

Commercial Banking

Sector Overview

June 2018

Banking Snapshot | Key Figures

		Deposit Share	
		Dec17	Dec16
Scheduled Banks	34	100%	100%
Commercial Banks	30	99.4%	99.4%
Domestic Banks	25	98.1%	98.2%
Local Private Banks	20	78.1%	77.8%
Public Sector Banks	5	19.9%	20.4%
Foreign Banks	5	1.3%	1.2%
Specialized Banks	4	0.6%	0.6%

Total Deposits and other Accounts

Dec17: 13,011 bln
(YoY: ~10%)

Gross Advances

Dec17: 7,029 bln
(YoY: ~17%)

No. of Depositors [Scheduled Banks]

Dec17: 50.5 mln
(YoY: ~9%)

No. of Borrowers [Scheduled Banks]

Dec17: 3.5 mln
(YoY: ~ 5%)

Total Branches [Scheduled Banks]

Dec17: 13,628
(YoY: ~11%)

ATMs

Dec17: 13,262
(YoY: ~8%)

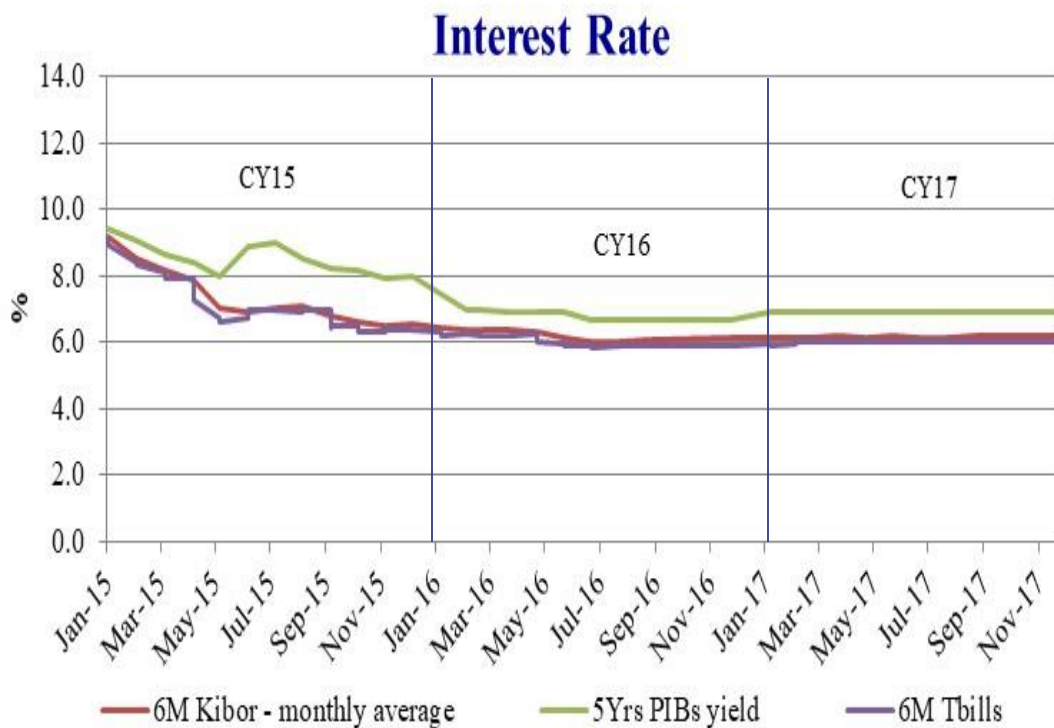
Pakistan Public Debt Profile

PKR bln

	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Govt domestic borrowing	16,423	14,278	12,878	11,816	10,596
Bank*	7,688	6,370	6,110	4,811	3,760
Non bank	1,585	1,513	1,457	1,704	1,245
SBP	3,631	3,055	2,164	2,401	2,953
NSS	3,519	3,340	3,147	2,900	2,638
Govt Foreign borrowing	7,787	6,533	5,976	5,378	5,263
Pakistan total Public Debt	24,210	20,811	18,854	17,194	15,859
GDP	38,126	33,949	30,657	29,391	25,054
Total Public Debt as a % of GDP	63.5%	61.3%	61.5%	58.5%	63.3%

Govt. Securities Mix held by Banks*	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
PIBs	36%	47%	52%	55%	20%
T-Bills	59%	49%	42%	37%	73%
Others	5%	4%	6%	8%	7%
	305500%	216400%	240100%	295300%	
Bank Borrowings as % of Govt. Domestic Borrowings	47%	45%	47%	41%	35%
Bank Borrowings as % of Total Public Debt	32%	31%	33%	28%	24%

Interest Rate



Rate Change				
	MPS Dates	Reverse Repo	Repo	Policy Rate
CY15	26-Jan-15	8.50%	6.00%	-
	24-Mar-15	8.00%	5.50%	-
	25-May-15	7.00%	5.00%	6.50%
	25-Jul-15	7.00%	5.00%	6.50%
	14-Sep-15	6.50%	4.50%	6.00%
	12-Nov-15	6.50%	4.50%	6.00%
CY16	30-Jan-16	6.50%	4.50%	6.00%
	9-Apr-16	6.50%	4.50%	6.00%
	23-May-16	6.25%	4.25%	5.75%
	30-Jul-16	6.25%	4.25%	5.75%
	24-Sep-16	6.25%	4.25%	5.75%
CY17	28-Jan-17	6.25%	4.25%	5.75%
CY18	29-Jan-18	6.50%	4.50%	6.00%

	CY15				CY16				CY17			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
6M Kibor - monthly average	8.18	6.89	6.81	6.52	6.42	6.11	6.05	6.15	6.13	6.16	6.16	6.21
5Yr PIB yield - period end	8.66	8.88	8.24	7.99	7.46	6.88	6.69	6.69	6.90	6.90	6.90	6.90
6M Tbills - period end	7.89	6.94	6.48	6.39	6.28	5.96	5.90	5.90	5.99	6.01	6.01	6.01

Listed Banks (20) | Stock Performance

Performance | Banking Industry Vs. KSE-100



	1QCY18	CY17	CY16
Banking Sector Return	16.3%	-27.7%	36.1%
KSE-100 Index Return	12.6%	-15.3%	45.7%
Delta	3.7%	-12.4%	-9.6%

Credit Risk | Scheduled Banks

					PKR bln
	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Gross Advances	7,029	6,013	5,330	4,930	4,579
Growth YoY	17%	13%	8%	8%	8%
Advances (net of Provision)	6,512	5,499	4,816	4,447	4,110
Growth YoY	18%	14%	8%	8%	8%
NPLs	593	605	605	605	607
Growth YoY	-2%	0%	0%	0%	-2%
Provision	(517)	(514)	(514)	(483)	(469)
Growth YoY	1%	0%	7%	3%	6%
Equity incl. Rev Surplus	1,381	1,353	1,323	1,207	943
Growth YoY	2%	2%	10%	28%	8%
Risk Weighted Assets	8,282	7,800	6,865	6,260	5,603

	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Infection Ratio	8.4%	10.1%	11.4%	12.3%	13.0%
Coverage	87.2%	85.0%	84.9%	79.8%	77.1%
Drag on Equity (incl Rev Surplus)	6.5%	6.7%	6.9%	10.1%	14.7%
CAR	15.8%	16.7%	17.3%	17.5%	15.4%

	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
ADR	50.1%	46.6%	46.4%	48.2%	48.6%
Liquid Assets / Deposits	76.1%	72.1%	73.3%	64.5%	60.0%

Source: SBP - Monetary Policy Information Compendium & Banking Compendium

Advances Book | Segmental Analysis | Scheduled Banks*

Sectors	Dec-17		Dec-16		Dec-15		Dec-14	
	Advances (PKR bln)	Infection Ratio	Advances (PKR bln)	Infection Ratio	Advances (PKR bln)	Infection Ratio	Advances (PKR bln)	Infection Ratio
Textile	990	18.5%	852	22.6%	762	26.0%	792	25.0%
Energy	1,044	3.2%	892	3.5%	681	6.0%	621	4.7%
Individuals	619	8.8%	550	10.5%	455	10.1%	433	12.3%
Agribusiness	623	6.6%	548	7.6%	474	8.5%	394	9.4%
Chemicals	237	5.4%	250	5.1%	224	6.0%	190	8.5%
Financial	173	5.1%	183	5.8%	148	6.5%	125	6.1%
Others	3,344	7.5%	2,737	9.0%	2,586	9.7%	2,374	11.1%
Total	7,029	8.4%	6,013	10.1%	5,330	11.4%	4,930	12.3%

Segments	Dec-17		Dec-16		Dec-15		Dec-14	
	Advances (PKR bln)	Infection Ratio	Advances (PKR bln)	Infection Ratio	Advances (PKR bln)	Infection Ratio	Advances (PKR bln)	Infection Ratio
Corporate Sector	4,830	8.8%	4,057	10.6%	3,534	12.3%	3,289	13.0%
Commodity financing	735	0.8%	619	0.7%	594	1.2%	549	1.0%
Consumer sector	448	6.2%	372	8.1%	336	8.7%	294	11.6%
<i>i. Auto loans</i>	<i>169</i>	<i>1.6%</i>	<i>126</i>	<i>2.1%</i>	<i>95</i>	<i>2.8%</i>	<i>71</i>	<i>5.1%</i>
<i>ii. Mortgage loans</i>	<i>80</i>	<i>13.3%</i>	<i>62</i>	<i>17.7%</i>	<i>54</i>	<i>24.8%</i>	<i>52</i>	<i>27.0%</i>
<i>iii. Credit cards</i>	<i>34</i>	<i>6.7%</i>	<i>28</i>	<i>8.3%</i>	<i>25</i>	<i>9.7%</i>	<i>23</i>	<i>10.5%</i>
<i>iv. Consumer durable</i>	<i>1</i>	<i>10.1%</i>	<i>0</i>	<i>21.2%</i>	<i>0</i>	<i>21.0%</i>	<i>0</i>	<i>20.3%</i>
<i>v. Other personal loans</i>	<i>164</i>	<i>7.4%</i>	<i>156</i>	<i>9.2%</i>	<i>161</i>	<i>6.5%</i>	<i>148</i>	<i>9.5%</i>
Agriculture Sector	316	12.1%	294	12.9%	291	13.0%	264	12.4%
SMEs Sector	452	16.9%	405	20.3%	318	26.1%	299	30.5%
Staff Loans	115	1.5%	104	1.4%	103	1.2%	94	1.3%
Others	132	12.6%	162	10.5%	154	8.6%	141	7.5%
Total	7,029	8.4%	6,013	10.1%	5,330	11.4%	4,930	12.3%

*This includes commercial bank (30) 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



	CY15				CY16				CY17			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Avg. WA Lending Rate	10.6	9.8	9.3	8.7	8.4	8.3	8.1	7.9	7.8	7.6	7.7	7.6
Avg. WA Deposits rate	4.7	4.2	3.7	3.4	3.3	3.1	3.0	3.0	2.9	2.8	2.8	2.8
Avg. Spread	5.9	5.7	5.6	5.3	5.1	5.2	5.0	4.9	4.9	4.9	4.9	4.9
Avg. KIBOR	8.6	7.3	7.0	6.5	6.4	6.3	6.0	6.0	6.1	6.2	6.2	6.2

Profitability | Scheduled Banks

	PKR bln				
	CY17	CY16	CY15	CY14	CY13
Net Interest Income (PKR bln)	499	485	496	415	332
Growth YoY	3%	-2%	20%	25%	-2%
Non- Interest Income (PKR bln)	188	196	209	167	140
Growth YoY	-4%	-6%	25%	19%	2%
Expenses (PKR bln)	392	361	337	310	271
Growth YoY	9%	7%	9%	14%	5%
(Provisions) / Reversals	(4)	(5)	(39)	(25)	(36)
Growth YoY	-30%	-86%	54%	-30%	12%
Profit (Loss) Before Tax (PKR bln)	267	314	329	247	162
Growth YoY	-15%	-5%	33%	52%	-8%
Cost to Total Net Revenue	57%	53%	48%	53%	57%
ROE	11.5%	14.2%	15.7%	15.2%	12.2%

Islamic Banking | Snapshot

		PKR bln			
		Dec-17	Dec-16	Dec-14	Dec-13
P&L	Net Profit Income (Markup)	64	50	39	31
	Non - Profit Income (Non-Markup)	15	12	11	8
	Profit / (Loss) After Tax	16	12	13	8

Share of Islamic banks in the Islamic Banking Industry		Dec-17	Dec-16	Dec-14	Dec-13
P&L	Net Profit Income	58%	62%	62%	62%
	Non - Profit Income	80%	75%	69%	71%
	Profit / (Loss) After Tax	54%	57%	41%	40%

Islamic Banking Share in Domestic Banking Industry		Dec-17	Dec-16	Dec-14	Dec-13
P&L	Net Profit Income	13%	10%	10%	10%
	Non - Profit Income	8%	6%	7%	6%
	Profit / (Loss) After Tax	6%	6%	8%	7%

		PKR bln			
		Dec-17	Dec-16	Dec-14	Dec-13
B/S	Financing - Net	1,207	821	409	315
	Deposits and Other Accounts	1,885	1,573	1,070	868
	Total Equity	137	116	82	70

Islamic Banking Share in Domestic Banking Industry		Dec-17	Dec-16	Dec-14	Dec-13
B/S	Financing - Net	19%	15%	10%	8%
	Deposits And Other Accounts	14%	13%	12%	11%
	Total Equity	11%	9%	8%	8%

Banking Sector | Key Updates

- Policy rate has witnessed 75bps increase YTD.
- SBP has introduced framework for Domestic Systemically Important Banks (D-SIBs). DSIBs will be exposed to higher levels of regulatory and supervisory requirements.
- Implementation of IFRS-9. SBP has directed banks to calculate impact of new standard. As per SECP notification, implementation date for IFRS-9 in Pakistan is 1st July, 2018. However, banks are hopeful of securing extension.
- During 4QCY17, banking landscape witnessed Pakistan's first ever Tier-1 instrument.

Banking Sector | Challenges & Opportunities

Challenges

- Pressure on CAR limiting growth in private lending
- Low interest rates have squeezed spreads on private lending
- Maturity of high yielding PIBs; putting a drag on banks' earnings
- Continuation of Super Tax in FY19 budget
- Rise of technology; challenging the age old brick and mortar traditional banking methods

Opportunities

- Recent uptick in interest rates are likely to aid dwindling income
- Strong momentum of economic activity
- CPEC and overall improvement in economic activity is likely to enhance borrowing appetite of domestic industries
- Consumer financing resulting in higher consumer credit offtake

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