FIRST HALF
2012

FINANCIAL STABILITY REVIEW

State Bank of Pakistan

FSR Team

Team Leader

Muhammad Javaid Ismail	javaid.ismail@sbp.org.pk

Team Members

Rizwana Rifat	rizwana.rifat@sbp.org.pk
Muhammad Shamil Akbar	muhammad.shamil@sbp.org.pk
Muhammad Sadiq Ansari	sadiq.ansari@sbp.org.pk
Ghulam Khadija	ghulam.khadija@sbp.org.pk
Imran Malik	imran.malik@sbp.org.pk
Muhammad Inaam Ashraf	inaam.ashraf@sbp.org.pk

Financial Stability and State Bank of Pakistan

Under State Bank of Pakistan (SBP) Act, 1956 the SBP is *responsible for securing monetary stability and soundness of the financial system*.

Financial stability is defined as a situation in which the function of efficient financial intermediation and payment services continues without disruptions despite internal and external shocks, and financial risks are monitored and managed well such that the possibility of systemic crises is minimized. The SBP sees financial stability as an evolving process, as the financial sector adapts itself to the needs of the economy and financial globalization.

Efficient financial intermediation and access to financial services across all segments of the population is the ideal situation in which economic growth can thrive. The significance of the financial sector is even more crucial given its inter-linkages with the real sector. SBP being the leading regulator of the financial sector strives to play a facilitating role in the growth of the sector. The confidence of economic agents in the financial sector's ability to meet their financial needs in a convenient and secure manner is also important for maintaining and promoting financial stability. The SBP works closely with the Securities and Exchange Commission of Pakistan (SECP), Pakistan Banks' Association (PBA), the Federal Government, and other regulatory bodies in achieving this goal.

Ensuring financial stability also complements the other important SBP objective of securing monetary stability. It is a tall order to imagine monetary stability in the absence of financial stability. Financial Stability Report (FSR), a biannual publication provides an assessment of financial stability issues and pitches input for policy initiatives. The report gives an independent perspective and commentary on the state of financial stability by providing an objective view on the developments in the financial sector, and giving an in-depth analysis of issues relevant to the financial institutions and markets. It also endeavors to promote informed public debate on various aspects of the financial system.

State Bank of Pakistan welcomes feedback and comments on the FSR.

Acknowledgements

The FSR team is highly indebted to Mr. Yaseen Anwar, Governor, State Bank of Pakistan for his encouragement and guidance. We are also thankful to Mr. Qasim Nawaz, Executive Director, Banking Supervision Group and Ms. Lubna Farooq Malik, Director Off-Site Supervision and Enforcement Department for their continuous support and supervision in the preparation of this report. The team is also grateful to members of Publications Review Committee (PRC) for providing invaluable feedback on the report.

The team would also like to thank Ms. Sarwat Amir, Deputy Director of the Off-site Supervision & Enforcement Department for contributing technical analysis to the review. Data support from Payment Systems Department, Statistics and Data Warehouse Department, Monetary Policy Department, and Domestic Markets and Monetary Management Department is also duly acknowledged.

We are also grateful to Securities & Exchange Commission of Pakistan for providing relevant data and technical information on the Insurance sector and Non-banking Financial Institutions.

The team bears the responsibility for all errors and omissions. The analysis and commentary in the report are entirely of the team and not necessarily represent views of the State Bank of Pakistan.

Data Conventions & Coverage

The Financial Stability Review (FSR) examines performance and risk analysis of various components of the financial sector on half yearly basis. The report uses two terminologies; CY for Calendar Year and FY interchangeably for Financial Year (in case of NBFCs) and Fiscal Year (July 1 – June 30).

The review is based on the data reported in audited or unaudited accounts for each component as follows:

- Banks (Conventional and Islamic), Development Finance Institutions (DFIs), Microfinance Banks, Financial Markets, Mutual Funds, Payment Systems and Insurance industry data is based on half-yearly accounts ended June 30, 2012.
- Data on NBFC's including Leasing, Investment Finance Companies and Modarabas is based on annual audited accounts for financial year ended June 2012 (termed as FY12).

Contents

- Financial Stability: Overview and Outlook 01
- Chapter 1: Assessment of Financial Intermediation 07
- Chapter 2: Risk Analysis of the Banking Sector 14
- Chapter 3: Soundness and Resilience of the Banking Sector 24
- Chapter 4: Islamic Banking 32
- Chapter 5: Financial Markets 36
- Chapter 6: Non-Bank Financial Institutions 42
- Chapter 7: Insurance and Reinsurance Sector 58
- Chapter 8: Payment Systems 65
- Annexes 70
- Acronyms 104

Financial Stability	Overview and outlook

The financial sector exhibited a modest growth during H1-CY12, despite uncertainties both at domestic and external front. Notwithstanding, this development, risks to the financial stability marginally increased as financing of twin deficits and unresolved structural issues[1] directly affected the financial sector and exerted pressure on financial markets. The enhanced reliance of the Government on financial sector for meeting the fiscal gap tilted the concentration of financial sector's balance sheet towards the public sector. Private sector credit contracted amid lower than expected economic growth[2] and high credit risk. The operating performance of the financial sector remained steady mainly driven by unprecedented profits of banks. The solvency indicators of banks remained robust though few banks faced challenges in meeting capital requirements. Further, a number of NBFIs continued to pose solvency concerns.

The **financial sector** registered a moderate growth of 6.5 percent during H1-CY12 (Table 1). Though, the growth in assets was broad based, major contributions came from banking sector and mutual funds. The balance sheet of the financial sector exhibited general risk aversion as flow of private sector credit contracted and overall asset quality worsened. The increase in earnings of the banking sector edged up the Return on Assets (ROA) of the system by 11 bps to 1.5 percent during H1-CY12.

Table 1: Assets Composition of the Financial Sector

	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12
Assets (Rs. Billion)	5,202	6,028	7,117	7,712	8,867	9,655	11,107	11,818
Growth rate (percent)	15.1	14.5	19.4	8.4	15.0	8.9	15.0	6.5
Percent of total assets								
MFIs	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
NBFIs	7.6	7.8	8.0	7.6	5.3	4.4	4.7	5.2
Insurance	3.9	4.1	4.6	4.4	4.4	4.4	4.3	4.3
CDNS	18.0	16.1	14.6	14.8	16.6	17.3	17.2	17.0
Banks	70.4	71.9	72.7	73.0	73.5	73.8	73.6	73.2
Assets as percent of GDP								
MFIs	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
NBFIs	5.6	5.7	6.0	5.1	3.4	2.6	2.7	3.0
Insurance	2.9	3.0	3.4	3.0	2.8	2.6	2.5	2.5
CDNS	13.3	11.8	11.0	9.9	10.7	10.2	9.9	9.7
Banks	51.8	53.4	54.7	49.0	47.3	43.3	42.2	41.9
Overall assets	73.7	74.0	75.2	67.2	64.4	58.8	57.4	57.2

In terms of composition, **banks** continued to dominate the financial sector, albeit a marginal decline in percentage of total assets. Given its large share and strong inter-linkages with other financial institutions and markets, the stability of the financial sector was largely driven by the performance and soundness of banks. The banking sector registered a decent growth of 5.9 percent during H1-CY12 on the back of rising deposits and improvements in the equity. The performance of the sector remained steady aided by healthy earnings, strong fund based liquidity, and high capital levels. However, the sector remained exposed to high credit risk, increasing concentration of government exposure on banks' balance sheets and decelerating interest margins.

[1] The unresolved structural issues include accumulating circular debt, losses stemming from public sector enterprises and higher interest payments (due to rising volume of government securities) on the public debt which continue to add to huge deficit being run by the Government, financed through borrowings from financial sector, which adversely affected private investment.

[2] Pakistan economy advanced at a modest rate of 3.7 percent during CY12 against the actual target of 4.3 percent.

The increasing concentration of public sector credit and dwindling flow of credit to private sector continued to reshape the asset-mix of the banking sector. The share of public sector exposure (investments plus loans) on banks' balance sheet almost matched that of private sector by the end of H1-CY12. Particularly, all of the 6.7 percent increment in advances came from disbursements to public sector enterprises (PSEs), that surged the public sector advances by 60 percent and its share in total advances to 21.5 percent in H1-CY12 (14.1 percent in Dec-11). Though this lower risk portfolio allowed banks to manage risk on their balance sheets in the prevailing difficult environment, it also limited asset diversification and financial intermediation between private savers and borrowers.

During the half year, the private sector credit contracted by 2 percent. This outcome came as a no surprise given the lackluster performance of the real sector; and low[3] businesses confidence due to security concerns, persistent energy shortages and rising local and geo political uncertainties. Further, the first half of the calendar year is usually marked with credit slow down owing to seasonal retirements by the leading borrowing segments. Accordingly, the private sector advances observed an all-around decline, particularly in working capital and trade finance. In addition to a widespread scaling down in businesses, the receding demand in working capital may also be attributed to a reduction in global prices (of metal, energy, and agriculture) and moderation in domestic inflation particularly the wholesale prices.

The trade finance witnessed a decline partly due to net retirements under Export Refinance (ERF), narrowing gap between refinance rates and market's mark-up rates, and rationalization of refinancing performance criteria. Similarly, the dip in the SME financing was on account of net retirements by the textile sector due to lower cotton prices and subdued export performance[4]. In addition, the government's heavy reliance on bank financing and economic slowdown, SMEs seem to be a low priority area for the banking sector. As such, SMEs continued to face problems in securing bank credit. The revenues of cement sector improved owing to sharp rise in retail prices of the cement, which contracted the demand for working capital loans of the sector. Sugar sector, however, observed increased flow of private sector financing largely resulting from usual seasonal pattern of credit demand and delayed start of the crushing season.

The demand for public sector advances mainly came from seasonal commodity procurement and production & transmission of energy (PTE). The stock of seasonal commodity finance surged to historically high levels, despite financing cushion created through one-off settlement[5] in H2-CY11. With increase in wheat support price[6] in the second half of 2012 and higher urea imports, the demand for commodity finance is expected to touch new highs in next season. Further, in wake of looming energy crisis and consequent rise in inter-corporate circular debt, banks' advances to PTE saw a sharp increase of 31 percent raising its share in overall advances to 12 percent. The concentration of advances to energy sector raised concerns, as most of the structural issues remained unresolved. The advances extended for public sector commodity operations and energy sector were generally backed by Government guarantees that may lead to further accumulation of additional government debt on banks' balance sheets. The increasing concentration of investment in Government securities is already posing re-investment risk that already materialized with the decline in market interest rates and deceleration in interest margin over the second half of CY12.

[3] Overseas Investors Chamber of Commerce and Industry – Newsletter (November 2012)
Source: http://oicci.org/wp-content/uploads/2012/11/OICCI-nov2012.pdf

[4] Please see The State of Pakistan's Economy - Third Quarterly Report 2011 – 2012.

[5] Government made a one of settlement of Rs 78 billion of unpaid subsidy related to public sector commodity operation through issuance of Government bonds to banks in November, 2011, which provided cushion for further commodity financing.

[6] The government enhanced the wheat support price from Rs.950/40 kg to Rs.1050/40 kg in November 2011. Moreover, the Economic Coordination Committee (ECC), Government of Pakistan has further raised the support price of wheat to Rs.1200/40kg in November 2012.

Credit risk increased further during H1-CY12 as a sizeable increase in NPLs pushed the infection rate up by 20 bps to 15.9 percent. With the influx of fresh NPLs, the provisions coverage declined to 66.3 percent and net NPLs edged up by 57 bps to 6 percent. The top five banks contributed towards most of the increase in NPLs, mainly in their corporate and SME portfolio. The continuing energy crisis, limited availability of natural gas, prevailing law and order situation and increasing cost of doing business kept on having its toll on the textile sector. The sector continued to add to the asset quality concerns of the banking system as its infection rate surged by 380 bps to 32 percent over the half year.

During H1-CY12, the deposits of the banking system registered a 9 percent growth while reliance on borrowings saw some let up. The driving factors behind the rise in deposits were consistently growing workers' remittances and strong 11 percent growth in foreign currency deposits due to 5.2 percent depreciation of PKR. The maturity profile of the deposit revealed a skewed growth in shorter maturities. The CASA deposits, which are transactional in nature, contributed mostly toward increase in fresh deposits, more so in the second quarter of CY12. Even the slow growing fixed deposits observed growth in short term deposits. This phenomenon reflects banks' marketing efforts to book short-term deposits in the backdrop of declining interest rate scenario and depositors' preference for liquidity without jeopardizing some minimum returns.

The borrowing from financial institutions declined in the period under review as government decreased reliance on banking sector for budgetary borrowings. The relative ease in the market liquidity towards the end of H1-CY12 and healthy deposit growth enabled banks to make net retirement to financial institutions during the period under review as against the net borrowing in previous half. Equity of the banking system that saw a moderate growth at the back of steady profits also provided support to the overall funding of the system.

The funding liquidity risk of the banking sector stayed well contained due to large stock of government bonds and steady flow of customer deposits. However, market liquidity remained constrained due to high and rising demand for funds from public sector and sluggish foreign inflows. Banks, therefore, preferred placement of government paper in Available for Sale (AFS) category of investment to enhance their ability to meet the liquidity needs albeit a lower capital charge. The strain in market liquidity led SBP to make substantial injections, during the first quarter of CY12. The injections subsided remarkably by end of second quarter as seasonal financing picked up and government increased its reliance on central bank borrowing. Despite slow down in investments in government securities, the base line liquidity indicators remained steady with marginal softening. The sensitivity analysis confirms that banks would stand resilient towards various liquidity shocks

The banking sector continued to sustain appreciable growth in earnings during the period under review, due to higher non-interest income and lower provisioning charge, though interest margins observed a deceleration. The pre-tax profits of banks improved YoY by 27 percent to Rs 98 billion in first half of 2012. The net interest margin (NIM) of banks was down YoY by 68 bps to 4.83 percent, mainly due to decrease in interest rates. However, higher non-interest income due to improved corporate dividends, gain on sale of securities, and decrease in provisions offset the impact of lower NIM. As a result, before-tax return on assets (ROA) edged up to 2.4 percent for H1-CY12 compared to 2.1 percent in the corresponding period last year.

Solvency position of the banking system remained steady and strong. The accumulation of profits and slow growing Risk Weighted Assets (RWA) aided in maintaining the Capital Adequacy Ratio (CAR) high at 15.1 percent during H1-CY12 well above the required minimum of 10 percent. Though most banks met the CAR, some continued to face challenges in strengthening their capital for meeting the prescribed regulatory Minimum Capital Requirement (MCR). Further, with the decline in provisioning coverage due to deterioration in asset quality, risk to banks' solvency increased as capital impairment ratio edged up by 230 bps to 26.5 percent. The banking sector, however, is expected

to remain resilient in various stress scenarios due to strong capital position, though severe credit risk shock may bring a few banks under stress.

Islamic banks continue to make steady progress towards expanding their share in the overall banking industry, thanks to robust growth in deposits. The assets of Islamic banks expanded at almost double the pace of overall banking sector, which increased its share in total assets of the banking system by 54 bps to 8.2 percent during H1-CY12. An accelerated 16 percent surge in deposits provided for augmentation in asset base. The substantial flow of funds and ample available liquidity allowed Islamic banks to invest heavily in Government Ijara Sukuks. This not only facilitated Islamic Banking Institutions (IBIs) in improving liquidity management, but also enhanced the overall share of investment in the IBIs balance sheets to 48 percent. However, financing saw a marginal decline as flows to private sector subsided in line with overall risk aversion in the industry and deterioration in assets quality over the period due to increasing infection in few economic sectors.

The profit before tax of IBIs improved by 18 percent to Rs 5.9 billion during H1-CY12 owing to increasing investment income, non-mark-up income, and decline in provisions. However, ROA dipped marginally by 16 bps to 1.78 percent due to deceleration in financing margins and increasing cost. With rising retained earnings and assets growth mainly in risk free government securities, the solvency of IBI improved as evident from 16 bps increase in CAR to 18.1 percent.

The rising financial needs of the public sector and uncertain financial inflows also exerted pressure on **financial markets**. The surge in money market activities forced the central bank to make huge injections on continuous basis to ease out the market liquidity. The foreign exchange market also remained volatile on account of modest yet growing current account deficit and limited financial inflows, which dipped the foreign exchange reserves. In addition, foreign portfolio investment (FPI) declined despite substantial uptick in the equity markets. This coupled with market sentiments led to 5.2 percent depreciation of the PKR against the USD.

In contrast, the bullish equity market activity led to considerable improvement in stock indices during the H2-CY11. Stock markets in Pakistan actually outperformed the other leading advanced and emerging markets stock market during the first half of CY12. Much of the improvement in the index resulted from favorable corporate announcements, healthy payouts, promulgation of Capital Gains Tax Ordinance[7] and renewed institutional buying.

The improvements in the equity market and consistent flows of investments in government securities enhanced the asset base of the Non Banking Financial Institutions (NBFIs) by 30.2 percent during FY12. The phenomenal increase in net asset value (NAV) of mutual funds along with healthy growth in DFIs and Modarabas boosted asset base of NBFIs sector for second consecutive year. Borrowing continued as a major funding source of the sector, though deposits also picked up for leasing sector. Much of the growth in MFs was driven by enhanced interest in money market and income funds, due to their competitive returns and ample supply of risk free Government bonds. This combined with the tax incentives made the mutual funds more attractive for the institutional as well as the retail investors. However, the extraordinary rise in investments in volatile Money Market Funds (MMFs) and income funds (double the value in FY11) could have ramification for both mutual funds industry and the overall financial stability[8]. With the changes in tax regime[9] and expected changes in regulatory framework for the banks (discussed in detail in

[7] The ordinance to amend certain fiscal law (Ordinance III of 2012) was promulgated in April 2012 that later became the part of Finance Bill 2012.
[8]Recent report of IOSCO on MMFs provides a range of policy options including capital and liquidity requirements as per their risks to the financial stability.
[9]The income of banks is presently taxed as per the corporate tax rates, i.e., @35% of income before tax. However, the income generated by banks from investment in mutual funds was taxed at 10%. As per section 15 (61) of Finance Act 2012, dividend received from Money Market Funds and Income Funds shall be taxed at the rate of 25% for tax year 2013 and at the rate of 35% for tax years 2014 and onwards.

FSR of H2-2011)[10], the fund managers need to give due consideration to these developments while devising their future strategy.

NBFIs (excluding Mutual funds) observed slowdown in core business activity and rising delinquencies, which led to further shrinking of their loan portfolio and profitability indicators. The profits of NBFIs dipped by 45 percent to Rs 920 million due to heavy losses incurred by Investment Finance Companies (IFCs) and a couple of leasing companies, while improved earnings of Modarabas and DFIs provided for overall profitability of the sector. Accordingly, the ROA and ROE also observed decline over the year. The shrinking business, worsening asset quality and consequent losses posted by leasing and IFCs added to already growing solvency concerns related to these sub-sectors.

The **insurance industry** continued to play its role in spreading its coverage against financial risks albeit in a limited manner. The strong growth in life insurance business augmented the asset base of the insurance sector by 7.8 percent during H1-CY12. The life business attracted 34 percent higher net premiums on account of non-conventional policies particularly the unit linked contracts. Further, with a declining claims ratio and healthy returns on investments made in government securities, the life insurance sector improved its operating performance and soundness during H1-CY12.

The non-life net premiums reduced marginally owing to a challenging business environment and a consistent decline in auto finance. The claims ratio also deteriorated on the back of high concentration in motor insurance business and underwriting losses faced by a number of nonlife companies. However, healthy equity market returns improved the profitability and soundness of the nonlife service providers.

Payment systems continued efficient and reliable settlement of increasing interbank payments and securities transactions during the period under review. Pakistan Real time Interbank Settlement Mechanism (PRISM)-the large value and systemic payment system-minimized the settlement risk through efficient settlement of higher volume of large value transactions. The retail payments also observed moderate growth in volumes and values. With improvements in the Information Technology (IT) infrastructure of banks and increasing customers' interest in mobile and e-banking modes, the use of electronic payment channels witnessed a rapid expansion. The usage of Real Time Online Banking (RTOB) continued to provide momentum to the e-banking retail payment due to increasing number of online bank branches.

Future Outlook: The growth prospects of the financial sector will hinge upon the performance of the banking sector-representing major chunk of the financial sector assets. The banking sector is expected to post healthy profits during CY12, though interest margins may observe further deceleration due to declining interest rates. The structure of the banks' balance sheet, however, would be determined by the usual pattern of seasonal credit, escalating government budgetary needs, developments in resolution of structural issues and election year spending. Although banks are expected to remain liquid at the back of huge stock of risk free government securities, the rising demand for public sector credit means that banks have to make additional efforts for mobilization of fresh deposits and rely on retirement of public sector credit.

The high credit risk will continue as a major challenge. With a fall in interest rates and expected pick up of seasonal private sector credit, the infection ratios may subside a little bit. However, banks need to make concerted efforts and develop effective strategies for recovery of high level of NPLs.

---

[10] Basel Capital accord under look through approach for collective investment schemes, require banks to calculate capital charge on their mutual fund investments as if the underlying exposure/asset class is held by the banks themselves.

The banking sector is expected to remain resilient towards various stress scenarios due to strong CAR well above the required levels. However, persistent macro-environment issues will pose a stiff challenge for some banks in meeting capital requirements including CAR of 10 percent and MCR of PKR 9 billion.

The financial markets behavior will largely reflect developments on the economic front. With persistent and unpredictable public sector demand for funds, uncertain foreign inflow and expected repayments to IMF, the money market and FX market will remain under pressure.

Interest in mutual funds, behavior of the financial markets particularly the equity market and developments on the regulatory front would be a deciding factor behind the growth in the NBFIs. Insurance industry is likely to see growth in net premium revenues due to higher demand for life insurance, though the performance of general insurance would remain contingent upon revival of commercial activities.

Chapter 1 Assessment of Financial Intermediation

The banking sector witnessed a decent though decelerated asset growth of 5.9 percent primarily funded by accelerated deposit growth and to some extent from equity in H1-CY12. The public sector emerged as dominant user of the bank credit perceptibly to finance energy sector and commodity operations, which helped lifting up the sluggish advances on banking books. Yet the consistently dampening private sector credit demand kept the overall credit growth in check. The soaring capital market activities along with optimistic anticipation of future capital gains attracted banks to invest in equity stock. The strong growth in deposits mainly came from surge in current accounts, saving accounts and short-term fixed deposits. Borrowings from financial institutions declined significantly mainly due to net retirement of repo borrowings.

Figure 1.1

Changes in Banking Assets

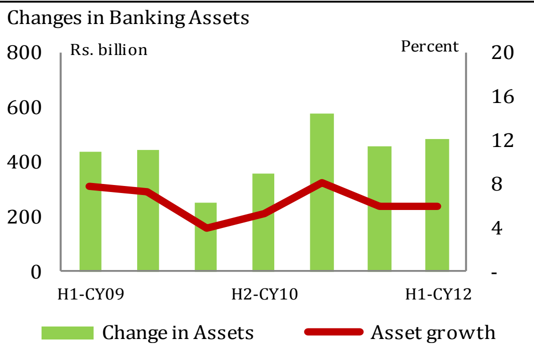


Figure 1.2

Flows in Asset Components (Rs. billion)

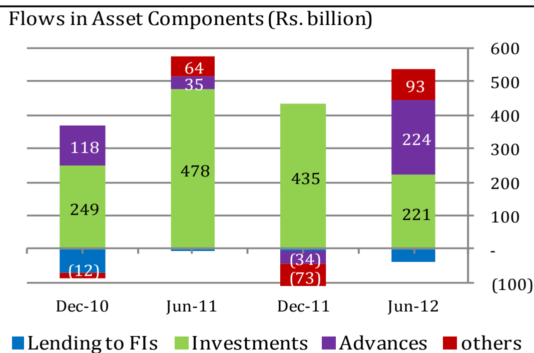
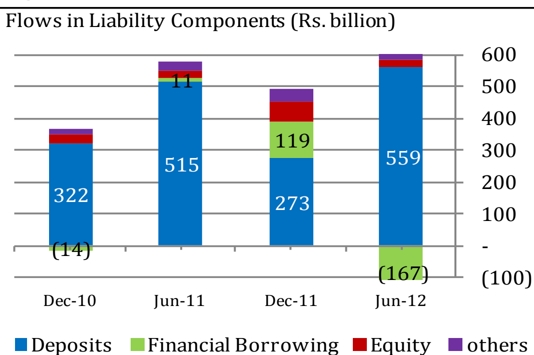


Figure 1.3

Flows in Liability Components (Rs. billion)



Banking sector asset growth led by healthy deposit growth

Well aligned with the dynamics of real economic activity and established seasonal pattern, healthy 9.0 percent increase in deposits facilitated the 5.9 percent growth in assets during H1-CY12 **(Figure 1.1)**. Unlike the past few years, expansion in assets was relatively broad based and shared by both advances and investments. Accordingly, asset mix of the banking system, with some marginal changes, remained the same **(Figure 1.2).**

PSEs remained the dominant user of funds…

As against the last year, increased demand for financing from PSEs lifted the sluggish advances; PSEs remained the dominant user of loans mostly to finance imperative energy sector and seasonal commodity operations. Similarly, majority of the growth in investments took place in listed shares and other investments, an outcome of improved equity market indices, while investment in government papers saw a moderate increase in H1-CY12.

…while private sector credit dipped due to both supply and demand side factors

The private sector advances, which have remained subdued for last few years, observed retirement of 1.9 percent in the first half of CY12. The supply of funds to private sector declined as Government borrowed heavily from the banking sector for budgetary support during the last few years to finance the increasingly rising fiscal deficit. This along with the sternness and persistence of ongoing economic slowdown over the last few years also affected demand for private sector credit. This outcome was not surprising given lackluster performance of the real sector, which persistently faced widening energy shortages, fragile law and order conditions, and rising local and geo political

Figure 1.4

Trend in ADR & IDR (percent)

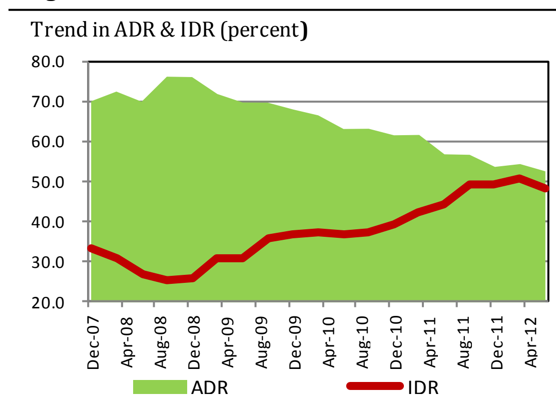
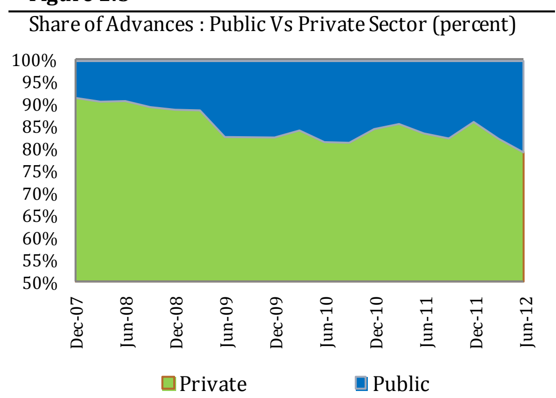


Table 1.1: Sector-wise Credit Flows in H1-CY12 (Rs. billion)		
	Public Sector	Private Sector
Production/Energy	108.9	4.3
Sugar	2.4	35.9
Agri Business	29.2	9.4
Chemical & Pharmaceuticals	(0.4)	6.8
Financials	1.0	5.5
Cement	-	(17.8)
Shoes & Leather	-	(6.4)
Electronics and Electrical Appliances	-	(5.2)
Textile	-	(48.3)
of which		
Spinning	-	*(18.1)*
Composite	-	*(15.9)*
Weaving	-	*(6.2)*
Others	169.1	(6.7)
Total	**310.2**	**(62.7)**

Figure 1.5

Share of Advances : Public Vs Private Sector (percent)



uncertainties.

Steady deposit growth remained the main funding source …

During H1-CY12, deposits of the banking system registered a healthy increase of 9.0 percent compared to a moderate growth of 4.7 percent in H2-CY11 **(Figure 1.3)**. Though the increase was broad-based, major contribution came from Current Account & Saving Account (CASA) deposits, which jointly shared 82 percent of deposit growth. Among various factors, increase in saving deposit might have resulted from 100 bps increase in minimum rate floor on saving deposit[11] in May 2012. Besides, the decent growth of PKR denominated deposits, PKR value of the Foreign Currency (FCY) deposits increased by 11.1 percent due to continuous depreciation of PKR against USD.

Advances to deposit ratio of the banking sector saw a continuous decline during last five years due to sluggishness in private sector credit. Though the trend persisted during the period under review, rate of decline in ADR subsided due to improved credit disbursements and steady growth in customers' deposits **(Figure 1.4)**. In contrast, investment to deposits ratio (IDR), which almost doubled to 49 percent over the last five years, dipped marginally by 78 bps during the period under review. The decline resulted from a relatively stronger growth in deposits, which outpaced the moderate increase in investments.

In sharp contrast to H2-CY11, bank borrowing saw a hefty retirements to financial institutions including SBP[12] as government increased its reliance on the central bank borrowings particularly in the second quarter of CY12. The equity base of the banking sector inched up by 3.0 percent in H1-CY12 mainly through retention of rising profits.

Increased demand for production and transmission of energy and seasonal demand pushed up the Public Sector advances…

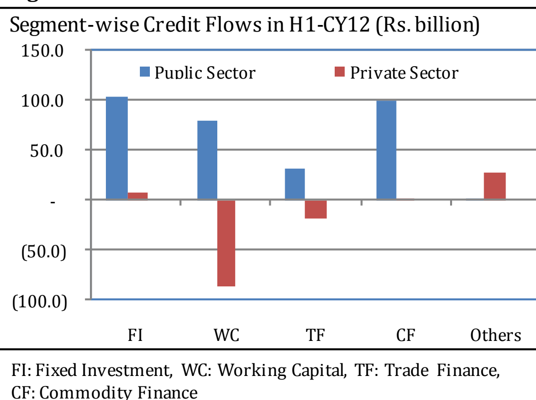
The public sector demand for funds contributed the entire growth of 6.6 percent in gross advances during H1-CY12. The government appetite for banks' funding characterized by rising fiscal deficit and squeezing foreign inflows continued in the period under review. However, the structure of the government borrowings shifted from budgetary needs to increased flow of

[11] Please see BPRD Circular No.1 of 2012.

[12] Please see SBP's Monetary Policy Statement of August 2012.

Figure 1.6

Segment-wise Credit Flows in H1-CY12 (Rs. billion)



FI: Fixed Investment, WC: Working Capital, TF: Trade Finance, CF: Commodity Finance

Figure 1.7

Trend in Inflation (percent)

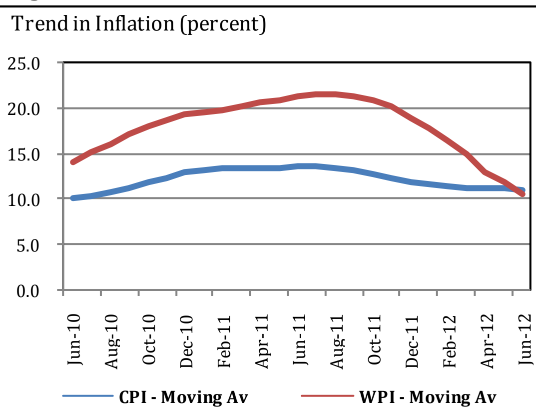


Table 1.2: Fixed Credit Disbursements to Private Sector in H1-CY12 (Rs. billion)	
Food Industry	24.9
of which	
Sugar Industry	*19.2*
Beverages	3.5
Tobacco Industry	2.3
Textile	4.8
Others	0.2
Total	**35.6**

financing to PSEs for highly imperative production & transmission of energy and seasonal commodity operations **(Table 1.1).** The public sector advances actually surged by 63.0 percent during H1-CY12, which increased its share in total domestic advances to 21.5 percent in June 2012 as against 14.1 percent in Dec-11 **(Figure 1.5).** Though financing to the priority sector appears to be a positive development, yet it may add to floating and permanent government debt as government liquidated similar financing last year through conversion into Government bonds[13].

The challenging business environment with unresolved infrastructural issues owing to continuing energy shortages, weak global demand, and banks' continued cautious approach in the wake of heightened credit risk resulted in decline in private sector advances in H1-CY12. On aggregate, private sector advances contracted by 1.9 percent in contrast to 0.5 percent growth in corresponding period last year.

Analysis of end use of advances shows that corporate and SMEs sectors observed a decline in working capital and trade finance **(Figure 1.6).** In addition to a widespread scaling down in business, the receding demand in working capital may be attributed to drop in inflation both on domestic and external fronts. For example, inflation remained below target of 12 percent and Whole Sale Price Index (WPI) reduced from 18.3 percent in Dec 2011 to 10.4 percent in June 2012 **(Figure 1.7).** Similarly, reduction in global commodity prices was observed during June 2011-12 (energy, agriculture, and metal prices fell by 14 percent, 12 percent, and 21 percent respectively[14]). An observed rebuilding in the credit demand for fixed investment perceptibly for the enhancement in capacity building in sugar and other food industries was a welcome sign in H1-CY12 **(Table 1.2).**

Flows to trade finance remained subdued due to challenges on the global front marked by lingering sovereign debt crisis in Euro zone, receding global demand, volatility in oil prices etc. Further, outstanding EFS loans declined due to decrease in cotton prices, SBP's decision to link EFS facility with the overdue proceeds and narrowing gap between EFS rate and market mark up rates.

[13] Please see Financial Stability Review -2nd Half, 2011.
[14] Source: World Bank

Figure 1.8

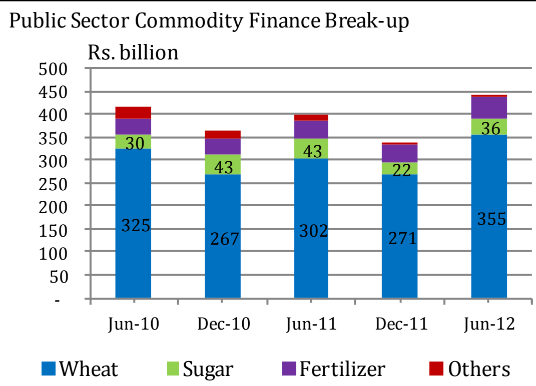
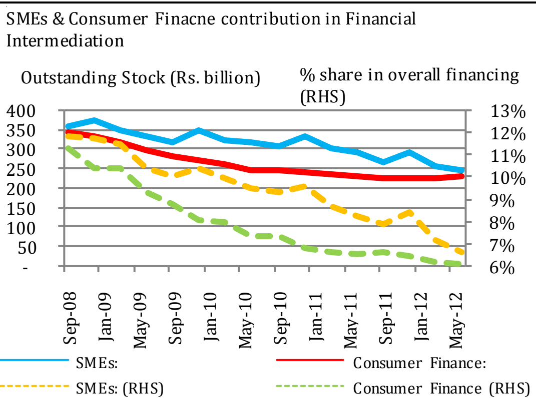


Figure 1.9



The credit appetite dropped in various economic sectors **(Table 1.1).** Textile sector, a major contributor to export earning of Pakistan and main user of bank credit in private sector, witnessed a net retirement. This is attributable to lower cotton prices and subdued export performance[15]. Revenues of cement sector improved owing to sharp rise in retail prices of the cement, which led to contraction in demand for working capital loans. However, seasonal credit demand led to improved credit flows to the sugar sector.

The seasonal commodity financing remained high for wheat procurement …

As highlighted earlier, commodity finance remained one of the key factors behind enhancing the overall advances of the banking system. The seasonal commodity finance jumped by 31 percent in H1-2012 (13 percent in H1-CY11) mainly on account of increase in the wheat support price in November 2011[16] **(Figure 1.8)**. The procurement of fertilizer and Sugar were other key areas of commodity financing. Particularly, financing for fertilizer saw a substantial increase over the last three years due to enhanced imports of Urea, as fertilizer plants remained under utilized because of gas shortages. As a result, share of fertilizer financing reached to 11 percent of the commodity financing in H1-CY12 from about 4 percent in H1-CY09.

The stock of commodity financing surged to historically high levels during the first half of CY12. The rise in this self-liquidating financing can be considered extraordinary in view of the substantial financing cushion created through one-off settlement of Rs78 billions in H2-CY11. The Government borrowings for the commodity financing is expected to increase further in times ahead due to escalating global commodity prices, rise in wheat support price, and continuing shortages in gas supplies. Such a hasty recourse to borrowing may again pose a risk of accumulation of government liabilities.

…while the underserved SMEs and Consumer Finance Sectors plunged further

Over the last few years, banks exercised highly cautious approach in extending new credit facilities to SME sector in wake of deteriorating asset quality. Resultantly, banks' share in

[15] Please see The State of Pakistan's Economy - Third Quarterly Report 2011 – 2012.
[16] The government enhanced the wheat support price from Rs.950/40 kg to Rs.1050/40 kg in November 2011. Moreover, the Economic Coordination Committee (ECC), Government of Pakistan has further raised the support price of wheat to Rs.1200/40kg in November 2012.

Figure 1.10

Deposits-Half Yearly Flows (Rs. billion)

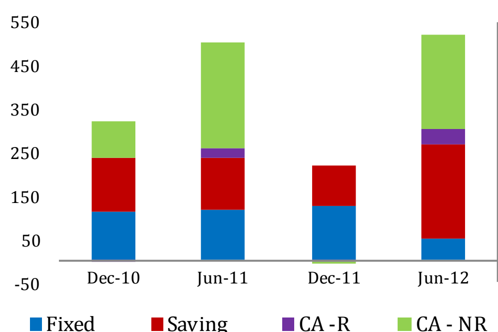


Figure 1.11

Workers' Remittances -cumulative Flows

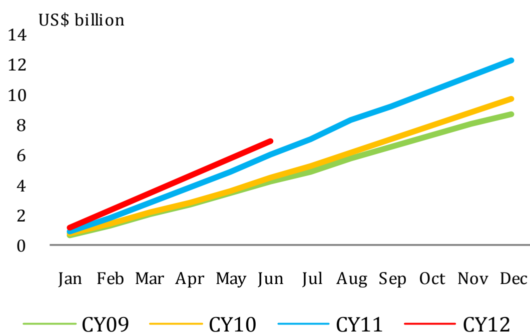


Table 1.3: Flow of Banks' Investment in Govt. Securities (Rs. billion)	**H1-CY11**	**H2-CY11**	**H1-CY12**
MTBs	309	321	27
PIBs	52	198	38
Others	78	118	(7)
Total investment in Govt. Securities	**439**	**637**	**59**
Total Investments	**485**	**435**	**222**
Investment in Govt. Securities to Total Investment (Percent)	*91%*	*147%*	*26%*

outstanding advances to SMEs gradually reduced to 6.6 percent in June 2012 as against 11.7 percent in December 2008 **(Figure 1.9).** In line with the industry trend, reduction in demand for working capital finance led to 15.8 percent (Rs. 46 billion) decline in financing to SMEs.

The situation was also not that encouraging for consumer finance. The financing stayed stagnant, though advances mix observed some shift across various segments in H1-CY12. For instance, banks squeezed credit card, auto, and mortgage financing owing to rising delinquency in these segments. On the contrary, increase in personal loans off-set the dip in other segments, as banks increased efforts to enhance financing to this segment through introducing new products.

More investment in non-government sector and debt instruments…

The budgetary borrowing from the banking sector saw some let up during the period under review[17] as growth in banks' investments in government papers decelerated **(Table 1.3).** The receding investment in government papers was more than off-set by increase in investments in shares and other investments. The improved corporate results and dividends, banks' anticipated decline in interest rate, and soaring stock market indices provided impetus for enhanced investments in equity market.

Growth in saving deposits and current deposits accounted for overall deposit growth…

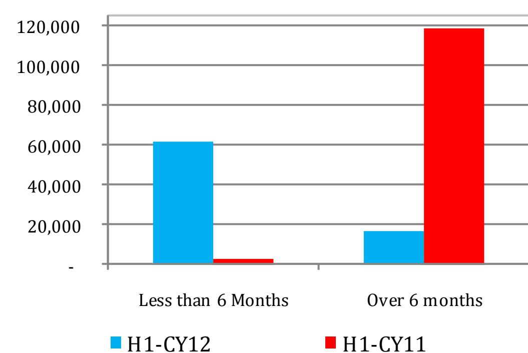
The deposit base of the banking sector observed a strong 9.0 percent growth during H1-CY12 against sluggish increase of 4.7 percent in H2-CY11 (9.4 percent growth in H1-CY11). Major part of the fresh deposits in H1-CY12 was contributed by CASA deposits more so in the second quarter of CY12 **(Figure 1.10).** The driving factors behind the rise in deposits were consistently growing worker remittances and strong growth in Rupee denomination of foreign currency deposits **(Figure 1.11).** FCY deposits observed 11.1 percent growth during H1-CY12 as against a meager growth of 2.4 percent in corresponding period last year[18].

[17] Government found its way to central bank particularly in the second quarter of CY12 due to challenges in raising desirable funds from commercial banks at prevailing interest rates (Monetary Policy Statement, August 2012)

[18] Two factors contributed in FCY deposit growth i.e. (i) 5.2 percent depreciation in PKR against USD, and (ii) growth in the Foreign Currency denominated deposits.

Figure 1.12

Maturity- Wise Flows of Fixed Deposits (Rs. billion)



A closer look at distribution of deposits by category of deposit holders reveals that growth in the deposits of Government and Public Sector Enterprises (PSEs) decelerated in H1-CY12. On the contrary, growth in the deposits of corporate, personal, and Trust Fund & Non-Profit institutions improved in the same period[19].

There seems to be a gradual shift in the growth pattern of deposits from fixed deposits to CASA **(Figure 1.10).** The saving deposits of banking sector recorded a robust growth of 10.2 percent in H1-CY12, while fixed deposits observed a slow down. Interestingly, the maturity pattern of fixed deposit reveal a highly skewed growth; fixed deposits within less than six months maturity grew at 8.9 percent in H1-CY12 in contrast to a significant deceleration in most of long-term deposits **(Figure 1.12).** This phenomenon reflects both banks' marketing efforts to book shorter-term deposits in the backdrop of declining interest rate scenario and depositors' preference for liquidity without jeopardizing some minimum returns.

Table 1.4: Size-wise Composition of Deposits in H1-CY12

(Rs. billion)

	Outstanding Amount	*% Share*	Flows in H1-CY12	*% Share*
0-0.1 Mln	865	*14%*	21	*4%*
0.1 Mln to 1.0 Mln	2,000	*32%*	244	*46%*
1.0 Mln to 10.0 Mln	1,103	*18%*	133	*25%*
10.0 Mln and above	2,252	*36%*	133	*25%*
Total	**6,219**	*100%*	**531**	*100%*

....while medium and large sized depositors contributed more

During H1-CY12, medium and large-sized deposits (Rs.0.1 million to Rs.10 million) contributed 71 percent of the increase in deposit, which was considerably higher than their 50 percent share in total deposits **(Table 1.4).**

Banks made hefty retirements to financial institutions...

Table 1.5: Flow of Banks' Borrowing from Financial

(Rs. billion)

	H1-2011	H2-2011	H1-2012
Secured	**13.3**	**115.3**	**(179.5)**
(i) Borrowings From SBP:	6.0	110.0	(98.7)
of which			
Export Refinance	*(15.4)*	*1.1*	*(26.3)*
Others	*21.4*	*108.9*	*(72.5)*
(ii) Repurchase Agreement (Repo) borrowings	6.3	8.0	(80.3)
(iii) Others	1.0	(2.7)	(0.5)
Unsecured	**(1.9)**	**3.2**	**7.4**
(i) Call borrowings	2.6	(5.5)	9.0
accounts	(0.8)	(2.2)	1.7
(iii) Others	(3.7)	10.9	(3.3)
Total Borrowings	**11.5**	**118.5**	**(172.1)**

The borrowing from financial institutions, the volatile part of funding side, declined in the period under review as government decreased its reliance on borrowings from banks. The relative ease in the market liquidity toward the end of H1-CY12 and healthy deposit growth enabled banks to make net retirement of Rs172 billion to financial institutions as against the net-borrowing of Rs119 billion in previous half **(Table 1.5).** The repayments took place in the category of repo borrowings from both SBP & commercial banks in addition to marginal retirement of SBP's export refinance. Consequently, the share of "borrowing from financial institutions" reduced to 5.9 percent on June 30-2012 from 8.3 percent on December 31-2012.

Equity saw a moderate rise due to rise in profit levels

[19] Source: Statistical Bulletin (December 2012), State Bank of Pakistan

Equity of the banking system, representing 9.3 percent of the assets base, registered a growth of 3.0 percent in H1-CY12 compared to 3.6 percent in H1-CY11. This growth was attributable to accumulation on retained earnings due to improved profitability during the period under review. In addition, due to SBP policy of gradual enhancement in minimum capital requirements, banks enhanced their paid up capital either through bonus or right issues. Consequent to continuous strengthening of capital requirements, share of paid-up capital (i.e. permanent capital) in asset base increased to 5.3 percent in June 2012 from 5 percent in Dec-2011.

Chapter 2 Risk Analysis of the Banking Sector

Credit risk soared further due to rising NPLs amid subdued economic growth and tenuous business conditions. Due to sizeable increase in NPLs, the banking sector observed general deterioration in asset quality, with PSCBs maintaining high vulnerability to credit risk. In addition to textile sector, increasing concentration of advances in energy sector emerged as a new source of concern due to unresolved energy sector issues. Liquidity position of banks maintained comfortable profile due to large stock of government securities and steady flow of customer deposits. Despite volatility in the financial markets, the market risk remained contained due to limited market related exposures.

Credit Risk

Credit risk continued to be the key challenge to the stability of the banking sector. Due to lower economic growth and consequent deterioration in asset quality, banks adopted risk averse approach, which led to increased public sector exposure while flow of advances to the private sector subsided. The trend continued during the period under review and with 7.3 percent growth in NPLs, infection ratios worsened, which added to already high credit risk.

Figure 2.1
Credit Risk Weighted Assets (CRWA)

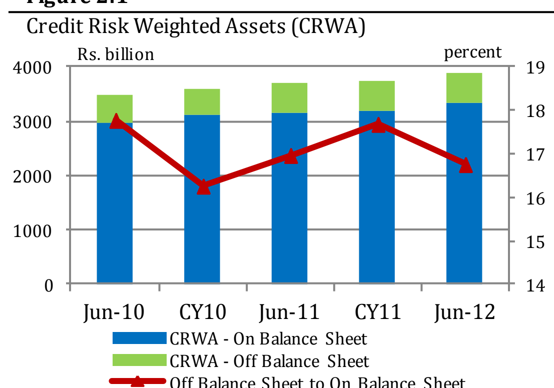
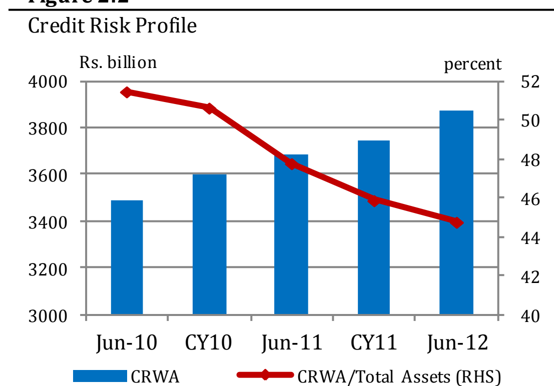


Figure 2.2
Credit Risk Profile



Share of Credit risk weighted assets (CRWA) declined despite prominent increase

During H1-CY12, on balance sheet exposures accounted for 85 percent of the credit risk in banking sector and that mainly came from advances portfolio[20] **(Figure 2.1**). The loan portfolio expanded by 6.6 percent, which led to 3.3 percent increase in CRWA of the banking sector during H1-CY12 compared to growth of 1.7 percent in corresponding period of the last year. As growth in total assets, with a good portion of it placed in zero risk weighted assets, outpaced the increase in CRWA, the overall share of CRWA in total assets slipped down further **(Figure 2.2**). However, this declining share of CRWA is a source of concern, as banks seem to be focusing on flow of credit to risk free avenues, with limited flows to private sector. Such approach may compromise the risk management capacities of the banking sector.

Considerable increase in non-performing loans (NPLs) deteriorated infection ratios…

[20] Safer assets include investments in government securities, which carry zero risk weight

Figure 2.3
Trends in Non Performing Loans

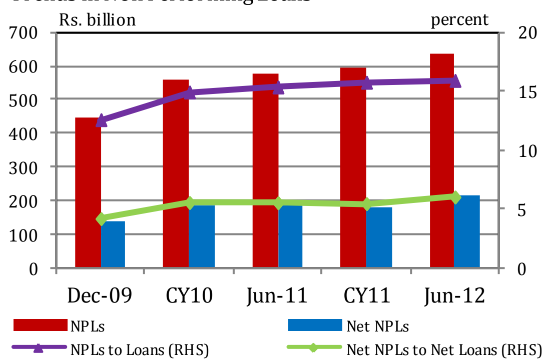


Figure 2.4
NPLs and Restructured Portfolio

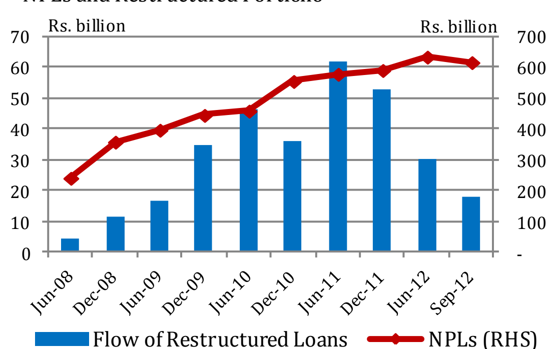
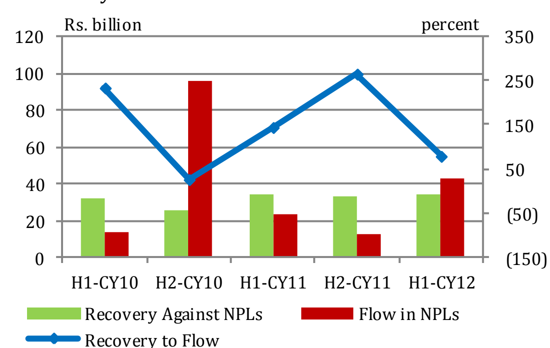


Figure 2.5
Recovery to Flow of NPLs



In the face of challenging economic conditions and increasing cost of doing business coupled with persistent energy crisis, the debt repayment capacity of the borrowers remained under stress, which translated into further increase in infected portfolio. During H1-CY12, NPLs rose by 7.3 percent compared to a nominal 2.6 percent increase in H2-CY11 **(Figure 2.3)**. However, revived public sector credit growth during the period under review kept the infection ratios under check; NPLs to loans ratio increased by 16 bps to 15.9 percent during H1-CY12.

…while banks continued efforts for managing the asset quality and improving recoveries

NPLs, which observed increase during 2008-10, decelerated over the last two years indicating that infection is about to peak out. The possible reasons for slowing down in NPLs include rationalization of provisioning requirements[21], monetary measures introduced over the year and limited preference of banks towards risky exposures. Importantly, during the last few years, banks actively pursued the rescheduling/restructuring of workable corporate loans. Due to slow down of credit to private sector, NPLs, as well as rescheduling/restructuring has diminished during the last year **(Figure 2.4).** Similarly, due to consistent efforts of banks, flow of recoveries against infected portfolio remained steady. However, with a surge in infected portfolio of PSCBs during H1-CY12 **(Figure 2.5)** recoveries fell short of NPL flows.

During H1-CY12, most of the increase in NPLs took place in loss category, with some flows into OAEM[22] category. The categorization of almost three-fourth of the fresh NPLs in loss category during H1-CY12 seemed to be outcome of re-classification of specifically dispensed off portfolio, with adequate collateral coverage[23] **(Figure 2.6).** The increase in provisions, which was far less than the rise in NPLs, further substantiated this fact. Hence, the provisions coverage declined to 66.3 percent in H1-CY12 from 69.3 percent in H2-CY11 **(Figure 2.7).** In harmony with the accelerated growth in NPLs and lower provisioning coverage, net NPLs registered higher growth.

[21] SBP allowed banks to avail the benefit of Forced Sale Value (FSV) of the securities held against NPLs with a regressive decrease in benefit over the period of default. Banks availed FSV benefit of more than Rs. 20 billion in H2-CY11, which was expected to decline as flow of fresh NPLs declined over period of time. Therefore, reduction in additional benefit to just over Rs. 1 billion in H1-CY12 came as no surprise.
[22] OAEM category NPLs flows mainly resulted from classification of seasonal Agriculture Finance.
[23] More than three-fourth of the rise in NPLs came from PSCBs. Since some of these PSCBs were in the process of making readjustments to their portfolio, it is expected that their NPLs will reduce in third quarter of 2012.

Figure 2.6
Category-wise Flow of NPLs

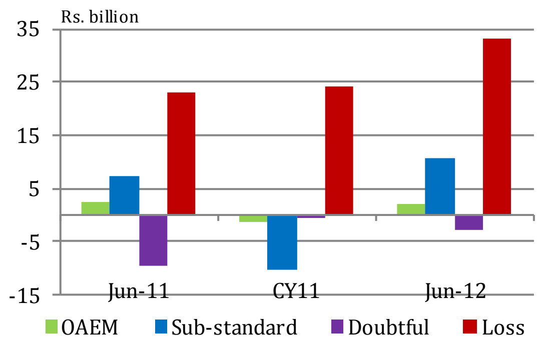


Figure 2.7
Provisions against NPLs

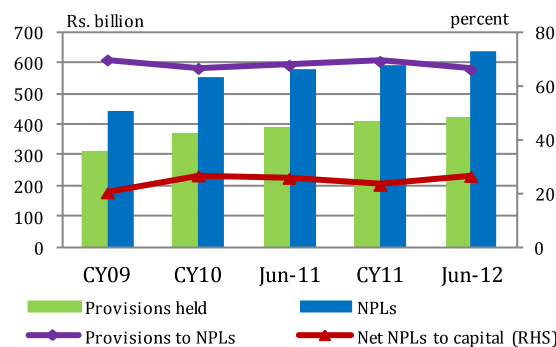


Figure 2.8
Provisions against Advances

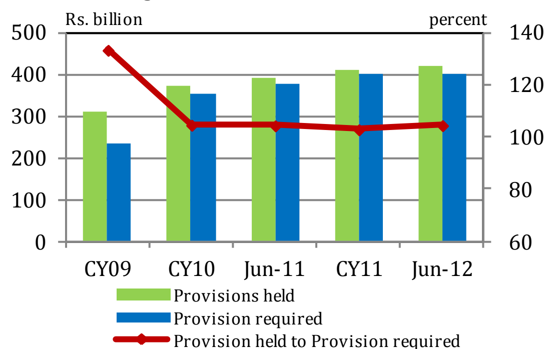


Table 2.1: Asset Quality by Bank Category

in percent

	CY11	Jun-12			
	Infection Ratio	Infection Ratio	Net Infection Ratio	Provision Coverage	Net NPLs to Capital
PSCBs	21.1	22.7	12.8	50.0	56.5
LPBs	13.8	13.4	3.7	74.9	17.4
FBs	10.4	11.1	1.4	88.7	2.1
CBs	**15.3**	**15.5**	**5.7**	**66.9**	**24.6**
SBs	30.1	30.4	16.2	55.5	133.5
All banks	**15.7**	**15.9**	**6.0**	**66.3**	**26.2**

Interestingly, provisions held by the banks exceeded the required level as banks continued to maintain additional reserves for expected infection particularly for consumer portfolio[24] **(Figure 2.8)**. The excess provisions saw further increase during H1-CY12 as the ratio of provisioning held to the required provisioning increased from 102.9 percent to 104.5 percent, mainly on account of growth in personal finance by a few banks.

PSCBs appeared more vulnerable to credit risk….

During H1-CY12, increase in NPLs was observed across the banking sector, though large banks contributed most of the increase in infected portfolio. Group wise analysis show that PSCBs observed highest accretion of NPLs and consequent deterioration in infection ratios. However, as highlighted earlier, additional infected portfolio of PSCBs was adequately covered against collateral, which not only attracted lesser provisions but also deteriorated infection ratios and capital impairment ratio of PSCBs. The asset quality of FBs marginally decreased due to realignment of their business strategy and expected merger activity. Though LPBs observed increase in NPLs, corresponding higher increase in credit portfolio of LPBs actually resulted in a slight decrease in their infection ratio **(Table 2.1)**. Further, infection ratio of top five banks increased by 100 basis points during the period under review, due to increase in NPLs of corporate and SME portfolios **(Table 2.2).**

…while infection rate increased in textile sector…

The continuing energy crisis, non-availability of natural gas, law and order situation and increasing cost of doing business kept on having its toll on the various corporates in H1-CY12. Within the corporate sector, the deterioration in asset quality of textile sector was more pronounced as compared to H2-CY11. The share of textile sector, which is largest user of banks advances, declined by 233 bps (Rs 48 billion) during H1-CY12 due to decline in cotton prices and decline in export receipts. Above that, spinning sector, which is high power consuming sector, added 10 percent of the total NPLs, which deteriorated the overall infection ratio of the textile industry. Cement sector though observed increase in infection ratio; however, most of this surge resulted from net retirement during H1-CY12 and not from increase in NPLs **(Table 2.3).**

[24] Prudential Regulations for Consumer Financing (R-8, R-14, R-22, R-27)

Table 2.2: Asset Quality by Bank Size					
					in percent
	CY11	Jun-12			
	Infection Ratio	Infection Ratio	Net Infection Ratio	Provision Coverage	Net NPLs to Capital
Top 5 banks	12.9	13.9	4.2	72.6	17.3
6-10 banks	12.0	17.0	7.9	58.4	46.6
11-20 banks	26.2	20.4	9.0	61.5	46.1
21-30 banks	13.4	10.2	5.1	53.1	13.0
All banks	**15.7**	**15.9**	**6.0**	**66.3**	**26.5**

Table 2.3: Credit and Infection Ratios by Sector (percent)			
	Share	Infection Ratio	
	in Loans	Dec-11	Jun-12
Textile	15.8	27.9	31.8
Individuals	8.4	15.9	16.1
Energy	12.1	3.9	4.2
Agribusiness	8.8	11.7	10.6
Chemical & Pharma	3.8	9.1	9.3
Sugar	3.1	14.3	9.4
Cement	1.6	23.3	28.4
Others	46.4	15.0	15.0

Figure 2.9
Credit Flows

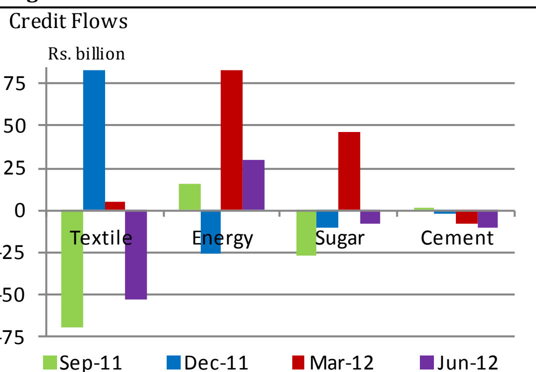
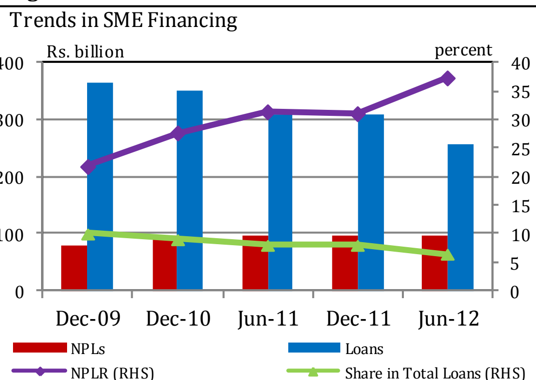


Figure 2.10
Trends in SME Financing



...while concentration in energy sector increased

In the wake of continuing energy crisis and consequent rise in inter-corporate circular debt, concentration of advances to energy sector and associated credit risk continued to accumulate on the balance sheets of banks. Due to high credit demand over the last four years, loans to production and transmission of energy grew on average by 25 percent against 5 percent growth in overall advances. The trend continued during the period under review as energy sector (mainly public sector) borrowed another Rs 113 billion (31 percent increase) during H1-CY12 from the banking system, which increased its share to above 12 percent (against low of 5 percent in CY06). Increasing concentration of advances to energy sector did increase concerns as issues related to the energy sector remained unresolved and NPLs piled up. Despite substantial flow of credit, infection ratio of the sector increased to 4.2 percent in the first half of CY12.

The sugar sector, which observed decline[25] in advances in H2-CY11, remained the second major user of bank credit in H1-CY12. This largely resulted from usual seasonal pattern of credit flows; however, delay in start of the crushing season also kept the demand from the sugar sector relatively high **(Figure 2.9)**. Further, due to improved produce and revenues, infected portfolio of the sugar sector reduced, which led to decline in the infection ratio of the sugar sector over the period under consideration.

SME portfolio continued shrinking ...

SME segment remained the worst hit because of prevailing tough business and economic environment. The flow of credit saw a biggest decline since 2009 as the portfolio squeezed by more than Rs. 50 billion. This coupled with stagnant NPLs led to surge in infection ratio to 37.4 percent **(Figure 2.10).**

....while consumer finance remained sluggish

The infection ratio for consumer finance marginally declined to 18.1 percent in H1-CY12 from 18.6 in H2-CY11 mainly due to decline in infection ratio of personal loans **(Figure 2.11).** Over the last few years, banks focused on personal loan category due to its relative security and recoverability, while they continued to

[25] The inability of sugar mills to off-load their inventories before the start of crushing season on account of lower domestic prices kept the advances demand low in H2-CY12. However, government purchased sugar stock to stabilize prices, which facilitated the sugar sector in settling their dues.

Figure 2.11

Trends in Consumer Financing

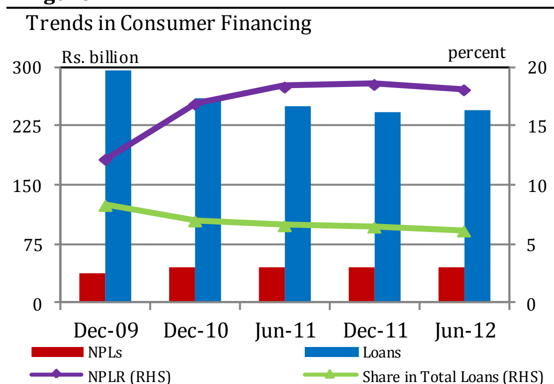


Table 2.4: NPL Ratio of Consumer Financing			
			in percent
(Private sector only)			
	Share	Dec-11	Jun-12
Credit cards	9.46	20.60	21.02
Auto loans	18.56	10.40	10.40
Consumer durable	0.06	79.08	68.87
Mortgage loans	22.52	28.62	30.37
Other personal loans	49.41	16.33	14.81
Total	**100.00**	**18.56**	**18.11**

Figure 2.12

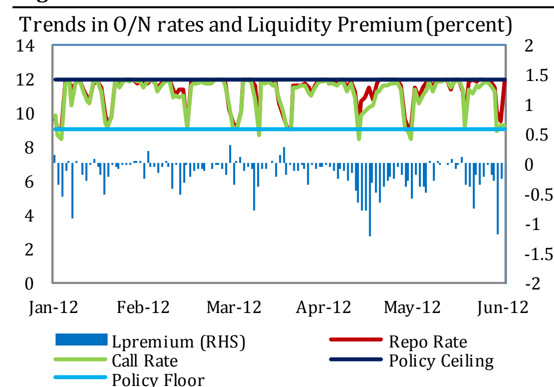
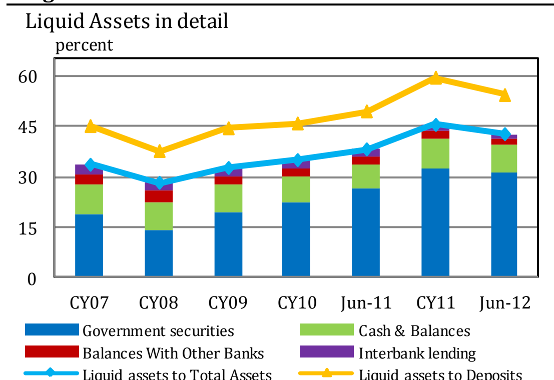


Figure 2.13



cut down on other categories of consumer finance. The trend continued during the period under review as personal loans observed a 6.2 percent growth, which increased its share in overall consumer finance to almost 50 percent. Further, with decrease in infected portfolio, infection ratio dipped by 152 bps during H1-CY12.

The depressed real estate market continued to have its toll on the infection of mortgage portfolio. Further, in wake of the uncertain security situation, the auto loans also observed decline, though infection remained unchanged due to corresponding decrease in auto NPLs **(Table 2.4)**.

Liquidity Risk

Banks maintained adequate fund based liquidity, despite some strains in market liquidity…

Liquidity profile of the banking sector stayed comfortable, amidst some retrenchment in the key liquidity indicators during the period under review. The funding requirements of the public sector remained high due to higher demand for seasonal financing, while budgetary borrowing from the banking sector slowed down. Though healthy growth in deposits supported the funding requirements, market liquidity remained constrained due to high and rising demand for funds from public sector and sluggish foreign inflows. Despite slowdown in investments in government securities, the base line liquidity indicators remained steady with marginal softening.

The higher credit demand from public sector, mainly for energy related payments and seasonal commodity finance, constrained the market liquidity during the H1-CY12. Accordingly, short-term overnight rates remained quite volatile and their gap with the policy ceiling was quite narrow during H1-CY12 **(Figure 2.12)**. This liquidity strain led SBP to make substantial injections into the banking system. The average daily volume of net injections stayed high in the first quarter of CY12, which declined remarkably by end of second quarter as seasonal financing picked up and government increased its reliance on central bank borrowing.

Liquidity indicators remained steady with marginal dip…

During H1-CY12, funding liquidity risk stayed well contained, nevertheless, the balance sheet liquidity indicators somewhat

Figure 2.14
Surplus liquidity of banking system

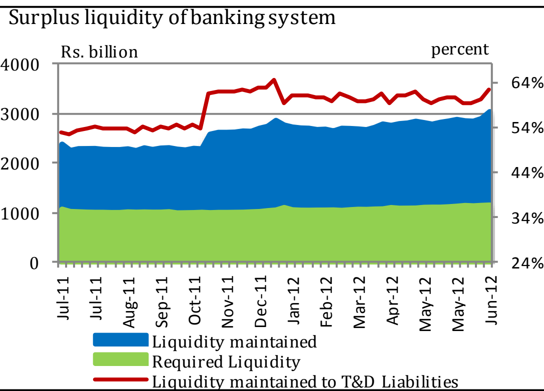


Figure 2.15
Government Securities by type

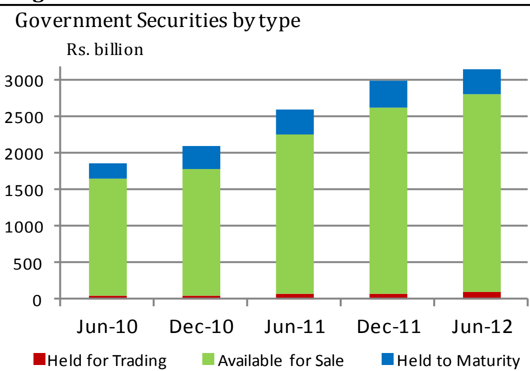


Figure 2.16
Funding structure (in percent)

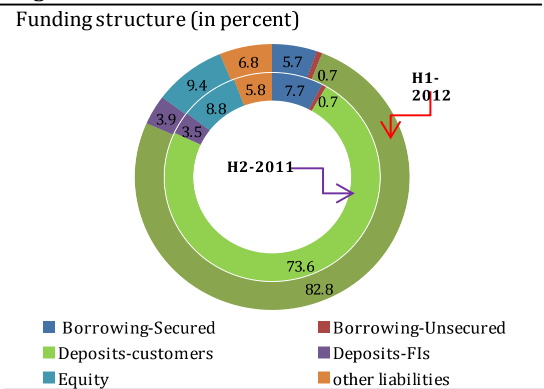
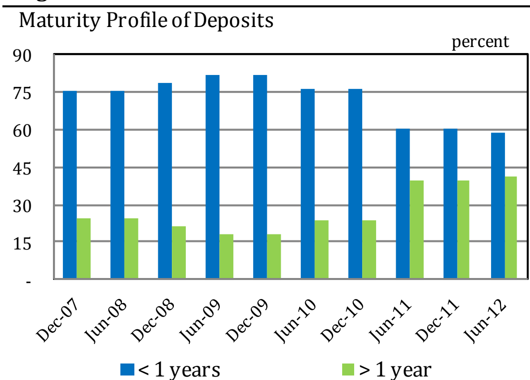


Figure 2.17
Maturity Profile of Deposits



deteriorated. Unlike H2-CY11, when most of the funds were channeled into Government securities, increase in deposits during first half of CY12 went equally into investments (both Government securities and equity stocks) and advances. Due to deceleration in liquid assets, the key liquidity indicators declined marginally; liquid assets as a percentage of total assets and deposits dropped to 42.7 percent and 54.3 percent respectively **(Figure 2.13)**. Further, strong deposits growth led to an increase in time and demand liabilities (TDL), which caused a marginal dip in the surplus liquidity maintained, though still more than double the statutory requirement of 24 percent **(Figure 2.14).**

Advances to deposit ratio (ADR) of the banking sector observed continuous decrease for the last few years. The trend persisted during the period under review; ADR further dropped to 53 percent as growth in deposits outpaced advances growth. However, rate of decline in ADR subsided due to improved credit disbursements to the PSEs.

Excessive placement of investments in government papers into AFS category showed liquidity preference ….

The structure of banks' investments in risk-free government securities showed preference of banks to enhance their ability to meet the fund based liquidity needs. Particularly, the short-term government securities (MTBs), which more than doubled over the last three years, have been placed in Held for Trading (HFT) and Available for sale (AFS) categories. With a meager increase of 1.4 percent during H1-CY12, the structure of MTB holdings of banks remained unchanged, indicating unchanged liquidity preference for managing the immediate liquidity requirements **(Figure 2.15).**

Maturity gap improved due to increase in shorter tenor CASA deposits…

Funding structure of the banking sector observed marginal shift towards customers' deposits as reliance on borrowings abated during first half of CY12. Deposits witnessed a pronounced growth of 9 percent thus providing ample resources to banks for meeting the credit needs as well as partial retirement of borrowings **(Figure 2.16)**. The CASA deposits, which are non-contractual in nature, remained the key and stable funding source for the banking sector. This category of deposits showed significantly higher growth compared to fixed deposits; actually fixed deposits in less than one-year category observed double

Figure 2.18
Maturity Gap (Assets-Liabilities) as percent of Assets

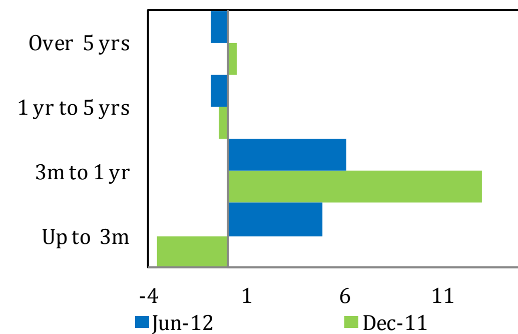


Figure 2.19
Funding Liquidity Risk Indicators

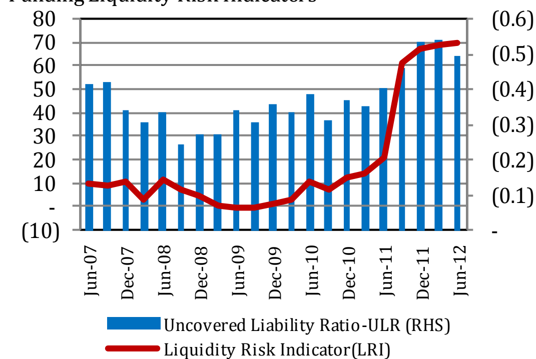
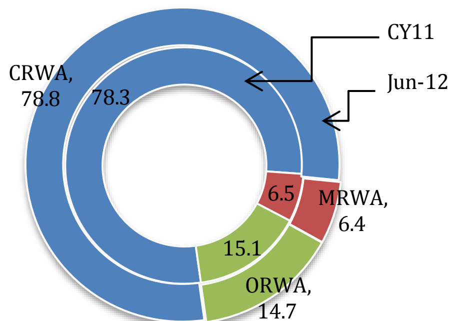


Figure 2.20
Risk Weighted Assets (in percent)



digit dip. Accordingly, despite increase in absolute terms, the share of less than 1-year deposit saw a marginal decline during H1-CY12 compared to corresponding period of the last year **(Figure 2.17)**.

The maturity gap improved over the 1-year horizon due to marginal changes in the investment structure, improvement in flow of advances and decrease in maturity of the deposits. Particularly, banks enjoyed positive maturity gap in the near term buckets, as asset maturing in less than 3 months and 3 months to 1 year maturity bands stayed in excess of the liabilities maturing in the same period **(Figure 2.18)**.

… while funding Liquidity Indicators stayed encouraging

Uncovered Liability Ratio (ULR), which measures liquidity shortage at an institutional level, remained steady with marginal decline due to substantial stock of liquid assets. Liquidity Risk Indicator (LRI), which takes into account short-term liquidity gap calculated for 30-day time horizon, also signified lower funding risk due to growing investment in Government Securities. Both of these indicators demonstrate comfortable liquidity position of banks **(Figure 2.19)**.

Banks would stand resilient towards various liquidity shocks

The healthy liquidity profile of the banking sector provides enough resilience towards liquidity shocks. As such, the banking system has sufficient liquidity to meet significant deposit withdrawal for consecutive five days. Liquidity coverage ratio of the banking system[26], which is a measure of 30-day liquidity, remained well above the acceptable benchmark of 1, as defined under Basel III[27].

Market Risk

Prudent regulatory limits kept the market risk contained

Despite continuing volatility in the financial markets, the market risk of the banking system remained well contained. This comes as a no surprise as banks are subject to prudent regulatory[28] limits on equity and currency exposures and the benchmark

[26] The Liquidity Coverage Ratio will require banks to have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days
[27] SBP is in the process of finalizing the guidelines on Basel III
[28] SBP has set limits on both the Equity and Foreign Exchange exposures of banks under the PRs.

Figure 2.21

6M PKRV & Policy Rates and Volitility

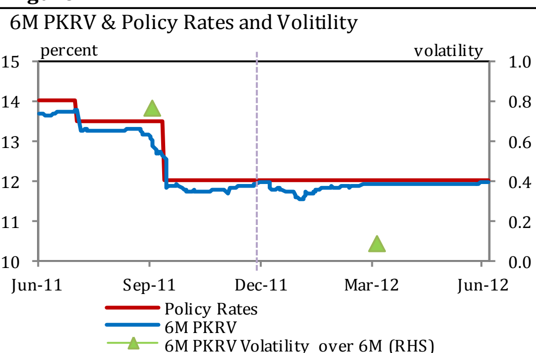


Figure 2.22

Term Spreads: 10Y vs 6M PKRV Rates

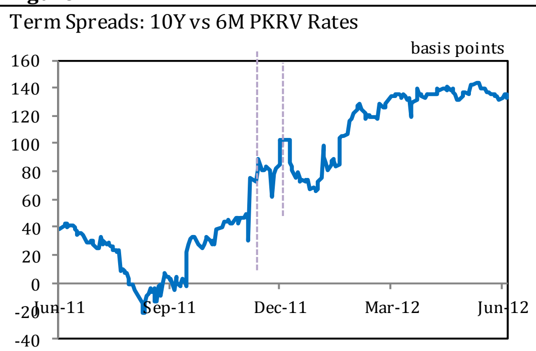


Figure 2.23

Yield Curves

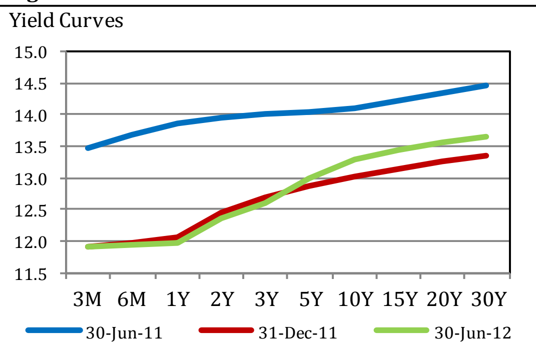
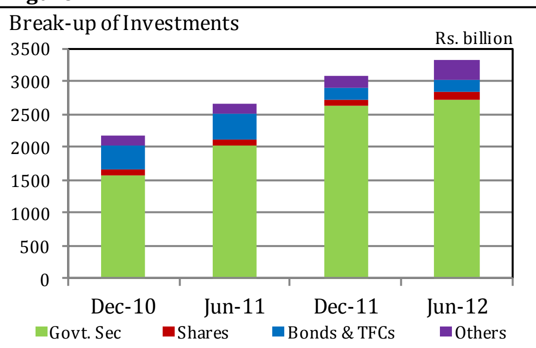


Figure 2.24

Break-up of Investments



limits on interest rate exposures. The limited market risk of the banking system fairly reflected in the meager share of market risk weighted assets in the total risk weighted assets[29] of the banks **(Figure 2.20).** Marginal decrease in the Market Risk Weighted Assets (MRWA) largely resulted from decelerated growth in the investments in Federal Government securities and substantial credit growth to the PSEs.

Volatility in money market subsided, though longer tenor yield curve steepened

SBP kept the policy rate flat at 12 percent during H1-CY12 (against two episodes of rate cut during H2-CY11) due to double digits inflation, slowdown in private investment and persistently high demand for public sector credit **(Figure 2.21).** Though the volatility in money market remained high, however, it stayed relatively low compared to H2-CY11 as expectations of the policy rate change subsided over the half year. During H1-CY12, the long-term rates witnessed significant increase, as 10-year PKRV yield gained 60 basis points against a reduction of more than 100 basis points during the previous half-year (H2-CY11). Though the 6 months yields also showed a marginal increase, the term spread between 10 year and 6 months PKRV rates widened during H1-CY12, touching a peak of 144 basis points towards the end of the period under review **(Figure 2.22).** Accordingly, the yield curve further steepened, in line with increased supply of long-term funds during the half year under review.

The yield curve slightly inched up for maturities more than 1-year; however, steepening was more pronounced for maturities of longer tenor **(Figure 2.23).** Though a good portion of the investment in government securities have longer maturities, however, most of them have been categorized under Available for Sale (AFS), which limited the impact of changing interest rate scenario on profitability[30] **(Figure 2.24 & 2.15).**

The rate sensitive gap marginally exceeded the acceptable limits for shorter tenors due to rising exposure to MTBs

The gaps between the re-pricing of rate sensitive assets (RSAs) and rate sensitive liabilities (RSLs) shape the interest rate risk of a bank. Though these re-pricing gaps are inescapable under a

[29] Throughout this section, risk weighted assets (RWA) are limited to RWA under Pillar-1 of Basel II capital accord.

[30] As the revaluation gains/losses on AFS category do not affect the income and are directly taken to the balance sheet of a bank, the profits of the banking system remained insulated from the additional revaluation losses of Rs 4.7 billion arising due to the steepening of the yield curve.

Figure 2.25

Gap (RSA-RSL) to Asset Ratio

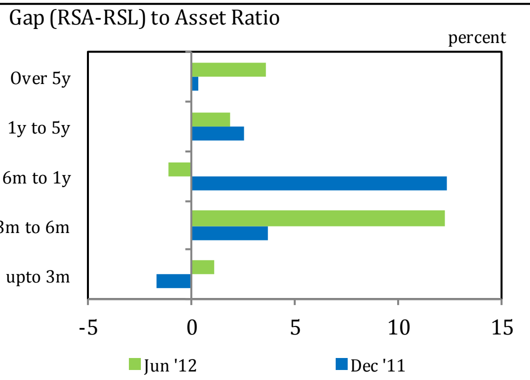


Figure 2.26

KSE 100 Index and Volitility

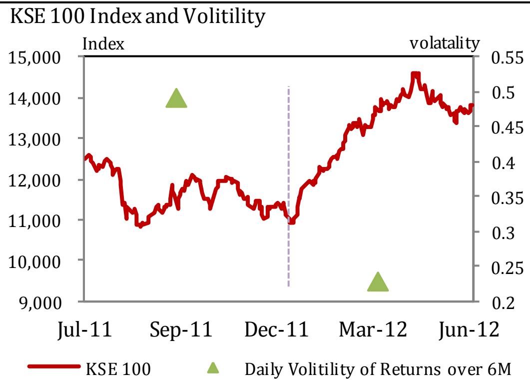
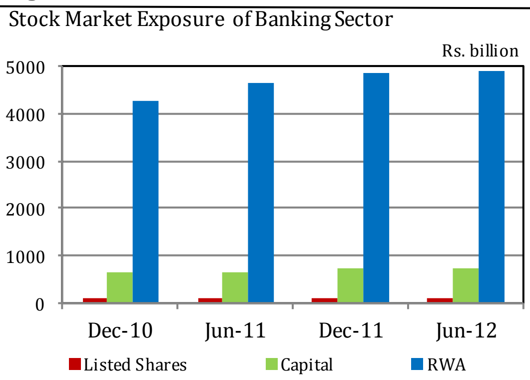


Figure 2.27

Stock Market Exposure of Banking Sector



normal banking business, the mismatch of above +/- 10 percent of total assets raises concern of interest rate risk. During H1-CY12, the banks were able to maintain overall re-pricing gaps within the tolerable limits. However, gap between 3 months to 6 months RSA and RSL increased marginally above the range to 11.3 percent exposing the banks to the interest rate risk. The increase mainly resulted from decline in remaining maturities of the investments and increased investment in shorter maturity MTBs **(Figure 2.25)**.

Bank's exposure to stock market remained small despite bullish equity market trend

KSE outperformed the regional markets and witnessed an overall bullish trend during the H1-CY12, amidst economic and other related issues. The KSE 100 index reached 13,801 points as of June 30, 2012, posting a gain of 21.6 percent in H1-CY12 **(Figure 2.26).** The stock market volatility remained low during H1-CY12, while the rising index reflected building expectations of the investors about the stock returns during the period under review.

As a result of improvements in equity markets, banks increased their investments in stocks by 25 percent during H1-CY12. However, overall exposure of the banks remained well contained as it represented a meager 1.3 percent in terms of total assets and 15.3 percent of total regulatory capital of the banking sector **(Figure 2.27).** The regulatory cap of 20 percent of total capital on bank's investments in shares has played its role in keeping the stock market exposure of banks under check and limited the risk arising out of the significant downward swings in the stock market. The sensitivity analysis reveals that even in case of 50 percent fall in equity prices, banks' CAR would shed merely by 60 bps.

Rupee continued to slide against the USD due to multilateral payments, uncertain inflows and the changing market sentiments ....

The remittances inflows hit a new high as the expatriates sent a record USD 6.9 billion to Pakistan during H1-CY12, marking an annual growth of 18 percent during FY12. However, worsening of current account due to higher trade deficit coupled with payments to the IMF and changing sentiments kept the PKR under pressure. Resultantly, PKR depreciated by 5.2 percent against the USD, closing at PKR/USD 94.62 on June 30, 2012

Figure 2.28
Evolution of PKR/USD Exchange Rates

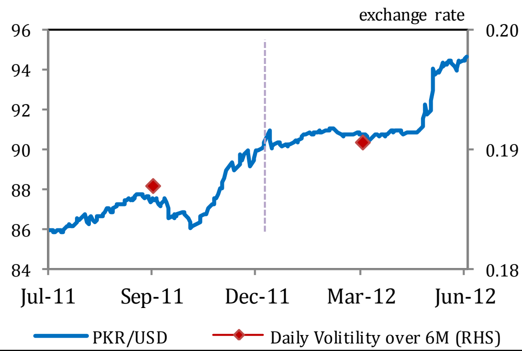
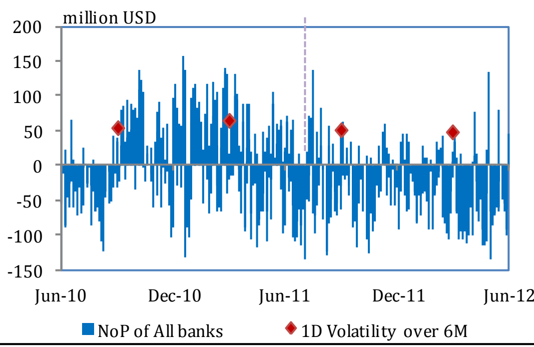


Figure 2.29
NOP of All Banks



(Figure 2.28). On the back of the growing pressure on rupee, and market sentiments, the volatility of rupee dollar exchange rate during H1-CY12 stayed higher during the period under review.

...though foreign currency exposures of banks remained contained, less volatile and on shorter side

Overall Net Open Position (NOP) of the banking sector remained within the manageable bounds of +/- USD 140 or less than 2 percent of bank's capital during the H1-CY12. The volatility in NOP maintained by banks, remained comparatively lower than that of the H2-CY11 and deviations from the square positions were considerably on short side **(Figure 2.29)**. In view of significant depreciation of PKR against USD and other currencies, the short currency positions exposed banks to revaluation losses.

Chapter 3 Profitability, Soundness and Resilience

The banking sector continued to sustain appreciable growth in earnings during the period under review, due to higher non-interest income and lower provisioning charge, though interest margins observed a deceleration. The accumulation of profits and slow growing credit risk weighted assets aided in maintaining the CAR high at 15.1 percent. With strong capital position, the banking sector is expected to remain resilient in various stress scenarios, though severe credit risk shock may bring a few banks under stress.

Figure 3.1

Profitability at glance

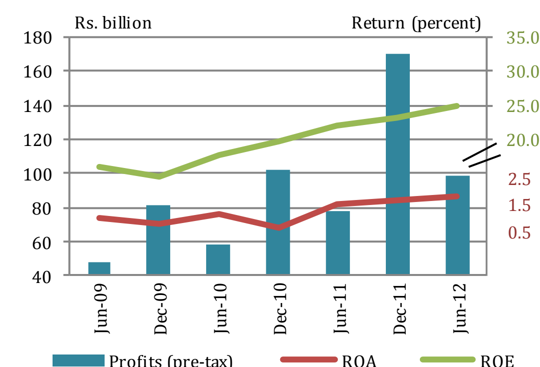
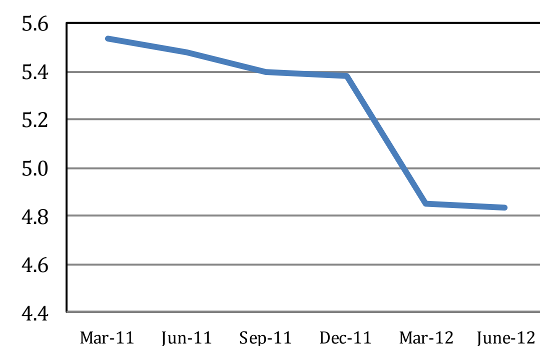


Table 3.1 Concentration of Earnings (percent share)

June-2012	Share	ROA	ROE	AU	PM	NIM
Top 5	70.9	3.9	50.6	12.1	30.9	8.4
Top 6 to 10	15.2	1.5	37.5	10.4	14.5	6.2
Top 11 to 20	11.2	1.4	22.6	11.1	12.4	6.0
Top 21 to 30	1.8	0.7	5.9	10.7	6.0	7.0
Public Sector	14.1	1.8	16.9	10.3	17.1	3.8
Local Private	81.5	2.5	27.9	10.9	22.8	5.0
Foreign	1.8	1.4	8.4	10.5	13.6	5.7
Specialized	2.6	3.4	81.1	13.5	25.2	11.0
All Banks	100	2.3	24.9	10.8	21.6	4.8

Figure 3.2

Declining Net Interest Margin (percent)



Healthy returns on Government securities, lower provisioning, and equity market gains enhanced profitability of the banking sector

The banking sector posted highest ever half-yearly pre-tax profit of PKR 98.6 billion in the first half of CY12. Overall banks' profitability showed a year on year growth of 27 percent on the back of healthy returns on growing volume of investment in Government securities, lower provisioning charge, improved corporate dividends, and gain on sale of securities. As a result, profitability indicators of the banking sector surpassed the level achieved in 2008; ROA increased to 2.3 percent while ROE reached 24.9 percent **(Figure 3.1).**

Concentration kept on declining

Over the last two years, the share of the large sized banks in profits declined, while share of medium and small sized banks improved. The trend continued in H1-CY12 as share of large five banks in pre-tax profit reduced further to 70.9 percent compared to 78.5 in H1-CY11 (101 percent in CY10), while that of middle tier and small sized banks (6-20) increased **(Table 3.1).** The share of public sector banks (PSBs) in total profits declined due to deceleration in interest margins. Foreign banks' profits also dipped due to consolidation of their business activities that lowered earnings as well as share in the industry profit.

Interest margins observed deceleration …

Though profits surged over the half year, the Net Interest Margins (NIM) of banks fell to 4.8 percent from 5.4 percent in H1-CY11 **(Figure 3.2).** The decline in NIM partly resulted from slow-down in interest income from core banking activities due to interest rate cuts over the H2-CY11. The increased money

Figure 3.3

Declining yields on Advances

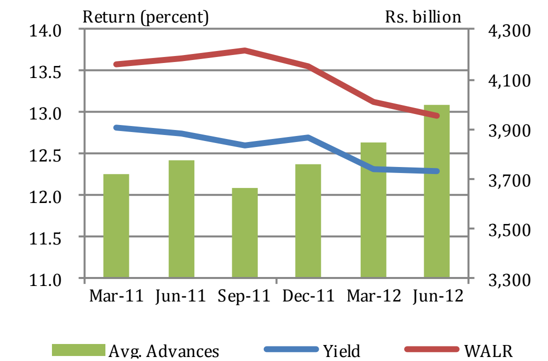


Figure 3.4

Decreasing returns of Government Securities

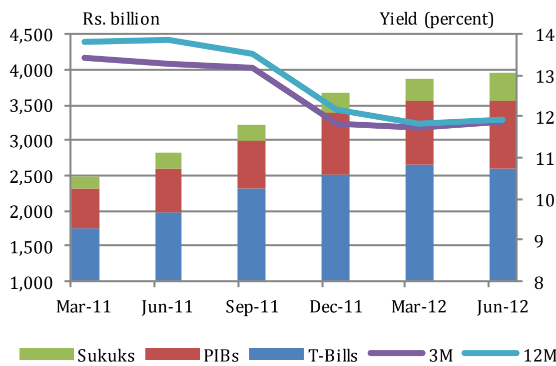
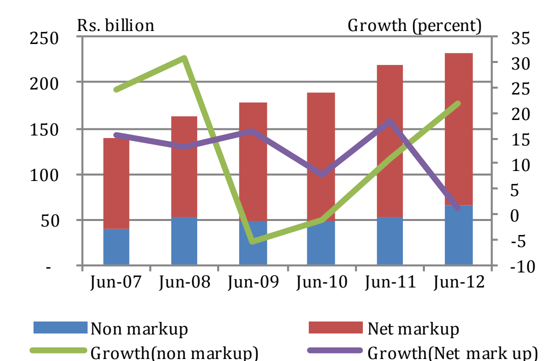


Figure 3.5

Growing Non-markup Income



market borrowings and consequent increase in interest expense also added to decline in net interest income.

...as growth in net interest income slowed down

Traditionally the mark-up income[31] derived from advances and investments stayed the main source of gross income of the banking sector. However, interest income pacified during the period under review as it grew by just 8.9 percent against increase of 15.6 percent in H1-CY11. A cumulative 200 bps decline in policy rate during the second half of the CY11 affected the market interest rates including yield on Government bonds, KIBOR and Weighted Average Lending Rates (WALR) **(Figure 3.3).**

...and structure of markup income continued with shift from loans to investment income

The declining interest rates along with reduced lending to high margin private sector and growing exposure to low margin public sector led to overall deceleration in interest income and decline in income from advances. The rise in overall interest income mainly resulted from increase in returns on growing stock of investments in Government Securities, which boosted the overall share of investment income[32] to 43 percent during H1-CY12 compared to 37 percent in Jun-11 **(Figure 3.4).**

The interest expense, on the other hand, accelerated during H1-CY12. A look at the components of interest expense shows that growth in expense on deposits was volume based as Weighted Average Deposit Rate (WADR) dropped marginally. Additionally, surge in cost of borrowings due to increased activity in the repo market also added to overall expense.

Improvement in overall profitability facilitated by healthy growth in non-markup income...

The surge in non-mark-up income provided for overall growth in gross income mainly due to improvement in the equity market indices and gain on sale of securities. Non-interest based income surged by 22 percent over the half year, which enhanced its share in gross income to 28 percent **(Figure 3.5).** The increase in investment in blue chip stocks paid off banks in form of higher

[31] Net Markup income is defined as interest earned on advances and investments less interest expense on deposits and borrowings.
[32] Investment income mainly comprised interest earned on Government securities.

Figure 3.6

Share in growth of Non-markup income (percent)

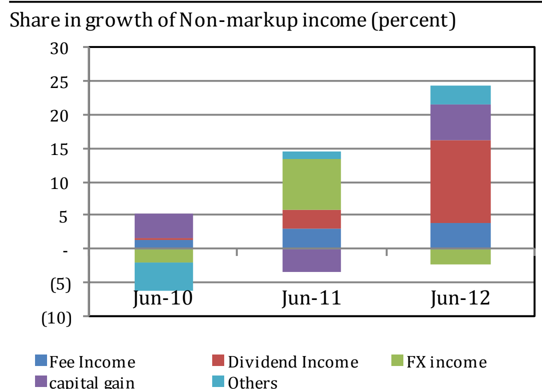


Figure 3.7

Declining Provisions (Rs. billion)

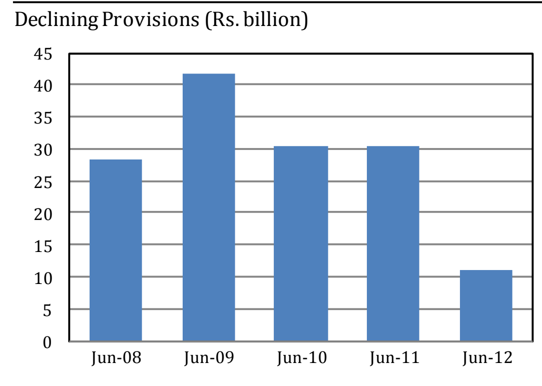
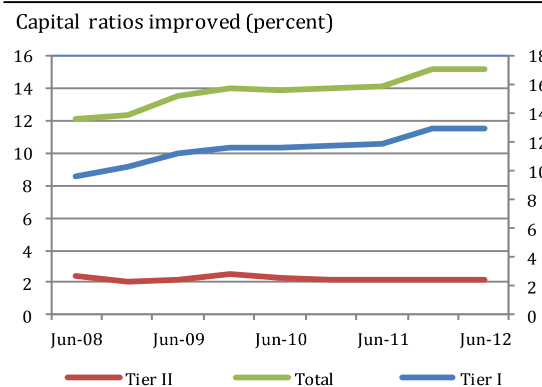


Figure 3.8

Capital ratios improved (percent)



dividends and capital gains from inventory of quoted shares over the period under review. Similarly, declining interest rate environment incentivized banks to book substantial gain on sale of government securities. Although fee income marginally improved, yet reliance on income from foreign exchange (FX) transactions was pretty subdued in the period under review **(Figure 3.6).**

…and lowering of provisions charge

In addition to higher non-markup income, lower provisions charge also enhanced the overall profitability of the banking sector. In H1-CY12, provisions expense increased merely by Rs 11 billion compared to increase of Rs 30 billion in H1-CY11 **(Figure 3.7).** Although non-performing loans continued to grow, yet pace of provision growth relatively slow as majority of the infected portfolio was already classified into loss category. In addition as highlighted in chapter 2, the additional infected portfolio took the benefit of adequate collateral coverage, which led to lower provisions charge during first half of CY12. Further, FSV benefit of around Rs1.1 billion on collateral also contributed to low provisioning expense and consequent build up of profits.

Solvency

Both risk based and non-risk based solvency indicators improved

Solvency position of the banking system remained strong during H1-CY12. Rising profitability and slow growth in RWAs kept the Capital Adequacy Ratio (CAR) and Tier-I capital ratio unchanged at 15.1 percent and 13.0 percent respectively; well above the local benchmark[33] **(Figure 3.8)**. Further, the leverage ratio[34] also stood at a comfortable level well above the Basel-III standard of three percent. Though most banks meet the CAR, some banks continued to face challenge in achieving the prescribed Minimum Capital Requirement (MCR).

[33] Banks are required to maintain minimum CAR of 10 percent.

[34] The leverage ratio is measured as the ratio of adjusted tier-I capital to adjusted on-balance sheet and off-balance sheet assets.

Figure 3.9

Share in growth of equity (percent)

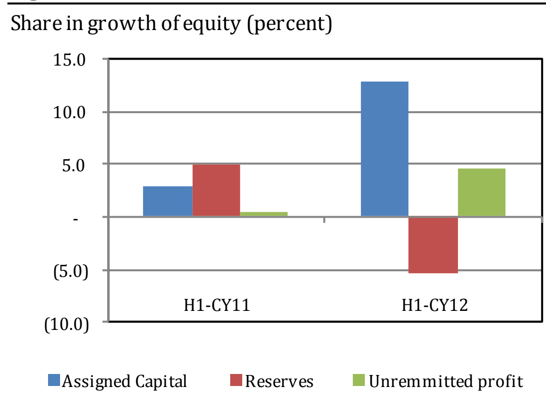
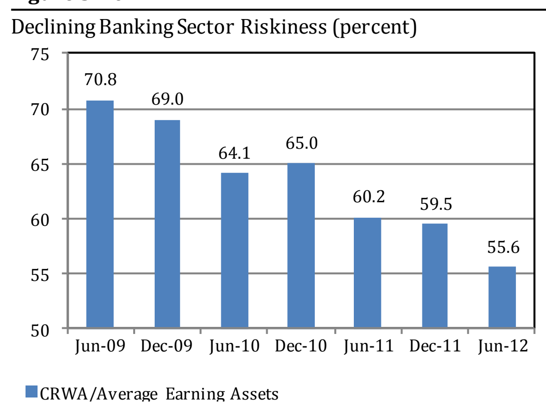


Table: 3.2: CRWAs to Original Exposure				
	CY11		Jun-12	
	Share in CRWA	CRWA to Original Exposure	Share in CRWA	CRWA to Original Exposure
Claims on GoP	-	-	-	-
Claims on PSEs	1.0	10.5	1.8	12.0
Claims on Banks	1.7	35.2	1.9	36.7
Claims on Corporates (excluding equity exposures)	44.9	82.7	44.7	81.6
Claims categorized as retail portfolio	9.4	67.2	8.9	66.1
Past due loans	5.3	99.5	7.0	108.5
Total On Balance Sheet Exposures	**85.4**	**48.5**	**85.6**	**46.5**
Total Off Balance Sheet Exposures	**14.6**	**14.1**	**14.4**	**14.2**

Figure 3.10

Declining Banking Sector Riskiness (percent)



Improved profitability augmented the Tier-I capital

The Tier-I capital of banking system, comprising 86 percent of regulatory capital showed a growth of 2.5 percent in H1-CY12. This increase mainly came from healthy returns generated by the banking sector and consequent accumulation of un-appropriated profits. Improved profitability also allowed banks to announce stock dividends, which enhanced paid up capital of the banking sector by 2.1 percent, while facilitating some banks in meeting the MCR. All this progress toward equity growth indicates that bank management is relying heavily on internal profits to build capital buffer **(Figure 3.9)**.

Credit Risk Weighted Assets (CRWA) increased significantly and shared most of the incease in RWA

Over the last three years, riskiness of asset mix has declined in line with the risk averse approach adopted by banks. The CRWA, which form more than 3/4th of the total RWA, persistently declined**.** The trend, however, reversed during H1-CY12 as most of the 2.73 percent growth in RWAs was contributed by CRWA.

During H1-CY12, advances expanded by 6.6 percent, which led to 3.3 percent increase in CRWA of the banking sector compared to growth of 1.7 percent in corresponding period last year **(Table 3.2)**. A further look at the composition of on-balance sheet exposures reveals that most of the risk-adjusted assets were contributed by the corporate portfolio[35] followed by the retail loans. However, declining flows to private sector, SMEs and consumer finance led to decline in share of risk-adjusted corporate and retail claims during H1-CY12. On the contrary, lending to PSEs increased considerably in H1-CY12 and so did the share of risky claims on PSEs[36].

Market Risk Weighted Assets (MRWA) on the other hand observed a marginal increase of 1.1 percent during H1-CY12 against 6.6 percent growth in H2-CY11. The slowdown despite increase in investments, resulted mainly from decline in RWAs under interest rate risk due to shift in the tenure of securities/ debt instruments to shorter maturities, which attract lower risk weights.

[35] This comes as no surprise as many corporate remained unrated and most of the collateral holdings do not qualify as eligible collateral under Basel II.

[36] PSEs are still unrated and thus attract higher risk weight leading to increase in risky claims on PSEs.

Figure 3.11

Consistently high Net NPL to Capital Ratio (percent)

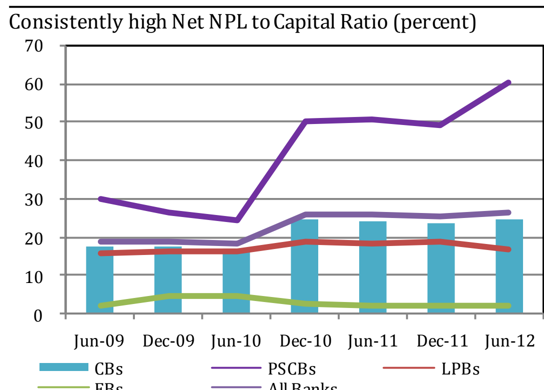


Fig 3.12

Distribution of CRWAs by risk weight (Rs. billion)

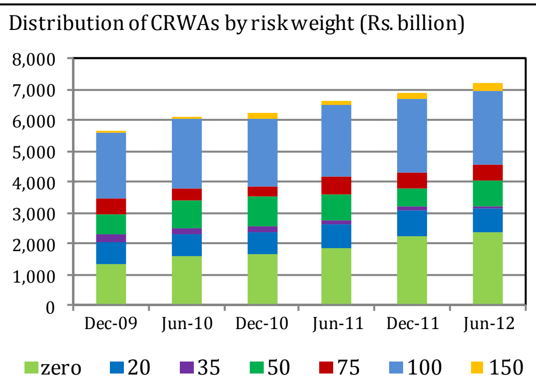
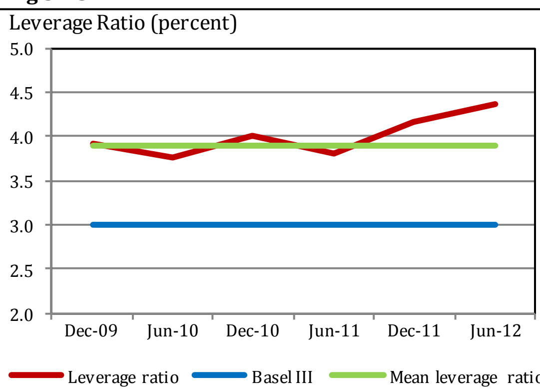


Fig 3.13

Leverage Ratio (percent)



Riskiness of banking sector is declining over the period

Despite some growth in CRWA, the overall riskiness of the banking sector (CRWA to average earning assets) continued on the declining trend. The outcome was expected as major part of the 5.4 percent expansion in earning assets, over the half year, carry low risk weights. With a slow pace growth, share of CRWA as a percentage of average earning assets declined by 390 bps in H1-2012. This trend though healthy in short run, may compromise risk management capacity of the banking sector in future **(Figure 3.10).**

… While capital at risk of PSCBs continue to stay high and rising

Due to deterioration in asset quality, the risk to solvency increased over the half year. Net NPLs to Capital ratio-an indicator of fraction of banks' equity that could be impaired by loan losses, increased by 230 bps to 26.5 percent. The ratio worsened mainly due to decline in provisioning coverage. As most of the increase in NPLs took place in PSCBs, increase in the ratio was more profound in this category of banks; capital impairment ratio for PSCBs jumped by 10 percentage points to 60 percent indicating more than half of their capital at risk on account of uncovered NPLs **(Figure 3.11).** The realization of such an event has the tendency to adversely affect the solvency of the system.

Rising exposure to unrated PSEs increased overall capital charge

Distribution of CRWA is the mirror image of banks' risk preference. Zero risk weighted asset after taking the highest share of 33 percent in last half year came down marginally by 25 basis points. On the other hand, share of assets having 100 percent risk weight (usually assigned to the advances extended towards unrated borrowers) continued to decline, an outcome of declining private sector credit. Share of assets with risk weight of 50 percent showed an increase of 300 bps to seven percent of the total CRWAs portfolio during first half of 2012 due to increase in exposure towards unrated public sector entities[37] **(Figure 3.12).**

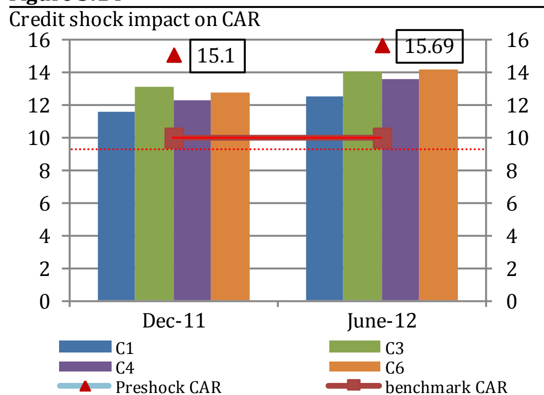
[37] In case of public sector exposures, investment in Government securities is considered risk free and is assigned zero credit risk weight; moreover, majority of the PSEs exposures carry low risk weights ranging from 0 to 50 percent. On the contrary, private sector exposures are assigned risk weights between 20 and 150 percent, while in practice majority of these falls under the 100 percent category.

Box A: Credit Risk Sensitivity Shocks
C1: 10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss. C2: All NPLs under substandard downgrade to doubtful and all doubtful downgrade to loss. C3: Default of top 3 borrowers of the banks. C4: Default of top 3 borrowing Groups of the banks. C5: Increase in provisions against NPLs equivalent to 50% of Net NPLs. C6: Increase in NPLs to Loans Ratio equivalent to the maximum quarterly increase in NPLs to Loans Ratio of the individual banks during the last 5 years. C7: Increase in NPLs of all banks by 21% which is equivalent to the maximum quarterly increase in NPLs of the banking system during the last 5 years (Mar-09). C8: Increase in NPLs to Loans Ratio of Textile Sector of the banks equivalent to the maximum quarterly increase in these banks during the last 3 years. C9: Increase in NPLs to Loans Ratio of Consumer Sector of the banks equivalent to the maximum quarterly increase in these banks during the last 3 years. C10: Increase in NPLs to Loans Ratio of Agriculture & SME Sectors of the banks equivalent to the maximum quarterly increase in these banks during the last 4 years.

Box B: Market Risk Sensitivity Shocks
IR1: Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities. IR2: Upward shift coupled with steepening of the yield curve by increasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the maximum quarterly increase experienced during the last 3 years. ER3: Appreciation of Pak Rupee exchange rate by 3.2% EQ1: Fall in general equity prices by 41.4% EQ2: Fall in general equity prices by 50%.

Figure 3.14

Credit shock impact on CAR



A higher capital base above the regulatory requirements provides banks with sufficient cushion against unexpected idiosyncratic shocks and severe macroeconomic conditions. As a part of its policy to strengthen common equity base of banks, the SBP over the period has enhanced the MCR requirement gradually. The outcome of this approach is obvious in comfortable CAR of the banking sector and majority of the individual banks. As of end June 2012, only five banks lagged behind the required CAR of 10 percent, while CAR of 22 banks stood above 15 percent. Banks falling short of CAR represent only 3.4 percent of total asset and as such do not pose any serious concern to the solvency of the banking sector.

Banking system leverage is well within the prescribed band

To supplement the risk based CAR, a backstop measure of Leverage ratio has been introduced by BIS under the Basel III framework. The ratio can be used as a countercyclical tool by setting dynamic limits during boom and downturns. The leverage ratio for banking sector of Pakistan continued to rise at the back of rising equity levels and less securitized exposure. On aggregate basis, leverage ratio stood at 4.4 percent in H1-CY12, much higher than the required minimum of 3 percent[38]. **(Figure 3.13).**With a comfortable level of this non-risk based indicator and potential for growth in the economy, industry enjoys enough buffer to further increase its leverage in the future.

Resilience of the banking system

Strong solvency position ensured resilience of the banking sector against severe stress shocks.

With an industry CAR of 15.1 percent-much above the regulatory requirements, impact of shocks somehow subsided in H1-2012 as compared to results of H2-CY11. The single factor sensitivity stress shocks on the credit, market, liquidity and contagion risk on the banking sector reaffirms that with the exception of a few banks, system is satisfactorily placed to withstand the stress events[39].

[38]http://www.moodysanalytics.com/13A15DC2-93E3-4DF5-BA6D FE54B44527B8/FinalDownload/DownloadId-4F0530E8B155687D24AF246695F88296/13A15DC2-93E3 4DF5-BA6D-FE54B44527B8/~/media/Insight/Regulatory/Basel-III/Thought-Leadership/2012/2012-19-01-MA-Basel-III-FAQs.ashx.

[39] For number of banks failing stress scenarios, see Annexure 1.15.

Figure 3.15

Market risk shocks

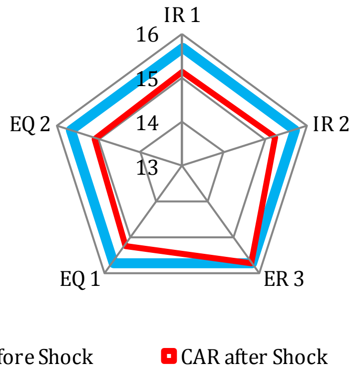
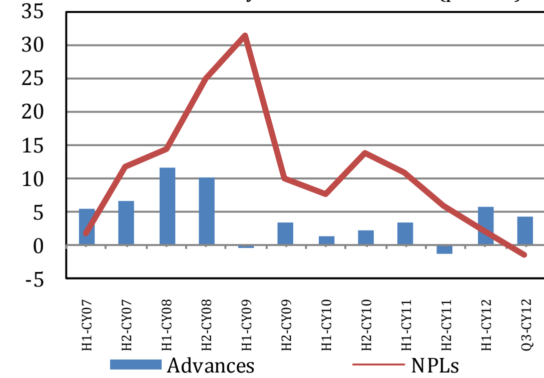
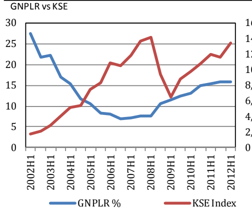
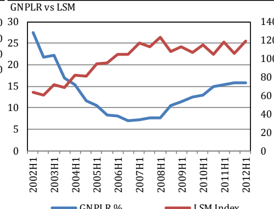


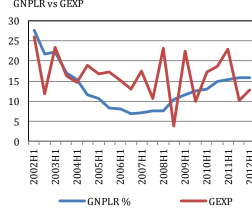
Figure 3.16

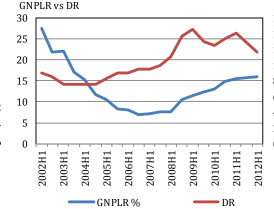
Growth rates of Half Yearly Advances and NPLs (percent)











The impact of various credit shocks was lower than previous half year on aggregate basis **(Figure 3.14)** except for few banks already short of benchmark CAR of 10 percent. The downgrading of loan classification (C-1) impacted CAR the most in both periods followed by concentration (C-4) and rising infection ratio (C-6). In an environment of rising loan losses, banks need to improve on their risk management practices. In addition to that, increasing loan concentration to large corporate (C-4) needs to be effectively monitored to avoid any systemic implications.

In case of market risk that constitutes only 6.4 percent of banking sectors' risk profile, the market risk sensitivity stress shocks did not affect the banks' solvency profile as much as the credit risk shocks. The interest rate and equity price shocks have varying impact on CAR between 47 to 60 bps, while the exchange rate shocks had negligible impact on the CAR due to banks being net long in FX positions **(Figure 3.15).**

Macro Stress Testing of Credit Risk-Forecasts for H2-CY12

The Non-Performing loans to gross loans ratio (GNPLR)[40], of banking system stood at 15.9 percent during H1-CY12, compared to 15.7 percent in H2-CY11. The deceleration in GNLPR was primarily supported by slow down in fresh NPLs and moderate credit growth **(Figure 3.16).**

Though there was moderate improvement in key economic indicators, overall growth remained low. High fiscal deficit, drying up foreign capital inflows and energy shortages directly curtailed production activities, while law and order situation and political uncertainty also impacted growth prospects **(Figure 3.17).** Macro economy does face challenges in the short term, though the medium term outlook would depend on the effectiveness of policy response. Nonetheless, due to a fall in interest rate and expected pick up of seasonal credit toward end of 2012, GNPLR is expected to decline in the second half of 2012.

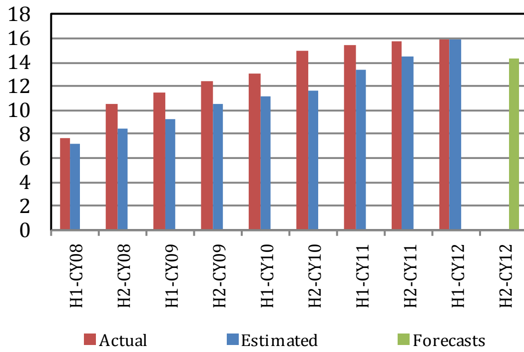
Given above theoretical underpinnings and using Blaschke et al (2001) approach, CPV model[41] has been employed to obtain baseline forecast for H2-CY12 GNPLR as elaborated below.

[40] Blaschke's et al (2001) use of asset quality indicator like GNPLR for determining health of financial system is based on the assumption that NPLR can serve as a good proxy for defaults rates or bankruptcies (where data is not easily available) since it is impacted by developments in the macroeconomic environment.

[41] The reasons for using the CPV model are (a) ease in implementation and (b) its worldwide acceptability among financial supervisory authorities.

Figure 3.18

Forecasts for H2-CY12 (percent)



The half-yearly CPV model estimate GNLPR as a function of large scale manufacturing index (LSM), growth in Exports (GEXP), KSE-100 index and discount rate (DR). This exercise uses half-yearly time series data ranging from H1-CY97-H1-CY12. To project baseline forecasts for GNPLR, macro forecasts for LSM, GEXP, and DR are estimated using ARIMA[42] models. Results from the CPV model suggest that under the baseline scenario, the GNPLR for H2-CY12 is projected to be 14.3 percent, lower than 15.9 percent recorded for H1 2012. Forecast seems reasonable keeping in view recent developments in economy such as lowering of discount rate and increasing KSE-100 index. Scenario based analysis suggest GNPLR would be at 14.4 percent for H2-CY12[43] **(Figure 3.18).**

[42] ARIMA are Auto regressive integrated moving average models estimated from variables own lags and error terms.

[43] For judgment based baseline scenario, macro variables are assumed at their June 2012 level. Scenario assumes that LSM is 118.6 percent, GEXP is -1.7 percent, DR is 10 percent, and KSE is 15138 index points during H12012.

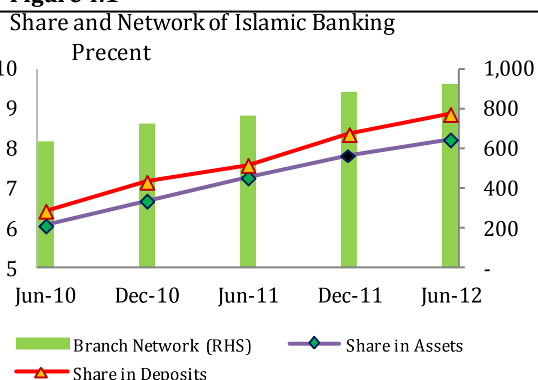
During H1-CY12, Islamic banks continued to make steady progress towards expanding their share in the overall banking industry, thanks to robust growth in deposits. The substantial flow of funds allowed Islamic banks to invest heavily in government sukuks, which tilted the asset mix of IBIs further towards investments and kept IBIs more liquid than the banking sector. However, financing saw a marginal decline as flows to private sector subsided in line with overall industry trend and assets quality deteriorated due to increasing infection in few economic sectors. The IBIs experienced improved profits owing to increasing investment income, non-mark-up income, and decline in provisions; however, RoA saw a marginal dip due to deceleration in financing margins and increasing cost. Solvency ratios improved at the back of rising retained earnings.

Growth pattern of IBIs prevailed

Islamic banking continued its march towards double-digit share in assets and deposits of the banking industry **(Figure 4.1)**. Over the years, IBIs continued growing at twice the pace of conventional banks, which increased their share in total assets of the banking system by 54 bps to 8.2 percent during H1-CY12. An accelerated growth in deposits provided the major support for augmenting the asset base. The substantial flow of funds allowed Islamic banks to invest heavily in government sukuks, which further improved the liquidity indicators. The IBIs' advances declined in line with prevailing risk aversion, while asset quality deteriorated further. The operating performance of IBIs remained moderate, which further improved their solvency. With addition of 62 branches during the half year, the network of IBIs approached 1000 branches.

Figure 4.1

Share and Network of Islamic Banking



Share of Investments surged to almost half of the total assets

The limited appetite of the banking industry for risky assets, muted demand for credit from the private sector in the low growth environment and sufficient supply of government bonds due to high financing needs of the exchequer, increased the exposure of the overall industry to risk free government securities. The IBIs approach was not much different as they channeled most of the fresh funds into Government Ijara Sukuk, which surged the share of investment to almost 50 percent of their total assets **(Table 4.1).**

Table 4.1: Growth of Islamic Banking.

						Rs. billion
	Dec-09	Dec-10	Jun-11	Dec-11	Jun-12	All Banks Jun-12
Total Assets	366.3	477.0	560.5	641.0	711.2	8,652.9
Investments (net)	72.2	157.8	231.3	274.3	345.7	3,275.5
Financing (net)	153.5	180.4	188.6	200.2	196.8	3,572.8
Deposits	282.6	390.1	452.1	521.0	602.5	6,802.9
	precent change					
Total Assets	17.0	16.0	17.5	14.4	10.9	5.9
Investments (net)	34.9	102.3	46.6	18.6	26.0	7.2
Financing (net)	9.4	14.5	4.6	6.2	(1.7)	6.7
Deposits	18.7	18.3	15.9	15.2	15.6	9.0

... while financing subsided as flows to private sector pacified

The lackluster demand for financing from the private sector and overall risk aversion of IBIs led to 1.2 percent decline in financing during H1-CY12 against an increase of 6 percent in H2-CY11. Though dip in financing was broad based, flows remained

Figure 4.2
Financing Mix (in percent)

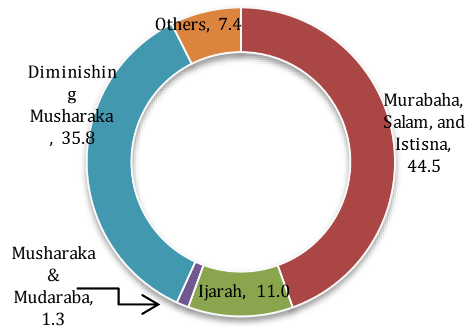


Figure 4.3
Concentration of Financing (in percent)

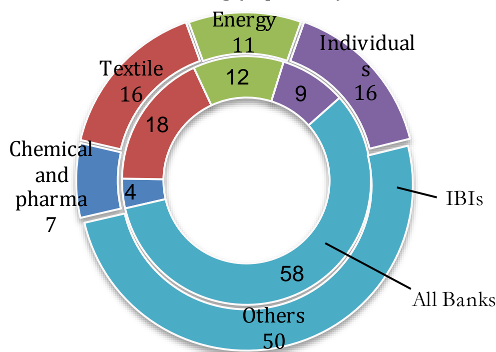
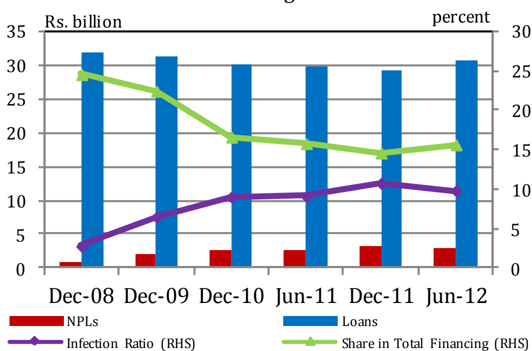


Figure 4.4
Trends in Consumer Financing



positive for consumer segment, public sector seasonal financing needs for commodity financing, and Production and transmission of energy.

Murabaha and Diminishing Musharaka stood out in modes of financing…

The break-up of financing indicated that the combined share of Murabaha, Musharaka, Salam, Istasna and Diminshing Musharaka accounted for 91.3 percent of financing **(Figure 4.2)**. The increase in Salam and Istasna translated into an increase of Rs 2.0 billion in the commodity finance. End use of financing showed increase in long-term modes of financing primarily in energy sector. Specifically, Murabaha financing declined over the period by Rs6.1 billion mainly because of dip in working capital and trade finance.

The corporate sector finance represented a major portion of IBIs' gross financing (71 percent) declined during the period under review, mainly on account of decline in working capital/Murabaha based financing. The energy sector where demand for financing observed persistent rise, added another 6.6 percent in its portfolio **(Figure 4.3)**. Segment-wise analysis delineates that agriculture financing remained the most neglected area in overall financing. Despite the fact that SBP has been encouraging IBIs to increase their penetration in smaller towns, rural and semi-rural areas through branch expansion and specifying Shariah compliant agriculture polices for promoting Islamic financing products.

Consumer financing continued moderate growth…

Consumer financing has consistently grown over the years and with about 15 percent share in gross financing represent second largest segment in Islamic financing portfolio. Unlike the industry trend, growth pattern in consumer financing continued during the period under review. The IBIs with a 5 percent growth in consumer financing remained the key contributor to private sector financing. Though the growth was broad based, the substantial increase in financing came from Ijarah car financing and Diminishing Musharaka. Interestingly, the credit card portfolio, which still represents meager portfolio, also started to gain ground **(Figure 4.4)**.

Figure 4.5
Customer Deposits

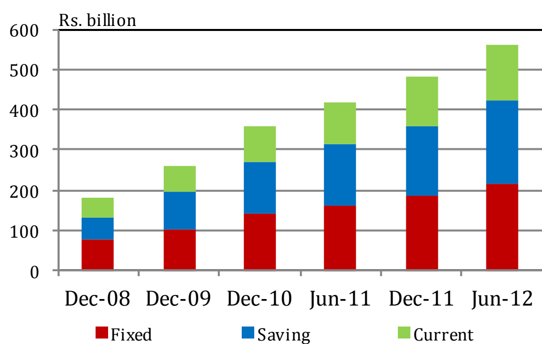


Figure 4.6
Growth in Advances and Deposits (in percent)

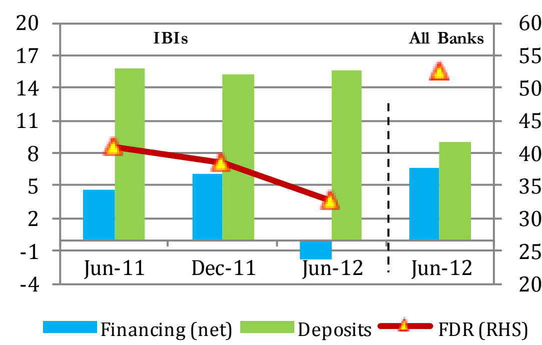


Table 4.2: Asset Quality

				in percent
	IBs			All Banks
	Jun-11	Dec-11	Jun-12	Jun-12
NPF to Financing	7.5	7.6	8.8	15.9
Net NPF to Financing	3.2	2.9	3.8	6.0
Provisions to NPFs	60.0	63.0	59.5	66.3
Net NPFs to Total Capital	11.6	10.5	12.6	26.5
	IBs		IBBs	
	Dec-11	Jun-12	Dec-11	Jun-12
NPF to Financing	9.0	11.5	4.9	4.3
Net NPF to Financing	3.0	4.4	2.9	2.8
Provisions to NPFs	68.9	64.4	42.6	36.9
Net NPFs to Total Capital	10.3	13.7	10.9	10.5
NPFs (billion Rs.)	12.4	15.0	3.5	3.3

IBs=Islamic Banks, IBBs = Islamic Banking Branches, IBIs = IBs+IBBs

Robust growth in deposits provided for most of the funding needs…

The deposit base of the IBIs observed 16 percent growth over the half year, mainly contributed by Modaraba based term and saving deposits and Qurd based current accounts **(Figure 4.5)**. As a result, the share of deposit as a percentage of total asset inched up to 85 percent in H1-CY12 from 81 percent in pervious half **(Figure 4.6)**. The efforts of Islamic banks in expanding their outreach and utilization of the existing branch network by IBBs remained the driving force behind the consistent growth in deposits. However, deposits products being offered by IBIs faced with non-standardized computation of profit and loss and distribution policies. To address the issue, SBP developed a framework[44] for profit & loss distribution and pool management practices, which is expected to improve transparency in sharing of returns on deposits

Liquidity level continues to be in the comfort zone…

Because of sufficient availability of funds and the continued borrowing by the Government, IBIs mainly focused on sukuks as the lending to private sector remained passive. Resultantly, liquidity ratios further improved during H1-CY12 **(Figure 4.7).** Particularly, financing-to-deposit ratio (FDR) of IBIs further dropped to 32.3 percent. Such a low ratio may look good from the liquidity perspective but not desirable as it exhibits declining intermediation, with compromised focus on core-banking activities **(Figure 4.6).**

Though persistent demand from the Government sector allowed IBIs to accumulate substantial amount of Sukuks over the last couple of years, however, they still lack secondary market and the Lender of Last Resort facility to manage additional liquidity cushions. To this end, SBP is working on development of a comprehensive framework for liquidity management covering Islamic interbank market, benchmark Islamic Interbank Offered Rate(IIBOR)and placement of excess liquidity within the central bank.

Asset quality deteriorated…

After seeing an impressive asset quality management for couple of years where the pace of expansion of non-performing

[44] IBD Circular No. 3 dated November 19, 2012

financing used to be subdued, things started to deteriorate a bit, especially during the last year. The Non Performing Financing (NPFs) of IBIs saw, over the half year increase of 15 percent to reach Rs18.3 billion. Most of this increase was contributed by the Islamic Banks(IBs), which led to susbtaintail deterioration of their infection ratios **(Table 4.2)**. Fresh NPFs were observed mostly in textiles, and Chemical & Pharmaceutical sectors.

Profitability and solvency improved, though return indicators marginally subsided ...

The IBIs continued to experience growth in their earnings owing to imporved income from GoP Ijara Sukuks, non-mark-up income (dividend income and gain from sale of securities were instrumental in the increase) and decline in provisions **(Figure 4.8)**. The profit before tax edged up by 18 percent to Rs. 5.9 billion, with 47 percent of it contributed by the IBBs. In terms of optimal and efficient use of resources, the situation of IBIs slightly deteriorated as cost to income ratio (operating expenses to gross income) increased to **64.7** percent during H1-CY12 from **60.4** percent for CY11. This weakening alongwith decelration in financing income resulted in marginal dip in ROA **(Table 4.3)**. The solvency of the IBIs improved marginally to 18.1 percent as of H1-CY12, principally because of the accumulation of retained earnings **(Figure 4.9)**.

Figure 4.7

Liquidity Ratios (in percent)

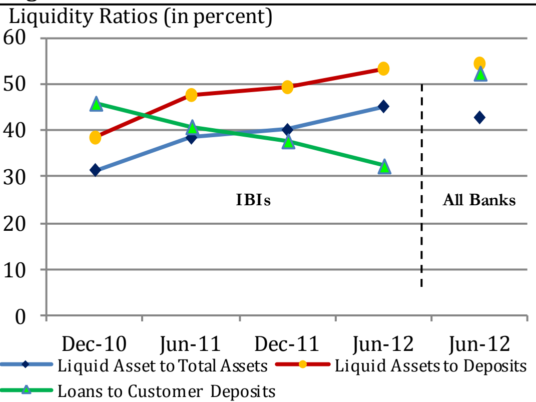


Figure 4.8

IBIs' Earnings and Expenses

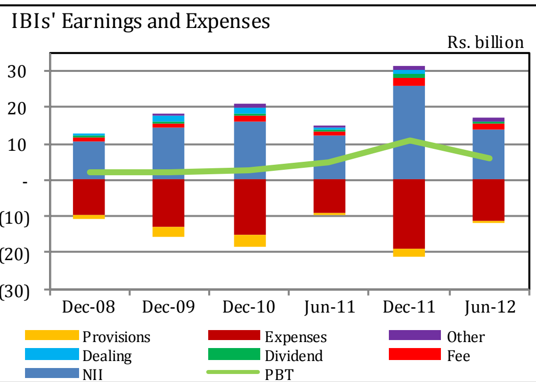


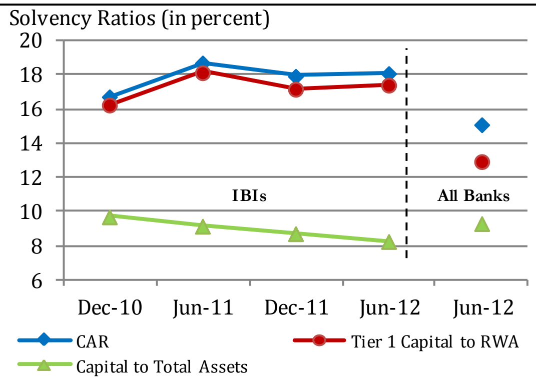
Table 4.3: Earnings (in percent)

	IBIs				All Banks
	Dec-10	Jun-11	Dec-11	Jun-12	Jun-12
Return on Assets	0.6	2.0	1.9	1.8	2.3
Return on Equity	5.9	20.7	20.8	20.6	24.9
Operating Expenses to Gross Income	72.6	60.9	60.4	64.7	52.5

Profit before tax is used in all calculations

Figure 4.9

Solvency Ratios (in percent)



Chapter 5 Financial Markets

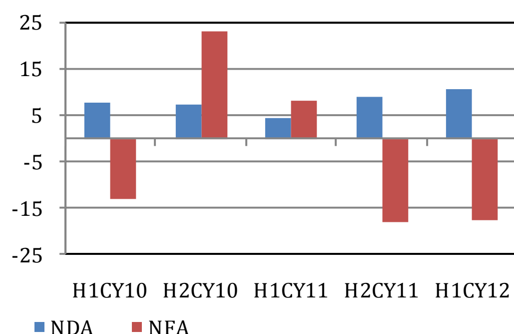
The high fiscal deficit and uncertain financial inflows maintained stress on the money and foreign exchange markets. However, the bullish equity markets led to a considerable improvement in stock indices during the period under review. The liquidity pressures in the money market remained, though lower than the previous half, due to persistent reliance of the Government on financial institutions for bridging the fiscal gap, for which the central bank made substantial injection for easing out the market liquidity. Meanwhile, with the depletion in foreign exchange reserves due to multilateral repayments, unfavorable terms of trade and market sentiments, PKR depreciated by 5.2 percent against the USD.

Stress prevailed in the financial markets despite modest recovery in the macroeconomic indicators and revival of equity market.

The rising degree of stress and vulnerability faced by the domestic financial markets carried over from the previous half year. The money market activities were largely driven by high government borrowing needs to bridge the revenues and expenditures gap. The foreign exchange market also remained volatile on account of modest yet growing current account deficit, limited financial inflows and market sentiments. However, the highlight of the financial markets during the first half of CY12 remained the robust growth in the equity market index that witnessed a sharp increase of 21.6 percent during the first half of CY12 (against a decline of 9.2 percent during H2-CY11).

Figure 5.1

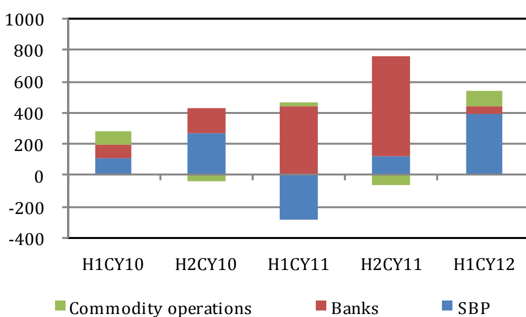
Trends in M2 (percent change)



The trends in the money supply (M2) reflected the persistence of stress in the domestic money markets and the external sector. The surge in government borrowings for financing the budgetary needs and increase in lending to public sector enterprises (PSE) augmented the Net Domestic Assets (NDA) of the banking system by 10.6 percent during HI-CY12 compared to 8.8 percent in the second half of CY11 (**Figure 5.1**). Similarly, the sharp deterioration in foreign exchange reserves in response to growing current account deficit dampened the Net Foreign Assets (NFA) by 17.8 percent.

Figure 5.2

Pattern of Government Borrowings - Half-Yealy Flows (Rs. billion)



The prevailing high budgetary borrowings from the financial sector in general and banks in particular affected the macroeconomic recovery prospects due to persistent decline in private investments.[45] The share of public sector credit in total assets, which declined to 21 percent in CY08, again surged to 40 percent in Jun-12; around 3 times increase in absolute terms. This rising share of Government exposure on banks not only

[45] The investment to GDP ratio has fallen from 22 percent in FY08 to 13 percent in FY12.

Figure 5.3

Trend of overnight Repo Rates (percent)

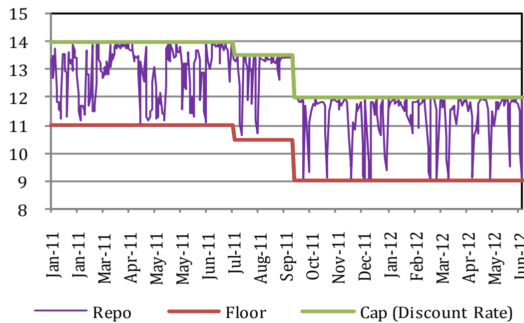


Figure 5.4

Open Market Operations (Rs. billion)

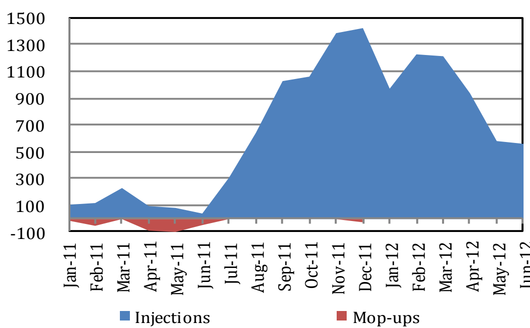


Figure 5.5

Stock of T-bills, PIBs and Sukuks outstanding (Rs. billion)

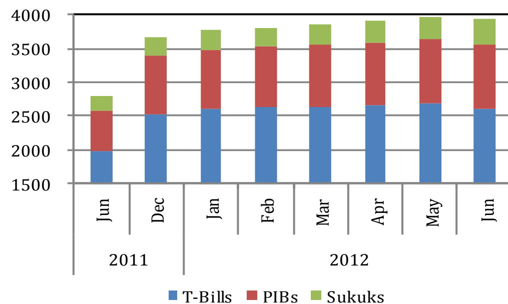
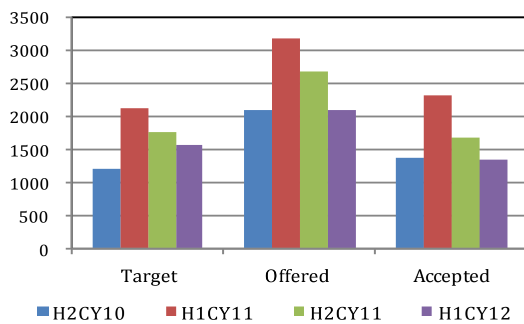


Figure 5.6

Profile of T-bill Auctions (Rs. billion)



limited the availability of credit to private sector but also surpassed the share of private sector credit in total assets.

The surge in bank credit during H1-CY12 mainly resulted from increased demand for loans from the PSEs and higher level of commodity finance for wheat procurement[46] and fertilizer import, which curtailed the availability of liquidity for incremental budgetary borrowing from the banks during the period. As a result, the monetization of fiscal deficit increased, enhancing central bank borrowings by 29.4 percent during H1-CY12 compared to 6.3 percent growth in the previous half (**Figure 5.2**).

Persistent fiscal borrowings maintained stress on short-term money market rates

Decreasing foreign financial inflows and higher public sector credit demand constrained the market liquidity, despite the fact that banks mobilized significant amount of deposits during the period under review. Accordingly, short-term overnight rates remained quite volatile and most of the time remained near the upper bound of the interest rate corridor (**Figure 5.3**).

To ease out the market liquidity, the central bank continued heavy injections through frequent OMOs, though quantum remained below the level of injections made in second Half of 2011 (**Figure 5.4**). However, such heavy injections did not affect the short-term rates, indicating the depth of fiscal needs. It also reflected the risk averse behavior of banks, which continued to fund the government directly from deposits mobilized as well as through channeling most of the repo borrowings from the central bank into Government securities.

The stock of T-Bills, PIBs and Sukuks saw a considerable increase due to persistently large fiscal deficit over the last few years. The trend continued during the period under review, however in sharp contrast with the behavior of last few years, most of the increase took place in long term PIBs and Sukuks (**Figure 5.5**). The participation in the most of the securities continued to generate high interest, though lower than those observed in H2-CY11. In case of T-Bills, the government preferred to match the maturities (F**igure 5.6**), while the acceptance ratio remained quite high in case of PIBs and Sukuks.

[46] In FY12, the government not only increased the wheat support price from Rs 950 to Rs 1050 per 40 kg, but also announced a higher procurement target of 7.7 million tons, compared to the actual procurement of 6.2 million tons last year.

Figure 5.7

T-Bill Tenure offered (percent share)

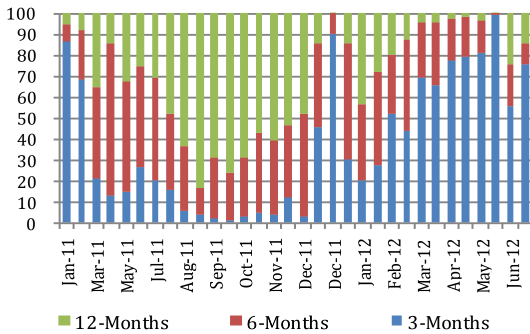


Figure 5.8

Growing share of Non-Competitive Bids

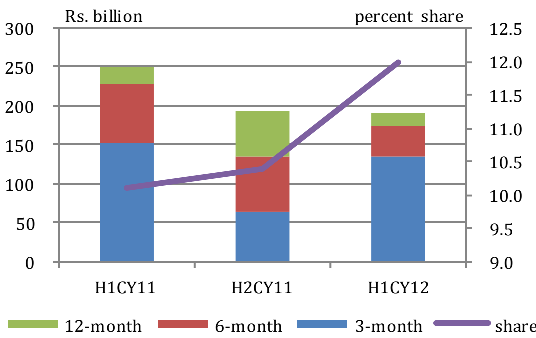


Figure 5.9

Accepted PIB Auction Profile (Rs. billion)

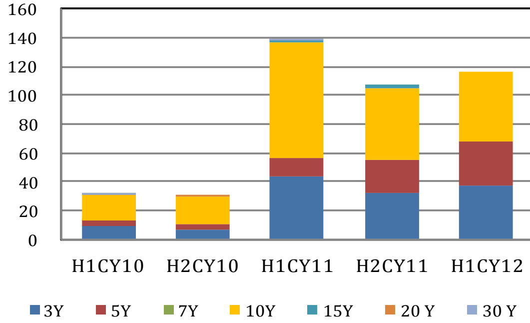
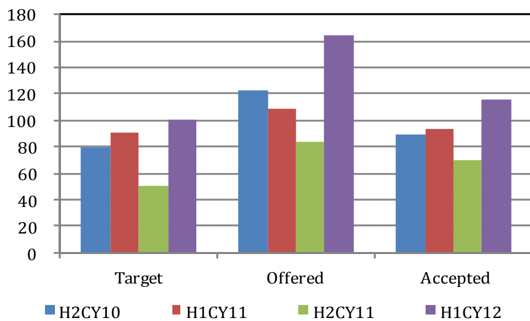


Figure 5.10

Auction Profile of Ijara Sukuk (Rs. billion)



Tenor wise flow into T-bills shows that banks preferred investments in longer tenor T-Bills in the initial months of CY12. However, as the expectations for changes in discount rate subsided, the banks' preference tilted to shorter tenor T-Bills. Accordingly, the share of amount offered for 3-month T-bills improved to 60 percent of the total offered amount during the first half while the share of 6-month securities remained 27 percent (**Figure 5.7**). This is in stark contrast to H2-CY11 during which the interest rates were slashed by 200 bps, which kept the share of amount offered for 3-month T-bill to just 17 percent of total offerings.

In addition to banks and other financial institutions, households and businesses also participated in the MTB / PIB auctions through Investor Portfolio Securities (IPS) accounts maintained with banks. The measure aims at diversifying investors' base in government auctions, along with instilling competition in the bidding process and encouraging small investors to invest in government securities. Under this approach, banks submit non-competitive bids (NCB) on behalf of interested investors for consideration in the auctions. The government has placed heavy emphasis in promoting the IPS scheme among the masses in order to attract more investors. As a result, the share of institutions and individuals in T-bills auctions increased over the year. During H1-CY12, the share of NCBs accepted towards total acceptance has increased to 12 percent from 10.2 percent in second half of CY11 **(Figure 5.8).**

Borrowings in long-term debt instruments further boosted

In contrast to the T-bill auction profile in which the accepted amount was less than the offered by market participants, the government borrowed heavily in the long-term securities market - PIBs and Sukuks. Against the target of Rs. 90 billion, it accepted Rs. 118 billion of PIBs, a rise of 14.5 percent in acceptance during the first half. Similar to previous subscriptions, much of the interest remained in 10 years, 3 years and 5 years maturities respectively. The share of 10 year PIBs though declining remained 42 percent of subscribed PIBs that was earlier 46 percent during H2-CY11 (**Figure 5.9**).

Similar to the PIBs, the auction profile of Ijarah Sukuk also showed an encouraging trend of renewed interest in the long term Islamic debt instruments. Against the target of Rs. 100 billion, the government subscribed Rs. 116 billion during the period (**Figure 5.10**). A higher acceptance against the targeted amount has not only helped the government to generate funds,

Figure 5.11

Yield Curve (percent)

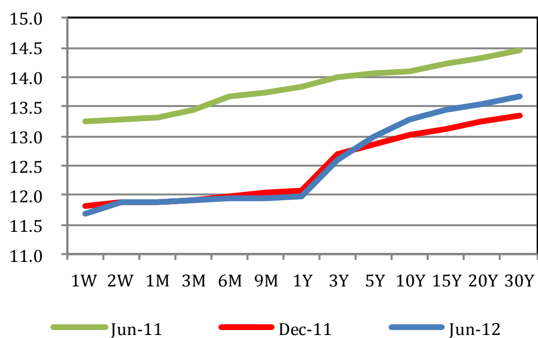


Figure 5.12

Developments in External Account

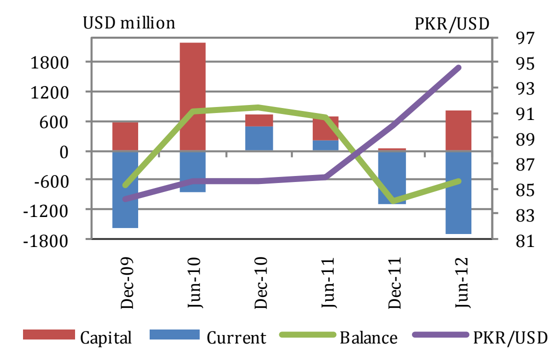
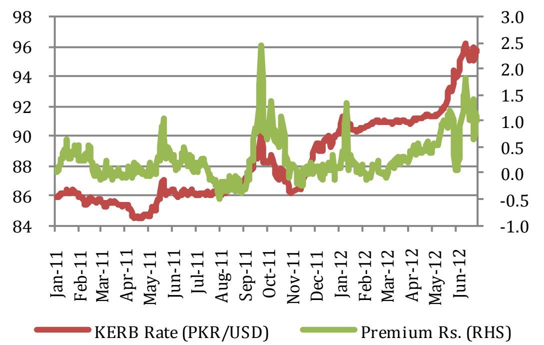


Figure 5.13

KERB Exchange Rate and Premium



but also provided Islamic banks an avenue to utilize its surplus liquidity in a depressed lending environment.

The stickiness of policy rate at 12 percent throughout the first half of CY12 has kept the short-term interest rates close to the Dec-11 level. However, the subsequent higher acceptance to target ratios of long–term instruments (PIBs and sukuks) has slightly pushed the long-term rates by an average of 20bps during the first half (**Figure 5.11**).

Deteriorating current account balance imposed stress on foreign exchange market

The foreign exchange market remained under stress during first half of CY12 as the demand for foreign exchange amplified in wake of rising current account deficit. The depleting foreign exchange reserves due to financing of trade and services deficit and repayment of IMF loan coupled with the dried-up foreign inflows, both non-debt (FDI and FPI) and debt (loans) buildup pressure in the foreign exchange market (**Figure 5.12**).

Accordingly, the PKR observed gradual depreciation through most of the half year under review. Likewise, the market sentiments also responded to a combination of factors like the IMF repayments and depreciation of the of USD against other regional currencies in the second quarter of the CY12, the PKR depreciated by 389 and 468 paisas in the interbank and Kerb market leading to a 5.2 percent depreciation against the USD in the first half of CY12 (9.1 percent for FY12 and 0.6 percent for FY11).

The trade deficit resulting from decline in exports by 2.8 percent and a price-driven rise in the import bill by 11.6 percent during FY12 was mainly responsible for deterioration in the current account. Though the high influx of workers' remittances of USD 13.1 billion significantly off-set the trade deficit, the overall current account deficit augmented to USD 1.6 billion in first half of CY12.

The rising degree of stress and volatility in foreign exchange market also reflected in increased premium between the KERB and the interbank rates. With constant depreciation of the domestic currency, the demand for foreign currency amplified among the households and businesses that further enhanced the KERB premium. The KERB premium increased from an average of Rs. 0.21 during H2-CY11 to Rs. 0.45 during H1-CY12 as

Figure 5.14

Foreign Exchange Reserves and Import Coverage

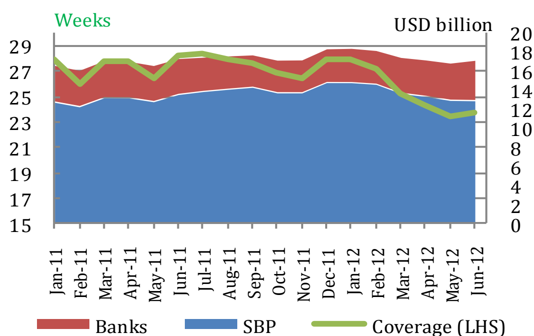


Figure 5.15

KSE-100 Index and Trading Volumes

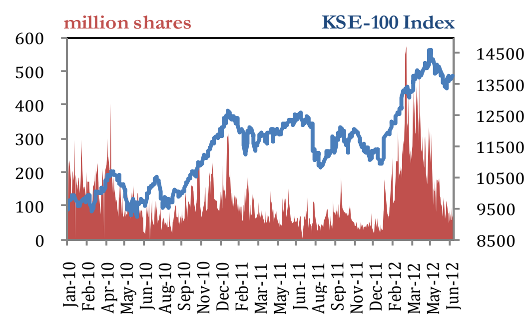


Table 5.1				
Comparision of Equity Markets Performance				
	27 Jun CY12	4 Jan CY12	29 Jun CY11	%Δ-CY12
USA (DJIA)	12,627	12,418	12,261	1.7
China (SSEA)	2,322	2,273	2,858	2.1
Japan (Nikkei)	8,731	8,560	9,797	2.0
Britian (FTSE)	5,524	5,669	5,856	-2.6
Turkey (ISE)	61,184	51,533	63,003	18.7
India (BSE)	16,968	15,883	18,694	6.8
Indonesia (JSE)	3,935	3,907	3,803	0.7
Malaysia (KLSE)	1,602	1,504	1,575	6.5
Pakistan (KSE)	13,799	11,362	12,423	21.4
Singapore (STI)	2,842	2,711	3,080	4.8
Thailand (SET)	1,166	1,036	1,033	12.5
Brazil (BVSP)	53,109	59,365	62,334	-10.5
MSCI Developed	1,202	1,204	1,314	-0.2
MSCI Emerging	913	938	1,133	-2.6
MSCI World	304	305	338	-0.5

demand for foreign currency increased in the KERB market[47] (**Figure 5.13**).

Import coverage ratio also worsened as imports rise and reserves fall.

With a decline in liquid foreign exchange reserves held with the central bank (to USD 10.8 billion on account of rise in the import bill and repayment of IMF installments), the import coverage ratio also deteriorated to 19 weeks in June-12 from 24 weeks coverage in Dec-11 (**Figure 5.14**).

As a result of the depreciation of PKR against USD, the foreign currency deposits (FCD) held with the banks grew by 10.6 percent during the period. Such an increase in the deposit, within the regulatory limits, provided for improving the total FX reserves as well as funding to banks for financing trade, thereby limiting pressure on the PKR and reserves. On the contrary, a rise in the FC deposits from KERB market purchases further imposed stress on the exchange rate and KERB premium.

Equity market boosted on healthy corporate announcements and renewed buying spree

In contrast to money and foreign exchange markets, the KSE witnessed bullish trend during H1-CY12. The benchmark KSE-100 index with a 21.6 percent surge closed at 13,801.4 level (**Figure 5.15**). Stock market in Pakistan actually outperformed the other leading advanced and emerging markets' stock markets during the first half of CY12 (**Table 5.1**). Much of the improvement in the index resulted from favorable corporate announcements, healthy payouts, promulgation of Capital Gains Tax Ordinance[48] and renewed institutional buying. Importantly, surge in the index came despite a number of negative events on political and geo political front.

Despite healthy gains, the stock market failed to attract sizable new equity listings in the first half. In fact, the number of listed firms of KSE decreased substantially from 638 in Dec-11 to 590 in Jun-12[49] (**Table 5.2**), on account of liquidation and breach of the listing regulations of the KSE. Moreover, one new company was listed in the equity market during the first half, while no new debt issue took place due to limited demand for funds as well as

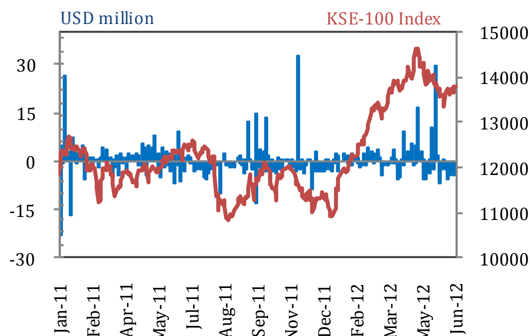
[47] Despite an increase in average premium, the maximum KERB premium declined from Rs. 2.46 to Rs. 1.83 during the first half. Though the premium exceeded by 100 paisas during 21 days of FX trading as against 8 times in the second half CY11.
[48] The ordinance to amend certain fiscal law (Ordinance III of 2012) was promulgated in April 2012 that later became the part of Finance Bill 2012.
[49] The listing Regulation 30 enables the KSE to suspend, delist or place companies in defaulters' segment if the companies are found in the breach the regulations. The recent decline in the number of companies resulted mainly from application of this regulation.

Table 5.2				
Profile of Capital Market				
	2009	2010	2011	H1-CY12
Listed Companies	651	644	638	590
Listed Capital	814.5	919.2	1,048.4	1,069.8
Capitalization	2,705.9	3,268.9	2,945.8	3,518.1
GDP Ratio	23.6	23.7	17.9	16.6
KSE-100	9386.9	12022.5	11347.7	13,801.4
New Companies	4	6	4	1
New Equity Capital	8.8	33.4	16.0	0.0
New Debt	1	4	6	0.0
New Debt Capital	3.0	5.7	14.8	0.0

Listed Capital, Capitalization, New Equity Capital and New Debt Capital are in Rs. Billions. GDP Ratio in percent and Equity volume in million

Figure 5.16

Net SCRA Flows and KSE Performance



lack of willingness from the firms and corporate for taking further exposure in the prevailing business and economic environment.

The trading volumes at KSE improved from an average of 58 million shares during H2-CY11 to 177 million shares in H1CY12 Increased trading however remained limited to few sector including banking telecom, energy and fertilizer. The trading concentration improved during the first half as share of top three companies in total trading decreased from 21 percent to 19 percent while the concentration of top 10 companies decreased from 54 percent to 43 percent during the period.

Due to recovery in the equity markets, KSE was able to attract potential investors. However, foreign portfolio investment (FPI) continued its downward trend, though recovery in the market limited the size of outflow. Moreover, change in investors' appetite to quality of capital in wake of the prevailing financial distress in advanced countries also restrained flows of foreign capital despite substantial uptick in the equity markets. Accordingly FPI and SCRA investment in the KSE witnessed a decline of USD 20 million and USD 50 million respectively during the first half of CY12 (**Figure 5.16**).

Chapter 6 Non Bank Financial Institutions (NBFIs)

The phenomenal increase in net asset value of mutual funds along with healthy growth in DFIs and Modarabas boosted asset base of NBFIs sector for second consecutive year. Much of the growth in Mutual funds was driven by enhanced interest in money market and income funds, due to their competitive returns and ample supply of risk free Government bonds. Borrowing continued as a major funding source of the sector, though deposits also picked up for leasing sector. However, except for DFIs and Modarabas, NBFIs sector consolidated its business activities, which led to further shrinking of total loan portfolio. The improved operating performance of Modarabas and DFIs provided for overall profitability of the sector. However, profits dipped by 45 percent due to heavy losses incurred by IFCs and couple of leasing companies, which further added to already growing solvency concerns related to these sub-sectors.

Table 6.1: Profile of NBFIs

	FY04	FY08	FY09	FY10	FY11	FY12
Assets (Rs. Billion)	318.1	585.6	470.1	421.9	478.2	610.2
Growth rate	22.7	3.3	-19.7	-10.2	13.3	30.2
	Share in Assets (percent)					
Mutual Funds	32.4	58.5	47.9	47.6	53.2	62.4
DFIs	29.8	14.5	24.2	26.8	24.6	21.5
Leasing	14.1	11.0	11.9	8.8	7.1	5.4
Investment Finance	11.2	7.4	6.6	6.2	5.2	2.7
Modarabas	5.7	5.1	4.9	5.8	5.6	4.8
Housing Finance	6.1	3.1	4.0	4.6	4.0	3.2

Overview [50]

Ideally, a well functioning financial system should provide wide range of financial products and services through a diversified group of financial institutions. It is an indicator of financial depth or penetration in an economy and promotes competition among the participants, ultimately leading to efficiency and low cost services for the households and businesses. Although banking sector in Pakistan dominates the financial landscape like most of world economies, it also constitutes diverse range of other Non-bank financial intermediaries viz. Asset Management Companies (AMCs), Mutual Funds (MFs), Leasing Companies, Modarabas[51], Investment Finance Companies (IFCs), firms rendering Investment Advisory Services (IAS), Venture Capital Companies (VCCs) and Development Finance Institutions (DFIs).

NBFIs are slowly surfacing as a growing segment in financial sector landscape…

Apart from providing alternative avenues for investments, mitigating risks and providing liquidity for its customers, the NBFIs also offer wide range of financing products for households and businesses. The NBFIs actually surfaced as a growing segment during FY12 with a half percent improvement in its share in the financial sector assets during FY12 to 5.2 percent.

…on the back of phenomenal growth of mutual fund industry

[50] Non-Bank Financial Institutions (NBFIs) include Non-Bank Finance Companies (NBFCs), Modarabas and Development Finance Institutions (DFIs)where NBFCs include Investment Finance Cos.(IFCs), Leasing Cos., Mutual Funds, Venture Capital Cos.(VCCs).and Housing Finance Cos(HFCs). The analysis of NBFCs and Modarabas is based on annual audited accounts, data provided by SECP and MUFAP website.

[51] Modaraba companies' analysis is based on financial data of 24 active companies.

Figure 6.1

Growth Trend in Non-bank Financial Sector (percent)

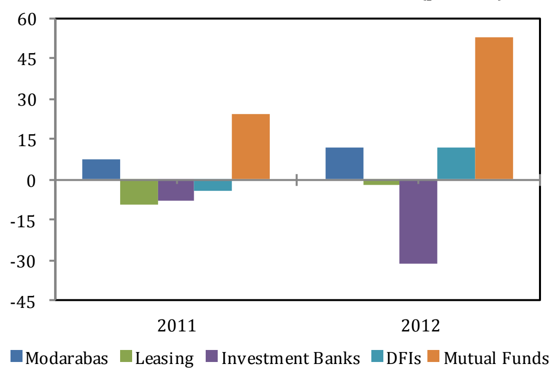


Table 6.2: Number of NBFIs					
	FY08	FY09	FY10	FY11	FY12
Mutual Funds	97	109	135	144	158
DFIs	6	8	8	8	8
Leasing	12	11	9	9	8
IFCs	11	9	8	7	7
Modarabas	27	27	26	26	26
HFCs	2	1	1	1	0
VCCs	4	3	4	3	2
DHs	1	0	0	0	0
Total	160	168	191	198	209

The NBFIs sector continued the momentum gained during the last year as its assets surged by 30 percent. MFs industry remained the key driver behind this increase; as its Net Asset Value (NAV) observed accelerated growth of 53 percent, leading to a substantial jump in share of mutual funds in NBFIs assets base **(Table 6.1).** Favorable environment in the money market mutual funds on the back of increased demand from the Government for matching the fiscal needs and investors' risk averse sentiment remained the major contributors towards growing mutual funds market share.

With the exception of Modaraba and DFIs, rest of the non-bank players are struggling to survive

The NBFIs (excluding mutual funds) observed a moderate growth of 5.2 percent, which was mainly supported by healthy 12.1 and 12.2 percent growth in assets of Modaraba Companies and DFIs respectively **(Figure 6.1).** Meanwhile, the Leasing companies saw a marginal decline in their asset base owing to exit of a leasing company, while the IFCs took a major hit in FY12, with a substantial decline in assets (31 percent) due to reduction in their advances and lease business, and growing delinquent portfolio. The number of NBFIs (except Mutual funds) further declined over the year due to consolidation and regulatory actions **(Table 6.2).**

Borrowing remained the main funding source yet deposits started picking up for the leasing sector

Borrowings from financial institutions historically remained the major funding source for the NBFIs. The trend continued during the period under review and borrowings registered a growth of 12 percent mainly on the back of 31 percent rise in borrowings of DFIs. While most of the other NBFIs retired their borrowings and relied on deposits to provide funding support to their asset base. Particularly the large leasing companies succeeded in mobilizing substantial amount of medium to long terms deposits for financing their operations.

Slowdown in core business activity and rising delinquencies resulted in further shrinking of loan portfolio and profitability indicators …

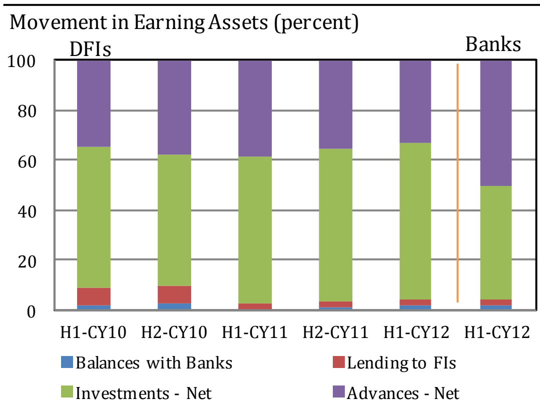
In line with the trend prevailing in the financial sector, the asset structure of the NBFIs also observed a shift towards investments, which surged by 12 percent during FY12. Most of the increase

Table 6.3 Key Performance Indicators of NBFIs*					
percent (except in case of ratio)					
	FY08	FY09	FY10	FY11	FY12
Capital to Assets	35.2	35.9	36.2	36.8	34.6
Advances to Assets	52.5	47.7	41.4	38.5	36.2
Investments to Assets	28.6	34.0	39.2	40.7	43.1
Earning Assets to Total	82.6	85.6	80.7	79.2	79.3
Debt to Equity Ratio	2	2.1	1.8	1.7	1.9
Borrowings to Liabilities	61.1	58.1	60.0	58.2	58.7
Deposits to Liabilities	25.2	28.7	27.8	24.4	21.2
Income to Expense	111.3	92.5	102.5	142.4	135.2
Return on Average Assets (after tax)	0.9	-1.6	-0.1	1.3	1.2
Return on Average Equity (after tax)	3	-5.1	-0.3	3.7	3.4

*Excluding Mutual Funds, AMCs and investment advisory

Figure 6.2

Movement in Earning Assets (percent)



took place in DFIs and in the category of risk free government papers. As a result, the share of NBFIs' investments in total assets increased by 243 bps to 43 percent in FY12. Advances and leases, on the other hand, saw a marginal decline of 1 percent. This dip was observable across all the NBFIs segments except Modarabas, which managed to enhance their financing operations during FY12. Shrinking of core business and rising delinquent portfolio of a large number of NBFIs remained the key contributing factors towards contraction of financing portfolio.

...making it hard for leasing and IFCs to meet the regulatory capital requirements

The NBFIs sector posted after tax profit of PKR 920 million during FY12; 45 percent lower than the corresponding period last year. A dip in the profitability resulted from drop in income level due to decelerated business activity and increasing provisions charge because of growing delinquencies in leasing and investment finance business. Accordingly, the ROA and ROE also observed decline over the year[52] **(Table 6.3).** Despite poor performance of leasing and IFC business, improved performance of Modaraba Companies and DFIs facilitated in positive earnings of NBFI sector in FY12.

Though profitability of few segments of NBFIs marginally increased the capital base of overall sector, however, this improvement remained concentrated to a few large players. As evident, majority of the leasing companies and IFCs are falling short of minimum equity requirements (MER) set by the SECP and this number has increased over the years.

During the period under review, the SECP took a number of policy measures for improving the governance regime, disclosure requirements and addressing the various risks facing the NBFIs sub-sectors. Further, keeping in view the prevailing business environment, the SECP rationalized some of the regulatory requirements for facilitating NBFIs business; leasing companies are allowed smaller tenor lease contracts, and IFCs are allowed to conduct brokerage business from their own platform. These measures are expected to help the struggling industries in enhancing business and improving their chances of revival.

[52] Profitability of DFIs is discussed for the half year ended June 2012. Figures have been annualized for return indicators ROA and ROE.

Figure 6.3

Investment composition of DFIs (Rs. billion)

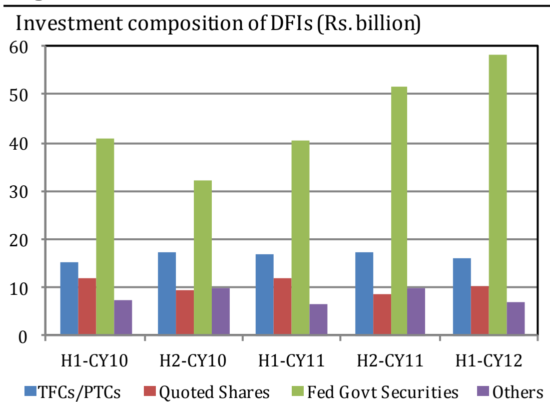


Figure 6.4

Investment Anatomy

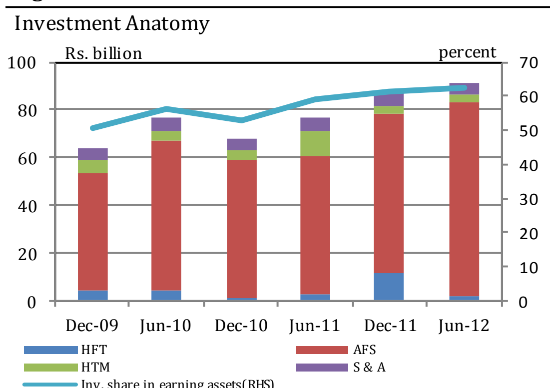
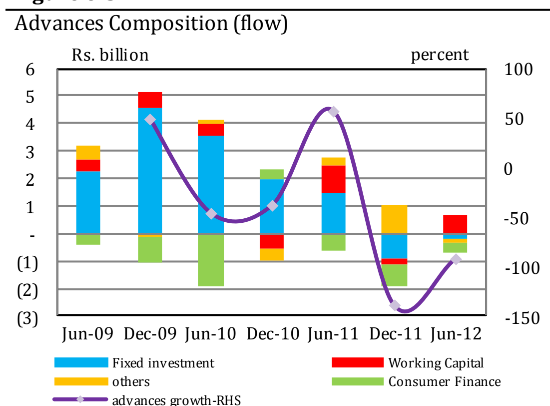


Figure 6.5

Advances Composition (flow)



Development Finance Institutions (DFIs)[53]

Despite deceleration, investment portfolio still holds the top seat in DFIs' asset book.

During H1-CY12, asset base of DFIs increased by 5 percent that was mainly funded by improved deposit base and borrowing from the financial institutions. Most of the fund funneled into investment which increased by 8 percent **(Figure 6.2),** while advances remained almost stagnant at CY11 level. The profitability of the DFIs improved remarkably due to lower provisions charge and higher non-interest income. Due to limited focus on exposure to risky assets, CAR of the DFIs improved slightly during the period under review.

Main thrust towards the increase in assets came from investments, though with a decelerated pace of 8 percent in H1-CY12 (against 15.5 percent in pervious half). Unlike H2-CY11 when increase in investments took place only in government papers, during H1-CY12 funds channeled into both Government securities as well as the quoted shares. Most of the 13 percent increase in Federal Government Securities came from investment in long term PIBs as yield curve steepened for longer tenures, while demand for short term T-bills slackened. On the other hand, the bullish trend in capital market activity increased the appetite for equities, leading a 20 percent growth in equity market investments **(Figure 6.3).**

With continuing stress in the money market, maturity profile of the investment observed a major shift as DFIs opted to further enhance their asset-based liquidity. The DFIs placed most of the new investments in the AFS category, while the securities in HFT category reached almost nil level **(Figure 6.4).** Accordingly, the share of AFS securities increased to 89 percent in H1-CY12 up from 73 percent in H2-CY11.

…while advances stay stagnant

Overall lending portfolio of DFIs stayed stagnant during H1-CY12 with a meager half percent growth as DFIs continued with their strategy of limiting exposure to risky assets. End use analysis of advances show that surge in lending to public sector helped in maintaining the loan book at the level of H2-CY11; while all other categories saw net repayments in H1-CY12. SME got the major

[53] DFIs include House Building Finance Company Limited(HBFCL); a DFI engaged in providing housing finance

Figure 6.6

Flow of fresh loans and NPLs in H1-CY12(Rs. million)

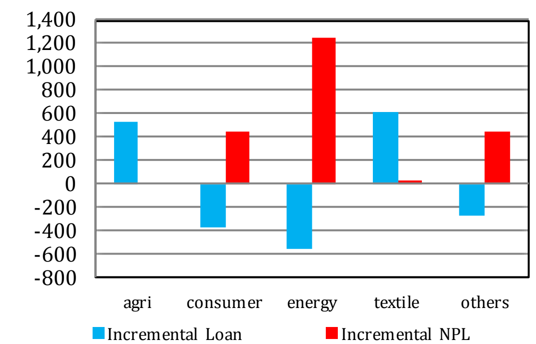


Figure 6.7

Asset quality of DFIs (percent)

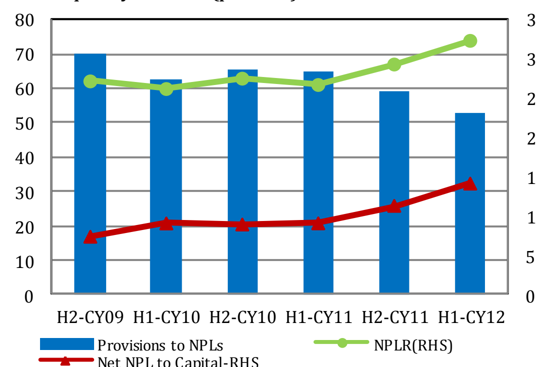
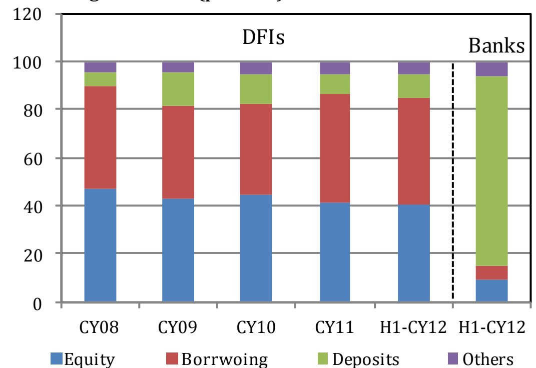


Figure 6.8

Funding structure (percent)



hit with 5 percent decline followed by consumer with net repayments of PKR407 million **(Figure 6.5).** Sector-wise analysis exhibited nominal increase in financing to agriculture and textile sector, most of which was offset by decline in lending to energy and chemical sectors **(Figure 6.6).**

Asset quality indicators deteriorate due to rise in NPLs, amid stagnant advances

With sluggish lending activity and worsening asset quality, infection ratio increased to 32.3 percent (highest in last three years). Energy and electronics sector remained the main contributors toward PKR 1.7 billion fresh flow of NPLs during H1-2012, followed by Consumer finance and the textile sector. With 10 percent incremental NPLs, which require lower provisions charge, provisions coverage deteriorated to 52.9 percent in H1-CY12 from 59.4 percent in CY11. Corresponding increase in Net NPLs led to an increase in Capital impairment ratio (Net NPLs to capital) by 280 bps to 14.1 percent **(Figure 6.7).**

Funding structure relied heavily upon equity and on costly borrowings yet deposits started picking up

Funding structure of DFIs generally remained reliant on equity and borrowings and partially supported by deposits. However, deposits grew by 17 percent during H1-CY12 at the back of growth in fixed term deposits, increasing their share in funding by 95 bps to 9.3 percent. Reliance on costly borrowing somewhat appeased with only 4 percent growth in the period under review against an increase of 25 percent during H2-CY11 **(Figure 6.8).** Most of the increase in borrowing was secured from SBP to manage the short-term liquidity needs.

Operating performance of DFIs improved in H1-CY12 relative to corresponding year

The broad based financial performance of DFIs improved significantly as they posted pretax profits of Rs 2.5 billion during H1-CY12, 25 percent higher than the corresponding period. As a result of improved earnings, the ROA (before tax) rose to 3.5 percent in H1-CY12 from 3.1 percent in H1-CY11 **(Figure 6.9).** Most of the increase resulted from reversal in provisions charge and improved non-markup income on account of gain on sale of shares. Meanwhile, the net mark-up income observed decline due to decreasing core income from advances and increasing repo borrowings.

Figure 6.9

Profitability of DFIs

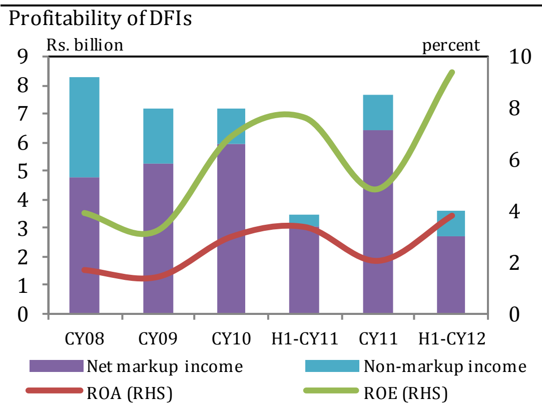


Figure 6.10

Solvency Profile of DFIs

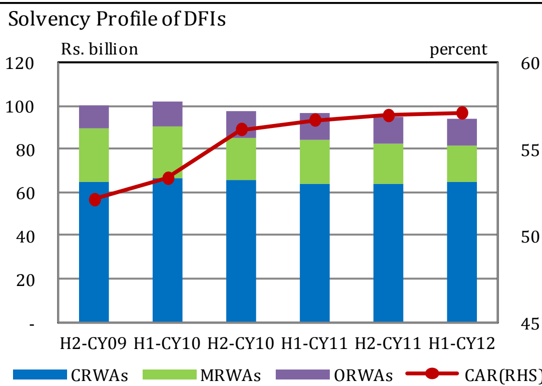
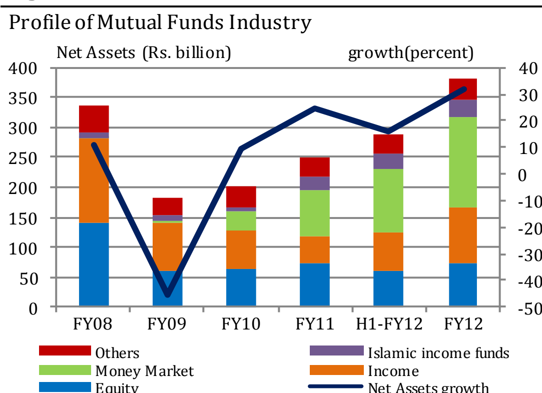


Figure 6.11

Profile of Mutual Funds Industry



Solvency though strong but excessive suggesting ineffective utilization of capital

Solvency of DFIs remained quite strong as CAR stood at 57 percent in H1-CY12, mainly due to limited risk based activity **(Figure 6.10).** This development, though consistent with overall change in asset mix of the DFIs, should be seen with caution as very high CAR is mainly driven by strong capital, indicating less than optimum utilization of available resources. Such a high CAR coupled with low leverage of the sector, highlights the need for DFIs to broaden and diversify their exposures.

Mutual Funds

Fund industry growth can be attributed to increase in money market funds, income funds and equity funds…

The NAV of the mutual fund industry continued to grow at an accelerated pace during H1-CY12. The growth was relatively broad based compared to the first half of FY12, however healthy increase in net assets of money market and income funds remained the key driver of the growth; thanks to rising borrowing needs of the public sector and risk averse attitude of the investors. Increasing demand for equity funds further supported this growth due to strong recovery in the stock market indices.

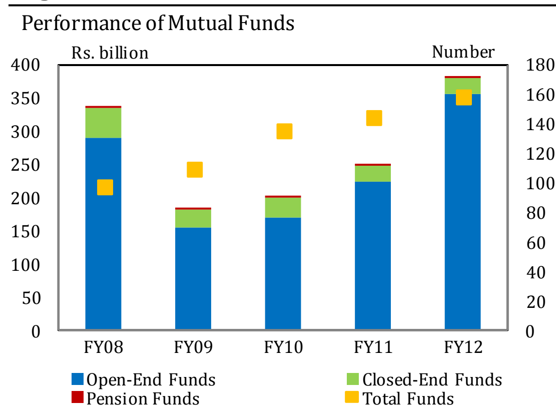
Healthy growth in Pension funds to some extent offset decleration in Islamic funds.

Pension funds, which account for a small share of funds market, started to show healthy growth during FY12. Islamic funds, which emerged as a fast growing segment over the last few years, somewhat decelerated over the period under review. In terms of funding strategy, the growth of open-ended funds out paced growth of close end funds. The latter continued to lose ground in absolute terms due to regulatory restriction[54].

Mutual fund industry observed 32 percent increase in its net asset value during H2-FY12 (53 percent YoY) **(Figure 6.11).** Growth occurred in all major categories of open-ended funds including money market, income and equity funds **(Figure 6.12).**

[54] According to Para 65 of NBFC and NE Regulations of 2008, all closed end funds should be converted into open-end funds, wound up or revoked upon expiry of every five years from 21st November 2007 or the date of launch of the fund whichever is later.

Figure 6.12

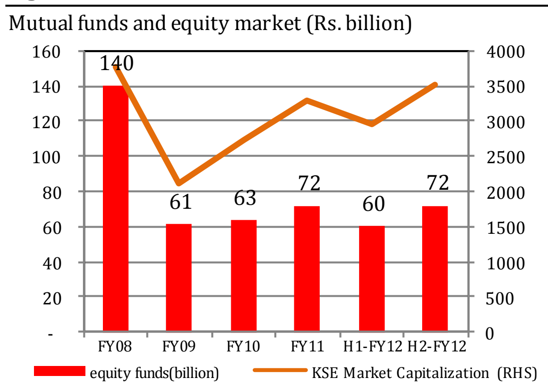


Money Market Funds (MMF) remained the key growth driver and with a 43 percent growth, continued to attract major chunk of funds due to their risk free competitive return. Similarly, income funds, with an investment mix of government securities, debt instruments (TFCs, SUKUKs, etc) and banks deposits, posted a remarkable 49 percent growth; increasing their share to a quarter of total NAV of mutual fund industry. Equity funds, which observed contraction in the first half of FY-12, gained 20 percent in NAV owing to 21.6 percent recovery in KSE-100 index **(Figure 6.13).**

Even though growth in Islamic funds decelerated, it remained in line with overall trend of mutual fund industry…

Islamic funds market remained somewhat sluggish during the period under review as its NAV increased by only 9 percent (against 19 percent H1-FY12). Though the growth pattern of various categories of Islamic funds remained in line with the overall trend of mutual fund industry, the major increase came in the NAV of money market, balanced and equity funds. On the other hand, Islamic income funds, which accounts for 57 percent of the Islamic funds industry, after enjoying substantial growth in last one and half year, observed a marginal 3 percent growth in NAV during H2-FY12.

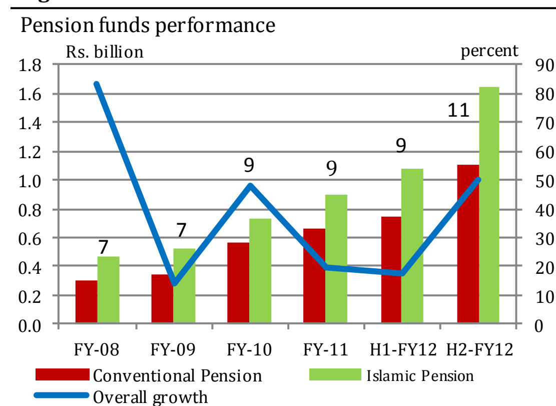
Figure 6.13



Future prospects of growth in both conventional and Islamic pension funds are bright…

An encouraging development in the mutual funds sector was increase in the pension funds[55] at a brisk pace. With the favorable tax treatment[56] available to pension funds for encouraging long-term savings, this segment grew in both numbers and size over the year. The NAV of pension funds recorded a remarkable growth of 50 percent to reach Rs 2.7 billion over the second half of FY-12, while with the addition of two new pension funds in H2-FY12, the number of pension funds increased to 11. Both conventional and Islamic pension funds observed surge in their NAV, though later outpaced the former **(Figure 6.14).** While the current share of pension funds in total market is nominal but with the tax incentive and increasing

Figure 6.14



[55] Pension funds are governed by Voluntary Pension system Rules,2005 issued by SECP and work in the form of unit trust schemes; comprising of equity sub-fund, debt sub-fund and money market sub funds.

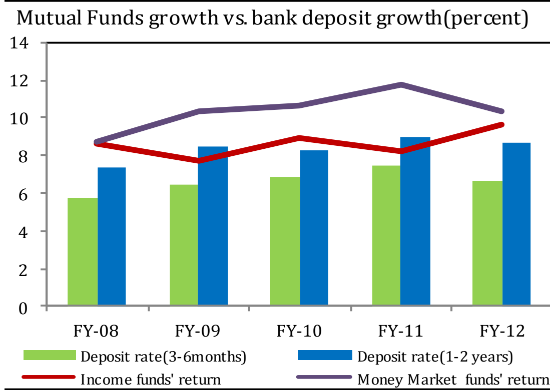
[56] Under section 63 of income tax ordinance, pension fund investments are eligible for tax credit up to 20% of one's taxable income. Additional catch-up incentives are provided to participants over 40 years, with a maximum tax credit on 50% of taxable income for participants who are 55 years or older.

awareness among the investors, pension funds are expected to observe continuous growth.

Consistent, attractive returns with tax incentives make mutual fund a better saving option for institutions and individuals…

Figure 6.15

Mutual Funds growth vs. bank deposit growth(percent)



Attractive and consistent returns, with investment in safe haven remained the key reasons behind increasing interest in the mutual funds over the last 3 years. Analysis of returns shows that return on MFs far exceeded the returns being offered by the bank deposits. This combined with the tax incentives make the mutual funds more attractive for the institutional as well as the retail investors. In FY-12, the annualized return of open-end money market funds was 10.4 percent while income funds exhibited a return of 9.6 percent[57] (compared with weighted average return on deposits ranging between 6.6 to 8.7 percent with a maturity of 3 months to 2 years period). Impact of returns reflected in the growth trend of mutual funds, which outpaced the bank deposits growth over the last couple of years **(Figure 6.15).** Further, the NAV of Mutual funds as a percentage of bank deposits increased from below 4 percent in FY10 to 5.6 percent by end FY12.

High concentration in money market funds can raise stability concerns

The growth in mutual funds over the H2-FY12 was broad based. However, high concentration in couple of fund categories raises stability concerns. Particularly, the extraordinary rise in investments in volatile MMFs and income funds (double the value in FY11) could have ramification for both mutual funds industry and the overall financial stability[58]. Mutual funds by their very nature are supposed to offer diversification benefits but their growing exposure to short-term money market instruments could pose reinvestment risk in a declining interest rate environment. Going forward, shift in the yield curve and changes in tax regime may pose challenges for the fund managers. Particularly the AMCs may have to revisit their investment approaches while offering new products and look for developing new investment avenues for retail investors.

[57] MUFAP quarterly newsletter, March-June 2012.

[58]Recent report of IOSCO on MMFs provides a range of policy options including capital and liquidity requirements as per their risks to the financial stability.

To maintain consistent growth, Mutual funds need to expand their outreach; shifting focus away from main cities …

On the funding side, banks remained the major players in mutual fund market due to tax advantage. In FY12, banks funding to NBFCs sector saw a major jump where a prominent share was taken by mutual fund industry in the form of banks' investment portfolio. With the on-going changes in tax regime[59] and expected changes in regulatory framework for the banks (discussed in detail in FSR of H2-2011)[60], the fund managers need to give due consideration to these developments while devising their future strategy. To this end, MFs industry needs to make efforts for further enhancing its outreach for providing this attractive investment opportunity to the retail investors. Presently, the industry is concentrated mainly in big cities with more financially literate population. The MF industry can enhance its outreach; through further investment in IT infrastructure and conducting awareness campaign on mutual funds beyond the main financial centers of the country.

SECP is working in collaboration with MUFAP for product diversification and for investor protection…

On the regulatory front, the SECP has taken a number of steps during the period under review, for product diversification and securing the interest of the investors. The SECP in collaborated with the Mutual Funds Association of Pakistan (MUFAP) for devising new products like gold fund investment schemes and creating awareness about recently developed pension funds. To safeguard the interest of small unit holders, the SECP has reinforced the fair valuation of mutual funds units and devised a clear timeline and circumstances under which redemption of units can be suspended. To ensure commercial viability of funds, all open-ended funds are now required to maintain minimum net asset size of PKR 100 million at all times effective from 1stJuly 2012. Further, the AMCs cannot make any amendment in constitutive documents (including increase in management fee, back end load, or amendment in investment objective) without notifying unit holders, consent of trustee and approval of the SECP[61].

---

[59]The income of banks is presently taxed as per the corporate tax rates i.e., @35% of income before tax. However, the income generated by banks from investment in mutual funds was taxed at 10%. As per section 15 (61) of Finance Act 2012, dividend received from Money Market Funds and Income Funds shall be taxed at the rate of 25% for tax year 2013 and at the rate of 35% for tax years 2014 and onwards.

[60] Basel Capital accord under look through approach for collective investment schemes, require banks to calculated capital charge on their mutual fund investments as if the underlying exposure/asset class is held by the banks themselves.

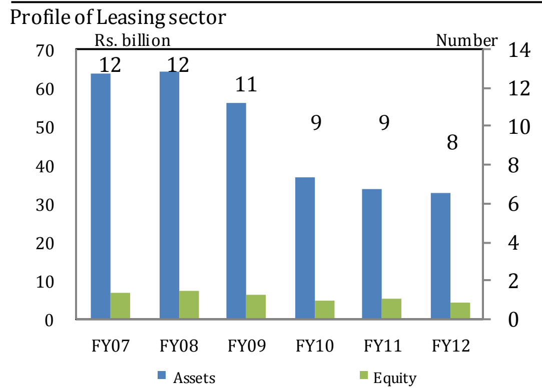
[61]NBFC and NE Regulations 2011(updated September 2011).

Leasing Companies[62]

Performance of highly concentrated leasing sector subsided due to weak position of a couple of players; yet reliance on deposits is a positive development

Figure 6.16

Profile of Leasing sector



The performance of leasing companies deteriorated during FY12 mainly due to huge losses incurred by couple of leasing companies. The industry further contracted in size and number during FY12. It shed another 1.8 percent of its asset base as a small sized firm ceased its operations. Overall structure of the industry remained lop-sided in terms of both performance and size. On the positive front, leasing sector decreased its reliance on borrowings and funded its lease financing requirements through mobilization of COD/COIs, issued by large sized leasing companies.

The leasing companies lost substantial market share over the last decade due to consolidation and strenuous economic environment and this trend continued during FY12 where another leasing firm opted to exit the market[63] **(Figure 6.16).** Adjusting for the out-going firm, the assets of the sector remained stagnant at the previous year's level. Accordingly, the overall asset structure of the leasing sector remained the same in terms of size and share.

Ownership structure of eight leasing companies' show that majority of them are owned by the financial institutions; four companies are owned by banks/DFIs and another company is majority owned by a foreign financial group. Interestingly leasing is one of the segments of the NBFCs in which public sector financial institutions contribute around 21 percent towards the overall equity.

Despite funding constraints and difficult business environment, sector maintained its core lease finance activity

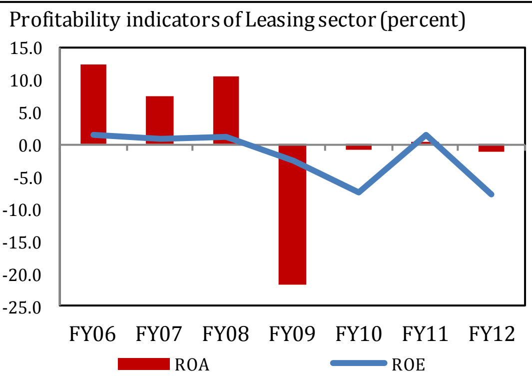
Lease financing, representing more than 80 percent[64] of the asset base, remained the main activity of the sector, followed by the

[62]Leasing sector review is based on annual audited accounts for FY-12. However, for two companies, financial year ends in December. To calculate ROA and ROE, profitability is annualized for them.
[63] Sigma Leasing Corporation Limited surrendered the leasing license and contemplating merger with other company. The company name has been changed to Sigma Corporation Limited.
[64] NBFC and NE regulation,2008 (Para 28a) requires Leasing companies to invest at least 70 percent of their assets in the business of leasing.

investments. Maintaining this high level of leasing business in the present economic environment shows continuing efforts made by the leasing companies for sustaining their business with particular focus on small lease contract. The performance can be considered admirable, when comparing with banks that are struggling to maintain their lease portfolio despite their wider outreach and cost effective funding resources.

Figure 6.17

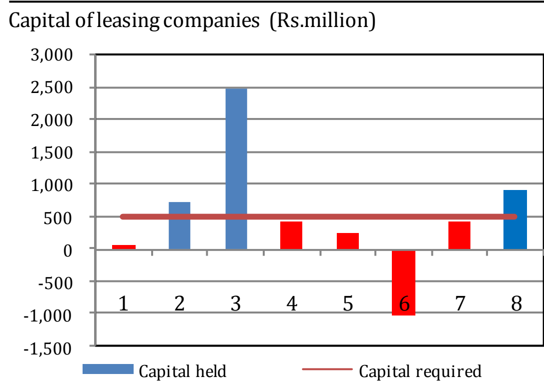
Profitability indicators of Leasing sector (percent)



Over the last few years, funding constraints remained the key issues facing the leasing sector, with reliance on banks for raising required resources. However, the period under review saw a shift in the strategy, as leasing companies decreased their reliance on bank borrowing and raised substantial amount of funds through issuance of CODs/COIs. The deposits which declined during the last four years, saw 20 percent growth during FY12, while borrowings dropped by 15 percent. However, the large players in leasing sector mobilized most of the additional deposits from retail depositors' segment.

Figure 6.18

Capital of leasing companies (Rs.million)



Growing provisioning expense and financial cost hit the bottom line most…

The leasing sector incurred after tax loss of Rs. 371 million, mainly on account of surge in provisioning expense over the year against the non-performing leases. Magnitude of losses further increased due to growing financial cost, which forms 53 percent of expense book. As a result, return indicators (ROA and ROE) turned negative in FY12 after showing positive signs in FY11 **(Figure 6.17).** Company wise analysis shows that increase in delinquent portfolio of a public sector leasing company actually overshadowed the performance of the sector. Adjusting for the performance of this company, overall performance of the sector remained decent, with most of the key players posting after tax profits.

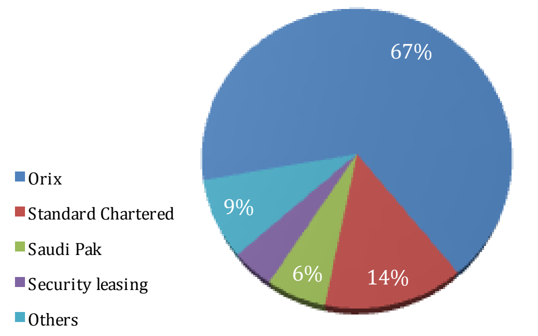
…raising solvency concerns in a highly concentrated leasing sector

The leasing sector continued to face solvency issues with five out of eight firms falling short of existing equity requirement[65] **(Figure 6.18).** Due to continuing capitalization problems, the industry continued to consolidate, leading to reduction in number of firms offering leasing finance and thereby increasing

[65] Non-Banking Finance Companies and Notified Entities Regulations, 2008 (amendment vide SRO 764, Dated September 2nd 2009) require fresh licensed leasing companies to hold Rs. 700 million equity while existing companies to maintain Rs. 500 million by June 30,2012 and Rs. 700 million by June 30,2013.

Figure 6.19

Asset concentration in Leasing sector during FY12



concentration of assets in few large firms **(Figure 6.19).** Effectively 90 percent of industry assets are held by four firms and with the gradual increase in equity requirement, concentration may increase further. In wake of the issues faced by the NBFCs and particularly the leasing sector in meeting the capital requirements, the SECP has formed a reforms committee, which is reviewing the overall regulatory regime for NBFIs including rationalization of minimum equity requirement. In the past, the SECP relaxed the timeline for leasing companies to meet the MER of PKR 700 million by end of year 2013 however, in the wake of challenges faced by leasing sector in terms of liquidity and growing provisioning expense, small sized firms might have to think about restructuring in near future.

Sector is having strong potential for growth…

Despite an ongoing consolidation in the leasing industry, there is a huge potential to grow in future. Leasing sector plays an important role in the SME sector development as evident from growing business of successful leasing companies. Currently, sector is experiencing issues on funding side but going forward with the declining yield curve, the industry may benefit from low funding costs. Apart from bank borrowing, the industry needs to tap retail fund market by offering innovative products. To this end, the SECP has already waived the minimum three years limit on lease contracts, which is expected to facilitate leasing business in tapping shorter lease contracts as well[66] .

Investment Finance Companies

The badly hit segment of NBFIs with huge contraction in asset base and rising solvency concerns…

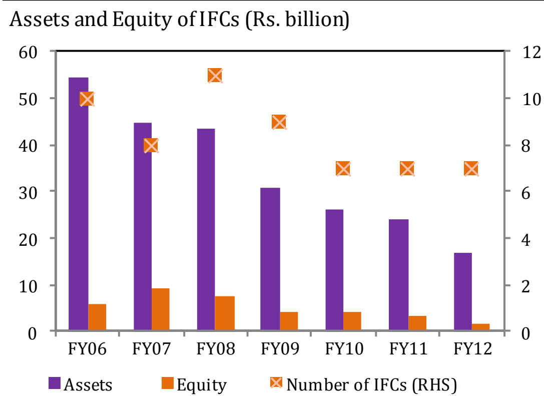
In the backdrop of competition from commercial banks[67] in investment and advisory business, IFCs are finding it quite challenging to survive. Overall business of the sector is shrinking as evident from broad based contraction in asset base and number of institutions. Over the last five years, number of IFCs came down from 11 to 7 and asset base contracted by 70 percent. As a result, most of the IFCs continue to post losses and face increasing solvency concerns.

[66] S.R.O. No. 814(I)/2011 dated September 05, 2011 .

[67] Given the leverage available in the legal framework of Banking Companies, banks entered in investment advisory business, project finance and underwriting ventures.

Figure 6.20

Assets and Equity of IFCs (Rs. billion)

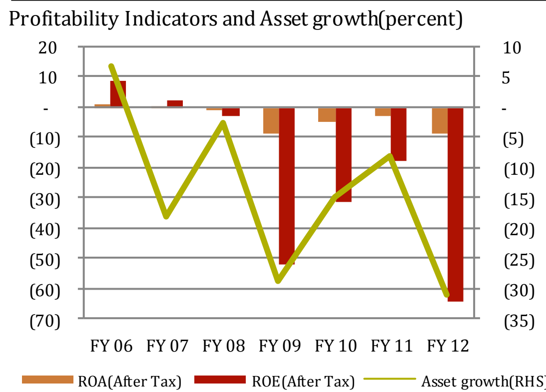


...due to shrinking funding sources and worsening credit quality

During the period under review, performance of IFCs further deteriorated as asset base declined by 31 percent mainly due to shrinking funding resources **(Figure 6.20).** Investment portfolio sustained a major hit as industry offloaded investment portfolio to manage liquidity pressures. At the same time, worsening credit portfolio further took its toll on already small asset base of IFCs, which resulted in a dip in their share in NBFIs assets by 240 bps to 2.7 percent during FY12. The contraction was broad based as six out of seven players saw a substantial reduction in asset base in the range of 12 to 50 percent.

Figure 6.21

Profitability Indicators and Asset growth(percent)

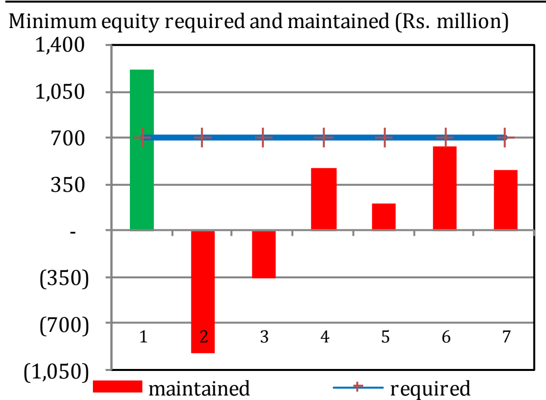


Operating position deteriorated across the board

Overall, a slowdown in economic activity, deteriorating asset quality and liquidity pressure further worsened the earning indicators. The IFCs posted heavy after tax loss of Rs. 1.7 billion mainly on account of decline in revenues and a substantial increase in provisions over the year **(Figure 6.21).** This trend was observed across the board; with the exception of one, all IFCs incurred huge losses.

Figure 6.22

Minimum equity required and maintained (Rs. million)



Growing solvency concerns due to buildup of losses...

Continuous accumulation of losses over the last few years led to a substantial decline in equity of the IFCs. The trend continued in the period under review as equity of the IFCs observed 50 percent decline. Such a heavy decline in equity raises further concerns about the soundness of the IFCs as a whole. As of end FY12, six institutions failed to meet the minimum equity requirement [68](four in FY11), with couple of them having negative equity **(Figure 6.22*)*.**

Keeping in view the challenging business and economic environment, IFCs need to realign their business model with the changing financial needs of market. In this regard, SECP allowed IFCs to conduct brokerage business from their own platforms[69]. With the expected off-take in equity market, brokerage business can become the key revenue source for IFCs in future. In addition, there is a huge potential to develop domestic debt and

[68] As per S.R.O. 764 (I)/2009 dated September 2, 2009, SECP requires existing IFCs to hold Rs. 700 million equity as on June 30, 2012 while for new entrants; this requirement is Rs. 1000 million.

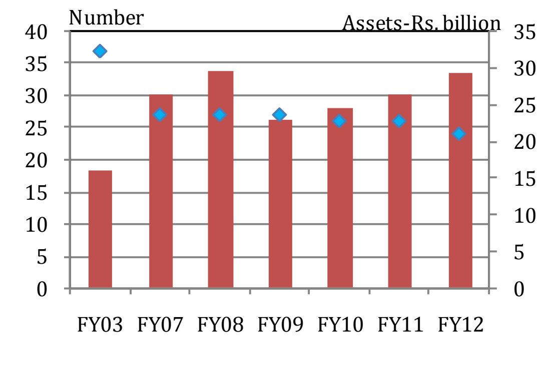
[69] Introduced vide S.R.O. No. 814(I)/2011 dated September 05, 2011 of SECP.

equity market. IFCs can play a pivotal role in this process by devising a sustainable business model for tapping stable funding sources and diversifying their product pool.

Modarabas

Modarabas exhibited healthy growth on the back of Ijarah business…

Figure 6.23
Profile of Modaraba sector



The asset base of Modaraba Companies maintained its growth pattern of last three years and registered an increase of 12 percent to reach PKR 29.5 billion in FY12 compared to PKR 26.3 billion in FY11 **(Figure 6.23).** Most of the growth was observed in second half of FY-12, which was largely contributed by large Modaraba Companies; however, some small firms also showed healthy business activity on the back of growing lease business. Increase in financing activity and cost control measure adopted by the companies lead to improvement in earnings of the Modaraba Companies, though return indicators saw a marginal dip due to base effect.

…yet concentration in top ten firms has increased over the years

Table 6.4: Concentration in Modaraba

	FY08	FY09	FY10	FY11	FY12
Top 3	42.0	42.3	45.0	42.5	46.6
Top 5	64.0	65.8	63.0	61.0	62.4
Top 10	86.0	83.3	83.0	84.0	85.6
Rest of firms	14.0	16.7	17.0	16.0	14.4

Modaraba industry, with 26 Modarabas, is the second largest sector in terms of number after mutual funds. However, the size of the Modaraba sector, in term of its share in total NBFI assets is relatively small and stands at 4.8 percent as of end FY-12. Concentration in industry is increasing over the years and during FY12, top 10 firms increased their market share to 86 percent (84 percent in FY-11), indicating a widespread fragmentation in the industry **(Table 6.4).**

Despite a number of challenges both on economic and business front and in contrast to industry trend, Modaraba companies exhibited a healthy growth (12 percent) in FY-12 on the back of improved core business activity, i.e., financing under various modes including Ijarah, Murabaha and diminishing Musharaka. On the funding side, deposits and borrowings, which represent 38 percent of assets; exhibited a healthy growth and supported the overall expansion of Modaraba industry. Healthy growth in lease deposits, which represent new underwriting of leases, further substantiated the increasing financing activity by the Modarabas during H2-FY12.

Cautious business approach paid off; as evident from widespread profitability

Table 6.5: Performance Indicators of Modarabas (Rs. billion, Ratio in percent)				
	FY08	FY10	FY11	FY12
Profit after tax	*0.8*	*0.8*	*1.1*	*1.2*
Income	*5.5*	*7.9*	*7.7*	*6.6*
Expenses	1.8	7.1	*6.5*	5.3
ROA	*3.6*	*3.4*	*4.4*	4.2
ROE	*7.9*	*7.2*	*9.4*	*9.2*

In an environment where major segments of NBFIs are struggling to survive, operating performance of Modarabas improved during FY12. Modaraba industry registered profit after tax of Rs. 1.17 billion; 4 percent higher than FY-11. Increase came at the back of cautious business approach and cost management practices. Overall efficiency measures improved as evident from 18 percent reduction in administrative and financial expenses. This efficient management supported the sector to keep performance steady in FY-12. Operating performance was widespread as 20 out of 24 companies posted profits. The return indicators marginally declined in FY-12 as growth in average assets and equity outweighed the operating performance **(Table 6.5).**

Modaraba sector has shown resilience despite challenging economic environment. The key support to the Modaraba Companies stems from the legal framework[70] which provides Modarabas flexibility to involve in both financial and non-financial business for financing on Islamic modes; a comparative advantage over banks. However, like banks Modarabas are also prone to reputational risk arising from offering Shariah based products. The SECP being cognizant of the fact is taking measures not only to develop this sector but also to address the reputational risk associated with sector. To this end, SECP has recently issued Shariah Compliance and Shariah Audit Mechanism (SCSAM)[71] for Modarabas, which will help (i) to maintain the trust of stakeholders in Islamic financial system and (ii) to mitigate the reputational and operational risks faced by Modarabas as Islamic financial institutions.

In the present environment of business and economic uncertainty, when banks and other financial institution are enslaved by risk averse behavior, the SMEs and proprietary concerns have been most affected. Modaraba Companies, with their focus on non-conventional lending, can turn this situation into opportunity by tapping such market segments where banks are shying away like SMEs, agri and micro finance services and take advantage of the large customer base with religious sentiments.

[70] Modaraba industry structure consists of Modaraba management companies, which float Modaraba. There are two types of Modarabas; (i) Multipurpose (ii) Specific purpose. Currently all Modarabas are listed on stock exchange. Established under 'Modaraba Companies and Modaraba (floatation & Control) Ordinance' 1980 (the Modaraba Ordinance).

[71] SECP Circular No. 8 dated February 03,2012.

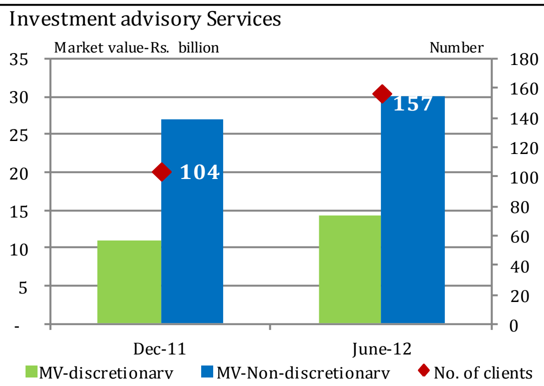
Investment Advisory Services (IAS)[72]

IASs are surfacing to cater large institutional investors with discretionary and non-discretionary portfolio products

Investment advisors are licensed by the SECP to undertake portfolio management services by managing portfolios of clients under discretionary[73] or non-discretionary[74] form of investment authorization. The IAs mainly serve large institutional investors with minimum investment limit of Rs 5 million and are required to provide a prior undertaking regarding understanding of risks involved in portfolio management. Investment advisory fees charged by the IAS from investors for managing their investment portfolio forms the main source of their revenue.

Figure 6.24

Investment advisory Services



… Representing a decent seven percent share in NBFI with a healthy growth

Currently investment advisory services are largely provided by AMCs having dual license of IAs; however, there are two firms, which are solely offering investment advisory service in the market. As of end FY12, the investment advisories were managing investment portfolio to the tune of PKR 44 billion, most of which was invested in debt and equity securities. This segment accounts for 7 percent share in total NBFIs sector with half-yearly growth of 17 percent. In terms of market value (MV), major portfolio is held by sophisticated customers under non-discretionary agreement where clients make the investment decisions themselves **(Figure 6.24).** However, discretionary clients; who rely on portfolio manager for investment decision, out-numbered the non-discretionally ones.

---

[72] Due to data constraints in previous year, IASs is discussed first time in NBFIs section in FSR.

[73] Discretionary Portfolio" means a portfolio of securities managed by an NBFC under an agreement entered into with a client on a duly notarized stamp paper of applicable value and whereby investment decisions are made and executed by the NBFC on behalf of its client".

[74] Non-Discretionary Portfolio" means a portfolio of securities managed by an NBFC under an agreement entered into with the client on a duly notarized stamp paper of applicable value whereby investment decisions are executed by the NBFC on written instructions of the client.

Chapter 7 Insurance Sector

Strong growth in life insurance business continued to strengthen the asset base of the insurance sector, which grew by 7.8 percent during H1-CY12. The life insurance business attracted 34 percent higher net premiums on account of non-conventional policies particularly, the unit linked contracts. In contrast, the nonlife net premiums reduced marginally owing to challenging business environment and a consistent decline in auto finance. In terms of performance, the profitability of the insurance industry thrived on the back of higher investments returns on government securities and booming stock market.

Figure 7.1

Growing size of the insurance industry

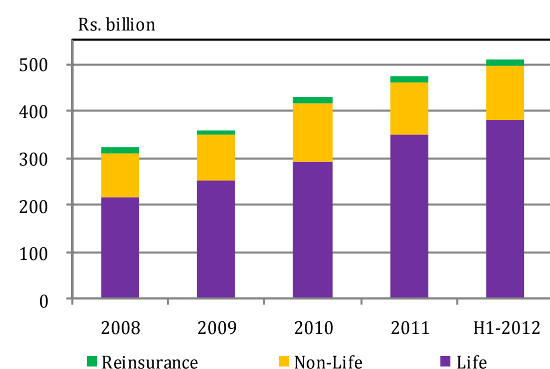


Figure 7.2

Insurance premium flows

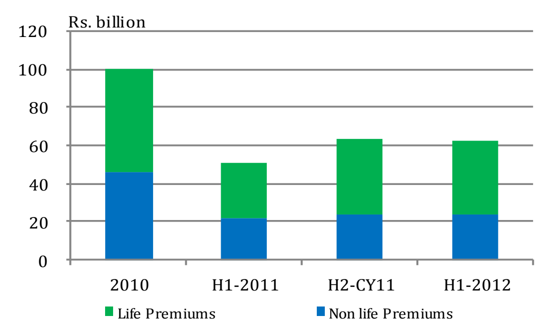
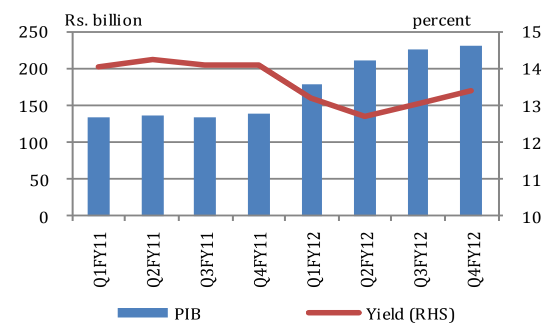


Figure 7.3

Rising volumes of insurance sector's PIBs



Overview

Life sector continues to expand the size of insurance market

The insurance and reinsurance sector witnessed a steady growth of 7.8 percent in its asset base surpassing Rs. 500 billion during the first half of CY12 (**Figure 7.1**). The increase was mainly contributed by a healthy 8.9 percent growth in asset base and 34 percent growth in net premium revenues of life insurance industry. The demand for life insurance not only increased as it provides indemnification towards loss, it has also evolved into an important avenue of generating long-term savings for the policyholders.

The general insurance industry grew by 5.3 percent during the first half of CY12 after observing decline in its assets base over the last two years. Though, the net premiums marginally declined year on year basis, however, improved premium retention helped industry to limit claims cost (**Figure 7.2**). While the reinsurance sector witnessed a 3.1 percent decline in its asset base during the period owing to a reduction in its stock of investments due to higher dividend payouts.

The earnings of the insurance sector improved remarkably by 84 percent to PKR 4.4 billion in H1-CY12 from PKR 2.4 in H1-CY11. Most of this increase resulted from 29 percent strong growth in investment income from higher returns on increasing share of risk free long term PIBs, which now represent almost 25 percent of the outstanding PIBs stocks (**Figure 7.3**). In addition, strong recovery in the equity market and higher dividend income from improved corporate earnings provided additional support to overall profitability. However, net premium revenue from core underwriting business remains subdued for non-life insurance industry due increasing reinsurance cost resulting from security concerns and prevailing economic conditions (**Figure 7.2**).

Table 7.1						
Correlation of Life Premiums and Macroeconomic Indicators						
	Premiums	KSE	EXR	CPI	GDPR	LR
Premiums	1					
KSE	0.81	1				
EXR	0.86	0.73	1			
CPI	0.38	0.27	0.11	1		
GDPR	-0.16	0.13	-0.22	-0.18	1	
LR	0.10	-0.15	0.06	0.34	-0.52	1

A host of factors (economic, political, and social) explain the robust growth in life insurance business over the years[75]. While considering only the macroeconomic aspects of the country, the CPI, lending rate (LR), exchange rate (EXR) and equity market performance (KSE) are positively correlated with the life insurance premiums. While the GDP growth rate is inversely related with the life premiums (**Table 7.1**). The risk averse behavior of the policy holders appears to be dominant in a declining GDP scenario. This behavior also explains the negative correlation between the GDP and life premiums in recent years as life insurance policyholder views his policy as an investment and uses this avenue to safeguard his interests by securing his savings.

The growth in insurance industry even in face of multiple challenges represents strong resilience of the industry towards stress events. However, penetration of the industry remains low[76] and the industry has to work on improving their client base through development of new products, expanding outreach, and improving insurance awareness. Such an approach will facilitates the insurance and reinsurance sector in improving the core business and enhancing revenues from underwriting business and providing additional resources for investment activities.

Life Insurance[77]

The life insurance industry continued its rapid growth thanks to 34 percent increase in premiums during H1-CY12 (YoY). Though growth was observable across the industry, however, shariah based takaful business performed better than the conventional insurance. With 50 percent growth in contributions, the takaful business enhanced its share in overall premium to 5 percent (2.8 percent in H1-CY11). Improved premium revenues and steady investment income provided for improvement in earnings and ROA of the Life Insurance industry, though a couple of companies contributed growth in profitability.

The rising gross premium written (GPW) was facilitated by improved new business and retention of subsequent years

[75] A survey of literature finds different studies that explore various macroeconomic and social factors contributing towards the demand for life and non-life insurance coverage. For instance see, Beck, Thorsten and Webb, Ian (2002), Determinants of Life insurance Consumption across Countries". World Bank and International Insurance Foundation, mimeo
Browne, M. J. and K. Kim (1993) "An International Analysis of Life Insurance Demand", Journal of Risk and Insurance, Vol. 60; pp 616-634
[76] See Financial Stability Review, Second Half – 2011, State Bank of Pakistan
[77] The life insurance market constitutes 9 companies. Out of which two are Family Takaful and seven are conventional. The share of Takaful contributions (premiums) improved from 3.1 percent to 4.6 percent (YoY).

Figure 7.4

Life insurance premiums and claims ratio

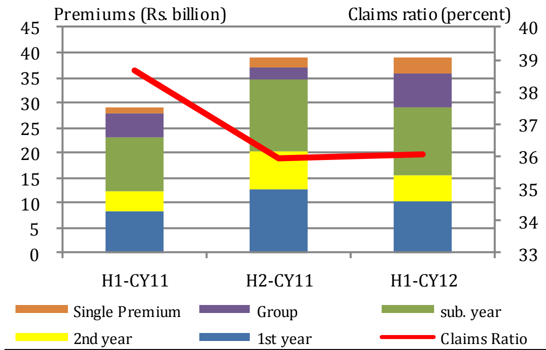


Figure 7.5

Rising trend of Unit linked policies

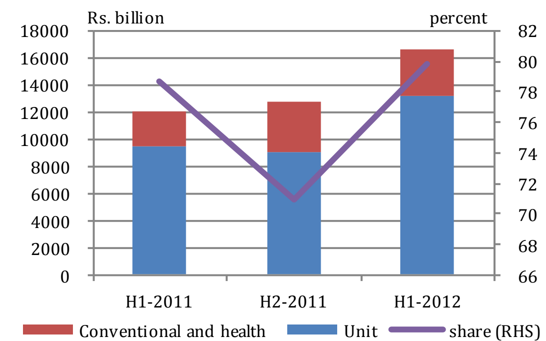
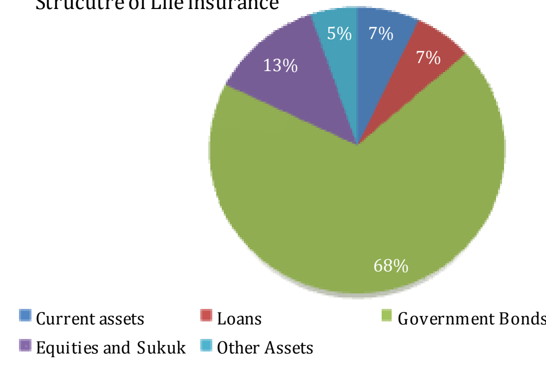


Figure 7.6

Strucutre of Life insurance



insured. The first year premiums and single premiums policy business improved YoY by 22.5 percent and 44.8 percent respectively; while the insured's retention – a measure of subsequent premiums also improved by 29 percent during the period. In addition to individual policies, the group life business also improved by 65 percent during the period (**Figure 7.4**).

Another important phenomenon that gained ground over years is the increasing share of unit linked insurance policies (ULIP) offered by private sector life insurance companies. The ULIP offers long-term investment avenues coupled with indemnification in case of a loss event, a flexibility that has attracted more investors and consistently contributed towards growing insurance premiums. The ULIP, which was first introduced in Pakistan in early nineties, now form major portion of the life insurance and family takaful businesses[78].

The surge in the ULIP premiums during the 2000s primarily resulted from an increase in the number of life insurance providers, improved marketing strategies and skilled agent force employed by the insurance companies and rise in financial literacy. Accordingly, the ULIP premium grew YoY by 41 percent during H1-CY12, enhancing its share in GPW by the private life companies to 80.5 percent against 75 percent in H1-CY11 (**Figure 7.5**). In the wake of prevailing macroeconomic dynamics, most investments are placed in government securities followed by the equities and corporate debt market.

The availability of risk free government securities and booming stock market enabled the insurance sector companies to improve its asset base robustly. Most of the 9 percent growth in assets resulted from surge in investment in risk free Government securities on account of increased supply of PIBs. Similarly, the recovery in the capital market and improved corporate performance incentivized the insurance companies to enhance their equity portfolio by 18 percent (**Figure 7.6**). As a result the overall investment surged by 14 percent in H1-CY12 increasing its share in asset base to 88 percent from 78 percent in CY11.

With the growing investment portfolio in government securities offering healthy risk free return, the net investment income observed 25 percent growth in H1-CY12. Accordingly, Return on Investments (ROI) improved to 14.9 percent (YoY) in H1-2012

[78] The government owned insurance provider, State Life Insurance Corporation (SLIC) having a share of 57.4 percent towards gross premiums accumulated during H1-CY12 does not offer unit / investment linked policies.

Figure 7.7

ROI of Life insurance companies (percent)

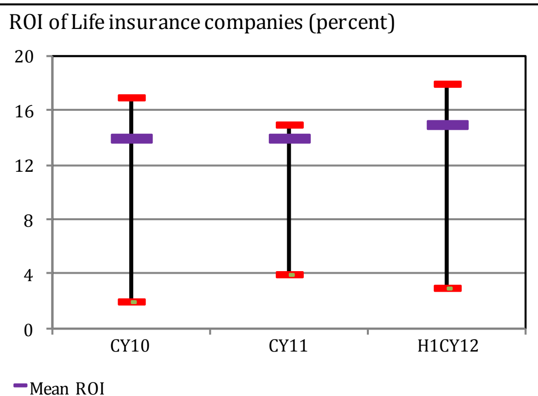


Figure 7.8

Life insurance profitability (Rs. billion)

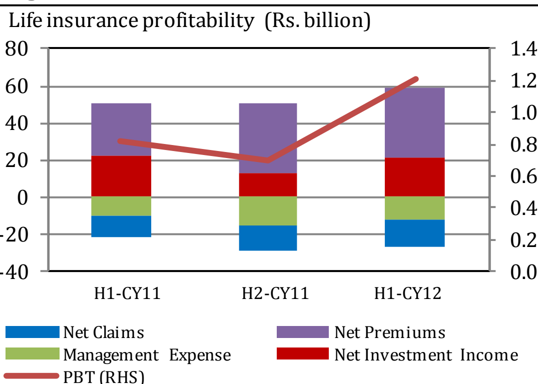


Table 7.2

Soundness of Life Insurance Companies

	2009	2010	2011	H1-CY12
Capital to Assets	1.9	2.5	2.1	1.9
Claims to Capital	399.3	291.6	336.5	365.4
Claims Ratio	46.0	40.7	37.1	36.1
Expense Ratio	41.8	40.5	38.5	32.6
Combined Ratio	87.8	81.2	75.6	68.7
Premium Retention	97.1	97.6	96.9	97.1
Return on Inv.	13.0	13.4	13.2	13.9
ROA	0.4	0.3	0.4	0.3

from 14.2 percent in the first half of 2011. Importantly, the dispersion of returns improved and all the companies reported positive and improved ROI during the first half of CY12 (**Figure 7.7**).

With augmentation in the life insurance business, claims also increased by 21.8 percent (YoY) during H1-CY12. A relatively low growth in claims as compared to the premiums improved the claims ratio of the life insurance business to 36.1 percent during the H1-CY12 as against 38.7 percent in the first half of the preceding year. A hefty proportion of claims were related to realization of event of loss or maturity of policies while 28.5 percent claims were due to surrender of policy contract.

Management Expense of the life insurance business increased due to higher GPW during the period under review, most of which reflected in higher underwriting acquisition cost. However, with healthy growth in gross and net premium, most of the expense ratios declined over the period under review indicating improved efficiency of the operation of the Life insurance industry.

Profitability of the industry improved by 50 percent mainly on account of improved investment income and premium revenues (**Figure 7.8**) However, due to disproportionate increase in assets, ROA of industry declined marginally. Though majority of the companies posted profits, however, improved earning of a couple of companies provided for most of the increase in profitability.

The equity of the insurance industry saw a 1.8 percent growth mainly due to improved profitability. In addition, the statutory funds as required under the SECP solvency rules also improved on account of healthy growth in premiums. With the recent amendments in the solvency rules, it is expected that the statutory funds will further strengthen (**Table 7.2**).

Non-Life Insurance

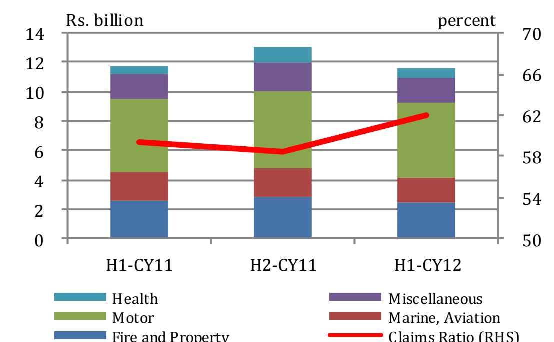
The net premiums revenues of the non-life saw a marginal decline of 1.1 percent during first half of CY12[79] over the corresponding period of the last year. The decline resulted from shrinking premium revenues from Auto, Marine and Miscellaneous insurance due to higher reinsurance cost. Health

[79] Gross premiums = Net premiums + Reinsurance expense

insurance continued to attract higher premium and increased by another 30 percent during the period under review, thus limiting decline in overall net premiums (**Figure 7.9**).

Figure 7.9

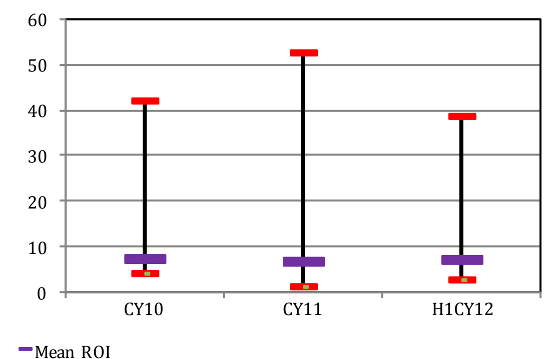
Non-life net premiums and claims ratio



Globally, the nonlife reinsurance market has re-emerged from depressed premium growth especially in crisis-hit advanced economies and its performance improved since 2009. However, with the increased catastrophe in the last few years the cost of reinsurance seems to have increased. In case of Pakistan, flood, torrential rains, security concerns, prevailing economic conditions and other unforeseen events have forced the general insurers to limit the risk in fire, marine and miscellaneous items through reinsurance. The industry draws major portion of GPW from these categories, however in wake of the prevailing risks, major part of the GPW is passed on to the reinsurers, which actually squeezed the net premium to almost 50 percent of the GPW by the industry (**Figure 7.10**). Meanwhile, with a rather limited and relatively expensive reinsurance of auto business, the nonlife insurance providers preferred to keep risk in this segment, which made auto insurance the major contributor towards net premium revenues for the nonlife providers.

Figure 7.10

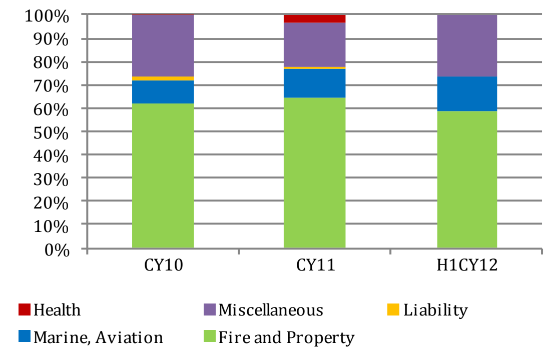
ROI of Nonlife insurance companies (percent)



During H1-CY12 net claims expense remained almost at the level of corresponding period of the last year. Auto claims formed major part of the claims expense, an outcome of increasing auto theft. Auto claims have actually been on the rise for last few years and as a result, insurance companies have become selective in auto insurance business. This also reflected in the fact that despite substantial increase in auto sales (sum of local and imported vehicles), the motor insurance coverage has not picked up. Additionally banks, which are the main business source for insurance companies, also shed a substantial amount of auto financing over the last four years (**Figure 7.11**). With almost stagnant claims expense and a decline of 1.1 percent in net premiums, the claims ratio saw a marginal increase of 20bps during H1-CY12.

Figure 7.11

Nonlife Reinsurance coverage (segment-wise share)



Like life insurance business, investments form the major part of the non-life insurance assets base. However, unlike life insurance, investment mix mainly constitutes equities, mutual funds, and investment in associates. Analysis of trend shows that size of investment has seen a marginal change over the last three years. However, with a surge in the stock market indices, healthy performance shown by the blue chips and stable stream income from the money market mutual funds, investment income surged YoY by 74 percent to PKR 2.5 billion in H1-CY12.

Figure 7.12

Consumer finance and insurance premiums (Rs. billion)

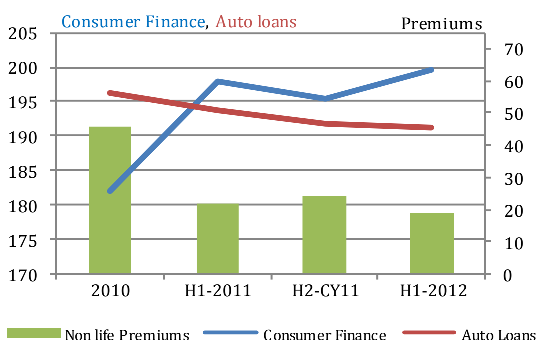


Figure 7.13

Profitability of Nonlife Companies

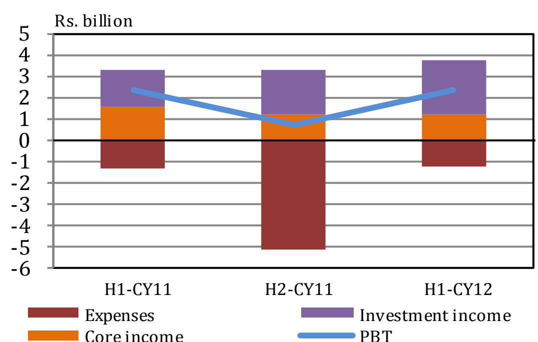


Table 7.3

Soundness of Non-Life Insurance Companies

	2009	2010	2011	H1-CY12
Capital to Assets	57.8	47.9	52.8	52.6
Claims Ratio	62.4	68.1	58.9	62.1
Expense Ratio	23.5	27.1	27.1	26.4
Combined Ratio	85.9	95.2	86.0	88.5
Premium Retention	59.4	54.8	52.7	51.9
Return on Inv.	7.4	6.6	6.8	9.3
ROA	4.1	3.0	2.7	3.9

Table 7.4

Profile of Reinsurance (Rs. billion)

	2010	H1-CY11	2011	H1-CY12
Equity	6.4	5.9	6.4	5.9
Investments	4.7	4.8	5.8	5.2
Gr. Premiums	6.6	2.4	6.9	3.1
Premiums	2.9	1.6	3.5	2.1
Net Claims	1.7	0.9	2	1.0
Expenses	0.3	0.5	0.4	0.6
Profits	0.5	0.4	0.8	0.6
Assets	12.5	10.9	12.9	12.5

The distribution of investment income for the nonlife companies witnessed an upward shift in yields during the first half CY12 (**Figure 7.12**). Not only a high concentration of companies earned more than the average ROI of 9 percent for the nonlife industry, the spreads between the companies' earnings also reduced indicating a rather even playing field for the nonlife providers.[80]

The general insurance industry registered an appreciable improvement in profitability over H1-CY12 thanks to healthy improvement in returns on investment and other non-core activities. The PAT of the industry improved by 100 percent to PKR 3.2 billion and while ROA improved by 270 bps to 5.5 percent.

The underwriting performance of the non-life sector deteriorated during the period under review due to a rather stagnant net premium revenues and rising underwriting expenses, which kept a check on the core income. During H1-CY12, the core income decelerated by 17 percent (**Figure 7.13**), which reflected an increase in claims and expense ratios. On the other hand, improved premium retention facilitated companies in reducing the cost of claims (**Table 7.3**). However, recovery in stock market index and improved corporate performance boosted the share of investment income and overall profitability of the sector.

Reinsurance:

Assets of Reinsurance reduced owing to decline in investments

The improvements in the gross premiums of the non-life insurance providers and subsequent declining premium retention had a direct bearing on the premium accumulation of the local non-life reinsurance company. The half-yearly gross premiums improved to Rs. 3.1 billion during H1-CY12 as against Rs. 2.4 billion in H1-CY11. Moreover, a reduction in the claims ratio to 47.6 percent also improved the profitability of the company to Rs. 0.6 billion (**Table 7.4**).

However, the asset size of the company declined by 3.1 percent during H1-CY12 as stock of investment were reduced owing to a

[80] We have assumed spread as the difference between the maximum and minimum ROI among the nonlife providers.

partial liquidation of its investments mainly for payment of dividends to the shareholders, which led to a decline in retained earnings and equity of the reinsurance company.

Chapter 8 Payment Systems

Payment systems continued efficient and reliable settlements of increasing interbank payments and securities transactions during the period under review. PRISM- the large value payment system continued efficient settlements of higher volume of large value transactions while minimizing systemic settlement risk. The retail payments also observed a moderate growth 5 percent and 7 percent in volumes and values respectively. With improvements in the IT infrastructure of banks and customers' interest in mobile and e-banking modes, the use of electronic payment channels witnessed a rapid expansion. The usage of Real Time Online Banking (RTOB) continued to provide momentum to the e-banking retail payment due to rising number of online bank branches.

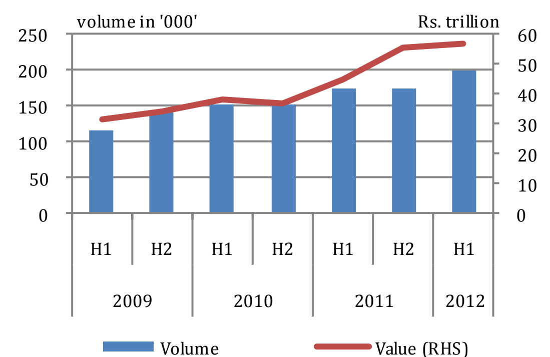
Presence of an effective and efficient payment infrastructure is indispensible for financial stability. Despite some stress in the financial markets and minor operational problems, the payment and settlement infrastructure of Pakistan remained robust during the period under review and provided uninterrupted access to payment system to all stakeholders. The traffic across both the retail and large value payment systems witnessed an increase during H1-CY12.

Large Value Payments [81]

The value and volume of large payments increased substantially over the last few years mainly due to enhanced coverage of fund transfer and surge in money market activities. The efficient handling of these rising transactions through Pakistan Real time Interbank Settlement Mechanism (PRISM) the large value payment mechanism of the country-ensured smooth functioning of financial markets, while the real-time gross settlement minimized the related risks[82]. During the last three years, the value of transactions settled through PRISM saw an annual average growth of 27 percent. The trend continued during H1-CY12, as PRISM processed about 199,000 transactions, 13 percent higher volumes than the preceding half year, while the value of transactions improved by 2.4 percent to PKR 57 trillion, representing 3 times of the GDP (**Figure 8.1**).

Figure 8.1

Growing trend of PRISM transactions



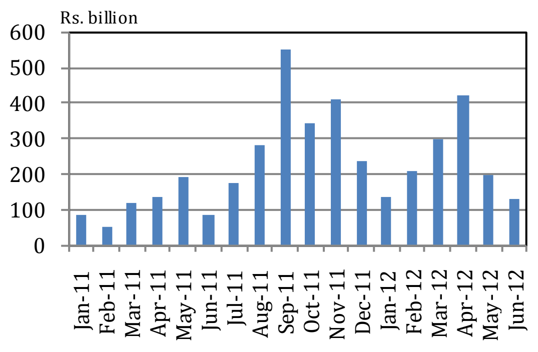
[81] Pakistan Real Time Interbank Settlement Mechanism (PRISM) is the back bone of the large value payment and settlement system in Pakistan and it is also the key component of the national government, securities transactions. At present four types of transactions are settled through PRISM (i) Securities (ii) Interbank Fund Transfers (iii) batches of retail cheque clearing net balances (iv) high value third party funds transfers.

[82] Due to its role in the payment infrastructure of the country, the sheer value of transactions that it settle and being the only large value payments system, PRISM is systemically important payment system in Pakistan. Further, as PRISM is realtime gross settlement system, therefore, the credit and liquidity risks emanating from settlement process are miniscule due to reduction in the duration of credit and liquidity exposures.

Subsequent to introduction of PRISM in 2008, the State Bank facilitated not only in improving the speed and safety of payments but also focused on enhancing scope of payments. The PRISM initially allowed settlement of IFT (Interbank Fund Transfers) and NIFT (National Institutional Facilitation Technologies) transactions and later enhanced to include securities settlements. In 2011, customer (3rd party) credit transfers[83] were allowed through PRISM, while this facility was recently enhanced to allow settlement of multiple third party transactions with a minimum value of PKR 100 thousand[84]. As a result of this enhanced coverage of funds transfer activities over the last two years, the volume and values of IFT settled through PRISM saw a substantial growth. During the period under review, the system settled 141 thousand IFT transactions, 19 percent higher over the H2-CY11, while transaction value increased by 14.4 percent to PKR 18.7 trillion. It is expected that the PRISM transactions in value terms will get a substantial jump once net settlement of the ATM transaction are also routed through it[85].

Figure 8.2

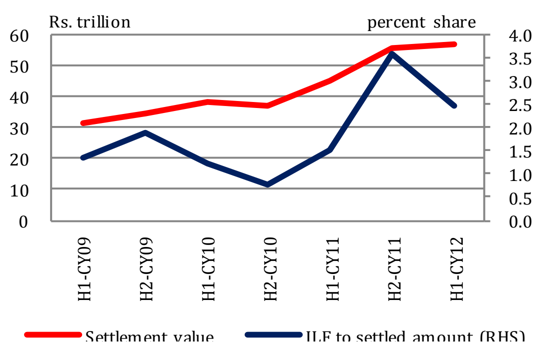
ILF utilization in PRISM



The share of securities settlement, which forms the major part of the PRISM transaction in value terms, saw a visible surge over the last three years due to strained market liquidity. Impact of this market stress reflected into higher utilization of intraday liquidity facility (ILF)- a collateralized facility extended by SBP to PRISM participants in need of liquidity[86] to facilitate smooth settlements. However, the ILF availed by participants of the PRISM over the half year decreased to Rs 1.4 trillion from Rs. 2 trillion during H2-CY11 **(Figure8.2)**. The reduction in the use of ILF suggests relatively lesser liquidity strain in the market. Consequently, the share of ILF extended to participants fell to 2.4 percent of the total settlement value during H1-CY12 from 3.6 percent in the previous half year (**Figure 8.3**).

Figure 8.3

ILF Utilization by Participants



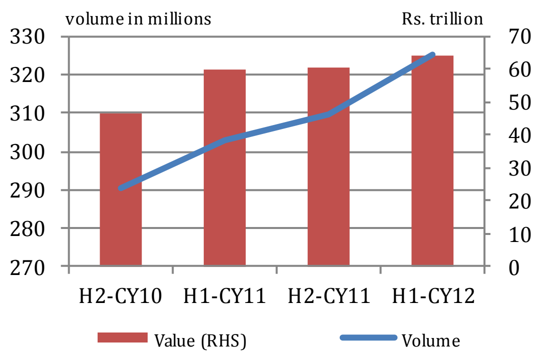
An efficient and reliable payment system serves as the catalyst for growth in the financial system. In this regard, the PRISM contributed significantly towards improving the efficiency of payments and securities settlements and minimizing the cost and time of interbank transfers and clearing. During H1-CY12, the PRISM availability and performance remained high; it remained available for 99.6 percent of the total operational time.

[83] PSD Circular 2, Feb 2011, State Bank of Pakistan
[84] PSD Circular Letter No 1/2012, State Bank of Pakistan
[85]Presently, net settlement of ATM transaction is routed through Globus, which is expected to be shifted to PRISM in near future.
[86] Intraday Liquidity Facility (ILF) was introduced in January 2009.

Retail Payments

Figure 8.4

Retail payment trend



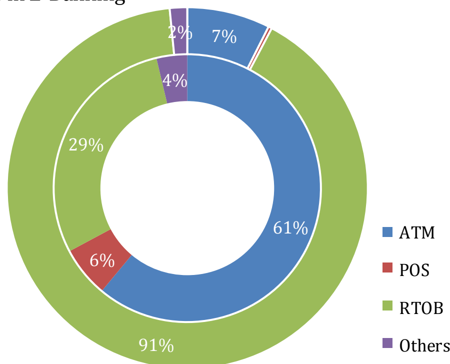
During H1-CY12, the number of retail payments crossed 325 million registering a 5 percent growth over H2-CY11, while its value witnessed a 7 percent increase to reach Rs. 64.4 trillion. The retail payments, though dominated by paper-based transactions, continue to undergo changes in the wake of increased focus of banks on electronic means of payments. The retail payment channels also witnessed rapid innovation amid improvements in IT, conducive regulatory environment, and changing user preferences. Accordingly, e-banking transactions gained considerable share in large volume-low value retail payment **(Figure 8.4)**.

In terms of volume, electronic transactions accounted for 43 percent of the total transactions whereas the value transacted electronically stood at about 21 percent of the total retail transactions during first half of 2012. Bulk of the paper-based payments was cleared through the NIFT, which provided clearing services to 6,698 branches in 241 cities, making it an important part of the payment system infrastructure.

RTOB remains a major part of e-transactions while ATMs dominate as volume leader

Figure 8.5

Trends in E-Banking



Among the electronic transactions, Real Time Online Banking (RTOB) stayed as the leader in terms of value while the ATMs further consolidated their position as volume leader. During H1-CY12, RTOB accounted for about 91.7 percent of the total value of e-transactions; while the rest was shared amongst ATMs, POS, and others **(Figure 8.5)**. Given the efficiency and ease of use, RTOB is likely to maintain lion's share in e-banking transactions. Although, ATMs and POS gained some share in value but their overall share remained trivial, reflecting cost issues, user preferences and (financial) literacy conditions.

POS terminals on decline amid expanding e-banking infrastructure

With banks being more selective in extending credit cards and merchants related issues in accepting payments through POS terminals, the number of POS terminals continued to decline while rest of the e-banking infrastructure kept on expanding. Banks' account holders also benefited from growing number of ATMs installed across the country, which lead to increase in

Table 8.1				
E-Banking Infrastructure				
	H2-CY10	H1-CY11	H2-CY11	H1-CY12
Point of Sale	44,382	37,232	35,703	34,879
Online branches	7,036	7,416	8,905	9,291
No. of ATMs	4,734	5,200	5,409	5,745

Figure 8.6

ATM penetration in 2010

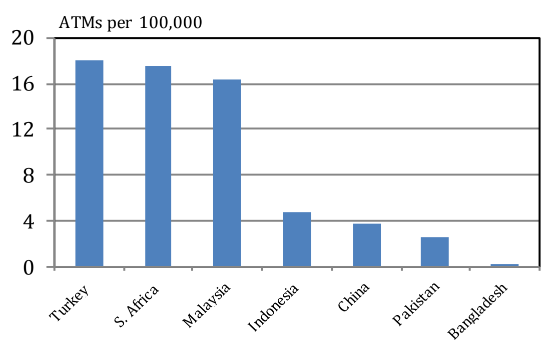
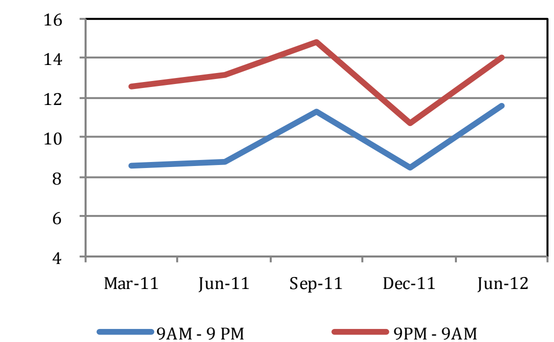


Figure 8.7

Downtime of ATM (percent share)



volume and value of ATM transaction over the H1-CY12 **(Table 8.1)**. However, the ATM penetration in Pakistan is still low as compared to the developed countries, though Pakistan compares well with other low-income countries in the region **(Figure 8.6).**

Notwithstanding the growth, ATM downtime is a serious concern

The efficiency in operations of ATMs, as measured in terms of percentage of down time, somewhat deteriorated during the period under review. During H1-CY12, on average the ATMs were available for 87 percent of the time (**Figure 8.7**), which equates to over 3 million in lost service hours during the period. For half of the downtime the ATMs remained out of service due to power issues and for the other half due to operational reasons. Given the massive loss of ATM productivity, banks need to work out solutions to contain rising ATM downtime and to be able to provide uninterrupted services to the ATM users.

Mobile payment systems gaining momentum

In order to foster financial inclusion, especially in the rural and remote areas of the country, the SBP has been encouraging alternative delivery channels for financial services including branchless or mobile banking. Within a short span of time, branchless banking has proved to be a success with substantial increase in the number of customers that it addresses. By the end of the review period, the branchless banking accounts grew by 56 percent to 1.4 million[87] while the number and value of transactions increased to 53.7 million and Rs. 200 billion, registering an increase of 47 percent and 45 percent respectively (**Table 8.2**).

Table 8.2			
Branchless Banking Indicators			
	H2-CY11	H1-CY12	Growth rate
No. of Agents	22,512	29,525	31.2
No. of Accounts	929,184	1,447,381	55.8
No. of Transaction (millions)	37	54	47.3
Transaction Value (Rs. billions)	138	200	45.1

Listed Securities Settlement and Clearing

Another key element of the payments system includes securities depository and the securities settlement system. Central Depository Company (CDC) which act as securities repository, provide securities accounts, central safe keeping services and asset services, play an important role towards ensuring smooth securities transactions. The asset services cover the administration of corporate actions and redemptions and play an important role towards ensuring smooth securities transactions.

[87] For comparison, as of 31-Dec-2011, there were 12.8 million transaction (current) accounts and 15.7 million saving accounts at brick-and-mortar bank branches.

The National Clearing Company of Pakistan Ltd (NCCPL) is responsible for the management and operations of National Clearing & Settlement System (NCSS) a fully automated electronic settlement system. The NCSS handles clearing and settlement of all book-entry securities traded in all three stock exchanges across Pakistan. NCCPL also manages the settlement of non-exchange transactions. During H1-CY12, NCSS settled 39.3 billion securities worth over Rs. 1.1 trillion. Despite the huge volumes of securities trading, the system provided uninterrupted and seamless service to its users.

Annexes

List of Annexes

1. Statistics of the Overall Banking System 73

Table 1.1: Key variables of Balance Sheet and Profit & Loss Statement 74

Table 1.2: Growth Rates of Key Variables and Key Financial Soundness Indicators (FSIs) 74

Table 1.3: Group wise Balance Sheets and Income Statements of Banks 75

Table 1.4: Financial Soundness Indicators 76

Table 1.5: Banks' category-wise key variables 78

Table 1.6: Concentration in the Banking System 80

Asset Quality: 81

Table 1.7: Asset Quality Indicators of the Banking System 81

Table 1.8: Segment-wise Advances and Non Performing Loans (NPLs) 83

Table 1.9: Sector-wise Advances and Non Performing Loans (NPLs)* 83

Soundness & Resilience: 84

Table 1.10: Category-wise Profitability of the Banking System 84

Table 1.11: Category-wise Profitability Indicators of the Banking System 84

Table 1.12: Break-up of Mark-up/Return/Interest Earned 85

Table 1.13: Distribution of Banks by Capital Adequacy Ratio (CAR) 85

Table 1.14: Capital Structure and Capital Adequacy of All Banks and DFIS 86

Table 1.15: Stress Testing Results of the Banking System 87

Table 1.16: List of Banks 88

2. Islamic Banking 89

Table 2.1: Group-wise Balance Sheets and Income Statements of Islamic Banks/Branches 90

Table 2.2: Financial Soundness Indicators of Islamic Banking 91

Table 2.3: List of Islamic Banks 92

3. Non-Banking Financial Institutions 93

Table 3.1: Balance Sheets and Income Statements of DFIs 94

Table 3.2: Financial Soundness Indicators of DFIs 95

Table 3.3: List of Development Finance Institutions 96

Table 3.4: NBFC's category-wise key variables 97

Table 3.5: List of Non-Banking Finance Companies 98

4. Insurance Sector 100

Table 4.1: Insurance Sector: Category-wise key variables 101

Table 4.2: List of Insurance Companies 102

Note: Figures for the calendar years (CY) are based on annual audited accounts for that year. While, figures for quarters (Mar, Jun, Sep, and Dec) are based on unaudited Quarterly Report of Condition (QRC) submitted by banks.

1. Statistics of the Overall Banking System

Table 1.1: Key variables of Balance Sheet and Profit & Loss Statement

billion Rupees

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Total Assets	4,353	5,172	5,628	6,516	7,117	7,715	8,171	8,653
Investments (net)	833	1,276	1,087	1,737	2,157	2,620	3,055	3,275
Advances (net)	2,428	2,688	3,173	3,240	3,358	3,383	3,349	3,573
Deposits	3,255	3,854	4,218	4,786	5,451	5,965	6,244	6,803
Equity	402	544	563	660	695	723	784	808
Profit Before Tax (ytd)	124	107	63	81	105	77	170	99
Profit After Tax (ytd)	84	73	43	54	65	51	112	64
Provisioning Charges (ytd)	22	60	106	97	75	30	50	11
Non-Performing Loans	177	218	359	446	556	579	592	635
Non-Performing Loans (net)	39	30	109	134	185	186	182	214

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

Table 1.2: Growth Rates of Key Variables and Key Financial Soundness Indicators (FSIs)

Percent

	CY07	CY08	CY09	CY10	Jun-11		CY11	Jun-12	
Growth Rates	**YoY**	**YoY**	**YoY**	**YoY**	**QoQ**	**YoY**	**YoY**	**QoQ**	**YoY**
Assets	18.8	8.8	15.8	9.2	7.3	13.7	14.8	3.2	12.2
Loans (Net)	10.7	18.0	2.1	3.7	1.4	4.7	(0.3)	4.2	5.6
Deposits	18.4	9.4	13.5	13.9	10.0	16.3	14.5	7.7	14.0
Investments (Net)	53.1	(14.8)	59.9	24.2	14.7	38.4	41.6	2.7	25.0
Equity	35.3	3.4	17.3	5.2	3.6	8.1	12.9	2.6	11.8
KEY FSIs:	**CY07**	**CY08**	**CY09**	**CY10**	**Jun-11**		**CY11**	**Jun-12**	
Capital Adequacy Ratio	12.3	12.2	14.0	13.9	14.1		15.1	15.1	
Capital to Total Assets	10.5	10.0	10.1	9.8	9.4		9.6	9.3	
NPLs to Loans (Gross)	7.6	10.5	12.6	14.9	15.3		15.7	15.9	
Net NPLs to Net Loans	1.1	3.4	4.1	5.5	5.5		5.4	6.0	
ROA (Before Tax)	2.2	1.2	1.3	1.5	2.1		2.2	2.4	
ROE^ (Before Tax)	22.6	11.4	13.2	15.5	21.8		23.0	25.9	
Liquid Assets/ Total Deposits	45.1	37.7	44.5	47.1	49.5		59.5	54.3	
Advances to Deposit Ratio	69.7	75.2	67.7	61.6	56.7		53.6	52.5	

^ Based on Average Equity plus Surplus on Revaluation.

Table 1.3: Group wise Balance Sheets and Income Statements of Banks (June 30, 2012)

million Rupees

Financial Position	PSCB	LPB	FB	CB	SB	All Banks	Absolute change	
							QoQ	YoY
ASSETS								
Cash & Balances With Treasury Banks	130,373	539,597	40,997	710,967	3,841	714,808	24,666	129,271
Balances With Other Banks	32,510	94,069	5,614	132,194	4,290	136,484	(21,414)	(27,851)
Lending To Financial Institutions	36,133	109,559	25,638	171,330	1,000	172,330	(12,826)	(43,395)
Investments - Net	456,008	2,697,062	90,755	3,243,825	31,644	3,275,470	87,402	655,220
Advances - Net	768,577	2,642,507	63,724	3,474,808	97,954	3,572,762	143,486	189,306
Operating Fixed Assets	33,538	201,939	2,002	237,478	4,773	242,251	3,813	13,791
Deferred Tax Assets	25,184	51,698	5,290	82,173	544	82,717	(136)	2,244
Other Assets	135,700	301,266	7,803	444,768	11,294	456,063	41,736	19,700
TOTAL ASSETS	**1,618,023**	**6,637,698**	**241,823**	**8,497,545**	**155,341**	**8,652,886**	**266,726**	**938,286**
LIABILITIES	-	-	-	-	-	-	-	-
Bills Payable	12,851	85,223	4,866	102,941	472	103,412	3,850	22,230
Borrowings From Financial Institution	32,995	377,026	15,593	425,614	82,851	508,465	(220,895)	(53,555)
Deposits And Other Accounts	1,302,371	5,321,893	160,354	6,784,617	18,279	6,802,896	487,534	838,052
Sub-ordinated Loans	-	54,484	-	54,484	3,405	57,889	1,974	825
Liabilities Against Assets Subject To Finance Lease	61	1	8	71	12	83	(15)	(69)
Deferred Tax Liabilities	4,156	9,692	129	13,977	214	14,191	(230)	2,022
Other Liabilities	101,761	199,504	18,427	319,692	38,253	357,945	(26,299)	43,296
TOTAL LIABILITIES	**1,454,196**	**6,047,823**	**199,377**	**7,701,396**	**143,486**	**7,844,881**	**245,920**	**852,800**
NET ASSETS	**163,828**	**589,875**	**42,446**	**796,149**	**11,855**	**808,004**	**20,806**	**85,486**
NET ASSETS REPRESENTED BY:	-	-	-	-	-	-	-	-
Share Capital	43,096	360,079	40,285	443,460	15,508	458,968	4,334	84,478
Reserves	47,497	86,947	149	134,594	11,429	146,023	4,590	(35,542)
Unappropriated Profit	49,815	97,245	2,175	149,235	(19,917)	129,318	21,660	30,547
Share Holders' Equity	**140,409**	**544,271**	**42,609**	**727,288**	**7,020**	**734,309**	**30,584**	**79,483**
Surplus/Deficit On Revaluation Of Assets	23,419	45,604	(163)	68,860	4,835	73,696	(9,778)	6,003
TOTAL	**163,828**	**589,875**	**42,446**	**796,149**	**11,855**	**808,004**	**20,806**	**85,486**

PROFIT AND LOSS STATEMENT	PSCB	LPB	FB	CB	SB	All Banks	Change (YoY)
Mark-Up/ Return/Interest Earned	69,505	303,797	11,140	384,442	7,381	391,823	31,882
Mark-Up/ Return/Interest Expenses	45,424	169,746	5,507	220,677	2,681	223,358	30,120
Net Mark-Up / Interest Income	**24,081**	**134,051**	**5,633**	**163,765**	**4,700**	**168,465**	**1,762**
Provisions & Bad Debts Written Off Directly/(Reversal	1,361	9,058	298	10,717	471	11,188	(19,172)
Net Mark-Up / Interest Income After Provision	**22,720**	**124,992**	**5,336**	**153,048**	**4,229**	**157,277**	**20,934**
Fees, Commission & Brokerage Income	5,474	19,789	909	26,172	42	26,215	1,982
Dividend Income	2,073	8,740	-	10,814	102	10,915	6,570
Income From Dealing In Foreign Currencies	1,682	7,871	1,652	11,205	3	11,208	(1,254)
Other Income	2,785	11,385	(507)	13,662	2,650	16,313	4,321
Total Non - Markup / Interest Income	**12,014**	**47,785**	**2,054**	**61,854**	**2,797**	**64,650**	**11,619**
	34,734	172,778	7,389	214,901	7,026	221,928	32,553
Administrative Expenses	20,801	91,343	4,631	116,775	4,751	121,527	11,495
Other Expenses	18	1,108	55	1,180	(293)	888	(1,146)
Total Non-Markup/Interest Expenses	**20,819**	**92,451**	**4,686**	**117,956**	**4,459**	**122,415**	**10,349**
Profit before Tax and Extra ordinary Items	13,915	80,327	2,703	96,945	2,568	99,513	22,204
Extra ordinary/unusual Items - Gain/(Loss)	-	-	914.21	914.21	0.70	914.91	911.63
PROFIT/ (LOSS) BEFORE TAXATION	**13,915**	**80,327**	**1,789**	**96,031**	**2,567**	**98,598**	**21,292**
Less: Taxation	4,832	28,232	1,049	34,113	822	34,935	8,452
PROFIT/ (LOSS) AFTER TAX	**9,083**	**52,095**	**740**	**61,918**	**1,745**	**63,663**	**12,840**

* Un-audited results.

Table 1.4: Financial Soundness Indicators*

Percent

Indicators	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
CAPITAL ADEQUACY								
Risk Weighted CAR*								
Public Sector Commercial Banks	15.2	16.1	13.4	15.1	14.7	12.8	16.5	14.4
Local Private Banks	12.7	11.8	11.9	13.9	13.6	14.1	14.4	14.9
Foreign Banks	15.0	14.6	21.8	23.0	23.8	25.2	31.3	31.0
Commercial Banks	**13.3**	**12.8**	**12.6**	**14.5**	**14.1**	**14.2**	**15.3**	**15.2**
Specialized Banks	-8.3	-6.2	-4.9	-1.5	4.7	8.0	8.9	10.9
All Banks	**12.7**	**12.3**	**12.2**	**14.0**	**13.9**	**14.1**	**15.1**	**15.1**
Tier 1 Capital to RWA								
Public Sector Commercial Banks	11.1	12.2	10.9	12.6	12.2	10.8	14.4	12.3
Local Private Banks	10.4	9.9	10.0	11.4	11.4	12.0	12.3	12.7
Foreign Banks	14.3	14.0	21.3	22.5	23.5	25.0	31.1	30.8
Commercial Banks	**10.8**	**10.5**	**10.6**	**12.0**	**12.0**	**12.2**	**13.3**	**13.2**
Specialized Banks	-13.3	-12.5	-10.1	-5.8	-0.9	2.0	3.4	5.4
All Banks	**10.0**	**10.0**	**10.1**	**11.6**	**11.6**	**11.9**	**13.0**	**13.0**
Capital to Total Assets								
Public Sector Commercial Banks	12.2	13.7	10.7	11.3	11.7	10.5	10.6	10.1
Local Private Banks	9.2	10.2	10.0	9.9	9.3	8.9	9.2	8.9
Foreign Banks	10.1	11.2	14.5	14.8	14.8	15.1	16.7	17.6
Commercial Banks	**9.9**	**10.9**	**10.3**	**10.4**	**9.9**	**9.4**	**9.7**	**9.4**
Specialized Banks	-8.0	-5.4	-3.2	-1.7	1.2	5.7	5.4	7.6
All Banks	**9.4**	**10.5**	**10.0**	**10.1**	**9.8**	**9.4**	**9.6**	**9.3**
ASSET QUALITY								
NPLs to Total Loans								
Public Sector Commercial Banks	9.0	8.4	16.3	16.9	22.9	21.5	21.1	22.7
Local Private Banks	5.2	6.5	8.7	11.1	12.5	13.2	13.8	13.4
Foreign Banks	1.0	1.6	2.9	6.7	9.5	9.0	10.4	11.1
Commercial Banks	**5.7**	**6.7**	**9.9**	**12.1**	**14.5**	**14.8**	**15.3**	**15.5**
Specialized Banks	39.1	34.3	28.8	25.5	28.7	31.1	30.1	30.4
All Banks	**6.9**	**7.6**	**10.5**	**12.6**	**14.9**	**15.3**	**15.7**	**15.9**
Provision to NPLs								
Public Sector Commercial Banks	84.5	89.0	66.9	67.8	52.4	53.8	58.2	50.0
Local Private Banks	78.7	88.5	70.2	71.0	73.2	74.7	74.6	74.9
Foreign Banks	191.7	157.0	81.9	75.2	86.6	88.8	89.3	88.7
Commercial Banks	**81.5**	**89.1**	**69.3**	**70.1**	**66.9**	**68.5**	**69.9**	**66.9**
Specialized Banks	64.1	68.6	72.4	65.7	63.4	59.2	59.1	55.5
All Banks	**77.8**	**86.1**	**69.6**	**69.9**	**66.7**	**67.9**	**69.3**	**66.3**
Net NPLs to Net Loans								
Public Sector Commercial Banks	1.5	1.0	6.1	6.1	12.4	11.2	10.1	12.8
Local Private Banks	1.1	0.8	2.7	3.5	3.7	3.7	3.9	3.7
Foreign Banks	-1.0	-0.9	0.5	1.8	1.4	1.1	1.2	1.4
Commercial Banks	**1.1**	**0.8**	**3.3**	**4.0**	**5.3**	**5.2**	**5.1**	**5.7**
Specialized Banks	**18.7**	**14.0**	**10.0**	**10.5**	**12.8**	**15.5**	**14.9**	**16.2**
All Banks	**1.6**	**1.1**	**3.4**	**4.1**	**5.5**	**5.5**	**5.4**	**6.0**
Net NPLs to Capital								
Public Sector Commercial Banks	6.4	3.4	30.3	27.4	48.8	50.2	41.8	60.0
Local Private Banks	7.1	4.1	15.9	17.4	18.9	17.9	17.1	16.8
Foreign Banks	-5.1	-4.1	1.6	4.4	2.6	2.0	1.9	2.1
Commercial Banks	**6.2**	**3.7**	**17.9**	**18.8**	**25.0**	**24.0**	**21.6**	**24.9**
Specialized Banks					-	-	-	-
All Banks	**9.7**	**5.6**	**19.4**	**20.4**	**26.7**	**25.7**	**23.1**	**26.5**
EARNINGS								
Return on Assets (Before Tax)								
Public Sector Commercial Banks	4.0	3.5	0.6	1.5	1.8	1.8	2.0	1.8
Local Private Banks	3.1	2.0	1.3	1.3	1.5	2.2	2.3	2.5
Foreign Banks	3.2	1.5	0.0	-0.3	0.9	2.2	2.3	1.4
Commercial Banks	**3.2**	**2.3**	**1.1**	**1.3**	**1.5**	**2.1**	**2.2**	**2.3**
Specialized Banks	-1.3	1.4	3.2	3.1	2.0	1.1	2.4	3.1
All Banks	**3.1**	**2.2**	**1.2**	**1.3**	**1.5**	**2.1**	**2.2**	**2.4**

Financial Soundness Indicators* cont'd:

Percent

Indicators	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Return on Assets (After Tax)								
Public Sector Commercial Banks	2.7	2.5	0.5	1.3	1.3	1.2	1.4	1.1
Local Private Banks	2.1	1.4	0.9	0.9	0.9	1.4	1.5	1.6
Foreign Banks	2.1	0.7	0.3	(0.3)	0.4	1.6	1.5	0.6
Commercial Banks	**2.2**	**1.6**	**0.8**	**0.9**	**0.9**	**1.4**	**1.5**	**1.5**
Specialized Banks	(1.8)	0.7	1.8	1.2	1.2	1.1	1.6	2.1
All Banks	**2.1**	**1.5**	**0.8**	**0.9**	**1.0**	**1.4**	**1.5**	**1.6**
ROE (Avg. Equity& Surplus) (Before Tax)								
Public Sector Commercial Banks	32.4	27.2	5.2	13.3	15.2	16.6	18.0	16.9
Local Private Banks	36.2	20.4	12.9	13.2	15.6	23.8	24.7	27.9
Foreign Banks	30.0	13.1	0.0	(2.4)	5.8	14.8	14.5	8.4
Commercial Banks	**34.7**	**21.8**	**10.6**	**12.4**	**15.0**	**21.8**	**22.7**	**24.5**
Specialized Banks	-	-	-	-	-	-	-	-
All Banks	**35.2**	**22.6**	**11.4**	**13.2**	**15.5**	**21.8**	**23.0**	**25.9**
ROE (Avg. Equity &Surplus) (After Tax)								
Public Sector Commercial Banks	21.7	19.5	4.4	11.4	11.2	11.0	12.2	11.0
Local Private Banks	25.0	13.8	8.5	8.6	9.3	15.4	16.1	18.1
Foreign Banks	20.4	6.0	2.2	(2.3)	2.7	10.9	9.5	3.5
Commercial Banks	**23.7**	**15.0**	**7.3**	**8.6**	**9.4**	**14.2**	**14.9**	**15.8**
Specialized Banks	-	-	-	-	-	-	-	-
All Banks	**23.8**	**15.4**	**7.8**	**8.9**	**9.6**	**14.3**	**15.1**	**17.3**
NII/Gross Income								
Public Sector Commercial Banks	69.5	65.9	65.4	63.0	69.1	70.2	69.4	66.7
Local Private Banks	73.5	70.7	73.2	75.9	77.2	77.5	77.9	73.7
Foreign Banks	65.8	59.1	61.3	64.8	67.6	72.9	72.2	73.3
Commercial Banks	**72.1**	**69.2**	**71.2**	**73.3**	**75.4**	**76.2**	**76.2**	**72.6**
Specialized Banks	40.1	42.8	46.6	44.7	51.0	64.6	67.3	62.7
All Banks	**70.9**	**68.2**	**70.3**	**72.4**	**74.7**	**75.9**	**76.0**	**72.3**
Cost / Income Ratio								
Public Sector Commercial Banks	31.8	30.2	39.1	47.5	49.1	49.2	49.9	57.7
Local Private Banks	40.7	45.4	51.6	50.1	52.5	50.2	50.8	50.8
Foreign Banks	49.8	57.0	69.6	77.5	65.2	62.2	59.3	61.0
Commercial Banks	**39.4**	**42.8**	**50.0**	**50.9**	**52.4**	**50.5**	**50.9**	**52.3**
Specialized Banks	62.6	53.2	52.1	61.3	61.3	69.8	60.4	59.5
All Banks	**40.3**	**43.2**	**50.1**	**51.2**	**52.7**	**51.0**	**51.1**	**52.5**
LIQUIDITY								
Liquid Assets/Total Assets								
Public Sector Commercial Banks	33.9	37.0	30.6	31.1	34.6	29.9	40.9	32.6
Local Private Banks	31.1	32.5	26.8	32.3	35.7	39.6	46.2	44.7
Foreign Banks	41.0	41.6	45.2	55.0	64.6	65.2	68.6	67.4
Commercial Banks	**32.2**	**33.8**	**28.3**	**32.9**	**36.4**	**38.5**	**45.9**	**43.1**
Specialized Banks	23.0	27.9	24.5	19.8	19.6	22.4	23.5	23.8
All Banks	**31.9**	**33.6**	**28.2**	**32.7**	**36.1**	**38.2**	**45.5**	**42.7**
Liquid Assets/Total Deposits								
Public Sector Commercial Banks	42.6	47.1	38.9	40.1	43.5	37.1	51.3	40.5
Local Private Banks	40.6	42.9	35.0	43.4	45.8	50.4	59.5	55.8
Foreign Banks	61.1	61.1	71.6	82.4	96.4	95.3	104.3	101.6
Commercial Banks	**42.0**	**44.3**	**37.1**	**44.0**	**46.8**	**49.1**	**59.1**	**54.0**
Specialized Banks	205.4	247.7	229.4	167.1	149.4	181.2	202.0	202.1
All Banks	**42.7**	**45.1**	**37.7**	**44.5**	**47.1**	**49.5**	**59.5**	**54.3**
Advances/Deposits								
Public Sector Commercial Banks	64.6	60.0	68.4	65.2	58.0	58.1	55.2	59.0
Local Private Banks	74.5	70.1	75.1	66.6	61.3	55.1	52.0	49.7
Foreign Banks	80.1	75.2	68.9	56.1	42.0	40.8	39.6	39.7
Commercial Banks	**72.7**	**73.8**	**73.6**	**66.0**	**60.1**	**55.3**	**52.3**	**51.2**
Specialized Banks	528.4	507.3	577.0	560.8	491.5	517.8	540.1	535.9
All Banks	**74.6**	**69.7**	**75.2**	**67.7**	**61.6**	**56.7**	**53.6**	**52.5**

** Statistics for 2008 has been restated on the basis of audit for the year 2009.
* Data of IDBP,PPCBL, and SME is based on Basel I.

Table 1.5: Banks' category-wise key variables

All Banks

billion Rupees

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Paid up Capital	168	248	281	325	358	374	405	459
Equity	402	544	563	660	695	723	784	808
Deposits	3,255	3,854	4,218	4,786	5,451	5,965	6,244	6,803
Liabilities	3,951	4,627	5,065	5,856	6,422	6,992	7,386	7,845
Advances (net of Provision)	2,428	2,688	3,173	3,240	3,358	3,383	3,349	3,573
Investments (net of Provisions)	833	1,276	1,087	1,737	2,157	2,620	3,055	3,275
Assets	4,353	5,172	5,628	6,516	7,117	7,715	8,171	8,653
Income	385	475	582	690	617	413	686	456
Expense	262	368	519	609	721	336	856	358
Profit bofore tax	124	107	63	81	105	77	170	99
Profit after tax	84	73	43	54	65	51	112	64

Public Sector Commercial Banks

million Rupees

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Paid up Capital	12,278	16,671	18,544	21,339	34,030	37,394	41,414	43,096
Equity	102,043	142,270	111,986	139,219	159,790	153,546	166,172	163,828
Deposits	665,642	812,856	819,683	952,373	1,087,506	1,183,100	1,248,199	1,302,371
Liabilities	734,145	893,622	930,324	1,090,831	1,205,801	1,315,176	1,396,686	1,454,196
Advances (net of Provision)	429,716	487,362	560,666	620,596	630,704	687,759	689,423	768,577
Investments (net of Provisions)	179,883	296,670	204,784	297,689	383,310	396,274	479,609	456,008
Assets	836,189	1,035,892	1,042,310	1,230,050	1,365,591	1,468,723	1,562,858	1,618,023
Income	73,519	90,970	103,421	119,979	108,949	72,172	121,753	81,519
Expense	41,961	57,748	96,855	103,218	131,722	59,532	151,113	67,604
Profit bofore tax	31,558	33,222	6,566	16,762	22,773	12,640	29,359	13,915
Profit after tax	21,192	23,851	5,644	14,372	16,798	8,433	19,833	9,083

Local Private Banks

million Rupees

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Paid up Capital	124,252	199,547	214,571	253,015	274,587	286,639	309,306	360,079
Equity	287,882	389,726	421,074	487,719	498,613	523,717	567,665	589,875
Deposits	2,425,781	2,909,310	3,236,220	3,655,994	4,188,181	4,595,919	4,810,209	5,321,893
Liabilities	2,886,107	3,446,053	3,799,764	4,417,543	4,875,191	5,331,805	5,635,806	6,047,823
Advances (net of Provision)	1,807,163	2,039,623	2,429,934	2,435,792	2,568,695	2,534,501	2,499,799	2,642,507
Investments (net of Provisions)	598,435	936,764	847,045	1,373,082	1,679,542	2,115,413	2,442,332	2,697,062
Assets	3,173,989	3,835,779	4,220,838	4,905,262	5,373,804	5,855,523	6,203,471	6,637,698
Income	273,918	348,149	437,498	524,275	470,401	318,073	528,855	351,582
Expense	187,158	278,615	385,022	463,734	547,425	257,186	660,306	271,255
Profit bofore tax	86,760	69,530	52,477	60,541	77,024	60,887	131,451	80,327
Profit after tax	59,490	47,263	34,704	39,265	45,646	39,289	85,716	52,095

Foreign Banks

million Rupees

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Paid up Capital	17,469	17,085	32,130	34,885	33,992	34,949	38,720	40,285
Equity	22,686	19,373	33,971	35,739	34,509	36,968	42,530	42,446
Deposits	150,093	117,561	147,938	160,936	156,331	167,910	167,870	160,354
Liabilities	201,081	153,339	200,590	205,297	198,745	208,326	212,744	199,377
Advances (net of Provision)	120,223	88,455	101,921	90,325	65,628	68,438	66,411	63,724
Investments (net of Provisions)	38,477	26,427	22,593	52,373	79,809	87,888	113,382	90,755
Assets	223,783	172,711	234,562	241,037	233,253	245,294	255,274	241,823
Income	24,107	20,169	24,005	27,741	23,100	13,893	22,979	13,194
Expense	17,784	17,733	23,998	28,591	25,147	11,256	28,579	11,405
Profit bofore tax	6,323	2,435	7	(850)	2,046	2,637	5,601	1,789
Profit after tax	4,288	1,122	651	(809)	960	1,943	3,660	740

Specialized Banks

million Rupees

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Paid up Capital	14,452	14,849	15,506	15,507	15,507	15,508	15,508	15,508
Equity	(10,214)	(6,931)	(4,163)	(2,424)	1,791	8,286	7,990	11,855
Deposits	13,491	14,320	13,883	16,588	18,962	17,915	17,327	18,279
Liabilities	129,173	134,125	134,332	142,414	142,577	136,774	141,179	143,486
Advances (net of Provision)	70,617	72,647	80,114	93,031	93,197	92,759	93,585	97,954
Investments (net of Provisions)	16,581	15,926	12,147	13,819	14,495	20,675	19,546	31,644
Assets	118,959	127,193	130,178	139,990	144,367	145,060	149,169	155,341
Income	13,944	15,943	17,039	17,612	14,063	8,834	12,022	10,178
Expense	14,710	14,272	12,888	13,392	16,909	7,692	15,540	7,611
Profit bofore tax	(766)	1,671	4,151	4,220	2,846	1,142	3,518	2,567
Profit after tax	(1,075)	875	2,317	1,617	1,665	1,159	2,388	1,745

Table 1.6: Concentration in the Banking System

(June 30, 2012)

Percent

Indicators	Top 5 Banks	6-10 Banks	11-20 Banks	21-27 Banks	FBs	SBs	Industry
Asset							
Share of Total Assets	51.9	22.1	17.6	3.8	2.8	1.8	100
Share of Total Investments	51.7	23.3	17.5	3.8	2.7	1.0	100
of which investment in Government Securities	79.0	85.4	82.5	85.9	100.0	89.4	82
Advances							
Advances:public	70.6	17.2	9.2	2.9	0.1	0.1	100.0
Advances:private	47.7	22.4	20.9	3.1	2.2	3.7	100.0
Sectoral Distribution of Loans							
Corporate Sector	50.4	22.6	21.5	3.1	2.3	0.2	100.0
SMEs	42.4	19.5	32.7	1.3	0.2	3.8	100.0
Agriculture	34.1	8.0	5.0	0.1	0.0	52.7	100.0
Consumer Finance	58.1	21.3	11.6	6.5	2.4	0.0	100.0
Commodity Financing	64.9	22.7	8.8	3.6	0.0	0.0	100.0
Staff Loans	58.6	17.9	13.9	3.2	2.8	3.6	100.0
Others	81.2	13.1	1.3	0.1	3.8	0.5	100.0
Total	52.5	21.3	18.4	3.0	1.8	3.0	100.0
NPLs / Gross Loans	13.9	17.0	19.6	8.2	11.1	30.4	15.9
Net NPLs / Capital	17.3	46.6	44.7	10.4	2.1	134.2	26.5
Liabilities							
Share of Total Deposits	53.4	22.7	17.6	3.7	2.4	0.3	100.0
Customer Fixed Deposits	45.5	22.3	23.5	5.0	3.5	0.1	100.0
Customer CASA	56.1	23.3	15.0	3.2	2.0	0.3	100.0
Customer Deposits others	41.0	31.7	24.4	1.6	0.8	0.5	100.0
Financial Institutions Remunerative Deposit	52.1	21.3	21.9	3.9	0.6	0.2	100.0
Financial Institutions Non-Remunerative De	93.8	2.5	1.1	1.3	1.3	0.0	100.0
Capital Adequacy							
Capital/RWA (Capital Adequacy Ratio)	15.7	12.5	12.2	27.4	31.0	10.9	15.1
Tier 1 Capital / RWA	13.4	9.6	11.1	27.7	30.8	5.4	13.0
Net Worth / Total Assets	10.3	6.8	7.7	14.2	17.6	7.6	9.3
Share of Risk Weighted Assets	54.1	18.7	18.7	3.2	2.8	2.6	100.0
Earning & Profitability							
Profit/Loss (Before Tax)	70.9	15.2	7.7	1.8	1.8	2.6	100.0
Net Interest Income / Gross Income	73.4	74.3	65.0	79.6	73.3	62.7	72.3
Non-Interest Expense / Gross Income	26.6	25.7	35.0	20.4	26.7	37.3	27.7
Provision Expense to Gross Income	4.2	6.8	5.3	0.6	3.9	6.3	4.8
Liquidity							
Liquid Assets / Total Assets	42.1	43.6	40.5	47.4	67.4	23.8	42.7
Liquid Assets / Total Deposits	52.0	54.1	51.6	61.5	101.6	202.1	54.3
Advances to deposits ratio	51.9	49.7	53.9	45.8	39.7	535.9	52.5

Asset Quality:

Table 1.7: Asset Quality Indicators of the Banking System

Banking System: Selected Indicators of Asset Quality

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Advances	2,875,686	3,422,549	3,551,331	3,729,003	3,776,682	3,759,235	3,993,626
NPLs	217,998	359,238	446,005	555,968	579,197	591,579	634,790
Provision	187,603	249,914	311,588	370,778	393,226	410,016	420,864
Advances (net)	2,688,087	3,172,636	3,239,744	3,358,225	3,383,457	3,349,219	3,572,762
Net NPLs	30,395	109,324	134,417	185,190	185,972	181,563	213,926

Banking System: Break up of Non Performing Loans (NPLs)

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
OAEM	8,999	11,558	12,152	14,141	16,686	15,521	17,429
Sub Standard	36,520	78,503	63,905	53,030	60,464	50,262	61,056
Doubtful	24,248	67,877	77,809	68,665	58,963	58,346	55,700
Loss	148,233	201,301	292,138	420,132	443,084	467,450	500,606
Total	217,999	359,238	446,005	555,968	579,197	591,579	634,790

Banking System: Break up of Provisions against Advances (specific)

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
OAEM	715	743	-	-	-	-	-
Sub Standard	9,366	17,490	13,666	11,787	13,278	9,669	11,684
Doubtful	12,454	29,782	32,386	31,255	28,221	20,196	15,940
Loss	144,173	185,746	251,691	311,391	333,347	364,059	375,971
Total	166,708	233,761	297,743	354,434	374,847	393,924	403,596

Category-wise Break up of Banks' Advances

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
PSCBs	526,566	629,389	700,902	716,562	777,606	786,264	866,735
LPBs	2,163,480	2,587,530	2,643,594	2,826,985	2,811,008	2,785,927	2,938,345
FBs	90,666	104,440	95,113	71,495	74,385	73,215	70,715
CBs	2,780,712	3,321,360	3,439,608	3,615,042	3,662,999	3,645,407	3,875,796
SBs	94,974	101,189	111,723	113,961	113,683	113,828	117,831
Total	2,875,686	3,422,549	3,551,331	3,729,003	3,776,682	3,759,235	3,993,626

Category-wise Break up of Banks' Non Performing Loans (NPLs)

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
PSCBs	44,054	102,656	118,400	163,786	166,915	166,289	196,399
LPBs	139,997	224,395	292,780	352,672	370,244	383,437	394,720
FBs	1,409	3,077	6,369	6,774	6,701	7,623	7,883
CBs	185,460	330,128	417,549	523,232	543,860	557,349	599,003
SBs	32,538	29,110	28,456	32,736	35,337	34,230	35,788
Total	217,998	359,238	446,005	555,968	579,197	591,579	634,790

Category-wise Banks' Provisions

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
PSCBs	39,204	68,723	80,305	85,858	89,848	96,840	98,158
LPBs	123,855	157,598	207,803	258,289	276,507	286,128	295,838
FBs	2,211	2,519	4,788	5,867	5,947	6,804	6,991
CBs	165,271	228,839	292,896	350,014	372,302	389,773	400,987
SBs	22,332	21,075	18,692	20,764	20,924	20,244	19,877
Total	187,603	249,914	311,588	370,778	393,226	410,016	420,864

Category-wise Banks' Advanes (net of provisions)

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
PSCBs	487,362	560,666	620,596	630,704	687,759	689,423	768,577
LPBs	2,039,623	2,429,934	2,435,792	2,568,695	2,534,501	2,499,799	2,642,507
FBs	88,455	101,922	90,325	65,628	68,438	66,411	63,724
CBs	2,615,440	3,092,522	3,146,713	3,265,028	3,290,698	3,255,634	3,474,808
SBs	72,647	80,114	93,031	93,197	92,759	93,585	97,954
Total	2,688,087	3,172,636	3,239,744	3,358,225	3,383,457	3,349,219	3,572,762

Category-wise Banks' Non Performing Loans-NPLs (net of provisions)

million Rupees

	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
PSCBs	4,850	33,934	38,095	77,928	77,067	69,448	98,241
LPBs	16,142	66,797	84,977	94,382	93,737	97,309	98,882
FBs	(803)	558	1,581	907	754	819	892
CBs	20,189	101,289	124,653	173,218	171,558	167,576	198,016
SBs	10,206	8,035	9,764	11,972	14,414	13,987	15,911
Total	30,395	109,324	134,417	185,190	185,972	181,563	213,926

Table 1.8: Segment-wise Advances and Non Performing Loans (NPLs)

amount in million Rupees, ratio in percent

	Jun-11			Dec-11			Jun-12		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Corporate Sector	2,406,141	383,212	15.9	2,419,390	414,240	17.1	2,583,699	439,543	17.0
SMEs Sector	302,552	96,330	31.8	303,685	95,501	31.4	257,815	96,478	37.4
Agriculture Sector	170,128	36,205	21.3	176,860	34,105	19.3	190,630	34,610	18.2
Consumer sector	248,616	45,603	18.3	242,235	44,965	18.6	245,191	44,406	18.1
i. Credit cards	24,989	5,291	21.2	23,406	4,822	20.6	23,183	4,873	21.0
ii. Auto loans	50,659	5,137	10.1	46,785	4,868	10.4	45,496	4,731	10.4
iii. Consumer durable	687	108	15.7	126	100	79.1	135	93	68.9
iv. Mortgage loans	60,720	16,509	27.2	57,774	16,534	28.6	55,216	16,767	30.4
v. Other personal loans	111,560	18,557	16.6	114,144	18,642	16.3	121,160	17,942	14.8
Commodity financing	487,560	5,323	1.1	437,555	4,883	1.1	535,897	6,246	1.2
Staff Loans	76,745	1,283	1.7	75,771	1,395	1.8	80,838	1,463	1.8
Others	84,942	11,241	13.2	90,652	12,056	13.3	99,557	12,045	12.1
Total	3,776,682	579,197	15.3	3,746,149	607,145	16.2	3,993,626	634,790	15.9

Table 1.9: Sector-wise Advances and Non Performing Loans (NPLs)

amount in million Rupees, ratio in percent

	Jun-11			Dec-11		Jun-12		
	Advances	NPLs	Infection Ratio	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	232,221	17,042	7.3	36,504	11.7	350,683	37,133	10.6
Automobile/Transportation	50,828	10,752	21.2	10,928	20.3	56,011	11,050	19.7
Cement	81,305	18,731	23.0	18,804	23.2	63,352	17,989	28.4
Chemical & Pharmaceuticals	144,834	12,972	9.0	13,821	9.4	153,278	14,310	9.3
Electronics	58,883	23,287	39.5	30,358	50.3	55,164	24,485	44.4
Financial	51,821	7,751	15.0	8,424	11.9	77,027	10,051	13.0
Individuals	425,462	73,751	17.3	53,521	15.9	337,424	54,166	16.1
Insurance	1,056	1	0.1	1	0.2	684	1	0.1
Others	1,534,503	196,971	12.8	210,332	13.8	1,638,085	229,317	14.0
Production/Transmission of Energy	380,260	17,670	4.6	14,934	4.0	483,109	20,377	4.2
Shoes & Leather garments	25,724	3,235	12.6	3,128	10.1	24,513	3,351	13.7
Sugar	122,089	14,083	11.5	12,233	14.6	122,274	11,544	9.4
Textile	667,697	182,951	27.4	194,158	28.5	632,023	201,018	31.8
Total	3,776,682	579,197	15.3	607,145	16.2	3,993,626	634,790	15.9

Soundness & Resilience:

Table 1.10: Category-wise Profitability of the Banking System

billion Rupees

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Profit Before Tax								
PSCBs	31.5	33.2	6.6	16.8	22.8	12.6	29.4	13.9
LPBs	85.6	69.5	52.5	60.5	77.0	60.9	131.5	80.3
FBs	6.3	2.4	0.0	(0.9)	2.0	2.6	5.6	1.8
CBs	123.5	105.2	59.0	76.5	101.8	76.2	166.4	96.0
SBs	0.1	1.7	4.2	4.2	2.8	1.1	3.5	2.6
All Banks	123.6	106.9	63.2	80.7	104.7	77.3	169.9	98.6
Profit After Tax					-		-	
PSCBs	21.2	23.9	5.6	14.4	16.8	8.4	19.8	9.1
LPBs	59.1	47.3	34.7	39.3	45.6	39.3	85.7	52.1
FBs	4.3	1.1	0.6	(0.8)	1.0	1.9	3.7	0.7
CBs	84.6	72.2	41.0	52.8	63.4	49.7	109.2	61.9
SBs	(0.5)	0.9	2.3	1.6	1.7	1.2	2.4	1.7
All Banks	84.1	73.1	43.3	54.4	65.1	50.8	111.6	63.7

Table 1.11: Category-wise Profitability Indicators of the Banking System

Percent

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Before Tax ROA								
PSCBs	4.0	3.5	0.6	1.5	1.8	1.8	2.0	1.8
LPBs	3.1	2.0	1.3	1.3	1.5	2.2	2.3	2.5
FBs	3.2	1.5	0.0	-0.3	0.9	2.2	2.3	1.4
CBs	3.2	2.3	1.1	1.3	1.5	2.1	2.2	2.3
SBs	-1.3	1.4	3.2	3.1	2.0	1.1	2.4	3.1
All Banks	3.1	2.2	1.2	1.3	1.5	2.1	2.2	2.4
Before Tax ROE *(based on Equity plus Surplus/ Deficit on Revaluation)*								
PSCBs	32.4	27.2	5.2	13.3	15.2	16.6	18.0	16.9
LPBs	36.2	20.4	12.9	13.2	15.6	23.8	24.7	27.9
FBs	30.0	13.1	0.0	-2.4	5.8	14.8	14.5	8.4
CBs	34.7	21.8	10.6	12.4	15.0	21.8	22.7	24.5
SBs	-	-	-	-	-	-	-	-
All Banks	35.2	22.6	11.4	13.2	15.5	21.8	23.0	25.9

Table 1.12: Break-up of Mark-up/Return/Interest Earned

amount in billion Rupees, share in percent

Items	CY09 Amount	CY09 %	CY10 Amount	CY10 %	Jun-11 Amount	Jun-11 %	CY11 Amount	CY11 %	Jun-12 Amount	Jun-12 %
Loans & advances	411.0	69.7	398.9	63.9	214.1	59.5	423.5	56.6	211.8	54.1
Investments	149.3	25.1	196.3	31.4	131.6	36.6	297.8	39.8	169.7	43.3
Deposits, repo and others	29.1	5.2	29.4	4.8	14.3	4.0	26.4	3.5	10.3	2.6
Total	**589.4**	**100.0**	**624.7**	**100.0**	**359.9**	**100.0**	**747.7**	**100.0**	**391.8**	**100.0**

Table 1.13: Distribution of Banks by Capital Adequacy Ratio (CAR)

	CY06	CY07	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Less than 10	7	9	9	6	5	5	5	5
10 to 15	15	12	10	15	13	12	10	11
Over 15	17	18	21	19	20	21	23	22
Total	39	39	40	40	38	38	38	38

Table 1.14: Capital Structure and Capital Adequacy of All Banks and DFIS

(June 30, 2012)

million Rupees

		All Banks and DFIs	PSCBs	LPB	FB	SB	All Banks	DFIs
Equity								
1.1	Fully Paid-up Capital/Capital Deposited with SBP	503,807	43,096	360,079	40,285	15,351	458,811	48,409
1.2	Balance in Share Premium Account	(35,262)	17,000	(52,262)	-	-	(35,262)	-
1.3	Reserve for issue of Bonus shares	-	-	-	-	-	-	-
1.4	General Reserves as disclosed on the Balance Sheet (including statutory reserve)	157,571	21,810	118,923	149	10,669	151,552	6,019
1.5	Un-appropriated/Unremitted profits (net of accumulated losses, if any)	161,103	49,490	95,487	2,175	8,986	156,138	4,739
1.6	Sub-Total (1.1 to 1.5)	**787,219**	**131,396**	**522,227**	**42,609**	**35,006**	**731,238**	**59,167**
Deductions								
1.7	Goodwill	41,679	1,066	40,258	300	0	41,624	56
1.8	Shortfall in Provisions required against Classified assets	9,536	5,253	3,861	422	-	9,536	-
1.9	Deficit on account of revaluation of AFS investment	1,035	279	105	248	28	660	375
1.10	Any increase in equity capital resulting from a securitization transaction	-	-	-	0	-	0	-
1.11	Investments in TFCs of other banks	2,912	-	43	-	-	43	2,869
1.12	**Other Deductions**	**15,589**	**3,004**	**10,934**	**-**	**103**	**14,060**	**1,548**
1.13	**Sub-Total (1.7 to 1.12)**	**70,789**	**9,602**	**55,240**	**971**	**130**	**65,923**	**4,847**
1.14	**Total Eligible Tier 1 capital(1.6 less 1.13)**	**716,429**	**121,794**	**466,988**	**41,638**	**34,876**	**665,315**	**54,320**
Supplementary Capital								
2.1	Freely available General Provisions or reserves for loan losses-upto maximum of 1.25% of Risk Weighted Assets	15,750	5,095	8,717	289	1,474	15,575	175
2.2	Revaluation reserves eligible upto 45%	40,025	11,698	25,012	0	2,358	39,068	958
2.3	Foreign Exchange Translation Reserves	27,948	6,898	21,050	-	-	27,948	-
2.4	Undisclosed reserves	-	-	-	-	-	-	-
2.5	Subordinated debt-upto maximum of 50% of total equity	37,526	-	34,322	-	3,204	37,526	-
2.6	**Total Tier 2 Supplementary Capital(2.1 to 2.5)**	**121,190**	**23,692**	**89,041**	**289**	**7,036**	**120,117**	**1,132**
Deductions								
2.7	Other deductions	15,589	3,004	10,934	-	103	14,060	1,548
2.8	Total Deductions	15,589	3,004	10,934	-	103	14,060	1,548
2.9	**Total eligible tier 2 capital**	**105,602**	**20,688**	**78,107**	**289**	**6,933**	**106,057**	**(415)**
2.10	**Eligible tier 3**							
2.11	Total Supplementary Capital eligible for MCR(maximum upto 100% of Total Equity)	105,602	20,688	78,107	289	6,933	106,017	(415)
2.13	**TOTAL CAPITAL (1.14 plus 2.9)**	**825,217**	**142,482**	**545,094**	**41,927**	**41,809**	**771,332**	**53,905**
	Risk Weighted Amounts							
3.1	**Total Credit Risk Weighted Assets**	**3,935,724**	**826,073**	**2,841,072**	**99,723**	**106,874**	**3,873,742**	**65,142**
3.2	**Total Market Risk Weighted Assets**	**332,894**	**41,395**	**267,347**	**7,806**	**257**	**316,804**	**16,101**
3.3	**Total Operational Risk Assets**	**737,573**	**118,955**	**558,604**	**27,446**	**19,468**	**724,472**	**13,173**
3.4	**Total Risk Weighted Amount**	**5,009,435**	**986,423**	**3,667,023**	**134,976**	**126,598**	**4,915,019**	**94,416**
	Capital Adequacy Ratios							
4.1	**Credit Risk Capital Adequacy Ratio**	**14.3%**	**12.3%**	**12.7%**	**30.8%**	**27.5%**	**13.5%**	**57.5%**
4.2	**Tier 1 capital to Total Risk Weighted Amount**	**16.5%**	**14.4%**	**14.9%**	**31.1%**	**33.0%**	**15.7%**	**57.1%**
4.3	**Total Capital Adequacy Ratio**	**2.1%**	**2.1%**	**2.1%**	**0.2%**	**5.5%**	**2.2%**	**-0.4%**
	Other Deductins from Tier 1 and Tier 2 Capital							
5.1	Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	24,245	4,520	18,659	-	205	23,385	860
5.2	Significant minority investments in banking, securities and other financial entities	5,755	1,488	2,205	-	-	3,693	2,062
5.3	Equity holdings (majority or significant minority) in an insurance subsidiary(para 1.1 scope of Application)	537	-	364	-	-	364	173
5.4	Significant minority and majority investments in commercial entities exceeding 15% of Bank,s Capital	637	-	637	-	-	637	-
5.5	Securitization exposure subject to deduction (para 4.3.1 of instructions)							
5.6	Others	41	-	41	-	-	41	-
5.7	**Total Deductible Items to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital (5.1 to 5.6)**	**31,215**	**6,008**	**21,907**	**-**	**205**	**28,120**	**3,095**

Table 1.15: Stress Testing Results of the Banking System

(June 30, 2012)

	Shock Details	Nature of Shock	Number of Banks with CAR* < 0%	0% - 10%	> 10%
	Pre-Shock Position		0	4	33
	Credit Shocks	**Nature of Shock**	**< 0%**	**0% - 10%**	**> 10%**
C-1	10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss.	Hypothetical	1	8	28
C-2	All NPLs under substandard downgrade to doubtful and all doubtful downgrade to loss.	Hypothetical	0	4	33
C-3	Default of top 3 private sector individual borrowers (fund based exposures only) of the banks.	Hypothetical	1	5	31
C-4	Default of top 3 private sector Individuals (both fund based and non-fund based exposures) of the banks.	Hypothetical	1	5	31
C-5	Increase in provisions against NPLs equivalent to 50% of Net NPLs.	Hypothetical	2	3	32
C-6	Increase in NPLs to Loans Ratio (NPLR) equivalent to the maximum quarterly increase in NPLs to Loans Ratio of the individual banks during the last 5 years.	Historical	2	4	31
C-7	Increase in NPLs of all banks by 21% which is equivalent to the maximum quarterly increase in NPLs of the banking system during the last 5 years (Mar-09).	Historical	1	4	32
C-8	Increase in NPLs to Loans Ratio of Textile Sector of the banks equivalent to the maximum quarterly increase in these banks during the last 3 years.	Historical	0	4	33
C-9	Increase in NPLs to Loans Ratio of Consumer Sector of the banks equivalent to the maximum quarterly increase in these banks during the last 3 years.	Historical	0	4	33
C-10	Increase in NPLs to Loans Ratio of Agriculture & SME Sector of the banks equivalent to the maximum quarterly increase in these banks during the last 3 years.	Historical	0	4	33
			NPLR	Critical NPLR	Difference
C-11	Critical Infection Ratio (The ratio of NPLs to Loans where capital would wipe out)	Hypothetical	15.8	54.9	39.2
			Number of Banks with CAR		
	Market Shocks		**< 0%**	**0% - 10%**	**> 10%**
IR-1	Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities.	Hypothetical	0	5	32
IR-2	Upward shift coupled with steepening of the yield curve by increasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the maximum quarterly increase experienced during the last 4 years (July-08).	Historical	0	5	32
IR-3	Downward Shift plus flattening of the yield curve by decreasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalevent to the maximum quarterly increase experienced during the last 4 years (April-09).	Historical	0	5	32
ER-1	Depreciation of Pak Rupee exchange rate by 30%.	Hypothetical	0	4	33
ER-2	Depreciation of Pak Rupee exchange rate by 14.5% equivalent to the quarterly high depreciation of rupee against dollar experienced during the last 4 years (May08-Aug08).	Historical	0	4	33
ER-3	Appreciation of Pak Rupee exchange rate by 3.2% equivalent to the quarterly high level of appreciation of rupee against dollar experienced during the last 4 years (Oct08-Jan09).	Historical	0	4	33
EQ-1	Fall in general equity prices by 41.4% (Oct08-Jan09).	Historical	0	5	32
EQ-2	Fall in general equity prices by 50%.	Hypothetical	0	5	32
	Combined Credit & Market Shocks		**< 0%**	**0% - 10%**	**> 10%**
COMB-1	Increase in NPLs equivalent to historically high quarterly increase in NPLs to Loan Ratio (Shock C-6) and upward shift plus steepening of the yield curve (Shock IR-2) and fall in equity prices (Shock- EQ-1)	Historical	2	7	28
COMB-2	10% of performing loans moving to substandard, 50% of substandard to doubtful, 50% of doubtful to loss (Shock- C-1), parallel upward shift in the yield curve by 3% (Shock IR-1) and fall in equity prices by 50% (Shock- EQ-2)	Hypothetical	1	14	22
	Liquidity Shocks		**No. of Banks with no liquidity after**		
			3 Days	**4 Days**	**5 Days**
L-1	Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	Hypothetical	0	0	0
			1 Day	**2 Days**	**3 Days**
L-2	Withdrawal of Wholesale Deposits and Unsecured Borrowings by 25%, 50%, and 100% for three consecutive days respectively.	Hypothetical	0	0	0
			Number of Banks with		
			LCR<1	**LCR 1-2**	**LCR>2**
L-3	Shock to Liquidity Coverage Ratio Applying 20% haircut to the value of Investments in Government Securities*	Hypothetical	0	0	37

** Excluding IDBP, which has negative equity and is in process of liquidation.*

Table 1.16: List of Banks

CY09	CY10	CY11	Jun-12
A. Public Sector Com. Banks (4)	**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
The Bank of Khyber	Sindh Bank Ltd.	Sindh Bank Ltd.	Sindh Bank Ltd.
The Bank of Punjab	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber
	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab
B. Local Private Banks (25)	**B. Local Private Banks (23)**	**B. Local Private Banks (22)**	**B. Local Private Banks (22)**
Allied Bank Ltd.	*AlBaraka Bank (Pakistan) Ltd..**	AlBaraka Bank (Pakistan) Ltd..*	AlBaraka Bank (Pakistan) Ltd..*
Askari Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.
*Atlas 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.
Dawood Islamic Bank Ltd.	Dawood Islamic Bank Ltd.	*Burj Bank Ltd.* #	Burj Bank Ltd. #
*Emirates Global Islamic Bank Ltd.**	*Faysal Bank Ltd.***	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.
Faysal Bank Ltd.	Habib Bank Ltd.	Faysal Bank Ltd.**	Faysal Bank Ltd.**
Habib Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.
Habib Metropolitan Bank Ltd.	JS Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.
JS Bank Ltd.	KASB Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.
KASB Bank Ltd.	MCB Bank Ltd.	KASB Bank Ltd.	KASB Bank Ltd.
MCB Bank Ltd.	Meezan Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.
Meezan Bank Ltd.	*Mybank Ltd.^*	Meezan Bank Ltd.	Meezan Bank Ltd.
Mybank 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.	United Bank Ltd.	Summit Bank Ltd (formerly Arif Habib Bank)***	Summit Bank Ltd (formerly Arif Habib Bank)***
The Royal Bank of Scotland Ltd.	Dubai Islamic Bank Pakistan Ltd.	United Bank Ltd.	United Bank Ltd.
United Bank Ltd.	Summit Bank Ltd (formerly Arif Habib Bank)***		
Dubai Islamic Bank Pakistan Ltd.			
Arif Habib Bank Ltd.			
C. Foreign Banks (7)	**C. Foreign Banks (6)**	**C. Foreign Banks (7)**	**C. Foreign Banks (7)**
Albaraka Islamic Bank B.S.C.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.
Bank of Tokyo - Mitsubishi UFJ, Ltd.	Deutsche Bank AG	Barclays Bank PLC	Barclays Bank PLC
Deutsche Bank AG	Citibank N.A.	Citibank N.A.	Citibank N.A.
Citibank N.A.	Oman International Bank S.A.O.G.	Deutsche Bank AG	Deutsche Bank AG
Oman International Bank S.A.O.G.	Barclays Bank PLC	HSBC Bank Milldle East Ltd.	HSBC Bank Milldle East Ltd.
Barclays Bank PLC	HSBC Bank Milldle East Ltd.	Industrial and Commercial Bank of China Ltd.	Industrial and Commercial Bank of China Ltd.
HSBC Bank Milldle East Ltd.		Oman International Bank S.A.O.G.	Oman International Bank S.A.O.G.
D. Specialized Banks (4)	**D. Specialized Banks (4)**	**D. Specialized Banks (4)**	**D. Specialized Banks (4)**
Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan
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 (36)	**All Commercial Banks (34)**	**All Commercial Banks (34)**	**All Commercial Banks (34)**
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
All Banks (40)	**All Banks (38)**	**All Banks (38)**	**All Banks (38)**
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

** Descheduling of Albaraka Islamic Bank Pakistan Operations and merger into Emirates Global Islamic Bank Ltd. with effect from October 29, 2010.*

*** Royal Bank of Scotland Ltd. (RBS Pakistan) Amalgamated with and into Faysal Bank Ltd. on December 29, 2010.*
****De-scheduling of Atlas Bank Ltd. with effect from the close of business on December 31, 2010, on account of its merger with and into Summit Bank Ltd..*

Name was changed to "Burj Bank Ltd.." vide BPRD notification dated July 09, 2011.
The name of "Oman International Bank S.A.O.G." was changed to "HSBC Bank Oman S.A.O.G." with effect from June 03, 2012.

^ Descheduling and amalgamation of Mybank Ltd. (MBL) with and into Summit Bank Ltd. with effect from Jun 29, 2011.

Scheduling of Industrial and Commercial Bank of China Ltd. took place vide No. BPRD (LD-06)/602- ICBC/2011/10416 dated August 16, 2011.
SBP declared "Sindh Bank Ltd." as a scheduled bank with effect from December 24, 2010.

2. Islamic Banking

Table 2.1: Group-wise Balance Sheets and Income Statements of Islamic Banks/Branches
(June 30, 2012)

million Rupees

Financial Position	Islamic Banks	Islamic Banking Branches	Islamic Banking	Absolute change	
ASSETS				QoQ	YoY
Cash & Balances With Treasury Banks	31,382	14,749	46,131	8,939	6,727
Balances With Other Banks	9,888	10,570	20,458	(156)	1,087
Due from Financial Institutions	16,968	2,200	19,168	(1,363)	12
Investments - Net	218,788	126,891	345,679	52,780	114,401
Financing - Net	121,411	75,424	196,834	2,288	8,223
Operating Fixed Assets	11,166	4,789	15,956	998	2,241
Deferred Tax Assets	2,778	44	2,822	(366)	441
Other Assets	44,960	19,156	64,116	4,226	17,555
TOTAL ASSETS	**457,342**	**253,823**	**711,165**	**67,345**	**150,688**
LIABILITIES	-	-	-	-	-
Bills Payable	6,159	1,704	7,863	710	2,152
Due to Financial Institution	9,893	8,158	18,051	(6,857)	(5,911)
Deposits And Other Accounts	390,082	212,438	602,521	72,279	150,393
Sub-ordinated Loans	-	-	-	-	-
Liabilities Against Assets Subject To Finance Lease	1	-	1	(2)	(10)
Deferred Tax Liabilities	-	1	1	-	(3)
Other Liabilities	12,067	11,693	23,760	(238)	(3,418)
TOTAL LIABILITIES	**418,203**	**233,995**	**652,197**	**65,893**	**143,202**
NET ASSETS	**39,139**	**19,828**	**58,968**	**1,452**	**7,486**
NET ASSETS REPRESENTED BY: -	-	-	-	-	-
Share Capital	37,435	8,923	46,358	50	1,194
Reserves	1,251	11	1,262	191	839
Unappropriated Profit	383	10,288	10,671	1,551	5,898
Share Holders' Equity	39,069	19,223	58,292	1,792	7,930
Surplus/Deficit On Revaluation Of Assets	70	606	676	(339)	(444)
TOTAL	**39,139**	**19,828**	**58,968**	**1,452**	**7,486**

PROFIT AND LOSS STATEMENT	Islamic Banks	Islamic Banking Branches	Islamic Banking	Absolute change
				YoY
Mark-Up Income	20,901	12,076	32,977	4,901
Mark-Up Expenses	**11,981**	**7,061**	**19,042**	**3,113**
Net Mark-Up	8,920	5,015	13,935	1,789
Provisions & Bad Debts Written Off Directly/(Reversals)	**589**	**(372)**	**217**	**(503)**
Net Mark-Up After Provision	8,331	5,387	13,718	2,292
Fees, Commission & Brokerage Income	804	590	1,394	356
Dividend Income	393	92	485	60
Income From Dealing In Foreign Currencies	395	69	465	(168)
Other Income	**772**	**334**	**1,106**	**646**
Total Non - Markup	2,365	1,085	3,450	893
	10,696	6,472	17,168	3,185
Administrative Expenses	7,511	3,574	11,085	2,165
Other Expenses	**33**	**126**	**159**	**119**
Total Non-Markup	7,544	3,700	11,244	2,284
Profit before Tax and Extra ordinary Items	**3,152**	**2,772**	**5,923**	**901**
Extra ordinary/unusual Items -- Gain/(Loss)	-	-	-	-
PROFIT/ (LOSS) BEFORE TAXATION	3,152	2,772	5,923	901
Less: Taxation	1,097	42	1,139	123
PROFIT/ (LOSS) AFTER TAX	**2,054**	**2,730**	**4,784**	**777**

Table 2.2: Financial Soundness Indicators of Islamic Banking

Percent

	Dec-09	Dec-10	Jun-11	Dec-11	Jun-12
Capital					
Total Capital to Total RWA	18.5	16.8	18.7	18.0	18.1
Tier 1 Capital to Total RWA	18.4	16.3	18.2	17.2	17.4
Capital to Total Assets	11.4	9.7	9.2	8.7	8.3
Asset Quality					
NPLs to Total Loans	6.3	7.3	7.5	7.6	8.8
Net NPLs to Net Loans	3.1	3.2	3.2	2.9	3.8
Provision to NPLs	51.7	58.6	60.0	63.0	59.5
Earnings					
ROA before Tax	0.7	0.6	2.0	1.9	1.8
ROA after Tax	0.6	0.6	1.6	1.6	1.4
ROE before Tax	5.9	5.9	20.7	20.8	20.6
ROE after Tax	4.6	5.2	16.5	17.3	16.6
Net Interest Income to Gross Income	79.4	78.5	82.6	82.4	80.2
Non Interest Income to Gross Income	20.6	21.5	17.4	17.6	19.8
Operating Expense to Gross Income	70.3	72.6	60.9	60.4	64.7
Liquidity					
Loans to Deposits	54.3	46.2	41.7	38.4	32.7

Table 2.3: List of Islamic Banks

As of December 31, 2011		As of June 30, 2012	
	Islamic Banks		**Islamic Banks**
1	AlBaraka Bank (Pakistan) Limited	1	AlBaraka Bank (Pakistan) Limited
2	BankIslami Pakistan Limited	2	BankIslami Pakistan Limited
3	Dawood Islamic Bank Limited	3	Burj Bank Limited
4	Dubai Islamic Bank Pakistan Ltd	4	Dubai Islamic Bank Pakistan Ltd
5	Meezan Bank Ltd	5	Meezan Bank Ltd
	Conventional Banks having Islamic Banking Branches		**Conventional Banks having Islamic Banking Branches**
1	Askari Bank Limited	1	Askari Bank Limited
2	Bank Al Habib Ltd	2	Bank Al Habib Ltd
3	Bank Alfalah Ltd	3	Bank Alfalah Ltd
4	Faysal Bank Limited	4	Faysal Bank Limited
5	Habib Bank Ltd	5	Habib Bank Ltd
6	Habib Metropolitan Bank	6	Habib Metropolitan Bank
7	MCB Bank Ltd	7	MCB Bank Ltd
8	National Bank of Pakistan	8	National Bank of Pakistan
9	Soneri Bank Ltd	9	Soneri Bank Ltd
10	Standard Chartered Bank	10	Standard Chartered Bank
11	The Bank of Khyber	11	The Bank of Khyber
12	United Bank Limited	12	United Bank Limited
	Grand Total 17 (5+12)		**Grand Total 17 (5+12)**

3. Non-Banking Financial Institutions

Table 3.1: Balance Sheets and Income Statements of DFIs

million Rupees

Financial Position	CY08	CY09	CY10	Jun-11	CY11	Jun-12	Absolute change QoQ	Absolute change YoY
ASSETS								
Cash & Balances With Treasury Banks	701	1,716	1,740	1,766	2,341	481	81	(1,839)
Balances With Other Banks	10,905	6,713	2,866	758	1,423	2,522	881	2,152
Lending To Financial Institutions	8,245	12,085	8,720	2,253	2,909	3,172	489	(710)
Investments - Net	38,536	62,102	64,115	72,055	81,379	88,005	(12,286)	(1,270)
Advances - Net	36,673	41,416	45,234	47,394	46,547	46,737	80	1,170
Operating Fixed Assets	2,918	3,098	2,974	2,944	2,930	2,960	36	58
Deferred Tax Assets	790	1,277	1,098	1,193	1,193	1,219	25	(19)
Other Assets	4,522	3,786	5,500	5,951	5,103	5,572	(444)	(934)
TOTAL ASSETS	**103,290**	**132,193**	**132,248**	**134,312**	**143,825**	**150,669**	**(11,140)**	**(1,391)**
LIABILITIES			-		-	-	-	-
Bills Payable	-	-	-	-	-	-	-	-
Borrowings From Financial Institution	43,838	51,522	50,306	51,789	64,885	67,693	(10,710)	(6,719)
Deposits And Other Accounts	5,881	18,074	15,856	15,841	12,074	14,081	(1,056)	1,441
Sub-ordinated Loans	-	-	-	-	-	-	-	-
Liabilities Against Assets Subject To Finance Lease	36	30	15	12	19	14	(2)	(9)
Deferred Tax Liabilities	-	2	637	76	669	719	(142)	768
Other Liabilities	4,841	5,814	6,757	7,167	6,899	7,537	164	936
TOTAL LIABILITIES	**54,595**	**75,442**	**73,571**	**74,884**	**84,546**	**90,045**	**(11,746)**	**(3,582)**
NET ASSETS	**48,695**	**56,751**	**58,677**	**59,428**	**59,279**	**60,624**	**607**	**2,191**
NET ASSETS REPRESENTED BY: -			-		-	-	-	-
Share Capital	42,750	47,269	48,343	48,409	48,409	48,627	-	-
Reserves	11,610	7,250	7,272	6,930	7,454	6,018	(101)	(1,201)
Unappropriated Profit	(5,008)	342	2,116	3,064	2,513	4,776	711	3,014
Share Holders' Equity	**49,352**	**54,860**	**57,732**	**58,403**	**58,375**	**59,421**	**610**	**1,813**
Surplus/Deficit On Revaluation Of Assets	(657)	1,891	945	1,025	904	1,203	(3)	378
TOTAL	**48,695**	**56,751**	**58,677**	**59,428**	**59,279**	**60,624**	**607**	**2,191**

OPERATING POSITION	CY08	CY09	CY10	Jun-11*	CY11	Jun-12	Change YoY
Mark-Up/ Return/Interest Earned	10,350	12,592	13,942	7,190	15,202	7,501	(167)
Mark-Up/ Return/Interest Expenses	5,873	6,720	7,318	3,814	8,030	4,463	496
Net Mark-Up / Interest Income	**4,478**	**5,872**	**6,625**	**3,376**	**7,172**	**3,038**	**(662)**
Provisions & Bad Debts Written Off Directly/(Reversals)	6,159	3,133	1,238	342	941	(129)	(221)
Net Mark-Up / Interest Income After Provision	**(1,681)**	**2,739**	**5,386**	**3,035**	**6,231**	**3,167**	**(441)**
Fees, Commission & Brokerage Income	123	191	148	42	124	56	(15)
Dividend Income	669	423	484	228	854	223	180
Income From Dealing In Foreign Currencies	560	20	(483)	2	(160)	73	58
Other Income	6,412	844	1,194	235	534	593	1,147
Total Non - Markup / Interest Income	**7,763**	**1,479**	**1,343**	**507**	**1,352**	**945**	**1,370**
Total Income	**6,082**	**4,217**	**6,729**	**3,542**	**7,583**	**4,112**	**929**
Administrative Expenses	2,413	2,647	2,977	1,425	3,102	1,547	(25)
Other Expenses	2,022	62	166	76	1,905	18	(563)
Total Non-Markup/Interest Expenses	4,435	2,709	3,144	1,501	5,007	1,565	(588)
Profit before Tax and Extra ordinary Items	1,647	1,508	3,586	2,041	2,576	2,547	1,516
Extra ordinary/unusual Items -- Gain/(Loss)	(48)	(25)	-	-	-	-	-
Profit/ (Loss) Before Taxation	**1,696**	**1,533**	**3,586**	**2,041**	**2,576**	**2,547**	**1,516**
Less: Taxation	886	630	1,690	883	1,690	754	(182)
Profit/ (Loss) after Taxation	**810**	**904**	**1,896**	**1,158**	**886**	**1,793**	**1,698**

Table 3.2: Financial Soundness Indicators of DFIs

Percent

	CY08	CY09	CY10	Jun-11	CY11	Jun-12
Capital						
Total Capital to Total RWA	53.4	52.5	56.1	56.7	56.9	57.1
Tier 1 Capital to Total RWA	53.3	52.4	56.5	57.2	57.4	57.5
Capital to Total Assets	47.1	42.9	44.4	44.2	41.2	40.2
Asset Quality						
NPLs to Total Loans	27.0	27.1	29.9	26.7	29.3	32.3
Net NPLs to Net Loans	11.2	10.1	59.4	11.4	59.4	52.9
Provision to NPLs	65.9	69.8	14.8	64.7	14.4	18.3
Net NPLs to Capital	8.4	7.4	11.4	9.1	11.3	14.1
Earnings						
ROA before Tax	1.5	1.3	2.7	3.1	1.9	3.4
ROA after Tax	0.7	0.8	1.4	1.7	0.6	2.4
ROE before Tax	3.4	2.9	6.2	6.9	4.4	8.4
ROE after Tax	1.6	1.7	3.3	3.9	1.5	5.9
Net Interest Income to Gross Income	34.8	79.9	83.1	86.9	84.1	76.3
Operating Expense to Gross Income	22.7	36.9	39.5	38.7	58.7	39.3
Liquidity						
Loans to Deposits	622.9	229.2	285.3	299.2	385.5	331.9
Liquid Assets/Total Assets	31.2	35.9	32.6	33.5	40.3	42.3
Liquid Assets/Total Deposits	547.3	262.4	271.6	284.3	480.6	453.0

Table 3.3: List of Development Finance Institutions

As of December 31, 2011	As of June 30, 2012
1. House Building Finance Company Limited	1. House Building Finance Company Limited
2. PAIR Investment Company Limited	2. PAIR Investment Company Limited
3. Pak Brunei investment Company Limited	3. Pak Brunei investment Company Limited
4. Pak Libya Holding Company Limited	4. Pak Libya Holding Company Limited
5. Pak Oman Investment Company Limited	5. Pak Oman Investment Company Limited
6. Pak-China Investment Company Limited	6. Pak-China Investment Company Limited
7. Pakistan Kuwait Investment Company Limited	7. Pakistan Kuwait Investment Company Limited
8. Saudi Pak Industrial & Agricultural Investment Company Limited	8. Saudi Pak Industrial & Agricultural Investment Company Limited

Table 3.4: NBFC's category-wise key variables

Investment Banks

million Rupees

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Equity	2,796	4,112	4,811	6,236	6,659	5,921	9,038	7,482	4,349	4,286	3,503	1,707
Deposits	11,208	11,062	12,810	12,263	19,907	25,024	15,204	12,593	8,869	6,472	7,176	6,071
Liabilities	25,211	22,916	31,258	29,338	44,382	48,606	35,550	35,896	26,526	22,007	20,648	17,493
Advances	12,513	10,058	10,715	13,535	21,274	22,502	18,537	18,721	14,181	7,852	4,774	3,913
Investments	11,557	11,333	19,888	17,386	20,931	24,088	20,854	17,070	11,196	9,270	11,167	5,696
Assets	28,007	27,028	36,069	35,568	51,041	54,527	44,588	43,378	30,875	26,294	24,140	16,644
Income	2,808	4,770	4,699	3,690	4,598	6,441	4,662	5,201	2,835	2,767	2,462	1,602
Expense	3,641	4,403	3,959	2,051	4,302	5,058	4,278	4,695	4,953	4,563	2,961	3,291

* Un-audited results.

Leasing Companies

million Rupees

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Paid up Capital	3,173	3,879	3,713	3,554	4,683	5,104	5,259	6,467	7,666	4,277	4,277	3,977
Equity	2,796	4,112	4,811	6,236	6,659	5,921	9,038	7,482	4,349	4,582	4,950	4,223
Deposits	11,208	11,062	12,810	12,263	19,907	25,024	15,204	12,593	8,869	13,290	5,295	6,358
Liabilities	25,211	22,916	31,258	29,338	44,382	48,606	35,550	35,896	26,526	32,406	28,568	28,692
Advances	12,513	10,058	10,715	13,535	21,274	22,502	18,537	18,721	14,181	29,285	26,934	26,551
Investments	11,557	11,333	19,888	17,386	20,931	24,088	20,854	17,070	11,196	3,635	2,799	2,993
Assets	28,007	27,028	36,069	35,568	51,041	54,527	44,588	43,378	30,875	36,989	33,473	32,874
Income	2,808	4,770	4,699	3,690	4,598	6,441	4,662	5,201	2,835	4,686	4,078	4,411
Expense	3,641	4,403	3,959	2,051	4,302	5,058	4,278	4,695	4,953	5,053	3,900	4,379

* Un-audited results.

Modarabas

million Rupees

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Paid up Capital	7,467	8,616	8,187	8,081	7,912	7,547	7,193	7,828	8,529	8,439	8,746	12,103
Equity	6,671	7,727	7,983	8,652	9,965	10,326	11,148	11,845	10,839	11,489	12,455	13,013
Liabilities	8,833	9,785	7,990	9,471	11,607	13,602	15,191	17,805	12,248	13,000	13,921	16,512
Assets	15,504	17,512	15,973	18,026	21,572	23,927	26,339	29,643	23,087	24,489	26,343	29,522

* Un-audited results.

Table 3.5: List of Non-Banking Finance Companies

Investment Banks

	As of June 30, 2011		As of June 30, 2012
1	Escort Investment Bank Limited	1	Escort Investment Bank Limited
2	First Credit and Investment Bank	2	First Credit and Investment Bank
3	First Dawood Inevstment Bank Limited	3	First Dawood Inevstment Bank Limited
4	IGI Investment Bank Limited	4	IGI Investment Bank Limited
5	Invest Capital Investment Bank Limited	5	Invest Capital Investment Bank Limited
6	Security Investment Bank Limited	6	Security Investment Bank Limited
7	Trust Investment Bank Limited	7	Trust Investment Bank Limited

Leasing Companies

	As of June 30, 2011		As of June 30, 2012
1	Grays Leasing Limited	1	Grays Leasing Limited
2	NBP Leasing Limited	2	NBP Leasing Limited
3	Orix Leasing Pakistan Limited	3	Orix Leasing Pakistan Limited
4	Pak Gulf Leasing Limited	4	Pak Gulf Leasing Limited
5	Saudi Pak Leasing Limited	5	Saudi Pak Leasing Limited
6	Security Leasing Corporation Limited	6	Security Leasing Corporation Limited
7	Sigma Leasing Corporation Limited	7	Sigma Leasing Corporation Limited
8	SME Leasing Limited	8	SME Leasing Limited
9	Standard Chartered Leasing Limited	9	Standard Chartered Leasing Limited

Modarabas

As of June 30, 2011		As of June 30, 2012	
1	Al -Noor Modaraba	1	Al -Noor Modaraba
2	Allied Rental Modaraba	2	Allied Rental Modaraba
3	B.F. Modaraba	3	B.F. Modaraba
4	BRR Guardian Modaraba	4	BRR Guardian Modaraba
5	Crescent Standard Modaraba	5	Crescent Standard Modaraba
6	Elite Capital Modaraba	6	Elite Capital Modaraba
7	Equity Modaraba	7	Equity Modaraba
8	Fidelity Leasing Modaraba	8	Fidelity Leasing Modaraba
9	First Constellation Modaraba	9	First Pak Modaraba
10	First Pak Modaraba	10	First Treet Manufacturing Modaraba
11	First Treet Manufacturing Modaraba	11	Habib Bank Modaraba
12	Habib Bank Modaraba	12	Habib Modaraba
13	Habib Modaraba	13	IBL Modaraba
14	IBL Modaraba	14	Imrooz Modaraba
15	Imrooz Modaraba	15	KASB Modaraba
16	KASB Modaraba	16	Modaraba Al-Mali
17	Modaraba Al-Mali	17	National Bank Modaraba
18	National Bank Modaraba	18	Paramount Modaraba
19	Paramount Modaraba	19	Prudential Modaraba
20	Prudential Modaraba	20	Punjab Modaraba
21	Punjab Modaraba	21	Standard Chartered Modaraba
22	Standard Chartered Modaraba	22	Tri-Star Modaraba 1st
23	Tri-Star Modaraba 1st	23	Trust Modaraba
24	Trust Modaraba	24	UDL Modaraba
25	UDL Modaraba		
26	Unicap Modaraba		

4. Insurance Sector

Table 4.1: Insurance Sector: Category-wise key variables

Non-Life Insurance Business

million Rupees

	CY03	CY04	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12
Paid-up capital	5,965	7,101	7,734	8,807	10,245	11,827	13,909	13,347	14,601	16,205
Investments	14,605	16,402	22,528	34,419	69,677	60,195	63,122	59,268	56,821	55,018
Gross Premium	19,571	22,052	27,712	33,250	38,196	41,707	43,441	45,813	45,717	23,289
Net Premium	9,740	11,749	15,931	20,403	23,076	26,293	25,298	25,491	24,743	11,919
Net Claims Incurred	5,266	6,565	9,017	11,807	17,378	26,297	21,283	17,162	14,640	7,406
Net Profit after tax	2,642	3,358	5,863	16,819	56,153	(4,089)	5,995	3,605	3,066	3,473
Total Assets	37,013	44,041	53,753	74,334	121,771	114,497	123,654	121,856	112,883	117,694

Life Insurance Business

million Rupees

	CY03	CY04	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12
Paid-up capital	2,202	2,317	2,362	2,748	2,847	3,391	4,467	5,895	5,895	6,273
Investments	87,125	99,026	109,581	129,084	154,675	165,319	199,364	227,547	269,330	307,356
Gross premium	13,029	14,682	18,552	22,571	27,692	34,861	41,943	53,831	69,936	38,909
Net premium	12,662	14,236	17,964	21,848	26,818	33,786	40,771	52,531	66,274	37,770
Gross claims incurred	6,687	7,887	8,818	10,994	13,353	16,737	19,774	21,214	20,469	14,045
Net profit (after tax)	395	320	393	657	1,679	(137)	1,068	940	1,519	834
Total assets	108,036	123,899	142,329	164,605	191,746	213,959	228,581	292,810	348,993	380,271

Reinsurance Business

million Rupees

	CY03	CY04	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12
Paid up Capital	450	450	450	450	540	3,000	3,000	3,000	3,000	3,000
Investments	1,886	2,719	2,873	3,588	6,412	5,459	5,481	4,674	5,793	5,226
Gross Premium	4,697	5,241	4,160	4,499	4,731	4,555	5,839	6,552	6,893	3,081
Net Premium	1,447	2,289	2,005	1,415	1,695	1,896	2,170	2,940	3,535	2,069
Net Claims incurred	1,011	1,329	823	777	931	962	904	1,688	2,018	1,009
Net Profit after tax	333	325	594	672	3,727	886	269	526	844	446
Total Assets	6,232	6,613	5,634	6,464	10,447	12,528	12,372	12,535	12,878	12,523

Table 4.2: List of Insurance Companies

Non-Life Insurance

	As on 2011		As on June 2012
1	ACE Insurance Limted	1	ACE Insurance Limted
2	Adamjee Insurance Company Limited	2	Adamjee Insurance Company Limited
3	Allianz EFU Health Insurance Limited	3	Allianz EFU Health Insurance Limited
4	Alfalah Insurance	4	Alfalah Insurance
5	Alpha Insurance Company Limited	5	Alpha Insurance Company Limited
6	Asia Insurance Company Limited	6	Asia Insurance Company Limited
7	Askari General Insurance	7	Askari General Insurance
8	Atlas Insurance Limited	8	Atlas Insurance Limited
9	Capital Insurance Company Limited	9	Capital Insurance Company Limited
10	Central Insurance Company Limited	10	Central Insurance Company Limited
11	Century Insurance Company Limited	11	Century Insurance Company Limited
12	Continental Insurance Company Limited	12	Continental Insurance Company Limited
13	East West Insurance Company Limited	13	East West Insurance Company Limited
14	EFU General Insurance Limited	14	EFU General Insurance Limited
15	Habib Insurance Company limited	15	Habib Insurance Company limited
16	IGI Insurance Limited	16	IGI Insurance Limited
17	National Insurance Company Limited	17	National Insurance Company Limited
18	New Hampshire Insurance Company	18	New Hampshire Insurance Company
19	New Jubilee Insurance Company Limited	19	New Jubilee Insurance Company Limited
20	PICIC Insurance Limited	20	PICIC Insurance Limited
21	Premier Insurance Limited	21	Premier Insurance Limited
22	Reliance Insurance Company Limited	22	Reliance Insurance Company Limited
23	Saudi Pak Insurance Company Limited	23	Saudi Pak Insurance Company Limited
24	Security General Insurance Company Limited	24	Security General Insurance Company Limited
25	Shaheen Insurance Company Limited	25	Shaheen Insurance Company Limited
26	Silver Star Insurance Company Limited	26	Silver Star Insurance Company Limited
27	The Asian Mutual Insurance Company (Guarantee) Limited	27	The Asian Mutual Insurance Company (Guarantee) Limited
28	The Cooperative Insurance Society of Pakistan	28	The Cooperative Insurance Society of Pakistan
29	The Crescent Star Insurance Company Limited	29	The Crescent Star Insurance Company Limited
30	The Pakistan General Insurance Company Limited	30	The Pakistan General Insurance Company Limited
31	The United Insurance Company of Pakistan Limited	31	The United Insurance Company of Pakistan Limited
32	The Universal Insurance Company Limited	32	The Universal Insurance Company Limited
33	TPL Direct Insurance Limited	33	TPL Direct Insurance Limited
34	UBL Insurers Limited	34	UBL Insurers Limited

Non-Life Takaful Companies

	As on 2011		As on June 2012
1	Pak Kuwait Takaful Company Limited	1	Pak Kuwait Takaful Company Limited
2	Pak Qatar General Takaful Limited	2	Pak Qatar General Takaful Limited
3	Takaful Pakistan Limited	3	Takaful Pakistan Limited

Life Insurance

As on 2011		As on June 2012	
1	Adamjee Life Assurance Company Limited	1	Adamjee Life Assurance Company Limited
2	American Life insurance Company (Pakistan) Limited	2	American Life insurance Company (Pakistan) Limited
3	Asia Care Health & Life Insurance Company Limited	3	Asia Care Health & Life Insurance Company Limited
4	East West Life Assurance Company Limited	4	East West Life Assurance Company Limited
5	EFU Life Assurance Limited	5	EFU Life Assurance Limited
6	New Jublee Life Insurance Company limited	6	New Jublee Life Insurance Company limited
7	State Life Insurance Corporation of Pakistan	7	State Life Insurance Corporation of Pakistan

Life Takaful Companies

As on 2011		As on June 2012	
1	Dawood Family Takaful Limited	1	Dawood Family Takaful Limited
2	Pak Qatar Family Takaful Limited	2	Pak Qatar Family Takaful Limited

Reinsurance

As on 2011		As on June 2012	
1	Pakistan Reinsurance Company Limited	1	Pakistan Reinsurance Company Limited

Acronyms

ADB	Asian Development Bank
ADR	Advances to Deposit Ratio
Ads	Authorized Dealers
AFS	Available-For-Sale
AGD	Accumulated Gross Disbursements
AHFL	Asian Housing Finance Limited
AIG	American International Group, Inc
ALM	Asset Liability Management
AMC	Asset Management Companies
AML	Anti Money Laundering
AMZVL	AMZ Ventures
ASEAN	Southeast Asian Nations
ATM	Automated-Teller Machines
BCBS	Basel Committee Of Banking Supervision
BIS	Bank Of International Settlement
BOP	Balance of Payment
BPRD	Banking Policy and Regulation Department
bps	Basis Points
BRRGM	B.R.R. Guardian Modaraba
BSC	Banking Services Corporation
BSCs	Behbood Savings Certificates
BSD	Banking Surveillance Department
CAD	Current Account Deficit
CAELS	Capital Adequacy Asset Quality Earnings
CAMELS	Capital, Assets, Management, Earnings, Liquidity and Sensitivity
CAR	Capital Adequacy Ratio
CASA	Current Account Saving Account
CBs	Commercial Banks
CDC	Central Depository Company
CDD	Customer Due Diligence
CDNS	Central Directorate of National Savings
CDR	Currency to Deposits Ratio
CDS	Credit Default Swaps
CDS	Central Depository System
CFS	Continuous Funding System
CIB	Credit Information Bureau
CIC	Currency in circulation
CoDs	Certificate of Deposits
COFI	Cost of Financial Intermediation
CoIs	Certificate of Investments
CPI	Consumer Price Index
CPI	Consumer Price Index
CPSS	Committee Of Payment And Settlement
CRR	Cash Reserve Requirement
CRWA	Credit Risk Weighted Assets
CSF	Coalition Support Fund
CSF	Competitiveness Support Fund
CY	Calendar Year
DCMC	Debt Capital Market Committee
DFIs	Development Finance Institutions
DNS	Deferred Net Settlement Systems
DPCO	Debt Policy Co-ordination Office
DSC	Defense Saving Certificates
DVF	Delivery Vs. Free
DVP	Delivery Vs. Payment
DW	Discount Window
EA	Emerging Asia
e-banking	Electronic Banking
E-bond	Electronic Bond
ECB	European Commercial Bank
EFS	Export Finance Schemes
EPS	Earnings per Share
EWS	Early Warning System
FCA	Foreign Currency Account
FDI	Foreign Direct Investments
FIFO	First In First Out
FMAP	Financial Market Association Of Pakistan
FPI	Foreign Portfolio Investments
FRA	Forward Rate Agreement
FRDL	Fiscal Responsibility and Debt Limitation Act
FSB	Financial Stability Board
FSR	Financial Stability Report
FSV	Forced Sale Value
FY	Fiscal Year
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GoP	Government Of Pakistan
GPF	General Provident Fund
HBFCL	House Building Finance Corporation Limited
HFT	Held-For-Trading
HHI	Herfindahl Index
IBD	Islamic Banking Department
IBIs	Islamic Banking Institutions
IDB	Industrial Development Bank
IDR	Investments to Deposit Ratio
IFCs	Investment Finance Companies
IFIs	International Financial Institutions
IFT	Interbank Fund Transfers
ILF	Intra-Day Liquidity Facility
IMF	International Monetary Fund
IPO	Initial Public Offering
IPS	Investment Portfolio Securities
IRS	Interest Rate Swap
IT	Information Technology
KDA	Khass Deposit Accounts
KDS	Khass Deposit Certificates
KIBOR	Karachi Inter-Bank Offer Rate
KONIA	Karachi Overnight Index Average
KSE	Karachi Stock Exchange
KYC	Know Your Customer
LHS	Left Hand Side

DMMD Domestic Markets & Monetary Management
LIBOR London Inter-Bank Rate
LICs Life Insurance Companies
LMM Locally Manufactured Machinery
LoLR Lender of Last Resort
LPBs Local Private Banks
LSM Large Scale Manufacturing
M&As Mergers and Acquisitions
MCR Minimum Paid-Up Capital Requirement
MER Minimum Equity Requirements
MICR Magnetic Ink Character Recognition
MMA Mahana Amdani Accounts
MNSB Multilateral Net Settlement Batches
MoF Ministry Of Finance
MPS Monetary Policy Statement
MRTBs Market Related Treasury Bills
MRWA Market Risk Weighted Assets
MTBs Market Treasury Bills
MUFAP Mutual Funds Association of Pakistan
NAV Net Asset Value
NBFC Non-banking Finance Companies
NBFIs Non-Bank Financial Institutions
NBP National Bank of Pakistan
NCB Non-Competitive Bids
NCCPL National Clearing Company of Pakistan Ltd.
NCS National Coinsurance Scheme
NCSS National Clearing And Settlement System
NDA Net Domestic Assets
NDLC National Developing Leasing Corporation
NEER Nominal Effective Exchange Rate
NFA Net Foreign Assets
NGOs Non-Governmental Organization
NICL National Insurance Company Limited
NIFT National Institutional Facilitation Technologies (Pvt.) Limited
NII Net Interest Income
NIM Net Interest Margin
NIT National Investment Trust Ltd
NOP Net Open Position
NR Non-Remunerative
NPLs Non-Performing Loans
NPLR Non-Performing Loan Ratio
NSB National Savings Bond
NSS National Savings Schemes
NTN National Tax Number
O/N Overnight
OAEM Other Assets Especially Mentioned
OMOs Open Market Operations
OSED Off-Site Supervision and Support Department
OTC Over the Counter
PBA Pensioners' Benefit Account
PBIC Pak Brunei Investment company Ltd
PCIC Pak China Investment Company Ltd.
PE&VCF Private Equity and Venture Capital Fund
PEPCO Pakistan Electric Power Company
PIB Pakistan Investment Bond
PIIC Pak-Iran Investment Company Ltd.
PKIC Pakistan Kuwait Investment Company (Pvt)
PKR Pakistani Rupee
PKRV Pakistan Revaluation Rate
PLA Personal ledger Accounts
PLHC Pak-Libya Holding Company (Pvt) Ltd.
PLS Profit-Loss Sharing
POIC Pak Oman Investment Company
POL Pakistan Oilfields Limited
POS Point Of Sale
PPEML Pakistan Private Equity Management Ltd
PPTFC Privately Placed Term Finance Certificates
PRCL Pakistan Reinsurance Company Limited
PRISM Pakistan Real-Time Interbank Settlement
PSC Private Sector Credit
PSCBs Public Sector Commercial Banks
PSEFT Payment Systems And Electronic Fund
PSEs Public Sector Enterprises
RDNS Regional Directorate of National Savings
REER Real Effective Exchange Rate
REPO Repurchase Agreement
RHS Right Hand Side
RIC Regular Income Certificates
ROA Return on Assets
ROE Return on Equity
RSA Rate Sensitive Assets
RSL Rate Sensitive Liabilities
RTGS Real-Time Gross Settlement
RTOB Real Time Online Banking
RWA Risk Weighted Assets
S&DHW Statistics & Data Warehouse Department
SA Savings Accounts
SBs Specialized Banks
SBA Stand-by Arrangement
SBP State Bank of Pakistan
SCRA Special Convertible Rupee Account
SDA Special Drawing Accounts
SDRs Special Drawing Rights
SECP Securities Exchange Commission of Pakistan
SGS Singapore Government Securities
SLIC State Life Insurance Corporation
SLR Statutory Liquidity Requirement
SME Small And Medium Enterprises
SPIAIC Saudi Pak Industrial and Agricultural
SSAs Special Savings Accounts
SSC Special Savings Certificates
SSS Small Savings Schemes
STDL Short-Term Debt And Liabilities
SWIFT Society For Worldwide Interbank Financial

T-Bill	Treasury Bills
TDL	Time And Demand Liabilities
TFC	Term Finance Certificates
TMTV	TMT Ventures
TRGPL	TRG Pakistan Limited
TSA	Treasury Single Account
UAE	United Arab Emirates
USD	US Dollar
VC	Venture Capital
WADR	Weighted Average Deposits Rate
WALR	Weighted Average Lending Rate
WAPDA	Water and Power Development Authority
WEO	World Economic Outlook
YoY	Year on Year