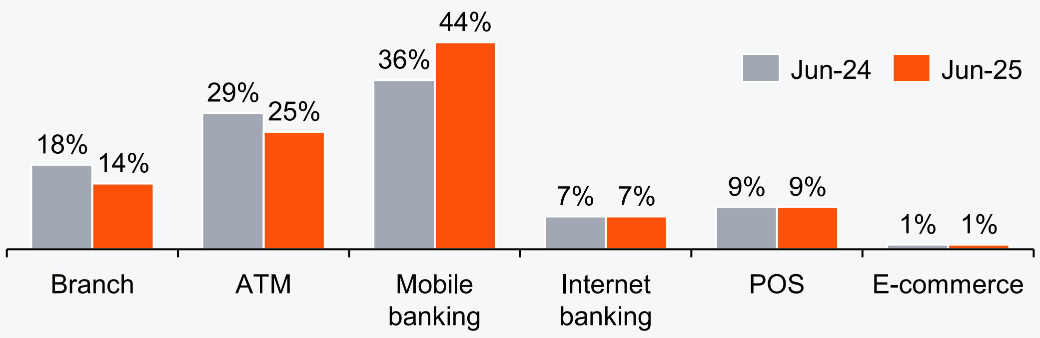


Retail payments space in Pakistan

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
- **188K** Wholesale shops
- **825K** Service shops
- **643K** Production shops
- **256K** Hotels
- **119K** Hospitals
- **17K** Hostels
- **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)

2.4x Surge in transaction volumes to prior year levels

2.2x 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

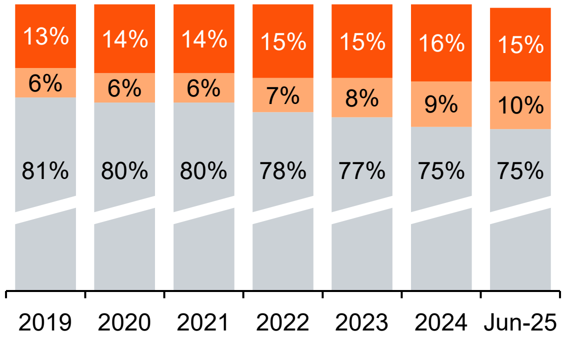
6. Islamic Transformation

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.

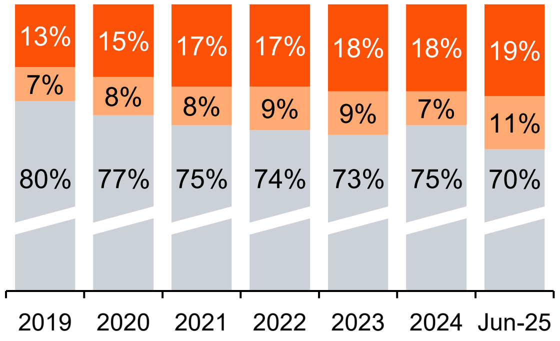
Islamic banking deposits share 25%

(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.

- **40%** DEI is valued as important for business and people success
- **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
- **17%** DEI is critical to our business strategy, vision, and purpose

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.

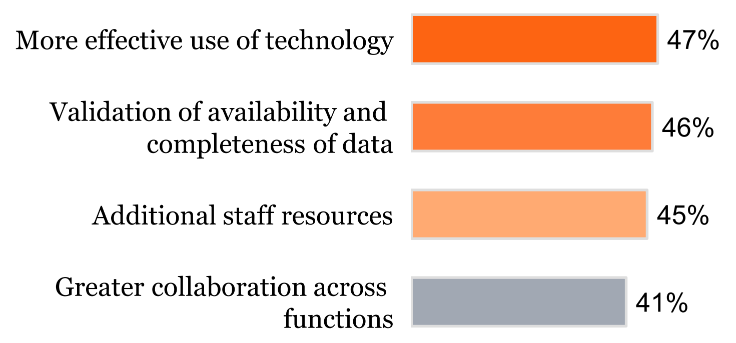
8. Sustainability Reporting

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.

Factors that may improve the reporting process[1]



[1]Insights 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.