Pakistan Banks

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Sector Update

Mapping Pakistan Banks' exposure to rising yields

The gap between market yields (KIBOR/PKRV) and policy rates have been drifting higher, even as SBP holds policy rate steady. We therefore highlight a sample of banks which appear comfortable/squeezed based on their current balance sheets. We assess how funding mix, asset repricing speed, capital cushion and bond book positioning leave Pakistan Banks placed for a further leg up in yields and potential rate hike. In this note, we have weighed in (i) how liability sensitive banks' funding appears after deposit repricing and (ii) how much capital and bond book cushion sits between each bank and a shock to the investment book, where we use investment duration as proxy for price risk.

It is pertinent to mention that Pakistan Banks are intrinsically not forced sellers where active management of the book, change in duration of the bond book and gains on the non-funded side can help offset much of the assessed risk.

Based on their Jun'26 financial statements **MCB, FABL, BAHL** and **MEBL** emerge as least exposed to a rise in interest rates whereas **UBL, BOP, BIPL** and **AKBL** appear most exposed.

Bank	<3M Net repricing Gap % of deposits (2)	Adj. Gap / Deposits (%) (3)	CASA % of Deposits	Borrowings % of Deposits	Avg. CAR Buffer (4)	Buffer over LR	Duration >1Yr % of Invts	NPL Ratio (%)	Bond Book Position	Exposure Read
UBL	(76.7%)	(67.1%)	84.9%	126.4%	6.1%	0.1%	21.2%	6.5%	Surplus	**Most exposed**
BOP (1)	(24.8%)	(12.0%)	68.5%	30.5%	1.9%	0.6%	25.1%	5.0%	Deficit	**Most exposed**
BIPL	(46.6%)	(23.4%)	74.7%	2.2%	4.7%	2.1%	n/a	4.7%	Surplus	**Most exposed**
AKBL	(20.5%)	(39.1%)	89.4%	61.0%	6.8%	0.3%	9.0%	4.3%	Surplus	**Most exposed**
NBP	(47.5%)	(19.1%)	65.0%	38.2%	7.9%	0.7%	20.5%	14.7%	Surplus	**Mixed / average**
HMB	1.2%	(13.2%)	71.9%	26.7%	4.2%	1.9%	25.5%	4.4%	Surplus	**Mixed / average**
BAFL	(28.4%)	(17.5%)	70.8%	33.3%	5.1%	0.8%	21.9%	3.9%	Surplus	**Mixed / average**
HBL	(11.5%)	(6.8%)	82.5%	21.9%	4.2%	1.3%	25.4%	4.6%	Surplus	**Mixed / average**
ABL	(20.8%)	(23.7%)	76.2%	27.5%	12.4%	1.7%	28.7%	1.5%	Deficit	**Mixed / average**
MEBL	(40.8%)	(14.2%)	90.3%	26.9%	8.3%	2.2%	28.6%	1.8%	Deficit	**Best positioned**
BAHL	(29.4%)	(0.3%)	74.5%	11.2%	4.8%	1.0%	11.9%	3.9%	Surplus	**Best positioned**
FABL	(14.0%)	13.1%	85.6%	8.5%	3.7%	1.6%	21.9%	2.3%	Deficit	**Best positioned**
MCB	(9.1%)	16.3%	89.8%	18.8%	6.1%	2.4%	18.6%	5.6%	Surplus	**Best positioned**

Source: IMS Research and company accounts (Jun'26 and Dec'25).

1-BOP's balance sheet position should improve as PKR30bn injection comes through from Govt. of Punjab

2-Contractual less than 3M repricing gap (based on Dec'25 disclosures)

3-Gap adjusted for deposits (current, savings, term) - reported Jun'26

4-Minimum CAR requirement for D-SIB banks have been revised for UBL, HBL, NBP (effective Mar'27)

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Bank-wise lens

Symbol	Exposure Read	
UBL	🔴	UBL has the widest funding-side gap in the sector (c.-67%), driven by scale where borrowings run well above the deposit base (125%). This is despite having the highest Current account mix in the space. Capital buffer is available (CAR 6.1%) and the bond book carries the sector's largest unrealized surplus, though the leverage ratio buffer is the thinnest on the list at 7bps.
BOP	🔴	BOP is exposed through capital and not funding mix due to the thinnest CAR buffer in the sample (1.9%) against an unrealized deficit on its debt securities, leaving the least room in the sample space to absorb further shocks. However, it is important to note that this does not include the PKR30bn injection slated to come through via Govt. of Punjab which will materially change the case towards positive territory for BOP.
BIPL	🔴	BIPL has a deposit-driven exposure with one of the widest gaps in the sample despite very little reliance on borrowings. Capital buffer lies on the thinner side leaving little room if its currently small bond-book surplus turns negative.
AKBL	🔴	AKBL appears exposed through heavy reliance on borrowings (c.60% of deposits) layered on top of an otherwise sticky, CASA-rich deposit base. Offsetting this, AKBL has the lowest long-duration share in the sample and capital buffer of 6.8% which offers protection.
NBP	🟠	NBP has a moderate funding gap and a comfortable capital buffer. While the NPL ratio is high +14%, this is fully provided. NBP appears to be mid-range exposed.
HMB	🟠	HMB is the only bank where the contractual gap looks fine but the deposit mix adjustment flips it negative. Capital buffer is on the thinner side and 25% of investments sit beyond one year.
BAFL	🟠	BAFL has no standout weakness and appears moderate on repricing gap, capital buffers and long-duration exposure (22%). Importantly BAFL has already realized substantial gains in 1HCY26.
HBL	🟠	HBL has quite a low exposure on the funding side, but capital buffer leaves limited room after BOP, FABL and HMB and is worth watching given its long-duration book (25%) – particularly after 50bps rise in D-SIB charge effective March'27.
ABL	🟠	ABL has a wide funding-side gap and sits against by far the thickest capital buffer in the sample and the best asset quality on the list. It carries the highest long-duration share (29%) and a small bond book deficit, but the buffer comfortably absorbs it.
MEBL	🟢	MEBL has a wide funding gap paired with a bond book already in deficit and the second-highest long-duration share (29%). However, MEBL stands with the best asset quality in the sample space which, alongside a comfortable capital buffer, cushion the balance-sheet side considerably.
BAHL	🟢	BAHL has a near-zero funding gap and the second-lowest long-duration share in the sector (12%), therefore the bond book barely moves the needle. It emerges as structurally the cleanest name in our sample space on both counts.
FABL	🟢	FABL is asset-sensitive on funding thanks to a low borrowings share and sticky deposits. However, the capital buffer is the second thinnest on the list and the bond book is already in a small deficit, Consequently, the tailwind on the funding side does not extend to the balance sheet.
MCB	🟢	MCB is asset-sensitive on funding, the best gap reading in the sector, thanks to a low-cost, high-CASA deposit base. Its comfortable capital buffer provides resilience against potential mark-to-market pressure on its large bond book.

Source: IMS Research

🔴 Most Exposed

🟠 Mixed/Average

🟢 Best Positioned

An important caveat - SBP has tightened D-SIB requirements for UBL and HBL

Importantly, SBP has issued a revised circular for D-SIB banks where capital requirements for UBL, HBL and NBP have been revised, effective March'27. The new requirement for UBL is 2.5% vs. 1.5% previously, while HBL's has been lifted from 1.0% to 1.5%. Interestingly, however, NBP has seen a 50bps reduction in its D-SIB req. to 1.0% vs. 1.5% previously. The relaxation for NBP allows further liquidity headroom although immaterial for NBP given its already high CAR buffer.

Bank	Current requirement (pre-Mar 2027)		New requirement (from Mar 31, 2027)		Actual (Jun 30, 2026)		Headroom (Actual - New Req.)	
Bank	**Tier-1**	**CAR**	**Tier-1**	**CAR**	**Tier-1**	**CAR**	**Tier-1**	**CAR**
UBL	10.5%	13.0%	11.5%	14.0%	16.3%	19.4%	4.8%	5.4%
HBL	10.0%	12.5%	10.5%	13.0%	13.7%	17.2%	3.2%	4.2%
NBP	10.5%	13.0%	10.0%	12.5%	16.9%	22.3%	6.9%	9.8%

Source: SBP BPRD Circular August 26

Comfort can emerge from actively managing the book

It is important to note that this report reflects banks' exposure on limited metrics with several mitigants to this thesis:

- It is important to highlight that Pakistan banks aren't forced sellers. A mark-to-market loss on FVOCI securities may erode capital optically but may not be realized through the P&L unless the bank sells. Therefore, CAR-comfortable names (NBP, UBL, AKBL) can hold the position through the cycle, unless the current macroeconomic climate worsens and policy rate shocks occur. In addition we highlight, that upward repricing of the loan book and floating PIBs would eventually absorb the higher cost of funds.
- Banks will actively manage duration going into a rate move (shifting towards floaters, shortening T-bill maturities, or using swaps where available UBL has already used a swap hedge for its loans). The FVOCI portion acts as a ceiling on total capital exposure, while the held at amortized cost (HTM) portion of the investment book sits entirely outside it.
- Banks with large CASA franchises with sticky, relationship-driven deposit bases have historically repriced slower.
- This is an NII analysis where cushion can emerge from non-fund income (fee commissions, trade, fx, and treasury gains) provide a buffer that we have not yet captured.

Prudence in being selective

Pakistan Banks have shed 7% MTD with sector trading at TTM P/B of 0.42x and P/E of 7.5x. While rising yields may pressure the investment books of banks with long-duration holdings, the eventual impact will depend on capital cushions, portfolio duration, asset repricing and the pace of deposit repricing. We recommend playing defensive, adequately capitalized banks with defendable dividends. MCB and BAHL are the cleanest read on most counts, with FABL close behind on funding but carrying a capital-side flag. We also like NBP, where a moderate funding gap and a comfortable capital buffer shield the overall book.

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Buy	Total return expectation of ≥ 15% or expected to outperform the KSE-100 index
Neutral	Total return expectation of > -5% or expected to match the return of KSE-100 index
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*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: Not applicable

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