



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & FINANCIAL SECTOR OVERVIEW

**Islamic Republic of
Pakistan**

November, 2020

FINANCIAL SECTOR OVERVIEW: PAKISTAN

Financial sector assets in Pakistan have grown at a compound annual growth rate (CAGR) of 13% over five years (2013-2018)¹, further growing to stand at Rs. 20.7 trillion (2018: 19.7 trillion) by end June 2019. Recent growth has also been contributed into by the amnesty scheme offered by the government during the period as well as tightening of monetary policy which led to higher savings generated [1]. Sector assets to GDP decreased slightly to 56.2% in 2019 (2018: 56.9%)² and are overall considered low, indicative of low penetration of banking services. Financial services in the country are dispensed through 34 commercial banks, including 29 local and 5 foreign banks with a network of 14,119 branches across the country.

The industry is regulated by the State Bank of Pakistan (SBP), which governs local banks under the ambit of its prudential regulations. Banks in Pakistan are also required to comply with corporate governance standards.

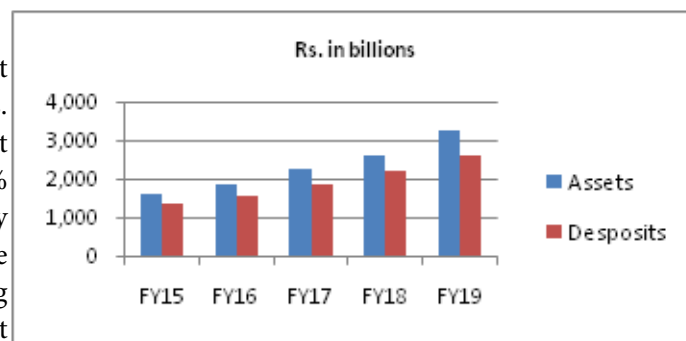
| Type of Banks | Numbers |
|--------------------------------|---------|
| Public Sector Commercial Banks | 5 |
| Local Private Banks | 24 |
| Foreign banks | 5 |
| Total Commercial banks | 34 |

The Islamic Banking Industry in Pakistan

At the end of 2019, market share of Islamic banking deposits in the overall banking industry in Pakistan rose to 16.6% (2018: 15.5%)³. SBP has set the target to increase Islamic banking assets to 20% through structural & regulatory reforms⁴. In June 2018, the SBP issued the revised Shari'a governance framework for Islamic banking institutions, which encompasses a wide range of guidance in terms of defining the roles and responsibilities of various organs of such institutions, including Board of Directors, management, Shari'a Board, Shari'a compliance, product development and approval and internal and external audit. Also, in 2018, a resolution by the Senate, laid the grounds for the Government of Pakistan (GOP) to convert at least 30% of its debt into Islamic financing modes⁵. This Resolution was followed by the enforcement of 'Shari'a Governance Regulations 2018' by the Securities and Exchange Commission of Pakistan (SECP). Regulation encompasses a number of elements of Shari'a governance necessary to claim Shari'a compliance in business, financial dealings and operational practices. These include certification for Shari'a-compliant companies and Shari'a-compliant securities, a comprehensive Shari'a screening methodology for listed as well as for unlisted companies, and institution of internal and external Shari'a audit, Shari'a advisory, Shari'a compliance, income purification and charity distribution mechanism. The regulation will set the momentum for the use of Shari'a-compliant instruments and will provide opportunity to business to become Shari'a-compliant.

The network of Islamic banking industry comprised 22 Islamic banking institutions, 05 full-fledged Islamic banks (IBs) and 17 conventional banks with standalone Islamic banking branches (IBBs) operating with 3,226 branches spread across 120 districts in Pakistan at the end of December 2019. [3]

The asset base of the Islamic banking industry depicted significant year-on-year growth of 23.6% and stood at Rs. 3,284b (2018: Rs. 2,658b) at the end of December 2019. Total financing to deposit ratio of the industry was moderate at 61.2%, higher than 51.7% for the overall banking industry, and reflective of limited supply of Shari'a compliant securities, on an industry-wide basis. On the other hand, asset quality indicators of the industry including non-performing finances (NPFs) to gross financing and net



¹ Half Year Performance Review - State Bank of Pakistan.

² Economic Survey of Pakistan a resolution by.

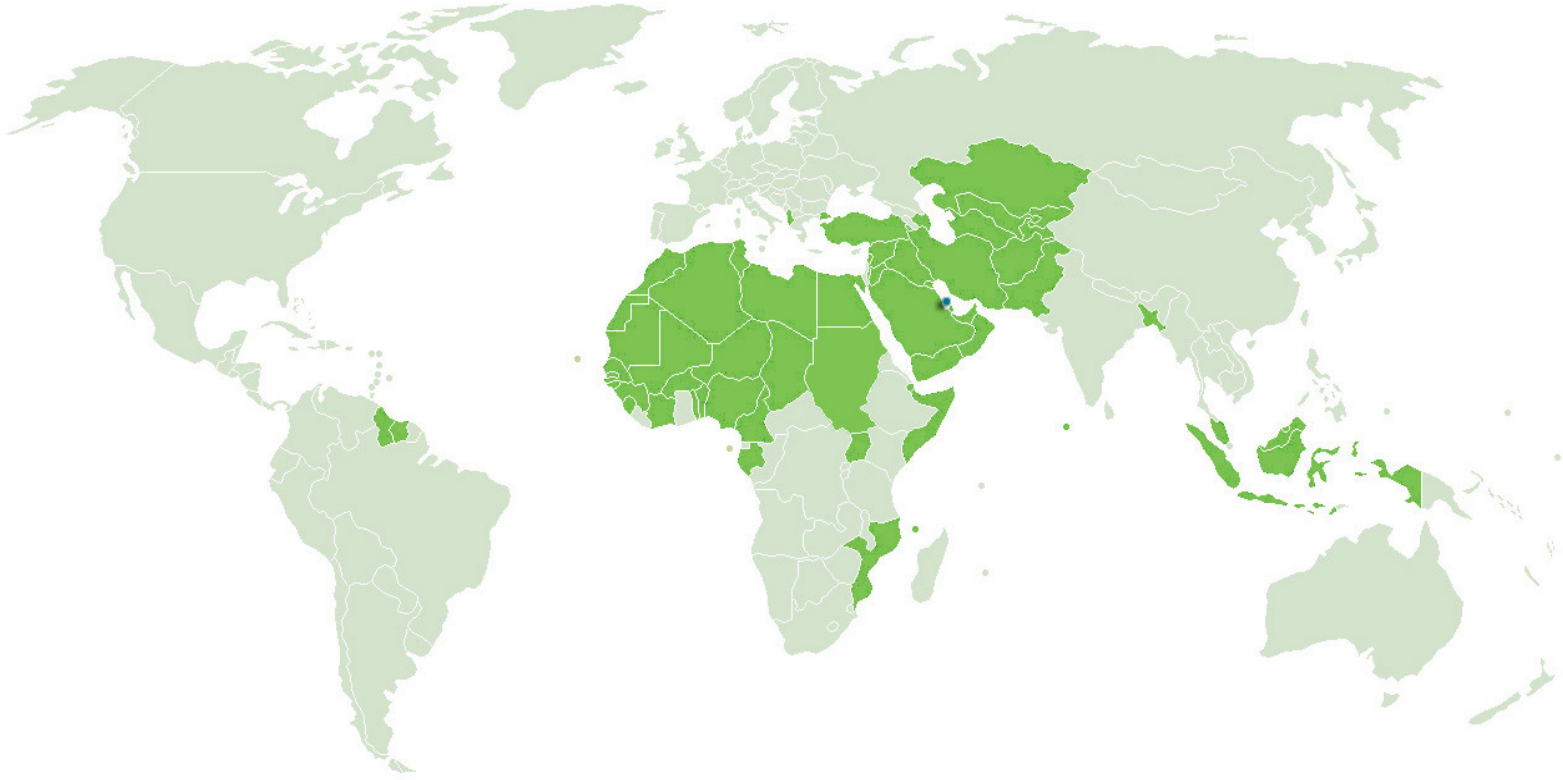
³ Islamic banking Bulletin- State bank of Pakistan.

⁴ <https://www.spglobal.com/marketintelligence/en/news-insights/trending/6qj-x6lyev8ulnh9ec8pyq2>.

⁵ http://www.senate.gov.pk/uploads/documents/resolutions/1531371339_953.pdf

NPFs to net financing increased slightly and were recorded at 4.3% and 2.0% (2018: 3.1% and 0.9%), respectively by end of December 2019⁶, comparing favorably to 8.6% and 1.7% respectively on an industry wide basis. The Islamic banking segment also fares favorably in terms of net returns with a pre-tax RoAA and RoAE of 2.2% and 34.4% vis-à-vis 1.5% and 20.1% respectively on an industry wide basis.

⁶ *Islamic Banking Bulletin - State Bank of Pakistan*



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