Mid-Year Performance Review of the Banking Sector

(January - June 2021)

Financial Stability Department

State Bank of Pakistan

MYPR Team

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Summary[1]

Pakistan's economy has shown visible signs of recovery with 3.94 percent growth during FY21 due to timely adoption of pandemic containment measures and targeted policy interventions to support the economic activity in the country. The banking sector, which forms the major part of the financial sector, has exhibited resilience to COVID-19 pandemic shock due to strong capital and liquidity cushions. Earnings of the sector have remained steady during H1CY21, though profitability indicators showed some moderation due to low interest rate environment. Solvency of the banking sector remained robust with Capital Adequacy Ratio (CAR) at 18.3 percent - well above the regulatory minimum of 11.5 percent. The financial markets, which witnessed significant volatility in H1CY20, remained relatively calm during H1CY21, though exchange rate exhibited some volatility towards the end of reviewed period.

The banking sector recorded a healthy growth of 12.2 percent in H1CY21, which was mainly financed by 10.4 percent increase in deposits. While 18.7 percent increase in investments was the major driver of assets' growth, the 6.2 percent growth in advances also made a notable contribution to expansion in assets. The growth in advances has been driven by economic recovery as reflected in improvement in the LSM growth and a rise in business confidence index to a multi-year high in Jun-2021, while SBP's refinance schemes also supported the lending. The growth in advances was quite broad-based as most of the economic sectors availed additional financing. In particular, the corporates availed higher amount of fixed investment loans to finance their capital expenditures while the households increased borrowing in auto and mortgage categories. The improved performance of key economic sectors and an increase in the financing also boosted the asset quality indicators of the lending portfolio.

In terms of the 8th wave of the Systemic Risk Survey[2] conducted in July 2021, the participants have reiterated their perceptions that the key risks for the financial system are mostly exogenous in nature. The respondents, however, expressed confidence in the ability of the regulators to ensure financial stability and opined that SBP's support measures had been quite effective in warding off the adverse implications of the pandemic. Though economic activity has gained momentum over the last year, it remains susceptible to the evolving pandemic situation, and changing geopolitical dynamics. In this backdrop, banks need to continuously monitor and manage their risks and meet the banking needs of the economy by prudently balancing the objectives of growth and financial soundness.

[1] Analysis in this document is largely based on the unaudited numbers submitted by banks to SBP on quarterly basis. From the data convention perspective, H1CY and H2CY stand for the first and second half of a particular calendar year (CY), respectively. CY, generally, symbolizes the full calendar year, while QxCY, where x represents any of the four quarters of a CY.

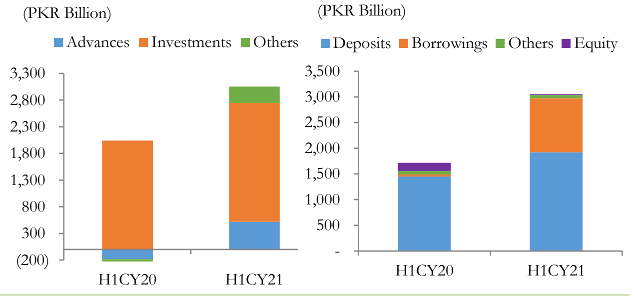
[2] The survey presents the views of independent participants from the financial sector, academia, and financial journalists about the present state and future prospect of financial stability in the country.

A. Performance of the Banking Sector

Introduction

Economic momentum further strengthened in H1CY21 as reflected by a healthy improvement in the index of Large Scale Manufacturing (**LSM**) and a rise in business confidence index to a multi-year high. Macro-financial conditions also remained supportive and financial markets performed normally. Similarly, banking sector's performance remained encouraging as the asset base expanded by 12.2 percent in H1CY21 as compared to 7.8 percent growth recorded in the corresponding period of previous year.

Chart 1: Assets and liabilities composition of the banking sector (flows)



Source: SBP

The disaggregated analysis of assets reveals that growth in investments played a vital role (by contributing more than 70 percent) in asset flows during the reviewed period.[3] Though advances contributed around 17 percent in total asset flows, yet the growth in advances was encouraging i.e. 6.2 percent growth in H1CY21 compared to 2.2 percent pandemic-plagued contraction in H1CY20. (**Chart 1**).

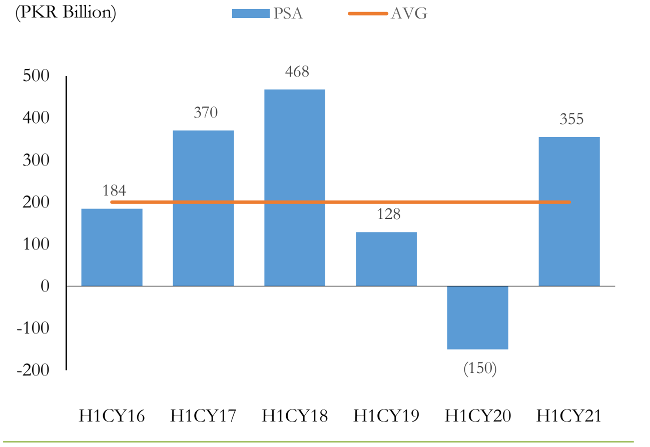
On the funding side, banks managed to mobilize around PKR 1.9 trillion worth of deposits during H1CY21 (10.4 percent growth in H1CY21 vs. 9.1 percent growth in H1CY20). In the wake of a notable increase in government's budgetary borrowing from the banking sector and rising private sector demand for financing, banks' reliance on borrowings significantly increased i.e. 32.6 percent growth in H1CY21 vs. 1.3 percent growth in H1CY20. Thus, the share of borrowings in total assets increased to 15.1 percent (12.5 percent a year ago). Due to the continued improvement in deposit flows and investment of major proportion of these funds into government securities, Advances to Deposit Ratio (**ADR**) dropped to 43.1 percent by end Jun-2021 compared to 46.3 percent a year earlier.

Like conventional banks**, Islamic Banking Institutions (IBIs)** witnessed strong growth of 12.3 percent in the asset base during the first half of CY21, with expansion in assets primarily driven by financing. [4] Accordingly, the share of IBIs in the total assets of the banking sector rose to 17.0 percent by end Jun-2021 compared to 15.3 percent in Jun-20.

Advances

Disaggregated analysis of lending activity shows that the private sector advances **(PSA)** increased by 5.5 percent during H1CY21 as compared to a contraction of 2.4 percent in the comparable period of previous year.[5] The uptick in advances was well above the average of (first half of) previous five years (**Chart 2**).

Chart 2: Private Sector Advances (Half-Yearly Flows)



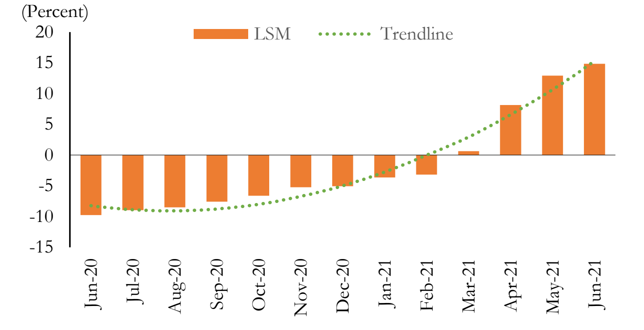
Source: SBP

There have been two prime drivers of this surge in PSA. First, economic recovery further paced-up in the wake of supportive economic conditions (e.g. low interest rates, resumption of economic

[3] Investments (net) increased by 18.7 percent in H1CY21.
[4] Around 45 percent rise in IBIs' assets flow was contributed by financing.
[5] The contraction in Advances in previous year illustrates the impact of economic downturn driven by COVID-19.

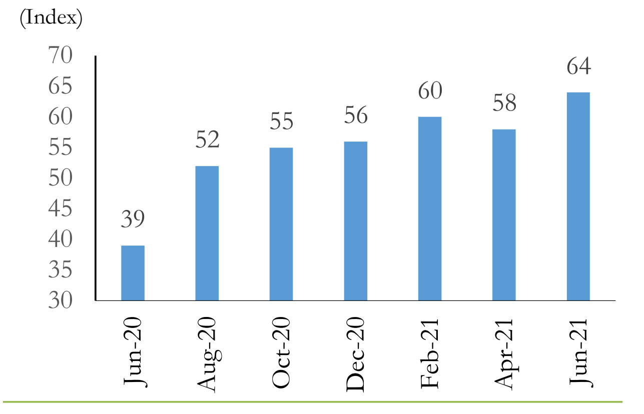
activities, etc.) and the mild impact of third pandemic wave. The improvement in economic environment reflected in healthy growth in LSM and improvement in Business Confidence Index (**BCI**) **(Chart 3 and 4)**. Second, SBP refinancing schemes played an instrumental role in augmenting the momentum of advances, as these facilities substantially contributed to additional flow of PSA during H1CY21.

Chart 3: 12-Month Moving Average YoY Growth in LSM



Source: PBS

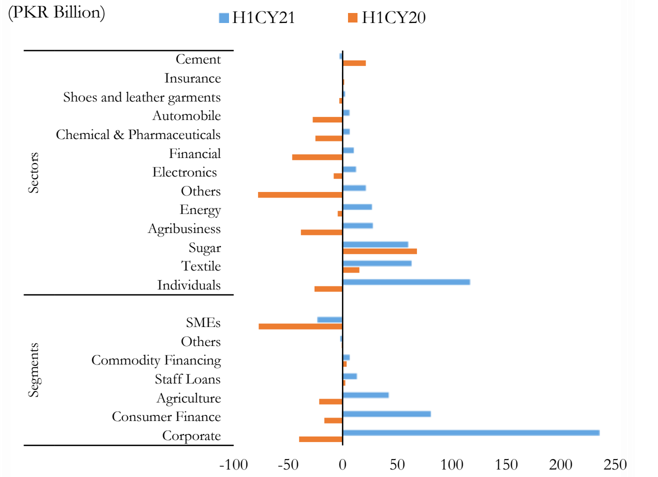
Chart 4: Business Confidence Index



Source: SBP

Further analysis of PSA reveals that the **corporate segment** availed PKR 235 billion incremental financing that contributed more than 60 percent of the rise in total domestic private advances flow during H1CY21 (**Chart 5**). A major chunk of corporate advances was availed for fixed investment (PKR 123 billion) followed by trade finance (PKR 57 billion) and working capital needs (PKR 55 billion). The noticeable increase in long-term financing largely resulted from advances disbursed under SBP's refinance schemes of Long Term Financing Facility (**LTFF**) and Temporary Economic Refinance Facility (**TERF**).[6]

Chart 5: PSA Sector & Segment wise Flows



Source: SBP

Unlike corporate segment, **SMEs** made a net retirement of PKR 22 billion during H1CY21. The retirement was seasonal in nature; however, it was lower than the retirement of PKR 77 billion in H1CY20 and average retirement of PKR 35 billion in the first half of previous five years. Encouragingly, SMEs availed additional long-term financing of PKR 9 billion as compared to the net retirement of PKR 7 billion in the comparable period of previous year.

Given the significance of SMEs for broad-based growth and general employment level, SBP, over the years, has introduced various policy support measures to increase the momentum of financing to this segment. To this end, SBP in collaboration with the government has recently introduced an innovative scheme i.e. SME Asaan Finance Scheme (**SAAF**) for lending to SMEs without collateral.[7]

Consumer segment also observed a significant growth in financing i.e. PKR 81 billion during H1CY21 (contraction of PKR 17 billion in H1CY20). Surge in consumer financing was mainly driven by auto financing (PKR 49 billion) followed by mortgage financing (PKR 17 billion). Low interest rate environment and more options to the consumers due to new entrants in the automobile market seem to explain the increased auto

[6] LTTF and TERF jointly observed increase of PKR 98.8 billion in H1CY21 and PKR 176.3 billion during FY21. https://www.sbp.org.pk/ecodata/By-type-of-finance.pdf

[7] In August 2021, SBP launched "SME Assan Finance Scheme" to enhance SMEs' access to finance. For details, please see IH&SMEFD Circular 9 of 2021 available at https://www.sbp.org.pk/smefd/circulars/2021/C9.htm

financing. Mortgage financing increased due to the mandatory targets introduced for banks to ensure loans for construction activities.[8]

The **Sector-wise** analysis of PSA indicates that unlike H1CY20, most of the economic sectors availed additional financing during H1CY21 (**Chart 5**). The textile sector availed highest additional financing along with individuals. The long-term loans for capacity expansion/ Balancing, Modernization and Replacement (**BMR**) explain the increase in textiles' advances during H1CY21, as the sector benefited from SBP refinance schemes such as LTFF and TERF.[9]

The lending to cement sector, however, decreased by PKR 2 billion as compared to an increase of PKR 21 billion in H1CY20. This seems to be an outcome of YoY increase in cement dispatches by 24 percent in H1CY21 and rise in cement prices[10] that improved the cash flows of the sector and the consequent decrease in demand for financing.

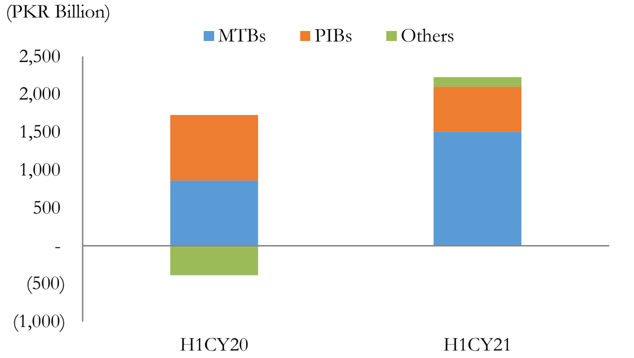
The energy firms availed PKR 27 billion in the first half of CY21 against the retirement of PKR 5 billion in H1CY20.[11] The increase reflects working capital needs (manifesting the impact of revival in economic activity and rise in input prices) as well as project financing by some coal and wind energy projects.[12]

Advances to **Public Sector** increased by PKR 145 billion (7.3 percent growth) during the reviewed period as compared to PKR 51 billion (2.5 percent growth) in the comparable period of previous year. Public sector advances were entirely driven by wheat financing which increased by PKR 179 billion in H1CY21 (PKR 114 billion in H1CY20). Relatively higher wheat financing during the reviewed period was due to an increase in minimum support price.[13] Public sector energy firms made net retirement of PKR 19 billion during H1CY21, mainly by a leading power sector entity.

Investments

Banks' investments increased by PKR 2.2 trillion (18.7 percent growth) during H1CY21. The entire rise came from investments in government's securities. Besides banks' investments in conventional risk-free securities, IBIs also invested PKR 82 billion in government's securities mainly comprising Ijarah Sukuk.

Chart 6: Investments composition - Half Yearly Flows



Source: SBP

Further analysis indicates that banks' investments in MTBs (short-term) and PIBs (long-term) increased by PKR 1.5 trillion and PKR 592 billion, respectively (**Chart 6**). The behavior of yield curve reveals that—as economic activity stimulated—market expectations of a rise in the interest rates increased during Q1CY21 (**Chart 7**). In the same period, banks offered PKR 6.6 trillion in MTBs (against government target of PKR 4.0 trillion) and PKR 437 billion in fixed rate PIBs[14] (against government target of PKR 325 billion) manifesting banks' higher preference for short-term investments.

[8] Under IH&SMEFD Circular No. 10 of July 15, 2020, banks and DFIs were advised to achieve mandatory financing targets for housing and construction of buildings (Residential and Non-Residential) equivalent to at least 5 percent of their domestic private sector advances by December 31, 2021. For low cost housing finance, certain relaxations in Prudential Regulations have been provided.

[9] LTFF and TERF show a combined increase of around PKR 55 billion in textile related businesses during H1CY21.

[10] Cement prices (50 kg bag) increased by 11.8 percent during H1CY21, on year-on-year basis.

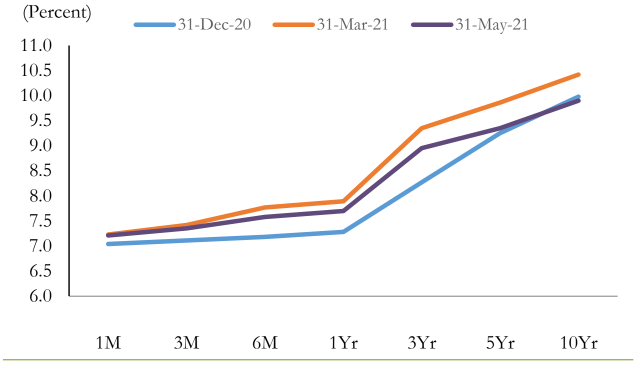
[11] Energy sector's cash flows improved during the first half of CY20 owing to the issuance of energy Sukuk II worth PKR 200 billion, which reduced the receivable of energy firms (related to circular debt). In this backdrop, energy sector made net retirement in H1CY20.

[12] Coal and wind energy financing observed increase of PKR 24 billion in H1CY21. Details are available at: https://www.sbp.org.pk/ecodata/By-type-of-finance.pdf

[13] Minimum support price increased from PKR 1,400 per 40 kg to PKR 1,800 per 40 kg to encourage wheat cultivation.

[14] In case of floating rate PIBs (semi-annual coupon), banks offered only PKR 42 billion against target of PKR 210 billion in Q1CY21 but the Government did not accept any amount.

Chart 7: Yield Curve



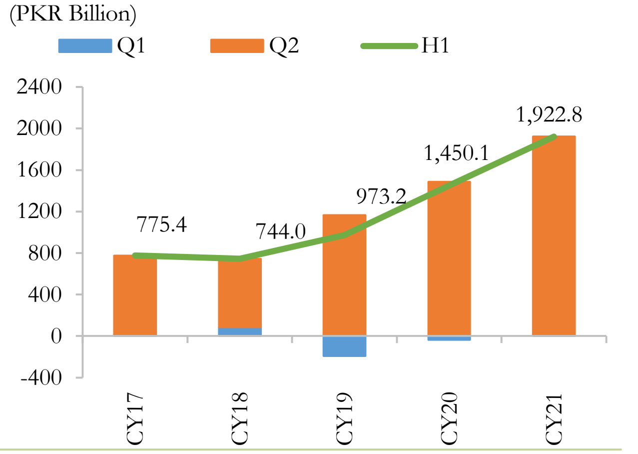
Source: SBP

In Q2CY21, though a major chunk of banks' investments still remained in short-term papers, some important developments are worth discussing. The expectations of a further rise in interest rates slowed down in Q2CY21 particularly converging back to December 2020 level on the longer-end of the curve. This was possibly due to the third wave of infections as well as forward guidance given on monetary policy front in Mar-2021.[15] In the this period, banks' bidding for 6M MTBs increased to PKR 5 trillion and bidding for fixed rate PIBs[16] increased to PKR 1.5 trillion, reflecting the lower expectations of rise in interest rates in the immediate future (**see section: Financial Markets and Risk Assessment**).

Deposits

Deposits recorded a healthy increase of PKR 1.9 trillion in H1CY21, growing by 10.4 percent (9.1 percent growth in H1CY20). The growth rate in H1CY21 was the highest in any H1 since CY07. Compositional analysis suggests that Non-remunerative current accounts and saving deposits explain 78.1 percent rise in total deposits during H1CY21. Moreover, the bulk of the increase in deposits occurred in Q2CY21 (**Chart 8**).

Chart 8: Deposits Flows



Source: SBP

From an institutional perspective, the rise in deposits was broad-based as most of the banks recorded increase in their deposit portfolios. The major factors that drew up deposits growth during H1CY21 include:

i) Improvement in business and consumer confidence and better handling of COVID-19 pandemic by the government led to improved economic activities; this was evident from a significant increase in non-remunerative deposits during the period under review
ii) Significant rise in Workers' remittances[17] in H1CY21.[18]
iii) SBP's Roshan Digital Account (**RDA**) initiative to facilitate Pakistani diaspora in availing hassle free banking services got further traction.[19]
iv) Government's decision to discontinue PKR 15,000 and PKR 7,500 bearer prize bonds, resulting in a combined encashment of PKR 211.7 billion in Q2CY21. Some of this encashment have contributed into deposits growth, as bond holders can encash only via credit into bank accounts.[20]

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[15] Monetary Policy Statement announced on March 19, 2021 outlined that "in the absence of unforeseen developments, the MPC expects monetary policy settings to remain broadly unchanged in the near term".
[16] For floating rate PIBs (semi-annual coupon), banks offered PKR 200 billion against target of PKR 180 billion in Q2CY21 while the Government accepted PKR 70 billion.
[17] In H1CY21, workers' remittances amounted to USD 15.16 billion in comparison to USD 11.76 billion in H1CY20.
[18] For instance, Aggarwal, Demirgüç-Kunt and Martínez Peria (2006) for a set of 99 developing countries (which also includes Pakistan), found that remittances have a significant and positive impact on banks' deposits and credit to GDP in the sample countries. Source: Aggarwal, Reena, Demirgüç-Kunt, Asli, Martínez Peria, Maria S., 2006. Do workers' remittances promote financial development? World Bank Policy Research Working Paper 3957.
[19] RDA attracted funds amounting to USD 1.3 billion in H1CY21, of which, USD 0.9 billion were invested into Naya Pakistan Certificates (NPCs) and USD 14 million were diverted to Pakistan Stock Exchange (PSX).
[20] Source: http://savings.gov.pk/notification-discontinuation-rs-7500-national-prize-bonds/ and http://savings.gov.pk/notification-extension-last-date-encashmentconversionredemption-national-prize-bonds-rs-15000-denomination/

v) Increase in rural income due to better prices of crops e.g. a significant increase in minimum support price of wheat.[21]

vi) The gradual shift in the customers' behavior to utilize digital channels for availing banking services; this shift may also have helped contain cash transactions as reflected in lower increase in currency in circulation during H1CY21, which contributed in keeping the funds in the banking channel.[22]

Borrowings

The banks' borrowing from financial institutions increased by 32.6 percent during the HIY21, which increased the share of borrowings in asset to 15.1 percent (12.8 percent in Dec-2020). Most of these transitory funds were borrowed from the SBP under repo and refinance schemes. Particularly, the higher repo borrowing activity increased to meet the high market liquidity requirements of banks, as the government increased its reliance on banks for its budgetary needs.

Equity

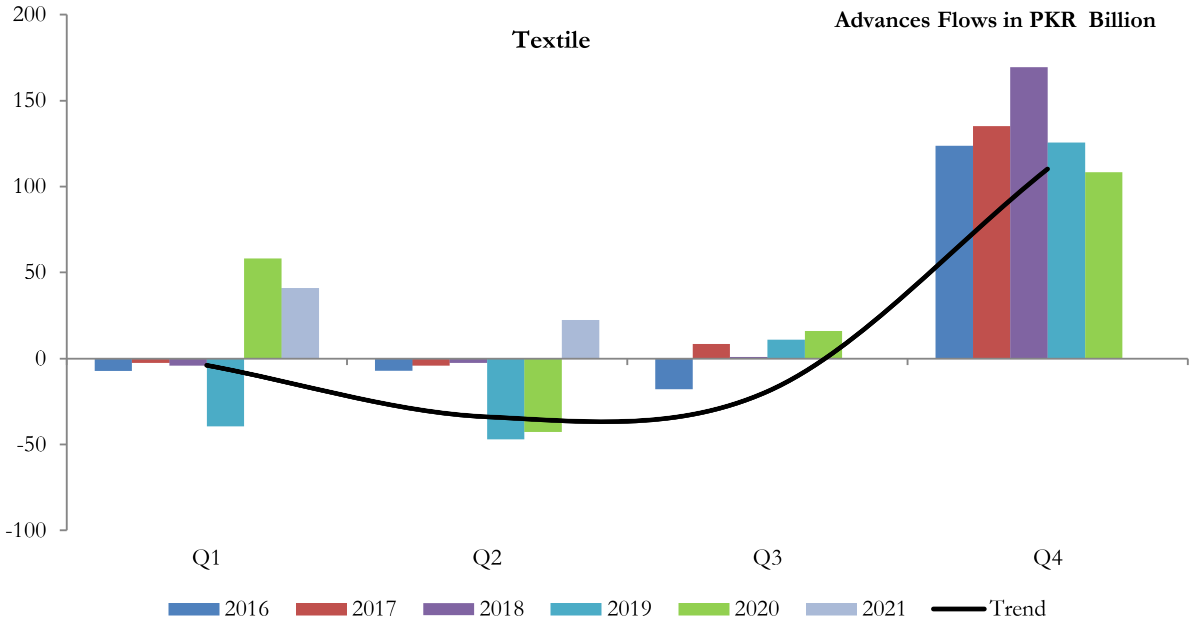
The growth in banking sector's equity (net assets) decelerated to 1.1 percent during H1CY21 due to higher dividend payout. SBP suspended dividend payouts in April 2020 for a period of two quarters to conserve capital and enhance the lending and loss absorption capacity of banks, which resulted in an accumulation of retained earnings and rise in equity during last year.[23] This accumulation allowed banks to pay higher cash dividend in H1CY21 compared to the corresponding period of last year. The higher dividend payouts along with steady earnings and contraction in revaluation surpluses explained the muted increase in equity (net assets) during H1CY21.

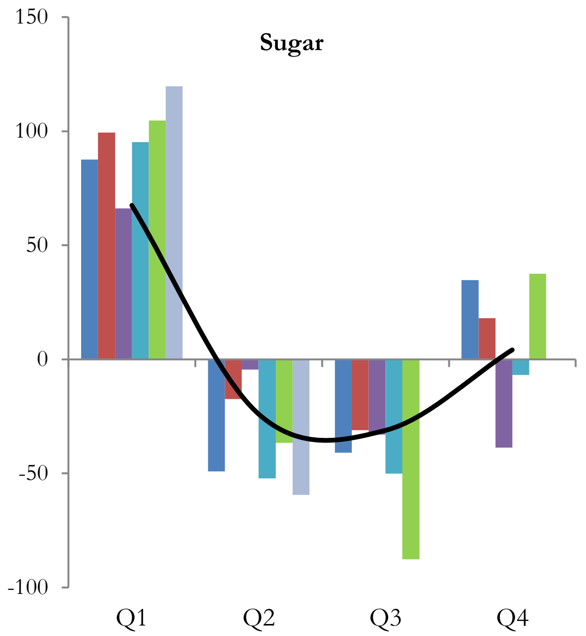
[21] Government increased its minimum support price for wheat to PKR 1800 per 40 kilograms in March 2021 from PKR 1400 per 40 kilograms.

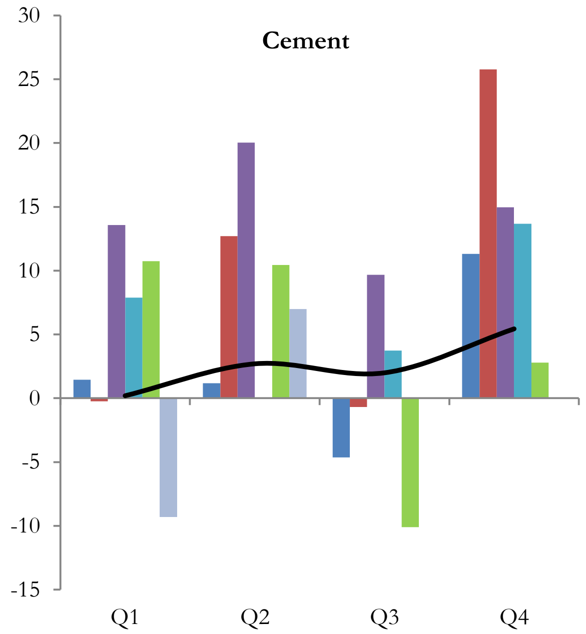
[22] Internet and mobile banking users have increased by 31.5 percent and 28.6 percent respectively, while e-banking transactions have surged by 43.0 percent by the end of Q2CY21 on year on year basis.

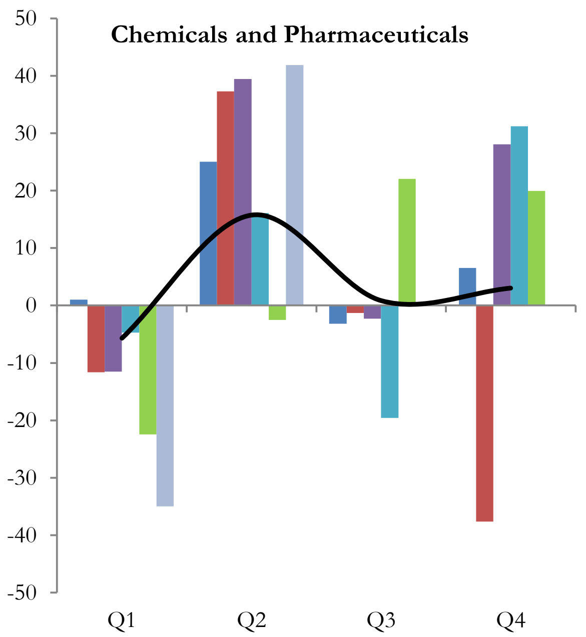
[23] All banks/DFIs were advised to suspend dividend distribution for March and June 2020 quarters. Banks/DFIs that had approved dividend declaration for quarter ended March 2020 by 22nd April 2020 were advised to suspend dividend distribution for June and September quarters of 2020. (http://www.sbp.org.pk/press/2020/Pr1-22-Apr-20.pdf). Incidentally, Pakistan's strategy to postpone dividend payments was in line with the approach of regulators in many other jurisdictions, e.g. Euro Area also advised on such measures.

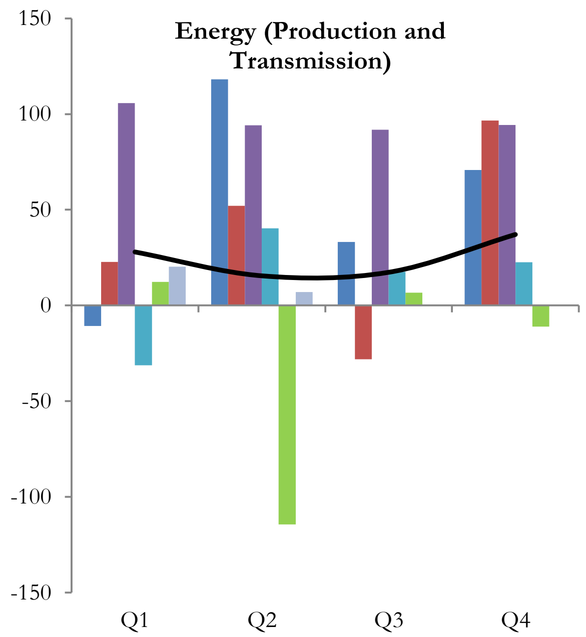
Appendix A: Seasonality in Private Sector Advances









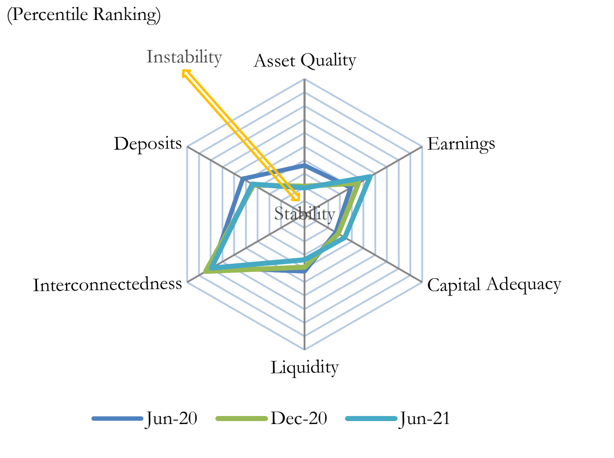


B. Soundness of the Banking Sector

Introduction

The Soundness of the Banking sector remained steady, as Asset Quality, Liquidity, Interconnectedness and Deposits showed improvement during H1CY21compared to H1CY20. However, slight moderation in after tax profit and higher increase in risk-weighted assets (**RWA**) led to marginal contraction in CAR, as reflected in Banking System Stability Map (**BSSM**) (**Chart 9**).

Chart 9: Banking Sector Stability Map

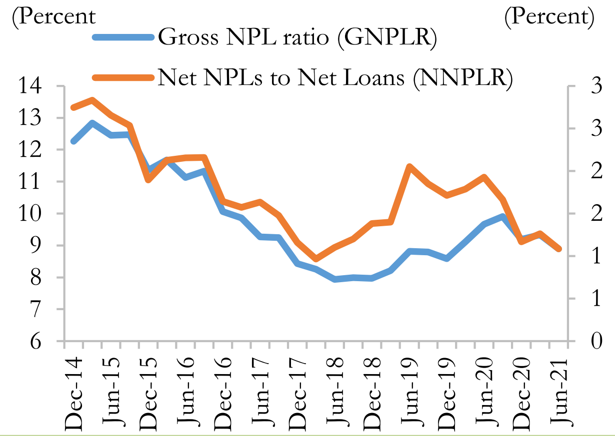


Source: SBP

Asset Quality of the lending portfolio improved as the infection ratios declined over H1CY21. The gross NPLs ratio fell to 8.9 percent in H1CY21 from 9.7 percent in H1CY20, while net NPLs ratio declined to 1.1 percent from 1.2 percent (**Chart 10**). The improvement in asset quality emanated from the significant uptick in gross advances[24] and contained increase in gross NPLs.[25]

Disaggregated analysis shows that most of the increase in NPLs took place in the first quarter of the CY21, mainly in production and transmission of energy, and sugar sectors. The increase was particularly pronounced in a few borrowers of oil marketing sector, which faced idiosyncratic issues such as adverse financial conditions that led to delinquencies during H1CY21.

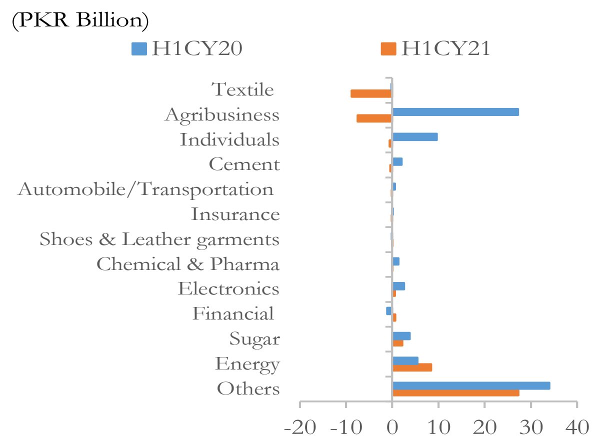
Chart 10: GNPLR improved further in H1CY21



Source: SBP

On the flip side, the double-digit growth in textile exports, higher agriculture income,[26] increased cement dispatches and better auto sales enabled these sectors to reduce NPLs during H1CY21. Besides revival in economic activity, the improvement in the performance of large corporate segment also enhanced the overall repayment capacity of borrowers.[27] The reduction in NPLs of agribusiness was also prominent during H1CY21 (**Chart 11**).

Chart 11: Change in Sectorwise Gross NPLs



Source: SBP

[24] Gross advances grew by PKR 539.8 billion in H1CY21.
[25] Gross NPLs rose by PKR 21.9 billion in H1CY21 compared to PKR 85.4 billion in H1CY20.
[26] State Bank of Pakistan, Third Quarterly Report on The State of The Economy for FY21
[27] The combined reduction in NPLs in textile, agribusiness, auto and cement amounted to PKR 16.8 billion in H1CY21.

Typically, the second quarter is characterized by a seasonal increase in NPLs of agribusinesses, but this time around, the sector has witnessed reduction in NPLs. The decrease was concentrated in specialized banks, which were able to make higher cash recoveries in agribusinesses that helped in reducing the associated non-performing portfolio. Resultantly, the NPLs ratio of specialized banks witnessed significant improvement over the period under review. (**Table 1**).

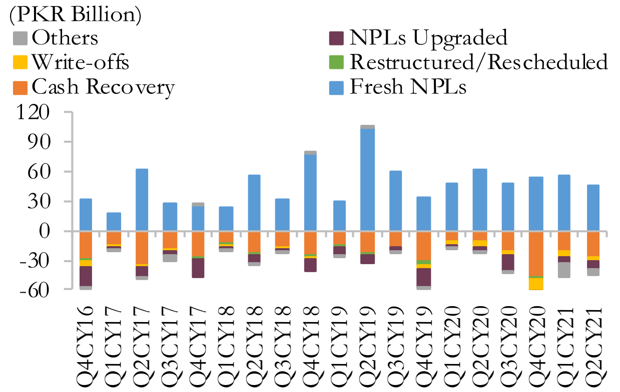
Table 1: Group wise GNPLR

	H1CY20	H2CY20	H1CY21
			(Percent)
Public Sector Banks	15.4	14.7	15.3
Foreign Bank	2.9	3.3	3.1
Local Private Banks	7.3	7.0	6.8
Specialized Banks	52.6	45.5	41.0
All	9.7	9.2	8.9

Source: SBP

The improved business environment also helped banks to make higher cash recoveries of PKR 47.2 billion in H1CY21 against the delinquent loans compared to PKR 20.0 billion in the same period last year when the COVID related uncertainties disrupted recovery efforts of banks (**Chart 12**).

Chart 12: Fresh NPLs and Total Recovery

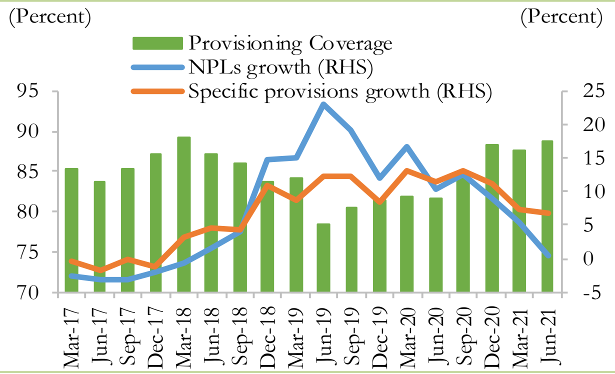


Source: SBP

Nonetheless, due to muted increase in NPLs and additional provisioning made during the reviewed period, the overall provisioning coverage ratio of banking sector substantially improved to 88.8 percent in H1CY21 from 81.6 percent in H1CY20 and 88.3 percent in H2CY20 (**Chart 13**). The net NPL ratio (NNPLR) also improved to 1.1 percent by end H1CY21 – the lowest level since Jun-2018. With an encouraging decline in the Net NPL stock to PKR 95.4 billion at end H1CY21 from PKR 155.5 billion in H1CY20, and growth in banks' capital, the Net NPLs to Capital ratio also dropped to 5.1 percent by end H1CY21 from 9.0 percent in H1CY20**.** The significant improvement in NNPLR and Net NPL to Capital ratio implies reduction in the risks to banks' solvency from delinquent loan portfolio.

It is important to highlight that banks have been focusing on financing to relatively better quality borrowers, which usually carry good credit ratings. A recent analysis suggests that most of the top borrowing firms exhibited satisfactory financial performance during CY20.[28] The latest sensitivity stress tests also show that in case of an increase in default rate of corporate credit portfolio by 2 times, the CAR of most banks remained above regulatory requirement of 11.5 percent when compared to pre-shock position. Moreover, the present NPLR of the banking sector is well below the critical infection level.[29]

Chart 13: Provisioning Coverage and Growth in NPLs and Specific Provisions



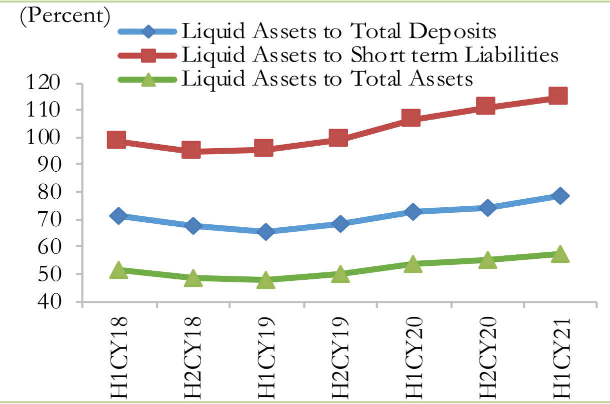
Source: SBP

[28] For details, please see Box 6.1 of Financial Stability Review for CY20, available at: https://www.sbp.org.pk/FSR/2020/Box-6.1.pdf

[29] Critical infection level is the hypothetical NPLR at which the CAR of the banks becomes zero – the critical infection ratio of the banking sector is 42.6 percent vis-à-vis existing NPLR of 8.9 percent at end June-2021.

The **liquidity** indicators improved, during the period under review, due to increased investments in government securities. The proportion of liquid assets in total assets rose to 57.1 percent (53.3 percent in H1CY20 and 54.8 percent in H2CY20). Similarly, liquid assets to total deposits also rose to 78.7 percent during H1CY21 from 72.6 percent in H1CY20 (74.3 percent in H2CY20) (**Chart 14**).

Chart 14: Liquidity Ratios

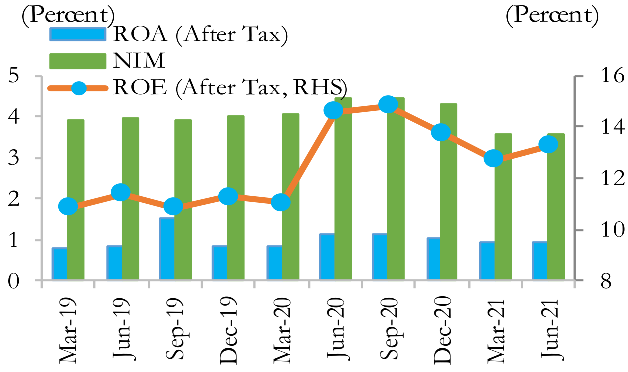


Source: SBP

The share of government securities in total liquid assets increased further to 80.8 percent in H1CY21 from 78.5 percent in H1CY20 (78.6 percent in H2CY20). Banks preferred to keep 76.6 percent and 5.2 percent of their sovereign securities in the Available for Sale (**AFS**) and Held for Trading (**HFT**) categories, respectively – against placement of 78.5 percent and 3.4 percent in AFS and HFT categories in H1CY20, respectively. This reflects the ample fund based liquidity available with banks, which helped them in efficiently managing their asset-liability profile during H1CY21.

Profitability indicators moderated in H1CY21. The after-tax ROA of the banking sector fell to 0.9 percent in Jun-2021 from 1.1 percent in Jun-20, while, ROE fell to 13.3 percent from 14.6 percent (**Chart 15**). The moderation in earning indicators was mainly due to low interest margins, which suppressed the earnings' growth while the expansion in asset base augmented the bottom line.

Chart 15: Profitability Indicators moderated in H1CY21

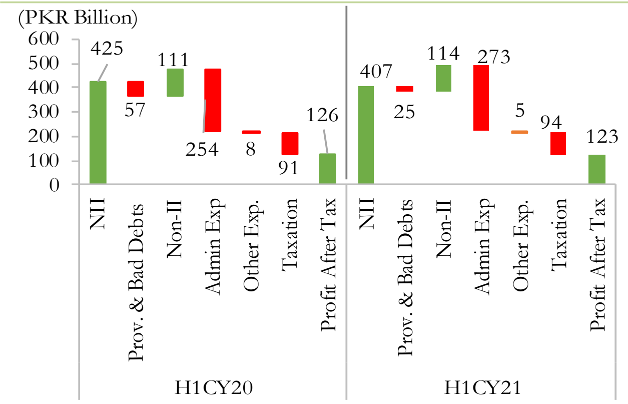


Source: SBP

Nonetheless, the pre-tax profit of banking sector recorded steady growth and rose to PKR 217.3 billion in H1CY21 compared to PKR 216.6 billion in the same period last year. The lower provisioning expenses and higher fee-based income supported earnings while lower Net Interest Income (NII) and higher taxation[30] dragged earnings, while increase in operating expenses also remained contained during H1CY21.[31] Resultantly, the after-tax profit of PKR 122.9 billion in H1CY21 remained slightly lower than PKR 125.8 billion recorded in H1CY20 (**Chart 16**).

Unlike the first half of last two years (CY19 and CY20) when IBIs were the key contributors to the overall after-tax profit, IBIs witnessed 18.0 percent YoY fall in after-tax profit in H1CY21.

Chart 16: Composition of Profit After Tax



Source: SBP

[30] Taxation was higher at PKR 94.4 billion in H1CY21 when compared to PKR 90.9 billion during same period last year.

[31] Non-interest expenses rose by 6.2 percent in H1CY21 compared to 8.9 percent growth, on year-on-year basis, in the same period last year.

The overall **non-interest income** recorded a growth of only 2.2 percent in H1CY21 compared to 22.2 percent in the same period last year, due to contraction in trading gains on sale of securities. Although Fee, Commission and Brokerage income posted 24.9 percent YoY growth on the back of strong rebound in economic and trade activities, the gains on sale of securities remained significantly lower in H1CY21 compared to the corresponding period of last year due to relatively lower movements in the yield curve in H1CY21.[32] This is in sharp contrast to H1CY20 when a substantial cut in policy rate created an opportunity for banks to book gains on sale of government securities.[33] A major part of the trading gains during the H1CY21 comprised gains on sale of shares.[34]

In addition to increase in non-interest income, lower provisioning charge partially offset the decline in NII during H1CY21. The banking sector made provisioning of PKR 25.1 billion in H1CY21 compared to PKR 57.5 billion in H1CY20.

NII, which contributes around 78 percent of the banking sector's gross income, declined on YoY basis. The NII fell by 4.2 percent, despite the fact that a) there was a 28.7 percent fall in interest expenses due to low interest rate environment; and b) banks managed to improve the mix of funding by increasing the share of non-remunerative deposits to 36.1 percent (35.0 percent in H1CY20). However, these gains were more than offset by a larger fall in interest earning during H1CY21, leading to a contraction in NII. Since, the average earning assets grew by 18.8 percent (year-on-year), the Net Interest Margin (**NIM**) declined to 3.6 percent by the end of H1CY21 from 4.4 percent as at end H1CY20.

Detailed analysis to identify the sources of YoY decline in NII shows that lower interest rates led to contraction in interest earnings on advances and investments. However, strong growth in volume, especially investments, supported the interest income (**Chart 17a&b**).

Chart 17a: Change in Interest Earned on Advances due to ....

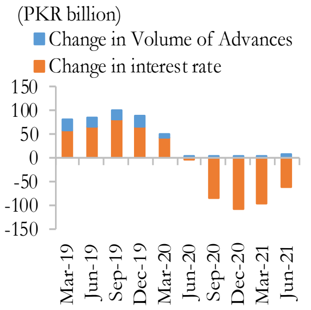
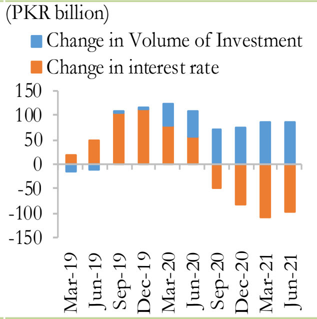


Chart 17b: Change in Interest Earned on Investment due to ....



*This chart splits the YoY change (PKR terms) in Interest earningin rate volume impact
Source: SBP

Decline in interest rates had positive impact on banks' funding costs as interest expense on deposit and borrowing declined. This decline in expenses (due to lower rates) more than offset the increase in expenses on additional deposits and borrowings, which were used to fund the growth in asset base (**Chart 18a & b**). However, the combined effect of the change in interest rates and volume of assets and fund base led to a 4.2 percent YoY decline in NII during H1CY21, which was in contrast to 28.5 percent growth in H1CY20. This decline suggests that the effects of significant fall in SBP policy rate from 13.25 percent to 7.0 percent in H1CY20 have completely transmitted onto returns on earning assets, cost of funds, and NII of banks.[35]

[32] The yield curve fell 467 basis (on average, across different maturities from 1 week to 10 years) by end June-2020 when compared to Dec-2019. A similar change for yield curve was 44 basis points increase (on average) between end March-2021 and end Dec-2020 while 23 basis points fall (on average) between end June 2021 and end Mar-2021. On overall basis, the lower fall in yield curve across different maturities resulted in smaller gains on sale of government securities during H1CY21.

[33] Gains on sale of securities amounted to PKR 15.5 in H1CY21. Last year in H1CY20, 99.6 percent of the PKR 34.8 billion gains on sales of securities were due to government securities only.

[34] Among other factors, better corporate results helped the equity market (KSE-100 index) to keep its growing momentum during H1CY21.

[35] A change in policy rate transmits on minimum saving rate on deposits from the next month. However, loans and advances are re-priced on maturity of loan or next repricing date as per the terms of respective loan agreement.

Chart 18a: Change in Interest Expense on Deposits due to ....

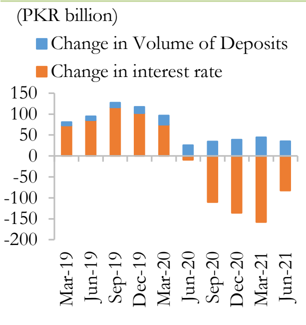
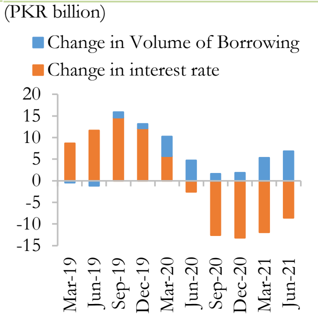


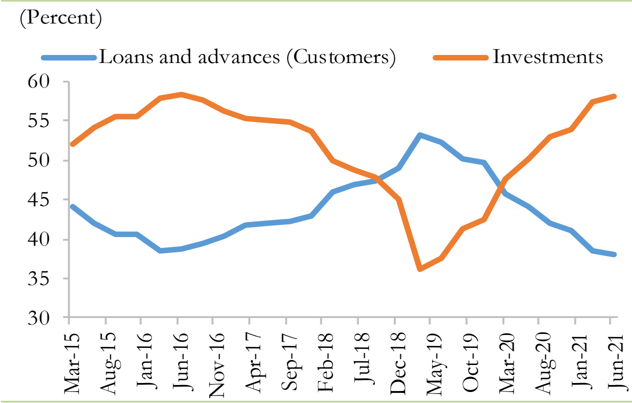
Chart 18b: Change in Interest Expense on Borrowing due to ....



*This chart splits the YoY change (PKR terms) in Interest expenses in rate volume impact
Source: SBP

Besides the sizeable cut in policy rate and growth in volumes, there has been a shift in overall asset mix of banks towards investments especially government papers, as the government's reliance on bank credit has significantly increased over the period to support the budgetary expenditures and COVID-related support measures. (**Chart 19**).

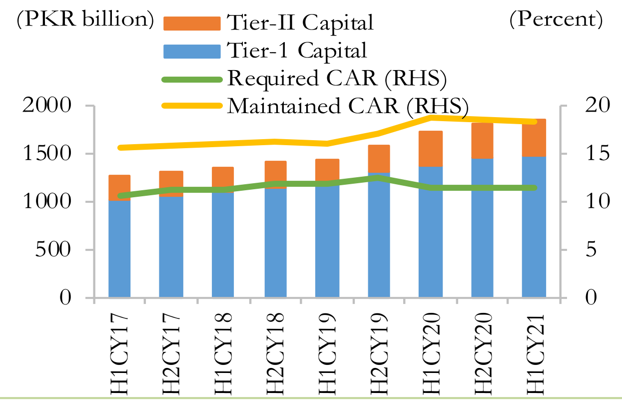
Chart 19: Share of Interest Earning from.....



Source: SBP

Solvency of the banking sector remained strong with slight adjustment of the Capital Adequacy Ratio (**CAR**) from 18.7 percent in H1CY20 to 18.3 percent in H1CY21. This level of CAR is still well above the minimum regulatory benchmark of 11.5 percent (**Chart 20**).

Chart 20: Capital Adequacy Ratio



Source: SBP

While both the eligible capital and Total Risk-Weighted Assets (**TRWA**) increased in H1CY21, the latter rose at a higher rate (3.6 percent against eligible capital's growth of 2.1 percent) resulting in a slight decrease in CAR.

The increase in TRWA was mainly contributed by the growth in Credit Risk Weighted Assets (**CRWA**). However, the CRWA grew at a relatively slower rate of 4 percent during H1CY21 compared to 4.4 percent H1CY20 due to increase in share of rated exposures and decline in that of unrated exposures. Incidentally, rated exposures usually carry better credit worthiness and attract lower risk weight compared to unrated exposures. As such, this increase in CRWA bodes well for the overall credit risk as it reflects relatively better quality credit expansion.

In addition, Operational Risk Weighted Assets (**ORWA**), which constitute 15.6 percent of TRWA, increased by 1.4 percent during H1CY21. The rise mainly emanated from higher average Gross Income, which forms the basis of capital charge against ORWA under Basic Indicator Approach of Basel capital standards used by most of the banks.[36]

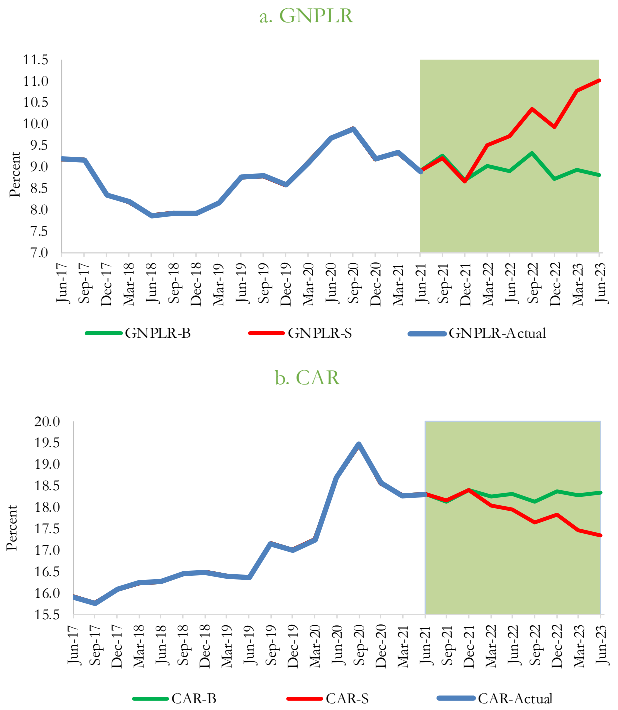
Resilience analysis also substantiated that the strong capital buffers held by the banking sector will enable it to withstand the large though plausible economic shocks. The scenario analysis (macro stress tests) results indicate that under the baseline scenario (i.e. business as usual), infection

[36] Under the Basic Indicator Approach, banks must hold capital equal to a fixed percentage (i.e. 15 percent) of average annual gross income, where positive, over the previous three years. See https://www.sbp.org.pk/bsd/2006/Annex_C8.pdf

ratio (GNPLR) marginally declines by 8 basis points (bps) from its current level of 8.90 percent to 8.81 percent over the projection horizon of two years (by end Jun-2023). Resultantly, CAR may marginally rise by 4 bps from 18.30 percent in Jun-2021 to 18.34 percent in Jun-2023 (**Chart 21, green line**).

Under the alternative (i.e. hypothetical stressed) scenario,[37] the GNPLR shows a rise of 213 bps from 8.90 percent at end Jun-2021 to 11.02 percent in Jun 2023. Resultantly, the projected CAR declines by 96 bps to 17.35 percent by the end of projection horizon i.e. Jun-2023, indicating that the banking sector has reasonable resilience to maintain its solvency against adverse macroeconomic conditions for a protracted period of time (**Chart 21, red line**).

Chart 21: Projections under Different Scenarios

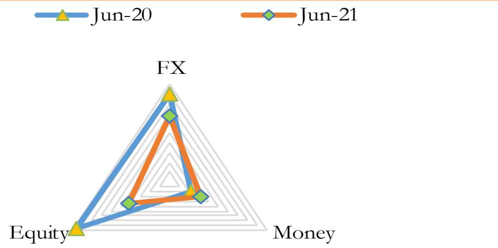


[37] This scenario assumes future waves of Covid-19, geopolitical tensions from Afghanistan's situation, rise in commodity prices, rise in overall and circular debt, risks to implementation of IMF stabilization program, risk of FATF black-listing and floods and extreme weather conditions.

C. Financial Markets - Risk Assessment

Domestic financial markets exhibited stability during H1CY21 as compared to the same period last year when the pandemic related uncertainties induced significant volatility. However, the markets observed relatively higher volatility during Q2CY21 when compared to Q1CY21.

Chart 22: As compared to June-2020, markets showed lower volatility in the quarter ended June-2021



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: SBP

FX market

After a consistent surplus from July to November 2020, the current account deficit re-emerged in Dec-2020 and particularly increased toward the end of H1CY21. This reflects the rise in economic activity, seasonality in import payments, higher global commodity prices and vaccine imports.[38, 39] Accordingly, PKR depreciated by 3.0 percent during Q2CY21 (**Chart 22**).

The average spread between interbank exchange rate and KERB rate remained contained in the range of -0.86 to 0.46 during H1CY21 as compared to relatively wider range of -1.30 and 4.45 (due to pandemic effect) in H1CY20. Moreover, the USD 2.5 billion inflow from Euro bond in Mar-2021, portfolio flows in government securities (due to optimism on the back of resumption of IMF program and better return compared to other destinations),[40] an upbeat momentum of workers' remittances, and recovery in exports provided respite to the market during the period under review. In addition, inflows of (equivalent) USD 1.3 billion in Roshan Digital Accounts (**RDA**) also augmented FX liquidity during H1CY21.

The dynamics of FX market translate on banks' financials, as banks hold a part of assets and liabilities in foreign currencies. However, due to limited FX exposure of the banks in Pakistan, exchange rate volatility in near future may not pose any immediate concerns.[41] The latest stress test results also indicate banks' low sensitivity and high resilience to FX risks. As of June 2021, even after a severe 30 percent hypothetical depreciation of PKR, most of the banks CAR stays well above the regulatory requirement of 11.5 percent, as only one bank's CAR may fall in the range of 8 to 11.5 percent.

Money Market

The volatility in overnight repo rate remained contained during H1CY21 as SBP continued with an accommodative stance and maintained the policy rate at 7.0 percent. However, the overnight repo rate exhibited 8 bps deviation above policy rate (against 5 bps deviation in H2CY20), on average, reflecting relatively tighter liquidity conditions in the interbank market.

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[38] After recording surplus in last two quarters of CY20, the Current account balance turned negative to USD 0.6 billion in Q1CY21 and USD 2.5 billion in Q2CY21.

[39] Imports payments rose by 76.6 percent and 77.8 percent in May and Jun-2021, compared to decline of 36.0 and 11.8 percent in May and Jun-2020, respectively, on YoY basis. The economic recovery and international prices of key commodities such as oil contributed to the import payment pressures during H1CY21. The LSM grew by 22.5 percent YoY in H1CY21 as compared to decline of 16.2 percent in the same period last year. Moreover, the average global oil prices rose to USD 63.2 per barrel during H1CY21 from USD 39.7 per barrel in the same period last year. Similarly, average prices of Palm oil (a major food import of Pakistan) rose to USD 993.8 billion in H1CY21 as compared to USD 586.2 billion in H1CY20.

[40] Pakistan received a net inflow of USD 249.1 million government securities in H1CY21 compared to a net outflow of 760.6 million in the same period last year. Contrary to this, equities witnessed USD 145.5 million net outflow in H1CY21 compared to USD 377.6 million net outflow during the same period last year. Data source: SCRA, SBP

[41] The Banking sector is the most important component of Pakistan's financial sector. It comprises of around 76 percent of the financial sector's assets at end June-2021

The government mobilized significantly higher amount i.e. PKR 1.8 trillion from banks during the reviewed period, to retire its borrowings from central bank and meet the budgetary needs. Due to increase in demand for bank credit from the government, the average size of OMO injections rose to PKR 739.5 billion in Q1CY21 (PKR 559.9 billion in Q1CY20) which further went up to PKR 1.46 trillion in Q2CY21 (PKR 829.6 billion in Q2CY20). However, healthy inflows of PKR 1.9 trillion in banks' deposits during this period supported the market in managing its liquidity needs.

The yield curve shifted upward at end Mar-2021 compared to Dec-2020, as market participants expected reversal of monetary policy stance due to rising YoY inflation in the context of economic recovery. However, the central bank's forward guidance in May-2021,[42] moderation in inflation in Jun-2021 and the emergence of third wave of COVID-19 led to some downward adjustment in market's interest rate expectations. Resultantly, the yield curve shifted downward (at longer tenors) at end Jun-2021 from end Mar-2021 level but remained above the end Dec-2020 level for most of the tenors. Accordingly, the term premium (difference between 3Y and 3M secondary yields) also rose until end Mar-2021 and then moderated. The changing pattern of interest rate expectations also reflected in auctions. For instance, the cut-off yield on 3 year PIBs rose by 117 bps in auction of Mar-2021 as compared to Dec-2020, but then fell 72 bps in Jun-2021 auction as compared to auction of Mar-2021.

Due to changing interest rates expectations, the market made significantly higher offers in treasury bills auctions during H1CY21. The offer to target ratio of 1.6 and 2.2 for Treasury Bills (**TBs**) in Q1 and Q2CY21, respectively, reflects this behavior. However, with the change in interest rate expectations, market placed higher (than target) amounts in fixed rate PIBs in Q2CY21 as the yield curve also shifted downward. Participation (offers of all fixed rate PIBs) went up to 3.9 times of the target in Q2CY21. However, the banks' interest in floating rate PIBs remained low as they were expecting the availability of floating rate PIBs that were to be issued to IPPs in the secondary market.[43] Market sources also pointed out that banks' appetite for these bonds had already been filled by significant investments during CY20.[44]

On part of the government, it locked higher than target funds in fixed rate PIBs in Q2CY21, but accepted lower than target amounts in floating rate PIBs in H1CY21. It also tried to rebalance the mix of different types (by frequency of coupon payment) of floating-rate bonds to support the development and smooth functioning of the market. Moreover, the government also issued Shariah-compliant Ijarah Sukuk. The market however showed low interest for Fixed Rate Rental (**FRR**) Sukuk (target amount, PKR 15.0 billion), and government accepted lower than offered amount. Contrary to this, the market offered more than double the auction target (PKR 35.0 billion) for Variable Rental Rate (**VRR**) Ijarah Sukuk, out of which the government accepted PKR 66.5 billion in Q1CY21.

Going forward, volatility in interest rates may pose market risks to banking sector. Banks' asset base has been growing at a consistent pace, and their exposure in fixed income government securities has particularly increased over the recent quarters (**see section B: Soundness of the Banking sector**).[45] The banking sector has

[42] In the May-2021 decision on policy rate, SBP communicated that the current significantly accommodative stance of monetary policy remains appropriate to ensure the recovery becomes firmly entrenched and self-sustaining. Furthermore, it was also highlighted that amid the COVID-related uncertainties, the cost of withdrawing monetary stimulus too soon exceeded that of withdrawing too late.

[43] The government issued 10 year floating rate PIB (semi-annual coupon) of PKR 28.9 billion and GIS (5 year VRR) of PKR 29.0 billion to IPPs in Q2CY21.

[44] Competitive bids suggests that the government raised PKR 1.6 trillion floating PIBs in CY20 in different floating rate PIBs, out of which bonds with semi-annual coupon payments constituted around 77.7 percent.

[45] Investment in government papers constitutes 46.1 percent of banking sector's total assets in Jun-2021, as against 41.8 percent in Jun-2020 and 34.1 percent in Jun-2019.

managed to fund this growth mainly through deposits. While these investments have improved the liquidity position of banks, their sensitivity to changes in interest rate has increased, especially for longer-term bonds. However, the banking sector shows adequate resilience to withstand severe shocks in interest rates. As per sensitivity (stress testing) analysis, under the most severe shock scenario i.e. parallel upward shift in the yield curve by 300 basis points along all the maturities, overall CAR of conventional banks remains well above the minimum requirement, while couple of banks might face breach in regulatory requirement when compared to pre-shock position.

Equity market

During the period under review, volatility in the equity market remained contained while KSE-100 index kept its growing trend, yielding 8.2 percent return in H1CY21 as compared to 15.5 percent loss in comparable period of last year.

The major factors influencing the upward trajectory include: (i) continuation of accommodative monetary policy stance, (ii) upbeat economic activity (e.g. LSM),[46] (iii) successful launch of vaccination drive and contained impacts of the pandemic, which helped in bolstering the investors' sentiments, and most importantly (v) better corporate results. Moreover, lucrative valuations (P/E ratio) attracted the investors' interest.

Nonetheless, the KSE-100 index returns breached the VaR (historical) five times in Mar-2021 and one time in April-2021, but the magnitude of breaches were lower compared to the same period last year when pandemic related uncertainties brought significant volatility in KSE-100 index. The factors such as, political uncertainty surrounding Senate election in Mar-2021, abolishment of certain Corporate Income Tax exemptions, the third wave of COVID in Q2CY21 and lockdown related uncertainties might have adversely affected investors' sentiments and caused temporary downward pressures on the index during H1CY21.

From the institutional perspective, foreign investors were net sellers during H1CY21 with around USD 65.1 million sales. This was despite the fact they also bought stakes in cement and technology related firms. Among other investors, mutual funds bought equities of around USD 3.0 million that more than offset the net selling by insurance companies and individuals during the H1CY21. It is important to highlight that money market avenues had been driving Mutual Funds' assets in recent years, but amid the low interest rate environment, the equities offered potential to improve overall returns by diversifying the investments.

The sector wise median Sharpe ratios[47,48] show that Technology and communication, Vanaspati & Allied, Glass & Ceramics, Cement, Engineering (mainly steel), fertilizer and refineries performed well in both the quarters of H1CY21, while textiles, paper & board, Auto parts related, and auto assemblers' performance improved in Q2CY21.

Going forward, the performance of equity market will largely depend upon the dynamics of the pandemic and macroeconomic developments, both at home and abroad, and the evolving policy environment and geopolitical situation.

Though banks have realized PKR 7.9 billion net gains on sales of shares during H1CY21, investment in shares comprises only a fraction i.e. 1.6 percent of total investments of banks and comes to 8.8 percent of their total eligible

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46 To substantiate, the LSM grew by 22.5 percent YoY in H1CY21 as compared to decline of 16.2 percent in the same period last year. Data source: PBS

47 Developed by Nobel laureate William F. Sharpe, the Sharpe ratio is used to help investors understand the return of an investment compared to its risk. The ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Generally, the greater the value of the Sharpe ratio, the more attractive the risk adjusted return. Risk free investments such as treasury bills has a Sharpe ratio of zero.

48 The sector wise median is calculated from the firm-wise Sharpe ratios obtained from Bloomberg.

capital.[49] These relatively low levels of equity investments vis-à-vis capital base of the banking sector suggests that any adverse movements in equity prices may not pose any serious concerns for the solvency of banks. As per latest sensitivity (stress testing) analysis, with a severe fall in general equity prices by 40 percent, the CAR of a couple of banks may fall into the range of 8 to 11.5 percent.

[49] Banks' investment in equity stock are subject to prudent limits. For instance, the aggregate equity investment limit for such banks and DFIs, which mobilize funds as deposits/Certificate of Investments (COIs) is 30 percent of their respective equity. For details, see Regulation R-6: Exposure in Shares and TFCs/Sukuk of the Prudential Regulations for Corporate/ Commercial Banking available at: https://www.sbp.org.pk/publications/prudential/PRs-Jan-2015.pdf

D. Special Section: Performance of Microfinance Banks

Microfinance Banks (**MFBs**) recorded an appreciable growth in recent years and the momentum continued during H1CY21 as their asset base grew by 28.3 percent (YoY) in H1CY21. This growth was fueled by increases in both advances and investments, and was well supported by 29.5 percent YoY increase in deposits. (**Table S1.1**)

Table S1.1: Performance of Microfinance Banks

	Dec-18	Dec-19	Jun-20	Dec-20	Jun-21
	PKR million, ratio in percent				
Total Assets	327,940	380,011	400,421	493,984	513,752
Investments (net)	54,576	52,169	60,611	96,774	98,650
Advances (net)	185,346	206,965	208,817	231,047	252,534
Deposits	238,561	266,195	292,239	373,084	378,438
Equity	48,970	50,421	43,466	50,175	54,650
Profit After Tax	4,606	(8,117)	(3,899)	(5,883)	(2,437)
Gross NPLs	4,556	11,392	9,979	7,791	14,245
Capital Adequacy Ratio	22.6	20.9	17.9	19.0	19.1
NPLR	2.4	5.3	4.6	3.3	5.4
Provisioning Cov. Ratio	92.1	70.0	93.7	106.5	69.3
ROE (after tax)	11.9	(16.9)	(16.6)	(12.2)	(9.1)
ROA (after tax)	1.7	(2.3)	(2.0)	(1.4)	(1.0)
ADR*	77.7	77.7	71.5	61.9	66.7
	Growth				
Total Assets	32.7	15.9	14.0	30.0	28.3
Investments (net)	11.7	-4.4	38.9	85.5	62.8
Advances (net)	38.6	11.7	4.0	11.6	20.9
Deposits	28.4	11.6	16.6	40.2	29.5
Equity	50.3	3.0	-7.7	-0.5	25.7
Profit After Tax	-12.2	-276.2	549.7	-27.5	-37.5
Gross NPLs	123.0	150.0	11.8	-31.6	42.7
	Share in Total Assets				
Investments (net)	16.6	13.7	15.1	19.6	19.2
Advances (net)	56.5	54.5	52.1	46.8	49.2

* ADR=Advances to Deposits
Source: SBP

Advances of MFBs increased by 20.9 percent during H1CY21 on a YoY basis, as almost all sectors availed additional financing. Agriculture sector remained the largest recipient of MFB financing (30.5 percent share in total advances), closely followed by Enterprises (23.8 percent share) and Livestock (22.3 percent share).

It is important to note that the Government of Pakistan began providing Markup Subsidy for Housing Finance in October 2020 and revised the Scheme in March 2021 to include MFBs as agents.[50, 51] This resulted in an appreciable increase in MFB's Housing Finance portfolio to PKR 23.9 billion in Jun-21 from PKR 7.6 billion at end Jun-2020.

In addition, financing to Enterprises increased from PKR 46.9 billion in Jun-20 to PKR 62.6 billion in Jun-21 along with significant YoY increases in Consumer Lending and other sectors. This was, in part, due to revisions in Prudential Regulations for MFBs, which enhanced the limit of loan size for microfinance borrowers (e.g. limits for Housing Finance and Microenterprise have been enhanced to PKR 3 million from PKR 1 million), revision of borrowers' eligibility criteria, allowance of lending against gold for consumption, etc.[52]

Asset quality of the MFBs came under pressure as advances, which constitute around 49 percent of the MFBs' assets base, witnessed a noticeable increase in delinquencies. Gross NPLs increased by PKR 4.3 billion or 42.7 percent in H1CY21 on YoY basis. This increase was concentrated mainly in a few institutions, while NPLs of some of the other MFBs declined during the period. The surge in NPLs was particularly significant in Q2CY21. This increase may partly be result of non- repayment by borrowers who availed loan deferment or rescheduling/ restructuring facility in H1CY20. Nevertheless, due to strong growth in advances, the infection ratio (gross), witnessed relatively moderate increase to 5.4 percent in Jun-21 from 4.6 percent in Jun-20. Moreover, the net infection ratio has increased from 0.3 percent in Jun-20 to 1.7

50 https://www.sbp.org.pk/smefd/circulars/2020/C11.htm

51 https://www.sbp.org.pk/smefd/circulars/2021/C3.htm

52 https://www.sbp.org.pk/acd/2020/C2.htm

percent in Jun-21 as the amount of additional provisioning for fresh NPLs remained relatively low.

Solvency position of the MFB sector has improved since June-20 – mainly due to equity injections by a few institutions. Accordingly, the consolidated CAR of MFB segment improved to 19.1 percent in Jun-21 (17.9 percent in Jun-20) and remained above the minimum requirement of 15.0 percent. Majority of the MFBs posted profits during the period under review, however, the overall bottom line of the sector remained in red due to losses in a select few MFBs. The losses, however, continued to contract and decreased from PKR 3.9 billion in Jun-20 to PKR 2.4 billion in Jun-21. Moreover, some of the institutions, which faced major losses, injected a significant amount of equity during the recent period to support their operations.

Microfinance banks have substantial contribution in expanding the outreach of banking services especially to low income segment of the society. Particularly their role has been instrumental in promoting **Branchless Banking (BB)**,[53] which has great scalability and potential to reach unbanked masses as compared to the brick-and-mortar model of traditional banking. Since their introduction, the numbers of BB accounts have increased at phenomenal rate over the last 13 years to surpass conventional bank accounts.

The growing network of Branchless banking also played an important role in providing financial services during the pandemic. During H1CY21, the number of active BB accounts recorded a decent YoY growth of 71.9 percent to reach 45.9 million. The proportion of active accounts also improved to 61.5 percent from 50.8 percent at end Jun-20 – suggesting higher usage of BB accounts during the year. In fact, almost all the key indicators of branchless banking recorded robust growth in double digits, which bodes well for speeding up the pace of financial inclusion in the country and encouraging digital modes of payments (**Table S1.2**).

Table S1.2: Trend in Branchless Banking Indicators

	Dec-19	Jun-20	Dec-20	Jun-21	YOY Growth (percent)
Number of Agents	437,182	445,181	481,837	534,460	20.1
Number of Active BB Agents	189,991	182,189	201,702	246,280	35.2
Number of Accounts (in million)	46	53	63	75	42.1
Number of Active Accounts (in million)	25	27	37	46	71.9
Deposits (PKR millions)	28,770	36,660	51,671	55,259	50.7
Number of transactions during half-year ended (number in '000')	685,720	803,945	1,015,239	1,217,878	51.5
Value of transactions during the half-year ended (PKR millions)	2,354,144	2,797,247	3,988,517	4,097,632	46.5
Average size of transactions (in PKR)	3,433	3,479	3,929	3,365	(3.3)
Average daily transactions (number in '000')	4,039	4,408	6,148	6,928	57
Average deposit in accounts (PKR)	624	698	823	741	6.2

Source: SBP

[53] The share of MFBs in total BB accounts stands at 84 percent as of Jun-21.

Box 1: SBP's Systemic Risk Survey-8th Wave (July 2021)

(Disclaimer: The results represent the opinion of the respondents of the survey and do not reflect the views of the State Bank of Pakistan.)

SBP completed the 8th wave of its biannual Systemic Risk Survey (**SRS**) in July 2021 to capture the risk perceptions of the market participants and evaluate their confidence in the stability of the financial system. As was the case in previous iterations, the core survey questions remained unchanged. However, to gauge the perceptions of the participants about the ongoing COVID-19 pandemic, the survey questionnaire has been supplemented with a set of pandemic-related questions since sixth wave.

Besides risks emanating from the pandemic, the survey gauged the present and future (over the next six months) perceptions of the respondents related to five broad categories of risk i.e. global, macroeconomic, financial markets, institutional and general.

The respondents for the current iteration included a broad spectrum of stakeholders.[54] One hundred and two participants took part in the current wave yielding 49 percent response rate.

Summary of Results:

1. At present, on the aggregate level, respondents identify the "Domestic Macroeconomic Risks" and "Global Risks" as the most vital for systemic risk. However, their perception about both categories as a source of systemic risk has declined for the six months horizon. **(Chart A & B)**

2. In terms of specific risks at present, highest rated are "volatility in commodity prices", "Geopolitical risk", and "Cyber Security risk". For the next six months, the respondents' overall risk perception declines in regards to most of the risk sources. However, respondents continue to foresee heightened risk of "Increase in domestic Inflation" and "Geopolitical risks" for the next six months. **(Chart C)**

3. Comparison of the current iteration with previous waves shows that the respondents' risk perception has deteriorated in respect of "volatility in commodity prices" and "Geopolitical risk". **(Chart E)**

4. The confidence on the stability of the financial and banking system has improved in comparison to previous waves. It manifests the successful mitigation of the economic and financial risks associated with the COVID-19 pandemic by the authorities, and the continued improvement in the stability of the financial sector. **(Chart D)**

5. The respondents' views remain strongly positive about the efficacy of the SBP's overall policy measures for mitigating the implications of the COVID 19 pandemic. **(Chart F1 & F2)**

6. Concerning COVID 19's impact on financial sector, the survey results indicate that major adverse impact could be observed on profitability of banks followed by business operations and advances growth. **(Chart G)**

7. On a positive note, in respondents' view, the impact of COVID-19 on financial stability would gradually fade out in the medium to long term as the pandemic eases. **(Chart H)**

[54] 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.

Chart A: Perception on sources of systemic risk- present

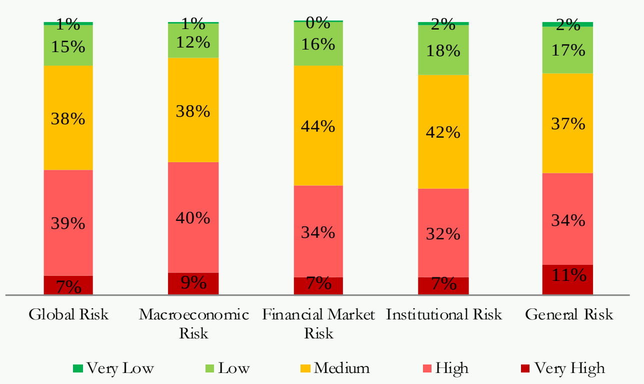


Chart B: Perception on sources of systemic risk- 6 months

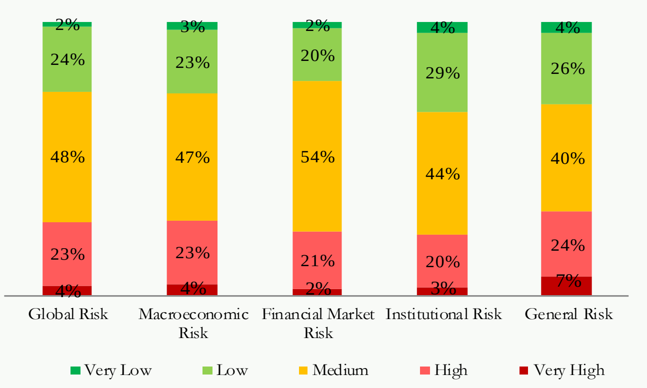


Chart C: Top 10 Risks Identified

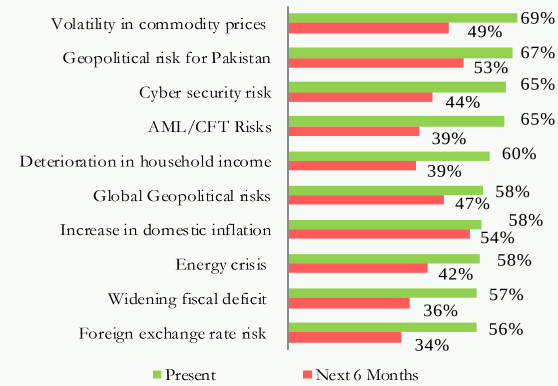


Chart D: Confidence in Financial Stability - Comparison with 7th wave

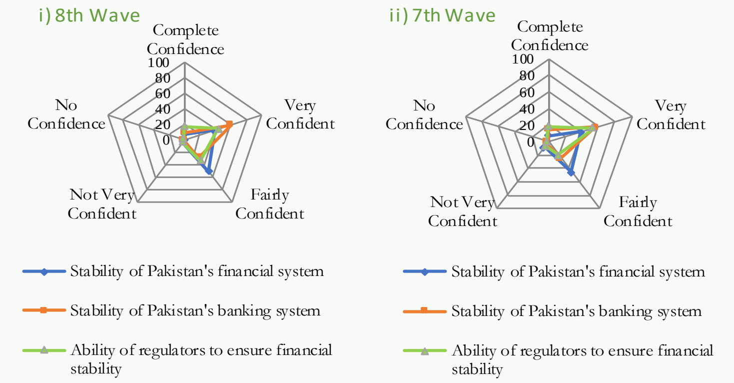


Chart E: Comparison of SBP's Systemic Risk Survey (SRS) Results (6th, 7th and 8th waves)

		6th Wave (Aug-20) Present (Average)	7th Wave (Jan-21) Present (Average)	8th Wave (Jul-21) Present (Average)
Global Risks	Slowdown in global growth	2.27	2.42	2.73
	Sovereign default risk	2.96	3.03	3.12
	Lack of funding from abroad	2.38	2.61	2.76
	Volatility in commodity prices	2.09	2.25	2.18
Macroeconomic Risks	Slowdown in domestic growth	2.16	2.26	2.51
	Increase in domestic inflation	2.26	2.19	2.33
	Widening fiscal deficit	2.32	2.40	2.45
	Deterioration of BoP	2.47	2.58	2.48
	Sovereign rating downgrade	2.81	2.77	2.71
	Slowdown in corporate sector growth	2.43	2.53	2.74
	Slowdown in infrastructure development	2.91	2.88	2.79
	Deterioration in household savings	2.26	2.12	2.36
	Volatility in real estate prices	2.86	2.97	3.04
	Energy crisis	2.49	2.39	2.34
	Political uncertainty	2.74	2.43	2.71
Financial Market risks	Foreign exchange rate risk	2.18	2.39	2.42
	Equity price risk	2.69	2.79	2.89
	Interest rate risk	2.72	2.62	2.72
	Liquidity risk	2.72	2.79	2.75

		6th Wave (Aug-20) Present (Average)	7th Wave (Jan-21) Present (Average)	8th Wave (Jul-21) Present (Average)
Institutional Risks	Regulatory risk	2.73	2.63	2.67
	Legal risk	2.98	2.89	2.96
	Asset quality deterioration	2.39	2.54	2.56
	Shortfall in capital requirement	2.63	2.72	2.83
	Access to funding (deposit mobilization & borrowings)	2.77	2.92	2.82
	Excessive private sector credit	2.80	2.98	2.90
	Concentration risk in PSC	2.78	2.94	2.89
	Concentration risk in mutual fund	3.33	3.11	3.34
	Operational risk	2.65	2.77	2.74
	Cyber security risk	2.23	2.18	2.25
	Disruption in financial market	2.66	2.84	2.82
General Risks	Terrorism	2.74	2.58	2.63
	Geopolitical risk for Pakistan	2.48	2.44	2.24
	Natural disasters/ Increasing threat of climate change	2.59	2.88	2.74
	Social unrest	2.75	2.71	2.93

1 3 5

Very High Medium Very Low

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

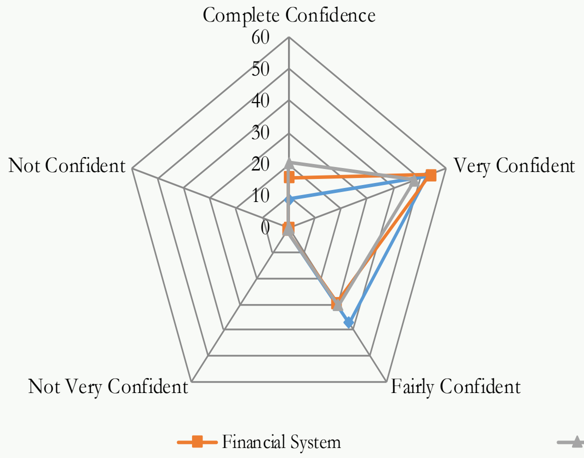


Chart F2: Respondents' views about the efficacy of SBP measures for the economy

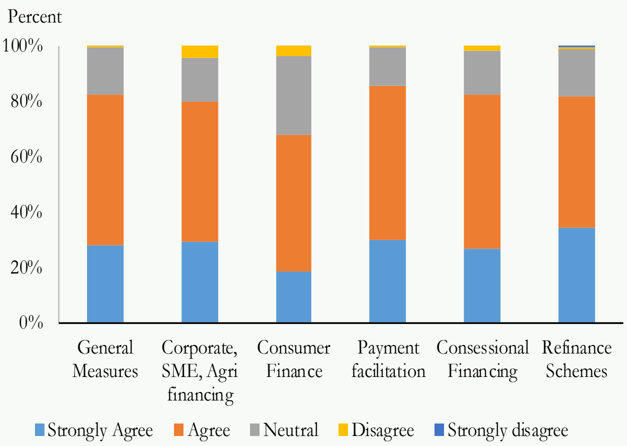


Chart G: Respondents views about the likely impact of COVID-19 on key areas of the financial industry

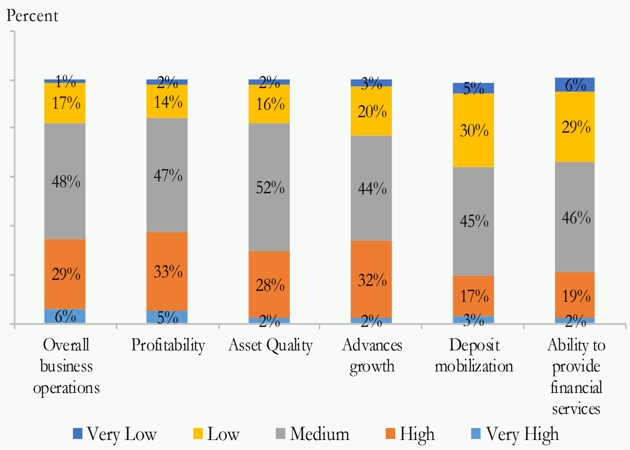
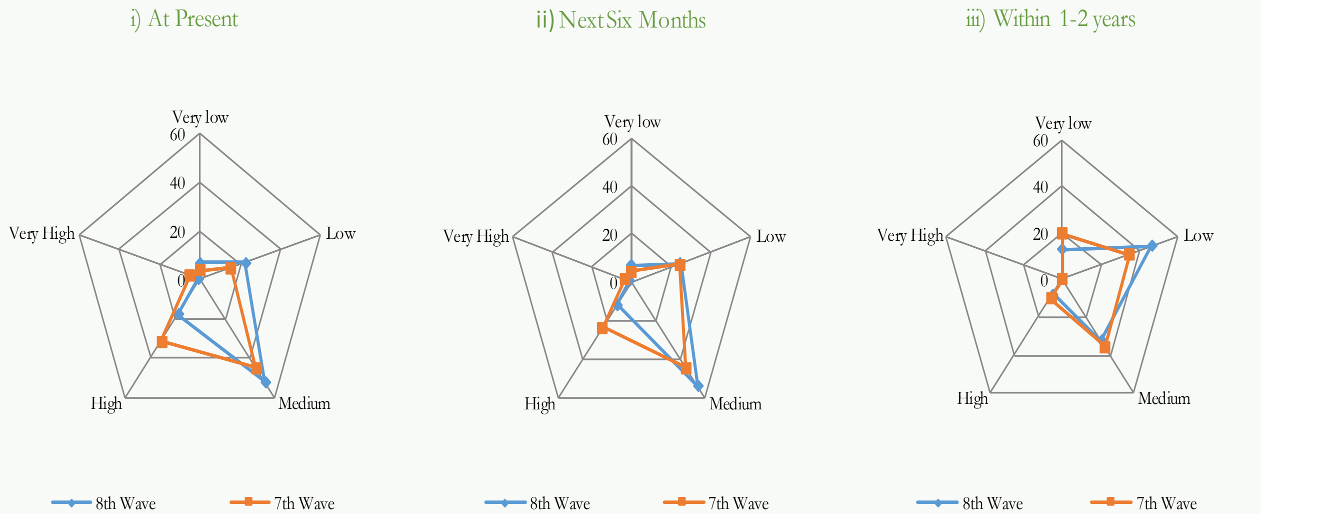


Chart H: Likelihood of COVID-19 pandemic undermining the stability of Pakistan's financial system - Comparison with SRS 7th wave



E. Banking Sector Outlook for H2CY21

The performance of the banking sector during H2CY21 will be contingent upon the dynamics of the pandemic, momentum of economic activity both at home and abroad, and geopolitical situation. While the increase in the momentum of vaccination drive is promising, the risks of new variants of COVID-19 and emergence of new waves still loom on the horizon.

In this perspective, private sector advances—aided by seasonal upturn in demand and rise in input prices—may observe further stimulation during H2CY21. However, any challenging conditions due to resurgence in infections and COVID-19 variants may restrain the financing growth. In this backdrop, amid the credit demand of the government, investment in government's securities is likely to remain other preferable fund deployment alternative for banks.

The profitability of the banking sector is likely to remain steady in the wake of an uptick in business activities. The CAR is expected to remain strong owing to rise in low risk government's securities. From the credit risk point of view, the performance of loans deferred or rescheduled under pandemic related support measures, will remain important. Incidentally, the latest statistics indicate that these borrowers in general are regular in servicing their obligations Latest results of stress testing exercise also indicates that the banking sector has sufficient resilience to withstand severe distress projection horizon of two years.

Annexure

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

PKR million

Financial Position	CY17	H1CY18	CY18	H1CY19	CY19	H1CY20	CY20	H1CY21
ASSETS								
Cash & Balances With Treasury Banks	1,303,914	1,541,206	1,574,551	2,117,875	1,987,096	1,976,860	2,014,703	2,247,704
Balances With Other Banks	156,332	170,800	147,829	205,223	232,671	236,269	277,988	244,200
Lending To Financial Institutions	604,990	651,974	909,754	724,736	978,640	834,963	1,079,071	1,097,202
Investments - Net	8,729,019	8,417,799	7,913,923	7,967,691	8,939,438	10,978,886	11,934,634	14,162,493
Advances - Net	6,512,485	7,310,299	7,955,195	8,104,232	8,248,973	8,065,385	8,291,572	8,808,147
Operating Fixed Assets	395,246	420,751	437,235	533,451	596,924	604,754	626,251	657,406
Deferred Tax Assets	72,354	78,939	81,082	85,057	74,052	73,011	91,820	103,751
Other Assets	567,205	605,294	662,485	979,360	933,542	934,858	807,816	856,051
TOTAL ASSETS	**18,341,545**	**19,197,062**	**19,682,054**	**20,717,625**	**21,991,337**	**23,704,986**	**25,123,855**	**28,176,953**
LIABILITIES								
Bills Payable	218,588	229,690	243,237	293,156	231,178	277,479	313,827	338,769
Borrowings From Financial Institution	3,125,432	3,161,918	3,001,186	2,619,901	2,932,082	2,970,670	3,216,866	4,265,193
Deposits And Other Accounts	13,011,778	13,755,769	14,254,210	15,227,411	15,953,489	17,403,634	18,518,525	20,441,315
Sub-ordinated Loans	64,703	80,360	111,713	117,098	123,218	125,762	121,854	112,732
Liabilities Against Assets Subject To Finance Lease	21	13	7	1,164	7,446	7,892	7,534	8,064
Deferred Tax Liabilities	44,684	39,568	34,557	27,518	43,602	78,143	46,549	45,183
Other Liabilities	495,549	540,671	631,529	943,424	1,042,073	1,027,081	1,036,267	1,082,862
TOTAL LIABILITIES	**16,960,755**	**17,807,989**	**18,276,439**	**19,229,671**	**20,333,089**	**21,890,663**	**23,261,422**	**26,294,119**
NET ASSETS	**1,380,790**	**1,389,073**	**1,405,615**	**1,487,954**	**1,658,248**	**1,814,323**	**1,862,433**	**1,882,835**
NET ASSETS REPRESENTED BY:								
Share Capital	516,013	525,771	541,040	547,120	556,886	556,231	556,131	561,687
Reserves	271,448	294,800	315,570	346,145	349,529	380,624	392,599	404,463
Unappropriated Profit	410,371	406,014	433,205	450,489	521,807	552,669	642,965	651,445
Share Holders' Equity	**1,197,832**	**1,226,586**	**1,289,816**	**1,343,753**	**1,428,222**	**1,489,523**	**1,591,696**	**1,617,595**
Surplus/Deficit On Revaluation Of Assets	182,958	162,487	115,799	144,201	230,026	324,799	270,737	265,240
TOTAL	**1,380,790**	**1,389,073**	**1,405,615**	**1,487,954**	**1,658,248**	**1,814,323**	**1,862,433**	**1,882,835**

PROFIT AND LOSS STATEMENT	CY17	H1CY18	CY18	H1CY19	CY19	H1CY20	CY20	H1CY21
Mark-Up/ Return/Interest Earned	998,671	524,345	1,153,383	793,092	1,851,790	1,058,859	1,924,328	859,148
Mark-Up/ Return/Interest Expenses	499,819	262,838	608,309	462,507	1,156,062	634,182	1,071,898	452,398
Net Mark-Up / Interest Income	**498,851**	**261,506**	**545,074**	**330,584**	**695,727**	**424,677**	**852,430**	**406,750**
Provisions & Bad Debts Written Off Directly/(Reversals)	3,706	5,876	36,201	26,402	67,855	57,481	123,039	25,121
Net Mark-Up / Interest Income After Provision	**495,146**	**255,630**	**508,873**	**304,183**	**627,872**	**367,196**	**729,391**	**381,630**
Fees, Commission & Brokerage Income	102,898	54,542	112,852	61,749	123,895	54,794	118,322	68,464
Dividend Income	17,875	6,770	13,589	6,334	12,325	4,951	10,810	7,461
Income From Dealing In Foreign Currencies	14,308	11,584	25,981	18,583	26,269	8,825	21,854	9,474
Other Income	52,565	20,950	25,698	4,419	19,628	42,763	65,920	28,389
Total Non - Markup / Interest Income	**187,646**	**93,847**	**178,121**	**91,084**	**182,117**	**111,334**	**216,906**	**113,788**
	682,791	349,477	686,993	395,267	809,989	478,529	946,298	495,418
Administrative Expenses	387,878	209,165	430,375	237,084	495,018	254,095	521,253	273,050
Other Expenses	4,417	2,670	5,068	3,508	10,517	7,818	13,690	5,029
Total Non-Markup/Interest Expenses	**392,295**	**211,835**	**435,444**	**240,592**	**505,535**	**261,913**	**534,943**	**278,079**
Profit before Tax and Extra ordinary Items	290,496	137,643	251,550	154,675	304,454	216,616	411,355	217,339
Extra ordinary/unusual Items - Gain/(Loss)	23,717.35	9,170.00	9,016	15	49	-		
PROFIT/ (LOSS) BEFORE TAXATION	**266,779**	**128,473**	**242,534**	**154,660**	**304,405**	**216,616**	**411,355**	**217,339**
Less: Taxation	108,987	51,886	93,194	71,940	133,656	90,857	167,315	94,434
PROFIT/ (LOSS) AFTER TAX	**157,792**	**76,587**	**149,340**	**82,719**	**170,749**	**125,759**	**244,039**	**122,905**

Annexure B

Distribution of Deposits

PKR billion

	CY17	H1CY18	CY18	H1CY19	CY19	H1CY20	CY20	H1CY21
DEPOSITS	**13,012**	**13,756**	**14,254**	**15,227**	**15,953**	**17,404**	**18,519**	**20,441**
Customers	**12,270**	**13,007**	**13,417**	**14,367**	**14,891**	**16,386**	**17,271**	**19,017**
Fixed Deposits	2,841	2,756	2,974	3,074	3,410	3,424	3,631	3,737
Saving Deposits	4,699	4,923	5,043	5,386	5,709	6,409	6,734	7,306
Current accounts - Remunerative	480	561	561	597	604	708	755	852
Current accounts - Non-remunerative	4,095	4,593	4,691	5,157	5,022	5,634	5,961	6,867
Others	155	175	146	153	146	212	189	254
Financial Institutions	**741**	**749**	**837**	**860**	**1,062**	**1,017**	**1,248**	**1,425**
Remunerative Deposits	458	411	471	477	577	557	750	903
Non-remunerative Deposits	284	338	367	383	485	460	498	522
Break up of Deposits Currency Wise	**13,012**	**13,756**	**14,254**	**15,227**	**15,953**	**17,404**	**18,519**	**20,441**
Local Currency Deposits	11,591	12,306	12,600	13,267	14,043	15,424	16,566	18,489
Foreign Currency Deposits	1,421	1,450	1,655	1,960	1,911	1,980	1,952	1,952

Annexure C

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

Amount in PKR million, ratio in percent

	CY19			H1CY20			CY20			H1CY21		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	6,356,658	562,760	8.9	6,226,140	606,959	9.7	6,421,776	605,239	9.4	6,621,260	636,811	9.6
SMEs Sector	480,009	76,724	16.0	403,416	78,333	19.4	460,690	78,915	17.1	438,351	76,977	17.6
Agriculture Sector	344,611	61,254	17.8	323,081	88,985	27.5	338,037	77,046	22.8	384,710	69,263	18.0
Consumer sector	572,563	25,887	4.5	554,429	33,197	6.0	635,227	31,297	4.9	717,351	30,393	4.2
i. Credit cards	49,127	2,692	5.5	42,971	2,933	6.8	51,422	3,067	6.0	54,967	2,638	4.8
ii. Auto loans	219,807	3,067	1.4	213,230	6,272	2.9	258,072	4,423	1.7	307,550	4,560	1.5
iii. Consumer durable	1,138	62	5.5	1,070	65	6.1	1,227	70	5.7	1,294	60	4.7
iv. Mortgage loans	92,664	10,665	11.5	88,462	11,572	13.1	93,741	11,684	12.5	108,605	10,887	10.0
v. Other personal loans	209,827	9,401	4.5	208,696	12,353	5.9	230,766	12,053	5.2	244,935	12,248	5.0
Commodity financing	799,126	7,392	0.9	907,365	7,670	0.8	833,394	7,761	0.9	1,023,108	8,351	0.8
Cotton	31,880	1,139	3.6	29,243	1,044	3.6	31,896	988	3.1	27,747	1,003	3.6
Rice	21,056	2,680	12.7	18,181	2,640	14.5	29,198	2,629	9.0	21,980	2,567	11.7
Sugar	71,549	2,705	3.8	72,507	1,845	2.5	72,230	1,845	2.6	89,262	1,864	2.1
Wheat	588,040	112	0.0	698,927	1,354	0.2	611,468	1,257	0.2	794,171	1,045	0.1
Others	86,602	755	0.9	88,507	787	0.9	88,602	1,042	1.2	89,948	1,871	2.1
Staff Loans	151,057	2,128	1.4	153,551	2,152	1.4	163,996	2,195	1.3	177,360	2,348	1.3
Others	164,720	24,973	15.2	188,444	29,255	15.5	170,618	26,449	15.5	201,393	26,645	13.2
Total	8,868,744	761,118	8.6	8,756,427	846,551	9.7	9,023,738	828,902	9.2	9,563,533	850,788	8.9

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

amount in PKR million, ratio in percent

	CY19			H1CY20			CY20			H1CY21		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	704,869	63,213	9.0	658,554	90,439	13.7	702,126	80,118	11.4	851,094	72,654	8.5
Automobile/Transportation	176,934	17,544	9.9	160,200	18,127	11.3	142,754	17,596	12.3	163,700	17,484	10.7
Cement	190,559	4,149	2.2	211,933	6,208	2.9	203,770	6,190	3.0	200,045	5,747	2.9
Chemical & Pharmaceuticals	311,429	15,150	4.9	286,380	16,506	5.8	327,337	16,706	5.1	335,688	16,776	5.0
Electronics	120,193	20,444	17.0	111,444	23,022	20.7	110,589	22,281	20.1	124,346	22,851	18.4
Financial	252,058	10,998	4.4	212,350	9,884	4.7	230,156	11,215	4.9	268,393	11,870	4.4
Individuals	763,625	60,656	7.9	732,981	70,299	9.6	815,411	64,666	7.9	935,622	64,128	6.9
Insurance	4,299	7	0.2	5,756	137	2.4	5,732	136	2.4	5,959	68	1.1
Others	3,386,624	285,991	8.4	3,426,349	320,003	9.3	3,473,398	319,438	9.2	3,536,076	346,759	9.8
Production/Transmission of Energy	1,492,818	46,586	3.1	1,405,492	52,054	3.7	1,393,743	58,401	4.2	1,398,258	66,835	4.8
Shoes & Leather garments	38,634	5,949	15.4	35,729	5,854	16.4	37,388	5,679	15.2	39,508	5,743	14.5
Sugar	220,988	50,511	22.9	289,093	54,264	18.8	238,455	56,958	23.9	298,727	59,161	19.8
Textile	1,205,711	179,921	14.9	1,220,168	179,755	14.7	1,342,880	169,519	12.6	1,406,119	160,713	11.4
Total	8,868,744	761,118	8.6	8,756,427	846,551	9.7	9,023,738	828,902	9.2	9,563,533	850,788	8.9

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

PKR million

	CY19		H1CY20		CY20		H1CY21	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	32,634	-	39,497	-	27,930	-	21,717	-
Sub Standard	66,482	7,804	60,229	12,071	42,133	8,585	46,066	8,980
Doubtful	55,663	22,197	73,213	32,184	81,861	41,138	85,945	45,166
Loss	606,339	552,607	673,613	590,543	676,978	598,398	697,059	622,829
Total	761,118	582,607	846,551	634,798	828,902	648,121	850,788	676,976

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

Annexure D

Financial Soundness Indicators of the Banking Sector

percent

Indicators	CY18	H1CY19	CY19	H1CY20	CY20	H1CY21
CAPITAL ADEQUACY						
Risk Weighted CAR^	16.2	16.1	17.0	18.7	18.6	18.3
Tier 1 Capital to RWA	13.2	13.3	14.0	14.7	14.8	14.6
ASSET QUALITY						
NPLs to Total Loans	8.0	8.8	8.6	9.7	9.2	8.9
Provision to NPLs	83.8	78.4	81.4	81.6	88.3	88.8
Net NPLs to Net Loans	1.4	2.1	1.7	1.9	1.2	1.1
Net NPLs to Capital^^	7.8	11.5	8.9	9.0	5.3	5.1
EARNINGS						
Return on Assets (Before Tax)	1.3	1.6	1.5	1.9	1.8	1.6
Return on Assets (After Tax)	0.8	0.8	0.8	1.1	1.0	0.9
ROE (Avg. Equity& Surplus) (Before Tax)	17.4	21.3	20.1	25.2	23.2	23.5
ROE (Avg. Equity &Surplus) (After Tax)	10.7	11.4	11.3	14.6	13.8	13.3
NII/Gross Income	75.4	78.4	79.3	79.2	79.7	78.1
Cost / Income Ratio	60.2	57.1	57.6	48.9	50.0	53.4
LIQUIDITY						
Liquid Assets/Total Assets	48.7	48.0	49.7	53.3	54.8	57.1
Liquid Assets/Total Deposits	67.2	65.3	68.4	72.6	74.3	78.7
Advances/Deposits	55.8	53.2	51.7	46.3	44.8	43.1

^ 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

CY19	H1CY20	CY20	H1CY21
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 (5)	**C. Foreign Banks (4)***	**C. Foreign Banks (4)#**	**C. Foreign Banks (4)#**
Bank of Tokyo - Mitsubishi UFJ, Ltd.	Citibank N.A.	Citibank N.A.	Citibank N.A.
Citibank N.A.	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG
Deutsche Bank AG	Industrial and Commercial Bank of China Ltd.	Industrial and Commercial Bank of 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 (30)	**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 (33)	**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

[#] Excludes IDBL as SBP has initiated its liquidation process with effect from September , 2019
**Bank of Tokyo - Mitsubishi UFJ, Ltd was de-scheduled on January 17, 2020.*