# Mid-Year Performance Review of the Banking Sector

(January - June 2022)

**Financial Stability Department**

**State Bank of Pakistan**

## MYPR Team


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# Summary[1]

Banking sector's balance sheet expanded by 16.0 percent during the first half of 2022 (and 23.7 percent on YoY basis), amid sustained economic activities and building macroeconomic challenges. Investments and public-sector commodity finance mainly drove-up assets' expansion, while private sector advances also grew with a decent pace as economic conditions augmented the demand for advances. Besides noteworthy mobilization of deposits, banks raised substantial level of borrowings to finance expansion in balance sheet.

Asset quality indicators further improved during H1CY22 owing to continuing credit demand from the corporate sector. With contained growth in delinquencies, the gross and net NPLs ratios of banking sector decreased further to 7.5 percent and 0.68 percent respectively. However, baseline profitability indicators moderated — despite strong growth in incomes—mainly due to the impact of sharp increase in tax charges. Capital Adequacy Ratio (CAR) of the banking sector slightly edged down to 16.1 percent mainly due to increased pace of credit risk weighted assets (CRWA), as compared to capital which was also impacted by revaluation losses on available-for-sale (AFS) portfolio of investments. Nonetheless, banking sector in general continued to have adequate capital cushions and resilience to withstand the impacts of severe stress to macroeconomic conditions and shocks to key risk factors. However, Microfinance banks (MFBs) continued to face challenges in term of earnings and capital position due to impact on their asset quality since the COVID pandemic.

On the back of challenging macro-economic conditions (such as rising current account deficit and inflation) and political developments, domestic financial markets, specifically FX and equity markets, witnessed increased volatility during H1CY22. Further, amid rising policy rate, the interbank overnight repo rate (ONR) also exhibited higher volatility in H1CY22.

The 10th wave of the Systemic Risk Survey conducted in early July-2022 highlights that the key risks for the financial system, as perceived by independent market participants[2], are mostly exogenous in nature, i.e. global and macroeconomic risks. The respondents of the survey, however, expressed confidence in the stability of the financial system.

In wake of recent floods and challenging economic environment, repayment capacity of some categories of borrowers may come under pressure. As such, banks as well as MFBs need to make prudent assessment of the possible impact on lending portfolios and take necessary measures for ensuring the asset quality and resilience of their institutions.

[1] Analysis in this document is largely based on the unaudited numbers submitted by banks to SBP on quarterly basis. From the data convention perspective, H1CY and H2CY stand for the first and second half of a particular calendar year (CY), respectively. CY, generally, symbolizes the full calendar year, while QxCY, where x represents any of the four quarters of a CY.

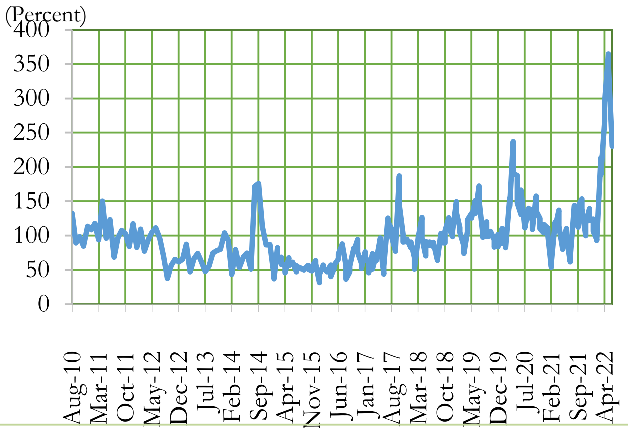
[2] The survey presents the views of independent participants from the financial sector, academia, and financial journalists about the present state and future prospect of financial stability in the country.

# A. Performance of the Banking Sector

## Introduction:

The first half of year 2022 (H1CY22) witnessed varying trends. Economic activity, which had gained strength over the previous quarters largely sustained its pace to post GDP growth of 6 percent in FY2022. However, this improved economic activity coupled with increasing commodity prices widened the twin deficits. During H1CY22, PKR depreciated by 13.8 percent against USD manifesting accelerated external account vulnerabilities, rising inflationary pressures and evolving political dynamics. Accordingly, monetary policy was further tightened by raising the policy rate by 400 basis points (bps) to 13.75 percent[3] during H1CY22 and certain policy measures were taken to curb the demand. Over the period, equity market's performance remained lackluster while Business Confidence Index (BCI) moved into the negative zone in June-2022 after remaining positive for about two years. Particularly, economic policy uncertainty surged to the highest level since 2010 (**see Chart 1**).

Chart 1: Economic Policy Uncertainty Index



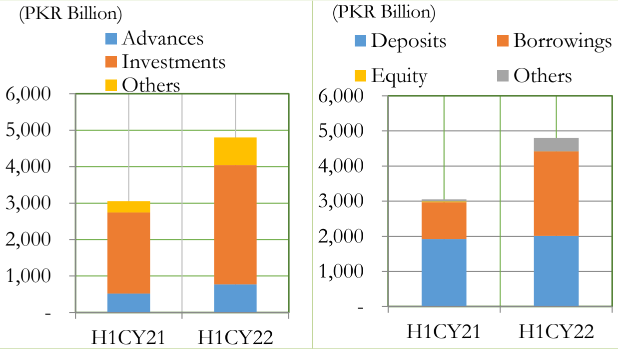

Source: SBP

**Asset base** of the banking sector expanded with the robust pace of 16.0 percent during H1CY22 (12.2 percent in H1CY21). Around 70 percent of the rise in asset flow was driven by investments while 16 percent contribution came from advances largely due to notable growth in private sector advances (**see Chart 2**). On year-on-year (**YoY**) basis, assets growth of 23.7 percent in June-2022 was the largest in the previous 11 years.

On the funding side, deposits grew by 9.3 percent during H1CY22. In addition to decent deposit mobilization, banks materially resorted to borrowings in order to finance the upsized asset base.[4]

It is noteworthy that during H1CY22 asset base of **Islamic Banking Institutions** (IBIs) observed stronger growth of 21.6 percent as compared to 14.7 percent growth in assets of conventional counterparts. By end June-2022, IBIs' share in total banking sector's assets and deposits stood at 19.5 percent and 20.5 percent, respectively.

Chart 2: Assets and liabilities composition of the banking sector (flows)




Source: SBP

## Advances:

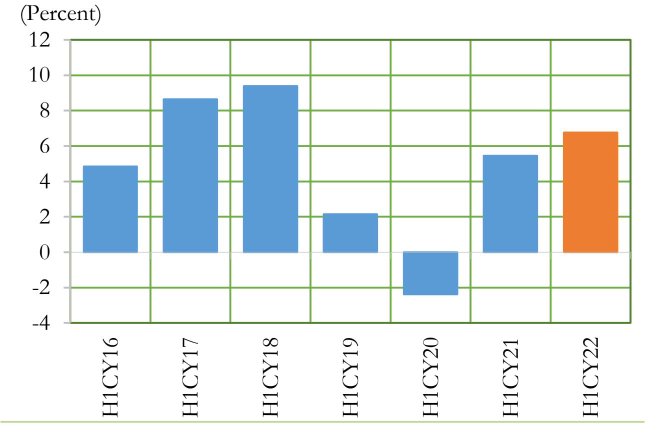
**Private Sector Advances** (PSA) grew by 6.8 percent (or PKR 534 billion) in the period under review. Notably, the recorded pace of PSA was the highest in previous three years (**see Chart 3**). The growth in advances was, among others, supported by SBP's refinance schemes[5] and Government markup subsidy scheme to facilitate the financing of low-cost housing in the country.

[3] Policy rate was further increased to 15 percent in July-2022

[4] Banks raised PKR 2.4 trillion in borrowings representing 50 percent increase in assets during H1CY22.

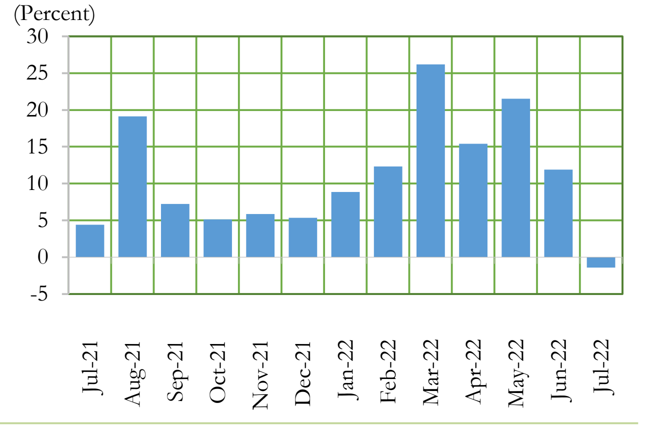
[5] Refinancing schemes refer to Temporary Economic Refinance Facility (TERF), Long-term Financing Facility (LTFF), and Export Finance Scheme (EFS)

Chart 3: Private Sector Advances (Half-Yearly Growth)




Source: SBP

Chart 4: Year on Year LSM Growth




Source: SBP

**Corporate segment** advances increased by 7.6 percent (PKR 445 billion) as the credit demand of the segment remained robust in the wake of higher sales volume and profitability.[6] The growth in loans was mainly driven by long-term fixed investment loans (PKR 216 billion) followed by trade financing (PKR 140 billion) and working capital loans (PKR 88 billion). While SBP's refinance schemes such as Temporary Economic Refinance Facility (TERF) and Long-term Financing Facility (LTFF) also supported the momentum of long-term advances,[7] banks provided a substantial part of long-term advances from their own sources.

The uptick in demand for trade finance and working capital was primarily due to improved economic activity (**see Chart 4**), rise in trade and higher input prices of oil and other commodities. Incidentally, Wholesale Price Index on average increased by 28.1 percent YoY during H1CY22 as compared to 14.4 percent in H1CY21. Moreover, SBP's Export Finance Scheme (EFS)[8] also facilitated in augmenting trade finance loans for export purposes.

In **SMEs segment**, PKR 45 billion were retired during H1CY22, which was in line with the established seasonal pattern. Long-term advances of SME segment, however, increased by PKR 15 billion. The growth in long-term financing was due to SME Asaan Finance (SAAF)[9] Scheme launched by SBP and Prime Minister Kamyab Jawan Program (PMKJ).

Rise in **Consumer** financing of PKR 78 billion was mainly backed by mortgage financing, which increased by PKR 57 billion manifesting primarily the impact of 'Mera Pakistan Mera Ghar' markup subsidy scheme of the Government for low-cost housing. Nonetheless, auto financing—which drove up overall consumer loans in recent quarters, —weakened noticeably during the period under review (i.e. rise of PKR 10 billion in H1CY22 compared to PKR 49 in H2CY21). Softening in auto financing was due to a number of reasons including macro-prudential measures[10] taken by SBP in later part of 2021, high interest rates, and significant exchange rate depreciation.

Sector-wise analysis reveals that textile, cement, sugar, and energy sectors availed major chunk of financing (**see Chart 5**). Increase in the flow of financing to sugar sector (PKR 97 billion) was in line with past trends, which was also augmented due to increased price of sugarcane.[11] Textiles' and

[6] It is estimated that the sales of KSE-100 companies increased by 50.98 percent (YoY) by end March 2022, resulting in the 35 percent surge in the gross profits of these firms. Gross profit of eleven out of fourteen economic sectors showed an increase during the Q1CY22. While the rise in sales volumes led to higher demand for banks credit, the increased profitability improved repayment capacity of the firms.

[7] TERF and LTFF loans observed a combined increase of PKR 110 billion during H1CY22.

[8] Under EFS, PKR 66 billion were availed during H1CY22.

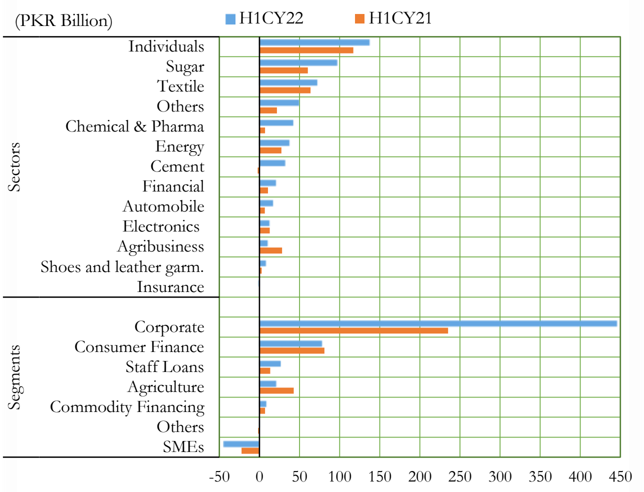
[9] https://www.sbp.org.pk/smefd/circulars/2021/C9.htm

[10] These measures included reduction in maximum tenor of auto loans from 7 to 5 years, increase in minimum down payment to 30 percent from 15 percent of the value of vehicle, and limiting total loan value up to PKR 3 million etc. The relevant circular is accessible at https://www.sbp.org.pk/bprd/2021/CL29.htm

[11] Sugarcane prices increased to PKR 250 per 40KG in 2022 from PKR 202 per 40KG in 2021

cement sectors' advances were mainly driven by SBP's long-term refinance schemes i.e. TERF and LTFF. In addition, energy sector availed additional loans of PKR 37 billion that were obtained mainly for enhancing power generation capacity.[12]

Chart 5: PSA Sector & Segment wise Flows



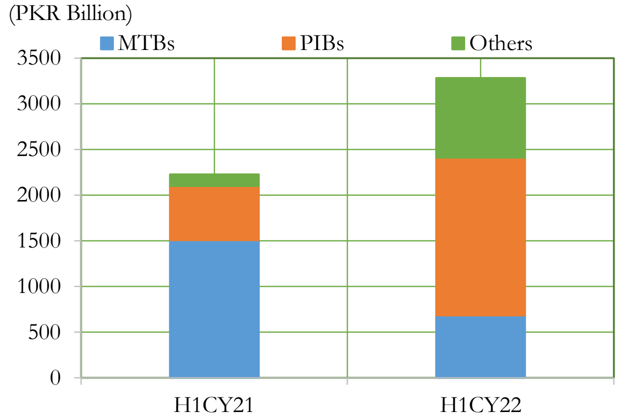

Source: SBP

**Public sector advances** increased by PKR 180 billion during the first half of CY22. These advances were entirely driven by wheat financing as a part of public sector commodity procurement operations, which increased by PKR 207 billion (PKR 179 billion in H1CY21). Relatively higher wheat financing during the reviewed period was due to an increase in minimum support price.[13]

## Investments:

Investments increased by 22.5 percent (or PKR 3.3 trillion) during H1CY22. These funds were almost entirely invested in Government securities. Investments in MTBs and PIBs observed a rise of PKR 684 billion and PKR 1.7 trillion, respectively. Also, Ijara Sukuk attracted substantial banks' funds of PKR 838 billion in the first half of 2022 (**see Chart 6**). Accordingly, the share of MTBs in banks' total holding of Federal Government securities declined to 33.6 percent by end June-2022 from 46.6 percent a year ago. While the share of PIBs increased to 52.6 percent from 46.0 percent in June-2021. Increased share of long-term investments demonstrates the government's strategy to improve its debt maturity profile. It may also be noted that banks resorted to borrowings to the tune of PKR 2.6 trillion during H1CY22.

Chart 6: Investment composition - Half Yearly Flows




Source: SBP

Disaggregated analysis shows that in Q1CY22, investments in PIBs increased by PKR 1.1 trillion while MTBs observed net retirement of PKR 673 billion. It appears that the Government attempted to further lengthen its debt maturity profile by tilting its borrowing towards longer-tenure instruments. Also, banks were keen to lock their funds in long-term instruments expecting that interest rates had peaked[14] as long-term portion of the yield curve started to inverse by end of Mar-22 (**see Chart 7**).[15]

In Q2CY22, banks' total investments in Government securities were noticeably higher at PKR 2.4 trillion as compared to Q1CY22 (PKR 0.8 trillion) manifesting higher fiscal needs of the Government.[16] During the quarter, inflationary and external account pressures intensified, and SBP raised the policy rate by 400 bps to 13.75 percent. Therefore, banks preferred to invest more in short-term MTBs (i.e. increase of PKR 1.4 trillion) as compared to PIBs (i.e. increase of PKR 584 billion) during this quarter.

[12] One firm i.e. K-Electric mainly availed advances in the energy sector. For details please see the information from annual report available at: https://www.ke.com.pk/corporate/financial-data/

[13] It increased to PKR 2,200 per 40KG in 2022 from PKR 1,800 per0KG in 2021.

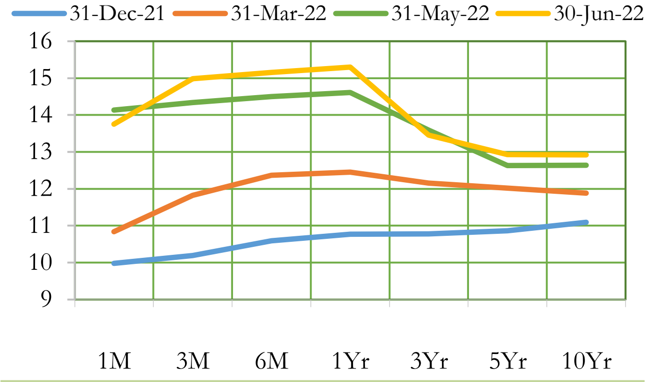
[14] Monetary policy statement in January-2022 stated that going forward, any change in interest rates would be relatively modest.

[15] In Q1CY22, banks offered PKR 1.8 trillion in auctions for fixed rate PIBs while for floating rate quarterly PIB, their offered amounted to PKR 1.0 trillion

[16] Fiscal deficit during Q2CY22 was PKR 2.7 trillion against PKR 1.2 trillion in Q1CY22.

Chart 7: Yield Curve

(Percent)




Source: MUFAP

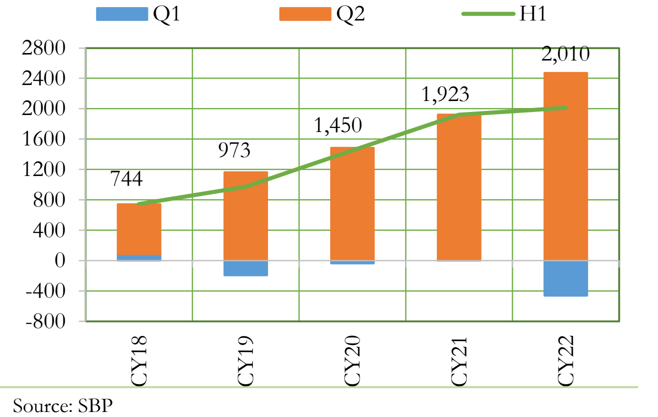
## Deposits:

Deposits registered an increase of PKR 2 trillion with a growth rate of 9.3 percent in H1CY22, slightly lower than last year's 10.4 percent. The deposit growth was broad-based and seasonal as most of the deposits were accumulated during the second quarter of the calendar year after a slow start in the first quarter (**see Chart 8**). Disaggregated analysis indicates major contributions by the non-remunerative current account and saving account (CASA) deposits with each contributing 4.2 percentage points and 1.9 percentage points in the overall deposit growth, respectively. The following factors mentioned were key in supporting inflows of deposits during H1CY22:

1. In the wake of building macroeconomic pressures, the increase in policy rate raised the average rate of return on deposits to 7.1 percent at end H1CY22 from 4.6 percent at end H2CY21.[17] Thus, amid stressed macro financial conditions including bearish stock market activity, parking excess funds in the banking sector remained one of the lucrative forms of savings.[18]
2. The inflow of workers' remittances in the wake of depreciation of Pakistani Rupee against US Dollars also amplified the flow of deposits during H1CY22.
3. Roshan Digital Account (RDA) continued to expand and attract more funds during H1CY22.[19]
4. Consumers' growing preference for availing digital modes of financial transactions enabled the cash to remain within the banking system and subdued the growth of currency in circulation during H1CY22.[20] The growth in e-banking transactions rose by 27.8 percent in value terms and 11.5 percent in volume terms in H1CY22.
5. Improvement in minimum support price of wheat supported rural income through better pricing of wheat.[21] Moreover, general growth in advances and credit supported the growth in deposits.

Chart 8: Deposit Flows

(PKR Billion)




Source: SBP

## Borrowings:

Since the overall growth in asset base was stronger than the growth in deposits, banks' reliance on borrowings from the central bank increased considerably over the period under review. Borrowing from financial institutions recorded a strong growth of 50.8 percent during H1CY22 as compared to 32.6 percent in H1CY21. As a result, the share of borrowings in overall fund base (total assets) of the banking sector rose to 20.5 percent (15.8 percent at end H2CY21). Most of these funds were borrowed from SBP under repurchase agreements and refinance schemes.

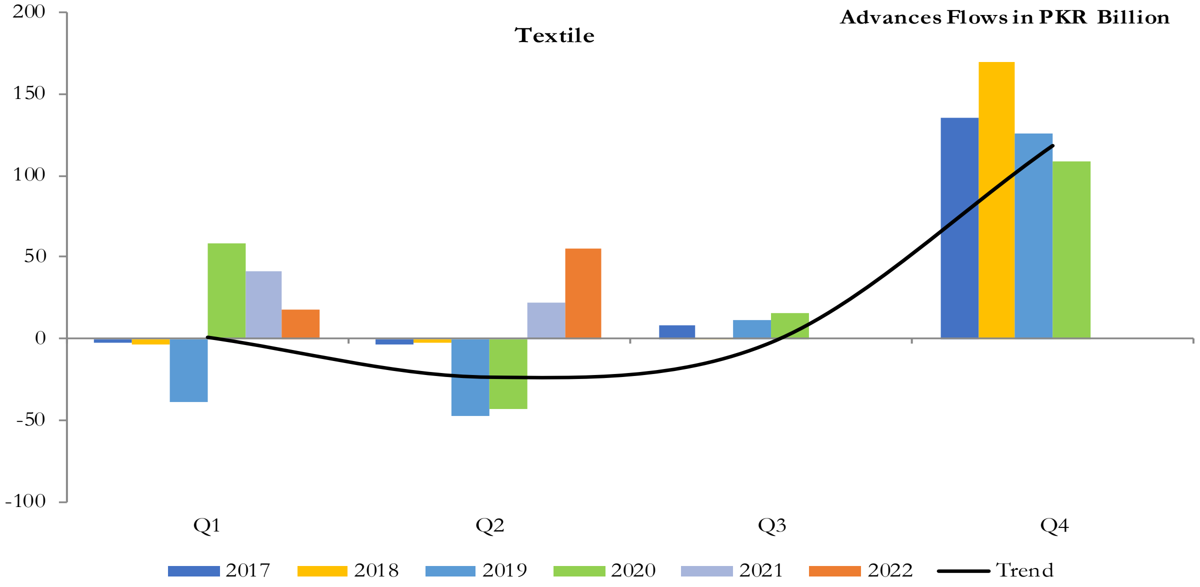
[17] During H1CY22, SBP increased its policy rate by 400 basis points
[18] During H1CY22, fixed deposits and saving deposits increased by PKR 234 billion and PKR 404 billion, respectively.
[19] Number of account in RDA increased by approximately 107,000, whereas, the number of funds received rose by USD 1.4 billion. The additional funds received were almost equally placed in Naya Pakistan Certificates (NPCs) and Pakistan Stock Exchange (PSX).
[20] Currency in Circulation rose by 8.5 percent during H1CY22, lower than 11.3 percent recorded during the corresponding period of CY21.
[21] On March, 2022 the government increased the minimum support price for wheat to PKR 2,200 per 40 kg from PKR 1,9540 per 40 kg as on November, 2021

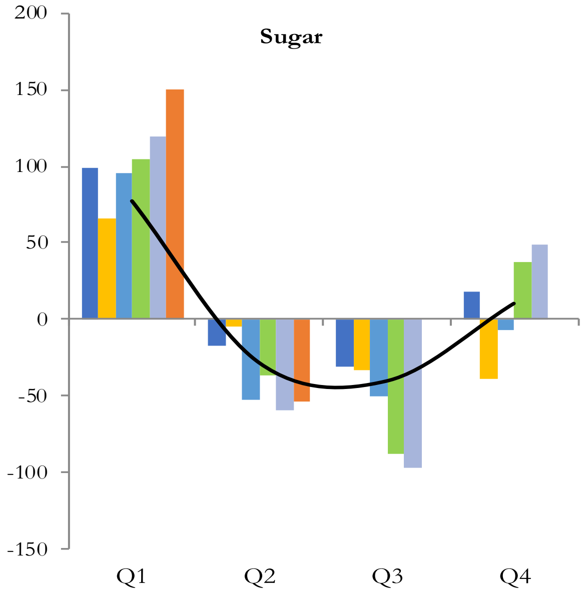
## Equity:

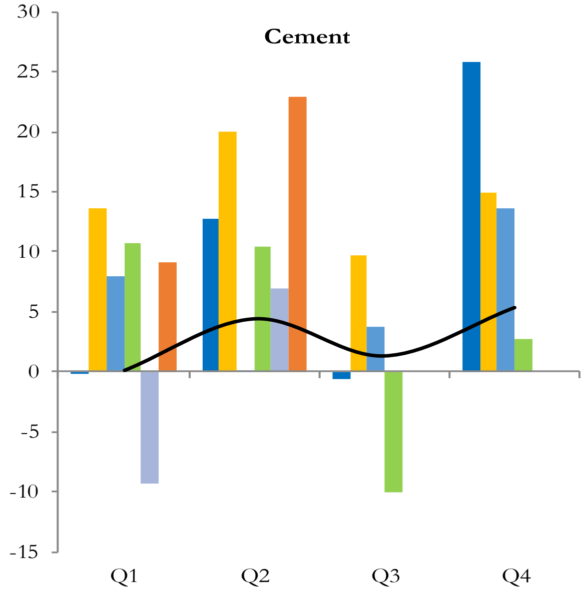
The banking sector's capital base, i.e. net assets (assets – liabilities), posted a contained growth of 0.3 percent in H1CY22. As the overall asset base grew at faster pace of 16 percent over the same period, capital to asset ratio of the sector declined to 5.6 percent (6.5 percent in December-2021).

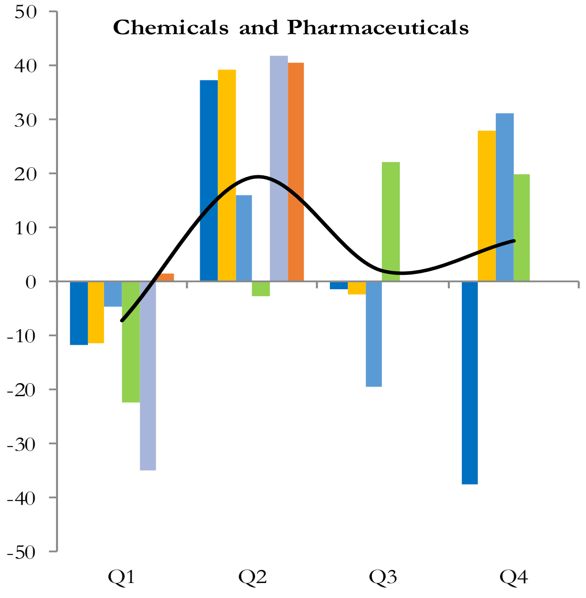
Detailed analysis shows that shareholders' equity (core capital) which constitutes the major part (i.e. 93.2 percent) of banks' overall capital base grew by PKR 80.4 billion (4.6 percent) on the back of year-to-date profits. However, revaluation losses on available-for-sale government securities (mainly PIBs) due to policy-rate hikes in Q2CY22, led to a decline in revaluation surpluses (secondary capital) by PKR 74.3 billion. Accordingly, net assets posted only a contained growth.

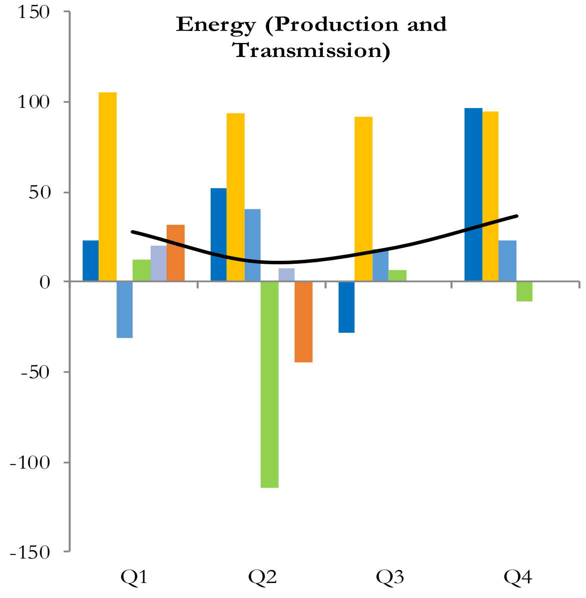
## Appendix A: Seasonality in Private Sector Advances



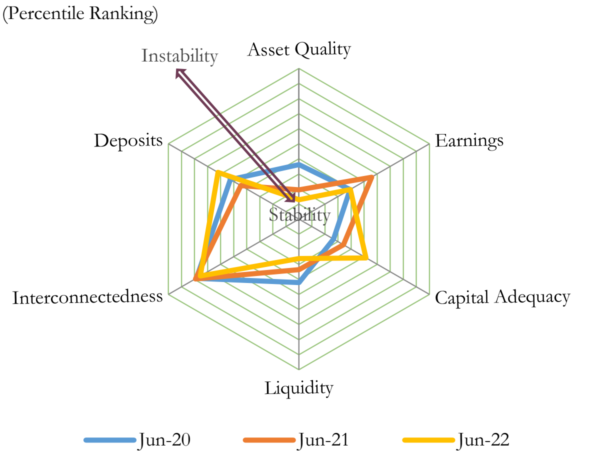



# B. Soundness of the Banking Sector

The banking sector remained sound, as the risk matrix on Asset Quality, Earnings, Liquidity, and Interconnectedness showed improvement during H1CY22 compared to H1CY21, while higher growth in risk-weighted assets (RWA) led to contraction in capital ratios, as reflected in the Banking System Stability Map (BSSM) (**see Chart 9**). However, the CAR level at end June-2022 remained well above the minimum regulatory standards.

Chart 9: Banking Sector Stability Map

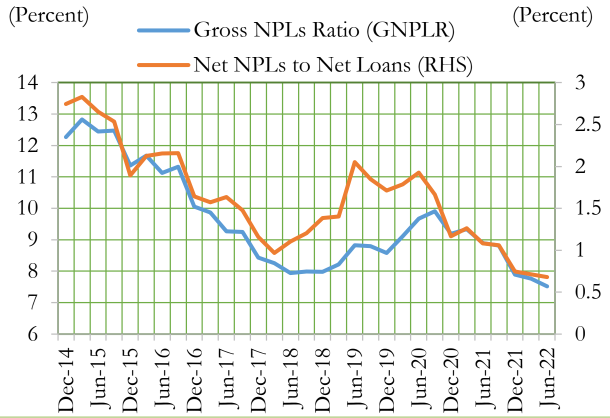



Source: SBP

## Asset Quality:

There has been persistent improvement in asset quality indicators of the banking sector since June-2021, though the period is marked with relatively increased stress in macro-financial conditions in the wake of strong economic recovery (**see Chart 10**). During H1CY22, asset quality indicators further improved; NPLs grew at a contained pace of 2.1 percent and due to relatively faster growth in advances, the gross NPLs ratio further moved down to 7.5 percent by end June-2022 (7.9 percent at end December-2021). Since the fresh NPLs were adequately provided for, the provisioning coverage ratio improved to 91.6 percent (91.2 percent in December-2021) and net NPLs to loans ratio fell to 0.68 percent (0.74 percent at end December-2021). Accordingly, the capital impairment ratio, i.e. net NPLs to capital ratio, declined to 3.8 percent from 4.0 percent at end December-2021, indicating the lowering in risk to the banks' solvency from the delinquent loan portfolio.

Chart 10: Asset Quality continued to improve




Source: SBP

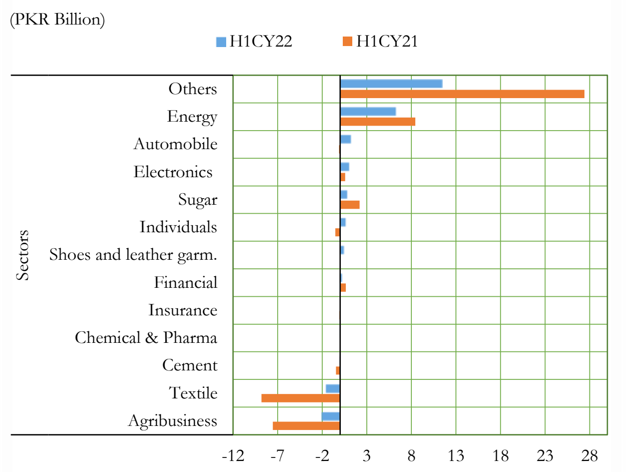
Consistent improvement in asset quality indicators manifest the impact of sustained economic momentum[22], which helped improve repayment capacity of the borrowers and increased the demand for financing.

Further analysis reveals that overall increase in NPLs (i.e. PKR 18 billion) mainly reflected translation of overseas operations' NPLs into PKR at a depreciated exchange rate, rather than any material increase in the NPLs.

Sector-wise analysis reveals that the energy sector and 'others' category mainly observed the rise in NPLs (**see Chart 11**). This increase in energy sector's NPLs mainly pertained to a single entity which faced some idiosyncratic issues. Addition in others category reflects the impact of exchange rate depreciation.

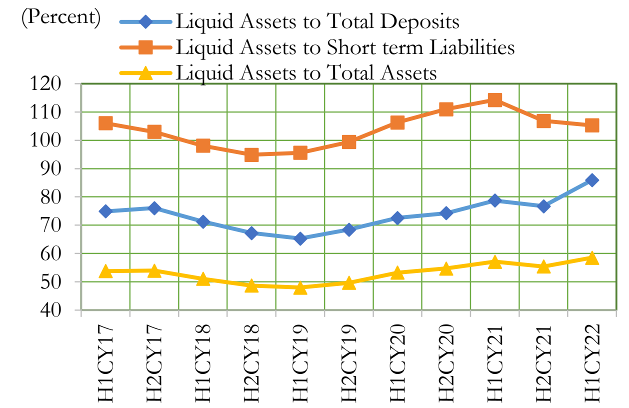
[22] Average LSM index of H1CY22 shows 15.9 percent growth over H1CY21.

Chart 11: Sector-wise Flow of NPLs




Source: SBP

Chart 12: Liquidity Ratios




Source: SBP

## Liquidity and Market Risk:

The liquidity position strengthened further owing to increased investment in government securities, which consequently raised the liquid assets by 22.4 percent during H1CY22. Further bifurcation of investment in government securities reveals that 79.5 percent and 2.3 percent of the securities were kept under Available for Sale (AFS) and Held for Trading (HFT) categories, respectively.

Key liquidity indicators also improved due to the aforementioned developments during H1CY22. The share of liquid assets in total assets rose to 58.5 percent (55.4 percent at end December-2021). Likewise, liquid assets to total deposits rose to 86.0 percent as compared to 76.7 percent in December-2021. However, liquid assets to short-term liabilities slightly contracted to 105.2 percent (from 106.8 percent in December-2021) due to higher increase in shorter-term repo borrowing. Nevertheless, this indicator still remains in the comfort zone as far as meeting short-term liquidity requirements is concerned (**see Chart 12**).

Moreover, Basel-III liquidity indicators, which consider more dynamic aspects of liquidity risk and take into account the unique features of different types of assets and liabilities and their liquidity requirements, also show comfortable liquidity position of the banking sector. Short-term liquidity measure, i.e., liquidity coverage ratio (LCR) slightly decreased to 202 percent as of end June-2022 from 215 percent in December-2021 (against minimum regulatory standard of 100 percent), while long-term standard i.e. net stable funding ratio (NSFR) also marginally dropped to 161 percent from 168 percent in December-2021 (against minimum standard of 100 percent).

Though balance sheet based liquidity indicators showed comfortable liquidity profile, banks frequently relied on OMO injections from the central bank to manage their liquidity needs amid high budgetary requirements of the government during H1CY22 (for details see section on financial markets).

Despite significant volatility in financial markets, banks' resilience remained intact during H1CY22. This was mainly due to limited FX and equity related exposures (for details see section C on financial markets). Banks have been consistently meeting the rising credit needs of the government by investing in government securities, which have increased banks' exposure on government and exposed them to changes in interest rates, especially on their investments in longer-term instruments.[23] Nonetheless, banks' overall

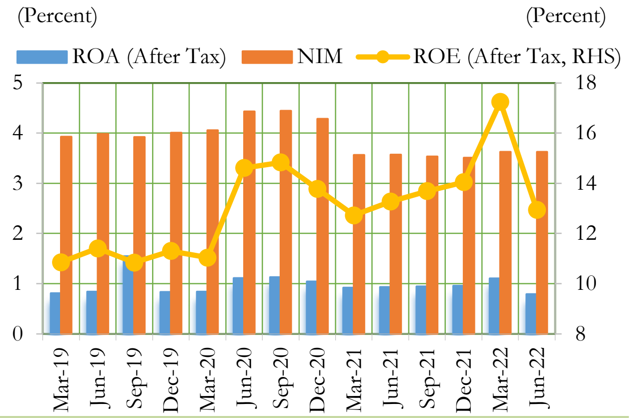
[23] Investments in government papers accounts for 47.5 percent of the total asset base of banks at end June-2022.

exposure to changes in financial prices (interest rate, equity prices and exchange rate) remains relatively contained as market risk charge accounts for only 5.6 percent of the overall capital requirement of the banking sector. Sensitivity (stress testing) results show adequate resilience of the banking sector against adverse conditions in financial prices (**see Annex-E**).

## Profitability:

Profitability indicators moderated in H1CY22. The after-tax return on assets (ROA) of the banking sector fell to 0.8 percent in June-2022 (0.9 percent in Jun-2021), while, return on equity (ROE) fell to 12.9 percent from 13.3 percent (**see Chart 13**). The moderation in earning indicators mainly emanated from the sharp rise in taxation charges, which suppressed the earnings' growth. Nonetheless, appreciable growth in net interest income (NII), fee-based income, and income from dealing in FX coupled with lower provisioning expenses supported earnings and drove up the pre-tax earning indicators of H1CY22.

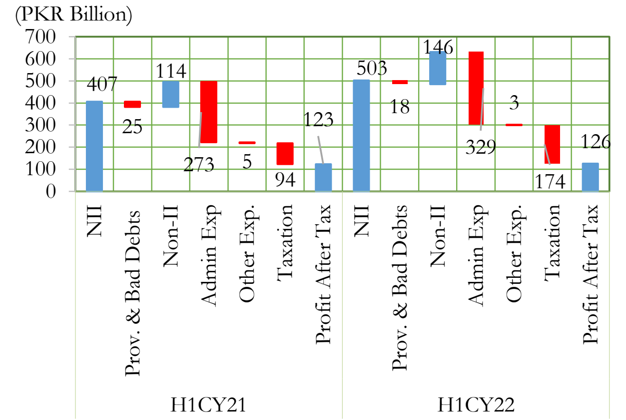
Chart 13: Profitability indicators moderated in H1CY22




Source: SBP

In fact, excluding the impact of taxation, the growth in banking sector's earnings was quite notable. The pre-tax tax profit recorded healthy YoY growth of 38.0 percent to PKR 300 billion in H1CY22 from PKR 217 billion in H1CY21. However, under the Finance Act 2022, tax incidence for banks has significantly increased due to the hike in corporate tax rate, super tax and enhancement in special tax on earnings on government papers.[24] Resultantly, the after-tax profit grew only by 2.7 percent to PKR 126 billion in H1CY22 when compared to PKR 123 billion in H1CY21 (**see Chart 14**).

Chart 14: Composition of Profit After Tax

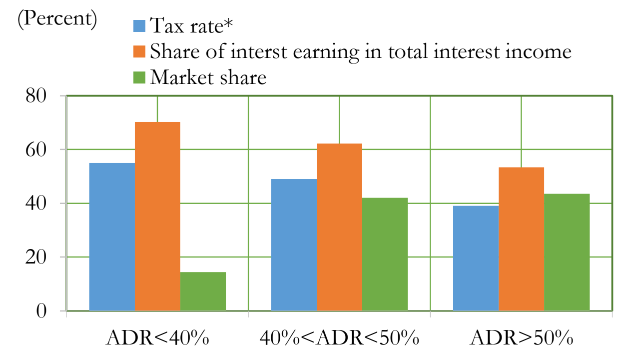



Source: SBP

Given the substantial share of government papers in banks' earning assets and interest income, advances to deposit ratio (ADR) explains the major differences in taxation among banks i.e. higher ADR is associated with relatively lower tax rate on income from government papers. Detailed analysis shows that most banks have higher than 50 percent ADR at end June-2022 (**see Chart 15**). These banks were mainly medium- to small-sized banks and also include Islamic banks, which typically have high financing to deposit ratios.

[24] The Finance Act 2022 increased the corporate rate of tax for banking companies to 39 percent (from 35 percent). A super tax (Section 4B) at rate of 4 percent was applicable to banks for tax year 2022 (only). However, the Act under a new section (4C), introduced a 10 percent super tax on banking companies earning income of more than PKR 300 million, for tax year 2023. Earlier through Finance Act, 2021, income attributable to investment in the Federal Government securities of banks was made taxable at tax rates of 40 percent, 37.5 percent and 35 percent, if ADR was up to 40 percent, between 40 to 50 percent and above 50 percent, respectively. The Finance Act 2022 has further enhanced these rates i.e. for tax year 2023 and onwards, tax rates will be 55 percent, 49 percent and 39 percent for these ADR slabs, respectively. Source: FBR Circular C.No.4(21) IT-Budget/2022 dated July 21, 2022 available at: https://download1.fbr.gov.pk/Docs/2022721177241469circular15of2002-23.pdf accessed: August 17, 2022

Chart 15: Banks' ADR ratios and income from investment to total interest income




*rate applicable on income from investment in government securities as per Finance Act 2022. Source: SBP & FBR

Incidentally, IBIs' supported banking sector earnings by contributing 34.5 percent of after tax-profit in H1CY22 (22.9 percent in H1CY21).

Analysis of earnings show that **NII** grew by 23.6 percent in H1CY22 compared to 4.2 percent decline in H1CY21.[25] This healthy growth in earnings largely resulted from 57.9 percent increase in interest income due to rising interest rates and growth in earning assets, though interest expenses also witnessed a sharp increase as banks' deposits and borrowings increased to fund assets' growth in the wake of rising interest rates.

Detailed analysis to identify the sources of YoY increase in NII shows that higher interest rates mainly raised interest earnings on advances and investments. However, strong growth in volume of investments as well as advances, also drew up interest income (**see Chart 16a&b**).

Chart 16a: Change in Interest Earned on Advances due to ....

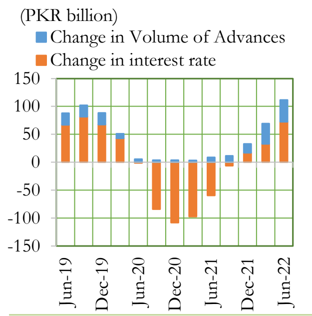
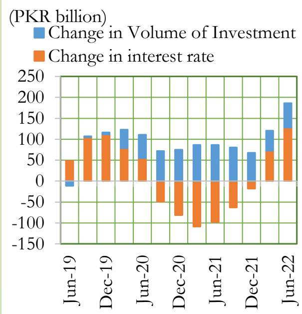



Chart 16b: Change in Interest Earned on Investment due to ....




*This chart splits the YoY change (PKR terms) in Interest earning in rate volume impact
Source: SBP

On the back of 400 bps increase in policy rate and expansion in fund base during H1CY22, banks' interest expenses on deposits and borrowings rose by 88.8 percent YoY to PKR 854 billion in H1CY22.[26] Within funding costs, the rise in interest rate explains the major increase in interest expense on deposits,[27] however, growth in volume mainly contributed to the increase in interest expense on borrowings (**see Chart 17a & b**).

Chart 17a: Change in Interest Expense on Deposits due to ....

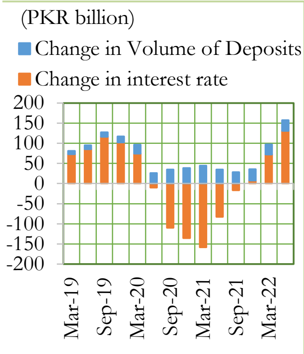
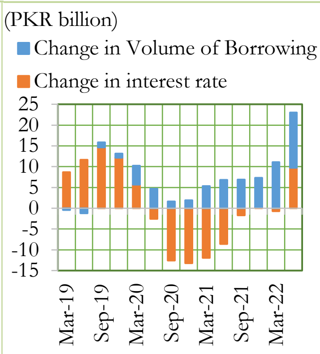



Chart 17b: Change in Interest Expense on Borrowing due to ....




*This chart splits the YoY change (PKR terms) in Interest expenses in rate volume impact
Source: SBP

To finance its budget deficit needs, government's credit demand from the banking sector has been quite robust in recent years. Consistent with the rise in banks' exposure towards government, interest income from investments is now a major source of banks' earnings (**see Chart 18**).[28]

---

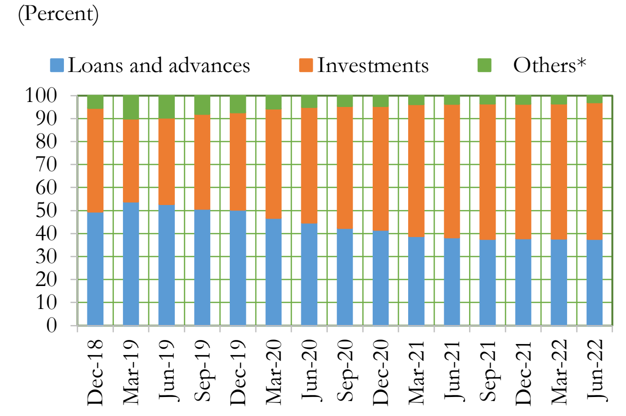
[25] NII rose to PKR 502.6 billion in H1CY22 (PKR 406.8 billion in H1CY21).

[26] Interest expenses were at PKR 452.4 billion in H1CY21.

[27] The Weighted Average Deposit Rate (WADR) on fresh deposits (excluding interbank and excluding zero markup) rose to 11.89 percent at end June-2022 from 5.94 percent in June-2021. Similarly, WADR on outstanding deposits (excluding interbank and excluding zero markup) rose to 11.17 percent by end June-2022 from 5.60 percent in June-2021.

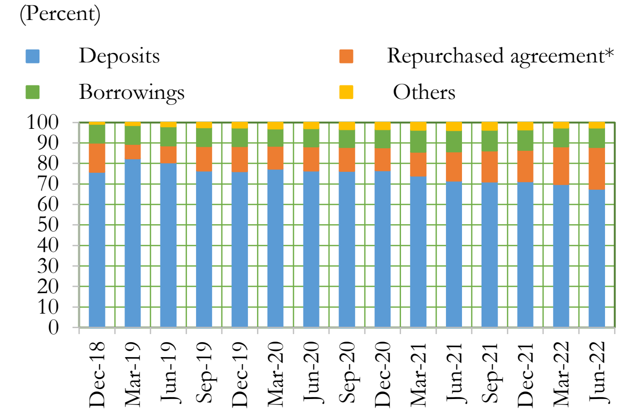
[28] 59.4 percent share in interest income at end June-2022

Chart 18: Share of Interest Earning from...




*Others include deposits with financial institutions, repo and others
Source: SBP

Chart 19: Share of Interest Expenses on...




*Securities sold under repurchased agreement
Source: SBP

Since the demand for bank credit increased significantly during the period under review, banks had to borrow more to meet the increased demand for credit and support the growth in investments. Accordingly, the share of interest expense on borrowings in total funding cost further increased, in line with the trend prevailing for the last few quarters. However, deposits continue to be the major source of funding as well as the driver of funding costs of banks (**see Chart 19**).[29]

The overall non-interest income grew by 28.4 percent (YoY) in H1CY22 compared to 2.2 percent growth in the same period last year.[30] Though, fee, commission and brokerage income rose 21.7 percent reflecting higher economic and trade activities, the major push to non-interest income came from dealing in FX as the increased volume of business in terms of imports, exports and remittances coupled with volatility during H1CY22 supported the income.[31] The gain on sale of securities remained lower than last year due to increase in interest rates during the period under review which put pressure on the value of fixed income securities, while equity market also remained lackluster.[32]

On the expenses side, the lower provisioning charge at PKR 18 billion in H1CY22 (PKR 25 billion in H1CY21), consistent with relatively contained increase in NPLs, also supported banks' earnings during H1CY22.

However, non-interest operating expenses which mainly comprise admin expenses recorded higher growth i.e. 19.2 percent in H1CY22.[33] The growth

[29] Deposits rose by PKR 2.0 trillion while borrowing rose by PKR 2.4 trillion in H1CY22.
[30] Banks earned non-interest income of PKR 146.1 billion in H1CY22 compared to income of PKR 113.8 billion in H1CY21.
[31] Fee, commission & brokerage income was higher at PKR 83.3 billion in H1CY22 (PKR 68.5 billion in H1CY21) and Income from dealing in FX was higher at PKR 41.4 billion in H1CY22 (PKR 9.5 billion in H1CY21).
[32] Banks obtained PKR 2.1 billion gains on sale of government securities during H1CY22 compared to PKR 7.6 billion in the same period last year. Similarly, gains on sale of quoted shares were lower at PKR 1.0 billion in H1CY222 compared to PKR 7.9 billion in H1CY21.
[33] Non-interest expenses were PKR 331.4 billion in H1CY22 (PKR 278.0 billion in H1CY21). Admin expenses contribute 99.2 percent of the total non-interest expenses (98.2 percent in H1CY21).

in banks' branches, increase in human resources and inflation largely explain the increase in admin expenses during H1CY22.[34] Branch expansion picked up pace particularly in Q2CY22 in response to fast recovery in economic activities after the pandemic and the spillover effects of pipelined expansion that was planned during 2020 but could not be executed due to lockdown restrictions.

To gauge the performance of banks, DuPont analysis was employed to evaluate the reasons for recent changes in ROE, which can be influenced by multiple factors.

**Table 1: Extended DuPont Analysis of Banking Sector's ROE**

| | H1CY20 | H1CY21 | H1CY22 |
|---|---|---|---|
| Impact of Tax i.e. NI/PBT (a) | 0.58 | 0.57 | 0.42 |
| Operating efficiency i.e. PBT/NII (b) | 0.51 | 0.53 | 0.60 |
| Interest margin NII/Interest Income (c') | 0.40 | 0.47 | 0.37 |
| Yield on assets i.e. Interest Income/Assets (d) | 0.05 | 0.03 | 0.04 |
| **Leverage i.e. Assets/Equity (e')** | 13.14 | 14.22 | 16.35 |
| ROE (f = a x b x c x d x e) | **14.6%** | **13.3%** | **12.9%** |

Note: NI=Net Income (Profit after tax), NII=Net Interest Income, PBT=Profit Before Tax, ROE=Return on Equity
Source: SBP

This analysis of leading factors highlights the following: First, the fall in interest margin (i.e. net interest income to interest earnings ratio) in H1CY22 suggests that interest expenses increased more rapidly in the aftermath of increase in policy rate which readily translated into cost of deposits vis-à-vis loans. However, this factor is likely to reverse in next few months when the loans will be fully repriced according to their terms and conditions. Banks can also contain the effects by changing their business strategy (e.g. by focusing on higher mobilization of low cost deposits).

Second, the increase in tax burden (fall in NI/PBT ratio to 0.42 at end H1CY22) suggested higher taxation which reduced NI as well as the ROE of the sector and created a challenging situation for the banking sector. High tax incidence on banks may make it challenging for them to support capital-intensive innovations due to lower after-tax returns.

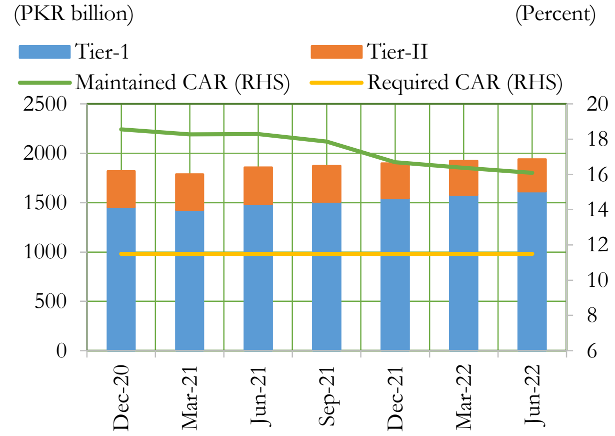
[34] Number of bank branches rose by 254 in H1CY22 to 15,818 at end June-2022, compared to increase of 59 branches in H1CY21.

Furthermore, banking sector also increased its leverage to support the ROE (**see Table 1**).

## Solvency:

**Solvency** indicator of the banking sector slightly deteriorated with Capital Adequacy Ratio (CAR) at 16.1 percent in June-2022 compared to 16.7 percent in December-2021 (**Chart 20**).

Chart 20: CAR remained well above the regulatory minimum level




Source: SBP

While both the eligible capital and Total Risk-Weighted Assets (TRWA) increased in H1CY22, the latter increased by 5.6 percent against eligible capital's growth of 2.1 percent resulting in a decrease in CAR.

Detailed assessment shows that the increase in TRWA during H1CY22 was mainly contributed by the growth in Credit Risk Weighted Assets (CRWA) which grew by 7.3 percent in H1CY22 as the banks expanded their loan portfolio over the period. The increase was observed in both rated and unrated exposures. However, in line with the general trend prevailing in the market for quite some time, the rated exposures increased at a faster pace i.e. by 12.1 percent during H1CY22 compared to a 3.9 percent increase in unrated exposures, reflecting banks' preference to focus more on lending to established customers, which generally have relatively better credit worthiness.

In addition, Operational Risk Weighted Assets (ORWA), which constitute 14.8 percent of TRWA, increased by 1.4 percent during H1CY22. The rise mainly emanated from growth in average gross income, which forms the basis of capital charge for operational risk under Basic Indicator Approach (BIA) of Basel capital standards, which is used by most banks.[35]

Since CAR of the banking sector is well above the minimum regulatory benchmark of 11.5 percent, capital impairment (net NPLs to capital) ratio of 3.8 percent historically stands at one of the lowest levels. In addition, with earnings remaining largely steady, the overall solvency position of banking sector remains satisfactory. Latest sensitivity analysis shows that the banking sector has sufficient resilience to withstand various hypothetical severe shocks to key risk factors i.e. credit and market risks (**see Annexure-E**).

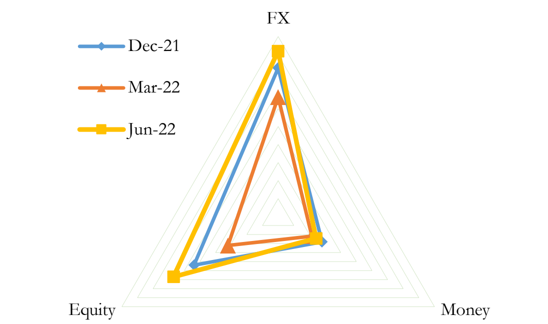
The results of macro-stress testing (scenario analysis) corroborate that the banking sector has sufficient resilience to withstand assumed severe macroeconomic shocks, as its CAR remains above the minimum regulatory requirement under both business-as-usual and stressed macroeconomic conditions scenarios over the projected period of next two years.

[35] Keeping in view the need of a comprehensive methodology to appropriately account for the underlying drivers of operational risk which are quite dynamic, BIS under Basel-III reforms has introduced a new approach i.e. Standardized Approach to calculate ORWA. This new approach takes into account business indicators with more differentiation and also considers the banks' past experience of actual operational losses.

# C. Financial Markets - Risk Assessment

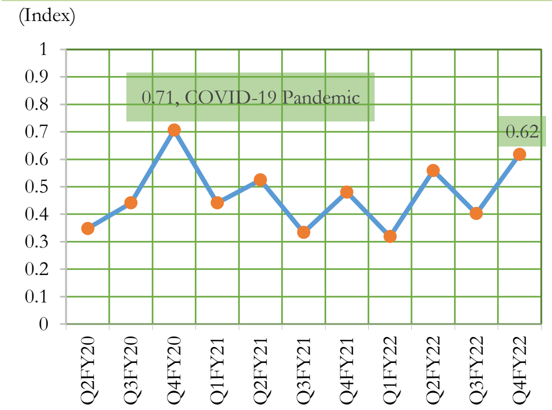
Domestic financial markets witnessed increase in stress during H1CY22 (see **Charts 21 and 22**). Particularly, the foreign exchange market remained in pressure amid the widening current account deficit and external debt repayments. The money market witnessed strain on market liquidity due to increased government borrowings, financing demand for commodity operations and growing private sector credit. However, the open market operations (OMOs) injections helped banks in managing their liquidity needs. Meanwhile, bearish sentiments continued in the equity market as KSE-100 index fell 6.9 percent mainly driven by challenging macro-financial conditions and political developments.

Chart 21: Financial Markets Stability Map




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

Chart 22: Trend in Financial Markets Stress Index (FMSI)




Source: SBP Staff estimates

## FX market

With the start of Russia-Ukraine war in February-2022, global commodity prices further escalated from their already elevated levels. The IMF all commodities index hit its highest level in March-2022 since January-2003. The negative shock from the commodity markets adversely affected Pakistan's external sector dynamics resulting in widening of current account deficit to USD 8.3 billion in H1CY22 (USD 3.2 billion deficit in H1CY21).

Besides global commodity prices, higher external debt servicing and portfolio rebalancing by foreign investors amid rising interest rates in advanced economies - such as the US, strengthening of the US dollar against many currencies[36]- also contributed to pressures on PKR.[37] Apart from economic factors, uncertainties surrounding the resumption of IMF Extended Fund Facility (EFF) program and domestic political developments also played their part in the increased exchange rate volatility particularly in Q2CY22.

[36] The USD index rose to 121.1 by end June-2022 from 115.3 at end Dec-2021. Data source: Board of Governors of the US Federal Reserve System
[37] External debt servicing (principal + markup) amounted to USD 9.1 billion in H1CY22, compared to USD 6.4 billion in H1CY21. Net Portfolio outflows amounted to USD 735.6 million in H1CY22 (compared to net inflows of USD 103.8 million in H1CY21).

PKR depreciated by 13.8 percent against USD in H1CY22, compared to appreciation of 1.5 percent in the same period last year. The volatility in exchange rate during H1CY22 surpassed the volatility during first half of CY20 that was significantly affected by COVID-19.[38] Moreover, the KERB market also went through severe stress conditions: the average spread between KERB and interbank exchange rate rose to 1.07 PKR per USD during H1CY22 as compared to 0.20 PKR per USD in H1CY21.

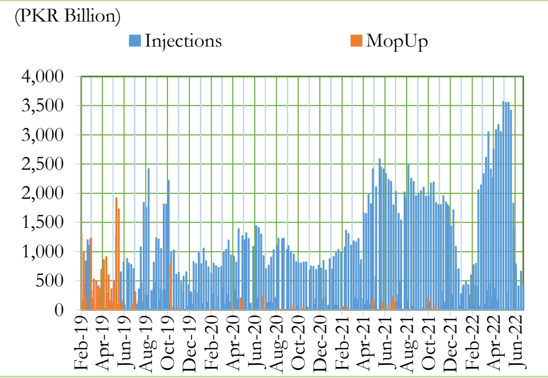
Though the FX market remained in stress situation specifically in the second quarter of H1CY22, the volatility in currency did not translate into any imminent stability concerns for banks due to their limited FX exposures, amid conservative regulatory limits. The latest stress test results also indicate banks' low sensitivity and high resilience to FX risks. As of June 2022, even after a severe 30 percent hypothetical depreciation of PKR, among all the CAR-compliant banks (having around 99 percent combined market share at end June-2022), no bank loses its compliance with regulatory CAR requirement.[39]

## Money Market

By end Q1CY22, domestic inflationary pressures and the risks to external sector intensified. SBP expected that the global commodity prices may take longer than anticipated to undergo some softening.[40] Accordingly, to counter the risks, the central bank raised policy rate by 250 bps in April 2022 and 150 basis in May 2022, SBP also increased the interest rate on the Export Refinance Scheme (EFS) in April[41] and took import compression measures.

Responding to the policy rate changes, the interbank overnight repo rate (ONR) exhibited higher volatility in H1CY22 compared to same period last year. The ONR on average remained 7 bps above policy rate as compared to 8 bps above policy rate in H1CY21, reflecting relatively tighter liquidity conditions in the interbank market. The market's demand for liquidity increased due to higher budgetary needs of the government, private sector credit and commodity operations.[42] Despite higher deposit mobilization by banks during Q2CY22,[43] SBP had to keep the market liquid through relatively frequent and higher amounts of OMOs injections during Q2CY22 – on a few occasions as high as PKR 3.5 trillion injections were conducted (see **Chart 23**).

Chart 23: OMOs Injections and Mop-ups




Source: SBP

In the wake of rising interest rate scenario, banks showed preference for short tenor government securities i.e. T-Bills in auctions, whose cut-off rates remained

[38] Volatility is computed using Exponential Weighted Moving Average Method (EWMA). The average volatility in exchange rate (PKR vs. USD) was 0.40 in H1CY22 compared to 0.19 in H1CY21 and 0.35 in H1CY20.

39 For details see table 1.15: Stress Testing Results of the Banking System https://www.sbp.org.pk/ecodata/fsi/qc/2022/Jun.pdf

[40] For details, see Monetary Policy Statement for April 2022

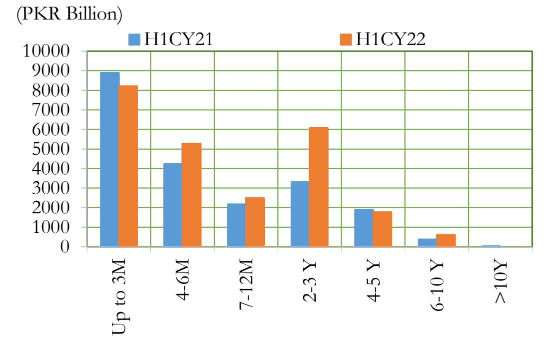
[41] Further, in July 07, 2022 MPS, the interest rates on EFS and LTFF loans was linked to SBP policy rate to strengthen monetary policy transmission, while continuing to incentivize exports by presently offering a discount of 500 basis points relative to the Policy rate.

[42] However, six occasions coincided with OMOs injections on which various financial institutions availed floor facility of SBP during H1CY22.

[43] Banks mobilized PKR 2.4 trillion of deposits in Q2CY22 compared to PKR 1.9 trillion in Q2Y21. For details see the section on deposits of this review.

above policy rate. Yields on TBs also remained above policy rate in the secondary market reflecting rising interest rate expectation of market in the near term. The cumulative trading volume of government securities in secondary market increased, however, trading remained skewed towards shorter tenor securities (see **Chart 24**).[44]

Chart 24: Trading of Government Securities in Secondary Market




Source: SBP

The yield curve kept its upward movement when compared to end December-2021, however, it inverted above one year tenors by end of June-2022 suggesting that the market had priced in the impact of stabilization measures on the macroeconomic environment (**see chart 7**).

Since government securities constitute a major part of banks' assets base, they are susceptible to revaluation losses due to upward shifts in the interest rates.[45] However, sensitivity (stress testing) analysis under the most severe shock scenario (i.e. parallel upward shift in the yield curve by 300 basis points) shows that overall CAR of most of the banks remains well above the minimum requirement (**see Annexure – E**).[46]

## Equity market:

The benchmark equity indicator i.e. KSE-100 index in general remained under pressure and declined by 6.9 percent during H1CY22 compared to fall of 5.8 percent in H2CY21 (growth of 8.2 percent in H1CY21) while volatility remained higher than CY21. Since the index (KSE-100) was on a declining trajectory, average daily trading volumes also shrank to 258.2 million shares in H1CY22 compared to 341.6 million shares in H2CY21 (612.1 million shares in H1CY21), reflecting a hold-on strategy of investors. The major factors influencing the overall downward trend include: (i) tightening of monetary policy, (ii) rising inflation and current account deficit (expectations of higher interest rates), and, iii) political developments and uncertainties surrounding the IMF program.

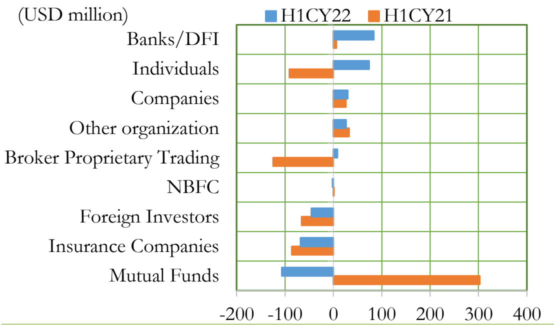
The KSE-100 index returns breached historical Value at Risk (VaR) nine times in H1CY22 with relatively higher magnitude, as compared to six breaches in the same period last year. The stress seems to have influenced investors' sentiments. Foreign investors, mutual funds and insurance companies showed risk aversive strategy. However, investors such as banks/DFIs, individuals and companies remained key buyers in H1CY22 (see **Chart 25**).

44 Cumulative trading volume of government securities rose to PKR 24.4 trillion in H1CY22 from PKR 20.9 trillion in the same period last year. Cumulative trading volumes of government securities in short tenors amounted to PKR 16.0 trillion in H1CY22.

45 Accumulated revaluation deficit on banks' investment in government securities increased to PKR 176.1 billion at end June-2022 from PKR 70.9 in Dec-2021

46 For details see table 1.15: Stress Testing Results of the Banking System https://www.sbp.org.pk/ecodata/fsi/qc/2022/Jun.pdf

Chart 25: Investment flows in equities by type of investors




Source: NCCPL

Investment in shares augments banks' earnings,[47] however, in line with prudent regulatory regime and considering the overall conditions, banks generally follow a conservative investment strategy as their investments in shares remain well below the prudential regulatory limits.

Banks' investment in shares comes to 11.8 percent of their regulatory capital and constitutes 1.3 percent of their total investment portfolio at end June 2022 (1.6 percent at end June-2021). This relatively low exposure to equity market and adequate capital levels reflect banks' adequate resilience to adverse movements in equity prices. The latest sensitivity (stress testing) analysis suggests that even in a severe fall in general equity prices by around 40 percent, CAR of most of the banks remains above the regulatory requirement. [48]

[47] Banks realized PKR 1.0 billion net gains on sale of shares during H1CY22 (PKR 7.9 billion net gains on sales of shares during H1CY21).

48 For details see table 1.15: Stress Testing Results of the Banking System https://www.sbp.org.pk/ecodata/fsi/qc/2022/Jun.pdf

# D. Special Section: Performance of Microfinance Banks

Microfinance Banks (MFBs) play an important role to serve a large number of microcredit borrowers and depositors. Microcredit can play an important role in unleashing the economic potential of low-income families and microenterprises, and contribute to the overall financial inclusion objective to lift people out of poverty. Though MFBs constitute only 2.8 percent and 1.8 percent of total advances and deposits in value terms (when aggregated with banks), respectively; however, in terms of number of domestic borrowers, MFBs have a share of 54.8 percent, signifying their importance in Pakistan's credit market, financial inclusion, and economy.

MFBs expanded their asset base by 3.8 percent to PKR 604 billion in H1CY22 (compared to 4.0 percent increase in H1CY21). This increase in assets was driven by an 11.5 percent increase in advances. Over the same period, investments slightly decreased by 0.5 percent to PKR 133 billion, while deposits inched up by 5.6 percent to support the increase in asset base (**Table S1.1**).

The challenging macro-financial environment impacted the repayment capacity and behavior of MFBs' low net-worth borrowers who are more sensitive to stressed conditions. As such, the MFB sector experienced increase in credit risk since the COVID-19 pandemic, which impacted the repayment capacity of its borrowers and the associated social distancing requirements weakened the institution-borrower relationships. Gross NPLs of MFBs increased by 41.8 percent in H1CY22 which was however lower when compared to the 82.8 percent increase in the corresponding period of last year.

On an overall basis, gross NPLs ratio of MFBs deteriorated from 5.2 percent in December-2021 to 6.5 percent in June-2022 (5.4 percent in June-2021). In addition, with slight decline in provisioning coverage ratio, net NPLs to capital increased to 11.0 percent in June-2022 from 5.4 percent in December-2021 (7.5 percent in June-2021).

Despite increases in net interest income and fee-based income, aggregate loss (before tax) for the sector increased further due to higher growth in administrative and provisioning expenses for the period ended June-2022.

Administrative expenses, which showed contained growth during last year due to pandemic-induced contained expansionary policy of the institutions, witnessed pronounced growth during H1CY22. Similarly, provisioning expenses also rose due to growth in NPLs, putting pressure on the aggregate bottom line of the sector. Consequently, ROE (after tax) further declined to -21.7 percent in June-2022 (from -9.1 percent in June-2021). Accordingly, aggregate capital base of MFB s sector witnessed a contraction during H1CY22. This coupled with growth of risk-weighted assets (RWAs) led the overall CAR of the sector to edge down to 14.9 percent.

**Table S1.1: Performance of Microfinance Banks**

| | Dec-19 | Jun-20 | Dec-20 | Jun-21 | Dec-21 | Jun-22 |
|---|---|---|---|---|---|---|
| | PKR million, ratio in percent | | | | | |
| Total Assets | 380,011 | 400,421 | 493,984 | 513,752 | 582,104 | 604,210 |
| Investments (net) | 52,169 | 60,611 | 96,774 | 98,650 | 133,419 | 132,796 |
| Advances (net) | 206,965 | 208,817 | 231,047 | 252,534 | 278,318 | 310,233 |
| Deposits | 266,195 | 292,239 | 373,084 | 378,438 | 422,998 | 446,748 |
| Equity | 50,421 | 43,466 | 50,175 | 54,650 | 56,703 | 51,097 |
| Profit/(Loss) after tax (year-to-date) | (8,117) | (3,899) | (5,883) | (2,437) | (8,080) | (5,884) |
| Gross NPLs | 11,392 | 9,979 | 7,791 | 14,245 | 14,979 | 21,245 |
| Capital Adequacy Ratio | 20.9 | 17.9 | 19.0 | 19.1 | 18.3 | 14.9 |
| NPLR | 5.3 | 4.6 | 3.3 | 5.4 | 5.2 | 6.5 |
| Provisioning Cov. Ratio | 70.0 | 93.7 | 106.5 | 69.3 | 78.1 | 73.4 |
| ROE (after tax) | (16.9) | (16.6) | (12.2) | (9.1) | (15.0) | (21.7) |
| ROA (after tax) | (2.3) | (2.0) | (1.4) | (1.0) | (1.6) | (2.0) |
| ADR* | 77.7 | 71.5 | 61.9 | 66.7 | 65.8 | 69.4 |
| | Growth (Year on Year) | | | | | |
| Total Assets | 15.9 | 14.0 | 30.0 | 28.3 | 17.8 | 17.6 |
| Investments (net) | -4.4 | 38.9 | 85.5 | 62.8 | 37.9 | 34.6 |
| Advances (net) | 11.7 | 4.0 | 11.6 | 20.9 | 20.5 | 22.8 |
| Deposits | 11.6 | 16.6 | 40.2 | 29.5 | 13.4 | 18.1 |
| Equity | 3.0 | -7.7 | -0.5 | 25.7 | 13.0 | -6.5 |
| Gross NPLs | 150.0 | 11.8 | -31.6 | 42.7 | 92.3 | 49.1 |
| | Share in Total Assets | | | | | |
| Investments (net) | 13.7 | 15.1 | 19.6 | 19.2 | 22.9 | 22.0 |
| Advances (net) | 54.5 | 52.1 | 46.8 | 49.2 | 47.8 | 51.3 |

* ADR=Advances to Deposits.

Source: SBP

## Box 1: SBP's Systemic Risk Survey-10th Wave (July 2022)

**(Disclaimer: The results represent the opinion of the respondents of the survey and do not reflect the views of the State Bank of Pakistan.)**

SBP completed the 10th wave of its biannual Systemic Risk Survey (SRS) in July 2022 to capture the risk perceptions of the market participants and evaluate their confidence in the stability of the financial system.

The survey gauged the present and future (over the next six months) perceptions of the respondents related to five broad categories of risk i.e. global, macroeconomic, financial markets, institutional and general. The respondents for the current iteration included a broad spectrum of stakeholders.[49] One hundred and one participants took part in the current wave yielding 51% response rate.

### Summary of Results:

1. At present, on the aggregate level, respondents identified "Financial Market Risks", "Domestic Macroeconomic Risks" and "Global Risks" as most critical for systemic risk. For the six months horizon, their perception about all three categories as a source of systemic risk experience slight decline. **(Chart A & B)**

2. In terms of specific risks at present, highest rated are "volatility in commodity prices"[50], "Energy Crisis", and "Increase in domestic Inflation". For the next six months, the respondents' overall risk perception declines with regards to most of the risk sources. Going forward, while continuing to foresee heightened risk of "Increase in domestic Inflation" and "Energy Crisis", respondents also foresee "Political uncertainty" as a major risk in the next six months horizon. **(Chart C)**

3. Comparison of the current iteration of the survey with previous waves highlights that the major deterioration in risk perception has emerged in global and macroeconomic risk categories. Particularly, respondents expressed heightened risk perception regarding global economic slowdown, volatility in commodity prices, political uncertainty, sovereign rating downgrade, and domestic energy crisis. **(Chart E)**

4. The respondents conveyed confidence on the stability of the financial and banking system for current and next six months period. **(Chart D)**.

It is essential to highlight that majority of the risks are somewhat sporadic in nature with exogenous drivers.

[49] The respondents included executives from commercial banks, insurance companies, exchange companies, MFBs, DFIs, major financial market infrastructures, financial journalists, members of academia, SECP officials and think tanks.

[50] "Volatility in commodity prices" has also remained among the highest rated risks in previous two waves (8th and 9th).

Chart A: Perception on sources of systemic risk- present

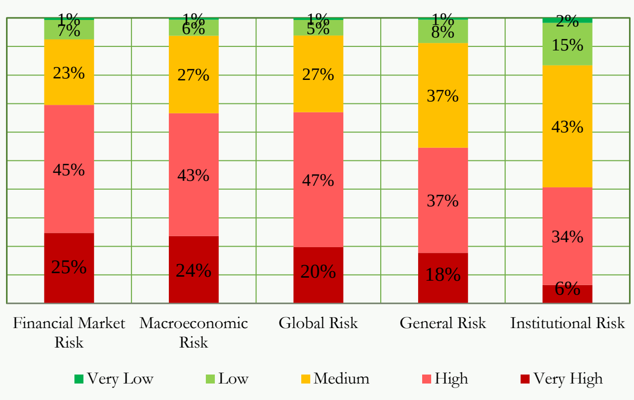



Chart B: Perception on sources of systemic risk- 6 months

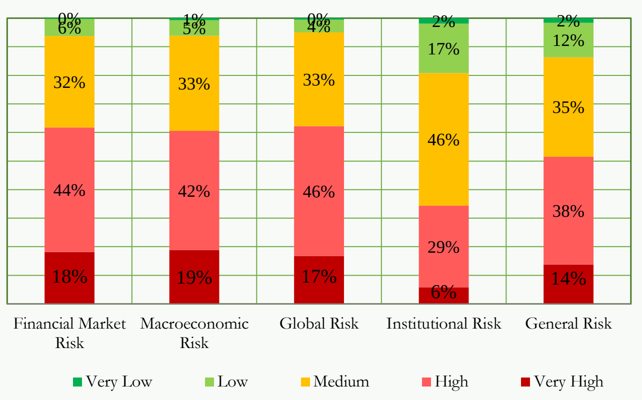



Chart C: Top 10 Risks Identified

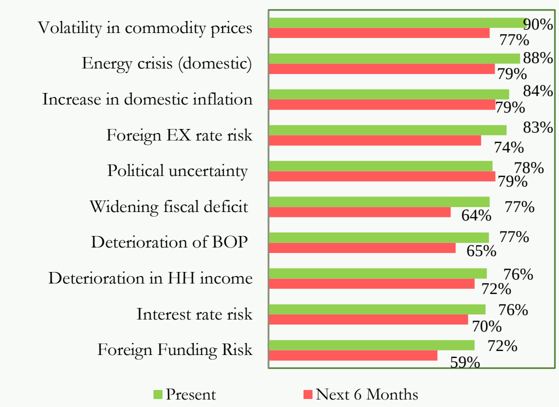



Chart D: Confidence in Financial Stability - Comparison with 9th wave

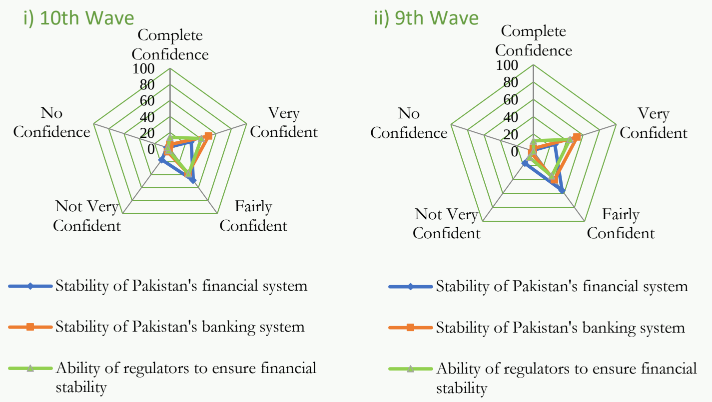



Chart E: Comparison of SBP's Systemic Risk Survey (SRS) Results (8th, 9th and 10th waves)

| | | 8th Wave (Jul-21) Present (Average) | 9th Wave (Jan-22) Present (Average) | 10th Wave (July-22) Present (Average) |
|---|---|---|---|---|
| Global Risks | Slowdown in global growth | 2.73 | 2.52 | 2.25 |
| | Sovereign default risk | 3.12 | 2.99 | 2.51 |
| | Lack of funding from abroad | 2.76 | 2.49 | 2.13 |
| | Volatility in commodity prices | 2.18 | 1.89 | 1.77 |
| Macroeconomic Risks | Slowdown in domestic growth | 2.51 | 2.22 | 2.10 |
| | Increase in domestic inflation | 2.33 | 1.99 | 1.83 |
| | Widening fiscal deficit | 2.45 | 2.09 | 1.92 |
| | Deterioration of BoP | 2.48 | 2.11 | 1.88 |
| | Sovereign rating downgrade | 2.71 | 2.47 | 2.20 |
| | Slowdown in corporate sector growth | 2.74 | 2.63 | 2.43 |
| | Slowdown in infrastructure development | 2.79 | 2.75 | 2.67 |
| | Deterioration in household savings | 2.36 | 2.10 | 1.99 |
| | Volatility in real estate prices | 3.04 | 2.91 | 2.69 |
| | Energy crisis | 2.34 | 2.34 | 1.78 |
| | Political uncertainty | 2.71 | 2.49 | 1.91 |
| Financial Market risks | Foreign exchange rate risk | 2.42 | 1.91 | 1.77 |
| | Equity price risk | 2.89 | 2.64 | 2.42 |
| | Interest rate risk | 2.72 | 2.18 | 2.04 |
| | Liquidity risk | 2.75 | 2.62 | 2.33 |

| | | 8th Wave (Jul-21) Present (Average) | 9th Wave (Jan-22) Present (Average) | 10th Wave (July-22) Present (Average) |
|---|---|---|---|---|
| Institutional Risks | Regulatory risk | 2.67 | 2.55 | 2.70 |
| | Legal risk | 2.96 | 2.89 | 3.02 |
| | Asset quality deterioration | 2.56 | 2.53 | 2.45 |
| | Shortfall in capital requirement | 2.83 | 2.65 | 2.55 |
| | Access to funding (deposit mobilization & borrowings) | 2.82 | 2.82 | 2.71 |
| | Excessive private sector credit | 2.90 | 2.83 | 2.67 |
| | Concentration risk in PSC | 2.89 | 2.80 | 2.68 |
| | Concentration risk in mutual fund | 3.34 | 3.11 | 3.15 |
| | Operational risk | 2.74 | 2.70 | 2.87 |
| | Cyber security risk | 2.25 | 2.13 | 2.39 |
| | Disruption in financial market | 2.82 | 2.79 | 2.75 |
| General Risks | Terrorism | 2.63 | 2.66 | 2.67 |
| | Geopolitical risk for Pakistan | 2.24 | 2.39 | 2.28 |
| | Natural disasters/ Increasing threat of climate change | 2.74 | 2.73 | 2.57 |
| | Social unrest | 2.93 | 2.79 | 2.43 |

1 3 5

Very High Medium Very Low

# E. Banking Sector Outlook for H2CY22

Ongoing challenging macroeconomic environment has been compounded by recent torrential rains and flooding in many parts of the country that caused heavy losses to human lives as well as crops, livestock, dwellings and infrastructure. It is likely to dent repayment capacity of banks' agri and microfinance borrowers in the flood-affected areas. As a second-round effect, it may impact the financial performance of some agri-based sectors e.g. textiles, sugar, fertilizer, etc. as well as the economy in general. The NPLs of agri portfolio may not face significant increase due to inbuilt-flexibility in the regulatory framework, which allows rescheduling in the event of such natural calamities. However, the challenging environment could weaken some of the MFB borrowers, which typically have low resilience to cope with such natural disasters and macroeconomic shocks.

Ongoing economic stabilization measures to contain the aggregate demand coupled with any significant weakening in the output and sales of major borrowing sectors may affect the demand for private sector credit. However, in line with the seasonal pattern of higher credit demand in Q4 and elevated input prices may lead to some increase in advances. Banks' interest in government securities is likely to remain intact amid higher financing needs of the government particularly in the wake of recent flooding.

Banks' earning indicators observed some dip in H1CY22. However, with the translation of interest rate changes onto the prices of earning assets during H2CY22, the interest margins and corresponding earning indicators are expected to improve. This coupled with the expected increase in risk-weighted assets during Q4CY22 is likely to keep the capital adequacy position steady. The overall environment may remain challenging in the near term. Nevertheless, the results of SBP's macro-stress testing show that the overall capital adequacy ratio of the sector, in both business as usual and hypothetically stressed economic conditions, is likely to remain well above the minimum regulatory requirement over the projected period of next two years.

# Annexure

## Annexure A

### Balance Sheet and Profit & Loss Statement of Banks

PKR million

| Financial Position | CY18 | H1CY19 | CY19 | H1CY20 | CY20 | H1CY21 | CY21 | H1CY22 |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash & Balances With Treasury Banks | 1,574,551 | 2,117,875 | 1,987,096 | 1,976,860 | 2,014,703 | 2,247,704 | 2,276,963 | 2,330,437 |
| Balances With Other Banks | 147,829 | 205,223 | 232,671 | 236,269 | 277,988 | 244,200 | 253,008 | 329,621 |
| Lending To Financial Institutions | 909,754 | 724,736 | 978,640 | 834,963 | 1,079,071 | 1,097,202 | 1,095,663 | 1,300,829 |
| Investments - Net | 7,913,923 | 7,967,691 | 8,939,438 | 10,978,886 | 11,934,634 | 14,162,493 | 14,554,438 | 17,829,457 |
| Advances - Net | 7,955,195 | 8,104,232 | 8,248,973 | 8,065,385 | 8,291,572 | 8,808,147 | 10,120,509 | 10,889,864 |
| Operating Fixed Assets | 437,235 | 533,451 | 596,924 | 604,754 | 626,251 | 657,406 | 704,729 | 750,991 |
| Deferred Tax Assets | 81,082 | 85,057 | 74,052 | 73,011 | 91,820 | 103,751 | 133,061 | 178,968 |
| Other Assets | 662,485 | 979,360 | 933,542 | 934,858 | 807,816 | 856,051 | 919,931 | 1,250,573 |
| **TOTAL ASSETS** | **19,682,054** | **20,717,625** | **21,991,337** | **23,704,986** | **25,123,855** | **28,176,953** | **30,058,303** | **34,860,740** |
| **LIABILITIES** | | | | | | | | |
| Bills Payable | 243,237 | 293,156 | 231,178 | 277,479 | 313,827 | 338,769 | 328,566 | 367,963 |
| Borrowings From Financial Institution | 3,001,186 | 2,619,901 | 2,932,082 | 2,970,670 | 3,216,866 | 4,265,193 | 4,738,036 | 7,143,910 |
| Deposits And Other Accounts | 14,254,210 | 15,227,411 | 15,953,489 | 17,403,634 | 18,518,525 | 20,441,315 | 21,719,885 | 23,730,225 |
| Sub-ordinated Loans | 111,713 | 117,098 | 123,218 | 125,762 | 121,854 | 112,732 | 122,815 | 136,827 |
| Liabilities Against Assets Subject To Finance Lease | 7 | 1,164 | 7,446 | 7,892 | 7,534 | 8,064 | 8,025 | 8,109 |
| Deferred Tax Liabilities | 34,557 | 27,518 | 43,602 | 78,143 | 46,549 | 45,183 | 29,319 | 20,684 |
| Other Liabilities | 631,529 | 943,424 | 1,042,073 | 1,027,081 | 1,036,267 | 1,082,862 | 1,170,116 | 1,505,355 |
| **TOTAL LIABILITIES** | **18,276,439** | **19,229,671** | **20,333,089** | **21,890,663** | **23,261,422** | **26,294,119** | **28,116,763** | **32,913,074** |
| **NET ASSETS** | **1,405,615** | **1,487,954** | **1,658,248** | **1,814,323** | **1,862,433** | **1,882,835** | **1,941,540** | **1,947,666** |
| **NET ASSETS REPRESENTED BY:** | | | | | | | | |
| Share Capital | 541,040 | 547,120 | 556,886 | 556,231 | 556,131 | 561,687 | 568,000 | 581,950 |
| Reserves | 315,570 | 346,145 | 349,529 | 380,624 | 392,599 | 404,463 | 445,470 | 471,971 |
| Unappropriated Profit | 433,205 | 450,489 | 521,807 | 552,669 | 642,965 | 651,445 | 721,894 | 761,847 |
| **Share Holders' Equity** | **1,289,816** | **1,343,753** | **1,428,222** | **1,489,523** | **1,591,696** | **1,617,595** | **1,735,364** | **1,815,769** |
| Surplus/Deficit On Revaluation Of Assets | 115,799 | 144,201 | 230,026 | 324,799 | 270,737 | 265,240 | 206,176 | 131,897 |
| **TOTAL** | **1,405,615** | **1,487,954** | **1,658,248** | **1,814,323** | **1,862,433** | **1,882,835** | **1,941,540** | **1,947,666** |

| PROFIT AND LOSS STATEMENT | CY18 | H1CY19 | CY19 | H1CY20 | CY20 | H1CY21 | CY21 | H1CY22 |
|---|---|---|---|---|---|---|---|---|
| Mark-Up/ Return/Interest Earned | 1,153,383 | 793,092 | 1,851,790 | 1,058,859 | 1,924,328 | 859,148 | 1,831,650 | 1,356,779 |
| Mark-Up/ Return/Interest Expenses | 608,309 | 462,507 | 1,156,062 | 634,182 | 1,071,898 | 452,398 | 992,650 | 854,211 |
| **Net Mark-Up / Interest Income** | **545,074** | **330,584** | **695,727** | **424,677** | **852,430** | **406,750** | **839,000** | **502,567** |
| Provisions & Bad Debts Written Off Directly/(Reversals) | 36,201 | 26,402 | 67,855 | 57,481 | 123,039 | 25,121 | 50,405 | 17,505 |
| **Net Mark-Up / Interest Income After Provision** | **508,873** | **304,183** | **627,872** | **367,196** | **729,391** | **381,630** | **788,595** | **485,063** |
| Fees, Commission & Brokerage Income | 112,852 | 61,749 | 123,895 | 54,794 | 118,322 | 68,464 | 142,803 | 83,316 |
| Dividend Income | 13,589 | 6,334 | 12,325 | 4,951 | 10,810 | 7,461 | 18,003 | 9,659 |
| Income From Dealing In Foreign Currencies | 25,981 | 18,583 | 26,269 | 8,825 | 21,854 | 9,474 | 34,746 | 41,436 |
| Other Income | 25,698 | 4,419 | 19,628 | 42,763 | 65,920 | 28,389 | 43,161 | 11,742 |
| **Total Non - Markup / Interest Income** | **178,121** | **91,084** | **182,117** | **111,334** | **216,906** | **113,788** | **238,713** | **146,154** |
| | 686,993 | 395,267 | 809,989 | 478,529 | 946,298 | 495,418 | 1,027,308 | 631,216 |
| Administrative Expenses | 430,375 | 237,084 | 495,018 | 254,095 | 521,253 | 273,050 | 565,230 | 328,629 |
| Other Expenses | 5,068 | 3,508 | 10,517 | 7,818 | 13,690 | 5,029 | 10,987 | 2,735 |
| **Total Non-Markup/Interest Expenses** | **435,444** | **240,592** | **505,535** | **261,913** | **534,943** | **278,079** | **576,216** | **331,364** |
| Profit before Tax and Extra ordinary Items | 251,550 | 154,675 | 304,454 | 216,616 | 411,355 | 217,339 | 451,092 | 299,852 |
| Extra ordinary/unusual Items - Gain/(Loss) | 9,016 | 15 | 49 | - | | | - | - |
| **PROFIT/ (LOSS) BEFORE TAXATION** | **242,534** | **154,660** | **304,405** | **216,616** | **411,355** | **217,339** | **451,092** | **299,852** |
| Less: Taxation | 93,194 | 71,940 | 133,656 | 90,857 | 167,315 | 94,434 | 186,870 | 173,661 |
| **PROFIT/ (LOSS) AFTER TAX** | **149,340** | **82,719** | **170,749** | **125,759** | **244,039** | **122,905** | **264,222** | **126,191** |

# Annexure B

## Distribution of Deposits

PKR billion

| | CY18 | H1CY19 | CY19 | H1CY20 | CY20 | H1CY21 | CY21 | H1CY22 |
|---|---|---|---|---|---|---|---|---|
| **DEPOSITS** | **14,254** | **15,227** | **15,953** | **17,404** | **18,519** | **20,441** | **21,720** | **23,730** |
| **Customers** | **13,417** | **14,367** | **14,891** | **16,386** | **17,271** | **19,017** | **20,179** | **22,015** |
| Fixed Deposits | 2,974 | 3,074 | 3,410 | 3,424 | 3,631 | 3,737 | 4,227 | 4,462 |
| Saving Deposits | 5,043 | 5,386 | 5,709 | 6,409 | 6,734 | 7,306 | 7,562 | 7,967 |
| Current accounts - Remunerative | 561 | 597 | 604 | 708 | 755 | 852 | 1,019 | 1,153 |
| Current accounts - Non-remunerative | 4,691 | 5,157 | 5,022 | 5,634 | 5,961 | 6,867 | 7,138 | 8,060 |
| Others | 146 | 153 | 146 | 212 | 189 | 254 | 233 | 373 |
| **Financial Institutions** | **837** | **860** | **1,062** | **1,017** | **1,248** | **1,425** | **1,540** | **1,716** |
| Remunerative Deposits | 471 | 477 | 577 | 557 | 750 | 903 | 927 | 1,093 |
| Non-remunerative Deposits | 367 | 383 | 485 | 460 | 498 | 522 | 613 | 622 |
| **Break up of Deposits Currency Wise** | **14,254** | **15,227** | **15,953** | **17,404** | **18,519** | **20,441** | **21,720** | **23,730** |
| Local Currency Deposits | 12,600 | 13,267 | 14,043 | 15,424 | 16,566 | 18,489 | 19,539 | 21,170 |
| Foreign Currency Deposits | 1,655 | 1,960 | 1,911 | 1,980 | 1,952 | 1,952 | 2,180 | 2,560 |

# Annexure C

### C1: Segment-wise Advances(Grosss) and Non Performing Loans (NPLs)

Amount in PKR million, ratio in percent

| | CY19 | | | H1CY20 | | CY20 | | | H1CY21 | | | CY21 | | | H1CY22 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Advances | NPLs | Infection Ratio | Advances | NPLs | Advances | NPLs | Infection Ratio | Advances | NPLs | Infection Ratio | Advances | NPLs | Infection Ratio | Advances | NPLs | Infection Ratio |
| **Corporate Sector** | 6,356,658 | 562,760 | 8.9 | 6,226,140 | 606,959 | 6,421,776 | 605,239 | 9.4 | 6,621,260 | 636,811 | 9.6 | 7,731,109 | 653,988 | 8.5 | 8,166,970 | 673,173 | 8.2 |
| **SMEs Sector** | 480,009 | 76,724 | 16.0 | 403,416 | 78,333 | 460,690 | 78,915 | 17.1 | 438,351 | 76,977 | 17.6 | 518,631 | 76,534 | 14.8 | 477,227 | 74,199 | 15.5 |
| **Agriculture Sector** | 344,611 | 61,254 | 17.8 | 323,081 | 88,985 | 338,037 | 77,046 | 22.8 | 384,710 | 69,263 | 18.0 | 404,847 | 61,821 | 15.3 | 424,314 | 58,971 | 13.9 |
| **Consumer sector** | 572,563 | 25,887 | 4.5 | 554,429 | 33,197 | 635,227 | 31,297 | 4.9 | 717,351 | 30,393 | 4.2 | 820,928 | 30,263 | 3.7 | 897,754 | 30,738 | 3.4 |
| *i. Credit cards* | 49,127 | 2,692 | 5.5 | 42,971 | 2,933 | 51,422 | 3,067 | 6.0 | 54,967 | 2,638 | 4.8 | 64,968 | 2,619 | 4.0 | 72,215 | 2,223 | 3.1 |
| *ii. Auto loans* | 219,807 | 3,067 | 1.4 | 213,230 | 6,272 | 258,072 | 4,423 | 1.7 | 307,550 | 4,560 | 1.5 | 351,437 | 4,155 | 1.2 | 361,406 | 4,409 | 1.2 |
| *iii. Consumer durable* | 1,138 | 62 | 5.5 | 1,070 | 65 | 1,227 | 70 | 5.7 | 1,294 | 60 | 4.7 | 1,771 | 66 | 3.7 | 911 | 64 | 7.0 |
| *iv. Mortgage loans* | 92,664 | 10,665 | 11.5 | 88,462 | 11,572 | 93,741 | 11,684 | 12.5 | 108,605 | 10,887 | 10.0 | 148,000 | 9,923 | 6.7 | 205,480 | 9,914 | 4.8 |
| *v. Other personal loans* | 209,827 | 9,401 | 4.5 | 208,696 | 12,353 | 230,766 | 12,053 | 5.2 | 244,935 | 12,248 | 5.0 | 254,752 | 13,499 | 5.3 | 257,742 | 14,128 | 5.5 |
| **Commodity financing** | 799,126 | 7,392 | 0.9 | 907,365 | 7,670 | 833,394 | 7,761 | 0.9 | 1,023,108 | 8,351 | 0.8 | 990,803 | 8,090 | 0.8 | 1,218,697 | 8,008 | 0.7 |
| *Cotton* | 31,880 | 1,139 | 3.6 | 29,243 | 1,044 | 31,896 | 988 | 3.1 | 27,747 | 1,003 | 3.6 | 43,882 | 935 | 2.1 | 34,139 | 1,701 | 5.0 |
| *Rice* | 21,056 | 2,680 | 12.7 | 18,181 | 2,640 | 29,198 | 2,629 | 9.0 | 21,980 | 2,567 | 11.7 | 27,232 | 2,453 | 9.0 | 20,636 | 2,271 | 11.0 |
| *Sugar* | 71,549 | 2,705 | 3.8 | 72,507 | 1,845 | 72,230 | 1,845 | 2.6 | 89,262 | 1,864 | 2.1 | 95,016 | 1,804 | 1.9 | 93,468 | 1,798 | 1.9 |
| *Wheat* | 588,040 | 112 | 0.0 | 698,927 | 1,354 | 611,468 | 1,257 | 0.2 | 794,171 | 1,045 | 0.1 | 804,050 | 752 | 0.1 | 1,014,790 | 273 | 0.0 |
| *Others* | 86,602 | 755 | 0.9 | 88,507 | 787 | 88,602 | 1,042 | 1.2 | 89,948 | 1,871 | 2.1 | 20,623 | 2,146 | 10.4 | 55,663 | 1,965 | 3.5 |
| **Staff Loans** | 151,057 | 2,128 | 1.4 | 153,551 | 2,152 | 163,996 | 2,195 | 1.3 | 177,360 | 2,348 | 1.3 | 198,298 | 2,380 | 1.2 | 224,693 | 2,368 | 1.1 |
| **Others** | 164,720 | 24,973 | 15.2 | 188,444 | 29,255 | 170,618 | 26,449 | 15.5 | 201,393 | 26,645 | 13.2 | 240,752 | 27,131 | 11.3 | 284,877 | 31,066 | 10.9 |
| **Total** | 8,868,744 | 761,118 | 8.6 | 8,756,427 | 846,551 | 9,023,738 | 828,902 | 9.2 | 9,563,533 | 850,788 | 8.9 | 10,905,368 | 860,206 | 7.9 | 11,694,531 | 878,521 | 7.5 |

### C2: Sector-wise Advances(Gross) and Non Performing Loans (NPLs)

amount in PKR million, ratio in percent

| | CY19 | | | H1CY20 | | CY20 | | | H1CY21 | | | CY21 | | | H1CY22 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Advances | NPLs | Infection Ratio | Advances | NPLs | Advances | NPLs | Infection Ratio | Advances | NPLs | Infection Ratio | Advances | NPLs | Infection Ratio | Advances | NPLs | Infection Ratio |
| Agribusiness | 704,869 | 63,213 | 9.0 | 658,554 | 90,439 | 702,126 | 80,118 | 11.4 | 851,094 | 72,654 | 8.5 | 931,704 | 67,446 | 7.2 | 997,667 | 65,407 | 6.6 |
| Automobile/Transportation | 176,934 | 17,544 | 9.9 | 160,200 | 18,127 | 142,754 | 17,596 | 12.3 | 163,700 | 17,484 | 10.7 | 194,677 | 17,341 | 8.9 | 213,924 | 18,565 | 8.7 |
| Cement | 190,559 | 4,149 | 2.2 | 211,933 | 6,208 | 203,770 | 6,190 | 3.0 | 200,045 | 5,747 | 2.9 | 213,275 | 5,477 | 2.6 | 245,583 | 5,449 | 2.2 |
| Chemical & Pharmaceuticals | 311,429 | 15,150 | 4.9 | 286,380 | 16,506 | 327,337 | 16,706 | 5.1 | 335,688 | 16,776 | 5.0 | 375,419 | 16,551 | 4.4 | 419,087 | 16,538 | 3.9 |
| Electronics | 120,193 | 20,444 | 17.0 | 111,444 | 23,022 | 110,589 | 22,281 | 20.1 | 124,346 | 22,851 | 18.4 | 150,523 | 24,110 | 16.0 | 165,555 | 25,131 | 15.2 |
| Financial | 252,058 | 10,998 | 4.4 | 212,350 | 9,884 | 230,156 | 11,215 | 4.9 | 268,393 | 11,870 | 4.4 | 337,473 | 10,495 | 3.1 | 382,568 | 10,697 | 2.8 |
| Individuals | 763,625 | 60,656 | 7.9 | 732,981 | 70,299 | 815,411 | 64,666 | 7.9 | 935,622 | 64,128 | 6.9 | 1,071,916 | 63,050 | 5.9 | 1,202,135 | 63,676 | 5.3 |
| Insurance | 4,299 | 7 | 0.2 | 5,756 | 137 | 5,732 | 136 | 2.4 | 5,959 | 68 | 1.1 | 6,421 | 62 | 1.0 | 5,210 | 62 | 1.2 |
| Others | 3,386,624 | 285,991 | 8.4 | 3,426,349 | 320,003 | 3,473,398 | 319,438 | 9.2 | 3,536,076 | 346,759 | 9.8 | 4,026,516 | 357,631 | 8.9 | 4,288,029 | 369,070 | 8.6 |
| Production/Transmission of Energy | 1,492,818 | 46,586 | 3.1 | 1,405,492 | 52,054 | 1,393,743 | 58,401 | 4.2 | 1,398,258 | 66,835 | 4.8 | 1,521,026 | 78,264 | 5.1 | 1,519,079 | 84,505 | 5.6 |
| Shoes & Leather garments | 38,634 | 5,949 | 15.4 | 35,729 | 5,854 | 37,388 | 5,679 | 15.2 | 39,508 | 5,743 | 14.5 | 43,635 | 5,476 | 12.5 | 51,895 | 5,906 | 11.4 |
| Sugar | 220,988 | 50,511 | 22.9 | 289,093 | 54,264 | 238,455 | 56,958 | 23.9 | 298,727 | 59,161 | 19.8 | 251,046 | 58,531 | 23.3 | 347,780 | 59,331 | 17.1 |
| Textile | 1,205,711 | 179,921 | 14.9 | 1,220,168 | 179,755 | 1,342,880 | 169,519 | 12.6 | 1,406,119 | 160,713 | 11.4 | 1,781,736 | 155,771 | 8.7 | 1,856,019 | 154,184 | 8.3 |
| Total | 8,868,744 | 761,118 | 8.6 | 8,756,427 | 846,551 | 9,023,738 | 828,902 | 9.2 | 9,563,533 | 850,788 | 8.9 | 10,905,368 | 860,206 | 7.9 | 11,694,531 | 878,521 | 7.5 |

### C-3: Classification wise Non Performing Loans (NPLs) and Provisions (specific)

PKR million

| | CY19 | | H1CY20 | | CY20 | | H1CY21 | | CY21 | | H1CY22 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NPLs | Provisions | NPLs | Provisions | NPLs | Provisions | NPLs | Provisions | NPLs | Provisions | NPLs | Provisions |
| OAEM | 32,634 | - | 39,497 | - | 27,930 | - | 21,717 | - | 15,763 | - | 22,341 | - |
| Sub Standard | 66,482 | 7,804 | 60,229 | 12,071 | 42,133 | 8,585 | 46,066 | 8,980 | 36,701 | 7,455 | 39,329 | 7,775 |
| Doubtful | 55,663 | 22,197 | 73,213 | 32,184 | 81,861 | 41,138 | 85,945 | 45,166 | 68,365 | 35,930 | 59,293 | 32,569 |
| Loss | 606,339 | 552,607 | 673,613 | 590,543 | 676,978 | 598,398 | 697,059 | 622,829 | 739,376 | 671,893 | 757,559 | 692,865 |
| Total | 761,118 | 582,607 | 846,551 | 634,798 | 828,902 | 648,121 | 850,788 | 676,976 | 860,206 | 715,278 | 878,521 | 733,209 |

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

# Annexure D

## Financial Soundness Indicators of the Banking Sector

percent

| Indicators | CY19 | H1CY20 | CY20 | H1CY21 | CY21 | H1CY22 |
|---|---|---|---|---|---|---|
| **CAPITAL ADEQUACY** | | | | | | |
| Risk Weighted CAR^ | 17.0 | 18.7 | 18.6 | 18.3 | 16.7 | 16.1 |
| Tier 1 Capital to RWA | 14.0 | 14.7 | 14.8 | 14.6 | 13.5 | 13.4 |
| **ASSET QUALITY** | | | | | | |
| NPLs to Total Loans | 8.6 | 9.7 | 9.2 | 8.9 | 7.9 | 7.5 |
| Provision to NPLs | 81.4 | 81.6 | 88.3 | 88.8 | 91.2 | 91.6 |
| Net NPLs to Net Loans | 1.7 | 1.9 | 1.2 | 1.1 | 0.7 | 0.7 |
| Net NPLs to Capital^^ | 8.9 | 9.0 | 5.3 | 5.1 | 4.0 | 3.8 |
| **EARNINGS** | | | | | | |
| Return on Assets (Before Tax) | 1.5 | 1.9 | 1.8 | 1.6 | 1.6 | 1.9 |
| Return on Assets (After Tax) | 0.8 | 1.1 | 1.0 | 0.9 | 1.0 | 0.8 |
| ROE (Avg. Equity& Surplus) (Before Tax) | 20.1 | 25.2 | 23.2 | 23.5 | 24.0 | 30.7 |
| ROE (Avg. Equity &Surplus) (After Tax) | 11.3 | 14.6 | 13.8 | 13.3 | 14.0 | 12.9 |
| NII/Gross Income | 79.3 | 79.2 | 79.7 | 78.1 | 77.9 | 77.5 |
| Cost / Income Ratio | 57.6 | 48.9 | 50.0 | 53.4 | 53.5 | 51.1 |
| **LIQUIDITY** | | | | | | |
| Liquid Assets/Total Assets | 49.7 | 53.3 | 54.8 | 57.1 | 55.4 | 58.5 |
| Liquid Assets/Total Deposits | 68.4 | 72.6 | 74.3 | 78.7 | 76.7 | 86.0 |
| Advances/Deposits | 51.7 | 46.3 | 44.8 | 43.1 | 46.6 | 45.9 |

*^ Data for Dec-13 and onwards is based on Basel III, with the exception of IDBL,PPCBL, and SME Bank, which is based on Basel I.*

*^^ Effective from June 30, 2015, Regulatory Capital, as defined under Basel requirements, has been used to calculate Net NPLs to Capital Ratio. Prior to Jun-15, Balance Sheet Capital was used for calculation of this ratio.*

# Annexure E

## Stress Testing Results of the Banking System

Position based as June 30, 2022 (Un-audited)

| Shock Details | | Number of Banks with CAR* | | | |
|---|---|---|---|---|---|
| | | < 0% | 0% - 8% | 8% - 11.5% | > 11.5% |
| Pre-Shock Position | | 3 | 0 | 0 | 29 |

| | Credit Shocks | Nature of Shock | < 0% | 0% - 8% | 8% - 11.5% | > 11.5% |
|---|---|---|---|---|---|---|
| C-1 | 10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss. | Hypothetical | 3 | 0 | 3 | 26 |
| C-2 | Default of top 3 private sector borrowers/Groups (fund based ) exposures, including outstanding or limit which ever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions. | Hypothetical | 5 | 1 | 8 | 18 |
| C-3 | Default of top 3 private sector borrowers/Groups (fund based and Non-Fund based ) exposures, including outstanding or limit which ever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions. | Hypothetical | 5 | 0 | 10 | 17 |
| C-4 | All NPLs under substandard downgrade to doubtful and all doubtful downgrade to loss. | Hypothetical | 3 | 0 | 0 | 29 |
| C-5 | Increase in provisions against NPLs equivalent to 25% of Net NPLs. | Hypothetical | 3 | 0 | 1 | 28 |
| C-6 | Increase in NPLs to Loans Ratio (NPLR) equivalent to the historical maximum quarterly increase in NPLs to Loans Ratio of the individual banks. | Historical | 3 | 1 | 2 | 26 |
| C-7 | Increase in NPLs to Loans Ratio (NPLR) of Textile Sector of the banks equivalent to the historical maximum quarterly increase in these banks. | Historical | 3 | 0 | 1 | 28 |
| C-8 | Increase in NPLs to Loans Ratio of Textile Sector of the banks equivalent to the historical maximum quarterly increase in these banks. | Historical | 3 | 0 | 0 | 29 |
| C-9 | Increase in NPLs to Loans Ratio of Consumer Sector of the banks equivalent to the historical maximum quarterly increase in these banks. | Historical | 3 | 0 | 0 | 29 |
| C-10 | Increase in NPLs to Loans Ratio of Agriculture & SME Sector of the banks equivalent to the historical maximum quarterly increase in these banks. | Historical | 3 | 0 | 0 | 29 |
| | | | | NPLR | Critical NPLR | Difference |
| C-11 | Critical Infection Ratio (The ratio of NPLs to Loans where capital would wipe out) | Hypothetical | | 7.5% | 35.2% | 27.7% |
| | | | Number of Banks with CAR | | | |
| | Market Shocks | | < 0% | 0% - 8% | 8% - 11.50% | > 11.50% |
| IR-1 | Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities. | Hypothetical | 3 | 2 | 3 | 24 |
| IR-2 | Upward shift coupled with steepening of the yield curve by increasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the historical maximum quarterly increase. | Historical | 3 | 2 | 3 | 24 |
| IR-3 | Downward Shift plus flattening of the yield curve by decreasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalevent to the historical maximum quarterly increase. | Historical | 3 | 0 | 2 | 27 |
| IR-4 | Impact of Increase in interest rate by 100bps on investment portfolio only | Hypothetical | 3 | 0 | 2 | 27 |
| ER-1 | Depreciation of Pak Rupee exchange rate by 30%. | Hypothetical | 3 | 0 | 0 | 29 |
| ER-2 | Depreciation of Pak Rupee exchange rate by 15.9% equivalent to the historical quarterly highest depreciation of rupee against dollar. | Historical | 3 | 0 | 0 | 29 |
| ER-3 | Appreciation of Pak Rupee exchange rate by 7.0% equivalent to the historical quarterly highest level of appreciation of rupee against dollar . | Historical | 3 | 0 | 0 | 29 |
| EQ-1 | Fall in general equity prices by 41.4% equivalent to maximum decline in the index. | Historical | 3 | 0 | 1 | 28 |
| EQ-2 | Fall in general equity prices by 50%. | Hypothetical | 3 | 0 | 1 | 28 |
| | | | | No. of Banks with no liquidity after | | |
| | Liquidity Shocks | | | 3 Days | 4 Days | 5 Days |
| L-1 | Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively. | Hypothetical | | 0 | 2 | 3 |
| | | | | 1 Day | 2 Days | 3 Days |
| L-2 | Withdrawal of Wholesale Deposits and Unsecured Borrowings by 10%, 20%, and 50% for three consecutive days respectively. | Hypothetical | | 0 | 0 | 3 |
| | | | | Number of Banks with LCR<1 | | |
| L-3 | Shock to Liquidity Coverage Ratio Applying 20% haircut to the value of Investments in Government Securities* | Hypothetical | | 6 | | |

** Excluding IDBP (which has negative equity).*

# Annexure F

## Group-wise Composition of Banks

| CY20 | H1CY21 | CY21 | H1CY22 |
|---|---|---|---|
| **A. Public Sector Com. Banks (5)** | **A. Public Sector Com. Banks (5)** | **A. Public Sector Com. Banks (5)** | **A. Public Sector Com. Banks (5)** |
| First Women Bank Ltd. | First Women Bank Ltd. | First Women Bank Ltd. | First Women Bank Ltd. |
| National Bank of Pakistan | National Bank of Pakistan | National Bank of Pakistan | National Bank of Pakistan |
| Sindh Bank Ltd. | Sindh Bank Ltd. | Sindh Bank Ltd. | Sindh Bank Ltd. |
| The Bank of Khyber | The Bank of Khyber | The Bank of Khyber | The Bank of Khyber |
| The Bank of Punjab | The Bank of Punjab | The Bank of Punjab | The Bank of Punjab |
| **B. Local Private Banks (20)** | **B. Local Private Banks (20)** | **B. Local Private Banks (20)** | **B. Local Private Banks (20)** |
| AlBaraka Bank (Pakistan) Ltd. | AlBaraka Bank (Pakistan) Ltd. | AlBaraka Bank (Pakistan) Ltd. | AlBaraka Bank (Pakistan) Ltd. |
| Allied Bank Ltd. | Allied Bank Ltd. | Allied Bank Ltd. | Allied Bank Ltd. |
| Askari Bank Ltd. | Askari Bank Ltd. | Askari Bank Ltd. | Askari Bank Ltd. |
| Bank AL Habib Ltd. | Bank AL Habib Ltd. | Bank AL Habib Ltd. | Bank AL Habib Ltd. |
| Bank Alfalah Ltd. | Bank Alfalah Ltd. | Bank Alfalah Ltd. | Bank Alfalah Ltd. |
| BankIslami Pakistan Ltd. | BankIslami Pakistan Ltd. | BankIslami Pakistan Ltd. | BankIslami Pakistan Ltd. |
| Dubai Islamic Bank Pakistan Ltd. | Dubai Islamic Bank Pakistan Ltd. | Dubai Islamic Bank Pakistan Ltd. | Dubai Islamic Bank Pakistan Ltd. |
| Faysal Bank Ltd. | Faysal Bank Ltd. | Faysal Bank Ltd. | Faysal Bank Ltd. |
| Habib Bank Ltd. | Habib Bank Ltd. | Habib Bank Ltd. | Habib Bank Ltd. |
| Habib Metropolitan Bank Ltd. | Habib Metropolitan Bank Ltd. | Habib Metropolitan Bank Ltd. | Habib Metropolitan Bank Ltd. |
| JS Bank Ltd. | JS Bank Ltd. | JS Bank Ltd. | JS Bank Ltd. |
| MCB Bank Ltd. | MCB Bank Ltd. | MCB Bank Ltd. | MCB Bank Ltd. |
| MCB Islamic Bank Ltd. | MCB Islamic Bank Ltd. | MCB Islamic Bank Ltd. | MCB Islamic Bank Ltd. |
| Meezan Bank Ltd. | Meezan Bank Ltd. | Meezan Bank Ltd. | Meezan Bank Ltd. |
| SAMBA Bank Ltd. | SAMBA Bank Ltd. | SAMBA Bank Ltd. | SAMBA Bank Ltd. |
| Silk Bank Ltd | Silk Bank Ltd | Silk Bank Ltd | Silk Bank Ltd |
| Soneri Bank Ltd. | Soneri Bank Ltd. | Soneri Bank Ltd. | Soneri Bank Ltd. |
| Standard Chartered Bank (Pakistan) Ltd. | Standard Chartered Bank (Pakistan) Ltd. | Standard Chartered Bank (Pakistan) Ltd. | Standard Chartered Bank (Pakistan) Ltd. |
| Summit Bank Ltd | Summit Bank Ltd | Summit Bank Ltd | Summit Bank Ltd |
| United Bank Ltd. | United Bank Ltd. | United Bank Ltd. | United Bank Ltd. |
| **C. Foreign Banks (4)#** | **C. Foreign Banks (4)#** | **C. Foreign Banks (4)#** | **C. Foreign Banks (4)#** |
| Citibank N.A. | Citibank N.A. | Citibank N.A. | Citibank N.A. |
| Deutsche Bank AG | Deutsche Bank AG | Deutsche Bank AG | Deutsche Bank AG |
| Industrial and Commercial Bank of China Ltd. | Industrial and Commercial Bank of China Ltd. | Industrial and Commercial Bank of China Ltd. | Industrial and Commercial Bank of China Ltd. |
| Bank of China Limited | Bank of China Limited | Bank of China Limited | Bank of China Limited |
| **D. Specialized Banks (3)*** | **D. Specialized Banks (3)*** | **D. Specialized Banks (3)*** | **D. Specialized Banks (3)*** |
| Punjab Provincial Co-operative Bank Ltd. | Punjab Provincial Co-operative Bank Ltd. | Punjab Provincial Co-operative Bank Ltd. | Punjab Provincial Co-operative Bank Ltd. |
| SME Bank Ltd. | SME Bank Ltd. | SME Bank Ltd. | SME Bank Ltd. |
| Zarai Taraqiati Bank Ltd. | Zarai Taraqiati Bank Ltd. | Zarai Taraqiati Bank Ltd. | Zarai Taraqiati Bank Ltd. |
| **All Commercial Banks (29)** | **All Commercial Banks (29)** | **All Commercial Banks (29)** | **All Commercial Banks (29)** |
| Include A + B + C | Include A + B + C | Include A + B + C | Include A + B + C |
| **All Banks (32)** | **All Banks (32)** | **All Banks (32)** | **All Banks (32)** |
| Include A + B + C + D | Include A + B + C + D | Include A + B + C + D | Include A + B + C + D |