VIS

Credit Rating Company Limited

BANKING SECTOR UPDATE

In 2024, Pakistan's banking sector remained resilient, supported by improving macroeconomic conditions. Inflation receded from the previous year's highs, the currency stabilized, and fiscal consolidation progressed, enabling steadier economic activity. The aggregate balance sheet of commercial banks expanded significantly—rising by approximately 15.8% during the year to reach around PKR 53.7 tn. As of Dec'24, deposits had grown by about 9.1% year-on-year to over PKR 31.8 tn, driven by favorable interest rates during much of the year.

The divergence between deposit and asset growth is explained by superior equity growth and more notably interbank transactions backed by and channeled into the purchase of government securities to magnify positive spreads through volumes. A substantial portion of the deposit growth during the first three quarters of 2024 was also directed into government securities. In the final quarter, private sector advances gained significant traction, as banks sought to avoid paying a higher tax charge up to 15%, if their ADR fell below 50%. Consequently, the Gross ADR for the industry stood at 53.2% by year-end.

Financial performance in 2024 remained broadly stable. Aggregate after-tax profitability for the banking sector was largely unchanged, with SBP data indicating a marginal increase in after-tax profits to PKR 644.0 bn (2023: PKR 642.0 bn). The major drag on earnings came from deceleration in net markup income, as the fall in SBP policy rate started translating into returns on earning assets and contracting the net profit margin. Moreover, the burden of income tax on banking companies also increased during the year under review contributed in moderation of the overall earnings of the sector. As a result, key profitability indicators moderated slightly, with the Return on Average Assets (ROAA) at 1.3% (Dec '23: 1.6%) and the Return on Average Equity (ROAE) at 21.1% (Dec '23: 26.4%).

Capital buffers remained strong. The industry's capital adequacy ratio (CAR) rose to approximately 20.4% by end-2024 (2023: 19.4%), remaining well above the regulatory minimum. Banks benefited from strong deposit inflows—boosted by the SBP's digital and financial inclusion initiatives—and continued to maintain excess capital to mitigate systemic risks. In a move to enhance depositor confidence and systemic stability, the Deposit Protection Corporation (DPC) raised insured limits to PKR 1 mn per depositor in late 2024.

Asset quality continued to improve during 2024. The non-performing loan (NPL) ratio declined to approximately 6.3% (2023: 7.6%). The specific provisioning coverage for Stage-3 assets rose to 83.8% (2023: 81.3%), while general provisioning coverage, against performing and underperforming advances, increased to 1.4% (2023: 0.9%). Regulatory authorities maintained a strong focus on prudent provisioning and risk management practices, which supported containment of credit risk. Large corporate borrowers generally remained creditworthy, underpinned by adequate liquidity and repayment capacity.

Within the banking sector, Islamic banking demonstrated solid growth in 2024, with total assets rising by 23.1% year-on-year, increasing its market share to 20.6%. Deposits also grew significantly by 17.1%, reaching 24.9% of the overall banking sector. Financing expanded by 21%, and net investments rose by 17.7%. The physical outreach of Islamic banking increased, with a 21.4% rise in branches and a 17.2% rise in Islamic banking windows.

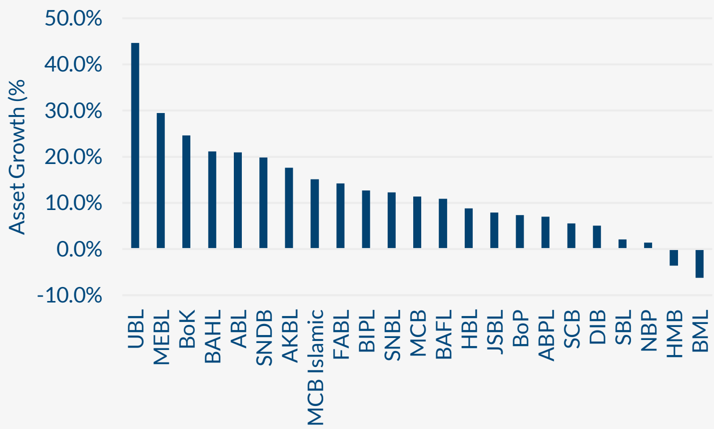
The future of Islamic banking in Pakistan is shaped by the policy goal of transitioning fully to Shariah compliant finance by 2027. While the 2024 deposit share target of 30% was missed, growth momentum persists. Nonetheless, the sector faces structural hurdles—particularly in liquidity management and skilled workforce availability. The limited presence of Government Ijarah Sukuk (only 10% of domestic debt) reflects a broader gap in Islamic financial instruments. Despite these challenges, Islamic banking is expected to deepen its footprint within Pakistan's financial system.

Looking ahead, Pakistan's commercial banking sector appears well-positioned, underpinned by strong fundamentals, though it must navigate a landscape of mixed opportunities and risks. The sharp monetary easing in the second half of 2024—reducing policy rates from 22% to around 11% by early 2025—was supported by a marked decline in inflation to single digit. In this evolving macroeconomic environment, banks may face some compression in net margins, while the pace of credit expansion will depend on the strength of economic recovery and borrower demand. If growth momentum strengthens, lending to SMEs and consumers is expected to rebound, aided by regulatory incentives and targeted refinance schemes.

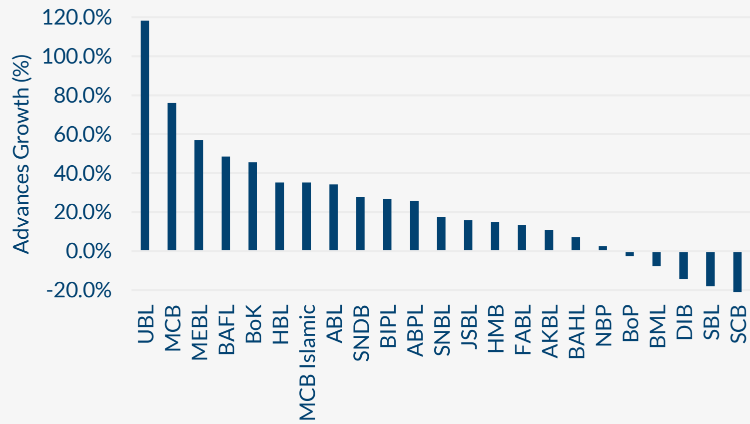
Simultaneously, sustained efforts in digital transformation and financial inclusion—including the expansion of instant payment systems and broader outreach to underserved market segments—are expected to improve operational efficiency and deepen market penetration. While fiscal and external vulnerabilities may moderate the pace of policy easing and credit growth in 2025, improved asset quality, strong capitalization, and ample liquidity buffers will continue to support the sector. Overall, the outlook remains one of cautious optimism, supported by a more stable macroeconomic environment, laying the groundwork for gradual and broad-based sectoral growth.

FINANCIAL SOUNDNESS INDICATORS (PKR in Billions)				
BALANCE SHEET	31-Dec-22	31-Dec-23	31-Dec-24	31-Mar-25
Gross Advances	12,645	13,101	16,914	14,294
Net Advances	11,897	12,292	16,019	13,162
Investments (net)	18,400	26,019	29,791	33,152
Total Assets	35,796	46,364	53,693	54,632
Borrowings	7,845	11,673	15,006	14,971
Deposits	23,461	29,128	31,801	33,192
Liabilities	33,710	43,577	50,390	51,303
Paid up Capital	593	628	626	637
Equity	2,086	2,787	3,303	3,329
INCOME STATEMENT	CY22	CY23	CY24	1QCY25
Net Profit Income	1,177	1,903	2,039	557
Profit Before Tax	703	1,287	1,368	366
Profit After Tax	336	642	644	166
RATIO ANALYSIS	CY22	CY23	CY24	1QCY25
Gross infection (%)	7.3%	7.6%	6.3%	7.1%
Net Infection (%)	1.5%	1.5%	1.1%	0.6%
General Provisioning (%)	0.7%	0.9%	1.4%	1.5%
Specific Provisioning (%)	81.0%	81.3%	83.8%	92.3%
Net NPL/ Tier-1 CAR	9.9%	8.3%	6.4%	2.8%
Tier 1 CAR (%)	14.0%	15.8%	16.1%	17.0%
CAR (%)	16.8%	19.4%	20.4%	20.9%
ROA	0.9%	1.4%	1.2%	1.2%
ROE	16.1%	23.0%	19.5%	19.9%
Spread between lending and deposit rates	6.1%	7.1%	5.9%	6.6%
Policy rate (%)	16.0%	22.0%	13.0%	12.0%

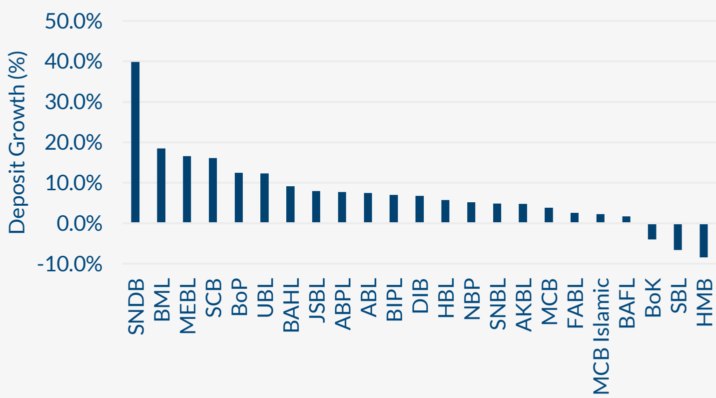
Asset Growth YoY - FY 2024



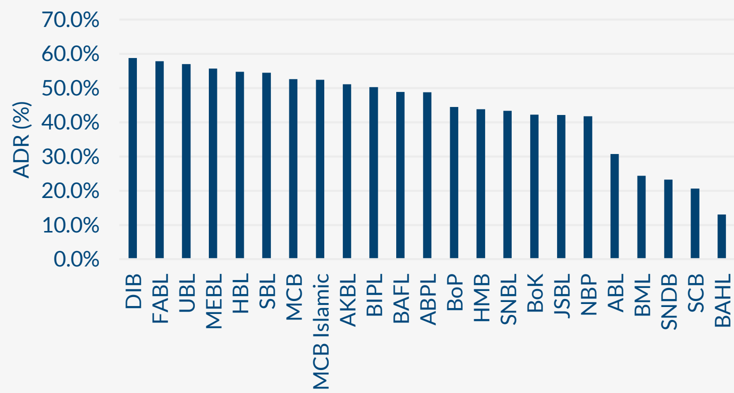
Advances Growth YoY - FY 2024



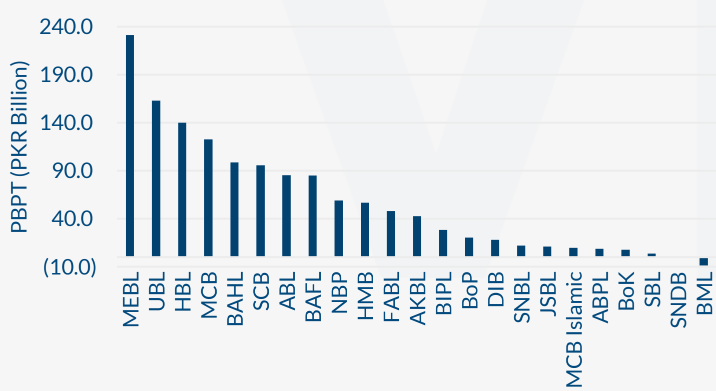
Deposit Growth YoY - FY 2024



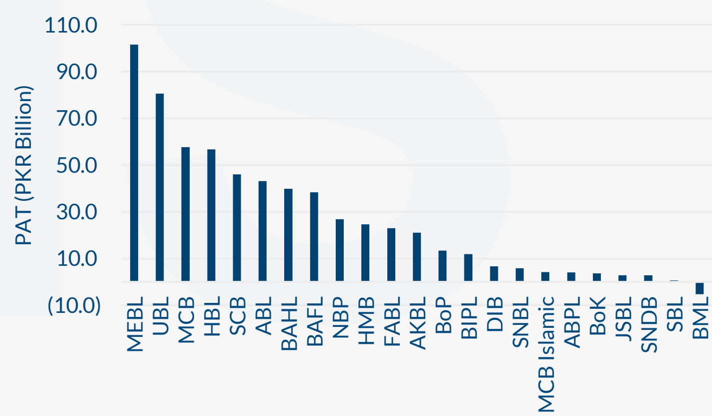
Advance to Deposit Ratio - FY 2024

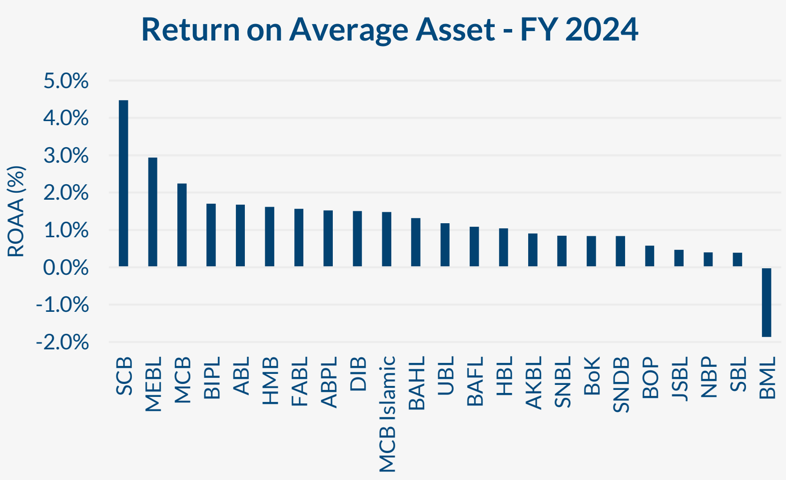


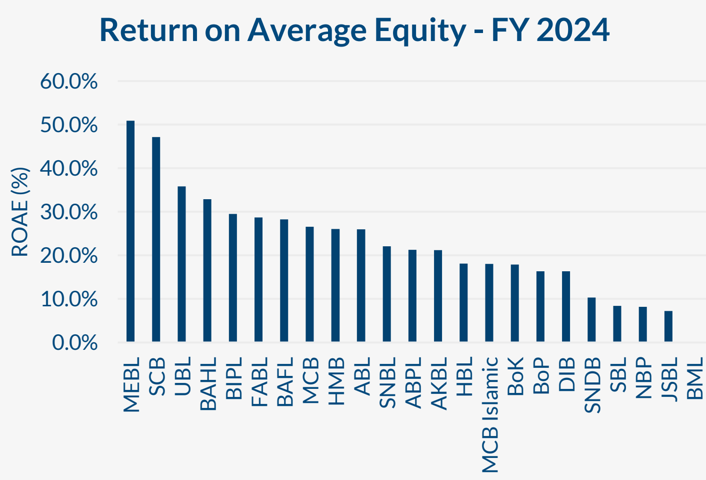
Profit/(Loss) before Provisions and Tax - FY2024

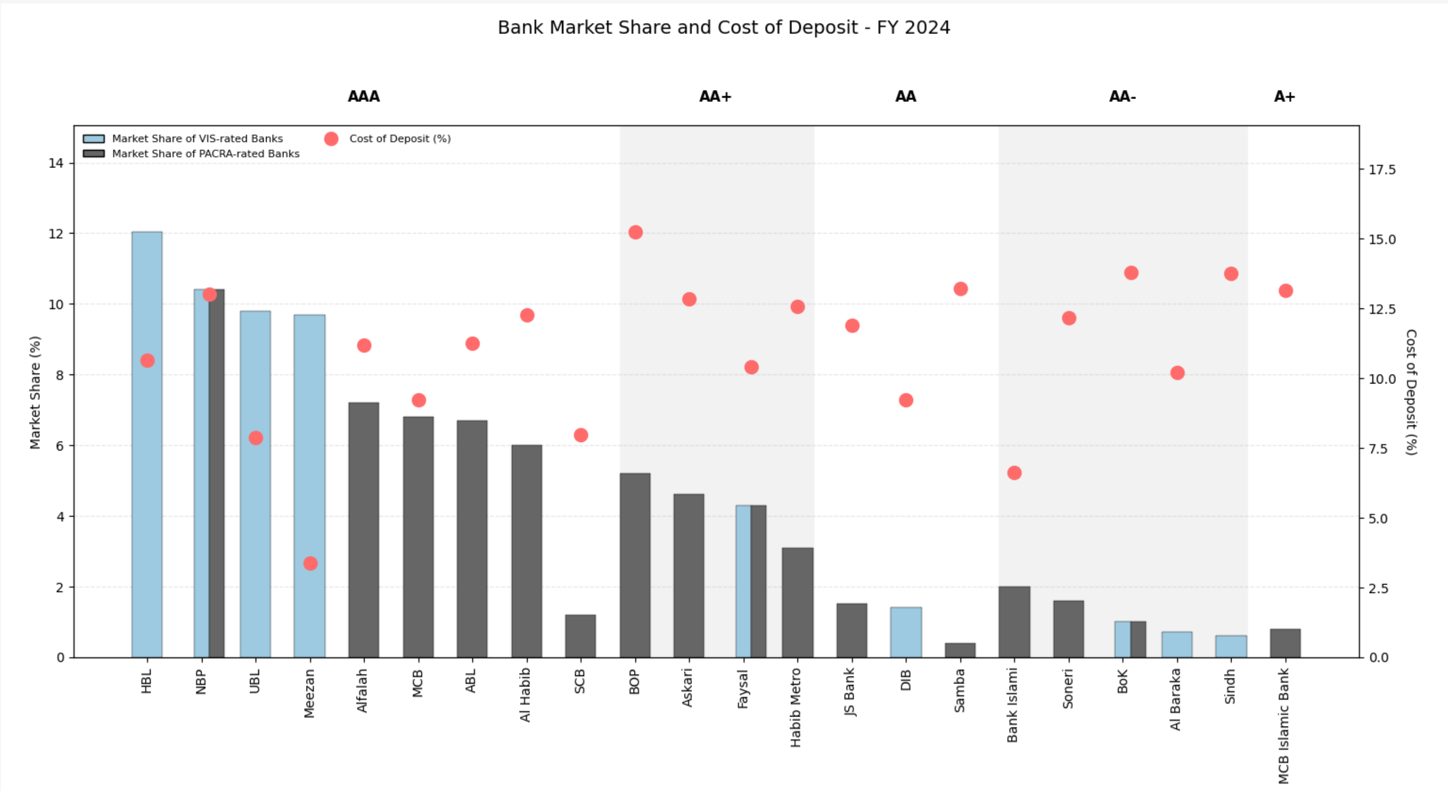


Profit/(Loss) after Tax - FY 2024









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- SBP Financial Soundness Indicators and Quarterly Compendium of the Banking System
- SBP Financial Stability Review – 2024

RESEARCH & PUBLICATIONS

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