

Box 7.1: Financial Performance and Soundness of Top Borrowing Groups of the Banking Sector

The corporate sector constitutes a large portion of the banking system's advances portfolio, accounting for 64.3 percent of gross domestic loans as of December 2025. The sector includes a number of large business conglomerates against which banks maintain sizeable exposures, which pose concentration risks with potential systemic implications for the stability of the banking sector. To address this issue, SBP has put in place regulatory prudential limits on banks' exposure to a single borrower, borrowing group, and related party.²⁴ Prudential regulations also define the concept of "large exposure" and prescribe an aggregate limit on such exposures. Against this backdrop, this Box examines the repayment capacity, and overall financial health of firms within the top borrowing groups, based on the following parameters:

- Banks' internal assessment of the creditworthiness of large borrowers and borrowing groups, as reflected in the Obligor Risk Rating (ORR) assigned to each corporate-sector borrower. The ORR scale ranges from 1 to 12, where ratings from 1 to 9 represent performing categories, and ratings from 10 to 12 denote non-performing categories.
- Borrowers' repayment behavior and capacity, particularly with respect to the interest coverage ratio and presence of any overdue amounts in servicing their loan obligations to banks.
- The latest financial indicators of major corporate borrowers, along with selected market-based indicators that reflect investors' valuation and perception of these firms.

To accomplish this task, thirty (30) large borrowing groups, comprising 214 corporate borrowers having highest funded exposure, have been identified based on an internal exercise. This assessment considered factors such as the ownership structure of the firm, regulatory returns, financial statements of the firms and information available on groups' /firms' websites etc. Further, groups with a fund-based exposure of Rs 40 billion and above are considered for this assessment, given their systemic risk implications.

a) Obligor Risk Rating Based Analysis

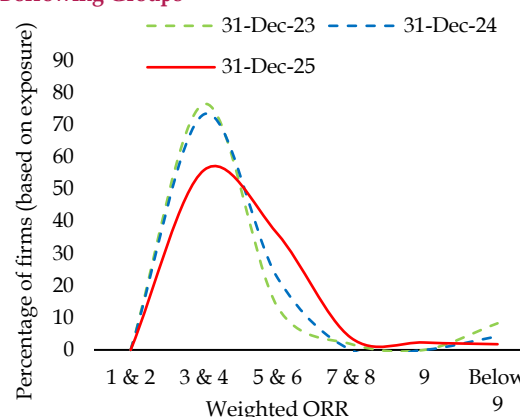
During CY25, domestic economic activity continued to gain traction amid improving macroeconomic conditions and enhanced policy credibility, decline in CPI inflation and fiscal consolidation.

The 214 identified firms together constitute around 29.5 percent of the corporate domestic loan portfolio of banks and DFIs at end of December 2025.²⁵

Based on ORRs of different entities of the borrowing groups, overall average rating (weighted by size of loans) of each group was compiled. To assess the dynamics of credit worthiness of these groups, distributions of the weighted ORRs for last three years have been plotted in **Figure 7.1.1**. Assessment indicates that, on average, over half of the top 30 groups have at least good to medium (3 & 4) ratings. Nonetheless, major chunk of the firms in large borrowing groups, around 98 percent, have been consistently rated in performing category, viz., 1 to 9.

Outstanding exposure (fund based) to top 30 borrowing group decreased by 18.4 percent (YoY) in CY25 as corporate loans declined as well by around 17.7 percent in CY25. This decline was observed mainly due to normalization/cooling off of prior year's significant rise in advances towards end of CY24 on back of bank's aggressive efforts to increase Advances-to-Deposit Ratio in the wake of ADR-linked tax policy. There was some

Internal Credit Rating of Top 30 Borrowing Groups **Figure 7.1.1**



Source: State Bank of Pakistan Estimates

²⁴ Regulation R-1 of SBP Prudential Regulation for Corporate/Commercial Banking.

²⁵ This share was 28.7 percent at end of December 2024

migration witnessed within performing category firms '1 - 9' during CY25 i.e. around 17.4 percent of firms in rating '3 & 4' moved into lower rating bin of '5 & 6' mainly due to moderation in earnings and adverse outlook of some firms involved in international trade on back of higher anticipated tariffs and energy cost. In terms of repayment capacity, however, the overall distribution implies that despite some shifting in weighted ORRs, borrowers' credit quality and repayment capacity remained steady. Except for a few groups (around 1.8 percent of total exposure), which fell under non-performing/overdue category, by and large the top 30 borrowing groups exhibited strong repayment capacity in CY25. The non-performing borrowing groups constituted 4.2 percent of total exposure in prior year i.e. CY24. It is important to note that around 61.6 percent of banks' corporate and commercial loan portfolio comprises of borrowers who have been rated by independent external rating agencies.

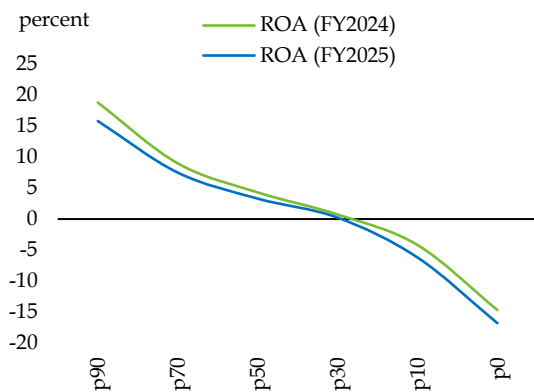
b) Financial Soundness and Market Performance

Out of the 214 identified firms with funded exposure in top 30 borrowing groups, 59 firms were listed on PSX. To analyze the financial soundness of these firms and assess how they are valued by the market, an assessment of these listed firms was carried out using their financial and market-based indicators based on available data for the financial year ended in 2024 and 2025.²⁶

Despite improvement in overall macroeconomics conditions, the performance of selected firms in Top 30 borrowing groups shows mixed trends in earnings during financial year (FY) 2025²⁷ owing to decline in core topline performance amid higher taxation. However, other income rose, and finance cost declined due to monetary easing leading to improvement in repayment capacity of the firms. However, on average, FY25 saw slight decline in the financial (earnings) performance of the firms vis-à-vis their asset and equity base (**Figure 7.1.2 and Figure 7.1.3**).

Percentile Standing of Companies vis-a-vis ROA

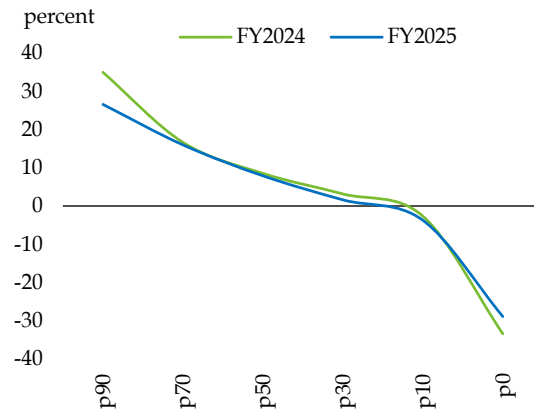
Figure 7.1.2



Source: Capital Stake

Percentile Standing of Companies vis-a-vis ROE

Figure 7.1.3



Source: Capital Stake

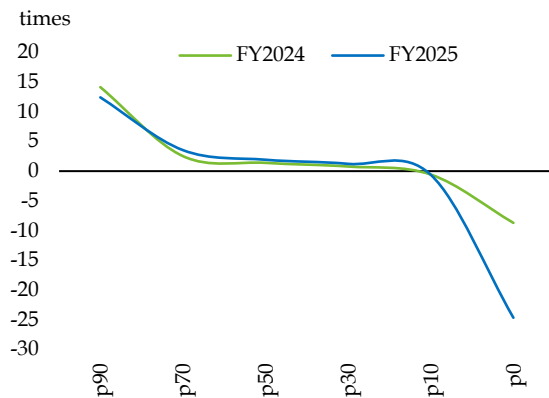
Resultantly, the financial indicators related to repayment capacity of the firms improved and majority of the firms in the sample demonstrated a comfortable interest coverage ratio (**Figure 7.1.4**). Sample firms faced a sluggish trend in current ratio over the year under review; however, the ratio of most of the firms remained in a comfortable zone, showing availability of ample liquidity cushions to honor their short-term financial obligations (**Figure 7.1.5**). Moreover, this was also endorsed as per the SBP's published data on Financial Statements Analysis of Non-Financial Listed Companies - FY25, interest coverage ratio reflected signs of improvement as compared to FY24.

²⁶ Out of these, data of 9 firms was used for interim period i.e. 9-month period ended in September 2025 at the time of analysis. Where applicable, necessary adjustments have been made.

²⁷ FY here denotes financial year of the firm instead of usually understood fiscal year

Percentile Standing of Companies
vis-a-vis Interest Coverage Ratio

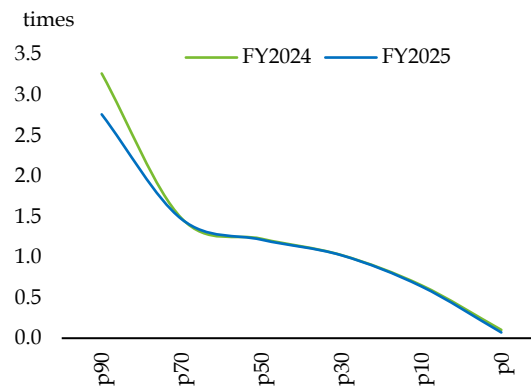
Figure 7.1.4



Source: Capital Stake

Percentile Standing of Companies
vis-a-vis Current Ratio

Figure 7.1.5

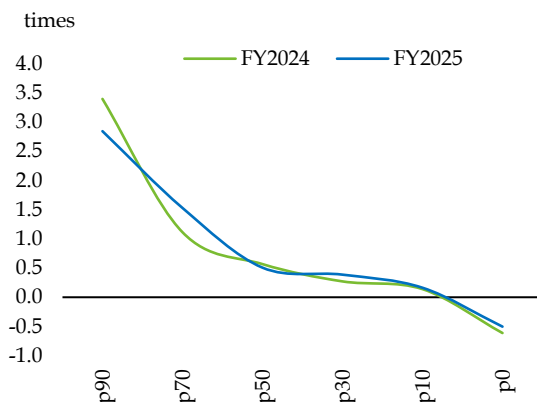


Source: Capital Stake

Investors, in general, held a positive sentiment about the stock/equity market, wherein the KSE-100, delivered a robust performance in CY25, posting a return of 51 percent (YoY). Despite intermittent short-term volatility, the long-term performance of the stock market highlights its structural resilience and growth potential. An analysis of market-based indicators of the selected firms shows that overall growth in price-to-book (P/B) and price-earnings (P/E) ratios of these firms signaled stable indicators (Figure 7.1.6 and Figure 7.1.7).

Percentile Standing of Companies
vis-a-vis Price / Book Ratio

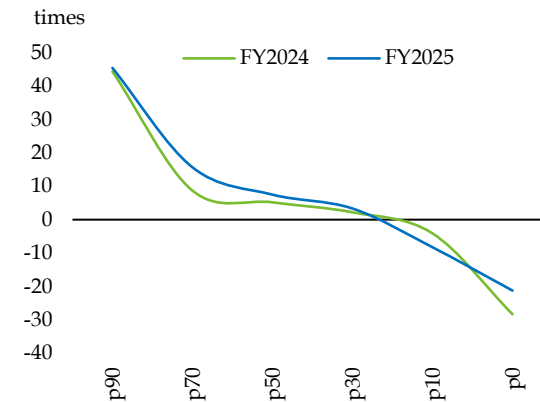
Figure 7.1.6



Source: Capital Stake

Percentile Standing of Companies
vis-a-vis Price / Earnings Ratio

Figure 7.1.7



Source: Capital Stake

Conclusion

A year-on-year assessment of ORRs and repayment behavior of the top 30 borrowing groups in the banking sector indicates that these entities have broadly preserved their creditworthiness. The analysis reflects consistent repayment performance and a reasonably sound financial profile across most of these groups. Furthermore, the leading borrowing firms demonstrated relative financial resilience and continued to meet their financial obligations during the period under review.

