



CFA Society
Pakistan

Analyst Guide: Banking Sector

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Preamble

This Analyst Guide is part of CFA Society Pakistan's efforts to enhance the practical knowledge and skills of its members, while also benefiting others with an academic or professional interest in the banking sector as a subject of research and investment management. The ultimate objective is to help readers make better decisions for the benefit of all relevant stakeholders.

Banking is Pakistan's largest sector in terms of asset size, profitability, and stock market representation. It is a key pillar of the monetary policy transmission mechanism, serving as the predominant channel for the supply of credit and entrusted with stewardship by depositors and regulators. A well-functioning banking sector is critically important to the country's overall economic health, and therefore the sector attracts attention from a wide range of stakeholders beyond stock investors.

This guidebook provides a framework for the analysis of banking companies and is intended for use by investment analysts, economists, investors, regulators, teachers, students, journalists, and other individuals with an interest in the subject.

All errors and omissions are the author's own.

List of Abbreviations

AT1	Additional Tier 1
BAFL	Bank Alfalah Limited
BAHL	Bank Al-Habib Limited
BCO	Banking Companies Ordinance
BPRD	Banking Policy and Regulation Department
BSD	Banking Supervision Department
CAGR	Compound Annual Growth Rate
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CET1	Common Equity Tier 1
DDM	Dividend Discount Model
DFI	Development Financial Institution
DPC	Deposit Protection Corporation
EPS	Earnings per Share
FBR	Federal Board of Revenue
FCY	Foreign Currency
FE	Foreign Exchange
FMU	Financial Monitoring Unit
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit and Loss
GDP	Gross Domestic Product
GGM	Gordon Growth Model
GIS	Government of Pakistan Ijara Sukuk
GOP	Government of Pakistan
HBL	Habib Bank Limited
IFRS	International Financial Reporting Standard
LCR	Liquidity Coverage Ratio
M0	Reserve Money
M2	Broad Money
MCB	MCB Bank Limited
MCR	Minimum Capital Requirement
MEBL	Meezan Bank Limited
MOF	Ministry of Finance
MPR	Minimum Profit Rate
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NII	Net Interest Income

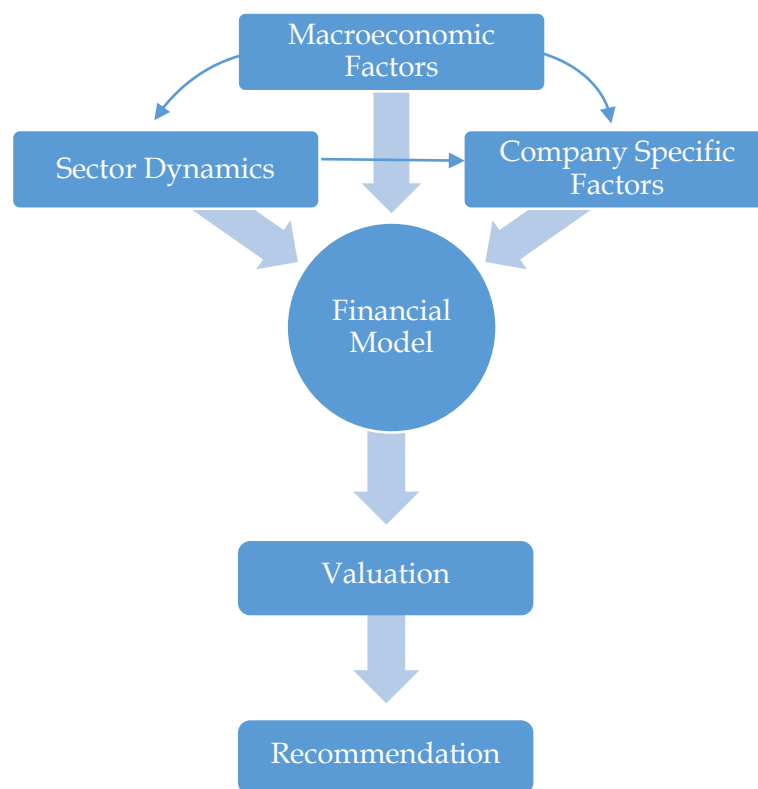
NIM	Net Interest Margin
NSFR	Net Stable Funding Ratio
NSS	National Savings Schemes
OCI	Other Comprehensive Income
P&L	Profit and Loss
PIB	Pakistan Investment Bond
PKR	Pakistan Rupee
PSX	Pakistan Stock Exchange
REPO	Repurchase Contract
ROA	Return on Assets
ROE	Return on Equity
RWA	Risk Weighted Assets
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
T-Bill	Treasury Bill
TFC	Term Finance Certificate
UBL	United Bank Limited
WWF	Workers Welfare Fund

A Structured Approach to Equity Analysis

Making investment recommendations — buy, sell, or hold — for shares of assigned companies is a key deliverable of an investment analyst's job. Whether investment analysis is a science or an art, perhaps the best answer is that it is both, as it entails a combination of hard numbers and judgment. Even the seemingly quantitative aspects of the process, such as financial modelling and valuation, involve assumptions with high degrees of uncertainty associated with them. As a leading global fund manager reportedly said, "The inputs to any model are judgment calls dressed up as numbers."

While the judgment aspect of investment analysis may be a natural talent or improved with experience, the quantitative part can be structured into an analytical framework, as depicted in Figure 1. The confluence of macroeconomic factors, sector dynamics, and company-specific factors serves as a key input into the financial model, which in turn drives valuation.

Figure 1: Framework for Analysis of Securities



Regulatory Framework

As custodians of depositors' money and an integral part of the monetary policy transmission mechanism, banks are naturally among the most regulated entities in any country, and Pakistan is no exception. Table 1 provides a broad overview of the regulatory architecture of banking in Pakistan.

Table 1: Regulatory Architecture for Banking in Pakistan

Regulatory Institutions	Primary Regulators	• State Bank of Pakistan (SBP) • Securities & Exchange Commission of Pakistan (SECP) • Ministry of Finance (MOF)
	Ancillary Institutions	• Deposit Protection Corporation (DPC) • Financial Monitoring Unit (FMU) • Pakistan Stock Exchange (PSX) • Federal Board of Revenue (FBR) • Provincial Revenue Authorities
Principal Legislation	Core Banking Laws	• State Bank of Pakistan Act, 1956 • Banking Companies Ordinance, 1962 (BCO) • Banks (Nationalisation) Act, 1974 • SBP Banking Services Corporation Ordinance, 2001 • Deposit Protection Corporation Act, 2016
	Corporate & Securities Laws	• Companies Act, 2017 • Securities Act, 2015 • Listed Companies (Code of Corporate Governance) Regulations, 2019
	Taxation Laws	• Income Tax Ordinance, 2001 • Federal Excise Act, 2005 • Provincial Sales Tax Acts
Rules under Principal Laws		• Banking Companies Rules, 1963 • Companies (General Provisions and Forms) Regulations, 2018
SBP Regulatory Requirements		• Prudential Regulations • SBP Circulars, Directives and Guidelines

Financial Reporting Requirements

The Banking Companies Ordinance, 1962, and the SBP Act, 1956, empower the SBP to prescribe the form, content, and manner of financial statements for all banking companies in Pakistan. The Master Circular on Financial Disclosure – Frequency & Timelines, notified by the SBP as BSD Circular No. 01 of 2004, is applicable to all banks/DFIs, listed or non-listed, including branches of foreign banks and those with a peculiar shareholding structure.

Banks are required to follow IFRS as the foundational framework for financial reporting. However, they must simultaneously comply with the SBP's overriding prudential and presentational requirements. Where a conflict arises between IFRS and SBP directives, SBP requirements prevail by virtue of the Banking Companies Ordinance, 1962.

The current template for interim and annual financial statements of banks – face pages, notes, and other disclosures – was notified by the SBP through BPRD Circular No. 02 dated February 2, 2023. The circular requires the banks to produce five (5) types of financial statements for interim and annual results, namely:

- Statement of Financial Position (Balance Sheet)
- Statement of Profit & Loss Account (P&L Statement)
- Statement of Comprehensive Income
- Statement of Changes in Equity
- Cash Flow Statement

Capital adequacy, leverage, and liquidity ratios under the Basel III framework are also disclosed in banks' financial statements, although more detailed information forms part of separate annual disclosures.

While all financial statements and related notes contain important information, a good starting point for a banking analyst is to familiarise themselves with the three main financial statements: P&L Statement, Balance Sheet, and Statement of Other Comprehensive Income.

Tables 2 and 3 contain the P&L Statement, Balance Sheet, and Statement of Other Comprehensive Income on a consolidated basis for Habib Bank Limited (HBL) for the year ended 31 December 2025.

Table 4 contains the financial statement disclosures on Capital Adequacy, Leverage Ratio, and Liquidity Requirements.

Table 2: HBL – Consolidated P&L Statement and Balance Sheet

Year ended December 31	Note	2025	2024	As of December 31	Note	2025	2024
		(Rupees in Millions)		ASSETS		(Rupees in Millions)	
Mark-up/return/profit/interest earned	25	681,265	813,192	Cash and balances with treasury banks	5	564,756	460,195
Mark-up/return/profit/interest expensed	26	405,764	567,570	Balances with other banks	6	53,973	51,325
Net mark-up/return/profit/interest income		275,501	245,622	Lending to financial institutions	7	247,785	84,294
Fee and commission income	27	46,875	49,523	Investments	8	4,186,246	2,528,200
Dividend income		3,531	3,082	Advances	9	2,076,777	2,435,435
Share of profit of associates		6,517	4,763	Property and equipment	10	144,059	130,825
Foreign exchange income		8,914	7,897	Right-of-use assets	11	30,696	27,408
Income from derivatives		2,730	5,771	Intangible assets	12	30,697	24,848
Gain on securities – net	28	13,625	10,463	Deferred tax assets		-	-
Other income	29	3,414	15,013	Other assets	13	373,155	312,582
Total non-markup / interest income		85,606	96,512			7,708,144	6,055,113
Total income		361,107	342,134	LIABILITIES			
Operating expenses	30	200,700	192,474	Bills payable	14	59,423	96,104
Workers' Welfare Fund	31	2,854	2,365	Borrowings	15	1,216,020	826,883
Other charges	32	339	357	Deposits and other accounts	16	5,546,000	4,370,371
Total non-markup/interest expenses		203,893	195,196	Lease liabilities	17	40,116	35,869
Profit before credit loss allowance and taxation		157,214	146,938	Subordinated debt	18	20,374	20,374
Credit loss allowance and write offs – net	33	9,123	26,604	Deferred tax liabilities	19	43,836	7,995
Profit before taxation		148,091	120,334	Other liabilities	20	293,761	286,718
Taxation		81,327	62,530			7,219,530	5,644,315
Profit after taxation		66,764	57,805	NET ASSETS		488,615	410,798
Attributable to: Equity holders of the Bank		66,716	58,458	SHAREHOLDERS' EQUITY			
Non-controlling interest		48	-653	Share capital	21	14,669	14,669
		66,764	57,805	Reserves		108,661	98,303
		(Rupees)		Surplus on revaluation of assets - net	22	90,204	57,371
Basic and diluted earnings per share		45.48	39.85	Unappropriated profit		273,411	238,813
				Total equity of bank' shareholders		486,944	409,156
				Non-controlling interest		1,671	1,642
						488,615	410,798

Source: HBL Annual Report 2025

Table 3: HBL – Consolidated Statement of Other Comprehensive Income

Year ended December 31	2025	2024
	(Rupees in Millions)	
Profit after taxation for the year	66,764	57,805
Attributable to: Equity holders of the Bank	66,716	58,458
Non-controlling interest	48	-653
<i>Items that may be reclassified to the profit and loss account in subsequent periods:</i>		
Effect of translation of net investment in foreign branches, subsidiaries and associates - net of tax	4,480	-1,964
Increase/(decrease) in share of exchange translation reserve of associates - net of tax	315	-786
Movement in surplus/deficit on revaluation of debt investments designated at FVOCI - net of tax	21,304	30,798
Attributable to: Equity holders of the Bank	21,293	30,739
Non-controlling interest	10	59
Movement in share of surplus/deficit on revaluation of investments of associates - net of tax	3,273	-178
<i>Items that are not to be reclassified to the profit and loss account in subsequent periods:</i>		
Movement in surplus/deficit on revaluation of equity investments designated at FVOCI - net of tax	4,041	3,279
Re-measurement gain/(loss) on defined benefit obligations - net of tax	845	-134
Attributable to: Equity holders of the Bank	838	-142
Non-controlling interest	7	8
Share of re-measurement gain on defined benefit obligations of associates - net of tax	12	5
Movement in surplus / deficit on revaluation of property and equipment net of tax	0	-232
Attributable to: Equity holders of the Bank	0	-232
Non-controlling interest	0	0
Movement in surplus / deficit on revaluation of non-banking assets - net of tax	84	30
Movement in share of surplus / deficit on revaluation of property and equipment of associates - net of tax	0	-12
Total comprehensive income	101,117	88,610
Attributable to: Equity holders of the Bank	101,053	89,196
Non-controlling interest	65	-586

Source: HBL Annual Report 2025

Table 4: HBL – Capital Adequacy, Leverage Ratio and Liquidity Requirements

Year ended December 31	2025	2024
	(Rupees in Millions)	
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	14,669	14,669
Capital Adequacy Ratio (CAR)		
Eligible Common Equity Tier 1 (CET 1) Capital	354,633	316,238
Eligible Additional Tier 1 (AT 1) Capital	18,312	18,621
Total Eligible Tier 1 Capital	372,945	334,860
Eligible Tier 2 Capital	114,700	80,462
Total Eligible Capital (Tier 1 + Tier 2)	487,645	415,322
Risk Weighted Assets (RWAs):		
Credit Risk	1,855,569	1,725,825
Market Risk	376,825	231,458
Operational Risk	429,017	388,611
Total	2,661,411	2,345,894
CET 1 CAR	13.33%	13.48%
Tier 1 CAR	14.01%	14.27%
Total CAR	18.32%	17.70%
Bank specific buffer requirement (CET1 + Buffers)	8.50%	8.50%
of which: capital conservation buffer requirement	1.50%	1.50%
of which: D-SIB buffer requirement	1.00%	1.00%
CET1 available to meet buffers (%RWA)	7.33%	7.48%
Leverage Ratio (LR)		
Eligible Tier-1 Capital	372,945	334,860
Total Exposure	8,242,001	7,184,145
Leverage Ratio (%)	4.52%	4.66%
Minimum Requirement (%)	3.00%	3.00%
Liquidity Coverage Ratio (LCR)		
Average High Quality Liquid Assets	2,559,571	2,320,570
Average Net Cash Outflow	1,032,664	869,235
Average Liquidity Coverage Ratio (%)	247.86%	266.97%
Minimum Requirement (%)	100.00%	100.00%
Net Stable Funding Ratio (NSFR)		
Available Stable Funding	5,049,540	4,156,125
Required Stable Funding	2,774,468	2,732,852
Net Stable Funding Ratio (%)	182.00%	152.08%
Minimum Requirement (%)	100.00%	100.00%

Source: HBL Annual Report 2025

P&L – Balance Sheet Nexus

What sets banking apart from most other sectors is the close linkage between the P&L statement and the balance sheet. Net Interest Income (NII¹), which typically accounts for the lion's share of revenue, is the difference between Interest Revenue and Interest Expense. Interest Revenue is a product of the average size of earning assets (primarily investments and advances) and the weighted average interest yield on those assets. Likewise, Interest Expense is the product of the average balance of interest-bearing liabilities (deposits and borrowings) and the weighted average interest cost of those liabilities.

Figure 2: Revenue Breakdown

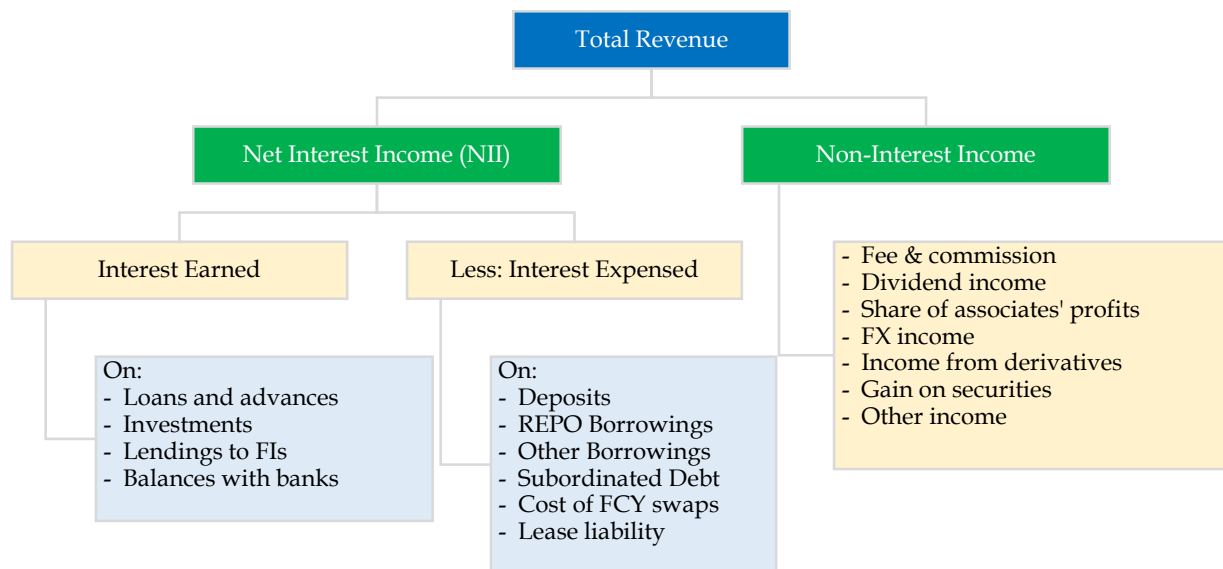


Table 5: HBL – Interest Revenue and Related Assets (PKR Million)

	2025	2024
Mark-up/profit/interest earned	681,265	813,192
On:		
Loans and advances	247,742	312,318
Investments	415,185	472,524
Lending to financial institutions	9,219	15,222
Balances with banks	9,119	13,128

	2025	2024
Balances with banks	53,973	51,325
Lending to financial institutions	247,785	84,294
Investments	4,186,246	2,528,200
Advances	2,076,777	2,435,435

P&L
Statement
Items

Balance
Sheet
Items

Source: HBL Annual Report 2025

¹ For sake of convenience and alignment with international convention, Interest represents Markup/Return/Profit/Interest, covering both Conventional & Islamic Banks.

Table 6: HBL – Interest Expense and Related Liabilities (PKR Million)

	2025	2024
Mark-up/return/profit/interest expensed	405,764	567,570
On:		
Deposits	274,171	460,197
Securities sold under REPO borrowing	93,387	58,439
Borrowings	26,890	30,301
Subordinated debt	2,519	4,096
Cost of FCY swaps against FCY deposits	4,733	10,986
Lease liability against right-of-use assets	4,065	3,552

	2025	2024
REPO Borrowings	908,646	441,742
Other Borrowings	307,374	385,141
Subordinated debt	20,374	20,374
Deposits and other accounts	5,546,000	4,370,371
- In local currency	4,640,369	3,511,350
- In foreign currency	905,631	859,021

Source: HBL Annual Report 2025

P&L
Statement
Items

Balance
Sheet
Items

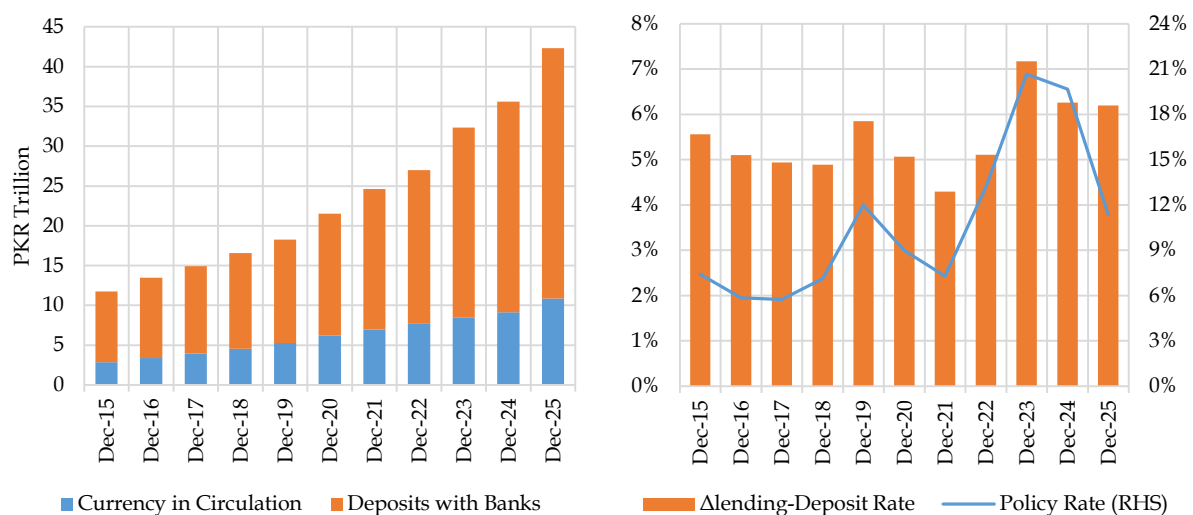
As banks' profitability depends on two key variables – asset base and spread – which are in turn driven by an interplay of multiple macroeconomic factors, it is important for a banking analyst to have a deep understanding of the underlying dynamics of the monetary system and interest rates.

The Macro Connection

Macroeconomic variables impact all sectors, but the connection is strongest for banking. The banking sector is a fundamental building block of the monetary policy transmission mechanism. It serves as the primary channel for credit supply, and bank deposits are the largest component of M2 (broad money). M2 fulfils the three primary functions of money: a medium of exchange, a unit of account, and a store of value.

As of year-end 2025, bank deposits accounted for almost three-quarters of Pakistan's PKR 42.3 trillion M2 stock. M2 growth is therefore a key determinant of the sector's overall balance sheet expansion. Similarly, interest rates are a primary driver of banking spreads and, by extension, of the sector's profitability.

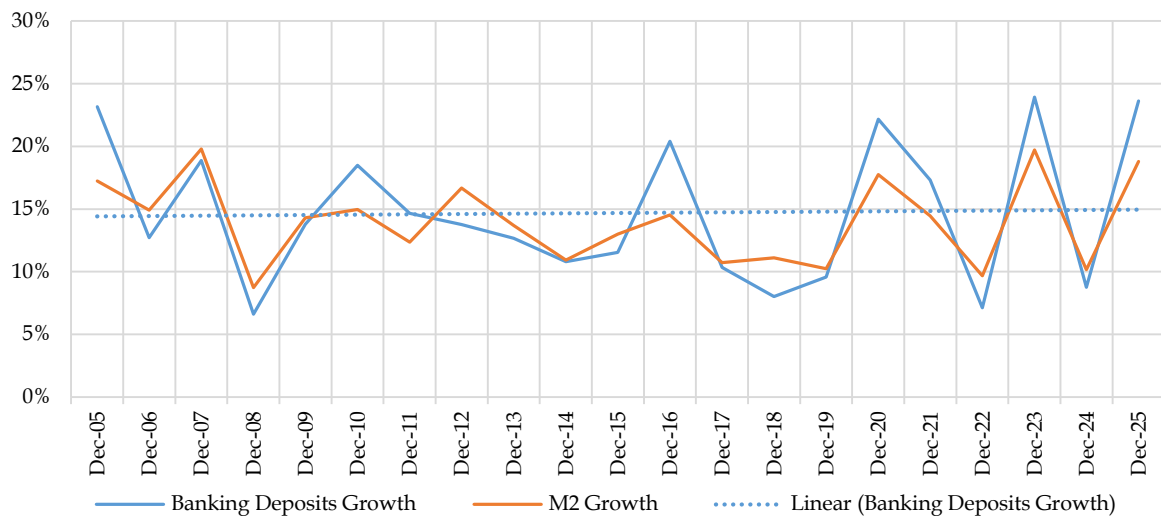
Figure 3: Balance Sheet Size and Spread are the Two Primary Drivers of Profitability



Source: SBP

Growth in bank deposits is tied to M2 expansion. Over the last 20 years, bank deposits grew 14.7% annually – in lockstep with annual M2 growth of 14.0%.

Figure 4: Bank Deposits Move in Lockstep with M2



Source: SBP

M2 is intertwined with all major macroeconomic variables: the balance of payments, fiscal position, GDP growth, inflation, interest rates, and the exchange rate. Structural shifts in financial intermediation also directly influence money supply growth. Accordingly, banking analysts require a nuts-and-bolts understanding of how macroeconomic variables and intermediation trends interact.

Figure 5: Money Supply is Intertwined with Macroeconomic Variables



Monetary Aggregates Are Like Balance Sheets

Monetary aggregates are typically deconstructed into their transactional components, e.g., currency in circulation and bank deposits. Interestingly, these components essentially represent the "liabilities" of various types of depository corporations, such as the central bank and commercial banks. For example, currency in circulation is a liability of the central bank, while customer deposits are liabilities of commercial banks. It is better to think about monetary aggregates in terms of balance sheets, which have two sides of equal footing: assets and liabilities. The asset side is further broken into two main groups: Net Foreign Assets (NFA) and Net Domestic Assets (NDA).

There are different measures of money supply, such as M0, M1, M2, and M3. The main differentiating factor between these measures is the liquidity of their components — in other words, how quickly they can be converted into cash. The two most important monetary aggregates are M0 (Reserve Money) and M2 (Broad Money). The former pertains to the central bank, while the latter relates to the entire banking system, i.e., the central bank and scheduled banks.

Table 7: SBP Balance Sheet – M0 (31 December 2025)

ASSETS	PKR Billion	LIABILITIES	PKR Billion
Net Foreign Assets (NFA _{SBP})	2,233	Currency-in-circulation	10,873
Net Domestic Assets (NDA _{SBP})	11,215	Cash in banks' vaults	624
Net government borrowing	2,329	Other deposits with SBP	54
Claims on scheduled banks	1,302	Banks' deposits with SBP	1,897
Claims on NBFIs	117		
Other items (net)	7,467		
Reserve Money (M0)	13,448	Reserve Money (M0)	13,448

Source: SBP

Table 8: Banking System – M2 (31 December 2025)

ASSETS	PKR Billion	LIABILITIES	PKR Billion
Net Foreign Assets (NFA _{Banking})	854	Currency-in-circulation	10,873
Net Domestic Assets (NDA _{Banking})	41,448	Other deposits with SBP	54
Net government borrowing	34,791	Total deposits with banks	31,376
Credit to private sector	10,941		
Credit to PSEs	2,201		
Credit to NBFIs	841		
Other items (net)	-7,326		
Broad Money (M2)	42,302	Broad Money (M2)	42,302

Source: SBP

How Bank Deposits Are Created?

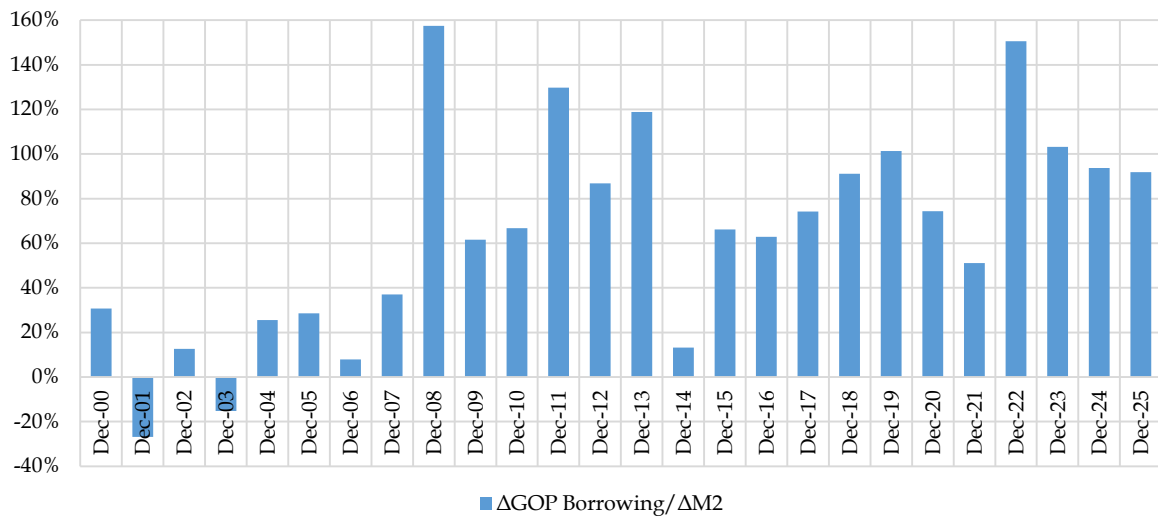
While most people are hardwired to think about M2 growth in terms of increases in demand and time liabilities (bank deposits) and currency in circulation – the liability side of the equation – it is actually the asset side that drives changes in M2.

A better way to conceptualise changes in M2 is that they reflect transactions between economic agents within a country (NDA) and with the outside world (NFA). Broadly speaking, M2 expansion results from inward payments and transfers – for goods, services, income, and remittances – and from the demand for financing through borrowings or investments. To the extent financing needs are met by external sources in the form of loans and investments, they are reflected in NFA.

The large negative 'Other Items (net)' predominantly represents the consolidated shareholders' equity of the SBP and scheduled banks. Profitability and revaluation adjustments of the SBP are reflected in 'Other Items (net)'. In general, a balance of payments surplus and an increase in domestic borrowing by the public and private sectors translate into M2 expansion and, in turn, growth in bank deposits.

The government is the biggest driver of monetary expansion in Pakistan. During 2010-2025, the increase in net government borrowing accounted for 85% of annual M2 growth in the country.

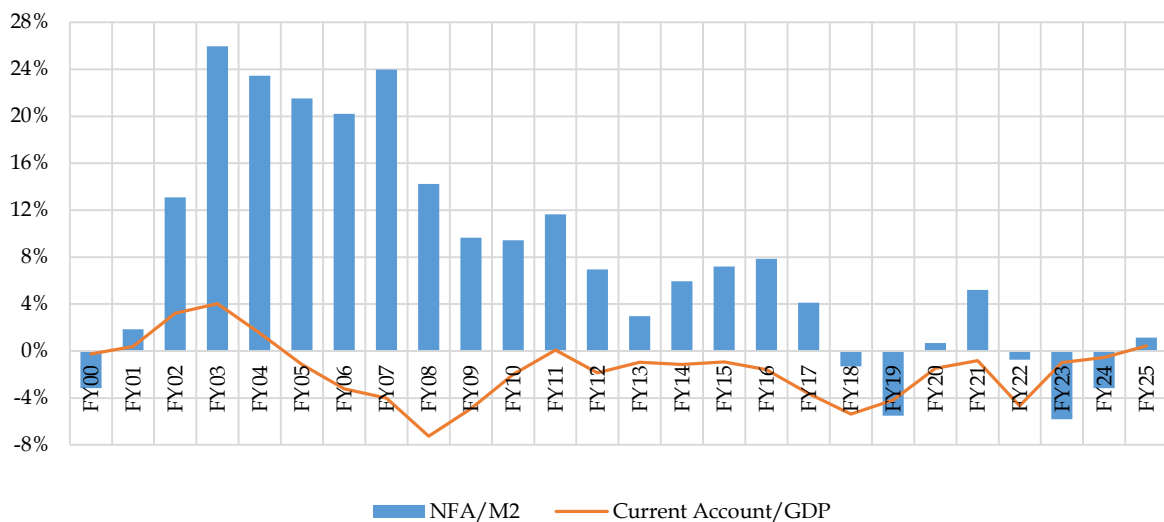
Figure 6: Contribution of Government Borrowing in M2 growth



Source: SBP

Pakistan's M2 composition is heavily tilted toward NDA, which comprised 98% of broad money at end-2025. This mirrors the country's perennially weak balance-of-payments position, reflected in relatively low FX reserves. Pakistan experienced current-account-surplus-driven NFA expansion in the early 2000s, and the share of NFA in M2 peaked at 26% in FY2003.

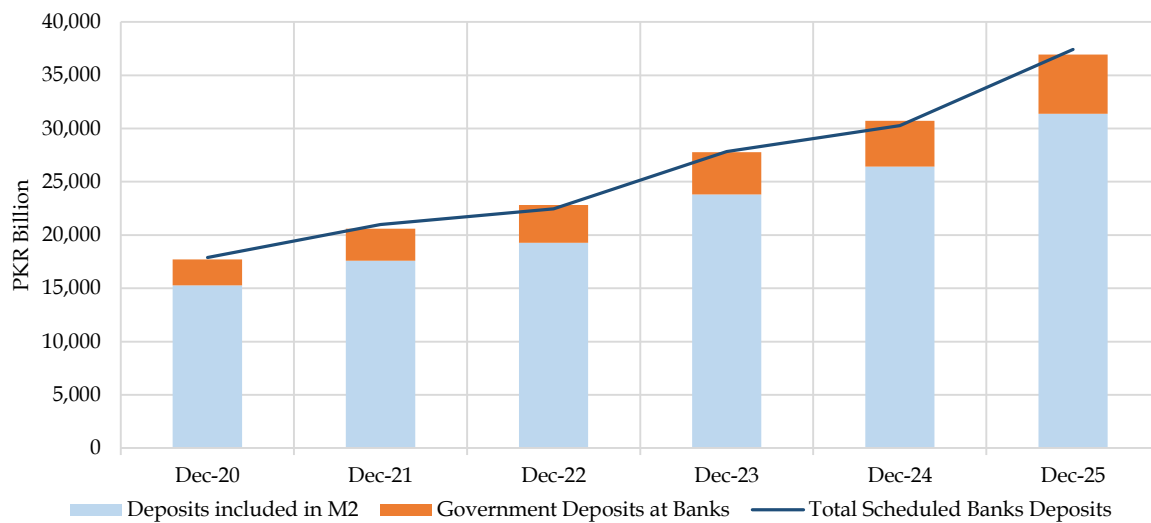
Figure 7: NFA Share in M2 vs. Current Account Balance



Source: SBP

Not all bank deposits are part of M2. Deposits of the federal and provincial governments held at scheduled banks are excluded from the demand and time liabilities that comprise M2. Government borrowing, which forms part of banking system NDA, is reported net of government deposits held at scheduled banks and at the SBP.

Figure 8: Total Scheduled Banks' Deposits vs. Deposits included in M2



Source: SBP

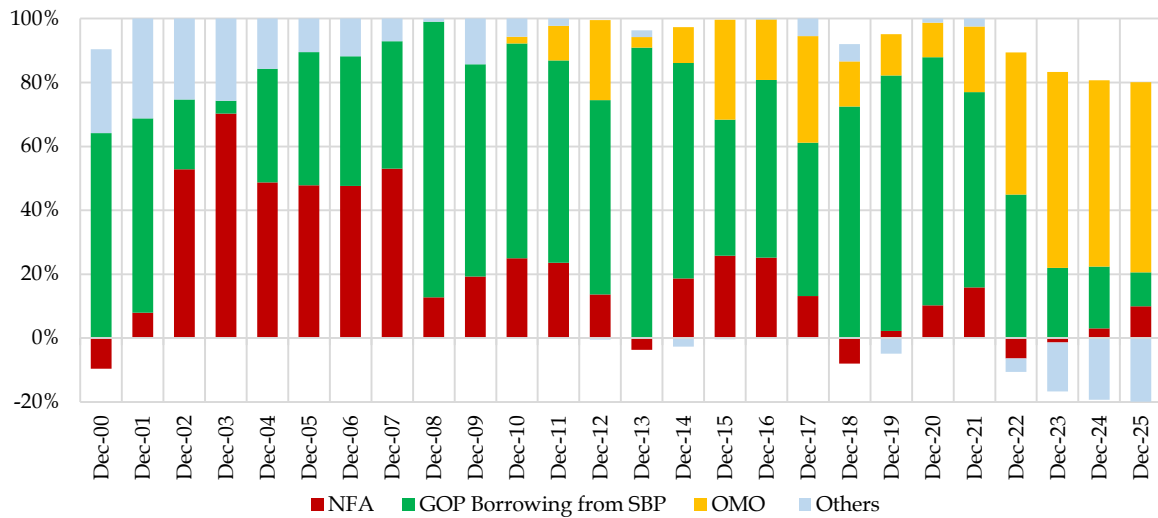
Compositional shifts within M2 liabilities can also affect bank deposits without any change in the overall stock of M2. For example, an increased preference for cash (currency in circulation) translates into slower or negative growth in bank deposits.

Although banks are the predominant channel of financial intermediation, they do not capture direct flows of funds between savers and borrowers. National Savings Schemes (NSS) and non-bank holdings of government securities are examples of financial disintermediation. Increased financial disintermediation results in slower growth in bank deposits, and vice versa. In the early 2000s, the size of NSS was equivalent to nearly 60% of bank deposits but has steadily declined to less than 10% as of 2025. However, not all funds shifted from NSS to bank deposits, as holdings of government securities by non-banks increased and were equivalent to around 30% of bank deposits in June 2025.

Demystifying OMO

Over the last several years, the outstanding stock of net liquidity injections through OMOs has snowballed, reaching over PKR 13 trillion by end-2025. OMO injections are part of the SBP's NDA and appear in the weekly Statement of Affairs as "Monetary Policy Assets."

Figure 9: Compositional Shift in M0 with Rising Share of OMO, Replacing Direct GOP Borrowing



Source: SBP

OMO injections have risen particularly steeply since 2019 for two main reasons. First, the government was barred from borrowing directly from the SBP as part of IMF conditionality, which was subsequently codified in the SBP Act. In addition to restrictions on fresh borrowing from the SBP, the government has to retire debt it owes to the central bank. Second, the expansion in the SBP's NFA has fallen well short of the increase in M0. Between 2015 and 2025, the M0 stock expanded by nearly PKR 10 trillion, while the SBP's NFA increased by only PKR 1.3 trillion.

In a nutshell, OMO injections are the "balancing item" in the reserve money equation. There are two main ways to eliminate OMO injections: (1) the SBP buys GOP securities from banks equivalent to the outstanding OMO stock, and (2) the SBP's net FX reserves increase fourfold. Neither of the two seems likely anytime soon.

Financial Statements: Identifying Earning Drivers

Earnings Growth – The Value Driver

Earnings- or dividend-based valuation models, such as the Gordon Growth Model (GGM), Justified P/E, and Justified P/B, are mathematically equivalent. The single most important variable in these models is ‘Earnings Growth’.

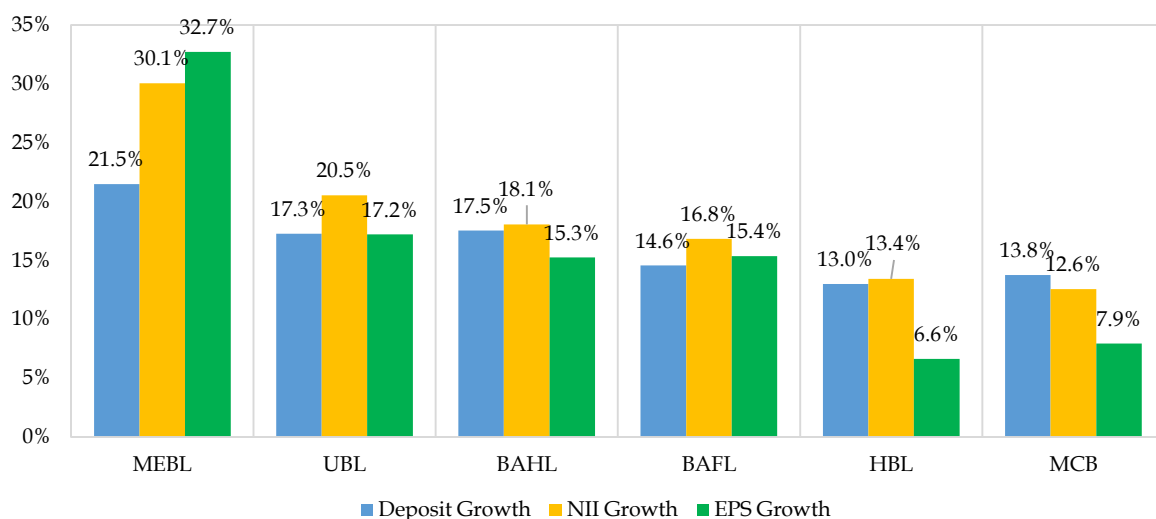
Gordon Growth Model	$V = \frac{D_0 \times (1 + g)}{r - g}$
Justified P/E Multiple (Forward)	$\text{Justified } P/E_1 = \frac{1 - b}{r - g}$
Justified P/B Multiple (Trailing)	$\text{Justified } P/B_0 = \frac{ROE - g}{r - g}$

Although they share the same mathematical structure, the three models define valuation in terms of different anchors: dividends for the GGM, payout ratio for Justified P/E, and ROE for Justified P/B. For given values of the anchors in each model and the required return, valuation becomes a function of earnings growth.

Valuations based on the above models also require base values for the relevant underlying variables – DPS, EPS, and BVPS – and assume that those values will increase at the sustainable long-term earnings growth rate, g . Estimating ‘ g ’ requires a deeper dive into the dynamics of banks' earnings.

Figure 10 shows that there is a positive correlation between growth in bank deposits (balance sheet) and growth in NII and EPS (P&L).

Figure 10: Deposits, NII and EPS – CAGR (2015-2025)



Source: Banks' Financial Statements

Bank Balance Sheet Contains the Most Valuable Data

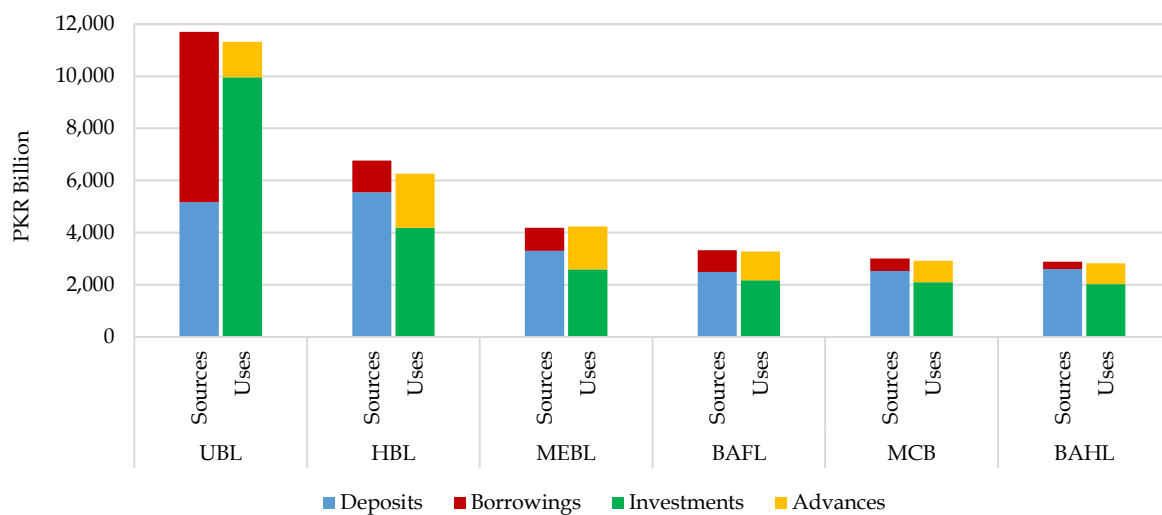
As financial intermediaries, banks' primary source of earnings is the spread between what they earn on assets (uses of funds) and what they pay on liabilities (sources of funds). The balance sheet is the engine that drives a bank's revenues and, in turn, profitability. It reflects a combination of sectoral factors – the transmission of macroeconomic variables into monetary aggregates – and bank-specific variables, including brand franchise, strategy, management quality, IT infrastructure, branch network, etc. Most of the information about the "moving parts" of the balance sheet is in the notes to the financial statements.

Table 9: HBL Balance Sheet – 2025

USES OF FUNDS		SOURCES OF FUNDS	
	PKR Million		PKR Million
Cash and treasury balances	618,729	Bills payable	59,423
Lending to financial institutions	247,785	Borrowings	1,216,020
Investments	4,186,246	Deposits and other accounts	5,546,000
Advances	2,076,777	Lease liabilities	40,116
Property and equipment	144,059	Subordinated debt	20,374
Right-of-use assets	30,696	Deferred tax liabilities	43,836
Intangible assets	30,697	Other liabilities	293,761
Other assets	373,155	Total liabilities	7,219,530
Total assets	7,708,144	Shareholders' Equity	488,615

Source: HBL Annual Report 2025

Figure 11: Key Sources and Uses of Funds (2025)



Source: Banks' Annual Reports

The two main sources of funds for banks are deposits and borrowings. Traditionally, deposits have comprised the major portion of funding for banks in Pakistan, but with the rapid growth in the OMO stock, the share of REPO borrowings from the SBP has surged substantially in recent years. However, the net spread earned on OMO borrowings is relatively narrow, so deposits continue to contribute significantly more to profitability. The main uses of funds, or earning assets, include investments and advances. The following section provides analytical insights into banks' key liabilities and assets.

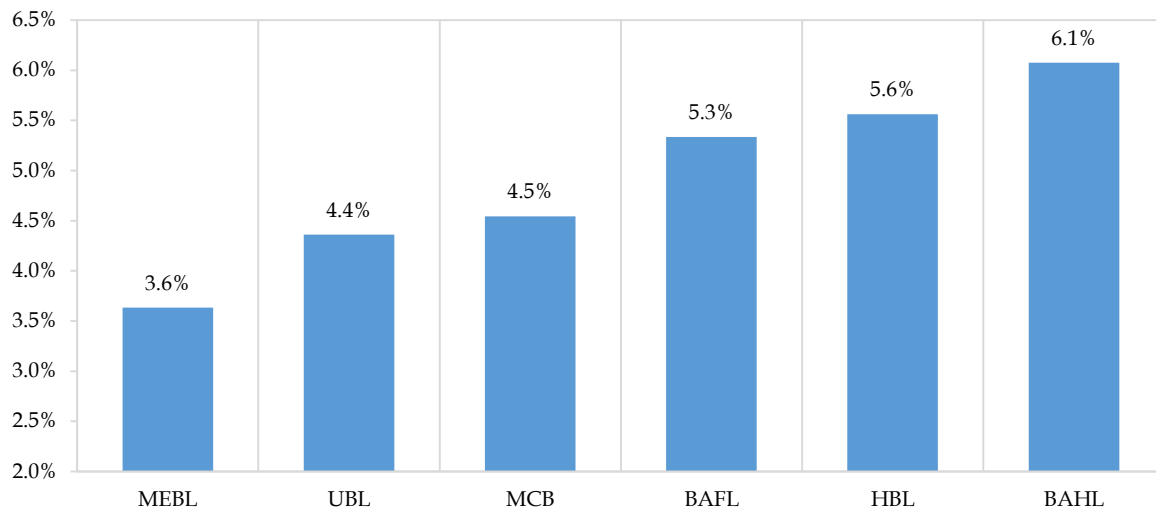
Dissecting Deposits

A bank's deposit composition — the shares of current deposits, Islamic deposits and FCY deposits — determines its cost of deposits. Banks with higher shares of current deposits and Islamic savings deposits will typically have a lower overall cost of PKR deposits. Profit-bearing deposits are subject to Minimum Profit Rate (MPR), which is more stringent for conventional deposits than for Islamic deposits (Box 1).

Banks also have FCY deposits, which include both domestic (FE-25) and overseas deposits. Most FCY deposits are denominated in USD and carry lower nominal profit rates than PKR deposits, although the corresponding FCY assets also have lower nominal yields.

Figure 12 provides a comparison of the cost of deposits and deposit mix for six large banks for the year ended 2025. The calculations are based on average deposits for five quarters (Dec-24 to Dec-25) to smooth out year-end effects due to window dressing.

Figure 12: Cost of Deposits - 2025



Source: Banks' Annual Reports 2025

Table 10: Cost of Deposits and Deposit Mix – 2025

	MEBL	UBL	MCB	BAFL	HBL	BAHF
Cost of deposits	3.6%	4.4%	4.5%	5.3%	5.6%	6.1%
Current deposits	48.2%	51.9%	47.9%	40.7%	37.3%	35.9%
Profit bearing deposits	51.8%	48.1%	52.1%	59.3%	62.7%	64.1%
- Conventional deposits	0.0%	37.2%	42.2%	42.4%	43.7%	49.9%
- Islamic deposits	48.5%	5.9%	7.0%	10.6%	7.4%	8.6%
- FCY deposits	3.3%	4.9%	2.9%	6.4%	11.6%	5.7%

Source: Banks' Annual Reports 2025

There is wide variation in the average cost of deposits across the six banks, with the lowest and highest at 3.6% and 6.1%, respectively. Driven by a higher share of current deposits and the added benefit of being an Islamic bank with a lower cost of profit-bearing deposits, MEBL has the lowest cost of deposits among the six banks. BAHF has the highest cost of deposits, reflecting lower shares of current deposits and profit-bearing Islamic deposits.

Changes in deposit composition over time are generally driven more by a bank's strategy than by sectoral factors. A bank's sustainable deposit mix and deposit growth are the two most important determinants of its valuation.

Box 1: Minimum Rate of Return on Profit Bearing Deposits

Commercial banks in Pakistan are subject to a Minimum Profit Rate (MPR) regime, which was originally introduced in 2008 and was progressively tightened before being relaxed a bit in January 2025 and August 2026. The following is a brief timeline of the MPR regime.

- **June 2008:** SBP introduced an annualised MPR of 5.0% on all categories of profit-bearing accounts of conventional commercial banks. The rate was payable on at least the minimum monthly balances.
- **May 2012:** The MPR was increased to 6.0%.
- **April 2013:** Effective from April 2013, profit became payable on average monthly balances instead of minimum balances.
- **October 2013:** The MPR regime was further modified to set the rate at 50 basis points below the SBP Repo Rate, i.e., the floor rate of the interest rate corridor.
- **January 2025:** The MPR regime was extended to Islamic Banking Institutions, with a requirement to pay at least 75% of the weighted average gross yield of all asset pools.
- **January 2025:** Deposits of financial institutions, public sector enterprises and public limited companies were excluded from the requirements of MPR.
- **August 2026:** MPR will be restricted to only individuals' deposits of up to PKR 10 million.

MPR for conventional deposits (9.5% at policy rate of 11%) works out to be higher for conventional deposits than for Islamic deposits (~8.25% at policy rate of 11%).

Borrowings are High Volume but Low Margin Financing Source

Banks' borrowings are of three main types: REPO borrowings, primarily OMOs; borrowings from the SBP under various refinancing schemes; and unsecured borrowings from domestic and overseas financial institutions. As Table 11 shows, the size of borrowings, both in absolute terms and relative to deposits and equity, varies widely across banks. Among the six major banks, UBL had the highest REPO borrowings as at end-2025, while BAHF had the lowest.

Table 11: Breakdown of Borrowings – 2025 (PKR Million)

	UBL	HBL	MEBL	MCB	BAFL	BAHL
REPO borrowings	6,402,880	908,646	473,863	391,730	707,260	163,112
Borrowing under SBP Schemes	42,022	116,392	88,908	68,283	90,317	111,296
Unsecured borrowings	85,113	190,982	324,277	16,157	34,551	15,853
Total	6,530,015	1,216,020	887,048	476,169	832,128	290,261
%Deposits	126.3%	21.9%	26.9%	18.8%	33.3%	11.2%
%Equity	1309.3%	248.9%	317.6%	141.2%	421.3%	169.5%

Source: Banks' Annual Reports 2025

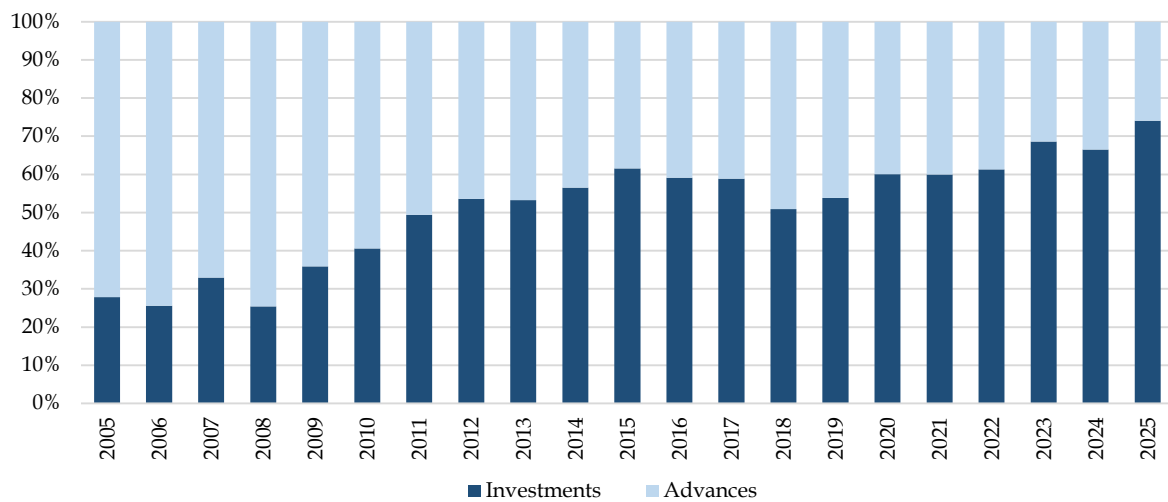
REPO borrowings are short-term in nature, with a rollover frequency of one to four weeks. The cost of REPO borrowings is close to the policy rate, and hence the spread earned on this source of financing is generally small. Given the short interest-rate reset frequency, the bulk of REPO borrowings are matched

by short-term government securities or floating-rate bonds. However, timing lags between the repricing of liabilities and assets can result in a transitory NII squeeze in a rising interest-rate scenario.

Deep Dive into the Investment Portfolio

The share of investments in banks' earning assets has grown substantially over the years and reached almost 75% in 2025. The bulk of banks' investment portfolios comprises government securities, and a significant part is funded by OMOs.

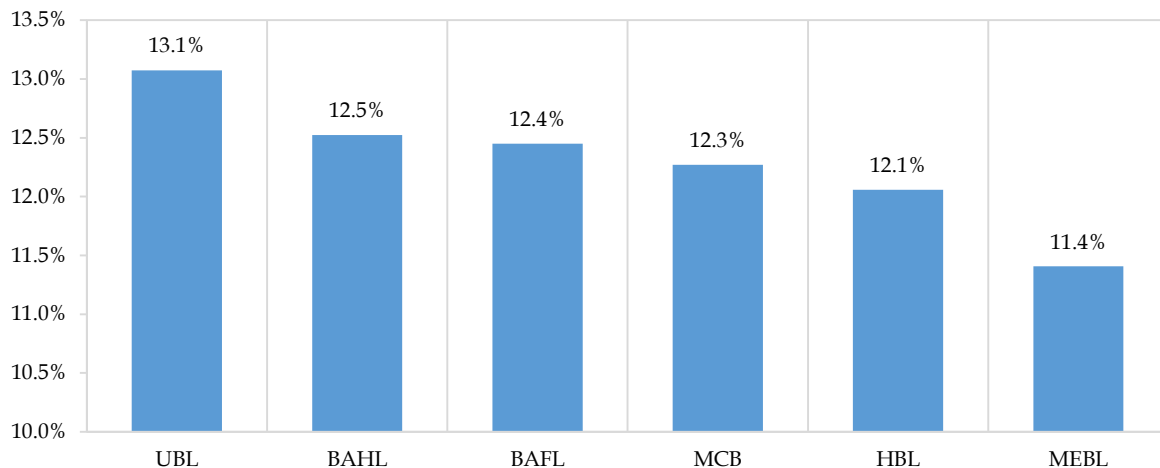
Figure 13: Composition of Profit Bearing Assets



Source: SBP

A detailed analysis of a bank's investment portfolio is essential for forecasting its profitability profile and sensitivity to interest rate movements. A good starting point is to estimate the yield on profit-earning investments. It is important to use investments at cost, rather than carrying values, in the denominator when calculating yields. Figure 14 shows the yields on profit-bearing investments for six large banks. These were calculated by dividing profit earned on investments (P&L item) in 2025 by the quarterly average of earning investments at cost (balance sheet item) for the year.

Figure 14: Yield on Profit-Bearing Investments - 2025



Source: Banks' Financial Statements

Yield differences across banks reflect the composition of investment portfolios, not just in terms of the types of securities (T-bills, PIBs, etc.), but also the timing of acquisition of these securities. For example, two banks acquiring the same floating-rate bond in equal amounts but at different times and spreads will have different portfolio yields.

The investment note in the financial statements provides a classification of securities by type, such as T-bills, PIBs, and Ijara Sukuk. Table 12 contains the breakdown of HBL's investment portfolio as at end-Dec 2025. Federal government securities comprised 92% of HBL's investment portfolio, with short-term T-bills making up only 8.5%. This high-level data on investment composition is not sufficient for assessing the portfolio's interest rate risk.

Table 12: HBL Investment Portfolio – 2025 (PKR Million)

	Cost	Provisions	Revaluation	Carrying Value	% Total
Federal Government Securities	3,778,891	-514	72,688	3,851,066	92.0%
Treasury Bills	356,787	0	598	357,386	8.5%
Pakistan Investment Bonds	2,952,130	0	62,951	3,015,082	72.0%
Ijara Sukuk	403,385	0	8,639	412,023	9.8%
Eurobonds	13,439	-514	500	13,426	0.3%
Other GOP securities	53,150	0	0	53,150	1.3%
Shares	21,204	0	18,671	39,875	1.0%
Non-Government Debt Securities	30,841	-2,620	1,351	29,573	0.7%
Foreign Securities	207,085	-720	1,152	207,516	5.0%
NIT	11	0	102	113	0.0%
REIT	3,424	0	-931	2,494	0.1%
Preference Shares	850	0	49	899	0.0%
Associates	50,345	-356	4,721	54,711	1.3%
Total	4,092,652	-4,210	97,803	4,186,246	100.0%

Source: HBL Annual Report 2025

Typically, the breakdown of PIBs and Ijara Sukuk into fixed- and floating-rate bonds is not available, nor is information on maturity, yield, or spread. An analyst needs to review multiple financial statement notes to form a view on the maturity profile and repricing frequency of the long-term bond portfolio. The financial statement notes on "mismatch of interest rate-sensitive assets and liabilities" and "maturities of assets and liabilities" provide insight into the maturity profile and repricing frequency of the longer-duration bond portfolio.

Table 13 provides more granular information on the maturity profile and interest rates of HBL's investment portfolio. While only 18.5% of total earning investments had a maturity of less than 12 months, the actual interest rate risk is much lower, as almost 66% of investments have a coupon reset or maturity of less than 6 months. Further insight into a bank's interest rate risk can be gained by comparing the size of its long-term, fixed-rate bond portfolio with its current deposits. To the extent that current accounts exceed fixed-rate bonds, the bank is not likely to face significant NIM compression amid rising interest rates. Compared with total current deposits of PKR 2.0 trillion as at end-2025, only PKR 1.3 trillion of HBL's investments were essentially fixed-rate in nature.

Table 13: HBL Investment Portfolio: Maturity Profile & Interest Rate Risk – 2025 (PKR Million)

	Maturity Profile			Interest Rate Reset		
	Amount	%Total	%Cum.	Amount	%Total	%Cum.
≤ 1 month	62,127	1.5%	1.5%	532,518	13.0%	13.0%
1-3 months	109,245	2.6%	4.1%	575,847	14.0%	27.0%
3-6 months	368,679	8.8%	12.9%	1,585,450	38.6%	65.6%
6-12 months	232,877	5.6%	18.5%	166,617	4.1%	69.7%
1-2 years	116,357	2.8%	21.2%	156,959	3.8%	73.5%
2-3 years	341,326	8.2%	29.4%	208,137	5.1%	78.6%
3-5 years	954,476	22.8%	52.2%	430,771	10.5%	89.1%
5-10 years	1,892,831	45.2%	97.4%	314,232	7.7%	96.7%
>10 years	108,328	2.6%	100.0%	135,108	3.3%	100.0%
Not exposed to risk				80,606		
Total	4,186,246			4,186,246		

Source: HBL Annual Report 2025

The classification of the investment portfolio into three main categories – Fair Value Through Profit or Loss (FVTPL), Fair Value Through Other Comprehensive Income (FVOCI), and Amortised Cost – impacts both reported profits and equity book values. Revaluation gains and losses flow through the P&L for securities classified as FVTPL, while they are recorded in OCI for securities designated as FVOCI. The carrying value of equity remains the same in both cases. However, no revaluation gains or losses are recognised in the P&L or on the balance sheet for securities held at amortised cost. An analyst needs to assess whether the bank has any significant unrecognised revaluation deficits.

Table 14: Classification of HBL Investment Portfolio – 2025 (PKR Million)

	FVTPL	FVOCI	Amortised Cost	Total
Treasury Bills	90,104	208,796	57,887	356,787
Pakistan Investment Bonds	87,773	2,496,270	368,087	2,952,130
Ijara Sukuk	998	344,929	57,458	403,385
Eurobonds	3,674	8,391	1,374	13,439
Other GOP securities	720	0	52,430	53,150
Total	183,269	3,058,386	537,236	3,778,891
%Total	4.8%	80.9%	14.2%	100.0%

Source: HBL Annual Report 2025

Interest Rate Risk is the Biggest Risk for Banks

Interest rate risk, or repricing risk, is the risk a bank faces when the interest rates on its assets and liabilities do not reset, mature, or reprice at the same time or in the same amounts. This mismatch can hurt profitability or the value of the bank's balance sheet when market interest rates change.

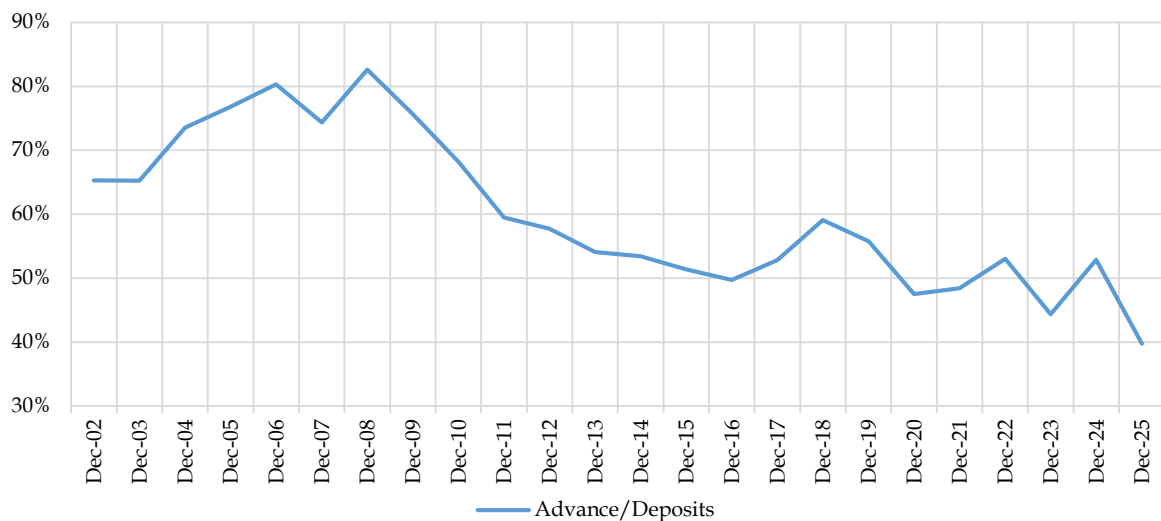
Banks provide fairly detailed disclosures about interest rate risk in the notes to the financial statements. The note on interest rate risk provides the estimated impact of a 1% increase in interest rates on P&L and OCI. The note on "mismatch of interest rate-sensitive assets and liabilities" provides interest rate sensitivity gaps for assets and liabilities based on contractual maturities, using the earlier of the repricing date or the maturity date.

In general, the bulk of banking deposits and borrowings are short-term or variable-rate in nature. Conventional profit-bearing accounts subject to the MPR are repriced automatically following a change in the policy rate, effective from the first day of the subsequent month. Similarly, OMO borrowings are also tied to the policy rate. Consequently, banks in Pakistan typically do not run large interest rate mismatches.

Advances Have Lost Ground to Investments

Banks' advances-to-deposits ratio has fallen sharply since the late 2000s. From a peak of 82% in 2008, it dropped to 40% in 2025. As a percentage of GDP, advances have fallen from 23% to only 12%. The steep decline in private-sector credit reflects structural macroeconomic factors, especially the growing public-sector footprint and weak investment demand. Moreover, banks have become more conservative in lending to the private sector, although lending spreads have narrowed due to increased competition for large, higher-rated corporate borrowers.

Figure 15: Banks' Advances/Deposits Ratio Has Fallen Sharply

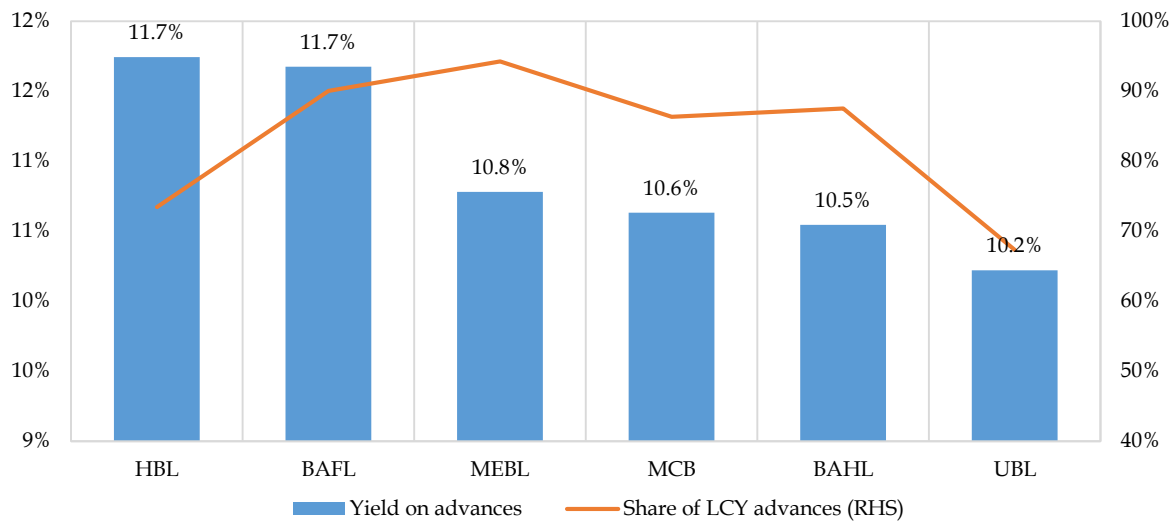


Source: SBP

Despite the decline in the share of earning assets, advances remain a significant contributor to banks' NII and warrant deeper analysis. The sector and currency composition of advances are key determinants of the overall yield and credit risk of the advances portfolio. Increased credit charges typically follow strong growth in the advances book.

Figure 16 provides a comparison of yields on advances for six major banks. Banks with a higher share of rupee advances tend to have relatively higher overall yields. Higher shares of consumer and SME advances translate into higher yields, but also increase the portfolio's credit risk and credit charges.

Figure 16: Yield on Advances - 2025



Source: Banks' Financial Statements

Non-Markup Income is Inherently Volatile

Besides fee income, the other components of non-markup income tend to be inherently volatile. For example, gains/(losses) on securities and income from derivatives can fluctuate widely, while FX income may have associated costs — such as incentives on inward remittances — that are recorded in operating expenses.

Table 15: Non-Markup Income- 2025 (PKR Million)

	HBL	UBL	BAFL	MCB	MEBL	BAHL
Fee and commission income	46,875	27,993	16,409	24,347	22,696	19,143
Foreign exchange income	8,914	17,188	11,970	10,856	5,479	7,433
Income/(loss) from derivatives	2,730	-524	864	4	0	0
Gain/(loss) on securities - net	13,625	9,879	13,262	1,188	987	-88
Dividend income	3,531	2,421	3,928	4,450	2,015	996
Share of profit of associates	6,517	0	0	2,827	0	0
Other income	3,414	1,042	1,079	558	1,456	960
Non mark-up/interest income	85,606	57,999	47,512	44,230	32,633	28,444

Source: Banks' Annual Report 2025

Operating Expenses are a Significant Differentiator

Typically, the cost-to-income ratio is used to measure the operational efficiency of banks. However, operating costs as a percentage of deposits are more intuitive, as most of these costs relate to running branches and other infrastructure primarily for deposit mobilisation.

As Table 16 shows, operating costs as a percentage of deposits vary widely across banks. However, an analyst needs to drill down further and make adjustments for costs of a non-recurring nature. For example, MEBL booked reversals of prior years' staff compensation expenses in 2025, and BAFL incurred high marketing costs, including heavy incentives paid to attract inward remittances.

Table 16: Operating expenses – 2025 (PKR Million)

	MEBL	UBL	MCB	BAHL	HBL	BAFL
Compensation expense	39,265	49,744	38,090	41,730	74,869	49,895
Property expense	11,574	16,210	13,362	12,568	28,354	15,164
IT expense	7,047	11,978	6,606	9,279	24,564	8,737
Other operating expenses	24,599	52,257	24,357	30,923	72,913	42,448
Total operating expenses	82,485	130,189	82,414	94,499	200,700	116,243
%Average deposits	2.8%	3.2%	3.4%	3.9%	4.1%	5.2%

Source: Banks' Financial Statements

Banks are Subject to Heavy taxation

Few sectors in Pakistan's economy are taxed as heavily, or as unpredictably, as banking. Over the years, the government has repeatedly turned to banks as a fast, reliable source of revenue – raising corporate tax rates, layering on a super tax, and imposing ADR-linked punitive taxation, which was eventually withdrawn.

Banks in Pakistan are taxed under a special regime – the Seventh Schedule to the Income Tax Ordinance, 2001 – rather than the ordinary corporate tax rules that apply to other companies. This schedule accounts for the peculiarities of bank accounting, such as provisioning under IFRS 9 and treasury income.

In addition to a 2% charge for the Workers' Welfare Fund (WWF), banks are subject to corporate income tax of 42% (from tax year 2027) and a super tax of 10%.

Capital Adequacy is an Indicator of Financial Strength and Payout Capacity

Capital Adequacy Ratio (CAR) is a measure of a bank's financial strength, expressed as the ratio of its eligible capital to its risk-weighted assets. It is used by regulators to ensure that banks hold enough capital to absorb losses before they become insolvent, protecting depositors and keeping the financial system stable.

Capital has a hierarchical profile divided into distinct tiers based on permanence and the ability to absorb losses without triggering insolvency.

- **Tier 1 Capital:** Tier 1 Capital, or Core Capital, consists of the following two components:
 - Common Equity Tier 1 (CET1): It essentially comprises shareholders' equity, excluding adjustments for goodwill, deferred tax assets, cross-holdings, revaluation losses, etc.
 - Additional Tier 1 (AT1): These instruments are perpetual and contain triggers for conversion into ordinary shares if CET1 falls below certain thresholds.
- **Tier 2 Capital:** It is supplementary capital that serves as a secondary layer of protection against financial losses. It comprises qualifying Tier 2 instruments, such as TFCs/Sukuks issued by the bank, and other supplementary capital, such as revaluation surpluses and general provisions.

CET1 ratio is also an indicator of a bank's dividend-paying capacity. A higher CET1 ratio is generally associated with higher earnings payout ratio, and vice versa.

Table 17: Capital Adequacy Ratio

	MEBL	UBL	HBL	MCB	BAHL	BAFL
Tier 1	16.9%	16.3%	14.0%	13.7%	12.9%	12.3%
CET1	16.5%	15.9%	13.3%	13.7%	11.8%	11.3%
AT1	0.4%	0.4%	0.7%	0.0%	1.1%	1.0%
Tier 2	2.3%	4.7%	4.3%	5.0%	4.2%	3.5%

Source: Banks' Financial Statements

Financial Ratio Analysis

This section covers the financial ratio analysis of a peer group comprising Pakistan's six large banks: BAFL, BAHF, HBL, MCB, MEBL and UBL. The analysis is based on unconsolidated financial statements, except for HBL and MCB, for which consolidated numbers have been used. HBL has significant overseas operations through associates/JVs, while MCB has a wholly owned Islamic banking subsidiary. The ratios are grouped to measure the following aspects of banking operations.

- Yields and Spreads
- Balance Sheet Growth
- Asset Quality
- Operational Efficiency
- Profitability
- Capital Adequacy
- DuPont Analysis

Yields and Spreads

Table 18 presents historical data for 2020-2025 for the peer group on seven ratios related to yields, costs, and margins. NIM is the primary measure of banking spread and is computed as the difference between Yield on Earning Assets and Cost of Funds. However, for banks that use large volumes of OMO borrowings, NIM alone is not sufficient for cross-sectional comparison. More insight can be gained from comparing the cost of deposits and yields on investments and advances. As deposits are the primary measure of size, the NII-to-deposit ratio provides a better perspective on core revenues. There is a positive correlation between interest rates and banking spreads, mainly due to zero-cost current deposits in a bank's deposit base.

Table 18: Yield on Assets, Cost of Funds and Net Interest Margin²

	2020	2021	2022	2023	2024	2025
Yield on Earning Assets						
BAFL	8.9%	7.4%	12.3%	16.8%	16.5%	11.0%
BAHL	10.6%	8.1%	11.3%	17.1%	18.2%	11.8%
HBL	9.2%	7.7%	11.5%	16.6%	16.9%	11.7%
MCB	9.9%	7.8%	11.7%	17.7%	17.6%	11.8%
MEBL	9.5%	7.6%	11.8%	17.6%	16.5%	11.0%
UBL	9.5%	7.7%	10.9%	13.9%	17.4%	12.6%
Cost of Funds						
BAFL	4.6%	4.0%	7.8%	11.4%	12.0%	6.6%
BAHL	5.5%	4.1%	6.8%	11.2%	11.8%	7.0%
HBL	4.5%	3.6%	6.8%	10.5%	11.2%	6.7%
MCB	4.8%	3.8%	6.7%	9.6%	10.4%	6.1%
MEBL	3.5%	2.7%	5.6%	8.4%	6.9%	4.4%
UBL	4.5%	3.7%	6.2%	10.0%	14.3%	8.5%
Net Interest Margin						

² Some of the ratios for 2025 may not match with those presented in earlier sections due to differences in definitions and annual averaging of denominator values.

BAFL	4.3%	3.4%	4.5%	5.4%	4.5%	4.4%
BAHL	5.1%	4.0%	4.5%	5.9%	6.4%	4.8%
HBL	4.7%	4.1%	4.7%	6.1%	5.7%	5.0%
MCB	5.1%	4.0%	5.0%	8.1%	7.2%	5.7%
MEBL	6.0%	4.9%	6.2%	9.2%	9.6%	6.6%
UBL	5.0%	4.0%	4.7%	3.9%	3.1%	4.1%
NII/Deposits						
BAFL	5.4%	4.6%	5.9%	7.1%	6.0%	5.9%
BAHL	5.8%	4.6%	5.4%	7.1%	7.4%	5.4%
HBL	4.9%	4.2%	4.8%	6.4%	5.8%	5.6%
MCB	5.8%	4.7%	6.3%	9.3%	8.1%	6.9%
MEBL	5.9%	5.1%	7.8%	11.7%	12.0%	8.6%
UBL	4.8%	4.2%	5.8%	6.8%	6.9%	9.3%
Yield on Advances						
BAFL	9.1%	7.4%	11.1%	15.8%	14.8%	10.8%
BAHL	8.6%	6.3%	10.3%	16.3%	14.2%	11.0%
HBL	9.8%	8.2%	11.7%	16.5%	14.4%	10.9%
MCB	9.2%	6.5%	10.3%	16.9%	14.2%	9.4%
MEBL	9.5%	6.8%	10.2%	17.1%	14.9%	9.3%
UBL	9.0%	6.7%	9.0%	14.7%	11.0%	8.6%
Yield on Investments						
BAFL	9.1%	7.5%	13.4%	17.6%	17.8%	11.1%
BAHL	12.1%	9.7%	12.0%	17.6%	20.4%	12.2%
HBL	9.0%	7.4%	11.7%	16.5%	18.7%	12.5%
MCB	10.6%	8.9%	13.2%	18.7%	20.7%	13.6%
MEBL	9.0%	8.2%	14.1%	18.2%	17.7%	12.1%
UBL	10.0%	8.2%	12.0%	13.6%	18.8%	13.3%
Cost of Deposits						
BAFL	3.8%	3.0%	5.8%	9.4%	10.6%	5.1%
BAHL	4.8%	3.6%	6.2%	10.7%	11.3%	6.1%
HBL	4.1%	3.2%	5.7%	9.3%	10.8%	5.5%
MCB	4.5%	3.5%	6.7%	8.8%	9.7%	4.7%
MEBL	3.4%	2.5%	3.8%	5.7%	6.0%	3.7%
UBL	3.9%	3.4%	6.1%	8.2%	8.1%	4.5%

Source: Zakheera

Balance Sheet Growth

A holistic analysis of a bank's balance sheet growth involves several metrics. While growth in total assets measures a bank's overall balance sheet expansion, it is important to analyse how the expansion was funded (sources of funds) and where these funds were deployed (uses of funds).

Table 19 shows trends in asset, deposit, investment, and advance growth during 2020-2025 for the peer group. UBL recorded the fastest growth in total assets, followed by MEBL. However, UBL's asset growth was supported by higher leverage, as reflected in the borrowings-to-assets ratio.

In addition to higher deposit growth, UBL and MEBL increased the share of current deposits in total deposits. MCB also increased the share of current deposits but with slower overall deposit growth.

Table 19: Asset Growth and Financing Mix

	2020	2021	2022	2023	2024	2025	CAGR
Deposit Growth							
BAFL	12.7%	29.2%	30.5%	40.2%	2.5%	16.8%	21.3%
BAHL	21.7%	19.1%	19.7%	23.3%	17.8%	14.1%	19.3%
HBL	16.1%	19.5%	2.6%	19.4%	5.5%	26.9%	14.7%
MCB	13.2%	10.5%	-0.1%	31.1%	6.0%	18.7%	12.8%
MEBL	34.5%	16.1%	13.9%	33.7%	16.6%	27.8%	23.5%
UBL	11.8%	6.8%	5.0%	27.9%	12.3%	95.8%	23.4%
Asset Growth							
BAFL	30.1%	25.2%	29.9%	48.5%	10.9%	3.2%	23.8%
BAHL	17.2%	21.5%	22.8%	20.8%	21.0%	-0.5%	16.8%
HBL	19.3%	12.2%	7.4%	19.3%	9.4%	27.3%	15.6%
MCB	17.3%	12.2%	7.2%	17.8%	12.3%	18.9%	14.2%
MEBL	35.7%	25.1%	35.4%	16.9%	29.5%	23.2%	27.5%
UBL	8.2%	27.7%	5.4%	102.1%	44.6%	56.5%	37.2%
Investment Growth							
BAFL	82.9%	47.9%	37.7%	85.5%	-3.7%	9.2%	39.2%
BAHL	30.5%	8.1%	40.2%	29.8%	28.0%	5.4%	23.0%
HBL	41.2%	0.0%	0.0%	31.5%	-1.3%	65.6%	20.3%
MCB	36.8%	2.5%	-2.0%	31.8%	-4.8%	60.7%	18.5%
MEBL	92.4%	42.8%	106.9%	22.5%	19.0%	38.8%	50.3%
UBL	34.3%	32.6%	-5.4%	209.9%	34.2%	69.0%	51.0%
Advances Growth							
BAFL	12.9%	16.7%	8.7%	0.4%	50.9%	-0.4%	13.7%
BAHL	4.4%	43.8%	10.9%	6.9%	4.8%	-13.0%	8.4%
HBL	4.9%	23.2%	18.3%	4.4%	30.8%	-14.7%	10.1%
MCB	-0.1%	25.3%	23.1%	-20.6%	73.8%	-29.5%	7.0%
MEBL	3.8%	47.9%	31.3%	-3.4%	57.5%	8.3%	22.2%
UBL	-16.7%	21.9%	42.7%	-33.4%	135.3%	-5.1%	13.6%
Borrowings/Assets							
BAFL	22.7%	22.1%	21.8%	27.2%	30.8%	21.7%	
BAHL	13.9%	16.3%	18.4%	17.4%	20.1%	8.8%	
HBL	14.1%	10.1%	12.6%	12.0%	13.7%	15.8%	
MCB	9.8%	13.3%	15.7%	8.8%	10.6%	13.3%	
MEBL	6.2%	11.6%	22.2%	12.5%	18.5%	18.5%	

UBL	6.3%	21.5%	20.5%	50.5%	60.2%	51.7%	
Current Deposits							
BAFL	45.0%	44.0%	44.0%	38.0%	38.0%	38.0%	
BAHL	36.0%	39.0%	37.0%	34.0%	34.0%	35.0%	
HBL	35.0%	35.0%	40.0%	33.0%	36.0%	36.0%	
MCB	36.0%	37.0%	45.0%	44.0%	45.0%	49.0%	
MEBL	39.0%	45.0%	47.0%	48.0%	47.0%	47.0%	
UBL	40.0%	43.0%	45.0%	46.0%	58.0%	51.0%	

Source: Zakheera

Asset Quality

As discussed in the earlier section, there has been a steep decline in private-sector credit amid a growing public-sector footprint and weak investment demand. Moreover, banks have become more conservative in lending to the private sector, focusing primarily on higher-rated corporate borrowers. This is reflected in improving NPL ratios and low credit costs for the banking sector.

Table 20: Asset Quality

	2020	2021	2022	2023	2024	2025
Gross NPLs						
BAFL	4.3%	3.5%	4.0%	4.8%	3.7%	4.1%
BAHL	1.4%	1.0%	1.8%	2.8%	3.7%	4.3%
HBL	6.3%	5.1%	4.9%	5.2%	4.3%	4.6%
MCB	8.7%	7.0%	6.0%	7.8%	4.6%	6.0%
MEBL	2.8%	1.9%	1.3%	1.7%	1.6%	1.8%
UBL	13.7%	11.8%	9.2%	14.7%	7.4%	7.5%
Net NPLs						
BAFL	0.4%	-0.1%	-0.3%	-0.6%	-0.4%	-0.1%
BAHL	-1.0%	-0.7%	-0.4%	-0.2%	-1.4%	-1.5%
HBL	0.0%	-0.2%	-0.1%	-0.1%	-1.1%	-1.4%
MCB	0.2%	0.8%	1.0%	1.5%	0.0%	0.3%
MEBL	-0.8%	-0.6%	-0.9%	-1.4%	-1.1%	-0.9%
UBL	0.9%	0.6%	0.2%	0.3%	-0.4%	-0.8%

Source: Zakheera

Operating Efficiency

The cost-to-income ratio is typically used as a key measure of a bank's operating efficiency. As evident from Table 21, there is wide variation in the cost-to-income ratio across banks, with MEBL and UBL ranking at the higher end of operating efficiency. Results are similar when comparing the peer group on an operating cost-to-deposits ratio.

Table 21: Operating Efficiency

	2020	2021	2022	2023	2024	2025
Cost/Income						
BAFL	54.7%	58.1%	50.0%	42.1%	49.3%	63.4%
BAHL	50.1%	55.7%	52.6%	47.7%	44.6%	59.4%
HBL	58.5%	57.1%	58.8%	56.8%	56.3%	55.6%
MCB	39.5%	45.1%	39.2%	29.7%	34.3%	40.1%
MEBL	38.5%	41.0%	32.8%	27.3%	25.2%	28.9%
UBL	43.5%	44.9%	38.0%	36.5%	36.3%	31.0%
Operating Cost/Deposits						
BAFL	3.8%	3.6%	3.8%	3.7%	4.0%	5.0%
BAHL	3.4%	3.2%	3.6%	4.0%	3.8%	3.9%
HBL	3.6%	3.1%	3.6%	4.5%	4.5%	4.0%
MCB	2.9%	2.8%	3.1%	3.4%	3.5%	3.5%
MEBL	2.6%	2.5%	3.0%	3.5%	3.3%	2.8%
UBL	2.6%	2.5%	2.9%	3.1%	3.8%	3.3%

Source: Zakheera

Profitability

NII growth is the most important measure of core revenue growth, as it captures the impact of both margins and volumes (earning assets). While NII growth for all banks in the peer group was quite healthy during 2020-2025, UBL and MEBL stood out with significantly stronger performance than their peers.

Pre-tax and pre-provision profit growth, and EPS growth, are measures of operating and bottom-line profitability, and largely reflected the trend in NII growth. MEBL consistently maintained a significantly higher ROA and ROE than its peers during 2020-2025.

Table 22: Profitability Ratios

	2020	2021	2022	2023	2024	2025	CAGR
NII Growth							
BAFL	-0.3%	3.0%	68.0%	63.0%	0.6%	7.1%	20.3%
BAHL	39.9%	-3.5%	39.0%	60.6%	25.9%	-16.4%	21.2%
HBL	28.4%	1.0%	26.0%	46.3%	1.4%	12.2%	18.1%
MCB	19.0%	-9.8%	40.4%	72.4%	1.5%	-4.0%	16.7%
MEBL	39.3%	6.3%	76.6%	86.1%	26.8%	-12.0%	32.6%
UBL	21.3%	-4.3%	43.8%	38.4%	21.4%	108.5%	34.2%
Pre-tax & provisions growth							
BAFL	0.2%	0.8%	89.4%	80.2%	-3.1%	-22.7%	17.1%
BAHL	47.8%	-8.8%	51.4%	64.6%	31.1%	-36.1%	18.8%
HBL	102.7%	7.5%	22.0%	48.3%	15.9%	7.0%	30.3%
MCB	32.3%	-15.6%	52.1%	90.6%	-1.8%	-11.8%	18.7%
MEBL	48.8%	7.4%	90.9%	91.0%	30.9%	-14.3%	36.7%
UBL	20.0%	0.4%	64.1%	30.3%	48.9%	74.1%	37.2%

EPS growth							
BAFL	-17.4%	35.6%	28.0%	121.9%	7.0%	-26.1%	16.6%
BAHL	59.5%	5.0%	-11.4%	113.2%	12.9%	-23.1%	18.3%
HBL	101.5%	13.4%	-2.7%	69.3%	1.4%	14.1%	27.8%
MCB	23.2%	6.0%	10.2%	89.5%	-2.9%	-7.6%	16.1%
MEBL	45.6%	27.9%	58.8%	87.6%	20.0%	-12.5%	34.1%
UBL	9.4%	47.7%	3.9%	65.8%	51.4%	56.3%	36.9%
Return on Assets (ROA)							
BAFL	0.9%	0.9%	0.9%	1.3%	1.1%	0.8%	
BAHL	1.3%	1.1%	0.8%	1.4%	1.3%	0.9%	
HBL	0.9%	0.9%	0.8%	1.1%	1.0%	1.0%	
MCB	1.7%	1.6%	1.6%	2.6%	2.2%	1.8%	
MEBL	1.7%	1.7%	2.0%	3.0%	2.9%	2.0%	
UBL	1.1%	1.3%	1.2%	1.3%	1.2%	1.2%	
Return on Equity (ROE)							
BAFL	11.7%	14.9%	18.2%	30.6%	24.3%	15.1%	
BAHL	25.2%	22.0%	17.9%	31.4%	28.3%	19.0%	
HBL	12.6%	12.9%	12.1%	17.7%	14.9%	14.9%	
MCB	16.2%	16.9%	18.5%	29.9%	24.0%	18.8%	
MEBL	34.6%	36.4%	44.6%	56.3%	47.0%	33.8%	
UBL	11.8%	15.9%	15.5%	23.1%	28.3%	31.4%	

Source: Zakheera

Capital Adequacy

Banks in Pakistan are generally well capitalised, with CAR well in excess of minimum requirements. For almost all banks in the peer group, CET1 ratios have been in the low to mid-teens. High CET1 buffers have enabled banks to maintain high dividend payout ratios.

Table 23: Capital Adequacy Ratios

	2020	2021	2022	2023	2024	2025
CAR						
BAFL	16.5%	14.4%	13.8%	16.7%	18.0%	15.9%
BAHL	15.1%	13.5%	14.7%	15.8%	17.9%	17.1%
HBL	17.2%	15.6%	14.8%	16.0%	17.7%	18.3%
MCB	19.7%	16.0%	18.0%	19.8%	18.7%	18.7%
MEBL	17.8%	17.8%	18.4%	22.4%	20.4%	19.2%
UBL	24.4%	21.5%	19.2%	16.6%	20.3%	21.0%
CET1						
BAFL	11.6%	10.2%	9.5%	11.6%	12.8%	11.3%
BAHL	10.4%	9.6%	9.9%	10.7%	12.7%	11.8%
HBL	12.6%	11.5%	10.8%	11.6%	13.5%	13.3%
MCB	15.8%	14.0%	15.4%	16.5%	14.9%	13.7%

MEBL	12.3%	12.9%	14.8%	18.2%	16.4%	16.5%
UBL	17.0%	15.1%	13.4%	11.7%	14.6%	15.9%

Source: Zakheera

DuPont Analysis

The 5-step DuPont analysis breaks down Return on Equity (ROE) into five factors as following:

$$\text{ROE} = (\text{Tax Impact}) \times (\text{Provision Impact}) \times (\text{Operating Efficiency}) \times (\text{Asset Turnover}) \times (\text{Leverage})$$

The first four factors multiplied together give the ROA.

DuPont analysis is an important tool in cross-sectional and sequential analysis of ROE in identifying the key contributors of variation in ROE. Table 24 presents DuPont analysis of the peer group for 2025.

Table 24: 5 Step DuPont - 2025

Ratio	Measures	MEBL	UBL	HBL	BAHL	MCB	BAFL
Net Income/Pre-tax Income	Tax Impact	45.8%	44.4%	45.1%	46.8%	47.0%	45.5%
Pre-tax Income/Pre-Provision Income	Provision Impact	98.0%	101.6%	94.2%	103.8%	104.2%	95.0%
Pre-provision Income/Revenue	Operating Efficiency	69.6%	67.6%	43.5%	39.7%	58.4%	35.8%
Revenue/ Assets	Asset Utilisation	6.5%	4.1%	5.2%	4.8%	6.2%	4.9%
ROA	Return on Assets	2.0%	1.2%	1.0%	0.9%	1.8%	0.8%
Assets/Equity	Leverage	16.5	25.4	15.3	20.5	10.6	20.1
ROE	Return on Equity	33.8%	31.4%	14.8%	19.0%	18.8%	15.1%

Source: Zakheera

As is evident from the table, the impact of the first two factors — tax rate and provisions — is fairly consistent across banks. However, there is considerable variation in operating efficiency, with MEBL, UBL, and MCB faring better than others. On asset utilisation, MEBL and MCB stand out. Ranking at the higher end for the first two ratios, MEBL has by far the highest ROA among the peer group and also ranks highest on ROE. However, despite a relatively lower ROA, UBL's high leverage ratio pushes up its ROE closer to that of MEBL.

Beyond the Balance Sheet

A bank's ability to sustainably grow deposits — the lifeblood of its business — is a determinant of its financial success. A bank's franchise value is its biggest 'tangible' intangible asset, built over time through a track record of fiduciary responsibility, service quality, innovation, and management quality.

"Management Soundness" is arguably the pivotal element in the CAMELS framework for supervisory ratings, directly and indirectly impacting the other components: Capital Adequacy, Asset Quality, Earnings, Liquidity, and Sensitivity to Market Risk.

The ability to navigate risks, capitalise on opportunities, and connect with customers through innovation and technology are elements not directly captured on the balance sheet. In many ways, financial statements are a quantitative translation of a bank's qualitative attributes, and perhaps the most important one is leadership. A clear and distinctive vision, the ability to translate it into a comprehensive business strategy, and ensuring its successful execution are hallmarks of good leadership. Many banking franchises have been built on the vision of individual leaders, whether sponsors or management.

It is critical for an analyst to understand the distinctive qualitative elements that define a bank and to reflect them appropriately in the quantitative assumptions of the financial model and valuation.

Building a Financial Model

A financial model is a depiction of the modeller's understanding of sector and company dynamics, and the translation of key macroeconomic and company-specific factors into quantitative assumptions. The quality of the model's output depends on the robustness of its internal financial linkages and on the forecasted values for key variables. There is no single best way to create a financial model. Nevertheless, the following are broad guidelines for building a financial model for a banking company, essentially summarising the key points of the earlier sections of this guidebook.

Transcribe Historical Financial Data

Start by transcribing historical financial statements into a spreadsheet. It is useful to have annual historical data for 10 to 15 years and quarterly data for 3 to 5 years to adequately cover multiple economic cycles. In addition to summary financial statements, it is important to add a detailed breakdown of key items from the financial statement notes, including markup income, markup expense, operating costs, provisions, advances, investments, deposits, and borrowings.

Ratio Analysis

Carry out a detailed financial ratio analysis covering important aspects of the banking business, including yields and margins, balance sheet growth, asset quality, operational efficiency, profitability, capital adequacy, and DuPont analysis. Besides providing valuable insights into the bank's financial strategy and performance, financial ratios also provide a sanity check on the reasonableness of the forecasted financial statements.

Qualitative Analysis

The qualitative elements that define a bank are typically much underappreciated, yet they are an important part of the analysis. Due consideration should be given to factors such as shareholder profile, management quality, business strategy, product mix and delivery channels, IT infrastructure, and investor engagement.

Macroeconomic Forecasts

Analysts may build their own forecasts for macroeconomic variables, including M2 growth, advances growth, inflation, interest rates, and the exchange rate, or use forecasts from external sources such as multilateral financial institutions or rating agencies.

Bank Specific Assumptions

The two most critical sets of assumptions pertain to balance sheet growth and net interest margins. Balance sheet assumptions include deposit growth and, more importantly, its mix, as well as borrowings, advances, non-performing loans, and investments. NIM is a function of interest rates, the asset portfolio, and the funding mix. Other important assumptions include non-interest income, operating costs, and taxation.

Valuation

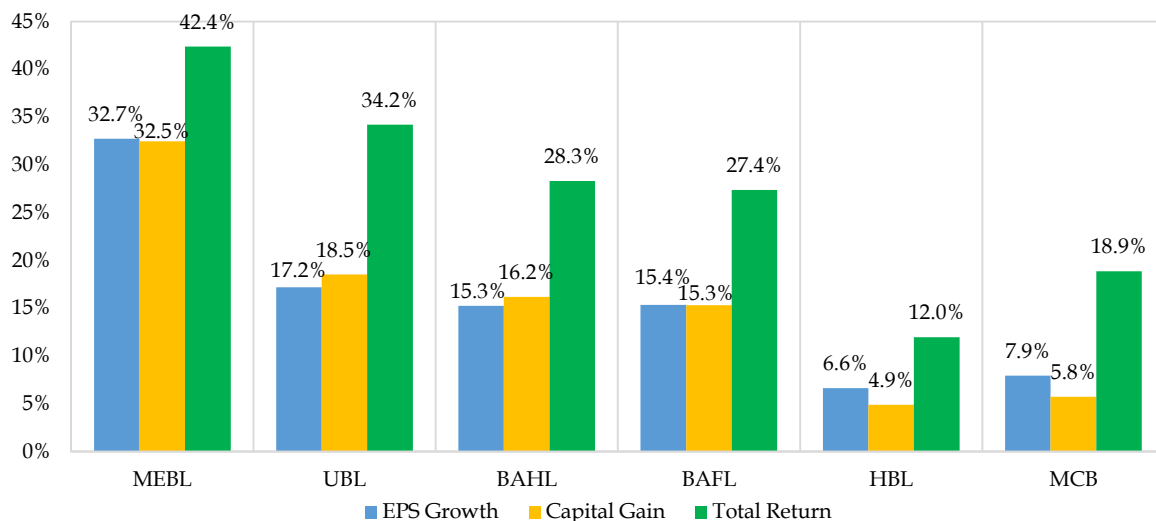
Financial analysts are expected to provide point estimates of the valuation of securities in terms of either Fair Value (at the current date) or Target Price (for a future date). The valuation models employed for this purpose may be absolute — such as DDM, Justified P/E, Justified P/B, or Residual Income — or relative — such as time-series or peer-group averages of P/E or P/B.

A useful starting point for valuation is to ascertain how stocks have performed over the past 5- to 10-year period, either in absolute terms or relative to earnings growth. It is also useful to assess whether the market rewards higher growth with higher multiples.

Stock Returns Have a Strong Positive Correlation with Earnings Growth

Figure 17 shows stock returns of the peer group for the 10-year period from 2015 to 2025. Stock returns can be measured as capital gains (price performance only) or on a total-return basis, which assumes reinvestment of dividends on the ex-dividend date. Interestingly, annualised stock returns over the 10-year period, measured as capital gains only, were almost perfectly aligned with earnings growth. This underscores the value of earnings growth as an indicator of stock performance.

Figure 17: EPS Growth vs. Stock Returns - CAGR (2015-2025)

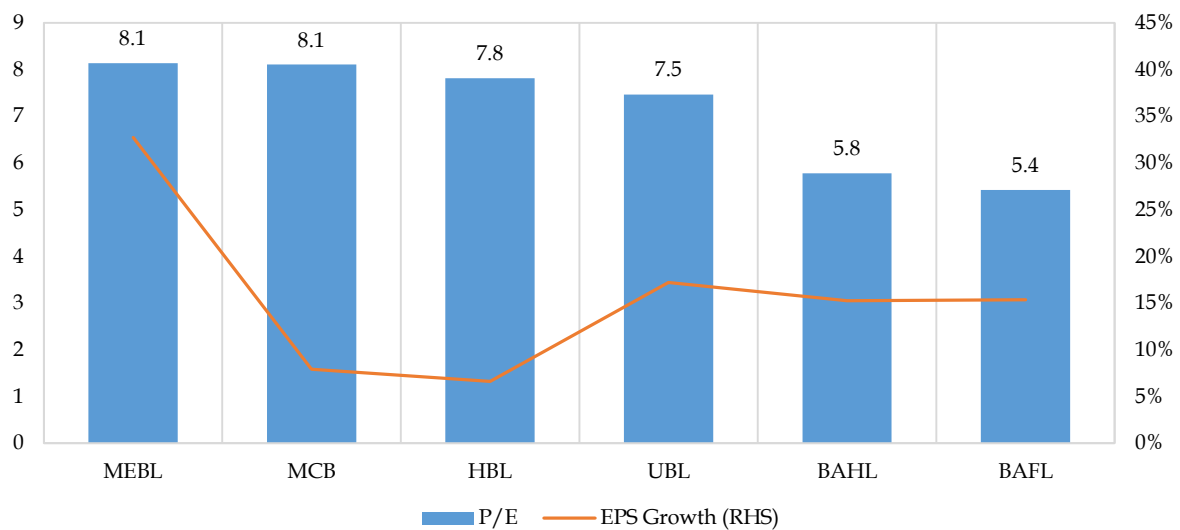


Source: Zakheera

Higher Earnings Growth Did Not Translate into Higher P/E

While banks that delivered higher earnings growth during the 10-year period also generated higher stock returns, the market did not reward higher growth with higher P/Es. The average trailing 4-quarter P/E from 2020 to 2025 for MEBL, which delivered an earnings CAGR of 32.7%, was the same as for MCB, which saw earnings grow at only 7.9% annually. Likewise, BAFL and BAHF delivered higher earnings growth than HBL but traded at lower average P/Es. However, there may be other explanations for these apparent P/E anomalies, such as the market assigning a premium for size and/or a discount for lower stock liquidity.

Figure 18: Trailing P/E vs. EPS Growth (2015-2025)



Source: Zakheera

P/E or P/B – Which is a Better Valuation Measure?

As a bank's balance sheet carries most assets and liabilities at fair market value, book value of equity is typically used as an anchor for valuation. However, book value of equity is more relevant as a proxy for the liquidation value of a bank than for its fair value.

The P/B multiple is rarely used in isolation when determining the relative valuation of a bank against either its historical average or a peer group. It is typically viewed in conjunction with ROE. For example, a higher P/B may be justified if the bank's ROE is higher than that of its peer group.

While a P/B reference may seem intuitive, using it in combination with ROE effectively turns it into P/E. Since $ROE = E/B$, dividing P/B by ROE gives P/E.

An important issue with book value of equity and ROE is that they tend to be more volatile than EPS, as several revaluation items flow through OCI into equity. The clean surplus relationship rarely holds for banks.

As discussed in the earlier section, justified P/E and justified P/B multiples are essentially mathematical variations of the same fundamental valuation model – the Gordon Growth Model.

For any going-concern entity, value to shareholders accrues from future earnings and, in turn, dividends. It is therefore more useful to use dividend- or earnings-based models for valuing banks.

When applying these models, it is important to forecast earnings up to the period when the bank achieves its expected long-term growth rate – in other words, when it reaches a steady state – so that the terminal value is consistent with the underlying growth assumptions.

About the Author

Asif Ali Qureshi, CFA, has 30 years of experience in Pakistan's financial sector in varied roles as a banker, research analyst, entrepreneur, consultant, and asset manager. He is currently the Chief Executive of UBL Fund Managers Limited and also serves on the boards of the Privatisation Commission and CFA Society Pakistan.

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In addition to his CFA designation, he holds an MA in International Financial Analysis with Distinction from Newcastle University, UK, an MBA from QAU, and a BSc in Mathematics and Physics from Punjab University.