

## Commercial Banks

### Tax Imposed on Windfall Gains Through FX Income for Banks

- In a major development, Federal Board of Revenue (FBR) has notified 40% tax on Banks' Foreign Exchange (FX) income through SRO after Federal Cabinet approved the said measure last week.
- To note, in Federal Budget 2024 Government had already introduced Section 99D in Finance Act 2023 to tax extraordinary income of specified sectors by up to 50%. As a result, through the SRO issued, tax is now applicable of Banks' Windfall (WF) earnings falling under Section 99D of Finance Act.
- The Government is targeting total tax collection of nearly PKR 42bn through this one-time tax as per newsprint media. Banks are required to deposit the tax amount by 30-Nov-2023 and will likely book it in 4QCY23. The date may be extended by 15 days (15-Dec-2023), if valid justification is provided to the Commissioner of income tax.

#### FBR notifies SRO imposing 40% tax on banks' FX income

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#### Tax on FX income to be calculated based on Arithmetic Mean

As against previously expected of tax to be applied of FX income, the SRO provides a formula for calculating WF earnings based on Arithmetic Mean (AM) of last six years. According to the SRO, Banks' FX income of CY21 and CY22 and AM for last 6 years will be used to calculate WF Income for respective years. To highlight, any loss reported in a particular year would be excluded along with number of year (s) from the AM calculation.

#### Analyst

Abdullah Farhan  
[Abdullah.farhan@igi.com.pk](mailto:Abdullah.farhan@igi.com.pk)

WF Income CY21 = FX Income 2021- AM 2022\*

WF Income CY22 = FX Income 2022- AM 2023\*\*

\*AM2022 = (FX 2015+FX 2016+FX 2017+FX 2018+FX 2019+FX 2020)/6

\*\*AM2023 = ((FX 2016+FX 2017+FX 2018+FX 2019+FX 2020+(FX 2021-WF Income CY21))/6

### WF tax to have negative impact on earnings

The imposition of WF tax on Banks' FX income is likely to have negative impact on banks earnings. Based on the WF income of all bank under our coverage, we estimate AKBL to be most impact followed by BAFL and HBL. However, MEBL is likely to be least impact due to lower FX gains.

Exhibit: Windfall gain tax impact on local Banks								
PKR mn	AM 2021	AM 2022	WF Income 2021	WF Income 2022	Total WF Income (CY21/CY22)	40% WF Tax	Tax (PKR/Share)	CY23E EPS %
AKBL	1,516	1,629	1,609	3,865	5,474	(2,190)	(1.51)	-10%
BAFL	2,036	2,146	2,092	7,072	9,164	(3,666)	(2.32)	-9%
HBL	2,094	1,930	3,286	10,016	13,302	(5,321)	(3.63)	-8%
ABL	1,234	1,301	739	6,647	7,386	(2,954)	(2.58)	-8%
BAHL	1,366	1,475	1,604	5,767	7,371	(2,948)	(2.65)	-7%
MCB	2,130	2,328	1,717	7,260	8,977	(3,591)	(3.03)	-6%
UBL	3,146	3,239	1,006	5,356	6,362	(2,545)	(2.08)	-4%
FABL	1,769	1,903	610	945	1,555	(622)	(0.41)	-3%
MEBL	1,674	1,708	1,484	1,909	3,393	(1,357)	(0.76)	-2%

Source: IGI Research, Company Financials

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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## Contact Details

### Equity Sales

Zaeem Haider Khan	Head of Equities	Tel: (+92-42) 35301405	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

### Research Team

Abdullah Farhan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
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Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |  
 Corporate member of Pakistan Mercantile Exchange Limited  
 Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
 Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
 UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
 Fax: (+92-21) 35309169, 35301780

#### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
 Stock Exchange Road, Karachi.  
 Tel: (+92-21) 32429613-4, 32462651-2  
 Fax: (+92-21) 32429607

#### Lahore Office

Shop # G-009, Ground Floor,  
 Packages Mall  
 Tel: (+92-42) 38303560-69  
 Fax: (+92-42) 38303559

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
 Block- B, Jinnah Avenue, Blue Area  
 Tel: (+92-51) 2604861-2, 2604864, 2273439  
 Fax: (+92-51) 2273861

#### Faisalabad Office

Office No. 2, 5 & 8, Ground Floor, The  
 Regency International 949, The Mall  
 Faisalabad  
 Tel: (+92-41) 2540843-45

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
 Model Town, Town Hall Road  
 Tel: (+92-68) 5871652-3  
 Fax: (+92-68) 5871651

#### Multan Office

Mezzanine Floor, Abdali Tower,  
 Abdali Road  
 Tel: (92-61) 4512003, 4571183

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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