Pakistan Banking Sector - 2QCY26 review

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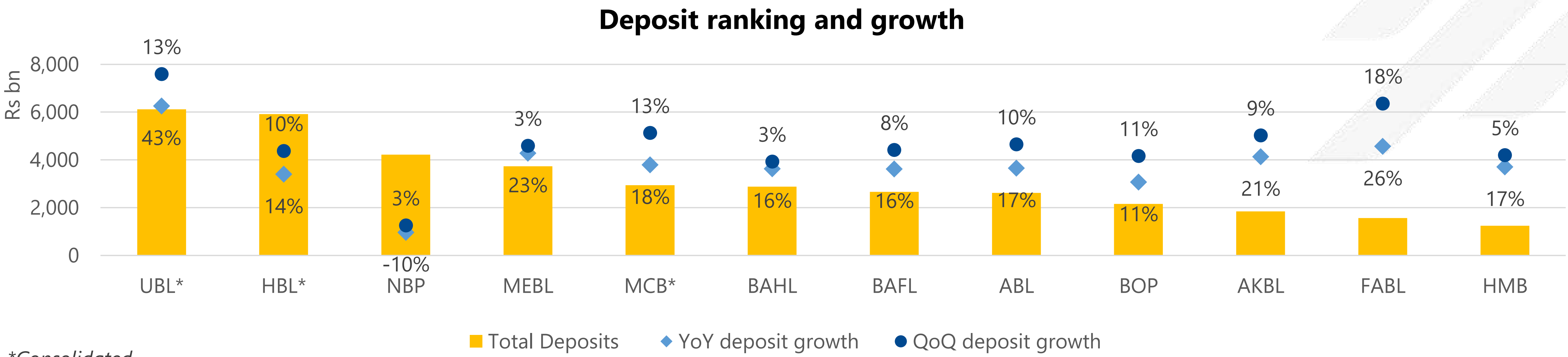
Preamble

- Pakistan's banking sector has achieved a new milestone, recording record-high core income and bottom-line figures during 2QCY26. Non-Interest Income also supported bottom-line expansion.
- Banking sector deposits expanded 15.2% YoY to ~Rs41trn, with UBL emerging as the largest bank by deposits, surpassing HBL, after recording 43% YoY growth and crossing the Rs6trn mark.
- Dividend payouts remained resilient, with sector dividends broadly stable, while MEBL increased DPS to Rs8.
- Despite resilient profitability, operating efficiency weakened, with the coverage universe’s cost-to-income ratio rising to ~50%, reflecting higher technology investments and branch expansion.
- We present a summary of the sector’s key 2QCY26 profitability and balance sheet indicators and ratios with our sample size of 12 banks (87% of sector market cap) in our report today.

Companies	Code
Allied Bank Ltd	ABL
Askari Bank Ltd	AKBL
Bank Al Habib Ltd	BAHL
Bank Alfalah Ltd	BAFL
Faysal Bank Ltd	FABL
Habib Bank Ltd	HBL
Habib Metropolitan Bank Ltd	HMB
MCB Bank Ltd	MCB
Meezan Bank Ltd	MEBL
National Bank of Pakistan	NBP
The Bank of Punjab	BOP
United Bank Ltd	UBL

Deposits

Deposit growth accelerates, UBL in lead



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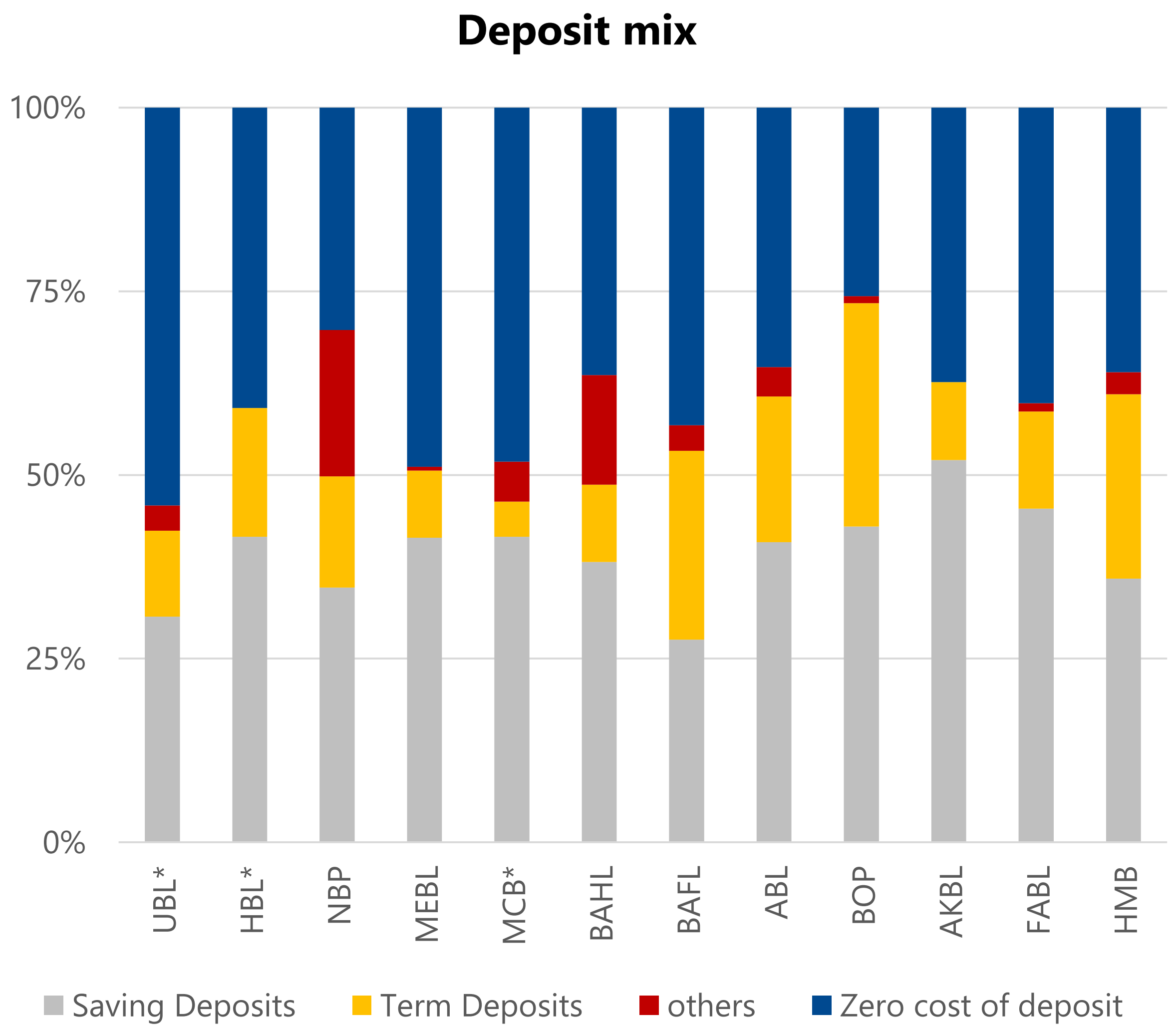
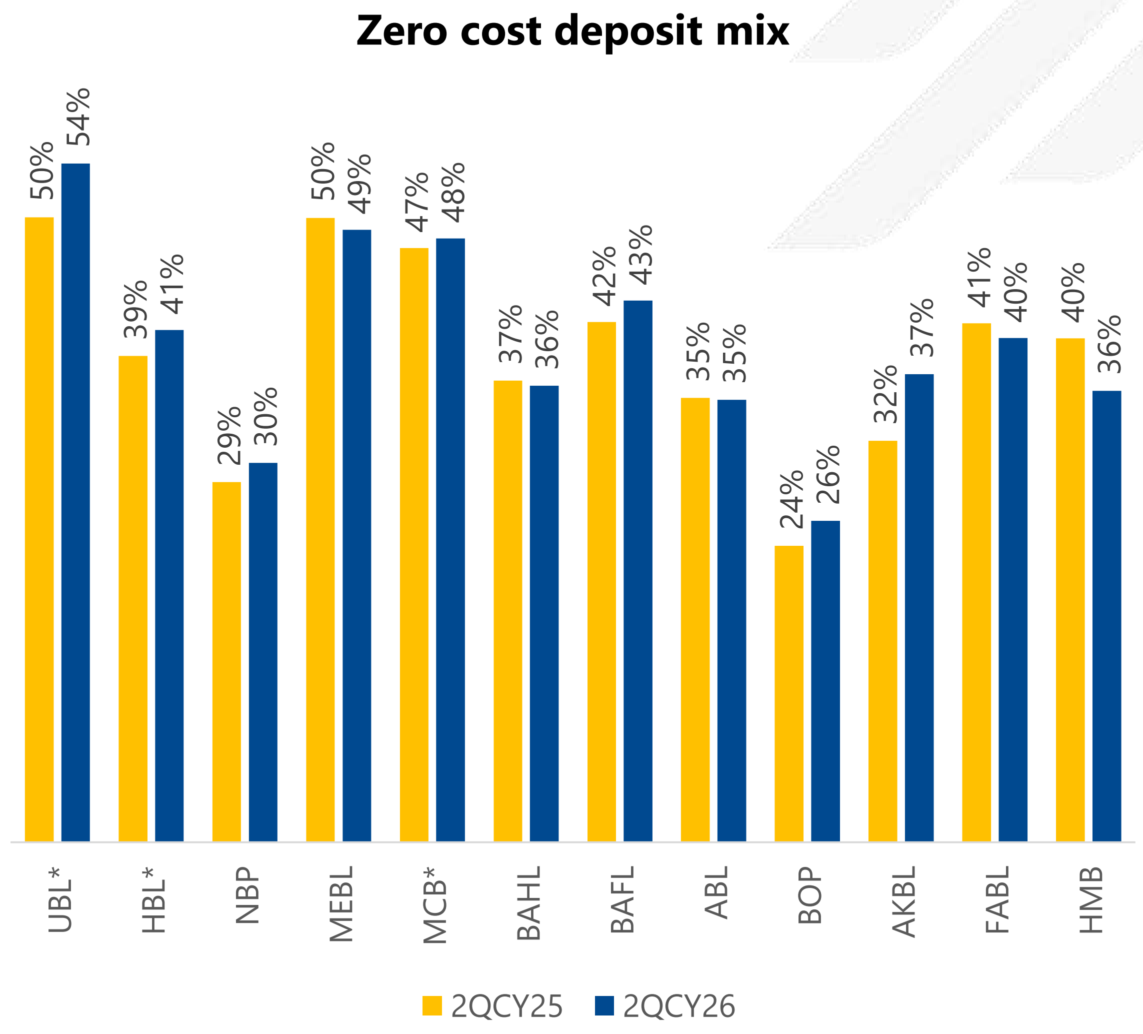
- Deposit growth remained strong across most banks as almost all posted double-digit deposit growth YoY. UBL led the sector with 43% YoY growth, crossing Rs6trn mark and strengthening its position as the largest bank by deposits.
- QoQ momentum also remained positive across most banks, indicating continued deposit mobilization, although NBP was the notable exception with deposits declining 10% YoY.
- Overall, the sector's deposit base continues to expand strongly, supporting balance-sheet growth despite ongoing pressure on industry NIMs.

Banks strive to increase zero-cost deposits





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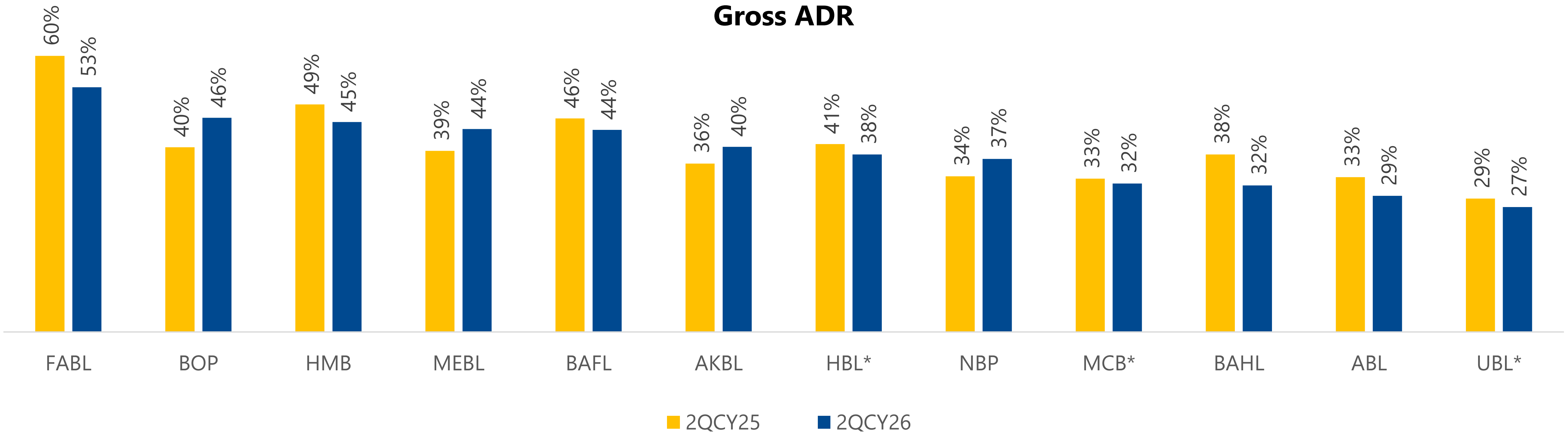
Asset allocation and quality

FABL retains the highest ADR at 53%

- Sector ADRs remain range-bound at 27-53%. BAHL (-6ppt), HMB (-4ppt), ABL (-4ppt), HBL (-3ppt), BAFL/UBL (-2ppt), and MCB (-1ppt) - all reduced advances relative to deposits compared to last year ratios, resulting in balance sheets remaining tilted toward government securities.
- FABL retains the highest ADR at 53% despite the steepest decline (-7ppt); UBL remains the lowest at 27%, leaving a ~26ppt dispersion across the peer set, a meaningful driver of divergence in NIMs and asset-mix yields.



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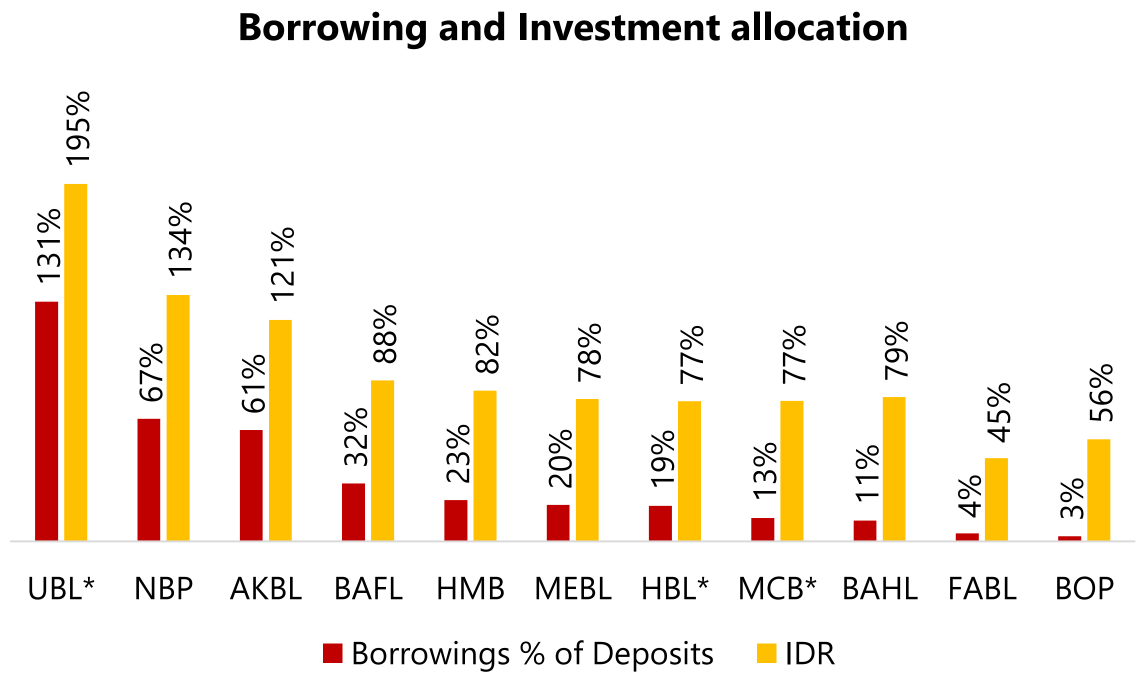
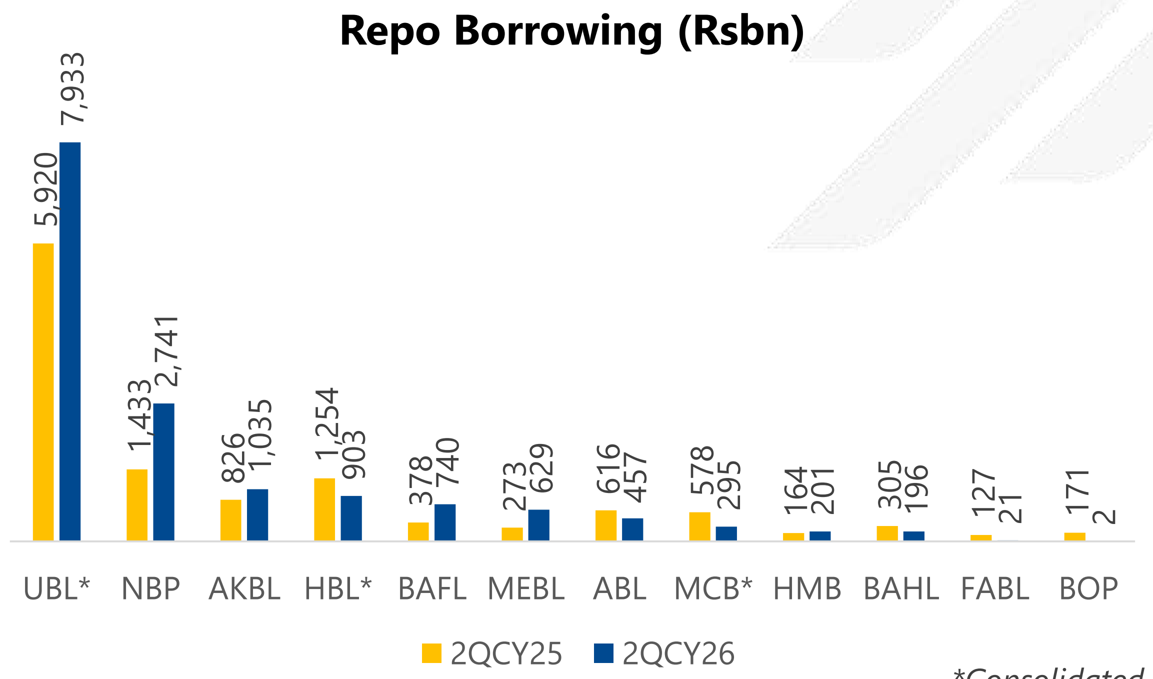
Mixed trend in funding from Repo Borrowings





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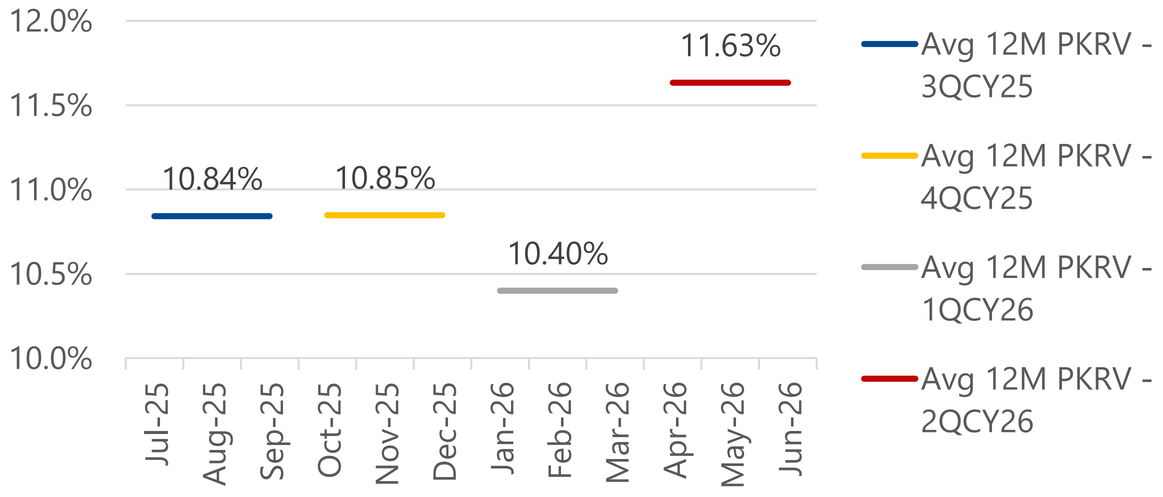
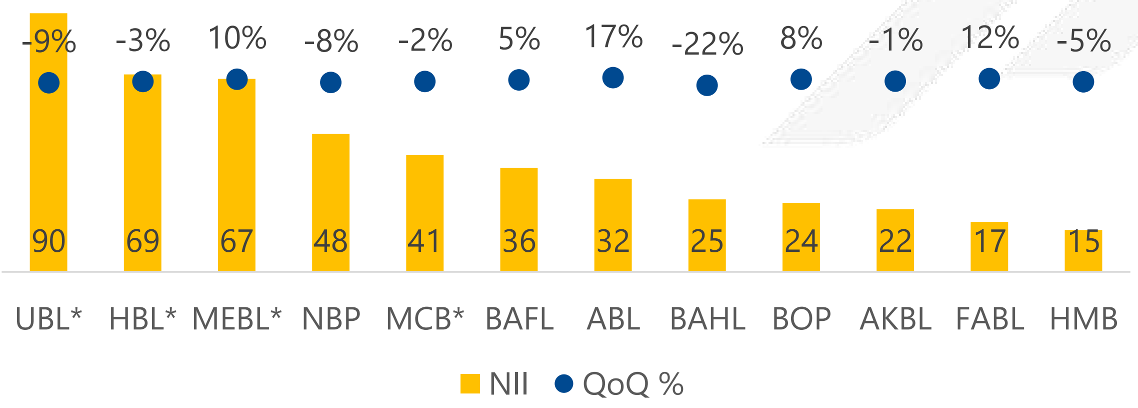
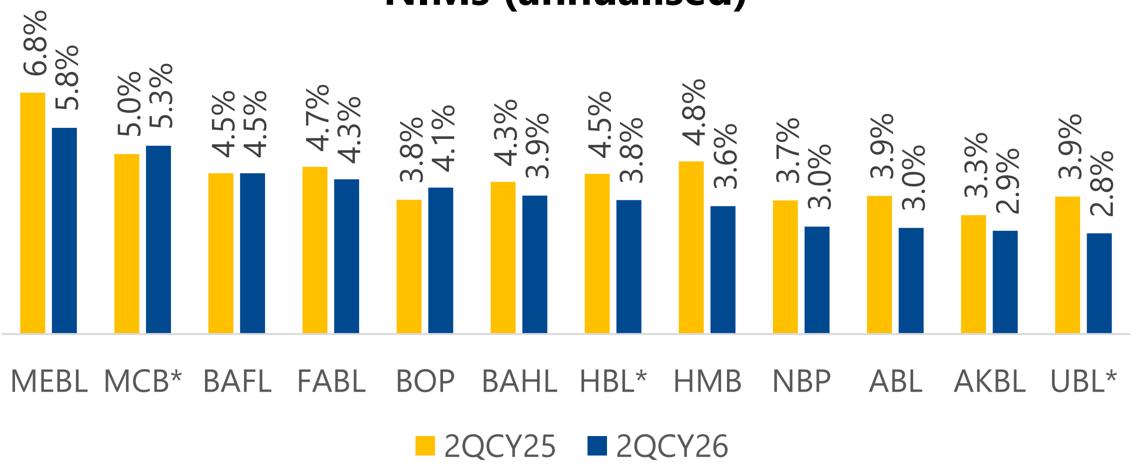
- Repo Borrowings remain heavily skewed to UBL and NBP, which together account for around 3/4th of outstanding OMO borrowings.
- This is reflected in their leveraged balance sheets, with borrowings at 131% and 67% of deposits and IDRs of 195% and 134% respectively, versus a peer set largely below 25% / 80%.

Profitability and Book Value growth

Margin squeeze weighs on NII; MEBL stands out







- Margin pressure weighed on NII growth across most banks, offsetting the benefit of strong YoY deposit growth. MEBL stood out as the key exception, delivering margin expansion.

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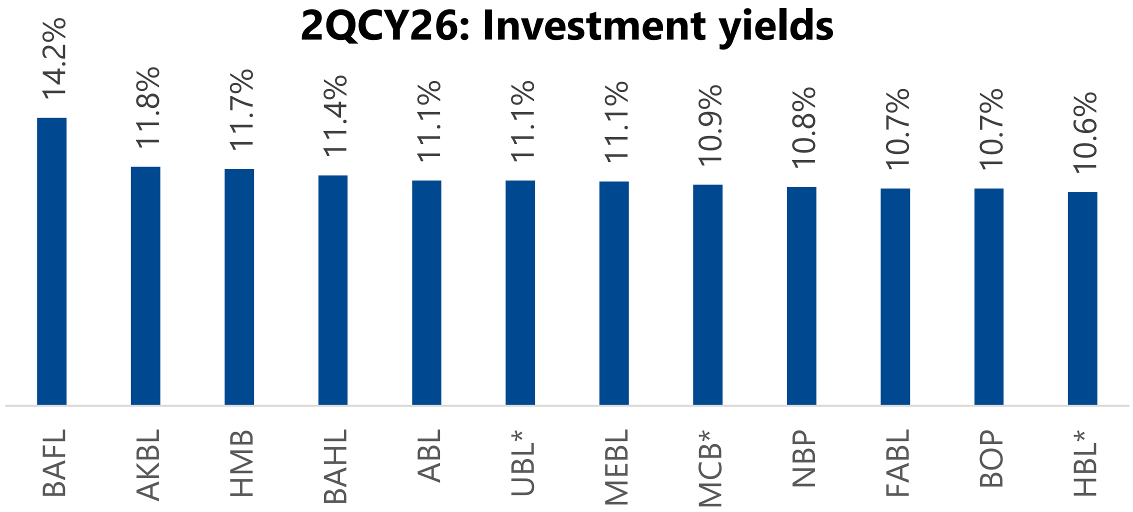
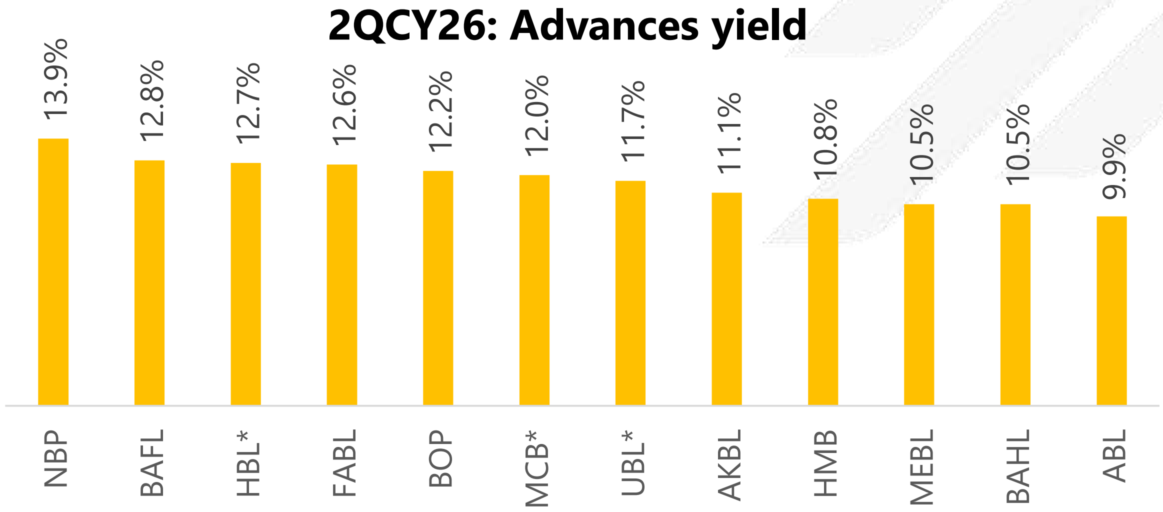
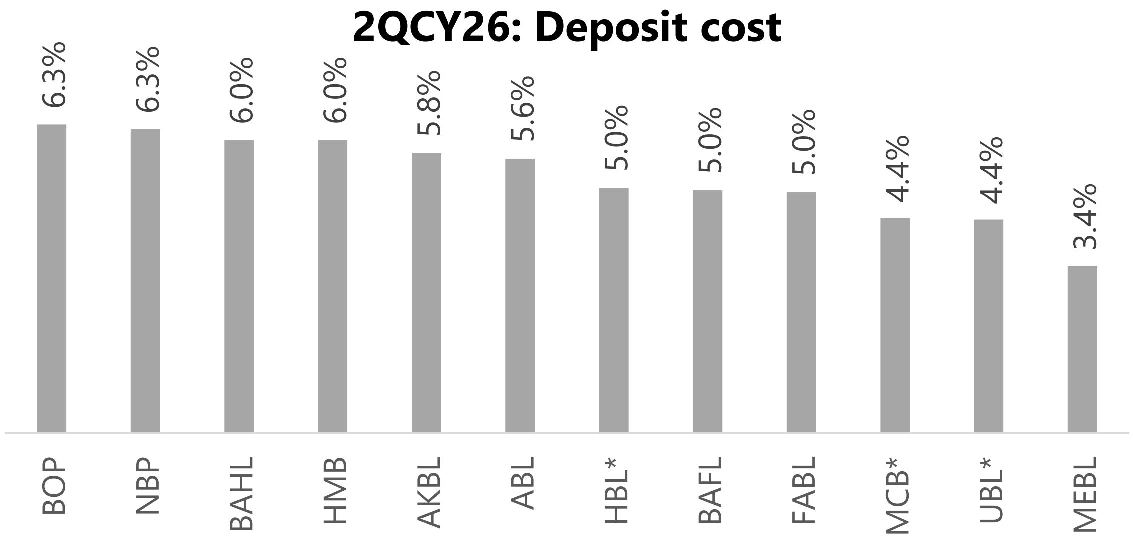
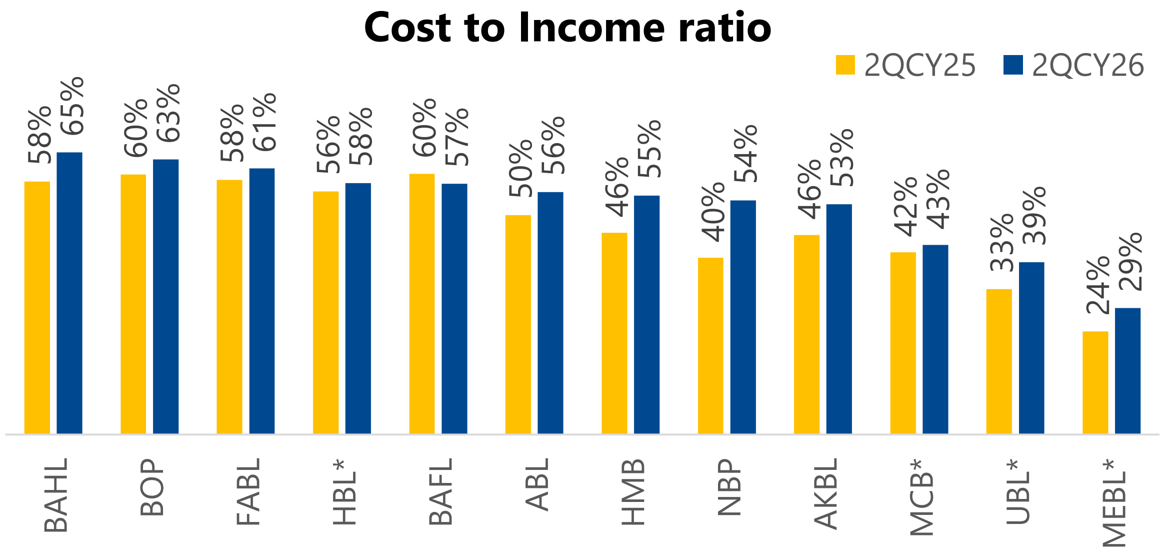
2QCY26: Snapshot of yields and costs









Comfortable buffer on adequacy levels intact

	Minimum requirement with D-SIB framework**		Jun-2026		Buffer	
	CET I	Total CAR	CET I	Total CAR	CET I	Total CAR
NBP	10.00%	14.00%	16.80%	22.12%	6.80%	8.12%
UBL*	9.00%	13.00%	15.97%	19.43%	6.97%	6.43%
HBL*	9.00%	13.00%	13.02%	17.17%	4.02%	4.17%
ABL	7.50%	11.50%	19.84%	24.97%	12.34%	13.47%
MEBL	7.50%	11.50%	17.40%	19.22%	9.90%	7.72%
MCB*	7.50%	11.50%	14.13%	18.63%	6.63%	7.13%
AKBL	7.50%	11.50%	14.85%	18.17%	7.35%	6.67%
FABL	7.50%	11.50%	12.46%	14.84%	4.96%	3.34%
BOP	7.50%	11.50%	9.94%	13.69%	2.44%	2.19%
HMB	7.50%	11.50%	13.93%	15.63%	6.43%	4.13%
BAHL	7.50%	11.50%	11.61%	16.81%	4.11%	5.31%
BAFL	7.50%	11.50%	12.56%	17.41%	5.06%	5.91%

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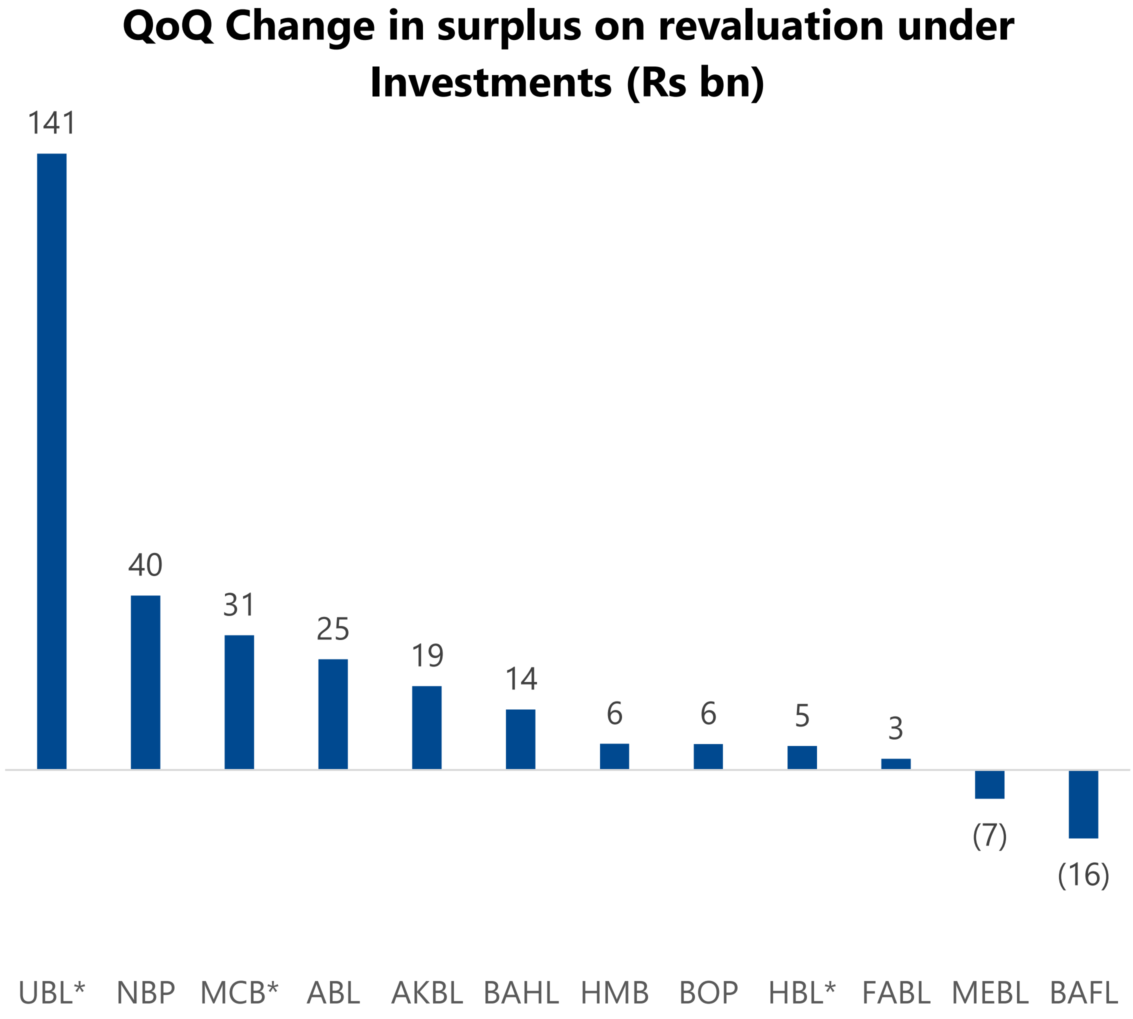
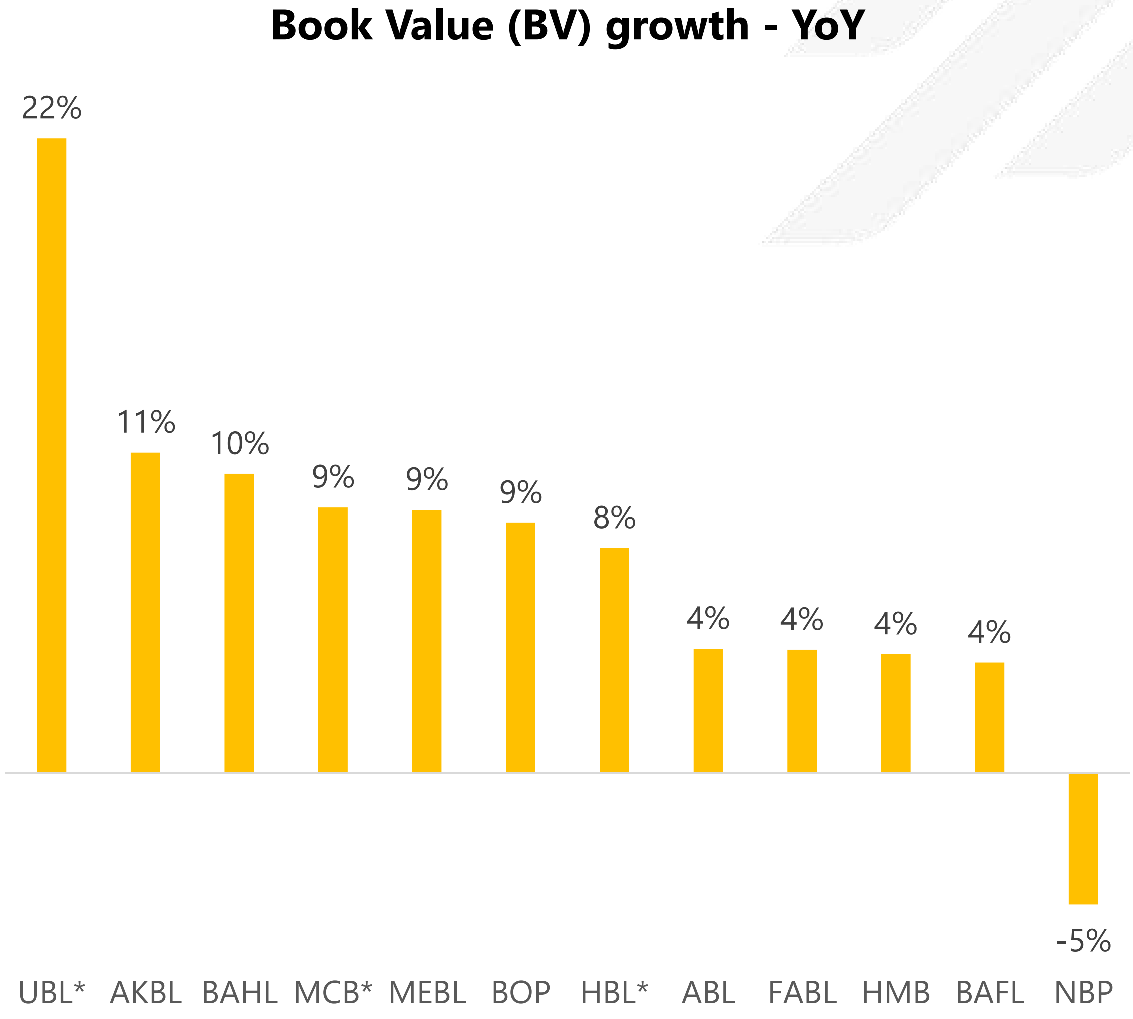
***Minimum CET I requirement stands at 7.5%, while minimum Total CAR requirement stands at 11.5%.*

Support from recovering gains supports BV growth





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**BV including reval surplus

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Dividend payouts remained stable; increased for MEBL & BOP

(Rs/share)	4QCY24	1QCY25	2QCY25	3QCY25	4QCY25	1QCY26	2QCY26
MCB	9.00	9.00	9.00	9.00	9.00	9.00	9.00
UBL	5.50	5.50	8.00	8.00	8.00	8.00	8.00
MEBL	7.00	7.00	7.00	7.00	7.00	7.50	8.00
HBL	4.25	4.50	4.50	5.00	6.00	6.00	6.00
ABL	4.00	4.00	4.00	4.00	4.00	4.00	4.00
BAHL	6.50	3.50	3.50	3.50	4.50	3.50	3.50
HMB	2.50	2.50	2.50	2.50	4.50	2.50	2.50
AKBL	3.00	0.00	2.00	1.25	1.75	2.00	2.00
FABL	2.00	1.50	1.50	1.50	2.00	2.00	2.00
BOP	1.00	0.00	1.00	0.00	2.00	0.00	1.60
BAFL	2.50	1.25	1.25	1.25	1.50	1.50	1.50
NBP	-	-	-	-	35.00	-	-

Source: Company accounts, JS Research.

P/L snapshot

2QCY26 Income Statement

(Rs mn)	UBL*	MEBL*	HBL*	MCB*	NBP	BAFL	BAHL	ABL	AKBL	FABL	BOP	HMB
Interest Earned	341,500	116,975	189,389	83,004	183,431	99,661	84,932	87,800	83,282	42,900	63,536	41,424
Interest Expense	251,210	49,611	120,469	42,304	135,352	63,364	52,539	62,534	61,430	25,417	39,575	26,911
Net Interest Income	**90,291**	**67,364**	**68,921**	**40,700**	**48,079**	**36,297**	**32,393**	**25,265**	**21,852**	**17,483**	**23,961**	**14,513**
QoQ	*-1%*	*5%*	*23%*	*8%*	*-21%*	*6%*	*-1%*	*-3%*	*6%*	*2%*	*15%*	*-16%*
Non-Interest income	32,266	13,355	26,116	12,984	18,136	16,470	11,236	8,583	7,379	6,602	4,251	6,202
Operating expenses	48,376	23,369	54,681	23,306	35,501	30,278	28,187	18,793	15,400	14,668	17,763	11,334
Cost to Income ratio	*39%*	*29%*	*58%*	*43%*	*54%*	*57%*	*65%*	*56%*	*53%*	*61%*	*63%*	*55%*
Provisioning Expense	(3,753)	2,155	994	(544)	(1,760)	814	964	(122)	(541)	(337)	244	(369)
PBT	**77,933**	**55,196**	**39,362**	**30,923**	**32,474**	**21,675**	**16,406**	**15,178**	**14,373**	**9,754**	**10,205**	**9,013**
Tax	40,446	28,957	20,975	15,969	16,791	11,475	8,404	7,725	7,605	4,899	5,450	4,709
Effective tax rate	*52%*	*52%*	*53%*	*52%*	*52%*	*53%*	*51%*	*51%*	*53%*	*50%*	*53%*	*52%*
PAT - of Holding Company	**37,487**	**25,785**	**18,352**	**14,865**	**15,683**	**10,201**	**8,002**	**7,453**	**6,768**	**4,855**	**4,756**	**4,304**
EPS (Rs)	**14.97**	**14.32**	**12.51**	**12.54**	**7.37**	**3.23**	**7.20**	**6.51**	**4.67**	**3.20**	**1.45**	**4.11**
DPS (Rs)	**8.00**	**8.00**	**6.00**	**9.00**	**-**	**1.50**	**3.50**	**4.00**	**2.00**	**1.50**	**1.60**	**2.50**
Fee, Comm. and Brokerage income	8,369	8,757	13,229	7,635	6,751	4,112	5,332	4,084	2,835	3,711	4,468	2,745
Dividend income	412	114	1,247	785	2,861	691	759	811	472	250	22	200
Income from dealing in FX	8,625	2,532	5,317	3,034	3,147	4,243	4,126	2,135	2,244	2,515	1,177	2,636
Gain on Sale of Sec. and der.	12,811	65	3,674	491	5,194	7,343	603	706	1,655	(88)	(1,508)	562
Other inc. & Share of prof. from assoc.	2,048	1,887	2,649	1,041	182	80	416	846	174	213	93	60
Non-Interest Income % of Total Income	*26%*	*17%*	*27%*	*24%*	*27%*	*31%*	*26%*	*25%*	*25%*	*27%*	*15%*	*30%*

*Source: Company announcements, JS Research. *Consolidated | Sorted as per highest to lowest profits*

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1HCY26 Income Statement

(Rs mn)	UBL*	MEBL*	HBL*	MCB*	NBP	BAFL	ABL	BAHL	AKBL	FABL	BOP	HMB
Interest Earned	665,028	222,821	373,624	163,020	361,710	173,698	171,499	167,461	157,929	81,030	130,401	80,334
Interest Expense	475,315	94,026	233,331	80,664	261,650	102,900	118,429	102,498	113,973	47,952	84,355	50,538
Net Interest Income	**189,713**	**128,796**	**140,293**	**82,356**	**100,060**	**70,798**	**53,069**	**64,963**	**43,956**	**33,079**	**46,046**	**29,796**
YoY	*8%*	*2%*	*2%*	*4%*	*-23%*	*5%*	*3%*	*-2%*	*4%*	*-4%*	*29%*	*-15%*
Non-Interest income	73,651	24,484	46,620	23,002	27,573	35,340	15,650	18,677	12,569	15,743	9,942	12,095
Operating expenses	89,037	47,421	108,486	46,177	65,543	61,518	35,749	52,190	29,060	28,997	35,464	22,469
Cost to Income ratio	*34%*	*31%*	*58%*	*44%*	*51%*	*58%*	*52%*	*62%*	*51%*	*59%*	*63%*	*54%*
Provisioning Expense	(4,208)	2,604	5,327	348	(5,256)	(579)	924	(19)	(622)	(698)	79	(229)
PBT	**178,533**	**103,255**	**73,100**	**58,833**	**67,345**	**45,198**	**32,045**	**31,431**	**28,087**	**20,522**	**20,445**	**19,193**
Tax	92,626	54,614	38,561	30,738	34,938	23,872	16,332	16,340	14,753	10,511	10,916	9,995
Effective tax rate	*52%*	*53%*	*53%*	*52%*	*52%*	*53%*	*51%*	*52%*	*53%*	*51%*	*53%*	*52%*
PAT - of Holding Company	**85,904**	**48,100**	**34,491**	**27,978**	**32,408**	**21,327**	**15,713**	**15,090**	**13,334**	**10,011**	**9,529**	**9,198**
EPS (Rs)	**34.30**	**26.71**	**23.51**	**23.61**	**15.23**	**6.76**	**13.72**	**13.58**	**9.20**	**6.60**	**2.91**	**8.78**
DPS (Rs)	**16.00**	**15.50**	**12.00**	**18.00**	**-**	**3.00**	**8.00**	**7.00**	**4.00**	**3.00**	**1.60**	**5.00**
Fee, Comm. and Brokerage income	17,306	17,843	25,813	14,848	13,641	8,304	8,335	10,374	4,843	7,466	9,498	5,542
Dividend income	557	255	4,824	1,747	4,093	1,451	2,023	827	720	402	138	619
Income from dealing in FX	12,809	4,331	7,564	4,653	5,349	6,986	3,393	6,393	3,059	4,450	1,906	4,828
Gain on Sale of Sec. and der.	42,350	1,017	4,092	486	4,290	18,451	490	434	3,630	3,130	(1,921)	1,028
Other inc. & Share of prof. from assoc.	629	1,038	4,328	1,268	200	149	1,408	649	317	296	321	78
Non-Interest Income % of Total Income	*28%*	*16%*	*25%*	*22%*	*22%*	*33%*	*23%*	*22%*	*22%*	*32%*	*18%*	*29%*

*Source: Company announcements, JS Research. *Consolidated | Sorted as per highest to lowest profits*

Balance Sheet snapshot

1HCY26 Balance Sheet

(Rs Mn)	UBL*	HBL*	MCB*	NBP	MEBL	BAHL	BAFL	BOP	AKBL	FABL	HMB
Cash & Balance with Treasury Banks	731,216	567,917	223,975	327,652	326,088	228,431	214,444	107,219	108,801	102,905	86,971
Balance with other Banks	123,775	54,340	25,553	53,873	35,269	5,782	21,494	11,840	27,683	6,062	19,779
Lending to Financial Institution	1,230	141,092	140,874	99,823	5,563	4,999	94,305	26,119	15,246	54,999	14,450
Investments	11,920,566	4,530,159	2,249,641	5,665,265	2,903,071	2,269,377	2,336,148	1,198,717	2,228,849	708,323	1,022,172
Advances	1,533,725	2,142,472	891,394	1,314,388	1,592,270	862,957	1,112,621	951,478	700,541	807,331	534,119
Operating Fixed Assets	295,715	215,567	119,840	75,101	82,558	125,151	100,945	46,235	47,371	73,237	28,332
Deferred Tax Assets	0	0	0	0	21,500	1,370	0	14,919	0	1,056	610
Other Assets	547,457	397,449	178,629	304,261	175,695	182,686	144,810	147,685	118,258	98,114	107,322
Total Assets	**15,153,684**	**8,048,995**	**3,829,906**	**7,840,364**	**5,142,014**	**3,680,752**	**4,024,767**	**2,504,213**	**3,246,749**	**1,852,027**	**1,813,756**
Bills Payable	178,624	84,224	22,459	26,233	128,592	87,029	102,219	11,718	17,398	32,013	42,541
Borrowing	7,999,039	1,148,926	376,255	2,819,728	743,260	330,237	840,981	60,358	1,121,388	69,446	281,299
Deposits and Other Accounts	6,117,939	5,919,910	2,935,942	4,215,743	3,735,167	2,880,667	2,658,878	2,154,105	1,846,656	1,562,431	1,243,394
Subordinated Loans	10,000	20,374	15,853	0	16,990	25,942	32,045	30,809	6,000	7,000	0
Liabilities against ASFL	59,024	44,907	0	8,046	32,704	0	33,910	18,189	19,372	18,608	12,178
Deferred Tax Liabilities - Net	82,755	26,352	39,571	10,759	0	23,895	2,933	0	5,296	0	0
Other Liabilities	178,996	318,648	104,655	294,250	196,645	152,539	159,549	123,999	79,250	47,469	109,136
Total Liabilities	**14,626,376**	**7,563,342**	**3,494,736**	**7,374,759**	**4,853,358**	**3,500,308**	**3,830,514**	**2,399,178**	**3,095,361**	**1,736,967**	**1,688,549**
Share Capital	12,521	14,669	11,851	21,275	18,006	11,114	15,772	32,453	14,493	15,177	10,478
Reserves	146,569	110,727	115,586	85,514	63,184	36,640	44,188	22,270	104,853	20,986	38,529
Unappropriated Profit	222,918	286,689	141,059	255,693	206,853	100,200	107,938	44,336	8,427	66,934	64,141
Total Equity	**382,008**	**412,085**	**268,496**	**362,482**	**288,042**	**147,954**	**167,898**	**99,059**	**127,773**	**103,097**	**113,148**
Minority Interest	81	1,615	0	0	845	0	0	0	0	0	0
Surplus on Revaluation	145,219	71,954	103,122	614	65,829	32,490	26,355	5,526	23,615	11,963	12,059
Total Equity	527,308	485,654	465,605	288,656	335,170	180,444	194,253	104,585	151,388	115,060	125,207

*Source: Company announcements, JS Research. *Consolidated | Sorted as per highest to lowest deposit size*

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