Overview

The financial system remains in a stable and sound state at the end of CY15. Assets base of the financial sector has expanded at a decent pace of 15.1 percent in CY15 (12.6 percent, on average, during CY13-CY15). As a result, the financial depth[1], measured by financial assets to GDP, has increased from 56.4 percent in CY13 to 59.4 percent in CY14 and 68.4 percent in CY15 (**Table 1**).

Table 1

Assets Composition of the Financial Sector

	CY12	CY13	CY14	CY15
Assets (PKR Billion)	13,120.1	14,146.6	16,261.2	18,718.0
Growth rate (Percent)	18.7	7.8	14.9	15.1
	Percent of Total Assets			
MFBs	0.3	0.4	0.4	0.5
NBFIs*	4.6	4.2	4.1	3.9
Insurance*	4.3	4.5	4.7	4.3
CDNS	16.4	16.5	16.4	15.6
Banks	74.4	74.5	74.4	75.6
	Assets as Percent of GDP			
MFBs	0.2	0.2	0.3	0.4
NBFIs	2.7	2.3	2.4	2.7
Insurance	2.5	2.5	2.8	3.0
CDNS	9.6	9.3	9.7	10.7
Banks	43.6	42.0	44.2	51.6
Overall assets	58.6	56.4	59.4	68.4

* All numbers of NBFIs and insurance for CY15 are as of end June.
Source: Unaudited/audited financial statements of banks, MFBs, NBFIs and insurance companies. SECP & SBP.

The consistent performance of the financial sector is quite encouraging, considering that the global developments have been challenging. The vulnerabilities in emerging markets owing to high debt to GDP ratio, capital outflows and fragility in equity markets, depreciation in currencies etc. have kept the global financial stability under stress. The slowdown in China and the resulting stock market correction had rippled effects throughout emerging and advanced economies in later half of 2015 particularly after August.

The weak economic recovery in European Union (**EU**) coupled with higher political risks due to Greek financial assistance have put the European banks, already suffering from low profitability, under renewed stress. Higher sovereign and private sector debt have been identified by the European Central Bank as one of the potential systemic risks for its financial sector.[2] As the EU, one of the biggest trading partners of Pakistan struggled with nominal growth prospects amid low interest rates and quantitative easing, Pakistan's exports to EU declined[3].

The continued slump in commodity prices added to the fiscal burden of commodity rich countries, mainly Gulf Cooperation Council (GCC) countries, and slackened the pace of remittances flow to emerging economies. Moreover, cross border investments have also reduced[4].

In contrast to weak economic fundamentals throughout Asia (China, Japan, Gulf countries etc.) and Europe, the US economy showed signs of moderate expansion. Recognizing the improvements

[1] For explanation of financial depth and its measurement, please see the background section of "Global Financial Development Report 2015/2016" of the World Bank. http://www.worldbank.org/en/publication/gfdr/background/financial-depth

[2] European Central Bank, "Financial Stability Review", November 2015.
[3] State Bank of Pakistan, "The State of Pakistan's Economy", Second Quarterly Report, 2015-2016.
[4] State Bank of Pakistan, "The State of Pakistan's Economy", Second Quarterly Report, 2015-2016.

in some key fundamentals of the economy (such as household spending, business fixed investments, labor market recovery etc.), the US Federal Reserve (**Fed**) raised the interest rates in December 2015[5]. However, the credit risk in US has risen – with surge in nonfinancial business debt – owing to highly accommodative credit and underwriting standards. The high corporate leverage coupled with macroeconomic challenges has dampened the debt repayment capacity of the borrowers[6]. Moreover, the long anticipated rate rise by the Fed suppressed further the risk appetite of the investors and stock markets throughout emerging economies suffered.

Domestically, the economy of Pakistan fared better in CY15. Inflation remained subdued; foreign exchange (**FX**) buffers continued to rise; exchange rate remained stable; current account deficit reduced despite fall in exports; large scale manufacturing grew and investor sentiments remained at the elevated levels.[7]

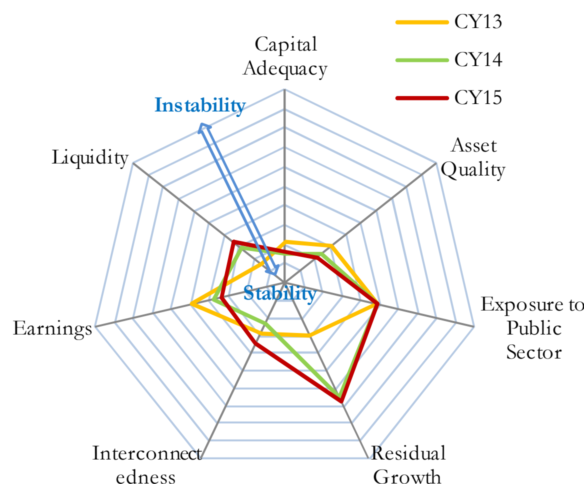
Enabling macroeconomic environment brought about by prudent management policy consistency, falling global commodity prices and relatively better energy situation allowed the economy and the financial sector to flourish.

Banking sector remains in a comfortable state, if viewed through various dimensions of growth and soundness as seen in the Banking Stability Map[8] (**Figure 1**). Particularly, performance of the banking sector improved on the back of record earnings and high capital adequacy ratio. Strong assets growth and revival of private sector credit, along with gradual improvement in the asset quality further strengthened the overall financial position.

Figure 1

Despite growth, banking sector remains stable

Banking Sector Stability Map



Source: Financial Stability Department (FSD), SBP

Over the last three years (CY13-CY15), asset base observed average growth of 13.2 percent year-on-year (YoY), with a healthy growth of 16.8 percent in CY15. During the same period, advances grew at a modest pace of 8.7 percent (YoY) lead by corporate, agriculture and consumer finance, while investments, mostly in government securities, increased by 20.1 percent.

The asset expansion has been financed by deposits (average YoY growth of 12.5 percent) and borrowings (average YoY growth of 28.2 percent). As such substantial portion of the excess growth (residual growth) in assets has been financed by the non-core liabilities (borrowings). Though most of it is short term and secured in nature, unsecured portion has also seen considerable growth,

[5] Federal Open Market Committee (FOMC) of US Federal Reserve, "Monetary Policy Statement", December 2015 http://www.federalreserve.gov/monetarypolicy/files/monetary20151216a1.pdf

[6] Office of Financial Research, "Financial Stability Report", 2015, United States Department of Treasury.

[7] State Bank of Pakistan, "The State of Pakistan's Economy", Second Quarterly Report, 2015-2016.

[8] The Banking Stability Map represents a comprehensive picture of stability in seven different dimensions. Risks in each dimension are measured by a weighted combination of key indicators. The percentile rank of each indicator gives the degree of stability relative to its level in the past (since 1996). For details please see Technical Appendix. For methodology please see Dattels, P., McCaughrin, R., Miyajima, K., & Puig, J. (2010). "Can you map global financial stability?" *IMF Working Papers*, 1-42.

particularly during CY15, indicating higher level of interconnectedness among the banks.

Over the last few years, public sector exposure on the banks' balance sheets, primarily, in the form of investments in sovereign papers has increased significantly. The share of such investments to total assets has risen from 36.7 percent in CY13 to 44.7 percent in CY15. If the banks' advances to PSEs are also included, the share of public sector exposure in total asset increases 53 percent in CY15.

With rising investments in government securities, however, the *funding liquidity*[9] of the banking sector has remained quite comfortable during CY13 to CY15; average liquid assets represent 50 percent of the total assets and 66 percent of the deposits.

Although banking sector's exposure to government has strengthened the liquidity position, concentration of these assets do carry certain risks. The holding of sovereign papers (particularly of longer-term maturity) exposes banks to market risk due to interest rate movements. Higher demand of funds for fiscal needs also creates some pressure on short term liquidity, particularly in the period of private sector credit demand. Moreover, in case of any easing-off in fiscal reliance on banking funds, an orderly unwinding of the huge investment portfolio will be testing for banks. In the latter scenario, banks would face challenge in deploying excess funds into alternative avenues that could generate decent income stream within their risk appetite.

Asset quality of the banking sector has improved with the decline in gross non-performing loan ratio (GNPLR) and rise in provisions coverage. GNPLR has moderated from 13.3 percent in CY13 to 11.4 percent in CY15; while, at the same time, provision coverage ratio has increased from 77.1 percent to 84.9 percent.

While infection ratios have improved and flow of fresh NPLs has subsided, reducing high stock of NPLs[10] remains the key challenge for banks. To address the issue, SBP on its part is endeavoring to provide conducive environment through legal and regulatory measures for recovery of NPLs and improving flow of credit to private sector(**see Box A for details**). Banks, on the other hand, need to make concerted recovery efforts to reduce quantum of NPLs.

Earnings performance of the banking sector, have consistently improved over the last three years, largely on the back of growing share of income from investment in government securities. From PKR 165 billion in CY13, the profit (before tax) has increased to PKR 329 billion in CY15. Key profitability ratios such as return on assets (ROA) and return on equity (ROE) have also improved from 1.6 percent and 17.9 percent in CY13 to 2.5 percent and 28.5 percent in CY15, respectively.

Capital position of the banking sector continues to strengthen as Capital Adequacy Ratio (CAR)stayed well above the local and international benchmarks. The CAR has improved from 14.9 percent in CY13 to 17.3 percent in CY15. Tier 1 CAR is also comfortably placed at 14.4 percent in CY15 as compared to 12.6 percent in CY13.

High level of CAR has improved the overall resilience of the sector under various hypothetical stress scenarios considered in Chapter 3. However, if private sector credit demand further picks up in the wake of favorable monetary conditions and

[9] Funding liquidity means the ease with which market participants can obtain funds; while market liquidity implies ease with which assets (e.g. bonds) could be traded in the market. For details please see Brunnermeier, Markus K., and Lasse Heje Pedersen. "Market liquidity and funding liquidity." Review of Financial studies 22.6 (2009): 2201-2238.

[10] NPLs have been hovering around PKR 600 billion since CY12

developments on other fronts such as China Pakistan Economic Corridor (CPEC), it will attract higher capital charge and may shrink the capital buffers presently available with the banks. In the meantime, banks also have to strengthen their capital to meet the gradual increase in the minimum capital requirements. Banks, therefore, need to closely evaluate the situation and plan for capital generation for matching the expected increase in credit requirements and enhancing their resilience.

Within the banking sector, Islamic Banking Institutions (IBIs) have continued to increase their share in overall assets (9.6 percent in CY13 to and 11.4 percent in CY15) which is in line with SBP's Strategic Plan for the Islamic Banking Industry 2014-2018. With healthy growth in financing portfolio, financing to deposit ratio has reached to 46.9 percent against the conventional banks' average of 46.3 percent. Earnings of IBIs have moderated during CY15; ROA (before tax) of 1.2 percent in CY15 compared to 1.5 percent in CY14.

Given the better performance of the economy and the banking sector, the markets (Money, FX and Equity) have also performed smoothly during CY15; though some volatility was witnessed in equity and FX markets in second half of the year (post Yuan devaluation and expected rise in interest rates in the US) when majority of the emerging economies observed capital flight and came under stress.

Structural changes in SBP's interest rate corridor and effective implementation of monetary easing stabilized the money market. Improved Balance of Payment (BoP) position, accumulation of reserves and consecutive successful IMF reviews has helped calm the FX market. Despite spillover of global financial stress to domestic markets, local equity markets remained relatively stable due to positive developments on domestic front and better performance of few corporate sectors (fertilizer, auto, cement etc.). Smooth functioning of markets indicates reduced risks to the stability of the financial system.

Apart from banks, Non-Bank Financial Institutions (NBFIs) with varying business models and focused clientele have performed reasonably in FY15. Mutual Funds have fared well followed by leasing and Modarabas. The profitability of Development Finance Institutions (DFIs) has dwindled a bit in FY15; while Investment Finance Companies (IFCs) have suffered losses. The business of IFCs is facing stagnancy and some are even non-compliant under NBFC regulations issued by SECP. Moreover, the funding risk remains prominent for some of the NBFIs. Also, the diversification of clientele suggested in the business models of NBFIs has yet to be achieved. NBFIs are serving similar market segments as the banks, in which they do not possess competitive advantage.

Insurance sector performance remained steady with considerable improvement in profitability of all its segments. Continuing growth in gross premiums have not only increased the asset base of life insurers but also the improved the insurance penetration rate (from 0.5 percent in CY13 to 0.8 percent in CY15). The non-life sector is growing steadily; while Shariah based insurance (Takaful) is also gaining traction. The concentration risk remains the main concern for life insurance due to high market share of a single public owned insurer. Further, penetration rate is low by international standards and efforts are needed for improving the outreach of the insurance service.

The current stable position of the financial sector, especially the banking sector, could not have been possible without the enabling regulatory environment. SBP, over the past few years, has taken several measures to strengthen and guide the banking sector towards better performance with

stability. The measures adopted pertain to a wide spectrum of bank's operations such as Capital Adequacy, Payment Systems, Anti-Money Laundering (AML) and Countering the Financing for Terrorism (CFT), Large Exposures and Concentration Risks, Banking supervision (On-site & off-site monitoring), Priority Financing (Export Refinance, Long Term Financing) and serving the underserved/unbanked areas (Financial Inclusion Agenda). SBP "Vision 2020" has also set the direction for further strengthening the financial stability and improving efficiency, fairness and effectiveness of the banking sector (See **Box A** for further details).

Notwithstanding the overall position of the financial sector and risks highlighted earlier, following areas may pose challenges to stability of the financial sector.

First of all, there has been a noticeable decline in the prime risk taking activity (i.e. lending) by the banking sector. Advances to Deposit Ratio (ADR) of the banking system has consistently been falling since long and as of end CY15 stands at 46.4 percent; down from 75.9 percent as of end CY08 and 48.6 percent as of end CY13. This could partly be due to weak demand from the private sector (textile and sugar sectors are under pressure due to idiosyncratic and structural issues) and partly due to bank's inclination towards easier options. Government's fiscal needs have compelled it to tap liquidity from the banking sector. This has given an opportunity to the banks to bet on the inevitable and earn risk free returns. The banks' balance sheets are now sensitive to market risk, re-investment risk, banks' own treasury operations and the changes in government's liquidity and debt management policies.

Second, deposit growth, though higher than last year, has been insufficient to meet the funding needs of both private and public sectors. Consequently, banks' repo borrowing from SBP rose sharply during CY15. With the expected rise in private credit and given the trend in government borrowings, it will be quite challenging for banks to match the credit demand from core liabilities. Only opportunity for banks is to intensify deposit mobilization efforts not only to match the expected increase in credit but also to reduce reliance on non-core sources of funds.

Third, credit risk is higher for Public Sector Commercial Banks (PSCBs) and medium-sized banks (mostly privately owned). PSCBs carry the highest GNPLR and it has been increasing since CY13. GNPLR of medium sized banks is quite high with low provisions coverage ratio. This advocates that some of these banks are unable to either identify (adverse selection) or attract quality borrowers; legacy debts persist on their balance sheets and there are inherent weaknesses in their credit risk management system. Therefore, these banks need to strengthen credit standards, accelerate recovery efforts and improve credit risk management practices..

Fourth, the degree of complexity and sophistication of technology based payment systems, though beneficial, could expose the payment system to external risks (such as cyber attacks, equipment failure etc.).As the financial market infrastructure is spread across various participants who are not operating under one regulatory umbrella, risk originated in payment system (settlement risk, liquidity risk, operational risk etc.) spreads out in no time and with large magnitude. Therefore, the overarching and collaborated efforts for oversight have become a must in current era to ensure undisrupted and secured functioning of financial market infrastructure of the country. SBP is working in the same direction based on international best practices with material progress.

Finally, global environment is a key risk factor for the economy, in general, and the banking sector, in particular. The continuous slowdown in China and emerging economies, the ongoing negotiations on Greek assistance program and referendum in UK to decide its future in the EU are the sources of uncertainty in CY16 and beyond due to our trade and financial links with Asia, EU and UK. These global challenges may impact the exports, particularly already under pressure textile sector; the largest borrower of financial sector. The trade activity, if squeezed, will also impact the non interest income (fee, commission etc) of the banking sector. Further, global uncertainty may possibly trigger volatility in the equity market as well.

Moreover, falling commodity prices, though beneficial for import dependent economies like Pakistan, could also dent the revenue of export oriented sectors. Given the dependence of the country's exports on a few major sectors (e.g. textiles) and commodities (e.g. rice), falling international prices may hurt the repayment capacity of borrowers of these sectors, which may posemild risk to the asset quality of the banking sector.Any sustained stagnancy in low oil prices may further add to the fiscal burden of GCC countries, which may depress the outflow of workers to these countries and worker remittances, already decelerating, may further slowdown that may impact the flow of funds to the banks.

Box A: Regulatory Developments[11] – Perspective of growth and stability of financial sector

One of the prime responsibilities of SBP is to ensure that the financial system, particularly the banking system, is sound and remains on its potential growth trajectory without jeopardizing the financial stability. SBP – within its regulatory domain – continuously endeavors to bring in improvement in the regulatory structure which could address the unique spectrum of domestic risk profile and align it with best international practices. Consequently, the financial landscape of the Pakistan is equipped with well structured, effective, and robust regulatory framework.

The capital is the main line of defence against risks to the financial stability. In August 2013, SBP issued Basel III instructions for implementation in Pakistan in the light of Basel III reform package introduced by the Basel Committee on Banking Supervision (BCBS)[12]. Besides, SBP introduced disclosure templates released by BCBS for capital adequacy purposes to enhance consistency and comparability of banks' capital related disclosures[13]. Lately, SBP has issued instruction for implementation of Basel-III Liquidity standards,

SBP has been initiating measures to prevent the use of banking channels for the purposes of money laundering/ terrorist financing. In this regard, SBP developed comprehensive Anti Money Laundering (AML) regulations which were strengthened from time to time[14] and aligned with the Financial Action Task Force (FATF) recommendations/ international norms. Moreover, SBP had major contribution in drafting and finalization of the AML law/Act and its subsequent amendments to meet international standards and to bring consistency and clarity in the enforcement provisions. In order to align the existing regulatory framework with the fast changing business environment and the best international practices, Prudential Regulations (PRs) for the Corporate and Commercial banking were revised in June 2014[15]. Key objective of the amended regulations is to help the banks and DFIs to address their unique risk factors and dynamic environment in a better way by allowing them more discretion in business decisions.

Further, in its revised PRs, SBP more comprehensively addressed concentration risk and related party exposure issues. SBP defined the large exposure and aligned such exposures with overall gross advances and investment of banks. Such regulatory steps will be of great help to implement system-wide Macro Prudential Regulations in Pakistan.

Regulations without effective and timely supervision/monitoring and necessary enforcement action may dilute the effectiveness of even a strong regulatory structure. Knowing this fact, both of SBP's supervisory legs (off-site and on-site) play a pivotal role and ensure that banks perform under the compliance of regulatory ambit, identify key risk areas threatening the stability of institutions/system, and identify the potential areas to promote growth and efficiency.

The concept of thematic inspection was introduced recently, with a view to identify issues that are common across the industry and work on proactive policy responses to address potential risk and vulnerabilities to the financial system. In this regard, industry-wide thematic inspections were conducted which not only facilitated assessment of compliance with the regulatory requirements but also identified areas requiring improvements in various regulatory policies.

Further on the supervisory front, SBP successfully and effectively employed the resolution regime for one of ex-problem bank. Effective resolution strategy, efficient communication with the general public, media and

[11] There is a wide range of regulatory initiatives SBP has been persuading on related to areas e.g. financial inclusion, customer protection, legal and regulatory structure, financial infrastructure, foreign exchange and monetary policy, banking services etc. However, emphasis here is put on those regulatory measures which have helped bringing in stability and promotes growth in the banking sector.

[12] Banking Policy and Regulations Department (BPRD) Circular No.6 of 2013

[13] BPRD Circular No.11 of 2014

[14] BPRD Circular Letters No.13 of 2015, No. 6 &7 of 2014, No.22 of 2013, and BPRD Circular No.2 of 2012

[15] BPRD Circular No.6 of 2014

bank's depositors and prompt resolution of issues prevented emergence of any panic or contagion like situation in the overall banking sector. SBP's enforcement actions against the problem bank established its regulatory writ and financially weak banks got the message and paced up their efforts to address the regulatory issues.

With privatization of the public sector banks and entry of private players in the market, majority of the banking sector in Pakistan is now private sector owned. Accordingly a need was felt for instituting explicit deposit protection scheme, which is considered integral safety-net tool to ensure the soundness of the banking system and protect small depositors of a bank in case of failure. SBP, therefore, in consultation with various stakeholders developed draft of Deposit Protection Corporation (DPC) Act in the light of Core Principles for Effective Deposit Insurance Systems as propounded by International Association of Deposit Insurers (IADI). The bill is presently in the parliament and is expected to be enacted shortly..

To bring credit demand to its potential growth path and increase credit to GDP ratio, concerted efforts of all stakeholders are required. SBP – in its capacity - has taken various measures to enhance private sector credit. Some of the key measures are given below:

a) SBP, in the prevailing state of the financial markets, can only impact demand indirectly through giving price incentive. To spur demand, SBP has significantly cut its policy rate in the recent past. The monetary easing triggered by SBP actions has transmitted to the retail interest rates as WALR has declined from 11.3 percent in Dec-12 to 7.7 percent in Dec-15[16]. Also, the results of consumer finance survey conducted in June 2015 showed that the cost of auto financing has reduced by 300bps over the last one year;

b) SBP has introduced priority financing schemes to enhance private sector credit which include Export refinance scheme, Islamic export refinance scheme and Long term financing facilities;

c) SBP in consultation with banks has proposed amendments in the Financial Institutions (Recovery of Finances) Ordinance 2001 (FIRO), including alternative provisions for dealing with foreclosure matters in a more transparent manner. Once promulgated, these amendments will not only facilitate recovery of NPLs but also expansion of mortgage and infrastructure financing;

d) SBP has prepared and submitted Financial Institutions (Secured Transactions) Bill, 2015 for initiating approval process from the Parliament. The implementation of the project will enable lenders to create charge on the movable assets of the borrowers that will consequently facilitate flow of financing to private sector, particularly, the SME sector;

e) SBP is actively pursuing financial inclusion agenda through its different work streams including Islamic finance, SME finance, Microfinance etc. In order to enhance the outreach of financial access across the country, SBP is pursuing Financial Inclusion Program (FIP). Furthermore, SBP in collaboration with SECP is trying to build a vibrant capital market so that large corporates may fulfill their funding requirements from issuance of papers in the secondary markets. This would enable banks to cater the needs to SMEs, housing and agriculture sector.

f) SBP is working for promotion of green banking & finance in the country, which broadly includes concepts like renewable energy/ energy efficiency financing, resource efficiency & sustainable development. To this end, SBP has held consultations with various stakeholders to design and implement policies and initiatives on green banking in the country and encourage local banks to extend credit to this sector. Further, SBP issued the scheme for Financing Power Plants using Renewable Energy(RE) to help in provision of concessional lending to banks/DFIs for onward lending to the RE projects and promote climate friendly investments. The

[16] http://www.sbp.org.pk/ecodata

scheme has been recently revised to make it more attractive for borrowers and participating banks.

Protecting depositors' interest is one of the key priorities of SBP. To ensure that depositors get their due share, SBP enhanced minimum saving rate to 6 percent (p.a.) in May 2012[17] followed by advising banks to calculate MSR on monthly average balance[18] in March 2013. In order to rationalize the cost of deposit with changing monetary policy stance, in September 2013[19], SBP linked MSR with monetary policy through aligning it with SBP repo rate. In June 2014, SBP lifted up MSR condition on fixed deposits[20].

SBP over the last few years has revitalized its consumer protection mandate to "Conduct Supervision" to ensure that the consumers are treated in a fair, transparent and efficient manner, and banks grow sustainably in a responsible manner. To promote fair banking practices, SBP has issued various set of instructions and guidelines including Fair Treatment of Consumers(FTC) framework, Consumer Grievance Handling Mechanism, Product Disclosure Requirement, guiding principles for Fairness of Service Charges, Standards of Banking Conduct, Banking facilities for visually impaired persons, Fair sales practices for third party products etc. These regulatory initiatives will also help customers make informed decisions through better understanding of services provided by the banks. Further, SBP is working on Conduct Assessment Framework which will allow the banks to assess their business conduct and identify areas requiring improvement.

SBP has made concerted efforts to ensure safety, integrity, efficiency and reliability in the designated payment system. Such endeavors remained well complemented with huge banks' investment in IT and core banking solutions. Following the international best practices, SBP has taken numerous initiatives to enhance efficiency, security, and standardization including (a) international bank account number (IBAN)[21], (b) standardization of financial articles such as cheques, pay-orders, demand draft etc[22] (c) issuance of several rules/guidelines to facilitate or direct financial participant to improve the quality and safety of transactions etc.

SBP regulatory efforts are forward looking and deeply synchronized with the economic interconnectedness. In August 2015, SBP issued its "SBP Vision 2020[23]" after developing it through a participative and consultative process. The plan embodies strong emphasis on organizational efficiency and effectiveness. The SBP Vision 2020 revolved its six strategic goals i.e.

1) Enhance the effectiveness of monetary policy
2) Strengthen the financial system stability regime
3) Improve the efficiency, effectiveness, and fairness of the banking system
4) Increase financial inclusion
5) Develop modern and robust payments systems
6) Strengthen SBP's organizational efficiency and effectiveness

Under the strategic goal – 2, a special focus has been put on to ensure financial stability. For that purpose, a separate department i.e. "Financial Stability Department (FSD)" has been formed. Apart from consolidating financial stability issues in FSD, SBP has also initiated working in several new areas aiming to address financial stability concerns. Some of the important areas on which FSD is working on include: (a) Designing of financial system stability framework, (b) crises management framework, (c) review and update of consolidated supervision framework, and (d) framework for identification and supervision of D-SIBs [24] in Pakistan.

It is expected that SBP initiatives will strengthen the stability of the financial system enabling it to better withstand any contingent situations. It will further bolster the process of financial intermediation in short to medium term.

[17] BPRD Circular No.1 of 2012
[18] BPRD Circular No.1 of 2013
[19] BPRD Circular No.7 of 2013
[20] BPRD Circular No.5 of 2014
[21] Payment System Department (PSD) Circular No.2 of 2012
[22] PSD Circular No.1 of 2014
[23] http://www.sbp.org.pk/spd/StrategicPlan-2020-Eng.pdf
[24] D-SIBs stand for Domestic Systemically Important Banks