ECD/M&PRD/PR/01/2024-64 September 18, 2024

**Performance and resilience of the banking sector remained satisfactory during H1CY24, says SBP's Mid-Year Performance Review of the Banking Sector**

SBP has issued today the Mid-Year Performance Review (The Review) of the Banking Sector for 2024. The review covers the performance and soundness of domestic banking sector for the period January to June 2024 (H1CY24). It also briefly covers the performance of financial markets as well as the results of Systemic Risk Survey (SRS), which represents views of independent experts about key current and potential risks to the financial stability.

The Review highlights that the balance sheet footing of the banking sector expanded by 11.5 percent in H1CY24, which was mainly driven by investments in government securities as the government demand for bank credit remained high. Advances, however, posted a contained growth due to the net retirements by the private sector, although long-term financing to SMEs showed some revival. Nonetheless, the decline in private sector advances was significantly lower as compared to H1CY23. On funding side, deposits increased by 11.7 percent in H1CY24 with a major impetus from saving and current deposits. The higher pace of assets growth however necessitated additional funding, which kept banks' reliance on borrowing intact.

The Review notes that the asset quality profile of the sector remained satisfactory, as gross NPLs witnessed subdued increase. Moreover, the total provisioning coverage against NPLs further improved to 105.3 percent by end June-2024, as with the application of IFRS-9, the banks also started to provide general loan loss allowances for performing loans. Earnings, nonetheless, slowed down owing to declaration in return on advances and contraction in net interest margin. Non-interest income such as fee income and trading gains on government securities, however, supported profitability. The performance indicators such as Return on Asset (ROA) and Return on Equity (ROE) thus declined to 1.2 percent (1.5 percent in June-2023) and 20.4 percent (26.0 percent in June-2023), respectively. The solvency position of the banking sector remained strong as Capital Adequacy Ratio improved to 20.0 percent (17.8 percent in June-2023) and was well above the minimum regulatory environment.

The Review reveals that in the wake of gradual improvement in macroeconomic conditions, domestic financial markets witnessed relatively lower stress during H1CY24. As per the results of 14$^{th}$ wave of SRS (July-2024), top three prevailing risks highlighted by the independent participants of the survey include "energy crisis" followed by "volatility in commodity prices" and "foreign exchange risk." The respondents, nevertheless, expressed confidence in the stability of the financial system and the oversight ability of the regulators.

The Review of Banking is available at: https://www.sbp.org.pk/publications/HPR/H1CY24.pdf

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