



State Bank of Pakistan

# Financial Stability Review 2024



# Financial Stability Review

2024

April 24, 2025





State Bank of Pakistan

## **Financial Stability Review**

Annual Report  
For the year 2024  
of the Board of Directors of State Bank of Pakistan

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### *Data Convention and Coverage*

The FSR 2024 uses CY for the Calendar Year, FY for the Fiscal Year (starting in July of a CY and ending in June of the following CY), Q1-Q4 for the four quarters of the corresponding CY or FY and H1-H2 for the two halves of a CY or FY, as the case may be. Exact dates are given in long form (e.g., November 29, 2021) while specific months are given in short form (e.g., September 2021).

The review is generally based on the data reported in the unaudited or audited accounts (where available) of financial institutions for different components as follows:

- Banking sector (conventional and Islamic banks), Development Finance Institutions (DFIs), Microfinance Banks (MFBs) and Payment Systems are based on unaudited financial statements reported to SBP through Quarterly Reporting Chart of Accounts (RCOA) and various other returns.
- Non-Bank Financial Institutions (NBFIs) is based on monthly reports submitted to Securities & Exchange Commission of Pakistan (SECP) through Specialized Companies Return System (SCRS) and data extracted from the website of Mutual Funds Association of Pakistan (MUFAP).
- Insurance and Takaful companies is based on audited and unaudited financial statements extracted from the insurers' websites and regulatory returns submitted to SECP.

The data pertaining to the corporate sector has been obtained from SECP, SBP, PSX, Bloomberg and the financial statements of companies.



## Governor's Message

Global economic growth slightly moderated in 2024, while disinflationary trends witnessed further progress owing to contractionary policies, pursued over the last couple of years to address the elevated inflationary pressures. Accordingly, most of the central banks started to make cautious rate cuts while keeping a close eye on emerging developments. The global financial conditions eased, albeit with some differences across jurisdictions. The economic policy uncertainty – after consistently declining – sharply rose towards the end of CY24 owing to renewed drive towards the protectionist trade policies by leading economies. The rise in uncertainty and resultant volatility in financial conditions may complicate macro-financial landscape of various economies.

On domestic front, the year 2024 marked a beginning of turnaround in macroeconomic environment. Amid a traction in stability measures, signs of economic recovery emerged as inflation subsided significantly and external and fiscal accounts improved, which were also reflected in revival of business confidence. Nonetheless, to put the economic recovery on a sustainable growth path and enhance macroeconomic resilience, it is imperative for the government to continue with the much needed structural reforms, including fiscal consolidation and broadening of tax base, achieving debt sustainability, improving productivity and increasing export competitiveness.

SBP's prudential policy and oversight frameworks ensured the stability of financial sector during CY24. Particularly, the banking sector, which contributes around 77 percent of the financial sector's assets, exhibited steady performance and maintained its financial soundness. Assets of the sector recorded a notable expansion, which was mainly driven by investments as well as advances. The advances rebounded strongly amid the recovering demand as well as transitory factors like banks' efforts to improve their advances to deposit (ADR) ratio. This was due to ADR-linked tax policy which taxed the income from government securities at progressively higher rates, if the ratio fell below certain thresholds. Deposit mobilization also lost momentum as banks strived to raise their ADR ratios. Accordingly, the sector's reliance on borrowings increased to fund the assets growth. Banks' earnings remained steady on the back of increased volume of earning assets as the fall in interest rates translated into deceleration in earnings' growth.

As regards the key financial risks to the banking sector, credit risk profile of the banking sector manifested no serious concerns due to adequate provisioning coverage of non-performing loans. The adoption of IFRS-9 is expected to further enhance the risk management practices of banks and augment their financial cushions to withstand delinquencies in loan portfolio. Solvency indicators such as capital adequacy ratio (CAR) of the banking sector improved further to 20.6 percent and remained well above the global standard as well as domestic minimum regulatory requirements.

In view of the quite dynamic economic environment and exogenous shocks like climate change, SBP regularly conducts stress testing of the banking sector to assess its resilience against hypothetical adverse macroeconomic scenarios and severe shocks to key risk factors. As per the latest assessment, the sector is expected to remain resilient to various severe hypothetical but plausible shocks over the projected horizon of three years, with its CAR remaining well above the minimum regulatory requirements. Moreover, with the cumulative cut of 1,000 bps in SBP policy rate since June 2024, the financial conditions have started easing, which are expected to further improve the repayment capacity of borrowers and soundness of banking sector. In view of the country's high vulnerability to climate-related risks and increased frequency of extreme weather events, climate-change is one of the leading theme of SBP's

Strategic Plan-2028, which envisages various initiatives to cope with both the challenges and opportunities posed by the climate change. In this context, SBP has taken an initiative to develop and adopt a national-level "Green Taxonomy", which is in advanced stage of finalization.

SBP continued its efforts to promote financial inclusion. A comprehensive Financial Inclusion Strategy has been adopted which aims to increase the level of financial inclusion to 75 percent from current 64 percent and reduce the gender gap to 25 percent by 2028 from current 33 percent. For this purpose, SBP is particularly focusing on leveraging the digital technologies and innovation to enhance the financial literacy as well as the access to finance for underserved segments of the society. Leading from the front, SBP setup the country's instant payment system i.e., Raast a few years back which has a great potential to infuse efficiency in business transactions and promote the documentation of the economy. Raast maintained its growth momentum with its outreach reaching around 40 million users and processing almost 800 million transactions during CY24. Overseas Pakistanis increased their footprint as the gross inflows to Roshan Digital Accounts (RDA) have crossed US\$ 9.3 billion, while the number of expatriates with active RDAs exceeded 778,000 in CY24. These improvements have also supported the recent surge in foreign remittances.

Besides efficiency gains, increased digitization and use of technologies also involve cybersecurity and data privacy risks. SBP remains vigilant to these risks and has taken various measures to strengthen the cyber resilience and protection of customers. A dedicated Cyber Risk Management Department has been established to supervise cyber security risks of the regulated entities. Moreover, a monitoring tool i.e., Sunwai has been launched which empowers the customers and keeps track of customers' complaints, thus ensuring their timely resolution in a systematic and fair manner.

SBP's supervisory and safety net framework for financial stability has worked quite effectively in the past. However, in line with the changing environment and emerging best practices, SBP continuously strives to improve this framework. In this regard, legal and institutional arrangements for resolution and crisis preparedness have been strengthened by incorporating certain amendments in the banking and deposit protection (insurance) laws which enhanced the resolution tool kit of SBP. Moreover, a dedicated department has been established to conduct resolution planning on proactive basis and handle the resolution of distressed institutions. In order to enhance depositor trust and augment safety nets, the deposit protection amount has been increased to Rs 1.0 million from Rs 0.5 million.

While the macroeconomic environment remains dynamic, SBP is vigilant to the evolving economic and financial developments and stands ready to take necessary measures to effectively address emerging risks to financial stability and support the efficient provision of financial services and credit in the economy.

Jameel Ahmad

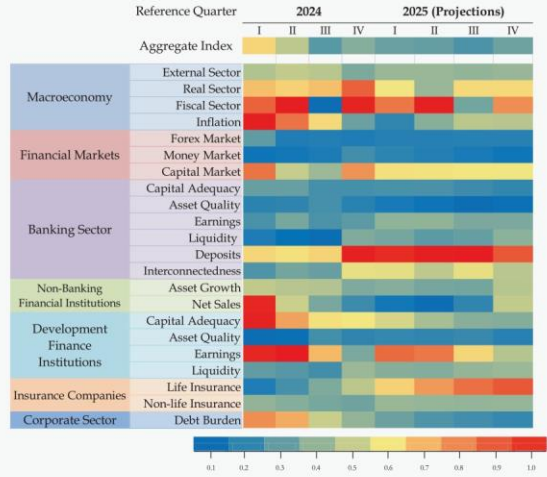
# Key Highlights of Financial Stability Review 2024

*Risks to financial stability receded in CY24....*

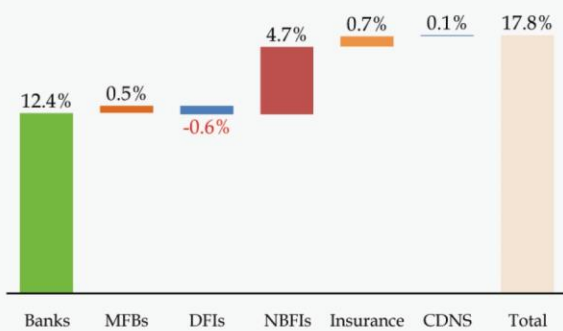
**Financial Sector Vulnerability Index (FSVI)**



**Financial Sector Heat Map**



**Contribution in Growth of Assets**

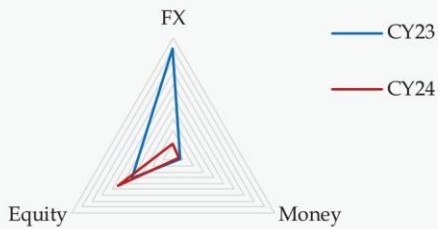


**Total Assets to GDP improved in CY24**



*Volatility in financial markets subsided during CY24*

**Financial Markets Stability Map**



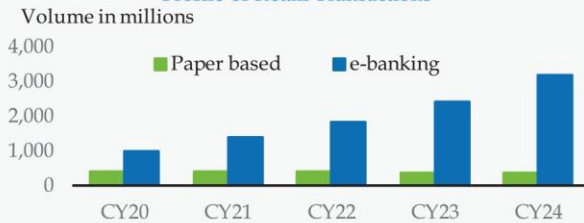
Note: Close to center implies lower volatility

**Financial Markets Stress Index**

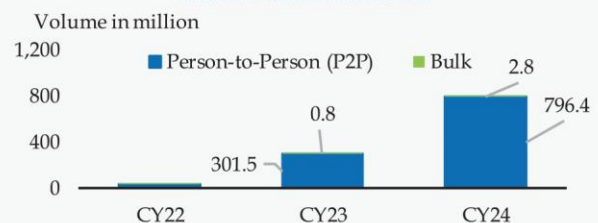


*Financial Market Infrastructures (FMIs) remained resilient and continued to function smoothly while digital transactions maintained their growth momentum.*

**Profile of Retail Transactions**

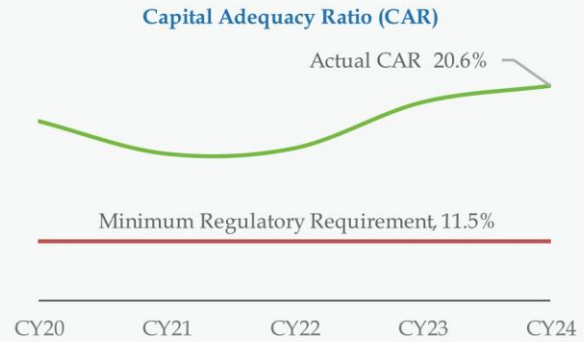
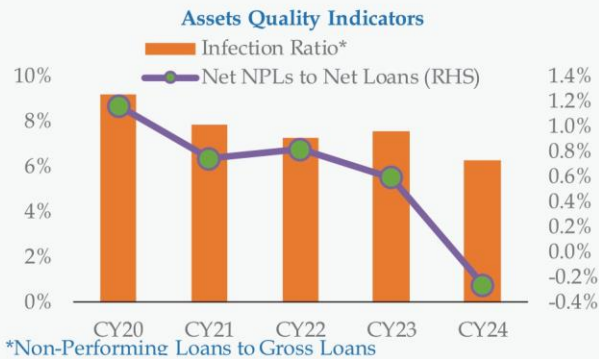


**Trend in Raast Transactions**

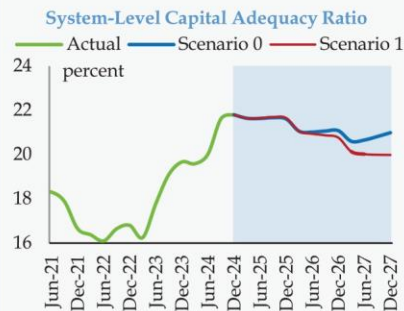


Data sources: State Bank of Pakistan and Securities and Exchange Commission of Pakistan

*With sufficient capital buffers, risks in the banking sector remained contained*



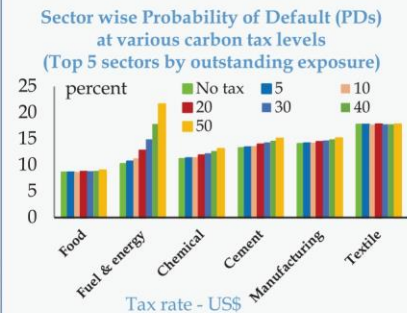
*Solvency risks are expected to remain contained in the near-term\**



*Financial soundness of corporate sector improved in CY24\*\*\**



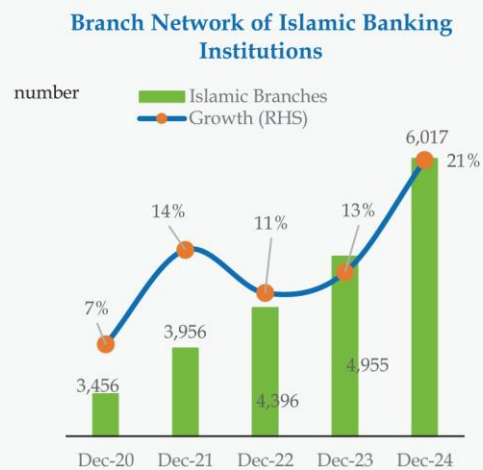
*A heavy carbon tax may impact the financial and repayment capacity of carbon-intensive sectors\**



*Market perceives cybersecurity risk, among the top five prevailing risks, to financial stability\**



*Islamic Banking Institutions have witnessed highest ever increase in branch network\**



Data sources: \* State Bank of Pakistan, \*\* Securities and Exchange Commission of Pakistan and \*\*\* Bloomberg Estimates (Merton Model) of listed firms.





## The Overview

Pakistan's financial sector continued to maintain its resilience, and managed to grow at a decent pace of 17.8 percent in CY24 (**Table 1**). The financial depth – assets to GDP ratio – moved up to 64.8 percent from 61.7 percent in CY23.

The global and domestic macroeconomic environment in CY24 was characterized by disinflation and monetary policy reversals. **Global** economy expanded by 3.2 percent in CY24, slightly lower than 3.3 percent growth in CY23. The structural challenges, such as weak investments, slow productivity growth, high debt levels, and demographic pressures continued to restrain global economic activity.<sup>1</sup> Growth in Advanced Economies (**AEs**) remained steady at 1.7 percent while it slowed in Emerging Markets and Developing Economies (**EMDEs**) to 4.2 percent in CY24 from 4.4 percent in CY23. Global inflation fell to 5.7 percent in CY24 from its peak of 8.6 in CY22 (6.7 percent in CY23). Accordingly, most central banks moved towards monetary easing during the year under review.<sup>2</sup> As a result, global financial conditions eased as reflected in lowering of interest rates; however, a sharp rise in trade policy uncertainty towards year's end contributed to tighter financial condition for EMDEs (see **Chapter 1**).<sup>3</sup>

On **domestic** front, the macroeconomic conditions showed visible signs of improvement, as the economy grew by 2.2 percent in CY24 compared to a *contraction* of 0.2 percent in CY23. The successful conclusion of IMF-SBA program, currency stability, and increased momentum of disinflation underpinned macroeconomic recovery in CY24. Successive cuts in policy rate commencing from June 2024 (a cumulative reduction of 900 basis

**Assets Composition of the Financial Sector** **Table 1**

	CY22	CY23	CY24
<b>Assets - billion Rupees</b>			
MFBs	753	771	1,069
DFIs	1,431	2,338	1,979
NBFIs	2,563	3,447	6,204
Insurance*	2,580	2,949	3,375
CDNS	3,390	3,179	3,227
Banks	35,796	46,364	53,693
<b>Total</b>	<b>46,513</b>	<b>59,048</b>	<b>69,547</b>
<b>YoY Growth in Assets (percent)</b>			
MFBs	29.4	2.4	38.5
DFIs	165.7	63.3	-15.3
NBFIs	26.7	34.5	80.0
Insurance	20.2	14.3	14.4
CDNS	-12.7	-6.2	1.5
Banks	19.1	29.5	15.8
Overall Financial Sector	<b>18.6</b>	<b>27.0</b>	<b>17.8</b>
<b>Percent Share in Total Assets</b>			
MFBs	1.6	1.3	1.5
DFIs	3.1	4.0	2.8
NBFIs	5.5	5.8	8.9
Insurance	5.5	5.0	4.9
CDNS	7.3	5.4	4.6
Banks	77.0	78.5	77.2
<b>Assets as a Percent of GDP</b>			
MFBs	1.0	0.8	1.0
DFIs	1.9	2.4	1.8
NBFIs	3.4	3.6	5.8
Insurance	3.4	3.1	3.1
CDNS	4.5	3.3	3.0
Banks	47.8	48.4	50.0
<b>Overall Assets</b>	<b>62.0</b>	<b>61.7</b>	<b>64.8</b>

\* Insurance data is available up to Sep-2024

Sources: SBP, SECP, CDNS and PBS

<sup>1</sup> United Nations (2025). World Economic Situation and Prospects. January.

<sup>2</sup> By November 2024, 67 out of 108 central banks were in the easing phase (up from 31 in December 2023), with 20 more likely to begin easing soon.

<sup>3</sup> IMF (2025). World Economic Outlook Update. *January*

points in CY24), securing of the IMF's Extended Fund Facility (EFF), and upgrade in country's credit rating by Moody's and Fitch<sup>4</sup> further buoyed market sentiments. Importantly, an improved current account balance, continued fiscal discipline, and benign international commodity prices were also crucial in restoring macroeconomic stability.

As a result of stabilization policies and easing of supply constraints, average inflation fell to 12.6 percent in CY24 from 30.8 percent a year ago. Moreover, the current account balance – aided by strong exports and a robust increase in workers' remittances – turned into a surplus of US\$ 0.7 billion in CY24 (deficit of US\$ 1.0 billion in CY23). Supported by current account developments and IMF financing, SBP's FX reserves increased to US\$ 11.70 billion by end CY24 from US\$ 8.2 billion at end CY23, despite weak net official foreign inflows. Amid improved external account position, the country's risk premium<sup>5</sup> declined to an average of 17.8 percent in CY24 from 47.7 percent in CY23. Encouragingly, along with reduction in the overall fiscal deficit, the economy achieved a primary surplus for the first time since FY07.<sup>6</sup> In addition, the Business Confidence Index (BCI) remained above threshold level of 50, throughout CY24, except for July (see Chapter 1).

The volatility in **financial markets** considerably declined during CY24, manifesting the impact of persistent improvement in macroeconomic environment. The sentiments in FX market remained calm and rupee-dollar parity witnessed stability throughout the year. This stability stemmed from an improved current account position, successful arrangements with

IMF, the reforms in the FX market along with administrative measures, falling forward liabilities and buildup of reserves. Amid these developments and better economic prospects, the equity market touched record levels, with the KSE 100 index soaring to a historic high of 116,169 in December 2024. The mutual funds and insurance sectors were the largest net buyers of equities in CY24. Positively though, with a limited exposure of banks amidst prudential limits, risk to the banking sector from any adverse movements in these markets remains contained. In the money market, the Overnight Repo Rate saw a few episodes of increased volatility, reflecting adjustments to reduction in policy rate. The market, however, continued to function in an orderly fashion. (see Chapter 2).

The **banking sector**, which constitutes around 77.0 percent of the financial sector's asset base, maintained its operational and financial resilience and continued to support the economic activity by maintaining an uninterrupted supply of banking services. The asset base of the sector expanded by 15.8 percent in CY24 (29.5 percent in CY23). The slowdown in the balance sheet growth was driven by a sharp deceleration in investments, which grew by 14.5 percent in 2024 – down from 41.4 percent a year ago. Nonetheless, advances witnessed a growth of 29.8 percent – highest since CY05. More than 90 percent of the rise in private sector advances, however, occurred during the last quarter of CY24 showing, inter alia, aggressive efforts by banks to meet the end December 2024 Advances-to-Deposit ratio (ADR) targets to avoid additional taxation on income from government securities. Moreover, easing in financial conditions (due to reduction in interest

<sup>4</sup> Fitch upgraded Pakistan's credit rating from CCC to CCC+ in July-2024. Moody's upgraded the credit rating to Caa2 from Caa3 in August-2024.

<sup>5</sup> It represents Pakistan's 5 Years Credit Default Swap as reported by Bloomberg, Inc.

<sup>6</sup> Fiscal deficit declined to 6.8 percent in FY24 from 7.8 percent in FY23. Moreover, primary surplus was recorded at 0.9 percent of GDP in FY24.

rate and exchange rate stability) as well as pick-up in economic activity and seasonal demand for bank credit (e.g., from agribusinesses and textile) also drove-up the demand for advances.

On funding side, ADR-related developments restrained deposits growth to just 9.1 percent – the lowest mobilization in 21 years, barring 8.0 percent growth in CY22 when similar ADR-related policy was in place. Accordingly, banks' reliance on borrowings from financial institutions further increased, as 27.9 percent of the assets were funded through borrowings against 25.2 percent in CY23 and 21.9 percent in CY22.

The *credit risk* of the banking sector remained within comfortable range as non-performing loans (NPLs) to gross loans ratio fell to 6.3 percent in December 2024, from 7.6 percent in December 2023. Importantly, the amount of allowances and provisions for loan losses were higher than the outstanding stock of non-performing loans (NPLs) i.e. 103.9 percent (92.7 percent a year earlier). It is worth mentioning that the major loan portfolio of the banks comprises large corporate borrowers who generally have better credit worthiness and established business track record. This helped keep credit risk in check even in the face of significantly stressed macroeconomic conditions.

The *market risk* dynamics did not pose any serious concern. Given limited exposure of the banks in FX and equity markets, risks arising from adverse changes in exchange rate and equity prices remained contained during CY24. Substantial buildup of long-term government securities has increased the banks' sensitivity to interest rate risk. However, banks have comfortable capital cushions and their susceptibility to this risk remains contained as a major portion of these investments comprise floating rate instruments.

The *liquidity profile* of the banks remained steady as their asset base mainly comprised risk-free government securities, which have quite active secondary market. The sector continued to comply with Basel III liquidity metrics such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), which stood at 206.0 percent and 161.0 percent, respectively, at end December-2024.

After-tax *profit* of the banking sector increased marginally by 0.2 percent to Rs 644 billion against a notable growth of 90.9 percent in CY23. The weak growth in earnings was driven by declining net interest income, increased tax rate, and a one-off extra ordinary expense by a major bank. Return on Assets (ROA-after tax) moderated to 1.3 percent from 1.6 percent last year while Return on Equity (ROE-after tax) fell to 21.5 percent from 27.1 percent a year ago. Incidentally, rising taxation expense and tax policies that directly influence banks' business decisions may have implications for monetary policy transmission, financial stability and financial sector development. For instance, increased tax charges reduce profitability, hamper inflow of fresh capital, lower incentives for capital investments to innovate and improve efficiency, and impair deposit mobilization.

The solvency position of the banking sector further improved as Capital Adequacy Ratio (CAR) increased to 20.6 percent by end December 2024 (19.7 percent in December 2023). Retained earnings and revaluation gains on securities pushed up regulatory capital, outpacing risk weighted assets. Encouragingly, the prevailing CAR level remains well above the domestic and international minimum benchmarks of 11.5 percent and 10.5 percent, respectively. With strong capital cushions, the banking sector is in a comfortable position to increase its lending exposure, in general, and to the priority segments such as agriculture and SMEs, in particular, and play its due role in

stimulating economic growth in the country (see **Chapter 3**).

**Islamic Banking Institutions (IBIs)** showed a remarkable performance during the year under review. With highest ever expansion in branch network of 1,072, IBIs' asset base also observed substantial growth of 23.1 percent in CY24, constituting now 20.6 percent of banking sector's assets. Both investments and financing showed double-digit growth, however, investments primarily supported assets expansion. The deposits increased by 17.1 percent. On soundness front, IBIs maintained a healthy position. Asset quality indicators exhibited contained credit risk, after-tax earnings contributed 42.3 percent in overall banking sector's profitability, and capital buffers were strong (see **Box 3.1 in Chapter 3**).

The asset base of **Microfinance Banks (MFBs)** though observed a strong increase during CY24, the infection ratio increased to 9.7 percent from 6.7 percent in CY23. Moreover, the sector witnessed losses for sixth consecutive year and the aggregate CAR fell further to 2.6 percent in CY24 from 7.6 percent in CY23 – against the regulatory requirement of 15 percent. The decline in CAR was mainly due to significant rise in provisioning expenses, especially by a large MFB. The sector contributes only 1.5 percent to the total assets of the financial sector and poses relatively lower systemic risk. However, the MFBs hold importance from financial inclusion standpoint. The sector caters to the financial needs of low-income and financially under-served segments of the population, and its customer base is significantly higher than that of the commercial banks. Thus, to support the sector's stability, its role in financial inclusion and employment generation, SBP continues its enhanced engagement and supervision at individual institutions as well as sector level (see **Chapter 5**).

**Non-Bank Financial Sector**, posted a mixed performance during CY24. The **Development Finance Institutions (DFIs)**'s asset base contracted by 15.3 percent driven by 18.6 percent fall in investments, compared to a strong investment-led growth of 63.3 percent in CY23. Also, advances showed a subdued growth of 1.5 percent in CY24. Importantly, DFIs borrowing from SBP sharply declined while it increased from the banks in CY24. Asset quality indicators slightly deteriorated though earnings and solvency remained strong (see **Chapter 6.1**).

The asset base of **Non-Bank Financial Institutions (NBFIs)** surged by 80.0 percent in CY24 (34.5 percent growth in CY23), manifesting the impact of improved economic conditions and diversion of funds from banks to NBFIs due to the dynamics of ADR-linked tax policy. Mutual funds – having 71.5 percent share in the sector's assets – almost doubled over CY24. The marked expansion was primarily driven by money market and Islamic income funds. Equity market funds, which constitute relatively small i.e. 10 percent of mutual funds, also observed a phenomenal rise of 107.2 percent owing to surge in equity market during the year under review. The assets of the lending segment of NBFIs increased by 89.4 percent reflecting the impact of favorable interest rates and availability of credit lines by the banks to Microfinance Companies (**NBMFCs**) and investment finance companies (**IFCs**). Importantly, systemic risk concerns arising from inter-sector exposures between banking sector and NBFIs remained contained (see **Chapter 6.2**).

The asset base of the **insurance sector** expanded at a decent pace of 14.4 percent in 9MCY24 (11.2 percent in 9MCY23). Nonetheless, premium revenues of the life segment contracted by 4.1 percent as the government ceased some of the public-health insurance initiatives. On the contrary, premiums of non-life segment increased by 16.9 percent during 9MCY24, mainly due to rise in vehicle prices and revival in auto sales amid recovering economic activity (see **Chapter 6.3**).

### Financial Market Infrastructures (FMIs)

continued to support financial system stability thorough steady performance and operational resilience during CY24. The volume and value of transactions under Pakistan Real-time Interbank Settlement Mechanism (**PRISM**), which handles large value payments, grew by a significant pace. Also, retail transactions increased with an impressive momentum, both in volume and value terms. The *e*-banking has been consistently dominating the retail transactions. Positively, ATM downtime further reduced to 3.0 percent of activity time in CY24, which was lowest in previous five years.

It is noteworthy that SBP has taken a number of initiatives to promote digital services. For instance, different modules of Raast have been launched to handle bulk as well as retail transactions. Also, SBP issued licensing and regulatory framework for digital banks. In this regard, SBP recently awarded the first Digital Retail Bank (**DRB**) license to Easypaisa Bank Limited, authorizing it to commence commercial operations.<sup>7</sup>

Besides, a number of enhancements were made in different modules of Raast – which successfully completed its third year of uninterrupted services. For instance, Raast partnered with Central Depository Company (**CDC**) to facilitate and execute dividend payments promptly. Moreover, government related payments were integrated with Raast for cost-effective and uninterrupted provision of payments. Encouragingly, SBP has already signed a Memorandum of Understanding (**MoU**) with Arab Monetary Fund (**AMF**) to enable the integration of Raast with Buna – a cross border payment system. It is a major landmark in enabling cross-border payments, streamlining remittances from Gulf Cooperation Council countries, and increasing regional integration.

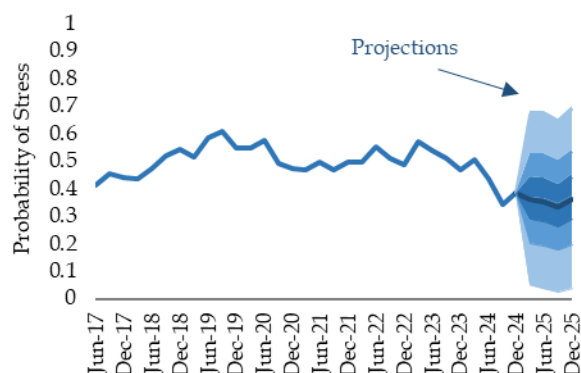
The **Non-Financial Corporate Sector**<sup>8</sup> witnessed some moderations in key financial indicators related to sales, earnings and interest coverage ratio amid high interest rates, which prevailed until the first half of CY24, and lackluster performance of large scale manufacturing (**LSM**) sector. However, the liquidity and solvency position of the sector remained steady, and it continued to service its obligations to financial sector without any significant stress. Incidentally, as a result of recent positive developments and a surge in equity market, a corresponding increase in firms' valuations was witnessed, which augmented their overall financial soundness. The **LSM** sectors presented a mixed picture where, auto, and textile sectors witnessed increase in sales while sales of cement, fertilizer, petroleum, power generation and sugar declined. An analysis of top 30 borrowing groups of the banking sector indicates that the credit quality and repayment capacity has remained sound during CY24 (see **Chapter 7 and Box 7.1**).

The **consolidated financial stability matrix** reveals that risks to financial stability receded in CY24 (see **Figure 1A and 1B**), reflecting mainly the impact of coordinated policy response on monetary and fiscal fronts, reduced policy uncertainty, timely arrangements with IMF, improved external account position, and benign international commodity prices.

<sup>7</sup> <https://www.sbp.org.pk/press/2025/Pr-28-Jan-2025.pdf>

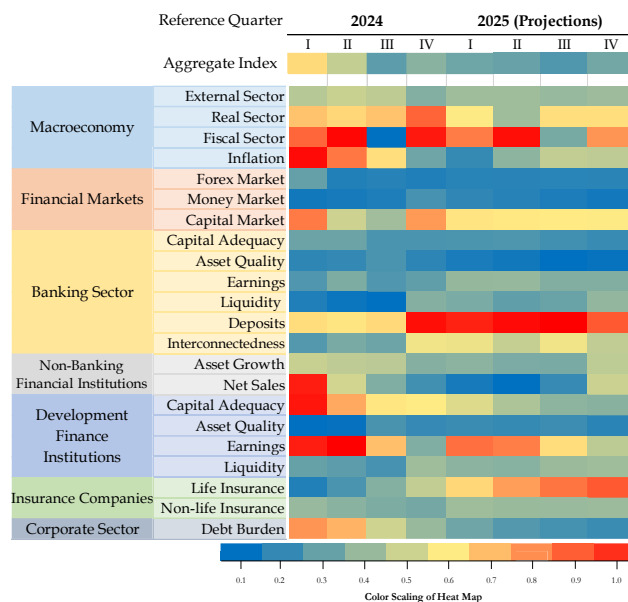
<sup>8</sup> Analysis is based on financials of leading 100 listed firms for 9 months of CY24. These firms represent 79 percent of total assets of listed non-financial firms.

Financial Sector Vulnerability Index (FSVI) Figure 1A



Source: SBP Staff estimates

Financial Sector Heat Map Figure 1B



Source: SBP Staff Estimates

Going forward, prospects of financial stability in near term remain encouraging. National CPI (12-month Moving Average) has steadily declined to 7.2 percent in March 2025 from 28.7

percent last year. In view of these developments, Monetary Policy Committee has reduced the policy rate cumulatively by 1,000 bps to 12.0 percent in January-2025. This, combined with improved external account position<sup>9</sup> and stable exchange rate, is likely to further induce demand for private sector credit and enhance repayment capacity of the banks' borrowers. Besides, the continuity of IMF program<sup>10</sup> is to further support macroeconomic stability. Encouragingly, first review of IMF's EFF in March 2025 terms the program implementation as strong.<sup>11</sup> Amid such developments, SBP FX reserves have improved by 41.4 percent to reach US\$ 11.2 billion in February 2025, keeping rupee-dollar parity in check and further contributing to easing of financial conditions. Moreover, fiscal consolidation remains on track<sup>12</sup> supporting a positive economic outlook. These developments are reflected in Business Confidence Index (BCI), which has stayed in positive zone since August-2024.<sup>13</sup>

The 15<sup>th</sup> wave of SBP Systemic Risk Survey (SRS), conducted in January 2025, also indicates that the market participants' perceptions towards macroeconomic risks (e.g., exchange rate risk, inflation, and fiscal deficit) would improve in the next six months. Importantly, cybersecurity risk has been identified among the top five prevailing risks to financial stability (see **Box 1 on SBP's Systemic Risk Survey**). Incidentally, SBP remains vigilant to the cybersecurity concerns and has been taking a number of measures to strengthen cyber resilience of banks. In fact, Technological Innovation is now a strategic theme under SBP's Vision 2023-28 and a particular emphasis is being accorded to the promotion of innovation and use of technologies as well as to cybersecurity and privacy of data. For this

<sup>9</sup> Current account surplus stood at US\$ 1.9 billion in Jul-Mar FY25 against deficit of US\$ 1.7 billion in the comparable period of previous year.

<sup>10</sup> Pakistan secured a 37-month Extended Arrangement under the Extended Fund Facility (EFF) on September 25, 2024 for around US\$ 7 billion.

<sup>11</sup> <https://www.imf.org/en/News/Articles/2025/03/14/pr-2564-pakistan-end-of-mission-statement-1st-rev-37-mo-ext-arrangement-under-eff-and-rsf>

<sup>12</sup> In Jul-Dec FY25, fiscal deficit stood at 1.2 percent of GDP while primary balance was in surplus of 2.9 percent of GDP.

<sup>13</sup> BCI has remained above threshold level of 50 throughout CY24 except for July 2024 when it declined to 48.6.

purpose, SBP has recently established a dedicated Cyber Risk Management Department (CRMD) to perform on-site and off-site supervision of cyber security risks of the regulated entities (REs) with greater focus.<sup>14</sup>

The rapid adoption of Artificial Intelligence (AI) in various aspects of contemporary world, including the financial sector, is yielding enormous benefits, though, it is also introducing novel risks. Being cognizant, SBP conducted a survey of its regulated entities on adoption of AI into their processes.<sup>15</sup> The results of survey reveal that about half of the surveyed financial institutions have either deployed AI in financial services, or are in the process of development. Moreover, survey indicates that the regulated entities are using AI for a variety of financial services, including fraud detection, customer services, marketing, credit risk assessment, process automation etc. Given its significance, 'Guidelines on the Responsible use of Artificial Intelligence (AI) in Financial Services' are at an advance stage of finalization at SBP, with the objective to foster trust, transparency and accountability in AI-driven financial services, while safeguarding the rights and interests of the consumers.

The global environment presents a mixed picture for domestic economy. Global commodity prices are trending down<sup>16</sup> and major central banks in advanced economies, excluding Federal Reserve, continue to lower key interest rates.<sup>17</sup> Nonetheless, change in trade policy by the US may have implications for FED's monetary policy as well as global financial conditions. Moreover, the resultant shift towards protectionist policies by other

major economies may adversely affect global growth prospects, bearing repercussions for Pakistan's economy as well.

It deserves an emphasis that although domestic economy is steadily on a recovery path, sustaining the recovery, which hinges on continued progress on structural reforms, is crucial to build external buffers and reduce external financing risks.

In order to develop a proactive strategy to ensure banking sector's resilience in a fast changing domestic and global economic landscape, SBP regularly conducts scenario analysis. The scenario design for current exercise considers hypothetical shocks emanating from domestic and global macro-financial factors as well as climate change. The results of the latest stress tests indicate that the banking sector in general and large systemically important banks in particular are expected to show resilience and can withstand even severe shocks. The overall CAR of the sector is likely to remain above the minimum regulatory requirement under both business-as-usual and stressed macroeconomic scenarios over the projected three-year horizon (see Chapter 4). It is noteworthy that Moody's has recently upgraded Pakistan's banking outlook to positive from stable due to better operating environment.<sup>18</sup>

SBP has instituted a comprehensive micro and macro prudential policy framework, which is regularly reviewed and updated in line with emerging best practices and dynamics of the local environment. In this regard, SBP has taken a number of measures during CY24. For instance, in order to strengthen resolution and

<sup>14</sup> <https://www.sbp.org.pk/bsd-1/2024/C1.htm>

<sup>15</sup> In 2024, SBP conducted a survey of 55 Regulated Entities (REs) to explore the current state and challenges, as well as future prospects of AI adoption within the Pakistan's financial services sector. The surveyed REs included Commercial Banks (Conventional and Islamic), Microfinance Banks, Digital Banks, Electronic Money Institutions (EMIs) and Payment Service Operators/Payment Service Providers (PSOs/PSPs).

<sup>16</sup> According to World Bank, aggregate commodity price index is projected to decline by 6.0 percent in 2025 to reach its lowest level since 2020. Source: World Bank, Global Economic Prospects, January 2025.

<sup>17</sup> Bank of England further reduced the Bank Rate by 25 basis points to 4.5 percent on February 06-2025. Also, ECB made another cut of 25 basis points in its key interest rates on January 30, 2025. Nonetheless, Federal Reserve observed a status quo stance in its latest monetary policy decision on January 29, 2025.

<sup>18</sup> [Moody's Upgrades Pakistan's Banking Outlook, February 2025](#)

crisis preparedness framework, amendments in the Banking Companies Ordinance (BCO) 1962 and the Deposit Protection Corporation (DPC) Act 2016 were enacted. These amendments designated SBP as the resolution authority and brought Microfinance Banks (MFBs) under the scope of BCO's resolution regime and expanded resolution toolkit. Accordingly, SBP also made improvements in its policy and institutional framework. Specifically, a Financial Institutions Resolution Department has been established to perform the function of resolution of distressed regulated entities. Moreover, deposit protection amount under the DPC Act was increased to Rs one million from Rs 0.5 million.

Going forward, SBP will continue to remain vigilant against emerging risks by enacting timely policy measures to safeguard stability of financial system, ensure smooth supply of financial services, and support sustainable economic growth.

**Box 1: SBP's Systemic Risk Survey - 15<sup>th</sup> Wave (January 2025)**

SBP conducted the 15<sup>th</sup> wave of its biannual Systemic Risk Survey (SRS) in January 2025. The survey aims to capture the perceptions of market participants about various risks to the financial system of Pakistan and their confidence in the stability of financial system. The survey is designed to gauge the present and near term (over the next six months) perceptions of the respondents across five broad risk categories, including, global, macroeconomic, financial markets, institutional, and general.

The respondents of the current iteration of the SRS covered a wide spectrum of participants, including senior executives of financial institutions, financial journalist, and others. A total of 119 respondents took part in the current wave as compared to 135 in July 2024 wave, with a response rate of 54 percent.

**Summary of Results:**

1. The respondents, on aggregate, perceive risks emanating from “General”, “Macroeconomic”, and “Global” categories to be the major risks to the financial system (**Figure A**). Perception regarding “General Risk” was driven by “Geopolitical Risk for Pakistan” and “Terrorism”. Over the period of next six months, risk perceptions are lower across all five broad categories of risks. (**Figure B**).
2. In terms of key risks at present, top five risks (in descending order) are those coming from “Cyber Security”, “Political Uncertainty”, “Geopolitical Risk for Pakistan”, “Widening Fiscal Deficit” and “Deterioration in Household Income”. Over the next six months, risk perceptions regarding these categories are expected to subside in general (**Figure C**).
3. Regarding the stability of the financial system of Pakistan, the respondents seem to repose a fair amount of confidence in the system. Conversely, the majority of the respondents exhibited strong confidence on the stability of the banking system and also showed their confidence on the ability of regulators to ensure the stability of the financial system (**Figure D**).
4. A comparison of last three waves (13<sup>th</sup>, 14<sup>th</sup>, and 15<sup>th</sup> wave) indicates that the risk perception has improved across the majority of the risk categories. A significant improvement in risk perception was seen in “Interest Rate”, “Energy Crisis”, and “Deterioration of BoP” (**Figure E**).

Financial Stability Review 2024

Perception on sources of Systemic Risk - Present

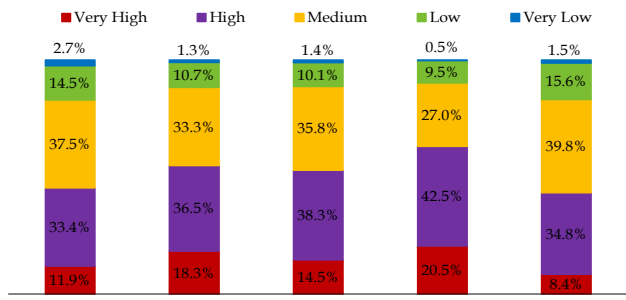


Figure A

Perception on sources of Systemic Risk - next 6 months

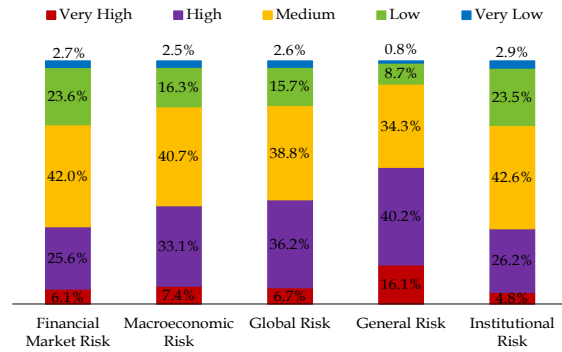


Figure B

Top 10 Risks Identified

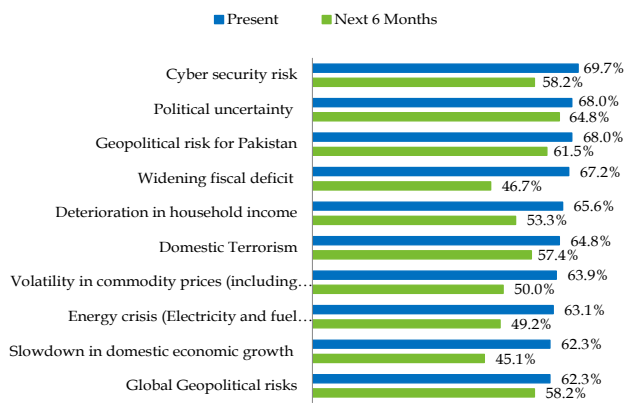


Figure C

Confidence in Financial Stability

◆ Stability of Pakistan's financial system  
◆ Stability of Pakistan's banking system  
◆ Ability of regulators to ensure financial stability

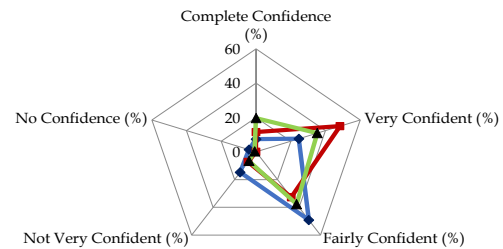


Figure D

Comparison of SBP's Systemic Risk Survey (SRS) Results (13th, 14th and 15th wave)

		Wave					Wave			
		13th (Jan-24)	14th (Jul-24)	15th (Jan-25)	13th (Jan-24)	14th (Jul-24)	15th (Jan-25)	13th (Jan-24)	14th (Jul-24)	15th (Jan-25)
		Percent (Average)			Percent (Average)			Percent (Average)		
Global	Slowdown in global growth	2.46	2.48	2.49	Institutional	Regulatory	2.63	2.63	2.73	
	Sovereign default	2.78	2.82	2.95		Legal	2.88	2.85	2.86	
	Lack of funding from abroad	1.97	2.06	2.20		Asset quality deterioration	2.20	2.39	2.52	
	Volatility in commodity prices	1.89	2.02	2.19		Shortfall in capital requirement	2.45	2.46	2.66	
	Slowdown in domestic growth	2.00	2.01	2.22		Access to funding (deposit mobilization & borrowings)	2.64	2.68	2.78	
Macroeconomic	Increase in domestic inflation	1.82	2.04	2.34	Excessive private sector credit	2.78	2.81	2.86		
	Widening fiscal deficit	1.82	1.99	2.15	Concentration risk in PSC	2.74	2.78	2.73		
	Deterioration of BoP	1.89	1.98	2.30	Concentration risk in mutual fund	3.07	3.06	2.90		
	Sovereign rating downgrade	2.26	2.32	2.61	Operational risk	2.70	2.63	2.64		
	Slowdown in corporate sector growth	2.27	2.30	2.38	Cyber security risk	2.21	2.27	2.12		
	Slowdown in infrastructure development	2.52	2.46	2.68	Disruption in financial market	2.72	2.68	2.76		
	Deterioration in household savings	1.82	1.93	2.18	Terrorism	2.34	2.29	2.28		
	Volatility in real estate prices	2.80	2.71	2.89	Geopolitical risks for Pakistan	2.08	2.21	2.21		
	Energy crisis	1.89	1.87	2.28	Natural disasters/ Increasing threat of climate change	2.18	2.11	2.39		
	Political uncertainty	1.84	1.98	2.07	Social unrest	2.24	2.21	2.40		
Financial Market	Foreign exchange rate	1.74	2.00	2.25						
	Equity price	2.61	2.63	2.82						
	Interest rate	2.13	2.32	2.75						
	Liquidity	2.34	2.47	2.68						

Figure E



# 1

## Global and Domestic Developments

*Global growth held steady during CY24 as inflation returned closer to target and the central banks continued to exit monetary tightening cycle. Global trade, fueled by the growth in services, recovered during the year with emerging markets and developing economies (EMDEs) outpacing the advanced economies (AEs). The inflation continued its downhill journey, driven by higher real interest rates, normalization in labor markets and decrease in commodity prices. Financial conditions remained accommodative throughout the year supporting stable growth in equity markets. After peaking during the pandemic, sovereign debt levels continued to decline in AEs, while increasing in emerging markets and low-income countries. The global growth prospects, however, still face challenges, posed by protectionist measures, geopolitical fragmentation, high debt burdens and rising cost of climate change. On domestic front, the economic growth that picked up in the second half of CY23 maintained its momentum during CY24. CPI inflation sharply declined, especially in H2CY24, the current account turned positive, primary balance posted a surplus, and the FX reserves increased significantly. The improvement was supported by better supply chain dynamics, prudent policy measures, reduction in commodity prices, timely securing of assistance under IMF's Extended Fund Facility, higher workers' remittances, stable domestic currency, receding political uncertainty, and regained investor confidence.*





# 1 Global and Domestic Developments

## 1.1 Global Economic Dynamics

*Global economy remained resilient, with steady growth ...*

Global growth stabilized during CY24, after witnessing deceleration in previous two years. Central banks cut their policy rates amid lowering inflation. This ease in monetary policy stance supported activity in advanced as well as in emerging market and developing economies (EMDEs). As a result, global economy registered a broad-based growth of 3.2 percent during CY24 (Table 1.1).

Growth in advanced economies (AEs) remained stable as they grew by 1.7 percent, similar to the growth recorded in CY23. Among major AEs, US economy posted a robust growth of 2.8 percent, mainly driven by strong consumer spending, increased government expenditure and a rebound in exports. While economic growth in UK and the Euro area, though marginally increased on the back of services activity, largely remained subdued due to continued weakness in manufacturing and goods exports. In Japan, output contracted owing to temporary supply disruptions.<sup>1</sup>

Growth in EMDEs, which serve as engine of global growth, moderated to 4.2 percent. This slowdown was attributable to deceleration in few Asian EMDEs such as China and India. Prolonged contraction in China's property sector and associated slowdown in consumption amid persistently low consumer confidence led to a decline in growth to 4.8 percent from 5.2 percent in CY23. In case of India, weak industrial output, muted public sector capital spending, and elevated food prices contributed to a decline in economic growth to 6.5 percent in CY24, compared to 8.2 percent recorded in the previous year.

Global Economy: Real GDP Growth Table 1.1

	percent		
	2023	2024	2025*
World	3.3	3.2	3.3
Advanced Economies	1.7	1.7	1.9
EMDEs	4.4	4.2	4.2
EMDEs - Asia	5.7	5.2	5.1
USA	2.9	2.8	2.7
Euro Area	0.4	0.8	1
GCC	0.4	1.8	4.2
UK	0.3	0.9	1.6
Japan	1.5	-0.2	1.1
China	5.2	4.8	4.6
Turkey	5.1	2.8	2.6
India	8.2	6.5	6.5
Russia	3.6	3.8	1.4
Saudi Arabia	-0.8	1.4	3.3
United Arab Emirates	3.6	4.0	5.1
Pakistan (FY)**	-0.2	2.5	3.0

\*Projections

\*\*Fiscal Year

Source: International Monetary Fund

Gulf Cooperation Council (GCC) region, which is a major export destination and source of remittance flows for Pakistan, registered a stable growth of 1.8 percent in CY24. This upturn in economics activity was driven by improved performance of non-oil sectors on the back of diversification efforts throughout the region.

*... along with services driven recovery in trade.*

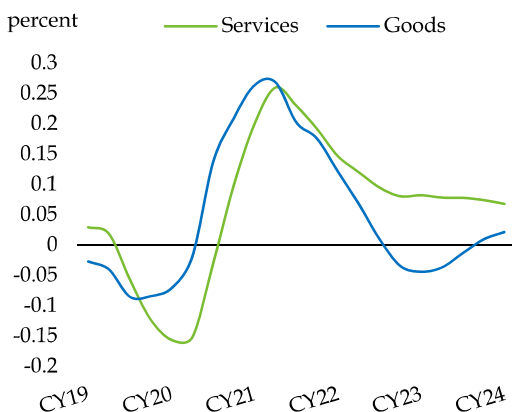
Following contraction in CY23, global trade registered a growth of 3.3 percent during CY24. Expansion in trade was fueled by services, which grew at 6.8 percent, partially due to price inflation, while merchandise trade grew at 2.1 percent, still below the 2022 peak level.<sup>2</sup> Trade growth in EMDEs largely outpaced AEs,

<sup>1</sup> These supply disruptions were linked to the shutdown of a major automotive plant in the first quarter.

<sup>2</sup> Source : United Nations Conference on trade and development, Global Trade Update, December 2024.

expanding overall by US\$ one trillion in CY24 (Figure 1.1).

Global Trade in Goods and Services Figure 1.1



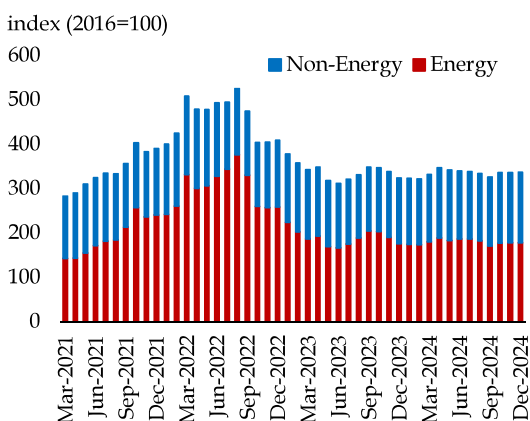
Source: UN Trade and Development

*In line with expectations, global inflation continued to decline...*

Global headline inflation fell from an annual average of 6.7 percent in CY23 to 5.7 percent in CY24, with AEs returning to their inflation targets sooner than EMDEs.<sup>3</sup>

Decline in energy prices, normalization in labor markets and higher real interest rates helped in bringing inflation back to target range (Figure 1.2).

International Commodity Prices Index Figure 1.2



Source: International Monetary Fund

After posting a remarkable decline of 35.1 percent on average in CY23, energy prices further declined by 4.4 percent in CY24, supporting the global journey towards disinflation. Moderation in energy prices was driven by weaker Chinese demand and rising global supplies, offsetting OPEC led efforts to shore up the market. It is worth noting that although goods prices reduced during the year, services price inflation kept running above pre-pandemic averages in many economies, most notably in the US and Euro area. This was partly driven by rapid wage increases, which were catching up with post-pandemic inflation surge.

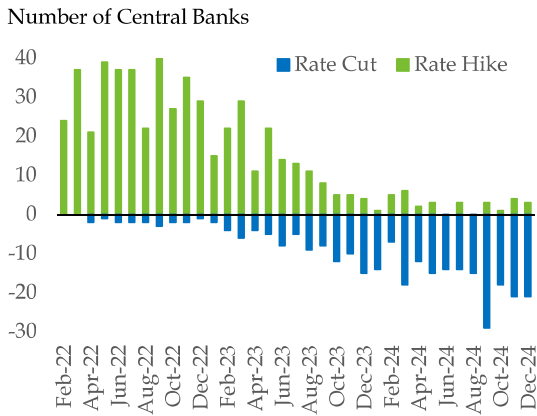
*...followed by a globally synchronized monetary easing...*

As inflation returned to targets, central banks around the world continued to lower interest rates. On cumulative basis, 198 policy rate cuts and 31 rate hikes were observed during CY24 (Figure 1.3). Major central banks continued to ease monetary policy through the year, with pace of normalization reflecting varied inflation circumstances. Many AEs where underlying inflation cooled more in line with expectations were ahead of the US in the easing cycle.<sup>4</sup> At the same time, a number of central banks in emerging markets were cautious in regard to cutting interest rates, owing to potential external risks triggered by interest rate differentials and associated depreciation of domestic currencies against the US dollar.

<sup>3</sup> Source: International Monetary Fund, World Economic Outlook, January 2025.

<sup>4</sup> US Federal Reserve cut the federal funds rate by 50 bps on September 18, 2024.

Central Banks's Policy Rate Decisions Figure 1.3



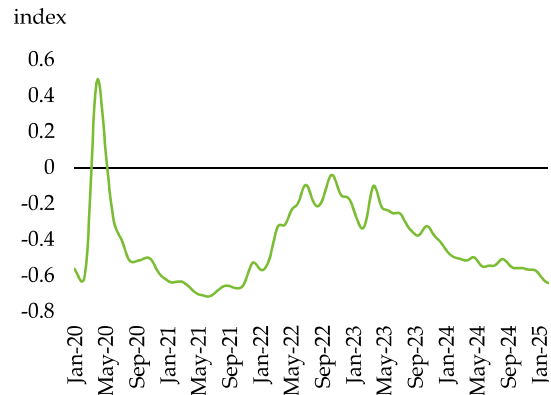
Source: CB Rates.com

As global disinflation continues to progress, challenges to price stability, from services inflation perspective, still persist. This has forced some central banks to delay their monetary easing, putting public finance under more pressure, especially in countries where debt-servicing costs are already high.

*...supporting accommodative financial conditions...*

Markets reacted exuberantly to the prospect of central banks exiting from tight monetary policy cycle during CY24. As a result of accommodative financial conditions, capital flows to emerging markets improved and some low-income and frontier economies regained market access (Figure 1.4). Although, long-term yields inched up, in tandem with repricing of policy paths,<sup>5</sup> resilient corporate valuations kept the financial conditions accommodative. The increase in yields is likely to put pressure on fiscal discipline in some countries that are already strained by inability to rein in spending or raise taxes.

Financial Conditions Index Figure 1.4

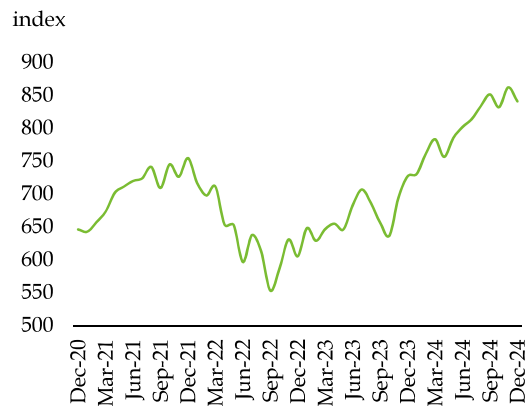


Source: St louis Fed

*...leading to steady growth in equity markets*

Global equity markets manifested double-digit growth of 15.7 percent during CY24. Most notable contribution to this growth came from the US and Asian markets.<sup>6</sup> Rapid ascent of equity markets during the year was, however, interrupted during August 2024, resulting from market correction based on fears of recession in the US combined with Bank of Japan's decision to raise interest rates, which resulted in rapid unwinding of Japanese yen funded carry trades (Figure 1.5).

MSCI Global Equity Price Index Figure 1.5



Source: Bloomberg

<sup>5</sup> US, Japan, UK and majority of the economies in Euro area observed rise in long term bond yields.

<sup>6</sup> During CY2024, S&P 500 posted returns of 23.3 percent, while NASDAQ composite jumped 28.7 percent. In Asia, Shanghai composite index gained 12.6 percent during the year whereas NIKKI 225 returned 19.2 percent making it the second best performing equity market of the year.

However, markets stabilized afterwards, with Chicago Board Options Exchange Volatility Index (VIX) returning to its historical average and a rally in AEs driven by expectations of more business-friendly policies in the US.

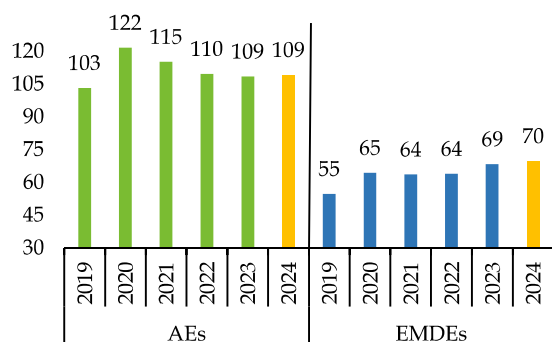
*While debt levels continued to decline in AEs, EMDEs faced increased debt stress*

After peaking during the pandemic at 121.8 percent, the sovereign debt-to-GDP ratio continued to improve in the AEs, declining to 109.4 percent by the end of CY24. On the contrary, the ratio continued to rise significantly in EMDEs vis-à-vis the pre pandemic levels, increasing to 70 percent from 68.5 percent observed in the previous year (**Figure 1.6**). Besides the fiscal challenges, notable depreciation of EMDEs' currencies against the US dollar contributed to the rise in dollar denominated debt.

### General Government Debt

Figure 1.6

percent of GDP



Note: 2024 represents IMF estimates

Source: IMF WEO October 2024

## 1.2 Domestic Economic Developments

*Macroeconomic fundamentals gained further stability during CY24...*

In the wake of abating macroeconomic

vulnerabilities, domestic economy gained further strength in CY24. Inflation pressures steadily retreated, current account balance turned positive, fiscal consolidation strengthened, and FX buffers improved. The economic recovery was supported by coordinated and corrective policy response on monetary and fiscal fronts, improved supply chains, favourable international commodity prices, and successful engagement with the IMF. This resulted in better credit rating by international rating agencies, and revival in investors' confidence.

The real GDP grew by 2.2 percent in CY24 compared to a contraction of 0.2 percent during last year.<sup>7</sup> The growth was driven by agriculture and services sectors while industrial sector struggled to contribute in overall economy (**Table 1.2, Figure 1.7**).

Key Economic Indicators of Pakistan\*

Table 1.2

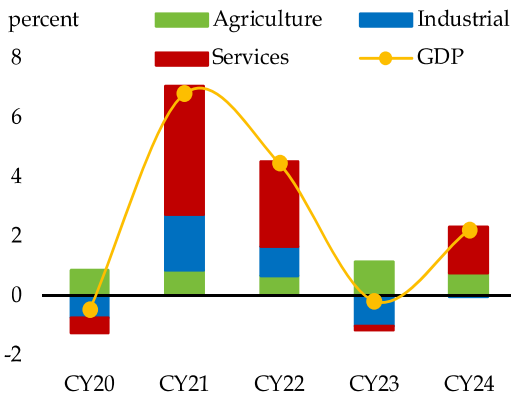
	CY20	CY21	CY22	CY23	CY24
<b>Real Sector</b>					
	(percent)				
Real GDP Growth	-0.5	6.8	4.5	-0.2	2.2
Industrial Sector Growth	-3.9	9.9	5.2	-5.6	-0.3
Agricultural Sector Growth	3.7	3.8	3.1	4.8	3.2
Service Sector Growth	-0.9	7.5	4.9	-0.3	2.6
LSM Growth (Average YoY)	-9.0	17.5	6.7	-9.1	0.5
Inflation (Average)	9.5	9.5	19.9	30.8	12.6
<b>External Sector</b>					
	(billion US\$)				
SBP Reserves (End-of-Period)	13.4	17.7	5.6	8.2	11.7
Current Account Balance	-0.7	-12.3	-12.2	-1.0	0.7
Exports (Goods & Services)	27.3	35.6	39.0	36.2	40.2
Imports (Goods & Services)	52.1	76.5	76.6	58.1	66.8
Remittances	25.9	31.1	29.9	26.4	34.7
PKR/USD Rate (End-of-Period)	159.8	176.5	226.4	281.9	278.6
<b>Fiscal Sector</b>					
	(percent)				
Fiscal Deficit (as % of GDP, FY)	-8.1	-7.1	-7.9	-7.8	-6.8
Revenue Growth (YoY)	10.1	17.5	16.9	34.3	37.2
Expenditure Growth (YoY)	9.4	11.3	31.1	30.3	16.9
<b>Monetary Sector</b>					
	(percent & trillion Rupees)				
Credit to Private Sector (YoY Growth)	4.5	19.6	13.4	-1.1	23.7
Financing					
Domestic	2.7	1.7	5.7	7.0	6.7
External	0.8	1.9	-0.1	0.2	-0.4

\*All data are on Calendar Year unless stated otherwise.

Source: Ministry of Finance, Pakistan Bureau of Statistics and State Bank of Pakistan

<sup>7</sup> In terms of fiscal year (FY), real GDP growth increased from negative 0.2 percent in FY23 to 2.5 percent in FY24. Calendar year estimates of GDP provided in Table 1.2 are based on Quarterly NIA data recently released by PBS.

GDP Growth & Sectoral Contributions Figure 1.7

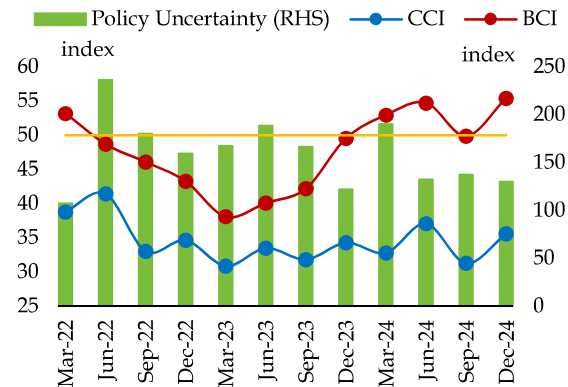


Source: Pakistan Bureau of Statistics

*The first half was characterized by a renewed confidence in economy amid improved macroeconomic environment...*

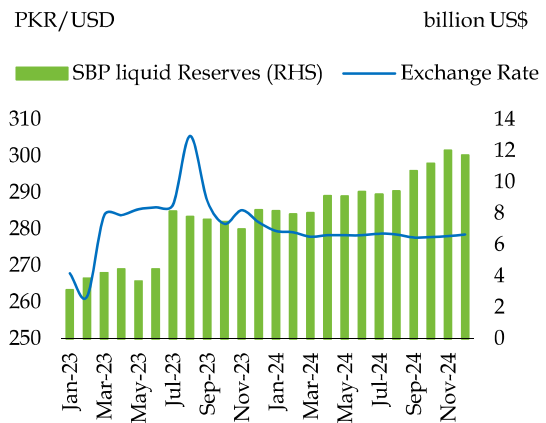
The opening months of CY24 witnessed spike in economic uncertainty driven by the general elections, which, however, swiftly receded towards the end of the year (Figure 1.8). The renewed economic optimism – backed by consistent improvement in macroeconomic conditions – was evident from sustained recovery in Business Confidence Index (BCI), reduced country risk premium<sup>8</sup>, substantial increase in market capitalization, stability in exchange rate and subsiding inflation<sup>9</sup> (Figure 1.9).

Consumer and Business Confidence Figure 1.8



Source: State Bank of Pakistan and PolicyUncertainty.com

SBP Reserves and Exchange Rate Figure 1.9



Source: State Bank of Pakistan

The better availability of imported inputs coupled with substantial increase in crop output helped ease supply bottlenecks, resulting in industrial production<sup>10</sup> to grow by 2.9 percent, on average, during H1CY24. This contributed to the disinflationary momentum in the economy.

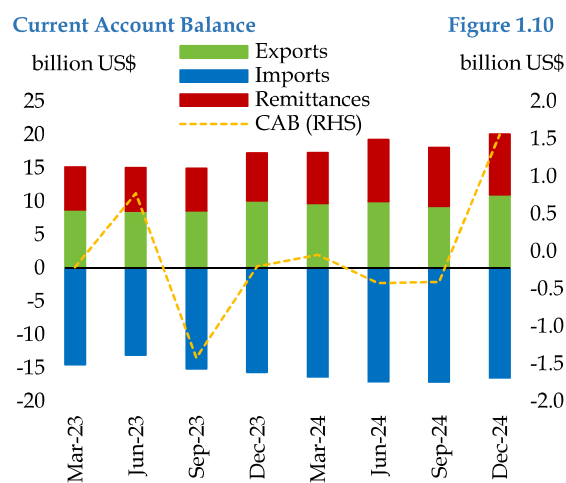
Exports grew with a healthy pace owing to stable global economic activity particularly in Pakistan’s major export destinations, better agriculture output and low production costs (Figure 1.10). Also, workers’ remittances surged by 30.2 percent in the first half backed by better

<sup>8</sup> During Jan-Jun CY24, the Credit Default Swap (CDS) declined by 16.1 percent and further declined by 1.2 percent during Jul-Dec CY24.

<sup>9</sup> The CPI inflation decrease from 30.8 percent in December 2023 to 12.6 percent in December 2024.

<sup>10</sup> Proxied by Large Scale Manufacturing (LSM) index.

economic conditions, especially in the Middle East region, government's measures to incentivize remittances through formal channels and reduced exchange rate spread between open and interbank markets. As a result, the current account deficit amounted to US\$ 0.5 billion only, despite higher growth in imports.



*However, the latter half witnessed a mixed macroeconomic picture...*

The economic activity experienced a slowdown in the second half of CY24. The agriculture sector grew with a sluggish pace due to decline in production of major crops like cotton, rice, sugarcane and maize, along with higher base effect. Also, industrial sector posted subdued growth<sup>11</sup> in response to fiscal consolidation measures<sup>12</sup> which drove up the cost of production. The performance of the services sector decelerated in H2CY24, which also contained the economic momentum.

Nonetheless, inflation continued to follow a downward trajectory in H2CY24, as a result of coordinated monetary and fiscal measures,

stable currency, benign global commodity prices, and improved supply chain. It fell to 4.1 percent in December 2024 from 12.6 percent in June 2024. Accordingly, SBP moved towards aggressive monetary easing, reducing the policy rate to 13.0 percent by end CY24 from 22.0 percent in June-2024, in five consecutive policy reviews.<sup>13</sup>

On external front, the continued strength of exports and workers' remittances delivered a current account surplus of US\$ 1.2 billion in H2CY24 (overall surplus of US\$ 0.7 billion in CY24).

*Build-up in SBP FX reserves eased pressures on domestic currency*

The SBP FX reserves increased to US\$ 11.7 billion by end CY24, compared to US\$ 8.2 billion in corresponding period in the previous year. In addition to external account resilience, build-up in FX reserves was supported by a number of factors including the disbursement of first tranche from IMF under EFF program, FX purchase by SBP in open market, reduced economic uncertainty and upgraded country credit rating.<sup>14</sup>

Along with this improvement, continuity of administrative measures to curb speculative demand for FX and reduced spread between open market and interbank rate, contributed to an average rupee appreciation of 1.2 percent against US\$ during the year under review.

*Fiscal balance reversed its course to consolidation...*

Fiscal deficit declined to Rs 6.3 trillion in CY24

<sup>11</sup> The LSM index *shrank* by 1.8 percent during H2CY24.

<sup>12</sup> The fiscal consolidation measures include withdrawal of energy subsidies to export oriented industries, upward revisions in energy prices, and elimination of certain tax exemptions.

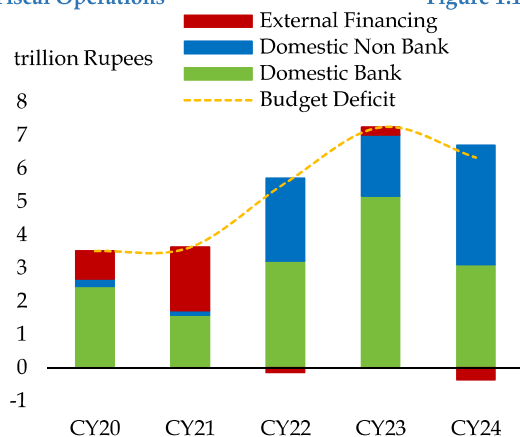
<sup>13</sup> Policy rate remained at 22.0 percent until June 10, 2024

<sup>14</sup> In July and August 2024, Fitch and Moody's upgraded the rating for Pakistan to CCC+ and Caa2, respectively, from CCC and Caa3.

from Rs 7.2 trillion in CY23, representing an annual decrease of 12.5 percent. The significant reduction in deficit was due to a broad-based increase in revenues as both tax and non-tax revenues rose by 26.9 percent and 69.5 percent, respectively, which outweighed the increase in expenditure of 16.9 percent. FBR revenues, however, widely missed the target during second half of CY24.

The government’s initiatives<sup>15</sup> to improve expenditure management and optimize resource mobilization were reflected in the overall fiscal position. Moreover, the government shifted from external to domestic resources for financing budgetary gaps. Among domestic sources, banking sector financed 46.6 percent and non-banks provided 53.4 percent of the total budget deficit in CY24 (Figure 1.11) (for details see Chapter 3 on Banking sector).

Fiscal Operations Figure 1.11



Source: Ministry of Finance

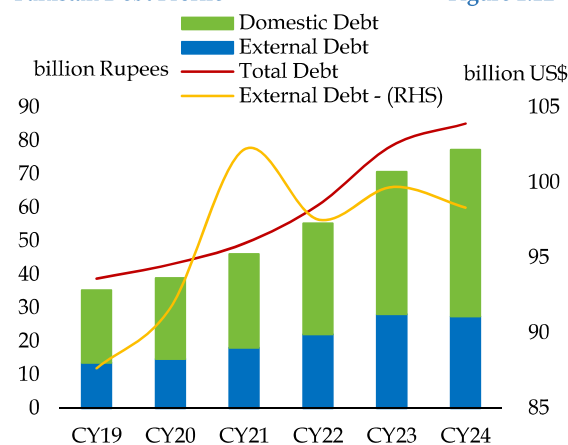
*...leading to better debt management and fiscal sustainability...*

Total public debt increased by 8.4 percent in CY24, substantially down from 29.5 percent

growth in CY23. The continued stabilization and improved macroeconomic conditions helped government in bringing public debt-to-GDP ratio down to 67.5 percent in June 2024, compared to 74.9 percent in June 2023. A number of initiatives, including prioritizing long-term debt to reduce refinancing risks, re-profiling existing debt to extend maturities and diversifying financing sources to secure low-cost funding, helped strengthen debt management and fiscal sustainability.<sup>16</sup>

The external debt, denominated in US\$,<sup>17</sup> decreased by 1.4 percent, reaching US\$ 98.3 billion by the end of CY24. The modest decline in external debt was primarily due to repayment of principal and interest along with limited external financing inflows. Moreover, in PKR terms, the external debt shrank by 2.5 percent, partly due to the appreciation of the domestic currency (Figure 1.12).

Pakistan Debt Profile Figure 1.12



Source: State Bank of Pakistan

*Inflation came down significantly...*

Average national CPI inflation reached 12.6 percent in CY24, down from 30.8 percent in CY23. With food group being the primary

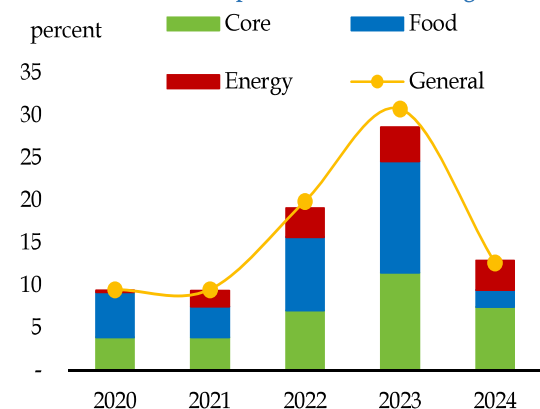
<sup>15</sup> These initiatives include broadening the tax base, strengthening federal-provincial institutional arrangements and ensuring debt sustainability. The National Fiscal Pact has been signed in September 2024 which brings all provinces to work for enhancement of revenue mobilization.

<sup>16</sup> State of Pakistan’s Economy, Half Yearly Report, July-December FY2025, Government of Pakistan, Finance Division, Economic Advisor’s Wing.

<sup>17</sup> Includes Government debt from IMF and Foreign exchange liabilities.

contributor, the downward trends in core and energy groups also added to overall disinflation. The core inflation, though relatively sticky, also fell to 13.5 percent in CY24, compared with 20.8 percent in previous year (Figure 1.13).<sup>18</sup>

CPI Inflation and Components Figure 1.13

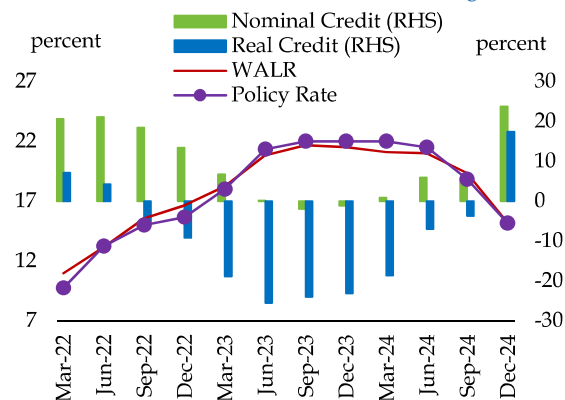


Source: Pakistan Bureau of Statistics

### Private sector credit growth revived...

With the onset of monetary easing and reduced borrowing cost, the private sector credit growth reversed its trend and turned *positive* during CY24, with quarterly average growth of 8.9 percent. Particularly, credit surged by 23.7 percent during Q4CY24 on account of banks' efforts to avoid ADR-linked taxation (Figure 1.14).

Interest Rates and Credit Growth Figure 1.14



WALR = Weighted Average Lending Rate  
Source: State Bank of Pakistan

The revival in private sector credit was driven by better availability of loanable funds on account of net budgetary retirements and improved credit demand conditions amid receding borrowing costs. The expansion in private sector credit was particularly strong in the manufacturing, information technology, consumer finance, and energy sectors, among others.

### ...and the banking sector exposure to government decreased

The government's consistent reliance on the banking sector for budgetary support resulted in banks' exposure to further rise to 64.2 percent in H1CY24 from 60.8 percent in December 2023. However, in H2CY24, banks' exposure to public sector shrank to 59.1 percent due to retirements in budgetary borrowing.

The banking sector continued to display steady performance. Its financial soundness indicators related to solvency, earnings, and liquidity showed improvement while asset quality indicators reflected contained risks from delinquencies (for details Chapter 3: The Banking Sector).

<sup>18</sup> Inflation continued its downward trajectory post-review period and declined to 2.4 percent in January 2025. While, monetary policy rate further reduced by 100 bps to 12.0 percent in January 2025, amidst risks of adjustments in administered energy prices, fiscal measures and protectionist policies in major economies that may weigh on inflation outlook.

### *Going forward*

Global growth is expected to remain stable, albeit low, over the coming years.<sup>19</sup> Heightened policy uncertainty and trade policy shifts represent key downside risks to the outlook. Other risks include geopolitical conflicts, extreme weather events related to climate change and weaker growth in major economies. Further disruptions to the disinflation process, potentially triggered by spikes in commodity prices, could prevent central banks from further easing monetary policy, posing significant challenges for the fiscal and financial stability.

The domestic economic activity is improving gradually, with inflation coming down significantly. Current account deficit remained in check while fiscal consolidation is well on track. These positive developments are expected to boost the economic recovery further. However, to ensure sustainable growth and price stability, continuity of consolidation measures, timely interventions and implementation of reforms to address structural challenges are essential.

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<sup>19</sup> IMF in their WEO update of January 2025, forecasts global economy to grow at 3.3 percent in both 2025 and 2026, below the historical pre-pandemic average of 3.7 percent.



# 2

## Financial Markets' Behavior

*The domestic financial markets witnessed lower volatility during CY24 in the wake of persistent improvement in macroeconomic conditions, receding policy uncertainty, and successful arrangements with IMF. This, along with improvement in current account position, and FX market sentiments, translated into stable rupee-dollar parity throughout the year. Money market continued to function orderly under the effective SBP monetary management. Monetary policy stance reversed its course following the increased disinflation momentum. Though liquidity conditions varied over the year, Overnight Repo Rate largely remained above policy rate suggesting elevated liquidity pressures. Equity prices continued to surge backed by supportive macroeconomic environment and better economic prospects. KSE-100 outperformed peer markets for another year. Mutual funds and insurance sector were largest net buyers in CY24.*





## 2 Financial Markets' Behavior

*Global financial markets continued to follow a steady trajectory....*

Global financial markets manifested relatively contained volatility and continued to operate smoothly during CY24. Equity and currency markets witnessed a short-lived high volatility in the first week of August-2024 owing to an increase in interest rate by Bank of Japan – highest since 2008<sup>1</sup> – and the news about weak labor market conditions in the US.<sup>2</sup>

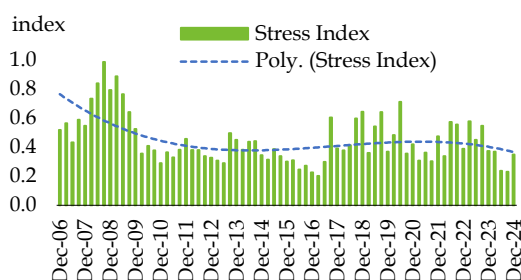
Nevertheless, global financial conditions broadly remained favorable, however, resurgence in trade policy uncertainty has affected the stocks and currencies in emerging markets.<sup>3</sup> Moreover, the term-premium in the US – after remaining negative for few years – turned into positive in September 2024, reflecting the projections of elevated net issuance of US treasuries in future due to anticipated increase in fiscal deficit.<sup>4</sup>

*Domestic financial markets witnessed abated stress owing to improving economic conditions and upbeat market sentiment...*

The overall volatility in the domestic financial markets trended downward during CY24 (**Figure 2.1**) reflecting the impact of persistent improvement in macroeconomic fundamentals, lower policy uncertainty, and successful conclusion of IMF SBA program along with entry into Extended Fund Facility (EFF) program.<sup>5</sup> Moreover, Moody's and Fitch upgraded Pakistan's credit rating, reflecting better external liquidity position.<sup>6</sup> Consequently,

country's risk premium as well as economic policy uncertainty declined in CY24 (**Figure 2.2 and Figure 2.3**).

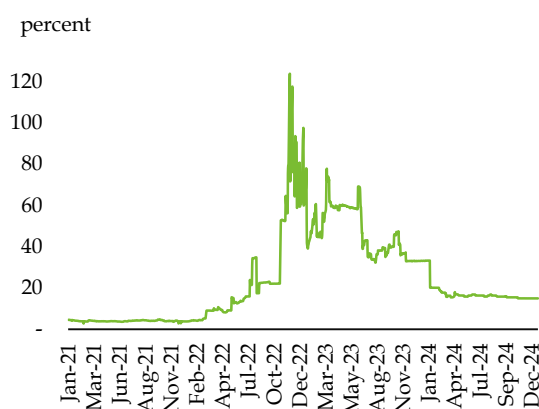
**Financial Markets Stress Index** **Figure 2.1**



**Note:** Stress index 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: SBP Staff Calculations

**Pakistan's 5 year CDS** **Figure 2.2**



Source: Bloomberg

<sup>1</sup> BoJ raised short-term interest rates to 0.25 percent from 0.10 percent on July 31-2024. Previously, the overnight call rate was at 0.3 percent in 2008 that subsequently moved to 0 percent in 2010 and further into negative territory in 2016.

<sup>2</sup> Aquilina, M., Lombardi, M. J., Schrimpf, A., & Sushko, V. (2024). *The market turbulence and carry trade unwind of August 2024* (No. 90). Bank for International Settlements. The unwinding of yen leveraged positions, including carry trades, amplified short-lived bouts of extreme equity market volatility and exchange rate movements in early August

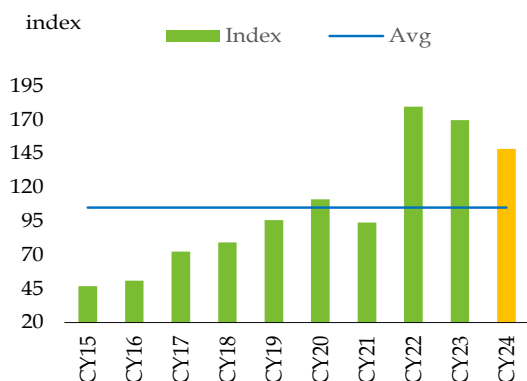
<sup>3</sup> IMF. (2025). World Economic Outlook Update. *January*

<sup>4</sup> IMF. (2024). Global Financial Stability Report. *October*

<sup>5</sup> <https://www.imf.org/en/News/Articles/2024/09/27/pr-24343-pakistan-imf-concludes-2024-aiv-consultation-pakistan-approves-37-mo-extended-arr>

<sup>6</sup> Fitch upgraded the credit rating from CCC to CCC+ in July-2024. Moody's upgraded the credit rating to Caa2 from Caa3 in August 2024.

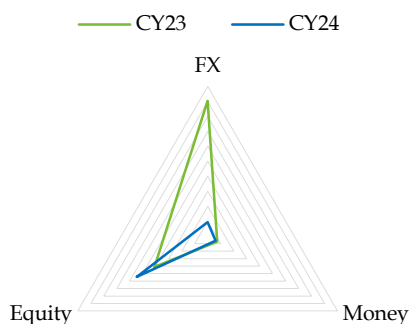
Economic Policy Uncertainty Index Figure 2.3



Source: State Bank of Pakistan

The lower stress in financial markets was almost exclusively contributed by FX market, manifesting rupee stability as SBP’s net FX reserves increased by 42.5 percent to US\$ 12.0 billion at end CY24 (Figure 2.4). Equity market, however, witnessed higher volatility in the wake of rapid increase in the KSE-100 index which surged by 84.3 percent in CY24. Money market continued to function in an orderly manner due to SBP’s effective monetary operations to ensure adequate liquidity and keep the interest rates within the corridor around policy rate.

Financial Markets Stability Map Figure 2.4



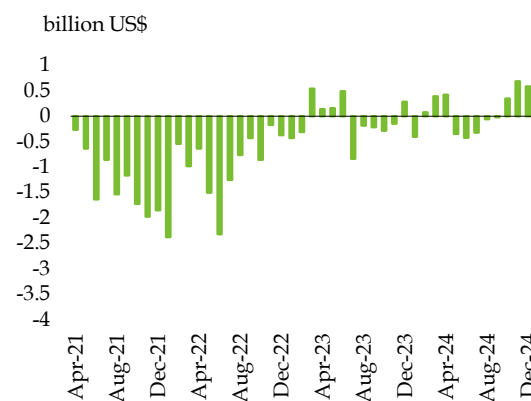
Source: State Bank of Pakistan

## 2.1 FX Market

Current account surplus and IMF program kept Rupee-Dollar parity largely stable ...

Current account balance further improved by turning into a surplus of US\$ 0.8 billion during CY24 from a deficit of US\$ 0.8 billion in CY23 (US\$ - 12.2 billion in CY22) (Figure 2.5). In the wake of revival in economic activity, stable exchange rate, and ease in restrictions, imports grew by 15.2 percent in CY24 compared to a contraction of 24.3 percent in last year. Nonetheless, SBP’s net purchases in the FX market<sup>7</sup>, robust increase in workers’ remittances – aided by incentives and regulatory reforms—and strong exports performance<sup>8</sup> helped build FX buffers despite weak official FX inflows and debt repayments.<sup>9</sup> In addition, stable global commodity prices<sup>10</sup> supported external account dynamics during CY24.

Trend in Current Account Balance Figure 2.5



Source: State Bank of Pakistan

A critical factor behind the FX market stability was the successful completion of Stand-By Arrangement (SBA) with the IMF in April-2024 coupled with fresh Extended Fund Facility (EFF) program worth around US\$ 7 billion in

<sup>7</sup> SBP’s net purchases amounted to US\$ 4.9 billion during June2024 to November 2024.

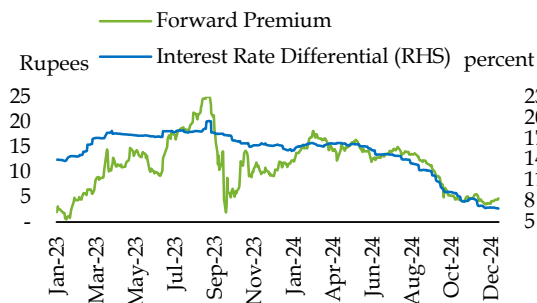
<sup>8</sup> Workers’ remittances grew by 31.5 percent to US\$ 35.0 billion in CY24 against 11.8 percent contraction in CY23. Exports grew by 10.7 percent in CY24 as compared to 6.8 percent contraction in CY23

<sup>9</sup> Pakistan witnessed US\$ 1.0 billion net financial inflows in CY24 against US\$ 5.0 billion in CY23. External debt re-payments (only principal) amounted to US\$ 7.0 billion in CY24 against US\$ 9.0 billion in CY23

<sup>10</sup> Global commodity price index averaged at 165 in CY24 almost similar level of 166 in CY23

September 2024. Resultantly, FX liquidity and prospects for planned external inflows improved, augmenting the market confidence as well as the macroeconomic stability. This was also reflected in the 6-month forward premium which lowered<sup>11</sup> over CY24 and largely remained consistent with the interest rate differentials – unlike last year’s relatively higher deviations from the differentials – indicating muted market’s apprehensions about macroeconomic fragilities (**Figure 2.6**). For instance, in H1CY24, 6M forward premium averaged at Rs14.3 while it declined to Rs 8.5 in the second half of CY24, reflecting narrowing interest rate differential amid significant monetary easing in domestic market.

**Trend in 6M Forward Premium** **Figure 2.6**



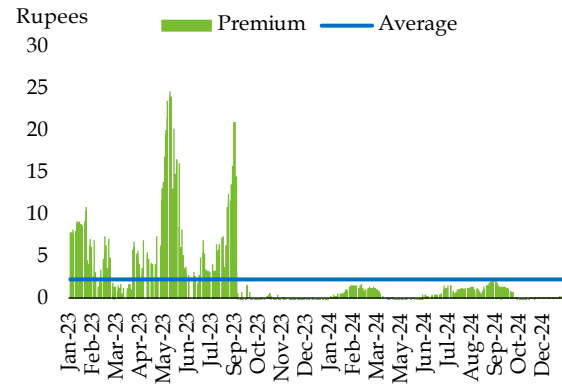
Note: Interest rates differential represent difference between 6M KIBOR and 6M Secured Overnight Financing Rate (SOFR)

Source: State Bank of Pakistan

Besides, fluctuations in premium between open and interbank market exchange rate remained within a confined range, reflecting improved sentiment in the FX market during CY24 (**Figure 2.7**). The premium averaged at Rs 0.5 against Rs 4.3 in CY23. The narrowing open market premium has been due to SBP’s policy reforms in Exchange Companies (ECs) as well as administrative measures by the government taken in the second half of CY23.<sup>12</sup> The changing dynamics of the open market proved

encouraging by playing an instrumental role in helping improve FX liquidity through an impressive increase in workers’ remittances.

**Trend in Open Market Premium** **Figure 2.7**



Source: State Bank of Pakistan

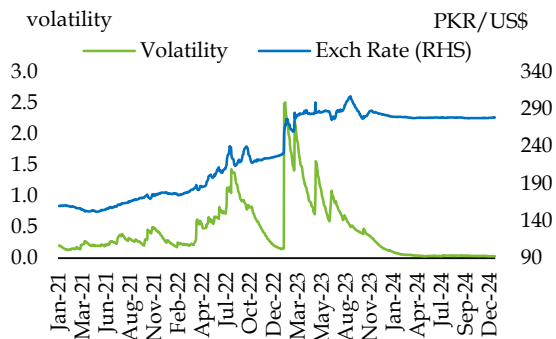
In this backdrop, volatility in FX market was placid and the rupee maintained its parity against US\$ at Rs.278.5, on average, showing an appreciation of 0.7 percent in CY24 against a significant depreciation of 26.9 percent in CY23 (**Figure 2.8**). Although US\$ continued to appreciate against major global currencies during CY24, improved external account position and stable domestic macroeconomic conditions provided support to the local currency.<sup>13</sup>

<sup>11</sup> On average, the premium was Rs.11.3 in CY24 against Rs.11.5 in CY23

<sup>12</sup> SBP suspended operations of a number of exchange companies in H2CY23. SBP also initiated several structural reforms including providing the ECs-B the option of converting into full-fledged ECs, and increase in minimum paid-up capital to Rs.500 million (free of losses) from Rs.200 million. Please see relevant circular available at <https://www.sbp.org.pk/epd/2023/FEC3.htm>

<sup>13</sup> US\$ index against major global currencies increased, on average, to 123 in CY24 from 121 in CY23

Exchange Rate and its Volatility\* **Figure 2.8**



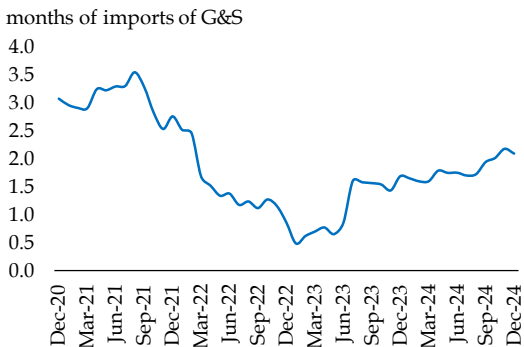
\*Volatility is measured using Exponential Weighted Moving Average Method based on daily data

Source: State Bank of Pakistan

With an increase in FX reserves, imports coverage ratio improved...

SBP's net FX reserves witnessed a consistent improvement during the reviewed year. The FX reserves increased by 42.5 percent to US\$ 12.0 billion at end CY24. Consequently, despite growth in imports, the imports coverage ratio (ICR) improved to 2.1 months from 1.7 months in December-2023 (0.9 months in December-2022) (**Figure 2.9**). Enhanced liquidity conditions were also manifested by SBP's move to reduce its forward liabilities by around US\$ 431 million to US\$ 3.0 billion in December-2024 compared to December 2023 (US\$ 5.3 billion in December 2022).

Import Coverage Ratio **Figure 2.9**

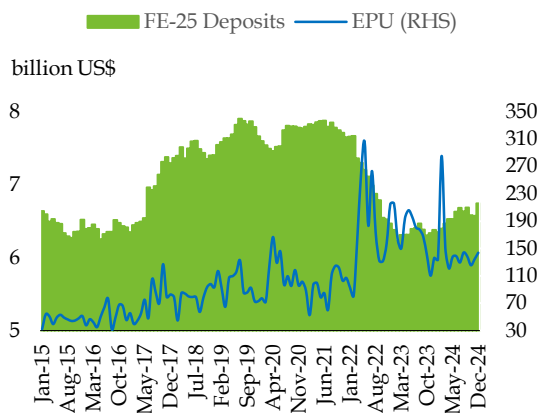


Source: State Bank of Pakistan

FE-25 deposits witnessed a modest revival after remaining under pressures for a couple of years ...

The trajectory of FE-25 deposits trended downward during CY22 and CY23 amid heightened macroeconomic uncertainty.<sup>14</sup> However, current year witnessed a consistent recovery in the foreign currency deposits, which averaged at US\$ 6.6 billion, slightly up from US\$ 6.4 billion in previous year (**Figure 2.10**). It might reflect a receding but elevated economic uncertainty.<sup>15</sup>

Trend in FE-25 Deposits **Figure 2.10**



Source: State Bank of Pakistan

## 2.2 Money Market

Monetary policy reversed its course following the increased disinflation momentum...

The monetary policy stance reversed its course during 2024. In the wake of continued monetary tightening complemented by fiscal consolidation, National CPI (YoY) decelerated sharply after January-2024, subsiding to 4.1 percent in December-2024 from a high of 29.7 percent a year earlier.

<sup>14</sup> FE-25 deposits averaged at US\$ 6.4 billion and US\$ 7.0 billion in CY23 and CY22 respectively (US\$ 7.8 billion in CY21).

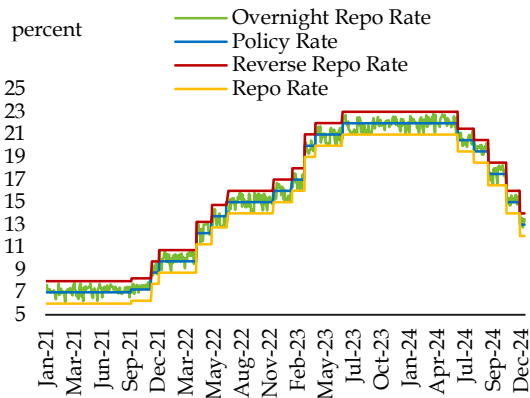
<sup>15</sup> The economic policy uncertainty index averaged at 149 in CY24, down from 170 in CY23 but still higher than the average of 105 during CY15-CY24.

Accordingly, SBP moved to lower its policy rate in early June-2024, and followed up with consistent relaxation in monetary stance subsequently. The policy rate was reduced to 13.0 percent by December-2024 from 22.0 percent in June-2024.<sup>16</sup>

*Volatility in Overnight Repo Rate (ONR) continued at a lower level...*

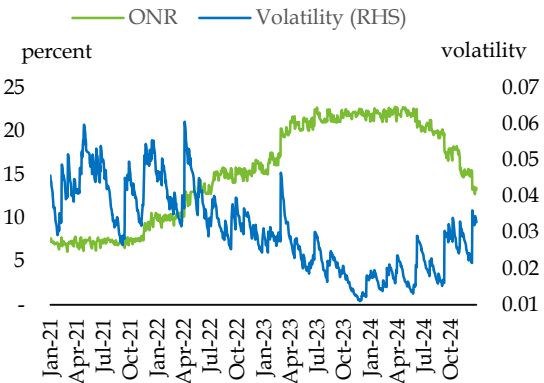
ONR continued to oscillate within the interest rate corridor during CY24, manifesting the effectiveness of SBP's monetary operations (Figure 2.11). Moreover, ONR volatility, on average, continued to remain at a lower level.<sup>17</sup> Nonetheless, a few spikes in ONR volatility were observed post-May 2024, which in turn was driven by successive and significant cuts in policy rate (Figure 2.12).

**Interest Rate Corridor** Figure 2.11



Source: State Bank of Pakistan

**Trend in ONR and its Volatility** Figure 2.12



Source: State Bank of Pakistan

The average gap between SBP Policy rate and ONR remained positive<sup>18</sup> (0.12 in CY24 vs. -0.24 in CY23), with 156 positive and 88 negative instances. Within the year, the gap increased to 0.18 in H2CY24 from 0.05 in the first half of CY24.

The upward pressure on ONR, particularly in the second half, reflected a number of factors. First, advances of the banking sector increased by Rs 3.7 trillion while deposits declined by Rs 746 billion, in H2CY24 broadly reflecting the impact of easing financial conditions and banks' efforts to meet the advances-to-deposit ratio (ADR) thresholds to avoid taxes. Second, although government's budgetary borrowing from the banking sector witnessed a deceleration in CY24, it still remained elevated, reinforcing liquidity pressures in money market.<sup>19</sup> In H2CY24, government budgetary borrowing increased by 26.9 percent – compared to 40.8 percent in the first half of reviewed year. Third, the average size of OMOs injections<sup>20</sup> increased indicating higher liquidity pressures (Figure 2.13). This is also corroborated by the fact that banks availed

<sup>16</sup> Policy rate remained at 22.0 percent until June 10, 2024. It was reduced to 20.5 percent on June 11, 2024

<sup>17</sup> On average, volatility in ONR turned 0.022 in CY24 against 0.023 in CY23.

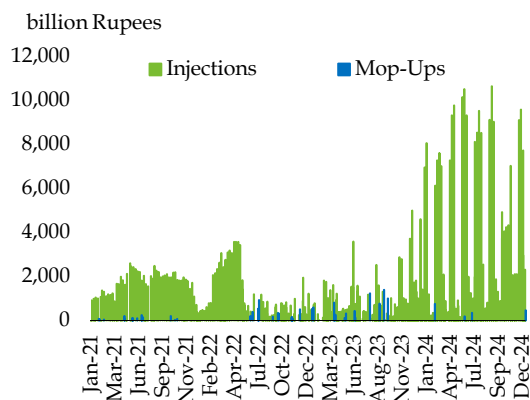
<sup>18</sup> A positive gap may imply relatively higher liquidity pressures in money market and vice versa

<sup>19</sup> On average, year on year increase in government borrowing was recorded at 33.9 percent in CY24 against 39.5 percent in CY23

<sup>20</sup> Average OMOs injections amounted to Rs 1.7 trillion in CY24 against Rs 483 billion in CY23. Within CY24, average injections increased to Rs 2.0 trillion in H2 from Rs 1.4 trillion in H1.

SBP’s ceiling facility with a higher frequency<sup>21</sup> particularly in H2CY24 requiring increased liquidity assistance.<sup>22</sup>

OMOs Injections and Mop-ups **Figure 2.13**



Source: State Bank of Pakistan

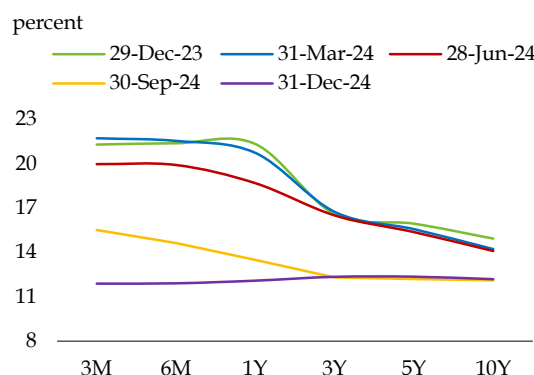
Similarly, during the periods of easy liquidity conditions, i.e., 88 instances of negative gap, banks availed SBP’s floor facilities to park their excess liquidity temporarily.<sup>23</sup> A few banks, with excess liquidity, deployed their funds with central bank in view of declining trajectory of interest rates.

*Yield curve shifted downward mirroring reversal in monetary policy course...*

In line with softening of monetary policy stance, yield curve continued to shift downward since June 2024 (Figure 2.14). The Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit and Loss (FVTPL) categories of government securities, which form more than 90 percent of the government securities of banks, are subject to mark-to-market adjustments. Banks had been incurring persistent revaluation deficit on these portfolios since December 2021. However, with a significant decline in yields (PKRV rates), value

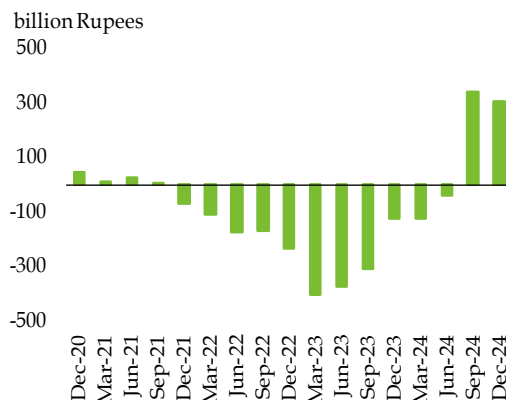
of government securities rose and total revaluation surplus of the banking sector reached Rs 307 billion in CY24 compared to a deficit of Rs 127 billion in CY23 (Figure 2.15). Likewise, banks recorded gain on sale of government securities in FVTPL category, which increased to Rs 94.0 billion in CY24 as compared from Rs.6.0 billion in CY23.

Yield Curve **Figure 2.14**



Source: Mutual Funds Association of Pakistan

Surplus/Deficit on Revaluation of Securities **Figure 2.15**



Source: State Bank of Pakistan

<sup>21</sup> Banks availed liquidity assistance by 224 times in CY24 – higher than 173 times in previous year. Within CY24, banks approached SBP 135 times in H2 against 89 times in H1.

<sup>22</sup> The average liquidity assistance amounted to Rs 111 billion against Rs 95 billion in CY23. Within CY24, the average liquidity assistance increased to Rs 119 billion in H2 from Rs 103 billion in H1.

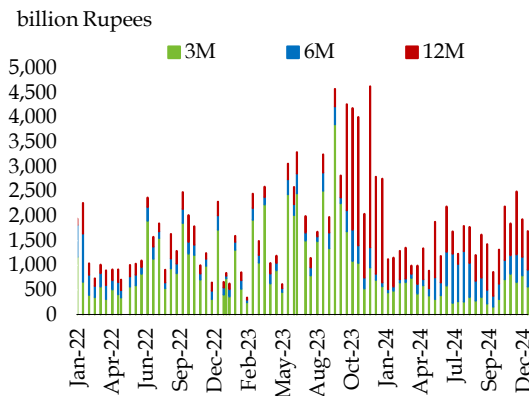
<sup>23</sup> The banks availed floor facility 246 times in CY24 (236 times in CY23) and parked, on average, Rs 273 billion with SBP against Rs 215 billion in CY23.

Accordingly, banks' interest tilted towards longer-tenure securities....

Though the securities with shorter repricing tenors, i.e. MTBs and floating rate PIBs and Sukuk, constituted substantial part of banks' investment portfolio, banking sector strategized to lock more of its funds in longer-tenure securities in order to preserve profitability in a declining interest rate environment. The government also had set a significantly lower target of financing to raise through MTBs in CY24.<sup>24</sup> Moreover, the government retired around Rs 1.3 trillion of Treasury bills through various buybacks in H2CY24, and mobilized resources through floating rate PIBs, especially semi-annual coupon bonds.

Banks' behavior in auctions shows that their preference for 6M and 12M treasury securities increased<sup>25</sup> in CY24 (Figure 2.16). Moreover, in case of fixed rate PIBs, banks offered increased funds in CY24 as compared to CY23 (Figure 2.17). In addition, banks took a significant interest in floating rate PIBs (semiannual) during the period under review as the government's target and acceptance for floating rate PIBs remained noticeably lower in CY24.<sup>26</sup>

Bidding Behavior in T-bills Auctions Figure 2.16



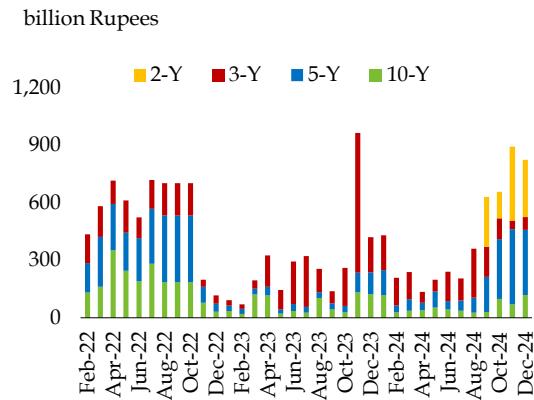
Source: Sate Bank of Pakistan

<sup>24</sup> In CY24, total target for MTBs was Rs 12 trillion against Rs 30 trillion in CY23.

<sup>25</sup> In CY23, banks' offering in 3M treasury bills was 60 percent of the total funds offered for treasury bills auctions. In CY24, banks offered 30 percent of the total funds offered for treasury bills auctions. However, banks offered 23 percent (10 percent in CY23) and 47 percent (30 percent in CY23) of the total funds for 6M and 12M treasury bills in CY24.

<sup>26</sup> In case of semiannual PIBs, banks offered Rs 17 trillion against government target of Rs 7 trillion in CY24. The government accepted Rs 7.4 trillion. However, for quarterly PIBs, the target was Rs 1.5 trillion and the government accepted just Rs.61 billion.

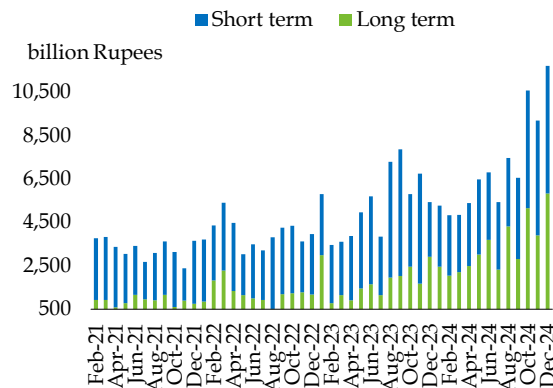
Banks' Bidding for Fixed Rate PIBs Figure 2.17



Source: State Bank of Pakistan

The secondary market dynamics remained in sync with primary market developments as the market participants increasingly traded longer-tenure securities. The total trading volume of government securities increased by 31.3 percent to Rs 85.0 trillion in CY24. The share of longer-tenor securities in total trading volume increased to 47.6 percent in CY24 from 32.8 percent in CY23 (Figure 2.18).

Secondary Market Trading Figure 2.18



Source: State Bank of Pakistan

*Latest stress testing results suggest resilience of banking sector to market shocks*

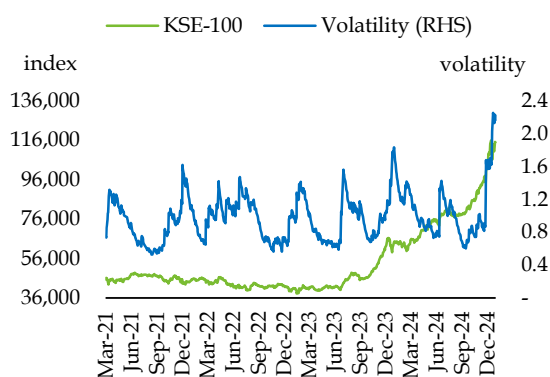
The results of sensitivity (stress testing) analysis show that under the most severe shock scenario (i.e. a parallel upward shift in the yield curve by 300 basis points), the CAR of the banks remains well above the minimum requirement (for detail see the section on Market Risk in Chapter 3 on Banking Sector).

### 2.3 Equity Market

*KSE-100 index continued to rise with impressive momentum...*

The surge in KSE-100 index which commenced in the second half of CY23 continued into the year under review, setting new records, albeit with elevated volatility (Figure 2.19). The index witnessed a staggering growth of 84.4 percent, reaching at 115,127 level by end of the CY24 (54.5 percent growth in CY23).

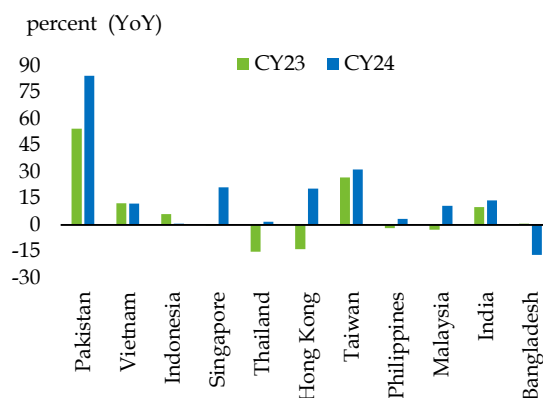
**KSE-100 Index and its Volatility** Figure 2.19



Source: State Bank of Pakistan

Accordingly, market capitalization increased by 59.9 percent (39.4 percent growth in CY23) to Rs 14.5 trillion at end December 2024. Within the year, the index averaged at 68,489 and 88,417, respectively, in H1 and H2 of the reviewed year. Moreover, domestic equity market continued to outperform regional peers for another year (Figure 2.20).

**Regional Countries Equity Markets Performance** Figure 2.20

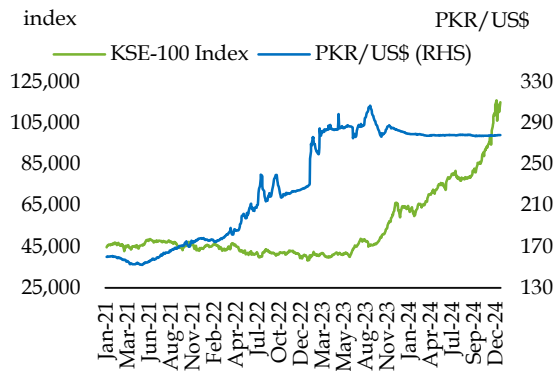


Source: Haver

In the first half of CY24, lower policy uncertainty, sharply receding inflationary pressures, and successful conclusion of IMF-SBA program largely triggered positive sentiments in the equity market. Particularly, the index jumped to 78,802 from 72,797 within a week (between June 12 -20, 2024), reflecting, inter alia, the first cut in policy rate after a period of prolonged monetary tightening.

In the second half, the rising investors' confidence was mainly driven by continued cycle of monetary easing amid increased disinflation momentum, securing fresh IMF program and improvement in the country's credit rating by Fitch and Moody's. In addition, stable rupee-dollar parity (Figure 2.21), backed by favorable external account position, remained crucial factors behind equity market performance throughout the year.

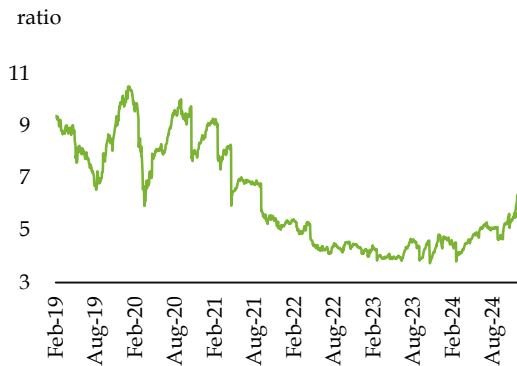
**KSE-100 Index and Exchange Rate** **Figure 2.21**



Source: State Bank of Pakistan

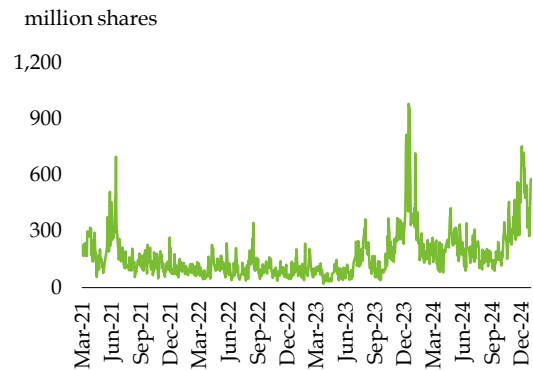
The renewed optimism in market sentiments was also reflected in the turnaround in Price to Earnings Ratio (P/E), which kept declining during previous years (Figure 2.22). P/E ratio averaged at 5.0 in CY24 compared to 4.2 in CY23 and 4.6 in CY22. With increased risk appetite, equity market witnessed higher trading during the year under review (Figure 2.23).<sup>27</sup>

**Price to Earnings Ratio** **Figure 2.22**



Source: Bloomberg

**Trading Volume of KSE-100** **Figure 2.23**

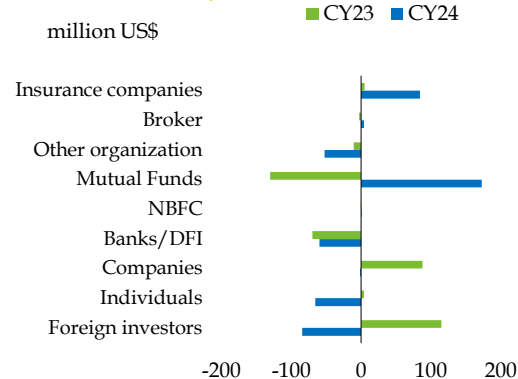


Source: Pakistan Stock Exchange

*Mutual funds and insurance firms were the largest net buyers ...*

Mutual funds and insurance sector were largest net buyers of equities during CY24., (Figure 2.24). Amid declining interest rates and attractive stocks' valuations, mutual funds' investments in equities increased by 107.2 percent in CY24. However, their exposure in equities (as percent of their total assets) slightly increased to 9.5 percent from 9.1 percent in CY23, as a major chunk of mutual funds' assets (75.5 percent) was still concentrated in money market and income funds during CY24.

**Mutual Funds and Insurance were Prominent Net Buyers** **Figure 2.24**



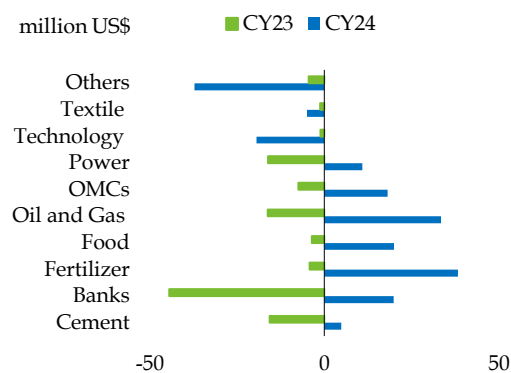
Source: National Clearing Company of Pakistan Limited

<sup>27</sup> Average daily trading volume increased to 252 million shares in CY24 from 164 million shares in CY23.

It is noteworthy that foreign investors were net sellers reducing their exposure worth US\$ 84 million in the equity market despite improving macroeconomic conditions particularly amid stable Rupee-dollar parity. It was, as market reports suggests, on account of repositioning of a major foreign investor due to reclassification of Pakistan from secondary emerging to frontier market.<sup>28</sup>

Sector-wise analysis indicates that local investors took highest exposure in fertilizer sector followed by Oil & Gas and Oil Marketing Companies (OMCs) during CY24 (Figure 2.25).

Net Buying was Highest in Fertilizer Stocks Figure 2.25

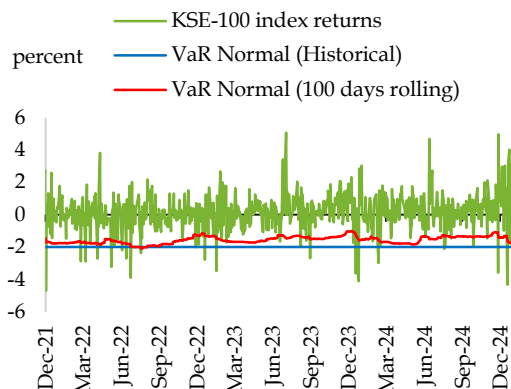


Source: National Clearing Company of Pakistan Limited

The risks in equity market remained at a relatively lower level....

Despite remarkable surge in equity prices, risks remained at a relatively lower level, in the context of historical average,<sup>29</sup> during CY24. The Value at Risk (VaR) analysis suggests that daily returns of KSE-100 index breached VaR Normal (100 days rolling) 15 times as compared to 13 times in CY23 (Figure 2.26).

Value at Risk of KSE-100 Index Returns Figure 2.26



Source: Pakistan Stock Exchange and SBP Staff

It is noteworthy that in the backdrop of a conservative regulatory regime of SBP, banks are maintaining a limited exposure to the equity market, which makes them less sensitive to volatility in equity market. Investment in equities stood at 3.4 percent of banks' regulatory capital at end December 2024 (6.8 percent in CY23). The latest sensitivity analysis (stress testing) results also suggest that even with a hypothetical shock scenario of 36.1 percent decline in equity prices (KSE-100 index), which is equal to historically highest quarterly decline in the index, most of the banks remain CAR compliant.

Going forward, the performance and stability dynamics of domestic financial markets will largely hinge on strength of economic recovery, political stability, government's ability to pursue the IMF EFF program and implement crucial economic reforms.

<sup>28</sup> On July 03, 2024, FTSE Russell announced reclassification of Pakistan from Secondary Emerging to Frontier Market status with effect from September 23, 2024 as Pakistan was unsuccessful in meeting the criteria of stock count. Please read the relevant article available at <https://www.brecorder.com/news/40333204>

<sup>29</sup> For the period CY01-CY24, the breach average is 16.

## The Banking Sector

*The banking sector maintained its soundness in a relatively better and improving macroeconomic environment during 2024. Asset base expanded by 15.8 percent to touch Rs 53.7 trillion by end December 2024, mainly driven by investments as well as advances. An improvement aspect of CY24 was the ADR-related tax policy, due to which banks sharply pushed advances and shed deposits in Q4CY24, which raised banks' reliance on borrowings. Earnings indicators moderated on the back of several factors such as the translation of falling benchmark rates to earning assets, a one-off extra ordinary expense by a major bank and increased corporate tax rate on banking companies during CY24. Asset quality indicators of banks manifested muted risk to solvency amid the increased provisioning (IFRS-9), easing financial conditions and improvement in repayment capacity of borrowers, especially of non-financial corporates. Liquidity profile in terms of liquid assets vis-à-vis liabilities remained comfortable – augmented by the increased investments in government securities. In the backdrop of a conservative regulatory regime, banks could comfortably manage currency and equity price movement risks, while market risk also remained contained due to relatively shorter repricing maturity of investment portfolio. Solvency indicators such as Capital Adequacy Ratio (CAR) not only strengthened further to 20.6 percent but also stood well above the minimum regulatory requirements. Islamic Banking Institutions (IBIs) maintained their growth momentum and sound financial position, which contributed to the overall stability of banking sector.*



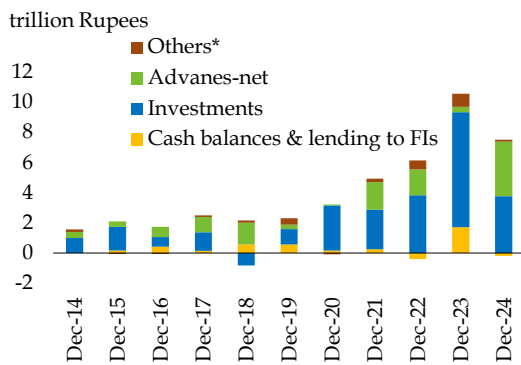


## 3 The Banking Sector

The banking sector in Pakistan constitutes around 77 percent of total assets of the financial sector and therefore occupies a central place in financial stability. The sector continued its steady performance and remained resilient in terms of its operational and financial soundness in a relatively favorable and improving macroeconomic environment compared to last year.

Asset base of the sector expanded by 15.8 percent to Rs 53,693 billion in CY24, compared to 29.5 percent growth in last year (**Figure 3.1 and Table 3.1**). This slowdown was mainly due to contained growth in investments in government securities and slight contraction in holding of equity stock and mutual funds, though advances grew at a significantly high growth rate that was highest in the last 20 years. However, changes in Q4 of CY24 dominated the whole year. In this backdrop, the share of total investments, which predominantly comprise government securities, in the asset base lowered to around 55 percent by end CY24 (56.1 percent in CY23) (**Figure 3.2**).

Yearly flows in Assets of Banking Sector Figure 3.1



\*Others include Fixed assets, Deferred Taxes and Other Assets

Source: State Bank of Pakistan

Key Statistics and FSIs\* of Banking Sector

Table 3.1

Balance Sheet	CY22	CY23	CY24
<b>billion Rupees</b>			
Total Assets	35,796	46,364	53,693
Advances - Net	11,818	12,178	15,805
Investments - Net	18,400	26,019	29,791
Borrowings	7,845	11,673	15,006
Deposits	23,461	29,128	31,792
Total Liabilities	33,710	43,577	50,390
Net Assets	2,086	2,787	3,303
Profit/(Loss) Before Tax	703	1,287	1,368
Profit/(Loss) After Tax	336	642	644
<b>percent</b>			
Risk Weighted CAR	17.0	19.7	20.6
NPLs to Total Loans	7.3	7.6	6.3
Provision to NPLs	89.5	92.7	103.9
Net NPLs to Net Loans	0.8	0.6	-0.3
Net NPLs to Capital	4.6	2.7	-1.2
Return on Assets (Before Tax)	2.1	3.1	2.7
Return on Assets (After Tax)	1.0	1.6	1.3
ROE (Before Tax)	35.3	54.4	45.8
ROE (After Tax)	16.9	27.1	21.5
Liquid Assets/Total Assets	56.6	63.5	60.3
Liquid Assets/Total Deposits	86.4	101.1	101.9
Advances/Deposits	50.4	41.8	49.7

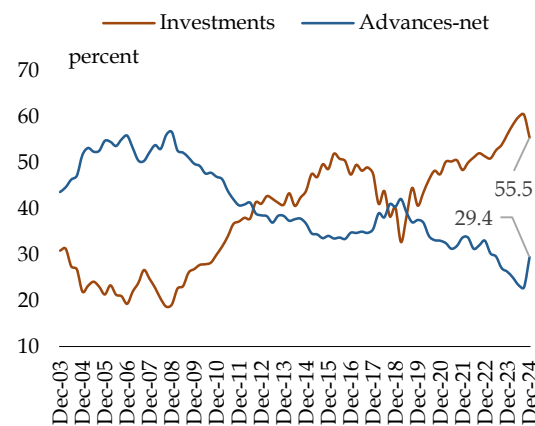
Note: Based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

\*Financial Soundness Indicators

Source: State Bank of Pakistan

Share in Total Assets of Banking Sector

Figure 3.2



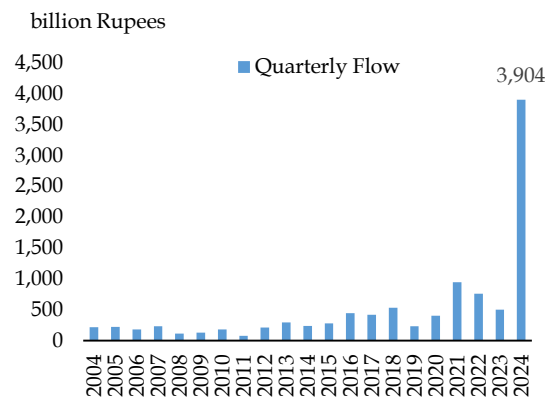
Source: State Bank of Pakistan

Government securities rose by Rs 3.3 trillion in CY24, much lower than Rs 7.4 trillion increase in last year. Within government securities, the government retired around Rs 1.3 trillion of Treasury bills through various buybacks, as its cash flow position improved in Q3CY24, and mobilized resources through floating rate PIBs, especially semi-annual coupon bonds. Auctions data shows that the market took keen interest in treasury bills, floating rate PIBs (semi-annual coupon) and fixed rate PIBs. However, the government accepted lower than target amounts in fixed rate PIBs and Ijarah Sukuk in CY24 (for details see **Chapter 2: Financial Markets**). This behavior was consistent with the accommodation in monetary policy, wherein the government tried to take benefit of falling interest rates and banks tried to lock in the funds in long-term securities.

*Advances rebounded amid easing financial conditions, improving economic activity while incentive to improve ADR also played a key role ...*

Advances rebounded by 29.8 percent in CY24 as compared to a muted growth of 3.0 percent in last year. In fact, advances recorded highest growth since CY05, though the major increase emanated in Q4CY24 (**Figure 3.3**).

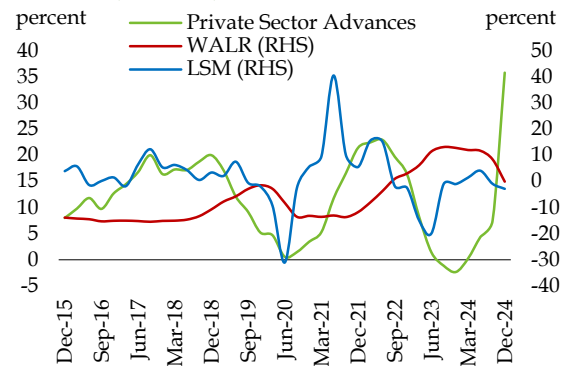
**Quarterly Flows of Advances in Q4CY** Figure 3.3



Source: State Bank of Pakistan

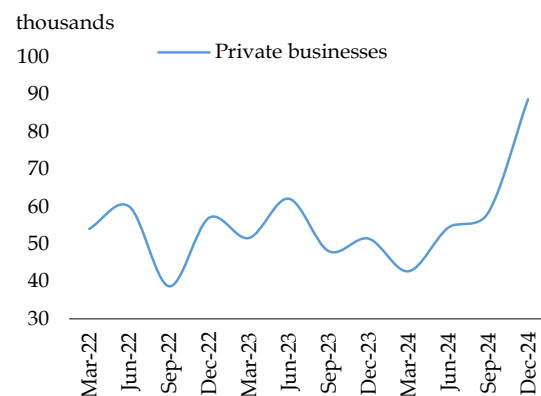
Within overall advances, domestic private sector advances, which constitute around 72 percent of the total loan portfolio of banks, witnessed a broad-based increase and grew by 35.8 percent (or Rs 3.2 trillion) in CY24; the increase was particularly concentrated in Q4CY24 as around 98 percent of YoY increase occurred in this quarter. The underlying factors for the growth in advances can be ascribed to both demand and supply side factors. On demand side, economic recovery, improvement in business confidence, easing financial conditions in the wake of disinflation and cut in policy rates (**Figure 3.4**) led to a strong revival in private sector demand for bank loans (**Figure 3.5**).

**LSM, WALR and Private Sector Advances (Domestic)** Figure 3.4



Source: State Bank of Pakistan and Pakistan Bureau of Statistics

**Loan Applications of Private Businesses** Figure 3.5



Source: State Bank of Pakistan

A number of sectors including Textiles, Insurance, Agribusinesses and Cement,

increased their advances in Q4CY24, much higher than their offtakes in Q4CY23 (Table 3.2). Bank lending survey conducted by SBP during October to December 2024 period showed that among other factors, businesses highlighted inventories and working capital requirements and fixed investment needs as the major factors for their loan demand. This was consistent with the Q4CY24 flow of segment wise data on advances of corporates and SMEs businesses, as most of these businesses borrowed for working capital needs as well as long term financing.

Domestic Private Advances of banking sector Table 3.2

	9MCY23	9MCY24	Q4CY23	Q4CY24
Flows in billion Rupees				
Chemical and Pharmaceuticals	-115	33	43	117
Agribusiness	33	-39	68	175
Textile	10	6	14	480
Cement	-27	-20	-8	115
Sugar	-68	102	71	62
Shoes and leather garments	-5	-10	2	3
Automobile and transportation equipment	-49	8	19	37
Financial	-140	59	-16	845
Insurance	1	-1	-1	263
Electronics and electrical appliances	-44	10	22	27
Production and transmission of energy	-217	-100	22	119
Individuals	-66	-51	30	112
Others	-84	74	289	793
<b>Total</b>	<b>-772</b>	<b>71</b>	<b>554</b>	<b>3,148</b>
<b>Total (excluding Financial)</b>	<b>-631</b>	<b>12</b>	<b>570</b>	<b>2,303</b>

Source: State Bank of Pakistan

On the supply side, retirement of bank borrowings by the government and increased reliance on non-bank financial sector created cushion for lending to private sector. Moreover, the policy of ADR-linked tax rates on income from government securities provided a

significant incentive to banks to improve their ADR by increasing their loan portfolio.<sup>1</sup> To improve their ADRs, banks aggressively expanded loans to different sectors. Among these sectors, a much higher uptick in 'Financials', was noted, as its borrowing rose by Rs 845 billion during Q4CY24, much higher than net retirements of Rs 16 billion in the same period last year. This significant rise in advances of Financials mainly reflects banks' lending to financial institutions other than banks.<sup>2</sup>

Besides businesses, consumer financing, which recorded a net retirement of Rs 81 billion last year, strongly rebounded and rose by Rs 29 billion in CY24.<sup>3</sup> Just like advances to businesses, the major rise in consumer portfolio was during the fourth quarter of CY24, driven mainly by one category i.e., credit cards.

As a result of sharp increase in private sector advances vis-à-vis a muted growth of 9.2 percent in public sector advances, the share of domestic public sector advances in total loans declined to 21.2 percent of in CY24 (25.7 percent in CY23). Though a large state-owned entity availed significant financing (due to its debt restructuring), the net retirements by a few energy related PSEs suppressed the overall increase in advances of PSEs during CY24.

*Deposits mobilization took hit from ADR-related taxation policy...*

On funding side, deposits mobilization slowed

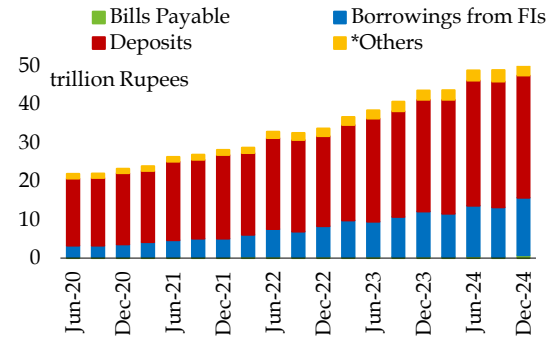
<sup>1</sup> Under the Finance Act, 2021, income attributable to investment in the Federal Government securities of banks was made taxable at tax rates of 40 percent, 37.5 percent and 35 percent, if ADR was up to 40 percent, between 40 to 50 percent and above 50 percent respectively. The Finance Act 2022 introduced enhanced rates of tax on taxable income of banks attributable to investment in federal government securities. The enhanced rates of tax for tax year 2022 are 55 percent, 49 percent and 39 percent for these ADR slabs, respectively. For tax year 2023 and onwards; tax rates would be 55 percent, 49 percent and 39 percent for these ADR slabs, respectively. The changes have been incorporated by substituting sub-rule (6A) of rule 6C of Seventh schedule of the Income Tax Ordinance. Source: FBR Circular C.No.4(21) IT-Budget/2022 dated July 21, 2022 available at: <https://download1.fbr.gov.pk/Docs/2022721177241469circular15of2002-23.pdf> Though, this policy of ADR-related tax on income from government securities was withdrawn for tax year 2024 through FBR S.R.O 226 (I)/2023, it again went into effect in tax year 2025.

<sup>2</sup> In order to improve their ADR amid applicability of ADR-related taxation policy, banks increased lending to non-bank financial entities. This was a one-off phenomenon in Q4CY22 and normalized in CY23, as the applicability of this taxation policy was withdrawn for Tax year 2024. However, as the policy again became applicable in CY24, the ADR-related push to advances was again observed in Q4CY24.

<sup>3</sup> These numbers reflect domestic portfolio of banks.

during CY24, rising by Rs 2,664 billion or 9.1 percent in CY24.<sup>4</sup> Barring the 8.0 percent growth in CY22, this was the lowest growth in 21 years. The major drag on deposits mobilization was the ADR-related taxation policy, as banks strategized to shed deposits towards the end of the year (Figure 3.6).

Funding Composition of Banking Sector Figure 3.6

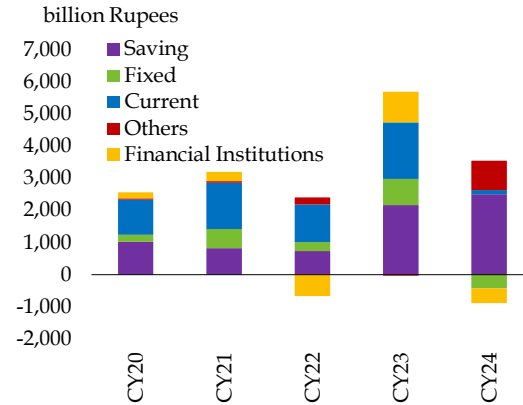


\*Other include Sub-ordinated loans, Liabilities against Assets subject to Finance Lease, deferred tax liabilities and other liabilities  
Source: State Bank of Pakistan

CY24 remained another year<sup>5</sup> after CY22, when the applicability of the ADR-related taxation on banks' income from government significantly affected deposit mobilization.

The prescribed level of ADR can be achieved either via an expansion in advances (numerator) or shedding the deposits (denominator). This strategy, though improves banks' ADRs and saves them their tax charges, it however distorts the long term trends of advances and deposits in the economy. This year, in an effort to shun large size deposits, several banks announced service charges on these deposits; nevertheless, timely intervention by SBP helped in reversing such moves. Nonetheless, saving deposits increased amid high (though falling) rates and supported deposit growth in CY24. Accordingly, the share of savings deposits also rose to 40.8 percent by end CY24 from 35.9 percent in CY23 (Figure 3.7).

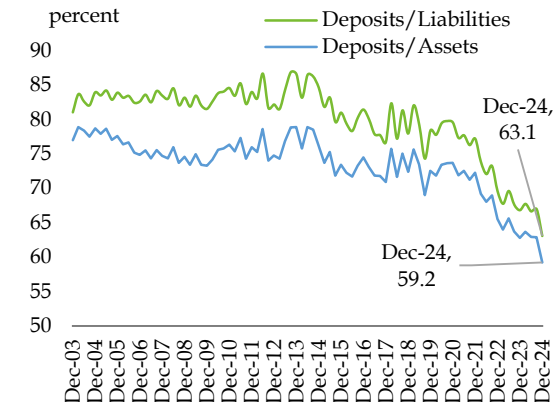
Composition of Deposit Mobilization Figure 3.7



Source: State Bank of Pakistan

With the drag in deposit mobilization, the share of deposits in overall funding further declined by end CY24 from last year (Figure 3.8).

Deposits to Total Liabilities and Total Assets of Banking Sector Figure 3.8



Source: State Bank of Pakistan

while reliance on borrowings sharply rose in Q4CY24...

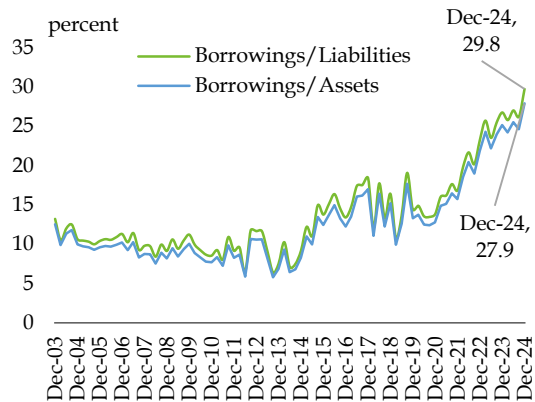
As asset growth outpaced deposit mobilization for the fourth consecutive year since CY20 (Covid-19 pandemic), banks' reliance on borrowings got further traction in CY24. Borrowings rose by 28.5 percent to Rs 15 trillion. Though the growth was lower than last year, the share of borrowing in funding base further rose

<sup>4</sup> Deposits rose by Rs 5,667 billion in CY23

<sup>5</sup> Last time, the deceleration of 8.0 percent in CY22 was also observed in the wake of a similar tax policy.

to 29.8 percent by end December 2024 (Figure 3.9). Around 82 percent of the additional borrowing was availed from central bank in CY24.

**Borrowings to Total Liabilities and Total Assets of Banking Sector** Figure 3.9



Source: State Bank of Pakistan

*Earnings remained steady...*

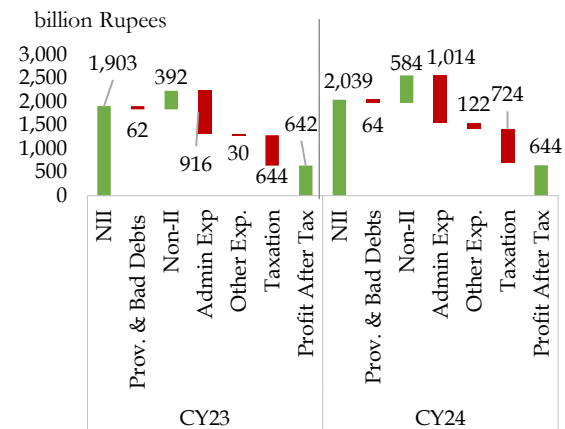
Earnings of the banking sector remained almost stable at the last year level; after-tax profit of the banking sector inched up to Rs 644 billion in CY24 from Rs 642 billion in last year. As this modest growth in earning came on the back of strong growth in assets and equity, the bottom line indicators i.e. ROA moderated to 1.3 percent (1.6 percent in CY23) and ROE contracted to 21.5 percent (27.1 percent in CY23). ROA reverted back to its long term average of 1.2 percent, however, ROE for CY24 was still above its long term average of 15.0 percent.<sup>6</sup>

On YoY basis, earnings growth fell to 0.2 percent in CY24 from 90.9 percent in CY23. The major drag on earnings came from deceleration in net interest income, as the fall in benchmark interest rates such as SBP policy rate started translating into returns on earning assets and contracting

the net interest margin (NIM).<sup>7</sup> Moreover, the burden of income tax on banking companies also increased during the year under review and a one-off extra ordinary expense booked by a major bank also contributed in moderation of the overall earnings of the sector.

However, non-interest income especially the trading gains supported earnings,<sup>8</sup> as the fall in interest rates led to appreciation in the values of fixed income securities (mainly government securities) which form a major part of the banks' earning assets (Figure 3.10).

**Composition of Profit After Tax** Figure 3.10



Source: State Bank of Pakistan

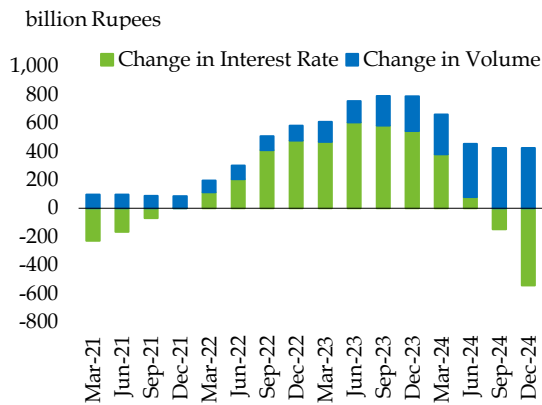
A rate-volume analysis of YoY changes in interest earnings and interest expenses shows that the rate component was more pronounced and drew down both income and expenses on earning assets and interest bearing liabilities, respectively, specifically during last two quarters of CY24 (Figure 3.11 and Figure 3.12).

<sup>6</sup> Average of quarterly ROA and ROE from March 2010 to December 2024.

<sup>7</sup> The Weighted Average Lending rate (excluding zero-markup and excluding interbank) fell by 707 bps in CY24, while Weighted Average Deposit rate (excluding zero-markup and excluding interbank) fell by 836 bps in CY24. Further, the 3-month KIBOR was 56 bps lower than the policy rate, on average, during CY24, suggesting that the market was factoring in the fall in policy rate somewhat more quickly. This behavior translated to a relatively quicker repricing of loans, which are generally repriced at some lags.

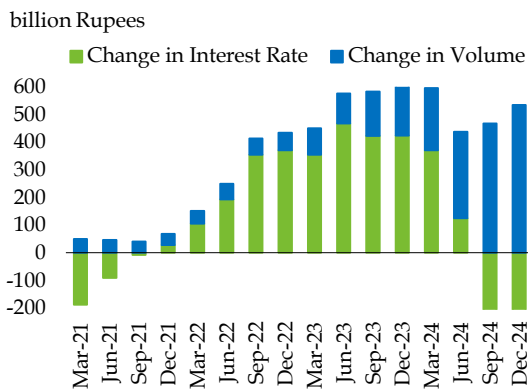
<sup>8</sup> Gains on sale of government securities amounted to Rs 94 billion in CY24 as compared to gains of Rs 6 billion in same period last year.

**Change in Interest Earned on Average Earning Assets due to ....** Figure 3.11



Source: State Bank of Pakistan

**Change in Interest Earned on Average Interest bearing Liabilities due to ....** Figure 3.12



Source: State Bank of Pakistan

In line with rising share of investments in balance sheet of the banking sector, the proportion of interest/markup earnings from investments is on a consistent rise since March 2019 and has reached around 69 percent of total interest income, manifesting concentration in earnings from one major source i.e., government securities.

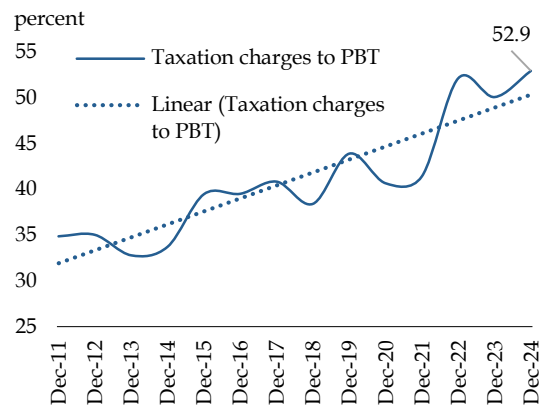
On the expense side, growth in operating expenses decelerated to 20.1 percent in CY24, from 32.5 percent in CY23, as strong disinflation in the economy kept growth in administrative expenses in check though the branch network

recorded an elevated growth during CY24 compared to last year.<sup>9</sup>

Provisioning expenses rose in line with the movement in gross NPLs and their impact remained relatively contained.

However, there was significant rise in income tax charges which rose to 52.9 percent of pre-tax profit for CY24. Consequently, taxation charges were an important factor in moderating the after tax earnings in CY24. It is important to note that taxation charges for banks have been rising in recent years (Figure 3.13). This argument is also supported by the extended DuPont analysis of after tax ROE of the banking sector in Table 3.3.

**Trend in Taxation Charges to Profit Before Tax of Banking Sector** Figure 3.13



Source: State Bank of Pakistan

**Extended Du Pont Breakup of Banking Sector's after-tax ROE** Table 3.3

	CY22	CY23	CY24
Impact of tax i.e. PAT/PBT (a)	0.48	0.50	0.47
Operating efficiency i.e. PBT/NII (b)	0.60	0.68	0.67
Interest Margin i.e. NII/Interest Income (c)	0.34	0.30	0.27
Yield on Assets i.e. Interest Income/Assets	0.10	0.16	0.15
Leverage i.e. Assets/Equity (e)	16.65	17.31	16.75
<b>ROE (f = a x b x c x d x e)</b>	<b>16.9%</b>	<b>27.1%</b>	<b>21.5%</b>

Source: State Bank of Pakistan

*A stable and objective taxation policy for banks is vital for financial stability and financial inclusion ....*

Banking sector in Pakistan is subject to relatively high tax rate and an uncertain tax policy

<sup>9</sup> By adding 1,105 new branches, the banking sector expand its network to 17,708 branches by end December 2024. Data source: <https://www.sbp.org.pk/publications/Quarterly/2024/Dec/List-of-Banks-and-Microfinance-Banks-Branches.xlsx>

environment. The corporate tax rate for banks is relatively higher. Banks are subject to a minimum paid-up capital requirement of Rs 10 billion, accordingly the amount of banks' earning is generally higher than other corporate sector firms, which in turn involves additional tax commonly known as super tax.<sup>10</sup> Moreover, banks' earnings from government securities for CY22 and CY24 were subject to another tax, the rate of which would progressively increase depending upon the level of a bank's ADR.<sup>11</sup> Besides generating additional tax revenues for the exchequer, this ADR-linked tax policy could have a potential incentive for banks to expand their loan portfolio and support economic activities in the economy.

However, it has been observed that due to limited private sector demand for bank credit in first three quarters of CY24, in the backdrop of stressed macro-financial conditions and government's high demand for bank credit, it was difficult for banks to increase advances. In order to achieve desirable ADR for rationalizing their tax burden, banks actively strategized their asset-liability-management by aggressively increasing advances and, more importantly, shedding deposits towards the end of CY24. Accordingly, the ADR of the banking sector improved to 53.2 percent in December 2024 (39.7 percent in September 2024). However, the

government withdrew the ADR-linked tax policy and raised the tax rate for banking companies to 44 percent (for tax year 2025) from 39 percent.<sup>12</sup> However, this policy affected saving mobilization in the economy and shifted banks' funding mix away from stable source i.e. from deposits to borrowings.

This phenomenon underlines the fact that income tax policy can significantly influence the scale and scope of banking business as well as the level of financial deepening and stability in the economy. Earning is particularly important for financial institutions, as it helps a financial institution in building buffers against unforeseen future shocks and provide incentive to invest in human resource and technologies to achieve efficiency in operations and increase the outreach and utility of business products.

#### *Key risks to financial stability subsided over the year*

The banking sector stability map (BSSM)<sup>13</sup> shows that risks to financial stability have subsided along various dimensions, including Asset Quality, Capital Adequacy and Interconnectedness as the year 2024 progressed (**Figure 3.14**). However, the dimensions of Deposits, and Liquidity showed some rising strain in December 2024 quarter, as deposits growth fell and growth of liquid assets

<sup>10</sup> Under section 4C of ITO 2001, introduced through Finance Act 2021, persons earning more than Rs 150 million are subject to additional tax ranging from 1 percent to 4 percent depending on income, for the tax year 2022 and onwards. However, for tax year 2023, this super tax on income of banking companies will be 10 percent, if the income for the year exceeds Rs 300 million. Source: Circular 2 of 2023 dated July 26, 2023 available at: <https://download1.fbr.gov.pk/Docs/2023726177262062ExplanatoryCircular.pdf>

<sup>11</sup> The Finance Act 2022 increased the corporate rate of tax for banking companies to 39 percent (from 35 percent). A super tax (Section 4B) at rate of 4 percent was applicable to banks for tax year 2022 (only). However, the Act under a new section (4C), introduced a 10 percent super tax on banking companies earning income of more than Rs 300 million, for tax year 2023. Earlier through Finance Act, 2021, income attributable to investment in the Federal Government securities of banks was made taxable at tax rates of 40 percent, 37.5 percent and 35 percent, if ADR was up to 40 percent, between 40 to 50 percent and above 50 percent, respectively. The Finance Act 2022 has further enhanced these rates i.e. for tax year 2023 and onwards, tax rates will be 55 percent, 49 percent and 39 percent for these ADR slabs, respectively. Source: FBR Circular C.No.4(21) IT-Budget/2022 dated July 21, 2022 available at: <https://download1.fbr.gov.pk/Docs/2022721177241469circular15 of2002-23.pdf> Though, this policy of ADR-related tax on income from government securities was withdrawn for tax year 2024 through FBR S.R.O 226 (I)/2023, it again went into effect in tax year 2025.

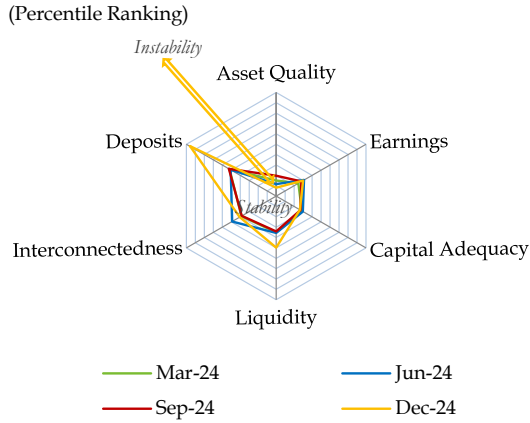
<sup>12</sup> The Income Tax (Amendment) Ordinance 2024, dated December 28, 2024

<sup>13</sup> BSSM ranks the Financial Soundness Indicators of the current period 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. A ranking close to 10 value on the summary statistic suggests increased risks but not necessarily immediate stability concern. This is because the summary statistic is based on percentile rankings of historical series and the actual indicators for the quarter may still be in comfortable position or above the minimum regulatory requirement. Methodology of BSSM is based on Dattels, P., McCaughrin, R., Miyajima, K., & Puig, J. (2010). "Can you map global financial stability?" IMF Working Papers, 1-42

moderated. The dynamics of key risks are discussed in the next sections.

Banking Sector Stability Map

Figure 3.14



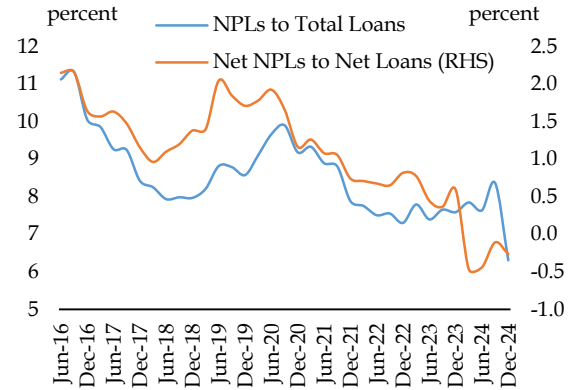
Source: State Bank of Pakistan

### 3.1 Credit risk

Credit risk is the major financial risk of the banking sector, as it constitutes around 70 percent of the banks’ total risk weighted assets. Nevertheless, the asset quality indicators manifested no serious concerns. The non-performing loans (NPLs) to loans ratio fell to 6.3 percent in December 2024 from 7.6 percent in December 2023. However, it is important to note that the around 130 bps improvement in infection ratio mainly emanated from sharp rise in loan portfolio of banks in last quarter of CY24. Nonetheless, the banks are holding adequate amount of provisioning against the existing stock of NPLs and the total Credit loss allowances and provisions exceeds the NPLs i.e. provisioning to NPLs ratio is 103.9 percent (Figure 3.15). Gross NPLs recorded an increase of Rs 73 billion during CY24 slightly higher than Rs 71 billion increase in the same period last year. The rise in gross NPLs in CY24, mainly pertained to domestic operations, reflecting the major role of local factors as well as idiosyncratic factors, though the stability of

PKR-dollar parity contributed to a lower rise in NPLs of overseas operations of Pakistani banks.

Asset Quality Indicators of Banking Sector Figure 3.15



Source: State Bank of Pakistan

Credit loss allowance and General provisions rose by Rs 187 billion in CY24 – higher than Rs 95 billion increase last year. A leading reason of this increase was the introduction of IFRS-9 during CY24, which led to creation of Expected Credit Loss allowance on prospective basis.<sup>14</sup> It is expected to enhance both the risk management practices and loss absorbency capacities of banks.

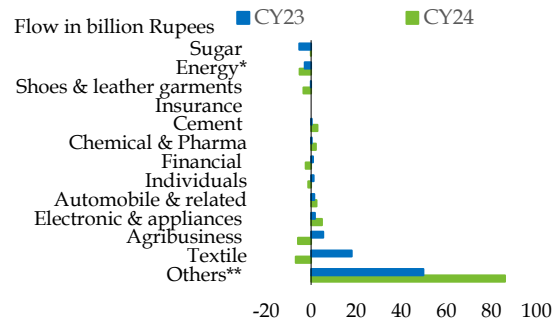
Sector wise changes shows that textile sector, which had recorded the major increase in NPLs in CY23, observed a substantial decline of Rs 7 billion in its NPLs. The better exports earnings of textiles in CY24 helped the sector reduce its NPLs.<sup>15</sup> Among other major sectors, the increase in cement and chemicals & pharmaceuticals recorded around Rs 3 billion and Rs 2 billion increase in their NPLs, respectively. In case of cement, the YoY decline in cement dispatches

<sup>14</sup> International Financial Reporting Standard (IFRS) 9 requires provisioning against financial instruments (loans and investments) on Expected Credit Loss (ECL) approach, instead of Incurred Credit Loss approach

<sup>15</sup> Textiles’ exports rose by 5.9 percent in CY24 to US\$ 16.7 billion in CY24 as compared to YoY decline of 15.0 percent in CY23. Data source: SBP

and lackluster construction activity in CY24, translated into a rise in NPLs of few borrowers in the cement sector (Figure 3.16).<sup>16</sup> Various other sectors such as iron & steel, construction, food processing also recorded rise in their NPLs due to sector specific difficulties as well as idiosyncratic factors associated with few borrowers.

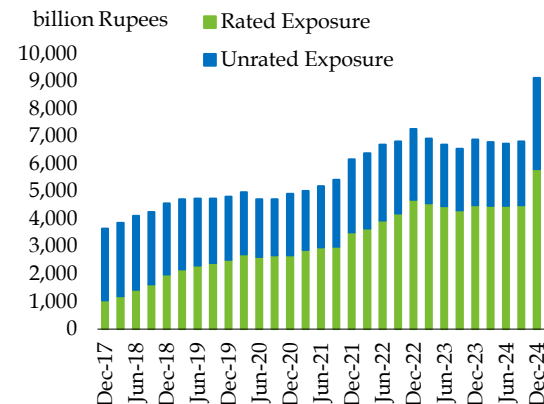
Figure 3.16 Sector wise Change in Gross NPLs



\*Production and Transmission of Energy  
 \*\*Others mainly include manufacturers of food products, paper & paper products, coke & refined petroleum products, basic metals, construction, wholesale & retail trade, and communication  
 Source: State Bank of Pakistan

It is worth mentioning that the major loan portfolio of the banks comprises of credit to large corporate borrowers. Rated borrowers constitute around 64 percent of the corporate and commercial credit portfolio at end December 2024 (Figure 3.17). Moreover, within rated exposure, 54 percent carries credit risk weight of 20 percent, reflecting better credit worthiness of borrowers which usually have an established business track record and well established corporate governance framework.

Figure 3.17 Rated and Unrated Exposure of Banks



Source: State Bank of Pakistan

These high rated borrowers have the option to access the capital market for their financing needs, however, they prefer bank borrowings due to a number of reasons including more flexible credit lines with banks and limited outreach of capital market in the country.

The central bank (SBP) recognizes the importance of a developed capital market for financial stability and sustainable economic growth. That is why SBP is not only coordinating with Securities and Exchange Commission of Pakistan (SECP) for the development of capital market, but has also tailored its regulations to promote corporate governance regime and incentivize firms to access capital market for funding.<sup>17</sup>

*Stress test results shows that banking sector in general has adequate resilience to credit risks factors*

SBP regularly conducts and publishes the results of stress tests analyses for credit, market, and liquidity risks. The results of latest stress test results show that the banking sector in general has adequate resilience to extreme but plausible

<sup>16</sup> Quarterly GDP data shows that Construction sector GDP has recorded fifth consecutive decline in October to December 2024 quarter on YoY basis. Data source: Pakistan Bureau of Statistics

<sup>17</sup> For instance, as per SBP's prudential regulations, audited financial statements of the borrower is a pre requisite for corporate sector lending by banks/DFIs. Similarly, lending to large unrated borrowers (with total exposure of more than Rs 3 billion) involves higher capital charge for banks/DFIs, thus incentivizing the large borrowers to get themselves rated which is also essential for accessing the capital market funding in the form of shares, bonds, and Sukuk.

shocks to different credit risk factors, reflecting both contained risk exposures as well as adequate capital cushions that banks have for unforeseen losses (Table 3.4).

Stress Testing (Sensitivity Analysis) of Banking Sector (Credit Shocks) Table 3.4

Description of shock	Number of Banks with CAR*			
	< 0%	0% - 8%	8% - 11.50%	> 11.5%
Pre-Shock Position	2	0	0	28
Post-Shock Position	< 0%	0% - 8%	8% - 11.50%	> 11.50%
10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss.	2	-	-	28
Default of top 3 private sector borrowers/Groups (fund based ) exposures, including outstanding or limit which ever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions.	2	1	1	26
Default of top 3 private sector borrowers/Groups (fund based and Non-Fund based ) exposures, including outstanding or limit which ever is higher and investments in borrowers' TFCs, equity etc., as defined under Revised PRs, net of deductions.	2	1	1	26
All NPLs under substandard downgrade to doubtful and all doubtful downgrade to loss.	2	-	-	28
Increase in provisions against NPLs equivalent to 25% of Net NPLs.	2	-	-	28
Increase in NPLs to Loans Ratio (NPLR) equivalent to the historical maximum quarterly increase in NPLs to Loans Ratio of the individual banks.	2	-	1	27
Increase in NPLs of all banks equivalent to the historical maximum quarterly rise	2	-	-	28
Increase in NPLs to Loans Ratio of Textile Sector equivalent to the historical maximum quarterly increase in these banks.	2	-	-	28
Increase in NPLs to Loans Ratio of Consumer sector equivalent to the historical maximum quarterly increase in these banks.	2	-	-	28
Increase in NPLs to Loans Ratio of Agriculture & SME Sector equivalent to the historical maximum quarterly increase in these banks.	2	-	-	28

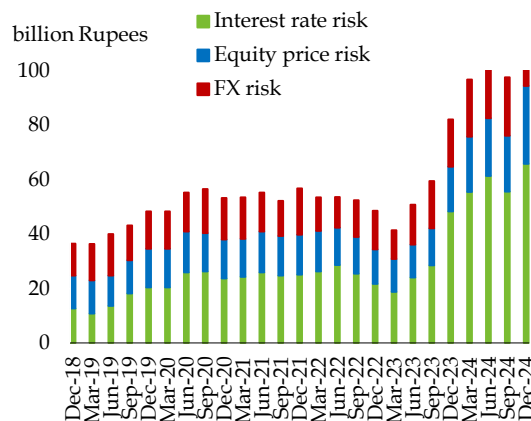
Source: State Bank of Pakistan

## 3.2 Market Risk

The capital charge for market risk accounts for only 7.0 percent of the regulatory capital requirements at end December 2024. This low capital charge is due to limited exposure of the banking sector in FX and equities. Due to substantial increase in banks' holdings of government securities, the capital charge for market risk increased over the year under review; however, this increase remained muted – compared to growth in the stock of government securities – as these securities on average had quite short repricing maturity, reflecting banks' preference to invest more in short-term or floating rate instruments (Figure 3.18) (For details see the Chapter 2).

Capital Charge for Market Risk

Figure 3.18



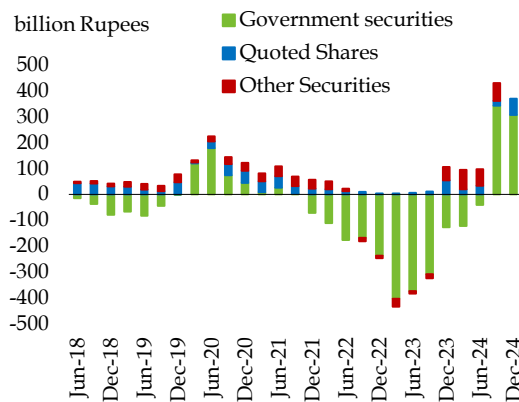
Source: State Bank of Pakistan

*Revaluation losses subsided and turned into surplus by end of CY24*

It is important to note that more than 90 percent of the government securities were held in Fair Value through Other Comprehensive Income (FVOCI), commonly known as available for sale, and Fair Value through Profit and Loss (FVTPL), commonly known as held-for-trading categories. Both categories are subject to regular mark-to-market adjustment for any changes in interest rates to represent the fair value of these instruments in equity and capital cushions of banks. The application of IFRS-9 has further strengthened the assessment of fair market values of these instruments, thereby complementing the assessment of market risk by banks.

SBP reduced the policy rate by a cumulative of 900 bps in last seven months of CY24, accordingly the value of fixed income securities rose and by the end of CY24, the aggregate amount of revaluation surplus on FVOCI or AFS government securities rose to Rs 307 billion by end CY24 (from revaluation deficit of Rs 127 billion at end CY23). With revival in equity market and surge in equity prices, total surplus on revaluation of all securities rose to Rs 480 billion by end CY24 (Figure 3.19).

Revaluation Surplus/Deficit on Securities Figure 3.19



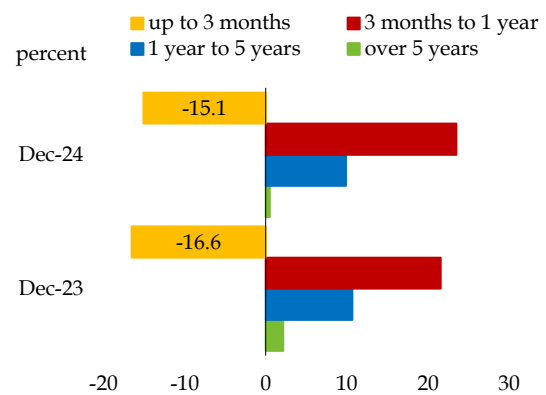
Source: State Bank of Pakistan

*Exposure to floating rate securities increased...*

Banks have also strategized to increase the combined share of floating rate portfolio in their government securities. Floating rate securities constitute 58.3 percent share of the government securities at end CY24 (55.7 percent at end CY23). It reduces the effective duration and sensitivity to changes in interest rates that bodes well for market risk management. The weighted average duration of government securities held in FVOCI (AFS) category with fixed rate is 1.26 years and that of floating rate securities is just 0.23 years, while the weighted average duration of government securities held in FVTPL category with fixed rate is 0.44 years and that of floating rate securities is only 0.19 years.

Similarly, banking sector maintained quite contained repricing gaps between rate-sensitive assets (RSA) and liabilities (RSL) (Figure 3.20).

Gap of Rate Sensitive Assets and Liabilities as Percent of Total Assets Figure 3.20



Source: State Bank of Pakistan

*Banks show strong resilience to changes in market rates ...*

Banking sector maintains adequate resilience to severe shocks in markets prices i.e. yield curve, equity prices and exchange rates. The results of the latest stress testing exercise show that the banks in general remain compliant with the minimum CAR requirement even in the face of severe movements in prices (see Table 3.5).

Stress Testing (Sensitivity Analysis) of Banking Sector (Market Shocks) Table 3.5

Description of shock	Number of Banks with CAR*				
	< 0%	0% - 8%	8% - 11.50'	> 11.50%	
<b>Pre-Shock Position</b>	2	0	0	28	
<b>Post-Shock Position</b>	< 0% 0% - 8% 8% - 11.50' > 11.50%				
Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities.	2	-	-	28	
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.	2	-	-	28	
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.	2	1	-	27	
Impact of Increase in interest rate by 100bps on investment portfolio only	2	-	-	28	
Depreciation of Pak Rupee exchange rate by 30%.	2	-	-	28	
Depreciation of Pak Rupee exchange rate by 25.3% equivalent to the historical quarterly highest depreciation of rupee against dollar.	2	-	-	28	
Appreciation of Pak Rupee exchange rate by 7.10% equivalent to the historical quarterly highest level of appreciation of rupee against dollar.	2	-	-	28	
Fall in general equity prices by 36.1% equivalent to maximum decline in the index.	2	-	1	27	
Fall in general equity prices by 50%.	2	1	-	27	

\* Excluding SME and PPCBL  
Source: State Bank of Pakistan

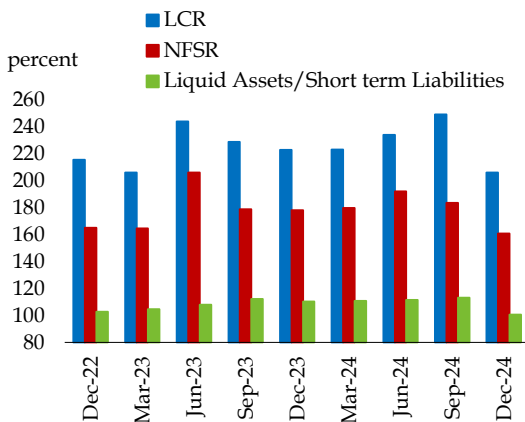
### 3.3 Liquidity Risk

*Balance sheet based indicators suggest a comfortable liquidity profile during CY24...*

Balance sheet based liquidity indicators moderated slightly, on the back of lower increase in government securities relative to assets. However, the banking sector maintained a comfortable liquidity profile during CY24, that is also reflected in liquidity-related FSIs of the sector (**Figure 3.21**). Liquid assets fully covered total deposits and short-term liabilities at end December 2024. The satisfactory liquidity profile reflects significant investments in liquid (government) securities by banks. The treasury instruments have a reasonably developed and active secondary market, which helps banks in managing daily liquidity needs.

The Basel-III standard liquidity ratios i.e., Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) showed that the banking sector complied with the prescribed benchmarks. The LCR of the banking sector stood at 206.0 percent at end December 2024, which was well above the regulatory requirement of 100 percent. Similarly, the NSFR also remained at comfortable level of 161 percent at end December 2024 (**Figure 3.21**), suggesting a satisfactory liquidity profile.

**Liquidity Indicators of Banking Sector** Figure 3.21



Source: State Bank of Pakistan

*Liquidity condition of market came under pressure due to relatively contained growth in deposits vis-à-vis assets base ...*

Since the growth in deposits could not match the growth in assets, the market faced a liquidity gap that could have put upward pressure on interest rates. In this backdrop, the average OMOs injections remained quite high during CY24. There were a few conspicuous spikes in OMOs injections especially in December 2024, when banks were actively trying to manage their ADR by extending loans and containing deposit mobilization. Detailed analysis shows that banks shed a significant part of their deposits base (especially large size deposits from financial institutions and PSEs).<sup>18</sup> Accordingly, banks' reliance on borrowings especially from SBP significantly increased over the year under review. However, due to SBP active monetary policy operations, the money market functioned smoothly without any significant disruption or deviations from the policy rate (for details see the section on Money Market in **Chapter 2**).

The stress testing results (from single factor sensitivity analysis) of hypothetical liquidity shocks also suggest that most of the banks can survive withdrawal of up to 10 percent of customer deposits beyond five days. However, in a more severe hypothetical shock of withdrawal of up to 50 percent wholesale deposits and unsecured borrowings, a few non-systemic banks (with low market share) may face liquidity constraints beyond three days.<sup>19</sup>

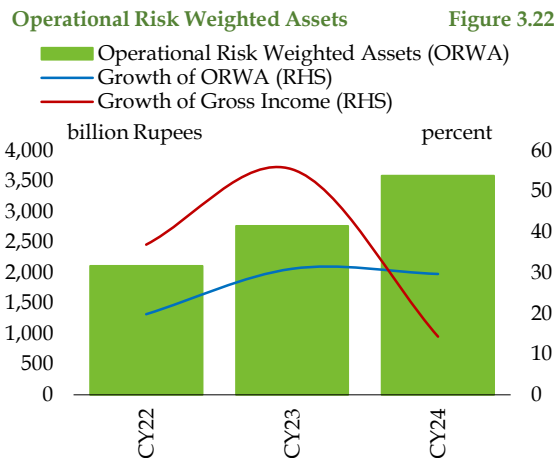
### 3.4 Operational Risk

Operational risk is the second major driver of banks' risk weighted assets. Operational Risk Weighted Assets (ORWA) posted an accelerated growth during the year under review and their share in total risk weighted assets inched up to

<sup>18</sup> This argument is based on Q4CY24 flows of Deposits distributed by category of deposit holders' data available on SBP website

<sup>19</sup> The results of stress testing (sensitivity analysis) are available at: <https://www.sbp.org.pk/ecodata/fsi/qc/2024/Dec.pdf>

22.0 percent at end CY24 (19.9 percent in CY23) (**Figure 3.22**). The underlying factor behind the consistent high growth in ORWA is the healthy gross income of the banking sector in recent years.<sup>20</sup>



Source: State Bank of Pakistan

The increased use of technology and digitization of financial services has provided convenience of availing financial services to users and helped in enhancing financial inclusion in the country. However, at the same time, there have been rising incidents of cyber security risks and frauds, as miscreants are using a variety of social engineering and fraudulent methods to obtain important financial information of customers. Moreover, the increased usage of digital platforms makes financial institutions vulnerable to multiple types of cyberattacks, such as phishing, ransomware, and data breaches. The market participants have also identified cyber security risk among the top five prevailing risks to financial stability (**see Box 1 on SBP's Systemic Risk Survey**).

SBP remains vigilant to cybersecurity concerns and has been taking a number of measures to strengthen cyber resilience of banks. In this regards, a detailed stock taking of the

Cybersecurity related emerging trends, Challenges and Policy Response was also carried out in FSR 2021.<sup>21</sup> Technological Innovation is now a strategic theme under SBP's Vision 2023-28 and a particular emphasis has been accorded to the promotion of innovation and use of technologies as well as to cybersecurity and privacy of data. For this purpose, SBP has recently established a dedicated Cyber Risk Management Department (**CRMD**) to perform proactive supervision of cyber security risks of regulated entities with greater focus on improving cyber threat intelligence and incident response mechanism, cyber risk monitoring, and implementation of international best practices, among others.<sup>22</sup>

### 3.5 Solvency

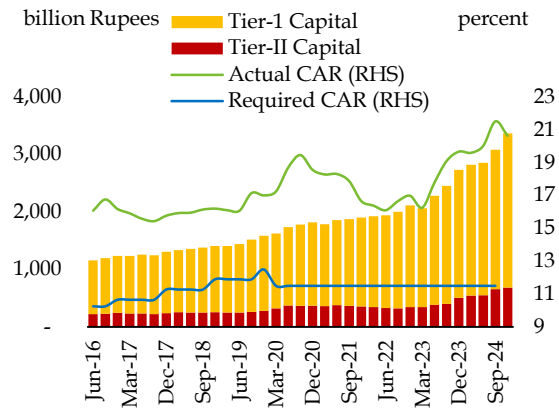
Headline solvency indicators of the banking sector such as CAR further improved to 20.6 percent by end December 2024, when compared to 19.7 percent by end December 2023. The uptick in CAR emanated from higher growth in regulatory capital that outpaced growth in total risks weighted assets. Detailed analysis shows that while the Tier-I Capital increased due to steady earnings and profit retentions, the Tier-II capital rose due to revaluation gains on securities (**Figure 3.23**) (**see the section on Market Risk for details**).

<sup>20</sup> Gross income forms the basis of calculating the ORWA under Basic Indicators approach (BIA) of Basel-III standards and is used by most of the banks in Pakistan. Capital charge for operational risk under the BIA is a fixed percentage of the average annual gross income of a bank over past three years.

<sup>21</sup> <https://www.sbp.org.pk/FSR/2021/Box-8.1.pdf>

<sup>22</sup> <https://www.sbp.org.pk/bsd-1/2024/C1.htm>

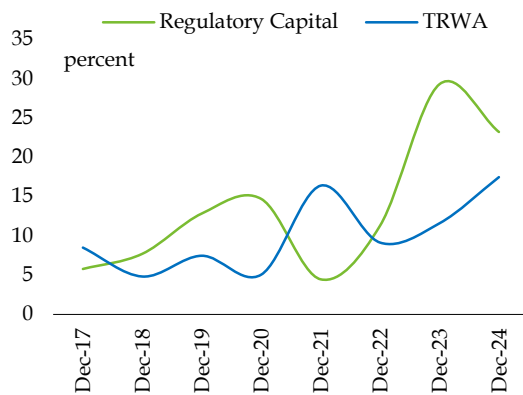
Solvency Indicators of Banking Sector Figure 3.23



Source: State Bank of Pakistan

On the other hand, the significantly accelerated growth in advances and government securities led to increase in CRWAs and MRWAs, which together form around 80 percent of the TRWAs, on average. However, higher growth in regulatory capital led to an inch up in the CAR (Figure 3.24). The prevailing CAR remains well above the domestic and international minimum benchmarks of 11.5 percent and 10.5 percent, respectively.

Growth in Regulatory Capital and Total Risk Weighted Assets (TRWA) of Banking Sector Figure 3.24

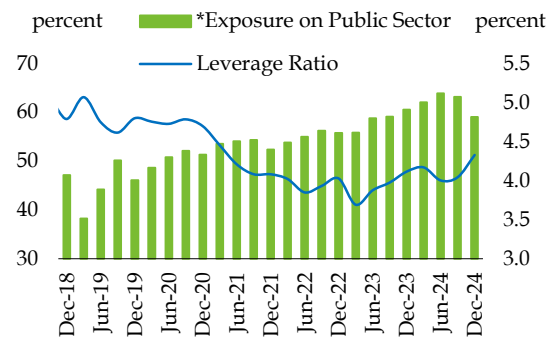


Source: State Bank of Pakistan

A major part of banks' exposure is in government securities which are treated as per Basel framework to reckon the adequacy of capital for credit and market risks. These securities require no capital charge (involving zero risk weight) for credit risk and relatively low capital charge in respect of market risk, however, to prevent the build of excessive leverage even in non-risky assets and address any model issues in calculating the relative riskiness of assets, a non-risk based regulatory requirement i.e. Leverage Ratio is also applicable on banks in Pakistan as a backstop tool.<sup>23</sup> Banks are required to maintain minimum leverage ratio of 3.0 percent as per Basel standards.

The leverage ratio of Pakistan's banking sector has come down in the last few years due to increase in assets base and exposure, particularly the investment in government securities. The ratio declined from 4.8 percent at end December 2018 to 4.0 percent at end September 2024 - has revived to 4.3 percent in December 2024 (Figure 3.25). However, the ratio is still higher than the minimum requirement of 3.0 percent and remained almost stable around 4 percent in recent quarters.

Banks' Exposure to Public Sector and Leverage Ratio Figure 3.25



\*Exposure to Public Sector = Investment in Government Securities + Public Sector Advances

Source: State Bank of Pakistan

<sup>23</sup> Leverage ratio, a non-risk based constraint on banks' exposures vis-à-vis capital levels, was introduced by the Basel Committee on Banking Supervision in 2014. It is defined as LR = Tier 1 Capital/Total Exposure. Exposure means On and Off balance sheet exposures at their nominal value, without assigning any lower risk weight to government exposures. The Basel III Leverage Ratio (LR) is designed to restrict the build-up of leverage in the banking sector, and to backstop the existing risk-weighted capital requirements (RWRs) with a simple, non-risk-weighted measure. In this context, it is often referred as non-risk backstop measure.

The fiscal consolidation efforts of government remained on track especially in second half of CY24 and during this period, the government also retired a sizeable part of its debt to domestic banking sector. This development has helped in reduction of banks' exposure on government and resulted in increase in private sector credit. However, a sustained reduction in government exposure is essential for a more optimal balance sheet structure of banking sector and increasing the share of private sector in the overall financial intermediation.

Banking sector shows adequate resilience to key financial risks in terms of both contained risks exposures and capital buffers. Besides the results of stress tests (sensitivity analysis), this resilience is also validated by detailed scenario analyses (macro stress tests) which assesses impact of emerging economic environment and severe macroeconomic shocks that could emerge in next three years (**for further details on the scenario analysis, see chapter 4 i.e. "Resilience of the Banking Sector" of this review**).

**Box 3.1: Islamic Banking Institutions: Financial Performance and Recent Initiatives to Promote Islamic Finance**

The network of IBIs consists of twenty-two (22) Islamic Banking Institutions (IBIs) including six (6) full-fledged Islamic banks and sixteen (16) conventional banks having standalone Islamic banking branches.

During CY24, IBIs branch network grew by net 1,062, reaching a total of 6,017 branches by end of December 2024. This expansion was driven by the addition of 750 new Islamic branches and the conversion of 322 conventional branches into Islamic ones. It is important to highlight this was the highest ever increase in branch network of IBIs in any year. Furthermore, Islamic banking windows (dedicated counters at conventional branches) also increased by 331 to reach 2,253 by end December 2024. The expansion of the Islamic banking branch network highlights the continued focus on offering Shariah-compliant products and services and addressing the needs of faith-sensitive customers.

Islamic banking sector has seen significant growth, with full-fledged Islamic banks dominating the market. By end of December 2024, full-fledged Islamic banks accounted for 65.6 percent share of the total assets of IBIs, while Islamic banking branches held 34.4 percent share. In terms of deposits, full-fledged Islamic banks held around 63 percent of the total, while Islamic banking branches held around 37 percent of IBI's deposits. With further growth, IBIs now constitute one-fifth share in total assets and one-fourth share in total deposits of the banking sector in CY24 (**Figure 3.1.1**).<sup>24</sup>

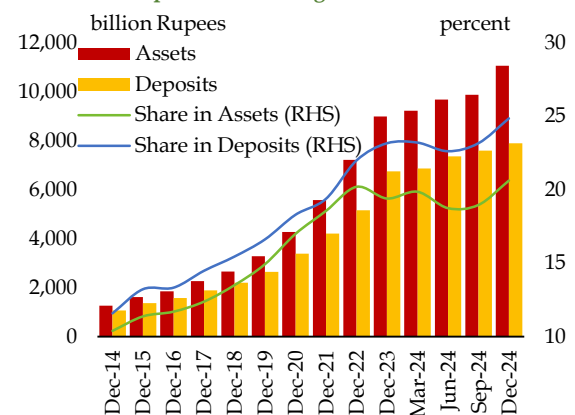
Islamic Banking Institutions (IBIs) experienced significant growth over the last few years and the growth momentum continued during the period under review (**Table 3.1.1**). During CY24, assets of Islamic banks increased by Rs 2,076 billion (or 23.1 percent growth) to reach Rs 11,070 billion by end December 2024. On the funding side, deposits of IBIs rose by Rs 1,156 billion (or 17.1 percent growth) during the period under review and reached Rs 7,905 billion by end December 2024.

The growth in IBI's assets was primarily driven by a rise in investments (mainly Government of Pakistan Ijarah Sukuk), which increased by Rs 753 billion (or 17.8 percent) during CY24, reaching Rs 4,988 billion by end December 2024. On the other hand, IBI's financing also witnessed a significant increase of Rs 702 billion (or 21.1 percent

**Table 3.1.1: Performance of Islamic Banking Institutions**

	CY22	CY23	CY24	CY22	CY23	CY24
	IBIs			Conventional Banks		
	billion Rupees					
Total assets	7,229	8,994	11,070	28,567	37,369	42,623
Investments-net	3,051	4,235	4,988	15,349	21,784	24,803
Advances-net	3,113	3,335	4,037	8,705	8,843	11,768
Deposits	5,161	6,749	7,905	18,301	22,379	23,887
Borrowings	1,115	872	1,405	6,730	10,801	13,600
	YoY Change (percent)					
Total assets	29.6	24.4	23.1	16.7	30.8	14.1
Investments-net	64.8	38.8	17.8	20.8	41.9	13.9
Advances-net	19.9	7.1	21.1	15.7	1.6	33.1
Deposits	22.6	30.8	17.1	4.5	22.3	6.7
Borrowings	66.1	-21.8	61.1	65.5	60.5	25.9
	Share within Total Assets (percent)					
Investments-net	42.2	47.1	45.1	53.7	58.3	58.2
Advances-net	43.1	37.1	36.5	30.5	23.7	27.6
Deposits	71.4	75.0	71.4	64.1	59.9	56.0
Borrowings	15.4	9.7	12.7	23.6	28.9	31.9
FDR/ADR*	60.3	49.4	51.1	47.6	39.5	49.3

\*FDR=Financing to Deposits ratio and ADR=Advances to Deposits ratio  
Source: State Bank of Pakistan

**Figure 3.1.1: Share of Islamic Banking Institutions in Assets and Deposits of Banking Sector**

Source: State Bank of Pakistan

<sup>24</sup> The market shares of assets and deposits of IBIs in overall banking sector improved to 20.6 percent (19.4 percent in CY23) and 24.9 percent (23.2 percent in CY23), respectively.

growth), totaling Rs 4,037 billion by end December 2024. However, the major increase was in advances of the corporate sector.

### Islamic Banking Institutions maintained their soundness

IBIs maintained a sound financial position and contributed to the overall financial stability of banking sector. The non-performing financing (NPF) to total gross financing ratio improved to 3.5 percent in December 2024 and the overall asset quality indicators remained at a comfortable level with provisioning coverage of more than 100 percent and negative net NPF ratios, suggesting muted credit risk to solvency from the delinquent portfolio of IBIs.

Earning indicators such as ROA and ROE showed a mixed trend. After tax profit rose to Rs 273 billion in CY24 from Rs 225 billion in the same period last year. The pace of earnings growth, however, decelerated on year-on-year basis due to falling yields on earnings assets. However, IBIs contributed 42.3 percent of the after-tax earnings of the banking sector in CY24 (around 35 percent share during CY23), much higher than their market share in the overall banking sector.

Liquidity profile of IBIs remained comfortable on the back of increased investments in Sukuk.

Solvency indicators such as CAR slightly moderated to 19.8 percent by end CY24, as higher growth in risk weighted assets on the back of significant increase in advances outpaced the growth in capital. Nonetheless, the CAR which mainly comprised Tier-I capital was well above the minimum regulatory requirement of 11.5 percent as well as higher than the overall CAR of the banking sector (Table 3.1.2).

Financial Soundness Indicators of Islamic Banking Institutions Table 3.1.2

	percent		
	Dec-22	Dec-23	Dec-24
<b>Asset Quality</b>			
NPFs to Total Financing	2.6	3.8	3.5
Provision to NPFs	96.1	91.5	117.7
Net NPFs to Net Financing	0.1	0.3	-0.6
Net NPFs to Capital	0.8	1.7	-3.0
<b>Earnings</b>			
ROA before Tax	2.9	4.9	5.1
ROA after Tax	1.7	2.8	2.8
ROE before Tax	51.4	75.5	65.6
ROE after Tax	30.5	43.2	36.0
<b>Liquidity</b>			
Liquid Assets to Total Assets	41.6	49.1	47.1
Liquid Assets to Total Deposits	58.2	65.4	66.0
Liquid Assets/Short term Liabilities	88.6	112.1	101.4
Financing to Deposits	60.3	49.4	51.1
Customer Deposits to Total Financing	149.5	177.1	171.5
<b>Capital</b>			
Total Capital to Total RWA	17.8	20.7	19.8
Tier 1 Capital to Total RWA	15.0	17.3	16.3
Capital to Total Assets	5.9	7.3	7.9

Source: State Bank of Pakistan

### B. Update on implementation of FSC's judgement

It may be recalled that the Federal Shariat Court (FSC) announced its judgement with respect to 'Riba' case on April 28, 2022. In pursuance of FSC's judgement, the federal government constituted a high-level Steering Committee (SC) in December 2022, entrusted with the vital task of providing strategic guidance for the effective implementation of FSC's judgment on Riba. State Bank of Pakistan (SBP) also established a high-level Committee for Transformation (CT) of conventional banking into Islamic. Under the Committee, seven working groups and their 35 work streams/sub-work streams are actively engaged and meeting frequently to perform assigned tasks.

The path is beset with some challenges, including full conversion of public debt to Shariah-compliant instruments, need of Shariah-consistent framework for implementation of monetary policy, need to reform laws and judicial system, scarcity of skilled human resources, among others (For details see "Box 3.2 - SBP's Strategy to transform the banking sector to Islamic mode - key challenges and opportunities" in FSR 2022). Various working groups and work streams under CT have made major progress in their respective areas. Some key developments include: complete assessment of legal and regulatory framework to ensure its alignment with the Shariah principles; launch of a comprehensive campaign to create awareness about Islamic banking, roll out of capacity building strategy for key stakeholders for improving and developing the skilled workforce for the Islamic banking industry, developing

hybrid Sukuk structure, issuance of broad guiding parameters to facilitate banks in their conversion from conventional to Islamic.

### C. Policy Initiatives:

#### i. Guidelines for conversion of conventional banks into Islamic - Broad parameters

In order to facilitate banks in their conversion from conventional to Islamic, SBP vide IFPD Circular No. 03 of 2024 prescribed broad guiding parameters, which will help banks to devise their own conversion plans.

#### ii. Facilitation in conversion of conventional banking branches into Islamic banking branches

In order to facilitate banks and streamline the process for conversion of their conventional branches, SBP has revamped the criteria in October 2024 vide SBP IFPD Circular No. 05 of 2024. The revised criteria mainly include disclosure requirements for conversion of accounts, permission for use of digital channels/ means for seeking consent from customer for conversion, permission for conversion of current accounts from conventional to Islamic after exhausting all measures for seeking customers' consent, flexibility in conversion process by allowing permission to establish virtual conventional cost center(s), flexibility in safekeeping of securities/collaterals during phase out of conventional portfolio and facilitation in reporting line.

#### iii. Shariah Governance Framework for Islamic Banking Institutions (IBIs)

To align with international best practices and recent developments in the Islamic banking industry, SBP has further strengthened Shariah Governance Framework (SGF) in November 2024 vide IFPD Circular No. 8 of 2024.

#### iv. Profit Sharing on Saving Deposit of Islamic Banking Institutions (IBIs)

SBP issued instructions on profit sharing on saving deposits of IBIs in November, 2024 vide SBP IFPD Circular No. 09 of 2024. As per aforesaid instructions, with effect from January, 2025, all IBIs have been advised to pay profit on their PKR saving deposits (excluding deposits of financial institutions, public sector enterprises and public limited companies) equivalent to at least 75 percent of the weighted average gross yield of all pools of an IBIs.

#### v. Adoption of AAOIFI Shariah Standards

In order to further strengthen standardization and to harmonize Shariah practices in the IBIs, SBP adopted 15 additional Shariah standards of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) during CY24. With adoption of these standards, total number of AAOIFI Shariah standards adopted by SBP stood at 38 by end December, 2024. All the adopted standards are also available in compendium of Shariah standards vide IFPD Circular No. 07 of 2024 to provide ease of access to the end users.

#### vi. Awareness Creation and Capacity Building Initiatives:

SBP through its subsidiaries (i.e. SBP BSC and NIBAF) intensified its efforts to engage with the business community, government officials and academia to promote Islamic banking. As part of these initiatives, over 20 sessions were held with leading chambers of commerce and industries across Pakistan, more than 30 sessions were conducted nationwide with university students and faculty, along with an equal number of sessions for Madaris students. Further, various specialized capacity-building programs were organized for government departments, Shariah scholars, academia, bankers and judiciary. These programs aimed to equip stakeholders with essential knowledge of Islamic finance, enabling them to contribute effectively to the industry's development.

**Box 3.2: Artificial Intelligence's interaction with Climate Change and Supervisory Objectives****Background:**

Digital transformation and climate change<sup>25</sup> are the two most powerful trends that appear to re-shape global economy over the coming years. These forces are not only posing serious challenges to the globe independently, their increasing interaction also involves both positive and negative implications for economic and financial stability. Artificial Intelligence (AI) – the science of making computers perform complex tasks typically associated with human intelligence – is a powerful tool for advancing and scaling up transformative climate action. It can improve the effectiveness of decision making and can also help in mitigating risks arising from climate change, by efficiently handling the complex and large size datasets and scenarios involved.<sup>26</sup> However, energy intensive aspect of AI technology involves environmental concerns and its ineffective use in the financial sector may pose supervisory challenges relating to operational failures, cyber-attacks, conduct, and increased volatility in financial markets, among others.

**AI is helping to address climate challenges and improve efficiency:**

AI is already contributing in climate-resilient and low-emissions development in several ways. For instance, it is helping to measure changes in icebergs with incredible pace (10,000 times faster than humans could do).<sup>27</sup> Besides providing more advanced warnings for extreme weathers, AI is supporting to map the impact of deforestation on the climate crisis. Further, AI technology is being utilized to make waste management more efficient. In addition, AI is being utilized to reduce plastic pollution from ocean.<sup>28</sup> Particularly, AI has impressive capacity to gather, complete, and interpret large datasets thus supporting data driven decisions for climate action.

**AI and environmental concerns:**

Nonetheless, AI could be a double edged sword. The concerns arise from the fact that the infrastructure required to run AI is energy and resource intensive.<sup>29</sup> For example, training a large language model (LLM) such as OpenAI's Generative Pre-trained Transformer (GPT)-3 consumes thousands of megawatts of electricity and emits 300,000 KG of carbon dioxide equivalent.<sup>30</sup> Besides consuming substantial quantum of electricity, the data centers then need a significant amount of water to cool, leading to strain on local water resources. Moreover, these data centers – which run AI systems – often rely on non-renewable energy sources.<sup>31</sup> Worryingly, rapid growth in AI technology is leading to increased number and size of data centers and consequently amplifying their impact on the environment. The extent of growth is manifested by a recent international survey, which indicates that around 75 percent of organizations have adopted AI for one or more business operations.<sup>32</sup> According to International Energy Agency, the AI, cryptocurrencies, and data centers together accounted for two percent of world's power demand in 2022 which could double and match electricity consumption of Japan by 2026.<sup>33</sup> Nonetheless, Chinese AI DeepSeek R1 technology, introduced in January 2025, may offer significant help in addressing climate concerns if it proves to be energy efficient.

In addition to the energy intensive nature of AI, another serious environmental concern relates to electronic waste generation. Rapid technological advancement is resulting in high turnover rate leading to increased accumulation of

<sup>25</sup> According to World Health Organization (WHO), almost four billion people are living in areas highly vulnerable to climate change

<sup>26</sup> [What opportunities and risks does AI present for climate action?](#)

<sup>27</sup> [9 ways AI is helping tackle climate change](#)

<sup>28</sup> [Ibid](#)

<sup>29</sup> [AI is supposed to make us more efficient – but it could mean we waste more energy](#)

<sup>30</sup> [AI can help us fight climate change. But it has an energy problem, too](#)

<sup>31</sup> Zhuk, A. (2023). Artificial Intelligence Impact on the Environment: Hidden Ecological Costs and Ethical-Legal Issues. Journal of Digital Technologies and Law, 1(4), 932-954.

<sup>32</sup> [Artificial intelligence: a central bank's view](#)

<sup>33</sup> [The environmental cost of AI](#)

electronic waste. As per Global E-Waste Monitor 2024, 62 million tons of e-waste was produced in 2022, showing a staggering increase of 82 percent from 2010. This is likely to increase by another 32 percent in 2030.<sup>34</sup>

#### **AI and supervisory concerns with regard to conduct and financial soundness**

A highly important aspect of AI is to assess the systemic risks on financial institutions and their customers. For instance, high technological penetration<sup>35</sup> and supplier concentration<sup>36</sup> could expose financial institutions to losses arising from operational failures, cyber-attacks and supply chain disruptions affecting key vendors.<sup>37</sup> Further, increased use of AI models with similar characteristics could augment asset price vulnerabilities due to increased correlations in financial markets.<sup>38</sup> Furthermore, AI models may have implications for the integrity of financial institutions resulting from discriminatory customer treatment due to algorithmic biases.<sup>39</sup>

In this regard, financial sector regulators and supervisors need to ensure responsible use of AI by adequately managing the risks of AI applications without compromising innovative efforts. It is important to note that European Artificial Intelligence Act – the first comprehensive Act worldwide – has entered into force from August 01, 2024.<sup>32</sup> It prohibits AI systems that pose “unacceptable risks” such as social scoring<sup>33</sup> that threaten fundamental rights of citizens. The Act, however, authorizes a wide range of AI systems that entails “high risks” to public health and safety, subject to a set of requirements and regulations.

In Pakistan’s case, ‘Guidelines on the Responsible use of Artificial Intelligence (AI) in Financial Services’ are at an advance stage of finalization at SBP, with the objective to foster trust, transparency and accountability in AI-driven financial services, while safeguarding the rights and interests of the consumers.

#### **AI and the banking industry:**

With AI adoption surging across different sectors, the global banking industry is also increasingly embracing these technologies.<sup>40</sup> The most commonly adopted AI technologies by banks include robotics, process automation (for structured operational tasks), virtual assistant (for customer service), and machine learning techniques (for fraud detection and risk management).<sup>41</sup> In case of Pakistan, financial institutions are also embracing AI technology. The results of the SBP’s first survey on use of AI in banks reveal that about half of the regulated entities have either deployed AI in financial services, or are in the process of development. Moreover, survey indicates that the AI is being used for a variety of financial services, including fraud detection, customer services, marketing, credit risk assessment, process automation etc. In this context, banks need to take care of associated risks of AIs and incorporate carbon footprint of AI into their risk management frameworks, introducing it as a specific risk category. This requires relevant risk identification, assessment, development and implementation of adequate risk mitigation strategies.

The foremost step is to recognize the potential environmental risks associated with the adoption of AI systems. It is imperative to note that the most commonly used AI technologies in the banking sector are among the most energy intensive owing to real time processing and high accuracy requirement. After risks identification, banks need to measure the emissions associated with AI models throughout their life cycle.<sup>42</sup> Carbon accounting tools such as GHG

<sup>34</sup> [The global E-waste Monitor 2024](#)

<sup>35</sup> When AI is widely adopted across different financial entities for an increasing number of processes and applications

<sup>36</sup> When a majority of financial institutions use the same or very similar foundation models provided by a few suppliers

<sup>37</sup> Leitner, G., Singh, J., van der Kraaij, A., & Zsámboki, B. (2024). *The rise of artificial intelligence: benefits and risks for financial stability*. *Financial Stability Review*, 1.

<sup>38</sup> Board, F. S. (2024). *The financial stability implications of artificial intelligence*.

<sup>39</sup> Algorithmic bias results in unfair outcomes due to skewed or limited input data, unfair algorithms, or exclusionary practices during AI development

<sup>40</sup> According to McKinsey Global AI Survey in 2021, almost 60 percent of the financial sector’s respondents revealed that their firms were using at least one AI capability.

<sup>41</sup> McKinsey (2021). *Building the AI Bank of the Future*

<sup>42</sup> Tkachenko, N. (2024). *Integrating AI’s Carbon Footprint into Risk Management Frameworks: Strategies and Tools for Sustainable Compliance in Banking Sector*. arXiv preprint arXiv:2410.01818.

Protocol Toolkit<sup>43</sup> and OpenLCA<sup>44</sup> could help assess the concrete environmental impact. Finally, banks must implement risk mitigation strategies to contain the environmental impact of their AI systems. The energy efficient AI models and algorithms could help address climate concerns. Another way is green cloud computing practices – data centers that are powered by renewable energy sources. Incorporating AI carbon concerns into existing risk management frameworks and treating emission risks with same level of importance along other traditional risks is critical. It is noteworthy that International Financing Reporting Standards (IFRS) S1 and S2 also require companies to disclose information about all sustainability-related risks and opportunities specifically about climate related exposures.<sup>45</sup> In Pakistan, the adoption of these standards have been proposed in a phased manner, initially starting with listed companies on the basis of certain criteria, such as total assets, turnover and number of employees.<sup>46</sup> It deserves emphasis that banks must define risk appetite and tolerance level for AI's carbon footprint. By setting thresholds, banks would ably deploy AI system balancing operational efficiency with environmental concerns.

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<sup>43</sup> GHG Protocol tools enable companies and cities to develop comprehensive and reliable inventories of their GHG emissions, and help countries and cities track progress toward their climate goals.

<sup>44</sup> OpenLCA is a free and open-source software tool for conducting Life Cycle Assessments (LCAs) and other sustainability assessments.

<sup>45</sup> Introduction to the ISSB and IFRS Sustainability Disclosure Standards, available at: <https://www.ifrs.org/sustainability/knowledge-hub/introduction-to-issb-and-ifrs-sustainability-disclosure-standards/>

<sup>46</sup> SECP Press Release: adoption of IFRS Sustainability Disclosure Standards, available at: <https://www.secp.gov.pk/wp-content/uploads/2025/01/Press-release-on-Jan-1.pdf>



# 4

## Resilience of the Banking Sector

*Under both the baseline and stress scenarios, the solvency of the banking sector comes under strain but remains well above the domestic regulatory benchmark over the projected three-year horizon. Systemically important large size banks carry sufficiently higher capital buffers and are expected to sustain the impact of the assumed shocks over the assessment period. Similarly, the medium and small sized banks are also expected to remain resilient to the shocks. However, credit growth under the baseline scenario is projected to remain higher. Under the stress scenario, loans' growth is projected to be decelerating. Considering the uncertainty regarding global commodity markets and macro financial conditions, the SBP continues to closely watch the evolving situation and remains ready to take actions necessary to safeguard financial stability.*





### 4.1 Overview and Scenario Design

SBP conducts series of periodic stress tests<sup>1</sup>, including an annual comprehensive top-down Macro Stress Testing<sup>2</sup> (MST) exercise. This chapter discusses the design of hypothetical scenarios<sup>3</sup> and results of MST exercise the SBP conducts in order to gauge the resilience of the banks under these scenarios. The MST is a comprehensive top-down scenario-based approach that involves mapping the impact of credit, market and operational risks, under designed scenarios on banks' solvency position.

The MST exercise incorporates two scenarios: *baseline* or *business as usual* ( $S_0$ ) and *hypothetical stressed* ( $S_1$ ).<sup>4</sup> The projection horizon for the MST exercise is three years, which spans Q1CY25 to Q4CY27. A dynamic balance sheet is assumed, where advances and their delinquency rates are estimated based on developments in macro-financial risk factors. For solvency, the projected paths of lending portfolio and non-performing loans (NPLs) are used to estimate the regulatory capital (RC) and risk weighted assets (RWA), which are impacted by the credit, market and operational risks. Projections are obtained using a suite of vector auto-regressive (VAR) models.

In addition to system level assessment, cross-sectional heterogeneity is also captured for different segments of the banking industry in terms of size, i.e., small, medium, and large banks.

### 4.2 The Baseline Scenario ( $S_0$ )

The overall macroeconomic conditions stabilized in CY24 despite some challenges at the start of the year. The stabilization in economic growth came as a result of prudent monetary and fiscal policy measures which resulted in sharp decline in inflation, improved current account balance, shored up FX reserves, helped stabilize exchange rate and commodity prices. Moreover, successful engagement with the IMF also supported overall investor sentiment.<sup>5</sup>

Against this backdrop of macroeconomic stabilization and gradual economic recovery in CY24, the baseline scenario,  $S_0$ , is built around three main assumptions regarding domestic and global risk factors.

*Continued policy stability along with smooth implementation of economic reforms is expected.*

The  $S_0$  assumes the continuation of policy stability over the projection period that started with the change of government in February 2024. It is expected that fiscal and external balances are likely to improve further on account of timely completion of IMF EFF reviews and stable availability of bilateral / multilateral financing. Continuation of these policy measures will provide a space to the government to pursue deep-rooted structural reforms to address issues in fiscal, energy and Stated-Owned Enterprises (SOEs). Further, the

<sup>1</sup> SBP applies various approaches for stress testing i.e., top-down and bottom-up; uses various methodologies i.e., sensitivity and macro stress tests, and; a suite of models. Currently, SBP follows stress testing regime established under Stress Testing Guidelines of [FSD Circular No. 01 of 2020](#).

<sup>2</sup> MST is considered an important risk analysis tool as it evaluates the financial institutions capacity to absorb shocks stemming from adverse macroeconomic developments in the future.

<sup>3</sup> The stress scenario used in this assessment is not a forecast of macroeconomic and financial conditions. It is a hypothetical, coherent, tail-risk setting designed specifically to assess the resilience of the banking sector against hypothesized deterioration in macroeconomic conditions.

<sup>4</sup> We employ the definitions of Baseline and Hypothetical Stressed Scenario from the BIS paper 'Stress Testing Banks – A Comparative Analysis' (2018). Baseline Scenario is a set of economic and financial conditions that is generally consistent with the projection of a likely path for future economic and financial conditions. Hypothetical Stressed Scenario or Adverse Scenario is a set of economic and financial conditions which is designed to stress the performance of the banking sector or an individual bank.

Source: <https://www.bis.org/fsi/publ/insights12.pdf>

<sup>5</sup> A brief account of global and domestic developments during CY24 has been covered in Chapter-1.

stability measures along with implementation of structural reforms and better external financing, would boost investor confidence, strengthen domestic currency and boost FX reserves. The stabilized currency and fiscal consolidation efforts are also likely to keep external debt and overall public debt under check. However, potential revisions in energy prices and removal of subsidies under fiscal disciplinary efforts coupled with wearing off the base effect are assumed to put an upward pressure on prices. Therefore, the rebound in inflation along with cautious monetary policy is likely to keep the economic growth subdued.

*Favorable global financial conditions and declining global energy commodity prices are expected.*

Second, the scenario assumes that the impact of recent protectionist trade policies initiated by the US and reciprocated by its trading partners, would be short-lived and unwinding in about a year.<sup>6</sup> Oil prices are expected to decline on account of weaker demand in China and strong supply from non-OPEC+ countries.<sup>7</sup> Abating Ukraine-Russia conflict and ceasefire in Gaza war are expected to further ease pressures on energy prices. In case of food, increasing supplies amid favorable weather conditions may lead to a reduction in food commodity prices.<sup>8</sup> Stable global growth with continued disinflation would result in softening of global financial conditions.

Declining commodity prices are likely to further reduce the import bill while trend in the growth of export receipts and workers' remittances is expected to continue. These developments, along with favorable global financial conditions and improved country's risk rating, would

provide support to external balance, complement economic growth, keep the exchange rate stable and ease pressure on domestic prices.

*Domestic agricultural policies and climate related events may offset ease in price pressures.*

The  $S_0$  also assumes that, two recent developments in domestic agriculture policies and climate risk related events may offset receding price pressures on food commodities. Firstly, the abolishment of Minimum Support Price (MSP) for wheat may discourage wheat cultivation and result in some pressure on consumer price. Secondly, three provinces have passed Agricultural Income Tax (AIT) laws from their respective provincial assemblies.<sup>9</sup> The AIT law is expected to mostly impact large farmers and is likely to have limited impact on overall food commodity prices, nevertheless it may slow the pace of disinflation.

Furthermore, given Pakistan's vulnerability to recurring climate change disasters, climate risk related events of limited scale may lead to economic losses during the projection horizon.<sup>10</sup> The scenario assumes that average level floods and droughts (in some areas) may impact economic activity, while causing temporary bouts of food inflation.

*Consequently, at an overall level, growth is assumed to remain subdued while inflationary pressures are likely to remain around target in a stable environment with fiscal consolidation...*

In this perspective,  $S_0$  assumes GDP to grow by around 3.1 percent in FY25 and 3.7 percent in

<sup>6</sup> World Economic Outlook Update, January 2025, International Monetary Fund.

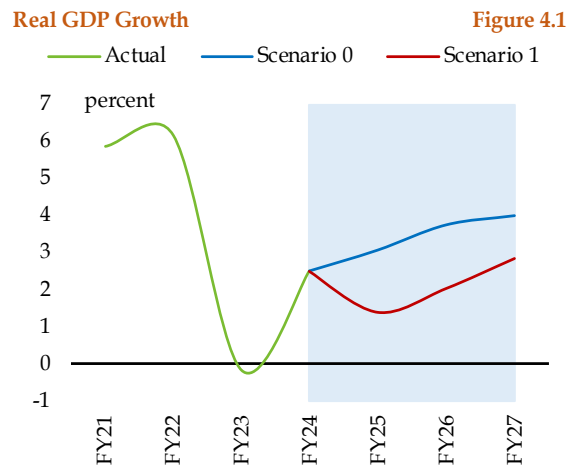
<sup>7</sup> Petroleum liquids supply growth driven by non-OPEC+ countries in 2025 and 2026 including US, Guyana, Canada and Brazil., In-Depth Analysis, U.S. Energy Information Administration. [Petroleum liquids supply growth driven by non-OPEC+ countries in 2025 and 2026 - U.S. Energy Information Administration \(EIA\)](#)

<sup>8</sup> Commodity Markets Outlook, October 2024, World Bank

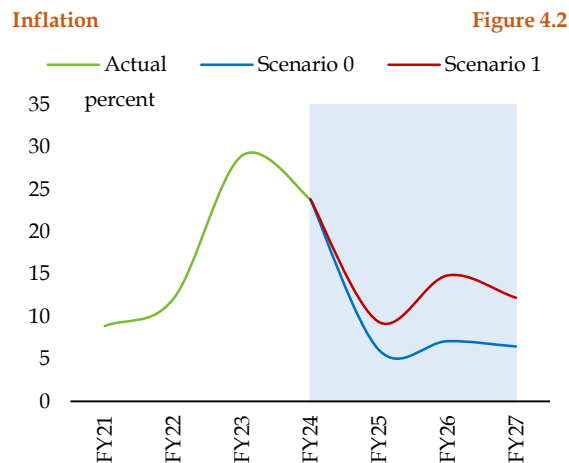
<sup>9</sup> The agricultural income tax laws propose maximum tax rate for agricultural income, minimum agricultural income exempt from tax, super tax on agricultural income among other things. The tax is proposed to be collected from January 01, 2025 onwards.

<sup>10</sup> The Germanwatch has included Pakistan among the four countries (other three being, China, India, and the Philippines) as countries affected by recurring extreme climate events (continuous threats) in 2025. [Global Climate Risk Index \(CRI\) 2025. Germanwatch.](#)

FY26. Subsequently, real GDP growth is expected to rise to 4.0 percent in FY27 on account of the assumed improvements in global and domestic economic environment (**Figure 4.1**). Further, YoY average CPI inflation may recede to 6.1 percent in FY25 before rising to 7.1 and 6.5 percent during FY26 and FY27, respectively, well within the medium term target of 5-7 percent (**Figure 4.2**).



Source: SBP Calculations



Source: SBP Calculations

### 4.3 The Hypothetical Stressed Scenario (S<sub>1</sub>)

The following assumptions regarding global and domestic risk factors are made under hypothetical stressed scenario, S<sub>1</sub>.

*The resurgence in policy uncertainty could slow the pace of structural reform*

The continuity of fiscal policy is critical for implementation of much needed structural reforms and debt sustainability. Given high financing needs, any fiscal slippages would undermine revenue collection and expenditure reduction efforts. The S<sub>1</sub> assumes that owing to lower revenue collection and tax concessions and subsidies to support some sectors, the budget deficit would widen. Furthermore, structural reforms in the fiscal, energy and SOEs may be politically difficult to implement. The increased policy uncertainty and stalled reforms may hurt the country risk premium and investor confidence. Amid this backdrop, access to external financing would either become difficult or costlier. Absence of external financing avenues together with planned debt repayments would exert pressures on the external accounts, deplete FX reserves and impact stability of the exchange rate.

*The protectionist global trade policies may lead to rebound in global inflation and tighten global financial conditions...*

S<sub>1</sub> assumes that the intensification of protectionist trade policies on global level could bring about a rebound in global inflation and disruption in supply chains. The inflated domestic prices in the US and its major trading partners and resulting weak consumer demand may lead to recessionary conditions in the global economy.

*... plunging the global economy into a recession*

Due to high inflation amid trade restrictions and weak demand, major economies are likely to plunge into a recession. The major central banks are expected to respond with appropriate monetary policy stance. In addition, global commodity prices are assumed to witness renewed spikes amid potential geopolitical escalations.

On the domestic front, exports would suffer due to weaker global demand and imports would become more expensive, hence widening the current account deficit. The increase in global commodity prices would trigger a renewed wave of higher inflation via increasing import prices. The higher risk averse environment would restrain external financing for emerging markets like Pakistan.

*Climate related events are assumed to adversely affect economic stability.*

Recent changes in local agricultural tax policies may result in lower cultivation of staple crops, raising food insecurity and increasing food inflation. Considering Pakistan is prone to climate change events with high frequency, the low production of staple crops and recurrence of major climate events – e.g., heavy rains and floods similar to CY22 and droughts in some other areas – are assumed to create severe food shortages and economic losses. The additional pressure on imports would further exacerbate consumer prices.

*To sum up, the domestic economy may witness balance of payment pressures and high inflation during the projection horizon...*

Consequently, economic growth is assumed to be 1.4 percent in FY25, before resuming to a growth level of 2.0 and 2.9 percent in FY26 and FY27, respectively. Under  $S_1$ , the adverse supply shocks are assumed to reverse ongoing disinflationary trends in the domestic economy. Accordingly, headline inflation in FY25 and FY26 is assumed to be 9.4 and 14.9 percent, respectively. Inflation is assumed to gradually come down to 12.3 percent in FY27.

## 4.4 Stress Testing Results: System Level

There has been an exceptional growth in advances portfolio of the banks during Q4CY24, driven by multiple factors including ADR-linked tax policy. Banks extended hefty Rs. 3,913 billion advances (gross) during last quarter of 2024 – a QoQ growth of 30.1 percent versus a negative 0.2 percent average growth in preceding three quarters. Resultantly, both gross non-performing loans ratio (GNPLR)<sup>11</sup> and capital adequacy ratio (CAR)<sup>12</sup> of banking sector witnessed a sharp fall due to a higher denominator. Therefore, for the purpose of stress testing, both advances as well as RWAs were adjusted to normalize the ratios. Specifically, the gross advances and the RWAs were assumed to increase at average of year-on-year growth rate of last five years (except 2020 due to pandemic). As a result, for Q4CY24, the adjusted GNPLR of 7.3 percent and CAR of 21.8 percent have been used in the estimations, against realized ratios of 6.3 percent and 20.6 percent, respectively.

### a) Impact on Credit Riskiness

The results of the MST exercise indicate that the GNPLR, under  $S_0$ , is likely to remain on higher side over the first half of the projection period followed by a moderate decline towards the end (**Figure 4.3**). The initial rise in loan delinquency ratio was due to decline in advances growth during first half, the denominator effect. However, advances growth is likely to recover in the second half of projection period, leading to 100 bps decline in GNPLR. On average, advances are projected to grow by around 9 percent over FY25 –FY27, under  $S_0$ .

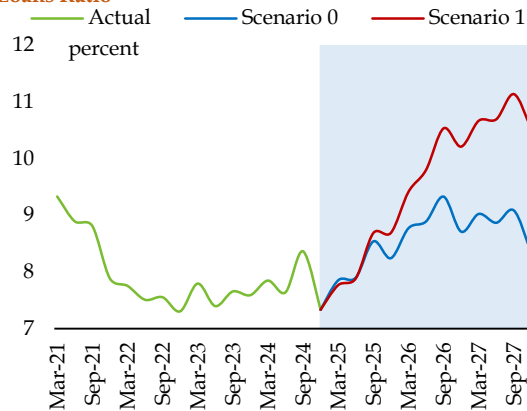
<sup>11</sup> GNPLR = Gross Non-Performing Loans ÷ Gross Advances

<sup>12</sup> CAR = Eligible Capital ÷ Risk Weighted Assets

Besides the denominator effect, the lagged effects of recent economic challenges e.g., slowdown in economic activity, high inflation and high interest rate may also lead to a slight surge in NPLs. As a result, the GNPLR is expected to peak at 9.3 percent from current adjusted-level of 7.3 percent before settling at 8.3 percent by the end of projection period CY27.

The asset quality indicator, under hypothetical stressed scenario,  $S_1$ , on the other hand, follows an upward trajectory because of the assumed sharp economic slowdown amid elevated global commodity prices and domestic supply shocks. The advances growth may also be affected. Under  $S_1$ , the lending portfolio is projected to grow, on average, by 5.7 percent over the projection period. The delinquency rate rises gradually and peaks at around 11 percent before taking a slight dip and settling at 10.5 percent towards the end of projection horizon (Figure 4.3).

**System-Level Gross Non-Performing Loans Ratio** Figure 4.3



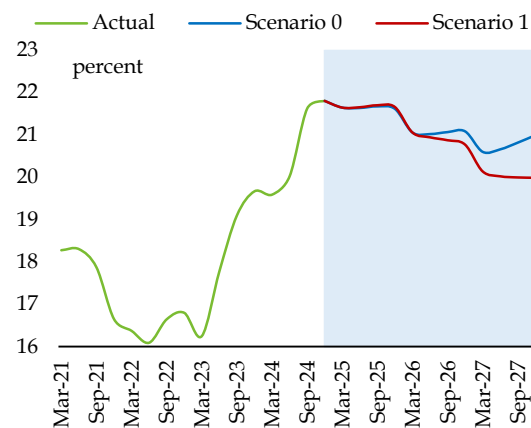
Source: SBP Calculations

### b) Impact on Solvency

The impact on solvency is measured via CAR of the banking system. The CAR of the system declines in both the scenarios. Under the

baseline, the CAR moderates by merely 81 bps by the end of CY27 from the prevailing adjusted-level of 21.8 percent. However, in stress scenario, it falls by 181 bps from the current adjusted-level (Figure 4.4).

**System-Level Capital Adequacy Ratio** Figure 4.4



Source: SBP Calculations

However, under both the scenarios, the banking industry maintains its CAR above the local minimum regulatory requirement of 11.5 percent and global benchmark of 10.5 percent during the entire period of projection horizon.

The banking sector, despite the substantial level of assumed slowdown in real economy, is expected to sustain its solvency level because: (i) the banking sector is already maintaining higher capital buffers i.e., 1,030 bps<sup>13</sup> above the regulatory benchmark of 11.5 percent; (ii) the release of 100 bps capital conservation buffer during COVID-19 has not been reversed yet, which gives banks additional liquidity; (iii) favorable overall repricing gaps amidst assumed policy rate movements provide further cushion during times of stress; and (iv) the sector's historical behavior has been to re-balance asset portfolio from riskier private sector loans to risk-free treasury investments in times of stress.<sup>14</sup> Moreover, within a robust regulatory and

<sup>13</sup> Vis-à-vis adjusted level of 21.8 percent. The buffer is 910 bps considering actual CAR of 20.6 percent as of December 2024.

<sup>14</sup> The exposure of banks to the public sector stands at 59.1 percent of total assets at the end of CY24.

supervisory regime, the banks in general follow a conservative lending strategy and prefer to lend to borrowers with better credit worthiness as well as capacity to withstand macroeconomic shocks.

## 4.5 Results: Cross Sectional Dynamics of Banking Segments

In line with the system-level credit risk analysis, infection ratios of banking segments (small, medium and large sized banks)<sup>15</sup> have also been projected separately. This aspect of the banking industry is included to assess how cross-sectional heterogeneity affects the resilience of banks against various macroeconomic risks.

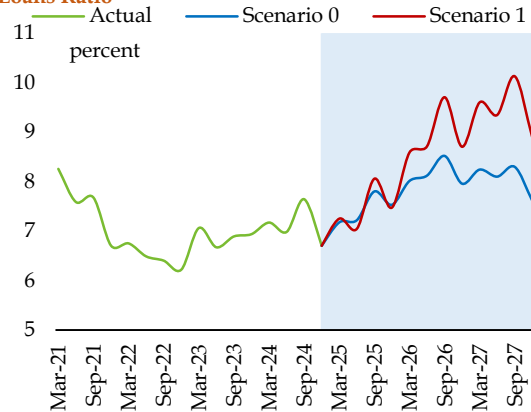
For the GNPLR, system-level projections of NPLs and gross advances are distributed proportionately based on the contribution of each segment to the aggregate loan portfolio of the banking system as of December 2024. Similarly, capital is also distributed proportionately to compute segment level CARs.

### (a) Large Banks

The large banks segment – comprising around 77 percent of the banking sector’s assets – under  $S_0$  witnesses an increase of 92 bps in GNPLR by end CY27 from its current adjusted-level of 6.7 percent. Under  $S_1$ , however, the rise in infection ratio is a bit sharper: 220 bps by the end of projection horizon (**Figure 4.5**). The CAR decreases by 81 bps in the baseline scenario and falls by 182 bps in the stressed scenario from prevailing adjusted-level of 21.9 percent over the projection horizon (**Figure 4.6**). Remarkably though, the CAR remains, respectively, 957 and

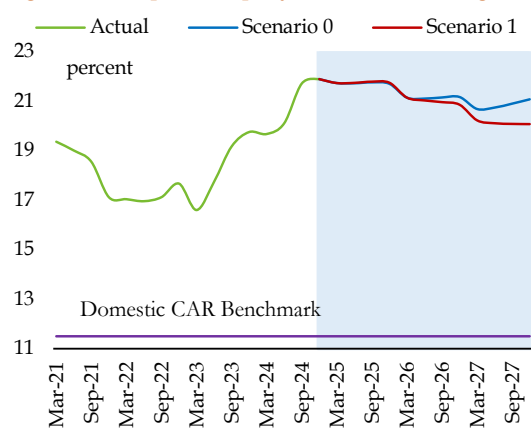
856 bps higher than the local benchmark under  $S_0$  and  $S_1$ .

**Large Banks - Gross Non-Performing Loans Ratio** Figure 4.5



Source: SBP Calculations

**Large Banks - Capital Adequacy Ratio** Figure 4.6



Source: SBP Calculations

The large banks are generally well-placed to withstand stress over the simulation horizon. Higher capital buffers available with larger banks are the likely factor behind this resilience. Incidentally, these banks generally have relatively lower costs of funds due to their wider outreach, giving them a competitive advantage to maintain a loan portfolio of relatively better rated obligors. More importantly, the systemically important banks are also likely to

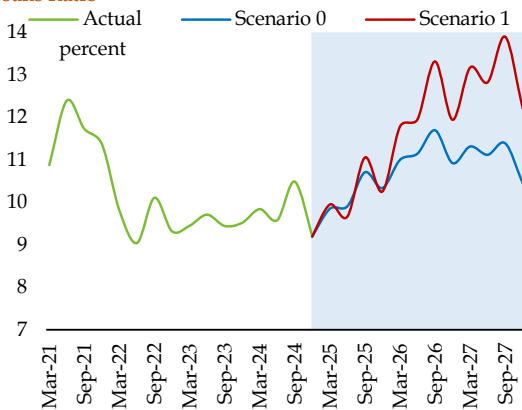
<sup>15</sup> The categorization has been done based on size of banks’ balance sheet. The banks with assets above 70<sup>th</sup> percentile of the entire banking sector are termed as ‘Large’ while below 30<sup>th</sup> percentile are categorized as ‘Small’. The banks falling in between these two thresholds are categorized as ‘Medium’ sized banks.

remain well-capitalized and resilient to the shocks assumed in stressed scenario.

(b) Medium-sized Banks

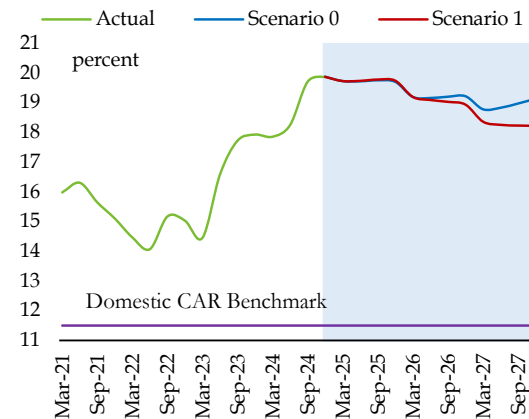
By the end of the projection period, the infection ratio of medium-sized banks (having market share of around 17 percent) increases by 126 and 301 bps in  $S_0$  and  $S_1$ , respectively, from existing adjusted-level of 9.2 percent (Figure 4.7). The CAR, correspondingly, is likely to remain 74 and 165 bps lower level compared with the prevailing adjusted-reading of 19.9 percent, under the two scenarios. The medium-sized banks are, therefore, also expected to remain compliant with the regulatory CAR standards, even under the stressed scenario (Figure 4.8).

Medium Banks - Gross Non-Performing Loans Ratio Figure 4.7



Source: SBP Calculations

Medium Banks - Capital Adequacy Ratio Figure 4.8



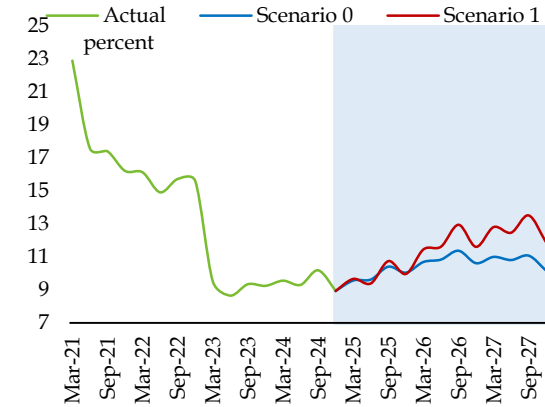
Source: SBP Calculations

The level of CAR for medium sized banks remains 763 and 672 bps percentage points above the minimum regulatory requirement (11.5 percent) in  $S_0$  and  $S_1$ , respectively. Although their delinquency ratios are higher and pre-shock capital buffers are lower than the large and small banks segments, however, medium-sized banks also carry sufficient capital buffers and are expected to withstand assumed shocks under stressed scenario.

(c) Small Banks

Small banks – contributing around six percent of the banking sector assets – are also found to be resilient against both baseline and stressed scenarios. From its existing adjusted-level of 8.9 percent, the loan delinquency rate increases by 122 bps in  $S_0$ , whereas it rises by 293 bps under  $S_1$ , by the end of horizon (Figure 4.9).

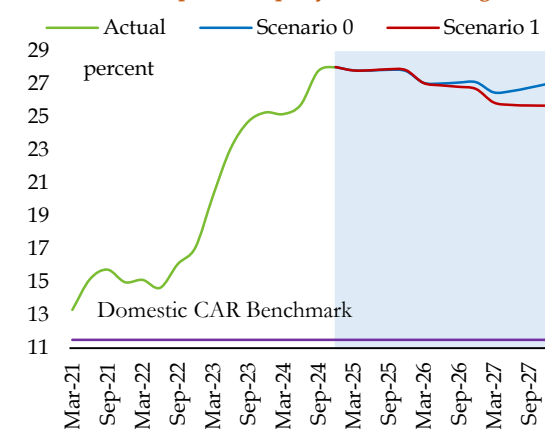
**Small Banks - Gross Non-Performing Loans Ratio** Figure 4.9



Source: SBP Calculations

In terms of solvency, the CAR of small banks falls by 104 and 233 bps under  $S_0$  and  $S_1$  from the prevailing adjusted-level of 28.1 percent (Figure 4.10). The CAR, however, remains a solid 1,551 bps higher than the local benchmark in  $S_0$  while also staying 1,422 bps above the minimum requirement under  $S_1$ . Over time, this segment has strengthened its resilience by substantially building the capital adequacy levels.

**Small Banks - Capital Adequacy Ratio** Figure 4.10



Source: SBP Calculations

Overall, under the baseline scenario, the delinquency ratio is expected to rise moderately whereas the solvency of the banking sector portrays an encouraging picture with capital adequacy staying well above the domestic regulatory benchmark. Under the hypothetical

stress scenario as well, the banking sector is expected to withstand a severe slowdown induced by adverse global and domestic macroeconomic conditions, including the global commodity market pressures. In terms of size, all the segments of the sector (small, medium, and large) can withstand the assumed stressed conditions as well. Encouragingly, the large size banks, whose stability has particular significance for economy and financial system, carry higher capital buffers and are thus able to sustain the impact of hypothesized shocks for the projection period of three years.

Also, the other two segments of banks meet the solvency criteria during the projection horizon. Furthermore, the domestic banking sector has generally performed quite reasonably during severe downturns, such as the external sector crises in 2008, COVID-19 pandemic and flash floods of 2022. This is visible in the results of the stressed scenario ( $S_1$ ), as the sector remains well capitalized and resilient.

However, since the exact severity, duration, and paths of assumed global commodity markets and macro financial conditions remain highly uncertain due to ongoing geopolitical tensions in Middle East and Eastern Europe, the stress-test results are also subject to significant uncertainty. SBP continues to closely watch the evolving situation and remains ready to take necessary actions to safeguard financial stability.

**Box 4.1: Climate Transition Risk and Financial Stability in Pakistan****Introduction**

Climate change poses significant threat to the Pakistan's economy. The country is ranked as 8<sup>th</sup> most vulnerable jurisdiction by German Watch's Global Climate Risk Index (CRI).<sup>16</sup> It is faced with some of the highest disaster risk levels, ranking 20<sup>th</sup> out of 191 countries on Inform Risk Index (2025).<sup>17</sup> This risk is driven in particular by country's exposure to climate change induced periodic flooding. Pakistan was the country most affected by climate change in 2022 (CRI 2025), mainly due to exceptionally high economic losses due to floods.<sup>18</sup>

Climate change can affect the financial system through physical and transition risks.<sup>19</sup> Physical risk arises when the financial system is exposed to counterparties that experience damage to their assets due to climate change induced hazards. This can lead to increased default risk or erosion in the value of financial assets. On the other hand, transition risks result from the process of adjustment towards a low carbon economy including changes in climate policy, technology and market sentiment. Financial institutions can incur losses on exposure to corporates and financial assets that are vulnerable to transition.

Given the country's economic vulnerability to climate change, SBP has issued Green Banking Guidelines and Environmental and Social Risk Management manual, which set regulatory expectations from banks to assess and manage the climate related risk. Also, the central bank has been incorporating the impact of physical risks through demand side variables in its annual stress tests published in the previous versions of FSR. The results of a detailed climate scenario analysis exercise were first time published in the FSR 2023, which attempted to quantify the vulnerability of Pakistan's banking sector to physical and transition risk. This box, continuing with previous exercise, focuses on the transition risk. Using data from latest financials and a larger sample of firms, it explores the impact of carbon tax on the financial health of non-financial corporates (NFCs) listed on Pakistan Stock Exchange (PSX) and the resulting impact on the credit risk of banking sector.

**Impact of Carbon Tax on Probability of Default**

Changes in climate policy such as carbon taxation, emissions regulation and renewable energy mandates, incentivize investment in clean energy and penalizes carbon intensive firms. As a result, companies with higher emission intensities face compliance costs affecting their profitability and market valuations.

Analysis presented in this section explores the impact of carbon taxation on the probability of default (PD) of listed NFCs. Carbon tax is expected to impact the profitability of firms, which in turn may have adverse impact on their key soundness indicators and credit worthiness, represented by probability of default in this scenario. PDs of NFCs are estimated at carbon tax imposed on tons of CO<sub>2</sub> emission (tCO<sub>2</sub>e) levels from US\$ 5/tCO<sub>2</sub> to US\$ 50/tCO<sub>2</sub>,<sup>20</sup> by employing a logit regression model using some indicators of Altman Z-Score, augmented with macroeconomic variables. The model is represented as:

$$\Pr(y_{it} = 1) = \Lambda(X_{it}\beta)$$

$$X = \left[ \frac{WC}{TA}; \frac{Sales}{TA}; \frac{RetEarn}{TA}; \frac{Eqty}{TA}; \frac{EBIT}{TA}; GDP\_Growth; Int. Rate \right]$$

<sup>16</sup> For details please see: [German Watch – Global Climate Risk Index 2025](#)

<sup>17</sup> For details please see: [Inform Risk Index](#)

<sup>18</sup> [Post disaster needs assessment](#) prepared by GoP in collaboration with the world bank estimated damages at nearly US\$ 15 billion along with a reconstruction cost of US\$ 16 billion.

<sup>19</sup> For details please see: [Grippa, P., Schmittmann, J., Suntheim, F. \(2019\). Climate Change and Financial Risk, Finance & Development, December.](#)

<sup>20</sup> Carbon tax range from US\$ 5/tCO<sub>2</sub>e to US\$ 50/tCO<sub>2</sub>e used for the study is well within plausible range as [IMF \(2021\)](#) suggests a floor of US\$ 25/tCO<sub>2</sub>e for lower income emerging countries. Also, as per [World Bank's Carbon Pricing Dashboard](#), 30 jurisdictions have imposed carbon taxes in the range of US\$ 1/tCO<sub>2</sub>e (Ukraine) to US\$ 156/tCO<sub>2</sub>e (Uruguay), with an average tax of US\$ 36/tCO<sub>2</sub>e

Where TA represents the total assets of a firm, Sales represents sales of firm, WC denotes working capital, RetEarn represents Retained Earnings, Eqty shows equity of the firm and EBIT represents Earnings Before Interest and Taxes.

Using panel of 343 NFCs, spanning from 2018 to 2023, the model estimate pre and post-shock PDs of firms in response to various carbon tax levels, after adjusting the relevant variables for carbon tax. Default of a firm is proxied ( $y_i = 1$ ) using firm specific data from SBP's Credit Registry, where a firm is considered to have defaulted, if its credit obligations become overdue by 90 days or above ( $OD \geq 90$ ).

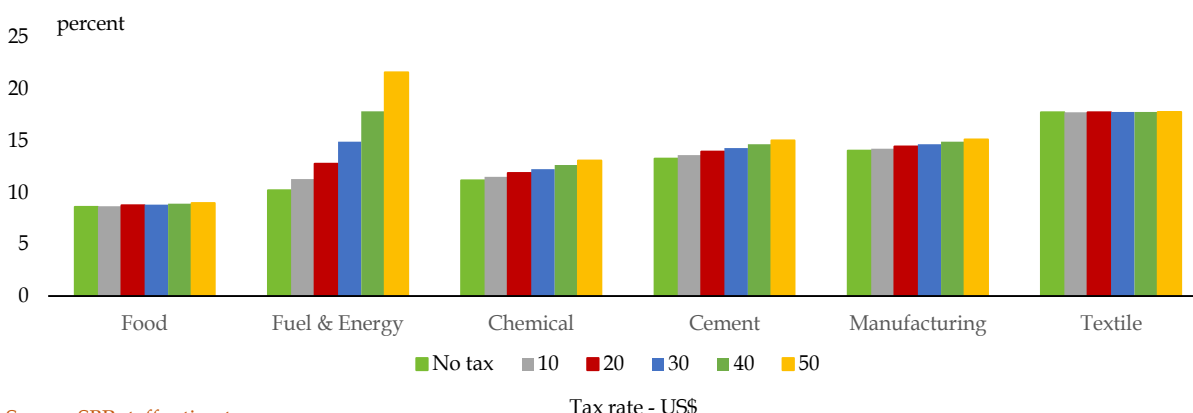
Carbon tax of a firm is calculated using Standard and Poor (S&P) sectorwise carbon emission intensities, expressed as tons of CO<sub>2</sub> emitted per million US\$ of revenue.<sup>21</sup> Specifically,

$$\text{Carbon emission} = \text{Emission intensity} * \text{Sales}$$

$$\text{Carbon tax} = \text{Carbon emission} * \text{Tax rate}$$

Sector wise PDs at various carbon tax levels (Top 5 sectors by outstanding exposure)

Figure 4.1.1

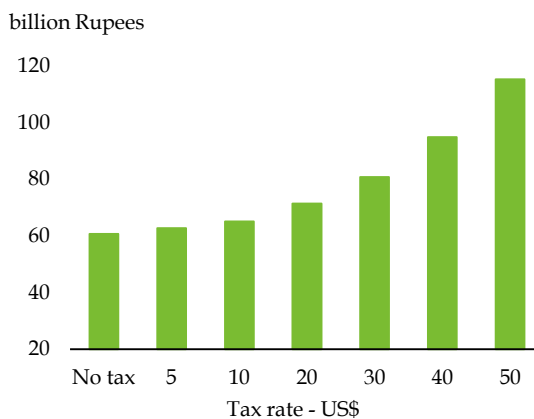


Source: SBP staff estimates

Model estimates suggest a marginal increase in PDs of listed NFCs, as the average PD of the sample slightly increases by 170 bps from 14.9 percent before shock to 16.6 percent at the highest tax level of 50 USD/tCO<sub>2</sub>. Sectoral PD distributions show minimal migration of firms to default zone (PD > 50 percent). However, sectors with higher emission intensities such as, fuel and energy, chemical, cement and manufacturing appear more vulnerable to transition as their PDs surge at higher tax levels. Specifically, firms operating in fuel and energy sector may face significant financial constraints, as the post shock PD of the sector rises to 21.6 percent at tax rate of US\$ 50/tCO<sub>2</sub>. On the other hand, textile sector, with the largest share of corporate loans and relatively higher pre-shock PD remains resilient in response to the imposition of carbon tax. This signifies robust financial health of the firms operating in the textile sector (Figure 4.1.1).

Expected Credit Loss

Figure 4.1.2



Source: SBP Staff estimates

Results of the analysis provide some evidence that imposition of carbon tax could impact the PDs of listed NFCs, as their profitability declines. However, the impact on PDs may remain relatively contained due to the already available

<sup>21</sup> Please see: See S&P Global (2021), "[Transition Risk: Historical Greenhouse Gas Emissions Trends for Global Industries](#)" for sectoral emission intensities

financial cushions of these firms. Expected credit loss (ECL) estimates suggest an incremental increase of Rs 55 billion at the highest tax level of US\$ 50/tCO<sub>2</sub> from pre-shock ECL of Rs 61 billion (Figure 4.1.2).<sup>22</sup> Given the large capital base of the sector, this is expected to have a negligible impact on the solvency of banking sector. Nonetheless, pockets of vulnerability exist in sectors with higher emission intensities, which may require enhanced due diligence from the banks along with careful calibration of the carbon tax policy by the government.

### Impact of Carbon Tax on Interest Coverage Ratio:

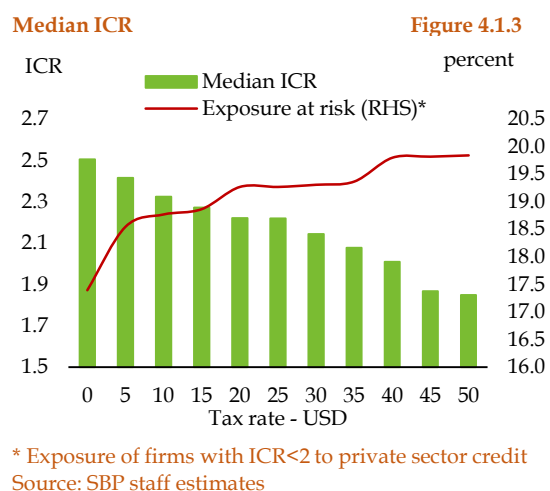
A PD-based model has the limitation of reliance on multitude of factors, in particular, the historically low delinquency rates and strong financial cushions, which are strong enough to dampen the aggregated impact of carbon tax on the PDs. To isolate the impact of carbon tax on the debt repayment capacity of corporates, Interest Coverage Ratio (ICR) of firms at different carbon tax levels is analyzed. ICR is a financial metric that is calculated as:

$$ICR = \frac{\text{Earnings before interest and taxes (EBIT)}}{\text{Interest Expense}}$$

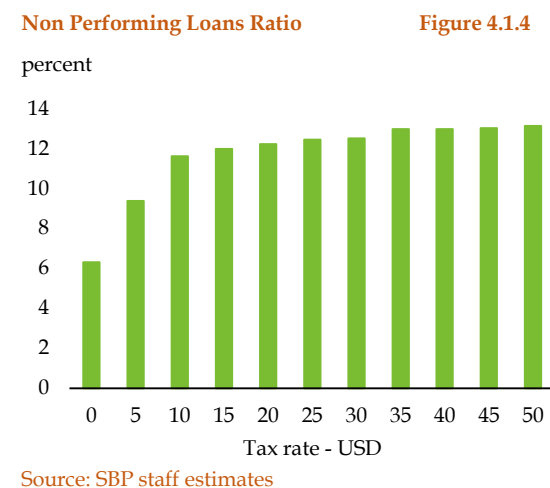
ICR measures the extent the EBIT of a firm can cover its interest expense. Generally, a higher ratio implies that a firm is in better position to repay its interest obligations and vice versa. ICR value above two is considered safer and reflects the ability of a firm to pay its interest expense more than twice with its earnings. On other hand, ICR below two (2) is considered risky, while a value below one (1) shows the inability of a company's earnings to cover its interest expense.

Based on annual financial statement data of 2023,<sup>23</sup> median ICR of listed NFCs is 2.51 times (2.51X). Lower pre-tax ICR is attributed to historically high interest rates that prevailed during CY23, substantially raising the interest expense of firms. With the imposition of carbon tax, median ICR falls to 2.2X at a rate of US\$ 25/tCO<sub>2</sub> and further to 1.85X at the highest tax level of US\$ 50/tCO<sub>2</sub>. Decline in median ICR at higher tax rates suggest increased vulnerability of firms with higher emission intensities to transition risk. Pre-shock, outstanding exposure of corporates with debt at risk (ICR<2) to total private sector credit is 17.4 percent, which may rise by 244 bps to 19.8 percent at the highest tax level of US\$ 50/tCO<sub>2</sub> (Figure 4.1.3), indicating that this level of carbon-tax shock to the firms' earning may involve some financial stability concerns.

Assuming that ICR below 1 is a critical level, it is estimated that after shock, the non-performing loans ratio (NPLR) may increase from the current level of 6.3 percent to 12.4 percent at carbon tax of US\$ 25/tCO<sub>2</sub> and further to 13.1 percent at the level of US\$ 50/tCO<sub>2</sub> (Figure 4.1.4). This suggests that the banking sector has significant number of borrowers with higher emission intensity and relatively weaker debt repayment capacity to absorb the shock. Sectoral analysis



Pre-shock, outstanding exposure of corporates with debt at risk (ICR<2) to total private sector credit is 17.4 percent, which may rise by 244 bps to 19.8 percent at the highest tax level of US\$ 50/tCO<sub>2</sub> (Figure 4.1.3), indicating that this level of carbon-tax shock to the firms' earning may involve some financial stability concerns.



<sup>22</sup> ECL is calculate as PD x LGD x EAD. Loss given default (LGD) is proxied with provision coverage ratio, whereas exposure at default (EAD) is the outstanding exposure of the firm, sourced from SBP credit registry.

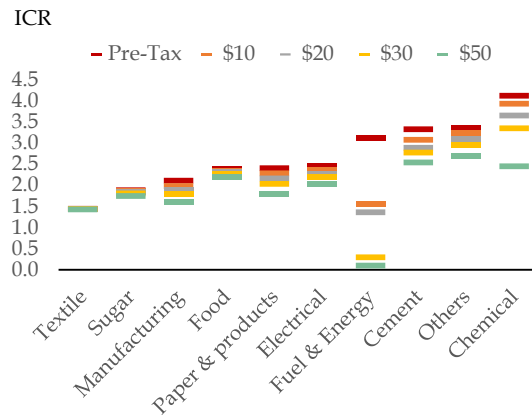
<sup>23</sup> Source: [Financial Statements Analysis \(Non-financial Companies\) Listed on Pakistan Stock Exchange](#)

further shows that firms operating in fuel & energy, cement and chemical sectors face the most decline in their post-shock median ICR, accentuating their vulnerability to transition. **(Figure 4.1.5)**

Estimates are based on assumption that the firms fully absorb the carbon tax levied on their emissions. However, in practice, output prices, quantities, production processes and inputs would all adjust to the transition. Modelling these dynamics is highly complex and beyond the scope of this exercise. Therefore, these results may be interpreted as an upper bound of the financial impact on firms due to the carbon taxation.

From a financial stability perspective, the analysis provides some evidence that listed non-financial firms, which are the major user of bank credit in Pakistan, may face financial challenges in the face of imposition of carbon tax. This will likely affect the riskiness of credit exposure of the banking system with implications for its solvency. Therefore, policies driving the country's transition towards a low carbon economy will need to be designed carefully to ensure a smooth transition.

**Sector-wise ICR** **Figure 4.1.5**



Source: State Bank of Pakistan

## Microfinance Banks

# 5

*The Microfinance Banks (MFBs) experienced a significant growth in asset size, primarily driven by substantial increase in investments in government securities in CY24. Advances also grew, though at a slower pace, with increased financing to enterprise, livestock, and housing sector. The expansion in the asset base was financed by both borrowing followed by deposit mobilization. The sector's financial soundness, however, remained under stress due to prolonged challenges. Rising infection ratio and decline in provisioning coverage signaled increased credit risk. The sector posted aggregated losses for the sixth consecutive year, thereby raising solvency concerns as the aggregate Capital Adequacy Ratio (CAR) fell further and remained below the applicable minimum regulatory requirement. Nonetheless, from financial inclusion standpoint, the MFBs hold importance as they are key to providing financial services to the under-served segments and low-income micro-borrowers. While SBP remains engaged via enhanced supervision to support the sector's stability and its role in financial inclusion, the sector also needs to focus on improving loan recoveries, optimizing operations, and strengthening capital buffers to ensure long-term sustainability.*

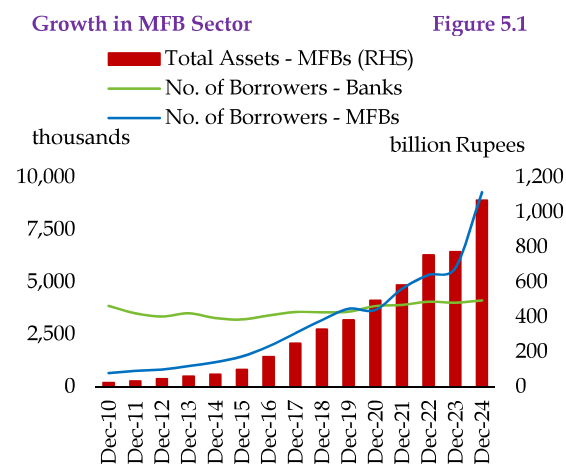




## 5 Microfinance Banks

*MFBs are instrumental in the financial inclusion of low-income, under-served urban and rural customers...*

Despite challenging macroeconomic conditions, Microfinance Banks (MFBs) continue to play a crucial role in expanding financial inclusion by providing services to the low-income segment of the population. While MFBs account for only 1.5 percent of total financial sector assets and pose relatively low systemic risk, their broad customer base – surpassing that of the commercial banking sector – makes them essential for achieving the goals of the National Financial Inclusion Strategy (**Figure 5.1**). However, their exposure to a predominantly low-income clientele carries heightened credit risk, posing challenges to portfolio quality and financial sustainability.<sup>1</sup>



Source: State Bank of Pakistan

*The sector experienced sizeable expansion in its balance sheet footing...*

During CY24, the asset base of the sector experienced a sizeable expansion of 38.5 percent (YoY), as compared to 2.4 percent during CY23. The growth was mainly generated by hefty investments, which increased by 136.9 percent

during CY24. Investment in government papers almost tripled to reach Rs 376 billion. Support also came from advances, which increased by 10.9 percent.

*... which is mainly financed by both borrowings and deposits...*

The growth in the asset base of MFBs was supported by a 249.3 percent (Rs 146 billion) increase in borrowings and a 22.8 percent (Rs 136 billion) increase in deposits in CY24.

*Almost all segments experienced an uptick in loans from MFBs...*

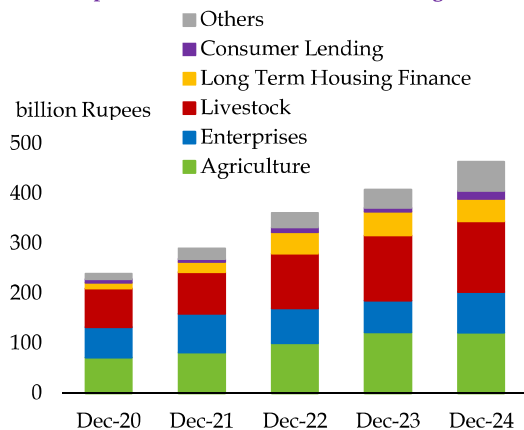
Sector-wise breakdown of advances reveals that barring agriculture and housing, all other sectors received more funds from MFBs than the previous year. Amongst these sectors, enterprises availed Rs 81 billion during CY24, which was Rs 18 billion more than last year. Similarly, livestock financing reached to Rs 142 billion during CY24, which is Rs 11 billion more than the previous year (**Figure 5.2**). Higher livestock financing can be partly attributed to the issuance of interest-free loans to farmers under the Livestock Card Scheme by the Government of Punjab.<sup>2</sup>

<sup>1</sup> By end of CY24, the number of domestic bank borrowers stood at 4.4 million, whereas, borrowers of MFBs stood at 9.2 million.

<sup>2</sup> For further information, see <https://punjab.gov.pk/cm-punjab-livestock-card>

Break-up of Advances

Figure 5.2



Source: State Bank of Pakistan

*Asset quality further deteriorated during CY24...*

The soundness of MFBs was further stressed during CY24. The infection ratio that has consistently increased over the last few years, peaked at 10.5 percent by June 2024, the highest recorded level. However, by the end of CY24, the ratio slightly lowered to 9.7 percent due to fast growth in advances, but was still considerably higher than the 6.7 percent recorded at the end of CY23. By the end of CY24, total NPLs reached Rs 45 billion after an addition of Rs 18 billion in CY24 (Rs 27 billion in CY23).

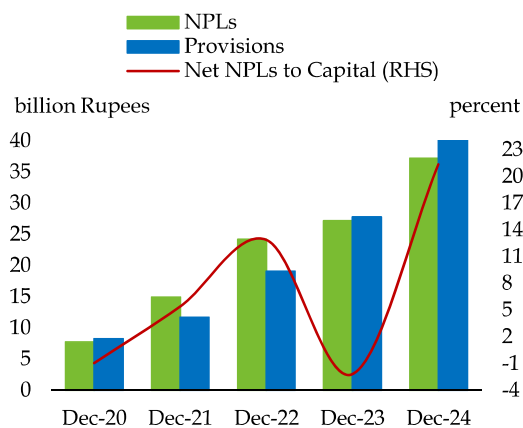
Due to legacy issues, MFBs continue to face asset quality concerns, especially since the onset of COVID-19 pandemic, which were further compounded by the floods in the summer of 2022 and tighter financial conditions during CY23 and H1CY24.

Provisioning coverage also remained slightly lower during CY24. Although the MFBs raised their provisioning to Rs 43 billion during CY24 (Rs 28 billion during CY23), their provisioning coverage fell to 95.3 percent (102.3 percent in CY23). Similarly, net non-performing loans to total loans ratio (NPLR) dropped to 0.5 percent in CY24 (-0.2 percent in CY23), and capital

impairment ratio (net NPLs to Capital) also deteriorated to 21.4 percent in CY24 (-2.2 percent in CY23), depicting an increase in credit risks to solvency from the delinquent portfolio (**Figure 5.3**).

Asset Quality Indicators

Figure 5.3



Source: State Bank of Pakistan

*The sector's profitability remained in red for the sixth consecutive year...*

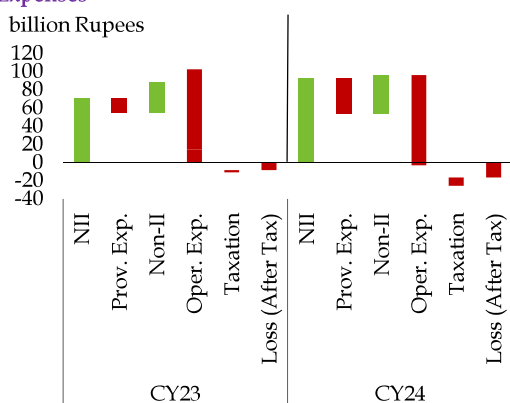
The profitability of the MFBs posted losses for the sixth year in a row. The sector's pre-tax losses more than doubled in CY24 to Rs 25 billion from Rs 11 billion by the end of CY23. As a result, the sector's before tax ROA reached *negative* 3.0 percent (*negative* 1.5 percent in CY23), and ROE stood at *negative* 77.9 percent (*negative* 26.4 percent in CY23). Operational Self Sufficiency (i.e., the ratio of financial revenue [markup income] to all expenses) also deteriorated slightly to 75.2 percent in CY24 (78.8 percent in CY23). Although the MFBs were able to generate higher interest and non-interest-based revenues, elevated administrative expenses pulled the sector into losses.

Further analysis of the MFB's profitability indicates an increase of 31.7 percent (YoY) in the net interest income (NII), which reached Rs 93 billion by the end of CY24 (**Figure 5.4**).<sup>3</sup> The current growth in NII was lower as compared to

<sup>3</sup> Growth in NII is attributed to growth in average yield that significantly outpaced the growth in average cost.

CY23 due to monetary easing in CY24.<sup>4,5</sup> Nonetheless, the net interest margin (NIM) rose to 13.9 percent (YoY) in CY24 (12.2 percent in CY23). Similarly, growth in non-interest income also remained relatively lower during CY24 at 25.7 percent (YoY) when compared to 39.7 percent during CY23. Though growth in income was lower than last year, the deceleration (YoY) in expenses helped improve the cost to income ratio to 89.8 percent from 95.0 percent in CY23.

Composition of MFBs' Income and Expenses Figure 5.4



Source: State Bank of Pakistan

Non-interest expense grew by 22.7 percent (YoY) in CY24, driven by a Rs 46 billion rise in administrative costs and a Rs 23 billion increase in provisioning expense against non-performing loans.<sup>6</sup> As a result, the number of loss making institutions rose to eight (out of 12) during CY24 from six (out of 11) in CY23. In CY23, MFBs faced losses primarily due to elevated administrative expenses, however, this year, while administrative expenses remain significant, the additional burden of higher provisioning expenses has further amplified their losses.

Higher administrative expenses are inherent to the microfinance banking model, given their extensive borrower base and the need for a continuous engagement with their customers. However, technological advancements present opportunities for MFBs to enhance their efficiency by streamlining their operations and reducing costs.<sup>7</sup>

*Liquidity indicators improved on the back of significant investments in government securities...*

Liquidity indicators saw a significant improvement on the back of a 105.2 percent increase in liquid assets during CY24 (13.9 percent in CY23). Hefty investments in government securities allowed improvement in their overall liquidity. Against this backdrop, the share of liquid assets in total assets increased to 43.6 percent by the end of CY24 (29.4 percent in CY23) (Table 5.1).

During CY24, MFBs relied on borrowings followed by deposits to finance expansion in assets. This led to further accumulation of short-term liabilities, witnessing 15.4 percent growth during CY24. Encouragingly, the sector's liquid assets to short-term liabilities rose to 61.2 percent in CY24 (42.1 percent in CY23), indicating a sizeable improvement in the sector's ability in meeting short-term withdrawal of funds (Table 5.1).

<sup>4</sup> During CY24, NII rose by 31.7 percent as compared to 37.9 percent during CY23.

<sup>5</sup> During CY24, SBP cut the policy rate by 900 basis points cumulatively across eight MPC meetings.

<sup>6</sup> Administrative expenses rose because of increase in salaries and allowances, and due to commission to a related party by one of the institutions.

<sup>7</sup> Globally, Kenya's M-Pesa and Bangladesh's "Cashless Bangladesh" campaign are few global examples of how leveraging technology can alleviate the efficiency of MFBs.

Financial Soundness Indicators (FSIs) of MFBs Table 5.1

	percent			
	Dec-21	Dec-22	Dec-23	Dec-24
<b>Capital</b>				
Total Capital to Total RWA	18.3	10.9	7.6	2.6
Tier 1 Capital to Total RWA	14.3	8.1	4.7	0.1
<b>Asset Quality</b>				
NPLs to Total Loans	5.2	6.7	6.7	9.7
Provision to NPLs	78.1	78.8	102.3	95.3
Net NPLs to Net Loans	1.2	1.5	-0.2	0.5
Net NPLs to Capital	5.4	12.9	-2.2	21.4
<b>Earnings</b>				
ROA before Tax	-1.3	-3.4	-1.5	-3.0
ROE before Tax	-12.7	-42.9	-26.4	-77.9
Operational Self Sufficiency (OSS)	76.8	69.8	78.8	75.2
<b>Liquidity</b>				
Liquid Assets to Short Term Liabilities	42.4	31.9	42.1	61.2

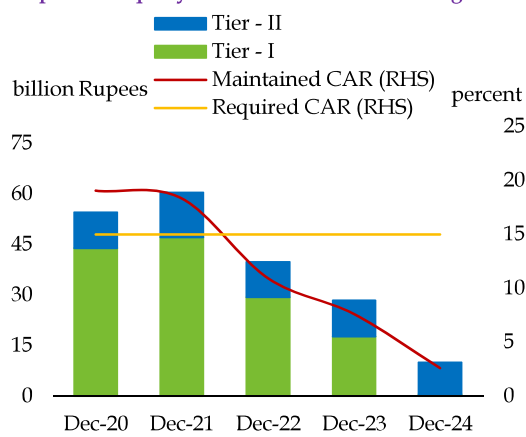
Source: State Bank of Pakistan

### Solvency indicators dropped further below the minimum required level...

The MFB sector's solvency remains a point of concern, as the aggregate capital adequacy ratio (CAR) of the sector dropped to 2.6 percent by the end of CY24 from 7.6 percent at the end of CY23 – against the minimum regulatory requirement of 15 percent. Although the sector witnessed a significant amount of equity injection by several institutions during CY24, the capital base remained low vis-à-vis asset base due to losses emanating from infected portfolio (Figure 5.5). More importantly, within the sector, the market shares of the institutions that have CAR below the minimum regulatory required level rose to 49.9 percent (28.3 percent in CY23). Keeping in view the solvency issues of the MFBs and their importance from the financial inclusion perspective, SBP continued its enhanced supervision of the sector and engagement with individual institutions.<sup>8</sup>

Capital Adequacy Ratio

Figure 5.5



Source: State Bank of Pakistan

### MFBs continue to lead financial inclusion objectives through branchless banking...

Despite their small share in the financial sector, MFBs have been instrumental in widening financial inclusion through Branchless Banking (BB). The BB accounts provide easy access and a cost-effective way of delivering financial services to the unbanked and underserved population. MFBs account for around 80 percent of the total BB accounts of banks and MFBs combined. During CY24, the number of BB accounts rose by 10.7 percent (18.1 percent in CY23), reaching 122 million accounts.

### Legacy issues remain the primary driver of MFB's financial performance and stability...

The stress in the MFB sector is a continuation of the disruptions that began during the pandemic, exacerbated by the 2022 flash floods and further intensified by deteriorating macro-financial conditions in CY23. Additionally, the sector's exposure to climate-related risks, such as floods, remains a major concern that, if materialized, may further strain its already weakened solvency position.

Going forward, MFBs' performance will largely depend on their ability to build resilience

<sup>8</sup> MFBs collectively injected Rs. 17 billion additional eligible capital in their balance sheet during CY24, significantly higher than Rs. 183 million eligible capital injected during CY23.

against such disruptions, improving loan recoveries, mitigating credit risk, and safeguarding their solvency position.

Furthermore, there is a need that MFBs reassess their business models to optimize their operations, reduce costs, strengthen their risk management frameworks and build necessary capital cushions. In this connection, leveraging the technological advancements can help in achieving the economies of scale and scalability, strengthening of risk management capabilities, and operational efficiencies.



## Development Finance Institutions

# 6.1

*Asset base of Development Finance Institutions (DFIs) contracted substantially owing to decrease in investments in government securities which had posted strong growth in last year on the back of borrowings from financial institutions. The advances portfolio recorded subdued growth. However, the overall asset mix remained concentrated in government securities. Earnings remained healthy, mainly supported by substantial increase in non-interest income, particularly from dividend earnings while net interest income remained steady due to pressure on net interest margin in the backdrop of falling interest rates. Solvency indicator i.e., CAR improved on the back of healthy earnings and remained well above the regulatory requirement.*





## 6.1 Development Finance Institutions

*Asset base of DFIs contracted due to a fall in investments...*

After a strong investment-led growth of 63.3 percent in last year, the asset base of DFIs contracted by 15.3 percent during CY24 (Table 6.1.1). The contraction was mainly driven by a fall in investments.

Though investments, which mainly comprise of government securities, witnessed a significant decline of 18.6 percent during the year under review, they remained the major part of the asset base with 83 percent share – staying well above the historical average of last five years (75.9 percent).

The advances, which constitute only 9.7 percent of asset base, grew by a meager 1.5 percent in CY24 (0.1 percent growth in CY23). Within advances, private sector advances, which constitute around 95 percent of DFIs' advances in CY24, declined by 0.7 percent, while domestic public sector exposure rose by 81.2 percent and supported the growth in total advances.

Key Variables and Financial Soundness Indicators Table 6.1.1

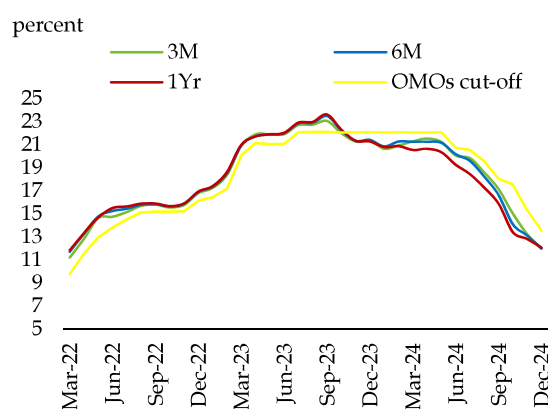
	CY20	CY21	CY22	CY23	CY24
<b>billion Rupees</b>					
Investments (net)	287	338	1,168	2,025	1,648
Advances (net)	111	140	188	188	191
Total Assets	439	539	1,430	2,338	1,979
Borrowings	261	348	1,223	2,117	1,652
Deposits	27	34	38	45	78
Equity	132	136	145	144	191
NPLs	15.8	14.5	14.6	15.1	16.8
<b>percent</b>					
CAR	43.1	38.7	36.5	43.3	52.5
NPLs to Advances	12.8	9.5	7.3	7.4	8.0
Net NPLs to Net Advances	3.1	1.6	0.9	-1.2	1.9
ROA (After Tax)	3.3	2.4	1.6	0.9	1.2
ROE (After Tax)	10.7	8.9	10.1	13.3	17.1
Cost to Income Ratio	25.2	32.5	26.9	24.0	20.6
Liquid Assets to Short-term Liabilities	97.5	98.0	98.2	95.9	110.1
Advances to Deposits	405.1	412.6	493.4	417.7	243.6

Source: State Bank of Pakistan

*Investments moderated on the back of government securities....*

Investment portfolio recorded a broad-based decline, as government securities, investments in shares and TFCs recorded decline in CY24. The decline in investments was mainly driven by government securities, which constitute around 97 percent of total investments. These securities contracted by 19.2 percent in CY24. The reduction was in contrast to a strong 82.1 percent growth in last year – mainly funded by borrowing from open market operations (OMOs) and financial institutions, in an environment marked by rising interest rate. This incentivized the DFIs to substantially increase their portfolio of government securities. During the year under review, declining yields on treasuries vis-à-vis relative steady cost of funds induced DFIs to reduce investments (Figure 6.1.1).

Secondary Market Yields and Cut-off rate on OMOs Injection Figure 6.1.1



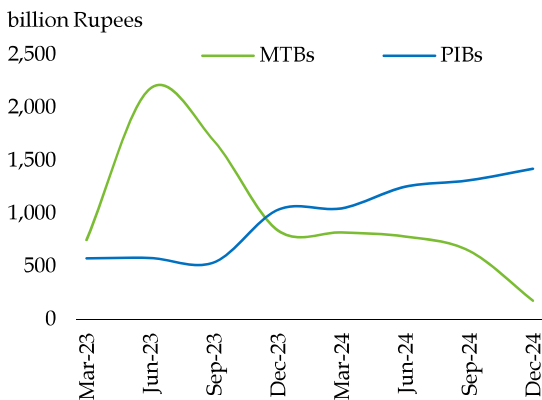
Source: MUFAP and State Bank of Pakistan

Within government securities, DFIs reduced short term MTBs while longer tenor PIBs rose during CY24. On the other hand, investments in equity stock, which is a small fraction of overall investments (0.6 percent) dropped by 41.3 percent to Rs 10 billion, as the institutions capitalized on the booming stock market to book gains on sale of quoted shares during the year.

*The composition of investment in government securities changed in favor of PIBs ....*

Investment in MTBs significantly contracted by 79.4 percent to Rs 173 billion in CY24. However, DFIs increased their investments in PIBs by Rs 389 billion to reach Rs 1,422 billion by the end of CY24, which suggests institutions preferred to lock funds in longer term securities amid the declining interest rates. However, within PIBs, DFIs preferred to invest in floating rate instruments that have relatively lower sensitivity to changes in interest rates. This was reflected in the rising share of floating rate government securities in Fair Value Through Other Comprehensive Income (FVOCI), commonly known as available for sale (AFS), category and Fair Value Through Profit and Loss (FVTPL), generally known as held for trading (HFT), category (Figure 6.1.2).<sup>1</sup>

**Stock of MTBs and PIBs** Figure 6.1.2



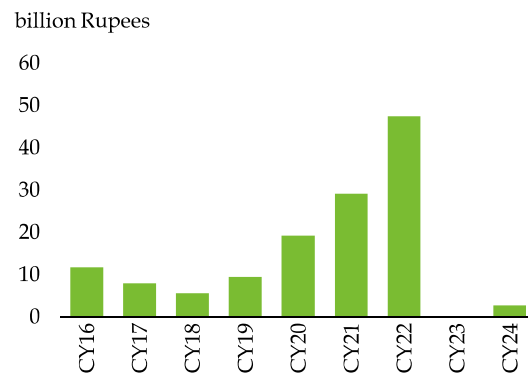
Source: State Bank of Pakistan

*Advances growth recovered modestly....*

The advances growth, though meager, was relatively better at 1.5 percent in CY24 compared to 0.1 percent in CY23 (Figure 6.1.3). The uptick in advances pushed their share in the overall asset base to 9.7 percent in CY24 from 8.0 percent in CY23. Corporate sector remained the main user of financing, largely for fixed

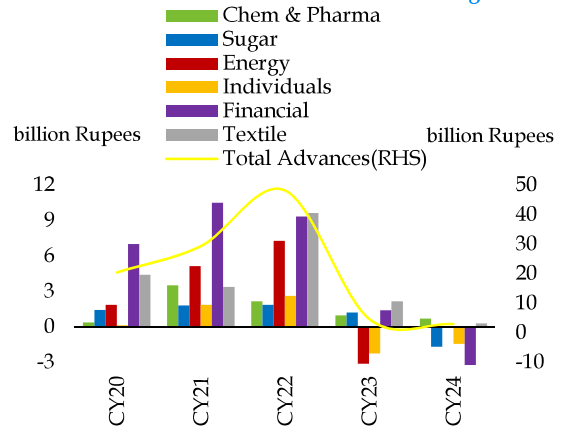
investment purposes followed by working capital requirements. The increase in advances was primarily due to financing availed by public sector, as advances of private sector declined in CY24. Sector wise data reveals that within the private sector advances, only agri-businesses and auto financing (such as for commercial vehicles) rose, however, the net retirements in other sectors such as cement and sugar dragged the overall private advances during CY24. The increase in public sector advances was channeled to housing finance by a single DFI (Figure 6.1.4).

**Yearly flow of Advances (Net)** Figure 6.1.3



Source: State Bank of Pakistan

**Sector-wise flow in advances** Figure 6.1.4



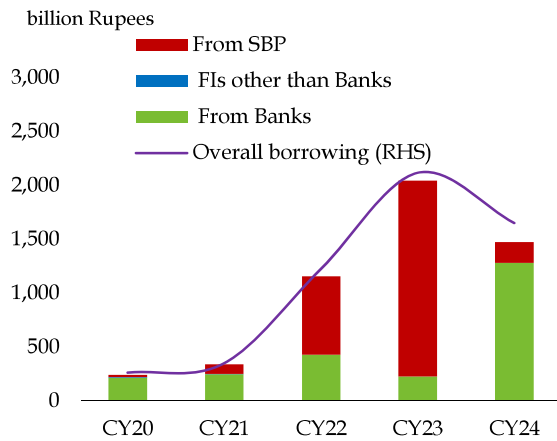
Source: State Bank of Pakistan

<sup>1</sup> The combined share of FVOCI and FVTPL in total government securities is 88.9 percent at end CY24 as compared to 53.3 percent at end CY23.

### Borrowing declined in line with the significant fall in investments...

Borrowing has remained the major source of funding for DFIs in recent years, as the sector cannot raise checking deposits from public. It may be recalled that DFIs' investments rose significantly during CY22 and CY23, which were mainly funded by additional borrowings. However, DFIs observed negative net interest income during H1CY24, on the back of higher fall in yields compared to funding costs which remained relatively sticky (Figure 6.1.1). This development induced a fall in investments and an associated decline in borrowings during CY24. Borrowing contracted by 22.0 percent or Rs 466 billion in CY24 (73.1 percent or Rs 894 billion increase in CY23). DFIs, however, changed the mix of their borrowings by raising funding from banks and retiring the borrowing from SBP (Figure 6.1.5).

Composition of Borrowings Figure 6.1.5

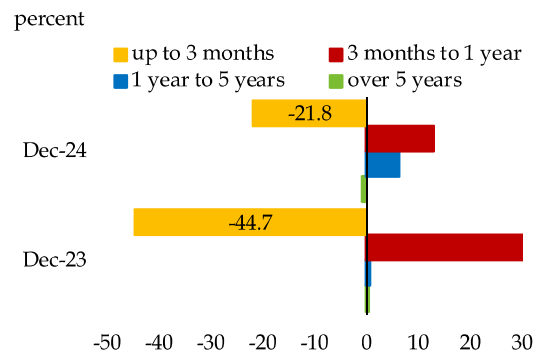


Source: State Bank of Pakistan

### Maturity mismatch declined with retirements of short term borrowings...

The maturity-wise analysis of rate sensitive assets (RSA) and liabilities (RSL) indicates that gap between the two has contracted by the end of CY24. The improvement was particularly visible in combined up to 1-year time bands (Figure 6.1.6). This was in line with the fall in short term borrowings.

Gap of Rate Sensitive Assets (RSA) and Liabilities (RSL) as Percent of Total Assets Figure 6.1.6



Source: State Bank of Pakistan

### Most of the earning assets have shorter repricing maturities ...

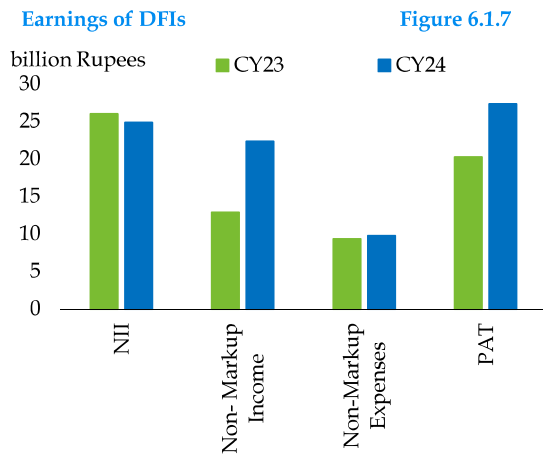
A major portion of earning assets had relatively shorter maturity at end CY24. The investments, which form major part of the asset mix i.e., 47.0 percent were repricing within three months, whereas, 41.0 percent were repricing in three months to one year. On the other hand, 56.5 percent of advances were repricing within three months and 14.8 percent in three months to one year.

### Earnings remained healthy on the back of significant non-interest income ...

After-tax profit of DFIs increased by 34.7 percent to Rs 27 billion in CY24 (Rs 20 billion in CY23), owing to significant growth in non-interest earnings. Dividend income posted a notable growth of 79.8 percent, rising to Rs 18 billion (Rs 10 billion in CY23). Main driver of the growth in dividend income was the stake of a DFI in a leading Islamic bank – the DFI contributed 94.1 percent in total dividend income of the sector. With a slight contraction, net interest income remained more or less stable at Rs 25 billion in CY24 (Rs 26 billion in CY23). A major drag on net interest income stemmed from contraction in net interest margin, as falling interest rates translated into relatively higher decrease in return on earnings assets vis-à-vis the decrease in cost of funds. Besides, a contraction in assets

in CY24 also contributed in lower net interest income in CY24 compared to last year.

On the other hand, non-interest expenses grew at a slower pace of 4.5 percent to Rs 10 billion in CY24 (**Figure 6.1.7**). The falling inflation helped in stagnation in admin cost at around Rs 9 billion in CY24 (also Rs 9 billion in CY23).



Source: State Bank of Pakistan

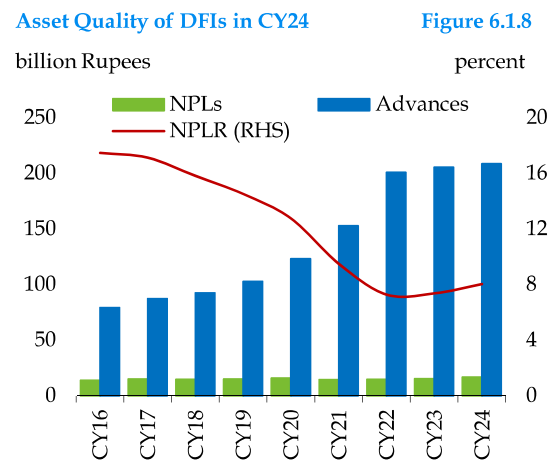
*ROA and ROE improved owing to noteworthy growth in earnings ...*

With a healthy growth in profitability and a decline in asset base, the after tax return on assets (ROA) increased to 1.2 percent during CY24 (0.9 percent in CY23). Likewise, return on equity (ROE) improved to 17.1 percent during CY24 (13.3 percent in preceding year) due to growth in income and a modest uptick in equity.

*Asset quality indicators showed slight deterioration in CY24, though remaining in comfortable range...*

Over the recent years, infection ratio of the DFI sector has shown improvement on the back of growth in advances, better credit risk management and better recoveries against NPLs.<sup>2</sup> However, NPL to advances ratio slightly deteriorated to 8.0 percent by end CY24 from 7.4 percent in CY23 (**Figure 6.1.8**). Gross NPLs rose by Rs 2 billion, higher than last year. The

provisioning coverage also dropped to 78.6 percent during CY24 (114.8 percent last year). Accordingly, net NPLs to net loans and capital impairment ratios deteriorated in CY24 to 1.9 percent (-1.2 percent in CY23) and 1.9 percent (-1.6 percent in CY23), respectively.



Source: State Bank of Pakistan

Nevertheless, these ratios remained in comfortable range, and relative to the amount of loan loss provision and capital, the risk to solvency of DFIs remained muted.

*CAR of the DFIs sector improved on the back of healthy earnings...*

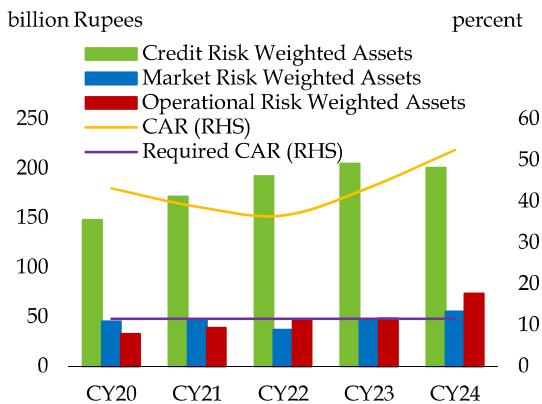
The aggregate CAR of DFIs has historically remained well above the required benchmark due to strong capital base coupled with the fact that the asset base is mainly comprised of investment in risk-free government securities while share of lending remains low. During the year under review, CAR further improved to 52.5 percent (43.3 percent at end CY23). The CAR ratio remained considerably higher than the regulatory requirement of 11.5 percent.

The improvement in CAR emanated from significantly higher growth (32.8 percent) in regulatory capital vis-à-vis risk-weighted assets, on the back of healthy earnings and revaluation surpluses. Accordingly, both major components

<sup>2</sup> Recoveries against NPLs stand at Rs 1 billion in CY24, higher than Rs 198 million in CY23.

of capital, Tier-I and Tier-II, grew during CY24. Besides, the addition of one new DFI that has strong capital base, also boosted the aggregate CAR of the sector. Total risk weighted assets (TRWAs), however, recorded lower growth of 9.7 percent in CY24 compared to capital, which translated into improvement in the CAR ratio. Detailed analysis of DFIs' regulatory capital requirement shows the credit risk which forms the major part, i.e., 68 percent of the total capital requirement, slightly contracted during CY24 (Figure 6.1.9).

CAR and Risk Weighted Assets of DFIs Figure 6.1.9



Source: State Bank of Pakistan

However, market risk weighted assets increased by 17.4 percent due to transfer of some investment portfolio from banking book to trading book.<sup>3</sup> Operational RWAs surged by a notable 51.9 percent, on the back of higher gross income in recent years, which forms the basis of operational risk under Basic Indicator Approach (BIA) for calculation of capital requirement for operational risk.

Keeping in view the relatively constrained future prospects of earnings owing to shrinking yields on government securities, DFIs have started to adopt alternative strategies which focus on exploring the potentials of various areas. DFIs diversified their operations by investing in digital banks, venture capital and launching dedicated Islamic Finance division to

provide a diverse array of Sharia-compliant financial products.

The DFIs were established to promote development finance and support the capital formation in the economy. However, various challenges have hindered their growth, leading them to adopt a conservative business approach. DFIs have faced several constraints, including the structural challenges like limited access to capital market, which also lacks depth, a low national savings rate, and subdued demand for long-term financing due to multiple factors. They have quite constrained access to deposits vis-à-vis commercial banks, and unlike their counterparts in other jurisdictions, DFIs lack access to concessional lending schemes for development objectives. Amid these challenges, the DFIs need to find innovative ways to promote development finance and support the capital formation process in the country. For instance, exploring potential strategies such as alternative financing models and public private partnerships would help DFIs play their due role in development.

<sup>3</sup> Trading book portfolio entails more stringent capital charge for interest rate risk as compared to banking book.



## Non-Bank Financial Institutions

# 6.2

*After a challenging year in CY23, the Non-bank financial institutions exhibited impressive growth in CY24 amid the improving macroeconomic and financial conditions. The growth was broad-based with significant contributions from both the asset management and lending segments. Along with the improving economic and financial conditions, inflow of funds from the banking sector to NBFIs sector also contributed to its growth. The easing financial conditions also led to a revival in the lending segment in CY24, which had experienced a slowdown in CY23. Going forward, the performance of NBFIs will depend upon the evolving domestic and geopolitical economic conditions.*





## 6.2 Non-Bank Financial Institutions

Relatively improved macro-economic and financial conditions in Pakistan in CY24, compared to CY23, provided a strong foundation for the growth of the Non-Bank Financial Institutions (NBFIs).<sup>1</sup> Resultantly, the NBFi sector increased its asset share in a financial system predominated by the banking sector. The share improved from about 5.8 percent in CY23 to 8.9 percent in CY24. NBFIs play important role through a broad array of non-bank financial services that supplement the banking sector and meeting the diverse financial needs of the economy.

The receding inflationary pressures marked the beginning of easing monetary policy cycle in Mid-CY24, which reduced borrowing costs for NBFIs (especially lending segment) and boosted capital market growth, while ADR related tax policy on the banking helped provide favorable conditions for the sector in CY24 after a challenging year in CY23. The sector posted an impressive growth of 80.0 percent in terms of assets in CY24 as compared to 34.5 percent in CY23, driven both by the Asset Management<sup>2</sup> segment, with a growth of 78.9 percent, and lending<sup>3</sup> segment, with a growth of 89.4 percent, in CY24. However, in terms of volume, the major push came from the asset management segment as it dominates the NBFIs sector with 89.1 percent share (**Table 6.2.1**).

**Asset Profile of NBFIs** **Table 6.2.1**

billion Rupees

		Dec-21	Dec-22	Dec-23	Dec-24
Asset Management	AMCs/IAs (own assets)	46	48	58	79
	Mutual Funds	1,192	1,574	2,232	4,439
	Pension Funds	40	44	61	96
	Portfolios	374	358	547	712
	<b>Total AUMs</b>	<b>1,605</b>	<b>1,976</b>	<b>2,840</b>	<b>5,246</b>
	RMCs	8	9	13	14
	REITs	67	168	168	176
	PE & VC Firms	0	0	0	0
	PE Funds	10	12	10	11
	Lending	Modarabas	57	65	56
Leasing Companies		5	6	6	7
Housing Finance Cos.		0	1	1	1
IFCs		78	109	100	292
NBMFCs		146	168	195	321
<b>Total Assets</b>		<b>2,023</b>	<b>2,563</b>	<b>3,447</b>	<b>6,204</b>

Source: Securities and Exchange Commission of Pakistan

### 6.2.1 NBFIs: Asset Management Segment

The asset management (AM) segment, dominated by Mutual Funds and Portfolios, posted a significant growth of 78.9 percent in CY24 as compared with 39.6 percent in CY23. The Assets Under Management (AUM)<sup>4</sup> registered a substantial growth of 84.7 percent in CY24 against 43.7 percent in CY23, driven by strong growth in both the Mutual Funds and Portfolios.

<sup>1</sup> NBFIs for the purpose of this analysis include NBFCs, Real Estate Investment Trusts (REITs), and Modaraba Companies. As per section 282A of the repealed Companies Ordinance, 1984 (wherein Part VIII A - consisting of sections 282A to 282N - does not stand repealed and is applicable to NBFCs), Nonbanking finance companies (NBFCs) include companies licensed by the Commission to carry out any or more of the following forms of business, namely: Investment finance services, Leasing, Housing Finance Services, Venture Capital Investment, Discounting Services, Investment Advisory Services, Asset Management Services, and any other form of business which the Federal Government may, by notification in the official Gazette specify from time to time. Non-bank Microfinance Companies (NBMFCs) are also included in NBFCs.

<sup>2</sup> The Asset Management (AM) segment includes: Asset Management Companies (AMCs), Investment Advisors (IAs), Real Estate Investment Trusts (REITs), Mutual Funds, Pension Funds, Private Equity (PE) Funds, and Discretionary/ Non-discretionary Portfolios.

<sup>3</sup> Lending NBFIs (also referred to as the non-AM segment) include Leasing Companies, Modarabas, Investment Finance Companies, Housing Finance Companies, Non-Bank Microfinance Companies (NBMFCs), etc.

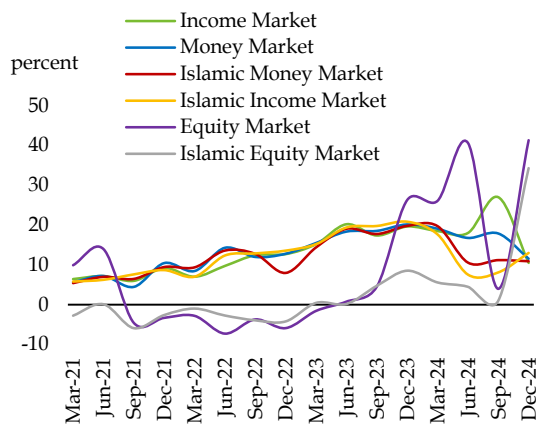
<sup>4</sup> Assets Under Management (AUM) include assets of mutual funds, pension funds, and portfolios under management of AMCs/ IAs.

*Mutual fund assets almost doubled, further extending their asset share in the NBFi sector ...*

The mutual funds posted a significant growth of 98.9 percent in CY24 compared to 41.8 percent in CY23, leading to an increase in their share in the NBFIs’ overall asset base to 71.5 percent in CY24 from 64.7 percent in CY23. The increase in assets was broad based in terms of growth rate; however, in terms of volume, significant contributions came from conventional money market funds and Islamic income funds. The major thrust in growth came towards the end of the year as the ADR related tax policy seemed to divert a substantial amount of funds from the banking sector towards the NBFi industry. This is supported by the fact that around 88.6 percent of the total increase in Mutual fund assets was in the banks’ associated AMC’s.

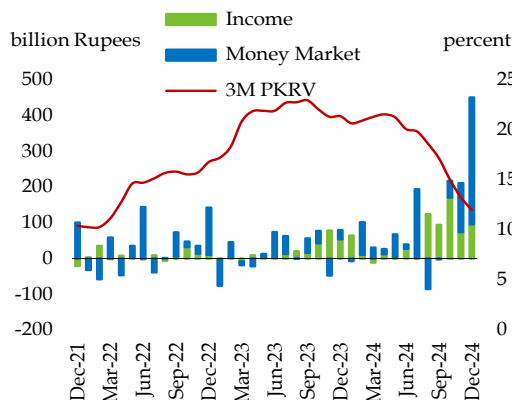
Stable, low-risk debt instruments remained the preferred investment option for the investors, as evidenced by substantially higher net sales in CY24 compared to CY23 – driving AUM growth for the second consecutive year (**Figure 6.2.1 and 6.2.2a**).

**Monthly Returns of Mutual Funds** **Figure 6.2.1**



Source: Mutual Funds Association of Pakistan

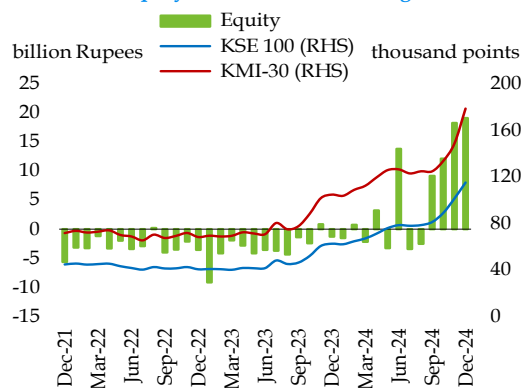
**Net Sales of Money and Income Funds** **Figure 6.2.2a**



Source: Mutual Funds Association of Pakistan

Concurrently, the equity funds – buoyed by a historic rise in the KSE-100 index, improved economic outlook, favorable IMF program developments, and easing inflationary pressures – recorded an impressive growth of 107.2 percent in CY24 compared to a meager 19.7 percent growth in CY23. Consequently, their asset base more than doubled – from Rs 203 billion in CY23 to Rs 420 billion in CY24. This growth in equity funds also seemed to be driven by net sales, i.e., fresh investments (**Figure 6.2.2b**).

**Net Sales of Equity Funds** **Figure 6.2.2b**



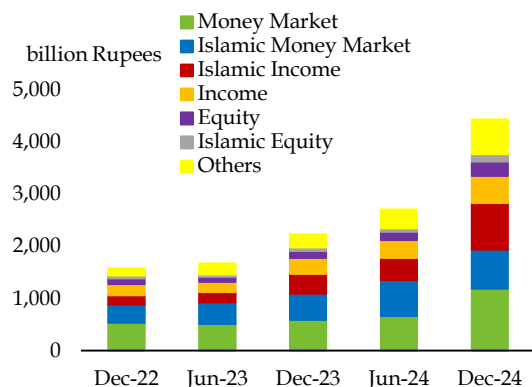
Source: Mutual Funds Association of Pakistan & Pakistan Stock Exchange

Despite a slight reduction in the number of Asset Management Companies/Investment Advisors – from 29 in CY23 to 28 in CY24 – their own asset base grew by 34.9 percent in CY24 against a growth of 20.7 percent in CY23. Additionally, the total number of managed funds and plans increased from 345 to 403.

#### *Money market funds continued to dominate while income fund made marginal gains...*

Money market funds posted an impressive growth of 77.7 percent in CY24 compared to 23.2 percent in CY23, and continued to dominate the mutual funds' asset mix. However, its asset share continued to decline for the second year in a row, reaching 43.6 percent in CY24 from 48.8 percent in CY23 (and 56.2 percent in CY22). Income funds also posted a significant growth of 105.9 percent in CY24 compared to 76.0 percent in CY23. Share of income funds in mutual funds' assets, however, increased marginally from 30.8 percent in CY23 to 31.9 percent in CY24 (**Figure 6.2.3**).

**Composition of Mutual Funds** **Figure 6.2.3**



Source: Securities and Exchange Commission of Pakistan

Money market and income funds, jointly, accounted for a combined 75.5 per percent of mutual fund assets in CY24, down from 79.6 percent in CY23. These funds, being providers of relatively stable returns with lower risks remained the preferred option for risk averse investors. However, equity funds also posted

impressive growth in CY24 to marginally improve their asset share from 9.1 percent in CY23 to 9.5 percent in CY24.

Moreover, Islamic income funds grew at a remarkable rate of 135.2 percent in CY24, further improving on its impressive growth rate of 116.5 percent in previous year. As such, Islamic income and money market funds grew at a combined rate of 86.0 percent, keeping up momentum with their conventional counterparts which grew at combined 91.1 percent. Compared with the saving accounts of Islamic banks, these Islamic funds provide better returns to religiously sensitive investors.<sup>5</sup>

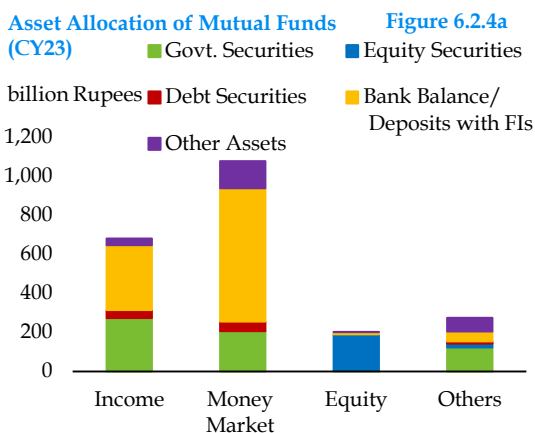
Given the continuous preference of money market by investors as an investment avenue, SECP, as the regulator, has taken different initiatives to enhance market liquidity and support the development of the debt securities market. In this regard, the regulator permitted Money Market Schemes in 2024 to invest in listed government debt securities with maturities of up to one year until December, 2025. This extension was aligned with the regulator's earlier reforms, which enabled Money Market Schemes to invest in government securities and Sukuk with maturities exceeding six months.

#### *Overall mutual funds maintained a low risk profile...*

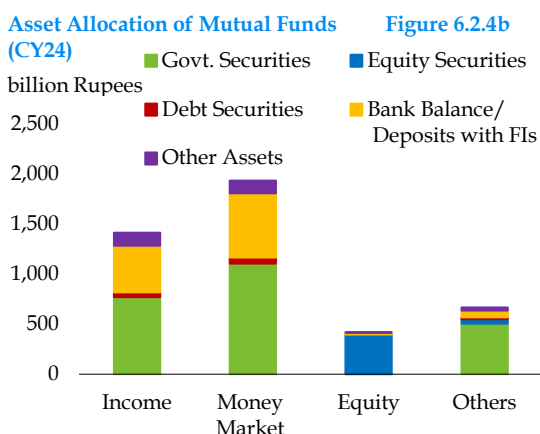
In terms of assets allocation, government securities and bank balances/deposits with FIs further increased their asset share in the income and money market funds segment. However, a significant shift in the composition of funds was seen as the share of government securities increased from 27.1 percent in CY23 to 53.7 percent in CY24, while that of bank balances/deposits with FIs decreased from 48.2 percent to 26.9 percent. This diversion may also be related to ADR related tax policy, as the banks tried to expand advances and reduce deposits to contain the additional tax burden. Nevertheless, mutual funds maintained their

<sup>5</sup> However, SBP, in 2024, decided that, effective January 01, 2025, Islamic Banking Institutions (IBIs) shall pay profit on their PKR saving deposits (excluding deposits of financial institutions, public sector enterprises and public limited companies) equivalent to at least 75 percent of the weighted average gross yield of all pools of an IBI. For details, please see [IFPD Circular No. 09 of 2024](#).

low overall risk profile given the contained credit risk, and ready liquidity of these investments (Figure 6.2.4a and 6.2.4b).



Source: Securities and Exchange Commission of Pakistan



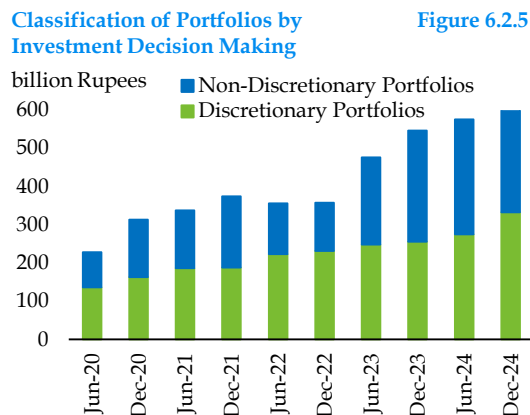
Source: Securities and Exchange Commission of Pakistan

Portfolios posted strong but decelerated growth from previous year...

Portfolios recorded a growth of 30.1 percent against a growth of 52.9 percent in CY23. This growth was driven by both discretionary and non-discretionary portfolios, which had

respective asset shares of 46.8 percent and 53.2 percent by the end of CY24.

The asset share of Portfolios (Under Management)<sup>6</sup> in the NBFi industry reduced to 11.5 percent in CY24 from 15.9 percent in CY23. However, it continues to have the second highest market share in the NBFIs after the mutual funds (Figure 6.2.5).



Source: Securities and Exchange Commission of Pakistan

Activity in the REIT sector remained subdued in CY24 ...

The REIT<sup>7</sup> sector, introduced in the past few years to broaden investment access to real estate for smaller investors, has yet to gain significant momentum amidst a subdued real estate market in the past couple of years. Nevertheless, seven more REIT Management Companies (RMCs) were licensed in CY24, taking the total number of RMCs to 31. However, only 5 of these RMCs were offering REIT schemes to investors as of end CY24.

As a result of widespread outreach efforts by the regulator, coupled with amendments to the REIT Regulations, the total number of REIT Schemes increased to twenty-two as of end CY24. Six new REIT schemes comprising three

<sup>6</sup> Portfolios (Under Management) are investments of eligible investors (person offering a minimum of Rs 3 million investment) managed by investment advisors. Under “Discretionary Portfolios”, investment decisions are made and executed by the investment advisor on behalf of clients. While under a “Non-Discretionary Portfolio”, investment decisions are executed as per the written instructions of the clients.

<sup>7</sup> Real Estate Investment Trusts (REITs) are investment schemes that own and most often actively manage income-producing real estate. Through such schemes, investors may own, operate or finance income generating property across various categories of real estate. For further details, please see: <https://invest.gov.pk/sites/default/files/2020-08/REITS%20FAQs.pdf>

Developmental REIT Schemes, one Hybrid REIT Scheme and two Rental REIT Schemes were registered in CY24. The fund size of REIT schemes grew by a modest 4.7 percent in CY24 compared to 0.5 percent in CY23.

*Pension funds registered strong growth in CY24 amidst regulator’s efforts to transform the pension landscape in the country ...*

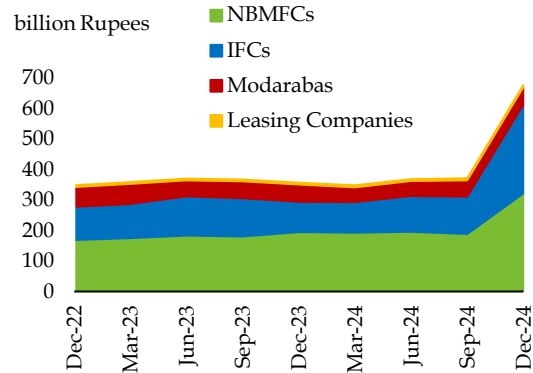
Pension funds posted a strong growth of 56.5 percent in CY24 compared to 39.3 percent in CY23. Resultantly, its asset base increased to Rs 96 billion in CY24 from Rs 61 billion in CY23.

The regulator introduced the Employer Pension Funds (EPF) scheme to allow employers in both public and private sectors to establish fully funded, defined contribution pension plans for their employees during CY24. This strategic initiative aims to elevate Pakistan’s pension solutions to global standards while maintaining the fundamental principles of the Voluntary Pension System (VPS) framework. As of end CY24, 75 VPS schemes were operational, with Rs 91.4 billion assets under management.

### 6.2.2 NBFIs: Lending Segment

Following a challenging period in CY23, the lending segment registered an impressive growth of 89.4 percent in CY24 as compared to only 2.4 percent in CY23. The segment operated in a relatively favorable conditions in CY24, as the interest rates were lowered in the latter half of CY24 after remaining at elevated levels during CY23. The extension of credit lines from banks to the Non-Bank Microfinance Companies (NBMFCs) and Investment Finance Companies (IFCs) towards the end of CY24 also contributed to the growth in the lending segment. Consequently, NBMFCs and IFCs exhibited significant growth in the lending segment while Modarabas experienced only marginal growth during the year under review (Figure 6.2.6).

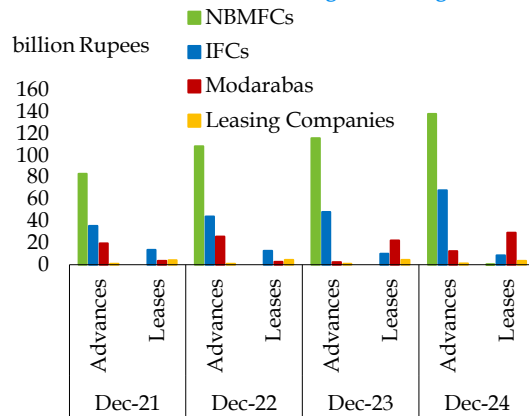
Assets of Lending NBFIs Figure 6.2.6



Source: Securities and Exchange Commission of Pakistan

Owing to the declining interest rates, the advances portfolio of the lending NBFIs also improved, expanding by a decent 13.4 percent in CY24 as compared to 8.3 percent in CY23. NBMFCs maintained their highest share in the advances portfolio of the lending NBFIs. (Figure 6.2.7).

Advances and Leases of Lending NBFIs Figure 6.2.7



Source: Securities and Exchange Commission of Pakistan

*NBMFCs continued to dominate the lending segment, despite a decline in their asset share...*

The asset base of NBMFCs registered an impressive growth of 65.0 percent in CY24 compared to 15.6 percent in CY23, mainly owing to receipt of credit lines from the banking sector. However, their asset share in the lending segment experienced a decline in CY24 due to

faster growth exhibited by other sectors in the lending segment.<sup>8</sup>

NBMFCs increased their investments significantly in CY24 as they looked to capitalize on the inflow of funds. The investment portfolio of the NBMFCs increased from Rs 6 billion in CY23 to Rs 124 billion in CY24. Consequently, the share of investments in the asset mix of the NBMFC increased significantly to 38.7 percent in CY24 from a paltry 3.2 percent in CY23. Further, as the interest rates started to come down, particularly in the latter half of the year, and the economic conditions improved with easing of inflationary pressures, the expansion in the advances portfolio of the NBMFCs also showed signs of revival. Their advances portfolio grew by a decent 18.9 percent in CY24 compared to 7.0 percent in CY23. However, owing to the significant growth in investments, the share of advances portfolio in the asset base declined by 17 percentage points in CY24.

After showing resilience during the challenging CY23, the NBMFCs went on to register strong growth in CY24 owing to relatively favorable macro-financial conditions. Further improvement in economic conditions can help NBMFCs to provide useful funding to small businesses as they continue to face high operating costs due to their peculiar nature of business.

#### *Asset base of IFCs almost tripled in CY24 ...*

With the improving macro-financial conditions, the asset base of the IFC sector increased by 192.5 percent (a contraction of 8.2 percent in CY23). The new funds were almost entirely placed in the investment portfolio, taking it to Rs 195 billion in CY24 from Rs 17 billion in CY23.

The advances portfolio also registered strong growth of 41.4 percent in CY24 as compared to 9.5 percent in CY23.

However, the concentration in the IFC sector increased with two of the largest institutions now constituting about 78.8 percent of assets of the sector, up from 68.9 percent in CY23. This was primarily driven by an increase in the asset base of one of the firms which received bulk of credit lines extended by the banking sector in CY24.

#### *Modaraba sector saw muted activity in CY24 ...*

In contrast, Modarabas<sup>9</sup> segment experienced only a marginal asset base growth of 1.2 percent in CY24, following a contraction of 14.1 percent in CY23.

The advances portfolio of Modarabas, however, experienced a strong growth of about 46 percent reaching Rs 12 billion in CY24 from Rs 8 billion in CY23, in a declining interest rate environment during the latter half of the year under review.

#### *Leasing sector saw little activity in CY24...*

The leasing sector also experienced muted activity in CY24 in line with the trend of previous few years. The asset base of the sector increased marginally to reach Rs 7 billion in CY24 from Rs 6 billion in CY23.

#### *Interconnectedness between banking and Mutual Funds sector remained contained in CY24...*

The Banking sector continued to have significant stake in the mutual fund sector in terms of equity in associated AMCs/IAs, even though their share declined slightly in CY24 compared to CY23. Further, given the relative large size of the banking sector and its ample equity to withstand shocks vis-à-vis the size of AUM of AMCs/ IAs and the nature of the mutual fund sector's risk profile, any probability of buildup

<sup>8</sup> The share of the NBMFCs in the assets of lending segment reduced to 47.4 percent in CY24 from 54.4 percent in CY23.

<sup>9</sup> The Modarabas are Islamic financial institutions, which are allowed to conduct any business, provided it is Shariah-compliant and approved by the Religious Board of Modarabas. For example, Modarabas can undertake Ijarah (leasing), Murabaha (cost plus sale), Musharakah (partnership), Diminishing Musharakah, Salam (deferred delivery sale) and Istisna financing activities; invest in the stock market; trade halal commodities; conduct project financing activities; manufacture items; among other activities.

and transfer of systemic risk from AM segment to banks remained minimal.<sup>10</sup>

The banks owned AMCs/IAs managed around 81.9 percent of the total assets under management in CY24 (79.1 percent in CY23), which underlines the banks’ interest in the NBFi sector’s performance although their direct investment in mutual funds has remained modest over the years (**Table 6.2.2**).

However, the concerns of systemic risk from NBFIs to banks remained manageable due to a number of factors such as relatively smaller size of inter-sectoral exposure, SBP’s effective regulatory regime in the form of prudential regulatory exposure limits, appropriate risk

weights, and coordination mechanism between SBP and SECP.

Moving forward, the performance of the NBFi sector will depend upon the trajectory of economic activity, traction of stabilization measures as well as progress under the ongoing IMF program, domestic political stability and any potential spillovers of ongoing geo-political conflicts on international commodity markets. These factors will have a discernible impact on macro-financial environment through interest rates, exchange rates and economic activity, which will ultimately trickle into preferences of investors as well as the strategy and growth of NBFi sector.

Asset Management Segment's Flow of Funds and Exposure to the Banking Sector

Table 6.2.2

Description	Dec-22			Dec-23			Dec-24		
	Total Value (i)	Banks share (ii)	Banks share in Total* (iii= ii/i)	Total Value (iv)	Banks share (v)	Banks share in Total* (vi= v/iv)	Total Value (vii)	Banks share (viii)	Banks share in Total* (ix= viii/vii)
	billion Rupees		percent	billion Rupees		percent	billion Rupees		percent
1. Equity of AMCs/ IAs	33	18	55.4	43	25	58.7	62	33	54.2
2. Assets Under Management of AMCs/ IAs	1,976	1,537	77.8	2,840	2,247	79.1	5,246	4,299	81.9
3. Mutual Funds exposure in top 20 equity securities	62	5	8.4	56	7	11.7	282	33	11.8

\*Banks share for the respective head means:

1. Equity of Bank-owned AMCs / IAs
2. Mutual/Pension Funds and Portfolios being managed by bank-owned AMCs / IAs
3. Mutual Fund investments in ordinary shares of banks

Source: Securities and Exchange Commission of Pakistan

<sup>10</sup> Banks’ asset size of Rs 54 trillion and equity base of Rs 3 trillion against AUM’ total assets size of Rs 5 trillion.



## Insurance & Takaful Companies

# 6.3

*The insurance sector exhibited moderate asset growth during 9MCY24 amid a notable deceleration in gross premium expansion. For the non-life segment, growth in gross premium was contributed by increased auto premiums. Further, fire & property damage, and marine, aviation & transport premiums also augmented net premiums. Relatively increased retention of risk by insurers, as net premium growth outpaced gross premiums expansion, reflected a declining reliance on reinsurance. On the other hand, the life segment experienced headwinds, witnessing a contraction in gross premiums, largely attributable to the cessation of certain government health insurance initiatives. The claims for the life segment also decreased, particularly driven by the group claims and in tandem with group premiums. Moving forward, economic conditions and geopolitical dynamics may have a significant impact on the non-life segment, while the continuation of public health insurance programs will be a key determinant for the growth of life segment.*





## 6.3 Insurance & Takaful Companies

The insurance industry<sup>1</sup> continued to be dominated by life and family Takaful segments with a combined share of 85.2 percent in September 2024. These segments contributed 61.6 percent in the gross premium of the industry, underscoring their significance in overall sector.

The asset base of the industry grew by 14.4 percent in 9MCY24, as compared to 11.2 percent growth in the same period of last year. Although the growth was broad based, the life segment remained the major contributor in terms of volume.

However, growth in gross premiums showed a marked deceleration, increasing only by 3.3 percent in 9MCY24, as compared to 28.6 percent in 9MCY23 (Table 6.3.1).

### 6.3.1 Non-life Insurance and General Takaful Segment

The asset base of the non-life insurance sector, having 12.1 percent share in industry's assets, expanded by 18.3 percent in 9MCY24 (19.2 percent growth 9MCY23). A noticeable rise of 25.2 percent in investments primarily drove-up the assets of the segment. Along with decent expansion in assets, premiums grew by 16.9 percent during 9MCY24.

*Increased exposure in equity market contributed in strong investments growth...*

The strong increase in the investment of non-life insurance segment was mainly due to investment in equity market as stock prices continued trending upward during 9MCY24. The exposure in the equities (as percent of total assets) increased to 21.2 percent in September 2024 from 19.1 percent in December 2023.

Snapshot of Insurance Industry

Table 6.3.1

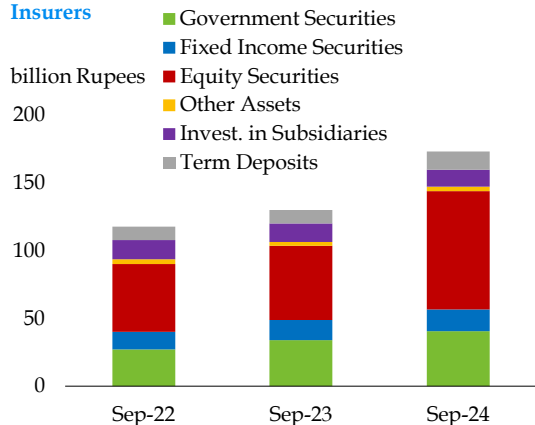
Segment	As of Sep, 2024		During 9MCY24			
	Assets	Share	Gross Premium	Share	Net Premium	Net Claims
	million Rupees	percent	million Rupees	percent	million Rupees	million Rupees
Life	2,809,143	83.2	260,091	57.1	255,040	254,671
Family Takaful	67,355	2.0	20,484	4.5	19,995	12,944
Non-Life	409,862	12.1	151,619	33.3	60,979	30,615
General Takaful	9,381	0.3	1,860	0.4	1,465	980
Reinsurance	78,939	2.3	21,282	4.7	8,060	4,110
<b>Total</b>	<b>3,374,680</b>	<b>100.0</b>	<b>455,336</b>	<b>100.0</b>	<b>345,539</b>	<b>303,321</b>

Source: Unaudited/audited Accounts of Insurers

<sup>1</sup> The analysis in the chapter is based on the data of 6 life insurers and 24 non-life insurers covering almost 100 percent and more than 80 percent of the life and non-life insurance sectors' assets, respectively. The analysis also covers two Family Takaful companies, two active General Takaful companies, and sole reinsurer, thus, covering almost the entire insurance industry. The analysis covers data up to period ending September 30, 2024. Further, data has also been estimated, where necessary. The financial close for insurers is December of the corresponding year. All growth ratios for flow items are on year-on-year basis.

Nonetheless, exposure in the government securities declined to 9.9 percent from 10.3 percent in December 2023 (**Figure 6.3.1**).

**Investment Portfolio of Non-life Insurers** Figure 6.3.1



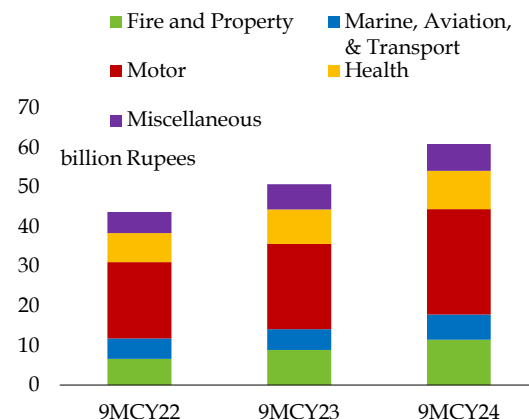
Source: Unaudited/ audited Accounts of Insurers

*Growth in gross premiums and net premiums was mainly driven by auto insurance...*

The gross premiums of the segment increased 16.9 percent in 9MCY24 (25.9 percent growth in 9MCY23). This growth was primarily contributed by auto premiums followed by marine, aviation & transport, and fire & property damage. The surge in gross premiums within the motor segment<sup>2</sup> was primarily fueled by an increase in automobile sales and upward price adjustments in the wake of inflationary pressures.

Net premiums exhibited stronger growth of 20.0 percent in 9MCY24, compared to 16.1 percent in 9MCY23, reflecting improved risk retention within the sector. This was due to a reduction in reinsurance expenses, which decelerated to 22.7 percent in 9MCY24 from 36.9 percent in 9MCY23. The increasing ability of insurers to retain a higher share of underwriting risk could indicate that they have more confidence in their ability to assess and manage risks locally. This could reflect improvements in the domestic insurance industry’s risk management framework and processes (**Figure 6.3.2**).

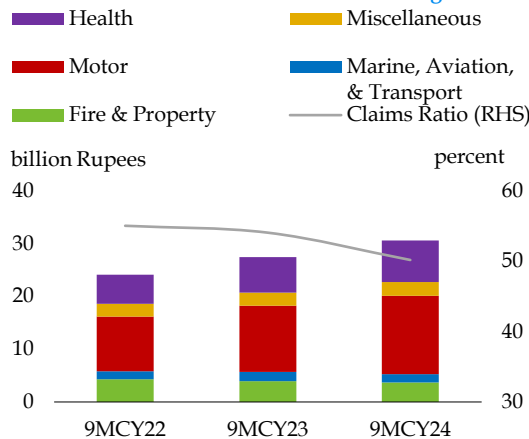
**Net Premiums for Non-Life Sector** Figure 6.3.2



Source: Unaudited/audited Accounts of Insurers

On expense side, net claims of the non-life sector grew by 11.4 percent in 9MCY24, marking a slower pace compared to the 14.0 percent increase in 9MCY23. This moderation in claims growth was primarily driven by lower claim payout in marine, aviation & transport and fire & property damage segments (**Figure 6.3.3**).

**Net Claims and Claims Ratio** Figure 6.3.3



Source: Unaudited/audited Accounts of Insurers

*Profitability improved significantly, supported by better underwriting results and robust investment income growth...*

As the claims expense slowed down and the claims ratio declined with a significant surge in net premiums, the underwriting results

<sup>2</sup> Auto premium increased by 42.8 percent in 9MCY24 against just 3.1 percent rise in 9MCY23.

improved by 129.6 percent in 9MCY24, much higher than the 25.1 percent increase in 9MCY23. Furthermore, investment income also increased by 37.1 percent.

As a result of elevated earnings, most of the key financial indicators improved in 9MCY24 (**Table 6.3.2**). Improved claims ratio and combined ratio reflects better underwriting performance and enhanced operational efficiency.

**Soundness of Non-Life Insurance** Table 6.3.2

percent			
Description	Sep-22	Sep-23	Sep-24
Capital to Assets	8.9	8.0	6.7
Claims Ratio	55.1	54.1	50.2
Combined Ratio	94.6	94.1	88.8
Premium Retention	42.5	39.2	40.2
Return on Assets (Pre-tax)	4.3	6.2	7.1

\*Estimated Figures

Source: Unaudited/audited Accounts of Insurers.

*Dedicated Takaful Operators (DTOs) posted growth in the asset base despite decline in premiums...*

The asset base of the two dedicated General Takaful<sup>3</sup> operators (DTOs) increased by Rs 238 million to reach Rs 9 billion during 9MCY24.<sup>4</sup>

Gross premium and net premium of DTOs contracted by 47.3 percent and 51.9 percent, respectively, in 9MCY24. On expenses front, net claims shrank by 50.7 percent, reflecting lower risk exposure. Despite this cost-side improvement, profitability continued to deteriorate for another year: it declined by 85.8 percent in 9MCY24 following 37.3 percent contraction in 9MCY23. These trends raise concerns about the long-term sustainability of general Takaful operators, suggesting a need for product innovation, market expansion, and better risk-sharing mechanisms to strengthen financial performance.

*Profitability of the non-life reinsurer improved during 9MCY24...*

The underwriting profit of the non-life reinsurer improved significantly registering a growth of 92.3 percent as compared to 9.1 percent rise in 9MCY23. This surge was largely attributed to strong investment income growth and a decline in net claims. The improved financial performance of the reinsurance sector bodes well for risk diversification within the broader insurance industry, enhancing the sector's capacity to absorb and manage systemic risks.

### 6.3.2 Life Insurance and Family Takaful Segment

The asset base of life segment expanded by 14.1 percent in 9MCY24, exceeding 10.1 percent growth recorded in 9MCY23. The expansion was largely driven by an increase in bank placements by the largest public insurer, seeking to capitalize on higher returns offered due to elevated interest rates in the first half of CY24.

*Investment grew marginally...*

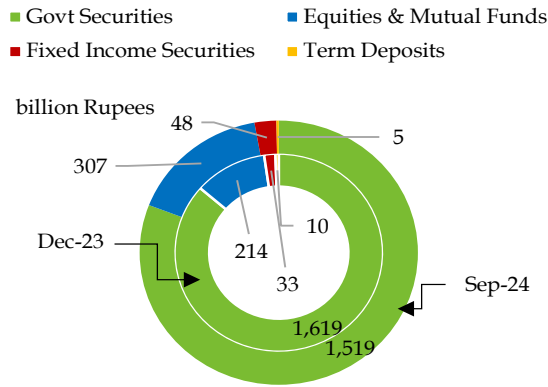
The total investments of the life insurance segment remained virtually stagnant, increasing by only 0.2 percent during 9MCY24. It was mainly due to contraction in investments pertaining to government securities, reflecting shift in asset allocation strategies due to the evolving interest rate dynamics. The share of government securities in total investments declined to 80.9 percent in September 2024 from 86.4 percent in CY23. However, the segment increased its exposure in the equities, which grew at 41.1 percent in 9MCY24, leading to a rise in their share to 14.0 percent from 9.9 percent in CY23. (**Figure 6.3.4**). This increase is in response to improved equity market conditions. However, it also introduces greater market risk exposure, which could affect

<sup>3</sup> General takaful segment represents the Islamic alternative of non-life insurance.

<sup>4</sup> In terms of net premium, the DTOs constitute only 2.4 percent of the combined non-life and general Takaful segment.

portfolio returns in the event of adverse equity market movements.

**Life Segment Investments** Figure 6.3.4



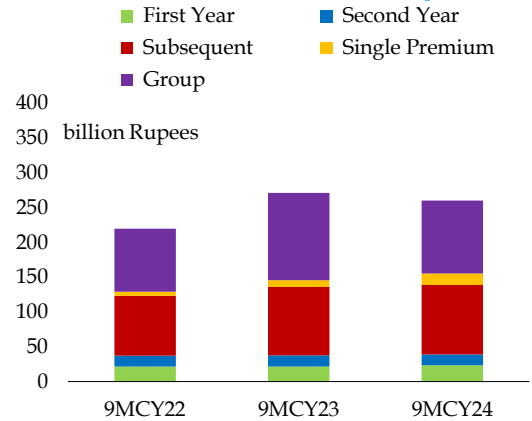
Source: Unaudited/ audited Accounts of Insurers

*The contraction in gross premium was driven by decline in group premiums...*

Gross premiums contracted by 4.1 percent in 9MCY24 compared to a growth of 23.4 percent in the comparable period of the previous year. The primary driver of this contraction was the sharp decline in group premiums, which had previously benefitted from government-sponsored public health insurance programs. The discontinuation or scaling down of these schemes led to a contraction in group premium volumes, impacting overall industry growth.

In addition, the growth in premium of individual policies also slowed down to 6.7 percent in 9MCY24, indicating subdued demand in the retail insurance market. As the inflationary pressures eased and economic conditions stabilized in the latter half of CY24, growth in the first year's premiums improved in the first nine months of CY24. This suggests that consumer sentiment and purchasing power remain key factors influencing the long-term growth trajectory of the life insurance sector (Figure 6.3.5).

**Gross Premiums for Life Sector** Figure 6.3.5



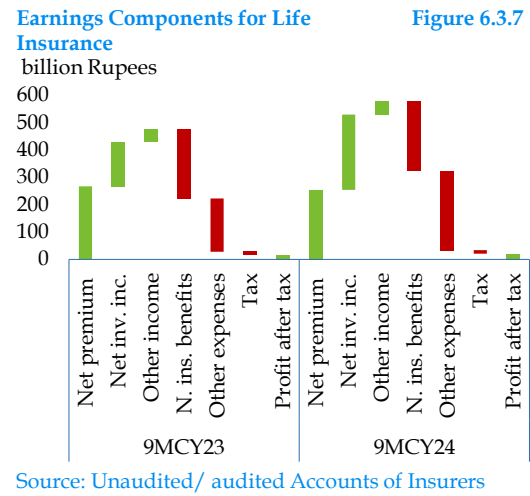
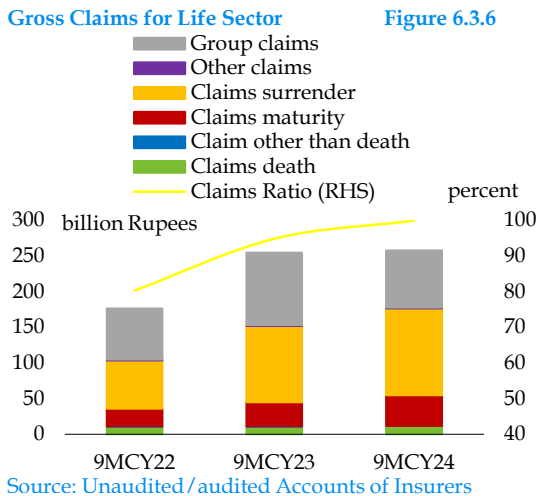
Source: Unaudited/ audited Accounts of Insurers

*Growth in claims also slowed down significantly...*

Gross claims decelerated sharply to 1.4 percent in 9MCY24, a substantial decline from 44.4 percent in 9MCY23. The slowdown in growth of gross claims was driven by significant contraction in group claims. The contraction in group claims was also due to ceased public health insurance schemes by the government during the reviewed period.

Further, surrender claims increased by 14.1 percent against an increase of 57.9 percent in 9MCY23, indicating weak but improving economic conditions as policyholders were less compelled to liquidate their policies for immediate liquidity needs.

However, the decline in premium volumes resulted in an increase in the claims ratio, despite the slowdown in claims growth. This underscores the importance of premium expansion for maintaining a healthy claims-to-premium ratio in the segment (Figure 6.3.6).



### Declining net insurance benefits supported the bottom line of the life insurance segment ...

The main sources of income for life insurance segment are premium revenue and investment income. The premium revenue of the life insurance sector *contracted* by 4.1 percent in 9MCY24 (23.4 percent rise in 9MCY23). Investment income (excluding trading and fair value gains/losses) increased but at a slower pace of 22.8 percent as the interest rates began to decline.

On the expense side, however, growth in net insurance benefits, mostly containing claims related expenses, also declined significantly, owing to the significant slowdown in claims. Net insurance benefits increased only by 0.7 percent in 9MCY24 as compared to 45.2 percent increase in 9MCY23. Further, as inflationary pressures eased, growth in administration expenses also slowed down, increasing only by 23.2 percent in 9MCY24, while acquisition expenses increased by 9.8 percent against 8.3 percent in the same period of the previous year.

Consequently, after-tax profit increased to Rs 21 billion in 9MCY24 from Rs 17 billion in 9MCY23 (**Figure 6.3.7**).

### Financial performance and soundness indicators slightly deteriorated...

Although growth in claims declined significantly in the first nine months of CY24, the contraction in premiums volume pushed the claims ratio of the life insurance segment upwards. Further, this also led to an increase in the expense ratio, indicating higher operational costs relative to revenue. However, the equity to assets ratio showed some improvement during the period under review, demonstrating modest capital strengthening. Marginal decline in ROA reflects lower premium revenue but improved investment income (**Table 6.3.3**).

**Performance Indicators of Life** **Table 6.3.3**

Description	percent		
	Sep-22	Sep-23	Sep-24
Claims Ratio	80.2	94.8	99.9
Expense Ratio	17.7	16.8	20.3
Equity to Assets	2.4	2.9	3.0
Return on Assets (Pre-tax)	1.0	1.4	1.3

Source: Unaudited/audited Accounts of Insurers

### Asset base of the dedicated Takaful operators expanded in 9MCY24 ...

The dedicated Takaful operators in the Family Takaful Segment<sup>5</sup> expanded their asset base by approximately 25.7 percent in 9MCY24 to Rs 67

<sup>5</sup> The family Takaful segment consists of three Dedicated Takaful Operators (DTOs) and seven Window Takaful Operators. One DTO has recently entered the family Takaful segment and is not covered in this chapter due to non-availability of financials.

billion, against a growth of 15.5 percent in 9MCY23. This strong asset growth was not matched by proportional premium expansion, as Family Takaful remains a niche market segment. However, the industry has shown increased efforts to introduce innovative Shariah-compliant health and life insurance products, catering to the growing demand for Islamic financial services.

*Outlook for the insurance industry hinges on evolving market conditions...*

Looking ahead, the performance of the insurance sector will depend on macroeconomic conditions, global commodity prices, geopolitical conflicts, and the sector's capability to adjust to the evolving market conditions. These can have an impact on non-life segment by raising insurance cost for trade, marine and cargo, and reinsurance premiums by international reinsurers etc.

The easing inflationary pressures could support premium affordability, particularly for individual life and health insurance policies in 2025. Pakistan remains highly vulnerable to climate change, and extreme weather events could drive up property and casualty insurance claims. Insurers will need to reassess their underwriting strategies to account for increased climate-related risks. Also, one of the key determinants for the growth of life insurance sector, particularly its group premiums, will continue to be the public health insurance schemes of the government which are underwritten by a leading insurer. Any expansion or reinstatement of public health insurance programs could provide a significant boost to life insurance and family Takaful segment.

Companies in the life segment are expected to increase their customer base by expanding their health insurance coverage across the country, including the corporate health sector. Moreover, new Shariah-compliant plans are also being introduced for clients seeking health coverage under Islamic principles. The introduction of new plans like term insurance and retirement

benefits schemes for government employees of certain provinces is also expected to push group premiums. Lastly, digital transformation in insurance distribution and the growth of InsurTech solutions could enhance access to insurance products, particularly among previously underserved demographics. The adoption of mobile-based insurance platforms is likely to expand insurance penetration, particularly in rural and semi-urban areas.

## Corporate Sector

*Corporate sector showed resilience with slight deterioration in debt-servicing capacity in the wake of tough but gradually improving economic conditions in CY24. The corporate sector stroved to maintain its profit margins by managing finance cost; this effort was aided by declining interest rates specially in the second half of CY24. Moreover, credit off-take to private sector started reviving in the wake of policy rate cuts in the second half of CY24. The large borrowing groups of the banking sector have steady repayment capacity with sound financial performance and standing. Accordingly, delinquencies in banks' corporate loans remained well-contained. Further, mostly concentrated in higher brackets, the credit-risk rating profile of firms also suggested a strong ability to honor financial obligations and the recent increase in firms' valuations further augmented their overall financial soundness. Going forward, continued improvements in macro financial conditions and successful completion of structural reforms in the economy remain key determinants of corporate sector's overall performance.*



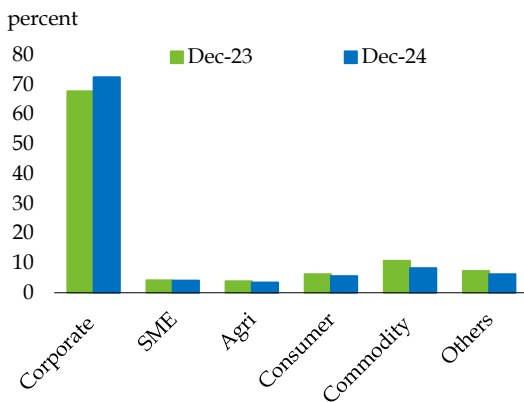


## 7 Corporate Sector

*A sound corporate sector is a pre-requisite for financial stability*

Corporate sector loans constitute a little less than three-fourth of the banking sector's loan portfolio. Its financial performance and repayment capacity, therefore, has a direct bearing on the overall stability of the banking and financial system (Figure 7.1).

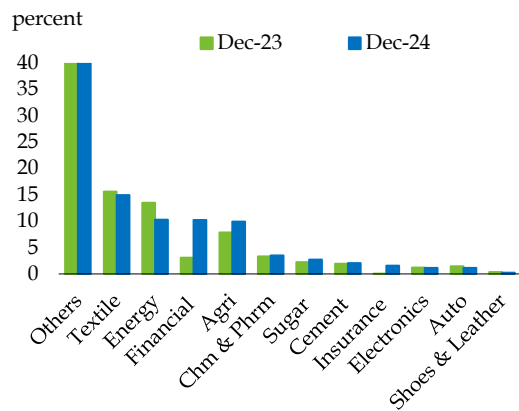
Segment-wise Share in Bank Advances Figure 7.1



Source: State Bank of Pakistan

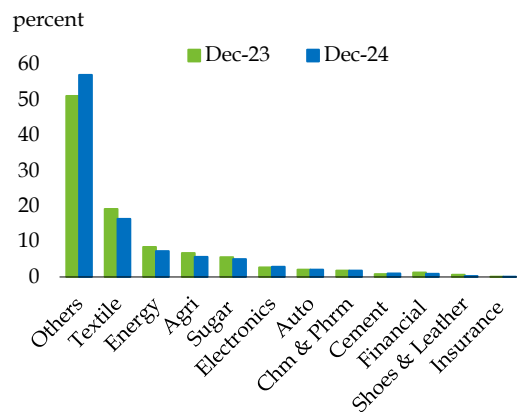
In terms of sector-wise share in total loans, textile sector has the highest share followed by energy and agriculture sectors (Figure 7.2). Other sectors such as cement, sugar, auto and chemicals & pharmaceuticals constitute a smaller portion of the banks' lending exposure. Nonetheless, all these sectors have significant contribution in economic growth, and in turn their financial soundness depends on overall performance of the economy. Any adverse shock to the economy, therefore, could weaken the repayment capacity of these sectors and asset quality of banking sector may deteriorate as a result (Figure 7.3).

Sector-wise Share in Bank Advances Figure 7.2



Source: State Bank of Pakistan

Sector-wise Share in NPLs Figure 7.3

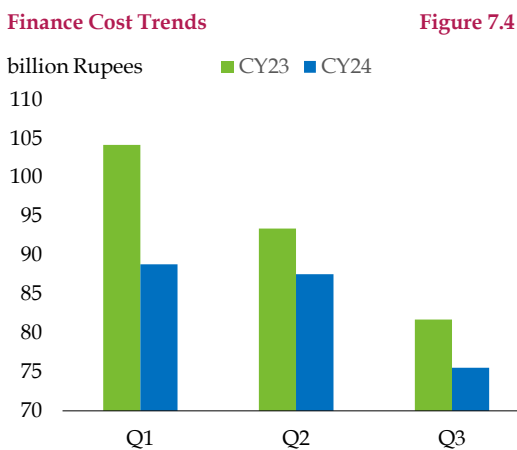


Source: State Bank of Pakistan

*Amidst improving economic conditions but weak demand, corporate sector managed finance cost to support profit margins...*

Despite higher finance cost (which fell in second half of CY24), depressed demand and overall difficult economic conditions during the last three years, the corporate sector continued its operational and financial resilience in CY24

(Table 7.1).<sup>1</sup> This resilience mainly stemmed from management of finance costs through deleveraging (net advances in first nine months of CY24 remained below level of net advances at December 2023) and steady retention of after-tax profit (Table 7.2). The credit off-take to private sector started reviving and it sharply increased in Q4CY24 in response to cut in policy rate by SBP from June 2024 onwards as well as the banks' efforts to meet ADR-linked tax requirements by the end of December 2024. On aggregate basis, reduction in finance cost during the second half of CY24 was a major factor that supported profit margins of the corporate sector in CY24 as compared to last year. Moreover, comparison of CY23 and CY24 depicts that finance cost was lower in first three quarters of CY24 as compared to the first three quarters of the previous year (Figure 7.4).



Source: State Bank of Pakistan

## 7.1 Financial Assessment of Corporate Sector

Due to stressed but gradually improving macroeconomic conditions and subdued demand, corporate sector witnessed weak

growth in its balance sheet in CY24.<sup>2</sup> Corporate sector's assets increased merely by 1.4 percent in CY24, on a YoY basis, while total current assets of the sector suffered a decline, mainly due to reduction in cash and bank balances. On liabilities side, current liabilities also declined due to deleveraging in the corporate sector. Revenue (Sales) of the corporate sector have also been on a declining trend, with gross profit and profit from operations also exhibiting similar pattern.

Reduction in other income<sup>3</sup> and finance cost were major factors which impaired profit before tax of the corporate sector. Due to declining interest rates, especially in the second half of CY24, other income declined due to which the corporate sector was able to reduce its finance cost.

Profitability ratios of the corporate sector also witnessed gradual slowdown due to reduction in sales and weak growth of balance sheet. However, corporate sector has adequate cash and liquid assets, as reflected in a stable current ratio. Similarly, debt repayment indicators such as interest coverage ratio showed slight deterioration while financial leverage remained steady. All these indicators illustrate that, despite tough conditions during H1CY24, the corporate sector was able to manage its repayment obligations (Table 7.1).

A DuPont analysis further reveals that corporate sector benefitted from steady retention of after-tax profit in CY24 in comparison to last year. On the other hand, operating profit margin of the corporate sector declined in CY24 as compared to the previous year along with slightly lower contribution in profitability from efficiency in utilization of assets and financial leverage. At an overall level, Return on Equity (ROE) decreased

<sup>1</sup> The analysis is conducted on a sample of 100 non-financial companies listed on the Pakistan Stock Exchange, serving as a representative subset of the larger corporate sector. The 100 NFCs constitute around 79 percent of total assets of the listed non-financial firms.

<sup>2</sup> In this section, balance sheet is as of September 30, and income statement is for nine months of CY23 and CY24.

<sup>3</sup> 'Other Income' rose abnormally in 9MCY23 mainly due to modification of finance lease of a company within the Oil & Gas Exploration sector. Due to this reason, 'Other income' in 9MCY24 seems low in comparison to 9MCY23.

mainly due to decline in operating profit margin in CY24 (Table 7.2).

Financials of Listed Non-financial Companies\* Table 7.1

	CY23	CY24	Growth (Period)
	billion Rupees		percent
<b>Balance Sheet</b>			
Non-Current Assets	4,278	4,495	5.1
Current Assets	6,250	6,178	-1.2
<b>Total Assets</b>	<b>10,528</b>	<b>10,673</b>	<b>1.4</b>
Shareholders' Equity	5,031	5,448	8.3
Non-Current Liabilities	1,287	1,333	3.6
Current Liabilities	4,210	3,892	-7.6
<b>Total Equity &amp; Liabilities</b>	<b>10,528</b>	<b>10,673</b>	<b>1.4</b>
<b>Income Statement</b>			
Sales	8,761	8,633	-1.5
Cost of sales	7,136	7,227	1.3
Gross profit / (loss)	1,625	1,406	-13.5
General, admin. & other expenses	565	566	0.3
Other income / (loss)	377	290	-23.2
EBIT	1,438	1,129	-21.4
Financial expenses	279	252	-9.8
Profit / (loss) before taxation	1,158	877	-24.2
Tax expenses	500	380	-23.9
Profit / (loss) after tax	658	497	-24.5
<b>Key Financial Ratios</b>			
	percent		
Gross Profit Margin	18.6	16.3	
Net Profit Margin	7.5	5.8	
Return on Equity	17.4	12.2	
Return on Assets	8.3	6.2	
Asset Turnover	111.0	107.9	
Capital to Total Assets	60.0	63.5	
	Units (Times)		
Current Ratio	1.5	1.6	
Debt Equity Ratio	1.1	1.0	
Debt to Capital Employed	0.9	0.8	
Interest Coverage Ratio	5.1	4.5	
Financial Leverage	2.1	2.0	

\*Nine-month Financial data of 100 listed NFCs, representing 79 percent of total assets of all listed NFCs.

Sources: Capital Stake and State Bank of Pakistan

ROE - DuPont Analysis Table 7.2

	Ratio unless specified	
	CY23	CY24
Tax Retention Rate (A)	0.57	0.57
Interest Burden (B)	0.81	0.78
Operating Profit Margin (C)	0.16	0.13
Asset Use Efficiency (D)	3.3	3.2
Financial Leverage (E)	2.1	2.0
<b>Return on Equity (ROE) % (A×B×C×D×E)</b>	<b>17.4</b>	<b>12.2</b>

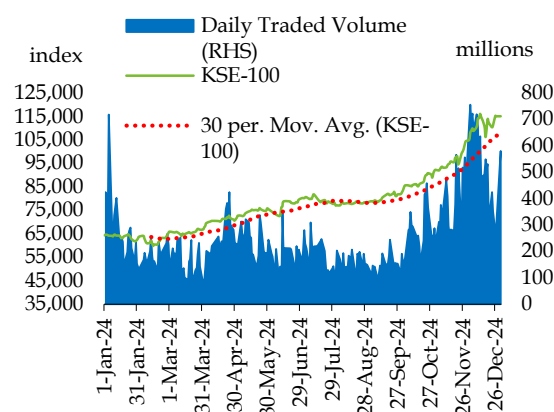
Source: Capital Stake

## 7.2 KSE-100 Index

The KSE-100 index witnessed a remarkable growth in CY24 due to expectation of further improvement in macroeconomic conditions,

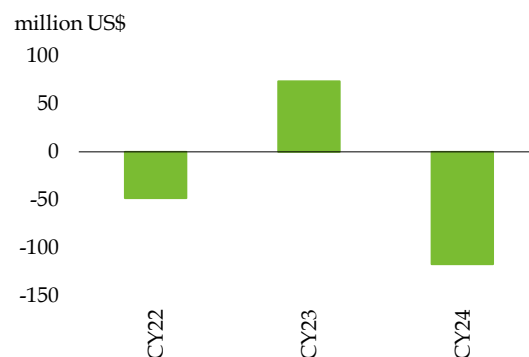
anticipation of policy rate cuts during the year and successful engagement with the IMF (Figure 7.5). Specially, in the second half of CY24, the index showed stellar growth attributed to positive momentum in key sectors such as fertilizer, oil & gas, commercial banks, technology & communication and textile amid declining interest rates and stable exchange rate. Despite net selling by foreign investors in the stock market (Figure 7.6), higher purchases by local investors more than offset the outflow.

KSE-100 Index During CY24 Figure 7.5



Source: Pakistan Stock Exchange

Net-Foreign Investor Portfolio Investment Figure 7.6



Source: National Clearing Company of Pakistan Limited

### 7.3 Sectoral Analysis

In order to understand sectoral dynamics, the performance<sup>4</sup> and risk analysis of a few major sectors are given below:

#### Textile

Pakistan's textile exports increased by 5.9 percent to US\$ 16.7 billion in CY24 on the back of diversion of orders to Pakistan from regional peers<sup>5</sup> and tariffs on China. Furthermore, the recovery in textile exports was also supported by improving macroeconomic conditions, including decline in inflation, exchange rate stability, and a reduced policy rate that lowered borrowing costs and stimulated investment.

Although Pakistan's textile exports have improved in CY24, the sector is impacted by structural issues such as low domestic cotton production,<sup>6</sup> increasing dependence on imported cotton, high (input) energy costs<sup>7</sup> and general low value-addition of the sector.

According to the Finance Act, 2024, there have been some developments in tax and duty structure on textile sector such as revision of tax regime for direct and indirect exporters, super tax on exporters, enhancement in rate of sales tax etc.<sup>8</sup> This may increase federal tax revenue but will also impact textile exports in the future.

Within the overall textile sector, profitability of the composite subsector was satisfactory while the profitability of spinning and weaving sub-sectors faced pressure due to lower profit margins and higher finance cost. Further, the

sector displayed adequate liquidity and repayment capacity, which bodes well for overall financial soundness of the sector.

In terms of advances, the textile sector made net retirements due to high interest rates in the first half of CY24, however, the advances increased in the remaining half as interest rates fell by 900 basis points (bps) to 13 percent during the period.

#### Power Sector

The power sector comprises of firms involved in the generation and distribution of electricity.

Due to subdued domestic demand and higher prices of electricity in CY24, demand for electricity also declined, causing overall power generation to *contract* by 4.5 percent on YoY basis to 124,808 GWh.

Pakistan's power sector faces chronic issues such as systemic inefficiencies (transmission and distribution losses), underutilized generation capacity, growing circular debt<sup>9</sup> etc., which are exacerbated by global oil price changes, and movements in rupee-dollar parity. Due to these challenges, industrial and residential consumers ended up paying high cost for electricity.

The source of power generation (thermal, hydel, renewable energy etc.) is an important factor for generation cost of electricity, which in turn determines price of electricity for the end consumers. Thermal sources of power generation costs highest, with renewable energy

<sup>4</sup> Analysis of financial performance of each sector within this section is based on financial statements data provided by Capital Stake.

<sup>5</sup> Due to conflicts in Bangladesh, some textile export orders were diverted to Pakistan

<sup>6</sup> Cotton production reached around 5.3 billion till December 2024 following a bumper cotton crop of around 10.2 million bales in FY24. For FY25, production target is 10.8 million bales which, given current cotton production trend, seems difficult to achieve. The country is expected to have an approximate 40-50 percent shortfall.

<sup>7</sup> Power tariff for industrial consumers is around 14 cents/kWh, up from around 9 cents/kWh during 2020-22 period, while gas tariff was hiked to Rs. 2,750/MMBtu for captive and Rs. 2,150/MMBtu for non-captive users.

<sup>8</sup> Exporters are now subject to super tax, which was previously not applicable to their income due to it being under final tax while sales tax is enhanced to 18 percent from 15 percent on supplies of textiles and leathers.

<sup>9</sup> Power sector circular debt was around Rs 2.3 trillion by November 2024. Circular Debt Report - November 2024, Ministry of Energy (Power Division)

being the cheapest source.<sup>10</sup> During the last five years, the share of thermal power as a source of power generation is decreasing while the share of nuclear power and renewables is increasing.<sup>11</sup>

On financial performance, the sector demonstrated satisfactory profitability and adequate debt repayment capacity.

Segment-wise share in advances shows that the power sector saw a decrease in advances in the first two quarters of CY24 but increased in the next two quarters as interest rates started falling.

### Fertilizer Sector

Fertilizer sector's sale was 8.2 million metric tons in CY24, lower by 0.2 percent than CY23 on a YoY basis. Within overall fertilizer sales, Urea sales decreased by 1.0 percent, while DAP sales increased by 3.0 percent on a YoY basis in CY24.

Urea off-take remained low against projected demand in Kharif 2024 (April to September, 2024) due to low wheat prices and significant reduction in cotton acreage in Punjab and Sindh. However, the end of the year saw a rise in fertilizer sales: DAP off-take increased in October 2024 due to disbursement of interest free loans to small farmers by the Government of Punjab through Kissan Card for purchase of Agriculture inputs (seed and fertilizer). This package is also expected to increase urea offtake in December 2024.

The major raw material of the fertilizer industry is feedstock gas, a natural gas delivered through the pipelines. The government used to provide feedstock gas at a subsidized rate to support the

agricultural sector ensuring fertilizers were available at a lower price to farmers. The subsidized gas led to manufacturers generating higher margins. However, in 2024 the government decided to eliminate the subsidy as part of reforms under the IMF program. Nevertheless, profitability of the sector remained strong in CY24 with robust liquidity and sound repayment capacity.

### Cement Sector

Cement sector witnessed a 10 percent decrease in production, falling to 37.6 million tons in CY24 from 41.8 million tons last year. The decline in production was mainly due to weak local demand, low construction activity and high input costs.<sup>12</sup> Accordingly, total sales of the sector declined by 5.5 percent (YoY) to 44.1 million tons in CY24. Within overall sales, exports increased rapidly in CY24 due to resumption of construction activity in Afghanistan and Sri Lanka.

Despite the decline in sales volumes, local cement manufacturers witnessed a rising trend in revenues due to the higher prices, which reflected that the increased cost of production is being passed on to the consumers. As a result, cement manufacturers successfully maintained their margins. Accordingly, profitability ratios of the sector are resilient and the sector has ample liquidity and capacity to meet its repayment obligations.

The cement sector witnessed net retirements during the first three quarters of CY24, after which advances increased in Q4CY24.

<sup>10</sup> In CY24, average generation cost of power (from thermal sources) comprised around 50 percent of the end-consumer tariff, net of taxes. The cheapest sources of fuel are renewable energy sources followed by hydel energy. HSD and RFO continued to be the most expensive fuel sources for power supply. However, their combined share in the country's generation mix is around 2.5 percent of total generation mix of the country. On the other hand, power produced from local coal has been the cheapest among fossil fuels during CY24 at an average cost of Rs. 11.6/kWh. The cost of imported coal clocked in at Rs. 17.2/kWh in CY24.

<sup>11</sup> Thermal plants as a source of power generation is decreasing from 60 percent in CY20 to 49 percent in CY24 while the share of nuclear energy and renewables has increased from 7 percent and 3 percent respectively in CY20 to 17 percent and 5 percent respectively in CY24.

<sup>12</sup> The price of cement is highly dependent on the price of coal. The price of coal fluctuated between US\$ 100 -115/ton for most of CY24.

## Petroleum sector

Petroleum sector sales decreased by 4.2 percent to 16.5 million metric tons in CY24 as compared to the previous year. This decline may be attributed to subdued demand for petroleum products on the back of higher prices.

For oil & gas marketing companies, demand for petroleum products is a major driver of revenue. Major demand drivers for petroleum products are the transport, industry and power sectors of the country. Transport is the biggest fuel consuming sector followed by industry and the power generation sector. The consumption by power generation sector suffered a significant decline in CY24 due to shift of many power plants from furnace oil to cheaper and more environmentally friendly alternatives such as nuclear power and renewable energy.

In Pakistan, the pricing of petroleum products is based on five components: (a) ex-refinery price, (b) Petroleum Development Levy<sup>13</sup> (PDL) & Sales Tax (ST), (c) In-land Freight Equalization Margin (IFEM), (d) distribution margin of Oil Marketing Companies and (e) commission of petrol pump dealers.

On an aggregate level, profitability of oil & gas exploration and oil & gas marketing companies remained satisfactory with the sector demonstrating adequate repayment capacity.

## Automobile sector

In terms of number of vehicles (volume), automobile production and sales witnessed a broad-based increase (29 percent and 32 percent, respectively) in CY24, mainly due to easing of import restrictions, less plant shutdowns and falling interest rates. There was strong growth in all sub-segments of automobile production and the sales increase for all sub-segments such as passenger cars, trucks, buses, jeeps & pickups

except tractors, which observed negative growth due to sales tax imposed on tractors.<sup>14</sup>

Competition in the automotive sector in Pakistan has increased with South Korean and Chinese manufacturers gaining market share. However, Japanese manufacturers continue to dominate the market due to consumer preference for established brands. Moreover, there has been a shift in consumer preferences to the premium segment, with manufacturers introducing new cars in the Compact SUV and sedan segments. Additionally, new hybrid vehicles have been launched during the year, targeting high-income consumers. These developments indicate increasing competition in the sector which bodes well not only for the health of the automobile sector but also for the consumers to have a wide range of products at competitive prices.

As the sector remains traditionally rich in cash and enjoys handsome margins, the profitability ratios of the sector and ability to meet short-term obligations improved further and the sector demonstrated steady repayment capacity in CY24.

## Sugar sector

Sugar production declined by 5.9 percent to 6.5 million tons in CY24. Although, indicative price of sugarcane increased in the three provinces, viz., Sindh, Punjab and KPK in CY24, the area under cultivation of sugarcane decreased on account of switching to other competing crops such as cotton and rice.

*Corporate sectors' market-based resilience indicators improved during the year, mainly reflecting the increase in firms' valuations in anticipation of gradually improving operating conditions ...*

In line with resilience of corporate sector and gradually improving economic conditions, the

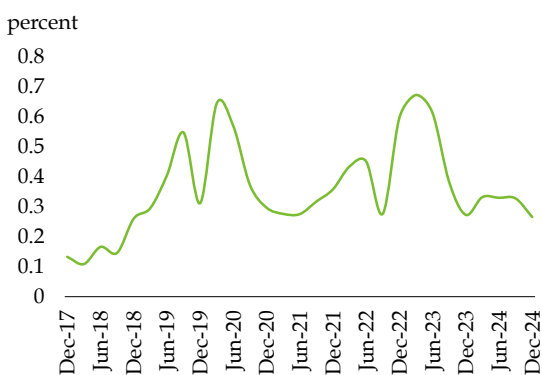
<sup>13</sup> The petroleum development levy as of July 2024 stands at Rs~60/liter for motor gasoline (MOGAS) and high-speed diesel (HSD)

<sup>14</sup> The sales tax issue was resolved in December 2024 and during the month tractor sales increased.

weighted average 1-year probability of default (PD) of selected firms of the corporate sector improved, as their valuations significantly increased over the year under review (**Figure 7.7**).<sup>15</sup> The improvement was primarily due to anticipation of rate cuts from the beginning of CY24 (which materialized from June 2024 onwards), engagement with the IMF, reduction in finance cost which supported profit margins, stable exchange rate, and positive outlook of more conducive business environment.

**Weighted average 1 year PD of Corporate Sector**

**Figure 7.7**



Source: Bloomberg and State Bank of Pakistan

As such, the corporate firms maintained financial soundness and decent operating performance despite erstwhile challenging macro-financial conditions.

*...banking sector's leading borrowing firms demonstrated steady financial standing and adequate repayment capacity...*

Given that banks' financial soundness is significantly influenced by the performance of their large borrowing firms; these firms and

their business groups have systemic importance for the entire banking sector. Therefore, an assessment of banking sector's **top 30 borrowing groups** (along with their 221 identified firms) was carried out. These firms, together, account for around 31 percent of banks combined loan portfolio.

In CY24, top borrowing groups showed steady financial performance despite tough conditions early on and continued to show adequate debt repayment capacity. Further, banks in general continued to prefer lending to better rated firms (for details see **Box 7.1**).

*Credit risk rating profile shows sound solvency position of corporate sector...*

Third-party credit ratings provide an independent assessment of a firm's solvency, and capacity to honor financial obligations.

The number of rated companies in Pakistan increased from 574 in CY23 to 583 in CY24. Many companies in Pakistan rely on debt financing through banks or internal sources such as retained earnings and remain less reliant on capital markets for their funding needs.<sup>16</sup>

In Pakistan, the risk ratings universe is shared between two domestic credit rating agencies - the Pakistan Credit Rating Agency (PACRA) and VIS Ratings, with a combined total of 583 entity ratings in CY24.<sup>17</sup> The ratings universe is concentrated mostly in high rating categories (investment grade: AAA to BBB), representing 93.8 percent of the total (**Figure 7.8**). Higher concentration in investment grade category can be attributed to the fact that majority of the rated entities are large corporate firms having sound

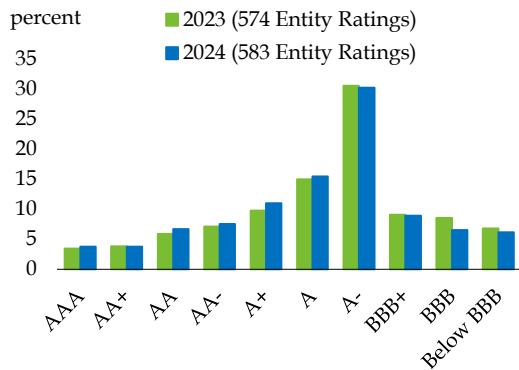
<sup>15</sup> The one year ahead probability of default (PD) demonstrates firms' credit risk and ability to honor short-term obligations. The PD, sourced from Bloomberg Inc., is based on Merton Model, which uses value of equity and volatility in stock prices to measure default probability. The overall PD here is weighted average of 424 companies listed on the PSX. The weights are determined by the market capitalization at the end of December 2024.

<sup>16</sup> In order to facilitate the growth of capital market and improve corporate governance regime, SBP aims to encourage firms to get themselves rated. Along with other tools, SBP incentivizes the large firms to get themselves rated by applying higher capital charge on banks' exposures on unrated firm whose total exposure exceeds Rs 3 billion.

<sup>17</sup> Only entity ratings are taken into account. The Credit Rating Agencies (CRAs) also issue other ratings, including Asset manager, IFS, Performance ranking etc.

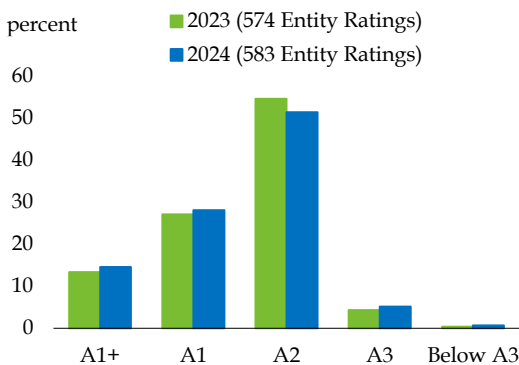
repayment capacity. Whereas, in terms of short-term ratings, a large majority of the firms (94.2 percent) were rated as A2 and above, which represents satisfactory capacity for timely repayment (**Figure 7.9**).

**Long-term Ratings of Companies** **Figure 7.8**



Source: Pakistan Credit Rating Agency and VIS Credit Rating Company Limited

**Short-term Ratings of Companies** **Figure 7.9**



Source: Pakistan Credit Rating Agency and VIS Credit Rating Company Limited

The overall rating profile of the corporate sector suggests that large corporate firms in Pakistan have the capacity to access long-term and short-term financing from capital markets to finance their capital expenditures and operating activities.

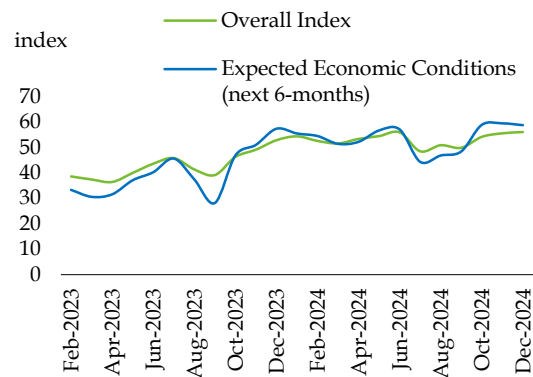
### Corporate sector outlook

Due to stressed but gradually improving macroeconomic conditions and subdued

demand, corporate sector witnessed weak growth in its balance sheet in CY24. However, with declining interest rates in the second half of CY24, credit off-take to private sector increased, signifying revival of production in the corporate sector.

Going forward, this gradual economic recovery is expected to continue in CY25. Recent consumer and business confidence surveys (**Figure 7.10**) indicate general economic conditions in the country to moderately improve in the next six months. These developments bode well for the performance and soundness of the corporate sector in the coming months.

**Business Confidence Index** **Figure 7.10**



Source: State Bank of Pakistan

The expected decline in inflation, pickup in demand and credit off-take amid overall improving macroeconomic conditions along with structural reforms in the economy, corporate sector revenues are poised for growth in CY25. In terms of financial soundness and debt repayment capacity, corporate sector was mostly successful in managing its liquidity and repayment obligations in CY24 and the same is expected to continue in CY25.

### Box 7.1: Financial Performance and Soundness of Top Borrowing Groups of the Banking Sector

Corporate sector is a major client of bank loans, utilizing a hefty 72.5 percent of the total lending portfolio as of December 2024. The corporate sector also comprises a number of business conglomerates on which banks have taken exposure, potentially creating a credit concentration risk with systemic implication for the banking sector. To address the issue, SBP has put in place regulatory prudential limits on banks' exposure to a single borrower, borrowing group, and related party.<sup>18</sup> Moreover, prudential regulations also define the term 'large exposure' and prescribe an aggregate limit on large exposures. This box analyzes the repayment behavior and capacity as well as overall financial health of firms in the top borrowing groups of the banking sector on the following parameters:

- Banks' own assessment of creditworthiness of large borrowers and borrowing groups, as captured through Obligor Risk Rating (ORR), assigned to each corporate sector borrower. The rating continuum goes from 1 to 12, with 1 to 9 denoting performing categories whereas 10 to 12 for non-performing categories.
- Borrowers' repayment behavior in terms of any overdue payments in their loan obligations to banks.
- Latest financial indicators of leading corporate borrowers as well as market-based indicators that show how investors value these firms.

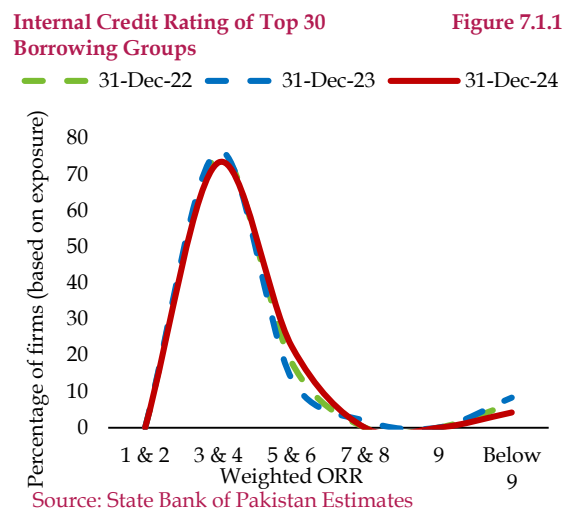
To accomplish this task, thirty (30) large borrowing groups, comprising 221 borrowers/firms, have been identified based on internal exercise conducted by SBP. This assessment considered factors/sources such as the ownership structure of the firm, regulatory returns, financial statements of the firms and information available on groups' /firms' websites etc. Further, groups with a fund-based exposure of Rs 55 billion and above are considered for this assessment, given their systemic risk implications.

#### Credit Worthiness of Top 30 Borrowing Groups based on their Obligor Risk Rating (ORR)

The creditworthiness of top 30 borrowing groups has been assessed based on their ORR assigned by banks. The 221 identified firms together constitute around 28.7 percent of the corporate/commercial lending portfolio of banks and DFIs at end of December 2024.<sup>19</sup>

Based on ORRs of different entities of the borrowing groups, overall average rating (weighted by size of loans) of each group was compiled. To assess the dynamics of credit worthiness of these groups, distributions of the weighted ORRs for last three years have been plotted. Assessment indicates that, on average, around three-fourths of the top 30 groups have at least good to medium (3 & 4) ratings. Nonetheless, major chunk of the firms in large borrowing groups, around 95 percent, has been consistently rated in performing category, viz., 1 to 9 (Figure 7.1.1).

Outstanding loans to top 30 borrowing group increased by 27.2 percent (YoY) in CY24. This was largely driven by a surge in private sector credit toward the end of CY24, primarily resulting from monetary easing and banks' aggressive efforts to increase Advances-to-Deposit Ratio (ADR). The average internal credit rating profile of performing firms remained stable, although some migration was observed within performing category (ORRs 1 to 9) during CY24. Specifically, slight percentage of firms in bin (3&4) moved into lower rating bin (5&6). In terms of repayment capacity, however, the overall distribution implies that the borrowers' credit quality and repayment capacity has remained steady even in the face of low economic growth and tight financial conditions during the first half of CY24 (Figure 7.1.1). It is important to note that around 64 percent of banks' corporate and commercial loan portfolio comprises of borrowers who have been rated by independent external rating agencies.



<sup>18</sup> Regulation R-1 of SBP Prudential Regulation for Corporate/Commercial Banking.

<sup>19</sup> This share was 31 percent at end of December 2023

By and large, top 30 borrowing groups exhibited strong repayment capacity, except for a few groups (around 4.23 percent of total exposure) which fall under non-performing/overdue category. The non-performing borrowing groups were 8.28 percent of total exposure in prior year i.e. CY23.

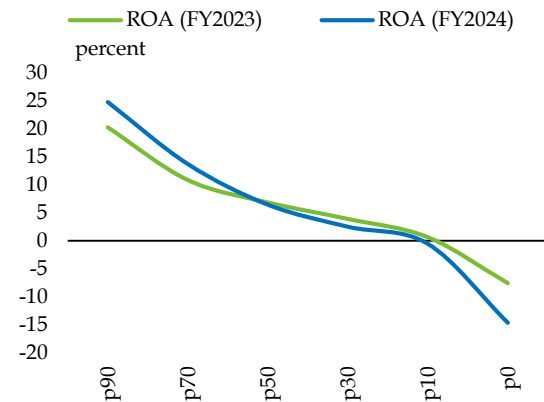
### Financial Soundness and Market Performance of Listed Firms of Top 30 Borrowing Groups

Out of the 221 identified firms in top 30 borrowing groups, 60 firms were listed on PSX. To analyze the financial soundness of these firms and assess how they are valued by the market, an assessment of these 60 listed firms was carried out using their financials and market-based indicators on the basis of available data for the financial year ended in 2023 and 2024.<sup>20</sup>

The financial year (FY) 2024<sup>21</sup> witnessed a slight respite in the overall stressed macroeconomic conditions, and the finance cost of the firms also declined due to monetary policy easing post May 2024; however, taxation expenses remained high leading to a mixed trend in earnings of the selected firms. On average basis, FY24 saw signs of improvement in the financial performance of the firms (**Figure 7.1.2** and **Figure 7.1.3**).

Percentile Standing of Companies vis-a-vis ROA

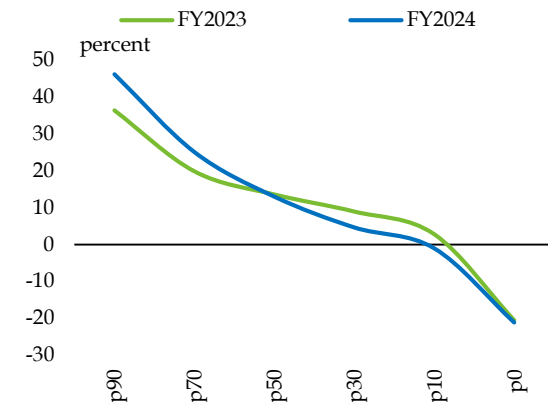
Figure 7.1.2



Source: Capital Stake

Percentile Standing of Companies vis-a-vis ROE

Figure 7.1.3



Source: Capital Stake

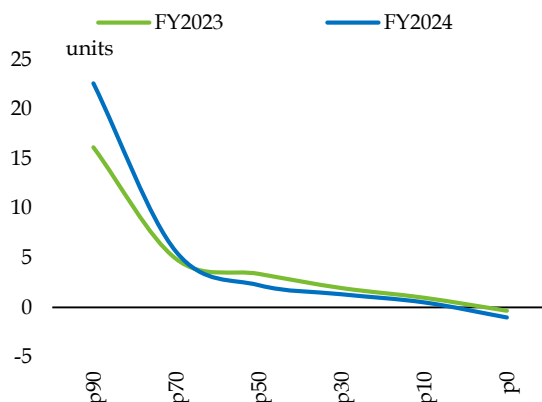
Similarly, the financial indicators related to repayment capacity of the firms improved primarily due to monetary easing during FY24, wherein majority of the firms in the sample demonstrated a comfortable interest coverage ratio (**Figure 7.1.4**). Sample firms faced a sluggish trend in current ratio over the year under review; however, the ratio of most of the firms remained in a comfortable zone, showing availability of ample liquidity cushions to honor their short-term financial obligations (**Figure 7.1.5**). Moreover, sample firms also showed a stable repayment behavior as there was decline in the delinquencies during the year under review.

<sup>20</sup> Out of these, data of 17 firms was used for interim period i.e. 9-month period ended in September 2024 at the time of analysis. Where applicable, necessary adjustments have been made.

<sup>21</sup> FY here denotes financial year of the firm instead of usually understood fiscal year

Percentile Standing of Companies vis-a-vis Interest Coverage Ratio

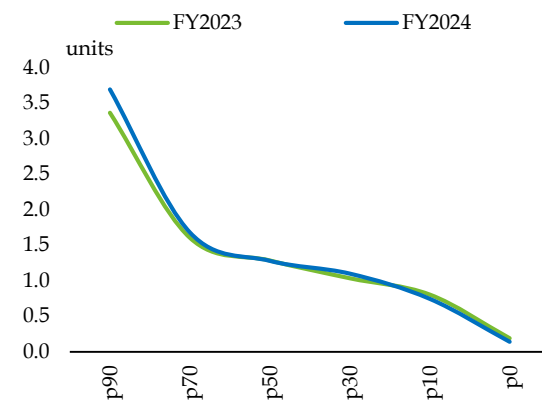
Figure 7.1.4



Source: Capital Stake

Percentile Standing of Companies vis-a-vis Current Ratio

Figure 7.1.5

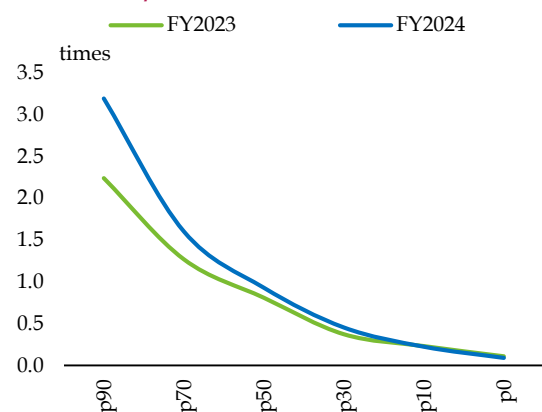


Source: Capital Stake

Investors in general, hold a positive sentiment about the stock/equity market, despite volatility and large movement in the market index during 2024. An analysis of market-based indicators of the selected firms shows that overall growth in price-to-book (P/B) and price-earnings (P/E) ratios of these firms was mainly driven by an increase in firms' stock prices (Figure 7.1.6 and Figure 7.1.7).

Percentile Standing of Companies vis-a-vis Price / Book Ratio

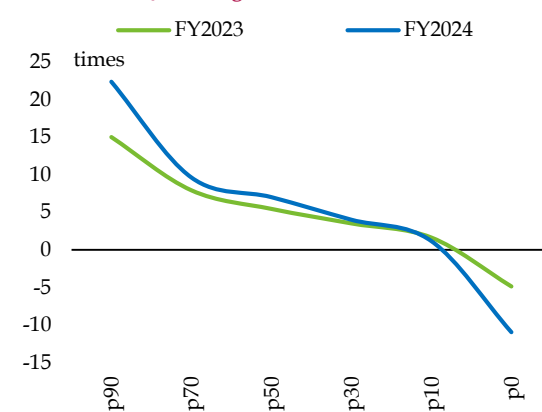
Figure 7.1.6



Source: Capital Stake

Percentile Standing of Companies vis-a-vis Price / Earnings Ratio

Figure 7.1.7



Source: Capital Stake

**Conclusion**

The yearly comparative position of ORRs and repayment behavior of the top 30 borrowing groups of the banking sector shows that these groups have generally maintained their creditworthiness with a good repayment behavior and bear a fair financial profile. The top borrowing firms also reflected relatively a resilient financial performance and continued to serve their financial obligations during the year under review.



## Financial Market Infrastructures

*The Financial Market Infrastructures (FMIs) remained robust and continued to provide payment and allied services in a smooth manner during CY24. Pakistan Real-time Interbank Settlement Mechanism (PRISM) transactions showed growth both in volume and value terms. The services of PRISM were available throughout the period under review without any disruptions. The e-banking continued to be a major driver behind retail payment growth. Raast reached the milestone of processing approximately 800 million transactions worth Rs 18.5 trillion via its three modules which stayed operational without any disruptions. The performance of National Clearing Company of Pakistan and Central Depository Company (CDC) remained steady throughout the year under review. These institutions took various measures including conducting business continuity exercises to maintain their operational resilience in unanticipated scenarios.*





## 8 Financial Market Infrastructures

Financial Market Infrastructures (FMIs) play a key role in operational resilience and stability of a financial system. Uninterrupted flow of services is essential for settling large value and retail payments, securities trading, and clearing processes<sup>1</sup>. FMI in Pakistan consists of a) Large Value Payment System (LVPS) i.e., Pakistan Real-time Interbank Settlement Mechanism (PRISM), b) Retail Value Payment System (RVPS), which includes Raast, c) Interbank and ATM switch i.e. 1-Link, d) a clearing house for paper based instruments i.e., National Institutional Facilitation Technologies (NIFT), e) a corporate securities settlement company i.e., National Clearing Company Limited (NCCPL), and f) a corporate securities depository i.e., Central Depository Company (CDC).

Financial market infrastructure is an important component of a country's financial system. They consist of essential institutions, instruments, and channels that promote financial intermediation by processing and recording the movement of funds, instruments and securities. As a result, the overall stability of the financial system is heavily reliant on its efficiency and resilience.

### 8.1 Payment Systems and their Performance

The national payments system comprising the Large Value Payment System (LVPS) and Retail Value Payment System (RVPS) posted double-digit growth in volume and value terms during CY24. SBP played a key role in ensuring the flow of services without any major disruptions. The growth in retail transactions was driven by e-banking showing increase in consumer preferences towards digital modes due to their ease, cost-effectiveness, and efficiency. In volume terms, the share of paper-based transactions in the overall retail payment profile has been receding in last five years. A similar

trend was visible in the period under review where paper-based transactions have posted a meager growth of 0.3 percent in volume terms (Table 8.1).

**Profile of Payment System Mechanisms** **Table 8.1**

Volume in millions, Value in trillion Rupees, Growth in Percent					
Mechanism	Volume / Value			Growth	
	CY22	CY23	CY24	CY23	CY24
<b>a. PRISM</b>					
Volume	5	5	6	19.9	12.7
Value	647	827	1,180	27.7	42.7
<b>b. Retail Payments (i+ii)</b>					
Volume	2,200	2,779	3,566	26.3	28.3
Value	365	485	543	32.8	11.9
<b>i. Paper Based</b>					
Volume	382	377	378	-1.2	0.3
Value	208	278	278	33.5	0.1
<b>ii. E-Banking</b>					
Volume	1,840	2,401	3,188	30.5	32.8
Value	157	207	265	32.1	27.8

Source: State Bank of Pakistan

#### *PRISM handled higher value and volume of transactions*

PRISM, the Real Time Gross Settlement System (RTGS), operated by SBP offers a powerful mechanism for providing settlement in real time on gross basis, thus minimizing systemic risks.<sup>2</sup>

PRISM transactions dominated the overall payment system, accounting for 68.4 percent of the total value, as it is classified as a large-value payment system. PRISM experienced significant growth, with an increase of 42.7 percent in value and 12.7 percent in volume during CY24. Detailed analysis reveals that a large portion of PRISM transactions was driven by settlements of securities, which comprised 71 percent of transactions in terms of value during the reviewed period. This was followed by inter-

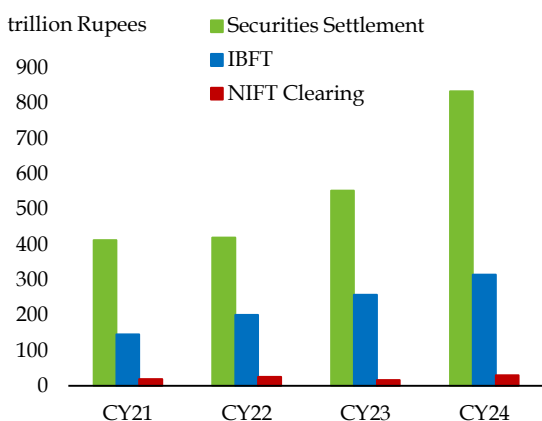
<sup>1</sup> FMI is defined as a multilateral system among participating financial institutions, including the operator of the system, used for the purposes of recording, clearing, or settling payments, securities, derivatives, or other financial transactions.

[Principles for financial market infrastructures - consultative report, March 2011](#)

<sup>2</sup> It minimizes settlement risk for financial transactions in the inter-bank market.

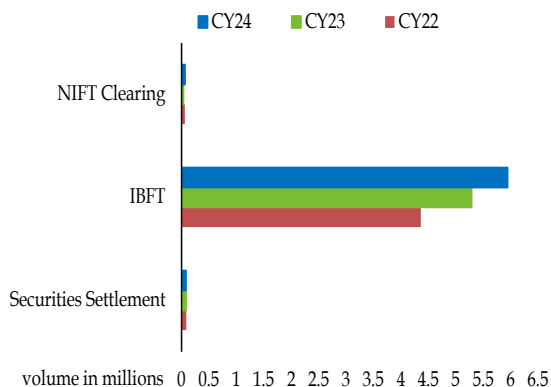
bank fund transfers (IBFT) accounting for 27 percent of transactions. In value terms, Security settlements rose by 50.9 percent, while IBFT grew by 22.2 percent in CY24 on YoY basis (**Figure 8.1a**). However, in terms of volume, PRISM transactions were mainly driven by inter-bank funds transfers, which represented 97.8 percent of the total volume. Securities settlements increased by 4.9 percent, while IBFT grew by 12.4 percent in volume terms (**Figure 8.1b**). It is noteworthy that the operational efficiency and continuous availability of PRISM was ensured through robust business continuity planning.

**Profile of PRISM Transactions - Value Figure 8.1a**



Source: State Bank of Pakistan

**Profile of PRISM Transactions - Volume Figure 8.1b**

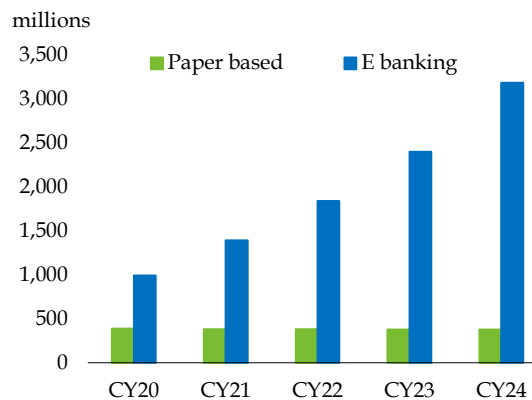


Source: State Bank of Pakistan

*Retail transactions continued their growing momentum with e-banking modes dominating in volume; while paper based dominating in value...*

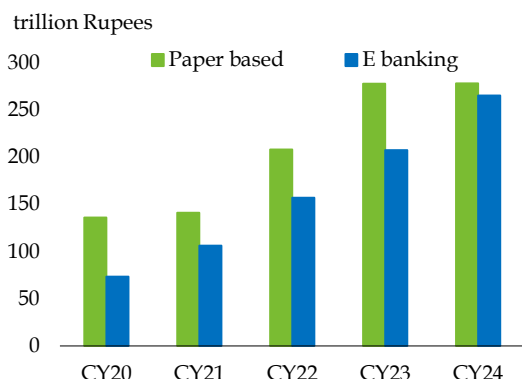
Retail payments have maintained their growing momentum by posting a growth of 28.3 percent and 11.3 percent in volume and value terms, respectively, during CY24. The volume of retail payments is dominated by e-banking, as its share has consistently increased to 89.3 percent in CY24 from 71.8 percent in CY20. This share is a reflection of consumers' preferences towards digital modes, as a variety of digital financial services became available to them. Further, the number of financial institutions offering internet and mobile banking have also increased to 32 over last few years. Accordingly, this factor has also contributed to the rising use of digital modes of transactions. Moreover, the share of e-banking transactions in total value of retail payments has also increased to 48.8 percent by the end of CY24 from 35.0 percent in CY20 (**Table 8.1 and Figure 8.2a&b**). However, for relatively larger size retail transactions, paper based modes still dominated retail payments, which recorded a muted growth of 0.1 percent in value terms.

**Profile of Retail Transactions - Volume Figure 8.2a**



Source: State Bank of Pakistan

**Profile of Retail Transactions - Value** Figure 8.2b



Source: State Bank of Pakistan

The share of *e*-banking has been on the rise due to multiple initiatives taken by SBP for digitization under the umbrella of National Payment System Strategy launched in 2019 as well as various National Financial Inclusion Strategies (NFIS) such as that of 2015–18 and 2018–23, with the aim of bringing retail payment system at par with international best practices. This vision is being further strengthened by launch of NFIS 2024–2028, which has set the goal for *e*-payments transactions to reach more than 80 percent of total payments by June 2028. The strategy emphasizes the need for enhancing digital payment ecosystem by tapping under-served areas and enabling merchant payments via Raast P2M.

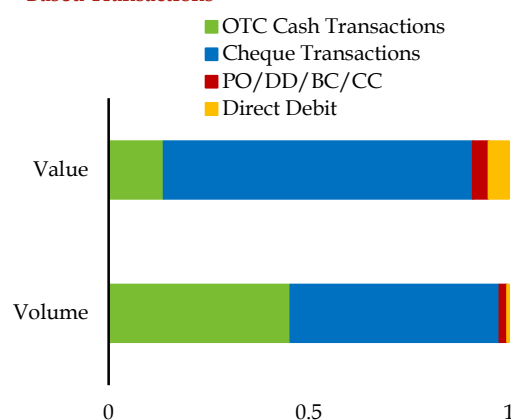
Although it offers convenience to the wider economy, the increasing usage of *e*-payments could also trigger various risks such as unauthorized access, malware, phishing scams, and vishing scam (e.g., voice phishing). In order to address these risks, SBP has rolled out a detailed set of guidelines on enhancing security of digital banking products and services. These guidelines require banks to formulate a Digital Fraud Prevention Policy<sup>3</sup> to manage digital fraud risk. Further, SBP has instructed financial institutions to send transactional alert push

notifications instead of message alerts to reduce frauds via text messages in digital payments.<sup>4</sup>

*With declining share in volume of overall retail payments, paper-based transactions are dominated by cheque payments and OTC transactions*

As a share in total volume of retail payments, paper based transactions continued to follow a downward trajectory. The disaggregated data shows that paper based transactions are dominated by cheque based instruments having a share 52.1 percent in volume and 77.2 percent in value of paper based transactions. This shows usage of large value payments through paper based modes. The second most favored mode was the OTC cash transactions with share of 45.5 percent and 13.7 percent in volume and value of paper based transactions, respectively (Figure 8.3).

**Value- and Volume-wise Paper Based Transactions** Figure 8.3



Source: State Bank of Pakistan

*e-banking transactions maintained their strong growth momentum ...*

*e*-banking transactions grew by 32.8 percent and 27.8 percent in volume and value, respectively, during CY24. This growth largely came from usage of mobile and internet banking by

<sup>3</sup> BPRD Circular No. 04 of 2023 available at: <https://www.sbp.org.pk/bprd/2023/C4.htm>

<sup>4</sup> PSP&OD Circular No 01 of 2024 available at: <https://www.sbp.org.pk/psd/2024/C1.htm>

customers due to their cost effectiveness and convenience.

Detailed data of e-banking transactions shows that in terms of volume, mobile banking has the largest share i.e., 44.0 percent, followed by ATMs with 30.9 percent. Mobile banking improved its share to 44.0 percent in CY24 from 36.0 percent in CY23.

However, in terms of value of transactions, e-banking, which is typically dominated by Real Time Online Branches (RTOB), witnessed fall in its share to 58.0 percent in CY24 from 67.3 percent in CY23 since mobile banking captured some of its share. Likewise, the share of internet banking improved to 11.6 percent from 9.5 percent in the same period last year (8.4a and 8.4b).

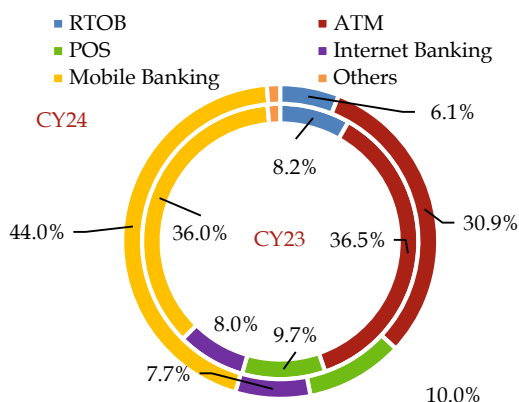
## Raast

Raast is SBP’s flagship initiative to revolutionize digital payments in domestic market. Raast has successfully completed its third year of uninterrupted services for digital payments. It is a revolutionary step in the payment system landscape for the country as it has expanded the drive for digitization and plays a key role in the formalization of the economy. So far, three modules have been successfully made operational i.e., Government to Person (G2P), Person to Person (P2P), and Person to Merchant (P2M). It aims to transform the Pakistani financial landscape by providing an instant, secure, and cost-effective platform for digital payments among individuals, merchants, businesses, and government entities.

Within Raast, various initiatives have been taken under each use case to enhance the digitization of payments. Under bulk disbursements, Raast has partnered with CDC to facilitate and execute dividend payments promptly. Furthermore, the disbursement of government salaries, GP funds, and pension payments was integrated with Raast for efficient, cost-effective, and uninterrupted provision of funds. Raast platform is also used for profit payments on and encashment of investments from CDNS. Raast has also contributed in reducing seasonal spikes of currency in circulation. For instance, on the occasion of Eid-ul-Azha during CY24, an extensive campaign was launched to onboard cattle owners, where RAAST QR codes were used for payments.

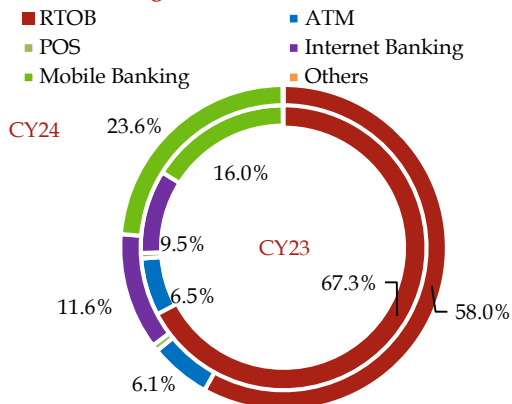
Raast handled around 800 million transactions, amounting to Rs 18.5 trillion in CY24, which is much higher than around 300 million transactions with the value of Rs 6.3 trillion in CY23. In the last quarter of CY24 alone, bulk payment transactions and P2P transactions grew by 68.2 percent and 49.7 percent in volume, respectively. While in value terms, bulk

**Instrument-wise Share in Total Volume of E-banking Transactions** **Figure 8.4a**



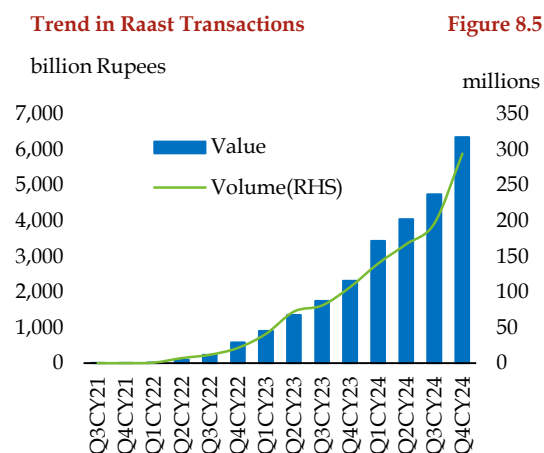
Source: State Bank of Pakistan

**Instrument-wise Share in Total Value of E-banking Transactions** **Figure 8.4b**



Source: State Bank of Pakistan

payment transactions showed a remarkable surge from around Rs 100 billion to Rs 224 billion whereas P2P transactions grew from Rs 4.65 trillion to Rs 6.14 trillion in the last quarter of CY24. Detailed data reveals that the total momentum in Raast transactions is primarily due to the successful introduction of the P2P module in Raast ecosystem in February 2022, and its wide adoption by the market. P2P contributed 99.6 percent in terms of volume and 97.3 percent in value in total Raast transactions. Importantly, Raast continued its functioning without any interruptions throughout the year while handling the increasing value and volume of the transactions (**Figure 8.5**).



Source: State Bank of Pakistan

### Raast-Buna integration for cross border payments...

In order to facilitate cross-border remittances between the Arab region and Pakistan, SBP has signed a Memorandum of Understanding (MoU) with the Arab Monetary Fund to enable the integration of Raast with Buna.<sup>5</sup> Accordingly, Pakistani rupee has been added as a settlement currency in Buna. This development is a major landmark in enabling cross-border payments, streamlining

remittances, and increasing regional integration. This will enable faster, cost-effective, and secure international payments between two regions.

Furthermore, NFIS 2024-2028<sup>6</sup> envisions Raast playing an important role in improving the country's digital financial landscape by encouraging retail payments via Raast P2M. This would allow retailers to make free payments via such Raast features as QR codes and Request to Pay.

### e-banking infrastructure

The e-banking infrastructure showed growth in terms of number of online branches, ATMs and POS. Within the payment cards category, both credit and debit cards showed growth in CY24, which was in line with the rising number of bank accounts during the reviewed period (**Table 8.2**).

**E-Banking Infrastructure** **Table 8.2**

Description	CY21	CY22	CY23	CY24
Online Branches	16,571	17,005	17,625	18,945
ATMs	16,709	17,547	18,117	19,519
POS	92,153	108,899	118,444	151,646
Total Payment Cards of which:		Number in thousands ('000)		
Credit Cards	1,740	1,914	2,070	2,151
Debit Cards	30,934	32,524	35,113	49,587
Social welfare cards	11,096	10,160	8,406	4,546
Prepaid Cards	125	99	91	93

Source: State Bank of Pakistan

### Increased use of digital modes of payments raises cyber security risks ...

The cyber threat landscape is rapidly evolving with increased frequency and sophistication of cyber incidents, and the threat actors are becoming more active in targeting the financial sector. A particular concern is the increased threat from third party-arrangements for provision of services. In view of the foregoing, the cybersecurity risk is one of the prominent risks faced by the domestic financial sector, and

<sup>5</sup> SBP Press release available at : <https://www.sbp.org.pk/press/2023/Pr-03-Nov-2023.pdf>

<sup>6</sup> NFIS 2024-2028 available at : <https://www.sbp.org.pk/nfis/nfis2024-28.pdf>

the said risk was also identified among the top five prevailing risks to financial stability in the 15<sup>th</sup> wave of SBP's Systemic Risk Survey (see **Box 1 in Overview Chapter**).

The trend of the cyber incidents and their complexity demand the enhancement in cyber fortification measures of the financial sector. In response, SBP has taken several measures to improve the cyber security posture of the regulated entities. These include enhancing cyber security related regulatory requirements and guidance, implementation of the cyber incident response mechanism for the banking industry, proactive circulation of cyber threat advisories, enhanced cyber risk supervision related measures, and cyber hygiene self-assessments of the SBP regulated entities, etc. Moreover, SBP has recently established a dedicated department for the proactive supervision of cyber risks. The said department is working to further enhance the cyber defense mechanism of regulated entities by improving the cyber threat intelligence and incident response mechanism, cyber risk supervision, and implementing international best practices on the subject.

#### *Branchless banking continued its momentum*

Branchless banking plays a pivotal role in extending formal financial services to underserved areas. It uses the branchless banking agent-model to maximize its outreach to far-flung areas, where it is not feasible to open bank branches. Branchless banking transactions increased by 38.3 percent in volume and 42.2 percent in value in CY24. The deposit base of branchless banking expanded by 48.0 percent on YoY basis, reaching an all-time high of Rs 171 billion in CY24 (**Table 8.3**).

**Key Highlights of Branchless Banking**

**Table 8.3**

Description	CY21	CY22	CY23	CY24
No. of Agents	587,547	622,884	649,683	708,559
No. of Accounts	78,810	97,097	114,643	90,302
No. of Active Accounts	44,905	42,484	64,122	61,441
Deposits at period end (million Rupees)	65,580	88,488	115,409	170,879
No of transactions (million Rupees)	2,501	3,049	3,938	5,449
Value of Transactions (billion Rupees)	8,971	12,602	18,182	25,847
Average Daily Transactions (thousands)	6,948	8,471	10,939	15,135
Average size of transactions (Rupees)	3,577	4,129	4,828	4,749
Average Deposit in accounts (Rupees)	799	911	1,007	1,348

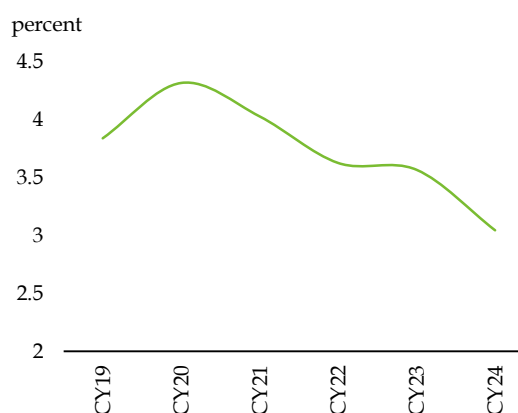
Source: State Bank of Pakistan

### ATM Efficiency

ATMs are one of the most important Alternative Delivery Channels (ADCs) in the FMIs. ATMs hold second largest share in volume of e-banking. Therefore, it is important to keep them functioning without any prolonged or unanticipated interruption to enhance users' trust in banking services. ATM downtime has further reduced to 3.0 percent of activity time in CY24, which is the lowest in previous five years in the comparable period (**Figure 8.6**).

**ATM Downtime**

**Figure 8.6**



Source: State Bank of Pakistan

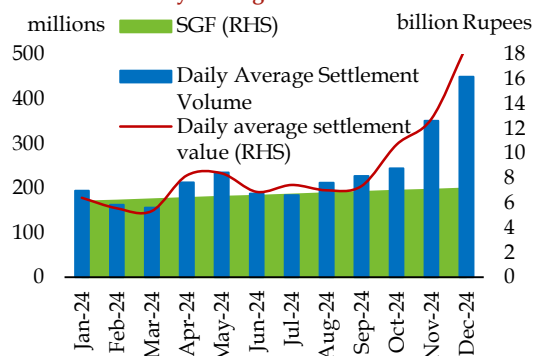
## 8.2 FMIs other than Payment Systems

### NCCPL

The National Clearing Company of Pakistan Limited (NCCPL) is a critical component of FMIs to ensure that Pakistan's capital markets run smoothly. It plays three key roles. First, it serves as the central counterparty for all deals conducted on the Pakistan Stock Exchange (PSX). It ensures the settlement of all deals that take place, lowering counterparty risk. Second, it is in charge of ensuring the seamless electronic transfer of security and payments between trading partners. Finally, it serves as the Centralized Know-Your-Customer Organization (CKO) for all capital market participants. Moreover, it offers nationwide custodial services, which include custody and asset servicing for investor securities.

NCCPL has multiple risk-mitigating measures in place which include maintaining a settlement guarantee fund (SGF). Under SGF, participants regularly contribute towards a pool of money, depending on their risk profile and trading activity, so that financial losses could be covered in case a member defaults on his obligations. The fund stood at Rs 7.2 billion at the end of December 2024. The daily average settlement value stood at Rs 8.8 billion in CY24 compared to Rs 4.3 billion last year. Further trading volume increased from 146 million transactions in last year to 236 million in CY24 (Figure 8.7).

Comparison of Settlement Guarantee Fund with Daily Average of Settlement Figure 8.7



Source: National Clearing Company of Pakistan Limited

### NCCPL conducted live business continuity drill

NCCPL held a full live business continuity drill which covered all existing business services as well as newly implemented aspects such as the integration of its core clearing, settlement, and risk management systems with WhatsApp Services, Margin Trading System, 24/7 Online Accounts Processing Facility, and NCC Bio-Verify App.

The primary goal of the drill was to examine the NCCPL's ability to handle unexpected events or disruptions. The organization assessed its ability to provide continuous services to its clients and stakeholders by modelling real-world events.<sup>7</sup>

### Central Depository Company (CDC)

CDC serves as Pakistan's primary securities depository. It enables the electronic settlement of transactions on the PSX and provides additional services for stock, debt, and other financial instruments. The company offers depository services, which include holding securities online for investors, eliminating the need for physical certificates. It serves as a central party, ensuring that both sides of a transaction are met. Finally, CDC keeps investor data and facilitates the transfer of ownership of shares purchased and sold.

<sup>7</sup> NCCPL press release (June 23, 2023) available at : [The National Clearing Company of Pakistan Limited Successfully Conducted Live Business Continuity Drill to demonstrate Resilience and Preparedness of its business systems - NCCPL](#)

As a major provider of Trustee and Custodial services to the Mutual Fund industry, CDC is continuously evolving its service capabilities and taking initiatives to explore new technical advances in the financial industry for the benefit of the sector. In this regard, CDC coordinated with State Bank of Pakistan and utilized its Raast “Person to Person (P2P)” service to enable a free of cost payment channel for mutual fund investors. CDC, acting as a payment aggregator, can generate Raast Investment IDs for asset management companies’ clients on an IBAN format against a specific fund. The AMC client can then use this Investment ID to invest in their selected fund at any time through their internet banking portal.

SBP has granted CDC the special privilege of assigning the code “CDCPL” in the Raast system to enable this process. To date, the facility has been availed by 08 AMCs, and has gained traction among their investors with a total of 1.37 million Raast Investment IDs generated for a cumulative investment in excess of Rs 9 billion.

CDC has successfully tested a distinctive scenario in its Business Continuity Planning regime, demonstrating the durability of its data centers. The exercise verified that either the primary or secondary data center can seamlessly publish all technical and business services, in any unforeseen event of unavailability of single data center. This exercise demonstrates robust operational risk management regime, ensuring its uninterrupted services for its stakeholders.<sup>8</sup>

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<sup>8</sup> CDC Annual Report 2024 available at: [CDC – Central Depository Company](#)

## SBP – Regulatory and Supervisory Developments in CY24

As per SBP Act 1956, one of the statutory objectives of SBP is to maintain stability in the financial system.<sup>1</sup> The central bank performs this role by regulating and supervising key financial institutions and payment systems, including banks, microfinance banks (MFBs), Development Finance Institutions (DFIs), Exchange Companies (ECs), Payment System Operators and Providers (PSOs/PSPs), and Electronic Money Institutions (EMIs). Aligning its policies with international best practices, SBP plays a crucial role in strengthening financial stability, making the financial sector progressive through introduction of new technologies and supporting economic growth. In CY24, SBP took measures to support economic growth while enhancing its regulatory and supervisory regime to contain financial stability risks.

CY24 began with fragile financial stability and challenging geo-economic conditions, characterized by elevated inflation, supply chain disruptions, geopolitical uncertainties, and sustained monetary tightening. Major central banks maintained restrictive policy stances until the latter half of the year, when easing commodity prices and unwinding supply chains disruptions led to a decline in inflationary pressures. SBP too cut the policy rate from a high of 22 percent in June 2024 to 13 percent in December 2024. Central banks, including SBP, aimed to strike a balance between stimulating economic activity and maintaining price and financial stability, ensuring a measured approach to financial and macroeconomic challenges.

SBP closely monitored developments affecting financial stability and implemented various measures throughout CY24 to enhance its policy framework and address emerging systemic risks. Aligned with SBP Vision 2028, these measures were a significant step towards

<sup>1</sup> [State Bank of Pakistan Act, 1956](#)

<sup>2</sup> [SBP Vision 2028](#)

## Appendix A

achieving the strategic goals set in SBP Strategic Plan 2023-2028.<sup>2</sup> In this regard, an overview of the regulatory and supervisory measures implemented by SBP is given below.

### *Financial Stability – A Macro Perspective*

**Resolution and Crisis Preparedness:** In CY24, SBP achieved significant milestones to strengthen its resolution regime and crisis preparedness framework, essential components to maintain financial stability during financial distress. Legal amendments, proposed by SBP, in Banking Companies Ordinance (BCO) 1962 and Deposit Protection Corporation (DPC) Act 2016 were enacted to ensure consistency with the international standards and best practices on bank resolution. These amendments designated SBP as the Resolution Authority and brought Microfinance Banks (MFBs) under the scope of BCO's resolution regime. Accordingly, SBP established a new dedicated resolution department namely "Financial Institutions Resolution Department (FIRD)" to strengthen the financial sector safety net and SBP's resolution regime. The FIRD will perform the function of resolution of distressed Regulated Entities under the SBP regulatory and supervisory ambit.<sup>3</sup>

Additionally, World Bank fielded two missions in March 2024 and October 2024 under ongoing Technical Assistance (TA) to SBP to enhance financial sector stability and crisis preparedness by filling the gaps identified in the Crisis Simulation Exercise, conducted in March, 2023. The TA focused on capacity development of SBP team and provision of guidance on draft secondary regulations & internal policies aimed at improving institutional capacity in the following areas: (i) Early Intervention; (ii) Bank

<sup>3</sup> [FIRD Circular No. 01 of 2024](#)

Resolution; (iii) Emergency Liquidity Assistance; (iv) Deposit Protection; and (v) Crisis Coordination Mechanism.

**Deposit Protection:** DPC, as mandated by the DPC Act 2016,<sup>4</sup> aims to protect the eligible depositors by compensating them, to the extent of an amount determined by the Corporation, in case a bank is declared as a failed institution by SBP. The coverage or protected deposit amount is an important benchmark of the effectiveness of deposit insurance function, as sufficient coverage enhances the confidence and trust of depositors in the financial system of the country and avoids bank runs. The coverage amount of Rs 500,000 which was announced in September 2021 was revised to Rs 1,000,000 in October, 2024.<sup>5</sup> Furthermore, in order to provide support to the Resolution Authority i.e., SBP in resolving the banks, the legal mandate of DPC was enhanced by amending the DPC Act, 2016. These amendments provided additional options to DPC for a smooth reimbursement to eligible depositors in case of bank failure and enhanced the Corporations mandate from Pay-box only to Pay-box plus.<sup>6</sup>

**Minimum rate of return on saving deposits:**

SBP had previously set the Minimum Profit Rate on saving deposits raised by the banks at 50 basis points below the prevailing SBP Repo Rate (Floor of the Interest Rate Corridor).<sup>7</sup> In November 2024, SBP issued instructions that aforementioned Minimum Profit Rate requirement will not be applicable on the deposits of Financial Institutions (FIs), public sector enterprises and public limited companies.<sup>8</sup>

**Enhancement in Regulatory Retail Portfolio Limit:** During COVID-19, SBP enhanced the regulatory retail portfolio limit from Rs 125

million to Rs 180 million in order to facilitate banks/DFIs in providing financing to their customers who were experiencing temporary financial constraints amid strained economy.<sup>9</sup> To further stimulate credit to retail customers, especially Small and Medium Enterprises (SMEs), SBP enhanced the regulatory retail portfolio limit of Rs 180 million to Rs 300 million.<sup>10</sup> This will encourage lending to retail customers by providing capital relief to banks/DFIs.

**Designation of Domestic Systemically Important Banks (D-SIBs):** SBP announced the designation of D-SIBs for the year 2024 under the Framework for 'Domestic Systemically Important Banks'. In line with D-SIBs framework, SBP carried out the annual assessment based on banks' financials as of December 31, 2023. As per the assessment, three banks namely National Bank of Pakistan, United Bank Limited, and Habib Bank Limited were designated as D-SIBs for the year 2024. These banks are required to follow additional Common Equity Tier-1 (CET-1) capital requirements, in addition to implementing the enhanced supervisory requirements.<sup>11</sup>

**Publication of SBP's assessments of financial stability:** SBP regularly shares its assessment of financial stability with external stakeholders to keep them abreast with emerging risks, resilience of the system and financial soundness performance of the sector. In CY24, the SBP published Quarterly Compendium of Banking Statistics and Financial Soundness Indicators (FSIs) for December 2023, March 2024, June 2024, and September 2024 quarters, Mid-year Performance Review of banking sector for H1CY24, annual Financial Stability Review CY23, and Governor's Annual Report for FY24.

<sup>4</sup> [Deposit Protection Corporation Act, 2016](#)

<sup>5</sup> [DPC Circular Letter No. 03 of 2024](#)

<sup>6</sup> A "pay box" mandate is where the deposit insurer is only responsible for the reimbursement of insured deposits. A "pay box plus" mandate is where the deposit insurer has additional responsibilities, such as certain resolution functions (e.g. financial support).

<sup>7</sup> [BPRD Circular No. 07 of 2013](#)

<sup>8</sup> [BPRD Circular No. 05 of 2024](#)

<sup>9</sup> [BPRD Circular Letter No. 12 of 2020](#)

<sup>10</sup> [BPRD Circular No. 04 of 2024](#)

<sup>11</sup> [External Communications Department | Press Release August 29, 2024](#)

**International Participation:** Cross-border engagement and knowledge sharing is important in understanding the risks faced by financial systems which are interlinked globally. SBP played an active part in cross-border knowledge sharing events and initiatives by contributing to various regional and international studies and sharing feedback on multilateral organizations, e.g., FSB and IMF, surveys and questionnaires. SBP also participated in FSB Regional Consultative Group for Asia (RCG Asia) meetings in Sri Lanka and Hong Kong, where vulnerabilities and financial stability issues affecting Asia were discussed, along with other emerging issues e.g., climate-related financial risks, artificial intelligence, and cross-border payments, etc. Furthermore, SBP participated in '23<sup>rd</sup> Annual International Conference on Policy Challenges for the Financial Sector' organized by IMF and World Bank in June 2024 in Washington, DC and 18<sup>th</sup> Asia-Pacific High-level Meeting on Banking Supervision in March 2024 in Tokyo, Japan.

### *Financial Stability – A Micro Perspective*

**Establishment of Cyber Risk Management Department (CRMD):** Recognizing the significance of cybersecurity in maintaining financial stability, SBP established Cyber Risk Management Department (CRMD) which is primarily responsible for supervision of cyber risk of SBP regulated entities and for strengthening cyber resilience of the banking system. Additionally, it is also entrusted with the responsibilities of oversight of digital frauds and taking measures to counter these frauds.<sup>12</sup>

**Guidelines on Non-Performing Loans (NPLs) Management Strategy:** SBP developed Guidelines to facilitate banks to deal with the existing stock of NPLs and minimize their further build-up. Accordingly, SBP advised banks to develop a comprehensive NPLs

Management Strategy, duly approved by their Board of Directors, in accordance with the issued guidelines. The guidelines dictate that the strategy should, at a minimum, include identification, management, monitoring and mitigation of NPLs.<sup>13</sup>

**Charging-Off of Loans, Advances and Finances:** NPLs of the banking industry include a considerable portion of fully provisioned legacy non-performing loans. To address the issues concerning these legacy NPLs, SBP allowed and prescribed minimum prerequisites to banks to charge-off the fully provisioned corporate/commercial and SMEs NPLs. The instructions clarified that such charge-offs will not constitute any financial relief and banks' rights to recover from their borrowers will remain intact. However, charged-off NPLs will not appear on the banks' financial statements and will instead be kept in the memorandum accounts.<sup>14</sup>

**Implementation of International Financial Reporting Standard 9 (IFRS 9):** To address challenges being faced by FIs in implementing IFRS-9, SBP extended compliance timelines and introduced amendments in SBP IFRS-9 application instructions. Under revised instructions, FIs were allowed to use host country accounting practices for overseas associates until IFRS-9 is adopted in those jurisdictions. The implementation timelines of the following IFRS 9 aspects were extended: (i) Measurement of unquoted equity securities; (ii) Exposure at default models; (iii) Effective interest rate method and (iv) Modification accounting. To ensure smooth implementation, FIs were advised to prepare Board-approved plans to comply with the revised instructions and timelines.<sup>15</sup>

**Guidelines on Transfer and Assignment of Non-Performing Assets (NPAs):** SBP revised the Guidelines on Transfer and Assignment of Non-Performing Assets (NPAs) to Corporate

<sup>12</sup> [BSD-1 Circular No. 01 of 2024](#)

<sup>13</sup> [BPRD Circular No. 03 of 2024](#)

<sup>14</sup> [BPRD Circular No. 02 of 2024](#)

<sup>15</sup> [BPRD Circular Letter No. 16 of 2024](#)

Restructuring Companies (CRCs) to facilitate banks/DFIs in the process and help in revival of the sick industrial units. The revised guidelines introduced a new section on Consortium/Syndicate Financing, which provides guidance on handling NPAs arising from consortium or syndicated loans. Additionally, the revised guidelines emphasize the importance of data sharing, confidentiality, and compliance with data protection laws, reflecting a heightened focus on information security.<sup>16</sup>

**Launch of New Electronic Credit Information Bureau (CIB) System (V2):** SBP introduced the upgraded eCIB System (V2) which became operational starting January 1, 2025, replacing the existing eCIB system. The enhancements and modifications made were aimed at improving the comprehensiveness of Credit Information Reports. The updates were aligned with international standards and technological advancements, reflecting SBP's broader vision to modernize the financial infrastructure in Pakistan.<sup>17</sup>

### *Foreign Exchange Policy and Operations*

**Equity Investment Abroad by Residents:** SBP made revisions in the framework for Equity Investment Abroad by residents, contained in the Foreign Exchange Manual, to facilitate export oriented companies, particularly those operating in the IT sector, in expanding their footprints abroad and increase the exports of the country. These revisions, inter alia, include permission for export oriented companies in the IT sector to acquire interest (percentage of shareholding) in entities abroad, and relaxation of restriction of establishing/acquiring one entity per jurisdiction for export oriented companies in the IT sector.<sup>18</sup>

### **Liberalization of the Use of Funds Held in Exporters' Special Foreign Currency Accounts**

**(ESFCAs):** Aimed at facilitating exporters and promoting ease of doing business, SBP introduced amendments in Foreign Exchange Manual to liberalize the utilization of retained funds in ESFCAs. As a result, all exporters are able to freely utilize the funds held in ESFCAs for making all types of payments abroad of current account nature, for their own business purposes, without prior SBP approval. Furthermore, SBP advised ADs to issue debit cards, on request of exporters, against the balances held in ESFCAs.<sup>19</sup>

**Issuance of Regulatory Framework for ECs:** SBP developed a consolidated and updated "Regulatory Framework for Exchange Companies (RFEC)" after a comprehensive review of the existing regulatory instructions. The framework elaborates corporate governance structures, sets forth internal controls & IT systems requirements, and strengthens the supervisory & enforcement regime. Further, it updates reporting requirements and provides a single, unified source of regulatory guidance for the ECs.<sup>20</sup>

**Promotion of Home Remittances:** SBP together with the Government of Pakistan has introduced various policy initiatives, from time to time, to increase the flow of home remittances through formal channels. In CY22, with a view to encourage ECs in enhancing their home remittance mobilization efforts, SBP introduced an incentive of Rs 1 for each US\$ of home remittances surrendered in interbank market by ECs.<sup>21</sup> In CY24, SBP revised this rate to Rs 2 for each USD of home remittances surrendered to SBP designated bank(s). Additionally, SBP also introduced the performance based rate of Rs 3 and Rs 4 per US\$ which will be paid to ECs, if they meet SBP specified criteria based on growth and volume of home remittances.<sup>22</sup> Moreover, SBP introduced a similar inventive model for reimbursement of telegraphic transfer (T.T) charges scheme against home remittances

<sup>16</sup> [BPRD Circular Letter No. 15 of 2024](#)

<sup>17</sup> [CPD Circular Letter No. 02 of 2024](#)

<sup>18</sup> [FE Circular No. 01 of 2024](#)

<sup>19</sup> [EPD Circular Letter No. 02 of 2024](#)

<sup>20</sup> [FE Circular No. 02 of 2024](#)

<sup>21</sup> [EPD Circular Letter No. 03 of 2022](#)

<sup>22</sup> [EPD Circular Letter No. 10 of 2024](#)

to incentivize the Authorized Dealers (ADs) and MFBs to maximize their efforts for increasing remittance inflows.<sup>23</sup>

**Advance Payment for Import of Goods:** SBP allowed ADs to effect import advance payments with appropriate due diligence, without prior approval of SBP, against irrevocable letters of credit or invoices, up to 100 percent of the value of letter of credit or invoice, as the case may be.<sup>24</sup>

**Import of Cash US Dollars:** In CY23, SBP introduced a temporary measure to allow ECs to import cash US Dollars, on need basis, against the value of their export consignments of permissible foreign currencies. This arrangement was in place till December 31, 2023,<sup>25</sup> however, in September 2024, SBP extended the validity of these instructions till June 30, 2025 to ensure adequate supply of cash US\$ in open market.<sup>26</sup>

**Regulatory Frameworks for Diversified Payment Rights (DPRs):** SBP introduced the following frameworks in Foreign Exchange Manual to facilitate ADs in raising long-term funds from outside Pakistan using foreign exchange future flows: (i) Framework Governing International Payment Orders; and (ii) Foreign Exchange Future Flow Transactions Framework for Long Term Fund-Raising by Authorized Dealers. The frameworks lay out procedures and instructions for ADs to raise long-term funds from a Special Purpose Vehicle outside Pakistan, by selling their DPRs to it.<sup>27</sup>

**Supervisory Action - License Cancellations and Suspensions:** In CY24, SBP suspended the authorization of some ECs and cancelled others' license on account of contraventions of the applicable laws and SBP's regulations. Consequently, SBP disallowed those ECs, their

head offices and authorized branches from undertaking any kind of business activity (during the suspension period, in case of suspension of authorization).<sup>28,29,30,31</sup>

### *Money Market*

**Buyback of Market Treasury Bills (MTBs):** The Federal Government introduced a policy of buyback of Government Securities in H2CY24, under which the Government decided to buyback a certain portion of MTBs. In pursuance of the Government's decision, the operational modalities of buyback transactions (such as auction mechanism, price, the securities to be offered for buyback etc.) were developed by SBP in consultation with the Debt Management Office (DMO) of the Federal Government. In accordance with the agreed mechanism and terms, buyback auctions of MTBs were conducted on September 30, 2024, October 10, 2024 and October 30, 2024, wherein a sizeable amount of MTBs were bought back from the market. Through the move, the Government was able to effectively use available liquidity and save financing costs.<sup>32</sup>

**Framework for Collateral and Counterparty Eligibility:** SBP introduced new policies on Collateral and Counterparty Eligibility for SBP's Monetary Policy Lending Operations and Mudarabah Based Financing Facilities, with an objective to strengthen risk mitigation measures for these facilities.

Under the Collateral Policy, based on duration and volatility estimates, haircuts were introduced on government securities used as collateral for availing financing from SBP under the above mentioned facilities. These haircuts would provide a safety buffer against loss in value of the collateral in the times of distress

<sup>23</sup> [EPD Circular Letter No. 09 of 2024](#)

<sup>24</sup> [EPD Circular Letter No. 01 of 2024](#)

<sup>25</sup> [EPD Circular Letter No. 11 of 2023](#)

<sup>26</sup> [EPD Circular Letter No. 07 of 2024](#)

<sup>27</sup> [EPD Circular Letter No. 05 of 2024](#)

<sup>28</sup> [External Communications Department | Press Release February 12, 2024](#)

<sup>29</sup> [External Communications Department | Press Release February 13, 2024](#)

<sup>30</sup> [External Communications Department | Press Release November 15, 2024](#)

<sup>31</sup> [External Communications Department | Press Release December 09, 2024](#)

<sup>32</sup> [DMMD Circular No. 06 of 2024](#)

and potentially resulting in impairment of the SBP's balance sheet.

The Counterparty Eligibility Policy has been defined to integrate financial soundness into the eligibility assessment process. As per this policy, the eligibility criteria have been defined based on Basel III capital and liquidity requirements to ensure a level playing field and maintain market neutrality.

The framework will be applicable from July 02, 2025.<sup>33</sup>

### Islamic Banking

**Adoption of Shariah Standards:** In CY24, SBP adopted several 'Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) Shariah Standards and notified the same from time to time to strengthen Shariah compliance framework and harmonize the Shariah practices in the Islamic banking industry. In this regard, SBP issued a compendium of adopted Shariah standards to consolidate the instructions on adoption of Shariah standards and to provide ease of access to the end users.<sup>34</sup>

**Profit Sharing on Saving Deposits:** SBP advised Islamic Banking Institutions (IBIs) to pay profit on their PKR saving deposits (excluding deposits of financial institutions, public sector enterprises and public limited companies) equivalent to at least 75 percent of the weighted average gross yield of all pools of an IBI. SBP further provided instructions to IBIs on determining the gross yield of each pool.<sup>35</sup>

**Revision in Shariah Governance Framework (SGF):** SBP issued the SGF in 2014 with an objective to strengthen the overall Shariah compliance environment in the IBIs and has been updating it from time to time.<sup>36</sup> In CY24,

SBP revised the SGF to align it with international best practices, market developments and to incorporate the feedback received from stakeholders.<sup>37</sup>

**Conversion from conventional to Islamic:** Transformation to a Shariah-compliant banking system has been adopted as one of the strategic goals of SBP Vision 2028. In pursuance of this goal and to facilitate banks in their conversion from conventional to Islamic, SBP developed broad parameters which will help banks to devise their own conversion plans. These parameters, inter alia, include vision and strategy, governance structure, communication plan with stakeholders and customer facilitation.<sup>38</sup> To further streamline the process of conversion, SBP revamped the existing criteria, issued in 2010, for conversion of conventional banking branches into Islamic banking branches.<sup>39</sup>

### Digital Financial Services

**Licensing and In-Principal Approvals to EMIs:** SBP has given License to M/s. E-Processing Systems Private Limited (EPSPL) to commence commercial operations as an EMI. Under the license, the EMI shall offer e-money wallets to consumers, merchants and agents. In addition, as of December 2024, two EMIs, namely M/s. Wemsol Private Limited and M/s. HubPay Private Limited, were in pilot operations. Meanwhile, three more EMIs – M/s. YAP Pakistan Private Limited, M/s. Cerisma Private Limited, and M/s. Toko Lab Private Limited – were given in-principle approval and were in the process of developing organizational and technological infrastructure to commence pilot operations.<sup>40</sup> Moreover, in November 2024, SBP granted in-principle approval to M/s. Accept Technologies Private Limited (M/s. PayMob) for

<sup>33</sup> [DMMD Circular No. 09 of 2024](#)

<sup>34</sup> [IFPD Circular No. 07 of 2024](#)

<sup>35</sup> [IFPD Circular No. 09 of 2024](#)

<sup>36</sup> [IBD Circular No. 03 of 2014](#)

<sup>37</sup> [IFPD Circular No. 08 of 2024](#)

<sup>38</sup> [IFPD Circular No. 03 of 2024](#)

<sup>39</sup> [IFPD Circular No. 05 of 2024](#)

<sup>40</sup> [External Communications Department | Press Release November 20, 2024](#)

establishing as a Payment System Operator (PSO)/Payment Service Provider (PSP).<sup>41</sup>

**Digital Supply Chain Finance:** SBP issued instructions to banks to develop and implement digital solutions for supply chain finance within six months to leverage the technology for increasing the SMEs' access to finance as well as digitizing the retail payments. The instructions require banks to establish effective Supply Chain Finance (SCF) function having suitably trained HR and systems to develop and offer digital SCF products to the SMEs. SBP further advised banks to either develop their own digital solutions for SCF or partner with any Fintech, Service Providers for providing digital SCF.<sup>42</sup>

**Electronic FX Trading Platform for Interbank Trading:** Building an innovative and inclusive digital financial ecosystem is a key priority area of SBP Vision 2028. In this context, SBP introduced a Centralized Foreign Exchange (FX) Trading Platform called 'FX Matching' for interbank FX market. The objective was to provide the interbank market participants a centralized trading platform that offers FX trading on anonymous basis and real time price visibility. The adoption of FX Matching platform is a key step for enhancing the depth and transparency of the interbank FX market. SBP issued instructions to ADs to formally launch the interbank FX trading on the FX Matching platform.<sup>43</sup>

### *Measures to Promote SME and Agriculture Financing*

**Risk Coverage Scheme for SMEs:** Considering the critical importance of SMEs in inclusive economic growth and employment creation, the Government of Pakistan, on the recommendation of the SBP, approved a Risk Coverage Scheme for securing banks' fresh exposure against SMEs. The scheme is part of

the efforts of the Government and the SBP to double the size of SME financing to Rs 1,100 billion in the next 5 years. As part of the scheme, SBP will allocate Risk Coverage Limits to each participating Financial Institution against fresh SME finance and the Government will absorb credit loss (principal portion only) on the banks' fresh exposure against SMEs: first loss coverage of 20 percent to Small Enterprises (SEs) and 10 percent to Medium Enterprises (MEs) against banks' fresh exposure.<sup>44</sup>

**Amendment in Prudential Regulations for SME Financing:** To boost SME financing and facilitate SMEs' access to finance, SBP increased clean lending limit to Rs 10 million from Rs 5 million for SMEs.<sup>45</sup> Moreover, SBP increased the per party exposure limit for small enterprises (SEs) from Rs 25 million to Rs 100 million and for Medium Enterprises (MEs) from Rs 200 million to Rs 500 million.<sup>46</sup>

**Amendment in Prudential Regulations for Agriculture Financing:** Previously, banks/DFIs were allowed to obtain credit report relating to the borrower from electronic Credit Information Bureau (eCIB) of SBP only while considering proposals for any exposure. To enhance flow of agriculture financing, SBP relaxed this requirement through an amendment in prudential regulations for agriculture financing which now allow banks/DFIs to obtain credits reports from any credit bureau licensed by SBP of which they are a member, in addition to eCIB of SBP.<sup>47</sup>

**Streamlining of Agricultural Lending Procedures and Documentation:** Keeping in view the difficulties faced by banks in obtaining Khasra Girdawari from their borrowers in processing agriculture loan applications, SBP allowed the use of following alternative documents for the same to verify and monitor the farming activity: (i) Digital Survey Report based on the digital Geo-fencing / Remote

<sup>41</sup> [External Communications Department | Press Release November 05, 2024](#)

<sup>42</sup> [SH&SFD Circular No. 01 of 2024](#)

<sup>43</sup> [DMMD Circular No. 01 of 2024](#)

<sup>44</sup> [SH&SFD Circular No. 02 of 2024](#)

<sup>45</sup> [SH&SFD Circular No. 03 of 2024](#)

<sup>46</sup> [SH&SFD Circular No. 4 of 2024](#)

<sup>47</sup> [ACFID Circular Letter No. 01 of 2024](#)

sensing through satellite images of the farm; (ii)  
Bonafide Certificate providing details of crops.<sup>48</sup>

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<sup>48</sup> [ACFID Circular Letter No. 02 of 2024](#)

# Appendix B

## **Indicators used to derive Financial Sector Vulnerability Index (FSVI)**

FSVI was first introduced in FSR 2016, and since then it has been modified and regularly published in the subsequent reviews. In FSR-2018, few modifications were made in terms of coverage, indicators and methodology (See Appendix A in FSR-2018).

To recall, FSVI is a composite index derived from averaging the sub-indices of macro-economy, financial markets, banking sector, Non-Banking Financial Institutions, Development Finance Institutions, Insurance Companies and Corporate Sector. The complete list of indicators used within each dimension is given in the table below:

Financial Sector Vulnerability Index (FSVI) and Financial Sector Heat Map (FSHM): Risk Areas, Risk Dimensions and Indicators				Table 1
Sr. No.	Risk Area	Risk Dimension	Risk Indicator(s)	Impact on Financial Stability
1	Macro-economy $\frac{1}{n} \sum Ex, R, F, In$  n = 4	External Sector (Ex) $Ex = \frac{1}{n} \sum_{i=1}^n ex_i,$ n = 3	$ex_1$ = Total Liquid Foreign Reserve Position (with SBP) as percent of GDP $ex_2$ = Current Account Balance as Percentage of GDP $ex_3$ = Balance of Trade as Percentage of GDP $ex_4$ = Terms of Trade Index $ex_5$ = Real Effective Exchange Rate Index	Positive  Positive  Positive Positive Negative
		Real Sector (R)	Real GDP Growth	Positive
		Fiscal Sector (F)	Fiscal Deficit as Percentage of GDP	Negative
		Inflation (In)	CPI inflation	Negative
2	Financial Markets $\frac{1}{n} \sum FE, MM, CM$  n = 3	Foreign Exchange (FE)	Mark-to-market Revaluation Exchange Rate Exponential Moving Weighted Average (EMWA) Volatility	Negative
		Money Market (MM)	Overnight Repo Rate Exponential Moving Weighted Average (EMWA) Volatility	Negative
		Capital Market (CM)	KSE-100 Index Exponential Moving Weighted Average (EMWA) Volatility	Negative
3	Banking Sector $\frac{1}{n} \sum C, AQ, E, L, D, I$  n = 6	Capital Adequacy (C) $C = \frac{1}{n} \sum_{i=1}^n c_i, n = 3$	$c_1$ = Capital Adequacy Ratio (CAR) $c_2$ = TIER 1 (CAR) $c_3$ = Capital to Asset Ratio	Positive Positive Positive
		Asset Quality (AQ) $AQ = \frac{1}{n} \sum_{i=1}^n aq_i,$ n = 4	$aq_1$ = NPLs to Total Loans $aq_2$ = Net NPLs to Capital $aq_3$ = Provisions to NPLs $aq_4$ = Loss to NPLs	Negative Negative Positive Negative
		Earnings (E) $E = \frac{1}{n} \sum_{i=1}^n e_i,$ n = 6	$e_1$ = Return on Assets Before Tax $e_2$ = Return on Equity (Avg. Equity and Surplus) Before Tax $e_3$ = Net Interest Margin $e_4$ = Net Interest Income/Gross Income $e_5$ = Cost to Income Ratio $e_6$ = Trading Income to Total Income	Positive Positive  Positive Positive Negative Negative
		Liquidity (L) $L = \frac{1}{n} \sum_{i=1}^n l_i,$ n = 4	$l_1$ = Liquid Assets/Total Assets $l_2$ = Liquid Assets/Total Deposits $l_3$ = Liquid Assets/Short term liabilities $l_4$ = Borrowings/Assets	Positive Positive Positive Negative
		Deposits (D) $D = \frac{1}{n} \sum_{i=1}^n d_i,$ n = 2	$d_1$ = Deposits to Assets $d_2$ = Deposit growth (YoY)	Positive Positive
		Interconnectedness (I) $I = \frac{1}{n} \sum_{i=1}^n i_i,$ n = 2	$i_1$ = Call lending and borrowing/Total Assets $i_2$ = Financial Liabilities (SBP exclusive)/Total Assets	Negative  Negative
4	Non-Banking Financial Institutions	Assets (A)	Asset Growth (YoY)	Positive

	$\frac{1}{n} \sum_{n=2} A, E$	Earnings (E)	Net Sales	Positive
5	Development Finance Institutions $\frac{1}{n} \sum_{n=4} C, AQ, E, L$	Capital Adequacy (C) $C = \frac{1}{n} \sum_{i=1}^n c_i, n = 3$	$c_1 = \text{Capital Adequacy Ratio (CAR)}$ $c_2 = \text{TIER 1 (CAR)}$ $c_3 = \text{Capital to Asset Ratio}$	Positive Positive Positive
		Asset Quality (AQ) $AQ = \frac{1}{n} \sum_{i=1}^n aq_i, n = 3$	$aq_1 = \text{NPLs to Total Loans}$ $aq_2 = \text{Net NPLs to Capital}$ $aq_3 = \text{Net NPLs to Net Loans}$	Negative Negative Negative
		Earnings (E) $E = \frac{1}{n} \sum_{i=1}^n e_i, n = 4$	$e_1 = \text{Return on Assets Before Tax}$ $e_2 = \text{Return on Equity (Avg. Equity and Surplus) Before Tax}$ $e_3 = \text{Net Interest Income/Gross Income}$ $e_4 = \text{Cost to Income Ratio}$	Positive Positive Positive Negative
		Liquidity (L) $L = \frac{1}{n} \sum_{i=1}^n l_i, n = 3$	$l_1 = \text{Liquid Assets/Total Assets}$ $l_2 = \text{Liquid Assets/Total Deposits}$ $l_3 = \text{Advances /Deposits}$	Positive Positive Positive
6	Insurance Companies $\frac{1}{n} \sum_{n=2} Li, NL$	Life (Li) $Li = \frac{1}{n} \sum_{i=1}^n li_i, n = 4$	$li_1 = \text{Claims ratio}$ $li_2 = \text{Return on Assets before tax}$ $li_3 = \text{Return on Investment before tax}$ $li_4 = \text{Capital to Assets}$	Negative Positive Positive Positive
		Non-life (NL) $NL = \frac{1}{n} \sum_{i=1}^n nli_i, n = 5$	$nli_1 = \text{Claims ratio}$ $nli_2 = \text{Premium Retention}$ $nli_3 = \text{Return on Assets before tax}$ $nli_4 = \text{Return on Investment before tax}$ $nli_5 = \text{Capital to Assets}$	Negative Negative Positive Positive Positive
7	Corporate Sector	Corporate Debt	Debt Burden (average of asset/equity and debt/equity)	Negative



## Annexure I - Balance Sheet and Profit &amp; Loss Statement of Banks

BALANCE SHEET	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
million Rupees					
<b>ASSETS</b>					
Cash & Balances With Treasury Banks	2,014,703	2,276,963	1,829,335	2,922,048	3,005,489
Balances With Other Banks	277,988	253,008	265,732	395,676	374,727
Lending To Financial Institutions	1,079,071	1,095,663	1,132,188	1,629,493	1,379,764
Investments - Net	11,934,634	14,554,438	18,400,000	26,019,114	29,791,301
Advances - Net	8,291,572	10,120,509	11,818,241	12,178,293	15,805,050
Operating Fixed Assets	626,251	704,729	824,231	951,397	907,680
Right-of-Use Assets					169,755
Intangible Assets					76,743
Deferred Tax Assets	91,820	133,061	202,613	198,305	146,713
Other Assets	807,816	919,931	1,323,191	2,069,286	2,035,464
<b>TOTAL ASSETS</b>	<b>25,123,855</b>	<b>30,058,303</b>	<b>35,795,532</b>	<b>46,363,611</b>	<b>53,692,687</b>
<b>LIABILITIES</b>					
Bills Payable	313,827	328,566	439,979	409,720	701,486
Borrowings From Financial Institution	3,216,866	4,738,036	7,845,098	11,672,920	15,006,037
Deposits And Other Accounts	18,518,525	21,719,885	23,461,394	29,128,202	31,791,776
Sub-ordinated Loans	121,854	122,815	161,581	176,073	171,337
Liabilities Against Assets Subject To Finance Lease	7,534	8,025	8,268	9,873	217,693
Deferred Tax Liabilities	46,549	29,319	9,793	48,862	184,283
Other Liabilities	1,036,267	1,170,116	1,783,706	2,131,021	2,316,986
<b>TOTAL LIABILITIES</b>	<b>23,261,422</b>	<b>28,116,763</b>	<b>33,709,818</b>	<b>43,576,672</b>	<b>50,389,598</b>
<b>NET ASSETS</b>	<b>1,862,433</b>	<b>1,941,540</b>	<b>2,085,713</b>	<b>2,786,939</b>	<b>3,303,089</b>
<b>NET ASSETS REPRESENTED BY:</b>					
Share Capital	556,131	568,000	592,776	628,419	626,016
Reserves	392,599	445,470	509,887	652,682	731,130
Unappropriated Profit	642,965	721,894	873,629	1,209,273	1,391,551
<b>Share Holders' Equity</b>	<b>1,591,696</b>	<b>1,735,364</b>	<b>1,976,291</b>	<b>2,490,374</b>	<b>2,748,697</b>
Surplus/Deficit On Revaluation Of Assets	270,737	206,176	109,422	296,565	554,392
<b>TOTAL</b>	<b>1,862,433</b>	<b>1,941,540</b>	<b>2,085,713</b>	<b>2,786,939</b>	<b>3,303,089</b>
<b>PROFIT AND LOSS STATEMENT</b>					
	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24</b>
Mark-Up/ Return/Interest Earned	1,924,328	1,831,650	3,420,449	6,366,447	7,640,008
Mark-Up/ Return/Interest Expenses	1,071,898	992,650	2,243,024	4,463,672	5,600,804
<b>Net Mark-Up/ Interest Income</b>	<b>852,430</b>	<b>839,000</b>	<b>1,177,424</b>	<b>1,902,775</b>	<b>2,039,204</b>
Provisions & Bad Debts Written Off Directly/(Reversals)	123,039	50,405	58,768	61,614	64,008
<b>Net Mark-Up/ Interest Income After Provision</b>	<b>729,391</b>	<b>788,595</b>	<b>1,118,656</b>	<b>1,841,161</b>	<b>1,975,197</b>
Fees, Commission & Brokerage Income	118,322	142,803	173,148	217,417	265,463
Dividend Income	10,810	18,003	21,681	25,684	29,087
Income From Dealing In Foreign Currencies	21,854	34,746	80,448	111,283	102,862
Income from Derivatives					7,870
Gain/Loss on Securities					124,042
Net Gain/Loss on De-recognition of Financial Assets					-
Other Income	65,920	43,161	23,193	37,144	54,316
<b>Total Non - Markup/ Interest Income</b>	<b>216,906</b>	<b>238,713</b>	<b>298,470</b>	<b>391,527</b>	<b>583,640</b>
Administrative Expenses	521,253	565,230	704,573	916,191	1,013,741
Other Expenses	13,690	10,987	9,531	29,798	122,101
<b>Total Non-Markup/Interest Expenses</b>	<b>534,943</b>	<b>576,216</b>	<b>714,104</b>	<b>945,989</b>	<b>1,135,841</b>
Profit before Tax and Extra ordinary Items	411,355	451,092	703,022	1,286,699	1,422,995
Extra ordinary/unusual Items - Gain/(Loss)	-	-	-	-	55,214
<b>PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>411,355</b>	<b>451,092</b>	<b>703,022</b>	<b>1,286,699</b>	<b>1,367,781</b>
Less: Taxation	167,315	186,870	366,532	644,475	724,142
<b>PROFIT/ (LOSS) AFTER TAX</b>	<b>244,039</b>	<b>264,222</b>	<b>336,490</b>	<b>642,224</b>	<b>643,638</b>

Source: State Bank of Pakistan

## Financial Stability Review 2024

## Annexure II - Financial Soundness Indicators of the Banking Sector\*

		Dec - 20	Dec - 21	Dec - 22	Dec - 23	Dec - 24
		percent				
<b>CAPITAL ADEQUACY</b>						
	Risk Weighted CAR	18.6	16.7	17.0	19.7	20.6
	Tier I Capital to RWA	14.8	13.5	14.2	16.0	16.4
	Capital to Total Assets	7.2	6.3	5.9	5.9	6.3
<b>ASSET QUALITY</b>						
	NPLs to Total Loans	9.2	7.9	7.3	7.6	6.3
	Provision to NPLs	88.3	91.2	89.5	92.7	103.9
	Net NPLs to Net Loans	1.2	0.7	0.8	0.6	-0.3
	Net NPLs to Capital <sup>^</sup>	5.3	4.0	4.6	2.7	-1.2
<b>EARNINGS</b>						
	Return on Assets (Before Tax)	1.8	1.6	2.1	3.1	2.7
	Return on Assets (After Tax)	1.0	1.0	1.0	1.6	1.3
	ROE (Avg. Equity & Surplus) (Before Tax)	23.2	24.0	35.3	54.4	45.8
	ROE (Avg. Equity & Surplus) (After Tax)	13.8	14.1	16.9	27.1	21.5
	NI/Gross Income	79.7	77.9	79.8	82.9	77.7
	Cost / Income Ratio	50.0	53.5	48.4	41.2	43.3
<b>LIQUIDITY</b>						
	Liquid Assets/Total Assets	54.8	55.4	56.6	63.5	60.3
	Liquid Assets/Total Deposits	74.3	76.7	86.4	101.1	101.9
	Advances/Deposits	44.8	46.6	50.4	41.8	49.7

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

<sup>^</sup>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 30, 2015 balance sheet capital was used to calculate this ratio.

Source: State Bank of Pakistan

## Annexure III - Balance Sheet and Profit &amp; Loss Statement of MicroFinance Banks

BALANCE SHEET	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
million Rupees					
<b>ASSETS</b>					
Cash & Balances With Treasury Banks	23,900	28,991	43,814	45,956	54,072
Balances With Other Banks	53,236	57,931	24,589	34,278	30,949
Lending To Financial Institutions	12,387	1,052	15,476	21,782	31,167
Investments - Net	96,774	133,419	228,199	163,477	387,305
Advances - Net	231,047	278,318	342,358	379,946	421,227
Operating Fixed Assets	23,825	24,689	25,210	27,680	21,680
Right-of-Use Assets					6,066
Intangible Assets					5,354
Deferred Tax Assets	2,531	4,687	14,141	21,229	32,100
Other Assets	50,283	53,017	59,194	76,988	78,612
<b>TOTAL ASSETS</b>	<b>493,984</b>	<b>582,104</b>	<b>752,982</b>	<b>771,336</b>	<b>1,068,533</b>
<b>LIABILITIES</b>					
Bills Payable	758	1,079	702	1,041	2,653
Borrowings From Financial Institution	26,909	59,022	137,025	58,461	204,233
Deposits And Other Accounts	373,084	422,998	515,760	597,023	732,959
Sub-ordinated Loans	8,672	9,041	12,391	12,447	11,759
Liabilities Against Assets Subject To Finance Lease	-	-	-	-	9,245
Deferred Tax Liabilities	-	-	-	-	-
Other Liabilities	34,384	33,262	43,382	64,965	70,461
<b>TOTAL LIABILITIES</b>	<b>443,806</b>	<b>525,401</b>	<b>709,261</b>	<b>733,937</b>	<b>1,031,310</b>
<b>NET ASSETS</b>	<b>50,175</b>	<b>56,703</b>	<b>43,721</b>	<b>37,399</b>	<b>37,223</b>
<b>NET ASSETS REPRESENTED BY:</b>					
Share Capital	37,850	36,609	42,196	42,379	59,280
Reserves	23,747	41,401	46,122	54,991	61,172
Unappropriated Profit	(11,567)	(20,829)	(44,225)	(60,275)	(85,496)
<b>Share Holders' Equity</b>	<b>50,030</b>	<b>57,181</b>	<b>44,094</b>	<b>37,096</b>	<b>34,955</b>
Surplus/Deficit On Revaluation Of Assets	133	(487)	(408)	213	2,268
Deferred Grants/Subsidies	12	9	35	90	50
<b>TOTAL</b>	<b>50,175</b>	<b>56,703</b>	<b>43,721</b>	<b>37,399</b>	<b>37,223</b>
<b>PROFIT AND LOSS STATEMENT</b>					
Mark-Up/ Return/Interest Earned	75,284	78,436	105,207	164,898	205,312
Mark-Up/ Return/Interest Expenses	30,426	32,067	53,918	94,147	112,132
<b>Net Mark-Up / Interest Income</b>	<b>44,858</b>	<b>46,368</b>	<b>51,289</b>	<b>70,752</b>	<b>93,180</b>
Provisions & Bad Debts Written Off Directly/ (Reversals)	11,612	16,291	22,823	15,991	39,268
<b>Net Mark-Up / Interest Income After Provision</b>	<b>33,246</b>	<b>30,077</b>	<b>28,466</b>	<b>54,761</b>	<b>53,912</b>
Fees, Commission & Brokerage Income	11,976	14,720	21,631	23,839	36,461
Dividend Income	14	-	-	-	-
Income From Dealing In Foreign Currencies	-	-	-	(26)	-
Other Income	1,294	2,195	2,391	9,756	5,751
<b>Total Non - Markup / Interest Income</b>	<b>13,284</b>	<b>16,915</b>	<b>24,022</b>	<b>33,569</b>	<b>42,211</b>
Administrative Expenses	49,246	52,990	70,802	74,838	120,943
Other Expenses	638	822	3,211	24,311	671
<b>Total Non-Markup/Interest Expenses</b>	<b>49,883</b>	<b>53,812</b>	<b>74,013</b>	<b>99,149</b>	<b>121,613</b>
Profit before Tax and Extra ordinary Items	(3,354)	(6,820)	(21,525)	(10,819)	(25,490)
Extra ordinary/unusual Items - Gain/(Loss)	-	-	-	-	-
Subsidies received	55.79	25.06	33.19	16.16	(6.30)
<b>PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>(3,409)</b>	<b>(6,845)</b>	<b>(21,558)</b>	<b>(10,835)</b>	<b>(25,484)</b>
Less: Taxation	2,474	1,235	(4,403)	(2,717)	(9,272)
<b>PROFIT/ (LOSS) AFTER TAX</b>	<b>(5,883)</b>	<b>(8,080)</b>	<b>(17,155)</b>	<b>(8,118)</b>	<b>(16,212)</b>

Source: State Bank of Pakistan

## Financial Stability Review 2024

## Annexure IV - Financial Soundness Indicators of the MicroFinance Banks

	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
	percent				
<b>CAPITAL ADEQUACY</b>					
Risk Weighted CAR	19.0	18.3	10.9	7.6	2.6
Tier 1 Capital to RWA	15.3	14.3	8.1	4.7	0.1
Capital to Total Assets	11.0	10.4	5.3	3.7	0.9
<b>ASSET QUALITY</b>					
NPLs to Total Loans	3.3	5.2	6.7	6.7	9.7
Provision to NPLs	106.5	78.1	78.8	102.3	95.3
Net NPLs to Net Loans	-0.2	1.2	1.5	-0.2	0.5
Net NPLs to Capital <sup>^</sup>	-0.9	5.4	12.9	-2.2	21.4
<b>EARNINGS</b>					
Return on Assets (Before Tax)	-0.8	-1.3	-3.4	-1.5	-3.0
Return on Assets (After Tax)	-1.4	-1.6	-2.7	-1.1	-1.9
ROE (Avg. Equity & Surplus) (Before Tax)	-7.1	-12.7	-42.9	-26.4	-77.9
ROE (Avg. Equity & Surplus) (After Tax)	-12.2	-15.0	-34.1	-19.7	-49.6
NII/Gross Income	77.2	73.3	68.1	67.8	68.8
Cost / Income Ratio	85.8	85.0	98.3	95.0	89.8
<b>LIQUIDITY</b>					
Liquid Assets/Total Assets	35.7	31.3	26.5	29.4	43.6
Liquid Assets/Total Deposits	47.3	43.1	38.6	38.0	63.6
Advances/Deposits	61.9	65.8	66.4	63.6	57.5

<sup>^</sup> 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.

Source: State Bank of Pakistan

## Annexure V - List of Banks

Dec-23	Dec-24
<b>A. Public Sector Com. Banks (5)</b>	<b>A. Public Sector Com. Banks (5)</b>
1 First Women Bank Ltd.	1 First Women Bank Ltd.
2 National Bank of Pakistan	2 National Bank of Pakistan
3 Sindh Bank Ltd.	3 Sindh Bank Ltd.
4 The Bank of Khyber	4 The Bank of Khyber
5 The Bank of Punjab	5 The Bank of Punjab
<b>B. Local Private Banks (20)</b>	<b>B. Local Private Banks (20)</b>
1 AlBaraka Bank (Pakistan) Ltd.	1 AlBaraka Bank (Pakistan) Ltd.
2 Allied Bank Ltd.	2 Allied Bank Ltd.
3 Askari Bank Ltd.	3 Askari Bank Ltd.
4 Bank AL Habib Ltd.	4 Bank AL Habib Ltd.
5 Bank Alfalah Ltd.	5 Bank Alfalah Ltd.
6 BankIslami Pakistan Ltd.	6 BankIslami Pakistan Ltd.
7 Dubai Islamic Bank Pakistan Ltd.	7 Dubai Islamic Bank Pakistan Ltd.
8 Faysal Bank Ltd.	8 Faysal Bank Ltd.
9 Habib Bank Ltd.	9 Habib Bank Ltd.
10 Habib Metropolitan Bank Ltd.	10 Habib Metropolitan Bank Ltd.
11 JS Bank Ltd.	11 JS Bank Ltd.
12 MCB Bank Ltd.	12 MCB Bank Ltd.
13 MCB Islamic Bank Ltd.	13 MCB Islamic Bank Ltd.
14 Meezan Bank Ltd.	14 Meezan Bank Ltd.
15 SAMBA Bank Ltd.	15 SAMBA Bank Ltd.
16 Silk Bank Ltd	16 Silk Bank Ltd
17 Soneri Bank Ltd.	17 Soneri Bank Ltd.
18 Standard Chartered Bank (Pakistan) Ltd.	18 Standard Chartered Bank (Pakistan) Ltd.
19 Bank Makramah Limited (formerly Summit Bank Ltd.)	19 Bank Makramah Limited (formerly Summit Bank Ltd.)
20 United Bank Ltd.	20 United Bank Ltd.
<b>C. Foreign Banks (4)</b>	<b>C. Foreign Banks (4)</b>
1 Citibank N.A.	1 Citibank N.A.
2 Deutsche Bank AG	2 Deutsche Bank AG
3 Industrial and Commercial Bank of China Ltd.	3 Industrial and Commercial Bank of China Ltd.
4 Bank of China Limited	4 Bank of China Limited
<b>D. Specialized Banks (3)</b>	<b>D. Specialized Banks (2)</b>
1 Punjab Provincial Co-operative Bank Ltd.	1 Punjab Provincial Co-operative Bank Ltd.
2 SME Bank Ltd.	2 Zarai Taraqati Bank Ltd.
3 Zarai Taraqati Bank Ltd.	
<b>All Commercial Banks (29)</b>	<b>All Commercial Banks (29)</b>
Include A + B + C	Include A + B + C
<b>All Banks (32)</b>	<b>All Banks (31)</b>
Include A + B + C + D	Include A + B + C + D

Source: State Bank of Pakistan

## Annexure VI - Composition of Islamic Banking Institutions

Dec-23	Dec-24
<b>Islamic Banks</b>	<b>Islamic Banks</b>
1 AlBaraka Bank (Pakistan) Ltd.	1 AlBaraka Bank (Pakistan) Ltd.
2 BankIslami Pakistan Ltd.	2 BankIslami Pakistan Ltd.
3 Dubai Islamic Bank Pakistan Ltd	3 Dubai Islamic Bank Pakistan Ltd
4 Faysal Bank Ltd.	4 Faysal Bank Ltd.
5 MCB Islamic Bank Ltd.	5 MCB Islamic Bank Ltd.
6 Meezan Bank Ltd	6 Meezan Bank Ltd
<b>Conventional Banks having Islamic Banking Branches</b>	<b>Conventional Banks having Islamic Banking Branches</b>
1 Askari Bank Ltd.	1 Askari Bank Ltd.
2 Allied Bank Ltd.	2 Allied Bank Ltd.
3 Bank Al Habib Ltd	3 Bank Al Habib Ltd
4 Bank Alfalah Ltd	4 Bank Alfalah Ltd
5 Habib Bank Ltd	5 Habib Bank Ltd
6 Habib Metropolitan Bank	6 Habib Metropolitan Bank
7 National Bank of Pakistan	7 National Bank of Pakistan
8 Silk Bank Ltd	8 Silk Bank Ltd
9 Sindh Bank Ltd	9 Sindh Bank Ltd
10 Soneri Bank Ltd	10 Soneri Bank Ltd
11 Standard Chartered Bank	11 Standard Chartered Bank
12 Summit Bank Ltd.	12 Summit Bank Ltd.
13 The Bank of Khyber	13 The Bank of Khyber
14 The Bank of Punjab	14 The Bank of Punjab
15 United Bank Ltd.	15 United Bank Ltd.
16 Zarai Taraqiati Bank Ltd.	16 Zarai Taraqiati Bank Ltd.
Grand Total 22 (6+16)	Grand Total 22 (6+16)

Source: State Bank of Pakistan

**Annexure VII - List of Development Finance Institutions (DFIs)**

Dec-23	Dec-24
1 House Building Finance Company Ltd.	1 House Building Finance Company Ltd.
2 PAIR Investment Company Ltd.	2 PAIR Investment Company Ltd.
3 Pak Brunei investment Company Ltd.	3 Pak Brunei investment Company Ltd.
4 Pak Libya Holding Company Ltd.	4 Pak Libya Holding Company Ltd.
5 Pak Oman Investment Company Ltd.	5 Pak Oman Investment Company Ltd.
6 Pak-China Investment Company Ltd.	6 Pak-China Investment Company Ltd.
7 Pakistan Kuwait Investment Company (Private) Ltd.	7 Pakistan Kuwait Investment Company (Private) Ltd.
8 Pakistan Mortgage Refinance Company Ltd.	8 Pakistan Mortgage Refinance Company Ltd.
9 Saudi Pak Industrial & Agricultural Investment Company l	9 Saudi Pak Industrial & Agricultural Investment Company
	10 EXIM Bank

Source: State Bank of Pakistan

## Annexure VIII - List of Microfinance Banks (MFBs)

Dec-23	Dec-24
1 Advans Pakistan Microfinance Bank Limited	1 Advans Pakistan Microfinance Bank Limited
2 APNA Microfinance Bank Limited	2 APNA Microfinance Bank Limited
3 FINCA Microfinance Bank Limited	3 FINCA Microfinance Bank Limited
4 Khushhali Microfinance Bank Limited	4 Khushhali Microfinance Bank Limited
5 Mobilink Microfinance Bank Limited	5 Mobilink Microfinance Bank Limited
6 NRSP Microfinance Bank Limited	6 NRSP Microfinance Bank Limited
7 Lolc Microfinance Bank Limited (Pak Oman Microfinance Bank Limited)	7 Lolc Microfinance Bank Limited (Pak Oman Microfinance Bank Limited)
8 Sindh Microfinance Bank Limited	8 Sindh Microfinance Bank Limited
9 Telenor Microfinance Bank Limited	9 Telenor Microfinance Bank Limited
10 HBL Microfinance Bank Limited (formerly The First Micro Finance Bank Ltd.)	10 HBL Microfinance Bank Limited (formerly The First Micro Finance Bank Ltd.)
11 U Microfinance Bank Limited	11 U Microfinance Bank Limited
	12 ASA Microfinance Bank Limited

Source: State Bank of Pakistan

**Annexure IX - List of Non-Bank Financial Institutions**

<b>Asset Management Companies (AMCs)/ Investment Advisors ( IAs)</b>	<b>REIT Management Companies (RMCs)</b>
1 786 Investments Limited	1 AKD REIT Management Company Limited
2 Aaraf Investment Advisory Limited	2 Arif Habib Dolmen REIT Management Limited
3 ABL Asset Management Company Limited	3 Bodla REIT Management Company Limited
4 AKD Investment Management Limited	4 DHAI REIT Management Company Limited
5 Alfalah Asset Management Limited	5 Fast REIT Management Company Limited
6 Alliance Investment Management Limited	6 IMM REIT Management Company Limited
7 Al-Meezan Investment Management Limited	7 ISE Towers REIT Management Limited
8 Atlas Asset Management Limited	8 Providential REIT Management Company Limited
9 AWT Investment Limited	9 Rockville REIT Management Company Limited
10 BMA Investment Advisors Limited	10 SB Global REIT Management Limited
11 Faysal Asset Management Limited	11 Shields REIT Management Company Limited
12 First Capital Investments Limited	12 Sinolink REIT Management Company Limited
13 Habib Asset Management Limited	13 The Lake City REIT Management Limited
14 HBL Asset Management Limited	14 TPL REIT Management Company Limited
15 Lucky Investment Limited	15 Veritas REIT Management Company Limited
16 JS Investments Limited	16 Zameen REIT Management Company Limited
17 Kifayah Investment Management Limited	17 CG Global REIT Management Company Limited
18 Lakson Investments Limited	18 HMR REIT Management Company Limited
19 Magnus Investment Advisors Limited	19 Hussain Lakhani REIT Management Company Limited
20 Mahaana Wealth Limited	20 Imarat REIT Management Company Limited
21 MCB Investment Management Limited	21 Intermarket REIT Management Company Limited
22 National Investment Trust Limited	22 SBD REITS Limited
23 NBP Fund Management Limited	23 Tulip REIT Management Limited
24 Pak Oman Asset Management Company Limited	<b>Modarabas</b>
25 Pak Qatar Asset Management Co. Limited	1 B.F. Modaraba
26 Sarmuz Investments Limited	2 Burj Clean Energy Modaraba
27 UBL Fund Managers Limited	3 First Elite Capital Modaraba
28 Vision Capital Limited	4 First Equity Modaraba
<b>Housing Finance Companies</b>	5 First Al-Noor Modaraba
1 Akhuwat Housing Finance Company Limited	6 First Fidelity Leasing Modaraba
2 Assan Ghar Finance Limited	7 First IBL Modaraba
3 Pakistan Housing Finance Company Limited	8 First Imrooz Modaraba
4 Trellis Housing Finance Company	9 First Paramount Modaraba
<b>Private Equity &amp; Venture Capital Firms (PE&amp;VC)</b>	10 First Punjab Modaraba
1 Fatima Gobi Ventures (Pvt) Limited	11 First Treet Manufacturing Modaraba
2 Ijarah Capital Partners Limited	12 First Habib Modaraba
3 NIDA Venture Capital Management Limited	13 Orient Rental Modaraba
4 PNO Capital Limited	14 Orix Modaraba
5 Sai Venture Capital (Pvt) Limited	15 Popular Islamic Modaraba
6 TMT Ventures Limited	16 First Prudential Modaraba
<b>Discounting</b>	17 Sindh Modaraba
1 Smart Finance Limited	18 Tri-Star Modaraba
	19 Trust Modaraba
	20 Unicap Modaraba

Source: Securities and Exchange Commission of Pakistan

## Financial Stability Review 2024

## Annexure IX - List of Non-Bank Financial Institutions (cont.)

Non-Bank Microfinance Companies (NBMFCs)	Investment Finance Companies (IFCs)
1 Agahe Pakistan	1 4sight Finance Services (Private) Limited
2 Akhuwat Islamic Microfinance	2 Abhi (Private) Limited
3 AL-Mawakhat Microfinance Company Limited	3 Creditbook Financial Services (Private) Limited
4 Asaan Qarz Financing Services Private Limited	4 Din Global Financial Services Private Limited
5 Bluesky Financial Services Limited	5 Easy Finance Private Limited
6 Care Financial Services Private Limited	6 EDUFI Financial Services Private Limited
7 Cashew Financial Services Limited	7 Escorts Investment Bank Limited
8 Creditfix Financial Services Limited	8 Finja Lending Services Limited
9 CSC Empowerment & Inclusion Programme	9 Finleap Financial Services Private Limited
10 Damen Support Programme	10 First Credit & Investment Bank Limited
11 Farmers Development Organization	11 Goldfin Limited
12 Farmers Friend Organization	12 Infra Zamin Pakistan Limited
13 Ghazi Barotha Taraqiati Idara	13 Invest Capital Investment Bank Limited
14 Gold Lion Financials (Private) Ltd.	14 Jazzcash (Private) Limited
15 Humraah Financial Services Ltd	15 Jinglecred Digital Finance Limited
16 JWS Pakistan	16 Legend Financial Services (Pvt) Limited
17 Kashf Foundation	17 LSE Financial Services Limited
18 MG Financial Services (Pvt) Limited	18 National Credit Guarantee Company Limited
19 Mojaz Support Program	19 Neem Exponential Financial Services (Pvt.) Ltd.
20 National Rural Support Programme (NRSP)	20 Orix Leasing Pakistan Limited
21 OPD Support Program	21 Oraan Financial Services Private Limited
22 Organization for Poverty Reduction and Community Training	22 Pakistan Development Fund Ltd
23 Pakisnova Microfinance Company (Private) Limited	23 Pakistan Microfinance Investment Co. Ltd
24 Punjab Rural Support Programme	24 Parwaaz Financial Services Limited
25 Rural Community Development Programme (RCDP)	25 PostEx Financial Services (Pvt) Limited
26 Saath Microfinance Foundation Pakistan	26 QistBazaar (Private) Limited
27 Safco Microfinance Company (Pvt) Limited	27 Quark Financials Pakistan Private Limited
28 Sarhad Rural Support Programme (SRSP)	28 Security Investment Bank Limited
29 Sarmaya Microfinance (Pvt) Ltd.	29 Seedcred Financial Services Limited
30 Sayya Microfinance Company	30 Taleem Finance Company Limited
31 Shah Sachal Sami Foundation (SSSF)	31 Trukkr Financial Services Limited
32 Simak Financial Services (Private) Limited	32 UDL Financial Services Limited
33 Sindh Rural Support Organization	33 Umeed Pay (Pvt) Limited
34 Sirat Microfinance Limited	34 Visioncred Financial Services (Pvt) Limited
35 Soon Valley Development Program	35 Viva Finance Private Limited
36 TEZ Financial Services Limited	36 Walee Financial Services Private Limited
37 Thardeep Microfinance Foundation	37 WASL Investment Finance Limited
38 Titlistec Finance Limited	38 Zanda Financial Services Private Limited
39 Union Microfinance Company Limited	
Leasing Companies	
1 Cordoba Leasing Limited	
2 Grays Leasing Limited	
3 Pak Gulf Leasing Company Limited	
4 Primus Leasing Limited	
5 SME Leasing Limited	

Source: Securities and Exchange Commission of Pakistan

**Annexure X - List of Insurance Companies****Non-Life Insurance Companies**

1 Adamjee Insurance Company Limited	14 Jubilee General Insurance Company Limited
2 Alfalah Insurance Company Limited	15 National Insurance Company Limited
3 Alpha Insurance Company Limited	16 Premier Insurance Limited
4 Asia Insurance Company Limited	17 Reliance Insurance Company Limited
5 Askari General Insurance Company Limited	18 Security General Insurance Company Limited
6 Atlas Insurance Limited	19 Shaheen Insurance Company Limited
7 Century Insurance Company Limited	20 Sindh Insurance Limited
8 Chubb Insurance Pakistan Limited	21 The United Insurance Company of Pakistan Limited
9 Crescent Star Insurance Co. Limited	22 The Universal Insurance Company Limited
10 East West Insurance Company Limited	23 TPL Insurance Limited
11 EFU General Insurance Limited	24 TRAFICO Insurance Company Limited
12 Habib Insurance Company Limited	25 UBL Insurers Limited
13 IGI General Insurance Limited	

**General Takaful Companies**

1 Pak-Qatar General Takaful Limited	2 Salaam Takaful Limited (Formerly Takaful Pakistan)
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**Life Insurance Companies**

1 Adamjee Life Assurance Company Limited	5 Jubilee Life Insurance Company Ltd.
2 Askari Life Assurance Company Ltd. (Previously East West Life Assurance Company Limited)	6 TPL Life Insurance Limited (Previously Asia Care Health & Life Insurance Company Ltd.)
3 EFU Life Assurance Company Limited	7 State Life Insurance Corporation of Pakistan
4 IGI Life Insurance Limited	8 Postal Life Insurance Company Limited

**Family Takaful Companies**

1 5th Pillar Family Takaful Limited	3 Dawood Family Takaful Limited
2 Pak Qatar Family Takaful Limited	

**Reinsurance Companies**

1 Pakistan Reinsurance Company Limited
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Source: State Bank of Pakistan



**List of Abbreviations****A**

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AD	Authorized Dealer
ADC	Alternate Delivery Channels
ADR	Advances to Deposit Ratio
AE	Advanced Economy
AFS	Available for Sale
AI	Artificial Intelligence
AIT	Agriculture Income Tax
AM	Asset Management
AMC	Asset Management Companies
AMF	Arab Monetary Fund
ATM	Automated Teller Machine
AUM	Assets Under Management

**B**

BB	Branchless Banking
BCI	Business Confidence Index
BCO	Banking Companies Ordinance
BIA	Basic Indicator Approach
BIS	Bank for International Settlements
BSC	Banking Services Corporation
BSSM	Banking Sector Stability Map

**C**

CAB	Current Account Balance
CAR	Capital Adequacy Ratio
CCI	Consumer Confidence Index
CDC	Central Depository Company
CDNS	Central Directorate of National Savings
CDS	Credit Default Swap
CET	Common Equity Tier
CIB	Credit Information Bureau
CKO	Centralized Know-Your-Customer Organization
CO <sub>2</sub>	Carbon Dioxide
COVID/ COVID-19	Corona Virus Disease
CPI	Consumer Price Index
CR	Current Ratio
CRAs	Credit Rating Agencies
CRC	Corporate Restructuring Company
CRI	Climate Risk Index
CRMD	Cyber Risk Management Department

	CRWA	Credit Risk Weighted Assets
	CT	Committee for Transformation
	CY	Calendar Year
D		
	DAP	Diammonium Phosphate
	DFI	Development Finance Institution
	DMO	Debt Management Office
	DPC	Deposit Protection Corporation
	DPR	Diversified Payment Right
	DRB	Digital Retail Bank
	D-SIB	Domestic Systemically Important Bank
	DTO	Dedicated Takaful Operator
E		
	EBIT	Earnings Before Interest and Taxes
	EC	Exchange Company
	ECIB	Electronic Credit Information Bureau
	ECL	Expected Credit Loss
	EFF	Extended Fund Facility
	EMDE	Emerging Market and Developing Economy
	EMI	Electronic Money Institution
	EPF	Employer Pension Fund
	EPSPL	E-Processing Systems Private Limited
	ESFCA	Exporters' Special Foreign Currency Account
	EU	European Union
	EWMA	Exponential Weighted Moving Average
F		
	FBR	Federal Board of Revenue
	FDR	Financing to Deposit Ratio
	FED	Federal Reserve System, the central bank of USA
	FI	Financial Institution
	FIRD	Financial Institutions Resolution Department
	FMI	Financial Market Infrastructure
	FSB	Financial Stability Board
	FSHM	Financial Sector Heat Map
	FSI	Financial Soundness Indicator
	FSR	Financial Stability Review
	FSVI	Financial Stability Vulnerability Index
	FVOCI	Fair Value through Other Comprehensive Income
	FVTPL	Fair Value Through Profit and Loss
	FX	Foreign Exchange
	FY	Fiscal Year

## G

G2P	Government to Person
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GNPLR	Gross Non-Performing Loan Ratio
GP	General Provident Fund
GPT	Generative Pre-trained Transformer
GWh	Gigawatt hours

## H

H1	First Half
H2	Second Half
HFT	Held for Trading
HR	Human Resource
HSD	High Speed Diesel

## I

IA	Investment Advisor
IBAN	International Bank Account Number
IBFT	Inter Bank Funds Transfer
IBIs	Islamic Banking Institutions
ICR	Imports Coverage Ratio
ID	Identification
IFC	Investment Finance Company
IFEM	In-land Freight Equalization Margin
IFPD	Islamic Finance Policy Department
IFRS	International Financial Reporting Standard
IFS	Insurer Financial Strength
IMF	International Monetary Fund
IT	Information Technology

## K

KG	Kilogram
KPK	Khyber Pakhtunkhwa
KSE	Karachi Stock Exchange
Kwh	Kilowatt-hour

## L

LCA	Life Cycle Assessment
LCR	Liquidity Coverage Ratio
LLM	Large Language Model
LSM	Large Scale Manufacturing
LVPS	Large Value Payment System

## M

ME	Medium Enterprise
MFB	Microfinance Bank

	MMBtu	Million British thermal units
	MOGAS	Motor Gasoline
	MoU	Memorandum of Understanding
	MRWA	Market Risk Weighted Assets
	MSP	Minimum Support Price
	MST	Macro Stress Testing
	MTBs	Market Treasury Bills
	MUFAP	Mutual Fund Association of Pakistan
N		
	NBFI	Non-Bank Financial Institution
	NBMFC	Non-Bank Microfinance Company
	NCCPL	National Clearing Company of Pakistan Limited
	NFCs	Non-Financial Corporates
	NFIS	National Financial Inclusion Strategy
	NIA	National Income Accounts
	NIBAF	National Institute of Banking and Finance
	NIFT	National Institutional Facilitation Technologies
	NII	Net Interest Income
	NIM	Net Interest Margin
	NPA	Non-Performing Asset
	NPF	Non-Performing Financing
	NPLR	Non-Performing Loans Ratio
	NPLs	Non-Performing Loans
	NSFR	Net Stable Funding Ratio
O		
	OD	Overdue
	OMCs	Oil Marketing Companies
	OMOs	Open Market Operations
	OPEC	The Organization of the Petroleum Exporting Countries
	ORR	Obligor Risk Rating
	ORWA	Operational Risk Weighted Assets
	OSS	Operational Self Sufficiency
	OTC	Over the Counter
P		
	P/B	Price to Book Ratio
	P/E	Price to Earnings Ratio
	P2M	Person to Merchant
	P2P	Person to Person
	PACRA	Pakistan Credit Rating Agency
	PBS	Pakistan Bureau of Statistics
	PD	Probability of Default
	PDL	Petroleum Development Levy

	PIB	Pakistan Investment Bond
	PKR	Pakistani Rupee
	POS	Point of Sale
	PRISM	Pakistan Real-Time Interbank Settlement Mechanism
	PSE	Public Sector Enterprise
	PSO	Payment System Operator
	PSP	Payment System Provider
	PSX	Pakistan Stock Exchange
Q		
	Q1	First Quarter
	Q2	Second Quarter
	Q3	Third Quarter
	Q4	Fourth Quarter
	QoQ	Quarter on Quarter
	QR	Quick Response
R		
	RC	Regulatory Capital
	RCG	Regional Consultative Group
	RCOA	Reporting Chart Of Accounts
	RDA	Roshan Digital Account
	RE	Regulated Entity
	REIT	Real Estate Investment Trust
	RFEC	Regulatory Framework for Exchange Companies
	RFO	Residual Fuel Oil
	RHS	Right Hand Side
	RMC	REIT Management Company
	RMF	Risk Management Framework
	ROA	Return on Assets
	ROE	Return on Equity
	RSA	Rate Sensitive Assets
	RSL	Rate Sensitive Liabilities
	RTGS	Real Time Gross Settlement
	RTOB	Real Time Online Branches
	RVPS	Retail Value Payment System
	RWAs	Risk Weighted Assets
S		
	S <sub>0</sub>	Baseline Scenario
	S <sub>1</sub>	Stressed Scenario
	SBA	Stand-By Arrangement
	SBP	State Bank of Pakistan
	SC	Steering Committee
	SCF	Supply Chain Finance

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	SCRS	Specialized Companies Return System
	SE	Small Enterprise
	SECP	Securities and Exchange Commission of Pakistan
	SGF	Shariah Governance Framework
	SGF	Settlement Guarantee Fund
	SME	Small and Medium Enterprise
	SOEs	State Owned Enterprises
	SRS	Systemic Risk Survey
	ST	Sales Tax
	SUV	Sports Utility Vehicle
T		
	TA	Technical Assistance
	TERF	Temporary Economic Refinance Facility
	TFC	Term Finance Certificate
	TRWA	Total Risk Weighted Assets
	TT	Telegraphic Transfer
U		
	US	United States
	US\$	United States Dollar
V		
	VAR	Vector Auto-Regressive
	VC	Venture Capital
	VIS	VIS Credit Rating
	VPS	Voluntary Pension Scheme
W		
	WADR	Weighted Average Deposit Rate
	WALR	Weighted Average Lending Rate
Y		
	YoY	Year on Year