



Non-Banking Finance Companies (NBFCs)

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Non-Banking Finance Companies

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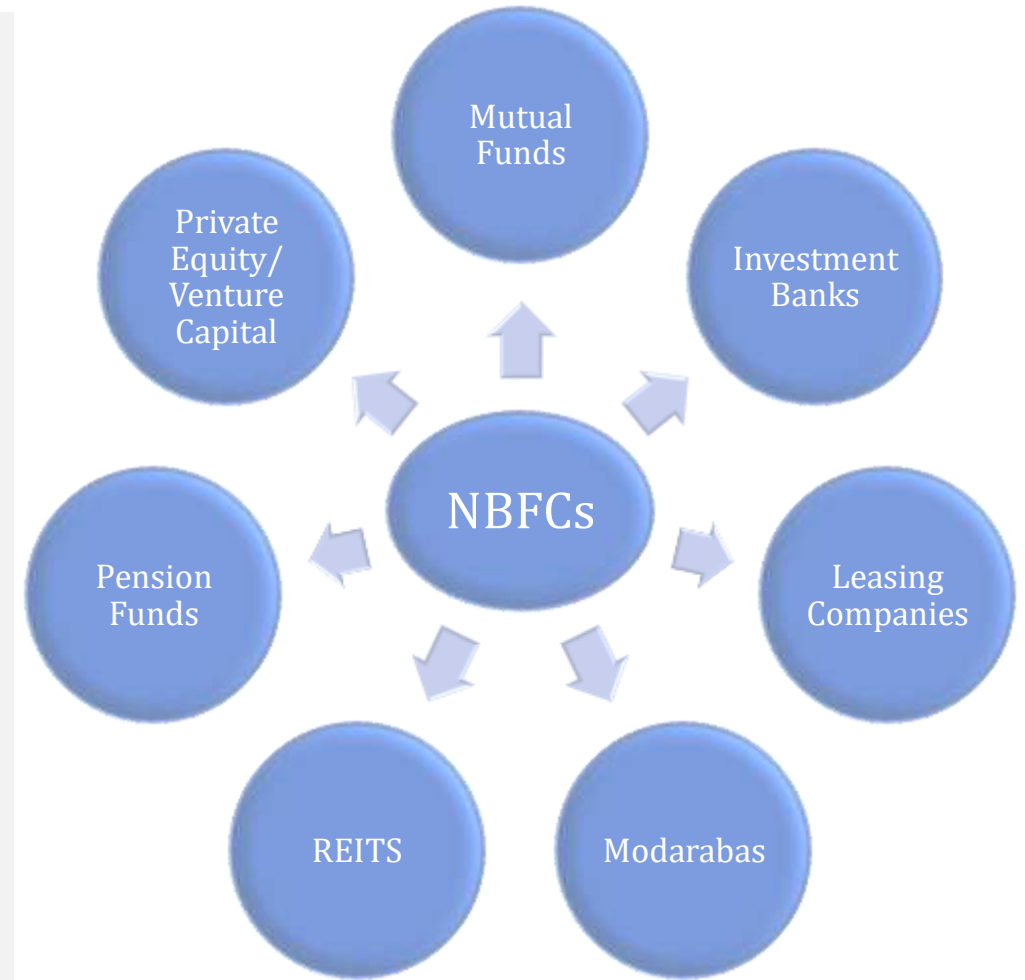
Introduction

Non-Banking Financial Companies (NBFCs), also known as Non-bank Financial Institutions (NBFIs) are financial institutions that offer various banking services but do not have a banking license.

Generally, these institutions are not allowed to take traditional demand deposits—readily available funds, such as those in checking or savings accounts—from the public. This limitation keeps them outside the scope of conventional oversight from federal and state financial regulators.

The Sector mainly comprises the following:

- Mutual Funds
- Investment Banks
- Pension Funds
- Insurance Companies
- Other Financial Intermediaries (OFIs) - OFIs include all financial intermediaries that are not central banks, banks, public financial institutions, insurance corporations, pension funds, or financial auxiliaries. They mainly include investment funds, captive financial institutions and money lenders, central counterparties, broker-dealers, trust companies and structured finance vehicles.



Non-Banking Finance Companies

Global | Overview

- Non-banking financial companies play an increasingly important role in providing financing to the real economy, as well as in managing the savings of households and corporate entities.
- In CY22, the value of total global financial assets decreased for the first time ever by ~5.2% to USD~461.2trn (CY21: USD~486.6trn) and can be largely attributed to the high interest rates amid higher inflation levels. Furthermore, the decrease in global financial assets is also reflective of valuation losses in mark to market asset portfolios.
- In CY22, global financial assets included NBFCs (USD~217.9trn), Banks (USD~183.2trn), Central Banks (USD~39trn) and Public Financial Institutions (USD~21trn).
- In CY22, the NBFCs Sector accounted for ~47.2% of the global financial assets as compared to ~49.8% in CY21.
- During CY22, while the value of assets in the NBFCs sector declined by ~5.5% YoY to reach USD~217.9trn (CY21: USD~239.3trn), that in banking sector grew by ~6.9% YoY to USD~183.2trn. However, the former's share in global financial assets (~47.2%) exceeded those of latter's (~39.7%) during the year.
- Key Developments:** Shariah-compliant global assets have also gained popularity and reached USD~4.5trn during CY22 (CY21: USD~4.1trn), depicting a growth of ~9.8% YoY.

Global Assets NBFCs Subset (OIFs) CY22	Share (%)	Size (USD trn)
Investment Funds (OIFs are funds Other than MMFs and Hedge Funds)	27.2%	55.4
Pension Funds (PFs)	20.1%	40.9
Insurance Corporations (ICs)	17.5%	35.6
Captive Financial Institutions and Money Lenders (CFIMLs)	11.3%	23.0
Broker-Dealers (BDs)	6.0%	12.3
Money Market Funds (MMFs)	4.5%	9.1
Hedge Funds (HFs)	3.4%	7.0
Finance Companies	3.1%	6.3
Structured Finance Vehicles (SFVs)	3.0%	6.2
Trust Companies	1.9%	3.9
Real Estate Investment Trusts (REITs)	1.6%	3.2
Central Counterparties (CCPs)	0.4%	0.8
Total	100.0%	203.7

Non-Banking Finance Companies

Macro Economic Indicators | Annual

Monetary Sector	FY14	FY15	FY16	FY17	FY18	5-Year Avg	FY19	FY20	FY21	FY22	FY23	5-Year Avg	9MFY23	9MFY24
Avg. Inflation Rate (CPI)	8.6%	4.5%	2.9%	4.2%	3.9%	4.8%	7.3%	10.7%	8.9%	21.3%	29.4%	15.52%	27.2%	27.2%
Avg. KIBOR (%)	9.9%	8.9%	6.5%	6.11%	6.4%	7.5%	10.43%	11.95%	7.4%	10.8%	18.3%	11.78%	17.1%	22.1%
Monetary Policy Rate (MPR) (period-end)	9.8%	6.5%	5.8%	5.75%	6.5%	6.9%	12.25%	7.00%	7.0%	13.8%	22.0%	12.40%	20.0%	22.0%
Avg. PKRV (%)	9.8%	8.7%	6.3%	6.0%	6.3%	7.4%	10.20%	11.79%	7.3%	10.7%	18.1%	11.61%	17.0%	21.9%
Avg. Exchange Rate (USD/PKR)	102.8	101.5	104.4	104.78	110.1	104.7	136.45	158.4	160.5	191.9	247.7	179.0	236.2	284.7
External Sector	FY14	FY15	FY16	FY17	FY18	5 Year Avg	FY19	FY20	FY21	FY22	FY23	5 Year Avg	9MFY23	9MFY24
Current Account Balance (USD mln)	-3,130	-2,815	-4,961	-12,270	-19,195	-8,474	-13,434	-2,970	-1,852	-17,481	-2,235	-7,594	-3,846*	-999*
Exports (USD mln)	25,078	24,090	21,972	22,003	24,768	23,582	24,257	22,536	25,630	31,792	27,735	26,390	21,036	22,914
Imports (USD mln)	41,668	41,357	41,118	48,001	55,671	45,563	51,869	43,645	53,785	80,177	55,330	56,961	43,724	39,944
Trade Balance (USD mln)	-16,950	-17,267	-19,146	-25,998	-30,903	22,053	-27,612	-21,109	-28,155	-48,385	-27,595	-30,571	-22,688	-17,030
FX Reserves (USD mln)	14,141	18,699	23,099	21,403	16,384	18,745	14,482	18,886	24,398	15,537	9,160	16,493	9,163	13,379

*Current Account data pertains to 8MFY23 and 8MFY24.

Non-Banking Finance Companies

Macro Economic Indicators | Monthly

Monetary Sector	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24
Avg. Inflation Rate (CPI)	27.6%	31.5%	35.4%	36.4%	38.0%	29.4%	28.3%	27.4%	31.4%	26.8%	29.2%	29.7%	28.3%	23.1%	20.7%
Avg. KIBOR (%)	17.4%	18.7%	21.2%	22.1%	22.1%	22.2%	23.0%	23.1%	23.6%	22.5%	21.6%	21.6%	21.01%	21.5%	21.5%
Monetary Policy Rate (MPR) (Period-End)	16.3%	17.0%	19.9%	20.9%	21.0%	21.1%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Avg. PKRV (%)	17.3%	18.5%	20.9%	21.8%	21.9%	22.0%	22.9%	22.9%	23.5%	22.2%	21.3%	21.4%	20.9%	21.3%	21.2%
Avg. Exchange Rate (USD/PKR)	235.2	267.0	281.5	285.0	286.0	286.9	281.9	294.6	297.9	280.7	285.8	283.3	280.5	279.3	278.7
External Sector	Jan'23	Feb'23	Mar'23	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24
<i>(USD mln)</i>															
Current Account Balance (Month-End)	-167	-50	796	128	172	515	-775	-164	-46	-184	-15	397	-303	128	N/A
Exports	2,244	2,191	2,372	2,137	2,200	2,356	2,068	2,366	2,476	2,690	2,573	2,812	2,790	2,583	2,555
Imports	4,875	4,034	3,816	2,997	4,328	4,219	3,705	4,528	3,994	4,864	4,539	4,514	4,737	4,326	4,726
Trade Balance	-2,631	-1,843	-1,444	-860	-2,128	-1,863	-1,637	-2,162	-1,518	-2,174	-1,966	-1,702	-1,947	-1,743	-2,171
FX Reserves	8,170	8,751	9,164	9,457	8528	9,160	12,907	12,576	12,393	12,033	11,479	12,673	12,593	12,447	13,379

Note: Current Account data not available for Mar'24.

Non-Banking Finance Companies

Local | Overview

Pakistan's economy posted a real GDP contraction of ~0.17% in FY23 (FY22: ~6.1% growth). Meanwhile, the LSM shrunk by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions (May'22-Jun'23), along with the flash floods of Aug'22 and consequent sluggish demand across major industrial sectors of the country. In 2QFY24, however, the real GDP growth stood at ~1.0% (SPLY: ~2.2%).

The SBP estimates GDP growth at ~2-3% for FY24, while IMF reduced Pakistan's GDP forecast to ~2.0%. However, the World Bank has revised this from ~1.7% to ~1.9% for FY24 and ~2.3% for FY25.

NBFCs provide financial products to individuals and businesses for their financing needs. This Sector Study shall focus on the asset base of different categories of NBFCs with respect to shares in total NBFCs Assets.

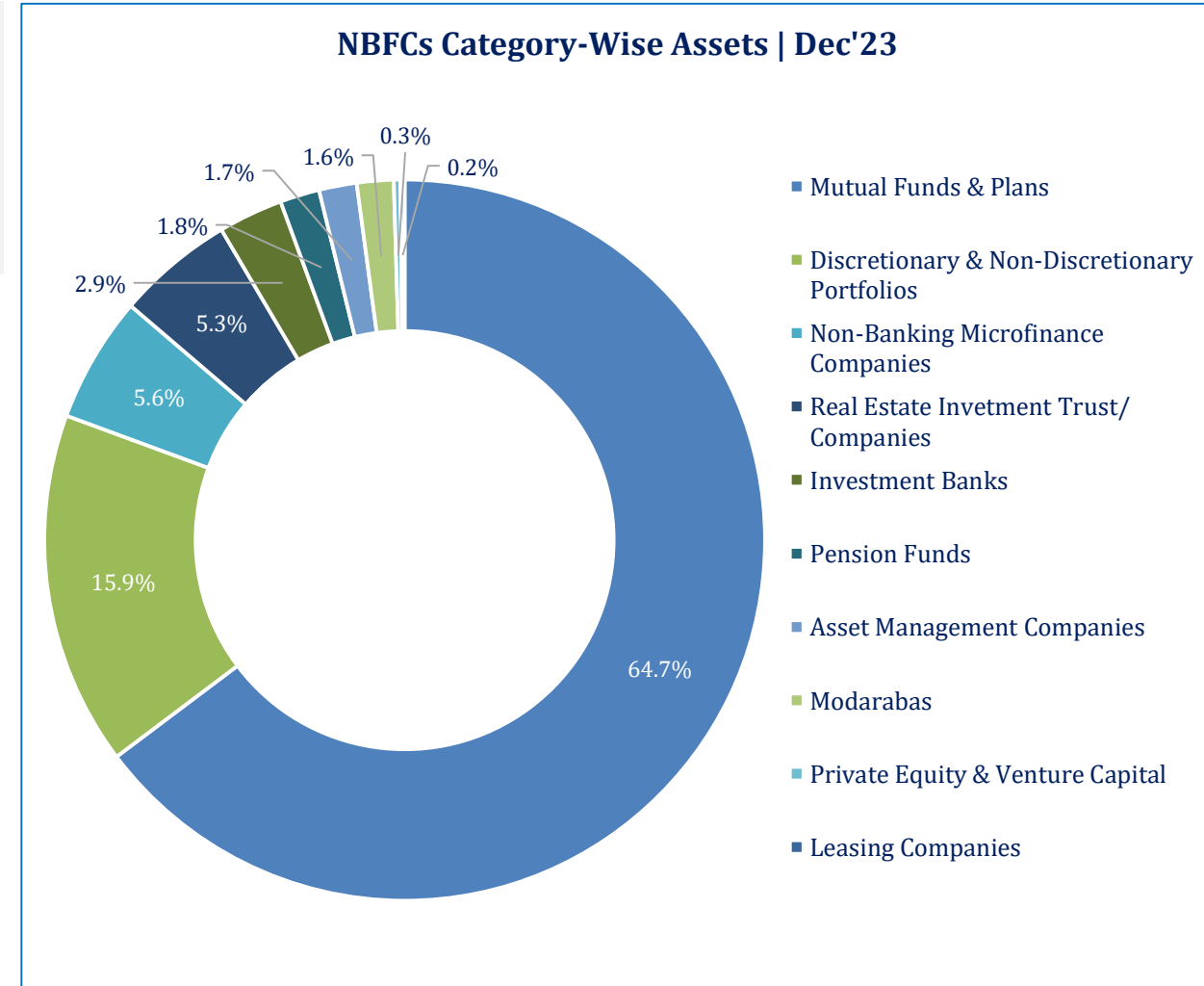
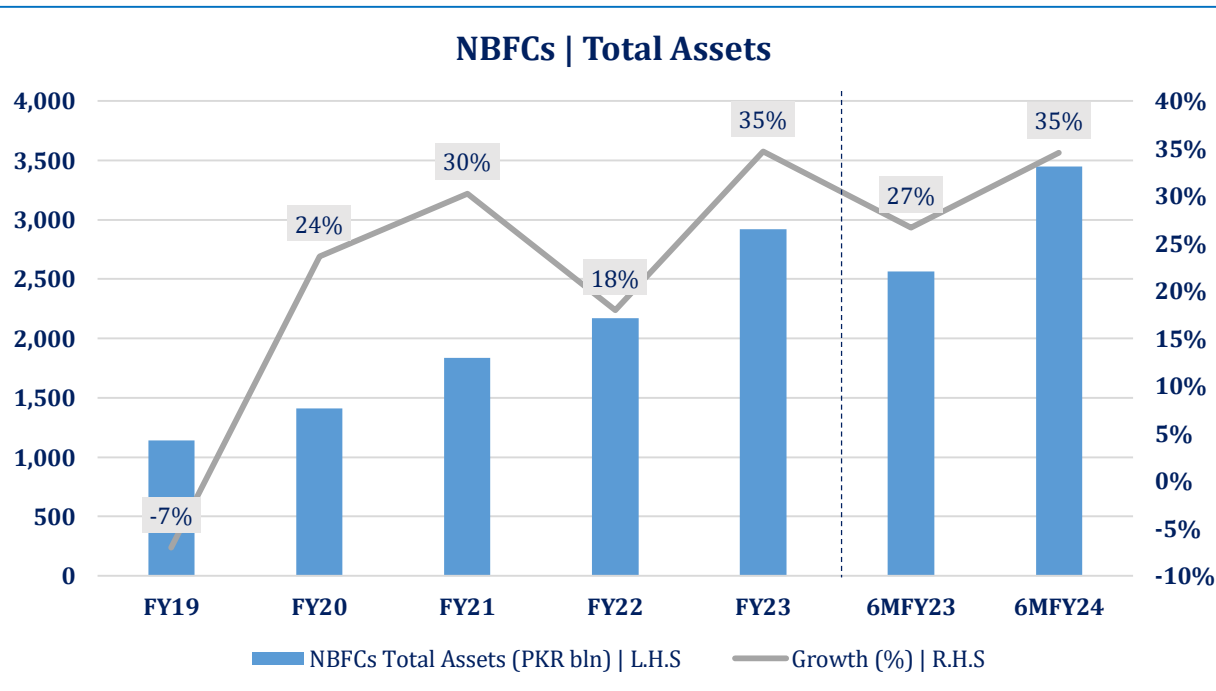
Sector-wise Total Assets (PKR bln)	FY21	FY22	FY23	6MFY23	6MFY24	NBFCs Sectoral Breakdown	No. of Licensed Entities Dec'22	No. of Licensed Entities Dec'23
Mutual Funds & Plans	1,087	1,281	1,676	1,574	2,232	Mutual Funds & Plans	313	345
Discretionary & Non-Discretionary Portfolios	338	356	477	358	547	Non-Banking Microfinance Companies	35	39
Non-Banking Microfinance Companies	138	163	184	168	195	Real Estate Investment Trust/ Companies	27	39
Real Estate Investment Trust/ Companies	61	106	286	177	181	Asset Management Companies*	29	29
Investment Banks	63	91	129	109	100	Investment Banks	20	29
Pension Funds	40	42	50	44	61	Modarabas	32	27
Asset Management Companies	45	53	52	48	58	Pension Funds	24	24
Modarabas	55	61	53	66	57	Private Equity & Venture Capital	14	20
Private Equity & Venture Capital	7	11	9	12	10	Leasing Companies	4	5
Leasing Companies	5	6	6	6	7	Discretionary & Non-Discretionary Portfolios	0	0
	1,839	2,170	2,922	2,562	3,447		498	557

*Asset Management Companies in NBFCs include 21 AMCs as at Dec'23 and 8 investment Advisors

Non-Banking Finance Companies

Local | Total Assets

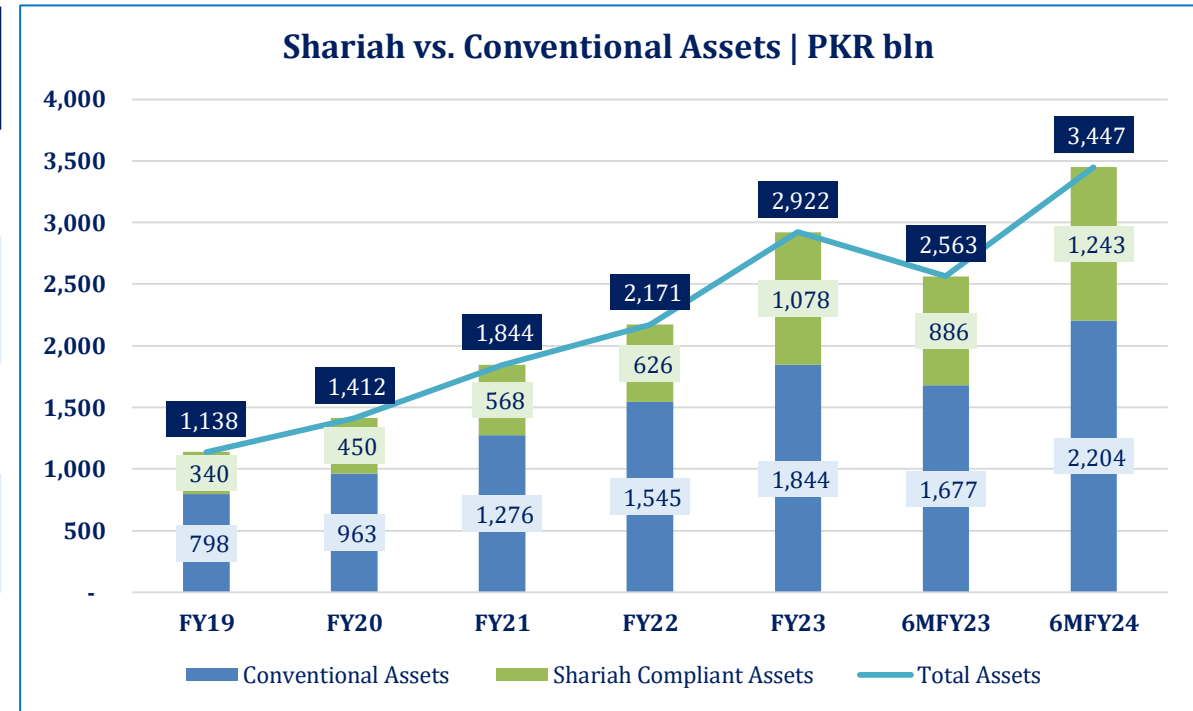
- Total assets of NBFCs have grown from PKR~1,142bln in FY19 to PKR~3,447bln as at End-6MFY24 representing a CAGR of ~25.0%.
- As at End-6MFY24, mutual funds & plans had the highest share of ~64.7% while Modarabas held a share of ~1.6% in the total assets of Modarabas & NBFCs.



Non-Banking Finance Companies

Total Assets | Shariah-compliant & Conventional

Types of Assets (PKR bln)	FY19	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Conventional	798	963	1,276	1,545	1,844	1,677	2,204
Shariah-Compliant	340	450	568	626	1,078	886	1,243
Total Assets	1,138	1,412	1,844	2,171	2,922	2,563	3,447
Conventional Assets (%)	70%	68%	69%	71%	63%	65%	64%
Shariah-Compliant Assets (%)	30%	32%	31%	29%	37%	35%	36%



- The share of Shariah-compliant assets have remained at an average of ~32.0% over the last 5 years (FY19-23). Conventional and Shariah-compliant assets, during FY19-23, exhibited CAGR of ~18.2% and ~26.0%, respectively.
- As at End-Dec'23, share of Conventional assets and Shariah-compliant assets stood at ~64.0% and ~36.0% and grew by ~31.4% and ~40.3% YoY, respectively.

Non-Banking Finance Companies

Total Assets | Break-up

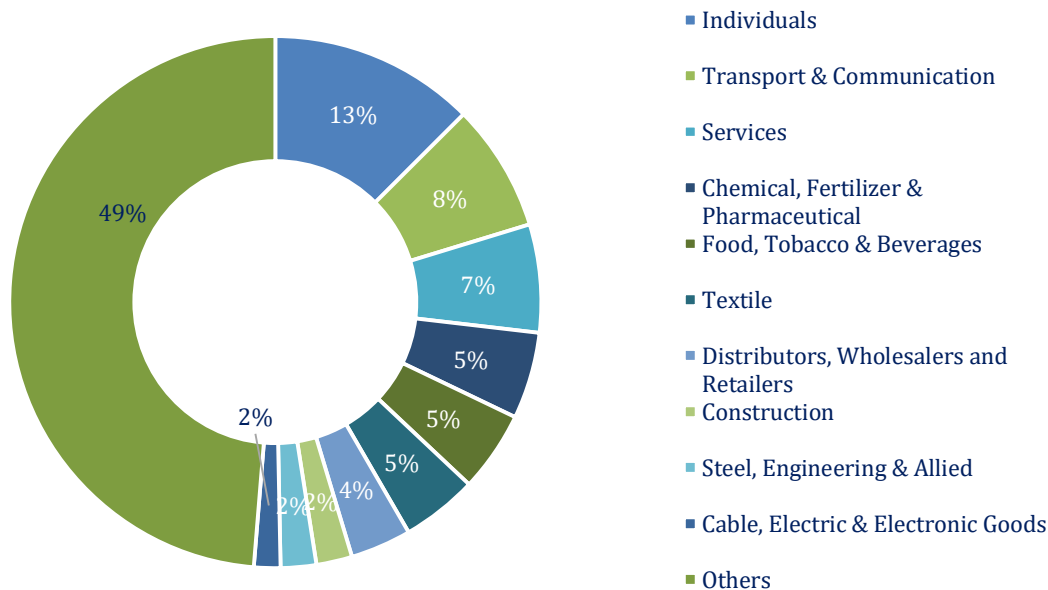
Types of NBFCs	FY22			FY23			Dec'22			Dec'23		
	No. of Entities	Total Assets (PKR bln)	Share in NBFCs & Modarabas	No. of Entities	Total Assets (PKR bln)	Share in NBFCs & Modarabas	No. of Entities	Total Assets (PKR bln)	Share in NBFCs & Modarabas	No. of Entities	Total Assets (PKR bln)	Share in NBFCs & Modarabas
Microfinance Institutions	32	163	8%	40	184	6%	35	168	7%	39	195	6%
Investment Banks	17	91	4%	28	129	4%	20	109	4%	29	99	2%
Modarabas	27	61	3%	27	53	2%	32	66	3%	27	57	2%
Leasing Companies	4	6	0%	5	6	0%	4	6	0%	5	7	0%
Lending Institutions Total	80	321	15%	100	372	13%	91	349	14%	100	358	10%
Mutual Funds	290	1,281	59%	340	1,676	57%	313	1,574	62%	345	2,232	65%
Discretionary & Non-Discretionary Portfolios	-	356	16%	0	477	16%	-	358	14%	-	547	16%
Real Estate Management Companies/ Trusts	18	106	5%	37	286	10%	27	177	7%	39	181	5%
Pension Funds	22	42	2%	24	50	2%	24	44	2%	24	61	2%
Asset Mgmt. Companies	28	53	2%	29	52	2%	29	48	2%	29	58	2%
Private Equity	14	11	1%	18	9	0%	14	13	0%	20	10	0%
Fund Management Institutions Total	372	1,849	85%	448	2,550	87%	407	2,214	86%	457	3,089	90%
NBFCs Total	452	2,170	100%	548	2,922	100%	498	2,563	100%	557	3,447	100%

Non-Banking Finance Companies

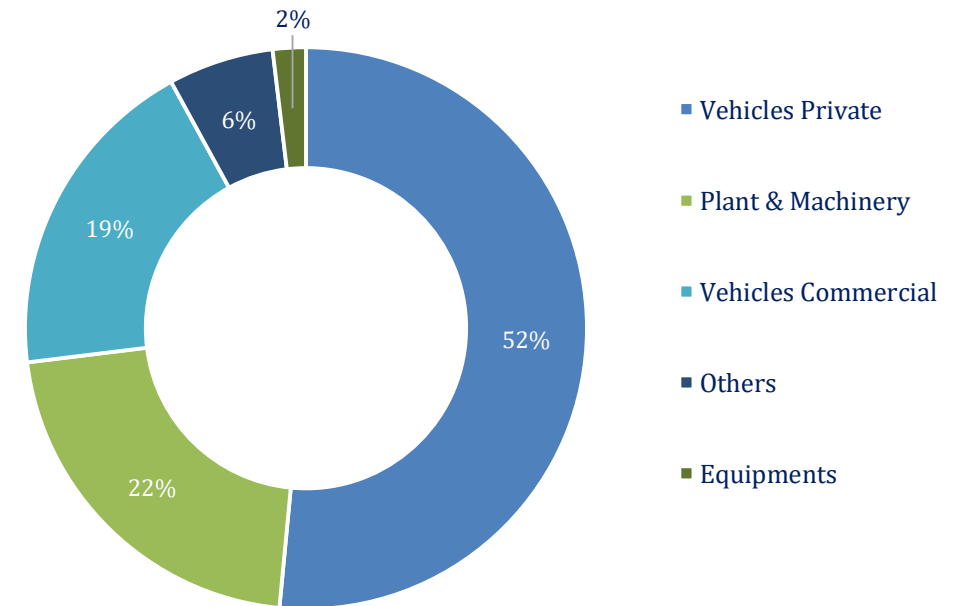
Financing | Asset & Sector-wise

- The NBFCs sector is essential for the economic development of the country. In Pakistan, there are more than 5mln small and medium enterprises (SMEs). SMEs' contribution to GDP is estimated to be ~40% while that to exports is estimated at ~25%.
- SMEs rely largely on financing by NBFCs. The asset and sector-wise lending of NBFCs during FY22 is depicted below.

Sector Wise Financing | FY22*



Asset-Wise Financing | FY22*



*Latest available data

Non-Banking Finance Companies

Market Share | Asset Management Companies

(Open-End, VPS, EPF & ETFs) PKR bln									
Sr.	Asset Management Company	Jun'22	Dec'22	Jun'23	Dec'23	Feb'23		Feb'24	
		AUMs				Market Share	AUMs	Market Share	AUMs
1	Al-Meezan Investment Management Limited	173	267	303	410	19%	287	19%	462.0
2	NBP Fund Management Limited	169	213	238	268	15%	219	12%	294.0
3	HBL Asset Management Limited	94	156	159	204	10%	149	10%	238.0
4	ABL Fund Managers Limited	89	127	113	170	6%	93	9%	208.0
5	UBL Asset Management Limited	116	165	153	194	10%	157	9%	207.0
6	MCB Investment Management Limited *	110	160	153	164	10%	155	8%	186.0
7	Alfalah Investment Management Limited**	60	75	102	149	5%	69	7%	168.0
8	Faysal Asset Management Limited	76	104	98	134	7%	109	6%	149.0
9	Al Habib Asset Management Limited	40	75	64	122	4%	54	5%	122.0
10	National Investment Trust Limited	88	88	86	113	5%	80	5%	115.0
11	Atlas Asset Management Limited	52	49	53	71	3%	47	3%	72.0
12	JS Investment Limited	23	43	36	65	2%	29	3%	60.0
13	Lakson Investments Limited	20	26	31	45	1%	22	2%	48.0
14	Pak Qatar Asset Management Company Limited	0	5	11	21	1%	6	1%	21.0
15	AWT Investment Management Limited	2	4	7	14	0%	4	1%	17.0
16	AKD Investment Management Limited	7	6	6	8	1%	6	0%	7.0
17	Pak Oman Asset Management	8	9	6	5	1%	9	0%	5.0
18	786 Investments Limited	1	1	1	1	1%	1	0%	1.5
19	First Capital Investments Limited	0.1	0.1	0.1	0.1	0%	0	0%	0.1
20	Pak Qatar Family Takaful Limited***	-	-	0	0.1	-	-	0%	0.1
21	Interloop Asset Management Limited****	-	-	-	0.1	-	-	0%	0.2
22	Mahana Wealth Limited*****	-	-	-	-	-	-	0%	0.2
Total		1,127	1,575	1,622	2,158	100%	1,496	100%	2,383

Note: VPS : Voluntary Pension Schemes; EPF: Employee Pension Funds). *Formerly: MCB-Arif Habib Savings and Investments Limited till Jun'23; **Formerly: Alfalah GHP Investment Management Limited till Apr'23; ***VPS Fund Manager Only; ****w.e.f. Sep'23, *****Launched in Jan'24. AUMs stands for Assets Under Management.

Non-Banking Finance Companies

Asset Management Companies | Net Sales

- Total AMC sales during CY23 stood at PKR~5,972bln while redemptions during the year clocked in at PKR~5,514bln. In 2MCY24, sales and redemptions stood at PKR~1,257bln and PKR~1,044bln, respectively. Resultantly, Net Sales of AMCs amounted to PKR~458bln during CY23 and to PKR~213bln in 2MCY24, up ~10.4% and ~517.6% YoY, respectively, reflecting increased investor participation due to improved economic and political conditions.
- In CY23, the Shariah-compliant Income category experienced the highest level of net sales standing at PKR~162bln and accounting for ~35.3% of total net sales. Meanwhile, the money market equity and Shariah compliant money market segments witnessed a higher level of redemptions.

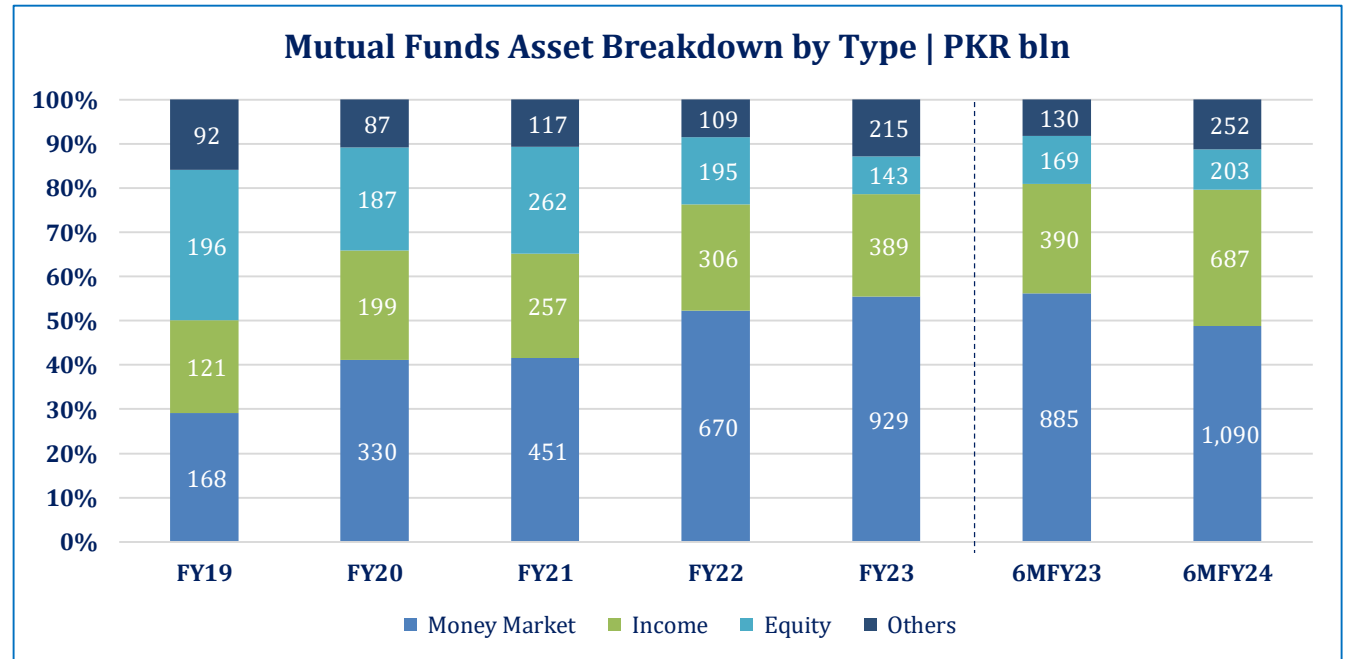
Net Sales Open-End Mutual Funds (PKR bln)	CY22			CY23			2MCY23			2MCY24		
	Sales	Redemptions	Net Sales	Sales	Redemptions	Net Sales	Sales	Redemptions	Net Sales	Sales	Redemptions	Net Sales
Money Market	2,123	2,003	121	2,192	2,174	18	354	460	-107	306	300	6
Income Scheme	520	465	55	719	650	69	133	143	-11	220	171	49
Equity	21	41	-20	20	41	-21	3	11	-8	7	8	-1
Shariah-Compliant Money Market	1,041	867	174	1,629	1,529	100	323	249	75	285	207	78
Shariah-Compliant Income	310	255	55	726	564	162	81	69	12	281	255	26
Shariah-Compliant Equity	48	60	-12	45	63	-18	7	12	-5	13	14	-1
Other	225	184	41	604	463	141	48	56	-7	138	83	55
VPS	25	23	2.4	34	30	4	2	2	3	7	6	1
ETF	0	0	0	0	0	0	0	0	0	0	0	0
Employee Pension Fund	-	-	-	0	-	0	-	-	-	0	0	0
Total	4,313	3,898	415	5,972	5,514	458	951	1,002	-51	1,257	1,044	213

Non-Banking Finance Companies

Mutual Funds | Overview

- Mutual fund is a type of financial vehicle that pools money of investors with common financial goals. The funds are invested in securities such as stocks, bonds, money market instruments etc. in order to meet predefined investment objectives.
- As of End-Dec'23, Mutual Funds held the highest share of ~64.7% in overall NBFCs assets, with total assets amounting to PKR~1,676bln. These recorded CAGR of ~21.3% from FY19-6MFY24 while the total number of Mutual Funds & Plans have increased from ~297 to ~345 during this period.
- The share of fixed income securities in total invested assets of mutual funds have increased from ~20.9% in FY19 to ~30.8% as at End-6MFY24.
- As at End-6MFY24, ~49.0% of the total assets were invested in the short-term money market instruments (End-Dec'22: ~56.0%).
- Meanwhile, ~9.0% of the assets were invested in equity market funds (End-Dec'22: ~11.0%).

Description	FY19	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Total Assets (PKR bln)	578	802	1,087	1,281	1,676	1,574	2,232
YoY Growth	-15%	39%	36%	18%	31%	23%	33%
Total Number of Mutual Funds & Plans	297	309	282	290	340	313	345



Non-Banking Finance Companies

Mutual Funds | Account-wise Investment Breakdown

- The number of active investor accounts having more than zero balance as at End-Dec'23 recorded at ~523,801, representing ~52.3% of total investor accounts.
- Meanwhile, number of investor accounts having zero balance as at End-Dec'23 stood at ~478,348. The total number of investor accounts as at End-Dec'23 were recorded at ~1,002,149.
- The number of investors accounts is different from number of investors in mutual fund industry i.e. If Investor A opens 3 accounts with 3 different AMCs, the same shall be reported as 3 investor accounts instead of 1 investor.

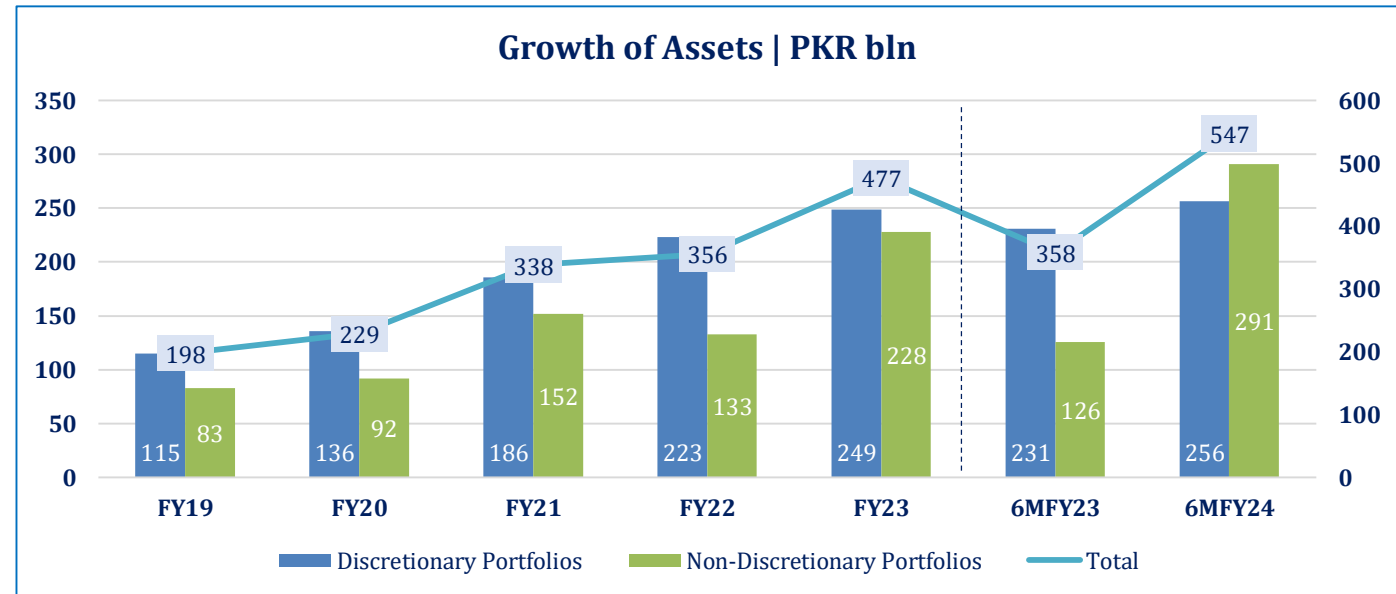
Description	No. of Active Investor Accounts as at December 31, 2023	Value of Investment as at December 31, 2023 PKR bln	% of total Investment Value
Resident			
Individuals	510,773	888	42%
Corporates	4,562	880	42%
Retirement Funds	2,339	158	7%
Insurance Companies	336	61	3%
Trusts/NGOs etc.	1,190	43	2%
Associated Banks/DFIs & AMCs	70	44	2%
Banks/DFIs	147	14	1%
Funds of Funds	58	25	1%
Other Financial Institutions	212	5	0%
Foreign			
Individuals	4,097	9	0%
Non-Individuals	17	2	0%
Total	523,801	2,129	100%

Non-Banking Finance Companies

Discretionary/Non-Discretionary Portfolios

- Under discretionary portfolios, the portfolio manager individually and independently manages the funds and securities of each client in accordance with the needs of the clients.
- Under non-discretionary portfolios, the portfolio manager manages the funds in accordance with the directions of the client.
- These portfolios cumulatively hold the second highest weight, i.e., ~15.9% in the NBFCs sector with total assets under management amounting to PKR~547bln as at End-Dec'23 (End-Dec'22: PKR~358bln).

Assets PKR bln	FY19	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Discretionary Portfolios	115	136	186	223	249	231	256
Non-Discretionary Portfolios	83	92	152	133	228	126	291
Total	198	229	338	356	477	358	547

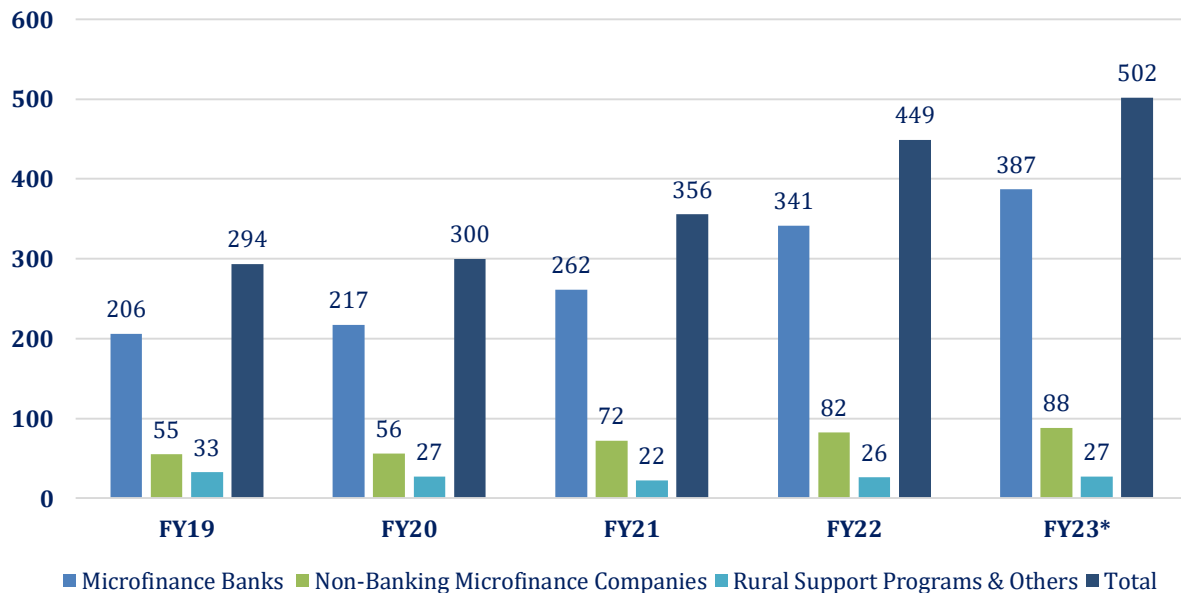


Non-Banking Finance Companies

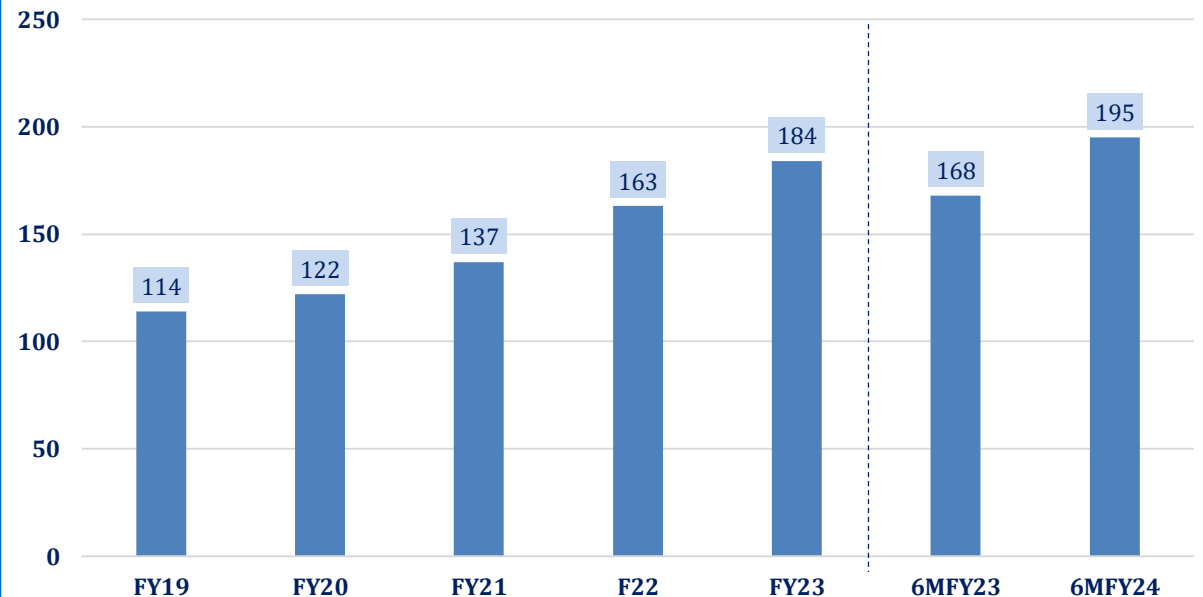
Microfinance | Gross Loan Portfolio

- Non-Bank Microfinance Companies (NBMFCs) hold the third highest weight by assets in the NBFs sector contributing ~6.0% to the total assets of the sector as at End of 1HFY24. There are ~39 licensed NBMFCs providing services in the country having assets worth of PKR~194.7bln, as at End-6MFY24.
- The Gross Loan Portfolio (GLP) of NBFs was recorded at PKR~88bln as at FY23 (6MFY23: PKR~86bln). Lending by Microfinance Banks stood at PKR~408bln as at End-6MFY24 (SPLY: PKR~380bln).

Gross Loan Portfolio | Segment-wise (PKR bln)



NBMFCs | Trend of Total Assets (PKR bln)



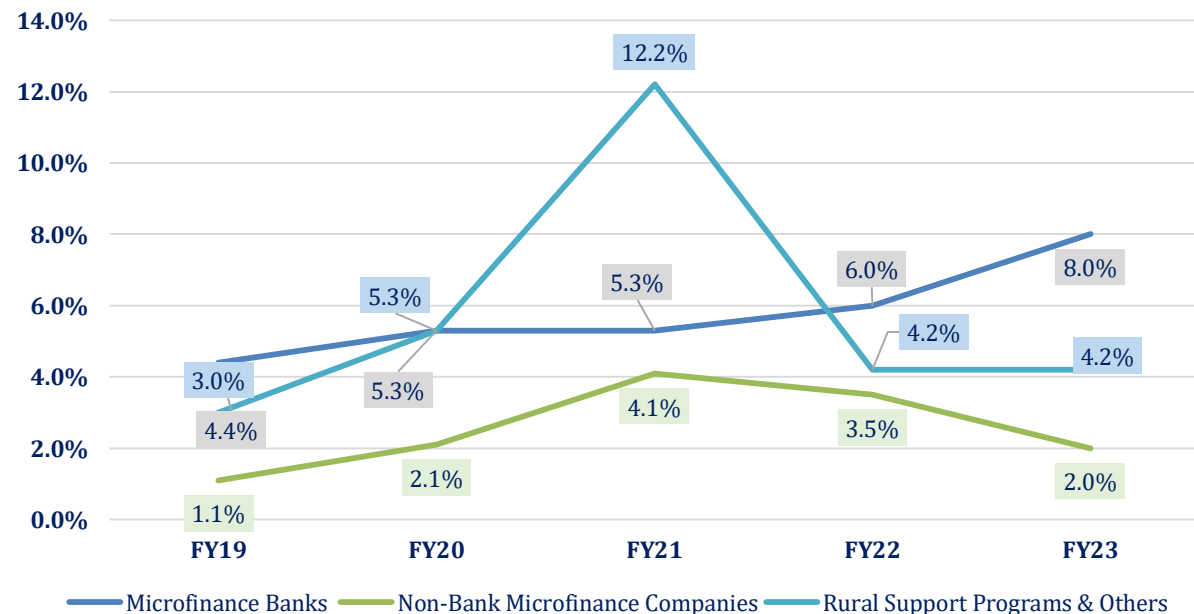
*GLP of Microfinance banks has been taken from SBP's compendium, GLP of Non-Banking Microfinance Companies has been calculated by grossing up the market share of PACRA's client with highest shareholding as per GLP, whereas, GLP of RSP has been projected based on average GLP of FY17-FY22

Non-Banking Finance Companies

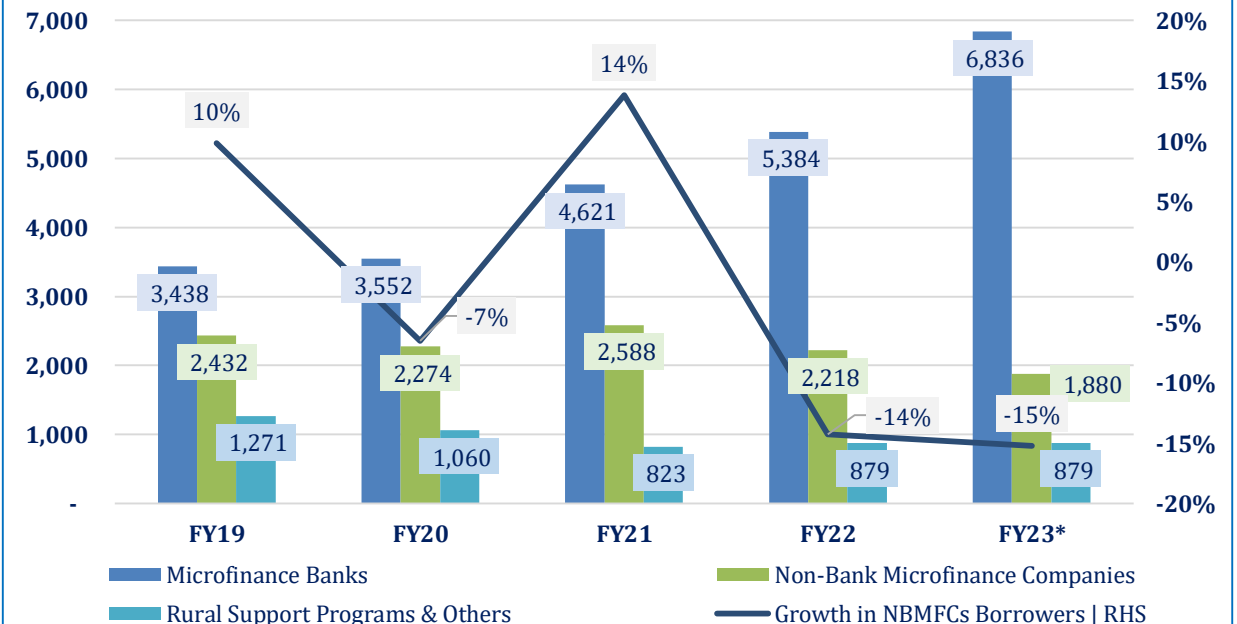
Microfinance | Borrowers & Portfolio-at-Risk

- The number of borrowers of MFBs have increased from ~5.4mln in FY22 to ~6.8mln in FY23.
- Portfolio-at-risk of MFBs has marginally increased from ~6.0% in FY22 to ~8.0% at the end of FY23.

Portfolio-at-Risk > 30 days (%)



Number of Active Borrowers ('000')

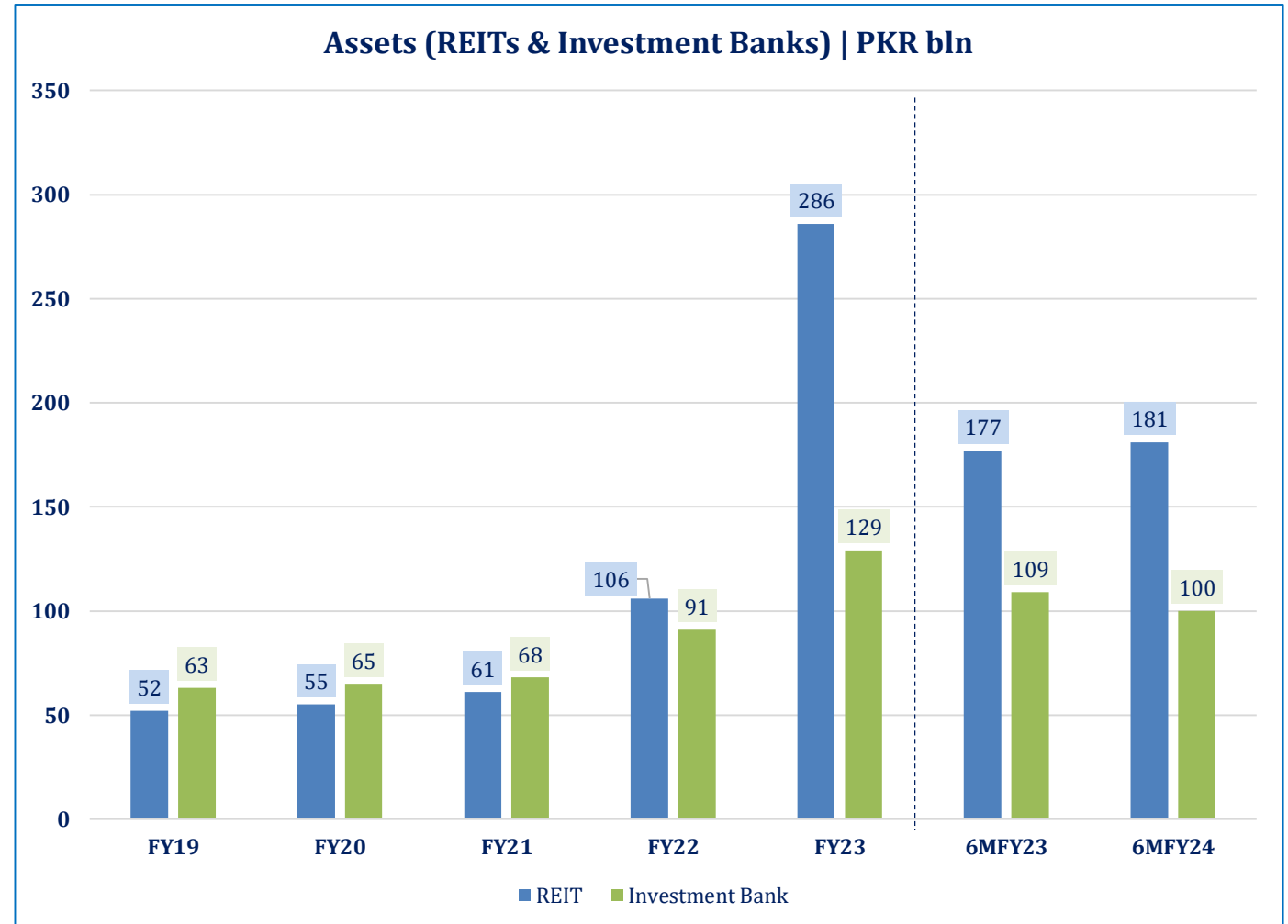


Note: Portfolio at risk (PAR) for MFBs has been calculated using GLP and NPL from SBPs compendium Dec'23, while number of active borrowers of MFBs have been aggregated using available data of respective MFBs. PAR and number of borrowers of MFCs pertains to 7 PACRA rated clients. RSPs data is as at 6MFY23.

Non-Banking Finance Companies

REITs vs. Investment Banks | Overview

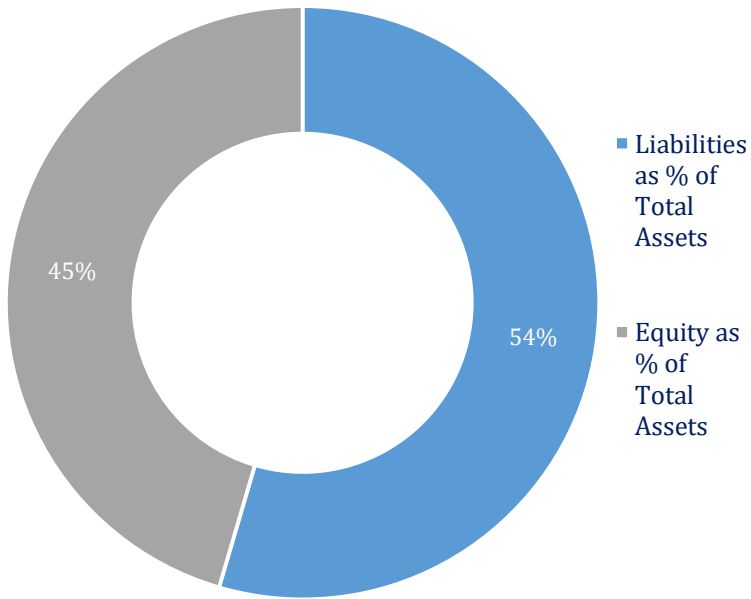
- Real Estate Investment Companies (REITs)/ Trusts and Investment Banks hold ~5.0% and ~3.0% share, respectively, in the total assets of the NBFCs sector.
- There are 24 Real Estate management companies, 15 Real Estate Trust (scheme) and 29 Investment Banks as at 6MFY24.
- The collective asset base of all investment banks was recorded at PKR~100bln at the end of 6MFY24 (SPLY: PKR~109bln).
- The proportion of REITs assets has notably risen in NBFCs assets since FY22 and can be attributed to the advantages of liquidity and diversification they offer over traditional real estate investments.



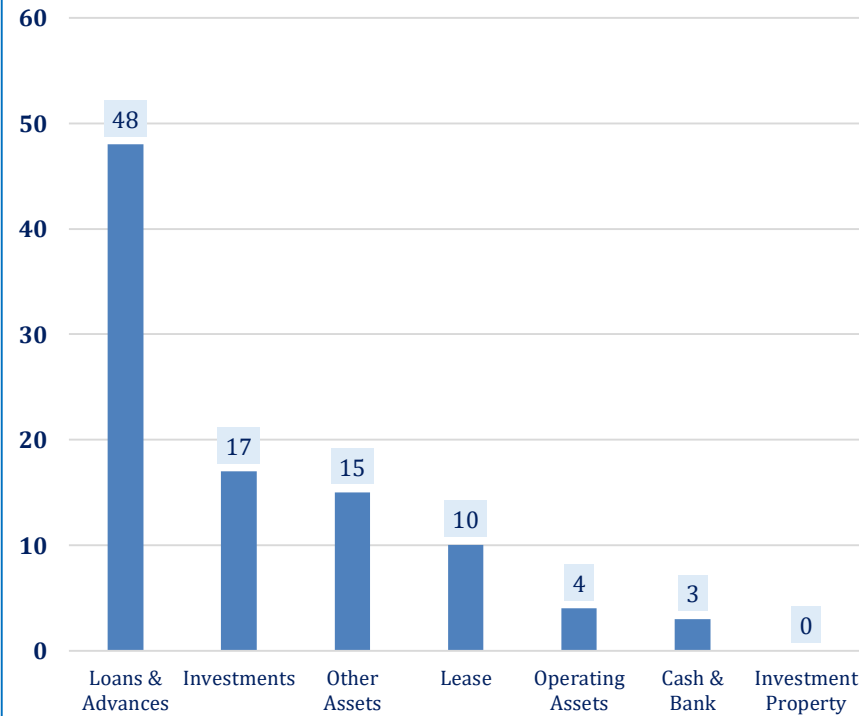
Non-Banking Finance Companies

Investment Banks | Asset Break-up and Financial Position

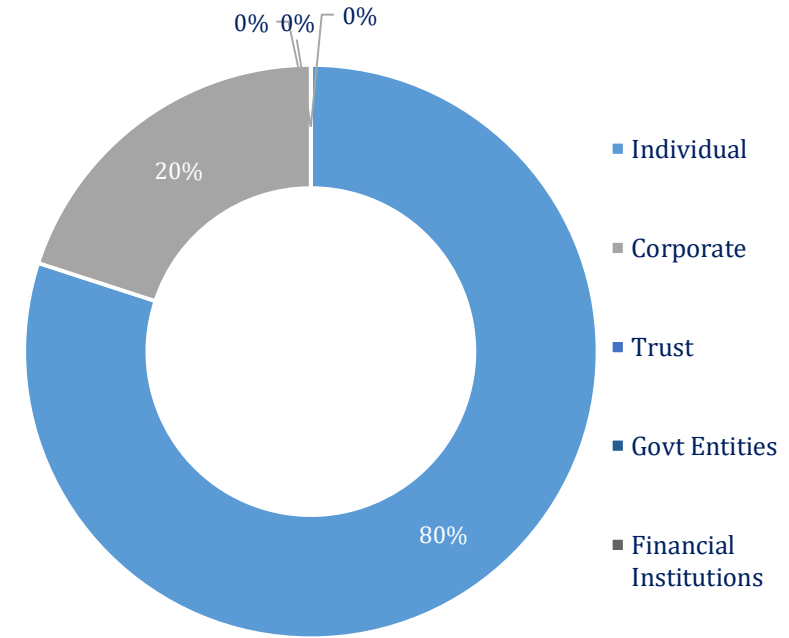
Equities and Liabilities* | 6MFY24



Asset Allocation* (PKR bln) | 6MFY24



Deposits* | 6MFY24



*6 Investment Bank and 6 NBMFCs are not included due to non filing of SCRS returns. **Note:** Equity and liabilities do not include deficit / surplus on revaluation of fixed asset

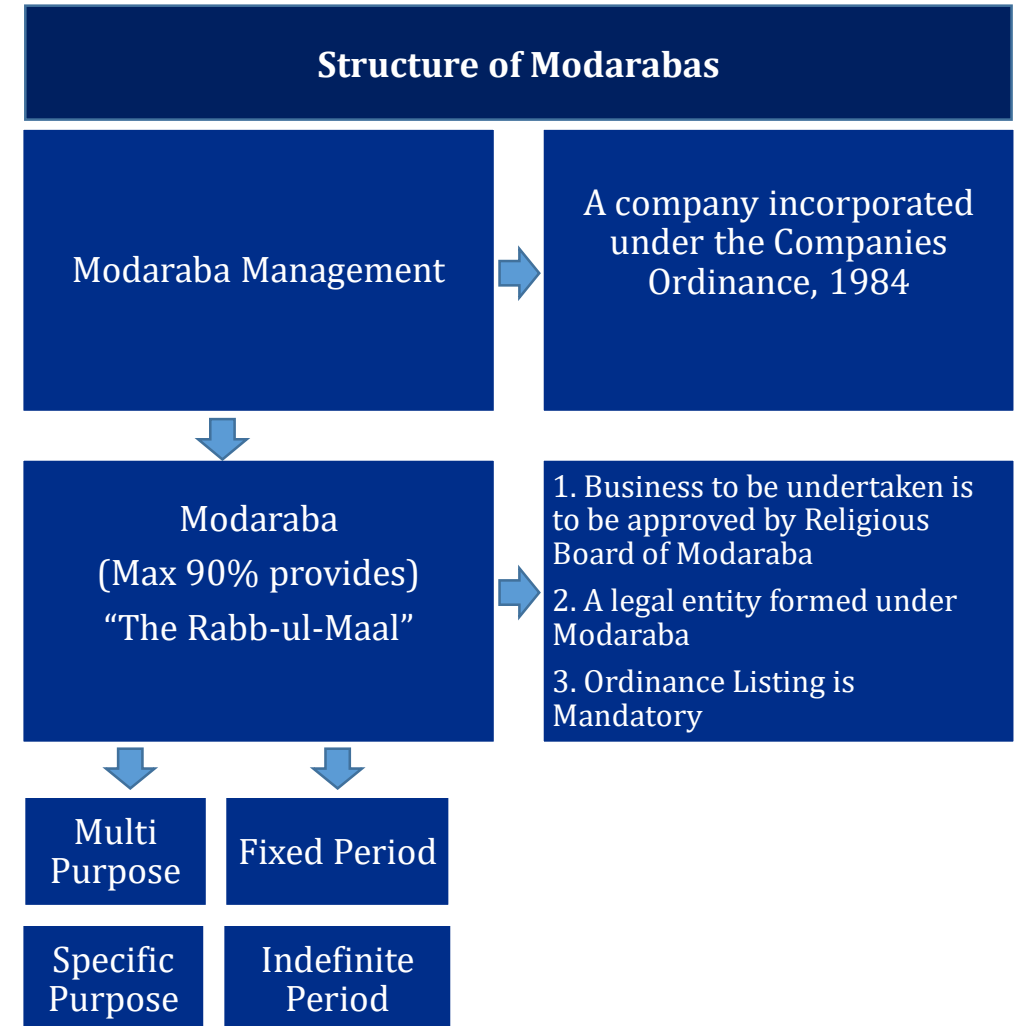
Non-Banking Finance Companies

Modarabas | Overview

A Modaraba is one of the prime modes of Islamic Financial System. In Pakistan Modarabas operate under a unique model with the following features:

- Modarabas are allowed to offer any financial product or conduct any business provided it is Shariah compliant and approved by the Religious Board. Modarabas can invest in stock markets, trading of halal commodities, project financing activities etc.
- Modarabas can raise funds in the form of Certificates of Modaraba and Certificate of Musharaka. Modarabas can also issue Sukuk and Musharaka-based Term Finance Certificates (TFCs) which are the debt instrument issued by corporate sector to meet a part of their long-term financing needs.
- Modaraba certificates required to be listed on the stock exchange for trading purpose.

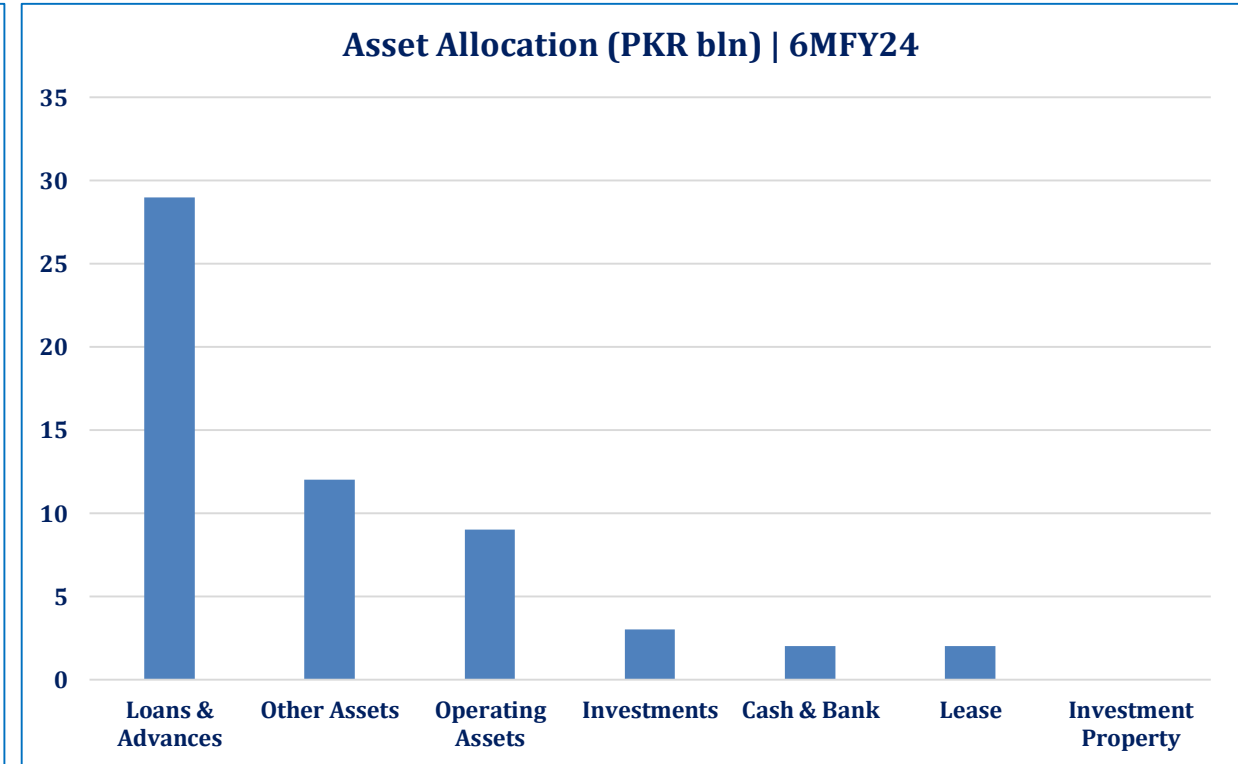
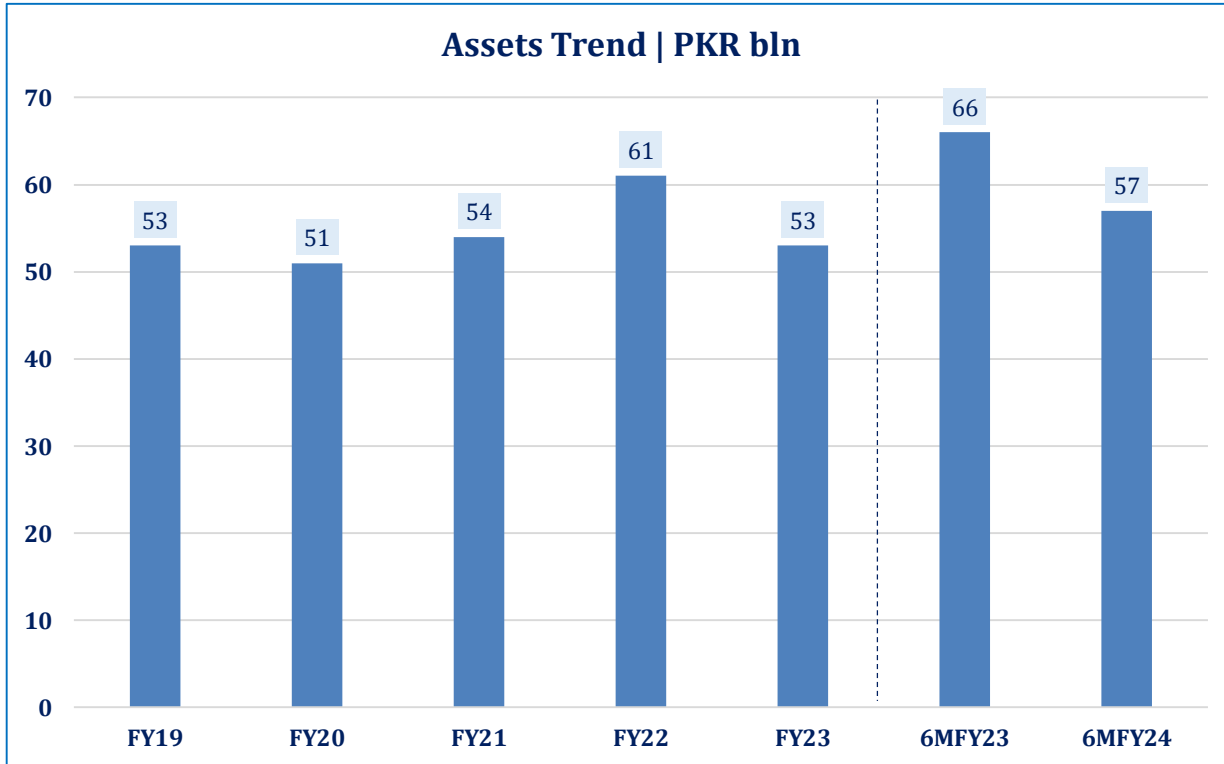
In multipurpose Modarabas, transactions are based on Ijarah, Musharaka, Diminishing Musharaka, Murabaha, Musawama, Salam and Istisna, whereas specific purpose Modarabas are designed to handle nominated projects.



Non-Banking Finance Companies

Modarabas | Assets

- There are 22 Modarabas operating within the country as at End-Dec'23. The total assets of Modarabas have decreased from PKR~66bln as at End-Dec'22 to PKR~57bln at End-Dec'23.
- As at End-Dec'23, ~29.0% of the total assets were tied up in loan & advances to customers.



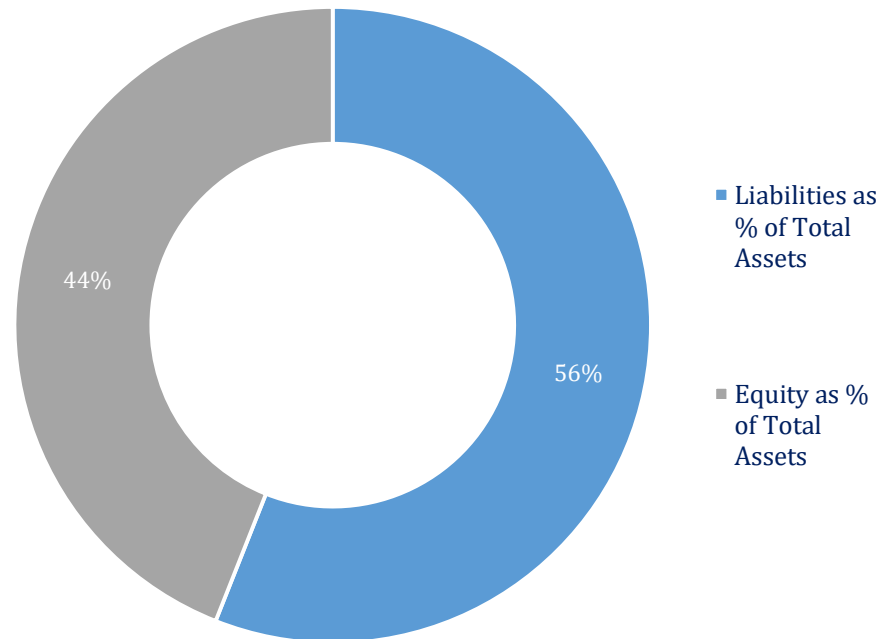
*2 Modarabas are not included here due to non filing of SCRS returns. **Note:** Equity and liabilities do not include deficit/surplus on revaluation of fixed asset

Non-Banking Finance Companies

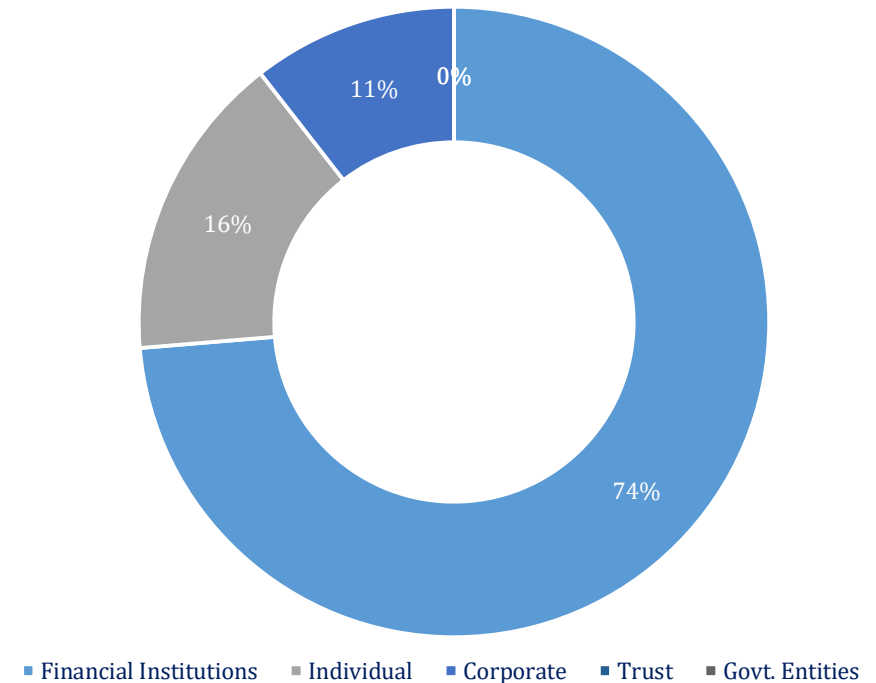
Modarabas | Assets

- Modarabas hold ~2.0% share in the total assets of the NBFs sector and held a value of PKR~57.0mln as at End-Dec'23. There are 27 Modarabas recorded as at End-Dec'23.
- As at 6MFY24, financial institutions held the highest share in the deposits of Modarabas (~74.0%), followed by deposits by individuals (~16.0%).

Equity & Liabilities as % of Assets | 6MFY24



Deposits (PKR bln) | 6MFY24

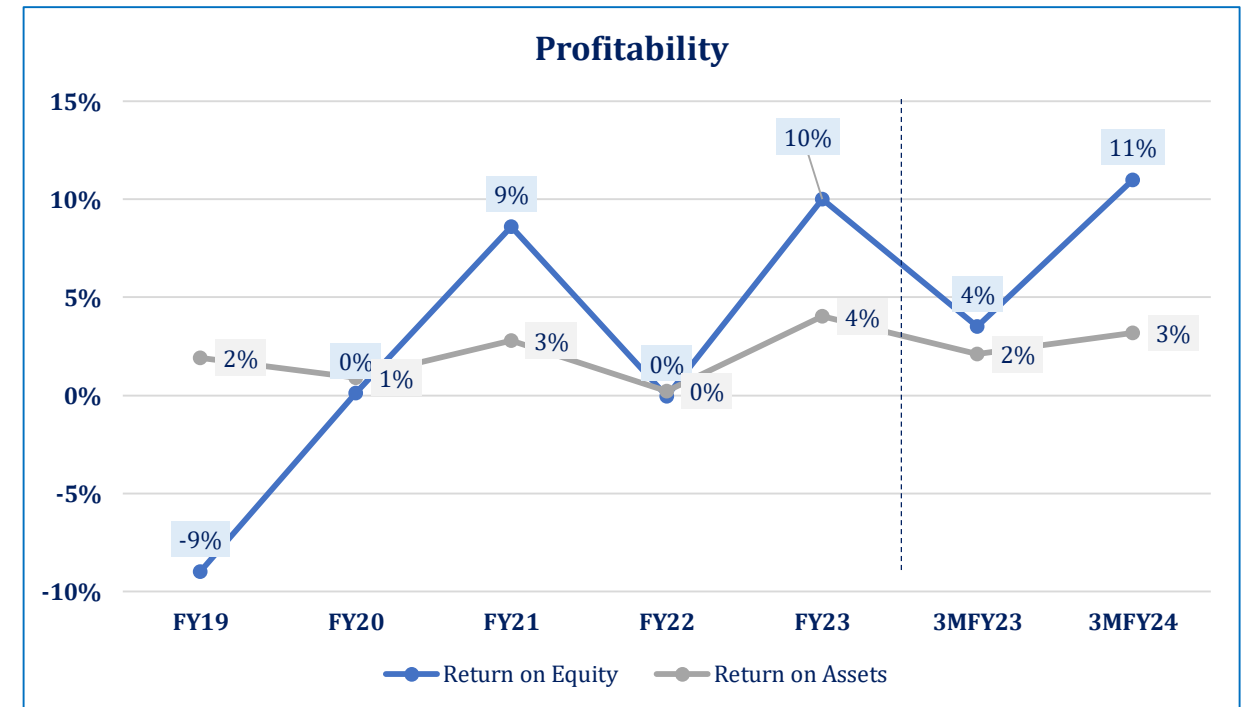
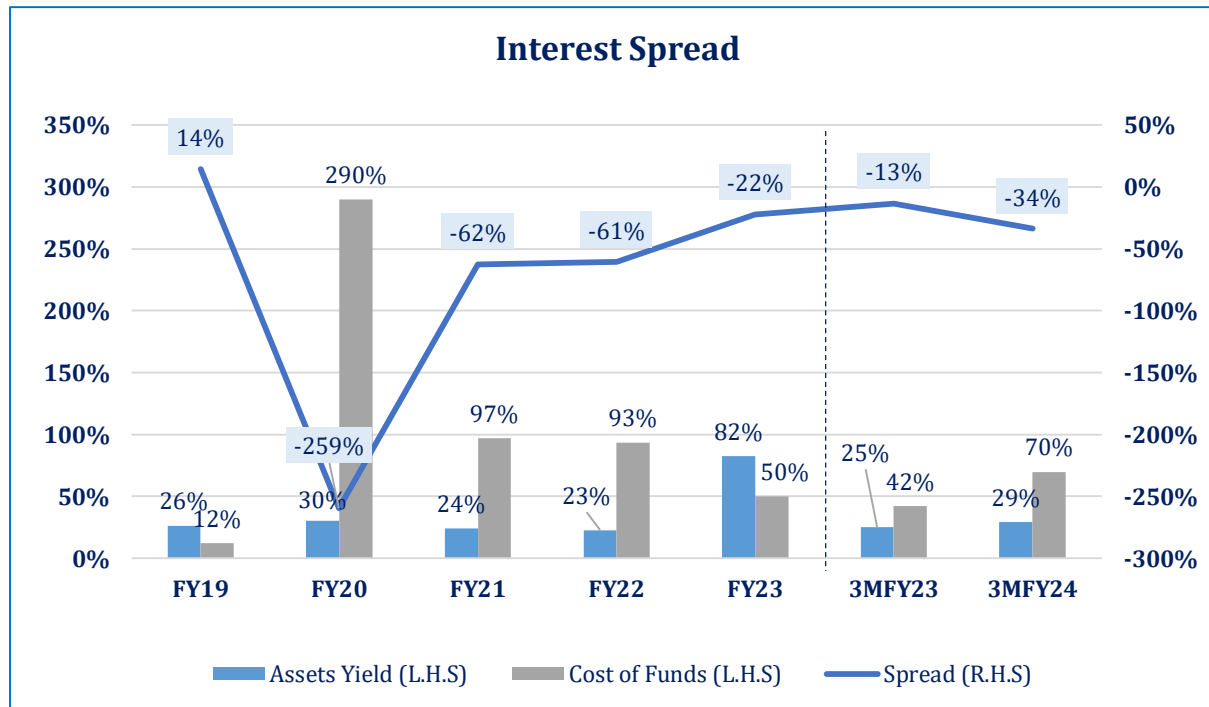


*2 Modarabas are not included here due to non filing of SCRS returns. **Note:** Equity and liabilities do not include deficit / surplus on revaluation of fixed asset

Non-Banking Finance Companies

Modarabas | Profitability

- The interest spread declined significantly from ~-61.0% in FY22 to ~-166.0% in FY23. This decrease can be attributed to higher cost of funds which increased from ~93.0% in FY22 to ~276.0% in FY23. However, the spreads during 2MFY24 were recorded at ~-93.0% due to lower cost of fund at ~213.0% compared with FY23.
- During FY23, ROE and ROA stood at ~10.0% and ~4.0%, respectively, while these stood at ~0.0% during SPLY.

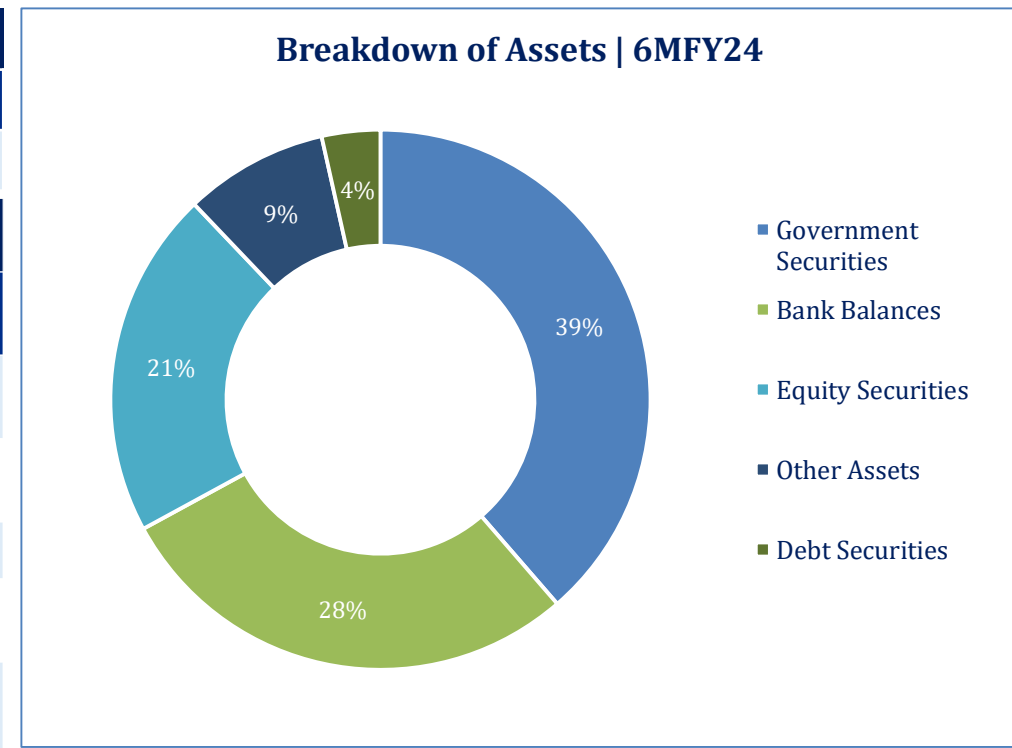


Non-Banking Finance Companies

Pension Funds | Overview

- Pension Funds held ~2.0% share of total NBFs assets during 6MFY24 with an asset base of PKR~61bln recorded as at End-Dec'23 (End-Dec'22: PKR~44bln). On average (FY19-6MFY24), ~64%-65% of the total pension funds are Shariah-compliant in nature while ~35%-36% consists of conventional funds.
- During 6MFY24, ~21.0% of pension funds were invested in equity market to hedge against inflation while ~39.0% and ~4.0% were invested in fixed-income government and debt securities, respectively, in order to reduce portfolio downside risk. |

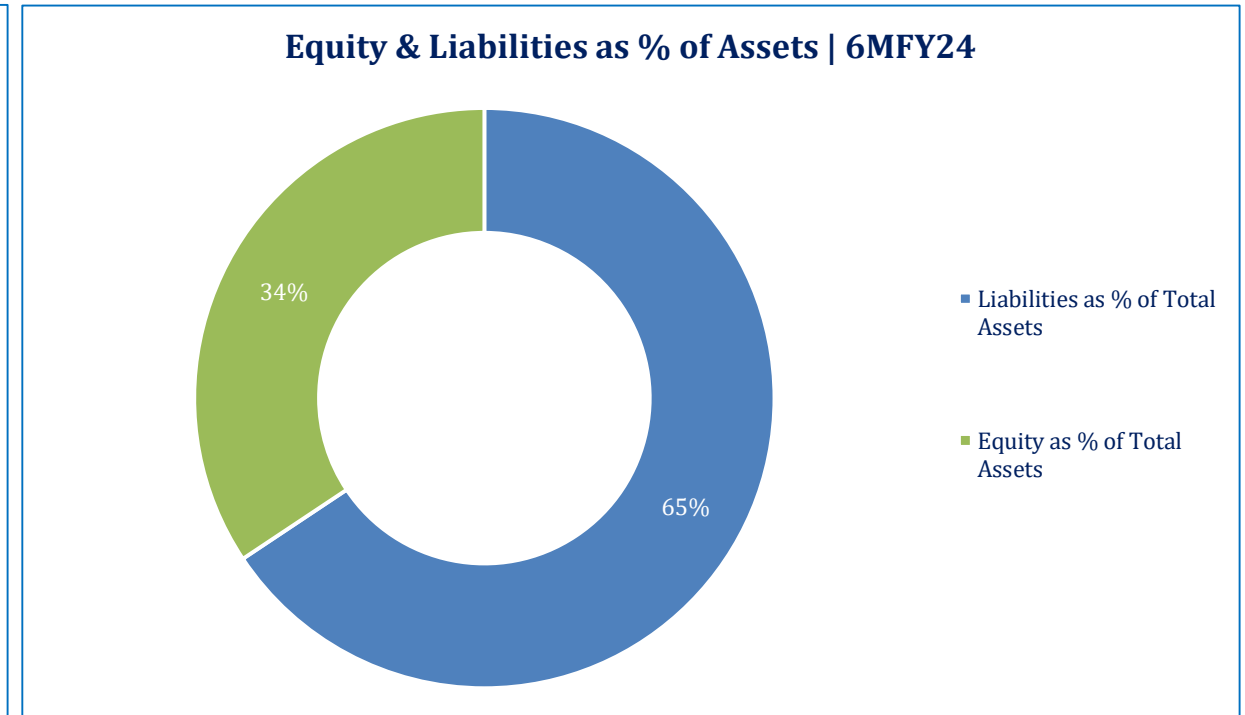
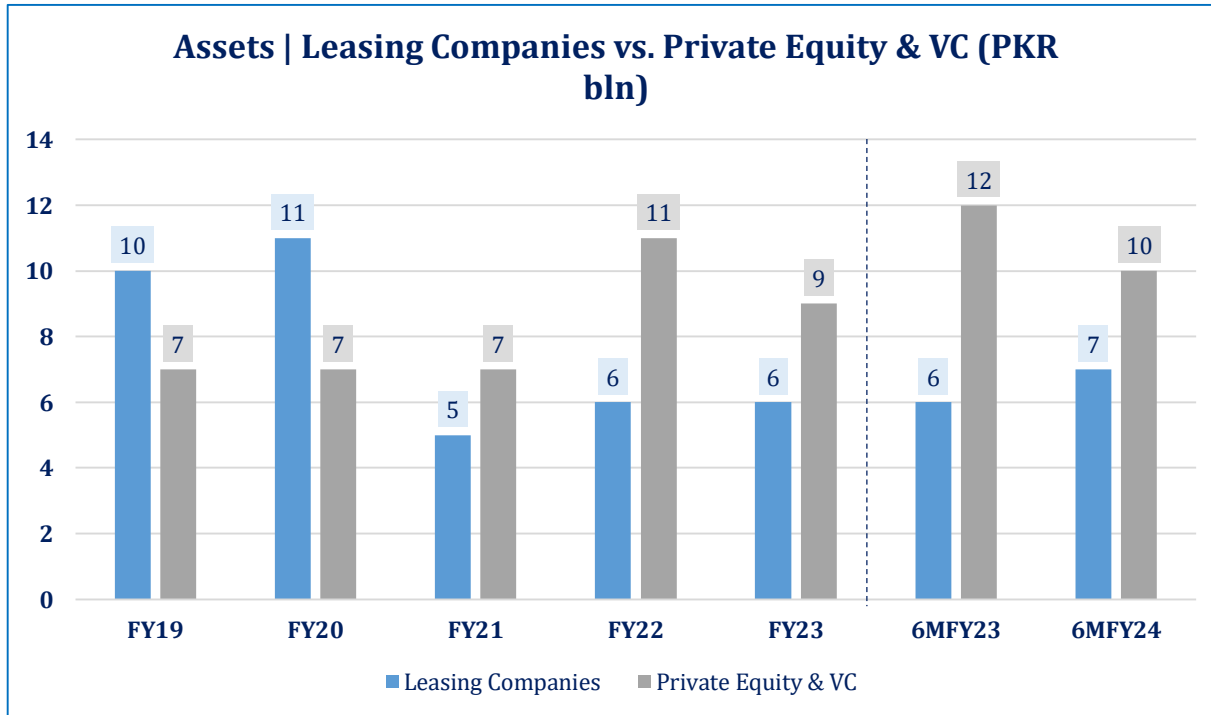
Pension Funds Total Assets (PKR bln)							
PKR bln	FY19	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Pension Funds	27	31	40	42	50	44	61
Shariah-compliant vs. Conventional Pension Funds PKR bln							
Type of Pension Funds	FY19	FY20	FY21	FY22	FY23	6MFY23	6MFY24
Shariah Compliant Pension Funds	17	20	26	27	33	28	39
Conventional Pension Funds	10	11	14	15	18	16	22
Total Assets	27	31	40	42	50	44	61
Share of Shariah-compliant Funds	64%	64%	65%	65%	65%	64%	64%
Share of Conventional Funds	36%	36%	35%	35%	35%	36%	36%



Non-Banking Finance Companies

Leasing Companies & Private Equity | Overview

- Leasing Companies and Private Equity/ Venture Capital Funds collectively made up ~0.5% share in NBFs total assets as at End-Dec'23. Moreover, these held PKR~7bln and PKR~10bln worth of assets respectively as at End-Dec'23.
- There are 5 leasing companies and 20 Private Equity/ VC funds currently operating in the country. Total assets of Leasing companies have increased by ~16.7% YoY from PKR~6bln in 6MFY23 to PKR~7bln in 6MFY24 (FY23: PKR~6bln).



Note: Equity and liabilities do not include deficit / surplus on revaluation of fixed asset

Non-Banking Finance Companies

Regulatory Framework

The Sector Structure of local NBFCs, as per SECP, is divided into two clusters:

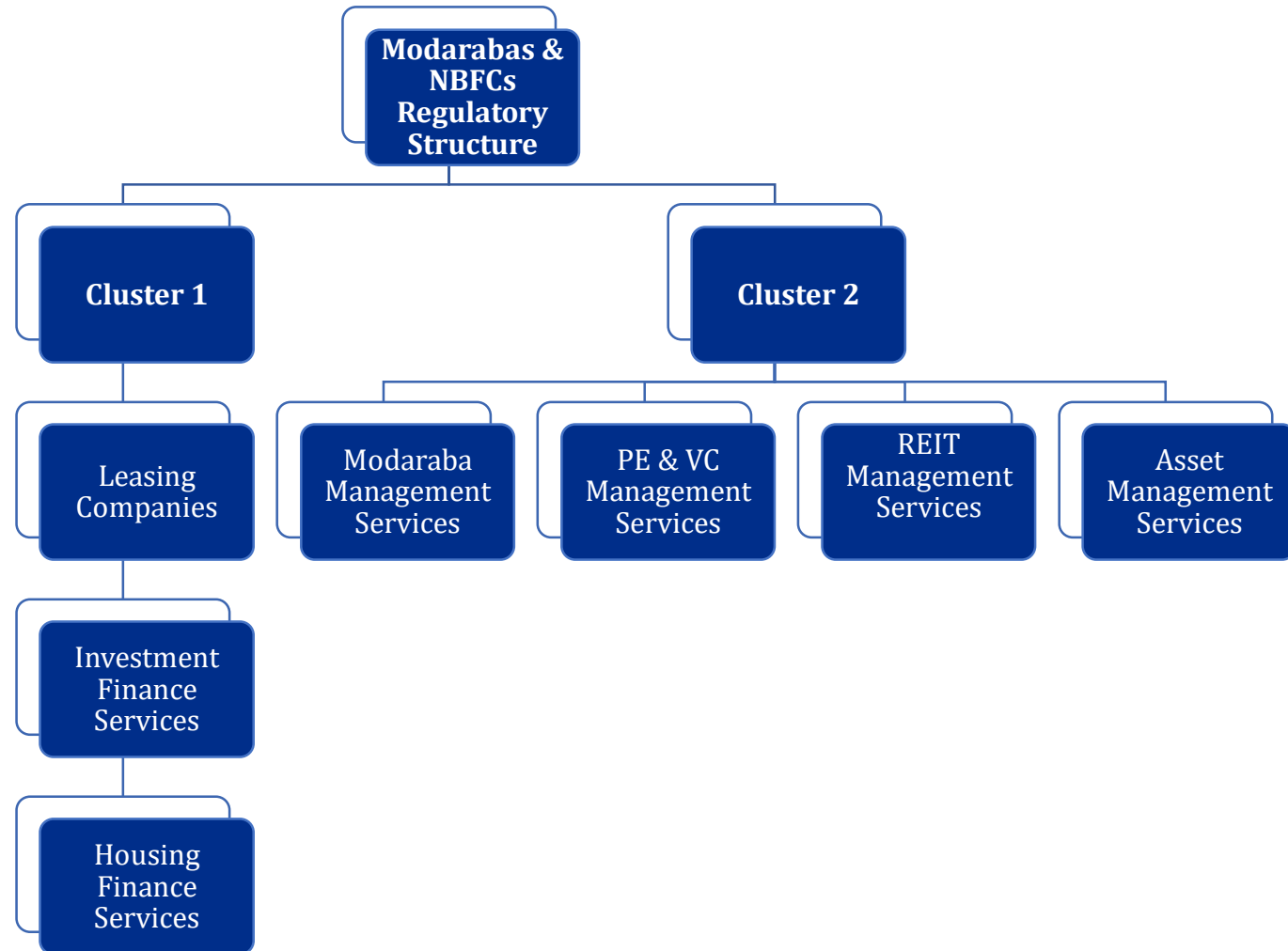
- Cluster 1 is for non-banking financial services
- Cluster 2 is for fund management services.

Following are the relevant laws pertaining to **NBFCs**:

- The Companies Ordinance, 1984 (282A- 282K)
- The Non-Banking Finance Companies and Notified Entities Regulations, 2008
- The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003

Modarabas are subject to laws and regulations promulgated in the following:

- Modarabas Ordinance, 1980 (updated 2012)
- Prudential Regulations for Risk Management and Conducting day to day Affairs (updated 2008)
- Shariah Compliance and Shariah Audit Mechanism 2012 (SCSAM)



Non-Banking Finance Companies

Taxation

Modarabas

⑩ The income of Modarabas (other than trading Modarabas) is fully exempt from income tax, as long as they distribute 90% of their profits among the certificate holders.

⑩ For trading Modarabas, the maximum tax rate is 25%

Mutual Funds

⑩ Capital Gain Tax on mutual fund, if dividend receipts of the fund are more than capital gains is 10% otherwise it is 12.5% (15% for non-filer individual). Capital gain is exempt if units are held for more than 6 years.

⑩ Dividend Income received from a mutual fund is taxed at 15%.

⑩ Unit holders of the mutual funds are entitled to tax credit, the amount on which is lower of (a) amount invested in purchase of new units, (b) 20% of the taxable income of the unit holder, or (c) PKR 1 million, and is calculated by applying average rate of tax of unit holder for the tax year.

REITs

⑩ Income of REIT has been exempted from tax if 90% of the profit is distributed amongst the unit holders.

⑩ The tax rate on dividend income from REIT scheme is 15%. Gain arising on disposal of immovable property to development and residential REIT is exempt up to Jun 30, 2024.

Pension Funds

⑩ The accumulated balance of up to 50% received from a pension fund at the time of an eligible person's retirement, disability or death is exempt from tax.

⑩ Any profit or gain or benefit derived by a pension fund manager from a pension fund on redemption of the seed capital invested in the pension fund is also exempt from tax.

Venture Capital Fund

⑩ Profits and gains of Venture Capital Funds derived between July 01, 2022 and June 30, 2025 both days inclusive are exempt under Venture Capital Companies and Funds Management Rules.

⑩ Dividend income and long-term capital gains of a venture capital undertaking from investments in zone enterprises (STZs), are exempt from Income tax for 10 years commencing from issuance of license to the zone enterprises.

Non-Banking Finance Companies

Recent Developments and Reforms

Requirements for NBFCs engaged in Digital Lending dated March 10, 2023

- SECP has instructed all NBFCs to refrain from participating in any form of app integration, app subletting, license subletting, payment services, credit scoring, creditworthiness checks, or any other form of integration services or collaboration with any digital lending application that has not been approved by the SECP in accordance with Circular 15 of 2022 dated December 27, 2022.
- Additionally, NBFCs are mandated to take necessary steps to raise awareness among their customers regarding the inherent risks and illegality associated with such unauthorized lending applications.

SECP amended NBFC Regulations to adapt to new technologies dated May 17, 2023

- Provisions have been established to facilitate the introduction of digital fund management, lending platforms, and trustee services, aiming to enhance accessibility, efficiency, and cost-effectiveness through digital technologies.
- Amendments have been implemented to ensure that Asset Management Companies (AMCs) notify unitholders of account activity, maintain confidentiality of client information, adhere to a specified timeframe for dividend distributions and incorporate provisions for borrower protection for lending Non-Banking Financial Companies (NBFCs).
- Investment Advisors are now permitted to offer portfolio management services to any investor, provided they develop a risk management policy and contingency plan approved by their Board of Directors, enhancing risk management, accountability, board oversight, and client protection.
- Non-deposit-taking NBFCs have been granted increased flexibility in determining their exposure limits by removing the total unsecured exposure limit of 100% of equity.
- New licensed lending NBFCs have been given a one-year grace period to meet the minimum investment requirement in their core businesses. Additionally, the timeframe for filing CEO applications has been extended from 10 to 30 days.
- Procedures have been streamlined by eliminating redundant provisions and expressions, and a consolidated fit and proper criterion, affidavit, or undertaking has been introduced. It is now mandatory for pension fund managers (insurance companies) to adhere to the Fit & Proper Criteria.

Non-Banking Finance Companies

Recent Developments and Reforms

Requirements for NBFCs engaged in Digital Lending dated August 07, 2023

- Cyber Security Audit Firms (CASF) audit report should only be from category-1 CSAF auditors as per approved by PTA.
- Any changes made in approved digital lending app shall be made with prior approval from SECP.
- A calculator to be provided on the NBFCs website so the user can calculate all applicable costs and charges.

Pricing Caps for NBFCs engaged in Digital Lending dated September 25, 2023

▪ **Exposure limits for Digital Nano Lending**

1. NBFC can extend maximum of PKR~25,000 as nano lending to a borrower, at any point for a tenure of up to 30 days.
2. Maximum tenure of loan including rollover/restructuring shall not exceed 90 days. Additionally, NBFC shall not rollover/restructure a loan more than twice.
3. Rollover/ restructuring to be considered as an extension of existing loan and not to be considered as a new loan.
4. Same Annualized Percentage Rate (APR) to be applied to existing loan as well as to the rollover/ restructured loan.

- **Annualized Percentage Rate (APR)** shall not exceed 10x the MPR issued by SBP. The APR agreed by the lender and the borrower at the time of grant of loan shall not be affected by the subsequent change in the MPR.

- **Maximum amount of permitted costs, interest charge and late payment charges:** NBFC shall not recover from a borrower on account of all costs of the loan including nominal interest/markup/ profit rate and other applicable fees as well as the penalties for late payment an amount exceeding the principal of the loan.

- **Loan Disbursement and Collection:** In order to ensure accurate calculation of Annualized Percentage Rate (APR) and Profit Rate (PR):

1. The entire principal amount shall be disbursed by the lender and borrower shall be liable to pay it on the maturity date of the loan or on the extended maturity in case of rollover of the loan.
2. The entire profit amount shall be payable by the borrower either in lump sum or in equal amounts at equal intervals over the course of the loan period.

Non-Banking Finance Companies

Recent Developments and Reforms

Guidelines for NBFCs engaged in Digital Lending dated March 12, 2024

Guidelines for Advertisement intend to promote adoption of responsible and ethical practices by digital lenders while marketing digital lending products. These activities include but are not limited to material disseminated, broadcasted, shared or published through social media, electronic/print media, calls, media, in apps and through third parties. Following are the key features of the circular:

- Clear and transparent disclosure
- Fair & non-discriminatory practices
- Clarity & simplicity
- Responsible lending practices

Guidelines for call center management aim is to emphasize professionalism and uphold the rights of the borrowers when they are contacted through call centers. Following are the key features of the circular:

- Policy & oversight
- Customer convenience, respect and courtesy
- Ease of lodgment/convenience & fairness
- Confidentiality of customers data

Non-Banking Finance Companies

Recent Developments and Reforms

Amendments have been made by SECP to NBFC Rules 2003 dated September 22, 2023

- The submission of certified copies of the memorandum,
- Articles of association,
- Certificate of incorporation,
- Reasons for selecting the proposed business location,
- Statistical data, and additional supporting facts.

- Furthermore, directors and chief executive officers are now only obligated to provide a declaration regarding the accuracy of information, rather than submitting affidavits.

- Moreover, the term "investment company" has been removed from the rules, reflecting the absence of such structures.

To foster the expansion of the mutual fund industry and safeguard investor interests, the SECP implemented the following measures during the FY23:

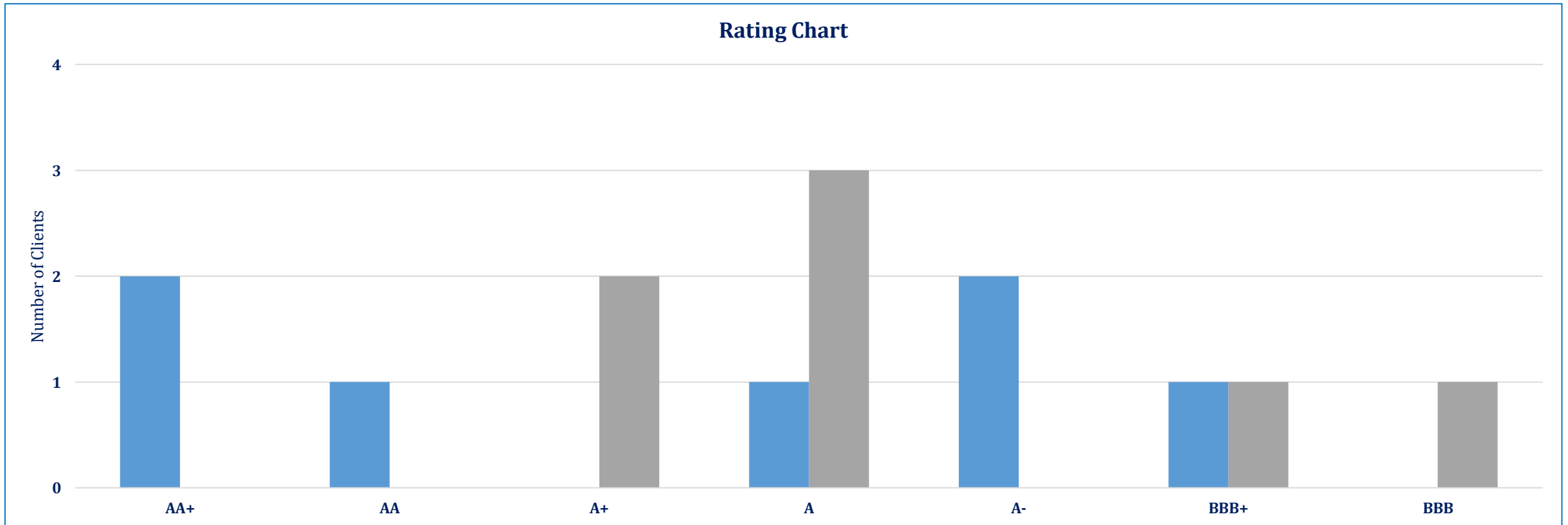
- SECP has also released a diagnostic review report of Pakistan's Private Funds Industry, proposing necessary actions to rejuvenate the Private Fund sector.
- In order to encourage shariah compliant products, the scope of investment avenues for open-end money market collective investment schemes (CISs) have been enhanced by allowing them to take exposures in short term corporate Sukuks.
- In order to encourage digitalization in AMCs and for increased participation/competition, sales load limit has been matched for those AMCs selling through third-party online distribution channel/ portal with those AMCs selling through physical distributors.

- Corporate Restructuring Companies Rules, 2019: SECP modified the Corporate Restructuring Companies Rules, 2019 to facilitate the acquisition of non-performing assets from financial institutions and to aid business revival through restructuring schemes.

Non-Banking Finance Companies

Rating Curve

- PACRA rates 7 entities of Modarabas & NBFCs sector with a long-term rating bandwidth ranging from BBB+ to AA+.
- One debt instrument with a rating of AA+ is rated by PACRA in the Modarabas & NBFCs sector, VIS does not rate any debt instrument in this sector.



Note: Rating Chart for Entities include both Modarabas and NBFCs.

Non-Banking Finance Companies

SWOT Analysis

- Organized Sector with listed players
- Major share in lending to SMEs
- Offers smaller investors access to professionally managed and diversified portfolios.
- There is large variety of fund and investor who can make choices according to their specific objectives.

Strengths

- Slow growth rates
- High Management Fees
- Lack of awareness for potential investors and borrowers
- Low financial inclusion

Weaknesses

- Mainstream banks have the might to take away business.
- Market Risks e.g. interest rate risk
- Asset quality deterioration for small lenders in times of crisis.

Threats

- Ample room for growth
- Introduction of new products, such as Exchange Traded Funds
- Digital applications
- Advance-to-Deposit Ratio (ADR) of over 50% requirement for Commercial Banks

Opportunities

Non-Banking Finance Companies

Outlook: Stable

- **NBFCs** have emerged as an alternative to conventional banking system and are playing a crucial role by providing sources of funding to those sections not catered by conventional banks, i.e. Infrastructure and SMEs, etc. NBFCs, therefore, are integral in improving financial inclusion of the country. NBFCs have witnessed ~34.5% YoY growth in total assets from PKR~2,563bln in 6MFY23 to PKR~3,447bln in 6MFY24.
- NBFCs raise funds mostly from mobilizing deposits. Given the rate sensitivity of NBFCs liabilities and asset liability mismanagement, it becomes difficult to price and tenor term loans. Besides financing issues, operational problems for NBFCs emanate from limited outreach and inability to tap a niche market when the high-end of the market is largely served by commercial banks. Interest rates climbed up from 13.75% in Jul'22 to 22.0% in Jun'23 and have since been steady as of 9MFY24.
- **Mutual Funds:** The mutual funds segment is rapidly growing in Pakistan, accounting for ~64.7% of Modarabas & NBFCs' total assets as at Dec'23, with assets under management (AUMs) amounting to PKR~2,232bln (Dec'22: PKR~1,574bln). The growth in mutual funds segment of Modarabas and NBFCs (~41.8%) is partly attributable to recent requirement for scheduled commercial and Islamic banks of maintaining an Advance-to-Deposit Ratio (ADR) of over 50% for additional tax avoidance, an effort to discourage banks from investing in government securities and encourage lending to the real economy. However, with lending in a high interest rate environment becoming extremely challenging, banks have started to shed their high cost depositors which has paved the way for mutual funds to expand their reach and market share. In addition, diversity in product mix, uptick in financial literacy and competitive returns have increase demand for this product.
- During FY23, the KSE-100 index plunged by ~0.2% YoY, whereas traded volumes registered ~23.5% YoY decline due to political and economic instability. However, during 9MFY24, the index posted a positive growth of ~52.6% YoY, reflecting a rebound in investor confidence. The IMF Executive Board, in Jan'24, allowed for disbursement of USD~1.1bln final tranche under the USD~3bln 9-month SBA, subject to Board's approval . Additionally, KSE-100 index attained a historic high of ~70,315 index points on April 08, 2024.

Non-Banking Finance Companies

Outlook: Stable

- **Modarabas:** An issue for the segment pertains to the requirement of distributing ~90.0% of annual net profits in order to claim tax exemption. This restricts equity build-up since most modarabas prefer to distribute profits among certificate holders. As a result of tax exemption for modarabas paying ~90.0% of profits among certificate holders, the payout ratio of the segment is comparatively higher than other sectors listed on the stock exchange. Yields on T-Bills and PIBs have remained rangebound owing to steady policy rate. Although inflation has been on the downward trajectory during 3QFY24, clocking in at ~20.7% as at Mar'24, a reduction in policy rate remains unlikely, subject to inflation expectations.
- **Venture Capital/ Private Equity Firms:** The venture capital or private equity segment is at a nascent stage in Pakistan. As at End-Dec'23, the sector accounted for ~0.3% of aggregate assets of the Modarabas & NBFCs sector. Inadequate institutional support, lack of appropriate tax incentives and limited exit options is the reason for the segment's sluggish growth.
- **Leasing Companies:** There are a number of players actively engaged in providing lease financing in Pakistan. Competition has intensified as the demand for lease finance has increased on account of high economic growth that raised the demand for credit, low interest rates that enhanced the affordability of leasing as a mode of financing for small enterprises as well as individuals; and the introduction and demand of shariah compliant leasing.
- Although, leasing segment's assets as at End-6MFY24 amounting to PKR~6.5bln surpassed the assets under management (AUM) by leasing companies (PKR~6.0bln) during the same period, however, these were well below the PKR~11bln level recorded in FY20. The leasing segment faces stiff competition from commercial banks which therefore requires business diversification for the segment.

Modarabas & NBFCs

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- Federal Board of Revenue (FBR)
- PACRA Database

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