

VIS

Credit Rating Company Limited

DFI SECTOR UPDATE

Development Finance Institutions (DFIs) are specialized financial institutions established to provide long-term financing for projects and sectors that are typically underserved or avoided by commercial banks due to higher risk, longer gestation periods, or limited short-term profitability. All DFIs in Pakistan are either wholly or partly owned by the Government of Pakistan (GoP). Among those that are partially owned, the most prevalent arrangement is a joint venture (JV) with another sovereign state. DFI's performance has remained under pressure due to structural limitation, negligent of concessional or long-tenor capital, risk-averse operating models despite having been set up with core development mandates, and the crowding out effects of fiscal requirements affecting the entire financial sector. By Dec'24, the industry witnessed a 15.3% (Dec'23: 63.3%↑) contraction in its asset base, primarily manifested in 18.6% (Dec'23: 73.3%↑) drop in investments—mainly in government securities, which made up 83.2% (Dec'23: 86.6%) of total assets.

Although advances grew modestly by 1.5% (Dec'23: 0.1%), they remained a small part of the overall asset book, at only 9.7% (Dec'23: 8.0%) of assets. Public sector lending, especially housing finance by a single DFI, supported this limited growth, while private sector advances declined by 0.7%. Investment composition shifted towards longer-tenor Pakistan Investment Bonds (PIBs), as institutions sought to mitigate the impact of declining yields. Simultaneously, short-term Market Treasury Bills (MTBs) dropped by 79.4%.

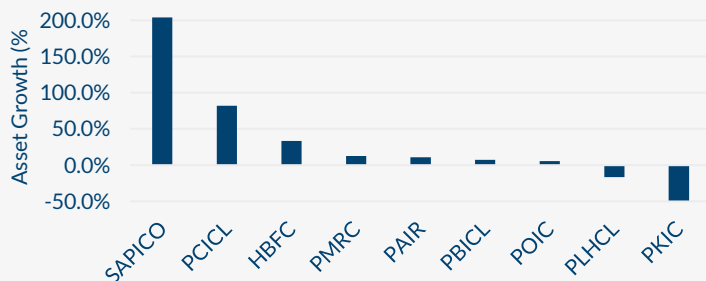
Earnings remained healthy despite a shrinking asset base. Net markup income remained relatively stable at PKR 25 billion, while non-markup income rose sharply, driven by a 79.8% increase in dividend earnings—largely attributed to one DFI's stake in a major Islamic bank. This contributed to a 34.7% rise in after-tax profits, pushing ROA to 1.2% and ROE to 17.1%. However, net profit margins narrowed due to relatively sticky funding costs amid falling returns on earning assets. Asset quality showed some deterioration, with the NPL ratio rising to 8.0% (Dec'23: 7.4%) and provisioning coverage falling to 78.6% (Dec'23: 114.8%).

The sector remains well-capitalized, with a capital adequacy ratio (CAR) of 52.5% (Dec'23: 43.3%), well above the 11.5% minimum requirement. DFIs in Pakistan continue to face structural challenges, including limited access to deep capital markets for long-term funding, a low national savings rate, and the absence of concessional funding mechanisms that are available to their counterparts in other jurisdictions. In the medium term, declining yields on government securities, may exert pressure on future earnings. In response, DFIs are investing in areas such as digital banking, venture capital, and Islamic finance to align more closely with evolving market needs. Despite ongoing macroeconomic uncertainty, there are emerging investment opportunities in green finance, infrastructure development, and public-private partnership (PPP) models. Realizing this potential will require a supportive regulatory environment and a strategic repositioning of DFIs to more effectively fulfill their original mandate of promoting long-term, inclusive development.

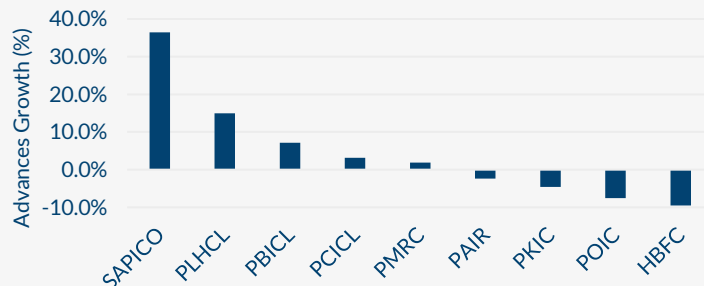
FINANCIAL SOUNDNESS INDICATORS (PKR in Millions)				
BALANCE SHEET	31-Dec-22	31-Dec-23	31-Dec-24	31-Mar-25
Net Advances	188,075	188,208	191,059	194,281
Investments (net)	1,168,014	2,024,569	1,647,707	1,267,241
Total Assets	1,431,456	2,338,141	1,979,484	1,578,856
Borrowings	1,223,015	2,117,221	1,651,600	1,257,212
Deposits	38,116	45,053	78,442	57,525
Total Liabilities	1,286,291	2,193,912	1,788,709	1,381,717
Paid up Capital	84,571	84,581	97,796	97,796
Equity (Excl. revaluation)	151,814	139,700	183,944	190,591
Total Equity	145,165	144,229	190,775	197,138
INCOME STATEMENT	CY22	CY23	CY24	1QCY25
Net Markup Income	13,538	26,023	24,889	14,085
Total Non - Markup Income	13,732	12,889	22,357	3,373
Profit Before Tax	18,429	28,296	36,931	14,407
Profit After Tax	14,143	20,279	27,323	10,431
RATIO ANALYSIS	CY22	CY23	CY24	1QCY25
Gross infection (%)	7.3%	7.4%	8.0%	8.2%
Provisioning Coverage (%)	87.9%	114.8%	78.6%	103.0%
Net Infection (%)	0.9%	-1.2%	1.9%	-0.3%
Net NPL/ Capital	1.2%	-1.6%	1.9%	-0.3%
Liquid Assets/ Borrowing	91.2%	94.4%	99.4%	97.8%
Tier 1 CAR (%)	35.9%	41.6%	50.5%	54.2%
CAR (%)	36.5%	43.3%	52.5%	56.3%
ROA (after Tax) (%)	1.6%	0.9%	1.2%	2.3%
ROE (after Tax) (%)	10.1%	13.3%	17.1%	21.5%
Policy rate (%)	16.0%	22.0%	13.0%	12.0%



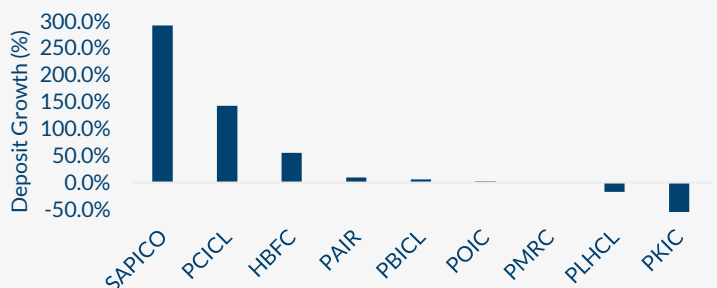
Asset Growth YoY - FY 2024



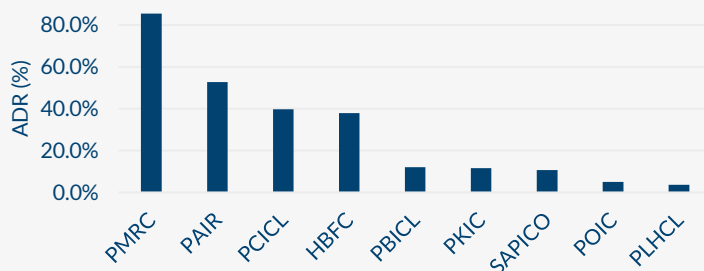
Advances Growth YoY - FY 2024



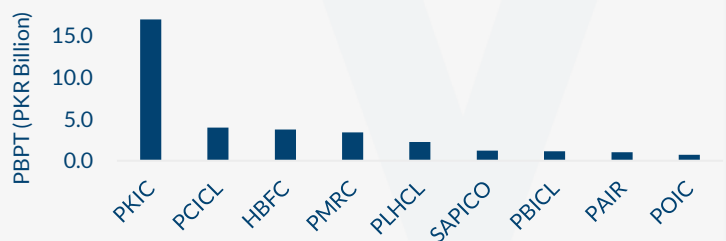
Borrowings Growth YoY - FY 2024



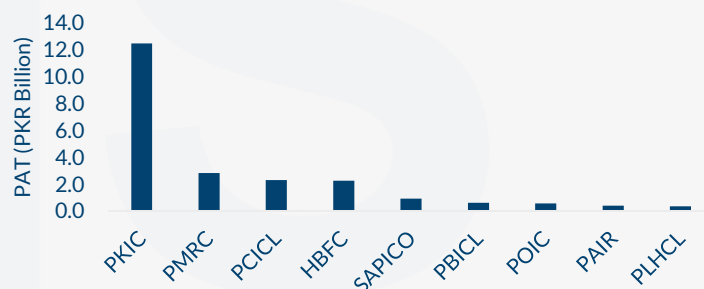
Advance to Borrowings Ratio - FY 2024



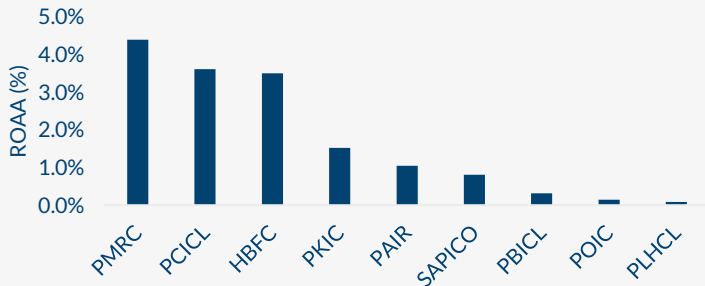
Profit/(Loss) before Provisions and Tax - FY2024



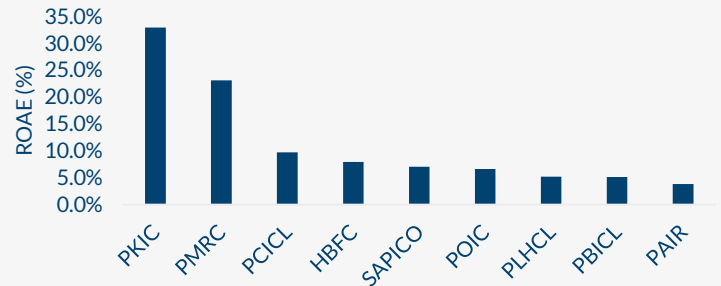
Profit/(Loss) after Tax - FY 2024



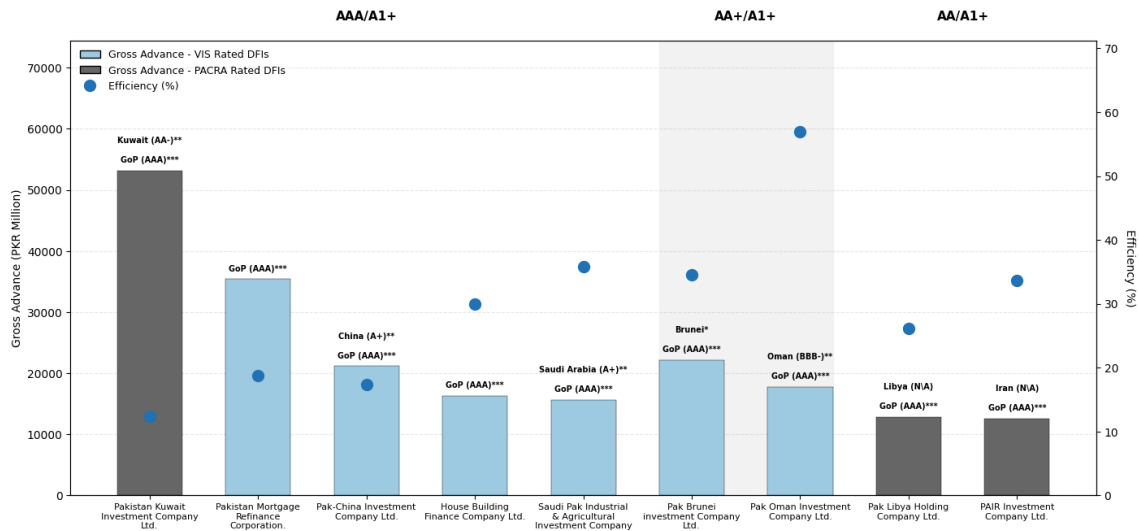
Return on Average Asset - FY 2024



Return on Average Equity - FY 2024



DFI Gross Advance and Efficiency Analysis



* Previously rated by RAM Ratings on regional scale in 2018
 ** Global scale
 *** Local scale

REFERENCES:

- SBP Financial Soundness Indicators and Quarterly Compendium of the Banking System
- SBP Financial Stability Review – 2024

RESEARCH & PUBLICATIONS

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