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<u>The performance and resilience of the banking sector remained intact during H1CY26, says SBP's Mid-Year Performance Review of the Banking Sector</u>

The State Bank of Pakistan (SBP) has issued today the Mid-Year Performance Review (The Review) of the Banking Sector for the first half of 2026. The Review covers the performance and soundness of banking sector from January to June 2026 period (H1CY26). It also briefly discusses the performance of financial markets as well as the results of the Systemic Risk Survey (SRS). The latter represents the views of independent experts about key current and potential future risks to financial stability.

The Review notes that the balance sheet of the banking sector expanded by 9.1 percent, driven primarily by investments in government securities. Advances also increased across public and private segments. Encouragingly, long-term financing to SMEs kept trending upward during H1CY26. In addition, mortgage loans gained further traction largely due to Government's subsidized scheme. On funding side, banks mobilized additional deposits of Rs 3,673 billion during the reviewed period.

The Review suggests that the credit risk of the banking sector posed no serious concerns to financial stability during H1CY26. As a result of significant reduction in non-performing loans and increase in advances, NPLs to loans ratio fell to 5.5 percent in June-2026 (6.1 percent in December-2025). Positively, provisioning coverage ratio further improved to 110.2 percent in June-2026 from 107.7 percent in December-2025. The relative increase in the sector's earnings was, however, moderate. Consequently, Return on Asset (ROA) and Return on Equity (ROE) softened to 1.1 percent (1.3 percent in June-205) and 19.0 percent (21.3 percent in June-2025), respectively, in June-2026. The solvency position of the sector—with CAR at 19.6 percent—remained strong during H1CY26. The latest macro stress tests indicate that the banking sector in general and large systemically important banks in particular are expected to remain solvent, exhibit resilience and can withstand even severe shocks over the projected horizon of two years.

The Review highlights that stress in equity market increased during H1CY26 while FX and money markets witnessed calmer conditions. Increased volatility in equity market was mainly driven by adverse geopolitical developments in the Middle East. The latest wave of Systemic Risk Survey reveals volatility in commodity prices including oil as the top-tier risk followed by global geopolitical risk. The respondents, however, expressed confidence in the financial system stability and regulator ability to ensure financial stability.

The Review of the Banking Sector is available at:
https://www.sbp.org.pk/assets/document/publications/H1CY26.pdf

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