State Bank of Pakistan

Mid-Year Performance Review of Banking Sector

January-June 2023

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Summary[1]

The first half of CY23 witnessed further build up in macroeconomic stress that had started to emerge in CY22. Large Scale Manufacturing (LSM) Index sharply declined and Business Confidence Index (BCI) remained downbeat. In this backdrop, banking sector managed to expand its asset base by 14.0 percent during the period under review which was, however, largely augmented by investments as advances recorded a muted growth. Private sector advances contracted while public sector availed additional financing mainly for commodity finance operations. On the funding side, deposits mobilization witnessed a revival during H1CY23, however, banks' reliance on borrowings remained noticeable due to stronger expansion in asset base.

Asset quality indicators improved due to better provision coverage for loan losses as gross NPLs witnessed a contained increase during H1CY23. Profitability indicators witnessed significant improvement mainly on the back of growth in net interest income as increase in interest rates gradually translated onto the pricing of earnings assets during the review period. The higher earnings helped to enhance loan loss provisioning and improve Capital Adequacy Ratio (CAR) of the banking sector to 17.8 percent by end June-2023 (17.0 percent in Dec-2022). With further improvement in solvency indicators, the banking sector, in different scenarios of stress testing exercise, shows sufficient resilience to withstand severe shocks to key risk factors and economic conditions.

Financial markets in general showed relatively lower volatility during H1CY23, however, FX market on average showed increased stress despite improvement in current account balances. In the face of building inflationary pressures and increase in policy rate, financial conditions tightened further and the equity market observed lackluster performance during the period under review.

The 12th wave of the Systemic Risk Survey[1] conducted in July-2023 highlights that the key potential risks for the financial system as identified by independent participants include FX risk, increasing domestic inflation and political uncertainty. The respondents, however, expressed confidence in the stability of the financial system and ability of the regulators.

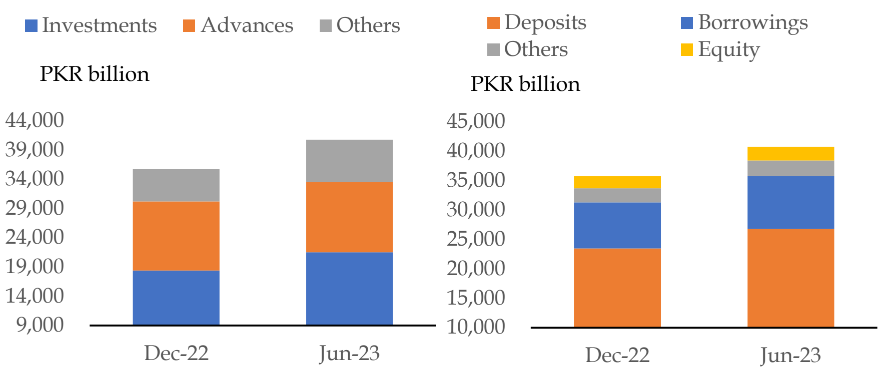
[1] The survey presents the views of independent participants from the financial sector, academia, and financial journalists about the present state and future prospect of financial stability in the country.

Introduction

The economic and financial conditions, which began to deteriorate in CY22, became further challenging during H1CY23. In the wake of high and persistent inflation, policy rate was increased by 600 basis points to 22.0 percent during the first half of CY23. Large Scale Manufacturing (LSM) Index continued to exhibit dismal performance and Business Confidence Index (BCI) remained below its threshold level of 50. Also, PKR depreciated by 20.8 percent against US dollar during H1CY23. Particularly, economic policy uncertainty index—though receded—still remained at elevated level.

In this backdrop of stressed macroeconomic environment, the banking sector performed reasonably well in terms of solvency, earnings and management of underlying risks. The asset base grew by 14.0 percent during H1CY23 (16.0 percent growth in H1CY22) to reach PKR 40,796.7 billion. This growth was mainly contributed by investments which constitute 52.7 percent of asset base, while growth in advances remained subdued (**Figure 1**).[2]

Figure 1: Balance sheet composition of the banking sector (stocks)



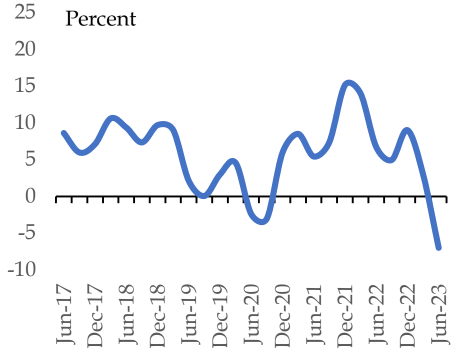
Source: State Bank of Pakistan

On the funding side, banks' deposits increased by 14.2 percent during H1CY23 (9.3 percent in H1CY22) to PKR 26.8 trillion by end June-2023. The banking sector also relied significantly on borrowings in order to finance the expansion in asset base and meet the growing budgetary needs of the government. The share of assets financed from borrowings marginally increased to 22.2 percent by end June-2023 from 21.9 percent at end Dec-2022. As a result of strong inflow of deposits and weak momentum of advances, Advances to Deposits Ratio (**ADR**) declined to 45.0 percent from 50.4 percent in Dec-2022.

[2] Investments increased by PKR 3.1 trillion while advances grew by PKR 241 billion during H1CY23.

Like overall sector, Islamic Banking Institutions (**IBIs**) observed a noticeable expansion of 12.3 percent in the asset base during H1CY23. This growth was mainly driven by investments followed by financing. The share of IBIs in the total assets of the banking sector slightly improved to 19.9 percent by end Jun-2023 compared to 19.5 percent in Jun-2022.

Figure 2: Private Sector Advances (HoH Growth)

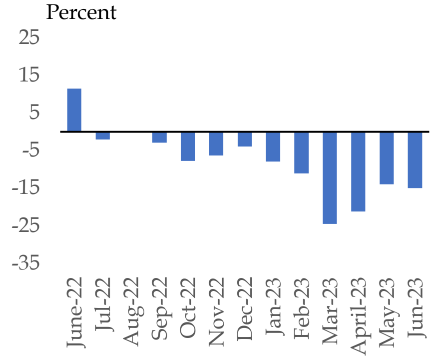


Source: State Bank of Pakistan

Advances

The overall advances (domestic and overseas) of banking sector increased by 2.5 percent during H1CY23 to PKR 12,965.0 billion. Domestic advances increased by 2.3 percent while overseas advances increased by 6.3 percent to reach 5.9 percent of overall advances during H1CY23. There was a marked slowdown in domestic private sector advances (PSA) during H1CY23 (**Figure 2**) which contracted by 7.0 percent against 6.8 percent growth in corresponding period last year. It is noteworthy that afterward June-2022, financing continued to show weaker momentum in the wake of stressed macro-financial conditions, ebbing economic activity and production **(Figure 3),** low business confidence **(Figure 4)**, and banks' increased risk aversion due to higher anticipated credit risk and economic policy uncertainty.

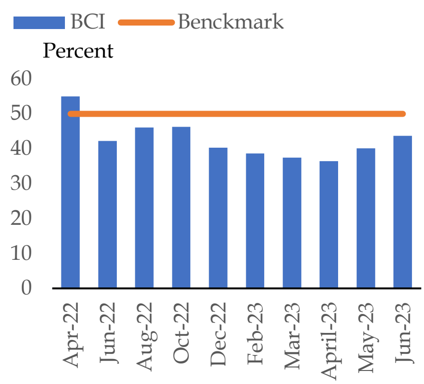
Figure 3: Large Scale Manufacturing Index (YoY Growth)



Source: State Bank of Pakistan

Segment-wise details of private sector advances reveal that almost all segments retired loans during H1CY23. Corporate segment – holding 75 percent of domestic private sector advances – made highest retirement of PKR 534.6 billion (**Table 1**). This substantial loans retirement was mainly driven by low demand for working capital loans and trade financing.

Figure 4: Business Confidence Index



Source: State Bank of Pakistan

Similarly, small and medium enterprises (**SMEs)** which hold 3.5 percent of banks' domestic loan portfolio also made net retirement of PKR 94.3

billion during H1CY23 – mainly in working capital loans. It is noteworthy that SMEs usually retire their loans in the first half of a calendar year as previous 5 years' average retirement turns out PKR 57.0 billion. Nonetheless, during the reviewed period, significantly higher retirement of advances indicates that in the face of rising interest rate and a slowdown in economic activity, the supply and demand of SMEs credit was affected: banks adopted a risk averse strategy whereas the SMEs reduced their reliance on bank credit.

Consumer finance segment, which constitutes 6.9 percent of banks' domestic loan portfolio, posted net-retirement of PKR 47.4 billion during the period under review. Auto financing observed retirement of PKR 44.9 billion, driven by high interest rates and the lag impact of macroprudential measures which were taken during CY21. Importantly, mortgage loans, constituting 25.2 percent of total consumer loans, also gradually lost momentum (**Figure 5),** as the concessional finance scheme for low income groups that particularly augmented the growth of mortgage finance in recent quarters was suspended in June 2022.[3]

Sector-wise details of private sector advances reveal a broad based slowdown. Substantial retirements were made by financial sector (of PKR 138.7 billion), energy (PKR 71.8 billion), chemicals & pharmaceuticals (PKR 75.2 billion), textiles (PKR 64.7 billion) and individuals (of PKR 53.8 billion).

Since banks aggressively lent to financial sector during Q4CY22 in order to improve their ADR levels, the highest retirement was observed in financials sector loans. In case of energy sector, the cash flows of firms improved during the first half of

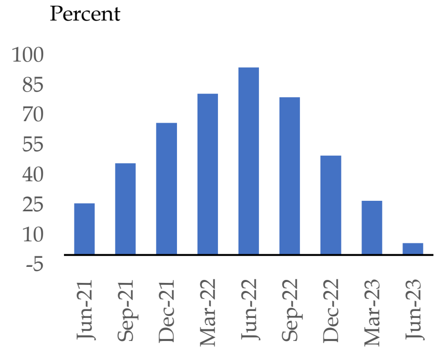
Table 1: Segment-wise private sector advances (stocks)

PKR Billion	Dec-21	Jun-22	Dec-22	Jun-23
Corporate Sector:	5,869	6,314	6,956	6,421
Fixed Investment	2,277	2,493	2,695	2,666
Working Capital	2,106	2,194	2,703	2,308
Trade Finance	1,486	1,627	1,558	1,447
SMEs:	511	466	524	430
Fixed Investment	125	140	139	139
Working Capital	345	285	347	261
Trade Finance	**41**	**42**	**38**	**30**
Agriculture	398.2	419.1	442.4	449.6
Consumer Finance:	809.9	887.8	888.7	841.3
Credit Cards	64.9	72.2	86.4	93.6
Auto Loans	351.4	361.4	332.6	287.6
Consumer Durable	1.8	0.9	1.2	1.3
Mortgage Loan	143.5	200.9	215.0	213.0
Other personal Loans	248.2	252.4	253.6	245.8
Commodity Financing	**116.2**	**124.8**	**145.5**	**143.0**
Staff Loans	197.9	224.3	243.0	264.9
Housing Finance	151.8	170.6	186.1	204.0
Others than housing finance	46.0	53.6	56.9	60.9
Others	1.7	1.9	0.8	6.4
Total	**7904.1**	**8438.2**	**9200.7**	**8556.7**

Note: These advances represent lending to domestic private sector

Source: State Bank of Pakitan

Figure 5: Mortgage Loans (YoY Growth)



Source: State Bank of Pakistan

[3] The substantial offtake in the mortgage financing was due to the scheme of Mera Pakistan Mera Ghar (MPMG) which enabled banks to provide financing for the construction and purchase of houses at very low financing rates for low to middle income segments of the population. However, the scheme was put on hold on June 30, 2022. The outstanding loans under this scheme stood at PKR 450.8 billion by end June-2022. For details, see IH&SMEFD Circular No. 09 of 2022.

CY23 owing to the payments made by the government related to circular debt. Accordingly, energy sector made net retirement during the reviewed period.

In the wake of increased financing cost[4] and elevated costs of other inputs, constrained availability of cotton adversely affected exports and credit need of textile sector during H1CY23.[5] As a result, the sector made noticeable retirement during the reviewed period.

Sugar sector, however, availed additional financing of PKR 41.0 billion in H1CY23 against PKR 96.9 billion in H1CY22. Sugar sector typically retires some of its loans in the second quarter of calendar year (**see Appendix A**), however, this year net retirements were on the higher side mainly due to better cash flows from higher exports and increased prices of sugar.[6,7]

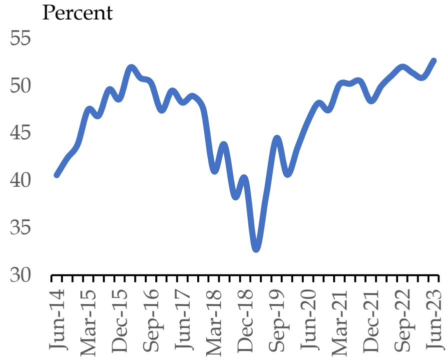
A few other sectors together made retirement of PKR 188.5 billion during the reviewed period. The retirement was mainly driven by wholesale and retail trade (by PKR 73.2 billion), manufacture of electrical equipment (by PKR 56.0 billion) and administrative activities (by PKR 10.5 billion).

Domestic **public sector** advances, which constitute around 30 percent of total domestic advances of banking sector, increased by 33.8 percent during H1CY23 to PKR 3,637 billion. Around 39 percent of this increase in public sector advances pertained to commodity finance mainly for wheat procurement while energy firms also availed substantial financing. In addition, government took substantial amount of foreign currency loans from banking sector during the period under review.

Investments

In line with the recent trend, investment portfolio of banks increased at higher pace i.e., by 16.9 percent to reach PKR 21.5 trillion during H1CY23. It is noteworthy that banks' investments portfolio, which mainly comprises of government securities, has been steadily increasing for the last few years due to government's increased reliance on bank credit to

Figure 6: Trend in Total Investments to total assets

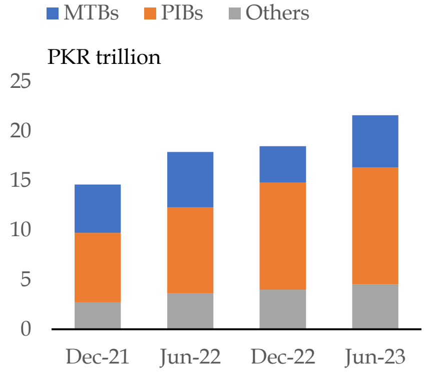


Source: State Bank of Pakistan

[4] In order to further improve the monetary policy transmission, SBP has linked EFS rates with the policy rate. For details, see IH&SMEFD Circular No. 11 of 2022.
[5] Textiles exports declined by 20.6 percent (in US dollar term) in H1CY23 as compared to H1CY22.
[6] Sugar exports were USD 106.1 million during H1CY23.
[7] In Q2CY23, sugar firms retired PKR 78.7 billion as compared to retirement of PKR 53.4 billion in comparable period of CY22.

finance its budgetary needs (**Figure 6**). By end June-2023, share of total investments and government securities in banking sector's asset base reached 52.7 percent and 49.6 percent, respectively.
Further analysis indicates that increase in investments during H1CY23 was almost entirely driven by government securities: investments in Market Treasury Bill (MTBs) and Pakistan Investment Bonds (PIBs) increased by PKR 1.6 trillion and PKR 1.0 trillion, respectively (**Figure 7**).[8]

Figure 7: Composition of Investments (stocks)



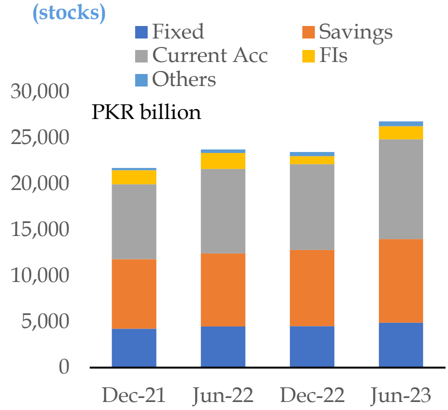
Source: State Bank of Pakistan

The auctions statistics of government securities reveal that banks offered higher amounts in MTBs and floating rate PIBs, during H1CY23.[9] This offer pattern of banks in general was consistent with government's auction and acceptance strategy which preferred to borrow against MTBs and floating rate PIBs. However, from offer-to-target ratio standpoint, banks' bidding was highest for fixed rate PIBs (1.8 times), followed by MTBs (1.4 times) and floating rate PIBs (1.3 times).

Deposits

Deposits of the banking sector increased by 14.2 percent during H1CY23 to PKR 26,785 billion, showing a noticeable revival in mobilization activity when compared with 1.1 percent contraction in H2CY22 and 9.3 percent growth in H1CY22. Customers' deposits contributed 82.8 percent in the overall increase in deposits while the rest of increase came from financial institutions' deposits **(Figure 8)**.

Figure 8: Composition of Deposits (stocks)



Source: State Bank of Pakistan

Further analysis indicates that the highest growth was observed in current account deposits (16.1 percent in H1CY23 vs. 13.0 percent in H1CY22) followed by savings (9.8 percent in H1CY23 vs. 5.3 percent in H1CY22) and fixed deposits (8.5 percent in H1CY23 vs. 5.5 percent in H1CY22).[10]

[8] The share of MTBs and PIBs in total investments stood at 24.3 percent and 54.7 percent, respectively at end June-2023
[9] In the auctions, banks offered PKR 8.1 trillion for MTBs (net of maturity), PKR 3.0 trillion for floating rate PIBs, and PKR 1.4 trillion for fixed rate PIBs in H1CY23.
[10] Current account, savings and fixed deposits contributed by 45.3 percent, 24.4 percent and 11.5 percent, respectively.

Strong mobilization of current deposits seems to be driven by banks' aggressive efforts to raise least costly deposits in order to contain their average interest expenses in a high interest rate environment. Moreover, decent growth in savings and fixed deposits was owing to increase in the rate of return.

Borrowings

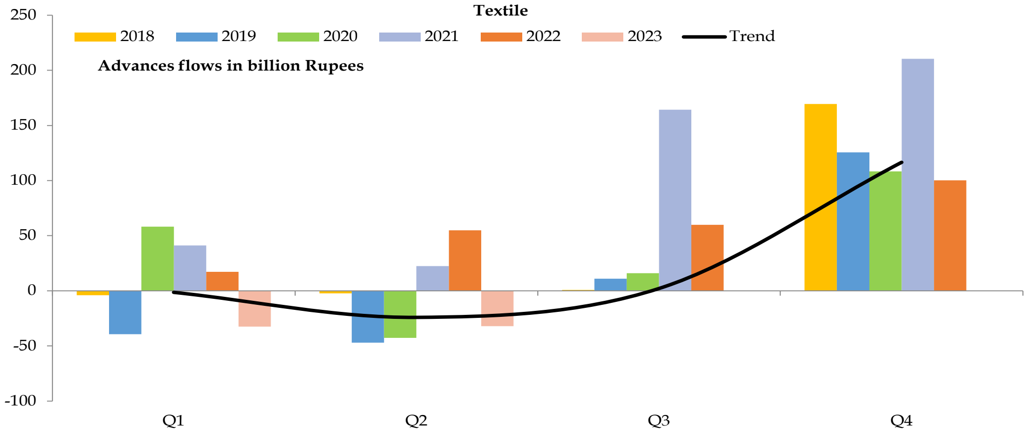
Despite healthy growth in deposits, banks' total borrowings increased by PKR 1.2 trillion during H1CY23. Resultantly, the share of assets financed by borrowing increased to 22.2 percent. Secured and unsecured borrowing increased by PKR 737.8 billion and PKR 475.2 billion, respectively. Further details reveal that 66 percent of the total increase in borrowings pertained to repo-borrowings from SBP. In the wake of increase in government's reliance on bank credit over the period, banks' reliance on central bank's liquidity has also increased to meet this rising financing needs of the government.

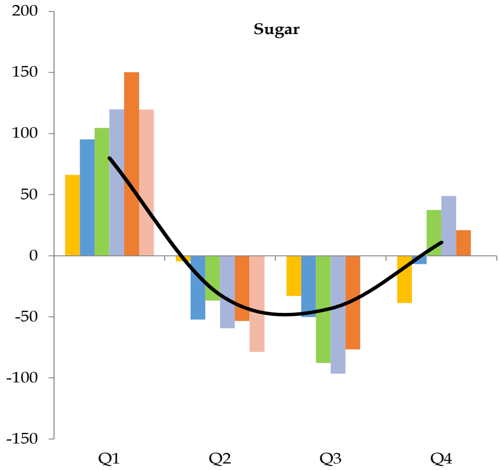
Shareholders' Equity and Capital

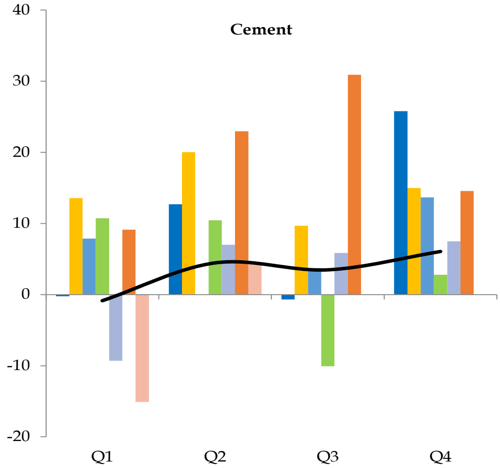
Banking sector's capital base (equity + revaluation surplus) increased by 11.9 percent during H1CY23, noticeably higher than 0.32 percent growth in H1CY22. As a result of relatively higher growth in assets, capital (including revaluation surpluses) to asset ratio slightly declined to 5.6 percent in June-2023 from 5.9 percent at end Dec-2022.

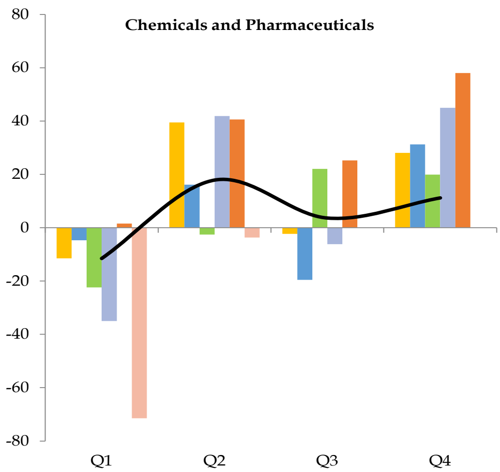
Further analysis shows that the major increase in capital was driven by shareholders' equity which constitutes 96.1 percent of total capital base of the banking sector. Shareholders' equity increased by PKR 265.9 billion (13.5 percent growth) mainly on the back of retained earnings, while revaluation surplus declined by PKR 17.5 billion in H1CY23 against PKR 74.3 billion decline in H1CY22.

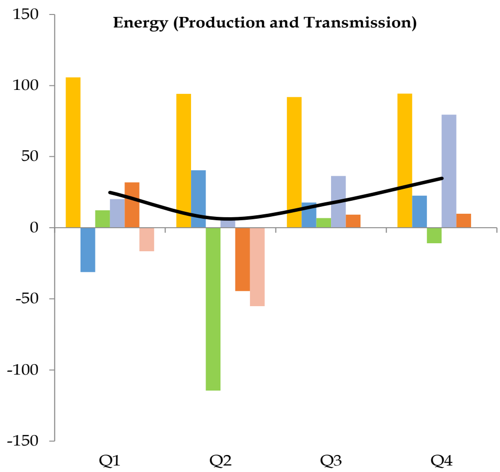
Appendix A: Seasonality in Private Sector Advances





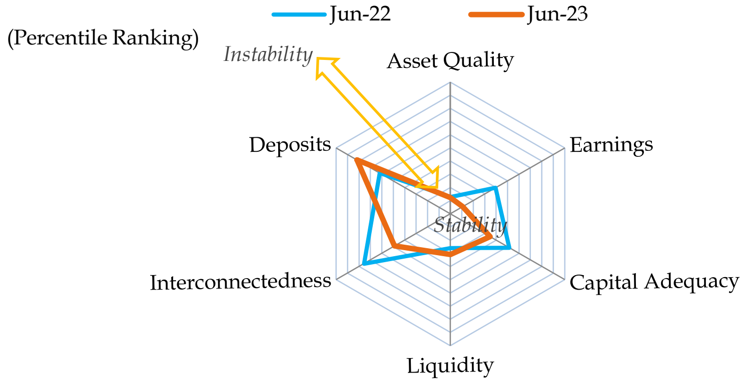






The banking sector maintained its soundness during H1CY23. Banking Sector Stability Map (BSSM), which tracks key risk indicators of the banking sector along various dimensions, shows that Asset Quality, Earnings, Capital Adequacy, and Interconnectedness improved, while Deposits and Liquidity dimensions suggested some deterioration (**see Figure 9**).[11]

Figure 9: Banking Sector Stability Map



Source: State Bank of Pakistan

Asset Quality:

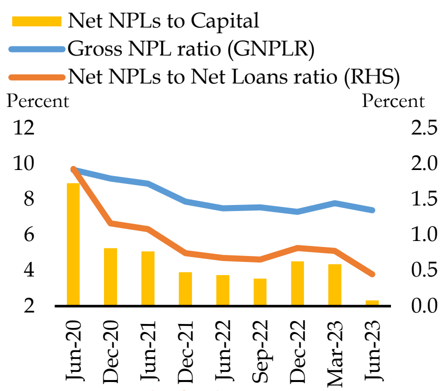
Domestic operating environment observed rising inflationary pressures and tightening macro-financial conditions during H1CY23. The challenges were also reflected in banks' lending portfolio. The increase in NPLs remained relatively mute during the period under review i.e., addition of PKR 35.4 billion compared to PKR 45.5 billion in H2CY22 while NPLs rose by PKR 18.3 billion increase in H1CY22. Accordingly, asset quality indicators improved i.e., gross NPLs to loans ratio remained more or less stable at 7.4 percent at end June-2023 (7.5 percent at end June-2022 and 7.3 percent at end Dec-2022), however, provisioning coverage of NPLs

[11] BSSM ranks the current period FSIs vis-à-vis their historical level. It is based on percentile rankings (scaled from 1 to 10) of various indicators and the summary score of these indicators in a particular dimension e.g., asset quality. Getting closer to 10 value of the summary statistic suggests increased risks but not necessarily immediate stability concern. This is because the summary statistic is based on percentile rankings of historical series and the actual indicators for the quarter may still be in a comfortable position or above the minimum regulatory requirement. The methodology is based on Dattels, P., McCaughrin, R., Miyajima, K., & Puig, J. (2010). "Can you map global financial stability?" IMF Working Papers, 1-42

improved to 94.4 percent by end June-2023 (91.6 percent at end June-2022) **(Figure 10)**.

Accordingly, net NPLs to net loan ratio further improved to 0.45 percent by end June-2023 from 0.68 percent at end June-2022. The ratio is at one of the lowest levels of last two decades and represents muted risk to banks' solvency position from existing non-performing loan portfolio.

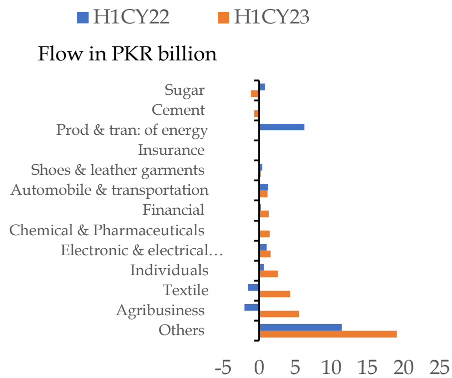
Figure 10: Assets Quality Indicators improved



Source: State Bank of Pakistan

Detailed analysis of NPLs' dynamics shows that around 46 percent of the overall increase in NPLs during H1CY23 was contributed by overseas NPLs which increased in PKR terms mainly due to exchange rate translation impact of rupee depreciation during the period under review. Domestic operations observed PKR 19.0 billion increase in NPLs, mainly coming from PKR 5.5 billion addition in agribusinesses' NPLs (reflecting a seasonal trend) and PKR 3.5 billion in textile sector (due to some idiosyncratic issues with borrower firms e.g., non-receipt of exports proceeds of a few borrowers). Some delinquencies also occurred in oil marketing and construction allied segments as a few borrowers' debt repayment capacity came under pressure due to ongoing economic slowdown and challenging business environment (**Figure 11**).

Figure 11: Sector wise Gross NPLs



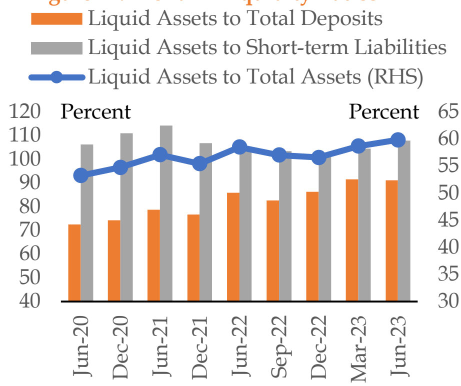
Source: State Bank of Pakistan

The overall credit risk profile of banking sector is in a comfortable position as the sector has faced relatively contained increase in NPLs despite a significant buildup of stresses in macroeconomic environment. Banks have been following a relatively conservative approach in terms of credit worthiness of borrowers as they prefer to lend to rated borrowers who generally have better credit worthiness and established track record of business: around 66.6 percent of corporate and commercial credit portfolio is lent to rated borrowers.

Liquidity:

Though BSSM shows slight deterioration in Liquidity dimension by end June-2023, the overall liquidity profile of banking sector was at comfortable position mainly on the back of additional investments in government securities, which augmented the stock of liquid assets by 20.5 percent to reach PKR 24,418.3 billion by end June-2023. Liquidity ratios such as liquid assets to total assets slightly improved to 59.9 percent (58.5 percent in June-2022) and liquid assets to short-term liabilities ratio improved to 107.9 percent (105.2 percent in June-2022). Likewise, the liquid assets to total deposits ratio improved to 91.2 percent by end of June-2023 from 86.0 percent at end June-2022 (**Figure 12**).

Figure 12: Trend in Liquidity Ratios



Source: State Bank of Pakistan

Basel III liquidity indicators, which comprehensively cover various aspects of liquidity risks, also recorded improvement during the reviewed period. Liquidity Coverage Ratio (LCR) improved to 244.0 percent in June-2023 (202 percent at end June-2022 and 215.5 percent at end Dec-2022) and Net Stable Funding Ratio (NSFR) improved to 206.0 percent in June-2023 (161 percent at end June-2022 and 166.0 percent in Dec-2022).

Composition of banks' portfolio of government securities, which constitute 49.6 percent of total assets, in terms of their intention and ability to hold or sell these securities show that major part of these investments are held for sale and trading, while only a small portion is held to maturity.[12] With this mix of investment portfolio and a reasonably developed secondary market for government securities which facilitates price discovery and trading, banks were able to manage their liquidity profile comfortably. Although their reliance on Open Market Operations (OMOs) injections to manage their liquidity needs also remained intact during H1CY23, the average OMOs injection size was relatively lower in H1CY23 than last year, as the growth in advances was subdued, while pace of deposits mobilization revived.

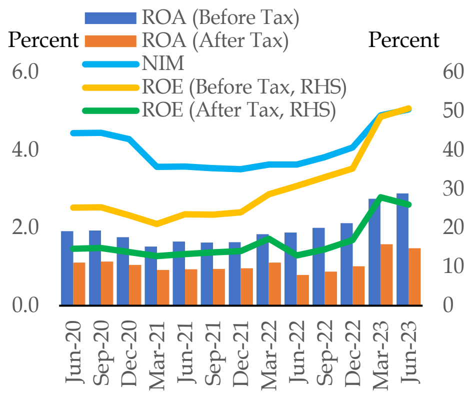
Profitability:

[12] Only 11.5 percent of the total MTBs and PIBs are classified as Held to Maturity, while 86.7 percent are classified as Available for Sale and 1.9 percent as Held for Trading.

Profitability indicators of banking sector improved in H1CY23. The after-tax ROA rose to 1.5 percent (0.8 percent in H1CY22 and 1.0 percent in CY22) while ROE enhanced to 26.0 percent from 12.9 percent in corresponding period of last year (**Figure 13**). The major push to earnings came from higher net interest income, as the rising interest rates translated to higher earnings while non-interest income also augmented the bottom line during the reviewed period. On expenses side, provisioning was relatively higher in H1CY23 and operating expenses also recorded sharp growth due to branch expansion as well as elevated inflation. Nonetheless, the after-tax profit more than doubled to PKR 284.5 billion in H1CY23 when compared to PKR 126.2 billion in H1CY22 (**see Figure 14**).

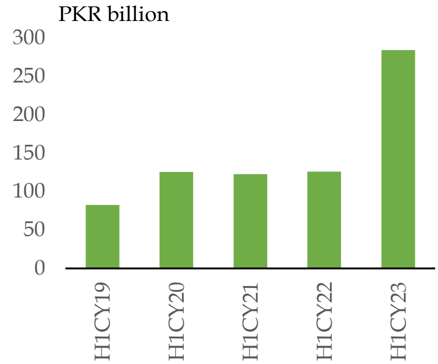
Detailed analysis shows that net interest income grew (NII) by 67.3 percent in H1CY23 compared to 23.6 percent increase in same period last year (**Figure 15**), as the policy rate was raised a number of times during the period under review while earning assets also posted steady growth.[13] Though interest income doubled to PKR 2,723.1 billion in H1CY23 as compared to H1 last year, interest expenses more than doubled to PKR 1,882.1 billion (**Table 2**) – offsetting a significant part of the growth in interest income – as the funding side is repriced relatively earlier than earning assets.[14]

Figure 13: Trend in Profitability Indicators



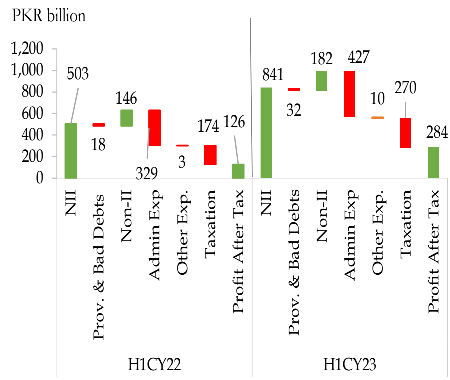
Source: State Bank of Pakistan

Figure 14: Profit After Tax (Year-to-Date)



Source: State Bank of Pakistan

Figure 15: Composition of Profit After Tax



Source: State Bank of Pakistan

[13] SBP policy rate rose by a cumulative 600 bps during H1CY23.

[14] After any change in SBP policy rate, saving deposits (conventional banking) are repriced from the next month while advances and investments are repriced as per their contractual maturity.

Table 2: Profit and Loss statement of banking sector

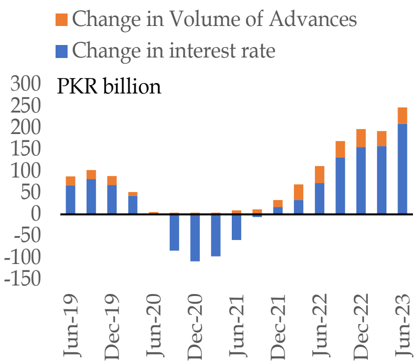
	YTD (PKR billion)		YoY change (%)	
	H1CY22	H1CY23	H1CY22	H1CY23
Mark-Up/ Return/Interest Earned	1,357	2,723	57.9	100.7
Mark-Up/ Return/Interest Expenses	854	1,882	88.8	120.3
Net Mark-Up / Interest Income	503	841	23.6	67.3
Provisions & Bad Debts Written Off Directly/(Reversals)	18	32	(30.3)	80.7
Net Mark-Up /Interest Income After Provision	485	809	27.1	66.8
Fees, Commission & Brokerage Income	83	103	21.7	23.2
Dividend Income	10	13	29.5	33.9
Income From Dealing In Foreign Currencies	41.4	58.5	337.4	41.2
Other Income	11.7	8.1	(58.6)	(30.9)
Total Non - Markup / Interest Income	146.2	182.2	28.4	24.7
Administrative Expenses	328.6	426.6	20.4	29.8
Other Expenses	2.7	10.4	(45.6)	278.4
Total Non-Markup/Interest Expenses	331.4	436.9	19.2	31.9
Profit before Tax and Extra ordinary Items	299.9	554.6	38.0	84.9
Extra ordinary/unusual Items -- Loss/(Gain)	-	-		
PROFIT/ (LOSS) BEFORE TAXATION	**299.9**	**554.6**	**38.0**	**84.9**
Taxation/ (Reversal, Benefit)	173.7	270.1	83.9	55.5
PROFIT/ (LOSS) AFTER TAX	**126.2**	**284.5**	**2.7**	**125.4**

Note: YTD=Year to Date.

Source: State Bank of Pakistan

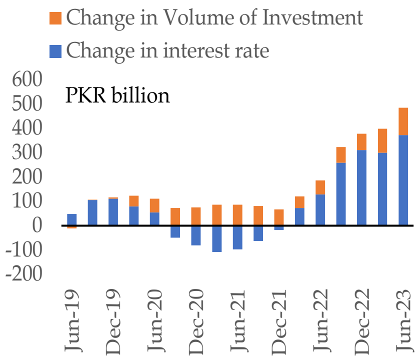
The analysis of sources of growth in interest income reveals that the major increase in income on advances and investments was due to rise in interest rate while the expansion in volume of these assets also contributed in the growth of interest income (**Figure 16**).

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



Source: State Bank of Pakistan

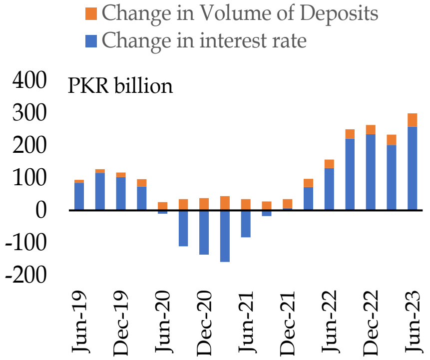
Figure 16b: Change in Interest Earned on Investment due to ....



Source: State Bank of Pakistan

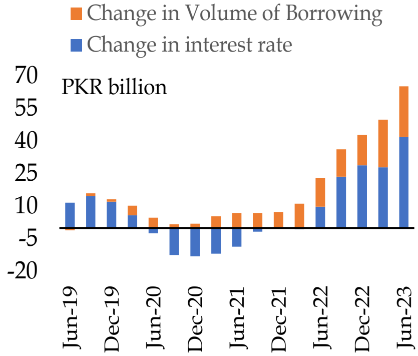
A similar effect was also visible in interest expenses on deposits and borrowings, however, the impact of increased volume of borrowing was relatively significant (**Figure 17**), as reliance on borrowing increased to finance accelerated expansion in asset base over the period.

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



Source: State Bank of Pakistan

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

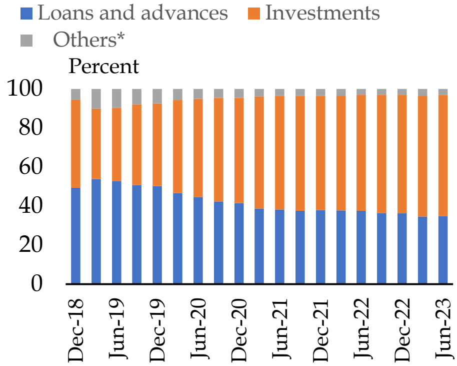


Source: State Bank of Pakistan

In line with the rising share of investments in banks' balance sheet, interest income from investments rose to 62.0 percent of total interest earnings (**Figure 18**).

On the expense side, interest on deposits contributed around 60 percent of total interest expenses, however, the share of repo-based borrowing also shows a noticeable increase over the last couple of years (**Figure 19**).

Figure 18: Share of Interest Earning from...



Source: State Bank of Pakistan

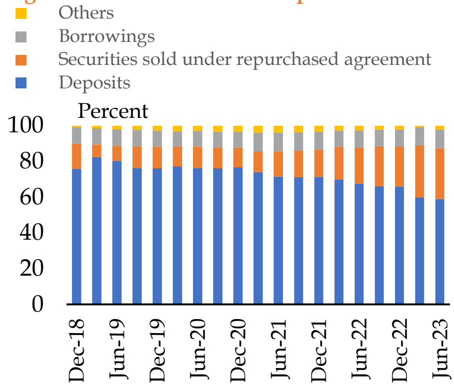
Growth in non-interest income decelerated to 24.7 percent in H1CY23 (28.4 percent in H1CY22). Though higher income from fee, commission and brokerage and dealing in foreign exchange supported non-interest income, the trading losses on sale of securities offset a part of the non-interest income.[15] A major part of the trading losses comprised losses on sale of shares.[16]

[15] Banks incurred PKR 1.0 billion trading losses on sale of government securities in H1CY23 as compared to gains of PKR 2.1 billion in H1CY22 and gains of PKR 7.6 billion in H1CY21.

[16] Losses on trading of shares amounted PKR 2.7 billion in H1CY23 as compared to gains of PKR 1.0 billion in H1CY22.

Provisioning expenses were higher at PKR 31.6 billion in H1CY23 compared to PKR 17.5 billion in same period last year as banks set aside higher loan loss reserves to improve the provision coverage of delinquent loan portfolio.

Figure 19: Share of Interest Expenses on...



Source: State Bank of Pakistan

Non-interest expenses recorded noticeable increase of 31.9 percent in H1CY23, which was higher than last year. Apart from branch expansion and rise in human resources, higher inflation explains the increase in admin expenses.

Extended DuPont analysis to identify the sources of change in bottom line indicator shows that the increase in yield on assets and operating performance augmented the ROE of banking sector in H1CY23. However, decline in interest margin had the contractionary effects on the bottom line (**Table 3**).

Table 3: Extended Du Pont Break of Banking Sector's after-tax ROE

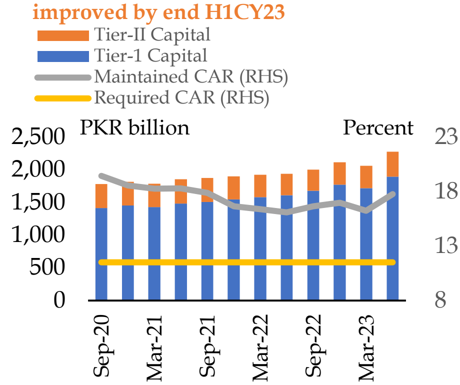
	H1CY21	H1CY22	H1CY23
Impact of tax i.e. NI/PBT (a)	0.57	0.42	0.51
Operating efficiency i.e. PBT/NII (b)	0.53	0.60	0.66
Interest Margin i.e. NII/Interest Income (c')	0.47	0.37	0.31
Yield on Assets i.e. Interest Income/Assets (d)	0.03	0.04	0.07
Leverage i.e. Assets/Equity (e')	14.22	16.35	17.58
ROE (f = a x b x c x d x e)	**13.3%**	**12.9%**	**26.0%**

Source: SBP

Solvency:

Key **solvency** indicators of the banking sector such as Capital Adequacy Ratio (**CAR**) improved to 17.8 percent by end June-2023 from 17.0 percent at end Dec-22 (**Figure 20**). The improvement in CAR ratio emanated from higher growth in eligible capital (7.7 percent) which outpaced growth in total risk-weighted assets (2.9 percent) in H1CY23.

Figure 20: CAR of banking sector improved by end H1CY23

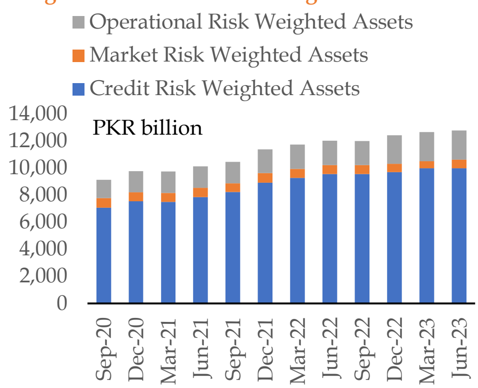


Source: State Bank of Pakistan

While eligible capital mainly rose on the back of higher earnings, the growth in total risk weighted assets decelerated due to slower expansion in credit risk weighted assets, which constitute around 80 percent of the total risk weighted assets. Deceleration in the growth of credit risk weighted assets was consistent with the contraction in private sector advances. While contraction was observed in both rated and unrated lending exposures during H1CY23, the decline in unrated exposure was higher than rated exposures.[17]

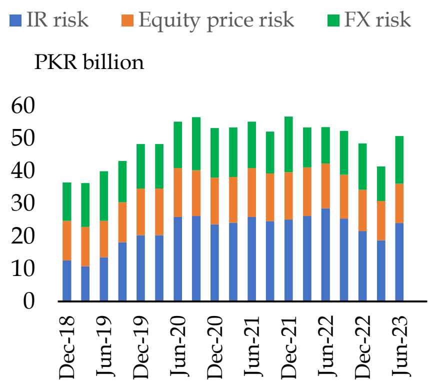
Market risk weighted assets (having 5.0 percent share in total risk weighted assets) recorded higher growth in H1CY23, mainly due to interest rate risk weighted assets, which was in line with the substantial increase in banks' investments in government securities (**Figure 21 and 22**).[18] Operational Risk Weighted Assets, which constitute 16.8 percent of total risk-weighted assets, increased by 2.1 percent during H1CY23 – higher than 1.4 percent growth in corresponding period of last year. The rise mainly emanated from growth in average gross income.[19]

Figure 21: Trend in Risk Weighted Assets



Source: State Bank of Pakistan

Figure 22: Capital Charge for Market Risk



Source: State Bank of Pakistan

As regards the key financial risks (i.e., credit and market risks) to the solvency of banking sector, capital impairment ratio (net NPLs to capital) lowered to 2.4 percent at end June-2023 (3.8 percent at end June-2022) due to relatively contained growth in NPLs and improved provisioning coverage. The ratio stands at a comfortable level which is one of the lowest in last two decades, suggesting a contained risk to the solvency of banking sector from its existing delinquent loan portfolio. Banks' exposure to market risk particularly interest rate risk has significantly

[17] Unrated exposures fell by PKR 343.7 billion whereas the rated exposures fell by PKR 233.9 billion during H1CY23.

[18] For instance, the yield curve recorded notable upward movements in all maturities, especially short maturities during H1CY23.

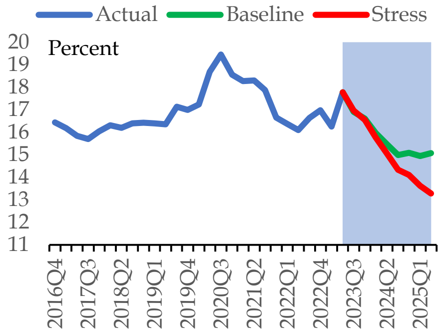
[19] Gross income forms the basis of capital charge under Basic Indicator Approach of Basel capital standards; this approach is followed by most of the banks for calculation of operational risk.

increased over recent quarters due to increase in fixed income government securities, and sharp increase in policy rate (i.e., 600 bps) during the period under review.[20] However, compared to overall size of exposure, banks' sensitivity to the interest rate risk remained relatively contained due to shorter repricing maturity of the investment portfolio. Accordingly, banks were generally able to withstand the impact of interest rate increase as higher earnings also augmented the capital base.

CAR of the banking sector, at 17.8 percent, is well above the minimum regulatory benchmark of 11.5 percent, and latest stress test results also indicate that the sector has strong resilience to withstand shocks to credit and market risk factors due to both ample capital buffers and muted sensitivity to these risks (**see Annexure-E**).

SBP also regularly conducts macro-stress testing (scenario analysis) to assess the resilience of banking sector against adverse macroeconomic shocks. This analysis estimates the likely path of NPLs and CAR over next two years under both baseline (business-as-usual) scenario and stressed scenario (assuming significantly stressed macroeconomic conditions). The latest results of this analysis show that the CAR of banking sector is likely to remain well above the minimum regulatory requirement (11.5 percent) under both business as usual scenario and assumed stressed macroeconomic conditions over the projected horizon of the next two years (**Figure 23**).

Figure 23: Projected Capital Adequacy Ratio Under different assumed scenarios

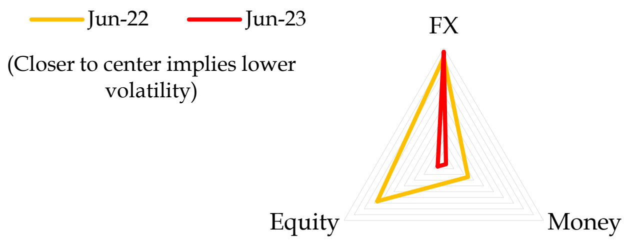


Source: State Bank of Pakistan

[20] Revaluation losses on government securities were PKR 372.7 billion (1.8 percent of total value government securities) at end June-2023 compared to PKR 235.8 billion (1.4 percent of total value of government securities) at end Dec-2022.

Domestic financial market exhibited relatively lower volatility during H1CY23 when compared to corresponding period of last year (**Figure 24**). However, FX market witnessed higher volatility and remained in stress as PKR continued to depreciate during the period under review. In the face of rising inflationary pressures, SBP tightened its monetary policy stance and raised the policy rate by a cumulative 600 basis points during H1CY23. Accordingly, financial conditions further tightened while economic activity also remained subdued. The equity market witnessed lackluster performance with a 2.6 percent growth in KSE-100 index during H1CY23, however, this performance was better than corresponding period of last year which experienced contraction.

Figure 24: 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 Interbank PKR/USD Exchange Rate are used as indicators for the money, equity and foreign exchange markets, respectively.
Source: State Bank of Pakistan

FX Market

FX market that had been in pressure since last year, continued to face stress during H1CY23. Despite a substantial improvement in the current account balance, vulnerabilities continued to persist as scheduled debt repayments and decline in financial inflows amid rising global interest rates and domestic uncertainties exerted pressure on FX reserves and the exchange rate.[21] PKR depreciated by 20.8 percent in H1CY23 against USD (depreciation of 13.8 percent in H1CY22), and exchange rate exhibited relatively higher volatility during H1CY23. In fact, the volatility was at its

[21] For details, see Monetary Policy Statement for Mar-2023 available at https://www.sbp.org.pk/m_policy/2023/MPS-Mar-2023-Eng.pdf

highest level since 2001, when the interbank exchange rate sharply converged to open market rate in first week of Mar-2023.

The adjustment in exchange rate narrowed the spread between open market and interbank exchange rates, though it again temporarily widened in mid-May-2023 to end June-2023 period. FX liquidity conditions in the interbank also remained tight, and importers increasingly used FE-25 loans to meet their FX needs.[22]

Though the FX market remained under stress, the volatility in exchange rate did not translate into any significant stability concerns for banks due to their limited foreign exchange exposure amid conservative regulatory limits. The latest stress test results also indicate banks' low sensitivity and high resilience to FX risks. On the basis of June-2023 data, even after a severe 30 percent hypothetical depreciation of PKR against USD, capital adequacy ratio of all CAR-compliant banks remains above minimum regulatory requirement (**see Annexure E**).

Money Market

Amid elevated inflationary pressures, SBP continued its tight monetary policy stance. Policy rate was raised by 100 bps in January, 300 bps in March, 100 bps in April and then 100 bps in June 2023 resulting in a cumulative increase of 600 bps in H1CY23.

Despite sharp volatility in March when policy rate was increased by 300 bps, overnight repo rate (ONR) exhibited lower volatility during H1CY23 as compared to same period last year.[23]

High frequency data of market prices suggest relatively comfortable liquidity conditions in the interbank market; the ONR remained below the policy rate in around 60 percent of the instances (working days) during H1CY23. Amid muted overall growth in the loans and revival in deposit mobilization during H1CY23,[24] the

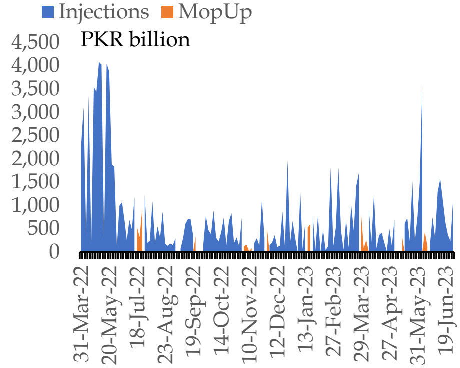
[22] Advances from foreign currency deposits (commonly known as FE-25 deposits) for import purposes rose by USD 485.6 million to USD 1,485.3 million, while FE-25 export loans fell by USD 17.6 million in H1CY23.
[23] On the average, the EWMA volatility in ONR was lower at 0.027 in H1CY23 as compared to average volatility of 0.041 in the same period last year.
[24] Banks deposit rose by PKR 3.3 trillion in H1CY23 compared to PKR 2.0 trillion increase in same period last year.

interbank market required relatively lower size of OMOs injections in H1CY23 compared to same period last year (**see Figure 25**).[25]

In the rising interest rate scenario, banks' inclinations towards Treasury Bills and floating rate PIBs (quarterly coupon) were quite visible in auctions. These two categories of government securities constituted more than 85 percent of banks' total bid offers in primary auction during H1CY23. A similar trend was also witnessed in secondary market activity, as the cumulative trading volume of shorter-term government securities dominated the overall trading volumes in the secondary market (**see Figure 26**).[26]

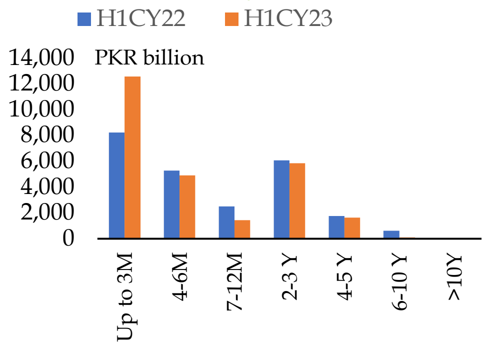
With the rise in SBP policy rate, the yield curve kept its upward movement. However, inversion in yield curve (above one year tenors) deepened by end June-2023 (**Figure 27**). In this backdrop, banks' investment strategy seems to be focused on short-term government securities during H1CY23. The share of government securities over time has risen to 49.6 percent of total assets of banking sector by end June-2023. In this backdrop, movements in interest rates have become an important source of market risk. However, the results of latest sensitivity (stress testing) analysis under hypothetical severe shock scenarios (e.g., parallel upward shift in the yield curve by 300 basis points) show that banks in general maintain adequate resilience in terms of CAR compliance against the shocks (**see Annexure E**).

Figure 25: Trend in OMOs injections and Mop-up



Source: State Bank of Pakistan

Figure 26: Trading of Government Securities in Secondary Market



Source: State Bank of Pakistan

Equity Market

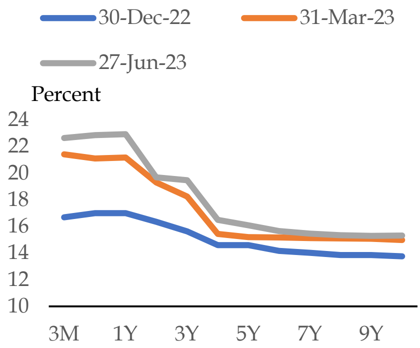
[25] The average OMO injection size fell to PKR 680.5 billion in H1CY23 as compared to average OMO injection size of PKR 1.9 trillion in same period last year.

[26] Cumulative trading volume of government securities were PKR 26.5 trillion in H1CY23 compared to PKR 24.4 trillion in H1CY22. Cumulative trading volumes of government securities in short tenors amounted to PKR 18.9 trillion in H1CY23.

Domestic equity market in general remained under pressure during most part of the period under review. KSE-100 index, however, started upward movement on the back of expectations of revival of IMF program towards end June-2023 and recorded an overall growth of 2.6 percent in H1CY23 compared to a decline of 6.9 percent during H1CY22. With a subdued trading activity, the volatility in KSE-100 index, however, remained lower in H1CY23 than same period last year.[27] The major factors influencing the overall trend of the index include: (i) tightening stance of monetary policy, (ii) elevated inflation and slowdown in economic activity, and (iii) political developments and uncertainties surrounding the IMF program.

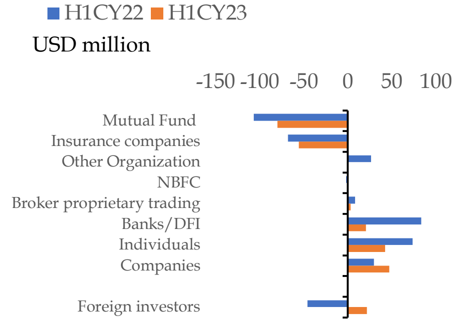
The KSE-100 index returns breached the (100 days rolling) Value at Risk (VaR) on four instances with lower magnitude (on average) in H1CY23, as compared to eight breaches in the same period last year.[28] Mutual funds and insurance companies showed risk aversion and were net sellers of equities in H1CY23. However, other investors such as companies, individuals and banks/DFIs remained net buyers in H1CY23 (**see Figure 28**).

Figure 27: Movement in Yield Curve



Source: MUFAP

Figure 28: Investment flows in equities by type of investors



Source: NCCPL

Banks' resilience to equity price movement remained intact due to limited exposure to equity stocks. Sensitivity (stress testing) results also show adequate resilience of the banking sector against adverse shocks to equity prices (**see Annexure-E**).

[27] Daily trading volumes (in KSE-100 index) shrank to 81.8 million shares, on average, in H1CY23 compared to 97.4 million shares in H2CY22 (102.3 million shares in H1CY22).
[28] VaR is used to measure the amount of potential loss that could materialize in an investment portfolio over a specified period of time at a certain confidence level (e.g., 95%).

Box 1: SBP's Systemic Risk Survey - 12th Wave (July 2023)

(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 conducted the 12th wave of its biannual Systemic Risk Survey (SRS) in July 2023 to gauge the risk perceptions of the market participants and assess their confidence in the stability of the financial system.

The survey evaluated 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.[29] Ninety-eight participants took part in the twelfth wave of the survey as compared to one hundred and one respondents in July 2022 wave.

Summary of Results:

At present, on the aggregate level, respondents identify "Financial Market Risks", "Domestic Macroeconomic Risks" and "Global Risks" most critical for financial stability. Over the next six months, risks in these broad categories are however expected to decline (**Figure A & B**).

In terms of specific risks at present, the risk that received higher attention from the respondents (in decreasing order) includes "Foreign Exchange Risk", "Increase in Domestic Inflation", and "Political Uncertainty". Even for the next six months, these aforementioned risks are expected to pose challenges for the financial sector (**Figure C**).

While comparing the current iteration with the previous results, there is a significant deterioration in the risk perception on "Increasing threat of climate change", "Slowdown in Corporate Growth, and "Legal Risk". On the other hand, risk perception has improved for "Sovereign Default Risk", "Slowdown in Global growth", "Volatility in commodity prices", and "Energy Crisis" among others (**Figure E**).

The responses depict that the survey participants continued to show their confidence on the stability of the banking system of Pakistan as well as on the regulator's ability to ensure its objective of financial stability (**Figure D**).

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

[29] 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.

Figure A: Perception on sources of systemic risk- present

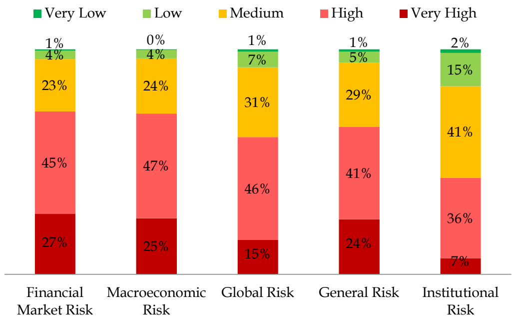


Figure B: Perception on sources of systemic risk- 6 months

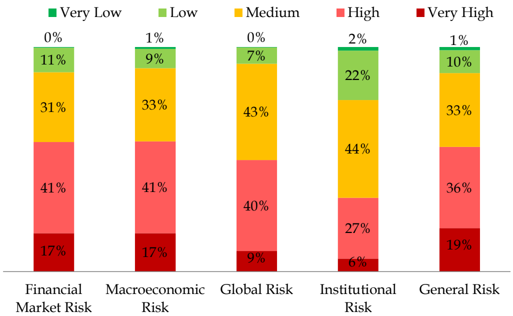


Figure C: Top 10 Risks Identified

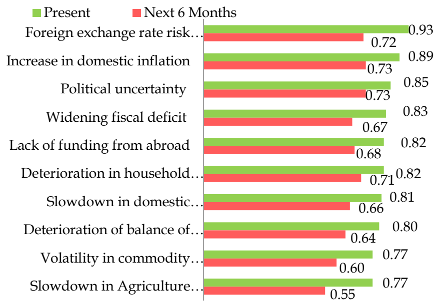


Figure D: Confidence in Financial Stability - Comparison with 9th wave

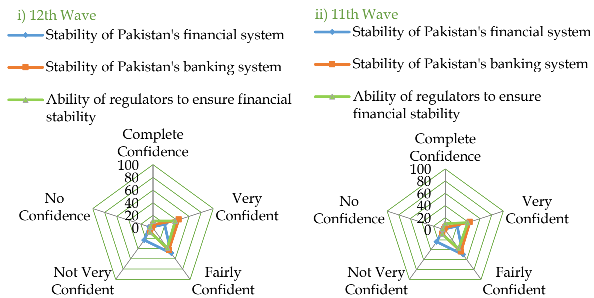


Figure E: Comparison of SBP's Systemic Risk Survey (SRS) Results (10th, 11th and 12th waves)

		10th Wave (Jul-22) Present (Average)	11th Wave (Jan-23) Present (Average)	12th Wave (July-23) Present (Average)
Global Risks	Slowdown in global growth	2.25	2.17	2.50
	Sovereign default risk	2.51	2.38	2.68
	Lack of funding from abroad	2.13	1.93	1.89
	Volatility in commodity prices	1.77	1.82	2.06
Macroeconomic Risks	Slowdown in domestic growth	2.10	2.00	1.93
	Increase in domestic inflation	1.83	1.67	1.69
	Widening fiscal deficit	1.92	1.79	1.89
	Deterioration of BoP	1.88	1.74	1.90
	Sovereign rating downgrade	2.20	1.98	2.17
	Slowdown in corporate sector growth	2.43	2.22	2.06
	Slowdown in infrastructure development	2.67	2.52	2.51
	Deterioration in household savings	1.99	1.91	1.85
	Volatility in real estate prices	2.69	2.69	2.81
	Energy crisis	1.78	1.73	1.97
	Political uncertainty	1.91	1.75	1.70
Financial Market risks	Foreign exchange rate risk	1.77	1.54	1.64
	Equity price risk	2.42	2.33	2.44
	Interest rate risk	2.04	1.93	1.97
	Liquidity risk	2.33	2.15	2.16

		10th Wave (Jul-22) Present (Average)	11th Wave (Jan-23) Present (Average)	12th Wave (July-23) Present (Average)
Institutional Risks	Regulatory risk	2.70	2.67	2.70
	Legal risk	3.02	2.91	2.82
	Asset quality deterioration	2.45	2.29	2.31
	Shortfall in capital requirement	2.55	2.39	2.44
	Access to funding (deposit mobilization & borrowings)	2.71	2.63	2.79
	Excessive private sector credit	2.67	2.62	2.74
	Concentration risk in PSC	2.68	2.63	2.81
	Concentration risk in mutual fund	3.15	3.06	3.07
	Operational risk	2.87	2.76	2.79
	Cyber security risk	2.39	2.34	2.38
	Disruption in financial market	2.75	2.61	2.66
General Risks	Terrorism	2.67	2.41	2.55
	Geopolitical risk for Pakistan	2.28	2.21	2.26
	Natural disasters/ Increasing threat of climate change	2.57	2.34	2.11
	Social unrest	2.43	2.29	2.22

1 3 5

Very High Medium Very Low

D. Banking Sector Outlook for H2CY23

The performance of the banking sector in H2CY23 depends on operating environment and evolving policy stance. The macroeconomic environment remains challenging primarily due to subdued economic activity and elevated inflation. Moreover, as a result of stabilization measures, domestic financial conditions have considerably tightened.

However, business confidence may revive after the recent IMF's Stand-By Arrangement (SBA). In this backdrop, the banking sector is expected to continue its steady performance. Major expansion in balance sheet is likely to be driven by investments owing to expected borrowings needs of the government. Advances are also expected to post their seasonal uptick towards the end of CY23, as credit demand from sectors such as textiles and sugar increases in Q4.

Operating performance of the banking sector is likely to remain firm as the impact of increase in interest rates will continue to translate onto returns on earning assets in the coming months. However, high interest expenses may keep earnings under check. The steady earnings are expected to support solvency position and improve capital adequacy ratio. Overall economic stabilization policy to contain aggregate demand and stressed financial conditions could involve credit risk concerns for banks, however, banks' asset quality is likely to remain firm, as their major lending is tilted towards corporate borrowers which have better credit worthiness and cushions to withstand economic shocks. However, the banking sector's exposure to government remain high which demands earnest measures to reduce the reliance on banking sector for fiscal needs.

The results of the latest macro stress tests also suggest that the banking sector, in general, and the large systemically important banks, in particular, are expected to show resilience to withstand assumed severe macroeconomic shocks over the projected period of two years.

F. Annexures (A-F)

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

PKR million

Financial Position	CY19	H1CY20	CY20	H1CY21	CY21	H1CY22	CY22	H1CY23
ASSETS								
Cash & Balances With Treasury Banks	1,987,096	1,976,860	2,014,703	2,247,704	2,276,963	2,330,437	1,829,335	2,953,977
Balances With Other Banks	232,671	236,269	277,988	244,200	253,008	329,621	265,732	419,914
Lending To Financial Institutions	978,640	834,963	1,079,071	1,097,202	1,095,663	1,300,829	1,132,188	931,113
Investments - Net	8,939,438	10,978,886	11,934,634	14,162,493	14,554,438	17,829,457	18,400,000	21,504,292
Advances - Net	8,248,973	8,065,385	8,291,572	8,808,147	10,120,509	10,889,864	11,818,241	12,059,652
Operating Fixed Assets	596,924	604,754	626,251	657,406	704,729	750,991	824,231	891,189
Deferred Tax Assets	74,052	73,011	91,820	103,751	133,061	178,968	202,613	290,272
Other Assets	933,542	934,858	807,816	856,051	919,931	1,250,573	1,323,191	1,746,243
TOTAL ASSETS	**21,991,337**	**23,704,986**	**25,123,855**	**28,176,953**	**30,058,303**	**34,860,740**	**35,795,532**	**40,796,653**
LIABILITIES								
Bills Payable	231,178	277,479	313,827	338,769	328,566	367,963	439,979	435,836
Borrowings From Financial Institution	2,932,082	2,970,670	3,216,866	4,265,193	4,738,036	7,143,910	7,845,098	9,058,174
Deposits And Other Accounts	15,953,489	17,403,634	18,518,525	20,441,315	21,719,885	23,730,225	23,461,394	26,784,947
Sub-ordinated Loans	123,218	125,762	121,854	112,732	122,815	136,827	161,581	175,008
Liabilities Against Assets Subject To Finance Lease	7,446	7,892	7,534	8,064	8,025	8,109	8,268	13,106
Deferred Tax Liabilities	43,602	78,143	46,549	45,183	29,319	20,684	9,793	(8,941)
Other Liabilities	1,042,073	1,027,081	1,036,267	1,082,862	1,170,116	1,505,355	1,783,706	2,004,373
TOTAL LIABILITIES	**20,333,089**	**21,890,663**	**23,261,422**	**26,294,119**	**28,116,763**	**32,913,074**	**33,709,818**	**38,462,502**
NET ASSETS	**1,658,248**	**1,814,323**	**1,862,433**	**1,882,835**	**1,941,540**	**1,947,666**	**2,085,713**	**2,334,150**
NET ASSETS REPRESENTED BY:								
Share Capital	556,886	556,231	556,131	561,687	568,000	581,950	592,776	613,887
Reserves	349,529	380,624	392,599	404,463	445,470	471,971	509,887	612,217
Unappropriated Profit	521,807	552,669	642,965	651,445	721,894	761,847	873,629	1,016,124
Share Holders' Equity	**1,428,222**	**1,489,523**	**1,591,696**	**1,617,595**	**1,735,364**	**1,815,769**	**1,976,291**	**2,242,228**
Surplus/Deficit On Revaluation Of Assets	230,026	324,799	270,737	265,240	206,176	131,897	109,422	91,922
TOTAL	**1,658,248**	**1,814,323**	**1,862,433**	**1,882,835**	**1,941,540**	**1,947,666**	**2,085,713**	**2,334,150**

PROFIT AND LOSS STATEMENT	CY19	H1CY20	CY20	H1CY21	CY21	H1CY22	CY22	H1CY23
Mark-Up/ Return/Interest Earned	1,851,790	1,058,859	1,924,328	859,148	1,831,650	1,356,779	3,420,449	2,723,065
Mark-Up/ Return/Interest Expenses	1,156,062	634,182	1,071,898	452,398	992,650	854,211	2,243,024	1,882,145
Net Mark-Up / Interest Income	**695,727**	**424,677**	**852,430**	**406,750**	**839,000**	**502,567**	**1,177,424**	**840,920**
Provisions & Bad Debts Written Off Directly/(Reversals)	67,855	57,481	123,039	25,121	50,405	17,505	58,768	31,636
Net Mark-Up / Interest Income After Provision	**627,872**	**367,196**	**729,391**	**381,630**	**788,595**	**485,063**	**1,118,656**	**809,283**
Fees, Commission & Brokerage Income	123,895	54,794	118,322	68,464	142,803	83,316	173,148	102,674
Dividend Income	12,325	4,951	10,810	7,461	18,003	9,659	21,681	12,930
Income From Dealing In Foreign Currencies	26,269	8,825	21,854	9,474	34,746	41,436	80,448	58,505
Other Income	19,628	42,763	65,920	28,389	43,161	11,742	23,193	8,114
Total Non - Markup / Interest Income	**182,117**	**111,334**	**216,906**	**113,788**	**238,713**	**146,154**	**298,470**	**182,222**
	809,989	478,529	946,298	495,418	1,027,308	631,216	1,417,126	991,506
Administrative Expenses	495,018	254,095	521,253	273,050	565,230	328,629	704,573	426,588
Other Expenses	10,517	7,818	13,690	5,029	10,987	2,735	9,531	10,352
Total Non-Markup/Interest Expenses	**505,535**	**261,913**	**534,943**	**278,079**	**576,216**	**331,364**	**714,104**	**436,940**
Profit before Tax and Extra ordinary Items	304,454	216,616	411,355	217,339	451,092	299,852	703,022	554,566
Extra ordinary/unusual Items - Gain/(Loss)	49	-			-	-	-	-
PROFIT/ (LOSS) BEFORE TAXATION	**304,405**	**216,616**	**411,355**	**217,339**	**451,092**	**299,852**	**703,022**	**554,566**
Less: Taxation	133,656	90,857	167,315	94,434	186,870	173,661	366,532	270,110
PROFIT/ (LOSS) AFTER TAX	**170,749**	**125,759**	**244,039**	**122,905**	**264,222**	**126,191**	**336,490**	**284,456**

Source: State Bank of Pakistan

Annexure B

Distribution of Deposits

PKR billion

	CY19	H1CY20	CY20	H1CY21	CY21	H1CY22	CY22	H1CY23
DEPOSITS	**15,953**	**17,404**	**18,519**	**20,441**	**21,720**	**23,730**	**23,461**	**26,785**
Customers	**14,891**	**16,386**	**17,271**	**19,017**	**20,179**	**22,015**	**22,583**	**25,336**
Fixed Deposits	3,410	3,424	3,631	3,737	4,227	4,462	4,503	4,886
Saving Deposits	5,709	6,409	6,734	7,306	7,562	7,967	8,298	9,109
Current accounts - Remunerative	604	708	755	852	1,019	1,153	1,174	1,263
Current accounts - Non-remunerative	5,022	5,634	5,961	6,867	7,138	8,060	8,162	9,578
Others	146	212	189	254	233	373	447	500
Financial Institutions	**1,062**	**1,017**	**1,248**	**1,425**	**1,540**	**1,716**	**878**	**1,448**
Remunerative Deposits	577	557	750	903	927	1,093	748	903
Non-remunerative Deposits	485	460	498	522	613	622	130	545
Break up of Deposits Currency Wise	**15,953**	**17,404**	**18,519**	**20,441**	**21,720**	**23,730**	**23,461**	**26,785**
Local Currency Deposits	14,043	15,424	16,566	18,489	19,539	21,170	20,787	23,468
Foreign Currency Deposits	1,911	1,980	1,952	1,952	2,180	2,560	2,674	3,317

Source: State Bank of Pakistan

Annexure C

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

Amount in PKR million, ratio in percent

	CY21			H1CY22			CY22			H1CY23		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	7,731,109	653,988	8.5	8,166,970	673,173	8.2	9,022,077	717,299	8.0	8,692,092	735,700	8.5
SMEs Sector	518,631	76,534	14.8	477,227	74,199	15.5	532,580	74,885	14.1	440,650	74,566	16.9
Agriculture Sector	404,847	61,821	15.3	424,314	58,971	13.9	448,527	55,806	12.4	453,778	62,119	13.7
Consumer sector	820,928	30,263	3.7	897,754	30,738	3.4	895,908	32,165	3.6	850,175	35,776	4.2
i. Credit cards	64,968	2,619	4.0	72,215	2,223	3.1	86,443	2,260	2.6	93,679	2,310	2.5
ii. Auto loans	351,437	4,155	1.2	361,406	4,409	1.2	332,569	4,516	1.4	287,628	4,650	1.6
iii. Consumer durable	1,771	66	3.7	911	64	7.0	1,163	94	8.1	1,323	72	5.5
iv. Mortgage loans	148,000	9,923	6.7	205,480	9,914	4.8	219,833	10,716	4.9	219,374	12,070	5.5
v. Other personal loans	254,752	13,499	5.3	257,742	14,128	5.5	255,898	14,578	5.7	248,171	16,673	6.7
Commodity financing	990,803	8,090	0.8	1,218,697	8,008	0.7	1,260,929	7,252	0.6	1,610,703	7,385	0.5
Cotton	43,882	935	2.1	34,139	1,701	5.0	59,149	1,609	2.7	58,715	1,419	2.4
Rice	27,232	2,453	9.0	20,636	2,271	11.0	30,771	2,029	6.6	20,455	2,011	9.8
Sugar	95,016	1,804	1.9	93,468	1,798	1.9	113,089	1,728	1.5	123,903	1,673	1.3
Wheat	804,050	752	0.1	1,014,790	273	0.0	954,837	72	0.0	1,254,836	65	0.0
Others	20,623	2,146	10.4	55,663	1,965	3.5	103,082	1,814	1.8	152,794	2,217	1.5
Staff Loans	198,298	2,380	1.2	224,693	2,368	1.1	243,452	2,653	1.1	265,451	2,596	1.0
Others	240,752	27,131	11.3	284,877	31,066	10.9	241,883	33,978	14.0	652,131	41,262	6.3
Total	10,905,368	860,206	7.9	11,694,531	878,521	7.5	12,645,356	924,038	7.3	12,964,980	959,404	7.4

Source: State Bank of Pakistan

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

Amount in PKR million, ratio in percent

	CY21			H1CY22			CY22			H1CY23		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	931,704	67,446	7.2	997,667	65,407	6.6	1,079,382	60,489	5.6	1,143,465	66,029	5.8
Automobile/Transportation	194,677	17,341	8.9	213,924	18,565	8.7	231,649	17,776	7.7	201,808	18,935	9.4
Cement	213,275	5,477	2.6	245,583	5,449	2.2	291,478	7,064	2.4	279,687	6,385	2.3
Chemical & Pharmaceuticals	375,419	16,551	4.4	419,087	16,538	3.9	506,740	16,280	3.2	433,696	17,724	4.1
Electronics	150,523	24,110	16.0	165,555	25,131	15.2	171,971	24,272	14.1	134,318	25,834	19.2
Financial	337,473	10,495	3.1	382,568	10,697	2.8	663,779	10,645	1.6	422,297	11,981	2.8
Individuals	1,071,916	63,050	5.9	1,202,135	63,676	5.3	1,211,088	62,400	5.2	1,152,769	64,975	5.6
Insurance	6,421	62	1.0	5,210	62	1.2	4,140	62	1.5	4,394	62	1.4
Others	4,026,516	357,631	8.9	4,288,029	369,070	8.6	4,502,988	411,333	9.1	5,061,564	430,400	8.5
Production/Transmission of Energy	1,521,026	78,264	5.1	1,519,079	84,505	5.6	1,620,994	85,439	5.3	1,793,232	85,438	4.8
Shoes & Leather garments	43,635	5,476	12.5	51,895	5,906	11.4	52,891	5,919	11.2	49,969	6,127	12.3
Sugar	251,046	58,531	23.3	347,780	59,331	17.1	292,043	58,414	20.0	333,126	57,280	17.2
Textile	1,781,736	155,771	8.7	1,856,019	154,184	8.3	2,016,210	163,945	8.1	1,954,653	168,234	8.6
Total	10,905,368	860,206	7.9	11,694,531	878,521	7.5	12,645,356	924,038	7.3	12,964,980	959,404	7.4

Source: State Bank of Pakistan

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

PKR million

	CY21		H1CY22		CY22		H1CY23	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	15,763	-	22,341	-	20,421	-	26,038	-
Sub Standard	36,701	7,455	39,329	7,775	39,255	7,972	42,407	8,798
Doubtful	68,365	35,930	59,293	32,569	94,426	31,230	61,707	30,030
Loss	739,376	671,893	757,559	692,865	769,936	709,239	829,252	763,010
Total	860,206	715,278	878,521	733,209	924,038	748,441	959,404	801,837

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

Source: State Bank of Pakistan

Annexure D

Financial Soundness Indicators of the Banking Sector

Percent

Indicators	CY20	H1CY21	CY21	H1CY22	CY22	H1CY23
CAPITAL ADEQUACY						
Risk Weighted CAR^	18.6	18.3	16.7	16.1	17.0	17.8
Tier 1 Capital to RWA	14.8	14.6	13.5	13.4	14.2	14.8
ASSET QUALITY						
NPLs to Total Loans	9.2	8.9	7.9	7.5	7.3	7.4
Provision to NPLs	88.3	88.8	91.2	91.6	89.5	94.4
Net NPLs to Net Loans	1.2	1.1	0.7	0.7	0.8	0.4
Net NPLs to Capital^^	5.3	5.1	4.0	3.8	4.6	2.4
EARNINGS						
Return on Assets (Before Tax)	1.8	1.6	1.6	1.9	2.1	2.9
Return on Assets (After Tax)	1.0	0.9	1.0	0.8	1.0	1.5
ROE (Avg. Equity& Surplus) (Before Tax)	23.2	23.5	24.0	30.7	35.3	50.7
ROE (Avg. Equity &Surplus) (After Tax)	13.8	13.3	14.0	12.9	16.9	26.0
NII/Gross Income	79.7	78.1	77.9	77.5	79.8	82.2
Cost / Income Ratio	50.0	53.4	53.5	51.1	48.4	42.7
LIQUIDITY						
Liquid Assets/Total Assets	54.8	57.1	55.4	58.5	56.6	59.9
Liquid Assets/Total Deposits	74.3	78.7	76.7	86.0	86.4	91.2
Advances/Deposits	44.8	43.1	46.6	45.9	50.4	45.0

^ 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.

Source: State Bank of Pakistan

Annexure E

Stress Testing Results of the Banking System
Position based as June 30, 2023 (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	0	29
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	4	0	4	24
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	4	0	4	24
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	0	2	27
C-7	Increase in NPLs of all banks equivalent to the historical maximum quarterly rise	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		7.4%	36.5%	29.1%
			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	1	0	28
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	1	0	28
IR-3	Downward Shift plus flattening of the yield curve by decreasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the historical maximum quarterly increase.	Historical	3	1	0	28
IR-4	Impact of Increase in interest rate by 100bps on investment portfolio only	Hypothetical	3	0	0	29
ER-1	Depreciation of Pak Rupee exchange rate by 30%.	Hypothetical	3	0	0	29
ER-2	Depreciation of Pak Rupee exchange rate by 25.3% 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 7.10% 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 36.1% equivalent to maximum decline in the index.	Historical	3	0	0	29
EQ-2	Fall in general equity prices by 50%.	Hypothetical	3	0	0	29
	Liquidity Shocks			**No. of Banks with no liquidity after**		
				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	0	1
				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	4
				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		1		

* Excluding IDBP (which has negative equity).
Source: State Bank of Pakistan

Annexure F

Group-wise Composition of Banks

CY21	H1CY22	CY22	H1CY23
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

Source: State Bank of Pakistan

State Bank of Pakistan