



Modarabas & NBFCs Sector Study

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Modarabas & NBFCs

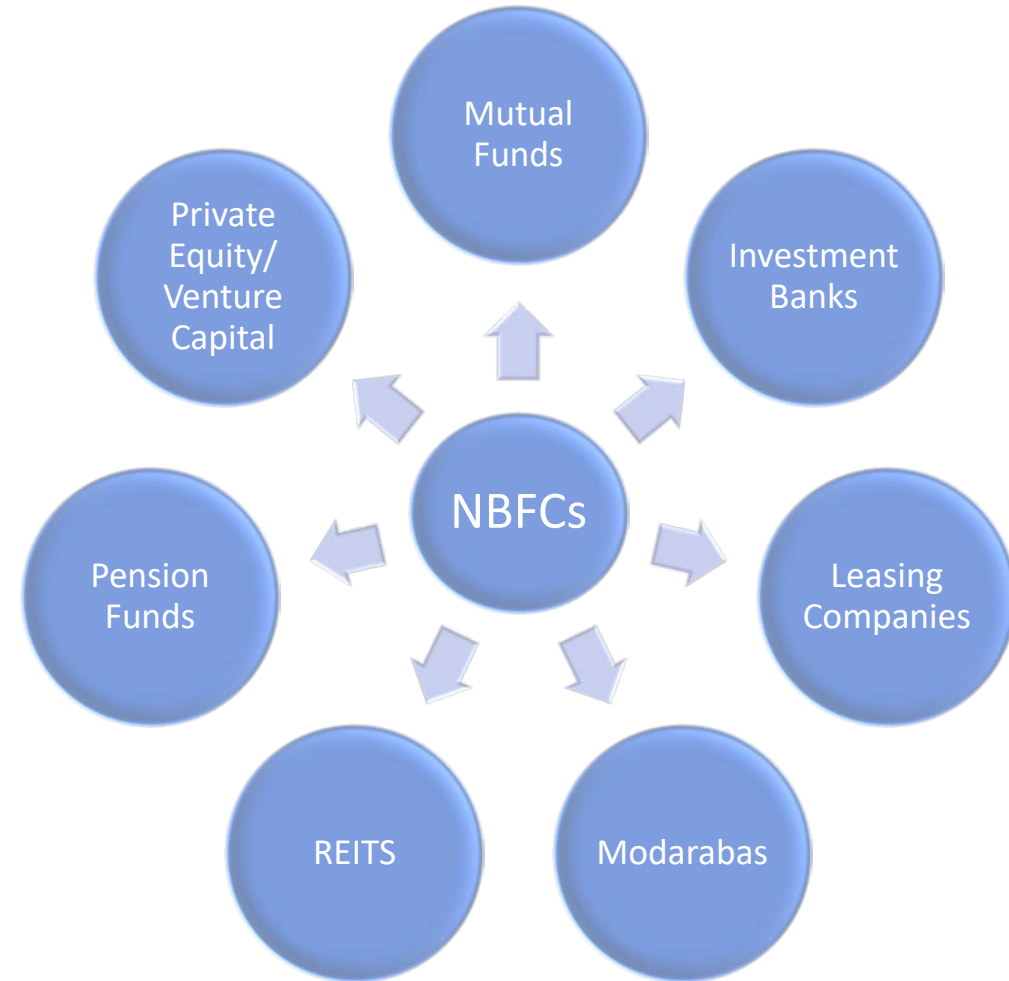
Introduction

Non-bank Financial Companies (NBFCs), also known as Non-bank Financial Institutions (NBFIs) are financial institutions that offer various banking services but do not have a banking license.

Generally, these institutions are not allowed to take traditional demand deposits—readily available funds, such as those in checking or savings accounts—from the public. This limitation keeps them outside the scope of conventional oversight from federal and state financial regulators.

The NBFCs sector mainly comprises of:

- Mutual Funds
- Investment Banks
- Pension Funds
- Insurance Companies
- Other Financial Intermediaries (OFIs) - OFIs include all financial intermediaries that are not central banks, banks, public financial institutions, insurance corporations, pension funds, or financial auxiliaries. They mainly include investment funds, captive financial institutions and money lenders, central counterparties, broker-dealers, trust companies and structured finance vehicles.



NBFCs Across the Globe:

Total global financial assets grew by ~10.9% to USD~468.7trn in CY20, with the growth of the NBFC sector slower than that of banking sector in CY20.

At a global level, the NBFC sector grew by ~7.9% in CY20 to USD~226.6trn, and the banking sector grew by ~11.1% to USD~180.4trn.

The NBFC sector accounts for ~48.3% of global financial assets as compared to ~49.7% in CY19. This decline reflects in part the COVID-19 shock and the significant monetary and fiscal policy responses to the shock. It was the largest percentage point decrease since the '2008 financial Crisis'.

Banks remain the largest single sector of the financial system holding ~38.5% of the global financial assets.

Non-bank financial entities play an increasing important role in providing financing to the real economy, as well as in managing the savings of households and corporate entities.

Global NBFC Assets	Share (%)	Size (USD trn)
Investment funds (other than MMFs and hedge funds)	25.7%	58.1
Insurance corporations (ICs)	17.3%	39.2
Pension funds (PFs)	18.7%	42.4
Captive financial institutions and money lenders (CFIMLs)	11.1%	25.2
Broker-dealers (BDs)	5.4%	12.1
Money market funds (MMFs)	3.8%	8.5
Hedge funds	2.8%	6.3
Structured finance vehicles (SFVs)	2.5%	5.7
Finance companies	2.5%	5.6
Trust companies	1.7%	3.9
REITs	1.3%	2.9
Central counterparties (CCPs)	0.3%	0.7

*Global Monitoring Report on Non-Bank Financial Intermediation 2021

Modarabas & NBFCs

Macro Economic Indicators | Annual

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
Average Inflation Rate (CPI)	11.9%	11.0%	7.4%	8.6%	4.5%	2.9%	4.2%	3.9%	7.3%	10.7%	8.9%	10.50%
Average KIBOR	13.5%	12.3%	9.8%	9.9%	8.9%	6.5%	6.1%	6.4%	10.4%	12.0%	7.4%	9.28%
Monetary Policy Rate (MPR)	13.7%	12.4%	9.9%	9.8%	8.8%	6.0%	5.8%	6.0%	9.7%	11.8%	7.0%	8.15%
PKRV	13.0%	11.9%	9.6%	9.8%	8.7%	6.3%	6.0%	6.3%	10.2%	11.8%	7.3%	9.15%
Average Exchange Rate (PKR/USD)	86.3	89.2	96.8	102.8	101.5	104.4	104.8	110.1	136.4	158.4	160.5	171.02
(USD mln)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	8MFY22*
Current Account Balance	214	(4,658)	(2,496)	(3,130)	(2,815)	(4,961)	(12,270)	(19,195)	(13,434)	(2,970)	(1,852)	-12,168
Exports	25,369	24,718	24,802	25,078	24,090	21,972	22,003	24,768	24,257	22,536	25,630	20,656
Imports	35,796	40,370	40,157	41,668	41,357	41,118	48,001	55,671	51,869	43,645	53,785	47,957
Trade Balance	(10,427)	(15,652)	(15,355)	(16,590)	(17,267)	(19,146)	(25,998)	(30,903)	(27,612)	(21,109)	(28,155)	-27,301
Foreign Exchange Reserve	18,244	15,289	11,020	14,141	18,699	23,099	21,403	16,384	14,482	18,886	24,398	22,638

*Data available until Feb-22

Modarabas & NBFCs

Macro Economic Indicators | Monthly

	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Average Inflation Rate (CPI)	5.70%	8.70%	9.10%	11.10%	10.90%	9.70%	8.40%	8.40%	9.00%	9.20%	11.50%	12.30%	13.00%	12.20%	12.70%
Average KIBOR	7.36%	7.57%	7.80%	7.78%	7.68%	7.70%	7.63%	7.57%	7.80%	8.45%	9.37%	11.31%	11.32%	10.82%	11.85%
Monetary Policy Rate (MPR)	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.25%	7.25%	7.82%	9.38%	9.75%	9.75%	9.75%
PKRV	7.23%	7.43%	7.65%	7.60%	7.55%	7.54%	7.49%	7.42%	7.68%	8.38%	9.31%	11.11%	11.13%	10.67%	11.78%
Average Exchange Rate (PKR/USD)	160.4	159.3	156.1	153.3	153.6	156.5	159.9	164.5	168.5	172.0	173.6	177.5	176.5	175.7	180.1
(USD mln)	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22*
Current Account Balance	-210	-31	-33	-200	-650	-1,644	-919	-1,473	-1,134	-1,740	-1,894	-1,932	-2,531	-545	-
Exports	2,097	2,176	2,610	2,295	2,129	2,497	2,251	2,348	2,634	2,381	2,736	2,924	2,497	2,885	-
Imports	4,433	4,501	5,205	4,969	4,959	6,322	5,399	5,998	6,053	6,028	6,451	6,538	6,314	5,166	-
Trade Balance	-2,336	-2,325	-2,595	-2,674	-2,830	-3,825	-3,148	-3,650	-3,419	-3,647	-3,715	-3,614	-3,817	-2,281	-
Foreign Exchange Reserve	20,149	20,105	20,604	22,690	23,273	24,398	24,777	27,068	25,983	23,829	22,329	24,019	22,836	22,638	18,545

*Data available until Feb-22.

Modarabas & NBFCs

Local Industry | An Overview

Pakistan's economy continues to show healthy value-added creation. Its cyclical position is largely balanced and the trend growth rate of potential output remains strong. The Pakistan Bureau of Statistics (PBS) has recently done the rebasing exercise after which GDP growth in FY21 increased to ~5.6%. This growth momentum is expected to continue in FY22.

Pakistan's Modarabas & NBFCs sector consists of conventional and Shariah-compliant Non-bank Financial Institutions namely:

- Modarabas
- Mutual Funds
- Pension Funds
- REITs
- Leasing companies
- Investment Finance Services

Modarabas & NBFCs provide financial products to individuals and businesses for their financing needs. This Sector Study shall focus on the Asset base of different categories of NBFCs in order of their percentage share in the total NFBCs Assets.

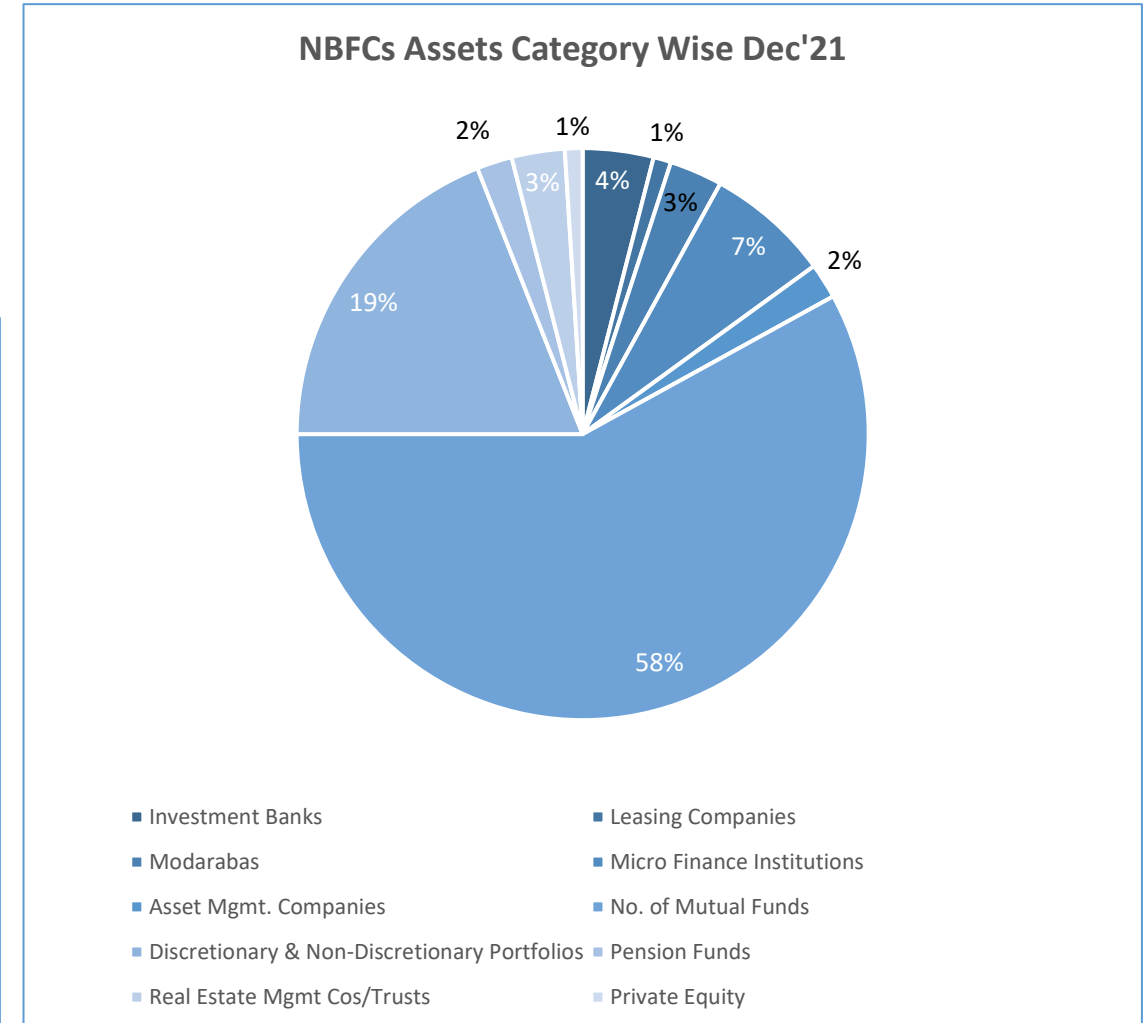
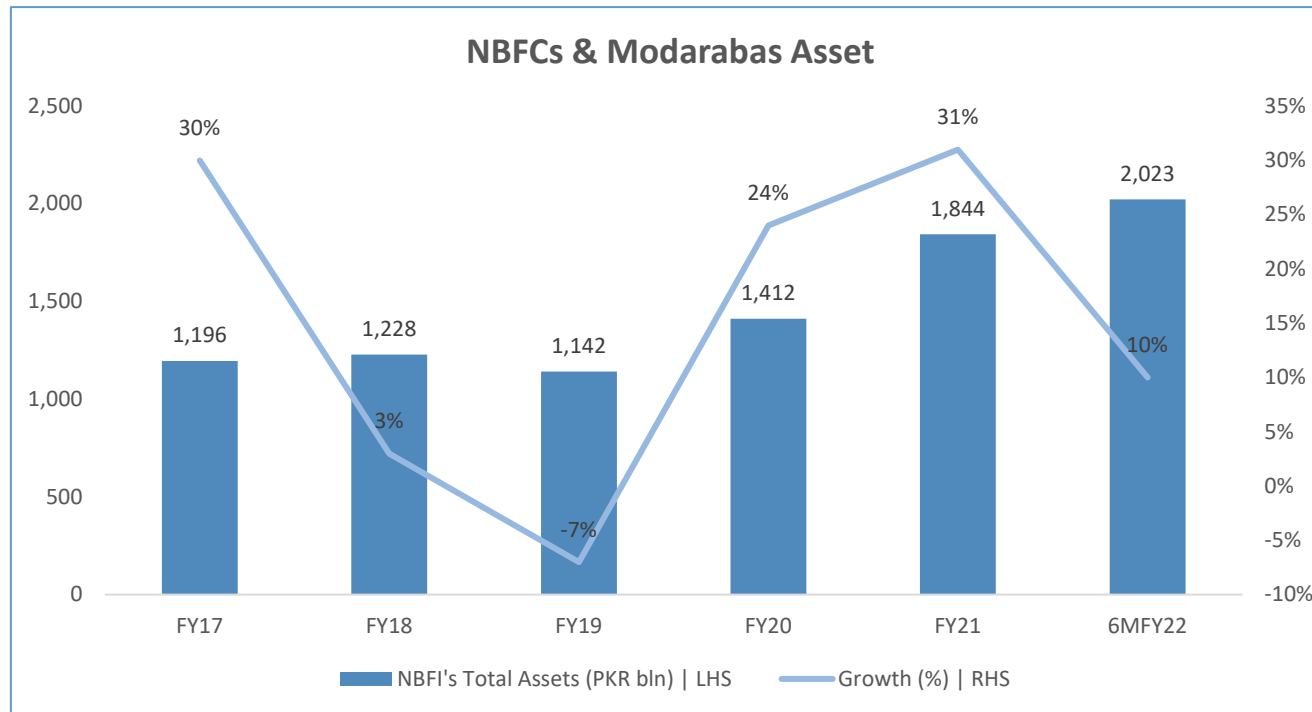
Total Assets (PKR bln)	FY20	FY21	6MFY22
Investment Banks	65	63	78
Leasing Companies	11	5	5
Modarabas	51	55	57
Micro Finance Companies	122	138	146
Asset Mgmt. Companies	40	45	46
No. of Mutual Funds	802	1,087	1,192
Discretionary & Non-Discretionary Portfolios	229	338	374
Pension Funds	31	40	40
Real Estate Mgmt. Cos/Trusts	55	61	75
Private Equity	7	7	10
NBFCs' Total	1,412	1,839	2,023
Sectors			Dec-21
			No. of Entities
Leasing Companies			4
Investment Banks			16
Micro Finance Companies			33
Asset Management Companies			26
Mutual Funds			285
Pension Funds			21
REITs			13
Private Equity Companies & Funds			12
Modarabas			27
Total			437

Modarabas & NBFCs

Local Industry | Total Assets

Trend of Growth & Total Assets of Modarabas & NBFCs

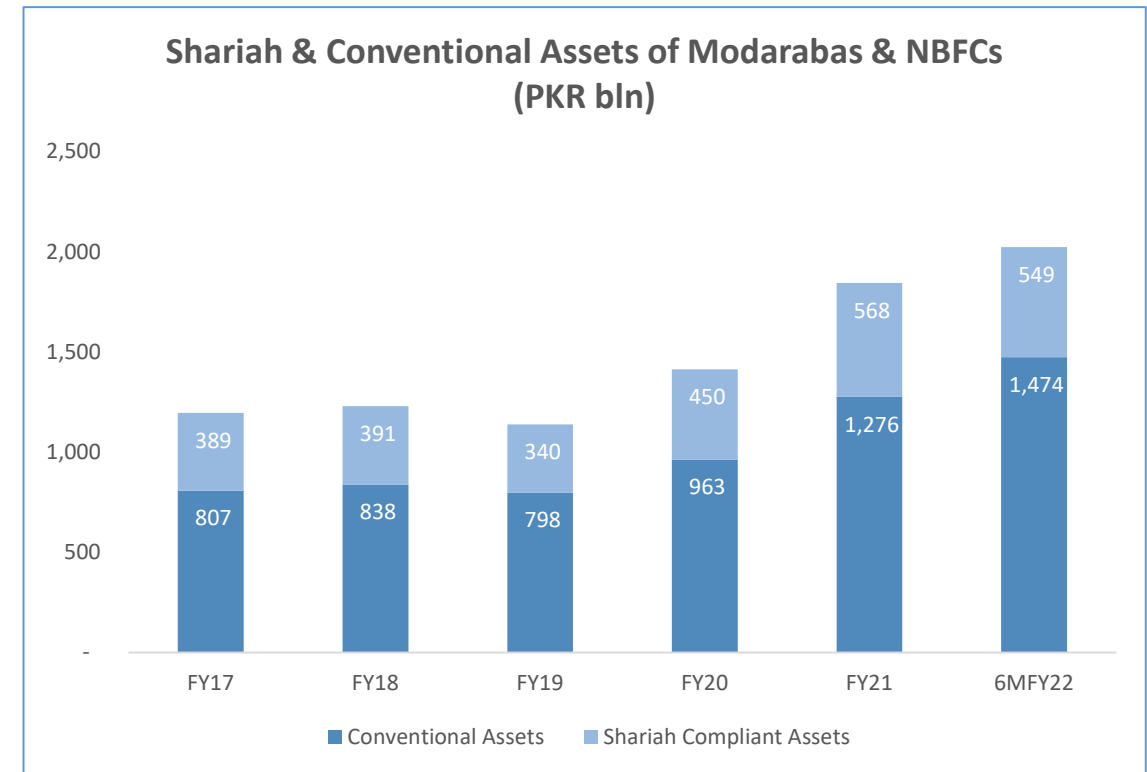
- The total assets of Modarabas & NBFCs have grown from PKR~1,192bln in FY17 to PKR~2,023bln at the end of 1HFY22 representing a CAGR of 11%.
- Mutual Funds & Plans have the highest share of ~58% while Modarabas have a share of ~3% in the total assets of Modarabas and NBFCs.



Modarabas & NBFCs

Total Assets | Shariah Compliant & Conventional

Description (PKR bln)	FY17	FY18	FY19	FY20	FY21	6MFY22
Conventional Assets	807	838	798	963	1,276	1,474
Shariah Compliant Assets	389	391	340	450	568	549
Total Assets	1,196	1,229	1,138	1,412	1,844	2,023
Share of Conventional Assets	68%	68%	70%	68%	69%	73%
Share of Shariah Compliant Assets	33%	32%	30%	32%	31%	27%



Share of Shariah compliant assets have remained at an average of ~31% over the last 5 periods. CAGR of Conventional and Shariah assets from FY17-1HFY22 was 13% and 7% respectively.

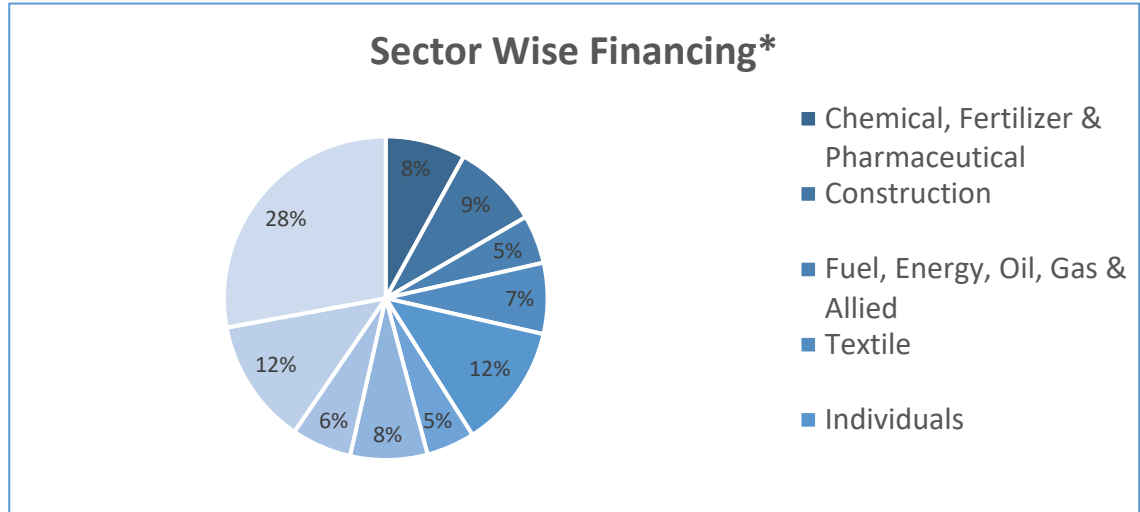
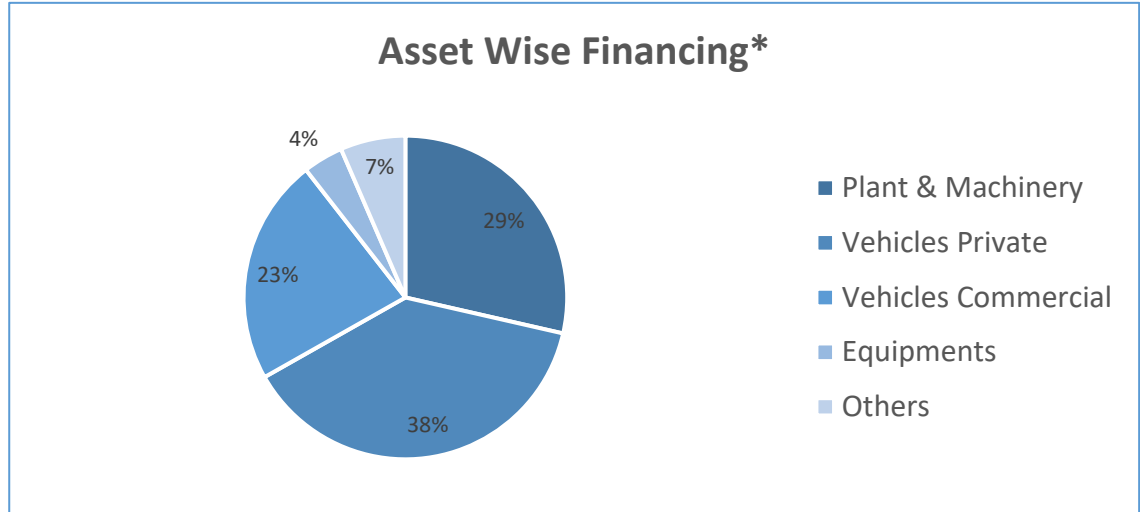
Total Assets | Break-up

Type	FY19			FY20			FY21			Dec'21		
	No of Entities	Total Assets (PKR bln)	Assets Share in Modarabas & NBFCs	No of Entities	Total Assets (PKR bln)	Assets Share in Modarabas & NBFCs	No of Entities	Total Assets (PKR bln)	Assets Share in Modarabas & NBFCs	No of Entities	Total Assets (PKR bln)	Assets Share in Modarabas & NBFCs
Investment Banks	10	63	6 %	12	65	5 %	13	63	3 %	16	78	4 %
Leasing Companies	6	10	1 %	7	11	1 %	5	5	1 %	4	5	1 %
Modarabas	28	53	5 %	28	51	4 %	28	55	3 %	27	57	3 %
Micro Finance Institutions	26	117	10 %	25	122	9 %	29	138	7 %	33	146	7 %
Lending Institutions Total	70	243	22 %	72	249	17%	75	261	14 %	80	286	15 %
Asset Mgmt. Companies	23	37	3 %	23	40	3 %	24	45	2 %	26	46	2 %
No. of Mutual Funds	203	578	51 %	220	802	57 %	282	1,087	60 %	285	1,192	58 %
Discretionary & Non-Discretionary Portfolios	-	198	17 %	-	229	16 %	-	338	18 %	-	374	19 %
Pension Funds	19	27	2 %	19	31	2 %	19	40	2 %	21	40	2 %
Real Estate Mgmt Cos/Trusts	6	52	4 %	8	55	4 %	11	61	3 %	13	75	3 %
Private Equity	7	7	1 %	9	7	0	12	7	1 %	12	10	1 %
Investing Institutions Total	258	899	78 %	279	1,163	82 %	348	1,578	86 %	357	1,737	85 %
NBFCs' Total	328	1,142	100 %	351	1,412	100 %	423	1,839	100 %	437	2,023	100 %

Modarabas & NBFCs

Financing | Asset & Sector Wise

- Modarabas & NBFCs Sector is essential for the economic development of the country. In Pakistan, there are an estimated ~5.2 million small and medium enterprises (SMEs). Their contribution to GDP is estimated to be 40% while that to exports is estimated around 25%.
- The potential market for SME financing in Pakistan ranged between PKR~3-4trn of which formal finance meets only 15% to 20% while the rest is either financed through informal channels or remains unmet.
- Commercial Banks' lending to SMEs constituted only ~9% of their total lending to private sector businesses by End-FY21, as per the SBP.
- NBFIs and Modaraba's lending to SMEs was 46% in FY19 and 40% in FY20. This shows that SMEs rely a lot on financing by NBFIs and Modarabas and NBFIs are essential in filling the gap that exists. The asset and sector wise lending of the Modaraba & NBFC sector during FY20 is shown in the figures.



*Above Information pertains to latest available data for FY20

Mutual Funds Industry - Assets Under Management									
(Open End & VPS, excluding Fund of Funds) - PKR bln									
S. No.	Asset Management Company	Mar-22		Dec-21		Jun-21	Dec-20	Jun-20	Dec-19
		Market Share	AUMs	Market Share	AUMs	AUMs	AUMs	AUMs	AUMs
1	Al-Meezan Investment Management Limited	16%	177	15%	173	189	163	152	123
2	NBP Fund Management Limited	15%	170	15%	169	168	163	127	112
3	UBL Fund Managers Limited	11%	117	10%	116	102	91	78	63
4	MCB-Arif Habib Savings and Investments Limited	10%	107	10%	110	98	83	66	58
5	HBL Asset Management Limited	7%	73	8%	94	72	78	58	47
6	ABL Asset Management Limited	8%	91	8%	89	79	67	59	53
7	National Investment Trust Limited	8%	92	8%	88	90	85	69	75
8	Faysal Asset Management Limited	7%	80	7%	76	62	47	30	16
9	Alfalah GHP Investment Management Limited	5%	52	5%	60	55	50	40	42
10	Atlas Asset Management Limited	4%	41	5%	52	50	40	30	31
11	Al Habib Asset Management Limited	4%	44	4%	40	33	26	14	7
12	JS Investment Limited	2%	22	2%	23	17	24	19	21
13	Lakson Investments Limited	2%	18	2%	20	23	22	19	21
14	Pak Oman Asset Management	0%	5	1%	8	6	7	4	4
15	AKD Investment Management Limited	1%	7	1%	7	9	7	5	5
16	AWT Investment Management Limited	0.2%	2	0.1%	2	2	2	3	3
17	786 Investments Limited	0.1%	1	0.1%	1	1	1	1	1
18	First Capital Investments Limited	0.0%	0.1	0.0%	0.1	0.1	0.1	0.1	0.1
19	BMA Asset Management Company Limited	0.0%	0.0	0.0%	0.0	0.4	0.4	0.2	0.3
Total:		100%	1,060	100%	1,127	1,054	955	773	681

Asset Management Companies | Net Sales

- Total AMC sales during CY21 stood at PKR~2,344bln while redemptions during the year clocked in at PKR~2,211bln. In 3MCY22, the sales and redemptions stood at PKR~872bln and PKR~865bln respectively.
- As a result, Net Sales of AMCs amounted to PKR~132bln during CY21 and to PKR~7bln in 3MCY22, contributing to the significant growth in AUMs in the same period.
- In CY21, the Money Market category experienced the highest level of net sales standing at PKR~94bln and accounting for ~71% of total net sales. Meanwhile, the Equity and Shariah Compliant Income segments witnessed a higher level of redemptions as compared to sales.

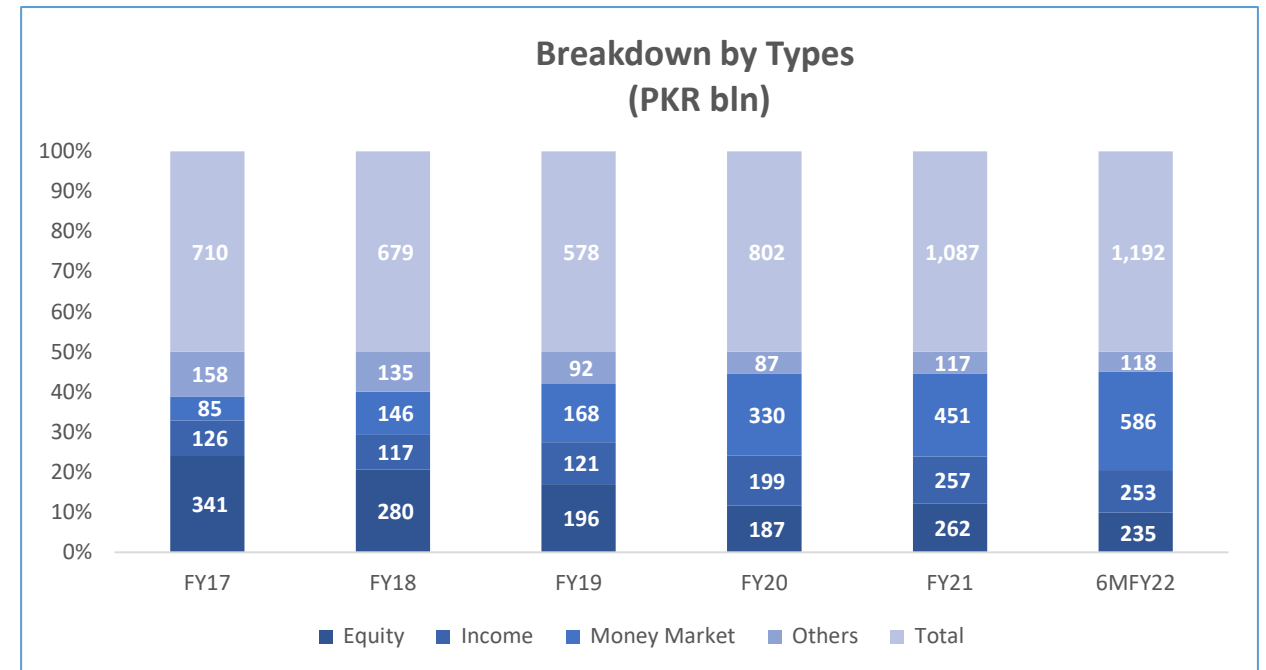
Net Sales (PKR mln)	CY21			3MCY22			
	Open End	Sales	Redemptions	Net Sales	Sales	Redemptions	Net Sales
Money Market		924,859	831,230	93,629	460,874	504,008	-43,134
Income		269,087	252,698	16,389	120,017	90,963	29,054
Equity		73,959	76,589	-2,630	6,581	11,848	-5,267
Shariah Compliant Money Market		608,823	593,374	15,449	180,665	168,887	11,778
Shariah Compliant Income		248,012	252,388	-4,376	54,559	47,792	6,768
Shariah Compliant Equity		100,151	99,544	607	12,628	15,025	-2,397
Other		103,377	92,323	11,054	31,645	21,841	9,804
VPS		15,714	13,630	2,084	4,798	4,688	109
ETF		159	77	82	168	36	132
Total		2,344,143	2,211,854	132,289	871,933	865,088	6,845

Modarabas & NBFCs

Mutual Funds | An Overview

- Mutual fund is a type of financial vehicle that pools money of investors with common financial goals. The funds are invested in securities such as stocks, bonds, money market instruments etc. in order to meet predefined investment objectives.
- As of End-Dec'21, Mutual Funds held the highest share of ~58% in the Modarabas & NBFCs assets space with total assets of PKR~1,192bln. CAGR of Mutual Funds Assets from FY17-1HFY22 was recorded at ~11% while the total number of mutual funds & plans have increased from ~228 to ~285.
- The share of fixed income securities in the total invested assets of mutual funds have increased significantly from ~30% in FY17 to ~70% at the end of 1HFY22.
- ~49% of the total assets are invested in the short-term money market instruments while ~21% are invested in other fixed income securities. As at End-Dec'21, ~20% of the assets were invested in equity market.

Description	FY17	FY18	FY19	FY20	FY21	6MFY22
Total Assets (PKR bln)	710	679	578	802	1087	1192
Growth since last June	30%	-4%	-15%	39%	36%	10%
Total Number of Mutual Funds & plans	228	262	297	309	282	285



Modarabas & NBFCs

Mutual Funds | Investors Break-up Account

Description	No. of investor accounts as at Dec 31, 2021	Value of Investment as at Dec 31, 2021 (PKR bln)	% of total Investment Value
Resident			
Individuals	357,770	352	31%
Associated Banks/DFIs/AMCs	57	40	4%
Other Banks/DFIs	189	12	1%
Insurance Companies	333	50	5%
Other financial institutions	200	18	2%
Other Corporates	2,836	454	41%
Fund of Funds	71	19	2%
Retirement Funds	2,589	136	12%
Trusts/NGOs etc.	1,128	34	3%
Foreign			
Individuals	1,610	3	1%
Non-Individuals	16	0	0%
Total	366,799	1,118	100%

*Number of active investor accounts having more than 0 balance as at 31st Dec'21 are 366,799. Number of investor accounts having 0 balance at 31st Dec'21 are 378,417. Total number of investor accounts as at 31st Dec'21 are 745,216.

**The above table shows the number of investor accounts in open end mutual funds only.

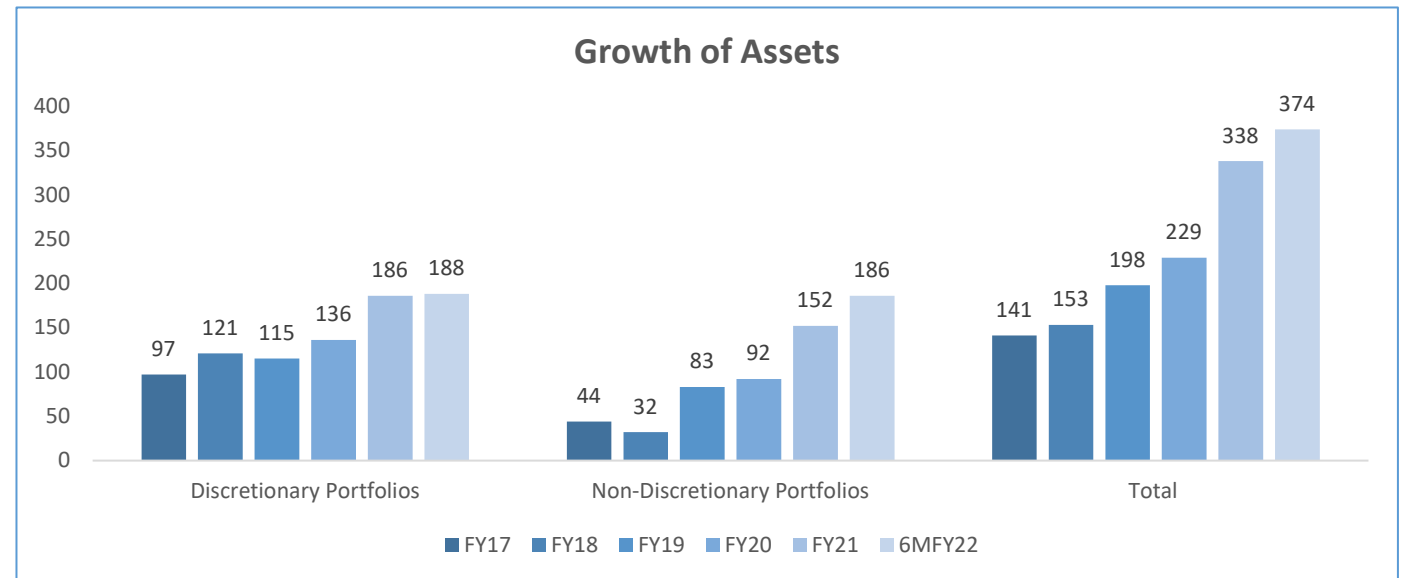
***The number of investors' accounts is different from number of investors in mutual fund industry i.e. If Investor A opens 3 accounts with 3 different AMCs, the same shall be reported as 3 investor accounts instead of 1 investor.

Modarabas & NBFCs

Discretionary/Non-Discretionary Portfolios

- In discretionary portfolios, the portfolio manager individually and independently manages the funds and securities of each client in accordance with the needs of the client.
- Under non-discretionary portfolios, the portfolio manager manages the funds in accordance with the directions of the client.
- In Pakistan these portfolios hold the second highest weight, i.e., ~19% in the Modarabas & NBFCs sector with total assets under management of PKR~374bln (End-Dec'21).

Assets (PKR bln)	FY17	FY18	FY19	FY20	FY21	6MFY22
Discretionary Portfolios	97	121	115	136	186	188
Non-Discretionary Portfolios	44	32	83	92	152	186
Total	141	153	198	229	338	374

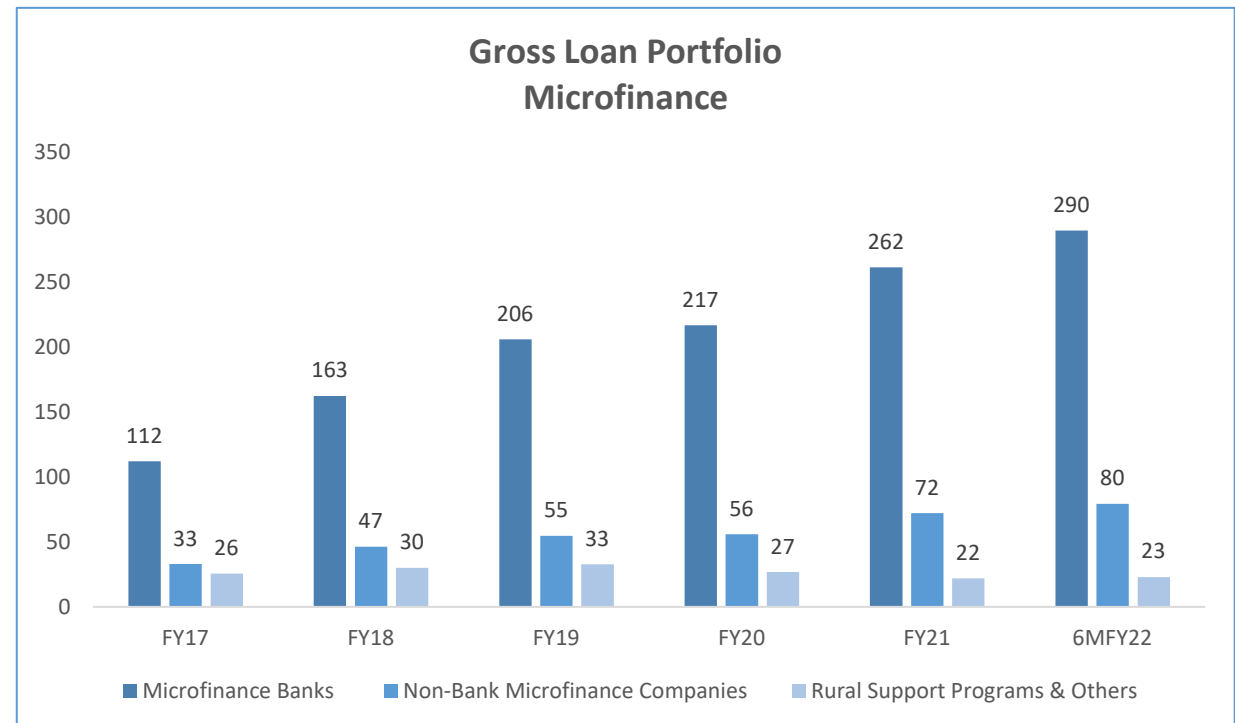


Modarabas & NBFCs

Non-Bank Microfinance Companies (NBMFCs) | An Overview

- Non-Bank Microfinance Companies (NBMFCs) hold the third highest weight by assets in the Modarabas & NBFCs sector contributing 7% to the total assets of the sector.
- There are 26 licensed NBMFCs providing services in the country having assets worth of PKR~146bn, as at end of 1HFY22.
- The Gross Loan Portfolio (GLP) of Non-Bank Microfinance Companies was recorded at PKR~80bn at end of 1HFY22 (PKR~72bn at end of FY21) as compared to lending by Microfinance Banks of PKR~290bn at end 1HFY22 (PKR~262bn at end of FY21). This increase is attributed to the increase in disbursement due to economic recovery post COVID-19 pandemic.

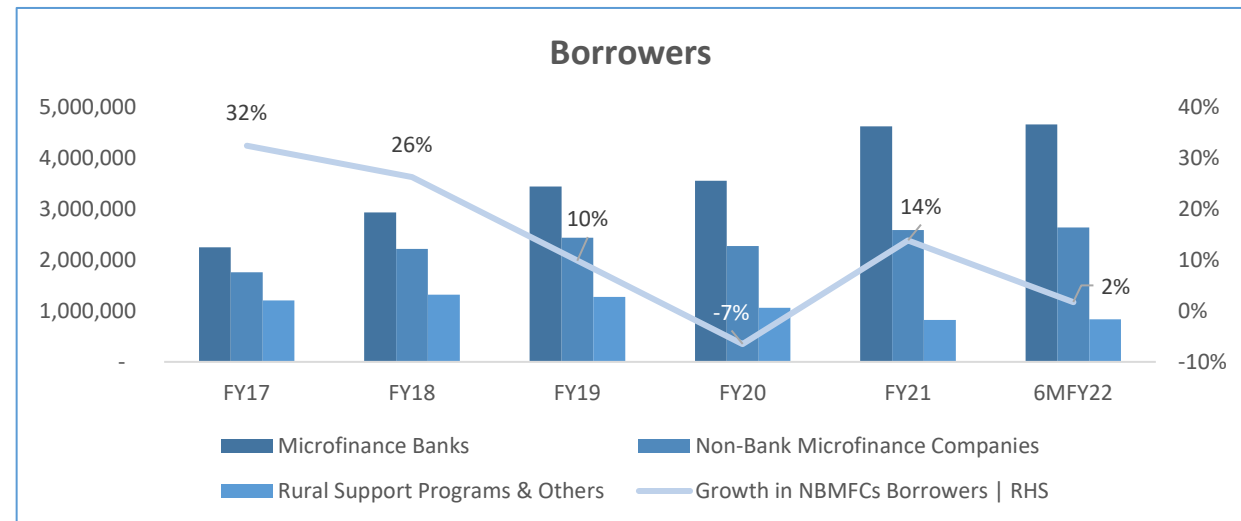
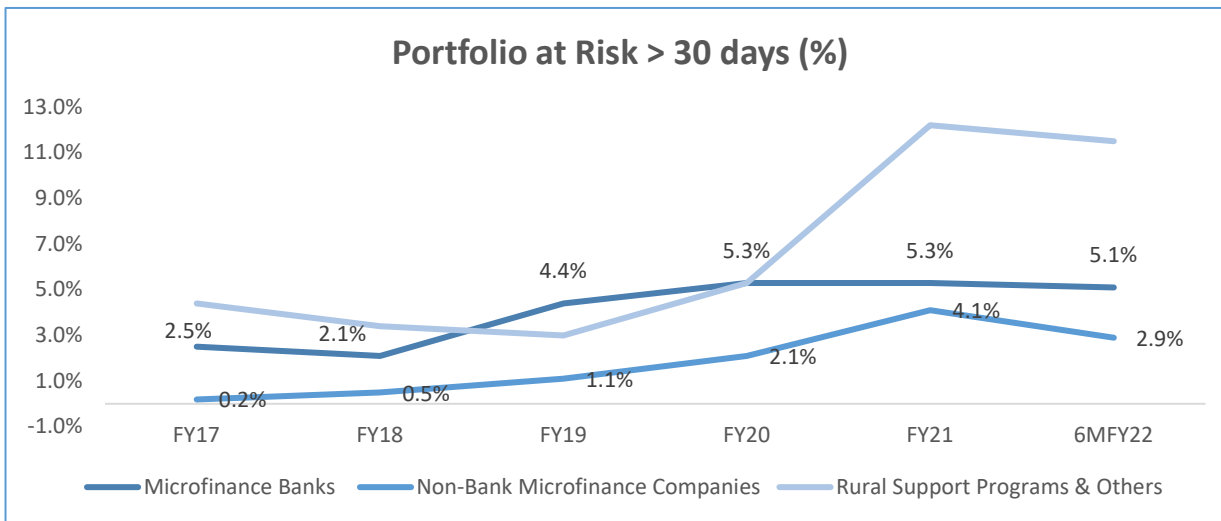
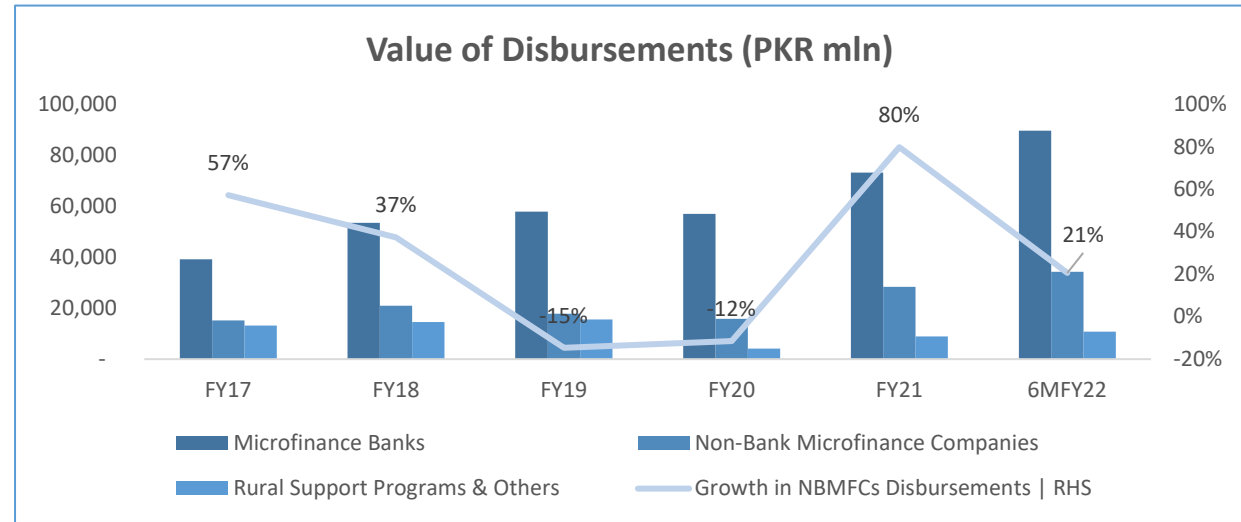
(PKR bln)	FY17	FY18	FY19	FY20	FY21	6MFY22
NBMFCs Assets	122	157	117	122	137	146



Modarabas & NBFCs

Non-Bank Microfinance Companies | Borrowers & Loan Sizes

- The number of borrowers of NBMFCs have increased from PKR~1.7mln in FY17 to PKR~2.6mln in 1HFY22 at a CAGR of ~10% while the MFBs borrowers increased from PKR~2.2mln to PKR~4.7mln at a CAGR of ~18% during the same period.
- NBMFCs total disbursements increased by ~21% from FY21 end to reach PKR~34bln at the end of 1HFY22 as compared to PKR~90bln for MFBs, an increase of ~23% over 6 months.
- The percentage of portfolio at risk of NBMFCs has declined from ~4% in FY21 to less than ~3% at the end of 1HFY22.



REITs/Trusts and Investment Banks | An Overview

- Both Real Estate Investment Companies (REITs)/Trusts and Investment Banks hold a ~8% share each in the total assets of the Modarabas & NBFCs Sector.
- There are 10 Real Estate management companies, 3 Real Estate Trust (scheme) and 16 Investment Banks.
- The assets of only one REIT (Dolmen City REIT) worth PKR~58bln (Sep'21) constitutes ~87% of total asset base of all REITs.
- The collective asset base of all Investment banks was recorded at PKR~78bln at the end of 1HFY22.

Assets (PKR bln)	FY17	FY18	FY19	FY20	FY21	6MFY22
REIT	42	42	46	49	54	67
Investment Banks*	21	58	63	65	68	78

*Includes Investment Banks which did not file online returns.

**Note. Total assets, total liabilities, equity and deposits, etc. of investment banks increased significantly in February 2018 mainly due to change of license status of one leasing company from leasing to investment finance services

Investment Banks | Asset Break-up and Financial Position

Asset Allocation of Investment Banks at end of 1HFY22:

PKR bln	Cash & Bank	Investments	Loans & Advances	Lease	Investment Property	Operating Assets	Other Assets	Total
Investment Banks	2.8	15.6	35.7	13.7	0.5	3.4	5.5	77.2

Assets and liabilities of Investment Banks at end of 1HFY22:

PKR bln	Equity	Liabilities	Total Assets	Equity as % of Total Assets	Liabilities as % of Total Assets
Investment Banks	38.1	37.7	77.2	49.3%	48.9%

Deposits at end of 1HFY22

Deposit Raising of Investment Banks	PKR bln
Individual	4.3
Corporate	0.5
Trust	0.2
Govt Entities	0.0
Financial Institutions	0.0
Total	5.0

*Note: Information pertaining to one Investment Banks is not included in above tables. Equity and liabilities do not include deficit/surplus on revaluation of fixed assets.



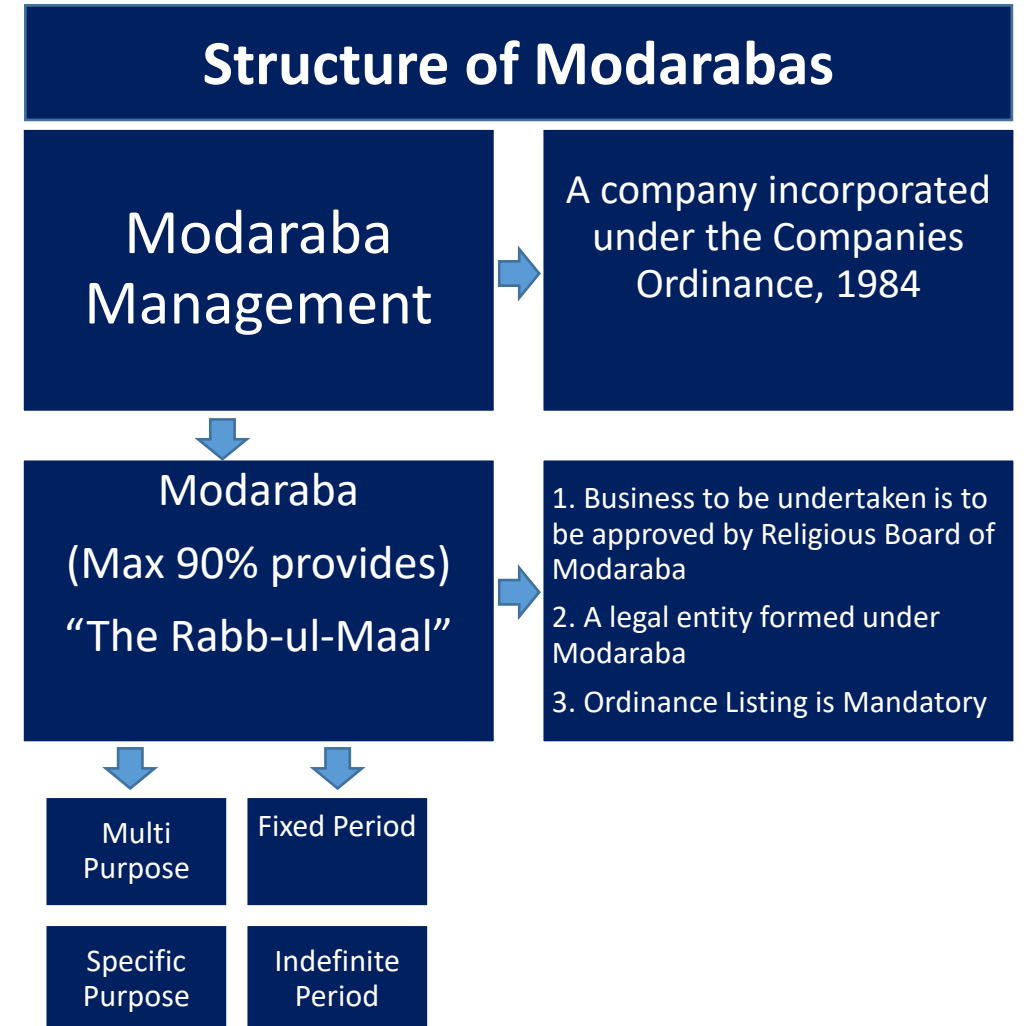
Modarabas & NBFCs

Modarabas | An Overview

A Modaraba is one of the prime modes of Islamic Financial System. In Pakistan Modarabas operate under a unique model with the following features:

- Modarabas are allowed to offer any financial product or conduct any business provided it is Shariah compliant and approved by the Religious Board. Modarabas can invest in stock markets, trading of halal commodities, project financing activities etc.
- Modarabas can raise funds in the form of Certificates of Modaraba and Certificate of Musharaka. Modarabas can also issue Sukuk and Musharaka based TFCs.
- Modaraba certificates required to be listed on the stock exchange for trading purpose.

In multipurpose Modarabas, transactions are based on Ijarah, Musharaka, Diminishing Musharaka, Murabaha, Musawama, Salam and Istisna, whereas specific purpose Modarabas are designed to handle nominated projects.





Modarabas & NBFCs

Modarabas | Assets

- There are a total 27 Modarabas operating within the country.
- The total assets of Modarabas have increased from PKR~44bln in FY17 to PKR~57bln at the end of 1HFY22.
- Almost ~34% of the total assets are tied up in loan & advances to customers.

Assets Trends of Modarabas:

PKR bln	FY17	FY18	FY19	FY20	FY21	6MFY22
Modarabas	44.1	52.9	53.4	51.4	54.4	57.3

Assets & Liabilities at end of 1HFY22

PKR bln	Equity	Liabilities	Total Assets	Equity as % of Total Assets	Liabilities as % of Total Assets
Modarabas	24.1	30.2	57.3	42.1%	52.6%

Asset Allocation at end of 1HFY22

PKR bln	Cash & Bank	Investments	Loans & Advances	Lease	Investment Property	Operating Assets	Other Assets	Total
Modarabas	2.8	4.7	19.5	3.5	1.1	16.1	9.6	57.3

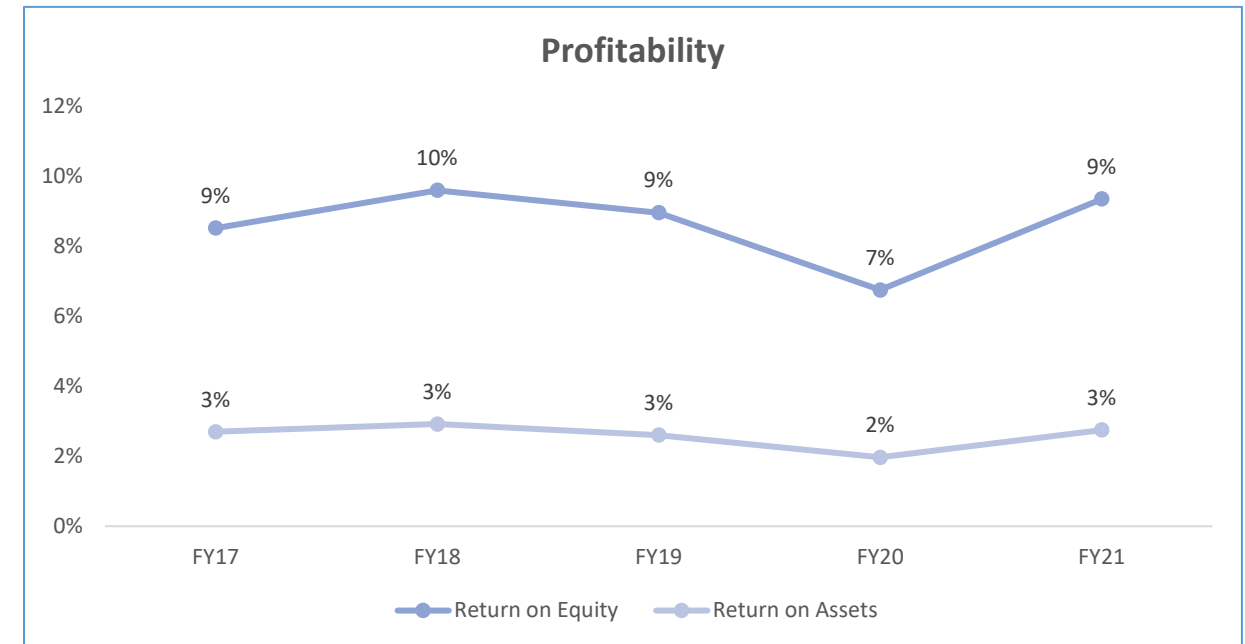
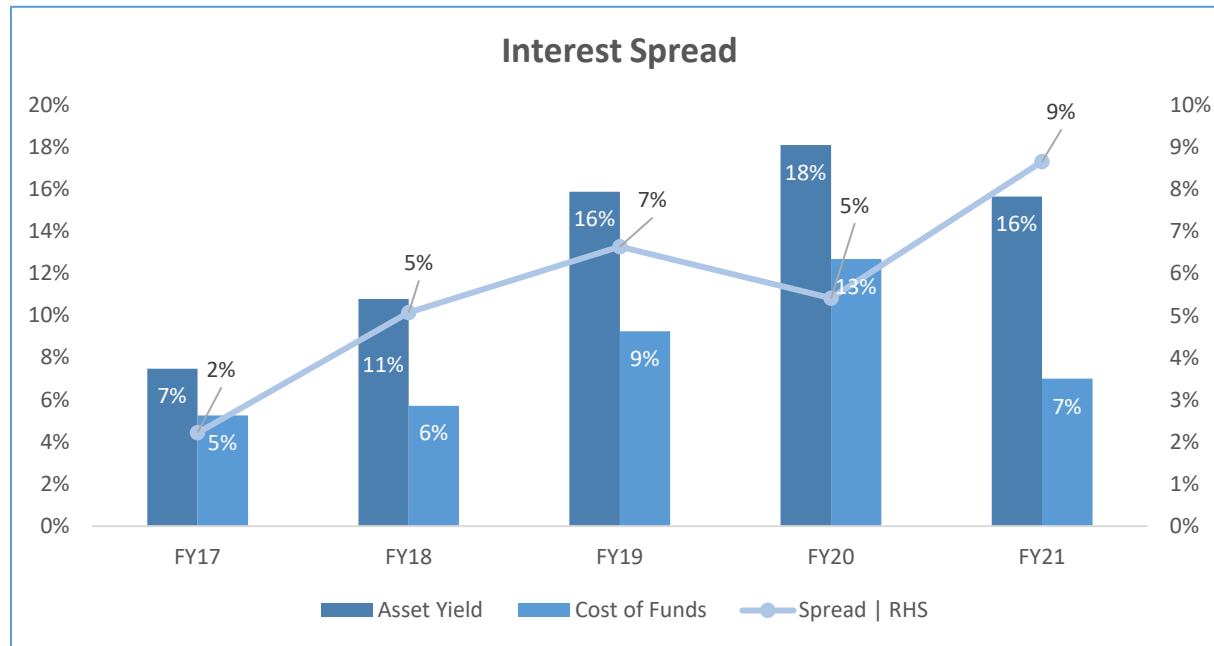
Deposits at end of 1HFY22

Deposits of Modarabas	PKR bln
Individual	2.3
Corporate	1.3
Trust	0.5
Govt Entities	0.0
Financial Institutions	9.8
Total	13.9

Modarabas & NBFCs

Modarabas | Profitability

- The interest spread has increased from ~2% in FY17 to ~9% in FY21. This increase can be attributed to higher asset yield which has more than doubled over the last five years to ~16% in FY21 from ~7% in FY17.
- Higher interest spread also translated into higher return on asset and return on equity in FY21 which were recorded at ~3% and ~9% respectively as compared to ~2% and ~7% in FY20.



*Calculations are based on ratios of PACRA Rated Modarabas

Pension Funds | An Overview

- Pension Funds are also an integral part of the NBF Industry of Pakistan and hold 2% share of total assets with an asset base of PKR~40bln (PKR~26bln FY17).
- ~65% of the total pension fund is Shariah compliant while ~35% consists of conventional funds. ~37% of the fund is invested in equity market to hedge against growing inflation while ~19% is invested in debt and other fixed income government securities to reduce portfolio downside risk.

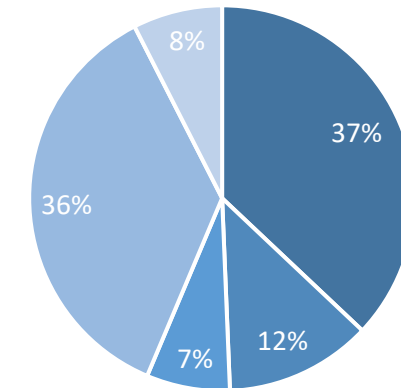
Trend of Total Assets

PKR bln	FY17	FY18	FY19	FY20	FY21	6MFY22
Pension Funds	26	27	27	31	40	40

Shariah Compliant v Conventional Pension Funds

Description (PKR bln)	FY17	FY18	FY19	FY20	FY21	6MFY22
Shariah Compliant Pension Funds	16	17	17	20	26	26
Conventional Pension Funds	9	10	10	11	14	14
Total Assets	25	27	27	31	40	40
Share of Shariah Pension Funds	64%	64%	64%	64%	65%	65%
Share of Conventional Funds	36%	36%	36%	36%	35%	35%

Breakdown of Assets at end of 1HFY22



■ Equities ■ Govt. Securities ■ Debt Securities
■ Bank Balances ■ Other Assets

Modarabas & NBFCs

Leasing Companies & Private Equity | An Overview

- Leasing Companies and Private Equity/Venture Capital Funds have ~1% of total assets share in Modarabas & NBFCs. They hold PKR~5bln and PKR~10bln worth of assets respectively.
- There are 4 leasing companies and 12 Private Equity/VC funds currently operating in the country.
- Total assets of Leasing companies have declined from PKR~43bln in FY17 to PKR~5bln in 1HFY22.

Assets (PKR bln)	FY17	FY18	FY19	FY20	FY21	6MFY22
Leasing Companies	43	10	10	11	5	5
Private Equity & VC	-	5	7	7	7	10

Assets & Liabilities as at end of 1HFY22

PKR bln	Equity	Liabilities	Total Assets	Equity as % of Total Assets	Liabilities as % of Total Assets
Leasing Companies	1.9	3.4	5.4	35.1	63.2

Modarabas & NBFCs

Regulatory Framework

The Sector Structure of Modarabas & NBFCs as per SECP is divided in two Clusters:

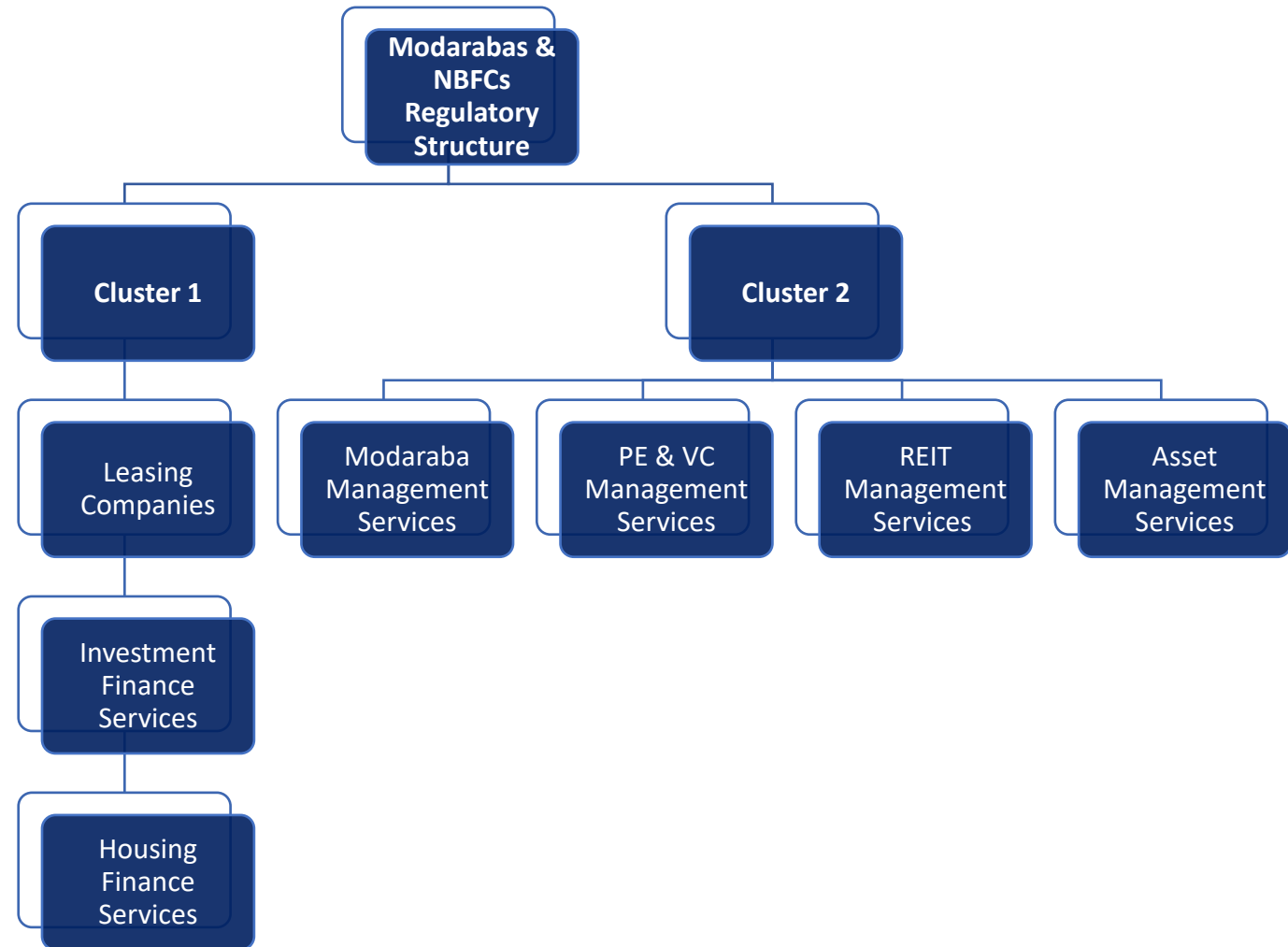
- ❑ Cluster 1 is for non-banking financial services
- ❑ Cluster 2 is for fund management services.

In Pakistan, following are the Relevant Laws with regards to **NBFCs**:

- The Companies Ordinance, 1984 (282A- 282 K)
- The Non-Banking Finance Companies and Notified Entities Regulations, 2008
- The Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003

Modarabas are observing all laws and regulations promulgated in the following:

- Modarabas Ordinance, 1980 (updated 2012)
- Prudential Regulations for Risk Management and Conducting day to day Affairs (updated 2008)
- Shariah Compliance and Shariah Audit Mechanism 2012 (SCSAM)





Modarabas & NBFCs

Taxation

Modarabas

- The income of Modarabas (other than trading Modarabas) is fully exempt from income tax, as long as they distribute 90% of their profits among the certificate holders. For trading Modarabas, the maximum tax rate is 20%

Mutual Funds

- Capital Gain Tax on mutual fund, if dividend receipts of the fund are more than capital gains is 10% (20% for non-filer) otherwise it is 12.5% (25% for non-filer). Capital gain is exempt if units are held for more than 4 years.
- Dividend Income received from a mutual fund is taxed at 15%.
- Unit holders of the mutual funds are entitled to tax credit, the amount on which is lower of (a) amount invested in purchase of new units, (b) 20% of the taxable income of the unit holder, or (c) PKR 1 million, and is calculated by applying average rate of tax of unit holder for the tax year.

REITs

- Income of REIT has been exempted from tax if 90% of the profit is distributed. The tax rate on dividend income from REIT scheme has been reduced to 15% from 25%. Gain arising on disposal of immovable property to development and residential REIT is exempt up to 2023.

Pension Fund

- The accumulated balance of up to 50% received from a pension fund at the time of an eligible person's retirement, disability or death is exempt from tax. Any profit or gain or benefit derived by a pension fund manager from a pension fund on redemption of the seed capital invested in the pension fund is also exempt from tax.

Venture Capital Fund

- Venture Capital companies/funds have Income tax holiday till June 30, 2024, under Venture Capital Companies and Funds Management Rules, 2000. Dividend income and long-term capital gains of a venture capital undertaking from investments in zone enterprises, are exempt from Income tax for 10 years commencing from issuance of license.

Latest Developments

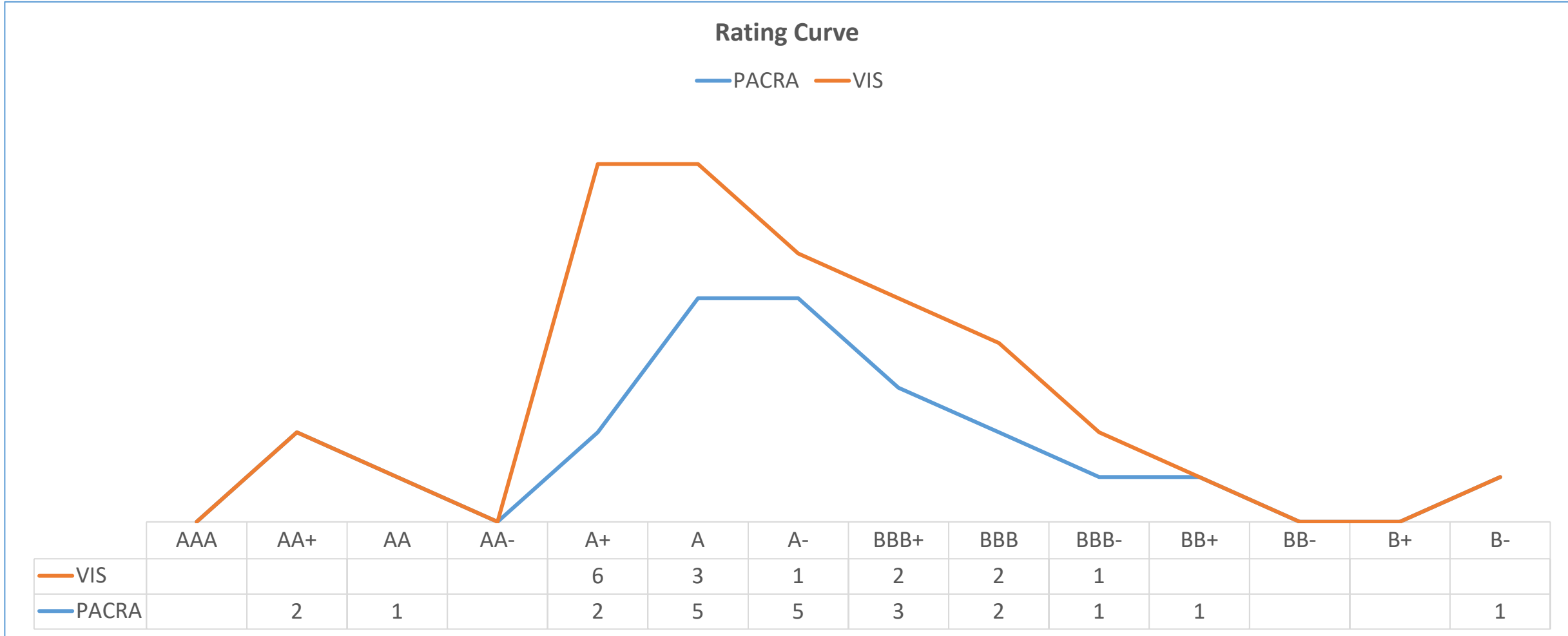
- The SECP has issued a procedural guide on the formation and licensing of non-banking finance companies (NBFCs) which provides comprehensive information on the procedure for formation, incorporation and licensing of NBFCs.
- To facilitate the growth of the mutual fund industry and to safeguard the investor's interest, the SECP has taken the following initiatives:
 - Digital platform for investment in mutual funds launched with the name "Emlaak Financials"
 - Detailed mechanism prescribed for digital account opening by Asset Management Companies (AMCs), enabling them to conduct online Customer Verification process for opening of online accounts.
 - Amendments introduced to NBFC Regulations, 2008, to provide following relief to Non-Bank Microfinance Company (NBMFCs) enabling them to have access to credit lines from their wholesale lender and strengthen their equity base.
 - Pakistan Microfinance Investment Company, the wholesale lender of NBMFCs, can now extend unsecured finance to NBMFCs up to 10% of its own equity. This will support NBMFCs, who can now avail unsecured subordinated loans.
 - Allowing wholesale lender extra 10% allowance in exposure to single NBMFC, increasing its capacity to accommodate NBMFCs.
 - Approval granted for incorporation of an NBFC that will exclusively focus on financing to SMEs.
 - Licensed an NBFC that will exclusively engage in issuance of guarantees to enhance the quality of debts instruments issued for financing of infrastructure projects in Pakistan.
- Significant amendments have been made in Voluntary Pension System (VPS) regulatory framework, to revamp regulatory structure and relaxations for 'ease of doing business' and growth of sector. These includes availability of passive investment strategy products, removal of restriction on pledging of individual pension account against loan or advance given by the employer and change in retirement age.

Latest Developments

- The SECP licensed digital NBMFC made rapid progress and started to show disruption in Pakistan's lending landscape and are proving to be significant in furthering the journey of financial inclusion.
- As reported on June, 30 2020, the NBMFCs have rescheduled loans worth PKR~36bln of total ~2.2mln individuals and micro-enterprises. The SECP has relaxed the regulatory requirements for non-bank finance sector allowing them to defer or reschedule the loan repayments of their borrowers during COVID-19 pandemic.
- SECP has prescribed regulatory framework for Fixed Rate Mutual Funds. The new category will contribute towards expanding investor base, lead to availability of a low-cost investment product with a low risk factor and facilitate growth in the mutual funds industry.
- The Finance Act 2021 brought certain amendments to the Income Tax Ordinance 2001. The rate of tax on dividend income from REIT scheme has been reduced to 15% from 25%. Gain arising on the disposal of immovable property to development and residential REIT is exempt up to 2023. Now this exemption has been extended on disposal of immovable property to all types of REITs.
- In a bid to capitalize on the government's favorable view on the real estate sector, TPL Corp is aiming to raise as much as USD~500mln (PKR~83bln) through a private Real Estate Investment Trust (REIT). TPL REIT Management Company is aiming to raise 60% of its target from foreign investors, while 30% would come from domestic investors. The company plans to list the REIT within three years in Pakistan and overseas. The funds will be used to finance three real estate projects -- a tech park, a high-end residential building and a gated seafront community in Karachi. Arif Habib Dolmen REIT Management Pvt. will issue two REITs to raise USD~51mln (PKR~8bln) via private placements. The proceeds will be used to fund a housing project in Karachi.

Modarabas & NBFCs

Rating Curve



*This Includes Modarabas & NBMFCs



Modarabas & NBFCs

SWOT Analysis

- Organized Sector with listed players.
- Major share in lending to SMEs
- Offers smaller investors access to professionally managed and diversified portfolios.
- There is large variety of fund and investor who can make choices according to their specific objectives.

- Mainstream banks have the might to take away business.
- Market Risks
- Asset Quality Deterioration for Small Lenders in times of crisis.
- Uncertainty in market and amongst investors due to inflation and rising commodity prices in International market due to Russia-Ukraine Conflict.



- Slow growth rates
 - High Management Fees
 - Lack of awareness for potential investors and borrowers
 - Low financial inclusion
- Ample room to grow.
 - Introduction of new products, such as Exchange Traded Funds.

Outlook: Stable

- NBFCs:** In the overall economy, NBFCs have emerged as an alternative to conventional banking system and are playing a crucial role by providing sources of funding to those sections that are not covered by conventional banks, i.e. Infrastructure, micro, SMEs, etc. NBFCs are therefore, now integral for the economic development and increase in financial inclusion of the country. Considering the GDP growth forecasts for the upcoming years, the need for credit will increase more than proportionate. In recent past also, NBFCs have witnessed a good growth in total assets from in PKR~1,196bln FY17 to PKR~2,023bln in 1HFY22.
- NBFCs raise funds mostly from mobilizing deposits. Given the rate sensitivity of NBFCs liabilities and asset liability mismanagement, it becomes difficult to price and tenor term loans. Besides financing issues, operational problems for NBFCs emanate from limited outreach and inability to tap a niche market when the high-end of the market is largely served by commercial banks. As interest rates have climbed up from 7.25% in Sep'21 to 12.25% as of now (Apr'22), NBFCs can witness narrowing of spread and net interest margin.
- Mutual Funds:** The mutual funds sector is rapidly growing in Pakistan and accounted for the largest chunk of total assets of the Modarabas & NBFCs sector. The growth in mutual funds in Pakistan can be attributable to economic growth and macroeconomic stability that attracted investors to the stock market; increased liquidity with institutional investors, which was channelized into the stock market and mutual funds; high corporate earnings that increased the earnings potential for mutual funds; and a buoyant stock market that provided mutual funds with good returns in the form of capital gains.
- An encouraging development in the mutual funds sector is the increasing diversity of categories of funds offered for public subscription. During FY21, the stock market also moved in a positive direction and KSE-100 Index returns stood at ~38%, significantly higher than previous year's return of ~2%. However, taking a reverse, during 8MFY22 various economic indicators exhibited a negative trend including trade deficit, rising inflation and currency depreciation due to which KSE-100 returns for the 8MFY22 period stood at -6.1%

Modarabas & NBFCs

Outlook: Stable

- Venture Capital/Private Equity Firms:** The venture capital or private equity sector is at a nascent stage in Pakistan. As at the end of 1HFY22, the sector accounted for ~1% of aggregate assets of the Modarabas & NBFCs sector. Inadequate institutional support, lack of appropriate tax incentives and limited exit options is the reason for sluggish growth of venture capital market in Pakistan.
- Leasing Companies:** There are a number of players actively engaged in providing lease financing in Pakistan. Competition has intensified as the demand for lease finance has increased on account of high economic growth that raised the demand for credit, low interest rates that enhanced the affordability of leasing as a mode of financing for small enterprises as well as individuals; and introduction of shariah compliant leasing. The assets of the leasing sector have declined to PKR~5bln by the end of 1HFY22. As high interest rate regime gradually set in, there has been a consequent squeeze on the spread and interest margin of leasing companies. The leasing companies face stiff competition from commercial banks due to which leasing companies have sought to diversify their businesses.
- Modarabas:** An issue for modarabas on the financing side is the requirement to distribute 90% of their annual net profits in order to claim tax exemption. This restricts building up of equity by modarabas since most modarabas prefer to distribute profits among certificate holders to avail the exemption. As a result of tax exemption for modarabas paying 90% of profits among certificate holders, the payout ratio of the modaraba sector is comparatively higher than many other sectors listed on the Stock Exchange.
- The policy rate has also been revised upwards in successive reviews and now stands at 12.25%, and while the Monetary Policy Committee (MPC) has indicated no further change in short term, the rate may still increase further in the medium to long term due to rising inflationary pressure as a result of increase in commodity prices in both local and international market.
- Concurrently, the yields on T-Bills and PIBs have also witnessed significant increases following revision in the policy rate. As interest rates are climbing upwards, Modarabas & NBFCs can witness narrowing of spreads and net interest margins in the near future.

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