State Bank of Pakistan

Mid-Year Performance Review of the Banking Sector

January - June 2024

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Financial Stability Department
State Bank of Pakistan

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Summary

Banking sector managed to grow at a decent pace of 11.5 percent in H1CY24. The expansion in the asset base was mainly driven by investments. Domestic advances increased by 0.6 percent in the reviewed period; however, this growth mainly came from public sector advances, which grew by 3.9 percent, while private sector advances contracted by 0.6 percent in the reviewed period. In the wake of gradually improving macroeconomic conditions, however, the contraction in private sector advances was significantly lower as compared to 7.0 percent contraction witnessed in H1CY23. On funding side, deposits increased by 11.7 percent in H1CY24. Besides, banks' reliance on borrowings remained noticeable as well.

Asset quality dynamics remained steady as uptick in gross nonperforming loans (NPLs) remained subdued while total provisioning coverage further improved as the introduction of IFRS-9 led to creation of allowances for any prospective future losses in the regular portfolio. Accordingly, total provisioning to NPLs ratio improved to 105.3 percent by end June-2024 (94.4 percent in June-2023), while the specific provisioning to NPLs ratio also improved to 85.5 percent by end June-2024 (83.6 percent in June-2023). Earnings, nonetheless, slowed down owing to deceleration in net interest income; non-interest income, however, supported the profitability. The solvency position of the banking sector remained strong as Capital Adequacy Ratio stood at 20.0 percent at end June-2024 (17.8 percent in June-2023). Encouragingly, the banking sector, in different scenarios of stress testing exercise, shows sufficient resilience to withstand severe shocks to key risk factors and hypothetical adverse economic conditions.

Domestic financial markets witnessed relatively lower stress during H1CY24 as compared to H1CY23. It was on account of gradually improving macroeconomic conditions and reduction in country risk premium, which kept financial markets volatility under check. A relative stability in the FX market, which witnessed significant volatility in the corresponding period of last year, contributed to overall calm in the financial markets during the reviewed period, although equity market witnessed an uptick in the volatility. However, money market continued to operate in an orderly manner as SBP monetary policy operations kept interest rates in the policy range.

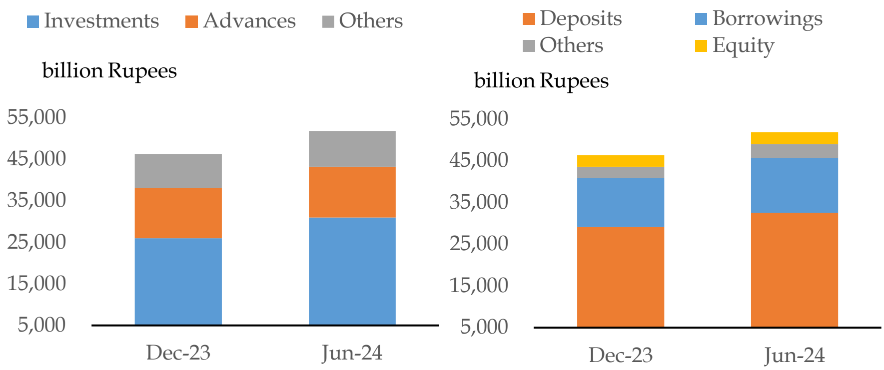
The respondents in the 14th wave of the Systemic Risk Survey, conducted in July-2024, expressed confidence in the stability of the financial system and the ability of the regulator to manage any unforeseen shocks.

A. Performance of the Banking Sector

Introduction

The banking sector grew at a decent pace of 11.5 percent, with its footing ticking at Rs. 51,687 billion in H1CY24 (**Figure A1**). The expansion in the asset base was mainly driven by investments,[1] while gross advances (domestic + global) posted a contained growth. The pace of expansion, nonetheless, was lower as compared to 14.0 percent growth in the comparable period of last year, as the growth in public sector advances significantly decelerated during the reviewed period.[2]

Figure A1: Balance sheet composition of the banking sector (stocks)



Source: State Bank of Pakistan

On funding side, deposits increased by 11.7 percent to Rs. 32,538 billion—lower than the 14.2 percent rise in H1CY23. Besides, banks' reliance on borrowings from financial institutions remained noticeable, which increased by 13.1 percent during the first half of CY24.[3] Importantly, Advances to Deposits Ratio (ADR) continued to decline: 37.1 percent at end June-2024 from 41.8 percent in Dec-2023 (45.0 percent in June-2023). This reflects persistently weak private sector demand for bank credit amid subdued economic conditions as well as government's high demand for bank financing to meet the budget deficit.

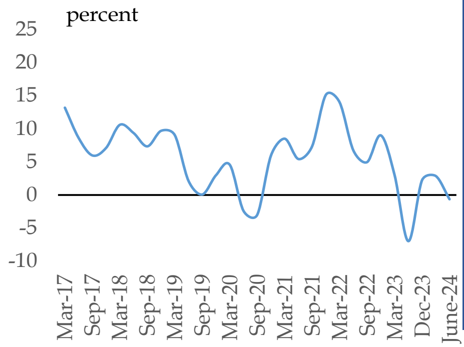
[1] Investments contributed 93.1 percent in the assets flow during H1CY24. Moreover, banks' exposure to the government (investment in federal government securities *plus* public sector advances) reached 63.9 percent of the asset base in June-2024 from 60.6 percent in Dec-2023 and 58.8 percent in June-2023.

[2] Domestic public sector advances grew by 3.9 percent in H1CY24 against 33.7 percent rise in H1CY23.

[3] The share of borrowings in total assets stood at 25.5 percent at end June-2024 (25.2 percent at end Dec-2024 and 22.2 percent at end June-2023).

The weaker economic dynamics also moderated the asset base of Islamic Banking Institutions (IBIs), which grew by 7.7 percent in H1CY24—lowest growth during the first half of previous four years.[4] Accordingly, their share lowered in banking sector's asset base to 18.7 percent in June-2024 (19.4 percent in Dec-2023) and in deposit base to 22.6 percent (23.2 percent in Dec-2023).

Figure A2: Private Sector Advances (HoH Growth)

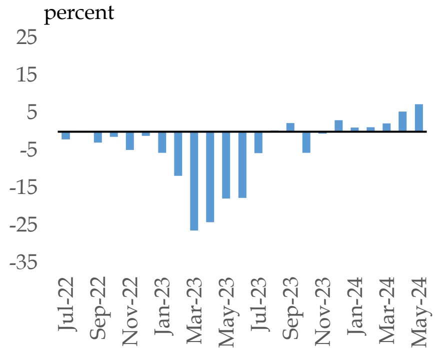


Source: State Bank of Pakistan

Advances

Overall gross advances (domestic & overseas) increased by 0.3 percent in H1CY24 (2.5 percent increase in H1CY23) to Rs. 13,141 billion. Domestic advances grew by 0.6 percent while overseas advances—with 5.5 percent share in total advances—contracted by 4.4 percent in the reviewed period.

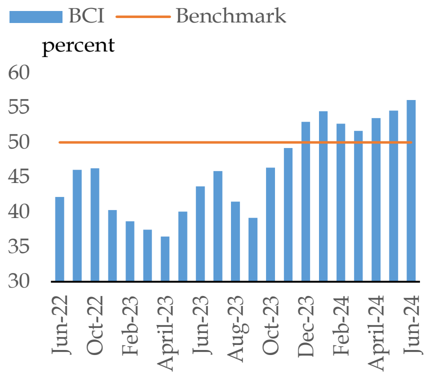
Figure A3: Large Scale Manufacturing Index (YoY Growth)



Source: State Bank of Pakistan

Within domestic advances, **private sector advances**[5] showed a marginal contraction of 0.6 percent as compared to 7.0 percent contraction in H1CY23 (**Figure A2**). A significantly lower contraction in financing was driven by recovery in economic activity—backed by improved economic policy uncertainty[6] and stable exchange rate dynamics[7]—and an associated rise in business confidence during H1CY24 (**Figure A3 and A4**).

Figure A4: Business Confidence Index



Source: State Bank of Pakistan

Segment-wise analysis of the private sector advances reveals that Corporate, SMEs, and Consumer segments—constituting around 90 percent of total private sector advances—witnessed retirements during H1CY24 (**Table A1**). The Corporate segment made a repayment of Rs. 77.3

[4] The average growth rate of expansion turns 14.2 percent during CY20 to CY23
[5] As of end June-2024, share of private sector advances in total domestic advances stood at 71.9 percent
[6] Economic policy uncertainty index averaged at 163 in H1CY24 against 180 in H1CY23
[7] Rupee appreciated against USD by 1.3 percent during H1CY24 against 20.8 percent depreciation in H1CY23

billion, mainly driven by fixed investment advances and trade financing.[8]

The Small and Medium Enterprises (**SMEs**), on the other hand, retired Rs. 51.5 billion following a seasonal pattern, almost entirely in working capital advances. Nonetheless, long-term financing to SMEs showed some revival and increased by Rs. 29.6 billion in H1CY24.

Consumer financing observed a net retirement of Rs. 15.8 billion in H1CY24. Auto financing—amid high interest rates and erstwhile macroprudential measures—continued to be the major driver of loans retirement under this segment. Auto financing observed a retirement of Rs. 21.9 billion while credit card loans, amid inflationary environment, increased by Rs. 14.4 billion in the reviewed period.

Table A1: Segment-wise Domestic Private Sector Advances (Stocks)

billion Rupees	Dec-22	Jun-23	Dec-23	Jun-24
Corporate Sector:	6,956	6,421	6,692	6,614
Fixed Investment	2,695	2,666	2,695	2,645
Working Capital	2,703	2,308	2,434	2,431
Trade Finance	1,558	1,447	1,562	1,538
SMEs:	524	430	526	474
Fixed Investment	139	139	161	191
Working Capital	347	261	335	257
Trade Finance	**38**	**30**	**29**	**26**
Agriculture	442	450	493	518
Consumer Finance:	889	841	808	792
Credit Cards	86	94	108	122
Auto Loans	333	288	247	225
Consumer Durable	1	1	2	2
Mortgage Loan	215	213	207	204
Other personal Loans	254	246	245	239
Commodity Financing	**145**	**143**	**162**	**192**
Staff Loans	243	265	303	335
Housing Finance	186	204	237	258
Others than housing finance	57	61	66	77
Others	1	6	1	0
Total	**9,201**	**8,557**	**8,984**	**8,927**

Note: These advances represent lending to domestic private sector.

Source: State Bank of Pakistan

It is noteworthy that **agriculture** segment witnessed an increase of Rs. 25.4 billion in advances during the period under review, mainly under Farm Mechanization Scheme[9] and Prime Minister's Youth Business & Agriculture Loan Scheme (PMYB&ALS).[10] An increase of Rs. 30.5 billion in private sector commodity financing was primarily on account of sugarcane advances.[11] High cost of inputs drove-up sugarcane advances during H1CY24.

[8] Fixed investment advances and trade financing contracted by Rs. 50.7 billion and Rs. 23.8 billion, respectively, in H1CY24

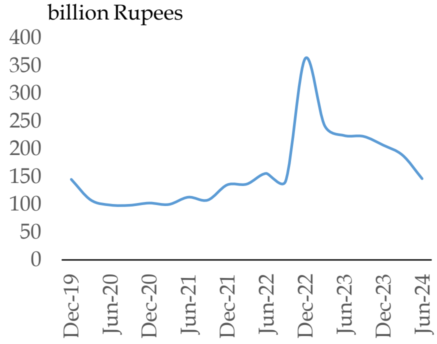
[9] In order to enhance agriculture productivity and food security in the country, Government of Pakistan (GoP) introduced a markup subsidy and risk sharing scheme for farm mechanization under the PM's Kissan Package- 2022. Please see AC&MFD Circular No. 04 of 2022

[10] Please see IH&SMEFD Circular No. 12 of 2022

[11] Sugarcane advances in H1CY24 increased by Rs. 50.3 billion

Sector-wise analysis indicates that the highest retirement was witnessed in textiles, financials and energy sectors during the reviewed period. Textile sector—as per seasonal pattern—retired Rs. 70.0 billion (Rs. 64.7 billion decline in H1CY23) (**Appendix A**). In the wake of one-off surge in financial sector borrowings[12] from the banks in Q4CY22, the sector continued to retire their loans afterwards (**Figure A5**).

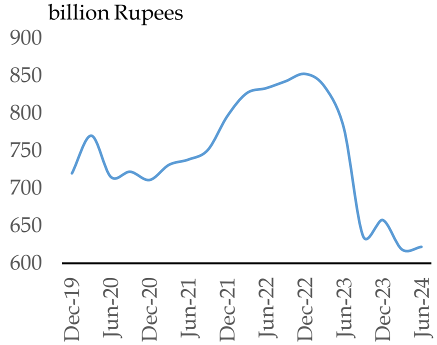
Figure A5: Advances to Financial Sector (stocks)



Source: State Bank of Pakistan

The energy firms retired Rs. 35.8 billion in H1CY24. It is noteworthy that the energy sector has been consistently deleveraging from the banking sector. Between Dec-2022 and June-2024, stocks of loans declined by 27.0 percent (**Figure A6**). This may be attributed to the completion of various energy related projects, initiated during past few years. With the commencement of their operations, stock of advances has been ebbing.

Figure A6: Advances to Energy Sector (stocks)



Source: State Bank of Pakistan

Sugar sector, nonetheless, availed highest financing of Rs. 172.0 billion in H1CY24 against Rs. 41.0 billion in H1CY23. Significantly higher credit off-take in the reviewed period was mainly due to 66.7 percent rise in support price of sugarcane for 2024.[13]

Domestic **public sector advances**—which constitutes 28.1 percent of total domestic advances—grew by 3.9 percent (33.7 percent in previous year). Out of the total increase of Rs. 130.5 billion in the public sector advances during H1CY24, loans of Rs. 102.2 billion were availed on account of commodity financing.

Investments

Total investments increased by 19.0 percent to Rs. 30,973 billion in H1CY24. Almost entire rise came from investments in government securities. Importantly, the share of investments

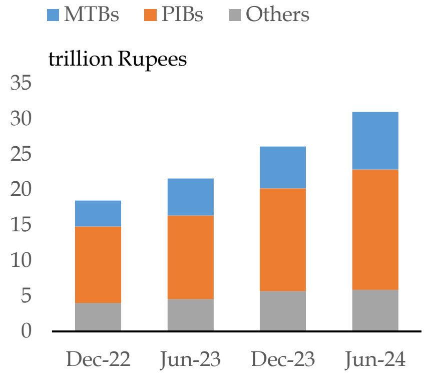
[12] Impressive rise in advances towards non-bank financial sector during Q4CY22 indicated banks efforts to shore-up their advances as part of their asset-liability management strategy to improve ADR

[13] Sugarcane support price was increased to Rs.400 per 40KG in 2024 from Rs.240 in 2023

in total assets increased to 59.9 percent at end June-2024 from 52.7 percent in June-2023.[14] This manifests persistently increasing reliance of the government on bank credit to finance its budgetary needs amid recovering but subdued external inflows.

Further analysis indicates that stock of treasury bills increased by Rs. 2,200 billion to Rs. 8,142 billion in H1CY24.[15] Moreover, PIBs observed an increase of Rs. 2,527 billion to Rs. 17,007 billion (**Figure A7**).[16] Banks interest in the auctions remained tilted towards treasury bills and floating rate PIBs (with a semiannual reset). The offered-to-target ratio for fixed rate PIBs during H1CY24 was recorded 1.4 times while in case of treasury bills and floating rate PIBs (Semi Annual coupon), banks offered 3.5 times and 3.6 times of the targets, respectively. One reason behind relatively lower interest in fixed rate PIBs, despite declining interest rate expectations, may be significantly lower rate of return offered on fixed rate securities.[17]

Figure A7: Composition of Investments (stocks)

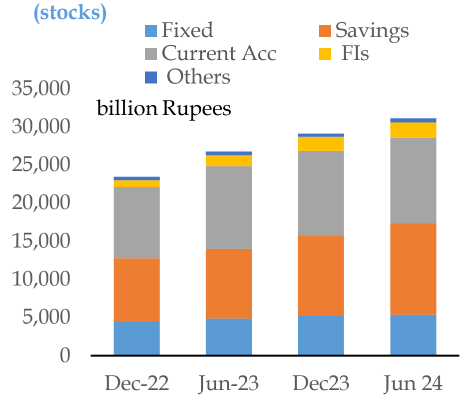


Source: State Bank of Pakistan

Deposits and Borrowings

Deposits increased by 11.7 percent to Rs. 32,538 billion in H1CY24 (14.2 percent rise in H1CY23) (**Figure A8**). Within Customer deposits[18], savings deposits[19] increased by 14.9 percent against 9.8 percent growth in the last year. However, fixed deposits[20] only grew by 1.0 percent as compared to 8.5 percent in H1CY23. It may be due to the fact that banks offered relatively lower rate of return on fixed deposits amid expectation of a decline in interest rates during H1CY24. In a relatively better rate of return environment, however, the depositors

Figure A8: Composition of Deposits (stocks)



Source: State Bank of Pakistan

[14] Share of government securities in total assets increased to 56.9 percent at end June-2024 from 49.6 percent in previous year.
[15] Share of MTBs in outstanding Federal Government securities stood at 27.7 percent at end June-2024 (26.0 percent in June-2023).
[16] Share of PIBs in outstanding Federal Government securities stood at 57.8 percent at end June-2024 (58.4 percent in June-2023).
[17] Weighted average yield on fixed rate PIBs turns out 15.5 percent during H1CY24—significantly lower than the weighted average yield of 20.6 percent on treasury bills
[18] Customers deposits constitute 93.8 percent of total deposits.
[19] Savings deposits constitutes 39.4 percent of total customers' deposits.
[20] Fixed deposits constitute 17.6 percent of total customers' deposits.

preferred savings accounts.[21] Another reason behind a higher growth in savings deposits may be due to various products introduced by the banks in this category (such as senior citizen and women account etc.) which attracted particular niche of depositors. Nonetheless, current account deposits—which constitute 41.3 percent of total customer deposits—increased by 13.4 percent (16.1 percent in H1CY23).

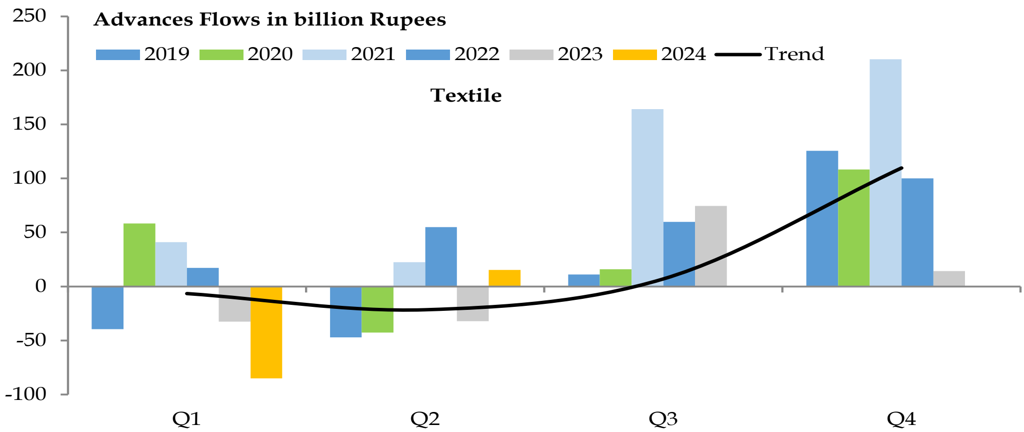
Banks' borrowings increased by Rs. 1,528 billion in H1CY24 (Rs. 1,213 billion in H1CY23). The rise in total borrowings was driven by borrowings from SBP, which increased by Rs. 1,630 billion. Within borrowings, secured borrowing increased by Rs. 1,473 billion while unsecured borrowing increased only by Rs. 55 billion. The share of assets financed by borrowing increased to 25.5 percent at end June-2024 from 22.2 percent in June-2023.

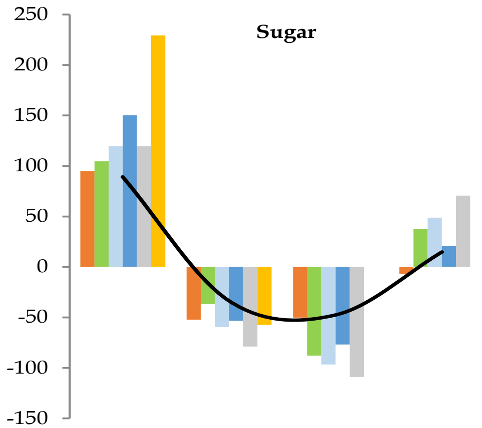
Shareholders' Equity and Capital

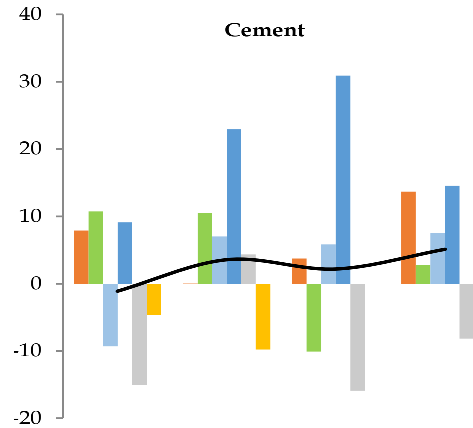
Banking sector's net assets posted a noticeably lower growth of 3.4 percent against a 11.9 percent rise in H1CY23. The deceleration was driven by shareholders' equity, which increased by Rs. 48 billion—a substantial decline from an addition of Rs. 266 billion in H1CY23. Nonetheless, banking sector's revaluation surpluses increased by Rs. 48 billion in H1CY24 as compared to a contraction in these surpluses of Rs. 17 billion in H1CY23.

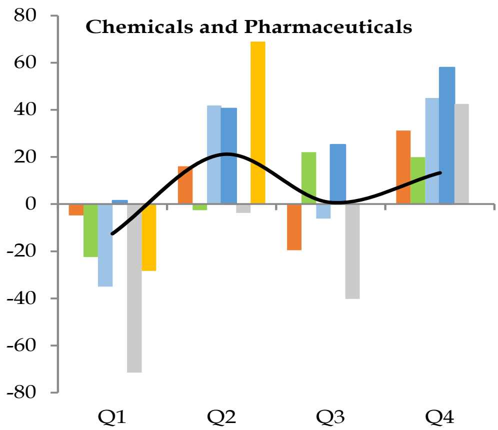
[21] Because Minimum Deposits Rate on savings deposits is linked with floor rate.

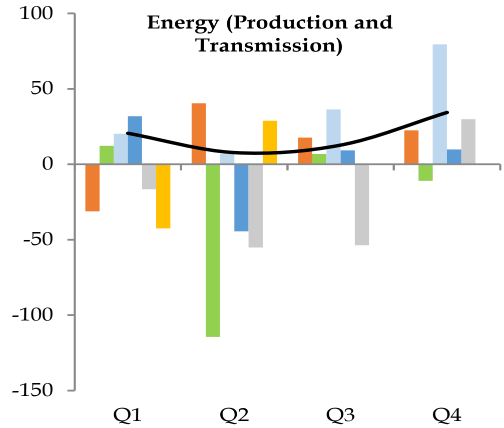
Appendix A: Seasonality in Private Sector Advances





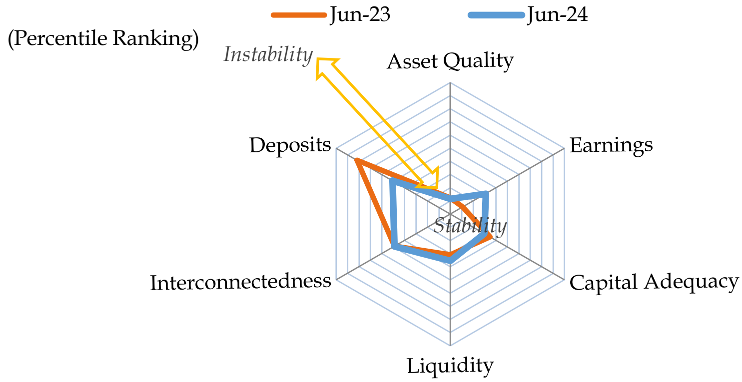






The Banking Sector Stability Map (BSSM), which tracks the trends of key financial soundness indicators, shows that the risks along key dimensions such as Assets Quality, Capital Adequacy, Deposits and Interconnectedness either subsided or remained contained during the period under review, while Earnings and Liquidity manifested some moderation. Nonetheless, on aggregate basis, the solvency of the sector remains steady as it continues to have adequate capital cushion, supported by steady earnings, while the risk to the solvency from credit risk remained contained due to satisfactory asset quality (**Figure B1**).[22]

Figure B1: Banking Sector Stability Map



Source: State Bank of Pakistan

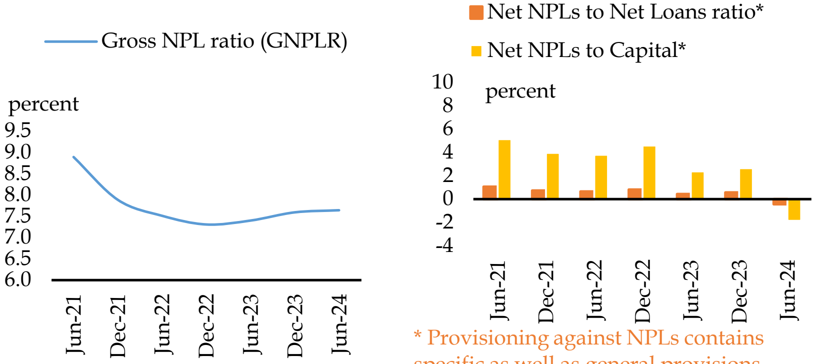
Asset Quality:

In H1CY24, the domestic operating environment improved as economic activity recovered, inflationary pressures subsided, and current account deficit significantly narrowed. With muted growth in advances portfolio, gross NPLs ratio marginally rose to 7.6 percent in H1CY24 (7.4 percent in H1CY23) (**Figure B2**),[23] as the increase in NPLs also remained subdued during the first half of CY24, increasing only by Rs. 10 billion compared to an increase of Rs. 35 billion H1CY23.

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

[23] Banks' gross loans only grew by 0.3 percent in H1CY24, lower than 2.5 percent in H1CY23.

Figure B2: Asset Quality Indicators

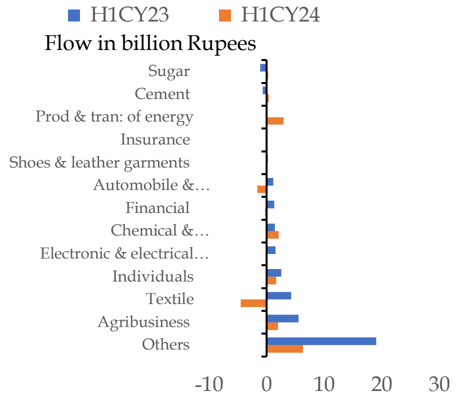


Source: State Bank of Pakistan

* Provisioning against NPLs contains specific as well as general provisions including provisions under IFRS-9.

Disaggregated data shows that the overall increase in NPLs was primarily driven by domestic operations, while overseas NPLs contracted in H1CY24 by Rs. 5 billion. Domestic NPLs rose by Rs. 15 billion in H1CY24. The energy sector mainly contributed as its NPLs increased by Rs 5 billion followed by individuals (Rs. 2 billion), chemicals and pharmaceuticals (Rs. 2 billion), and agribusiness sector (Rs. 2 billion) (**Figure B3**).

Figure B3: Sector-wise Gross NPLs



Source: State Bank of Pakistan

The rise in NPLs of the energy sector was concentrated in a few borrowers which faced idiosyncratic issues. In case of individuals, tight financial conditions of the households remained the major reason behind the rise in delinquencies. In case of agribusinesses, the increase reflects difficulties faced by farmers in selling their crops such as wheat,[24] higher input prices and tight financial conditions, which hampered their repayment capacity and translated into delays in their payments to banks.

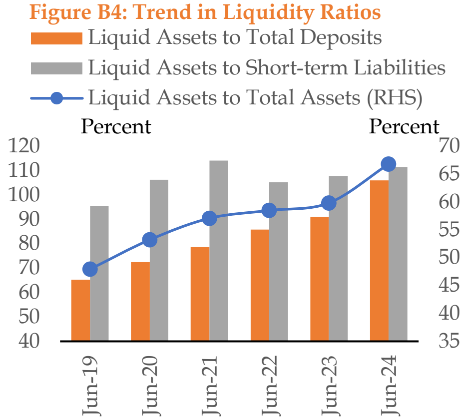
[24] Wheat procurement operations remained relatively limited compared to previous year, which is also reflected in lower increase in commodity financing in Q2CY24 compared to the same period last year.

Provisioning coverage[25] of NPLs improved significantly from 94.4 percent at end June-2023 to 105.3 percent at end June-2024 amid banks' adoption of IFRS-9, which requires creation of general provisioning to also cover any prospective future losses in the performing loan portfolio.[26] However, banks also increased their specific provisioning against NPLs. Resultantly, the net NPLs to net loans ratio further improved to -0.4 percent at end June-2024 as compared to 0.4 percent at end June-2023, while specific provisioning against NPLs increased to 85.5 percent (83.6 percent in June-2023). On a net basis, therefore, there are relatively muted residual credit risks to the solvency of banks from their current delinquent loan portfolio. The results of the latest stress testing exercise (sensitivity analysis) also show that the banking sector has adequate resilience to some severe but plausible hypothetical shocks to the credit risks factors (**Annexure E**).[27]

Liquidity:

The liquidity indicators posted a comfortable picture with various ratios showing amelioration. Liquid assets to total assets ratio, for instance, improved to 66.8 percent in H1CY24 (59.9 percent in June 2023); the liquid assets to total deposits ratio inched up to 106.1 percent (91.2 percent in June 2023); and liquid assets to short term liabilities ratio improved to 111.5 percent (107.9 percent in June 2023) (**Figure B4**). The liquidity profile of the banking sector improved further on the back of sizeable investments in government securities. Given a sufficiently liquid market of these securities as well as the intention and ability of banks to sell these securities, banks are in a healthy position vis-a-vis their liquidity profile.[28]

Figure B4: Trend in Liquidity Ratios



Source: State Bank of Pakistan

The Basel III liquidity indicators, i.e., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) also exhibited improvement during the period under review. Both LCR and NSFR remained comfortably above the regulatory requirement of 100

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[25] Provisioning against NPLs contains specific as well as general provisions including provisions under IFRS-9.
[26] IFRS-9 requires provisioning against financial instruments (loans and investments) on Expected Credit Loss (ECL) approach, instead of Incurred Credit Loss approach.
[27] Detailed of results are available at: https://www.sbp.org.pk/ecodata/fsi/qc/2024/Mar.pdf
[28] 85.8 percent of the total MTBs and PIBs are classified as Available for Sale, 4.3 percent are classified as Held for Trading, while only 9.8 percent are classified as Held to Maturity at end June-2024.

percent. LCR stood at 234.0 percent at end June 2024 (223.0 percent at end December 2023), while NSFR remained at 192.0 percent (178.2 percent at end December 2023) (**Figure B5**).

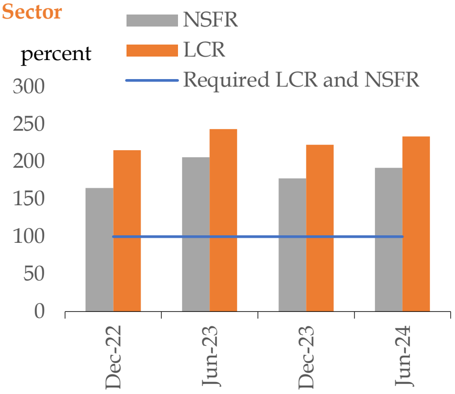
Deposits recorded a decent increase of 11.7 percent during H1CY24 (14.2 percent in H1CY23). A substantial rise of 19.0 percent in investments during the period under review (16.9 percent in H1CY23) necessitated additional borrowing, however; accordingly, the borrowings from financial institutions also grew by 13.1 percent during H1CY24 (15.5 percent growth in H1CY23).

Profitability:

Earning of the banking sector slowed down, as the after-tax profit grew only by 1.1 percent to Rs 287 billion in H1CY24 (**Figure B6**). As the minute growth in the bottom line was driven by increase in volume of assets and capital base, key profitability indicators i.e., after-tax ROA and ROE declined to 1.2 percent and 20.4 percent in H1CY24 compared to, respectively, 1.5 percent and 26.0 percent in H1CY23 (**Figure B7**).

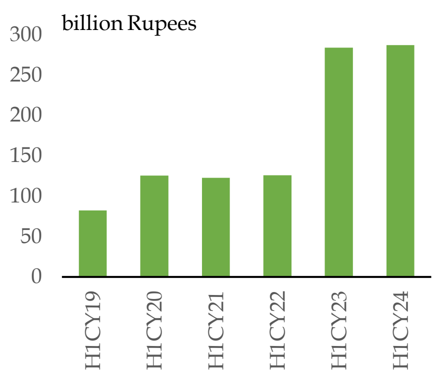
This slowdown in profitability was due to both a deceleration in the growth of advances as well as falling returns on earning assets as the market interest rates started to factor in the declining inflation. Accordingly, net interest margin (NIM) of the banking sector also contracted over the reviewed period. The net interest income (NII) of H1CY24 remained 13.2 percent lower than that of H2CY23. Detailed analysis to identify the sources of change in interest income and expense

Figure B5: Liquidity Indicators of Banking Sector



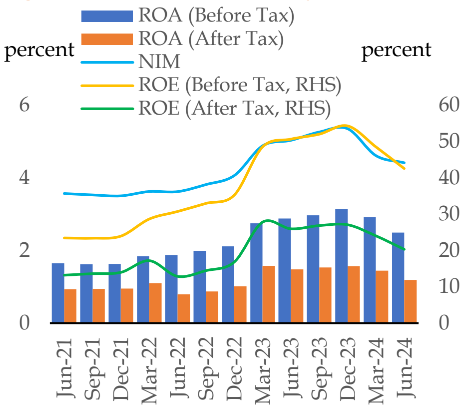
Source: State Bank of Pakistan

Figure B6: Profit After Tax (Year-to-Date)



Source: State Bank of Pakistan

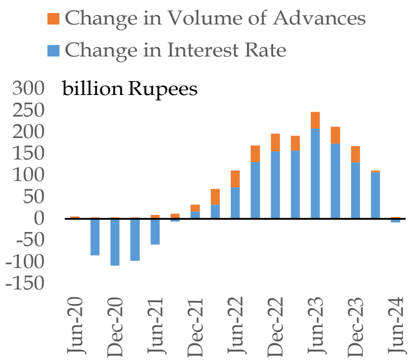
Figure B7: Trend in Profitability Indicators



Source: State Bank of Pakistan

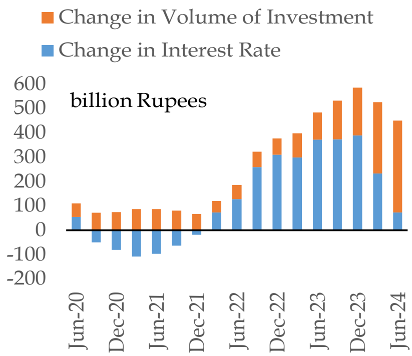
reveals that the changes in interest rate negatively contributed to YoY change in earnings from advances; however, in case of investments both a change in rate and an increased volume supported earning. Similarly, in case of deposits both change in rates and increased deposit mobilization contributed in increased interest expenses on deposits. However, in case of borrowing, the change in rates reduced expenses on borrowing, though volume pushed the expenses up (**Figure B8-B11**).

Figure B8: Change in Interest Earned on Advances due to ....



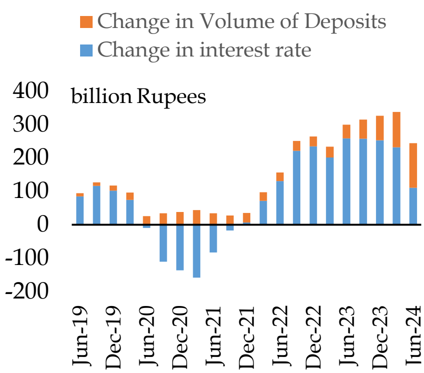
Source: State Bank of Pakistan

Figure B9: Change in Interest Earned on Investment due to ....



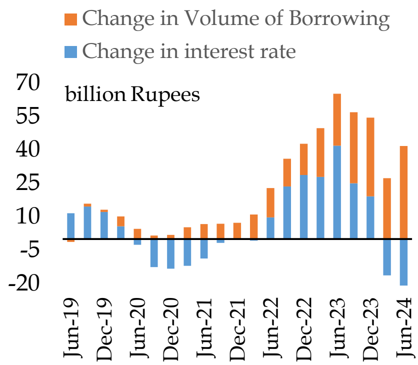
Source: State Bank of Pakistan

Figure B10: Change in Interest Expense on Deposits due to ....



Source: State Bank of Pakistan

Figure B11: Change in Interest Expense on Borrowing due to ....



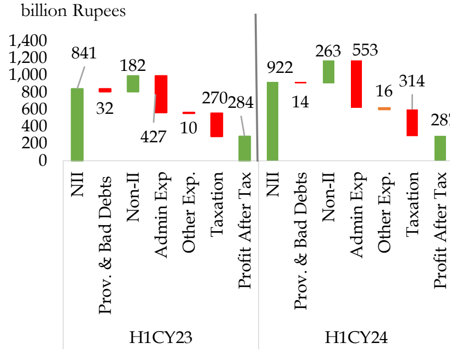
Source: State Bank of Pakistan

While NII posted a slowdown, non-interest income supported the profitability, as fee and FX incomes together with gains on sale of government securities contributed to overall earnings during H1CY24 (**Figure B12**).[29]

It is important to note that with recent increase in government's reliance on bank credit for budgetry needs, the earning from investments has been a major source of income for banks. Interest income from investments rose to 69.5 percent of total interest earnings (62.0 percent in H1CY23) (**Figure B13**). On the expense side, interest on deposits remained the major driver with 58.1 percent contribution in H1CY24 (59.1 percent in H1CY23), while the share of interest expenses on repo-based borrowing also increased to 33.0 percent (28.4 percent in H1CY23) (**Figure B14**).

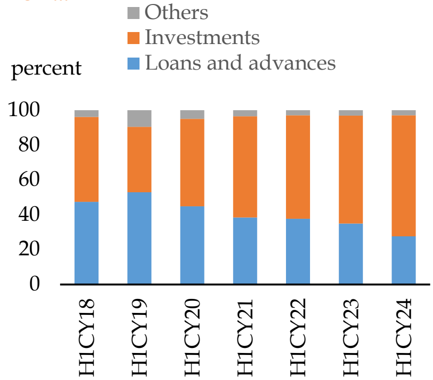
The charges for loans and assets loss provisioning more than halved in H1CY24 as compared to H1CY23 (i.e., Rs 14 billion in H1CY24 versus Rs 32 billion in H1CY23) – though IFRS-9 was implemented during the period under review. This was mainly due to subdued growth of NPLs in H1CY24, requiring only a limited amount of specific provisioning, while a contained increase in general provisioning under IFRS-9 reflects the better quality of banks' loan portfolio which comprises of better rated corporate firms. The operating expenses grew in line with previous trend owing to inflation, branch expansions and associated costs.

Figure B12: Composition of Profit After Tax



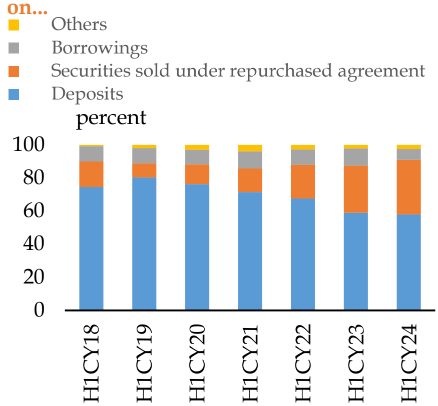
Source: State Bank of Pakistan

Figure B13: Share of Interest Earning from...



Source: State Bank of Pakistan

Figure B14: Share of Interest Expenses on...



Source: State Bank of Pakistan

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[29] Banks earned Rs 24 billion trading gains on sale of government securities in H1YC24 as compared to losses of Rs 1 billion in H1CY23 and gains of Rs 2 billion in H1CY22.

Taxation charges as percent of profit before tax also rose during H1CY24 to 52.2 percent (50.1 percent for CY23 and 48.7 percent for H1CY23), which further dragged the bottom line. The rising taxation has implications for the ability of the banking sector to both build necessary capital buffers to withstand unforeseen macro-financial shocks as well as to invest in technology and capacity development to improve efficiency (**Table B1**).

Table B1: Profit and Loss Statement of Banking Sector

	YTD (billion Rupees)			YoY change (percent)		
	H1CY22	H1CY23	H1CY24	H1CY22	H1CY23	H1CY24
Mark-Up/ Return/Interest Earned	1,357	2,723	3,838	57.9	100.7	41.0
Mark-Up/ Return/Interest Expenses	854	1,882	2,917	88.8	120.3	55.0
Net Mark-Up / Interest Income	503	841	922	23.6	67.3	9.6
Provisions & Bad Debts Written Off Directly/(Reversals)	18	32	14	(30.3)	80.7	(55.9)
Net Mark-Up /Interest Income After Provision	485	809	908	27.1	66.8	12.2
Fees, Commission & Brokerage Income	83	103	125	21.7	23.2	21.7
Dividend Income	10	13	16	29.5	33.9	21.9
Income From Dealing In Foreign Currencies	41	59	66	337.4	41.2	12.6
Other Income	12	8	56	(58.6)	(30.9)	589.0
Total Non - Markup / Interest Income	146	182	263	28.4	24.7	44.1
Administrative Expenses	329	427	553	20.4	29.8	29.7
Other Expenses	3	10	16	(45.6)	278.4	54.8
Total Non-Markup/Interest Expenses	331	437	569	19.2	31.9	30.3
Profit before Tax and Extra ordinary Items	300	555	601	38.0	84.9	8.4
PROFIT/ (LOSS) BEFORE TAXATION	**300**	**555**	**601**	**38.0**	**84.9**	**8.4**
Taxation/ (Reversal, Benefit)	174	270	314	83.9	55.5	16.1
PROFIT/ (LOSS) AFTER TAX	**126**	**284**	**287**	**2.7**	**125.4**	**1.1**

Note: YTD=Year to Date.

Source: State Bank of Pakistan

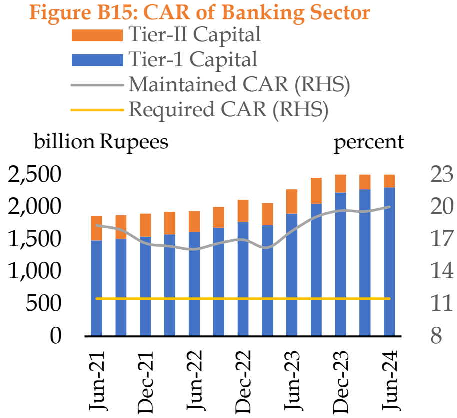
Capital Adequacy and Solvency:

The banking sector remains well-capitalized as the key soundness indicator of CAR improved to 20.0 percent in H1CY24 (17.8 percent in H1CY23) - well above the domestic regulatory requirement of 11.5 percent (**Figure B15**). The growth of 4.5 percent in eligible capital outpaced the growth of 2.7 percent in total risk-weighted assets, resulting in an improvement of CAR.

The eligible capital grew on the back of earnings and revaluation gains which emerged from lowering and inversion of yield curve, while the slow growth in risk weighted assets was due to slow growth in credit risk weighted assets.[30] Accordingly, the credit risk weighted assets to total risk weighted assets ratio declined to 70.9 percent in H1CY24 from 78.2 percent in June-2023 (**Figure B16**).

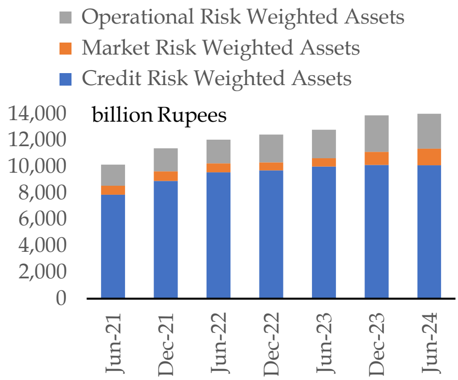
Market risk weighted assets, on the other hand, recorded substantial growth of 28.1 percent in H1CY24 (4.6 percent in H1CY23). This increase was consistent with the rise in banks' investments in government securities which increased further by 19.6 percent in H1CY24 (18.1 percent in H1CY23). Accordingly, share of market risk weighted assets in total risk-weighted assets increased to 8.8 percent by end June-2024 from 5.0 percent at end June-2023. The increase in market risk-weighted assets was also reflected in the trend of capital charge for market risk,[31] which, although currently at a lower level, has been rising over the last few quarters (**Figure B17**). Operational risk weighted assets also grew by 4.7 percent in H1CY24 (2.1 percent in H1CY23), owing to the increase in average gross income.

Figure B15: CAR of Banking Sector



Source: State Bank of Pakistan

Figure B16: Trend in Risk Weighted Assets



Source: State Bank of Pakistan

Operational risk weighted assets constituted 20.3 percent share in total risk weighted assets at end June-2024 (16.8 percent at end June-2023). Banks' increased investment in government securities vis-à-vis contained growth in loan portfolio and steady earnings over the past few quarters have led to increase in the relative shares of the market and operational risk-weighted assets vis-à-vis credit risk weighted assets.

The capital impairment ratio (net NPLs to capital) further lowered to -1.9 percent in H1CY24 (2.4 percent in H1CY23 and 3.8 percent in H1CY22).[32] The low level of

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[30] Revaluation losses on government securities were Rs 41 billion at end June-2024 (0.1 percent of total value of government securities), compared to Rs 127 billion (0.5 percent of total value of government securities) at end December-2023.

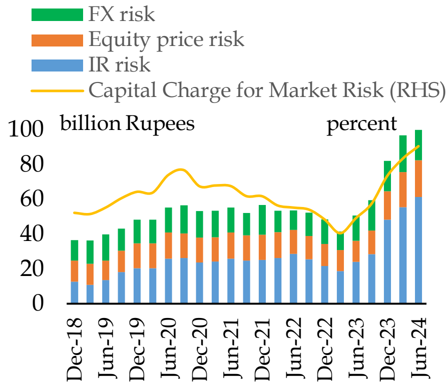
[31] Capital charged for market risk-weighted assets as percentage of minimum regulatory capital requirement.

[32] NPLs net of specific provision to capital ratio improved to 5.1 percent in H1CY24 (6.9 percent in H1CY23).

capital impairment ratio indicates muted risks to the solvency of the banking sector from its delinquent loan portfolio. Moreover, the adoption of IFRS-9 by the banking sector is also expected to strengthen the risk management practices of banks and positively affect their risk profiles. The comfortable level of CAR as well as the latest stress testing analysis indicate a strong resilience of the banks to withstand shocks to credit and market risk factors.

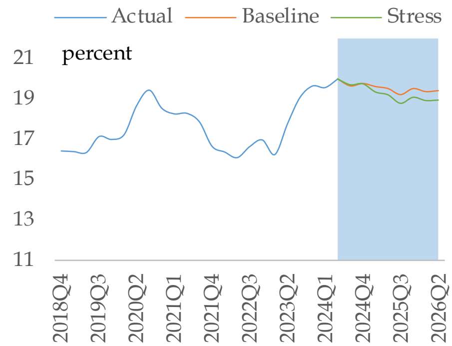
SBP regularly conducts macro-stress testing (scenario analysis) to assess the resilience of the banking sector against hypothetical adverse macroeconomic shocks. This analysis estimates the likely path of NPLs and CAR over next two years under both baseline (business-as-usual) and stressed (assuming significantly stressed macroeconomic conditions) scenarios. The latest stress test results show that the CAR of banking sector is likely to remain well above the minimum regulatory requirement (11.5 percent) under both business-as-usual scenario and assumed stressed macroeconomic conditions over the projected horizon of two years (**Figure B18**).

Figure B17: Capital Charge for Market Risk



Source: State Bank of Pakistan

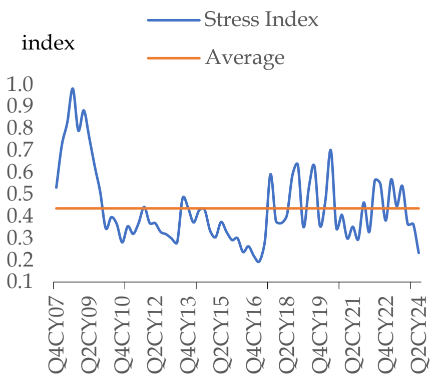
Figure B18: Projected Capital Adequacy Ratio Under different assumed scenarios



Source: State Bank of Pakistan

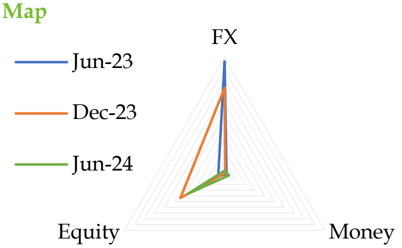
Domestic financial markets witnessed relatively lower stress during H1CY24 as compared to H1CY23 (**Figure C1 and C2**), as gradually improving macroeconomic conditions and reduced country risk premium helped in containing the volatility of markets. Relative calm in the financial markets was contributed by the FX market while equity market witnessed relatively elevated volatility during the reviewed period. Money market continued to operate in an orderly manner owing to effective money market operations by SBP.

Figure C1: Financial Markets Stress Index



Source: SBP Staff Calculations

Figure C2: Financial Markets Stability Map



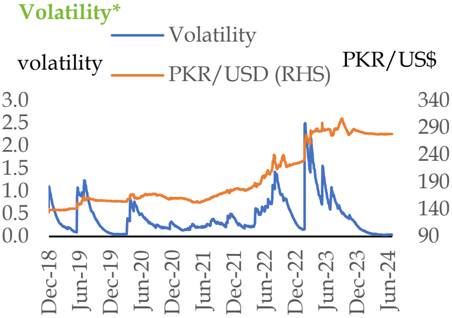
Note: Volatility in the respective markets is calculated using Exponential Weighted Moving Average (EWMA) method. Daily Overnight repo rate, KSE-100 index and Exchange Rate (PKR/US$) are used as indicators for the money, equity and foreign exchange markets, respectively.

Source: State Bank of Pakistan

FX Market

FX market—after remaining under persistent pressure—began to show signs of stability during H2CY23 (**Figure C3**). Rupee successively appreciated against USD by 1.5 percent and 1.3 percent during H2CY23 and H1CY24, respectively (20.8 percent depreciation in H1CY23). A number of positive developments helped relieve stress in the FX market. For instance, current account balance remained positive during the

Figure C3: Exchange Rate and its Volatility*



*Volatility is measured using Exponential Weighted Moving Average Method based on daily data

Source: State Bank of Pakistan

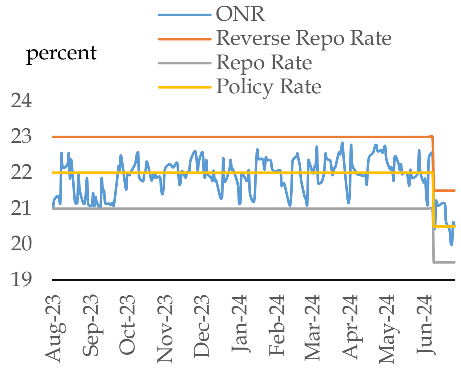
reviewed period.[33] Also, higher exports and increased workers' remittances helped reduce external account vulnerability.[34] Moreover, administrative and regulatory measures[35] in the FX market along with IMF-SBA program during H2CY23 continued to support stability. Importantly, country's risk—measured by Credit Default Swap spread—declined to 20.1 percent on average in H1CY24 from 57.8 percent in H1CY23.[36] Backed by such developments and revival in financial inflows,[37] country's FX reserves improved to USD 14.0 billion at end June-2024 from USD 9.2 billion at end June-2023.

Further, as a result of reforms and administrative actions, the average gap between open market and inter-bank market exchange significantly narrowed to Rs. 1.4 in the first half of CY24 against Rs. 7.8 in the comparable period of last year. Also, foreign currency deposits observed gradual improvement manifesting growing public confidence.[38] The latest stress test results point to low sensitivity and high resilience of banks to FX risks. On the basis of June-2024 data, even after a severe 30 percent hypothetical depreciation of PKR against USD, capital adequacy ratio of all CAR-compliant banks remains above minimum regulatory requirement (**Annexure E**).

Money Market

In response to softening inflationary pressures, SBP reduced policy rate by 150 basis points to 20.5 percent in June-2024. Overnight Repo Rate (ONR) continued to oscillate within the corridor and around the policy rate in the reviewed period, manifesting orderly functioning of the money market (**Figure C4**). On average, overnight repo rate volatility remained lower in H1CY24 as compared to the H1CY23. Nonetheless, contrary to H1CY23, the average gap between ONR and policy

Figure C4: Interest Rate Corridor



Source: State Bank of Pakistan

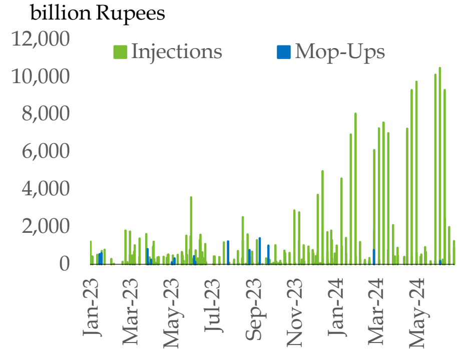
[33] Current account balance was recorded at USD 0.3 billion in H1CY24.
[34] Exports increased to USD 15.8 billion in H1CY24 against USD 13.7 billion in previous year. Moreover, workers' remittances increased to USD 16.8 billion as compared to USD 12.9 billion in H1CY23.
[35] Administrative measures refer to the actions by law enforcement agencies while regulatory measures refer to the reforms introduced by SBP in exchange companies.
[36] This represents 5 years CDS. Source: Bloomberg
[37] https://www.sbp.org.pk/m_policy/2024/MPS-Jul-2024-Eng.pdf
[38] Foreign currency deposits averaged USD 6.5 billion during H1CY24—up from USD 6.3 billion in H1CY23.

rate turned positive[39] in the first half of CY24 indicating relatively higher liquidity pressures. This seemed to be due to relatively weaker momentum of deposit mobilization, lower contraction in private sector advances, and continued government borrowing from the banking sector.[40] As a result, SBP injected on average Rs. 1,449 billion in H1CY24 against Rs. 571 billion in H1CY23 (**Figure C5**). Moreover, the injections frequency was also higher (99 times) as compared to the comparable period of previous year (70 times).[41]

The analysis of treasury yield curve indicates a significant downward shift by end December-2023 (**Figure C6**). It further inverted during H1CY24 implying increased expectations of ease in policy rate. Banks interest in the auctions, however, remained tilted towards treasury bills and floating rate PIBs (with semiannual reset). The offered to target ratio for fixed rate PIBs during H1CY24 was recorded 1.4 times while in case of treasury bills and floating rate PIBs, banks offered 3.5 times and 3.6 times of the targets, respectively. One reason behind relatively lower interest in fixed rate PIBs, despite declining interest rate expectations, may be a significantly lower return offered on fixed rate securities.[42]

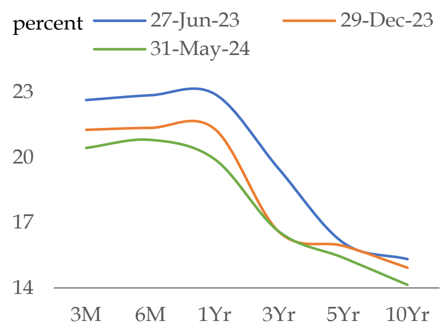
In the secondary market, the trading volume of government securities increased to Rs. 33.6

Figure C5: OMOs Injections and Mop-ups



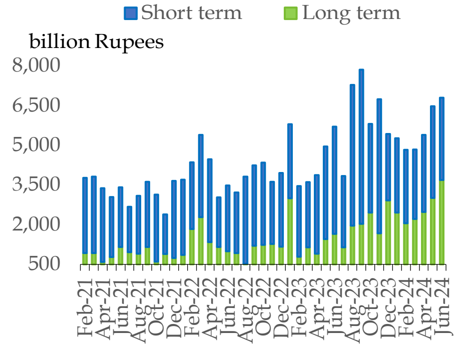
Source: State Bank of Pakistan

Figure C6: Yield Curve



Source: Mutual Funds Association of Pakistan

Figure C7: Secondary Market Trading



Source: State Bank of Pakistan

[39] The average gap between ONR and policy rate was 5.2 bps against -25.9 bps in H1CY23.

[40] Deposits grew by 11.7 percent in H1CY24 (14.2 percent in H1CY23). Contraction in advances to domestic private sector was 0.6 percent against contraction of 7.0 percent in H1CY23. The growth in government borrowing from the banks remained high at 21.0 percent (24.3 percent rise in H1CY23).

[41] The total injections under OMOs during H1CY24 amounted to Rs. 143,439 billion against Rs. 39,964 billion in H1CY23.

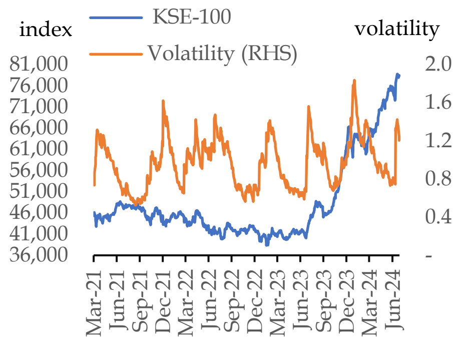
[42] Weighted average yield on fixed rate PIBs turns out 15.5 percent during H1CY24 – significantly lower than the weighted average yield of 20.6 percent on treasury bills.

trillion in H1CY24 from Rs. 27.4 trillion in H1CY23. Although trading remained concentrated in securities with short-tenor maturities, there has been persistent increase in trading of the longer-tenor maturities (**Figure C7**).

Equity Market

The strong rebound in equity market sentiments witnessed in the second half of CY23 continued to prevail in H1CY24. KSE-100 index further surged to 78,445 by end June-2024 from 62,451 at end Dec-2023 (25.6 percent growth in H1CY24 vs. 2.6 percent growth in H1CY23). The volatility of KSE-100 index, nonetheless, was higher in the reviewed period as compared to the last year (**Figure C8**). The trading volume, on average, increased to 220 million shares in H1CY24—significantly higher than 82.8 million shares in H1CY23. Recovery in economic activity, receding inflationary pressures, exchange rate stability, relative political stability, and upbeat progress over IMF programs buoyed investor confidence.

Figure C8: KSE-100 Index and its Volatility



Source: State Bank of Pakistan

Further analysis reveals net selling by the local investors during the reviewed period.[43] Among local investors, individuals and banks/DFIs were largest sellers of equities. Sector-wise, net buying was observed by foreign investors in scrips of banks followed by fertilizer. Importantly, the value-at-risk (VaR) analysis indicates that daily returns of KSE-100 index breached VaR Normal (100 days rolling) 6 times in H1CY24 (4 times in H1CY23); however, the average extent of breaches was lower, showing relatively contained risks in H1CY24.

[43] Net selling of equities amounted to USD 70 million in H1CY24.

Box 1: SBP's Systemic Risk Survey - 14th Wave (July 2024)

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

SBP completed the 14th wave of its biannual Systemic Risk Survey (SRS) in July, 2024 to measure the risk perceptions of the market participants and assess their confidence in the stability of the financial system.

The survey is meant to assess 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 range of stakeholders.[44] 135 participants took part in the current wave with a response rate of 62.5 percent, higher than the response rate of 44 percent in the previous wave.

Summary of Results:

The respondents identified, on the aggregate level, risks under "Macroeconomic" and "General" categories as the most critical current systemic risks. Under the "Macroeconomic Risk", the participants identified 'Energy Crisis' and 'Deterioration in Household Savings' as the key risk drivers. On the other hand, perception regarding "General Risk" was led by 'Geopolitical Risk for Pakistan', 'Natural Disaster/Increasing Threat to Climate Change', and 'Social Unrest'. Over the next six months, however, the risk perception across these broad categories is expected to be lower (**Figure A and B**).

The top three current risks highlighted by the participants include 'Energy Crisis' followed by 'Volatility in Commodity Prices' and 'Foreign Exchange Risk.' However, the respondents expect 'Political Uncertainty' and 'Slowdown in Domestic Economic Growth' to pose challenges to the financial sector over next six months (**Figure C**).

While comparing the current wave with the last two waves, there is a significant deterioration in the risk perception on 'Volatility in Real Estate Prices' and 'Operational Risk.' On the other hand, risk perception has improved for 'Foreign Exchange Risk' and 'Domestic Inflation' (**Figure E**).

Finally, the responses illustrate that the survey participants have further strengthened their confidence on the stability of the financial system of Pakistan as well as on regulator's ability to ensure its objective of financial stability (**Figure D**).

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

Figure A: Perception on sources of systemic risk- present

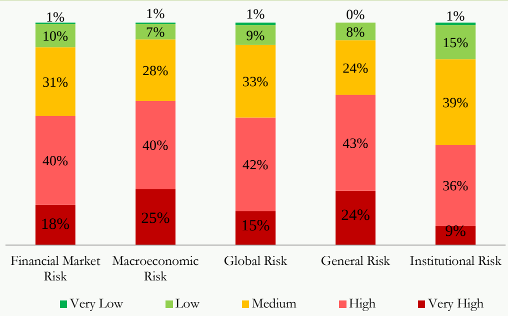


Figure B: Perception on sources of systemic risk- in 6 months

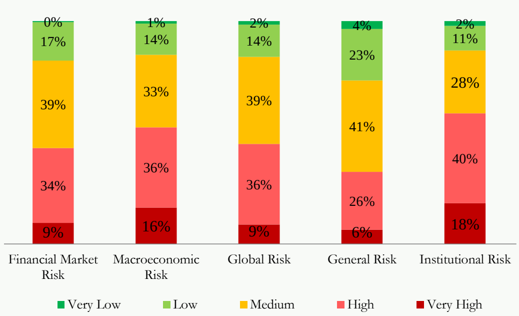


Figure C: Top 10 Risks Identified

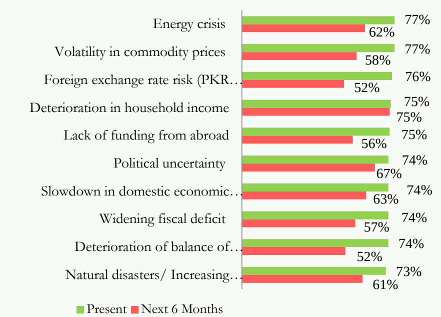


Figure D: Confidence in Financial Stability - Comparison with 13th & 14th wave

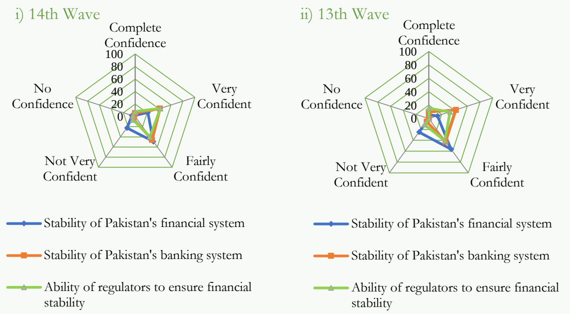


Figure E: Comparison of SBP's Systemic Risk Survey (SRS) Results (12th, 13th and 14th waves)

		12th Wave (Jul-23) Present (Average)	13th Wave (Jan-24) Present (Average)	14th Wave (July-24) Present (Average)
Global Risks	Slowdown in global growth	2.50	2.46	2.48
	Sovereign default risk	2.68	2.78	2.82
	Lack of funding from abroad	1.89	1.97	2.06
	Volatility in commodity prices	2.06	1.89	2.02
Macroeconomic Risks	Slowdown in domestic growth	1.93	2.00	2.01
	Increase in domestic inflation	1.69	1.82	2.04
	Widening fiscal deficit	1.89	1.82	1.99
	Deterioration of BoP	1.90	1.89	1.98
	Sovereign rating downgrade	2.17	2.26	2.32
	Slowdown in corporate sector growth	2.06	2.27	2.30
	Slowdown in infrastructure development	2.51	2.52	2.46
	Deterioration in household savings	1.85	1.82	1.93
	Volatility in real estate prices	2.81	2.80	2.71
	Energy crisis	1.97	1.89	1.87
	Political uncertainty	1.70	1.84	1.98
Financial Market risks	Foreign exchange rate risk	1.64	1.74	2.00
	Equity price risk	2.44	2.61	2.63
	Interest rate risk	1.97	2.13	2.32
	Liquidity risk	2.16	2.34	2.47

		12th Wave (Jul-23) Present (Average)	13th Wave (Jan-24) Present (Average)	14th Wave (July-24) Present (Average)
Institutional Risks	Regulatory risk	2.70	2.63	2.63
	Legal risk	2.82	2.88	2.85
	Asset quality deterioration	2.31	2.20	2.39
	Shortfall in capital requirement	2.44	2.45	2.44
	Access to funding (deposit mobilization & borrowings)	2.79	2.64	2.68
	Excessive private sector credit	2.74	2.78	2.81
	Concentration risk in PSC	2.81	2.74	2.78
	Concentration risk in mutual fund	3.07	3.07	3.06
	Operational risk	2.79	2.70	2.63
	Cyber security risk	2.38	2.21	2.27
	Disruption in financial market	2.66	2.72	2.68
General Risks	Terrorism	2.55	2.34	2.29
	Geopolitical risk for Pakistan	2.26	2.08	2.21
	Natural disasters/ Increasing threat of climate change	2.11	2.18	2.11
	Social unrest	2.22	2.24	2.21

1 — 3 — 5

Very High — Medium — Very Low

The performance of the banking sector in H2CY24 depends on the operating environment and evolving policy stance. Encouragingly, macroeconomic environment has been improving with revival in economic activity, receding inflationary pressures, and narrowing current account deficit. Moreover, SBP has cut policy rate by 450 bps, so far. Foregoing improvements, coupled with a stable exchange rate, are likely to ease the financial conditions, going forward.

The banking sector is expected to continue on the path of steady performance. The expansion in balance sheet is likely to be driven mainly by investments owing to persistent borrowings needs of the government. Advances are also expected to gain momentum in Q4CY24 due to, inter alia, seasonal factors, the expected recovery in economic activity and easing of financial conditions.

Earnings of the banking sector are likely to remain steady on the back of increase in the volume of earning assets and will likely support the solvency position. A continued economic recovery may enhance both credit need as well as the repayment capacity of the borrowers and further improve the credit risk profiles of the banks. The recent upgrade in sovereign credit rating is a positive development, however, the timely realization of new IMF program will significantly help revive financial inflows. Nonetheless, the banking sector's exposure to the government is expected to remain high in H2CY24 and it demands earnest measures by the treasury to reduce the reliance on banking sector for fiscal needs. Nonetheless, the banking sector, due to its capital cushions and buffers, is expected to remain resilient to adverse hypothetical but plausible shocks to key risk factors as well as macroeconomic conditions. For instance, results of the latest macro stress tests also suggest that the banking sector, in general, and the large systemically important banks, in particular, are expected to show resilience and withstand assumed severe macroeconomic shocks over the projected period of two years.

E. Annexures (A-F)

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

million Rupees

Financial Position	CY20	H1CY21	CY21	H1CY22	CY22	H1CY23	CY23	H1CY24
ASSETS								
Cash & Balances With Treasury Banks	2,014,703	2,247,704	2,276,963	2,330,437	1,829,335	2,953,977	2,922,048	3,367,430
Balances With Other Banks	277,988	244,200	253,008	329,621	265,732	419,914	395,676	488,677
Lending To Financial Institutions	1,079,071	1,097,202	1,095,663	1,300,829	1,132,188	931,113	1,629,493	1,379,374
Investments - Net	11,934,634	14,162,493	14,554,438	17,829,457	18,400,000	21,504,292	26,019,114	30,972,911
Advances - Net*	8,291,572	8,808,147	10,120,509	10,889,864	11,818,241	12,059,652	12,178,293	12,083,484
Operating Fixed Assets	626,251	657,406	704,729	750,991	824,231	891,189	951,397	1,034,822
Deferred Tax Assets	91,820	103,751	133,061	178,968	202,613	290,272	198,305	222,061
Other Assets	807,816	856,051	919,931	1,250,573	1,323,191	1,746,243	2,069,286	2,137,979
TOTAL ASSETS	**25,123,855**	**28,176,953**	**30,058,303**	**34,860,740**	**35,795,532**	**40,796,653**	**46,363,611**	**51,686,738**
LIABILITIES								
Bills Payable	313,827	338,769	328,566	367,963	439,979	435,836	409,720	444,865
Borrowings From Financial Institution	3,216,866	4,265,193	4,738,036	7,143,910	7,845,098	9,058,174	11,672,920	13,200,823
Deposits And Other Accounts	18,518,525	20,441,315	21,719,885	23,730,225	23,461,394	26,784,947	29,128,202	32,538,037
Sub-ordinated Loans	121,854	112,732	122,815	136,827	161,581	175,008	176,073	172,846
Liabilities Against Assets Subject To Finance Lease	7,534	8,064	8,025	8,109	8,268	13,106	9,873	40,127
Deferred Tax Liabilities	46,549	45,183	29,319	20,684	9,793	(8,941)	48,862	61,947
Other Liabilities	1,036,267	1,082,862	1,170,116	1,505,355	1,783,706	2,004,373	2,131,021	2,543,453
TOTAL LIABILITIES	**23,261,422**	**26,294,119**	**28,116,763**	**32,913,074**	**33,709,818**	**38,462,502**	**43,576,672**	**48,803,918**
NET ASSETS	**1,862,433**	**1,882,835**	**1,941,540**	**1,947,666**	**2,085,713**	**2,334,150**	**2,786,939**	**2,882,820**
NET ASSETS REPRESENTED BY:								
Share Capital	556,131	561,687	568,000	581,950	592,776	613,887	628,419	628,664
Reserves	392,599	404,463	445,470	471,971	509,887	612,217	652,682	688,997
Unappropriated Profit	642,965	651,445	721,894	761,847	873,629	1,016,124	1,209,273	1,221,023
Share Holders' Equity	**1,591,696**	**1,617,595**	**1,735,364**	**1,815,769**	**1,976,291**	**2,242,228**	**2,490,374**	**2,538,684**
Surplus/Deficit On Revaluation Of Assets	270,737	265,240	206,176	131,897	109,422	91,922	296,565	344,136
TOTAL	**1,862,433**	**1,882,835**	**1,941,540**	**1,947,666**	**2,085,713**	**2,334,150**	**2,786,939**	**2,882,820**

PROFIT AND LOSS STATEMENT	CY20	H1CY21	CY21	H1CY22	CY22	H1CY23	CY23	H1CY24
Mark-Up/ Return/Interest Earned	1,924,328	859,148	1,831,650	1,356,779	3,420,449	2,723,065	6,366,447	3,838,419
Mark-Up/ Return/Interest Expenses	1,071,898	452,398	992,650	854,211	2,243,024	1,882,145	4,463,672	2,916,749
Net Mark-Up / Interest Income	**852,430**	**406,750**	**839,000**	**502,567**	**1,177,424**	**840,920**	**1,902,775**	**921,670**
Provisions & Bad Debts Written Off Directly/(Reversals)	123,039	25,121	50,405	17,505	58,768	31,636	61,614	13,957
Net Mark-Up / Interest Income After Provision	**729,391**	**381,630**	**788,595**	**485,063**	**1,118,656**	**809,283**	**1,841,161**	**907,713**
Fees, Commission & Brokerage Income	118,322	68,464	142,803	83,316	173,148	102,674	217,417	124,998
Dividend Income	10,810	7,461	18,003	9,659	21,681	12,930	25,684	15,756
Income From Dealing In Foreign Currencies	21,854	9,474	34,746	41,436	80,448	58,505	111,283	65,886
Other Income	65,920	28,389	43,161	11,742	23,193	8,114	37,144	55,904
Total Non - Markup / Interest Income	**216,906**	**113,788**	**238,713**	**146,154**	**298,470**	**182,222**	**391,527**	**262,544**
	946,298	495,418	1,027,308	631,216	1,417,126	991,506	2,232,688	1,170,258
Administrative Expenses	521,253	273,050	565,230	328,629	704,573	426,588	916,191	553,137
Other Expenses	13,690	5,029	10,987	2,735	9,531	10,352	29,798	16,022
Total Non-Markup/Interest Expenses	**534,943**	**278,079**	**576,216**	**331,364**	**714,104**	**436,940**	**945,989**	**569,159**
Profit before Tax and Extra ordinary Items	411,355	217,339	451,092	299,852	703,022	554,566	1,286,699	601,099
Extra ordinary/unusual Items - Gain/(Loss)			-	-	-	-	-	-
PROFIT/ (LOSS) BEFORE TAXATION	**411,355**	**217,339**	**451,092**	**299,852**	**703,022**	**554,566**	**1,286,699**	**601,099**
Less: Taxation	167,315	94,434	186,870	173,661	366,532	270,110	644,475	313,650
PROFIT/ (LOSS) AFTER TAX	**244,039**	**122,905**	**264,222**	**126,191**	**336,490**	**284,456**	**642,224**	**287,450**

Provisions include general and specific provisions

Source: State Bank of Pakistan

Annexure B

Distribution of Deposits

billion Rupees	CY20	H1CY21	CY21	H1CY22	CY22	H1CY23	CY23	H1CY24
DEPOSITS	**18,519**	**20,441**	**21,720**	**23,730**	**23,461**	**26,785**	**29,128**	**32,538**
Customers	**17,271**	**19,017**	**20,179**	**22,015**	**22,583**	**25,336**	**27,289**	**30,506**
Fixed Deposits	3,631	3,737	4,227	4,462	4,503	4,886	5,310	5,361
Saving Deposits	6,734	7,306	7,562	7,967	8,298	9,109	10,469	12,030
Current accounts - Remunerative	755	852	1,019	1,153	1,174	1,263	1,255	1,707
Current accounts - Non-remunerative	5,961	6,867	7,138	8,060	8,162	9,578	9,841	10,878
Others	189	254	233	373	447	500	415	532
Financial Institutions	**1,248**	**1,425**	**1,540**	**1,716**	**878**	**1,448**	**1,839**	**2,032**
Remunerative Deposits	750	903	927	1,093	748	903	1,255	1,361
Non-remunerative Deposits	498	522	613	622	130	545	584	671
Break up of Deposits Currency Wise	**18,519**	**20,441**	**21,720**	**23,730**	**23,461**	**26,785**	**29,128**	**32,538**
Local Currency Deposits	16,566	18,489	19,539	21,170	20,787	23,468	26,273	28,952
Foreign Currency Deposits	1,952	1,952	2,180	2,560	2,674	3,317	2,855	3,586

Source: State Bank of Pakistan

Annexure C

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

Amount in million Rupees, ratio in percent

	CY22			H1CY23			CY23			H1CY24		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	9,022,077	717,299	8.0	8,692,092	735,700	8.5	8,878,428	779,085	8.8	8,803,067	780,630	8.9
SMEs Sector	532,580	74,885	14.1	440,650	74,566	16.9	537,795	76,095	14.1	484,358	79,472	16.4
Agriculture Sector	448,527	55,806	12.4	453,778	62,119	13.7	501,720	59,546	11.9	527,544	64,155	12.2
Consumer sector	895,908	32,165	3.6	850,175	35,776	4.2	814,807	34,209	4.2	800,257	36,667	4.6
i. Credit cards	86,443	2,260	2.6	93,679	2,310	2.5	107,645	1,619	1.5	122,016	2,072	1.7
ii. Auto loans	332,569	4,516	1.4	287,628	4,650	1.6	247,398	4,541	1.8	225,499	4,856	2.2
iii. Consumer durable	1,163	94	8.1	1,323	72	5.5	1,519	52	3.5	2,017	73	3.6
iv. Mortgage loans	219,833	10,716	4.9	219,374	12,070	5.5	211,519	12,168	5.8	207,595	13,134	6.3
v. Other personal loans	255,898	14,578	5.7	248,171	16,673	6.7	246,727	15,828	6.4	243,131	16,532	6.8
Commodity financing	1,260,929	7,252	0.6	1,610,703	7,385	0.5	1,407,078	8,807	0.6	1,539,805	9,222	0.6
Cotton	59,149	1,609	2.7	58,715	1,419	2.4	70,332	1,410	2.0	62,328	1,376	2.2
Rice	30,771	2,029	6.6	20,455	2,011	9.8	32,646	2,541	7.8	15,519	2,454	15.8
Sugar	113,089	1,728	1.5	123,903	1,673	1.3	100,871	1,621	1.6	205,620	1,556	0.8
Wheat	954,837	72	0.0	1,254,836	65	0.0	1,064,423	717	0.1	1,117,651	1,211	0.1
Others	103,082	1,814	1.8	152,794	2,217	1.5	138,805	2,519	1.8	138,687	2,625	1.9
Staff Loans	243,452	2,653	1.1	265,451	2,596	1.0	303,074	2,802	0.9	335,636	3,162	0.9
Others	241,883	33,978	14.0	652,131	41,262	6.3	657,693	34,274	5.2	650,193	31,046	4.8
Total	12,645,356	924,038	7.3	12,964,980	959,404	7.4	13,100,595	994,818	7.6	13,140,861	1,004,354	7.6

Source: State Bank of Pakistan

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

Amount in million Rupees, ratio in percent

	CY22			H1CY23			CY23			H1CY24		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	1,079,382	60,489	5.6	1,143,465	66,029	5.8	1,030,469	65,930	6.4	1,167,594	67,949	5.8
Automobile/Transportation	231,649	17,776	7.7	201,808	18,935	9.4	191,168	19,258	10.1	174,718	17,663	10.1
Cement	291,478	7,064	2.4	279,687	6,385	2.3	256,209	7,326	2.9	242,127	7,719	3.2
Chemical & Pharmaceuticals	506,740	16,280	3.2	433,696	17,724	4.1	435,472	16,589	3.8	476,211	18,699	3.9
Electronics	171,971	24,272	14.1	134,318	25,834	19.2	158,175	25,923	16.4	165,089	26,029	15.8
Financial	663,779	10,645	1.6	422,297	11,981	2.8	405,467	11,431	2.8	374,143	11,128	3.0
Individuals	1,211,088	62,400	5.2	1,152,769	64,975	5.6	1,151,752	63,590	5.5	1,189,218	65,284	5.5
Insurance	4,140	62	1.5	4,394	62	1.4	4,372	62	1.4	2,856	62	2.2
Others	4,502,988	411,333	9.1	5,061,564	430,400	8.5	5,311,860	461,137	8.7	5,119,295	467,445	9.1
Production/Transmission of Energy	1,620,994	85,439	5.3	1,793,232	85,438	4.8	1,767,480	82,560	4.7	1,742,310	85,506	4.9
Shoes & Leather garments	52,891	5,919	11.2	49,969	6,127	12.3	49,695	5,841	11.8	51,293	5,932	11.6
Sugar	292,043	58,414	20.0	333,126	57,280	17.2	294,808	53,171	18.0	466,826	53,429	11.4
Textile	2,016,210	163,945	8.1	1,954,653	168,234	8.6	2,043,668	182,000	8.9	1,969,183	177,509	9.0
Total	12,645,356	924,038	7.3	12,964,980	959,404	7.4	13,100,595	994,818	7.6	13,140,861	1,004,354	7.6

Source: State Bank of Pakistan

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

million Rupees

	CY22		H1CY23		CY23		H1CY24	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	20,421	-	26,038	-	22,955	-	22,632	-
Sub Standard	39,255	7,972	42,407	8,798	79,510	10,814	58,036	19,003
Doubtful	94,426	31,230	61,707	30,030	69,767	34,465	96,916	52,310
Loss	769,936	709,239	829,252	763,010	822,586	763,236	826,770	787,884
Total	924,038	748,441	959,404	801,837	994,818	808,514	1,004,354	859,197

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

Source: State Bank of Pakistan

Annexure D

Financial Soundness Indicators of the Banking Sector

percent

Indicators	CY21	H1CY22	CY22	H1CY23	CY23	H1CY24
CAPITAL ADEQUACY						
Risk Weighted CAR^	16.7	16.1	17.0	17.8	19.7	20.0
Tier 1 Capital to RWA	13.5	13.4	14.2	14.8	16.0	16.2
ASSET QUALITY						
NPLs to Total Loans	7.9	7.5	7.3	7.4	7.6	7.6
Provision to NPLs*	91.2	91.6	89.5	94.4	92.7	105.3
Specific provisions to NPLs	83.2	83.5	81.0	83.6	81.3	85.5
Net NPLs to Net Loans	0.7	0.7	0.8	0.4	0.6	1.2
Net NPLs to Capital^^	4.0	3.8	4.6	2.4	2.7	5.1
EARNINGS						
Return on Assets (Before Tax)	1.6	1.9	2.1	2.9	3.1	2.5
Return on Assets (After Tax)	1.0	0.8	1.0	1.5	1.6	1.2
ROE (Avg. Equity& Surplus) (Before Tax)	24.0	30.7	35.3	50.7	54.4	42.6
ROE (Avg. Equity &Surplus) (After Tax)	14.0	12.9	16.9	26.0	27.1	20.4
NII/Gross Income	77.9	77.5	79.8	82.2	82.9	77.8
Cost / Income Ratio	53.5	51.1	48.4	42.7	41.2	48.1
LIQUIDITY						
Liquid Assets/Total Assets	55.4	58.5	56.6	59.9	63.5	66.8
Liquid Assets/Total Deposits	76.7	86.0	86.4	91.2	101.1	106.1
Advances/Deposits	46.6	45.9	50.4	45.0	41.8	37.1

^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

*Provisions include general and specific provisions

Source: State Bank of Pakistan

Annexure E

Stress Testing Results of the Banking System

Position based as June 30, 2024 (Un-audited)

	Shock Details		Number of Banks with CAR*			
			< 0%	0% - 8%	8% -	> 11.5%
	Pre-Shock Position		2	0	0	28
	Credit Shocks	**Nature of Shock**	**< 0%**	**0% - 8%**	**8% - 11.5%**	**> 11.5%**
C-1	10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss.	Hypothetical	2	0	0	28
C-2	Default of top 3 private sector borrowers/Groups (fund based) exposures, including outstanding or limit whichever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions.	Hypothetical	2	1	1	26
C-3	Default of top 3 private sector borrowers/Groups (fund based and Non-Fund based) exposures, including outstanding or limit whichever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions.	Hypothetical	2	1	1	26
C-4	All NPLs under substandard downgrade to doubtful and all doubtful downgrade to loss.	Hypothetical	2	0	0	28
C-5	Increase in provisions against NPLs equivalent to 25% of Net NPLs.	Hypothetical	2	0	0	28
C-6	Increase in NPLs to Loans Ratio (NPLR) equivalent to the historical maximum quarterly increase in NPLs to Loans Ratio of the individual banks.	Historical	2	0	1	27
C-7	Increase in NPLs of all banks equivalent to the historical maximum quarterly rise.	Historical	2	0	0	28
C-8	Increase in NPLs to Loans Ratio of Textile Sector of the banks equivalent to the historical maximum quarterly increase in these banks.	Historical	2	0	0	28
C-9	Increase in NPLs to Loans Ratio of Consumer Sector of the banks equivalent to the historical maximum quarterly increase in these banks.	Historical	2	0	0	28
C-10	Increase in NPLs to Loans Ratio of Agriculture & SME Sector of the banks equivalent to the historical maximum quarterly increase in these banks.	Historical	2	0	0	28
				NPLR	**Critical NPLR**	**Difference**
C-11	Critical Infection Ratio (The ratio of NPLs to Loans where capital would wipe out)	Hypothetical		7.6%	51.5%	43.8%
			Number of Banks with CAR			
	Market Shocks		**< 0%**	**0% - 8%**	**8% - 11.50%**	**> 11.50%**
IR-1	Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities.	Hypothetical	2	0	0	28
IR-2	Upward shift coupled with steepening of the yield curve by increasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the historical maximum quarterly increase.	Historical	2	0	0	28
IR-3	Downward Shift plus flattening of the yield curve by decreasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the historical maximum quarterly increase.	Historical	2	1	0	27
IR-4	Impact of Increase in interest rate by 100bps on investment portfolio only	Hypothetical	2	0	0	28
ER-1	Depreciation of Pak Rupee exchange rate by 30%.	Hypothetical	2	0	0	28
ER-2	Depreciation of Pak Rupee exchange rate by 25.3% equivalent to the historical quarterly highest depreciation of rupee against dollar.	Historical	2	0	0	28
ER-3	Appreciation of Pak Rupee exchange rate by 7.10% equivalent to the historical quarterly highest level of appreciation of rupee against dollar .	Historical	2	0	0	28
EQ-1	Fall in general equity prices by 36.1% equivalent to maximum decline in the index.	Historical	2	0	1	27
EQ-2	Fall in general equity prices by 50%.	Hypothetical	2	1	0	27
	Liquidity Shocks			**No. of Banks with no liquidity after**		
				3 Days	**4 Days**	**5 Days**
L-1	Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	Hypothetical		0	0	2
				1 Day	**2 Days**	**3 Days**
L-2	Withdrawal of Wholesale Deposits and Unsecured Borrowings by 10%, 20%, and 50% for three consecutive days respectively.	Hypothetical		1	1	5
				Number of Banks with LCR<1		
L-3	Shock to Liquidity Coverage Ratio Applying 20% haircut to the value of Investments in Government and Markatable Securities	Hypothetical		1		

* Excluding SME and PPCBL

Source: State Bank of Pakistan

Annexure F

Group-wise Composition of Banks

CY21	H1CY22	CY22	H1CY23	CY23	H1CY24
A. Public Sector Com. Banks (5)	**A. Public Sector Com. Banks (5)**	**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.	First Women Bank Ltd.	First Women Bank Ltd.
National Bank of Pakistan	National Bank of Pakistan	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.	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 Khyber	The Bank of Khyber
The Bank of Punjab	The Bank of Punjab	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)**	**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.	AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.
Allied Bank Ltd.	Allied Bank 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.	Askari Bank Ltd.	Askari Bank Ltd.
Bank AL Habib Ltd.	Bank AL Habib 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.	Bank Alfalah Ltd.	Bank Alfalah Ltd.
BankIslami Pakistan Ltd.	BankIslami Pakistan 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.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.
Faysal Bank Ltd.	Faysal Bank 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 Bank Ltd.	Habib Bank Ltd.
Habib Metropolitan Bank Ltd.	Habib Metropolitan 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.	JS Bank Ltd.	JS Bank Ltd.
MCB Bank Ltd.	MCB 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.	MCB Islamic Bank Ltd.	MCB Islamic Bank Ltd.
Meezan Bank Ltd.	Meezan 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.	SAMBA Bank Ltd.	SAMBA Bank Ltd.
Silk Bank Ltd	Silk 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.	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.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.
Summit Bank Ltd	Summit Bank Ltd	Summit Bank Ltd	Summit Bank Ltd	Bank Makramah Ltd. (formerly Summit Bank Ltd.)	Bank Makramah Ltd. (formerly Summit Bank Ltd.)
United Bank Ltd.	United Bank Ltd.	United Bank Ltd.	United Bank Ltd.	United Bank Ltd.	United Bank Ltd.
C. Foreign Banks (4)	**C. Foreign Banks (4)**	**C. Foreign Banks (4)**	**C. Foreign Banks (4)**	**C. Foreign Banks (4)**	**C. Foreign Banks (4)**
Citibank N.A.	Citibank N.A.	Citibank N.A.	Citibank N.A.	Citibank N.A.	Citibank N.A.
Deutsche Bank AG	Deutsche Bank AG	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.	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	Bank of China Limited	Bank of China Limited
D. Specialized Banks (3)*	**D. Specialized Banks (3)***	**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.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.
SME Bank Ltd.	SME 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.	Zarai Taraqiati Bank Ltd.	Zarai Taraqiati Bank Ltd.
All Commercial Banks (29)	**All Commercial Banks (29)**	**All Commercial Banks (29)**	**All Commercial Banks (29)**	**All Commercial Banks (29)**	**All Commercial Banks (29)**
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
All Banks (32)	**All Banks (32)**	**All Banks (32)**	**All Banks (32)**	**All Banks (32)**	**All Banks (32)**
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

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