Quarterly Performance Review of the Banking Sector

(October-December, 2016)

Financial Stability Assessment Division

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State Bank of Pakistan

Contents

Summary[1]

The banking sector recorded a reasonable performance during the quarter under review. The key highlight is the highest quarterly growth in advances to private sector in the last 10 years, which has contributed to most of the increase in assets. The lagged effect of consistent easy monetary policy, ample availability of liquidity owing to high deposit growth and maturing PIBs, CPEC related activities, and positive economic outlook are the major driving factors behind the impressive growth in advances. Deposits have also maintained the steady growth trajectory during the quarter; while financial borrowing (particularly from SBP) has subsided.

Profitability of the banking sector narrowed due to low interest rate environment and reduced quantum of investment (though profits for Q4CY16 improved as compared to corresponding quarter of last year). Accordingly, ROA has reduced to 2.1 percent in CY16 (2.5 percent in CY15) and Net Interest Margin (NIM) has declined to 3.7 percent in CY16 (4.4 percent in CY15).

The credit risk profile of the banking sector improved with decline in non-performing loans ratios. On the solvency front, Capital Adequacy Ratio (CAR) has slightly declined to 16.2 percent due to rise in advances but it is still well above the minimum required level of 10.65 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, Q4CY stands for the fourth quarter of a particular calendar year and represents unaudited numbers. CY, generally, symbolizes the full calendar year and represents unaudited numbers except for CY13 and earlier.

A. Performance of the Banking Sector

The asset base of the banking sector has expanded by 4.6 percent during Q4CY16; a pace similar to Q4CY15 **(Table 1)**. The quarter under review is marked with some compositional changes in the asset mix. Whereas, in Q4CY15, investments-net saw a growth of 2.5 percent and advances-net rose by 6.2 percent, this time around in Q4CY16, advances have increased at a higher rate of 8.8 percent; while investments have declined by 1.5 percent.[2] On the funding side, deposits[3] have been the key source of funding in Q4CY16; while banks' borrowing from financial institutions (mainly SBP) has declined owing to ease in market liquidity.

For the entire CY16, however, asset growth remains contained (11.9 percent in CY16 compared to 16.8 percent in CY15) largely due to slowdown in investments in government papers.

The **gross advances** (domestic) to private sector have surged by a higher rate of 10.6 percent during Q4CY16 as against 7.7 percent during Q4CY15 (**Table 2**). The major thrust (in volume terms) came from the rebound in Textile sector[4] followed by Energy and Sugar sectors. Other contributing sectors are Agribusiness, Financial, and Cement.

Table 1: Highlights of the Banking Industry

	CY14	Q3CY15	CY15	Q3CY16	CY16
Key Variables (PKR billion)					
Total Assets	12,106	13,518	14,143	15,134	15,831
Investments (net)	5,310	6,714	6,881	7,625	7,509
Advances (net)	4,447	4,536	4,816	5,052	5,499
Deposits	9,230	9,715	10,389	11,092	11,798
Borrowings	1,001	1,825	1,766	2,012	1,942
Equity	1,207	1,322	1,323	1,324	1,353
Profit Before Tax (ytd)	247	252	329	233	314
Profit After Tax (ytd)	163	148	199	139	190
Non-Performing Loans	605	630	605	631	605
Provisioning Charges (ytd)	25	30	39	10	5
Non-Performing Loans (net)	122	115	91	109	90
Key FSIs (percent)					
NPLs to Loans (Gross)	12.3	12.5	11.4	11.3	10.1
Net NPLs to Net Loans	2.7	2.5	1.9	2.2	1.6
Net NPLs to Capital	10.1	10.0	7.7	9.1	7.3
Provision to NPL	79.8	81.8	84.9	82.7	85.0
ROA (Before Tax)	2.2	2.6	2.5	2.1	2.1
CAR	17.1	18.2	17.3	16.8	16.2
Advances to Deposit Ratio	48.2	46.7	46.4	45.5	46.6

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

Table 2: Advances Flows to Private Sector (Domestic)

	Q4CY15		Q4CY16	
	Flows	Growth	Flows	Growth
Chemical and Pharmaceuticals	7.0	3.4%	6.5	2.8%
Agribusiness	21.5	7.2%	19.6	6.3%
Textile	87.0	13.1%	123.8	17.3%
Cement	(6.6)	-10.7%	11.3	21.2%
Sugar	9.0	6.7%	38.4	28.2%
Shoes and leather garments	(0.2)	-0.7%	2.5	10.9%
Automobile/transportation	(7.0)	-18.9%	3.8	8.8%
Financial	11.2	18.9%	12.0	14.6%
Insurance	0.3	526.4%	(0.2)	-6.5%
Electronics and electrical appliances	8.6	15.1%	6.5	12.6%
Energy	27.9	7.1%	62.3	13.3%
Individuals	21.5	5.3%	24.4	5.0%
Others	91.2	7.7%	99.3	7.9%
Total (Domestic Sector)	**271.4**	**7.7%**	**410.2**	**10.6%**

Flows in PKR billion; growth in percent.

Similarly, all segments (working capital, fixed investment, and trade finance) have showed higher growth this year both on QoQ and YoY basis. SMEs financing growth of 21.4 percent during Q4CY16 (YoY 29.2 percent) and auto financing growth of 7.8 percent (YoY 32.4 percent) are the highlights of the quarter

[2] The 4th quarter growth in gross advances was highest in CY16 since CY07. Moreover, the quarterly growth in gross advances is well above the long term trend during CY16.

[3] The build-up of deposits during current year is in line with the higher growth in advances – a credit multiplier effect.

[4] YoY growth in textile sector advances has been PKR 90 billion in CY16 in sharp contrast to net retirement of PKR 30 billion in CY15. Recently, government announced package of Rs.180 billion giving several incentives to textile sector to boost export.

under review (**Table 3**). Due to its back and forth linkages, higher financing flow also hints at improved economic activity in the real economy. Encouragingly, both private and public sector tapped banking sector for fixed investment financing (FIF).

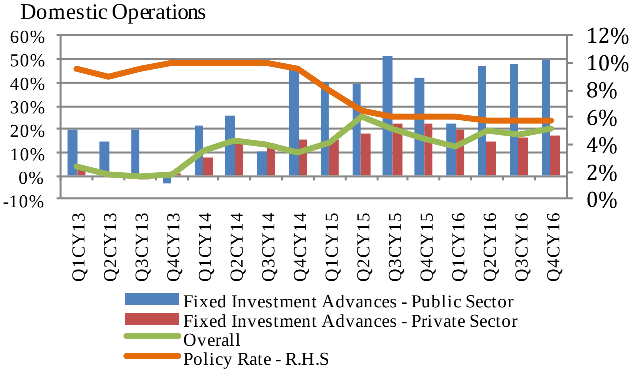
Table 3: Segment-wise Domestic Advances Flows in Q4CY16
(PKR billion)

	Public Sector	Private Sector	Total
Corporate Sector	**59.5**	**295.1**	**354.6**
Fixed Investment	36.5	62.4	98.8
Working Capital	31.5	172.7	204.2
Trade Finance	(8.4)	60.0	51.6
SMEs		**69.3**	**69.3**
Fixed Investment		12.4	12.4
Working Capital		53.4	53.4
Trade Finance		3.5	3.5
Agriculture		**1.5**	**1.5**
Consumer Finance		**14.3**	**14.3**
of which			
Auto Loans		9.1	9.1
Commodity Financing	**(43.5)**	**27.2**	**(16.3)**
Total	**16.0**	**410.2**	**426.2**

The corporate sector seems to have capitalized on the low interest rate environment and has increased its longer-term exposure, which points to their possible capital formation (**Figure 1**). At the same time, the SME sector also availed fixed investment loans, but by a proportionately lower amount than the working capital loans. With continuing growth in FIF, its' share in total domestic advances has increased to 34.2 percent in Q4CY16 from 31.0 percent in Q3CY16.

Figure 1

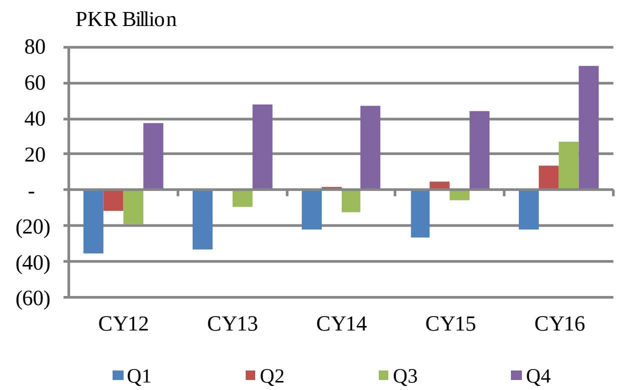
Year -on-Year (YoY) growth in Fixed Investment Advances - Domestic Operations



The overall flow of credit to SMEs has risen by 21.4 percent during Q4CY16 (29.2 percent in CY16) as against 17.0 percent in Q4CY15 (6.0 percent in CY15) **(Figure 2)**.[5]

Figure 2

SMEs Advances- Quarterly Flows



The growth momentum of Consumer financing has continued with 4.1 percent rise in Q4CY16; almost double than the growth of 2.2 percent in Q4CY15.[6] Overall, all categories of consumer finance (credit cards, auto finance, mortgage finance, personal loans) has seen positive growth. The key contributor in the rise of CF has continued to be Auto loans with 7.8 percent growth in Q4CY16 (32.4 percent in CY16). 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 in auto financing is backed by consistently higher auto production[7] which has inched up by 21.0 percent in

[5] As stated in the previous QPR, this has been made possible by a revision in Prudential Regulations whereby the parameters for identification of SMEs have been enhanced and SME financing target have been set by SBP. See Quarterly Performance Review of the Banking Sector (QPR), (July-September, 2016) http://www.sbp.org.pk/publications/q_reviews/2016/Jul-Sep.pdf

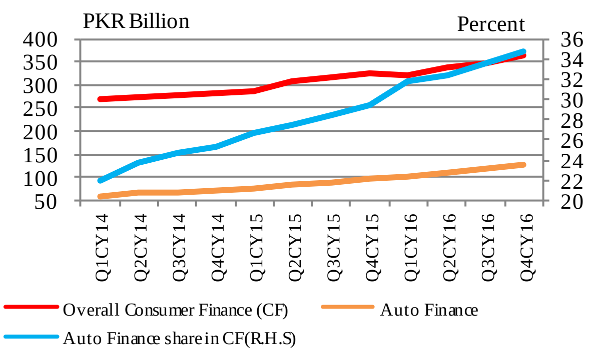
[6] In order to align with changing business environment and international best practices, SBP has revised the Prudential Regulations for Consumer Finance in August 2016. (http://www.sbp.org.pk/bprd/2016/C10.htm)

[7] http://www.pama.org.pk/images/stories/pdf/production-sales.pdf

CY16 over last year and could rise further if the planned investment takes place.[8]

Figure 3

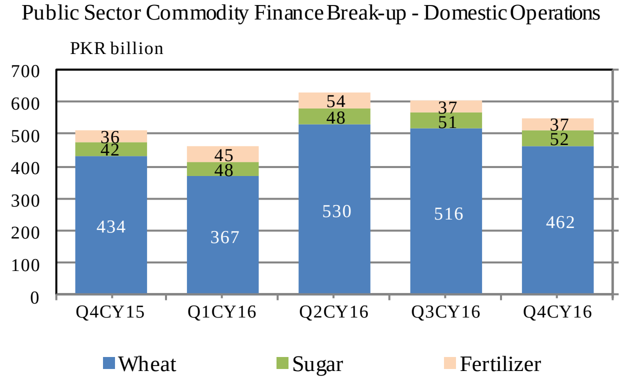
Recent trend in Auto Financing (Outstanding)



Due to off-loading of wheat – comprising around 83 percent share in overall commodity financing - by procurement agencies, the stock of public sector Commodity Financing[9] has reduced by 8.6 percent (PKR 52 billion) in Q4CY16 (9.4 percent in Q4CY15) to PKR 554 billion. On the other hand, sugar financing has seen meager rise during the reviewed quarter **(Figure 4).**

Figure 4

Public Sector Commodity Finance Break-up - Domestic Operations



The long awaited pick up in advances is an encouraging sign for the restoration of core intermediation process.

This high rise in financing activities may be attributed to a combination of factors as below:

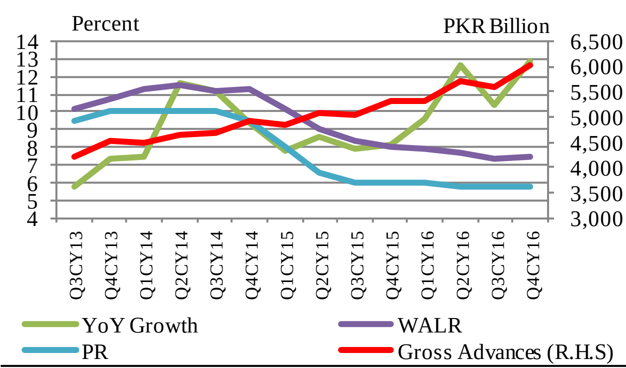
a. **Lag impact of easy monetary policy:** Since November 2014 till December 2016, SBP has reduced the policy rate by 425 bps which is well translated into 373 bps reduction in Weighted Average Lending Rate (WALR) during the corresponding period. The YoY growth in gross advances, however, picked up pace in CY16 after remaining flat in CY15 **(Figure 5).**

b. **Better Economic Conditions:** Positive development on macro front (CPEC, improved security, improved energy supply, better business sentiments etc.)

c. **Improved Liquidity:** Banks' reduced investment in Govt. papers, maturity of PIBs/Sukuk, and higher growth in deposits raised available funds for advances (**see investment and deposit part below**).

Figure 5

Lag impact of Easy Monetary Policy on Gross Advances



Since June, 2016 the focus of government borrowing has shifted from schedule banks to SBP resulting in decelerated pace of banks **investment in government securities**[10] during CY16. This impact is even more pronounced in Q4CY16 as banks investment has reduced by 2.7 percent (7.4 percent rise in CY16) in contrast to 3.0 percent rise in Q4CY15 (31.7 percent increase in CY15) **(Table 4)**. Most of the decline has been seen in

[8] Please see QPR, Sep-16 (http://www.sbp.org.pk/publications/q_reviews/2016/Jul-Sep.pdf)

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

[10] Government borrowed PKR 904 billion for budgetary support from SBP and made net retirement of PKR 359 billion to schedule banks during FY17 (Source: http://www.sbp.org.pk/ecodata/BroadMoney_M2.pdf).

Sukuk and PIBs which are longer term securities. In fact, government has not fully rolled over the maturing amount of these papers[11]. Resultantly, Investment to deposit ratio (IDR) has come down to 63.6 percent as of Dec-16 as compared to 66.2 percent as of Dec-15. Banks' investment in other avenues (fully paid up ordinary shares, TFCs, Bonds, debentures etc) has increased, however. The bullish trend in capital market induced financial institutions, particularly, the banks to invest in equities.

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

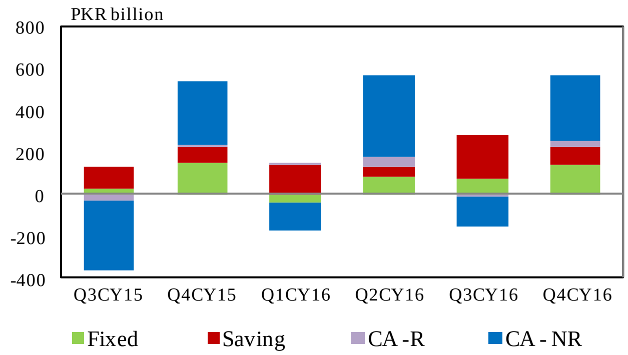
PKR billion

Flows during:	**Q4CY14**	**Q4CY15**	**Q4CY16**
MTBs	85	(62)	20
PIBs	486	184	(46)
Other Govt Securities (Sukuk)	10	65	(162)
Total Govt. Securities	582	187	(189)
Total Investments	592	173	(117)
Outstanding Stocks as of:	**31-12-2014**	**31-12-2015**	**31-12-2016**
MTBs	1,733	2,543	3,119
PIBs	2,713	3,329	3,198
Others	355	453	475
Total Govt. Securities	4,801	6,325	6,792
Total Gross Investments	5,354	6,932	7,556
Less: Provision & Deficit	(45)	(52)	(47)
Total Net Investments	5,310	6,881	7,509

On the funding side, **deposit** base has increased by 6.4 percent during Q4CY16 (6.9 percent in Q4CY15) to reach PKR 11.8 trillion as of December 31, 2016. For the entire CY16 the growth is 13.6 percent which is higher than 3-years' average of 12.0 percent during CY13-15. Customer deposits (95 percent share in total deposits) have inched up by 5.4 percent in Q4CY16 (12.6 percent in CY16) compared to 5.8 percent in Q4CY15 (11.9 percent in CY15).

Figure 6

Deposits- Quarterly Flows



Most of the growth in deposits has come from non-remunerative current deposits (PKR 309 billion or 9.2 percent) followed by fixed deposits (PKR 135 billion or 5.3 percent) and saving deposits (PKR 89.5 billion or 2.1 percent) **(Figure 6 and Annexure B)**.[12] The higher deposit growth is a welcome sign considering a deceleration in deposit growth observed during last couple of years due to multiple factors (monetary easing and, consequent fall in minimum saving rate, imposition of withholding tax on banking transactions[13], preference of depositor towards alternative modes etc.[14]). The pick in growth after a period of deceleration is also an indicator that the banking sector remains a preferred avenue for the customer savings.

Financial borrowings, after rising consistently since Q3CY14, are on a downward trajectory since Q2CY16. The current quarter is no exception. Banks' borrowing from financial institutions has declined by 3.5 percent during Q4CY16. The primary reason behind this downslide has been banks' reduced borrowing from SBP (under repo arrangements) due to easing off market liquidity needs after shift in government borrowing from commercial banks to SBP **(Figure 7)**. Besides, non-rollover of PIBs in previous

[11] The same trend was also seen in Q3CY16.

[12] However, it may be noted that saving deposits have revealed highest addition of PKR 489 billion (growth of 12.4 percent) during entire CY16 in the overall deposit base of the banking sector.

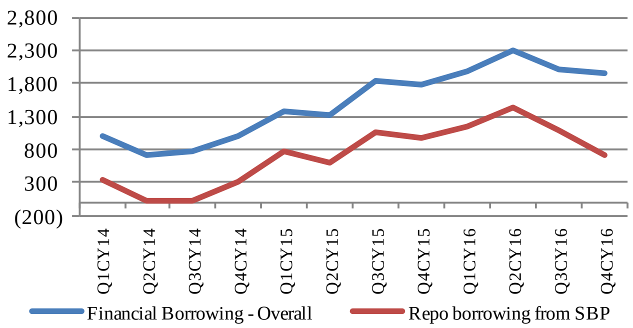
[13] And higher rate of tax on non-filers of tax returns.

[14] See Quarterly Performance Review of Banking Sector (April−June, 2016), State Bank of Pakistan

quarter further added to market liquidity and reduced the need for financial borrowings in Q4CY16.

Figure 7

Financial Borrowings of Banking Sector



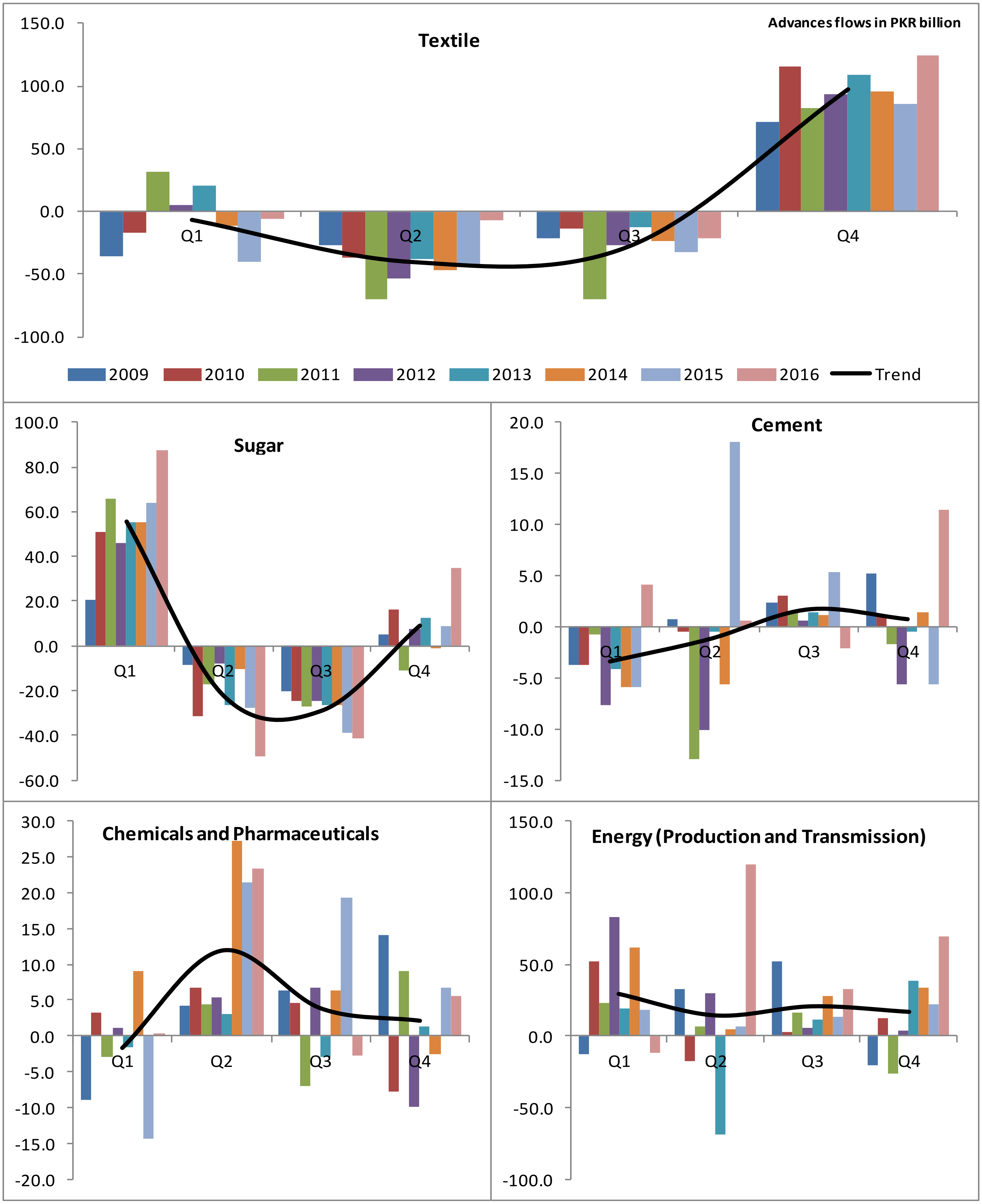
The banking sector has continued to invest in **infrastructure** which is reflected in expansion of branch network, absorption of fresh employees, rise in Point of Sales (POS) machines and ATMs cards etc. **(Table 5).** This has resulted in slight pick-up in the cost to income ratio from 52.2 percent in Q3CY16 to 53.1 percent in Q4CY16.

Table 5: Banking Sector Infrastructure

	As of September 30, 2016 (No.)	As of December 31, 2016 (No.)	Growth in Q4CY16
Total Bank Branches	13,792	14,219	3.1%
Online Branch Network	13,499	13,926	3.2%
ATMs	11,803	12,352	4.7%
Point of Sale (POS) Machines	51,009	52,062	2.1%
ATM Properirty only Cards	7,325,910	6,806,138	-7.1%
Credit Cards	1,211,582	1,208,763	-0.2%
Debit Card	17,473,270	17,470,297	0.0%
Social Welfare Cards	10,047,458	10,357,706	3.1%
Full Time Employees	186,406	189,360	1.6%

Source: Payment System Department, SBP

Box A – Seasonality in Advances (Sector-wise)



B. Soundness of the Banking Sector

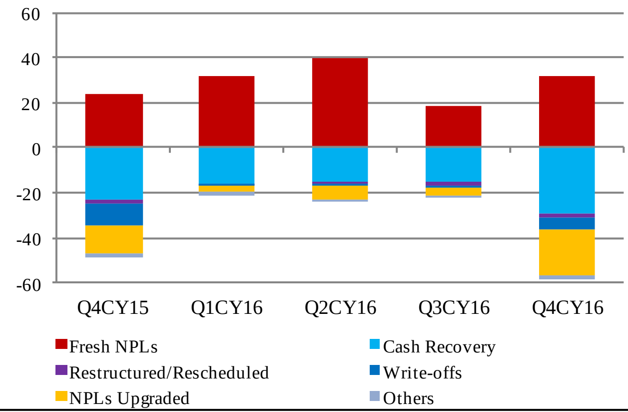
A combination of the financial soundness indicators (FSIs) suggest that the risk profile of the banking sector, as a whole, remains stable and its resilience to absorb certain shocks has stayed in comfortable zone.

The asset quality – a key measure to gauge **credit risk** – has improved during the reviewed quarter. NPLs to total loans ratio has declined to an eight years' low level of 10.1 percent in Q4CY16 **(see Annexure C)**. Though higher growth in advances to private sector in the 4th quarter of CY16 has primarily helped ease the infection ratio, higher recoveries (cash recoveries, NPLs upgrade, restructuring/rescheduling of loans, write-offs etc.) have also played a pivotal role in bringing the gross NPLs down (by 4.2 percent). Particularly, cash recoveries of PKR 29.4 billion (growth of 92.1percent) and NPLs upgrade of PKR 20.9 billion in Q4CY16 have nudged gross NPLs down to PKR 604.4 billion **(Figure 8)**. Fresh NPLs, on the other hand, have inched up by PKR 31 billion.[15]

Provision coverage ratio of the banking sector has also jumped up to 85.0 percent (82.7 percent in Q3CY16), mainly, on account of decrease in provisions on receding NPLs. Similarly, the capital impairment ratio ((Net NPLs to eligible capital (under Basel III)) has declined by 181 bps to 7.3 percent in the reviewed quarter indicating reduced risk to the equity of the banking sector form credit risk.

Figure 8

Fresh NPLs & Total Recovery (PKR billion)



The overall **liquidity** position of the banking sector has remained comfortable. The liquid assets have increased by 1.1 percent despite decline in banks' investments in federal government securities; thanks to cushion provided by repo lending to financial institutions and cash & due from treasury. Total assets have seen proportionally higher increase in Q4CY16 (due to higher growth advances) resulting in the liquid asset to total asset ratio declining by 188 bps. Regardless of this fall, the ratio stays at a strong level of 53.7 percent.

Moreover, other liquidity indicators suggest that enough cushion is available to banks to meet their obligations. For example, in Q4CY16, banking sector has "liquid asset to short-term liabilities" at 107.2 percent[16] and "liquid assets to deposit" at 72.1percent.

Further, advances to deposit ratio (the core indicator of financial intermediation), has inched up to 46.6 percent in Q4CY16 from 45.5 percent in Q3CY16. Despite this increase, the ratio is still low, by historical standards, and further efforts are needed by the banks to enhance their core activity of lending to private sector.

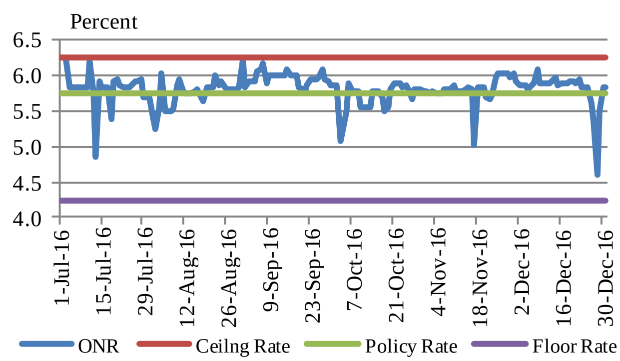
[15] Rise in fresh NPLs is primarily due to increase in agriculture loans classified as OAEM during the quarter ending December 2016. Due to longer cropping cycle (than NPLs classification time), every year in June and December quarters, a certain amount of agricultural loans fall into OAEM category, which are subsequently recovered in the following quarters of September and March, respectively.

[16] Ratio of more than 100 percent is considered good

During the reviewed quarter, calmness prevailed in the money market as the weighted average overnight rate (ONR) (an operational target of monetary policy and an indicator of liquidity stress) has mostly hovered around SBP target rate **(Figure 9)**. The net-maturity of PIBs and high deposit growth have provided enough liquidity to the market. This has resulted in lesser aggregate amount and number of OMOs injection (PKR 11.3 trillion and 16 times, respectively) in Q4CY16 compared to (PKR 16.4 trillion and 28 times, respectively) in Q3CY16. However, December month has observed some bout of volatility in overnight rate; an outcome of expansion in credit and yearly closing when liquidity needs arise due to year-end settlements.

Figure 9

Movement of Interest Rates during Q4CY16

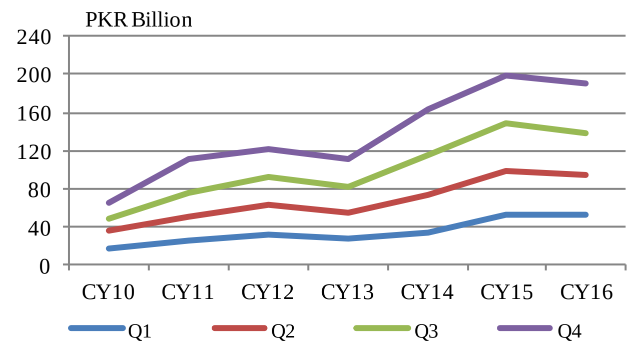


Low interest rates and reduced banks' investment have impacted the **earnings** of the banking sector in 2016. Consequently, profit after tax (PAT) of PKR 189.9 billion is 4.6 percent lesser than the level seen in the last calendar year (**Figure 10 & Annexure A**). The decline in net interest income (2.3 percent) and non-interest income (6.2 percent), have contributed to the decline in PAT. The downfall in net interest income is due to historically low interest rates leading to lower interest earnings on, both, investments and advances. On the other hand, non-interest income has shown a fall due to reduction in other income (mostly gain on sale of securities[17]) and income from dealing in foreign currency[18]. However, significantly lower provisioning expense of PKR 5.3 billion during CY16 compared to PKR 38.9 billion during CY15 has partially offset the dip in income.

Accordingly, profitability indicators have moved downwards such as Return on Asset (before tax) from 2.5 percent in CY15 to 2.1 percent in CY16 and Net Interest Margin (NIM) from 4.4 percent in CY15 to 3.7 percent in CY16[19].

Figure 10

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



Bank-wise statistics reveals a broad based contribution in banking profits as 31 banks have posted profits, while the count for loss making banks is 3 in CY16 (**Figure 11**).[20] Concentration of earnings has slightly increased as the share of top 5 banks in total profits has increased to 63.3 percent in CY16 from 61.5 percent in CY15.

[17] Consistent monetary easing in CY15 enabled banks to book capital gain on sale of higher yielding securities. In contrast, policy rate has remained stable in CY16, except for 25bps decline in May 2016.

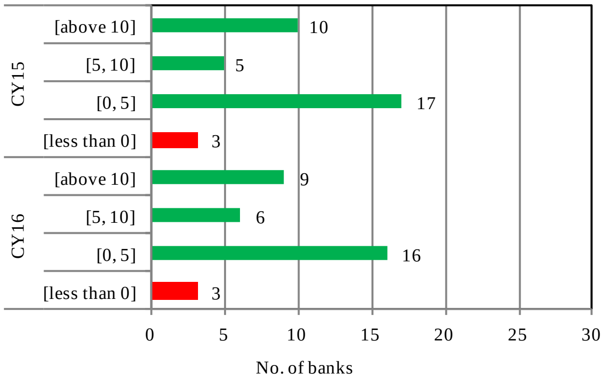
[18] One of the possible reasons behind reduced income from dealing in FCY is the stability of exchange rate in CY16 as opposed to CY15. In interbank market, PKR depreciated against USD by around 4.5 percent in CY15 (monthly average depreciation of 0.35 percent), while it has remained stable in CY16 (almost negligible depreciation).

[19] Since profitability data is Year-to-Date (YTD), profitability indicators are better compared on Year-on-Year (YoY) basis.

[20] During the review period, two of the loss-making banks have been merged (see Notifications BPRD (R&P-02)/2016/25850 and BPRD (R&P-02)/2016/25851). This has reduced the loss making count.

Figure 11

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



The **Solvency** of the banking sector has remained strong. Though, Capital Adequacy ratio (CAR) has reduced to 16.17 percent in Q4CY16 (16.75 percent in Q3CY16); yet the ratio is well above the minimum required level of 10.65 percent.[21] Banking sector, in fact, has promptly utilized the idle capital cushion to enhance the lending activity leading to growth of 7.1 percent in total risk weighted assets (the denominator), higher than 3.5 percent growth in eligible capital (numerator).

The component-wise analysis of total risk weighted assets (TRWA) reveals that higher advances flows during Q4CY16 has surged credit risk weighted assets (75 percent share in TRWA) by 8.1 percent.[22] On the other hand, market risk weighted assets (11 percent share) has reduced by 3.4 percent due to off-loading of longer term debt instruments, primarily, on account of maturing PIBs with no proportional roll-over.[23] Besides CAR, the leverage ratio[24] of the banking sector at 5.14 percent as of end December, 2016 is well above the required level of 3.0 percent. Given the strong solvency position, the banking system maintains high level of capital which makes it resilient towards any stress scenario (**Annexure E).**

[21] This include capital conservation buffer (CCB) of 0.65 percent which is to be increased phase wise up to 2.5 percent till year end 2019 (See BPRD Circular No.6 of 2013: http://www.sbp.org.pk/bprd/2013/C6.htm)

[22] Most of the advances flows have been absorbed by unrated corporate clients with 100 percent or 125 percent risk weights.

[23] As per Basel III instructions (general market interest rate risk), instruments of higher maturities attract higher risk weight.

[24] 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 Q1CY17

Historical low interest rates, growth momentum of non-seasonal fixed investment advances, and shifting pattern of government borrowing suggest better prospects for private sector financing in the Q1CY17. However, seasonal slowdown in demand for advances and net retirement in commodity financing may keep the overall advances growth in check.

The growth in investments is contingent upon the behavior of government borrowings from the banking system. The current trend of retirements from commercial banks, if continues in Q1CY17, suggests decline in stock of investments. On the funding side, deposit growth – which is generally aligned with pattern of advances flow – is expected to remain moderate in Q1CY17.

In the current environment, the profitability (and key indicators, such as ROA, ROE etc.) of the banking sector may come under pressure in the next quarter. Low interest rates, receding investments in government securities and maturity of high yielding PIBs is already having an impact on interest income of the banks and could keep their earnings in check in Q1CY17. Income from rise in advances during CY16 may, however, partially compensate the decline in returns on investments.

The solvency of the banking sector remains robust and is expected to remain so in Q1CY17. However, the sector needs to take into consideration a host of anticipated operational and regulatory developments. For example, the uptick in advances may lead to higher RWAs; pressure on profitability may constrain the plough back of retained earnings to capital base; and, as part of Basel-III implementation process, the regulatory CAR requirements are set to increase in the future. Banks need to keep a close watch on these developments and devise capital enhancement plans accordingly.

Fund based liquidity is expected to remain comfortable; while market liquidity (and banks' financial borrowing) will be largely driven by government's institutional choice for borrowing (SBP vs. commercial banks). Overall, the banking sector is expected to remain sound and resilient in the next quarter.

Annexure

Annexure A

Balance Sheet and Profit & Loss Statement of Banks

PKR million

Financial Position	CY12	CY13	CY14	CY15	Q2CY16	Q3CY16	CY16
ASSETS							
Cash & Balances With Treasury Banks	836,605	858,512	723,664	909,429	910,418	1,106,360	1,184,521
Balances With Other Banks	184,746	185,423	149,631	198,395	186,575	156,287	168,394
Lending To Financial Institutions	170,758	275,939	429,380	360,772	313,933	331,997	551,695
Investments - Net	4,013,239	4,313,323	5,309,630	6,880,765	7,821,344	7,624,525	7,509,164
Advances - Net	3,804,140	4,110,159	4,447,300	4,815,827	5,179,829	5,052,083	5,498,813
Operating Fixed Assets	248,673	259,800	277,030	310,102	318,147	320,935	336,376
Deferred Tax Assets	66,805	80,306	67,077	65,644	70,347	67,288	64,681
Other Assets	386,188	403,233	702,550	602,301	573,167	474,307	517,412
TOTAL ASSETS	**9,711,154**	**10,486,693**	**12,106,261**	**14,143,234**	**15,373,761**	**15,133,782**	**15,831,058**
LIABILITIES		-		-	-	-	-
Bills Payable	112,275	129,227	137,651	145,089	198,412	154,495	182,858
Borrowings From Financial Institution	1,027,098	722,643	1,001,447	1,766,145	2,304,736	2,011,892	1,942,458
Deposits And Other Accounts	7,293,698	8,310,529	9,229,773	10,389,260	11,024,200	11,092,103	11,797,867
Sub-ordinated Loans	55,160	40,070	44,329	51,366	54,683	61,525	59,330
Liabilities Against Assets Subject To Finance Lease	52	34	33	50	45	45	41
Deferred Tax Liabilities	70,399	19,731	37,149	47,622	68,081	64,445	61,109
Other Liabilities	270,262	321,690	448,432	420,935	416,624	424,917	434,598
TOTAL LIABILITIES	**8,828,945**	**9,543,923**	**10,898,816**	**12,820,468**	**14,066,782**	**13,809,423**	**14,478,261**
NET ASSETS	**882,209**	**942,770**	**1,207,445**	**1,322,767**	**1,306,980**	**1,324,359**	**1,352,797**
NET ASSETS REPRESENTED BY:							
Share Capital	427,583	482,091	587,053	619,862	579,168	580,073	579,882
Reserves	194,543	176,095	189,242	192,039	195,038	199,717	205,314
Unappropriated Profit	148,169	157,492	227,151	290,908	290,008	312,400	344,615
Share Holders' Equity	**770,295**	**815,678**	**1,003,446**	**1,102,809**	**1,064,215**	**1,092,189**	**1,129,812**
Surplus/Deficit On Revaluation Of Assets	111,914	127,102	203,999	219,958	242,765	232,169	222,985
TOTAL	**882,209**	**942,780**	**1,207,445**	**1,322,767**	**1,306,980**	**1,324,359**	**1,352,797**

PROFIT AND LOSS STATEMENT	CY12	CY13	CY14	CY15	Q2CY16	Q3CY16	CY16
Mark-Up/ Return/Interest Earned	792,749	777,398	919,821	981,760	474,920	701,993	938,026
Mark-Up/ Return/Interest Expenses	454,182	444,047	504,990	485,575	227,297	337,693	453,232
Net Mark-Up / Interest Income	**338,567**	**333,350**	**414,830**	**496,185**	**247,623**	**364,300**	**484,793**
Provisions & Bad Debts Written Off Directly/(Reversals)	39,668	40,162	25,323	38,874	9,692	10,128	5,305
Net Mark-Up / Interest Income After Provision	**298,899**	**293,188**	**389,507**	**457,311**	**237,930**	**354,172**	**479,489**
Fees, Commission & Brokerage Income	54,720	62,579	70,421	82,640	45,660	65,349	90,266
Dividend Income	21,630	14,599	14,098	16,910	8,635	12,061	17,187
Income From Dealing In Foreign Currencies	21,620	20,972	28,396	22,824	8,094	10,172	14,015
Other Income	39,602	41,941	54,434	86,369	40,734	57,253	74,260
Total Non - Markup / Interest Income	**137,572**	**140,091**	**167,349**	**208,743**	**103,122**	**144,835**	**195,728**
	436,471	433,280	556,856	666,053	341,052	499,007	675,217
Administrative Expenses	251,349	266,199	304,588	330,006	176,585	262,074	356,183
Other Expenses	6,100	4,633	5,726	7,231	2,241	3,661	5,003
Total Non-Markup/Interest Expenses	**257,450**	**270,832**	**310,313**	**337,237**	**178,826**	**265,735**	**361,186**
Profit before Tax and Extra ordinary Items	179,021	162,448	246,543	328,817	162,226	233,272	314,031
Extra ordinary/unusual Items - Gain/(Loss)	842.88	(4.64)	3.79	0.51	0.33	0.30	0.27
PROFIT/ (LOSS) BEFORE TAXATION	**178,178**	**162,453**	**246,539**	**328,816**	**162,226**	**233,272**	**314,030**
Less: Taxation	59,946	50,019	83,171	129,811	68,482	94,358	124,117
PROFIT/ (LOSS) AFTER TAX	**118,232**	**112,434**	**163,368**	**199,006**	**93,744**	**138,913**	**189,914**

Annexure B

Distribution of Deposits

PKR billion

	CY12	CY13	CY14	CY15	Q2CY16	Q3CY16	CY16
DEPOSITS	**7,294**	**8,311**	**9,230**	**10,389**	**11,024**	**11,092**	**11,798**
Customers	**6,972**	**7,975**	**8,886**	**9,943**	**10,518**	**10,629**	**11,199**
Fixed Deposits	2,078	2,216	2,268	2,425	2,463	2,535	2,670
Saving Deposits	2,642	3,094	3,467	3,863	4,047	4,253	4,342
Current accounts - Remunerative	343	381	323	331	389	379	409
Current accounts - Non-remunerative	1,868	2,241	2,764	3,254	3,518	3,376	3,685
Others	41	43	64	69	101	86	92
Financial Institutions	**321**	**336**	**344**	**446**	**507**	**463**	**599**
Remunerative Deposits	214	217	201	393	322	303	385
Non-remunerative Deposits	107	119	143	53	184	160	214
Break up of Deposits Currecy Wise	**7,294**	**8,311**	**9,230**	**10,389**	**11,024**	**11,092**	**11,798**
Local Currency Deposits	6,310	7,129	7,983	9,042	9,832	9,884	10,548
Foreign Currency Deposits	984	1,182	1,247	1,347	1,192	1,208	1,249

Annexure C

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

amount in PKR billion, ratio in percent

	Q3CY15			CY15			Q3CY16			CY16		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	3,281.3	440.6	13.4	3,533.9	433.7	12.3	3,689.5	443.6	12.0	4,056.7	431.3	10.6
SMEs Sector	273.7	86.5	31.6	318.3	83.0	26.1	335.3	84.7	25.3	404.6	82.1	20.3
Agriculture Sector	281.0	49.0	17.4	291.2	37.8	13.0	293.2	46.3	15.8	294.3	38.1	12.9
Consumer sector	328.9	34.1	10.4	335.6	29.0	8.7	359.9	33.3	9.3	371.8	30.2	8.1
i. Credit cards	24.1	2.4	9.9	24.7	2.4	9.7	27.1	2.5	9.2	28.3	2.3	8.3
ii. Auto loans	90.0	3.6	4.0	95.1	2.7	2.8	116.8	2.7	2.3	125.9	2.6	2.1
iii. Consumer durable	0.3	0.1	21.4	0.3	0.1	21.0	0.3	0.1	22.6	0.3	0.1	21.2
iv. Mortgage loans	54.0	13.4	24.9	54.4	13.5	24.8	61.8	12.1	19.6	61.6	10.9	17.7
v. Other personal loans	160.5	14.6	9.1	161.1	10.4	6.5	154.0	16.0	10.4	155.7	14.3	9.2
Commodity financing	636.9	7.0	1.1	594.1	7.0	1.2	635.6	4.6	0.7	619.3	4.6	0.7
Staff Loans	100.7	1.2	1.2	103.4	1.3	1.2	102.9	2.1	2.0	104.1	1.4	1.4
Others	148.2	11.5	7.8	153.7	13.7	8.9	157.8	16.7	10.6	162.1	17.1	10.5
Total	5,050.8	629.9	12.5	5,330.1	605.4	11.4	5,574.3	631.3	11.3	6,013.1	604.7	10.1

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

amount in PKR billion, ratio in percent

	Q3CY15			CY15			Q3CY16			CY16		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	478.1	48.9	10.2	473.8	40.3	8.5	571.7	51.6	9.0	548.1	41.7	7.6
Automobile/Transportation	57.6	12.8	22.2	53.3	12.3	23.1	82.5	12.2	14.8	95.3	12.6	13.2
Cement	63.2	8.8	13.9	57.6	7.4	12.8	60.3	6.9	11.4	71.7	6.8	9.5
Chemical & Pharmaceuticals	216.8	17.3	8.0	223.6	13.5	6.0	244.6	14.0	5.7	250.1	12.8	5.1
Electronics	71.2	11.9	16.8	81.2	10.5	12.9	70.8	12.2	17.2	78.2	13.3	17.0
Financial	136.6	9.0	6.6	148.1	9.6	6.5	168.2	10.5	6.3	182.6	10.5	5.8
Individuals	429.2	48.1	11.2	454.6	45.8	10.1	522.2	57.6	11.0	550.4	58.0	10.5
Insurance	0.1	0.0	1.2	0.4	0.0	0.2	3.5	0.0	0.0	3.0	0.0	0.0
Others	2,102.2	220.9	10.5	2,223.9	215.3	9.7	2,134.8	209.4	9.8	2,285.7	206.0	9.0
Production/Transmission of Energy	659.1	36.8	5.6	681.5	40.7	6.0	822.3	36.6	4.4	892.1	31.1	3.5
Shoes & Leather garments	24.9	4.0	16.0	25.4	3.8	15.0	24.4	3.7	15.3	27.2	3.8	13.9
Sugar	135.6	9.4	6.9	144.7	8.5	5.9	141.3	20.0	14.2	176.2	15.6	8.8
Textile	676.2	202.0	29.9	762.0	197.8	26.0	727.8	196.5	27.0	852.5	192.5	22.6
Total	5,050.8	629.9	12.5	5,330.1	605.4	11.4	5,574.3	631.3	11.3	6,013.1	604.7	10.1

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		CY14		CY15		Q3CY15		Q3CY16		CY16	
	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions	NPLs	Provisions
OAEM	13,785	26	15,260	-	17,475	-	25,692	-	27,098	-	22,599	-
Sub Standard	50,202	11,320	57,179	14,748	40,649	8,539	48,785	9,905	53,884	11,101	34,260	7,291
Doubtful	32,353	14,336	36,746	16,306	28,044	11,523	35,037	15,835	34,513	15,113	34,175	16,746
Loss	511,070	428,513	495,514	433,552	519,277	468,847	520,343	465,413	515,832	466,338	513,631	466,870
Total	607,410	454,195	604,698	464,606	605,444	488,909	629,856	491,153	631,326	492,553	604,666	490,907

** 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	CY14	Q3CY15	CY15	Q3CY16	CY16
CAPITAL ADEQUACY									
Risk Weighted CAR^	13.9	15.1	15.6	14.9	17.1	18.2	17.3	16.8	16.2
Tier 1 Capital to RWA	11.6	13.0	13.0	12.6	14.3	15.0	14.4	13.6	13.0
ASSET QUALITY									
NPLs to Total Loans	14.9	15.7	14.5	13.3	12.3	12.5	11.4	11.3	10.1
Provision to NPLs	66.7	69.3	71.5	77.1	79.8	81.8	84.9	82.7	85.0
Net NPLs to Net Loans	5.5	5.4	4.6	3.4	2.7	2.5	1.9	2.2	1.6
Net NPLs to Capital^^	26.7	23.1	19.9	14.7	10.1	10.0	7.7	9.1	7.3
EARNINGS									
Return on Assets (Before Tax)	1.5	2.2	2.0	1.6	2.2	2.6	2.5	2.1	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	26.6	25.8	23.8	23.8
ROE (Avg. Equity &Surplus) (After Tax)	9.6	15.1	14.2	12.4	16.1	15.7	15.6	14.2	14.4
NII/Gross Income	74.7	76.0	71.1	70.4	71.3	69.1	70.4	71.6	71.2
Cost / Income Ratio	52.7	51.1	54.1	57.2	53.3	46.9	47.8	52.2	53.1
LIQUIDITY									
Liquid Assets/Total Assets	36.1	45.5	48.4	48.6	49.2	53.8	53.8	55.6	53.7
Liquid Assets/Total Deposits	47.1	59.5	64.5	61.3	64.5	74.8	73.3	75.9	72.1
Advances/Deposits	61.6	53.6	52.2	49.5	48.2	46.7	46.4	45.5	46.6

^ Data for Dec-13 and onwards is based on Basel III, and data from CY08 to Sep-13 is based on Basel II with the exception of IDBL,PPCBL, and SME Bank, which is based on

^^ 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

Compliance status of MCR and CAR as of Dec 31, 2016			
			amount in PKR million, ratio in percent
CAR - Minimum required = 10.25%			
1	Total Assets		15,831,058
2	Compliant banks	Assets	15,421,992
		Share in Assets	97.42%
		Number of banks	30
3	Non-Compliant banks	Assets	409,066
		Share in Assets	2.58%
		Number of banks	4
MCR			
1	Total Assets		15,831,058
2	Compliant banks	Assets	15,818,762
		Share in Assets	99.92%
		Number of banks	32
3	Non-Compliant banks	Assets	12,296
		Share in Assets	0.08%
		Number of banks	2

Annexure F

Group-wise Composition of Banks

Q3CY15	CY15	Q3CY16	CY16
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 (21)**
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[##]	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 Taraqiati Bank Ltd.	Zarai Taraqiati Bank Ltd.	Zarai Taraqiati Bank Ltd.	Zarai Taraqiati Bank Ltd.
All Commercial Banks (32)	**All Commercial Banks (31)**	**All Commercial Banks (31)**	**All Commercial Banks (30)**
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 (34)**
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.

[##] Burj Bank Ltd was aquired by Al Baraka Bank on October 30, 2016.

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