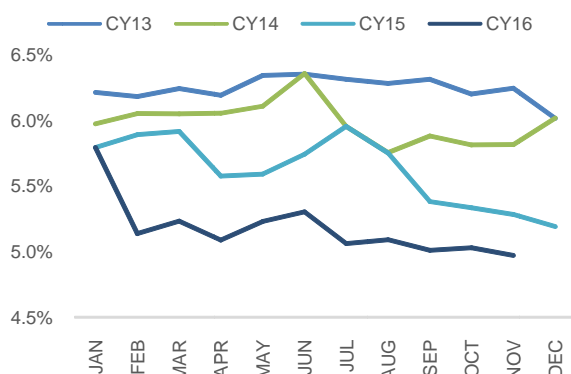


Day Break

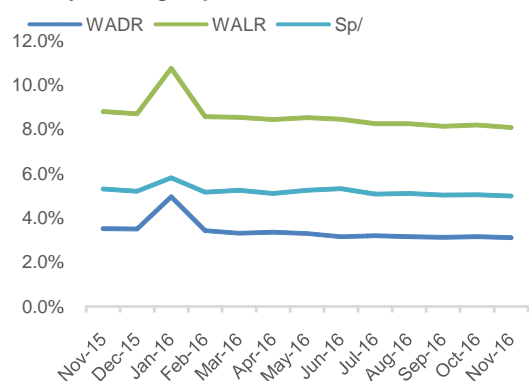
Wednesday, 28 December 2016

Sector Update

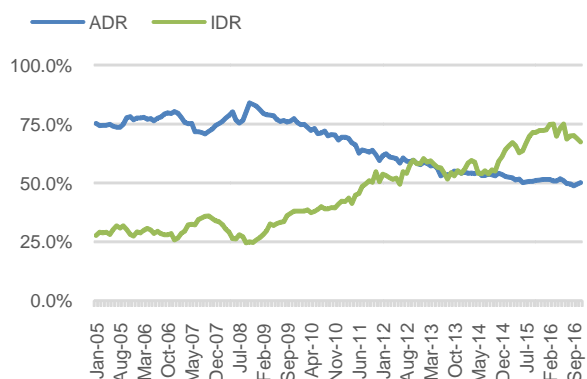
Yearly Spread Comparison



Monthly Lending/Deposit Rate



Banking Sector Asset Mix



Commercial Banks

Banking Spreads drops to a decade low; Sector outlook remain Positive

- Banking sector outstanding spreads stood at +4.97%, almost a decade low.
- During 11MCY16, the spread between outstanding lending rate and fresh lending rate further increased to 132bps compared to +101bps in 11MCY15. As of period, average fresh lending rate stood at +7.23% (+8.93% in 11MCY15) compared to +8.54% (+10.01% in 11MCY15).
- Banks Advances-to-Deposit Ratio (ADR) remains relatively consistent, with Nov-16 ADR clocking in at +50%, despite a healthy +14%YoY growth witnessed in banks' advances. Compared to Investment-to-Deposit Ratio (IDR) of ~67% (down from a high of ~74% in 1QCY16).

Spreads hit all-time low; Nov-16 at 4.97%

After witnessing a consecutive uptick, banking sector outstanding spreads stood at decade low of +4.97%, whereas fresh spreads are down to +3.29%. For the period 11MCY16, average lending rate declined to +8.54% (+10.01% in 11MCY15) down by 146bps, compared to average deposit rate decline by 99bps, to +3.37% (+4.35% in 11MCY15).

Fresh lending even lower; hinting better loan growth in CY17

During 11MCY16, the spread between outstanding lending rate and fresh lending rate further increased to 132bps compared to +101bps in 11MCY15. As of period, average fresh lending rate stood at +7.23% (+8.93% in 11MCY15) compared to +8.54% (+10.01% in 11MCY15). Higher spread between fresh and outstanding lending rate is indicative of lending easiness. Henceforth we remain optimistic on advances growth in CY17.

Deposit Growth Printed +6%YoY; Asset Mix improved

Banks Advances-to-Deposit Ratio (ADR) remains relatively consistent, with Nov-16 ADR clocking in at +50%, despite a healthy +14%YoY growth witnessed in banks' advances. Compared to Investment-to-Deposit Ratio (IDR) of ~67% (down from a high of ~74% in 1QCY16). Although we, foresee banks advances to keep the growth trend, given low interest environment, however, steady deposit (excluding Nov-16, average deposit for 11MCY16 stood at ~19%YoY) will keep asset mix relatively unchanged at current levels.

Source: Bloomberg, SBP, KSE 100 & IGI Research

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Exhibit: Advances growth

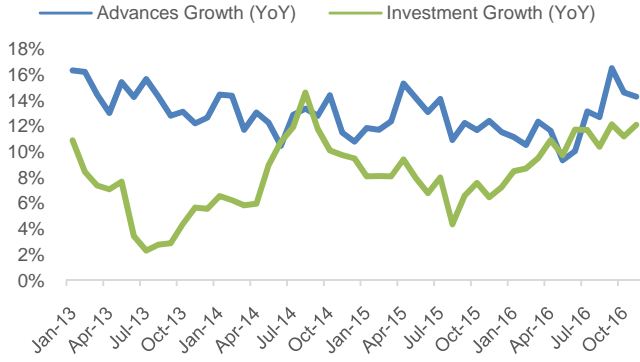
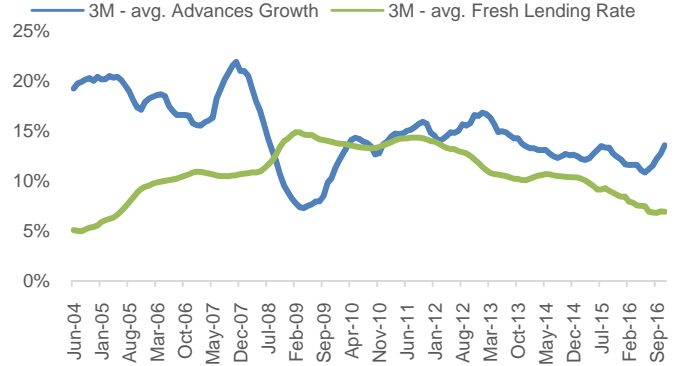


Exhibit: Fresh Lending rate down to multiyear low level, prospects for advances to pick-up



Source: IGI Research, SBP

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