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# COVID-19 AND THE BANKING SECTOR IN PAKISTAN: A NARRATIVE ANALYSIS OF CHALLENGES AND RESILIENCE

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## ABSTRACT
The Covid-19 pandemic has posed profound impact on the lives and business of the people worldwide. It also triggered a multifaceted crisis in the banking sector, particularly in developing economies with fragile financial market architecture. This study focuses on examining the pandemic's potential impacts on the Pakistan's banking sector, which already struggles with high non-performing loans (NPLs). Using a state-designed stress testing model, the effects of Covid-19 on firm value, capital adequacy, and interest income under various NPL shock scenarios were estimated. Findings indicate that all banks will likely experience a decline in risk-weighted asset value, capital adequacy ratio, and interest income, with larger banks being more vulnerable. Moreover, a 10% NPL shock could push capital adequacy below the minimum BASEL-III requirement, Results emphasize the need for immediate and innovative policy measures to prevent a large-scale banking crisis in countries like Pakistan. Thus, the study offers valuable lessons for other developing and emerging economies facing similar challenges with suggesting viable recommendations.
**Keywords:** Covid-19, banking sector, non-performing loans, credit risk; stress testing model, Pakistan.

## INTRODUCTION
The Covid-19 pandemic poses a significant threat to the financial services industry, potentially the most severe in nearly a century. The term 'pandemic' originates from the Greek words 'pan' (meaning 'all') and 'demos' (meaning 'people'), describing a widespread disease epidemic affecting a large population. Historically, pandemics have had devastating consequences, such as the Black Death plague in the 14th century, which claimed an estimated 75-200 million lives. Throughout history, pandemics have had a profound impact on human life and the global economy. The 1918 Spanish Flu pandemic claimed an estimated 50-100 million lives (History.com, 2024), while more recent pandemics like SARS in 2003 and Swine Flu in 2009 also resulted in significant loss of life. The Covid-19 pandemic have a substantial economic toll, with estimates suggesting a global cost of $5.8-8.8 trillion, equivalent to 6.4-9.7% of worldwide GDP as forecasted by Asian Development Bank (Park et al., 2020). This unprecedented crisis will have far-reaching consequences for financial systems worldwide, affecting aggregate demand, production, trade, and economic activity, and leading to rising unemployment. Without government support, financial institutions globally face a heightened risk of collapse (IMF, 2020).

A nation's financial system is the cornerstone of its economic well-being, and its stability is crucial for sustained economic growth. However, the Covid-19 pandemic has inflicted severe damage on economies worldwide, causing a sharp decline in macroeconomic indicators such as aggregate demand, production, supply, trade, savings, investments, and employment, thereby exacerbating poverty and potentially leading to recession or depression (various sources). In a pandemic-affected or post-pandemic world, these shocks pose a significant threat to the survival, sustainability, and stability of financial institutions (FIs), financial markets, and regulatory frameworks in both developed and developing countries (Stiller and Zink, 2020; FSB, 2020; BIS, 2020; Baret et al., 2020; Cecchetti and Schoenholtz, 2020; Mann, 2020; Beck, 2020; World Bank, 2020c; World Economic Forum, 2020). Among financial institutions, banks are likely to be the hardest hit due to their unique exposure to a broad range of risks (including interest rate, liquidity, credit, market, and reputational risks) and their close ties to the daily economic activities of individuals, businesses, and governments (Stulz and Carey, 2006).

The Covid-19 pandemic is expected to significantly intensify the various risks that banks traditionally face, including liquidity risk, credit risk, market risk, and interest rate risk (Larbi-Odam et al., 2020; Cecchetti and Schoenholtz, 2020; Goodell, 2020; World Bank, 2020c; World Bank, 2020d; Stiller and Zink, 2020). This will likely result in a liquidity crunch, credit squeeze, increased non-performing assets and default rates, reduced returns on loans and investments, and reduced market interest rates, potentially triggering a contagious bank run Developing countries, in particular, will be severely impacted, as banks serve a large number of individuals and firms with limited financial and economic capacity, operating in a challenging policy environment and competitive market (Wilson, 2020; Tyson, 2020). The pandemic may lead to a complex set of outcomes in these countries, including mass loan defaults, complicated recoveries, depleted savings, reduced loanable funds, and decreased demand for new investments. This will have far-reaching consequences for the stability and sustainability of banks, particularly in developing economies (Lagoarde-Segot and Leoni, 2013). In developing and emerging economies, banks play a vital role in driving economic growth, serving as the primary source of both long-term and short-term capital financing. Their significance is even more pronounced in countries with underdeveloped financial systems, where securities markets are limited or non-existent, legal infrastructure is inadequate, and innovative financial instruments and technology are scarce (Barua, 2019; Barua et al., 2017; Allen et al., 2014). In these economies, banks are crucial for fueling rapid economic growth, and any disruption to their fund mobilization processes could have severe economic consequences. The Covid-19 pandemic poses a substantial threat to the performance, survival, and growth of banks in developing countries, particularly those where banks dominate the economy (Damak et al., 2020). While there is a growing discussion on the potential implications of Covid-19 for banks, much of the existing literature focuses on developed countries, leaving a significant knowledge gap for developing economies World Economic Forum, 2020; FSB, 2020; BIS, 2020; Cecchetti and Schoenholtz, 2020 Stiller and Zink, 2020; Strietzel et al., 2020).

In response to the pandemic, central banks implemented monetary stimulus policies to address concerns about nonfinancial corporate firms' solvency and liquidity. Governments also introduced unprecedented loan guarantee programs and credit support measures to support businesses (Bennedsen et al., 2020). Loan guarantees and government purchases of corporate bonds were key instruments to inject liquidity into affected businesses (Alstadsaeter et al., 2020). Initially, banks were able to meet the surge in liquidity demand due to funds from liquidity injection programs, depositor inflows, and pre-existing high levels of bank capital (Li et al., 2020). This contrasts with the Global Financial Crisis, where new loans to large borrowers declined significantly (Ivashina and Scharfstein, 2010). This study aims to investigate the impact of the Covid-19 shock on global bank loaning, with a focus on understanding how complex crises challenge banking sector managerial practices and how banks can adapt to support the socio-economic system and ensure sustainable development.

## METHODOLOGY

This article provides a comprehensive overview of the available information and published research on the impact of the Covid-19 pandemic on the banking sector globally. The goal is to explore how banks can effectively navigate complex crises and identify the challenges that such crises pose to banking industry management practices. By comparing the pandemic to the 2008-2009 Global Financial Crisis and examining its effects on various sectors of the global economy, we aim to understand how the banking system is addressing these unprecedented challenges. Specifically, we investigate whether the banking system was better prepared and more resilient going into the pandemic than it was before the previous crisis, and summarize the key lessons that banks have learned from this experience.

## CONCEPTUAL FRAMEWORK

This paper includes a section on Corporate Social Responsibility (CSR) because, during the pandemic, numerous financial institutions have actively engaged in CSR initiatives, such as donations and other community support efforts. The pandemic has created a high-stress environment, with concerns about financial resources, health, and job security. In this challenging context, banks have played a crucial role in fostering consumer trust by demonstrating their commitment to social responsibility and supporting the community.

To achieve the study's objectives, a narrative literature review conducted, which provides a comprehensive overview of the relevant information. This review includes an analysis of previous studies, identifies knowledge gaps, and outlines rationales for future research. Additionally, it highlights the limitations of the narrative review approach, such as the potential for bias and lack of reproducibility, as find by Ferrari (2015). These limitations are important considerations for future research.

## RESULTS AND DISCUSSION

### Covid-19 Outbreak and its Global Impact

The Covid-19 pandemic, which emerged in Wuhan, China in December 2019, has had a profound impact on a global scale, posed unprecedented challenges and affecting over 218 countries as of December 31, 2021 (Table 1). With a staggering 2.41 million reported deaths and over 102 million confirmed cases. The North and South American regions drastically affected with the pandemic (WHO, 2022). The interconnectedness of the world's populations, economies, communication networks, travel systems, and supply chains has amplified its effects, making it potentially more severe than previous pandemics. As a result, businesses have faced unprecedented uncertainty, struggling to respond effectively in the face of this unprecedented crisis, which has transformed our lives and reality in ways never experienced before.

The Covid-19 pandemic has highlighted the need for targeted financial support for medium-to-small businesses during infectious disease outbreaks. This includes access to special credit lines, reduced interest rates on loans, temporary repayment deferments, and the establishment of long-term credit systems. Moreover, accelerating digital transformation is crucial for enhancing intelligent risk control systems (Wu and Olson, 2020). Furthermore, this pandemic has exposed the potential contagion risks in the financial systems of eight severely affected countries: Canada, China, France, Germany, Italy, Spain, the United Kingdom, and the United States.

**Table 1:** The Leading Countries with Confirmed Cases and Deaths from Coved-19 in 31 Dec. 2021

| Sr. No. | Country | Confirmed Cases | Deaths | Region |
|---|---|---|---|---|
| 1 | USA | 56,488,879 | 853,247 | North America |
| 2 | India | 34,861,579 | 488,961 | Asia |
| 3 | Brazil | 22,287,521 | 619,109 | South America |
| 4 | United Kingdom | 13,678,283 | 176,989 | Europe |
| 5 | Russia | 10,499,982 | 308,860 | Europe |
| 6 | France | 9,972,800 | 123,741 | Europe |
| 7 | Turkey | 9,482,550 | 82,361 | Asia |
| 8 | Germany | 7,176,448 | 112,756 | Europe |
| 9 | Spain | 6,387,937 | 89,447 | Europe |
| 10 | Iran | 6,194,401 | 131,606 | Asia |

Source: WHO (2022) and m.andrafarm.com (2022)

A comprehensive study by Demirgüç-Kunt et al. (2020) examined the banks of 53 countries, focusing on their balance sheets and daily stock prices during the Covid-19 pandemic. The study made two significant contributions: firstly, it investigated the impact of Covid-19 on the banking sector, and secondly, it compared the effects of Covid-19 on banks and corporations, analyzing various bank characteristics. The findings revealed that corporations were severely affected by Covid-19, with the pandemic exacerbating their existing vulnerabilities. Unlike the banks, which were more resilient, the effects of Covid-19 on corporations were long-lasting. In addition, the pandemic also has created serious implications for;

1. Countries with aging populations, such as Japan, Italy, Greece, and Germany, are particularly vulnerable to high death rates and adverse news flows.
2. Social distancing though crucial to slow the spread of the virus, but it comes at a significant economic cost.
3. Governments were adapting their responses to mitigate this cost.
4. The long-term impact will be felt by companies with high debt or poor cash flow, which may struggle to remain operational, employ staff, or make debt payments.
5. To address these challenges, governments have taken coordinated and individual actions to minimize the negative health and economic consequences of the pandemic.

**Impact on AML/CFT**

The Covid-19 pandemic has led to a surge in related crimes, including fraud, cybercrime, and the misdirection or exploitation of government funds and international financial assistance, generating new illicit revenue streams for criminal actors. The measures implemented to contain the pandemic are disrupting the criminal economy and prompting profit-driven criminals to adapt and diversify their illegal activities. Furthermore, the pandemic is hindering the ability of both government and private sectors to fulfill their anti-money laundering, counter-terrorism financing, and counter-proliferation financing (AML/CFT/CPF) obligations, encompassing supervision, regulation, policy reforms, suspicious transaction reporting, and international cooperation.

Criminals are dodging customer due diligence measures, exploiting online financial services and virtual assets to transfer and disguise illicit funds. There is a widespread misuse and misappropriation of domestic and international financial aid and emergency funding. Furthermore, as individuals withdraw money from the banking system due to financial instability, they may increasingly rely on the unregulated financial sector, providing criminals with additional opportunities to launder illicit funds and evade detection.

**Impact of Covid-19 on Audit and Assurance – Challenges and Considerations**

Internal Audit (IA) can play a crucial role in two ways:

1. Proactively, by assessing an organization's business continuity, crisis management, and pandemic preparedness plans, identifying areas for improvement and ensuring readiness for potential disruptions.

2. Reactively, by providing timely internal audit services during an unforeseen crisis like a pandemic, supporting mitigation efforts, and later, facilitating a smooth transition back to normal operations.

**Impact on Planning**

During the Covid-19 pandemic, banks faced unprecedented challenges that required them to adapt their planning and operations. Figure 1 displays three key aspects: Agility, Responsiveness, and Type, which were critical in reshaping banks' approaches. The pandemic forced banks to become more agile, responsive, and versatile in their planning and operations. By adopting dynamic audit approaches, maintaining frequent communication, and balancing assurance with consulting, banks were better equipped to manage the risks and uncertainties brought about by the global crisis.

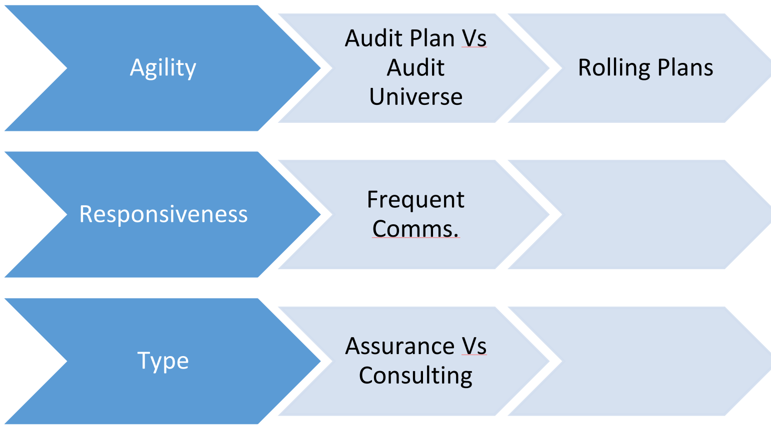


**Fig. 1:** Covid-19 Impact on Banks

**Impact on Follow-Up**

With management teams focused on crisis management, auditors may face challenges implementing audit findings in a timely manner. Moreover, obtaining the necessary data and documentation to verify that audit issues have been adequately addressed poses a significant challenge, requiring careful consideration and attention.

**Impact on the IA Profession and Skills**

It was also visualized that pressures were there to meet the reporting deadlines. Difficulties in gathering audit evidence and high degree of uncertainty that increased audit risk and incorrect conclusion. Risk assessments require ongoing reevaluation and refinement as the situation unfolds, up to the date of signing the audit report. This area demands a greater level of professional skepticism. Auditors must adapt and evolve their approaches to continue providing optimal service to organizations, responding to the dynamic circumstances and ensuring effective audit procedures. Audit evidenced that to enhance audit effectiveness, consider the following measures;

1. Transition from traditional paper-based confirmations to electronic confirmations should be done.
2. Leverage technology to streamline and improve audit processes.
3. Request a comprehensive warehouse tour from audited staff before initiating the inventory count to gain a thorough understanding of the environment.
4. Utilize video conferencing equipment to enable multiple audit team members to participate in observations, enhancing observation capabilities and promoting collaborative oversight.
5. Expand the scope of items selected for testing during observations to increase audit coverage.
6. Capture screenshots during observations to supplement evidence and strengthen audit documentation.

**Enhancing Auditor's Professional Skepticism**

In this age of technological advancements, the auditor's use of professional skepticism also needs to evolve with the advancement in technology. Because it is an important aspect due to;

1. A key component of audit.
2. A questioning mind critically assessed the sufficiency and appropriateness of audit findings.
3. Skepticism, in essence, means not accepting answers at face value, but rather verifying them and ensuring they are supported by plausible justification or evidence.
4. The auditor must not have any preconceived notions about the honesty or dishonesty of the management and the opinion should only be based on the evidences obtained during the audit.

**Managing Risk Strategies to Drive Business Success**

Unfortunately, during the pandemic, numerous firms were forced to shut down permanently due to insufficient resources, time, or the resilience to continue operating. However, others will manage to stay afloat and even thrive, thanks to their ability to adapt, their unwavering determination, and a dash of good fortune. The following precautionary measures were introduced in response to combat with the pandemic Covid-19;

**1. Establish a Covid-19 Response Policy**

In response to the pandemic, about 59% of businesses have established policies to support their employees. For instance, Walmart, a leading world's retail corporation, has implemented an emergency leave policy, which guarantees hourly workers in stores, clubs, offices, and distribution centers up to two weeks' pay if they are required to quarantine by government mandate or by the company itself (NYT, 2020).

**2. Create a Covid-19 Crisis Task Force**

A centralized Covid-19 response team will be crucial to effectively navigate the evolving pandemic landscape for the business. This team should be composed of a diverse group of experts from various functions and disciplines, led by a designated leader who reports directly to the CEO, ensuring a cohesive and swift response to daily developments and enabling proactive decision-making (Mckinsey.com, 2020).

**3. Create a Crisis Management Plan**

Instead of relying on a one-size-fits-all approach, consider implementing a Tiered Response Plan that adapts to the evolving situation (Resources.workable.com, 2020a). For example, Clockwise, a calendar SaaS company, developed a scaled response plan for the San Francisco metro area, featuring incremental measures based on severity levels:

Level 1: Basic precautions (hand hygiene, stay home if feeling unwell).

Level 2: Enhanced precautions (no office visitors).

Level 3: Elevated measures (mandatory work-from-home policy across the company).

**4. Enhance Cleaning and Hygiene Protocols**

For companies with operational requirements that cannot be met through remote work, such as hotels, restaurants, and delivery services, there are essential measures to prioritize employee safety and well-being. These include:

1. Enhanced cleaning protocols, including frequent sanitization of high-touch areas.
2. On-site medical support for employees.
3. Providing hand sanitizers and personal protective equipment, like masks.
4. Encouraging social distancing practices, such as avoiding physical contact and handshakes.
5. Offering catered lunches and sanitizers to support employees.
6. Increasing the frequency of cleaning schedules to ensure a safe working environment.

The New York Stock Exchange, for instance, took drastic measures by conducting a historic 'deep clean' of its facilities and implementing strict safety protocols to protect its traders and staff (NYT, 2020). By taking these proactive steps, companies can help mitigate the risk of transmission and ensure a safe and healthy work environment for their employees.

**5. Train Staff on Safety Measures**

Employee education is crucial in preventing the spread of Covid-19. In line with this, companies like Facebook, Google, and Amazon are taking proactive measures to safeguard their workplaces by limiting social visitors to their physical offices, thereby reducing the risk of Covid-19 exposure and transmission. By prioritizing employee awareness and taking concrete steps to minimize contact, these companies are helping to create a safer and healthier work environment for their staff (Theverge.com, 2020). To curb the spread of Covid-19, Oracle, Apple, Google, and Amazon are restricting travel and implementing remote work policies for their employees (Businessinsider.com, 2020).

**6. Caring for Concerned Staff: Anxiety Support**

Employees are likely to experience anxiety related to the pandemic, including concerns about their job security, financial stability, and ability to adapt to sudden changes like transitioning to a home office. In response, tech industry leaders such as Amazon, Apple, Google, Facebook, Microsoft, and Twitter are demonstrating their commitment to supporting their employees by continuing to pay hourly workers even if they are required to stay at home during the pandemic. This proactive approach helps alleviate some of the financial uncertainty and stress, allowing employees to focus on their well-being and adjust to the new work arrangements (Theverge.com, 2020; CNN, 2020).

**7. Expand Digital Workplace Resources**

Empowering employees for remote work success requires a thoughtful transition strategy, including assessing technology needs, bolstering security, and introducing new tools and capabilities (Resources.workable.com, 2020b). Develop a change management framework, communicate the transition clearly, and test before implementing to ensure a smooth adaptation. Chinese companies, who were initially affected by the outbreak, successfully utilized social media to coordinate efforts, overcome workflow hurdles, and maintain a unified understanding among employees and partners (HBR.org, 2020).

**8. Keep the Pipeline Moving**

In times of crisis, business inertia can be catastrophic. To mitigate this, companies must keep their operations moving and prepare for post-crisis recovery. Master Kong, a prominent Chinese manufacturer, demonstrated resilience by pivoting to online sales and intensifying sales monitoring, ensures a swift response to evolving market conditions (HBR.org, 2020).

In response to the crisis, Huazhu, a Chinese hotel chain, swiftly established a task force and utilized its internal communication app to facilitate the rapid dissemination of critical information to local employees and management. Additionally, various businesses, including cinemas, restaurants, and hotel chains, implemented a strategic employee-sharing initiative, temporarily reassigning staff to companies facing unprecedented demand, thereby mitigating the need for layoffs and ensuring workforce retention.

In response to the Covid-19 pandemic, Airbnb, a leading online vacation rental marketplace, implemented a flexible cancellation policy in 2020. This policy allowed guests traveling to and from severely affected areas, as well as those facing trip cancellations or delays due to official restrictions, to cancel their reservations restrictions, to cancel their reservations without incurring charges (Airbnb.co.uk, 2020). Additionally, Airbnb adapted to the crisis by expanding its self-service and digital sales capabilities, offering remote experiences, and innovatively tailoring its products and services to meet the evolving demands of its customers, showcasing the company's resilience and commitment to customer support.

**9- Play a Role in a Wider Solution**

In times of crisis, collective action and collaboration are crucial. During the Covid-19 pandemic, tech giants Facebook, Google, YouTube, Microsoft, LinkedIn, Reddit, and Twitter joined forces to provide accurate and reliable information to the public. They worked closely with government health departments to ensure people had access to the information they needed (Businessinsider.com, 2020a). Additionally, Slack offered free upgrades to teams working on Covid-19 response efforts, including research, planning, and mitigation (Businessinsider.com, 2020b). Google took steps to combat misinformation by introducing an “SOS Alert” feature and removing harmful videos from YouTube (Theverge.com, 2020). Facebook and Amazon also took measures to prevent exploitation, banning ads and commerce listings for medical face masks and blocking over a million products claiming to cure or prevent Covid-19, respectively (Theverge.com, 2020). These efforts demonstrate the critical role of collective action in times of crisis.

**Table 1: Emerging Risk Areas**

| | |
|---|---|
| **User Access Controls** | • Monitoring controls may be necessary to remove segregation of duties rules in place, it is critical for organizations to maintain an audit.<br>• The detection of fraud risks and management overrides. |
| **Web Access Controls** | • Exercise careful accounting judgment and ensure appropriate bad debt provisions.<br>• Secure transaction processing and implement controls to prevent errors or fraud.<br>• Establish procedures for authorized and secure payments.<br>• Utilize technology to streamline and safeguard processes. |

| | |
|---|---|
| | • Ensure third-party vendors meet security and compliance standards<br>• Implement controls to prevent illegal access and leak of sensitive information. |
| **Cyber Controls** | • Are handheld devices being utilized more frequently in remote work arrangements and are they sufficiently secure and controlled?<br>• Has the organization ensured adequate licensing coverage for the increased use of tools, technology, and software supporting remote work?<br>• How is the organization addressing the amplified risk of insider threats, malicious and inadvertent, posed by dissatisfied or displaced employees and contractors?<br>• How is the organization monitoring and managing the expanded use of collaboration tools and other SaaS applications, including unapproved and unmanaged software, to mitigate potential security risks? |
| **Risk Mitigation** | • Is the organization maintaining continuous compliance with regulatory requirements through established ongoing processes?<br>• Should the risk assessment process evolve to become more adaptable and responsive, incorporating dynamic and real-time risk assessment methodologies to address emerging threats and opportunities? |
| **Business Stability** | • Identify and mitigate single points of failure across processes, personnel, and technologies to ensure resilience and minimize risk.<br>• Evaluate management's assessment, monitoring, and contingency plans for key outsourced service providers to ensure risk management and business stability. |
| **Supply Chain** | • Evaluating whether adequate resources, including external partners and third-party vendors, are available to support and sustain critical business operations at required levels. |
| **Customers Support** | • Has the organization established a transparent and accessible communication strategy for all customers, including those with specific needs, to ensure they are informed and supported throughout the crisis? |
| **Human Resources Management** | • Are organizations implementing sufficient measures to protect and support the physical and mental well-being of their employees, including addressing the potential mental health impacts of remote work arrangements?<br>• Are temporary workarounds implemented during the lockdown being properly formalized and controlled to ensure ongoing security and compliance?<br>• Is clear guidance available and being followed regarding the appropriate use of social media during this crisis period to avoid misinformation and maintain organizational reputation?<br>• Have the potential consequences of suspending routine HR processes, such as annual performance evaluations, on business operations and employee development been considered and addressed? |

Table 1 outlined the various risks that banks faced during the Covid-19 pandemic, along with potential solutions. Like in User Access Controls, the risk of ensuring segregation of duties and maintaining audit trails can be minimized by implementation of monitoring controls, use fraud detection tools, establish proper access procedures, and utilize technology for secure transactions. Likewise, in Web Access Controls the risk of increased reliance on online platforms can expose banks to fraud and errors can be saved by secure web transactions, establish controls for authorized access, and ensure compliance with security standards. Cyber Controls related risk of increased cyber threats due to remote work and digital operations can be tackled to enhance device management, ensure proper software licensing, address insider threats, and monitor collaboration tools for unauthorized use. The Risk

Mitigation, maintaining compliance with regulatory requirements solved out by continuous monitoring, evolving risk assessment processes, and incorporating real-time methodologies. Furthermore, the Business Stability Disruptions to business operations and processes can be identified single points of failure, use technology to mitigate risks, and evaluate management strategies. In Supply Chain, the risk of disruptions to supply chains and vendor operations can be handled to assess resource adequacy, ensure critical business operations are supported, and develop contingency plans. The Customers Support risk of maintaining customer service and communication during the crisis can be alleviated to establish transparent communication strategies, provide timely updates, and ensure customer needs are met. Lastly, the Human Resources Management, to managing employee well-being and productivity during remote work augmented by implementing measures to support physical and mental health, manage temporary workarounds, ensure compliance with labor regulations, and address performance impacts.

It is evidenced that in Pakistan, the lockdowns in Karachi and nationwide, triggered by the Covid-19 pandemic, had a detrimental impact on the stock market (Kalsoom et al., 2021; Waheed et al., 2020). The pandemic also affected the Islamic banking sector (Ghouse et al., 2021b). The various events related to Covid-19 significantly influenced stock prices of commercial banks, leading to poor performance. The pandemic caused substantial volatility in the stock prices of HBL, MCB, and UBL. Research has shown that Covid-19 led to high market price fluctuations in Pakistan (Shah et al., 2021). The pandemic significantly impacted stock prices, causing instability in the Pakistan Stock Exchange (Saeed et al., 2021). Furthermore, the pandemic affected the performance of the Islamic banking sector (Ghouse et al., 2021b).

The Covid-19 pandemic has had a profound impact on businesses worldwide; with the South Asian banking sector being particularly affected (Qadri et al., 2022). In Pakistan, the government implemented measures to combat the virus, including social distancing and lockdowns (Akhtar et al., 2021). Despite these challenges, the National Bank of Pakistan (NBP) leveraged advanced technology, such as internet banking, to maintain operations. Many banks transitioned to mobile apps, enabling users to perform transactions like withdrawals and transfers digitally. Similarly, in Bangladesh, the government declared a two-month general holiday from March 26 to May 30 (Ahamed, 2021) during which banks continued to operate on a limited scale (Yasmin et al., 2022).

**Impacts on Banks**

- The combination of low interest rates and the Covid-19 pandemic is eroding core banking profitability in mature markets,
- Banks must be prompted to focus on commission based income.
- Banks face increased credit risk from corporate and retail clients, requiring careful distinction between temporary and long-term impacts to inform management actions and loan reclassification.
- The economic downturn is deteriorating credit quality, leading banks to increase loan loss provisions.
- While Covid-19 poses a threat to the real economy, it also presents an opportunity for the banking sector to accelerate digitization and enhance customer experience,
- The traditional branch-centric banks even forced to embrace digital channels.

**Conclusion and Recommendations**

The Covid-19 pandemic has posed a significant crisis for businesses worldwide, causing a global economic downturn with far-reaching consequences. The banking sector is also greatly influenced by the pandemic especially in its loaning. One of the main persisting issues of the banking sector during the pandemic was recovery program. The pandemic has posed profound threats and create risks for the emerging economies of the developing countries particularly in their banking system. In this way, in case of Pakistan, the banking sector's recovery was depends on two key factors: first, the duration and severity of the pandemic, and the response of the State Bank of Pakistan (SBP) and the government. Fortunately, the SBP has implemented various measures to mitigate the impact. Despite the challenges, the banking sector is expected to perform effectively during this difficult period. According to the World Bank's 2021 report, the pandemic has led to a global recession, with no country immune to its effects. The report highlights a 5.2% economic contraction, with small and medium enterprises

(SMEs) being severely affected. The pandemic's impact on SMEs including the banking sector in Pakistan is evident. To mitigate financial damages, the implementations of sustainable processes and systems that can withstand the crisis, rather than short-term solutions are mandatory. Furthermore, the leading multinational companies and corporations have introduced the digital banking systems and innovative technologies to avoid malfunctions, cyber threats and minimize the direct impacts of the pandemic. Therefore, each of these initiatives has a lasting impact and benefit, yielding long-term gains and positive outcomes. The study further recommends that;

1. Banks should leverage this crisis as a catalyst for self-reflection, enhancing their crisis management capabilities and fostering agility and resilience for the future.
2. Banks should reassess their collaboration strategies, both internally and externally, to facilitate effective communication and customer engagement across various regions and globally.
3. Banks must prioritize customer-centricity, supporting their recovery from the pandemic's impact,
4. Banks should also adapt their operating models to achieve efficiency and resilience.
5. Risk management strategies must be recalibrated to account for broader economic shifts, with a prime focus on vulnerable customer segments.
6. The Covid-19 crisis presents unprecedented challenges for Internal Audit Functions (IAFs) in the financial sector, requiring innovative solutions and adaptability in these extraordinary times.
7. There is need to support one another in building a robust and value-driven Internal Audit Function (IAF), which is essential for financial institutions (FIs) and society as a whole, especially during these challenging times.
8. Keeping in view the changing environment and a need for enhanced quality audit, ability to exercise professional skepticism is the key for auditors.

Thus, let's unite and support each other in fostering a strong and effective IAF, which is crucial for the resilience and success of FIs and society at large, particularly during the period like adversity in Covid-19.

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