Mid-Year Performance Review of the Banking Sector

(January - June 2020)

Financial Stability Department
State Bank of Pakistan

MPR Team

Team Leaders

Mr. Muhammad Javaid Ismail	javaid.ismail@sbp.org.pk
Dr. Asif Ali	asif.ali@sbp.org.pk

Team Members

Amjad Ali	Amjad.ali3@sbp.org.pk
Aqeel Ahmed	aqeel.ahmed@sbp.org.pk
Mariam Abbas	mariam.abbas@sbp.org.pk
Qaisar Mehmood	qaisar.mehmood@sbp.org.pk

Acknowledgements:

The team would like to thank various departments of SBP, especially Research Department (RD), Offsite Supervision & Enforcement Department (OSED), Statistics and Data Warehouse Department (S&DWHD), Economic Policy Review Department (EPRD), Banking Policy and Regulations Department (BPRD) and Payment Systems Department (PSD) for data assistance, analysis and support.

Contents

Summary[1]

Despite challenging economic conditions prevailing in H1CY20 due to COVID-19 outbreak, the banking sector managed to grow by a decent pace of 7.8 percent. The expansion in assets was backed by banks' investments, which increased by 22.8 percent (or PKR 2.0 trillion). The surge in deposits provided the necessary funding support to finance the robust rise in investments.

Advances, however, observed a mild contraction during H1CY20, mainly due to the slackness triggered by countrywide lockdowns and social distancing restrictions to contain the pandemic. The reduction in private sector advances was broad-based; though financing to textiles, cement, and sugar sectors increased during the first half of CY20. Sans SBP supportive measures, the contraction in advances could have been much deeper.

The policy measures rolled out by the SBP enabled the banks to enhance profitability, improve resilience and limit the credit risk. The earnings marked visible improvement due to deceleration in interest expenses and rise in non-interest income. With better profitability, the resilience of the banking sector further strengthened as Capital Adequacy Ratio (CAR) increased to 18.7 percent in June-2020. The asset quality, however, observed some deterioration due to increase in stock of classified loans.

SBP conducted the 6th wave of the Systemic Risk Survey in August-2020. The survey results indicate that respondents perceive key risks for the financial system to be mostly exogenous and global in nature. Importantly, the policy measures rolled out by SBP to mitigate the implications of COVID-19 have been very well received by the stakeholders. Regarding the incidence of COVID-19 in Pakistan, survey participants expect its impact on the financial sector to wither away as the time lapses. However, banks need to remain vigilant against the reescalation of pandemic that could implicate the asset quality and solvency of the banking sector.

[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.

A. Performance of the Banking Sector

Introduction

The first half of CY20 witnessed the Global Health Crisis (GHC) triggered by the COVID-19 outbreak. Sans any cure or vaccination, the world moved towards a Great Lockdown, necessary quarantines and social distancing practices to combat the disease. Despite the precautionary measures adopted, until November 10 2020, the pandemic has spread to 219 countries and territories, infecting 50.6 million individuals and causing above 1 million deaths.[2] In addition to the human cost, the economic loss has also been quite severe. According to IMF, the global output could contract by 4.4 percent during 2020 and the recovery might be more gradual than previously forecasted.[3]

In Pakistan's case, country-wide lockdowns and social distancing restrictions started coming into effect from Mar-2020. Initially the disease spread rapidly and it intensified until June 2020, but the infection rate trended downwards afterwards. By November 11, 2020 the pandemic has infected 348 thousand individuals and caused 7,021 deaths, while the recovery rate stands at 92 percent. Recently, there is a gradual rise in infections.

The governments' efforts to strike a balance between health concerns and economic hardships paid dividends. The Large Scale Manufacturing (LSM) activity after experiencing sharp declines during the months of March and April has rebounded recently. Similarly, the financial markets that remained turbulent during the initial phase of the outbreak have regained optimism and the fall in business confidence seems to have bottomed out. Moreover, the mitigating measures taken by the Federal and Provincial Governments as wells as the Central Bank provided support to the economy and the financial sector.

In this backdrop, the analysis in this mid-year review, though based on the first half of the year, splits the findings into quarters, where appropriate, to present the pre-COVID and post-COVID situation.

The banking sector, both Conventional and Islamic, managed to grow by focusing mostly on risk-free earning assets.[4] The **asset** base expanded by 7.8 percent during H1CY20 (5.3 percent in H1CY19) due to acceleration in investments by 22.8 percent. The advances (net), however, contracted by 2.2 percent. The strong inflow of deposits i.e. a surge of 9.8 percent against 6.8 percent last year, provided the necessary funding support (**Table 1**).

---

[2] Source: World Health Organization (https://www.who.int/emergencies/diseases/novel-coronavirus-2019)

[3]Source: International Monetary Fund (IMF), World Economic Outlook, October 2020

[4] In H1CY20, IBIs assets increased by PKR 349.3 billion. Rise in assets was mainly driven by investments, which explain 87 percent (PKR 302.3 billion) increase in assets flow. Moreover, IBIs investments in federal government securities and TFCs/Debentures increased by PKR 137.5 billion and PKR 146.1 billion, respectively. Issuance of Ijara Sukuk and Energy Sukuk II during Q2CY20 explain increased IBIs investments in federal government securities and in TFCs/Debentures.

Table 1: Highlights of the Banking Industry

	CY18	H1CY19	CY19	H1CY20
Key Variables (PKR Billion)				
Total Assets	19,682.1	20,717.6	21,991.3	23,705.0
Investments (net)	7,913.9	7,967.7	8,939.4	10,978.9
Advances (net)	7,955.2	8,104.2	8,249.0	8,065.4
Lending to financial institutions	909.8	724.7	978.6	835.0
Deposits	14,254.2	15,227.4	15,953.5	17,403.6
Borrowings from financial institutions	3,001.2	2,619.9	2,932.1	2,970.7
Equity	1,405.6	1,488.0	1,658.2	1,814.3
Profit Before Tax (ytd)	242.5	154.7	304.4	216.6
Profit After Tax (ytd)	149.3	82.7	170.7	125.8
Non-Performing Loans	679.7	768.0	761.1	846.6
Non-Performing Loans (net)	110.1	166.2	141.3	155.5
Key FSIs (percent)				
NPLs to Loans (Gross)	8.0	8.8	8.6	9.7
Net NPLs to Net Loans	1.4	2.1	1.7	1.9
Net NPLs to Capital	7.8	11.5	8.9	9.0
Provision to NPL	83.8	78.4	81.4	81.6
ROA (After Tax)	1.3	1.6	1.5	1.9
CAR	16.2	16.1	17.0	18.7
Advances to Deposit Ratio	55.8	53.2	51.7	46.3

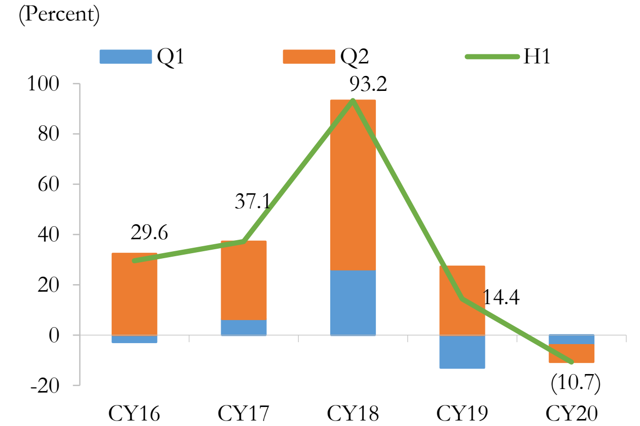
Note: Statistics of profits are on year-to-date (ytd) basis.
Source: SBP

Owing to the elevated liquidity driven by deposits, banks' borrowings—despite significant Government budgetary borrowing[5]—increased by just 1.3 percent (12.7 percent contraction in H1CY19). As a result of contraction in advances and robust increase in deposits, **advances to deposits ratio** dropped to 46.3 percent in June-20 from 53.2 percent in Jun-19.

Advances

The contraction in **advances** during H1CY19 was a manifestation of economic stress prevailing due to COVID-19. The uncertainty created by the pandemic and the ensuing lockdowns dented the business confidence leading to fall in demand for loanable funds. As a result, advances contribution in asset flows, which averaged around 44 percent since 2016, turned negative for the first time in the last 7 years (**Chart 1**).[6]

Chart 1: Percent Share of Advances in Assets Flow



Source: SBP

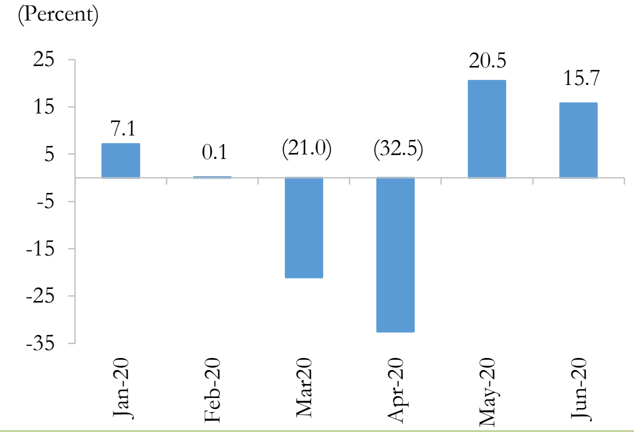
In case of **Private Sector Advances (PSA),** the contraction amounted to PKR 150.1 billion (or 2.4 percent). However, considering that SBP had taken timely policy measures to contain the risks associated with COVID-19, this contraction could have been much deeper otherwise.

The decline in PSA was primarily a manifestation of weak demand as countrywide lockdown resulted in business closures, restricted mobility and muted economic activity. The deterioration in macroeconomic environment was visible in both falling LSM activity and investors' confidence (**Chart 2a and 2b).** This explains the ebbing demand for private sector advances during H1CY20. However, in response to easing of restrictions post April 2020 coupled with falling rates of active COVID-19 cases since mid-June 2020, the economic revival became visible.

[5] Budgetary borrowing from the banking sector increased by PKR 1.4 trillion during H1CY20 as compared to a decline of PKR 268.5 billion in the comparable period of last year.

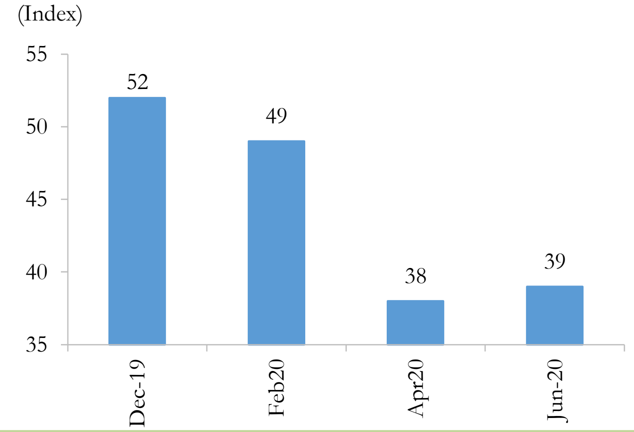
[6] Since CY04, advances flows turned negative during H1CY09, H1CY10, and H1CY13.

Chart 2a: Month on Month Growth in LSM



Source: SBP

Chart 2b: Business Confidence Index



Source: SBP

The **segment-wise** analysis of PSA reveals a broad based decline in off-take. The decline in **Corporate Sector** Advances was driven by retirement of working capital loans due to contraction in manufacturing activity (**Table 2a**). While the fixed investment advances observed some increase due to disbursements under various re-financing schemes launched by SBP to facilitate businesses and to support economic activity.[7]

Table 2a: Segment-wise Domestic Advances Flows

(PKR Billion)

	H1CY20			H1CY19		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Corporate Sector	**(53.5)**	**(39.9)**	**(93.4)**	**(50.6)**	**123.1**	**72.5**
Fixed Investment	(10.3)	68.2	58.0	9.4	91.5	100.9
Working Capital	(56.9)	(114.5)	(171.4)	(31.9)	29.8	(2.1)
Trade Finance	13.6	6.4	20.0	(28.2)	1.9	(26.3)
SMEs	**0.5**	**(77.0)**	**(76.5)**		**(46.2)**	**(46.2)**
Fixed Investment	0.5	(6.9)	(6.4)		(4.0)	(4.0)
Working Capital	(0.0)	(70.7)	(70.7)		(39.4)	(39.4)
Trade Finance		0.7	0.7		(2.8)	(2.8)
Agriculture		**(21.6)**	**(21.6)**		**9.4**	**9.4**
Consumer Finance		**(16.8)**	**(16.8)**		**27.5**	**27.5**
of which						
Credit Cards		(6.1)	(6.1)		3.5	3.5
Auto Loans		(6.6)	(6.6)		11.0	11.0
Mortgage Loans		(2.9)	(2.9)		2.4	2.4
Commodity Financing	**104.2**	**3.7**	**107.8**	**26.4**	**2.1**	**28.5**
Staff Loans		**2.5**	**2.5**		**12.4**	**12.4**
Others		**(1.0)**	**(1.0)**		**(0.1)**	**(0.1)**
Total	**51.1**	**(150.1)**	**(99.0)**	**(24.2)**	**128.2**	**104.0**

Source: SBP

It is also worth noting that SBP —in times of COVID-19 distress—allowed relief to the households and businesses in the form of principal payment holidays along with relaxation in regulatory criteria for restructuring/rescheduling of loans. The later facility was for those borrowers whose financial condition required relief beyond extension of principal repayment for one year. In this regard, till June 26, 2020 various segments of borrowers availed deferment relief to the tune of PKR 566.2 billion and rescheduling/ restructuring of PKR 112.8 billion.[8] Absent such SBP policy actions, the retirement of the corporate sector advances could have been stronger.

SMEs retired PKR 70.7 billion in working capital advances during the reviewed period. However, most of these advances were retired during Q1CY20 (PKR 50 billion). Higher interest rates prevailing in Q1CY20 as well as anticipated economic slowdown due to COVID-19 outbreak were possible factors that drove-up

[7] Fixed investment advances were availed under the health sector re-financing scheme and new investment facilitation initiative. In addition, disbursements were also made under the SBP Rozgar Scheme during H1CY20. Under this scheme, SMEs and non-SME small corporates were eligible to avail financing repayable in 24 months. The details of SBP policy measures to combat COVID-19 risks are available at http://www.sbp.org.pk/corona.asp

[8] The latest data as of September 4,2020 indicates deferment and restructuring relief of PKR 645.8 billion and PKR 180.9 billion, respectively.

SMEs retirement. In Q2CY20—when the health crisis deepened—lower retirement could be attributed to cash flow constraints faced by the SMEs and the regulatory relaxations (including lowering of interest rates) provided by SBP.

Likewise, **Consumer** financing observed contraction of PKR 16.8 billion during the first half of CY20. All three categories of consumer financing i.e. Auto loans, credit cards and mortgages observed retirements. In case of Auto loans, higher unit prices due to exchange rate depreciation and taxes/duties coupled with higher interest rates had already dented the demand. The ensuing COVID-19 shock further weakened the demand for auto finance. Similarly, as the consumer spending dipped after imposition of mobility restrictions, financing against credit cards also fell.

In terms of sectors, though there was contraction in demand, yet flow of advances to textile, cement, and sugar sectors increased (**Table 2b**). Rise in textile sector advances (entirely in Q1CY20) was due to enhancement in SBP's Export Finance Scheme (EFS) by PKR 100 billion at end Jan-2020.[9] In Q2CY20, deepening of health crisis at home and in the export markets (like USA and EU) severely hampered textile production.[10] Not only did external demand weaken but the sector's capacity utilization also suffered because of the lockdown. In this backdrop, textile sector retired loans during Q2CY20, which translated into a marginal increase of 1.3 percent over the H1CY20.

Table 2b: Sector-wise Advances Flow (PKR Billion)

	H1CY20			H1CY19			Percent Growth*	
	Public	Private	Total	Public	Private	Total	H1CY20	H1CY19
Chemical & Pharmaceuticals	0.1	(25.0)	(25.0)	0.0	11.4	11.4	(8.2)	4.0
Agribusiness	(7.3)	(38.3)	(45.5)	41.9	(4.4)	37.5	(6.5)	5.5
Textile	-	15.4	15.4	-	(86.6)	(86.6)	1.3	-7.6
Cement	-	21.2	21.2	-	7.9	7.9	11.4	4.9
Sugar	-	68.1	68.1	-	43.0	43.0	30.9	18.4
Shoes & leather garments	-	(3.1)	(3.1)	-	2.9	2.9	(8.6)	9.3
Automobile/transportation	9.4	(27.4)	(18.0)	6.3	3.3	9.6	(11.5)	8.8
Financial	14.9	(46.2)	(31.3)	0.1	10.5	10.7	(21.4)	9.4
Insurance	-	1.5	1.5	-	(0.3)	(0.3)	34.0	-7.2
Electronics & electrical appliances	-	(8.2)	(8.2)	-	(2.8)	(2.8)	(8.0)	-2.9
Energy	(97.6)	(4.6)	(102.2)	(29.2)	38.3	9.1	(7.0)	0.6
Individuals	-	(25.8)	(25.8)	-	24.7	24.7	(3.5)	3.5
Others	131.6	(77.6)	53.9	(43.4)	80.2	36.8	1.8	1.2
Total (Domestic Sector)	**51.1**	**(150.1)**	**(99.0)**	**(24.2)**	**128.2**	**104.0**	**(1.2)**	**1.3**

Source: SBP

* Half-Yearly growth of total gorss advances

The **cement sector**'s offtake remained consistent during H1CY20. The financing was mostly availed for import and capacity expansion (fixed investment).[11] It appears that some of the cement manufacturers drew down their exiting limits to finance expansionary projects probably owing to PKR depreciation, which resulted in cost escalation

Sugar sector experienced constrained cash flows owing to dip in institutional sales (e.g. to Restaurants, soft drink industry etc.) driven by the lockdown conditions and resultantly made lesser retirements during Q2CY20. This resulted in larger financing flows recorded during H1CY20.

Energy sector's cash flows improved during the first half of CY20 owing to the issuance of energy Sukuk II worth PKR 200 billion, which reduced the receivable of energy firms (related to circular debt). [12] In this backdrop, energy sector made net retirement in the reviewed period.

There was a decline of PKR 77.6 billion in "Others" category of advances during H1CY20. It was primarily related to wholesale and retail

[9] Press release related to EFS is available at http://www.sbp.org.pk/press/2020/Pr2-28-Jan-20.pdf

[10] During Q2CY20, textile exports amounted to USD 2.6 billion –down from USD 3.4 billion in Q1CY20.

[11] http://www.sbp.org.pk/ecodata/By-type-of-finance-arch.xls

[12] These Sukuk were issued by Power Holding Limited during Q2CY20.

trade followed by electrical equipment, professional, scientific and technical activities, administrative and support activities, and transportation and storage.

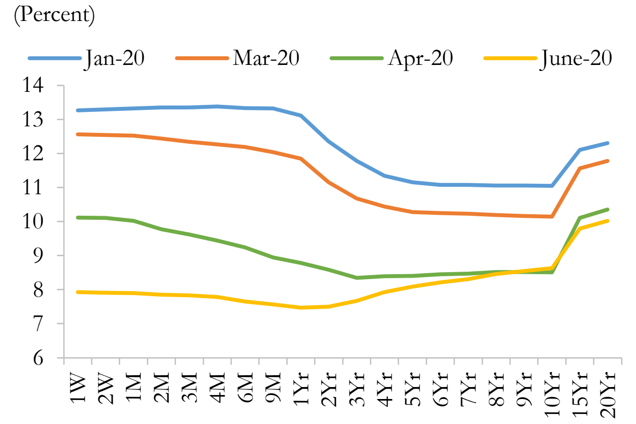
Contrary to the private sector advances, **public sector advances** increased by PKR 50.1 billion during H1CY20. The rise in advances was entirely driven by significant increase in commodity financing flows. Enhanced wheat procurement target of 8.25 million tons in 2020 (6.25 million tons in 2019) and rise in wheat support price to PKR 1,400 per 40 kg from PKR 1,300 per kg explain higher financing for wheat. The notable retirement of public sector advances in "energy sector" reflect improved cash flow of the public sector entities as well as repayments at maturity[13] of long-term advances.

Investments

Investments of the banking sector—amid weaker demand for advances and abundant liquidity—surged by PKR 2.0 trillion during the first half of CY20. Investments in Government securities explain more than 90 percent (PKR 1.9 trillion) rise in investment flows during the reviewed period. Also, banks invested in TFCs/Debentures to the tune of PKR 130.9 billion during H1CY20.

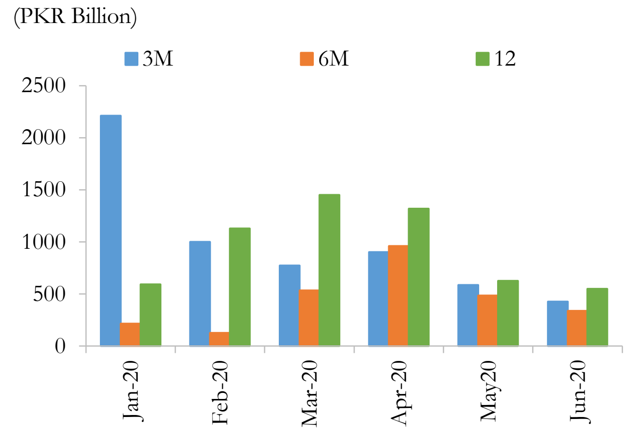
Further analysis of the investments in Government securities reveals that the banks' stock of MTBs and PIBs increased by PKR 862.3 billion and PKR 863.5 billion, respectively. In the backdrop of Covid-19 outbreak, yield curve trended downwards for maturities between 1 year to 10 years in Mar-20, indicating market expectations of decline in policy rate owing to the anticipated softening in economic activity **(Chart 3).** As a result the banks' offering in 12M treasury bills and PIBs increased as they attempted to lock their funds at higher prevailing rate of return (**Chart 4 and 5).**

Chart 3: Yield Curve (Monthly Average)



Source: SBP

Chart 4: Banks' Offered Amount in MTBs Auctions



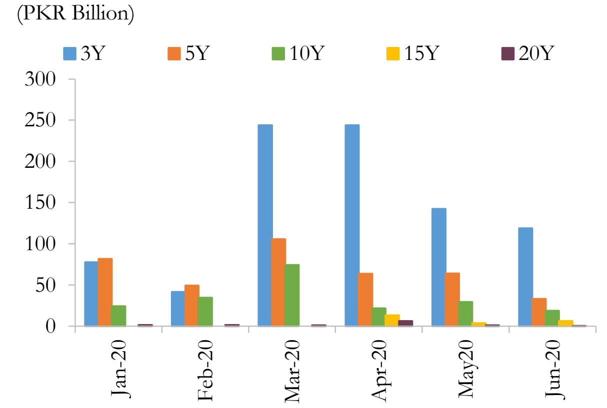
Source: SBP

However, it deserves emphasis that after April-2020, banks' bidding in treasury bills significantly reduced.[14] The Government reduced its auction target from PKR 2.8 trillion in Q1CY20 to PKR 2.2 trillion in Q2CY20. On the contrary, the target for PIBs (including fixed rate and Floaters) increased to PKR 625 billion in Q2CY20 from PKR 450 billion in Q1CY20. Moreover, the Government introduced 3-year and 5-year tenure bonds in Floater category during Q2CY20,

[13] Repayment at maturity means that the payment was made on the due date of maturity.
[14] In the months of Mar-2020 and April-2020, banks collectively offered PKR 5.9 trillion in MTBs. However, in the subsequent months (April-2020 and May-2020), banks' bidding amount reduced to PKR 3.0 trillion.

indicating its desire to improve its debt maturity profile.

Chart 5: Banks' Offered Amount in PIBs Auctions

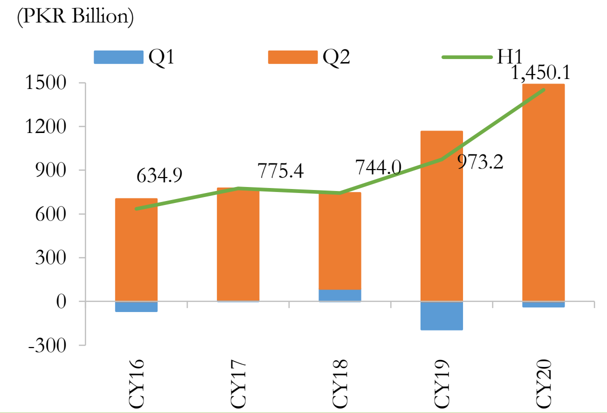


Source: SBP

Deposits

Deposits surged by 9.1 percent during H1CY20 (6.8 percent in H1CY19). It was the highest acceleration since H1CY07[15] (**Chart 6)**. The compositional analysis indicates that Savings and Current Account (Non-Remunerative) deposits together explain 90 percent rise in total deposits during H1CY20.

Chart 6: Deposits Flows



Source: SBP

The following are the possible drivers of increased deposits flow during Q2CY20:

1. Owing to the COVID-19 pandemic and the associated lockdown, economic activity slackened, which resulted in deposits accumulation. For instance, imports during Q2CY20 amounted to USD 9.5 billion as compared to USD 12.6 billion in Q2CY19. In addition, due to constraints on spending avenues (e.g. closures of restaurants, shopping malls etc.), "forced savings" drove-up deposits. [16]

2. COVID-19 also drove-up the deposits via economic uncertainty channel. People did not utilize their savings to ward against uncertain income flows during the pandemic.
3. SBP, in perspective of COVID-19, instructed the banks to waive off all charges on funds transfer through online banking channels. Such incentives could have helped contain cash transactions and pushed-up the deposits.
4. Strong inflow of Workers' Remittances could be another reason behind the rise in deposits.[17] Besides, these remittances might not have been fully utilized for consumption due to the lockdown.
5. Other investment avenues were limited in the pandemic because of which people preferred to keep their savings in the banks.
6. Besides, banks efforts to mobilize higher funds also contributed to the increase in deposits. It is common practice in the industry to set deposit targets for June and December.

Borrowings

Funding through interbank borrowing increased by PKR 38.6 billion during H1CY20 largely due

[15] Also, on YoY basis, expansion of 14.3 percent by end Jun-20 (10.7 percent growth in previous year) was above the past ten years' average growth of 12.9 percent.

[16] Christine Lagarde (ECB President) explained the aspect of forced savings as one of the reasons behind rise in deposits in the euro area amid COVID-19 perspective. Her speech is available at BIS website (https://www.bis.org/review/r200615a.htm)

[17] In Q2CY20, workers' remittances amounted to USD 6.1 billion against USD 5.7 billion in Q2CY19.

to financing availed under SBP Export Refinance Scheme. However, banks' repo borrowings from SBP and call borrowings declined by PKR 131.9 billion and PKR 66.3 billion, respectively. This reflects improved liquidity of the banking sector in the form of deposits.

Equity

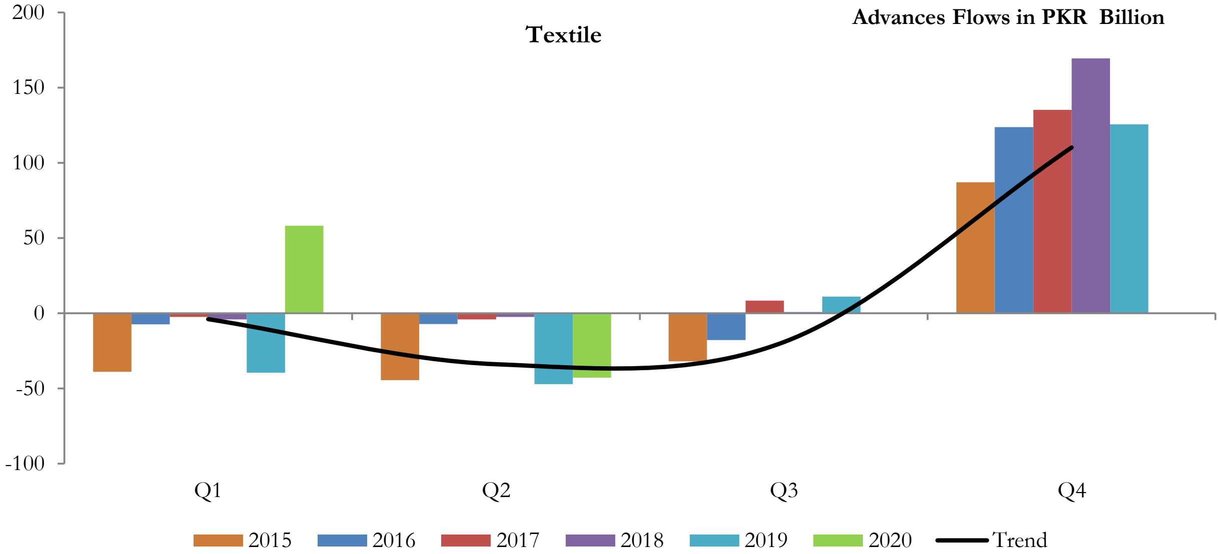
Banking sector's equity increased by 9.4 percent during H1CY20 compared to 5.9 percent rise in H1CY19 due to accumulation of profits, rise in statuary reserves and revaluation surplus on securities. This increase, among others, resulted from SBP's COVID related policy measure for suspension of dividend declaration for a period of two quarters to conserve capital and enhance the lending and loss absorption capacity of the banks.[18, 19]

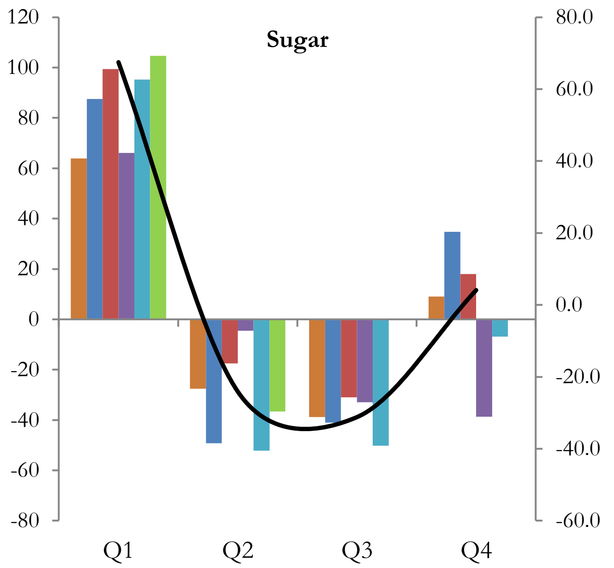
---

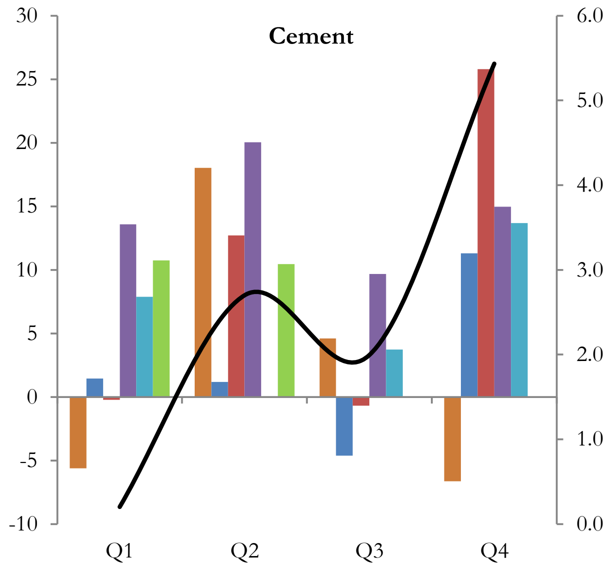
[18] Pakistan was not alone in introducing such policy measures. Regulators in other jurisdictions such as Euro Area also advised on such measures.

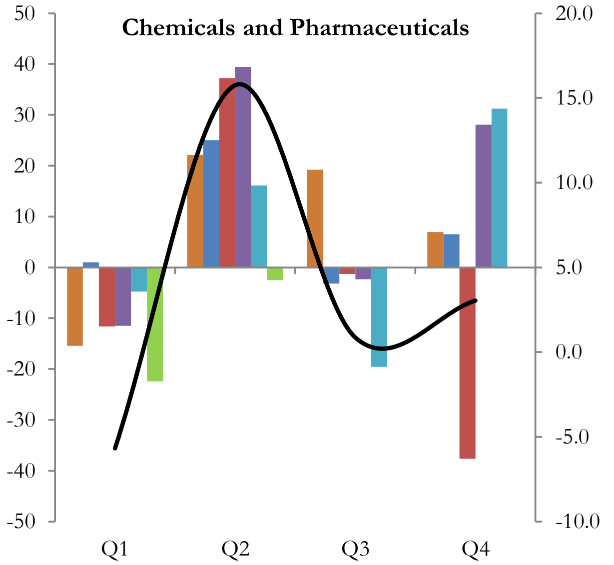
[19] Banks/DFIs that approved dividend declaration for quarter ended March 2020 by 22nd April 2020 were advised to suspend dividend distribution for June and September quarters of 2020. All other banks were advised to suspend dividend distribution for March and June 2020 quarters. (http://www.sbp.org.pk/press/2020/Pr1-22-Apr-20.pdf)

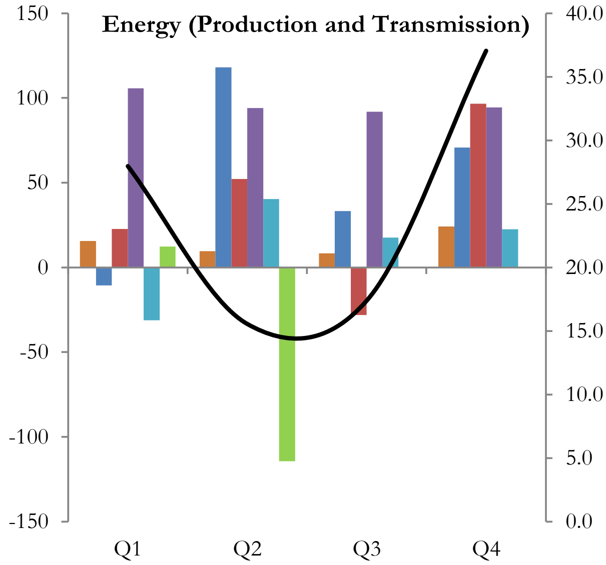
Appendix A- Seasonality in Advances (Sector Wise - Public and Private)









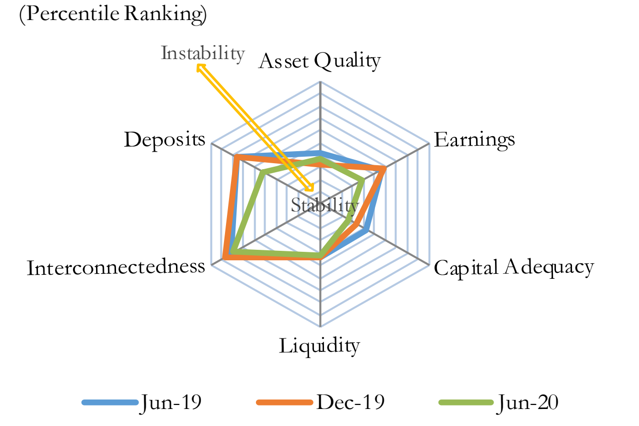


B. Soundness of the Banking Sector

Introduction

Despite the challenging operating environment, the soundness of the banking sector improved during H1-CY20. As indicated by the Banking System Stability Map (BSSM), banks were able to mobilize larger deposits, generate more earnings and improve solvency (**Chart 7**).

Chart 7: Banking Sector Stability Map

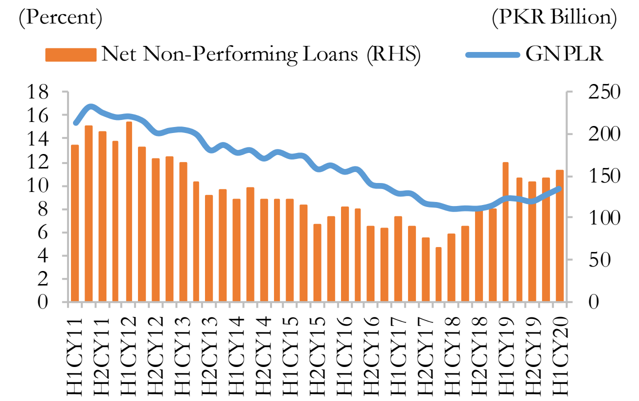


Source: SBP

Asset Quality

Asset Quality, however, deteriorated during H1CY20 retracting from the marginal gains witnessed in H2CY19. The infection ratio (Gross Non-Performing Loans -NPLs to Gross Total Loans) increased to 9.7 percent by the end of H1CY20 against 8.8 percent and 8.6 percent by the end of H1CY19 and H2CY19, respectively **(Chart 8)**. Nevertheless, the rise in provision coverage kept the net NPLs in check, while the higher retained earnings improved the capital base of the banks during H1CY20. Resultantly, the rise in both the net NPLs to Net Loans and Net NPLs to Capital was minimal.

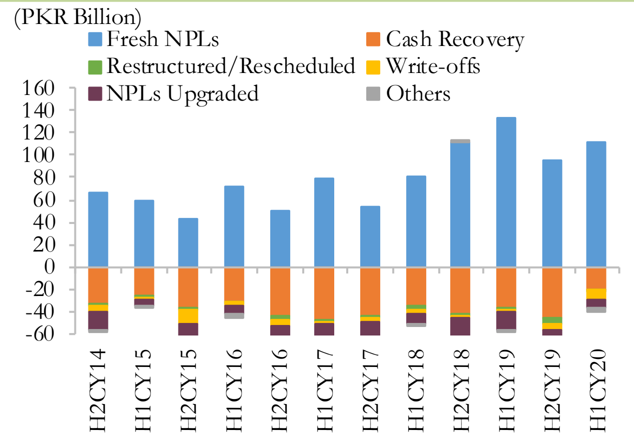
Chart 8: Net Non-Performing Loans (PKR Billion) and GNPLR (percent)



Source: SBP

Besides the general economic slowdown witnessed after the outbreak of COVID-19, the idiosyncratic factors in agriculture, energy, petroleum (OMCs) and cement sectors contributed to the build-up of domestic NPLs. As for the overseas operations, banks continued to face rise in NPLs mainly in the gulf region. Moreover, the disruption in economic activities also hampered the loan recovery efforts of the banks. A total of PKR 19.9 billion was recovered during H1CY20 compared to PKR 36.7 billion in H1CY19 (**Chart 9**). It is, however, important to note that the increase in NPLs could have been higher, had SBP not allowed banks to consider the deferment and restructuring/rescheduling of loans on borrowers' request.

Chart 9: Fresh NPLs and Total Reductions



Source: SBP

Within banks, the rise in NPLs was mostly concentrated in a few local commercial banks as well as in a specialized bank. The infection ratio of Public Sector Commercial Banks and Local

Private banks inched up to 15.4 percent (13.2 percent in H2CY19) and 7.3 percent (6.9 percent by end of H2CY19), respectively. The rise in NPLs, in case of specialized banks, was quite significant as the GNPLR jumped to 52.7 percent from 34.1 percent by end H2CY19.

NPLs in agribusinesses depict considerable seasonality during Q2. The increase, which is mainly concentrated in one of the specialized banks, coincided with harvesting of wheat crop, whereby recovery takes time due to realization of payments from farmers of wheat and sugarcane amid partial payments. But this year locust attacks on crops, disruptions at the time of harvest such as unavailability of labor and lack of public transportation due to pandemic, also contributed to the rise in the sector's NPLs.

In case of energy, structural problems for a couple of firms, such as delays in capacity payments leading to build-up of receivables and non-finalization of COD resulting in deferred operations, increased the non-performing loans during Q2CY20.

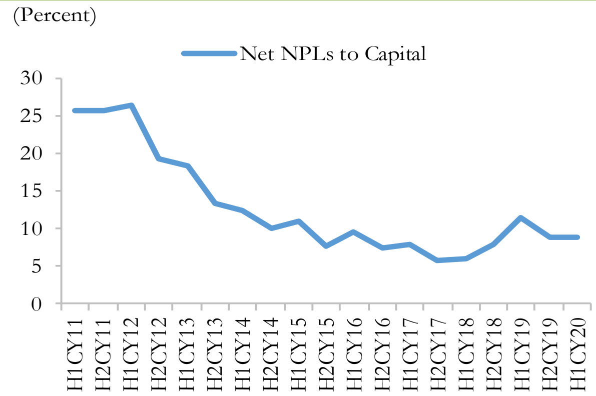
Other energy related sectors, such as Oil Marketing Companies (OMCs), also faced a challenging business environment. Most of the firms faced losses due to oil price volatility in international markets and further fall in domestic consumption amid the pandemic. Similarly, various firms, in the cement sector, struggled to cope with higher costs (such as financing and energy), which squeezed their margins as they were unable to pass on the full impact to consumers due to subdued demand. Resultantly, few firms with weak financials were unable to service their debt obligations.

As far as, the overseas operation of banks was concerned, it contributed PKR 18.0 billion to the increase in NPLs during H1CY20. Around two third of this increase, occurred in Q1CY20 when a couple of banks classified some of their exposure in the Gulf region.

With the rise in NPLs, banks made provisions of PKR 71.3 billion during H1CY20; more than double the amount of PKR 32.2 billion in H1CY19. Resultantly, the provision coverage ratio increased to 81.6 percent (78.4 percent in H1CY19).

The Net NPLs ratio (NNPLR), though increased slightly to 1.9 percent in H1CY20 from 1.7 percent in H2CY19, it remained lower than 2.1 percent recorded a year earlier. Similarly, the Net NPLs to Capital ratio inched up to 8.96 percent in H1CY20 from 8.91 percent in H2CY19, though it remained lower when compared to 11.5 percent at the end of H1CY19 **(Chart 10).** This implies that despite challenging environment, the increase in credit risk indicators remained contained during H1CY20 due to SBP policy measures.

Chart 10: Net NPLs to Capital Ratio



Source: SBP

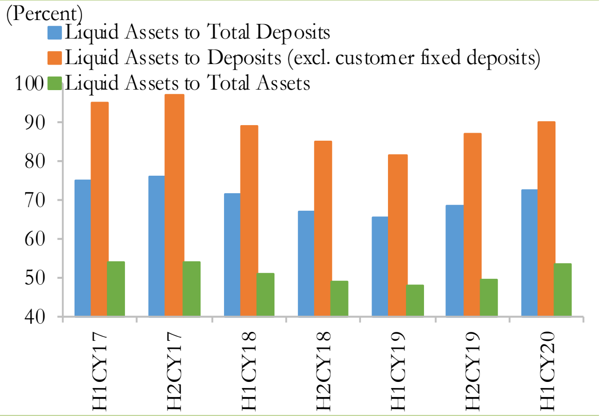
Liquidity

The liquidity position remained strong during H1CY20, as liquid assets, mostly comprising of government securities, constituted 53.3 percent of the total assets. The share of government securities in total liquid assets increased to 78.5 percent in H1CY20 from 73.5 percent in H2CY19. Banks preferred to keep most of the sovereign securities in the Available for Sale (AFS) category (83.8 percent in H1CY20), which allowed them to efficiently manage their liquidity and meet any contingency need.

Similarly, liquid assets to total deposits also rose to 72.5 percent during H1CY20 from 68.4 percent in

H2CY19. Overall, the funding liquidity indicators improved during the period under review (**Chart 11**).

Chart 11: Liquidity Ratios

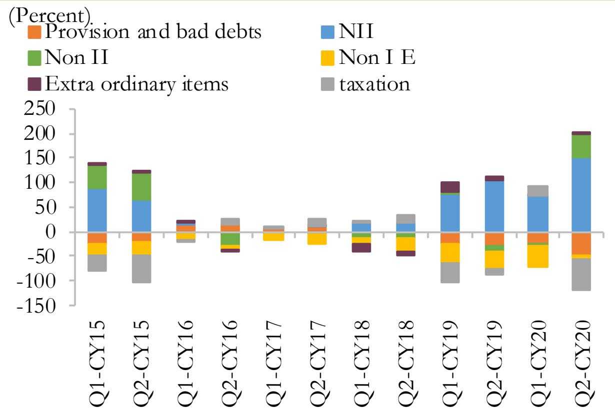


Source: SBP

Profitability

Profitability of the banking system rose significantly with profit after tax at PKR 125.8 billion for H1CY20, a rise of 52.0 percent over the same period last year. This was the highest level of earnings ever recorded in any H1 since the availability of data from H1CY04. The favorable interest rate environment facilitated higher net interest income (NII) and larger gains on sale of government securities (**Chart 12**). Besides, SBP's measures to contain the credit risk also contributed. [20]

Chart 12: Contribution in YoY Change of Profit After Tax



Source: SBP

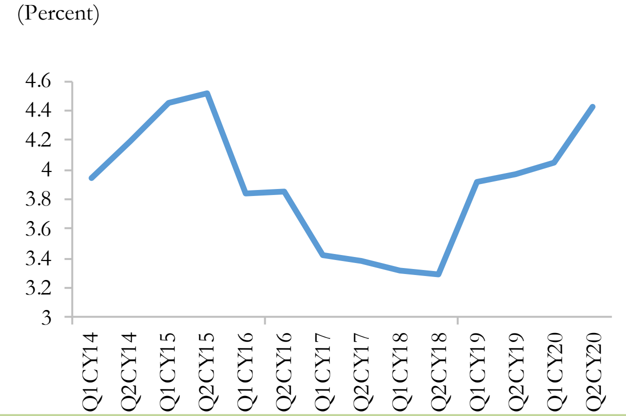
Unlike last year, when Islamic Banking Institutions (IBIs) primarily contributed in the year-on-year (YoY) growth in after-tax profit in H1CY19, the conventional banks remained the dominated contributors during H1CY20. Out of the YoY growth of 52.0 percent in the after-tax profits during H1CY20, the conventional banks contributed 37.0 percentage points.

The earning indicators such as Return on Assets (ROA) and Return on Equity (ROE), which were almost stagnant for the past two quarters, recorded notable improvement during H1CY20. After-tax ROA rose to 1.1 percent in H1CY20, from 0.8 percent in H1CY19. Likewise, after tax ROE increased to 14.6 percent in H1CY20 from 11.4 percent in the same period last year.

Moreover, the Net Interest Margin (NIM) observed a considerable improvement (**Chart 13**). Though the average earning assets grew at an accelerated pace of 10.3 percent in H1CY20 (3.7 percent in H1CY19), the net interest income was much higher at PKR 424.7 billion in H1CY20 against PKR 330.6 billion in H1CY19. Besides the increase in volume of investments, the favorable interest rate environment also facilitated in improving the NIM.

[20] In the wake of COVID-19, SBP took a number of policy measures including, for example, monetary easing, relaxation in capital conservation buffer, allowing banks to evaluate and restructure/reschedule loans on the request of borrowers. For details, please check http://www.sbp.org.pk/corona.asp

Chart 13: Trend in NIM of the Banks



Source: SBP

Among the contributing factors, earnings on investments boosted the overall interest income. The share of earning on investment is rising and exceeded earnings from customer advances during H1CY20. The pattern was consistent with the compositional shift in earning assets towards investments in the recent quarters. As such, the volume impact was dominant in case of earnings on investment (**Chart 14(a)).**

The earnings on advances, however, recorded deceleration in H1CY20. Although the interest rates remained in double digits until March 2020, the emergence of COVID-19 related lockdowns plummeted the demand for advances. This coupled with the declined in policy rate dipped the weighted average lending rates (WALR) by 3.10 percentage point during Q2CY20.[21] Consequently, both the rate and volume impact on earnings from advances was lower in H1CY20 (**Chart 14(a)).**

Chart 14.(a): Change in Interest Earned on Advances due to ....

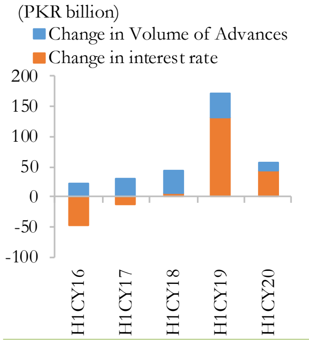
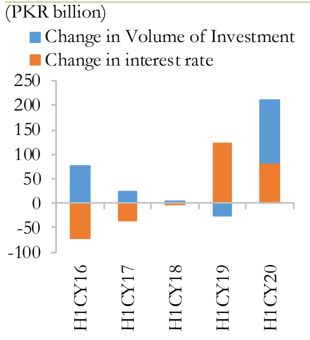


Chart 14.(b): Change in Interest Earned on Investment due to ....



Source: SBP

On the interest expense side, the sharp deceleration was driven by decline in deposit rate in Q2CY20 (following the monetary easing). The Minimum Deposit Rate (MDR) halved to 5.5 percent at end June 2020 from 11.0 percent at end March 2020.[22] On top of it, the share of non-remunerative deposits also increased to 35.0 percent in H1CY20 from 32.5 percent in Q1CY20. (**Chart 15 (a) and 15 (b)**)

Incidentally, the deposit rate is revised immediately post policy rate change, while the advances are repriced according to the terms of loan. The declining interest rate scenario over Q2CY20 actually helped the banks to contain interest expenses on deposits and enhance the overall net interest income for H1CY20.

Chart 15.(a): Change in Interest Expense on Deposits due to ....

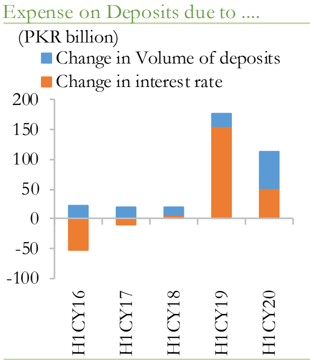
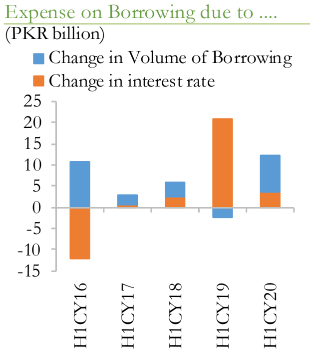


Chart 15.(b): Change in Interest Expense on Borrowing due to ....



Source: SBP

The **non-interest income** also contributed in profitability during H1CY20 where gains from sale of securities was the major factor. Banks made

[21] Weighted Average Lending Rate (WALR) fell from 12.97 percent at end Mar-2020 to 9.87 percent at end June 2020, which further declined to 8.45 in July, 2020.

[22] Saving deposits constitute around 42 percent of banks' deposit mix as of Dec-2019; therefore any fall in MDR reduce the interest payments on a major part of banks' deposits.

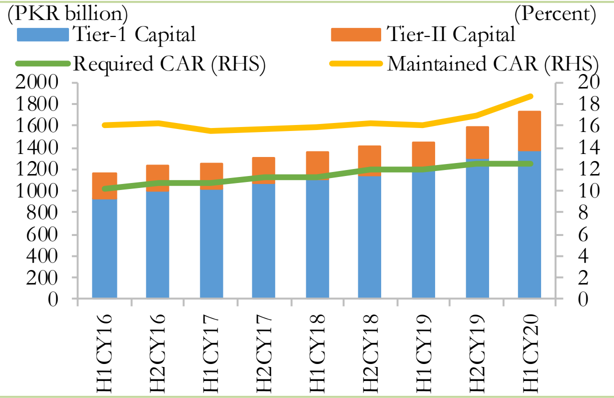
PKR 34.6 billion gains from the sale of securities during H1CY20; mostly from dealing in MTBs and PIBs. The benefit from trading in shares also marginally contributed as the equity market revived during Q2CY20.

In line with lockdown measures and abrupt fall in economic activities, the fee, commission and brokerage income—consisting of around 65 percent share in non-interest income—fell sharply by 11.3 percent YoY to PKR 54.8 billion in H1CY20. However, its impact was compensated by the rise in gains from sale of securities during H1CY20.

Solvency

With the improved earnings and decline in credit risk weighted assets (CRWA), the banking sector was able to build capital buffers and enhance resilience. The Capital Adequacy Ratio of the banking sector inched up to 18.7 percent in H1CY20 from 17.0 percent in H2CY19; well above the minimum regulatory benchmark of 11.5 percent (**Chart 16**).

Chart 16: Banks' Capital and Capital Adequacy Ratios



Source: SBP

The CAR increased due to 9.4 percent growth in eligible capital. Both components of eligible capital i.e. Tier I and Tier II were up in H1CY20. The accumulation of profit and increase in general reserves augmented Tier I capital, whereas Tier II capital expanded, primarily, on account of 133.6 percent increase in unrealized gain on AFS securities (due to interest rate movement) and 10.7 percent rise on foreign exchange translation reserves (due to PKR depreciation) during H1CY20.

On the risk front, total risk weighted assets (TRWA) contracted by 0.5 percent due to the decline of 1.7 percent in CRWA during H1CY20. Besides contraction in advances, the increase in rated corporate exposure (requiring lower risk weights) contributed in lowering the CRWA.[23] On the other hand, market risk weighted assets (MRWA) observed a sizable growth of 11 percent as banks shifted their investment from short-term MTBs to PIBs.[24]

[23] BSD Circular No. 08 of 2006 dated June 27, 2006.

[24] As per Basel standards, interest rate risk has two components i.e. (i) issuer specific risk and (ii) general market related risk. The higher duration of instruments, attract higher capital charge for general market related interest rate risk.

Box 1: SBP's Systemic Risk Survey-6th Wave (August 2020)

(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 6th wave of its biannual Systemic Risk Survey (SRS) in August 2020 to capture the risk perceptions of the market participants and evaluate their confidence in the stability of the financial system. As was the case in previous iterations, the core survey questions remained unchanged. However, to gauge the perceptions of the participants about the ongoing Covid-19 scenario, the survey questionnaire was supplemented with a set of questions related to the pandemic.[25]

Besides risks emanating from the pandemic, 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.[26] One hundred and twelve participants took part in the current wave yielding 51% response rate.

Summary of Key Results:

1. On aggregate level, the respondents rank the "Global Risk" category as the current most critical followed by "Domestic Macroeconomic Risk".[27] Their perception about criticality of risks to the financial system being exogenous and global in nature does not change for the next six months. **(Chart A & B).** In comparison with the previous wave, the weightage assigned by respondents to the domestic macroeconomic risk have declined. It may be a manifestation of softening of COVID-19 shock in the country followed by uptick in economic activities.

2. In terms of specific risks at present, the highest rated are "volatility in commodity prices", "slowdown in domestic growth", and "foreign exchange rate risk". For the next six months, respondents' opinion about risk sources does not deviate from their existing views **(Chart C).** Seemingly, the respondents are anxious about the sustainability of the domestic economic recovery.

3. Respondents' perception has improved over-time on external sector dynamics. On the contrary, as comparison of previous three waves indicates, the risk perception has deteriorated towards domestic inflation, geopolitical risks, and slowdown in global growth. **(Chart E)**.

4. The confidence on the stability of financial and banking system has improved in comparison to previous waves **(Chart D).** It manifests the successful mitigation of the economic and financial risks—in the wake of timely policy measures taken by the governments and the State Bank of Pakistan—associated with the COVID-19.

5. It is encouraging to note that the respondents' views—in the pandemic perspective—remain strongly positive about the efficacy of the SBP's overall policy measures (**Chart F1**). Also, among the various policy actions taken by SBP to address the pandemic risks, concessionary financing and the regulatory relief provided to Corporates, SMEs and

[25] In Covid-19 perspective, two surveys were conducted during the first half of CY20, involving a limited set of respondents, to assess the implications of the pandemic for the financial sector.

[26] 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.

[27] High risk is identified by aggregating percentage of respondents by clubbing together percentage of respondents choosing either 'high' or 'very high' as response to a particular risk category or type in the survey questionnaire.

Agriculture segments were considered most effective by the respondents (**Chart F2**). [28]

6. In case of the COVID 19 impact on financial industry, the survey results indicate that the major adverse impact would be observed on profitability followed by business operations and asset quality. **(Chart G).**

7. In respondents view, the impact of Covid-19 on financial stability would gradually wither away as the time lapses (**Chart H**).

[28] Effectiveness is calculated by aggregating percentage of respondents who were either 'agree' or 'strongly agree' in their response.

Chart A: Perception on sources of systemic risk- present

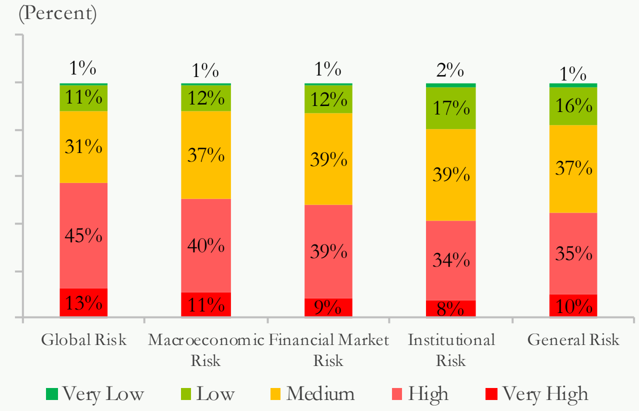


Chart B: Perception on sources of systemic risk- 6 months

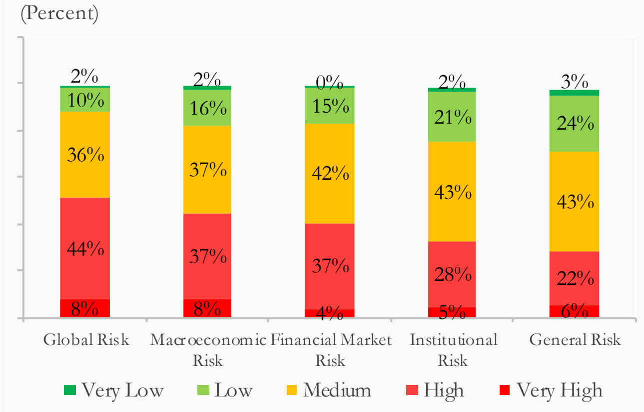


Chart C: Top 10 risks identified

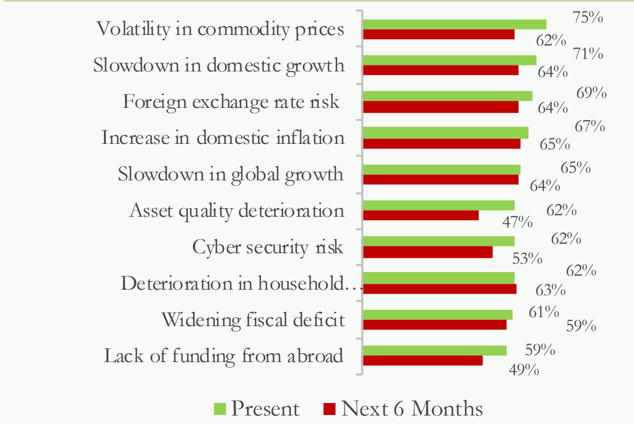


Chart D: Confidence in financial stability

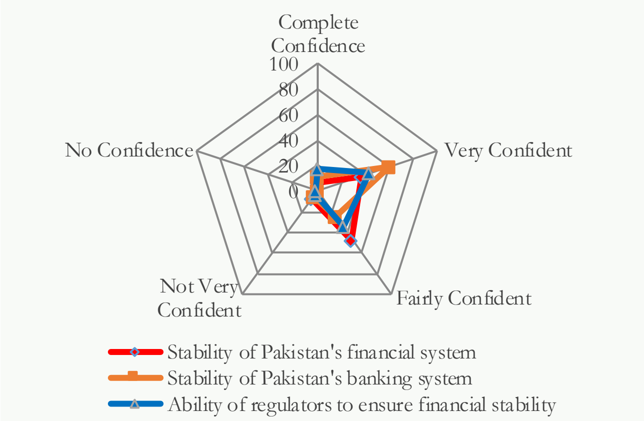


Chart E: Comparison of Results (4th, 5th and 6th waves)

		4th Wave (July-19) Present (Average)	5th Wave (Jan-20) Present (Average)	6th Wave (Aug-20) Present (Average)
Global Risks	Slowdown in global growth	2.83	2.65	2.27
	Sovereign default risk	3.13	2.99	2.96
	Lack of funding from abroad	2.32	2.43	2.38
	Volatility in commodity prices	2.05	2.07	2.09
Macroeconomic Risks	Slowdown in domestic growth	2.08	2.10	2.16
	Increase in domestic inflation	1.96	1.79	2.26
	Widening fiscal deficit	2.04	2.24	2.32
	Deterioration of BoP	2.12	2.43	2.47
	Sovereign rating downgrade	2.48	2.68	2.81
	Slowdown in corporate sector growth	2.23	2.21	2.43
	Slowdown in infrastructure development	2.87	2.56	2.91
	Deterioration in household savings	2.37	2.26	2.26
	Volatility in real estate prices	2.82	2.96	2.86
	Energy crisis	2.68	2.50	2.49
	Political uncertainty	2.47	2.29	2.74
Financial Market risks	Foreign exchange rate risk	1.71	2.19	2.18
	Equity price risk	2.37	2.67	2.69
	Interest rate risk	2.17	2.32	2.72
	Liquidity risk	2.65	2.66	2.72

		4th Wave (July-19) Present (Average)	5th Wave (Jan-20) Present (Average)	6th Wave (Aug-20) Present (Average)
Institutional Risks	Regulatory risk	2.56	2.62	2.73
	Legal risk	2.83	2.85	2.98
	Asset quality deterioration	2.38	2.41	2.39
	Shortfall in capital requirement	2.63	2.57	2.63
	Access to funding (deposit mobilization & borrowings)	2.59	2.72	2.77
	Excessive private sector credit	2.93	3.03	2.80
	Concentration risk in private	2.83	2.97	2.78
	Concentration risk in mutual fund	3.20	3.28	3.33
	Operational risk	2.79	2.78	2.65
	Cyber security risk	2.35	2.28	2.23
	Disruption in financial market	2.68	2.78	2.66
General Risks	Terrorism	2.74	2.67	2.74
	Geopolitical risk for Pakistan	2.41	2.25	2.48
	Natural disasters/ Increasing threat of climate change	2.88	2.68	2.59
	Social unrest	2.92	2.82	2.75

Chart F1: Respondents confidence on the SBP's measures to mitigate the implications of Covid-19 Shock

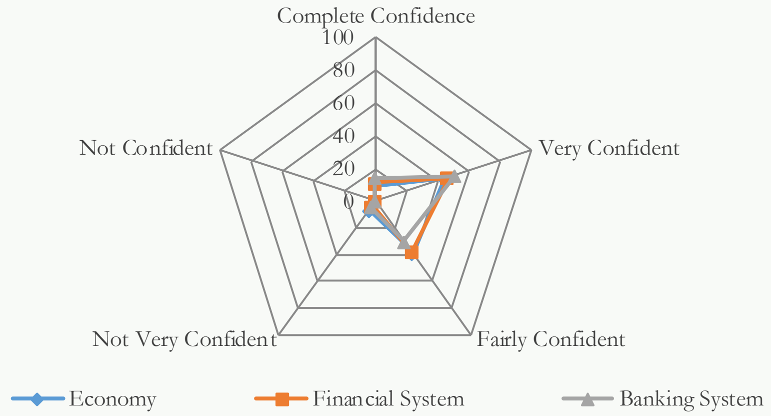


Chart F2: Respondents' views about the efficacy of SBP measures for the economy, financial industry and customers

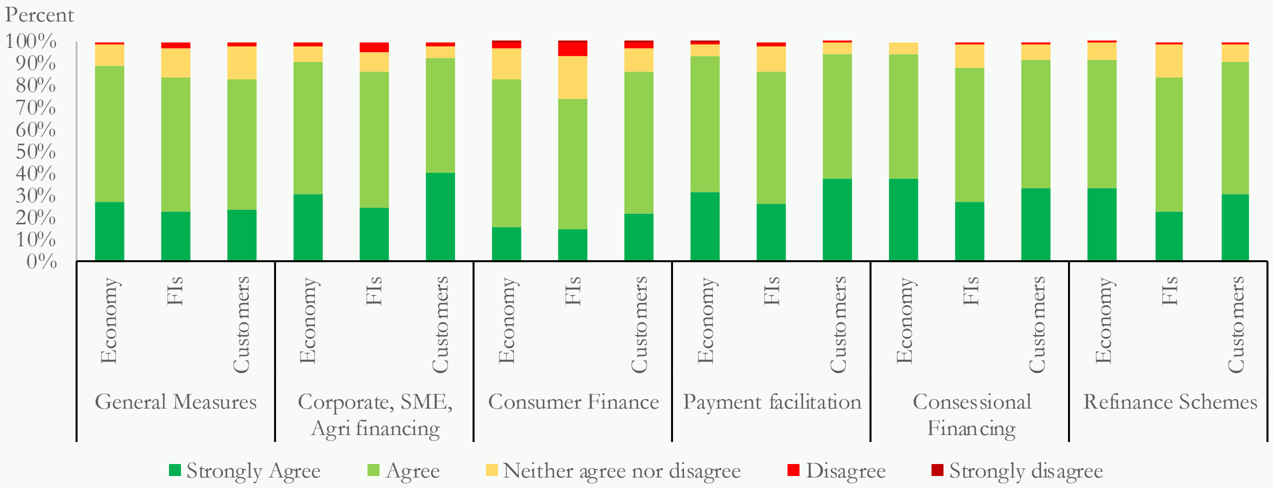


Chart G: Respondents views about the likely impact of COVID-19 on key areas of the financial industry

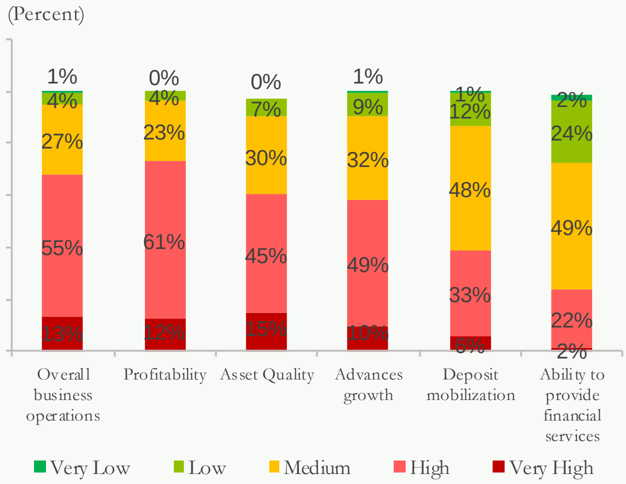
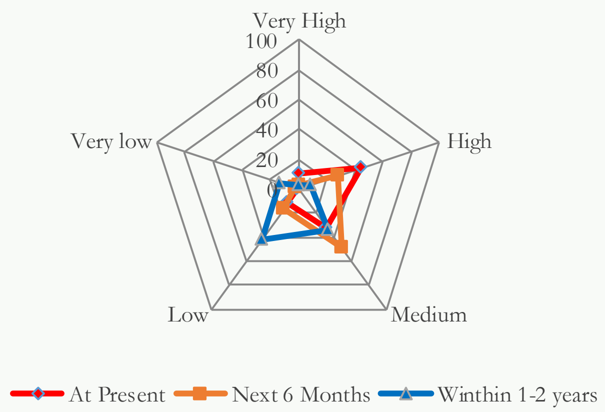


Chart H: Likelihood of COVID-19 pandemic undermining the stability of Pakistan's financial system



C. Banking Sector Outlook for H2CY20

The performance of the banking sector in H2CY20 depends upon the trajectory of COVID-19, economic recovery, and the evolving policy environment.. While financial conditions in the form of interest rates and asset prices remain supportive, the recent uptrend in virus infections presents a challenging scenario. Globally the situation also remains uncertain, especially in key trading economies such as the United States, Euro Area, and the Middle East.

In this backdrop, the outlook for the **private sector advances** presents a mixed picture. The LSM index has increased by 3.66 percent (on year-on-year basis) during July-August, 2020. Further, seasonal uptick during H2CY20 may stimulate demand (**see Appendix A**). However, the downside risks remain due to the possibility of another wave of the disease that may trigger re-imposition of strict lockdowns. Similarly, looming uncertainty about the timing of recovery in the foreign markets could subdue demand from export oriented sectors such as Textiles. Besides demand for credit, in case of crystallization of downside risks, the re-payment capacity of the borrowers could weaken that may lead to further rise in NPLs.

Banks' **investments** are likely to remain strong during the second half of CY20. The pandemic related uncertainties would take time to subside, hence banks' risk averse behavior may keep lending flows subdued. Consequently, government securities may remain a preferable alternative.

Profitability of the banking sector may come under stress in the next half of the year, mainly, from prevailing low interest rate environment. However, revaluation gains on government securities, if realized, may offset the impact to a certain extent and the rise in zero risk weighted Government securities will likely strengthen Capital Adequacy Ratio of the banking sector.

Like elsewhere, the incidence of COVID-19 is rising in Pakistan. As such banks need to keep a close watch on the associated developments and assess the implications of how this reescalation of pandemic could affect their asset quality and solvency.

Annexure

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

PKR million

Financial Position	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19	CY19	H1CY20
ASSETS								
Cash & Balances With Treasury Banks	1,184,521	1,241,640	1,303,914	1,541,206	1,574,551	2,117,875	1,987,096	1,976,860
Balances With Other Banks	168,394	158,090	156,332	170,800	147,829	205,223	232,671	236,269
Lending To Financial Institutions	551,695	563,382	604,990	651,974	909,754	724,736	978,640	834,963
Investments - Net	7,509,164	8,448,540	8,729,019	8,417,799	7,913,923	7,967,691	8,939,438	10,978,886
Advances - Net	5,498,813	6,118,822	6,512,485	7,310,299	7,955,195	8,104,232	8,248,973	8,065,385
Operating Fixed Assets	336,376	363,668	395,246	420,751	437,235	533,451	596,924	604,754
Deferred Tax Assets	64,681	65,735	72,354	78,939	81,082	85,057	74,052	73,011
Other Assets	517,412	540,609	567,205	605,294	662,485	979,360	933,542	934,858
TOTAL ASSETS	**15,831,058**	**17,500,488**	**18,341,545**	**19,197,062**	**19,682,054**	**20,717,625**	**21,991,337**	**23,704,986**
LIABILITIES								
Bills Payable	182,858	199,661	218,588	229,690	243,237	293,156	231,178	277,479
Borrowings From Financial Institution	1,942,458	2,814,776	3,125,432	3,161,918	3,001,186	2,619,901	2,932,082	2,970,670
Deposits And Other Accounts	11,797,867	12,573,296	13,011,778	13,755,769	14,254,210	15,227,411	15,953,489	17,403,634
Sub-ordinated Loans	59,330	53,565	64,703	80,360	111,713	117,098	123,218	125,762
Liabilities Against Assets Subject To Finance Lease	41	29	21	13	7	1,164	7,446	7,892
Deferred Tax Liabilities	61,109	55,915	44,684	39,568	34,557	27,518	43,602	78,143
Other Liabilities	434,598	444,131	495,549	540,671	631,529	943,424	1,042,073	1,027,081
TOTAL LIABILITIES	**14,478,261**	**16,141,373**	**16,960,755**	**17,807,989**	**18,276,439**	**19,229,671**	**20,333,089**	**21,890,663**
NET ASSETS	**1,352,797**	**1,359,115**	**1,380,790**	**1,389,073**	**1,405,615**	**1,487,954**	**1,658,248**	**1,814,323**
NET ASSETS REPRESENTED BY:								
Share Capital	579,882	596,124	516,013	525,771	541,040	547,120	556,886	556,231
Reserves	205,314	206,552	271,448	294,800	315,570	346,145	349,529	380,624
Unappropriated Profit	344,615	348,183	410,371	406,014	433,205	450,489	521,807	552,669
Share Holders' Equity	**1,129,812**	**1,150,859**	**1,197,832**	**1,226,586**	**1,289,816**	**1,343,753**	**1,428,222**	**1,489,523**
Surplus/Deficit On Revaluation Of Assets	222,985	208,256	182,958	162,487	115,799	144,201	230,026	324,799
TOTAL	**1,352,797**	**1,359,115**	**1,380,790**	**1,389,073**	**1,405,615**	**1,487,954**	**1,658,248**	**1,814,323**
PROFIT AND LOSS STATEMENT	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19		
Mark-Up/ Return/Interest Earned	938,026	479,233	998,671	524,345	1,153,383	793,092	1,851,790	1,058,859
Mark-Up/ Return/Interest Expenses	453,232	234,345	499,819	262,838	608,309	462,507	1,156,062	634,182
Net Mark-Up / Interest Income	**484,793**	**244,888**	**498,851**	**261,506**	**545,074**	**330,584**	**695,727**	**424,677**
Provisions & Bad Debts Written Off Directly/(Reversals)	5,305	2,589	3,706	5,876	36,201	26,402	67,855	57,481
Net Mark-Up / Interest Income After Provision	**479,489**	**242,299**	**495,146**	**255,630**	**508,873**	**304,183**	**627,872**	**367,196**
Fees, Commission & Brokerage Income	90,266	49,556	102,898	54,542	112,852	61,749	123,895	54,794
Dividend Income	17,187	8,763	17,875	6,770	13,589	6,334	12,325	4,951
Income From Dealing In Foreign Currencies	14,015	7,905	14,308	11,584	25,981	18,583	26,269	8,825
Other Income	74,260	35,257	52,565	20,950	25,698	4,419	19,628	42,763
Total Non - Markup / Interest Income	**195,728**	**101,481**	**187,646**	**93,847**	**178,121**	**91,084**	**182,117**	**111,334**
	675,217	343,780	682,791	349,477	686,993	395,267	809,989	478,529
Administrative Expenses	356,183	189,108	387,878	209,165	430,375	237,084	495,018	254,095
Other Expenses	5,003	4,308	4,417	2,670	5,068	3,508	10,517	7,818
Total Non-Markup/Interest Expenses	**361,186**	**193,416**	**392,295**	**211,835**	**435,444**	**240,592**	**505,535**	**261,913**
Profit before Tax and Extra ordinary Items	314,031	150,364	290,496	137,643	251,550	154,675	304,454	216,616
Extra ordinary/unusual Items - Gain/(Loss)	0.27	0.15	23,717.35	9,170.00	9,016	15	49	-
PROFIT/ (LOSS) BEFORE TAXATION	**314,030**	**150,364**	**266,779**	**128,473**	**242,534**	**154,660**	**304,405**	**216,616**
Less: Taxation	124,117	60,506	108,987	51,886	93,194	71,940	133,656	90,857
PROFIT/ (LOSS) AFTER TAX	**189,914**	**89,858**	**157,792**	**76,587**	**149,340**	**82,719**	**170,749**	**125,759**

Annexure B

Distribution of Deposits

PKR billion

	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19	CY19	H1CY20
DEPOSITS	**11,798**	**12,573**	**13,012**	**13,756**	**14,254**	**15,227**	**15,953**	**17,404**
Customers	**11,199**	**12,132**	**12,270**	**13,007**	**13,417**	**14,367**	**14,891**	**16,386**
Fixed Deposits	2,670	2,691	2,841	2,756	2,974	3,074	3,410	3,424
Saving Deposits	4,342	4,579	4,699	4,923	5,043	5,386	5,709	6,409
Current accounts - Remunerative	409	475	480	561	561	597	604	708
Current accounts - Non-remunerative	3,685	4,239	4,095	4,593	4,691	5,157	5,022	5,634
Others	92	148	155	175	146	153	146	212
Financial Institutions	**599**	**441**	**741**	**749**	**837**	**860**	**1,062**	**1,017**
Remunerative Deposits	385	369	458	411	471	477	577	557
Non-remunerative Deposits	214	73	284	338	367	383	485	460
Break up of Deposits Currency Wise	**11,798**	**12,573**	**13,012**	**13,756**	**14,254**	**15,227**	**15,953**	**17,404**
Local Currency Deposits	10,548	11,166	11,591	12,306	12,600	13,267	14,043	15,424
Foreign Currency Deposits	1,249	1,407	1,421	1,450	1,655	1,960	1,911	1,980

Annexure C

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

Amount in PKR million, ratio in percent

	H1CY17			CY17			H1CY18			CY18			H1CY19			CY19			H1CY20		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	4,479,094	429,961	9.6	4,829,625	425,369	8.8	5,455,059	432,990	7.9	6,030,582	490,571	8.1	6,147,617	561,664	9.1	6,356,657.6	562,760.1	8.9	6,226,140	606,959	9.7
SMEs Sector	388,482	79,609	20.5	452,415	76,680	16.9	422,165	75,143	17.8	504,979	75,437	14.9	460,407	74,901	16.3	480,009.0	76,724.3	16.0	403,416	78,333	19.4
Agriculture Sector	296,989	53,205	17.9	316,169	38,386	12.1	318,152	61,763	19.4	324,291	54,687	16.9	334,868	71,606	21.4	344,611.1	61,254.1	17.8	323,081	88,985	27.5
Consumer sector	409,712	29,883	7.3	448,465	27,846	6.2	497,888	27,666	5.6	535,461	26,839	5.0	563,060	25,149	4.5	572,562.7	25,887.2	4.5	554,429	33,197	6.0
i. Credit cards	30,077	2,329	7.7	34,248	2,307	6.7	37,451	2,356	6.3	40,917	2,499	6.1	44,393	2,591	5.8	49,126.8	2,692.5	5.5	42,971	2,933	6.8
ii. Auto loans	150,313	2,635	1.8	169,476	2,673	1.6	196,556	2,646	1.3	210,388	2,760	1.3	221,282	2,926	1.3	219,806.8	3,066.8	1.4	213,230	6,272	2.9
iii. Consumer durable	479	72	15.0	652	66	10.1	723	65	8.9	866	65	7.5	994	64	6.4	1,138.4	62.2	5.5	1,070	65	6.1
iv. Mortgage loans	70,855	11,290	15.9	79,979	10,634	13.3	89,015	11,134	12.5	94,937	10,858	11.4	97,895	10,772	11.0	92,664.0	10,665.1	11.5	88,462	11,572	13.1
v. Other personal loans	157,988	13,557	8.6	164,109	12,166	7.4	174,143	11,465	6.6	188,353	10,657	5.7	198,496	8,797	4.4	209,826.8	9,400.7	4.5	208,696	12,353	5.9
Commodity financing	771,114	4,800	0.6	735,365	5,911	0.8	913,493	4,260	0.5	863,976	5,443	0.6	892,516	6,044	0.7	799,126.0	7,391.6	0.9	907,365	7,670	0.8
Cotton	13,243	728	5.5	24,808	1,050	4.2	19,371	992	5.1	41,065	994	2.4	31,058	994	3.2	31,879.7	1,138.6	3.6	29,243	1,044	3.6
Rice	17,610	2,844	16.1	21,010	2,676	12.7	18,446	2,478	13.4	31,886	2,614	8.2	23,035	2,565	11.1	21,055.9	2,680.2	12.7	18,181	2,640	14.5
Sugar	85,608	392	0.5	43,787	1,132	2.6	65,721	143	0.2	62,117	1,199	1.9	82,207	1,643	2.0	71,548.8	2,705.1	3.8	72,507	1,845	2.5
Wheat	398,320	45	0.0	580,290	136	0.0	762,011	136	0.0	664,304	115	0.0	687,720	153	0.0	588,039.5	112.3	0.0	698,927	1,354	0.2
Others	64,542	234	0.4	65,470	916	1.4	47,943	511	1.1	64,604	521	0.8	68,497	688	1.0	86,602.1	755.4	0.9	88,507	787	0.9
Staff Loans	110,281	1,462	1.3	115,449	1,779	1.5	121,796	1,829	1.5	126,997	2,037	1.6	139,397	1,927	1.4	151,057.1	2,127.9	1.4	153,551	2,152	1.4
Others	177,855	15,896	8.9	131,961	16,576	12.6	124,785	19,965	16.0	138,522	24,730	17.9	168,173	26,715	15.9	164,720.4	24,972.6	15.2	188,444	29,255	15.5
Total	6,633,527	614,816	9.3	7,029,449	592,547	8.4	7,853,339	623,615	7.9	8,524,808	679,744	8.0	8,706,040	768,006	8.8	8,868,743.9	761,117.7	8.6	8,756,427	846,551	9.7

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

amount in PKR million, ratio in percent

	H1CY17			CY17			H1CY18			CY18			H1CY19			CY19			H1CY20		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	592,496	56,330	9.5	623,438	41,387	6.6	662,016	64,884	9.8	690,985	57,576	8.3	728,838	73,960	10.1	704,869	63,213	9.0	658,554	90,439	13.7
Automobile/Transportation	98,122	12,518	12.8	108,707	12,027	11.1	120,921	13,895	11.5	129,666	15,820	12.2	141,559	16,728	11.8	176,934	17,544	9.9	160,200	18,127	11.3
Cement	87,601	6,620	7.6	109,561	6,472	5.9	141,223	5,296	3.7	166,962	5,059	3.0	172,784	3,725	2.2	190,559	4,149	2.2	211,933	6,208	2.9
Chemical & Pharmaceuticals	273,440	13,173	4.8	236,955	12,864	5.4	263,329	12,505	4.7	291,291	13,029	4.5	302,758	16,029	5.3	311,429	15,150	4.9	286,380	16,506	5.8
Electronics	81,809	12,755	15.6	97,804	12,503	12.8	103,249	12,065	11.7	117,303	16,260	13.9	117,175	19,598	16.7	120,193	20,444	17.0	111,444	23,022	20.7
Financial	208,486	9,521.3	4.6	172,695	8,782.4	5.1	185,008	8,585	4.6	228,482	9,928	4.3	229,576	11,110	4.8	252,058	10,998	4.4	212,350	9,884	4.7
Individuals	589,900	56,069	9.5	618,877	54,734	8.8	706,926	55,458	7.8	739,483	62,553	8.5	765,132	61,433	8.0	763,625	60,656	7.9	732,981	70,299	9.6
Insurance	4,554	1	0.0	5,934	1	0.0	3,402	7	0.2	3,914	7	0.2	3,637	7	0.2	4,299	7	0.2	5,756	137	2.4
Others	2,595,288	203,801	7.9	2,748,079	206,879	7.5	3,099,352	207,451	6.7	3,297,259	232,109	7.0	3,404,268	248,461	7.3	3,386,624	285,991	8.4	3,426,349	320,003	9.3
Production/Transmission of Energy	971,125	36,788.9	3.8	1,043,522	33,589.0	3.2	1,245,848	36,084	2.9	1,434,622	38,786	2.7	1,450,842	85,428	5.9	1,492,818	46,586	3.1	1,405,492	52,054	3.7
Shoes & Leather garments	26,030	3,596	13.8	28,364	5,307	18.7	30,755	5,710	18.6	33,716	5,674	16.8	37,047	5,941	16.0	38,634	5,949	15.4	35,729	5,854	16.4
Sugar	258,219	15,743.5	6.1	245,590	14,489.9	5.9	307,500	15,995	5.2	234,844	40,337	17.2	279,015	43,818	15.7	220,988	50,511	22.9	289,093	54,264	18.8
Textile	846,457	187,899	22.2	989,922	183,511	18.5	983,810	185,681	18.9	1,156,283	182,606	15.8	1,073,409	181,768	16.9	1,205,711	179,921	14.9	1,220,168	179,755	14.7
Total	6,633,527	614,816	9.3	7,029,449	592,547	8.4	7,853,339	623,615	7.9	8,524,808	679,744	8.0	8,706,040	768,006	8.8	8,868,744	761,118	8.6	8,756,427	846,551	9.7

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

PKR million

	H1CY17		CY17		H1CY18		CY18		H1CY19		CY19		H1CY20	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	35,534	-	19,780	-	39,212	-	32,380	-	40,474	-	32,634	-	39,497	-
Sub Standard	35,238	6,890	32,829	6,446	39,459	8,322	53,898	8,331	78,332	8,087	66,482	7,804	60,229	12,071
Doubtful	37,526	15,604	35,108	14,912	29,108	13,849	52,417	17,742	61,365	20,260	55,663	22,197	73,213	32,184
Loss	506,518	463,067	504,831	463,536	515,835	484,965	541,049	511,601	587,836	540,788	606,339	552,607	673,613	590,543
Total	614,816	485,560	592,547	484,894	623,615	507,136	679,744	537,675	768,006	569,136	761,118	582,607	846,551	634,798

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

Annexure D

Financial Soundness Indicators of the Banking Sector

percent

Indicators	CY14	H1CY15	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18	CY18	H1CY19	CY19	H1CY20
CAPITAL ADEQUACY												
Risk Weighted CAR^	17.1	17.2	17.3	16.1	16.2	15.6	15.8	15.9	16.2	16.1	17.0	18.7
Tier 1 Capital to RWA	14.3	14.1	14.4	13.0	13.0	12.7	12.9	13.0	13.2	13.3	14.0	14.7
ASSET QUALITY												
NPLs to Total Loans	12.3	12.4	11.4	11.1	10.1	9.3	8.4	7.9	8.0	8.8	8.6	9.7
Provision to NPLs	79.8	80.8	84.9	82.4	85.0	83.7	87.2	87.1	83.8	78.4	81.4	81.6
Net NPLs to Net Loans	2.7	2.7	1.9	2.2	1.6	1.6	1.2	1.1	1.4	2.1	1.7	1.9
Net NPLs to Capital^^	10.1	10.9	7.7	9.7	7.3	8.0	5.8	5.9	7.8	11.5	8.9	9.0
EARNINGS												
Return on Assets (Before Tax)	2.2	2.7	2.5	2.2	2.1	1.8	1.6	1.4	1.3	1.6	1.5	1.9
Return on Assets (After Tax)	1.5	1.6	1.5	1.3	1.3	1.1	0.9	0.8	0.8	0.8	0.8	1.1
ROE (Avg. Equity& Surplus) (Before Tax)	24.3	27.5	25.8	24.9	23.8	21.9	19.5	18.5	17.4	21.3	20.1	25.2
ROE (Avg. Equity &Surplus) (After Tax)	16.1	15.9	15.6	14.4	14.4	13.1	11.5	11.0	10.7	11.4	11.3	14.6
NII/Gross Income	71.3	67.5	70.4	70.6	71.2	70.7	72.7	73.6	75.4	78.4	79.3	79.2
Cost / Income Ratio	53.3	46.1	47.8	51.0	53.1	55.8	57.1	59.6	60.2	57.1	57.6	48.9
LIQUIDITY												
Liquid Assets/Total Assets	49.2	52.3	53.8	55.2	53.7	53.8	54.0	51.1	48.7	48.0	49.7	53.3
Liquid Assets/Total Deposits	64.5	69.5	73.3	77.0	72.1	74.9	76.1	71.3	67.2	65.3	68.4	72.6
Advances/Deposits	48.2	45.7	46.4	47.0	46.6	48.7	50.1	53.1	55.8	53.2	51.7	46.3

^ 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

Group-wise Composition of Banks

CY18	H1CY19	CY19	H1CY20
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)	Standard Chartered Bank (Pakistan)	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 (5)	**C. Foreign Banks (5)**	**C. Foreign Banks (5)**	**C. Foreign Banks (4)***
Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	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	Industrial and Commercial Bank of	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 (4)	**D. Specialized Banks (4)**	**D. Specialized Banks (3)#**	**D. Specialized Banks (3)**
Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.
Punjab Provincial Co-operative Bank	Punjab Provincial Co-operative Bank	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 (30)	**All Commercial Banks (30)**	**All Commercial Banks (30)**	**All Commercial Banks (29)**
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
All Banks (34)	**All Banks (34)**	**All Banks (33)**	**All Banks (32)**
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

^SBP declared "Bank of China Limited" as a scheduled Bank with effect from September 18, 2017.

 # Excludes IDBL as SBP has initiated its liquidation process with effect from September , 2019

**Bank of Tokyo - Mitsubishi UFJ, Ltd was de-scheduled on January 17, 2020.*