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Quarterly Performance Review of the Banking Sector- March 2016

The Quarterly Performance Review (QPR) of the Banking Sector for the quarter ended 31st March, 2016, released by SBP today, highlighted that the asset base of the banking sector has registered an increase of 1.0 percent.

This growth was mainly contributed by banks' investment in government securities (mostly Pakistan Investment Bonds) as overall advances observed seasonal decline owing to net retirements against commodity financing and Small & Medium Enterprises (SMEs) financing. However, the seasonal contraction in gross advances (0.6 percent) was lesser than the average decline of 1.2 percent during the same quarter of last two years due to positive growth in advances to private sector (1.0 percent) – mainly fixed investment advances.

The deposits – sensitive to seasonal fall in overall advances – slightly declined by 0.6 percent during Mar-16 with dip in current deposits and fixed deposits; however, saving deposits increased by 3.6 percent. Consequently, the borrowings from financial institutions (mostly SBP) provided the funding necessary for asset expansion.

Asset quality slightly declined during Mar-16; NPLs to Loan ratio (infection ratio) increased by 32 bps to reach 11.7 percent and Net NPLs to Net Loan ratio inched up by 23 bps to 2.1 percent. Banks' growing share in government securities further improved the fund based liquidity; though, some volatility was seen in market liquidity.

With Year on Year (YoY) growth of 2.1 percent, Mar-16 quarter observed profit after tax of PKR 52.9 billion (profit before tax: PKR 81.6 billion). However, due to slowdown in pace of profits, Net Interest Margin (NIM) narrowed down to 3.9 percent in Mar-16 (4.4 percent in Mar-15) and ROA to 2.3 percent (2.6 percent in Mar-15). Solvency observed downward adjustment to 16.3 percent in Mar-16 (17.4 percent in Mar-15), still well above the minimum local required threshold of 10.25 percent and international benchmark of 8.625 percent, primarily due to one-off accounting adjustment by a public sector bank, continued growth in private sector advances and dividend payments by profitable banks.

The banking sector growth was reflected through absorption of new human resources and expansion in banking infrastructure including ATMs and branches.

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