

Quarterly Performance Review of the Banking Sector

(July-September, 2016)



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Summary¹

During the third quarter of the year 2016, the performance of the banking sector remains steady despite seasonal effects and shift in the government's borrowing pattern.

The seasonal net-retirement in major sectors has resulted in 2.3 percent decline in gross advances in Q3CY16 as compared to 0.2 percent fall in the corresponding quarter of last year. Investments have fallen by 2.5 percent due to shifting of government's borrowing from commercial banks to central bank. This has resulted in shrinking the asset base of the banking sector by 1.6 percent during current quarter as compared to 2.1 percent growth in the corresponding quarter of last year.

On the funding side, deposits have inched up by 0.6 percent during Q3CY16 due to lower decline in current deposits and higher growth in saving and fixed deposits, which is in contrast to seasonal fall of deposits usually seen in the third quarter. Post Eid-ul-Azha reversals, government borrowing from central bank, which, may partially remained parked at banks, and reported slow down in real estate activity might have resisted deposit withdrawals.

The Year-to-Date (YTD) profitability (before tax) of the banking sector has narrowed by 7.3 percent due to lower interest margins and lower non-markup income. Asset quality – gauged by non-performing loans to advances ratio -has slightly deteriorated but, mainly, on account of seasonal decline in advances. Capital Adequacy Ratio (CAR) has strengthened further to reach 16.8 percent, well above the local minimum requirement of 10.25 percent and international benchmark of 8.625 percent.

¹ Analysis in this document is largely based on the unaudited numbers submitted by banks to SBP on quarterly basis. From the data convention perspective, Q3CY stands for third quarter of a particular calendar year and represents unaudited numbers; 9MCY denotes unaudited numbers of the nine months from January to September of a calendar year; while CY symbolizes the calendar year and represents audited numbers.

A. Performance of the Banking Sector

Assets of the banking sector have declined by 1.6 percent (YoY increase 12.0 percent) during Q3CY16 compared to 2.1 percent rise during Q3CY15 (**Table 1 and Annexure A**). The dip in assets has been driven by seasonal decline in advances by private sector and commodity operation financing along with reduction in banks' investments in government securities. On the funding side, borrowings from financial institutions—mostly from SBP—has seen 12.7 percent decline while deposits have observed a nominal growth of 0.6 percent.²

Table 1: Highlights of the Banking Industry

	CY14	Q3CY15	CY15	Q2CY16	Q3CY16
Key Variables (PKR billion)					
Total Assets	12,106	13,518	14,143	15,374	15,134
Investments (net)	5,310	6,714	6,881	7,821	7,625
Advances (net)	4,447	4,536	4,816	5,180	5,052
Deposits	9,230	9,715	10,389	11,024	11,092
Borrowings	1,001	1,825	1,766	2,305	2,012
Equity	1,207	1,322	1,323	1,307	1,324
Profit Before Tax (ytd)	247	252	329	162	233
Profit After Tax (ytd)	163	148	199	94	139
Non-Performing Loans	605	630	605	635	631
Provisioning Charges (ytd)	25	30	39	10	10
Non-Performing Loans (net)	122	115	91	112	109
Key FSIs (percent)					
NPLs to Loans (Gross)	12.3	12.5	11.4	11.1	11.3
Net NPLs to Net Loans	2.7	2.5	1.9	2.2	2.2
Net NPLs to Capital	10.1	10.0	7.7	9.7	9.1
Provision to NPL	79.8	81.8	84.9	82.4	82.7
ROA (Before Tax)	2.2	2.6	2.5	2.2	2.1
CAR	17.1	18.2	17.3	16.1	16.8
Advances to Deposit Ratio	48.2	46.7	46.4	47.0	45.5

Note: Statistics of profits are on year-to-date (ytd) basis.

The **gross advances** have reduced by 2.3 percent (YoY increase 10.4 percent) during Q3CY16 both due to decline in private and public sector advances. The third quarter of calendar year is generally marked with seasonal decline in advances owing to net retirements

in textile and sugar sectors and commodity operation financing (**See Box A**).

Following the historic trend, private sector advances (domestic) have declined by 2.8 percent (YoY +9.6 percent) during Q3CY16 compared to 1.0 percent reduction in the corresponding quarter of last year. Higher decline in this year has been observed despite lower net retirements in textile sector, almost similar fall in sugar sector, and positive financing flows in Production and Transmission of Energy (**Table 2 and Annexure C**).

At the same time, some of the remaining prominent sectors (e.g. Chemical and Pharmaceuticals, Agribusiness, Cement etc.) have made net-retirements while some others (auto/transportation, financial sector etc.) have availed lower financing in Q3CY16. Moreover, the smaller sectors clubbed together in “others” category have also witnessed net retirements. Consequently, gross advances have witnessed higher decline during Q3CY16.

Table 2: Advances Flows to Private Sector (Domestic)

	Q3CY15		Q3CY16	
	Flows	Growth	Flows	Growth
Chemical and Pharmaceuticals	19.2	10.3%	(3.2)	-1.3%
Agribusiness	16.7	6.0%	(5.5)	-1.8%
Textile	(32.0)	-4.6%	(17.9)	-2.4%
Cement	4.6	8.0%	(4.6)	-8.0%
Sugar	(38.8)	-22.4%	(40.2)	-22.8%
Automobile/transportation	3.5	10.4%	0.9	2.1%
Financial	2.4	4.2%	0.4	0.5%
Energy	(10.8)	-2.7%	21.4	4.8%
Others	0.5	0.0%	(63.5)	-3.4%
Total (Domestic Sector)	(34.8)	-1.0%	(112.2)	-2.8%

The segment-wise data shows overall decline in working capital advances (**Table 3**), which is quite commensurate with the seasonal fall in financing. However, net retirements in Trade Finance (TF) segment (6.9 percent) during the quarter is quite in

² The increase in deposit is against the seasonal trend of 3rd quarter which is generally marked with decline in overall deposits.

contrast to positive flows during third quarter of preceding three years. Declining exports³ (predominantly of textile sector – the major user of TF) appears to have taken its toll on TF demand, which is, also quite reflective in reduced banks' borrowing from SBP for export refinance⁴.

Table 3: Segment-wise Domestic Advances Flows in Q3CY16
(PKR billion)

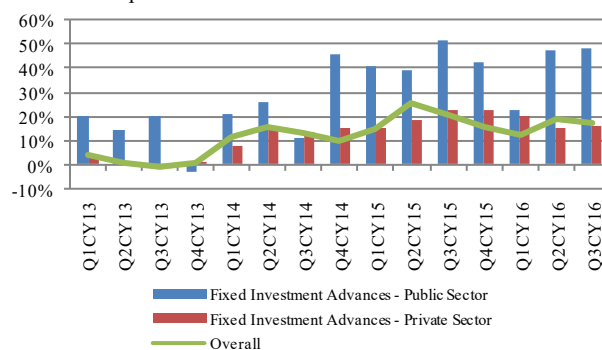
	Public Sector	Private Sector	Total
Corporate Sector	9.1	(119.6)	(110.5)
Fixed Investment	26.8	32.1	58.9
Working Capital	(8.8)	(109.5)	(118.3)
Trade Finance	(8.8)	(42.2)	(51.1)
SMEs		27.4	27.4
Fixed Investment		5.6	5.6
Working Capital		14.4	14.4
Trade Finance		7.4	7.4
Agriculture		(3.7)	(3.7)
Consumer Finance		9.7	9.7
<i>of which</i>			
Auto Loans		7.1	7.1
Commodity Financing	(35.5)	(26.5)	(62.0)
Total	(26.4)	(112.2)	(138.6)

Fixed Investment Advances (FIA) which are more aligned with long-term growth strategy of firms have remained on the rise during this quarter although at a slower pace on YoY basis (**Figure 1**). FIA has grown by 3.7 percent (PKR 64.5 billion) compared to 2.7 percent (PKR 37.5 billion) during the corresponding period of last year. The increase in FIA is observed, both, in corporate sector (PKR 59 billion, 3.6 percent) and SMEs (PKR 5.6 billion, 8.1 percent). Of overall FIA, 71 percent of financing is availed by private sector⁵ while the rest 29 percent has been disbursed to

Public Sector Entities (PSEs). The ongoing monetary easing and improving macroeconomic conditions, particularly the energy supplies, seems to have encouraged corporate and small businesses to build capacity. With continuing growth in FIA, its' share in total domestic advances has increased to 34.9 percent from 32.8 percent in Q2CY16 (24.1 percent in Q4CY13).

Figure 1

Year-on-Year (YoY) growth in Fixed Investment Advances - Domestic Operations



The SMEs finance has picked up by 9.2 percent (PKR 27.4 billion) during the reviewed quarter which is in sharp contrast to seasonal decline in third quarter (**Figure 2**).⁶ The rise has been broad based (working capital, fixed investment and trade finance). There may be two major reasons behind this break from the past:

- First, with a view to broaden the coverage of SMEs, the relevant PRs were revised to enhance the parameters for identification of SMEs.⁷ Banks have been allowed to segregate/re-balance their advances portfolio by end September 2016.
- In January 2016, SBP has set SME financing targets for banks where the assigned target relates to size,

³ Export receipts have shown a decline of 3.2 percent during July-October, 2016 to USD 6.86 billion from USD 7.1 billion during corresponding period in CY15. Importantly, Textile exports have declined by 7.5 percent during this period (http://www.sbp.org.pk/ecodata/Export_Receipts_by_Commodity_Arch.xls).

⁴ Banks' borrowing from SBP for export refinance has declined by 10.3 percent during Q3CY16 compared to a fall of 3.2 percent and 1.0 percent in Q3CY15 and Q3CY14, respectively.

⁵ During Q3CY16, most of the private sector FIA has been availed by chemical and chemical products (PKR 17.7 billion), food products and beverages (4.3 billion) and Textile – weaving (PKR 3.6 billion) etc. (<http://www.sbp.org.pk/ecodata/By-type-of-finance.pdf>).

Further, FIA increased in the Fertilizer sector as well. Moreover, some reclassification of financing from working capital has also been made.

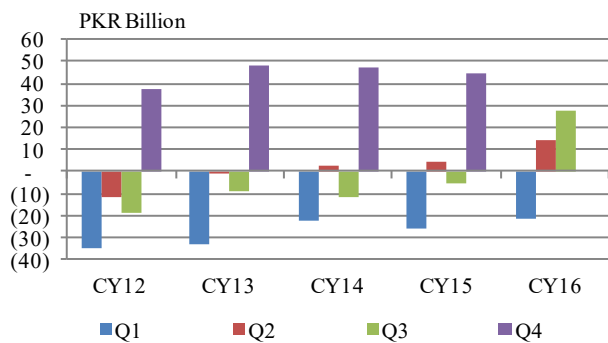
⁶ The average SME financing growth in the third quarter has contracted by 5.4 percent during CY11-15.

⁷ The parameters included, inter alia, sales turn over, number of employees, per party limits etc. See <http://www.sbp.org.pk/sme/circulars/2016/C2.htm>

branch network, existing SME portfolio etc. of the bank.⁸

Figure 2

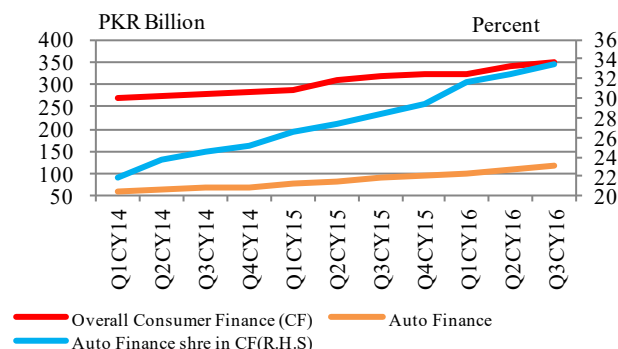
SMEs Advances-Quarterly Flows



Consumer financing⁹ has continued on the steady growth path with 2.9 percent rise in Q3CY16 (YoY 9.7 percent) on account of auto financing (6.4 percent), mortgage loans (5.0 percent) and credit cards (5.7 percent). Auto financing has been on the rise since last few years and its share in consumer financing has been increasing as well (**Figure 3**). This higher growth is backed by consistently higher auto production¹⁰ which has inched up by 12.7 percent (YoY) during September 2015-16 and could rise further if the planned investment takes place¹¹.

Figure 3

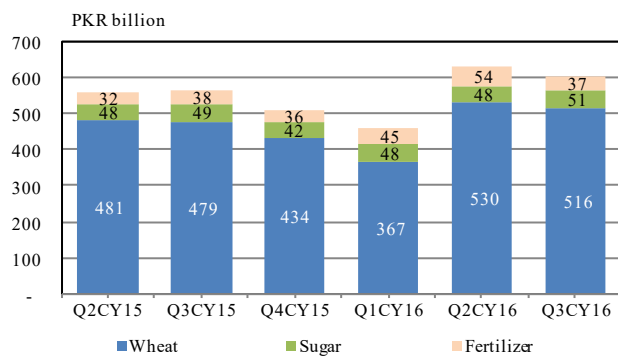
Recent trend in Auto Financing (Outstanding)



The stock of public sector Commodity Financing¹² has declined by 5.6 percent during Q3CY16 due to seasonal net retirements – mostly in wheat financing (**Figure 4**).¹³

Figure 4

Public Sector Commodity Finance Break-up - Domestic Operations



Positively, YoY growth trend reveals a declining trend in overall commodity financing, primarily, driven by public sector, which contains 94 percent share in overall commodity financing (**Figure 5**). As highlighted in earlier QPRs, public sector commodity procurement operations, though imperative, are self liquidating in nature and need to have self-liquidating mechanism.

⁸ <http://sbpweb/sme/pdf/Q-Review/2016/QSMEF-June-2016.pdf>

⁹ In order to align with changing business environment and international best practices, SBP has revised the Prudential Regulations for Consumer Finance in August 2016. (<http://www.sbp.org.pk/bprd/2016/C10.htm>)

¹⁰ <http://www.pama.org.pk/images/stories/pdf/production-sales.pdf>

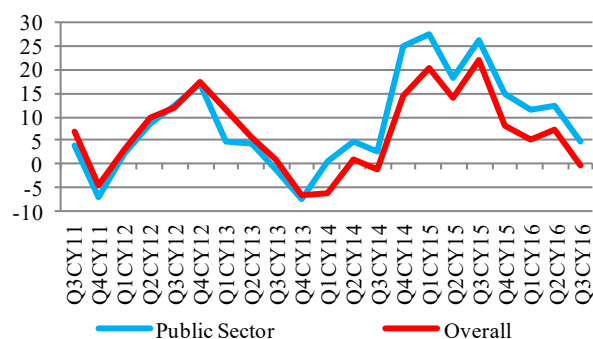
¹¹ A French automaker Renault SA has decided to investment in Pakistan and expected to start assembling cars by 2018 (<http://boi.gov.pk/ViewNews.aspx?NID=%201104>). Further, German carmaker Audi AG has also expressed its interest in setting up an assembly plant in Pakistan and has submitted a letter of intent to the Board of Investment (BoI) for consideration (<http://boi.gov.pk/ViewNews.aspx?NID=%201109>)

¹² The major PSEs borrowing for commodity operations are Punjab Food Department, Sind Food and Cooperation Department, PASCO and TCP.

¹³ Noticeably, the decline in 3rd quarter (5.6 percent) is higher than the average 3rd quarter decline of 1.5 percent in preceding 5 years (CY11-15).

Figure 5

YoY Growth (percent) in Commodity Financing



The reviewed quarter has seen a dip in overall net **investment** by 2.5 percent or PKR 196.8 billion (YoY growth 13.6 percent) to reach PKR 7.6 trillion in sharp contrast to consistent rise during last few years (8.1 percent and 4.5 percent growth during Q3CY15 and Q3CY14, respectively). Banks' holding of government securities has decreased by 3.2 percent (PKR 227 billion) during Q3CY16 to reach PKR 7.0 trillion (Table 4).

Table 4: Composition of Bank's Investment in Govt. Securities

	PKR billion		
Flows during:	Q3CY14	Q3CY15	Q3CY16
MTBs	96	431	429
PIBs	110	38	(651)
Other Govt Securities	8	12	(5)
Total Govt. Securities	214	481	(227)
Total Investments	205	504	(202)
Outstanding Stocks as of:	30-09-2014	30-09-2015	30-09-2016
MTBs	1,648	2,605	3,099
PIBs	2,227	3,145	3,244
Others	344	388	638
Total Govt. Securities	4,220	6,139	6,981
Total Gross Investments	4,762	6,760	7,673
Less: Provision & Deficit	45	46	48
Total Net Investments	4,717	6,714	7,625

This drop is well aligned with shift in government's borrowing from commercial banks to central banks post June, 2016¹⁴. This entire decline is due to reduction in outstanding stock of PIBs (PKR 651

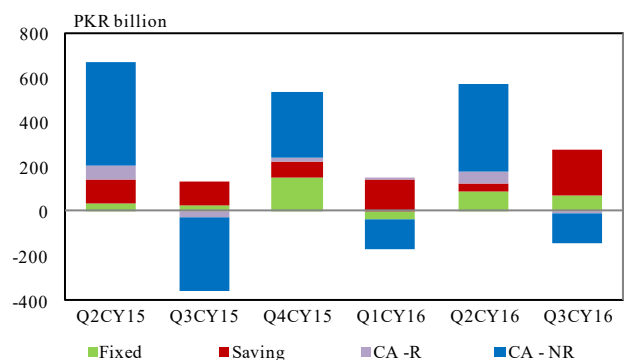
billion or 16.7 percent). On the other hand, short term MTBs (mostly 6-months) have added another PKR 429 billion (16.1 percent) in the investment portfolio of banking sector¹⁵. In fact, the government has not fully rolled over the maturing PIBs¹⁶ during Q3CY16. All these facts points towards government's move to reduce its borrowing burden from commercial banks and rebalance its debt profile towards the short-term instruments.

Other investment avenues (equity share, TFCs, debentures etc.) have shown increase of 3.8 percent (PKR 25 billion), primarily, due to bullish trend in capital market¹⁷. However, these investments have remained within the exposure limits prescribed by SBP¹⁸.

On the funding side, **deposit** base has grown by 0.6 percent (YoY 14.2 percent) to reach PKR 11.1 trillion during Q3CY16, as compared to a decline of 2.6 percent (YoY 11.2 percent) during Q3CY15 (**Figure 6 and Annexure B**).

Figure 6

Deposits- Quarterly Flows



¹⁵ Around 26 percent of the new addition of MTBs has been placed in Held for Trading (HFT) categories. As per the accounting standards (IAS 39), any gain/loss on HFT due to interest rate movement is realized in P&L statement.

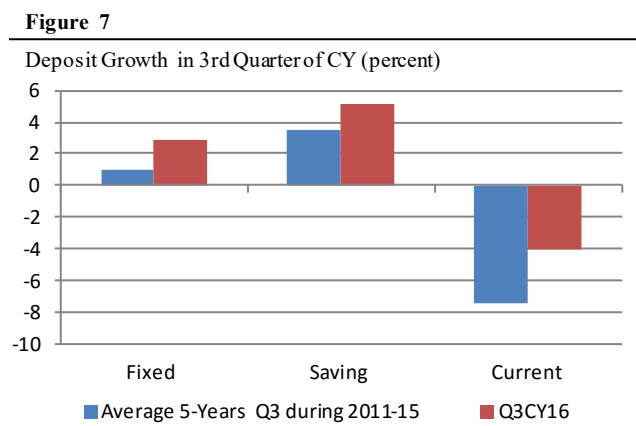
¹⁶ The overall accepted amount of auctioned PIBs is PKR 678 billion in Q3CY16 compared to maturing amount of PKR 1,427 billion and offered amount of PKR 1,049 billion.

¹⁷ KSE-100 index has increased by another 7.3 percent during Q3CY16 (YoY growth 25.6 percent).

¹⁸ As per R-6 (B.i) of SBP prescribed Prudential Regulations (PRs), aggregate equity investment limit for banks is 30 percent of their equity. <http://www.sbp.org.pk/publications/prudential/PRs-Jan-2015.pdf>

¹⁴ http://www.sbp.org.pk/ecodata/BroadMoney_M2.pdf

The positive growth in Q3CY16 is in contrast to the historical decline in deposit base in the third quarter. As compared to the average performance during the preceding five years i.e. 2011-15, the growth during Q3CY16 is supported by all segments of deposits (fixed, saving, and current (less decline)) (**Figure 7**).

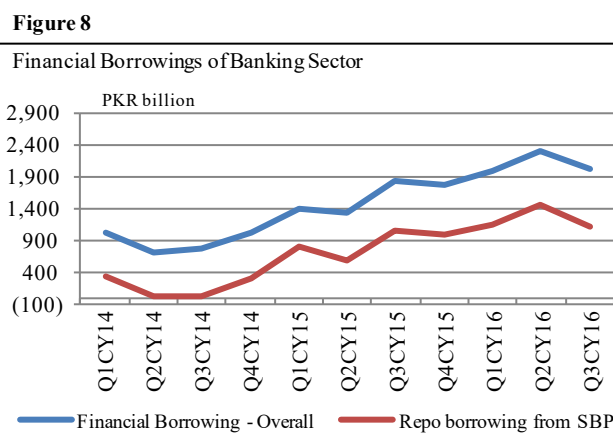


Larger flows in deposits during Q3CY16 (compared to Q3CY15) are due to lower decline in private sector business (PSBs) deposits and higher inflow of public sector (government and PSEs) deposits.¹⁹ The other possible reasons for higher deposit growth in Q3CY16 could be post Eid reversal of withdrawals and reported slow down in real estate activity.²⁰ The higher deposit growth is an encouraging sign considering a deceleration in deposit growth in last couple of years due to multiple factors (monetary easing and, consequent, fall in minimum saving rate, imposition of withholding tax on banking transactions²¹, preference of depositor towards alternative modes etc.²²).

The decomposed data of customer deposits – representing 95 percent of overall deposits – shows that saving and fixed deposits have surged by 5.1 percent (PKR 206 billion) and 2.9 percent (PKR 72

billion), respectively, compared to 2.8 percent and 1.1 percent, respectively, in Q3CY15. The decline of 3.8 percent (PKR 152 billion) in the outstanding stock of current deposit²³ in Q3CY16 is lesser than 10.2 percent (PKR 366 billion) downfall in Q3CY15.

Financial borrowings, after rising consistently, have declined by 12.7 percent in Q3CY16. The weekly data reveals that financial borrowings of banking sector are primarily driven by banks' repo borrowing from SBP (**Figure 8**).



As the government shifted its borrowing from commercial banks to SBP, the need for liquidity injections declined - hence the fall in repo borrowings from SBP.

Despite the seasonal slowdown, the banking sector has continued to invest in infrastructure which is reflected in expansion of branch network, absorption of fresh employees, and rise in ATMs, credit cards etc. (**Table 5**).

Table 5: Banking Sector Infrastructure

	As of 30-06-2016	As of 30-09-2016	Growth in Q3CY16
Total Bank Branches	13,033	13,119	0.7%
Online Branch Network	12,442	12,527	0.7%
ATMs	10,736	11,100	3.4%
Point of Sale (POS) Machines	50,072	52,501	4.9%
ATM Cards	4,760,495	4,794,134	0.7%
Credit Cards	1,394,223	1,433,267	2.8%
Debit Card	26,489,225	27,425,478	3.5%
Full Time Employees	184,022	186,406	1.3%

Source: Payment System Department, SBP

¹⁹ Latest data reveals 5.8 percent growth in government sector (including PSEs) deposits during Q3CY16 compared to 1.6 percent in corresponding period last year.

<http://www.sbp.org.pk/ecodata/DDholders.pdf>

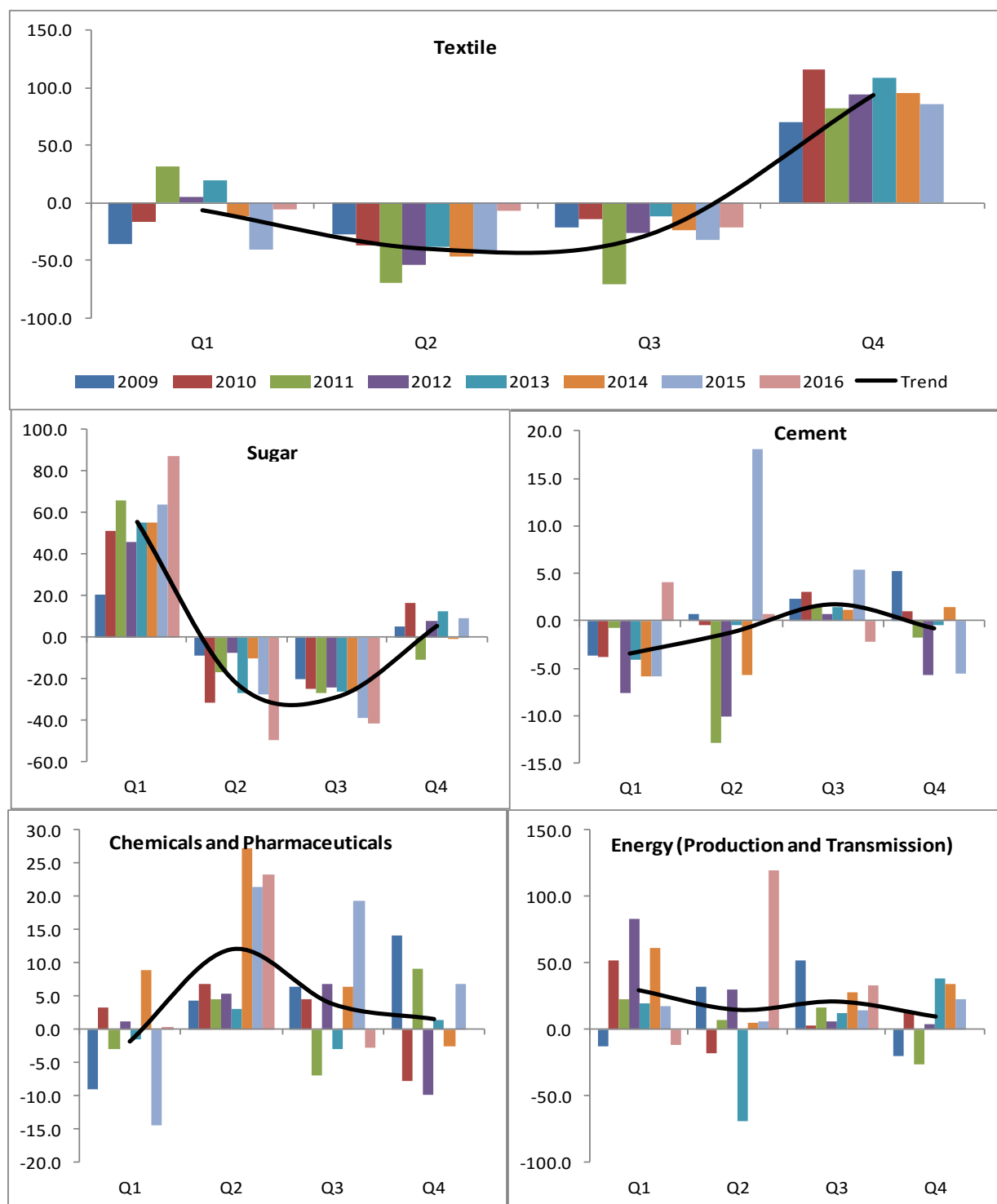
²⁰ The anecdotal evidences suggest slowdown in real estate business after levy of real estate taxes.

²¹ And higher rate of tax on non-filers of tax returns.

²² See Quarterly Performance Review of Banking (April – June, 2016), State Bank of Pakistan

²³ Decline in current deposits is generally aligned with the cyclical fall of advances in the third quarter of a CY.

Box A – Seasonality in Advances (Sector-wise)

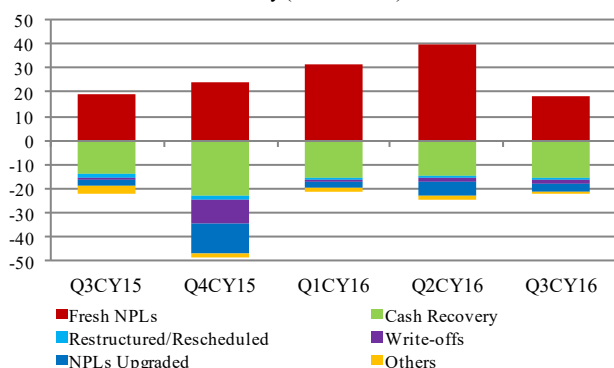


B. Soundness of the Banking Sector

The stability and resilience of the banking system remains at a comfortable level, on aggregate basis, during Q3CY16. The **asset quality** of the sector has slightly deteriorated compared with the previous quarter. Infection ratio, measured by NPLs as a proportion of loans, increased slightly to 11.3 percent during Q3CY16 compared to 11.1 percent in Q2CY16 (see Annexure C). The volume of fresh NPLs, on the other hand, has decreased substantially by 54.0 percent in Q3CY16, as compared to the last quarter²⁴ (Figure 9). Despite lower addition of new NPLs, the uptick of 20 bps in infection ratio has been brought about by the seasonal decline of 2.3 percent in loans. The capital impairment ratio (Net NPLs to Capital) ebbed down by 52 bps to reach at 9.14 percent, mainly driven by a slight improvement in coverage ratio (Provisions to NPLs) from 82.4 percent in Q2CY16 to 82.7 percent in Q3CY16.

Figure 9

Fresh NPLs & Total Recovery (PKR billion)



²⁴ This is reversal of the agriculture loans classified as OAEM during the quarter ending June 2016. To recap, the overdue agriculture loans are classified as OAEM (past due by 90 days), Substandard (overdue by one year), Doubtful (overdue by one and a half year) and Loss (Over two years past due). The categorization reflects the fact that agricultural loans are characterized by longer recovery periods based on harvesting cycles of different Rabi & Kharif crops. Therefore, due to cropping cycle, every year in June and December quarters, a certain amount of agricultural loans fall into OAEM category, which are subsequently recovered in the following quarters of September and March, respectively.

During Q3CY16, banks recovered PKR 22.5 billion, which includes cash recoveries of PKR 15.3 billion. However, the recoveries during current quarter remained 7.9 percent lower than the previous quarter. Most of the cash recoveries came from top five banks (38.5 percent).

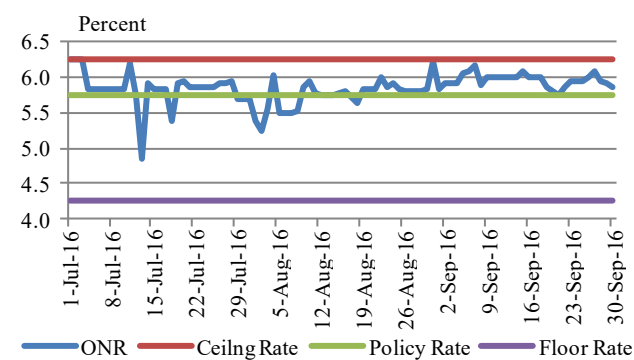
The fund based **liquidity** has remained comfortable as asset mix on the banks' balance sheet remains tilted towards treasury investments. The investments to deposits ratio (IDR) stands at 69.2 percent as of end September, 2016 compared with the end June 2016 level of 71.4 percent. The decline in IDR reflects a QoQ drop of 3.2 percent in investments in government securities and a slight uptick in deposits. At the same time, the seasonal decline in advances also brought the already low Advances to Deposit Ratio (ADR) down to 46 percent in Q3CY16 from 47 percent in Q2CY16.

By the same token, Liquid Assets to Deposits ratio has also declined from 77.0 percent in Q2CY16 to 75.9 percent in Q3CY16. The Liquid Assets to Total Assets ratio has, however, slightly increased to 55.6 percent during the quarter under review from 55.2 percent in the previous quarter, driven, inter alia, by a seasonal decline in advances.

The liquidity in the interbank market has remained a bit tighter as the overnight rates on average hovered above the SBP target rates (Figure 10). During Q3CY16, average outstanding SBP OMO injections (net) have stood at PKR 1,094.0 billion against PKR 1,383.3 billion in Q2CY16 and PKR 1,082.9 billion in Q3CY15. However, the money market remained less volatile, as measured by the standard deviation in daily ONR, during the current quarter as compared to the same quarter of the previous year.

Figure 10

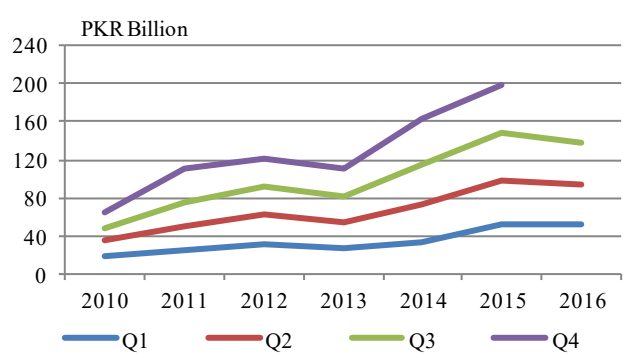
Movement of Interest Rates during Q3CY16



For the last couple of quarters, **earning** of the banking system has narrowed due to declining interest rates and lower non-mark-up income. Profit after tax has dropped by 6.3 percent to PKR 138.9 billion in 9MCY16 over the corresponding period of last year (**Figure 11 & Annexure A**).

Figure 11

Year-to-Date (YTD) Profit (after tax)



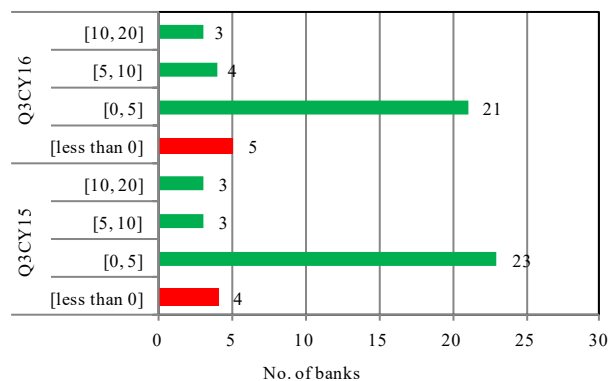
The impact of declining interest rate has clearly reflected in Net Interest Margin (NIM), which has reduced to 3.8 percent as of end September 2016 from 4.4 percent as of end September 2015. Declining revenues on lending activity, lower returns on high stock of risk free government securities and higher expense on repo borrowings has decelerated the Net Interest Income (NII), which has led to a decline in NIM of the banking sector. Similarly ROA has slipped down to 2.1 percent as of end September 2016 from 2.6 percent as of end September 2015.

Besides, rising cost to income ratio has also affected banks' overall profitability; the cost to income ratio has increased to 52.2 percent during Q3CY16 from 46.9 percent During Q3CY15 (**Annexure D**). Some of this rising cost of banking industry is connected with growth in human resources employed and investment in IT infrastructure (**see section A above**).

Bank-wise statistics reveals a broad based contribution in banking profits as 29 banks has posted profits, while the count for loss making banks has increased to 5 in September 2016 from 4 in September 2015 (**Figure 12**).²⁵ Concentration of earnings have remained almost unchanged as the share of top 5 banks in total profits has touched 63.6 percent in September 2016 as compared to 63.5 percent in September 2015.

Figure 12

Banking sector profitability (pre-tax) (PKR billion)



The **Solvency** profile of the banking system further strengthened during Q3CY16 as Capital Adequacy ratio (CAR) has improved to 16.8 percent as of end September, 2016 from 16.1 percent as of end June, 2016, well above the regulatory requirement of 10.25 percent.²⁶ Rise in eligible regulatory capital as well as decline in total risk weighted assets (RWAs) have helped improve the ratio. The eligible capital has

²⁵ During the review period, two of the loss-making banks were under the process of merger. These banks have since been merged (see Notifications BPRD (R&P-02)/2016/25850 and BPRD (R&P-02)/2016/25851).

²⁶ The required CAR of 10.25% includes a capital conservation buffer (CCB) of 0.25%. The CCB will increase to 0.65% by December 31, 2016, bringing the CAR requirement to 10.65%.

increased by 3.4 percent and downside movement in RWAs was due to the seasonal decline in advances (credit RWAs have declined by 1.9 percent). Given the strong solvency position, the banking system maintains high level of capital which makes them resilient towards any stress scenario.

As against the required level of 3.0 percent, the leverage ratio²⁷ of the banking sector at 5.4 percent as of end September, 2016 is at a comfortable level but is marginally down from 5.5 percent as of end June, 2016. This slight decrease has resulted from relatively higher increase in banking sector's exposure (4.6 percent) compared to the Tier 1 capital (3.5 percent) during Q3CY16.

²⁷ Leverage ratio is defined as Teir-1 Capital (after related deductions) to total exposure covering both on balance sheet and off-balance sheet items. (Basel-III Capital instructions issued vide BP&RD Circular No.6 of 2013). The parallel run period of leverage ratio in Pakistan is from December 31, 2013 to December 31, 2017.

C. Banking Sector Outlook For Q4CY16

Apart from seasonal uptick in Q4CY16, the private sector credit is expected to take a boost from improving demand conditions as implied by growth in manufacturing sector, better energy supplies especially to the manufacturing sector, growing momentum of CPEC-related activities, and, the lagged impact of easy monetary policy. Moreover, the government reliance for budgetary borrowing away from the banking sector (to the central bank) may also induce banks to go for alternative investment avenue of private sector lending.

In the wake of easy monetary conditions, the spread between lending and deposit rate is shrinking. This coupled with falling yield on treasury investments are already taking a toll on the sector's profitability. However, it is expected that the decelerating profitability may further push banks towards their core - and higher yielding - business of lending. The expected credit expansion, due to its feedback effect, is likely to strengthen the deposit base – a major funding source - of the sector.

The banking sector remains sound and resilient on an overall basis. However, the expected growth in private sector credit would increase the quantum of risk weighted assets. At the same time, the slowdown in profitability may hamper banks' ability to plough back profits and support capital base. This might put downward pressure on the capital adequacy ratio (CAR). Given that the sector already holds enough capital cushions and the CAR stands well above the regulatory requirement, the risks to the soundness and resilience of the banking sector remain muted despite rise in capital adequacy requirement by December 31, 2016.

Annexure

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

PKR million

Financial Position as of end:	CY12	CY13	Q4CY14*	Q4CY15*	Q3CY15*	Q2CY16*	Q3CY16*
ASSETS							
Cash & Balances With Treasury Banks	836,605	858,512	723,664	909,429	745,977	910,418	1,106,360
Balances With Other Banks	184,746	185,423	149,631	198,395	142,899	186,575	156,287
Lending To Financial Institutions	170,758	275,939	429,380	360,772	475,674	313,933	331,997
Investments - Net	4,013,239	4,313,323	5,309,630	6,880,765	6,713,758	7,821,344	7,624,525
Advances - Net	3,804,140	4,110,159	4,447,300	4,815,827	4,535,921	5,179,829	5,052,083
Operating Fixed Assets	248,673	259,800	277,030	310,102	303,220	318,147	320,935
Deferred Tax Assets	66,805	80,306	67,077	65,644	62,098	70,347	67,288
Other Assets	386,188	403,233	702,550	602,301	538,223	573,167	474,307
TOTAL ASSETS	9,711,154	10,486,693	12,106,261	14,143,234	13,517,769	15,373,761	15,133,782
LIABILITIES							
Bills Payable	112,275	129,227	137,651	145,089	143,388	198,412	154,495
Borrowings From Financial Institution	1,027,098	722,643	1,001,447	1,766,145	1,824,998	2,304,736	2,011,892
Deposits And Other Accounts	7,293,698	8,310,529	9,229,773	10,389,260	9,715,165	11,024,200	11,092,103
Sub-ordinated Loans	55,160	40,070	44,329	51,366	41,358	54,683	61,525
Liabilities Against Assets Subject To Finance Lease	52	34	33	50	15	45	45
Deferred Tax Liabilities	70,399	19,731	37,149	47,622	54,137	68,081	64,445
Other Liabilities	270,262	321,690	448,432	420,935	416,756	416,624	424,917
TOTAL LIABILITIES	8,828,945	9,543,923	10,898,816	12,820,468	12,195,816	14,066,782	13,809,423
NET ASSETS	882,209	942,770	1,207,445	1,322,767	1,321,952	1,306,980	1,324,359
NET ASSETS REPRESENTED BY:							
Share Capital	427,583	482,091	587,053	619,862	591,947	579,168	580,073
Reserves	194,543	176,095	189,242	192,039	224,854	195,038	199,717
Unappropriated Profit	148,169	157,492	227,151	290,908	254,774	290,008	312,400
Share Holders' Equity	770,295	815,678	1,003,446	1,102,809	1,071,575	1,064,215	1,092,189
Surplus/Deficit On Revaluation Of Assets	111,914	127,102	203,999	219,958	250,377	242,765	232,169
TOTAL	882,209	942,780	1,207,445	1,322,767	1,321,952	1,306,980	1,324,359
PROFIT AND LOSS STATEMENT							
	CY12	CY13	12MCY14*	12MCY15*	9MCY15*	H1CY16*	9MCY16*
Mark-Up/ Return/Interest Earned	792,749	777,398	919,821	981,760	732,693	474,920	701,993
Mark-Up/ Return/Interest Expenses	454,182	444,047	504,990	485,575	366,382	227,297	337,693
Net Mark-Up / Interest Income	338,567	333,350	414,830	496,185	366,311	247,623	364,300
Provisions & Bad Debts Written Off Directly/(Reversals)	39,668	40,162	25,323	38,874	30,170	9,692	10,128
Net Mark-Up / Interest Income After Provision	298,899	293,188	389,507	457,311	336,142	237,930	354,172
Fees, Commission & Brokerage Income	54,720	62,579	70,421	82,640	60,425	45,660	65,349
Dividend Income	21,630	14,599	14,098	16,910	13,025	8,635	12,061
Income From Dealing In Foreign Currencies	21,620	20,972	28,396	22,824	16,429	8,094	10,172
Other Income	39,602	41,941	54,434	86,369	74,115	40,734	57,253
Total Non - Markup / Interest Income	137,572	140,091	167,349	208,743	163,994	103,122	144,835
	436,471	433,280	556,856	666,053	500,135	341,052	499,007
Administrative Expenses	251,349	266,199	304,588	330,006	242,581	176,585	262,074
Other Expenses	6,100	4,633	5,726	7,231	5,922	2,241	3,661
Total Non-Markup/Interest Expenses	257,450	270,832	310,313	337,237	248,503	178,826	265,735
Profit before Tax and Extra ordinary Items	179,021	162,448	246,543	328,817	251,632	162,226	233,272
Extra ordinary/unusual Items - Gain/(Loss)	842.88	(4.64)	3.79	0.51	0.45	0.33	0.30
PROFIT/ (LOSS) BEFORE TAXATION	178,178	162,453	246,539	328,816	251,632	162,226	233,272
Less: Taxation	59,946	50,019	83,171	129,811	103,348	68,482	94,358
PROFIT/ (LOSS) AFTER TAX	118,232	112,434	163,368	199,006	148,284	93,744	138,913

* based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

Annexure B

Distribution of Deposits

PKR billion

	CY12	CY13	Q4CY14*	Q4CY15*	Q3CY15*	Q2CY16*	Q3CY16*
DEPOSITS	7,294	8,311	9,230	10,389	9,715	11,024	11,092
Customers	6,972	7,975	8,886	9,943	9,400	10,518	10,629
Fixed Deposits	2,078	2,216	2,268	2,425	2,272	2,463	2,535
Saving Deposits	2,642	3,094	3,467	3,863	3,794	4,047	4,253
Current accounts - Remunerative	343	381	323	331	318	389	379
Current accounts - Non-remunerative	1,868	2,241	2,764	3,254	2,953	3,518	3,376
Others	41	43	64	69	64	101	86
Financial Institutions	321	336	344	446	315	507	463
Remunerative Deposits	214	217	201	393	268	322	303
Non-remunerative Deposits	107	119	143	53	47	184	160
Break up of Deposits Currency Wise	7,294	8,311	9,230	10,389	9,715	11,024	11,092
Local Currency Deposits	6,310	7,129	7,983	9,042	8,438	9,832	9,884
Foreign Currency Deposits	984	1,182	1,247	1,347	1,277	1,192	1,208

* based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

Annexure C

Table C-1: Segment-wise Advances and Non Performing Loans (NPLs)

amount in PKR billion, ratio in percent

	Jun-15			Sep-15			Jun-16			Sep-16		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	3,302.2	442.8	13.4	3,281.3	440.6	13.4	3,794.7	448.5	11.8	3,689.5	443.6	12.0
SMEs Sector	279.3	88.3	31.6	273.7	86.5	31.6	310.0	82.2	26.5	335.3	84.7	25.3
Agriculture Sector	276.1	45.8	16.6	281.0	49.0	17.4	296.6	45.9	15.5	293.2	46.3	15.8
Consumer sector	320.7	34.1	10.6	328.9	34.1	10.4	349.9	34.3	9.8	359.9	33.3	9.3
<i>i. Credit cards</i>	24.0	2.5	10.3	24.1	2.4	9.9	25.6	2.5	9.6	27.1	2.5	9.2
<i>ii. Auto loans</i>	84.4	3.6	4.3	90.0	3.6	4.0	109.8	2.6	2.4	116.8	2.7	2.3
<i>iii. Consumer durable</i>	0.3	0.1	20.0	0.3	0.1	21.4	0.3	0.1	24.0	0.3	0.1	22.6
<i>iv. Mortgage loans</i>	53.8	13.3	24.8	54.0	13.4	24.9	59.1	12.6	21.3	61.8	12.1	19.6
<i>v. Other personal loans</i>	158.2	14.6	9.2	160.5	14.6	9.1	155.1	16.6	10.7	154.0	16.0	10.4
Commodity financing	650.6	6.7	1.0	636.9	7.0	1.1	697.7	4.4	0.6	635.6	4.6	0.7
Staff Loans	98.5	1.2	1.2	100.7	1.2	1.2	102.0	1.4	1.3	102.9	2.1	2.0
Others	133.8	11.2	8.4	148.2	11.5	7.8	151.9	17.7	11.7	157.8	16.7	10.6
Total	5,061.4	630.0	12.4	5,050.8	629.9	12.5	5,702.8	634.5	11.1	5,574.3	631.3	11.3

Based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

Table C-2: Sector-wise Advances and Non Performing Loans (NPLs)

amount in PKR billion, ratio in percent

	Jun-15			Sep-15			Jun-16			Sep-16		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	425.3	50.2	11.8	478.1	48.9	10.2	504.2	58.1	11.5	571.7	51.6	9.0
Automobile/Transportation	62.5	12.0	19.2	57.6	12.8	22.2	81.7	12.3	15.1	82.5	12.2	14.8
Cement	57.9	8.6	14.9	63.2	8.8	13.9	62.4	7.0	11.2	60.3	6.9	11.4
Chemical & Pharmaceuticals	197.4	16.0	8.1	216.8	17.3	8.0	247.3	14.7	5.9	244.6	14.0	5.7
Electronics	71.6	12.0	16.8	71.2	11.9	16.8	69.1	10.7	15.5	70.8	12.2	17.2
Financial	115.8	8.7	7.5	136.6	9.0	6.6	162.4	9.4	5.8	168.2	10.5	6.3
Individuals	438.4	52.5	12.0	429.2	48.1	11.2	531.8	47.3	8.9	522.2	57.6	11.0
Insurance	0.1	0.0	1.3	0.1	0.0	1.2	1.7	0.0	0.0	3.5	0.0	0.0
Others	2,139.4	219.9	10.3	2,102.2	220.9	10.5	2,297.1	222.3	9.7	2,134.8	209.4	9.8
Production/Transmission of Energy	645.3	36.7	5.7	659.1	36.8	5.6	789.2	38.4	4.9	822.3	36.6	4.4
Shoes & Leather garments	24.8	3.9	15.9	24.9	4.0	16.0	24.4	3.8	15.5	24.4	3.7	15.3
Sugar	174.6	8.3	4.8	135.6	9.4	6.9	182.6	13.6	7.4	141.3	20.0	14.2
Textile	708.2	201.2	28.4	676.2	202.0	29.9	748.8	197.0	26.3	727.8	196.5	27.0
Total	5,061.4	630.0	12.4	5,050.8	629.9	12.5	5,702.8	634.5	11.1	5,574.3	631.3	11.3

Based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

Table C-3: Classification wise Non Performing Loans (NPLs) and Provisions (specific)

PKR million

	CY13		Q4CY14*		Q4CY15*		Q3CY15*		Q2CY16*		Q3CY16*	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	13,785	26	15,260	-	17,475	-	25,692	-	30,185	-	27,098	-
Sub Standard	50,202	11,320	57,179	14,748	40,649	8,539	48,785	9,905	52,773	13,322	53,884	11,101
Doubtful	32,353	14,336	36,746	16,306	28,044	11,523	35,037	15,835	34,842	13,683	34,513	15,113
Loss	511,070	428,513	495,514	433,552	519,277	468,847	520,343	465,413	516,746	466,859	515,832	466,338
Total	607,410	454,195	604,698	464,606	605,444	488,909	629,856	491,153	634,546	493,864	631,326	492,553

* based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

Annexure D

Financial Soundness Indicators of the Banking Sector

								percent		
Indicators		CY10	CY11	CY12	CY13	Q4CY14*	Q4CY15*	Q3CY15*	Q2CY16*	Q3CY16*
CAPITAL ADEQUACY										
Risk Weighted CAR^		13.9	15.1	15.6	14.9	17.1	17.3	18.2	16.1	16.8
Tier 1 Capital to RWA		11.6	13.0	13.0	12.6	14.3	14.4	15.0	13.0	13.6
ASSET QUALITY										
NPLs to Total Loans		14.9	15.7	14.5	13.3	12.3	11.4	12.5	11.1	11.3
Provision to NPLs		66.7	69.3	71.5	77.1	79.8	84.9	81.8	82.4	82.7
Net NPLs to Net Loans		5.5	5.4	4.6	3.4	2.7	1.9	2.5	2.2	2.2
Net NPLs to Capital^^		26.7	23.1	19.9	14.7	10.1	7.7	10.0	9.7	9.1
EARNINGS										
Return on Assets (Before Tax)		1.5	2.2	2.0	1.6	2.2	2.5	2.6	2.2	2.1
Return on Assets (After Tax)		1.0	1.5	1.3	1.1	1.5	1.5	1.5	1.3	1.3
ROE (Avg. Equity&Surplus) (Before Tax)		15.5	23.0	21.4	17.9	24.3	25.8	26.6	24.9	23.8
ROE (Avg. Equity &Surplus) (After Tax)		9.6	15.1	14.2	12.4	16.1	15.6	15.7	14.4	14.2
NII/Gross Income		74.7	76.0	71.1	70.4	71.3	70.4	69.1	70.6	71.6
Cost / Income Ratio		52.7	51.1	54.1	57.2	53.3	47.8	46.9	51.0	52.2
LIQUIDITY										
Liquid Assets/Total Assets		36.1	45.5	48.4	48.6	49.2	53.8	53.8	55.2	55.6
Liquid Assets/Total Deposits		47.1	59.5	64.5	61.3	64.5	73.3	74.8	77.0	75.9
Advances/Deposits		61.6	53.6	52.2	49.5	48.2	46.4	46.7	47.0	45.5

* based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

^ Data for CY13 and onwards is based on Basel III, and data from CY08 to Q3CY13 is based on Basel II with the exception of IDBL, PPCBL, and SME Bank, which is based on Basel I.

^^ Effective from June 30, 2015, Regulatory Capital, as defined under Basel requirements, has been used to calculate Net NPLs to Capital Ratio. Prior to Jun-15, Balance Sheet Capital was used for calculation of this ratio.

Annexure E

Group-wise Composition of Banks

As of end September, 2015	As of end March, 2016	As of end June, 2016	As of end September, 2016
A. Public Sector Com. Banks (5)	A. Public Sector Com. Banks (5)	A. Public Sector Com. Banks (5)	A. Public Sector Com. Banks (5)
First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.
National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan
Sindh Bank Ltd.	Sindh Bank Ltd.	Sindh Bank Ltd.	Sindh Bank Ltd.
The Bank of Khyber	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber
The Bank of Punjab	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab
B. Local Private Banks (22)	B. Local Private Banks (22)	B. Local Private Banks (22)	B. Local Private Banks (22)
AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.
Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.
Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.
Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.
Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.
BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.
Burj Bank Ltd.	Burj Bank Ltd.	Burj Bank Ltd.	Burj Bank Ltd.
Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.
Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.
Habib Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.
Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.
JS Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.
MCB Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.
MCB Islamic Bank Ltd.***	MCB Islamic Bank Ltd.	MCB Islamic Bank Ltd.	MCB Islamic Bank Ltd.
Meezan Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.
NIB Bank Ltd.	NIB Bank Ltd.	NIB Bank Ltd.	NIB Bank Ltd.
SAMBA Bank Ltd.	SAMBA Bank Ltd.	SAMBA Bank Ltd.	SAMBA Bank Ltd.
Silk Bank Ltd.	Silk Bank Ltd.	Silk Bank Ltd.	Silk Bank Ltd.
Soneri Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.
Summit Bank Ltd.	Summit Bank Ltd.	Summit Bank Ltd.	Summit Bank Ltd.
United Bank Ltd.	United Bank Ltd.	United Bank Ltd.	United Bank Ltd.
C. Foreign Banks (5)	C. Foreign Banks (4)	C. Foreign Banks (4)	C. Foreign Banks (4)
Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.
Citibank N.A.	Citibank N.A.	Citibank N.A.	Citibank N.A.
Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG
Industrial and Commercial Bank of China Ltd.	Industrial and Commercial Bank of China Ltd.	Industrial and Commercial Bank of China Ltd.	Industrial and Commercial Bank of China Ltd.
HSBC Bank Oman S.A.O.G. #			
D. Specialized Banks (4)	D. Specialized Banks (4)	D. Specialized Banks (4)	D. Specialized Banks (4)
Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.	Industrial Development Bank Ltd.
Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.
SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.
Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.
All Commercial Banks (32)	All Commercial Banks (31)	All Commercial Banks (31)	All Commercial Banks (31)
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
All Banks (36)	All Banks (35)	All Banks (35)	All Banks (35)
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

* KASB Bank Limited was de-scheduled on May 7, 2015, on account of its amalgamation with and into BankIslami Pakistan Limited, under Section 47 of the Banking Companies Ordinance, 1962.

**Barclays Bank PLC (Pakistan Branch Business) was de-scheduled on June 11, 2015, on account of its merger with and into Habib Bank Limited.

*** "MCB Islamic Bank Limited" was declared as a Scheduled Bank with effect from September 14, 2015.

HSBC Bank Oman S.A.O.G. was de-scheduled on November 04, 2015, on account of its merger with and into Meezan Bank Limited.