

Half-Yearly Performance Review of the Banking Sector

(January - June 2018)



Financial Stability Assessment Division
Financial Stability Department
State Bank of Pakistan

Note: State Bank of Pakistan (SBP) has discontinued publication of “Quarterly Performance Review (QPR) of the Banking Sector”. The QPR for October-December, 2017 quarter was the last in the series. Instead, SBP has decided to publish; “Half-Yearly Performance Review (HPR) of the Banking Sector” based on end June data of a calendar year. The current report is the first in the series.

It may be noted that the banking developments for the entire year are covered in the Financial Stability Review (FSR) which can be accessed at URL: <http://www.sbp.org.pk/FSR/FSR.htm>

Further, stakeholders may like to refer to “Quarterly Compendium (QC) of the Banking System” which comprehensively provides financial statistics (including Balance Sheet, Profit & Loss and Financial Soundness Indicators) about Banks, Islamic Banks, Development Finance Institutions, Microfinance Banks and other sectors. QC is available at URL: <http://www.sbp.org.pk/ecodata/fsi.asp>

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Acknowledgements

The team would like to thank various departments of SBP, especially Offsite Supervision & Enforcement Department (OSD), Statistics and Data Warehouse Department (S&DWD), Research Department (RD) and Banking Policy and Regulations Department (BPRD) for data assistance, analysis and support.

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Summary¹

The growth in the asset base of the banking sector has moderated during H1CY18, primarily, due to decline in net-investments. On the other hand, advances have increased. Encouragingly, advances to private sector have continued their broad-based upward trajectory with sugar, energy, and cement sectors along with individuals being the major borrowers during the reviewed period. However, sector specific factors coupled with tightening of macrofinancial conditions may possibly have slowed down the growth in fixed investment advances. On the funding side, deceleration in deposit growth remains a concern.

The overall risk profile of the banking sector has improved in H1CY18, mainly, due to strengthening capital adequacy and improving asset quality. Capital Adequacy Ratio (CAR) has inched up to 15.9 percent and NPLs to loans ratio has come down to 7.9 percent—lowest since H1CY08. Banks' after-tax earnings, however, have declined by 14.7 percent due to lower gain on sale of securities, one-off provisions and increase in administrative expenses.

The second wave of SBP Systemic Risk Survey suggests that external sector pressures, fiscal sector vulnerabilities, growing domestic inflation and volatile commodity markets are the potential risks to financial stability over the coming six months. While the performance of the banking sector could be affected by these factors, it is still expected that it will remain sound and resilient during H2CY18.

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 stands for the first half of a particular calendar year (CY) and represents unaudited numbers. CY, generally, symbolizes the full calendar year and represents unaudited numbers while Q1CY represents first quarter of a CY.

A. Performance of the Banking Sector

Asset growth of the banking sector has moderated to 4.7 percent during H1CY18 (YoY: 9.7 percent) compared to 10.6 percent growth in H1CY17 (YoY: 13.8 percent) (**Table 1 and Annexure A**). The prime reason behind this deceleration is 3.6 percent decline in net-investment (mainly in govt. securities) due to shift in government's borrowing from commercial banks to SBP. As such, most of the increase in asset has resulted from broad based rise in advances, particularly, to private sector.

Table 1: Highlights of the Banking Industry

	CY14	CY15	CY16	Jun-17	CY17	Jun-18
Key Variables (PKR Billion)						
Total Assets	12,106.3	14,143.2	15,831.1	17,500.5	18,341.5	19,197.1
Investments (net)	5,309.6	6,880.8	7,509.2	8,448.5	8,729.0	8,417.8
Advances (net)	4,447.3	4,815.8	5,498.8	6,118.8	6,512.5	7,310.3
Lending to financial institutions		360.8	551.7	563.4	605.0	652.0
Deposits	9,229.8	10,389.3	11,797.9	12,573.3	13,011.8	13,755.8
Borrowings from financial institutions	1,001.4	1,766.1	1,942.5	2,814.8	3,125.4	3,161.9
Equity	1,207.4	1,322.8	1,352.8	1,359.1	1,380.8	1,389.1
Profit Before Tax (ytd)	246.5	328.8	314.0	150.4	266.8	128.7
Profit After Tax (ytd)	163.4	199.0	189.9	89.9	157.8	76.7
Non-Performing Loans	604.7	605.4	604.7	614.8	592.5	623.6
Non-Performing Loans (net)	122.0	91.1	90.4	100.1	75.6	80.6
Key FSIs (percent)						
NPLs to Loans (Gross)	12.3	11.4	10.1	9.3	8.4	7.9
Net NPLs to Net Loans	2.7	1.9	1.6	1.6	1.2	1.1
Net NPLs to Capital	10.1	7.7	7.3	8.0	5.8	5.9
Provision to NPL	79.8	84.9	85.0	83.7	87.2	87.1
ROA (Before Tax)	2.2	2.5	2.1	1.8	1.6	1.4
CAR	17.1	17.3	16.2	15.6	15.8	15.9
Advances to Deposit Ratio	48.2	46.4	46.6	48.7	50.1	53.1

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

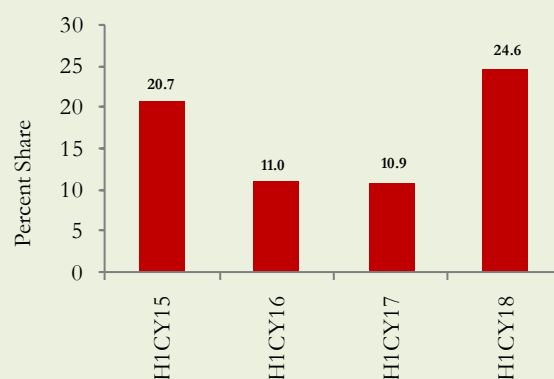
Source: SBP

On the funding side, deposit growth has decelerated to 5.7 percent in H1CY18 against 6.6 percent in H1CY17. Similarly, the borrowings growth has also dipped to 1.2 percent in H1CY18 (44.9 percent in H1CY17) owing to lesser repo borrowings because of sizeable reduction in investments. With healthy increase in advances and moderation in deposit growth, "Advances to Deposit" ratio has improved to 53.1 percent in H1CY18 from 48.7 percent in H1CY17 and 47.0 percent in H1CY16.

Islamic Banking Institutions (IBIs) have played a vital role in total banking sector's asset expansion during H1CY18. Relative to their market share of 12.9 percent, IBIs have contributed almost one fourth of the growth

in the assets base of the banking system, which is more than double the contribution in the comparable period of previous year (**Chart 1**).

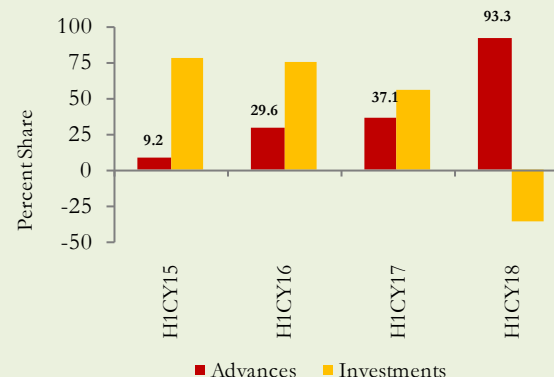
Chart 1: IBIs Contribution in Total Assets have Risen Notably



Source: SBP

Over the last few years, advances growth has picked up, which has enhanced the share of advances in overall asset base. The momentum continues during the reviewed half year with 12.3 percent growth in gross advances, which has contributed 93.3 percent of the overall growth in assets during H1CY18 (**Chart 2**).

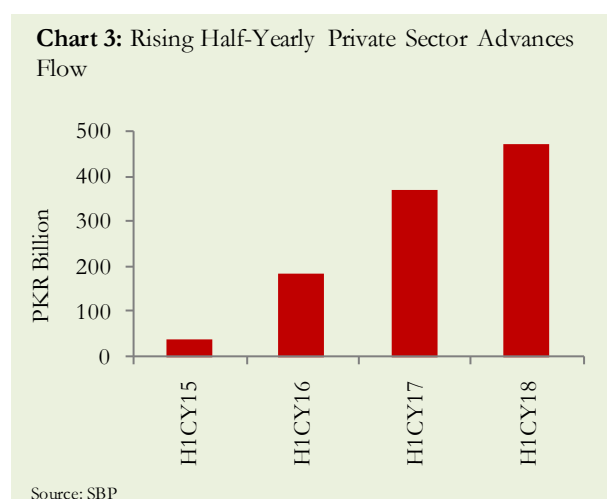
Chart 2: Rising Share of Advances in Banking Sector's Asset Flows



Source: SBP

The financing flows have continued to rise amid, both, demand and supply side factors. On the demand side, the uptick in economic activity and low financing cost have enhanced the financing appetite at the borrowers' end.² On the supply side, preference for high yielding earning assets in the wake of shifting pattern of govt. borrowing from commercial banks to SBP has created space for banks to accommodate rising financing demand.

It is indeed encouraging to note that besides public sector, flow of advances to private sector has continued to surge over the last few years. During H1CY18, private sector financing has increased by another 9.5 percent (Chart 3).



Demand for overall financing has come from energy, sugar, agribusiness, chemical, pharmaceutical, and cement sectors besides individuals (Table 2a & 2b). This broad based demand has been driven by increase in seasonal needs as well as enhanced capacity of various sectors, which has induced the working capital flows. Similarly, additional capacity expansion, presently, underway has also pushed up the fixed investment advances; though at a decelerated pace in the private sector (Table 2b). Further, trade financing has inched up by 9.2 percent in H1CY18 as compared to 13.8

percent in H1CY17. Besides, commodity financing (largely in public sector) coupled with consumer loans have also augmented the financing flows in H1CY18.

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

	H1CY17			H1CY18			Percent Growth	
	Public	Private	Total	Public	Private	Total	H1CY17	H1CY18
Chemical & Pharmaceuticals	0.0	25.6	25.6	0.0	27.9	27.9	10.5	12.2
Agribusiness	44.1	0.2	44.3	37.3	(0.3)	37.0	8.1	6.0
Textile	-	(6.7)	(6.7)	-	(6.5)	(6.5)	(0.8)	(0.7)
Cement	-	12.5	12.5	-	33.6	33.6	19.3	32.9
Sugar	(0.7)	82.6	81.9	(15.2)	76.8	61.6	46.7	25.2
Shoes & leather garments	-	(0.8)	(0.8)	-	1.9	1.9	(3.0)	7.0
Automobile/transportation	7.8	(4.8)	3.0	(3.6)	4.6	1.0	4.1	1.2
Financial	(0.0)	2.7	2.7	0.5	10.6	11.1	2.8	12.7
Insurance	-	1.5	1.5	-	(2.5)	(2.5)	51.3	(42.6)
Electronics & electrical appliances	-	6.0	6.0	-	2.5	2.5	10.3	3.2
Energy	68.9	5.9	74.8	130.7	69.0	199.8	8.5	19.4
Individuals	-	43.5	43.5	-	88.6	88.6	8.4	15.0
Others	105.0	201.9	306.9	193.2	168.6	361.7	15.1	14.6
Total (Domestic Sector)	225.1	370.1	595.2	343.0	474.8	817.9	10.7	12.5

Source: SBP

Table 2b: Segment-wise Domestic Advances Flows

(PKR billion)

	H1CY17			H1CY18		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
Corporate Sector	93.5	319.9	413.3	195.2	421.3	616.4
Fixed Investment	65.2	113.4	178.6	189.4	113.1	302.5
Working Capital	(2.5)	134.6	132.1	(11.8)	241.4	229.7
Trade Finance	30.8	71.9	102.7	17.5	66.7	84.2
SMEs	(0.0)	(15.3)	(15.3)	0.0	(30.6)	(30.6)
Fixed Investment	-	2.2	2.2	-	8.3	8.3
Working Capital	(0.0)	(21.6)	(21.6)	(0.0)	(42.3)	(42.3)
Trade Finance	-	4.0	4.0	-	3.4	3.4
Agriculture		3.9	3.9	0.2	1.1	1.3
Consumer Finance		36.6	36.6		47.9	47.9
<i>of which</i>						
Credit Cards		1.8	1.8		3.2	3.2
Auto Loans		24.4	24.4		27.1	27.1
Mortgage Loans		7.8	7.8		8.7	8.7
Commodity Financing	131.7	20.1	151.8	147.7	30.4	178.1
Staff Loans		6.1	6.1		6.4	6.4
Others		(1.1)	(1.1)		(1.7)	(1.7)
Total	225.1	370.1	595.2	343.0	474.8	817.9

Source: SBP

Disaggregated analysis of sector-wise flow of advances in H1CY18 show that energy sector has posted highest financing demand, both, from private sector (growth: 12.8 percent) and public sector (26.7 percent). In private sector, the higher flow of advances is, largely, on account of two key reasons. First, energy supply—produced by coal, high speed diesel (HSD), residual furnace oil (RFO), gas, and regasified liquefied natural gas

² The GDP growth during FY18 has been recorded at 5.8 percent as compared to 5.4 percent and 4.6 percent observed during FY17 and FY16, respectively.

(RLNG)—has improved by 20.1 percent in H1CY18.³ Higher energy generation implies higher working capital needs to purchase raw material. Second, rising energy prices also translate into higher cost of production requiring higher financing.⁴ This, coupled with substantially higher flow of advances to public sector energy projects and increase in circular debt, has increased the overall financing to energy sector by 19.4 percent during H1CY18.

Enhanced public spending on infrastructure projects seems to have rejuvenated construction and allied industries. To match the consequent increase in cement demand, the sector has expanded its capacity that has increased, both, long and short term financing requirement.⁵ Resultantly, advances to cement sector has observed impressive growth of 32.9 percent during H1CY18 (76.1 percent – YoY) compared to 19.3 percent in H1CY17.

In sugar sector, the public sector has made seasonal net-retirement and private sector has obtained lower advances in H1CY18 compared to H1CY17 (**Table 2a**).⁶ Lower financing to the private sector may be attributed to various factors including lower prices of sugarcane, pile up of unsold sugar stock due to production in excess of domestic consumption etc.⁷ Moreover, this excess production could not be exported sans subsidy.⁸

A closer investigation of advances flow to “others” reveal that non-metallic mineral products, basic metals, electrical machinery and apparatus, commerce and trade, real estate, renting and business activities have availed higher advances from banks.⁹ However, advances to the

textile sector (private sector)—the largest borrower of the banking industry—has seen seasonal decline in the reviewed period (**see Appendix A**).

It deserves emphasis that growth in private sector fixed investment advances have decelerated, both on half yearly (7.8 percent H1CY18 vs. 9.0 percent H1CY17) and on YoY basis (14.0 percent by June-18 vs. 17.8 percent previous year). A detailed analysis reveals that the deceleration in fixed investment advances has occurred due to net retirement in textile and chemical sectors as well as lower off-take by transportation, storage and communication sectors. Besides sector specific factors, tightening of macrofinancial conditions may have made firms cautious about their future expansion plans.¹⁰

A notable amount of advances received by individuals signals improved demand from economic agents backed by rising income levels¹¹, higher economic activity and, though, low yet rising financing cost. (**Table 2a & Table 2b**). In H1CY18, consumer financing has surged by 11.0 percent against 10.1 percent during the corresponding period of the last year. The share of auto advances (in total consumer finance) has been continuously rising, which has reached to 40.5 percent as of end June 2018 from 27.4 percent as end June 2015 (**Chart 4**). This may be attributed to low financing cost, wider use of ride hailing services, launch of new models by local manufacturers, growing popularity of imported cars as well as Sports Utility Vehicle (SUV) segment etc. Since most consumer financing products are shariah compliant in nature (i.e. asset backed financing), IBIs share in outstanding consumer financing have risen to 29.3 percent in H1CY18 from 26.4 percent in the comparable period of last year.

³ Source: National Electric Power Regulatory Authority (NEPRA).

⁴ In H1CY18—for instance—RLNG and oil prices went up by 23.5 percent and 35.8 percent, respectively (Source: Pakistan State Oil (PSO) and Bloomberg)

⁵ The cement dispatches (both local and exports) during H1CY18 has risen by 15 percent (YoY) compared to corresponding period last year (Source: https://www.apcma.com/data_monthly1718.html)

⁶ Sugar financing in public sector pertains to commodity operations

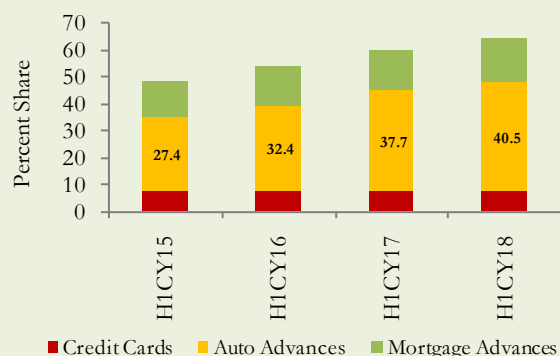
⁷ In FY18, sugar production was recorded at 6.6 million tons while domestic demand is around 5.4 million tons (Source: Pakistan Bureau of Statistics; U.S. Department of Agriculture).

⁸ Domestic prices of sugar are higher than international prices.

⁹ <http://www.sbp.org.pk/ecodata/CreditLoans.pdf>

¹⁰ The results of the 1st and 2nd wave of SBP Systemic Risk Survey (SRS) also suggest that the respondents cited external account vulnerabilities and political uncertainty as major risks. For SBP SRS 1st wave results see Box 1 of Financial Stability Review-2017 and for SBP SRS 2nd wave results see Box 2 of HPR H1CY18.

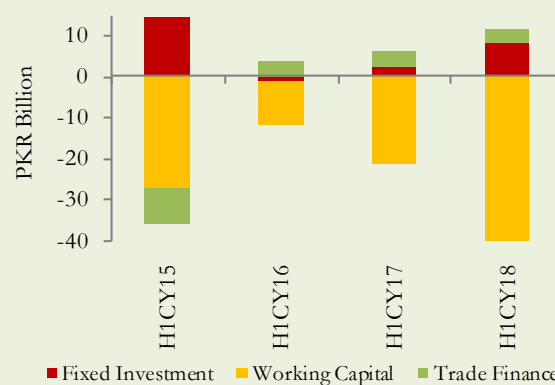
¹¹ Per capita income in Pakistan has increased to USD 1,641 in FY18 from USD 1,531 in FY16.

Chart 4: Rising Share of Auto Advances in Outstanding Consumer Financing

Source: SBP

Advances to **SMEs** have observed higher net retirements during the reviewed period (PKR 30.6 billion in H1CY18 vs PKR 15.3 billion in H1CY17) (**Table 2b**). The entire net repayment has been made in the working capital segment (mostly in textile etc.). In contrast, there has been off-take of long-term advances during H1CY18; larger than the financing availed during H1CY17 (**Chart 5 & Table 2b**).

On YoY basis, flow of financing has also remained lower (PKR 32.4 billion during Jul-17 to Jun-18 vs PKR 81.3 billion during Jul-16 to Jun-17). It seems that the advances flow to SMEs—induced by SBP policy measures¹²—have normalized somewhat.

Chart 5: Advances to SMEs (Flows)

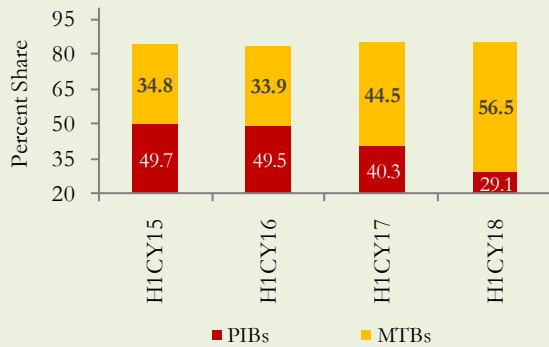
Source: SBP

The **commodity financing** flows (public and private) have been higher in the reviewed period (PKR 178.1 billion in H1CY18 compared to PKR 151.8 billion in H1CY17). Relatively larger disbursement of wheat advances to the public sector (PKR 35.2 billion) and sugarcane advances to the private sector (PKR 9.5 billion) explain elevated flow of commodity financing.

The outstanding amount of **banks' investment** (mostly in govt. securities) has declined by 3.6 percent in H1CY18 (negative 0.4 percent - YoY) in sharp contrast to robust growth of 12.5 percent in H1CY17. The major reason for this decline is shift in government borrowing from banks to SBP.¹³ The major dip has been seen in investments in PIBs which has declined by 17.6 percent (PKR 525.9 billion) in H1CY18 compared to 7.1 percent (PKR 226.7 billion) in H1CY17. On the other hand, banks investment in MTBs has risen by 4.2 percent (PKR 192.7 billion) in H1CY18 compared to 21.3 percent (PKR 665.7 billion) percent in H1CY17 (**Chart 6**).

¹² For details, please see QPR of Q3CY16:
http://www.sbp.org.pk/publications/q_reviews/2016/Jul-Sep.pdf

¹³ During FY18, government borrowed PKR 1,262.9 billion (PKR 907.7 billion in FY17) from SBP and made net-retirement of PKR 152.4 billion to scheduled banks (borrowing of PKR 179.4 billion in FY17).

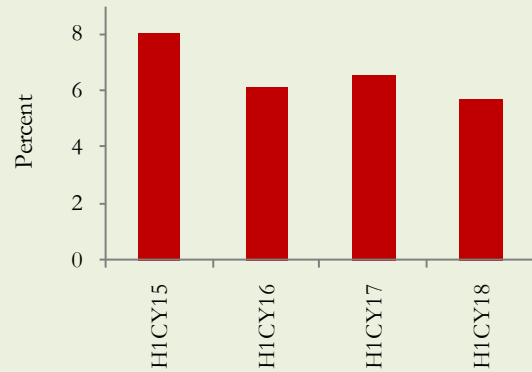
Chart 6: Abating Share of PIBs in Total Outstanding Investments

Source: SBP

The lower preference for long-term PIBs is eminent from both demand (from commercial banks) and supply (from government) sides. The offer (from banks) to target ratio for PIBs has declined to 0.44 in H1CY18 from 1.73 in H1CY17. Further, acceptance (by government) to offer ratio for the same instruments has come down to 0.31 in H1CY18 from 0.40 in H1CY17.

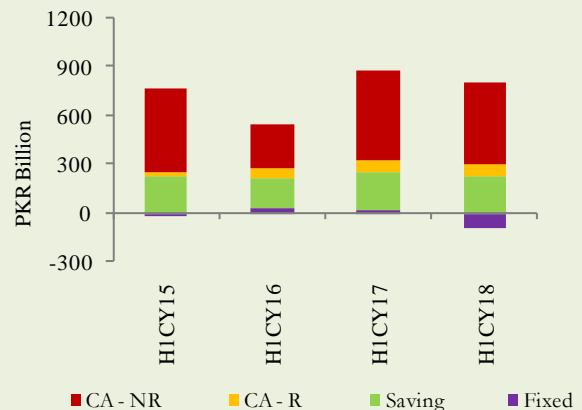
The other avenues of banks' investments such as listed shares, TFCs, debenture etc. have also observed some uptick. The prevailing volatility in the equity market during the reviewed half-year has led to rise in banks' investment in listed shares by a marginal 1.2 percent to PKR 235.2 billion. On the other hand, investments in TFCs/bonds/debentures has increased by 7.2 percent. The rise in this segment is partially due to issuance of TFCs by few banks to raise Tier II capital in which other banks have invested (**See Section B**).

The **deposits** of the banking sector have remained the mainstay on the funding side. However, deposits have observed a decelerated growth of 5.7 percent in H1CY18 (PKR 744.0 billion) compared to 6.6 percent (PKR 775.4 billion) in H1CY17. In H1CY18, the deposits have revealed the slowest first-half growth during the last four years (**Chart 7**). On YoY basis too, the growth of 9.4 percent is lower than 14.1 percent observed in the previous year (and 5-year average growth of 13.1 percent).

Chart 7: Deposits-Half Yearly Growth

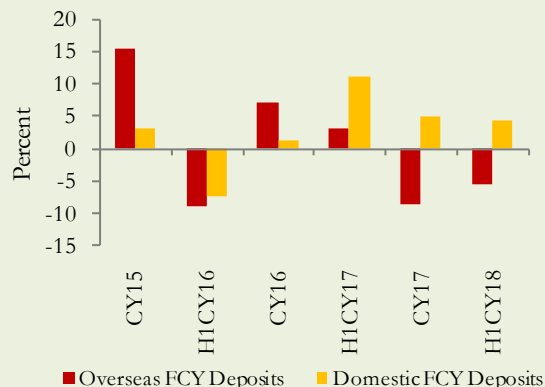
Source: SBP

The slowdown in deposits is mostly due to decline in "fixed deposit" followed by lower mobilization in "current account-non-remunerative" deposits (**Chart 8 and Annexure B**). In addition, there has been some deceleration in FCY deposits. Resultantly, the share of FCY (overseas and domestic) deposits in total deposits has declined to 10.5 percent in H1CY18 from 11.2 percent in H1CY17.

Chart 8: Deposits-Half Yearly Flows

Source: SBP

A number of factors explain lower inflow of deposits including (a) deceleration in money supply (M2) in the wake of rising current account deficit, (b) the cost cutting strategy of few banks to limit remunerative deposits, (c) financial transaction taxes (over a specific threshold), and (d) scaling back of operations by few banks in overseas market (**Chart 9 and Box 1**).

Chart 9: FCY Deposits-Half Yearly Growth

Source: SBP

Despite this slowdown, the deposits' composition remains stable with around 75 percent of the deposits in Current Account – Saving Account (CASA) category. The behavioral maturities of different time-wise buckets also reveal that major portion of the deposits falls in the bucket having maturity over one year. However, in order to match growing business needs, banks need extended efforts to accelerate the deposit mobilization.

Banks' **borrowings** have significantly decelerated in H1CY18; 1.2 percent (PKR 36.5 billion) growth compared to 44.9 percent (PKR 872.3 billion) H1CY17. Since last couple of years, the quantum of borrowing (particularly repo borrowing from SBP) has remained at high level to match the funding requirements of banks for investing in government securities. The shift in government borrowing from banks to SBP (as discussed earlier) has, therefore, reduced the borrowing needs of banks.

However, FCY borrowing by banks have risen in H1CY18. There is an increase of 307.9 percent (PKR 51.3 billion) in 'secured borrowings-others' and 25.9 percent (PKR 103.7 billion) increase in "unsecured borrowing-others". These mainly comprise of borrowings from foreign correspondent banks, loans from multilateral agencies and rediscounting of foreign documentary bills purchased by the banks. Nevertheless, borrowings in "others" categories constitute only 18 percent of total borrowings.

Banking sector's **equity** has inched up by 0.6 percent (PKR 8.3 billion) in the reviewed period mainly due to rise in paid-up capital and reserves. Scheduling of a foreign bank has resulted in increase in assigned capital.

The growth in the banking sector is manifested in expanding banking **infrastructure**. Banks have added 71 branches and 577 ATMs during H1CY18 (**Table 3**). Further, 93 branches have been linked to the online network. Notable growth of 5.8 percent in credit cards indicates growing consumer financing.

Table 3**Banking Sector Infrastructure - Commercial Banks**

	Dec-17	Jun-18	Growth
Total Bank Branches	13,837	13,908	0.5%
Online Branch Network	13,716	13,809	0.7%
ATMs	13,262	13,839	4.4%
Point of Sale (POS) Machines	51,886	52,827	1.8%
ATM Propriety only Cards	4,038,377	4,234,566	4.9%
Credit Cards	1,374,073	1,453,867	5.8%
Debit Card	19,205,793	20,722,022	7.9%
Social Welfare Cards	8,494,698	8,402,436	-1.1%
Employees	202,015	201,418	-0.3%

Source: SBP

Box 1: Analysis of the Overseas Operations of Banks

In the wake of globalization, the banking sector occupies a critical position in the global economy. Foreign operations in any form including subsidiaries, branches, representative offices and/or collaborating with foreign banks enables local banks to access diversified capital markets, benefiting from enhanced technological capabilities and entrance in international network. Besides, international banking brings in the economic contact between the lenders and borrowers from different countries and facilitates the global trade in an efficient way.

However, there are also risks associated with the international banking or venturing into the overseas markets. For example, macro-financial conditions of a host country can have severe implications for domestic banks through its foreign operations (spill over risks). Therefore, it warrants special emphasis to have an adequate oversight and robust regulatory framework for the foreign operations, at the regulator's end.

In Pakistan, 9 local banks have foreign presence with 117 branches, 18 representative offices (ROs), and 8 subsidiaries as of June 30, 2018, which are operating in 37 jurisdictions including Export Processing Zone in Pakistan. Largest overseas branch network is present in Bangladesh and UAE (18 branches each) followed by Bahrain and Sri Lanka (13 branches each).

The banks have been exposed to the overseas risks and rapid changes in global economic environment, which has forced the local banks to scale down their overseas operations. In this backdrop, the asset base of the overseas operations has been decreasing since H1CY17 (**Table 1.1**). During H1CY18, total assets have reduced by 4.8 percent compared to 1.4 percent increase in H1CY17 (YoY: 9.9 percent decrease). However, the decline in assets is not broad based as excluding one large bank, the overseas assets has depicted a growth of 4.4 percent during the reviewed period (YoY: 17.7 percent). Despite registering decrease, the contribution of overseas assets is still 4.1 percent in overall banking assets as of June 30, 2018, though, lower than 5.0 percent as of June 30, 2017.

Table 1.1

Consolidated Position of Overseas Branches of Banks				PKR Billion	
	CY15	CY16	H1CY17	CY17	H1CY18
Key Variables					
Assets	883.6	867.0	879.5	832.3	792.3
Gross Loans	421.3	458.4	483.6	463.7	469.7
Investments	228.8	273.8	269.4	234.2	236.9
Deposit	641.0	626.4	646.1	594.0	556.3
Pre-Tax Profit (YTD)	9.4	10.5	5.7	5.3	(5.0)
After-Tax Profit (YTD)	8.3	8.6	4.8	5.9	(2.8)
NPLs	62.1	66.0	65.3	78.3	89.0
Provisioning	40.2	60.0	60.9	68.5	84.0
NPLs-Net	21.9	5.9	4.4	9.8	5.0
Financial Soundness Indicators					
ADR	59.5	73.2	74.8	78.1	84.4
NPLs to Total Loans	14.7	14.4	13.5	16.9	19.0
Net NPLs to Net Loans	5.7	1.5	1.0	2.5	1.3
ROA	1.1	1.0	1.1	0.7	-0.7

Source: SBP

The foreign operations of local banks are playing the intermediary role better than their local counterparts with Gross Loans to Deposit Ratio (ADR) of 84.4 percent as of June 30, 2018 (Domestic: 55.9 percent). During H1CY18, the advances have inched up by 1.3 percent compared to 5.5 percent in H1CY17 (YoY: decline of 2.9 percent). The flow of outstanding data, during H1CY18, reveals that major rise in financing has been observed in automobile and transportation equipment (growth: 53.3 percent), agribusiness (47.5 percent), shoes and leather garments (32.9 percent), sugar (21.8 percent), electronics and electrical appliances (16.7 percent) and production and transmission of energy (16.7 percent) (**Table 1.2**).

Table 1.2

Concentration of Funds	PKR Billion				
	CY15	CY16	H1CY17	CY17	H1CY18
Automobile and transportation equipment	14.5	20.9	20.7	21.0	32.2
Agribusiness	4.2	3.0	3.1	3.3	4.8
Shoes and leather garments	2.5	1.3	1.0	1.6	2.1
Sugar	1.5	0.9	0.9	1.3	1.5
Electronics and electrical appliances	15.8	20.2	17.9	17.3	20.2
Production and transmission of energy	7.9	7.1	11.4	15.3	17.8
Textile	12.4	11.4	12.0	11.9	12.4
Financial	77.7	88.9	112.1	84.8	86.0
Individuals	24.6	34.2	30.2	29.5	28.9
Chemical and Pharmaceuticals	9.9	7.0	4.7	7.2	5.6
Cement	2.3	7.1	10.5	7.3	5.4
Insurance	0.0	0.0	0.0	0.0	0.0
Others	248.1	256.3	259.0	263.3	252.9
Total	421.3	458.4	483.6	463.7	469.7

Source: SBP

Unlike the domestic operations which hold around 44.5 percent share of investment in assets, overseas operation have 29.9 percent share in their asset base. Around 41.3 percent of investments have been made in sovereign papers by overseas operations. During reviewed period, outstanding amount of investments has shown a marginal expansion of 1.1 percent (YoY: decline of 12.1 percent, primarily, owing to divestment of sovereign papers).

On the funding side, deposits are the prime source of financing with 70.2 percent of the assets followed by borrowing (18.5 percent). In tandem with assets, the deposits have declined during the period under review due to banks' decision of rolling back their overseas operations. In H1CY18, the deposits have declined by 6.3 percent compared to an increase of 3.2 percent in H1CY17 (YoY: decline of 13.9 percent). This decrease is due to reduction of 74.4 percent in 'Financial Institutions Remunerative Deposits' from PKR 43.9 billion to PKR 11.2 billion. Overall, the composition of deposits reveals that 53.4 percent are concentrated in 'Fixed Deposits' followed by 30.4 percent deposits in the 'Current Accounts – Non-remunerative'.

The asset quality of overseas operations has deteriorated in H1CY18 with 13.7 percent increase in NPLs (YoY: 35.9 percent). Consequently, "NPLs to advances" ratio has surged to 19.0 percent as of June 30, 2018 from 16.9

percent as of December 31, 2017 (13.5 percent as of June 30, 2017). However, most of the bad loans are already provided-for with net NPLs to net loans ratio at 1.3 percent. Moreover, analysis reveals that NPLs are not broad-based as most of the banks, except one bank, have negligible infection ratio.¹⁴

Profitability of the overseas banks' branches has dropped as the industry on consolidated basis has booked pre-tax losses of PKR 4.9 billion. Accordingly, all profitability indicators have dropped with return on asset (ROA) declining to negative 0.7 percent in H1CY18 from 1.1 percent in H1CY17. However, excluding two large banks, the pre-tax profit for the period under review is PKR 3.4 billion.¹⁵

Overall, the performance of overseas branches/ROs/subsidiaries has moderated during H1CY18 due to challenging global macro-financial conditions. SBP, in its regulatory capacity, has rolled out 'Governance Framework for Banks' Overseas Operations' to further strengthen the governance, risk management & compliance practices for banks' overseas operations.¹⁶

¹⁴ This large bank has the infection ratio of 42.8 percent.

¹⁵ The loss in these two banks is booked due to increase in bad debt provisioning and administrative expenses.

¹⁶ Governance Framework for Banks' Overseas Operations vide BPRD Circular no. 06 dated August 06, 2018 accessible at <http://www.sbp.org.pk/bprd/2018/C6.htm>

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

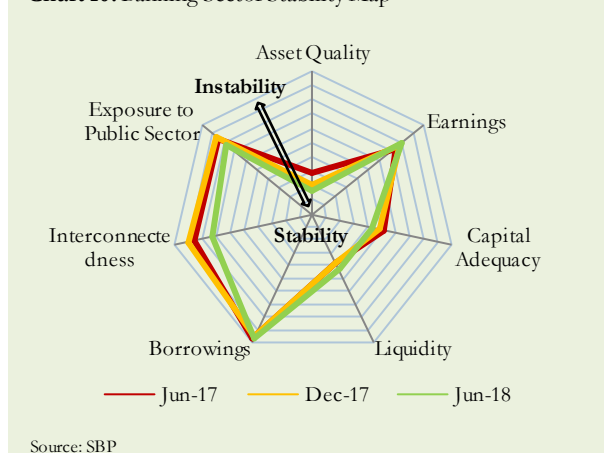


B. Soundness of the Banking Sector

The banking sector has remained sound and stable during the first half of CY18 despite some decline in earnings (**Annexure D**). Overall, some improvement has been witnessed in the risk profile of the banking sector.

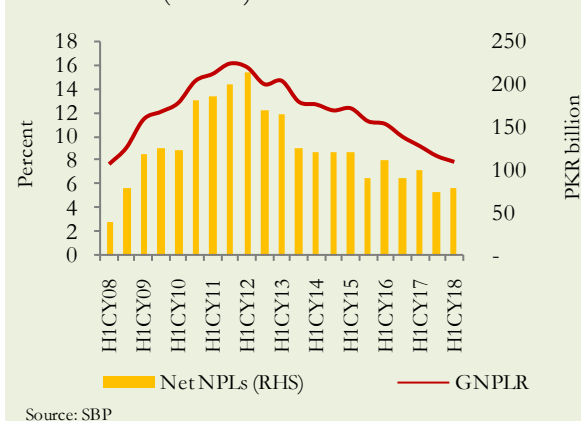
The **Banking Sector Stability Map (BSSM)** displays improvement (convergence towards the center) in asset quality, solvency (capital adequacy), interconnectedness and exposure to public sector (**Chart 10**). On the contrary, earnings, borrowings (excluding borrowing from SBP) and liquidity have witnessed moderation.¹⁷ However, the liquid assets maintained by the banking sector are still significantly higher than the statutory requirements.

Chart 10: Banking Sector Stability Map



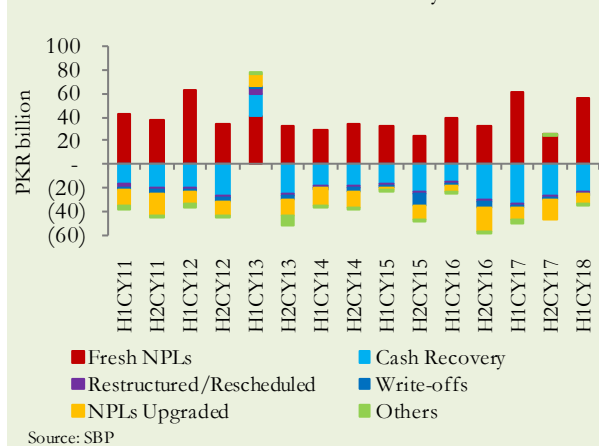
Asset quality has been improving over time and H1CY18 is no exception. The infection ratio (NPLs to Total Loans) has declined to 7.9 percent; the lowest level since H1CY08 (**Chart 11 and Annexure C**). The improvement is due to growth of 11.7 percent in gross advances during H1CY18 (10.3 percent in H1CY17).

Chart 11: Net Non-performing loans (PKR billion) and GNPLR (Percent)



Notwithstanding, the NPLs of the banking sector have surged to PKR 623.6 billion by the end of June, 2018 from a level of PKR 592.6 billion as of end December, 2017 (**Chart 12**).

Chart 12: Fresh NPLs & Total Recovery



Noticeably, the rise in fresh NPLs is not broad-based and is mainly contributed by one of the Specialized Banks (SBs) and overseas operations of one bank (**See Box 1**). The specialized bank has contributed 77.9 percent of the total NPLs (largely in OAEM category) incurred in agricultural loans. On the other hand, the infection ratio of commercial banks, which excludes specialized banks, stands at 7.3 percent during H1CY18.

¹⁷ For details please see Quarterly Performance Review of the Banking Sector (October - December, 2017) http://www.sbp.org.pk/publications/q_reviews/2017/Oct-Dec.pdf

The uptick in NPLs in agriculture loans is seasonal in nature as classified loans usually peak by the end of the first half of a calendar year and recover thereafter. One of the key reasons for this cyclicity pertains to the timing of the repayments. Generally, the payment against loans for Kharif Crops (Rice, Sugar, Cotton and others) is due in the harvesting month of June each year. However, farmers are unable to timely offload their crop inventory due to low market prices, disputes between growers and millers, pest attacks etc. leading to non-payment of dues. Resultantly, such loans are classified by end-June; of which a sizeable portion is gradually recovered in the coming months.¹⁸

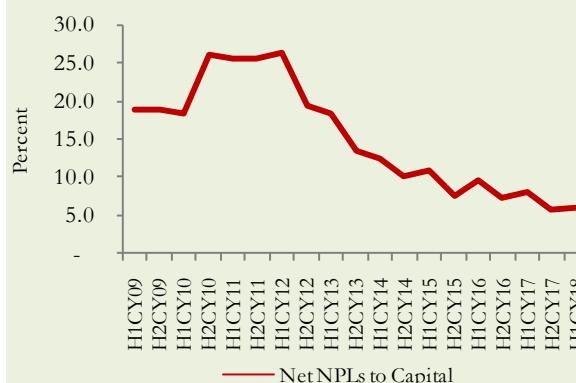
Despite the rise in gross NPLs, the provisioning coverage ratio has marginally declined to 87.1 percent by the end of H1CY18 from 87.2 percent in H2CY17. This implies that the banks have made adequate provisions against the growing infected portfolio.

Moreover, net NPLs to Capital (an indicator of loss absorbing capacity) have marginally deteriorated to 5.9 percent during H1CY18 from 5.8 percent on H2CY17 (8.0 percent in H1CY17). However, over a longer horizon, the risk of NPLs eroding equity is consistently falling due to declining net-NPLs and strengthening of the capital base of the banking sector (**Chart 13**).

Connected lending, which is another dimension of asset quality, has remained small as it accounts for only 1.4 percent of total gross loans. Despite its low share, it is important to highlight that the amount of NPLs in loans to connected parties has increased by PKR 2.93 billion during H1CY18.¹⁹

On the liquidity front, the **fund-based liquidity** of the banking sector has remained adequate though the

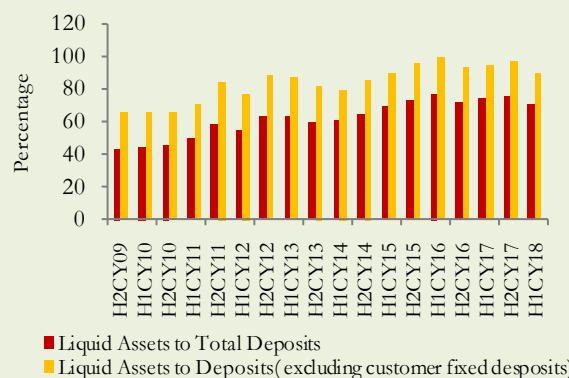
Chart 13: Net NPLs to Capital



Source: SBP

reviewed half-year has witnessed slight moderation in some liquidity ratios. Liquid assets to total assets ratio has declined to 51.1 percent during H1CY18 from 54.0 percent in H2CY17 (53.8 percent in H1CY17) due to banks' divestment in govt. securities.²⁰ Likewise, liquid assets to deposits (excluding fixed customer deposits) has also declined to 89.1 percent during H1CY18 from 97.3 percent on H2CY17 (**Chart 14**). Noticeably, coverage to short-term liabilities as indicated by liquid asset to short term liabilities has receded to 98.1 percent; a level below 100 percent only after December 2014. While this ratio has slightly declined, its high value indicates ability of the banking sector to efficiently meet its short-term liabilities.

Chart 14: Liquid Assets to Deposits



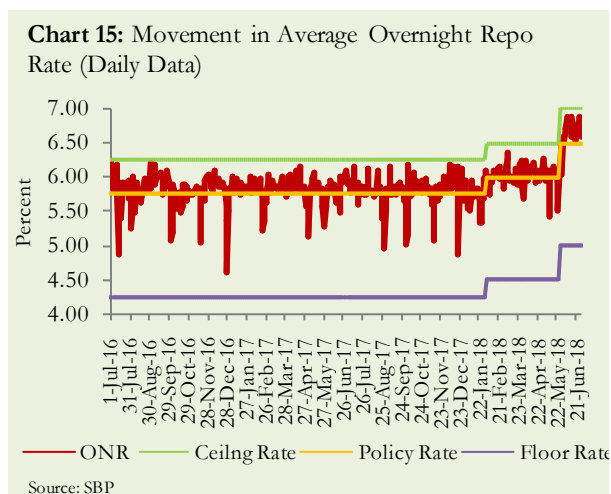
Source: SBP

¹⁸ Further, there are few other reasons, peculiar to the reviewed period, behind the rise in NPLs. These include, lower market prices of wheat (than the support price) adversely affecting the repayment capacity of the borrowers; low prices of paddy, cotton and potato impacting the repayment capacity of borrowers; larger number of holidays in June due to Eid and Ramadan that hampered recoveries efforts etc.

¹⁹ The rise in NPLs is due to only one private sector bank. Excluding this bank, the NPLs are almost negligible (i.e. PKR 0.008 billion)

²⁰ Liquid assets are comprised of (a) cash and due from treasury banks, (b) balance with other banks, (c) call money lending, (d) repurchase agreement lending, (e) investments in government securities.

The **market-based liquidity** has relatively eased over the reviewed half year. SBP pursued monetary tightening during H1CY18 as its Monetary Policy Committee (MPC) raised SBP Policy Rate by cumulative 75 bps. However, it continued the calibrated liquidity management through Open Market Operations (OMOs) to keep Overnight Repo Rate (ONR) closer to the SBP Policy Rate (**Chart 15**). The average deviation between ONR and SBP Policy Rate during H1CY18 has been observed at 2 bps compared to 5 bps during H2CY17 (8bps during H1CY17).



However, increased preference for cash, due to Eid-ul-Fitr festival and pre-poll electioneering activities, started to build some liquidity pressures during the second quarter (particularly in June, 2018).²¹ During June, 2018, the ONR peaked 38 bps away from target rate of 6.5, while the daily average of the month remained close to 6.72. Accordingly, in need of liquidity, banks resorted to repo borrowings from SBP. Consequently, banks average weekly outstanding repo borrowing from SBP for the month of June, 2018 reached PKR 1.3 trillion against the half-yearly average of PKR 0.95 trillion.

Earnings of the banks have declined in H1CY18 due to the drop in gain on sale of securities (impact of rising interest rates), one-off provisions expense booked by a

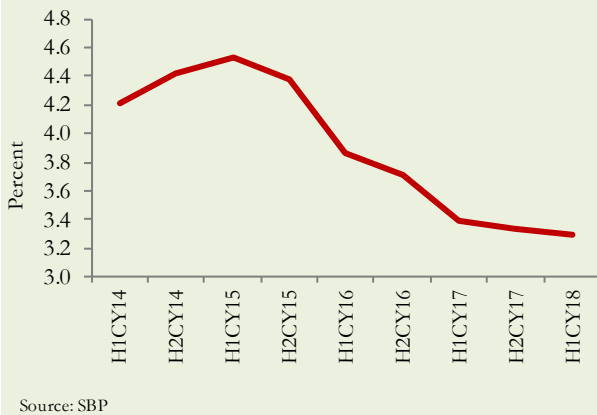
few banks on account of pension liabilities, and increase in administrative (salaries, rent, utilities) and provision expenses.^{22,23} Consequently, the Year-to-Date (YTD) profit (after tax) of the banking sector has declined by 14.7 percent in H1CY18 to PKR 76.7 billion over the comparable period last year. As a result, the major profitability indicators have also registered decline. Return on Assets (after tax) has receded to 0.8 percent as of end June, 2018 from 1.1 percent as of end June, 2017, while Return on Equity (after tax) has moderated to 11.0 percent from 13.1 percent.

Encouragingly, the Net Interest Income (NII) of the banking sector has increased by 6.8 percent during H1CY18 (decline of 1.1 percent in H1CY17). The main support has come from the interest earnings, which has increased by 9.4 percent, primarily, on account of strong growth in advances. With 21.6 percent growth in interest income on advances, its share in overall interest income has increased to 47.3 percent (42.6 percent in H1CY17). On the other hand, the interest income from investments has seen a YoY dip of 3.1 percent, due to decline in investment in long-term government securities by 28.0 percent. The Net Interest Margin (NIM), though declined slightly to 3.3 percent as compared to 3.4 percent at the end of H1CY17, seems to be bottoming out because of increase in income from advances and hike in interest rates (**Chart 16**).

²¹ The weekly deposits data depicts that a total outflow of PKR 218.4 billion was recorded in the first two weeks of June, 2018. The deposits recovered in the weeks after Eid.

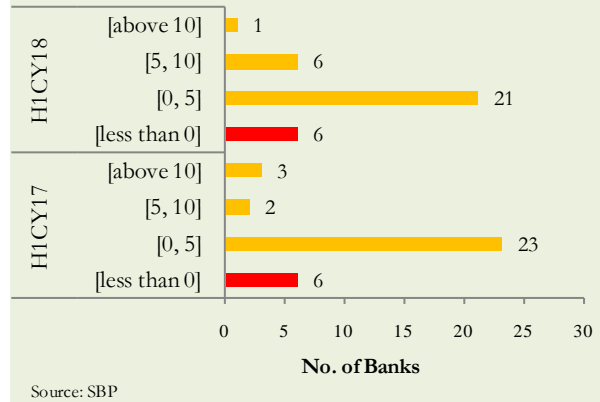
²² In accordance with the Honorable Supreme Court of Pakistan's judgment relating to pension liabilities, four domestic private banks booked one-off provisions in compliance with the superior court's order. The overall impact of these one-off provisions comes around PKR 12.4 billion. If excluded, the decline in profit (after tax) comes down to a mere 0.1 percent.
http://www.supremecourt.gov.pk/web/user_files/File/S.M.C._20_2016.pdf

²³ The provision expense was mainly on account of provisions booked by a local private bank against its international loan portfolio.

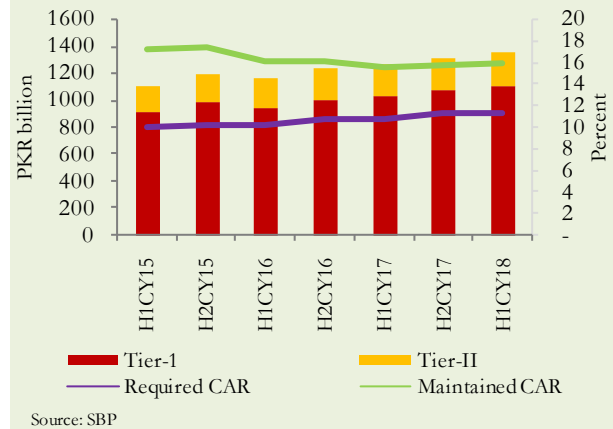
Chart 16: Net Interest Margin

Islamic Banking Institutions have fared well in terms of earnings during H1CY18 and have provided support to the profitability of the banking sector. The YTD profit (after tax) registered a growth of 27.3 percent during the reviewed period on the back of 35.4 percent lift in net advances. Accordingly, the profit earned on customer advances has surged by 38.5 percent. Overall, the Return on Assets (after tax) has improved to 1.5 at the end of H1CY18 from 0.9 at the end of H1CY17, whereas the Return on Equity (after tax) increased to 23.2 percent as compared to 13.8 percent.

Concentration of earnings has reduced over the reviewed period, as the share of top five banks has decreased from 61.0 percent at the end of H1CY17 to 52.1 percent at the end of H1CY18. The number of loss making banks remained the same in the comparable periods, which reflects that despite the sector-wide moderation in earnings, majority of the banks have remained profitable (**Chart 17**).

Chart 17: Banking sector profitability (post-tax) (PKR billion)

Capital Adequacy Ratio (CAR) of the banking sector has slightly improved from 15.8 percent in H2CY17 to 15.9 percent in H1CY18, well above the minimum regulatory required level of 11.275 percent (**Chart 18**). The rise in CAR is due to 3.7 percent increase in eligible capital; enough to oust 2.5 percent growth in total risk weighted assets (TRWA).

Chart 18: Capital Adequacy Ratio

The eligible capital is mostly contributed by high quality Tier I capital. During the reviewed half-year, both components of eligible capital i.e. Tier I and Tier II have expanded. Tier I capital has moved up due to rise in retained earnings and increase in share capital.²⁴ Tier II

²⁴ The increase in share capital is primarily on account of increase in paid-up capital by two foreign banks.

capital has inched up on the back of revaluation of assets and issuance of TFCs.

On the risk front, credit risk weighted assets (80 percent share in Total Risk Weighted Assets) has surged by 7.3 percent in H1CY18 owing to surging financing activity. In contrast, market risk weighted assets (6 percent share) have declined by 32.7 percent, likely, due to decline in investment in PIBs and shifting of investment portfolio towards short-term MTBs.²⁵

SBP has also issued the Domestic Systemically Important Banks (D-SIBs) framework, which imposes enhanced capital requirements from March, 2019 on banks designated as D-SIBs.²⁶

²⁵ As per Basel instructions for the calculation of market risk weighted assets, short-term debt instruments attract lesser market risk compared to long-term instruments.
http://www.sbp.org.pk/bsd/2006/Annex_C8.pdf

²⁶ As per the Framework for Domestic Systemically Important Banks (D-SIBs), the designated D-SIBs shall be required to meet Higher Loss Absorbency (HLA) capital surcharge in the form of additional Common Equity Tier 1 (CET-1).
<http://www.sbp.org.pk/bprd/2018/C4-Annex.pdf>

Box 2: SBP Systemic Risk Survey- 2nd Wave (August, 2018)

SBP, being the central bank and banking supervisor, plays a pivotal role in ensuring stability of Pakistan's financial system. In pursuance of SBP Vision 2020, it is committed to strengthening its financial stability regime to identify and manage systemic risks arising from within and outside the country's financial system. The Systemic Risk Survey (SRS) is a useful tool, used by central banks around the world, in this regard to help assess and quantify, on a biannual basis, the market participants' risk perceptions.

In this regard, SBP launched a biannual SRS in January, 2018 to capture the risk perceptions of market participants and gauge their confidence in the stability of the financial system.²⁷ The 2nd wave of the SBP SRS was conducted in August, 2018. The respondents of the survey included senior executives of financial institutions, financial journalists, academia and other experts.²⁸

The survey intends to measure the present and future (over the next six months) risk perceptions of the respondents related to five broad categories including global, macroeconomic, financial markets, institutional and general risks. The overall response rate to the survey stands at 49 percent.²⁹

Summary of Results³⁰:

1. At aggregate level, financial market risks are perceived to be critical for financial stability both in current scenario as well as over the next six months (**Chart 2.1 & 2.2**).

2. Among all the risks, the highest cited risks at present are deterioration in balance of payment, foreign exchange rate risk and the widening fiscal deficit. In addition, lack of funding from abroad, volatility in commodity prices, terrorism and increase in domestic inflation are the other high risk³¹ sources having potential to undermine the financial stability (**Chart 2.3**).

3. Some of these risks are also expected to prevail over the next six months, which include deterioration of balance of payments, foreign exchange rate risk, widening fiscal deficit and increase in domestic inflation (**Chart 2.3**).

4. The likelihood of occurrence of a high risk event in Pakistan's financial system over the short term is higher than medium term according to the survey results.

5. A higher proportion of respondents show confidence in the ability of regulators to ensure financial stability (**Chart 2.4**).

6. A comparison of results of the 1st and 2nd waves of the SBP SRS shows that the respondents believe that the intensity of risk related to deterioration of BoP has increased, while risk related to political uncertainty, identified as top 10 risks during the 1st wave of SBP SRS, has subsided after the conduct of general elections 2018 (**Chart 2.5**).

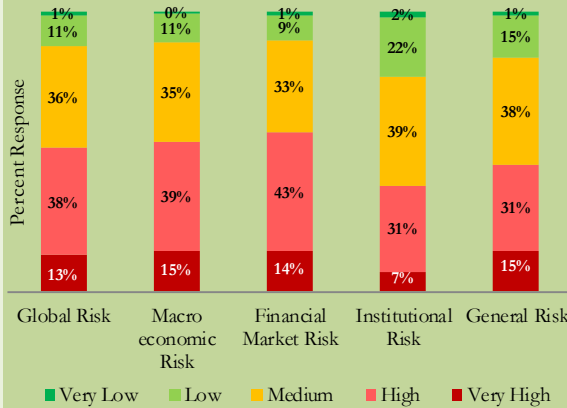
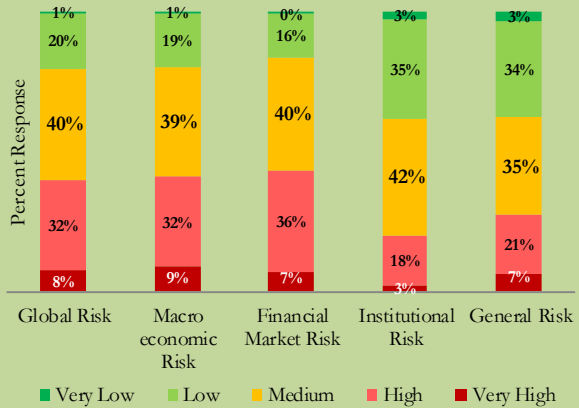
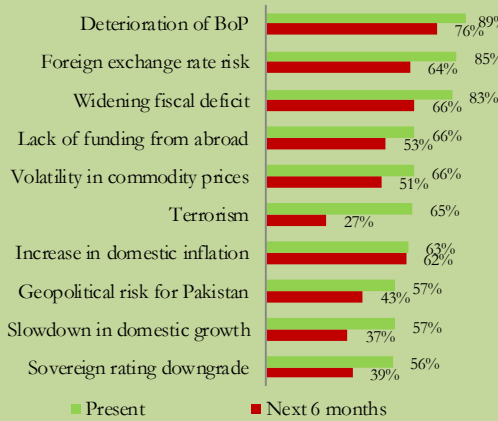
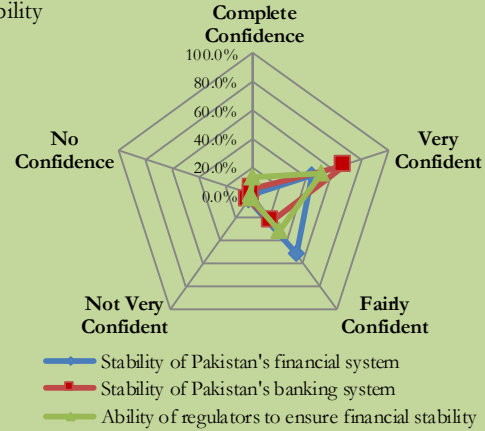
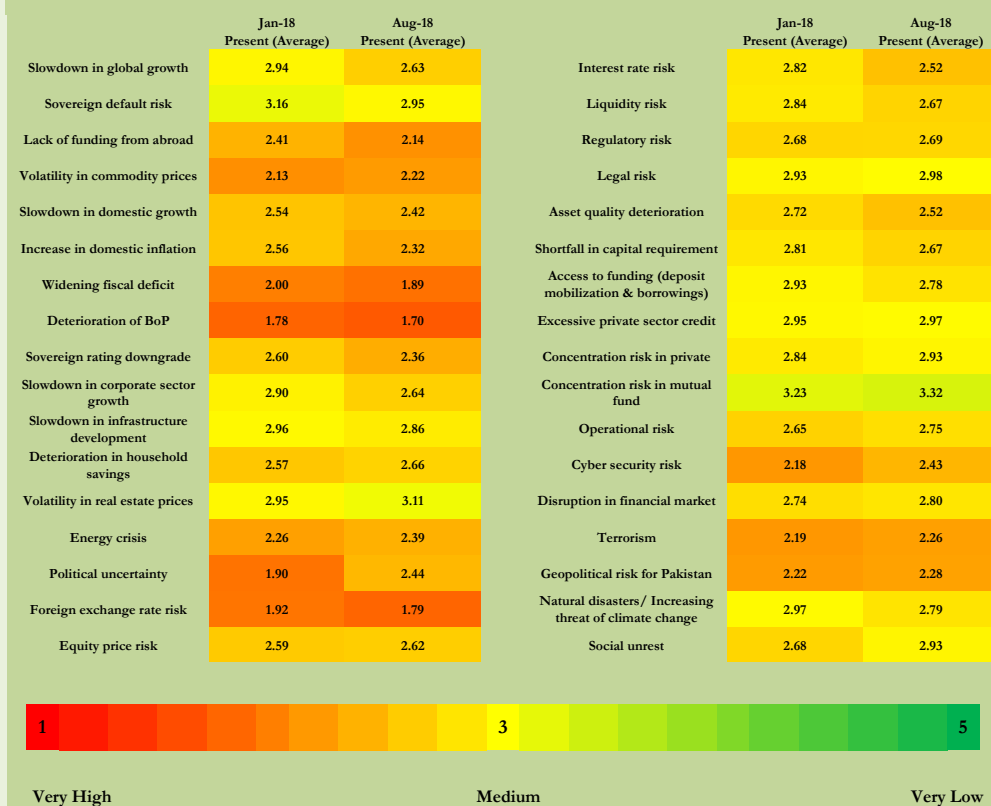
²⁷ The results of the 1st wave of SBP SRS are presented in the Financial Stability Review 2017. The results can be accessed here: <http://www.sbp.org.pk/FSR/2017/boxes/Box-1.pdf>

²⁸ The respondents included executives from commercial banks, insurance companies, exchange companies, MFBs, DFIs, major financial market infrastructures, financial journalists, members of academia and SECP officials.

²⁹ The 2nd wave of the survey was sent to 208 respondents out of which 101 responded.

³⁰ The results presented here are based on responses to the survey and do not necessarily reflect the State Bank of Pakistan views on risks to the financial system

³¹ High risk is identified by aggregating percentage of respondents choosing either high or very high as a response to a particular risk category or type in the survey questionnaire.

Chart 2.1: Perception on sources of Systemic Risks- Present

Chart 2.2: Perception on sources of Systemic Risks- Next 6 months

Chart 2.3: Top 10 risks identified

Chart 2.4: Level of confidence in financial system's stability

Chart 2.5: Comparison of 1st and 2nd wave SRS results


C. Banking Sector Outlook for H2CY18

In H2CY18, the macro-financial conditions are expected to remain tight. The second wave of SBP Systemic Risk Survey suggests that external sector pressures, fiscal sector vulnerabilities, growing domestic inflation and volatile commodity markets could potentially weaken financial stability over the coming six months.

Nevertheless, banking sector is expected to remain resilient. Private sector advances are likely to increase in H2CY18 due to seasonal factors, capacity enhancement, and boost in investors' confidence after peaceful political transition. Growing inflationary pressures due to rising aggregate demand and expected bullish trend in global oil prices may translate into higher demand for working capital financing needs. However, increase in SBP policy rate by 100 bps in July-2018 and rising global trade disputes, could moderate the demand for advances.

Banks' investment may possibly remain concentrated in short-term government securities given the interest rate expectations. Moreover, higher projected reliance on banks' borrowing by government—as outlined in the fiscal budget for 2018-19—could stimulate banks' investments in government securities. However, if the governments' announced measures result into fiscal consolidation, then budgetary borrowing from banks could reduce.

Deposit inflow will depend upon banks business strategy and savers preferences that are driven by macroeconomic conditions (external account pressures, monetary policy stance, and return on alternate assets etc.). The rising Minimum Saving Rate (MSR) could potentially boost saving deposits, however.

Going forward, banking sector's **profitability** would depend upon interest rate dynamics, demand for advances, banks' investment strategy, and movement in FX and Capital markets. **Asset quality** is likely to improve as the expected increase in advances and the seasonal decline in NPLs related to agriculture financing materializes. However, rise in SBP's policy rate may impact the borrowers' repayment capacity.

Banks are likely to maintain adequate solvency profile given the expectations of rise in earnings and rising regulatory requirements under Basel-III and the D-SIBs framework. However, expected increase in advances could lead to higher Credit Risk Weighted Assets that may moderate the **Capital Adequacy Ratio** a bit.

Annexure

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

PKR million

Financial Position	CY14	H1CY15	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18
ASSETS								
Cash & Balances With Treasury Banks	723,664	853,112	909,429	910,418	1,184,521	1,241,640	1,303,914	1,541,206
Balances With Other Banks	149,631	176,757	198,395	186,575	168,394	158,090	156,332	170,800
Lending To Financial Institutions	429,380	497,091	360,772	313,933	551,695	563,382	604,990	651,974
Investments - Net	5,309,630	6,209,132	6,880,765	7,821,344	7,509,164	8,448,540	8,729,019	8,417,799
Advances - Net	4,447,300	4,552,132	4,815,827	5,179,829	5,498,813	6,118,822	6,512,485	7,310,299
Operating Fixed Assets	277,030	297,599	310,102	318,147	336,376	363,668	395,246	420,751
Deferred Tax Assets	67,077	62,711	65,644	70,347	64,681	65,735	72,354	78,939
Other Assets	702,550	595,355	602,301	573,167	517,412	540,609	567,205	605,294
TOTAL ASSETS	12,106,261	13,243,890	14,143,234	15,373,761	15,831,058	17,500,488	18,341,545	19,197,062
LIABILITIES								
Bills Payable	137,651	204,751	145,089	198,412	182,858	199,661	218,588	229,690
Borrowings From Financial Institution	1,001,447	1,322,377	1,766,145	2,304,736	1,942,458	2,814,776	3,125,432	3,161,918
Deposits And Other Accounts	9,229,773	9,969,916	10,389,260	11,024,200	11,797,867	12,573,296	13,011,778	13,755,769
Sub-ordinated Loans	44,329	41,359	51,366	54,683	59,330	53,565	64,703	80,360
Liabilities Against Assets Subject To Finance Lease	33	26	50	45	41	29	21	13
Deferred Tax Liabilities	37,149	53,157	47,622	68,081	61,109	55,915	44,684	39,568
Other Liabilities	448,432	385,874	420,935	416,624	434,598	444,131	495,549	540,671
TOTAL LIABILITIES	10,898,816	11,977,459	12,820,468	14,066,782	14,478,261	16,141,373	16,960,755	17,807,989
NET ASSETS	1,207,445	1,266,430	1,322,767	1,306,980	1,352,797	1,359,115	1,380,790	1,389,073
NET ASSETS REPRESENTED BY:								
Share Capital	587,053	581,443	619,862	579,168	579,882	596,124	516,013	525,771
Reserves	189,242	203,984	192,039	195,038	205,314	206,552	271,448	294,800
Unappropriated Profit	227,151	244,627	290,908	290,008	344,615	348,183	410,371	406,014
Share Holders' Equity	1,003,446	1,030,055	1,102,809	1,064,215	1,129,812	1,150,859	1,197,832	1,226,586
Surplus/Deficit On Revaluation Of Assets	203,999	236,375	219,958	242,765	222,985	208,256	182,958	162,487
TOTAL	1,207,445	1,266,430	1,322,767	1,306,980	1,352,797	1,359,115	1,380,790	1,389,073
PROFIT AND LOSS STATEMENT	CY14	H1CY15	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18
Mark-Up/ Return/Interest Earned	919,821	495,108	981,760	474,920	938,026	479,233	998,671	524,331
Mark-Up/ Return/Interest Expenses	504,990	249,190	485,575	227,297	453,232	234,345	499,819	262,822
Net Mark-Up / Interest Income	414,830	245,917	496,185	247,623	484,793	244,888	498,851	261,508
Provisions & Bad Debts Written Off Directly/(Reversals)	25,323	25,188	38,874	9,692	5,305	2,589	3,706	5,876
Net Mark-Up / Interest Income After Provision	389,507	220,729	457,311	237,930	479,489	242,299	495,146	255,632
Fees, Commission & Brokerage Income	70,421	41,548	82,640	45,660	90,266	49,556	102,898	54,456
Dividend Income	14,098	9,645	16,910	8,635	17,187	8,763	17,875	6,770
Income From Dealing In Foreign Currencies	28,396	12,135	22,824	8,094	14,015	7,905	14,308	11,584
Other Income	54,434	54,918	86,369	40,734	74,260	35,257	52,565	20,950
Total Non - Markup / Interest Income	167,349	118,246	208,743	103,122	195,728	101,481	187,646	93,760
	556,856	338,975	666,053	341,052	675,217	343,780	682,791	349,393
Administrative Expenses	304,588	164,145	330,006	176,585	356,183	189,108	387,878	208,918
Other Expenses	5,726	3,836	7,231	2,241	5,003	4,308	4,417	2,630
Total Non-Markup/Interest Expenses	310,313	167,981	337,237	178,826	361,186	193,416	392,295	211,549
Profit before Tax and Extra ordinary Items	246,543	170,995	328,817	162,226	314,031	150,364	290,496	137,844
Extra ordinary/unusual Items - Gain/(Loss)	3.79	0.19	0.51	0.33	0.27	0.15	23,717.35	9,170.00
PROFIT/ (LOSS) BEFORE TAXATION	246,539	170,995	328,816	162,226	314,030	150,364	266,779	128,674
Less: Taxation	83,171	71,902	129,811	68,482	124,117	60,506	108,987	52,018
PROFIT/ (LOSS) AFTER TAX	163,368	99,092	199,006	93,744	189,914	89,858	157,792	76,656

Annexure B

Distribution of Deposits

PKR billion

	CY14	H1CY15	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18
DEPOSITS	9,230	9,970	10,389	11,024	11,798	12,573	13,012	13,756
Customers	8,886	9,657	9,943	10,518	11,199	12,132	12,270	13,007
Fixed Deposits	2,268	2,248	2,425	2,463	2,670	2,691	2,841	2,756
Saving Deposits	3,467	3,690	3,863	4,047	4,342	4,579	4,699	4,923
Current accounts - Remunerative	323	348	331	389	409	475	480	561
Current accounts - Non-remunerative	2,764	3,289	3,254	3,518	3,685	4,239	4,095	4,593
Others	64	83	69	101	92	148	155	175
Financial Institutions	344	312	446	507	599	441	741	749
Remunerative Deposits	201	229	393	322	385	369	458	411
Non-remunerative Deposits	143	83	53	184	214	73	284	338
Break up of Deposits Currency Wise	9,230	9,970	10,389	11,024	11,798	12,573	13,012	13,756
Local Currency Deposits	7,983	8,748	9,042	9,832	10,548	11,166	11,591	12,306
Foreign Currency Deposits	1,247	1,222	1,347	1,192	1,249	1,407	1,421	1,450

Annexure C

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

Amount in PKR million, ratio in percent

	H1CY16			CY16			H1CY17			CY17			H1CY18		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	3,794,652	448,524	11.8	4,056,705	431,280	10.6	4,479,094	429,961	9.6	4,829,625	425,369	8.8	5,455,059	432,990	7.9
SMEs Sector	310,009	82,170	26.5	404,618	82,078	20.3	388,482	79,609	20.5	452,415	76,680	16.9	422,165	75,143	17.8
Agriculture Sector	296,641	45,949	15.5	294,339	38,064	12.9	296,989	53,205	17.9	316,169	38,386	12.1	318,152	61,763	19.4
Consumer sector	349,860	34,347	9.8	371,804	30,159	8.1	409,712	29,883	7.3	448,465	27,846	6.2	497,888	27,666	5.6
<i>i. Credit cards</i>	25,619	2,468	9.6	28,307	2,340	8.3	30,077	2,329	7.7	34,248	2,307	6.7	37,451	2,356	6.3
<i>ii. Auto loans</i>	109,752	2,628	2.4	125,898	2,600	2.1	150,313	2,635	1.8	169,476	2,673	1.6	196,556	2,646	1.3
<i>iii. Consumer durable</i>	283	68	24.0	318	67	21.2	479	72	15.0	652	66	10.1	723	65	8.9
<i>iv. Mortgage loans</i>	59,077	12,565	21.3	61,609	10,894	17.7	70,855	11,290	15.9	79,979	10,634	13.3	89,015	11,134	12.5
<i>v. Other personal loans</i>	155,129	16,618	10.7	155,671	14,258	9.2	157,988	13,557	8.6	164,109	12,166	7.4	174,143	11,465	6.6
Commodity financing	697,671	4,442	0.6	619,347	4,571	0.7	771,114	4,800	0.6	735,365	5,911	0.8	913,493	4,260	0.5
<i>Cotton</i>	9,833	1,213	12.3	17,816	1,140	6.4	13,243	728	5.5	24,808	1,050	4.2	19,371	992	5.1
<i>Rice</i>	16,511	2,852	17.3	18,858	2,761	14.6	17,610	2,844	16.1	21,010	2,676	12.7	18,446	2,478	13.4
<i>Sugar</i>	71,974	144	0.2	46,097	392	0.8	85,608	392	0.5	43,787	1,132	2.6	65,721	143	0.2
<i>Wheat</i>	535,552	76	0.0	467,010	135	0.0	398,320	45	0.0	580,290	136	0.0	762,011	136	0.0
<i>Others</i>	63,801	157	0.2	69,566	145	0.2	64,542	234	0.4	65,470	916	1.4	47,943	511	1.1
Staff Loans	102,035	1,365	1.3	104,139	1,409	1.4	110,281	1,462	1.3	115,449	1,779	1.5	121,796	1,829	1.5
Others	151,947	17,749	11.7	162,128	17,104	10.5	177,855	15,896	8.9	131,961	16,576	12.6	124,785	19,965	16.0
Total	5,702,816	634,546	11.1	6,013,080	604,666	10.1	6,633,527	614,816	9.3	7,029,449	592,547	8.4	7,853,339	623,615	7.9

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

amount in PKR million, ratio in percent

	H1CY16			CY16			H1CY17			CY17			H1CY18		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	548,099	41,706	7.6	548,099	41,706	7.6	592,496	56,330	9.5	623,438	41,387	6.6	662,016	64,884	9.8
Automobile/Transportation	95,274	12,604	13.2	95,274	12,604	13.2	98,122	12,518	12.8	108,707	12,027	11.1	120,921	13,895	11.5
Cement	71,722	6,789	9.5	71,722	6,789	9.5	87,601	6,620	7.6	109,561	6,472	5.9	141,223	5,296	3.7
Chemical & Pharmaceuticals	250,092	12,780	5.1	250,092	12,780	5.1	273,440	13,173	4.8	236,955	12,864	5.4	263,329	12,505	4.7
Electronics	78,173	13,326	17.0	78,173	13,326	17.0	81,809	12,755	15.6	97,804	12,503	12.8	103,249	12,065	11.7
Financial	182,648	10,544	5.8	182,648	10,544.3	5.8	208,486	9,521.3	4.6	172,695	8,782.4	5.1	185,008	8,585	4.6
Individuals	550,384	58,023	10.5	550,384	58,023	10.5	589,900	56,069	9.5	618,877	54,734	8.8	706,926	55,458	7.8
Insurance	3,013	1	0.0	3,013	1	0.0	4,554	1	0.0	5,934	1	0.0	3,402	7	0.2
Others	2,285,719	205,981	9.0	2,285,719	205,981	9.0	2,595,288	203,801	7.9	2,748,079	206,879	7.5	3,099,352	207,451	6.7
Production/Transmission of Energy	892,059	31,095	3.5	892,059	31,095	3.5	971,125	36,788.9	3.8	1,043,522	33,589.0	3.2	1,245,848	36,084	2.9
Shoes & Leather garments	27,171	3,770	13.9	27,171	3,770	13.9	26,030	3,596	13.8	28,364	5,307	18.7	30,755	5,710	18.6
Sugar	176,250	15,563	8.8	176,250	15,563	8.8	258,219	15,743.5	6.1	245,590	14,489.9	5.9	307,500	15,995	5.2
Textile	852,476	192,483	22.6	852,476	192,483	22.6	846,457	187,899	22.2	989,922	183,511	18.5	983,810	185,681	18.9
Total	6,013,080	604,666	10.1	6,013,080	604,666	10.1	6,633,527	614,816	9.3	7,029,449	592,547	8.4	7,853,339	623,615	7.9

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

PKR million

	H1CY16		CY16		H1CY17		CY17		H1CY18	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	30,185	-	22,599	-	35,534	-	19,780	-	39,212	-
Sub Standard	52,773	13,322	34,260	7,291	35,238	6,890	32,829	6,446	39,459	8,322
Doubtful	34,842	13,683	34,175	16,746	37,526	15,604	35,108	14,912	29,108	13,849
Loss	516,746	466,859	513,631	466,870	506,518	463,067	504,831	463,536	515,835	484,965
Total	634,546	493,864	604,666	490,907	614,816	485,560	592,547	484,894	623,615	507,136

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

Annexure D

Financial Soundness Indicators of the Banking Sector

Indicators	percent								
	CY13	CY14	H1CY15	CY15	H1CY16	CY16	H1CY17	CY17	H1CY18
CAPITAL ADEQUACY									
Risk Weighted CAR [^]	14.9	17.1	17.2	17.3	16.1	16.2	15.6	15.8	15.9
Tier 1 Capital to RWA	12.6	14.3	14.1	14.4	13.0	13.0	12.7	12.9	13.0
ASSET QUALITY									
NPLs to Total Loans	13.3	12.3	12.4	11.4	11.1	10.1	9.3	8.4	7.9
Provision to NPLs	77.1	79.8	80.8	84.9	82.4	85.0	83.7	87.2	87.1
Net NPLs to Net Loans	3.4	2.7	2.7	1.9	2.2	1.6	1.6	1.2	1.1
Net NPLs to Capital ^{^^}	14.7	10.1	10.9	7.7	9.7	7.3	8.0	5.8	5.9
EARNINGS									
Return on Assets (Before Tax)	1.6	2.2	2.7	2.5	2.2	2.1	1.8	1.6	1.4
Return on Assets (After Tax)	1.1	1.5	1.6	1.5	1.3	1.3	1.1	0.9	0.8
ROE (Avg. Equity & Surplus) (Before Tax)	17.9	24.3	27.5	25.8	24.9	23.8	21.9	19.5	18.5
ROE (Avg. Equity & Surplus) (After Tax)	12.4	16.1	15.9	15.6	14.4	14.4	13.1	11.5	11.0
NII/Gross Income	70.4	71.3	67.5	70.4	70.6	71.2	70.7	72.7	73.6
Cost / Income Ratio	57.2	53.3	46.1	47.8	51.0	53.1	55.8	57.1	59.5
LIQUIDITY									
Liquid Assets/Total Assets	48.6	49.2	52.3	53.8	55.2	53.7	53.8	54.0	51.1
Liquid Assets/Total Deposits	61.3	64.5	69.5	73.3	77.0	72.1	74.9	76.1	71.3
Advances/Deposits	49.5	48.2	45.7	46.4	47.0	46.6	48.7	50.1	53.1

[^] 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

CY16	H1CY17	CY17	H1CY18
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 (22)	B. Local Private Banks (21)	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.
Burj Bank 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.	NIB Bank Ltd.#	SAMBA Bank Ltd.	SAMBA Bank Ltd.
NIB Bank Ltd.#	SAMBA Bank Ltd.	Silk Bank Ltd	Silk Bank Ltd
SAMBA Bank Ltd.	Silk Bank Ltd	Soneri Bank Ltd.	Soneri Bank Ltd.
Silk Bank Ltd	Soneri Bank Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan)
Soneri Bank Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Summit Bank Ltd	Summit Bank Ltd
Standard Chartered Bank (Pakistan)	Summit Bank Ltd	United Bank Ltd.	United Bank Ltd.
Summit Bank Ltd	United Bank Ltd.		
United Bank Ltd.			
C. Foreign Banks (4)	C. Foreign Banks (4)	C. Foreign Banks (5)	C. Foreign Banks (5)
Bank of Tokyo - Mitsubishi UFJ, Ltd.	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	Industrial and Commercial Bank of China	Industrial and Commercial Bank of China	Industrial and Commercial Bank of
		Bank of China Limited^	Bank of China Limited^
D. Specialized Banks (4)	D. Specialized Banks (4)	D. Specialized Banks (4)	D. Specialized Banks (4)
Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.
Punjab Provincial Co-operative Bank	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank
SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.
Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.
All Commercial Banks (31)	All Commercial Banks (30)	All Commercial Banks (30)	All Commercial Banks (30)
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
All Banks (35)	All Banks (34)	All Banks (34)	All Banks (34)
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

* Burj Bank Ltd was acquired by Al Baraka Bank on October 30, 2016.

NIB Bank Ltd. was de-scheduled with effect from close of business on July 7, 2017, on account of its merger with and into MCB Bank Limited

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