

Commercial Banking

Sector Overview

June 2016

Banking Snapshot | Key Figures

		Deposit Share	
		Dec15	Dec14
Scheduled Banks	35	100%	100%
Commercial Banks	31	99.6%	99.6%
Domestic Banks	27	98.5%	98.4%
Local Private Banks	22	79.1%	79.5%
Public Sector Banks	5	19.4%	18.9%
Foreign Banks	4	1.0%	1.2%
Specialized Banks	4	0.4%	0.4%

- MCB Islamic Bank Ltd. was declared as a Scheduled Bank with effect from Sep.14, 2015.
- KASB Bank acquisition completed in Jun15
- Barclays Bank PLC de-scheduled in June15 | merged with and into HBL

Total Branches
[Scheduled Banks]
Dec15: 12,293
(YoY: ~6%)

Total Deposits and other Accounts
Dec15: 10,334 bln
(YoY: ~12%)

Gross Advances
Dec15: 5,071 bln
(YoY: ~8%)

ATMs
Jun15: 9,597
(YoY: ~16%)

No. of Depositors
[Scheduled Banks]
Dec15: 43.4 mln
(YoY: ~9%)

No. of Borrowers
[Scheduled Banks]
Dec15: 3.2 mln
(YoY: ~ -2%)

Industry in Consolidation

- MCB - NIB Merger
- Burj Bank | up for acquisition

Pakistan Public Debt Profile

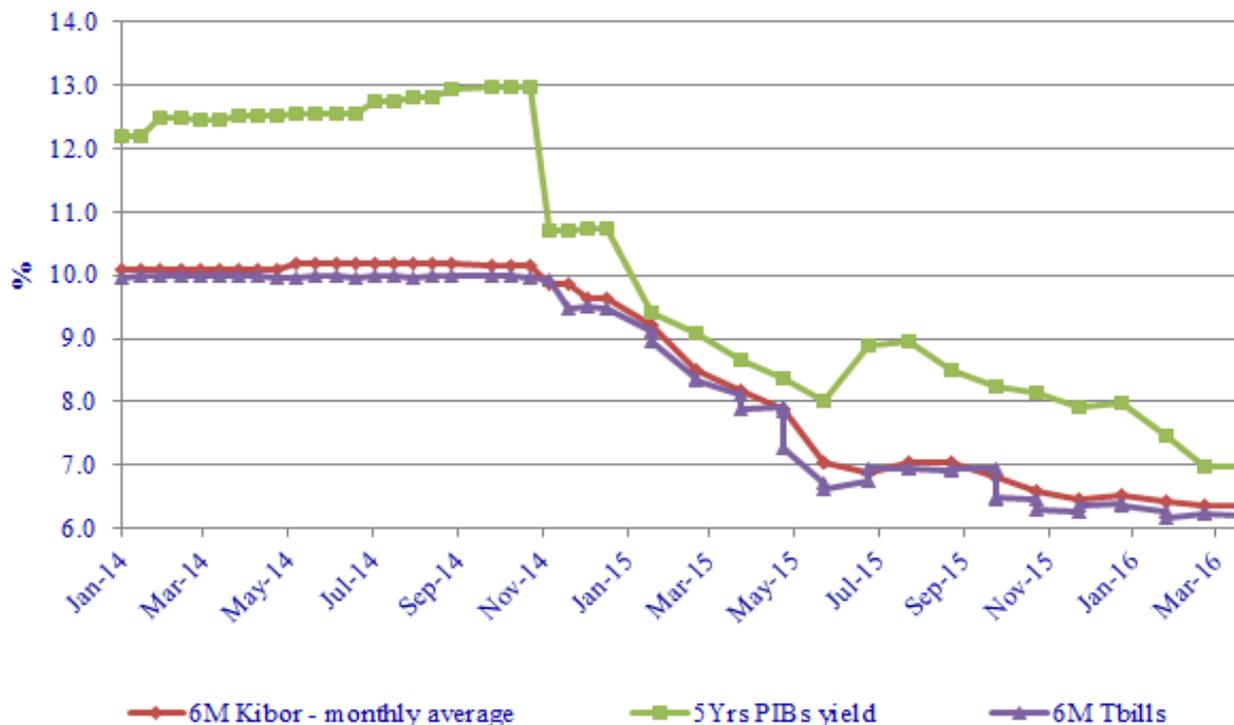
PKR bln

	Mar-16	Dec-15	Dec-14	Dec-13	Dec-12
Govt domestic borrowing	13,398	12,878	11,816	10,596	8,328
Bank	6,603	6,110	4,811	3,760	3,444
Non bank	1,533	1,457	1,704	1,245	886
SBP	2,065	2,164	2,401	2,953	1,611
NSS	3,197	3,147	2,900	2,638	2,387
Govt Foreign borrowing	6151	5,876	5,378	5,263	5,240
Pakistan total Public Debt	19,549	18,754	17,194	15,859	13,568

Govt. Securities Mix	Mar-16	Dec-15	Dec-14	Dec-13	Dec-12
PIBS	53%	52%	55%	20%	18%
T-Bills	40%	42%	37%	73%	76%
Others	8%	6%	8%	7%	6%
Bank Borrowings as % of Govt. Domestic Borrowings	49%	47%	41%	35%	41%
Bank Borrowings as % of Total Public Debt	34%	33%	28%	24%	25%

Interest Rate

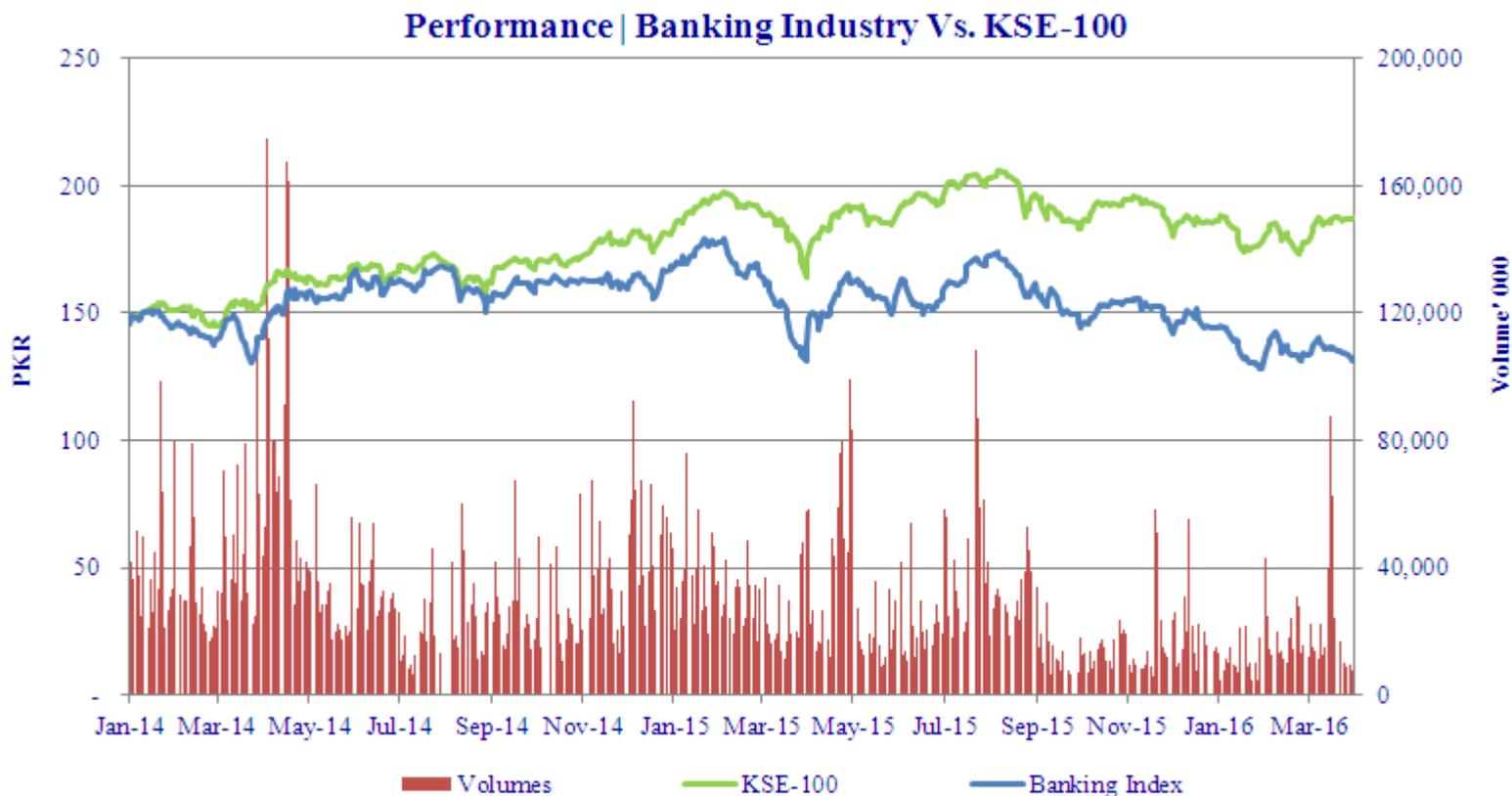
Interest Rate



Rate Change		
MPS Dates	Discount Rate	Policy Rate
17-Nov-14	9.5%	-
26-Jan-15	8.5%	-
24-Mar-15	8.0%	-
25-May-15	7.0%	6.5%
14-Sep-15	6.5%	6.0%
23-May-16	6.3%	5.8%

	CY14				CY15				CY16
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
6M Kibor - monthly average	10.10	10.17	10.19	9.65	8.18	6.89	6.81	6.52	6.36
6M Tbills - period end	9.98	9.97	9.98	9.47	7.89	6.94	6.48	6.39	6.18
5Yr PIB yield - period end	12.55	12.55	12.99	10.80	8.66	8.88	8.24	7.99	6.98

Listed Banks (21) | Stock Performance



	1QCY16	CY15	CY14
KSE-100 Index Return	-0.06%	1.0%	25.5%
Banking Sector Return	-9.1%	-14.5%	15.7%
Delta	8.5%	15.4%	9.8%

Credit Risk | Domestic Commercial Banks (27)

	Dec-15	Dec-14	Dec-13	Dec-12
				PKR bln
Gross Advances	5,130	4,728	4,391	4,060
Growth YoY	9%	8%	8%	14%
Advances (net of Provision)	4,637	4,270	3,949	3,647
Growth YoY	9%	8%	8%	14%
NPLs	572	567	569	576
Growth YoY	1%	0%	-1%	5%
Provision	(493)	(458)	(442)	(413)
Growth YoY	8%	4%	7%	8%
Equity incl. Rev Surplus	1,178	1,060	885	819
Growth YoY	11%	20%	8%	12%
Risk Weighted Assets	6,568	5,971	5,337	4,987

	Dec-15	Dec-14	Dec-13	Dec-12
ADR	46.4%	48.2%	48.6%	51.5%
Liquid Assets / Deposits	73%	65%	60%	54%

	Dec-15	Dec-14	Dec-13	Dec-12
Infection Ratio	11.2%	11.9%	12.9%	14.2%
Coverage	86.2%	80.7%	77.7%	71.7%
Drag on Equity (incl Rev Surplus)	6.7%	10.3%	14.3%	19.9%
CAR	16.0%	15.5%	14.6%	15.0%

Advances Book | Segmental Analysis | Scheduled Banks*

Sectors	Dec-15		Dec-14		Dec-13		Dec-12	
	Advances (PKR bln)	Infection Ratio						
Textile	762	26.0%	792	25.0%	779	26.2%	699	29.6%
Energy	681	6.0%	621	4.7%	493	3.0%	493	3.7%
Agribusiness	474	8.5%	394	9.4%	340	10.2%	354	9.1%
Individuals	455	10.1%	433	12.3%	383	12.3%	333	16.2%
Chemicals	224	6.0%	190	8.5%	150	8.9%	150	9.9%
Financial	148	6.5%	125	6.1%	121	6.8%	82	10.5%
Others	2,586	10.0%	2,374	11.1%	2,239	11.7%	2,085	13.0%
Total	5,330	11.4%	4,930	12.3%	4,505	13.0%	4,196	14.5%

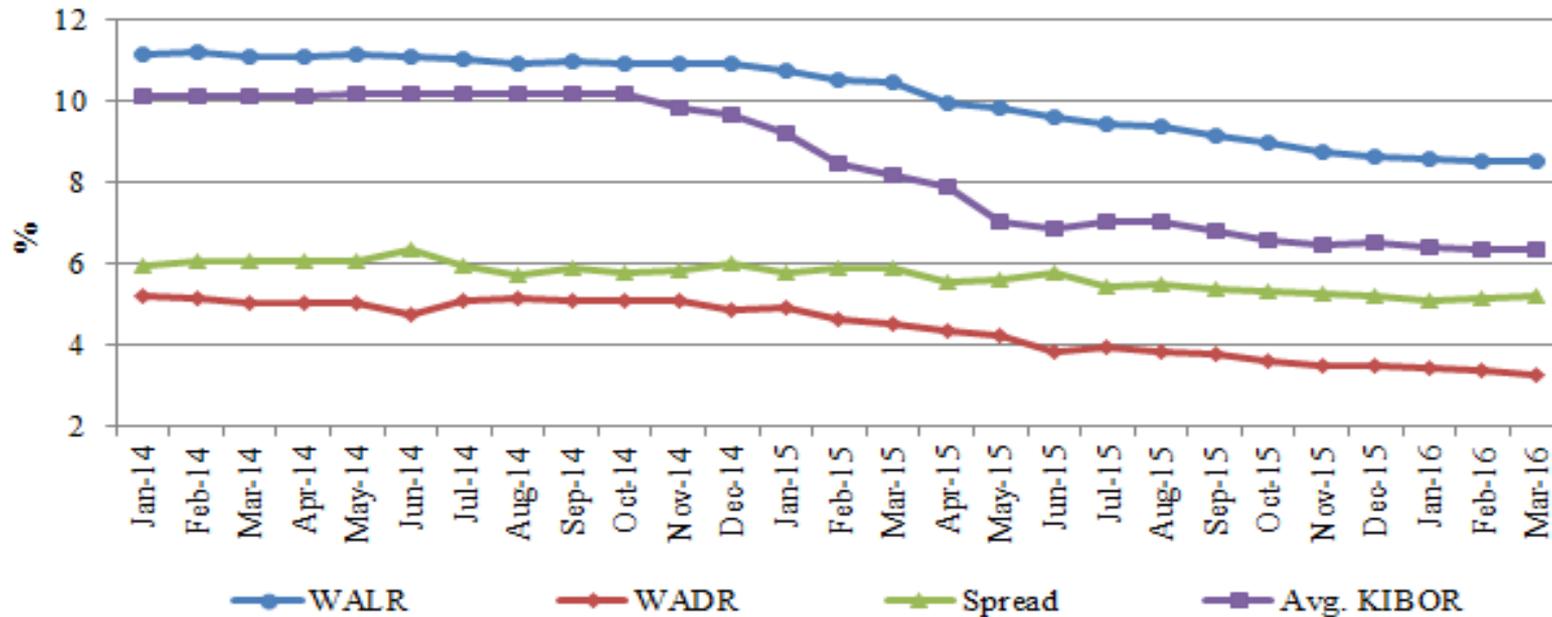
Segments	Dec-15		Dec-14		Dec-13		Dec-12	
	Advances (PKR bln)	Infection Ratio						
Corporate Sector	3,534	12.3%	3,289	13.0%	3,014	13.4%	2,760	15%
SMEs Sector	318	26.1%	299	30.5%	284	32.3%	277	35%
Agriculture Sector	291	13.0%	264	12.4%	231	14.0%	204	15%
Consumer sector	336	8.7%	294	11.6%	273	13.6%	250	17%
Commodity financing	594	1.2%	549	1.0%	479	1.1%	513	1%
Staff Loans	103	1.2%	94	1.3%	86	1.5%	85	2%
Others	154	8.6%	141	7.5%	139	8.9%	108	11%
Total	5,330	11.4%	4,930	12.3%	4,505	13.0%	4,196	14.5%

*This includes commercial bank (31) and 04 specialized banks (1. ZTBL, 2. SME Bank, 3. Punjab Provincial Co-operative Bank, and 4. Industrial Development Bank)

Source: SBP - Banking Compendium

Spreads | Scheduled Banks

Spreads



	CY14				CY15				CY16
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Avg. WALR	11.2	11.1	11.0	10.9	10.6	9.8	9.3	8.8	8.6
Avg. WADR	5.1	4.9	5.1	5.0	4.7	4.2	3.9	3.5	3.4
Avg. Spread	6.0	6.2	5.9	5.9	5.9	5.7	5.5	5.3	5.2
Avg. KIBOR	10.1	10.2	10.2	9.9	8.6	7.3	7.0	6.5	6.4

Profitability | Domestic Commercial Banks (27)

	CY15	CY14	CY13	CY12
Net Interest Income (PKR bln)	467	390	313	320
Growth YoY	20%	25%	-2%	-1%
Non- Interest Income (PKR bln)	199	160	133	129
Growth YoY	24%	20%	3%	28%
Expenses (PKR bln)	321	294	253	238
Growth YoY	9%	16%	6%	12%
(Provisions) / Reversals	-40	-24	-35	-30
Growth YoY	66%	-32%	17%	-39%
Profit (Loss) After Tax (PKR bln)	184	154	106	119
Growth YoY	19%	45%	-10%	13%
Cost to Total Net Revenue	48%	53%	58%	54%
ROE	16.4%	15.8%	12.5%	15.2%

Islamic Banking | Snapshot

Islamic Banking		CY15	CY14	CY13	CY12
P&L	Net Interest Income	48	39	31	29
	Non - Interest Income	11	11	8	7
	Profit / (Loss) After Tax	12	13	8	8
B/S	Financing - Net	645	409	315	231
	Deposits And Other Accounts	1,375	1,070	868	706
	Total Equity	106	82	70	63

Islamic Banking Share in Domestic Commercial Banks		CY15	CY14	CY13	CY12
P&L	Net Interest Income	10%	10%	10%	9%
	Non-Interest Income	6%	7%	6%	6%
	Profit / (Loss) After Tax	7%	8%	7%	7%
B/S	Financing - Net	14%	10%	8%	6%
	Deposits And Other Accounts	13%	12%	11%	10%
	Total Equity	9%	8%	8%	8%

Budget | Impact on Banking

- Super Tax Continued @ 4% - in admissible depreciation and business | Likely to have impact of 6-10% on earnings
- WHT on non-filers has been maintained at 0.6%
- WHT on cash withdrawals would be on aggregate basis from all bank accounts of the accountholder within a single day

Banking Sector | Challenges & Opportunities

- **Interest Income & Spreads under pressure** | Low interest rate scenario
- **Deployment of excess liquidity** |
 - PKR 1.6trillion of PIBs maturing in Jul16
 - Deposit growth 11% (commercial banks' customer deposits)
- **CPEC | Opportunity to capitalize upon | Likely impact Post CY17**
 - How transactions are structured | Key challenge
 - Banks consortium to exposure size | per party limit
 - Non-funded based income | volumes may trigger income

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