

FIRST HALF  
2013

# FINANCIAL STABILITY REVIEW

**State Bank of Pakistan**



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

## Financial Stability and State Bank of Pakistan

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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 so well that the possibility of systemic crisis 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 another important SBP objective of securing monetary stability. It is hard to imagine monetary stability in 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.

## Data Conventions & Coverage

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*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, 2013.
- Data on NBFC's including Leasing, Investment Finance Companies and Modarabas is based on annual audited accounts for financial year ended June 2013.

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The domestic macroeconomic environment remained sluggish for yet another year as GDP grew by a modest 3.7 percent well below the target of 4.3 percent. Severe energy shortages, challenging economic environment, and law and order conditions hampered economic activities in the country. However, decrease in inflation to 7.4 percent during H2FY13<sup>1</sup> was an achievement thanks largely to stable international food and oil prices. Moreover, the twin deficits kept on posing challenges to relatively constrained market liquidity and depleting international reserves. Though, current account deficit was still manageable, the fiscal deficit worsened to 8 percent of GDP against the target of 4.7 percent leading to crowding-out of private sector lending and limiting economic recovery prospects.

In stark contrast, the financial sector of the country presented somewhat stable outlook, though its risk appetite remained largely averse and consequently stayed least affected from relatively restrained real sector. The asset base of the financial sector increased by 4.2 percent during H1-CY13, which also enhanced its share in GDP from 57.5 percent to 60 percent (**Table 1**). Improvements in the asset base were broad based as all segments of the financial sector increased in size. Assets of banks increased largely on account of healthy build up in deposits that translated into further accumulation of Government securities, with some increase coming from settlement of circular debt in June-July, 2013. Further, with high fiscal needs and drying external inflows such as loans and grants, the domestic debt in form of National Savings instruments issued by the CDNS posted major increase as banks provided households and businesses an alternate avenue for savings at reasonably higher returns. Similarly, the insurance sector thrived as its asset base augmented due to improved life insurance business during the period. The growth in assets of NBFIs came at the back of healthy increase in the NAV of the mutual funds.

**Table 1: Assets Composition of the Financial Sector**

	CY06	CY07	CY08	CY09	CY10	CY11	H1CY12	H2CY12	H1CY13
Assets (PKR Billion)	6,028	7,117	7,712	8,867	9,655	11,107	11,818	13,181	13,739
Growth rate (Percent)	14.5	19.4	8.4	15.0	8.9	15.0	6.5	11.5	4.2
<b>Percent of Total Assets</b>									
MFIs	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
NBFIs	7.8	8.0	7.6	5.3	4.4	4.7	5.2	4.2	4.2
Insurance	4.1	4.6	4.4	4.4	4.4	4.3	4.3	4.3	4.5
CDNS	16.1	14.6	14.8	16.6	17.3	17.2	17.0	17.2	17.4
Banks	71.9	72.7	73.0	73.5	73.8	73.6	73.2	74.0	73.4
<b>Assets as Percent of GDP</b>									
MFIs	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3
NBFIs	5.7	6.0	5.1	3.4	2.6	2.7	3.0	2.4	2.5
Insurance	3.0	3.4	3.0	2.8	2.6	2.5	2.5	2.5	2.7
CDNS	11.8	11.0	9.9	10.7	10.2	9.9	9.7	9.9	10.5
Banks	53.4	54.7	49.0	47.3	43.3	42.2	41.9	42.6	44.0
Overall assets	74.0	75.2	67.2	64.4	58.8	57.4	57.2	57.5	60.0

**Banking Sector**, which is the backbone of the financial sector due to its immense share and strong forward and backward linkages with the rest of the sector, witnessed a 3.9 percent increase in its asset base. The modest growth was contributed by an expansion in deposits by 6.2 percent which also helped banks to retire loans in the interbank

<sup>1</sup> Inflation stood at 9.7 percent as of December 31, 2012.



market and repo borrowings from the central bank. With an increase in financing to public sector enterprises (PSEs) and growing fiscal needs of the Government, the public sector exposure gained further weight on banks' balance sheet to reach 44.5 percent of the total credit extended. This, while limiting the availability of funds to private sector also compromised the financial intermediation function as reflected in further decline in Advances to Deposit Ratio (ADR) to 48.1 percent during H1-CY13.

The **advances** to private sector, which remained quite subdued during the last few years, further declined by 2.4 percent resulting in 0.5 percent dip in overall lending portfolio. A host of factors contributed to this decrease viz: deceleration of credit demand from sugar sector due to the Government purchases of sugar and exceptional growth in sugar export<sup>2</sup>, seasonal net-retirement by textile sector<sup>3</sup>, repayments by the energy sector subsequent to settlement of circular debt, and banks' cautious approach in extending fresh advances due to high credit risk, in addition to lower credit demand in the wake of challenging business conditions. Given the concentration of majority assets in top 5 banks, the bulk of retirements remained confined to these banks.

The seasonal credit for financing public sector commodity procurement operations was the only prominent flow during the year. The commodity finance, with an increase of 7.2 percent, saw a new peak in H1-CY13 as wheat financing increased by 26 percent due to increase in support price<sup>4</sup>. As highlighted in the earlier FSRs, this self-liquidating financing is on the rise and a key source of concentration in banks' balance sheet. Non-payment of the piling up subsidies is the major issue, which accounted for 37.6 percent of the total outstanding finance, in addition to stock losses due to multiple reasons<sup>5</sup> and increase in administrative prices of wheat. Given the importance of commodity procurement, it is imperative to address the above issues, particularly its liquidation mechanism needs reconsideration to mitigate risks arising from its continuous growth and concentration on banks' balance sheets.

Another area of concern has been the increasing concentration of loans in few economic sectors, particularly in "Production & Transmission of Energy Sector (PTES)". Historically, the textile sector is the key user of the advances; however, over the last few years and more specifically during CY12, banks' credit exposure in PTES increased significantly and touched 12.3 percent of the gross loan portfolio. However, government settled inter corporate circular debt in June-July, 2013, which led to net retirement of PKR 50 billion in PTES and decreased its share in advances to 10.6 percent during the period under review. Although settlement of circular debt is expected to improve energy supply in the short term, resolution of the structural issues is necessary from long term perspective that will create financing space for banks to enhance private sector credit.

The asset quality of banks' portfolio marginally deteriorated as NPL to loan ratio increased by 26 bps to 14.8 percent during the first half of CY13. With phasing out of Forced Sale Value (FSV) benefit and significant downgrades in infected portfolio, the provisioning requirements also increased. Nonetheless, banks maintained provisions of almost 104 percent of the required level largely due to general reserve created by banks for consumer finance portfolio<sup>6</sup>. Similarly, an increase in specific provisions improved provision coverage ratio to 73.2 percent in H1-CY13 compared to 71.5 percent in H2-CY12. Higher provisions also reduced the Net NPL to loan ratio to 4.4 percent and with an

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<sup>2</sup> SBP third Quarterly Report – CY13.

<sup>3</sup> The amount of retirements during H1-CY13 was lower than in H1-CY12.

<sup>4</sup> In Sep-12 support price for wheat was increased from PKR 1050/40kg to PKR 1200/40kg.

<sup>5</sup> Annual Report on State of Pakistan's Economy 2012-13.

<sup>6</sup> Total provision exceed the required provisions as bank create general provision under various Prudential Regulations, particularly for the Consumer Finance(CF) portfolio to protect banks from the risks associated with the economic cyclical nature of this business. In terms of regulation R-4 of the Prudential Regulation for CF, banks are required to maintain a general reserve at least equivalent to 1.5 percent of the consumer portfolio which is fully secured and 5 percent of the consumer portfolio which is unsecured.

increase in the equity base by 2.3 percent, the risk to capital decreased as capital impairment (Net NPL to Capital) ratio improved to 18.3 percent.

Importantly, the accumulation of infected portfolio decelerated in recent times. Among various reasons, banks restructured lending portfolio of promising borrowers affected by economic factors, which lowered the stock of infected portfolio. The slowdown positively impacted the overall infections ratios; the gross infections ratio saw a steady decline from a peak of 16.7 percent in Sep-11 to 14.8 percent in Jun-13. Provisions coverage ratio also improved as partially provided for the portfolio moved into fully provided for category. With dampening credit flows, incidence of NPLs lowered on bank gross income. The provisions charge came down to 7.8 percent of gross income in Jun-13, which consistently stayed above 10 percent for CY07-CY11 (**see Box 2.1**).

The overall liquidity profile of the banking sector remained steady during the first half of CY13 on account of healthy deposit inflows. Further, settlement of circular debt partially in cash and net retirement of private sector loans improved the funding liquidity of the banks. Consequently, the liquidity indicators continued to remain strong resulting in an overall stable liquidity position, though fiscal funding need and limited foreign financial flows kept the government borrowing needs high and market liquidity under stress. Meanwhile, the market risk increased marginally as a result of accumulation of longer term of PIBs, which increased the interest rate risk of banks. Further, as equity markets continued on bullish run thereby attracting institutional investors seeking higher returns, banks increased equity exposures by 14.5 percent. However, the regulatory limits placed by the State Bank on such exposures kept the equity exposures and related risk quite confined.

Banks had reasonable earning during H1-CY13 (pre-tax amount of PKR 82.1 billion) though 16.7 percent less compared to the corresponding half year of CY12. Still, the banking sector remained second highest in terms of profit accumulation among various sectors listed on the equity market. The drop in profits was largely on account of decline in net mark up income, higher provisioning charge and expensive repo borrowings. The declining interest rate environment on the one end decreased the returns on KIBOR linked financial products while on the other side reduced returns on the rising stock of short terms investment in T-Bills. Accordingly, Net Interest Margins (NIM) lowered by 90 bps to 3.9 percent and ROA dipped by 30 bps to 1.1 percent.

The solvency profile of the banks remained steady as CAR of the banking industry stood at 15.5 percent during the first half CY13, well above required minima of 10 percent. The buildup of profit and increase in Minimum Capital Requirements facilitated industry in maintaining such a high CAR. Further, the Leverage Ratio (Tier-1 Capital to total assets ratio) improved to 4.4 percent due to inhibited growth in the on-balance sheet exposures. The results of stress test exercise further substantiated resilience of the banking sector, though concentrated exposures to top corporate borrowers did pose significant risk, which require vigilant monitoring.

The Islamic banking exhibited a stronger growth of 7.9 percent in assets buildup during H1-CY13 outpacing 3.9 percent growth in conventional banking. The share of Islamic banking assets also inched up to 9.0 percent<sup>7</sup>, while that of deposits crossed 10 percent mark. Both investment and financing activities facilitated the surge in share of Islamic banking industry; financing activities increased by 11.2 percent due to doubling of Musharikhah financing (sharing based mode) and healthy growth in long term Ijarah and Diminishing Musharikhah (DM) along with Murabah financing for commodity procurement operations. Meanwhile, the investment grew by 11.2 percent largely confined to Ijara Sukuks. The asset quality indicators improved marginally on account of higher growth in financing. The liquidity

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<sup>7</sup> As of December 31, 2012, share of Islamic banking assets and deposits was 8.6 percent and 9.7 percent respectively.

management and higher operating and provisioning expenses remained major challenges for the Islamic banks which also declined the profitability of the Islamic banking by 27 percent over the review period.

The domestic financial markets presented a mixed picture during the period under review. The money market witnessed frequent episodes of strain on market liquidity due to unpredictable government borrowings. However, timely liquidity provision by the central and heavy discounting alleviated the market liquidity stress. Similarly, the foreign exchange market also observed volatility due to drying up of Foreign Exchange (FX) inflows amid unfavorable Balance of Payment (BOP) situation and declining FX reserves held with the SBP. As a result, the FX market witnessed increased volatility though prudent interventions by the SBP enabled the PKR/USD exchange rate to depreciate only modestly by 2.5 percent. Meanwhile, bullish run continued in the equity market as KSE-100 index surged by yet another 24.2 percent on strong corporate sector profitability, expectations of higher dividend payouts and smooth political transition after the general elections in May CY13.

The NBFIs also witnessed moderate growth in the asset base at the back of favorable developments in mutual funds industry. The asset base of NBFIs increased by 4.7 percent to PKR 577 billion of which the Net Asset Value (NAV) of the mutual funds shared 62.7 percent increase. In addition, the performance of leasing, DFIs and Modarabas also improved, while Investment Finance Companies (IFCs) continued to face the survival challenge. The mutual funds thrived at the back of booming equity market funds while NAV of money market funds decelerated. Similarly, the leasing companies witnessed a 4.1 percent growth in its business mainly in vehicle and machinery leasing activities. The operating performance of the NBFIs (excluding Mutual Funds) improved significantly during H1-CY13 owing to prudent expense management and increased profitability to PKR 3.8 billion as against PKR 0.9 billion during last year.

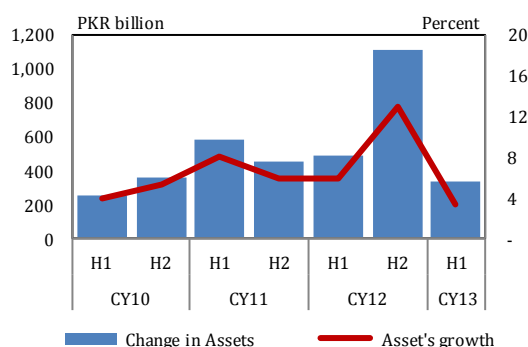
The insurance sector further expanded its asset size and improved penetration during the period under review. The assets of insurance and reinsurance increased by 8.4 percent with a significant contribution coming from the life insurance segment. Similarly, the penetration of the sector also improved as it accumulated 16.8 percent higher gross premiums during H1-CY13. The robust growth in premiums was largely due to rising concerns for security against financial losses as well as increasing auto finance and personal loans by banks. The life insurance business witnessed an increase of 17.4 percent in gross premiums, however, rising claims ratio and increased underwriting expenses contained the growth in its profitability. In contrast, the non life service providers posted substantially higher profits, due to decline in claims ratio at the back of high reinsurance coverage and capital gains from equity market investments.

The payment system continued to remain efficient and more reliable while ensuring mitigation of settlement, IT security and other related risks. Pakistan Real time Interbank Settlement System (PRISM) continued to perform efficiently in managing high value interbank settlements. Further, with the support from timely Intra-day Liquidity Facility (ILF) the downtime and gridlocks in the PRISM virtually diminished. Meanwhile in retail payments, the conventional paper based transaction dominated including cheques and other bank instruments. The e-banking modes witnessed increased share in retail payments as its share in transaction increased to 22.6 percent in H1-CY13. Though the payment system performance continued uphill, the high downtime of ATMs pose concern over the reliability of technology used in the banking sector.

The asset base of the banking system observed modest increase of 3.9 percent in the wake of challenging economic environment, partial settlement of circular debt and moderating reliance on banking sector for funding fiscal deficit. A decent growth in customer deposits provided for funding needs. Despite decrease in the Government borrowing from the banking sector, investment in Government papers surged partially due to settlement of circular debt. The flow of advances subsided due to dampening private sector credit, though public sector enterprises enhanced borrowing to finance commodity procurement operations in line with established seasonal pattern.

**Figure 1.1**

Changes in Banking Sector Assets



Challenging economic and business conditions and relatively lower reliance of the Federal Government on the banking sector during the period under review decelerated the banking sector growth. The asset base observed a modest growth of 3.9 percent during H1-CY13 as advances declined while investments in government securities decelerated (**Figure 1.1 and 1.2**). Deposits of the system kept a steady growth pace with composition somewhat tilted towards Current Account Saving Account (CASA) deposits (**Figure 1.3**).

#### ***Private sector credit flows subsided....***

Advances portfolio declined marginally due to net retirements by private sector. This decline was contributed by host of factors, amid, partial settlement of circular debt enabling corporate to fulfill banks' obligations, seasonal net retirement in textile credit, and lower credit off-take in sugar sector. The credit to Small and Medium Enterprises (SME) remained on the downhill due to banks' cautious approach while consumer finance observed some recovery in some of its segments. Among others, the energy shortfall and security concerns continued to play dampening effect on credit demand.

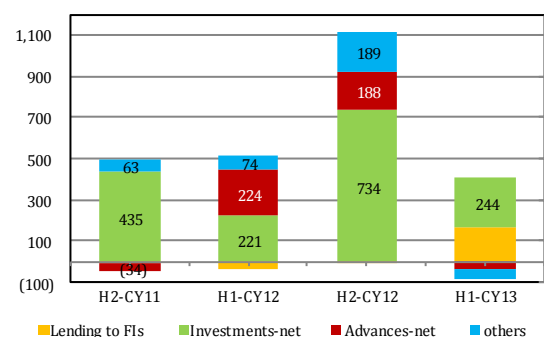
#### ***....while banks' exposure on public sector increased***

The public sector exposure continued to gain weight on the banks' balance sheet largely for financing the funding needs of the public sector enterprises and fiscal deficit. During H1-CY13, banking sector extended 7.2 percent advances for public sector commodity procurement operations. Moreover, banks also increased their investments in Government securities by 6.3 percent. As a result, share of public sector credit increased to 44.5 percent of the banking sector assets.

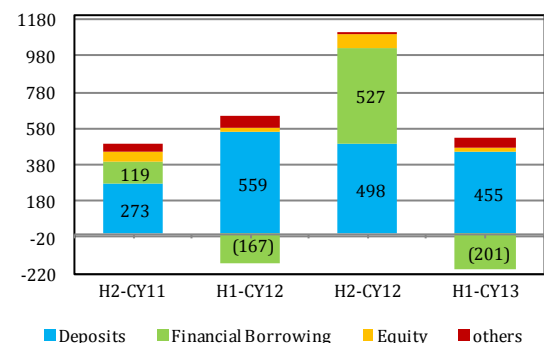
The funding needs were largely financed through 6.2 percent increase in deposit. Most of this increase took place in customer

**Figure 1.2**

Flows in Asset Components (PKR billion)

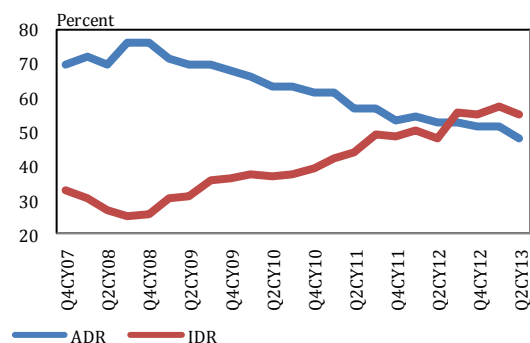
**Figure 1.3**

Flows in Liability Components (PKR billion)



**Figure 1.4**

Shift in Asset Mix



deposits under CASA category, while fixed deposits declined by 1.26 percent. This sluggish trend in fixed deposits seems to be the result of adjustments made in minimum saving rate<sup>8</sup> over the last year<sup>9</sup>. The growth in foreign currency deposits remained very much in line with depreciation in domestic currency, while remaining within the regulatory limit<sup>10</sup>. Among other liability components, borrowings from financial institutions dipped as banks retired secured borrowings from the central bank, while equity of the system grew by 2.3 percent due to accumulation of retained earnings.

#### *ADR is on continuous fall...*

Banks' continued investment in government securities with slowdown in lending to private sector reshaped the banking assets in last few years. The tilt of banks' balance sheet to less risky assets, given consistent growth in deposit base, well reflected in declining Advances to Deposit Ratio (ADR) against almost a parallel rise in Investment to Deposit Ratio (IDR). This contrasting pattern of ADR and IDR advocates limiting financial intermediation in the banking system and crowding out of the private sector credit. Importantly, during H1-CY13, ADR declined from 50 percent to 48.1 percent (**Figure 1.4**).

#### *Advances decline as flows to private sector taper ....*

The gross advances dipped marginally by 0.5 percent during H1-CY13 due to decline in credit flows to private sector (**Table 1.1**). This decline was contributed by host of factors, like: (a) partial adjustment of inter-corporate circular debt of PKR 324 billion in June 2013 that enabled various corporate to retire their outstanding debt obligations to banks, (b) the deceleration of demand for credit in sugar sector (specifically in the second quarter of CY13) due to the government's purchase of 4.8 million tons of sugar and exceptional growth in sugar export<sup>11</sup>, (c) the seasonal net-retirement in textile sector<sup>12</sup>; (d) increase in real cost of borrowing due to decline in inflation; and (e) banks continued cautious approach in extending fresh advances due to high credit risk.

**Table 1.1: Sector-wise Credit Flows in H1-CY13**

	PKR billion		
	Public Sector	Private Sector	Total
PTES	1.3	(50.9)	(49.5)
Sugar	0.6	27.3	27.9
Agri Business	10.2	1.5	11.6
Chemical & Pharmaceuticals	(0.0)	0.8	0.8
Financials	(0.1)	24.6	24.4
Cement	-	(4.6)	(4.6)
Shoes & Leather	-	0.6	0.6
Electronics and Electrical	-	(3.1)	(3.1)
Textile	-	(18.1)	(18.1)
of which			-
Spinning	-	(25.5)	(25.5)
Composite	-	0.9	0.9
Weaving	-	(2.5)	(2.5)
Others	49.8	(34.7)	15.1
<b>Total</b>	<b>61.7</b>	<b>(83.7)</b>	<b>(22.0)</b>

<sup>8</sup> SBP raised minimum rate on saving deposits to 6 percent p.a. (from previous 5 percent p.a.) in May, 2012 followed by instructions to calculate the rate on monthly average basis effective from April, 2013.

<sup>9</sup> The weighted average return on saving deposits of banking sector increased by 20 bps from 6.18 percent on December 2012 to 6.38 percent on June 2013. Contrary to that, the weighted average return on fixed deposit declined by 61 bps from 7.95 percent on December 2012 to 7.34 percent on June 2013.

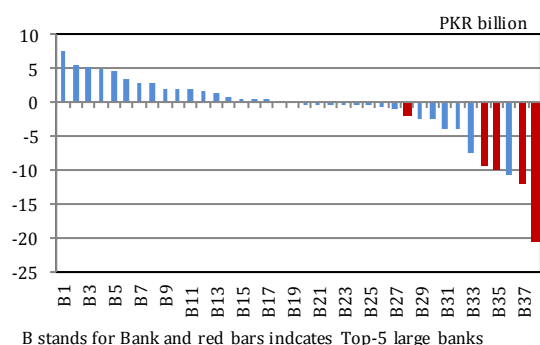
<sup>10</sup> In terms of Regulation O-5 of the Prudential Regulations for Corporate/Commercial Banking Foreign currency should not at any point exceed twenty percent of the local currency deposits of the banks.

<sup>11</sup> SBP third Quarterly Report – 2013.

<sup>12</sup> The extent of retirements during H1CY13 were lower than H1-CY12.

**Figure 1.5**

Bank-wise flow of Advances-net in H1-CY13



Bank-wise data of advances showed a skewed distribution, as overall net-retirement in top-five banks was more than the decline in credit of entire banking industry (**Figure 1.5**). The middle and small sized banks, however, were able to provide more credit to private sector which is a positive sign. Perhaps, the declining interest rates on government securities, high cost of deposits, and moderate credit risk in recent period prompted these banks to seek high returns through credit expansion.

### ***Structural issues affected demand for credit....***

Structural issues particularly lack of adequate energy supply and security concerns compelled businesses to operate below their optimal level, which resulted in low credit demand over the years. Most disbursements merely catered the seasonal and short-term working capital needs, while, due to underutilized prevailing production capacity and negligible business expansion, credit for fixed investment remained nominal. During H1-CY13, with the exception of commodity finance, most of the segments generally observed decline (**Table 1.2**). The credit for trade finance, however, observed marginal improvement. Owing to high credit risk and banks cautious approach, the declining trend in credit outlay to SME sector continued with another reduction of PKR 32 billion. Consumer financing got momentum mostly in “personal loans<sup>13</sup>” and “auto finance” segments.

**Table 1.2 Segment-wise credit flows in H1-CY13**

	PKR billion		
	Puplic Sector	Private Sector	Total
Fixed Investment	5.6	(24.8)	(19.3)
Workign Capital	6.1	(107.5)	(101.4)
Trade Finance	(7.4)	14.5	7.1
Commodity Finance	58.9	(6.3)	52.6
of which	-	-	-
Wheat Finance	64.2	7.8	72.0
Others	(0.0)	15.8	15.7
<b>Total</b>	<b>63.1</b>	<b>(108.3)</b>	<b>(45.1)</b>

### ***...as Capital formation yet to pick up...***

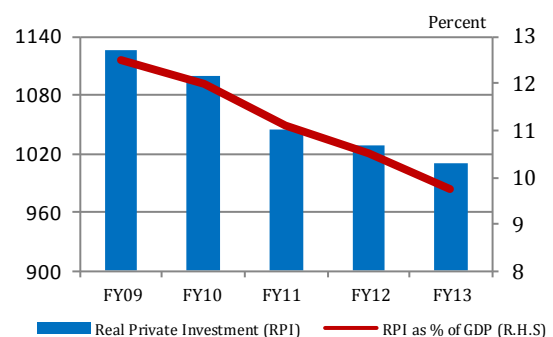
The decline in fixed investment loans is the reflection of squeeze in Real Private Investment (RPI) in the economy which, as a percent of GDP decreased for the fifth consecutive fiscal year to reach 9.7 percent (**Figure 1.6**). It is expected that meaningful efforts to resolve the core issues, amongst others, the energy crisis and law & order at top, will help kick-start the economic activities and restore the private sector credit demand.

### ***...and flows to production and transmission of energy subsided***

Another area of concern is increasing concentration of loans in few economic sectors, particularly in PTES. Historically, the textile sector is the key user of the advances; however, over last few years and more specifically during CY12, banks’ credit exposure in PTES increased significantly and touched 12.3 percent of the gross portfolio. However, government settled inter corporate circular debt in June-July 2013, which led to net

**Figure 1.6**

Real Private Investment and GDP

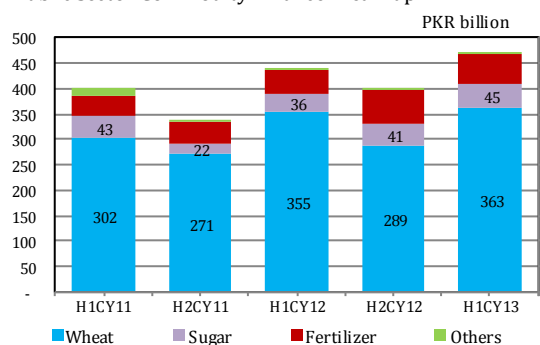


<sup>13</sup> The acceleration in “Personal Loans” segment is not broad based and mostly driven by one bank only.

Table 1.3: Flow of Banks' Investment in Govt. Securities				
	PKR billion			
	H2 CY11	H1 CY12	H2 CY12	H1 CY13
MTBs	321	27	604	87
PIBs	198	38	138	109
Others	118	(7)	42	23
<b>Total Govt. Securities</b>	<b>637</b>	<b>59</b>	<b>784</b>	<b>219</b>
<b>Total Investments</b>	<b>435</b>	<b>222</b>	<b>736</b>	<b>250</b>
<i>Investment in Govt. Securities to Total Investment (Percent)</i>	<i>147%</i>	<i>26%</i>	<i>106%</i>	<i>88%</i>

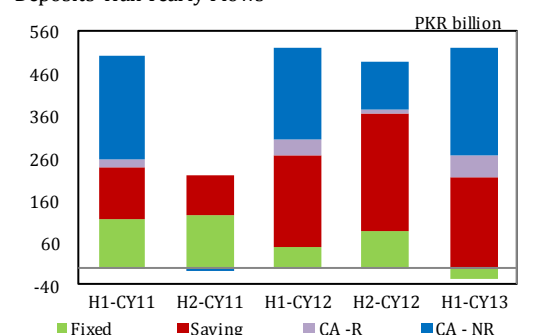
**Figure 1.7**

Public Sector Commodity Finance Break-up



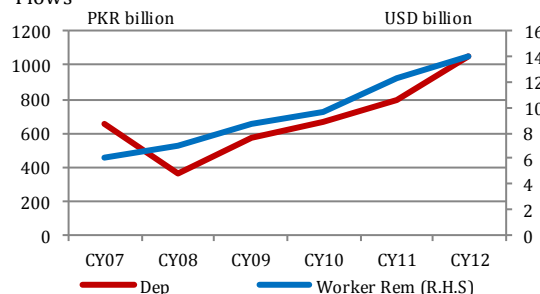
**Figure 1.8**

Deposits-Half Yearly Flows



**Figure 1.9**

Workers' Remittances and Banking Deposits-cumulative Flows



<sup>14</sup> The TCP commodity financing stock was PKR 50 billion in Mar-13 which, due to TCP's offloading of the sugar stock reduced to PKR 45 billion in Jun-13 and further reduced to PKR 40 billion in Sep-13.

<sup>15</sup> The seasonal peak of fertilizer financing usually comes at the end quarter of CY due to imports of the fertilizer by the government to ensure its availability for harvesting of Rabi crops (mainly wheat).

<sup>16</sup> Several factors contributed to large fiscal deficit during last few years including insignificant growth in tax collection, dried up and uncertain foreign inflows, general subsidies especially on electricity, and losses incurred on several PSEs.

retirement of PKR 50 billion in PTES and decreased its share in advances to 10.6 percent during the period under review. Although settlement of circular debt is expected to improve energy supply in the short term, addressing structural issues is necessary from the long term strategy perspective, which will create financing space for banks to enhance private sector credit (See **Box 1.1**).

### **Commodity financing touched new highs....**

As indicated above, the seasonal credit disbursements for public sector commodity was the only prominent flow during the year. The self-liquidating commodity finance by public sector saw a new peak in H1-CY13 (**Figure 1.7**). Wheat financing (77 percent share in overall commodity financing) increased by 26 percent, which largely resulted from increase in support price announced in Sep-12 from PKR 1050/40 kg to PKR 1200/40kg. Financing to sugar sector increased as Trading Corporation of Pakistan (TCP) purchased additional stock in Feb-13<sup>14</sup>, while financing for fertilizers reduced owing to seasonal offloading of the fertilizer stocks<sup>15</sup>.

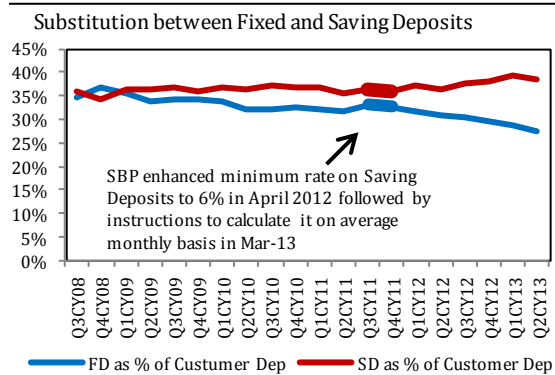
### **Investment in Government papers somewhat decelerated...**

The unprecedented and insatiable government funding needs due to swallowing fiscal overrun<sup>16</sup> were mostly met through schedule banks during the last few years (**Table 1.3**). Banks' investment in government papers remained high due to a number of benefits, i.e., zero credit risk, no capital charge on domestic sovereign debt, consistent stream of income with improving NIM, pilling up Statutory Liquidity Requirement (SLR) eligible securities. On the contrary, fewer funds were available to

finance private sector activities. This has reshaped the balance sheet of schedule banks. The share of banks' investment in government securities to total assets increased to 37 percent in Jun-13 from 14 percent in June-2008.

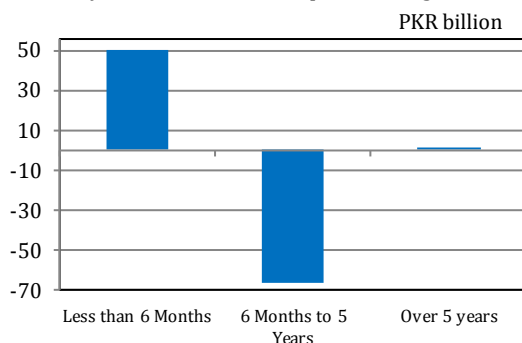
The H1-CY13 was not an exception where banks invested another PKR 219 billion in government securities. The decomposed data of such investments depicts more buying of Pakistan Investment Bonds (PIBs) than Market Treasury Bills

**Figure 1.10**



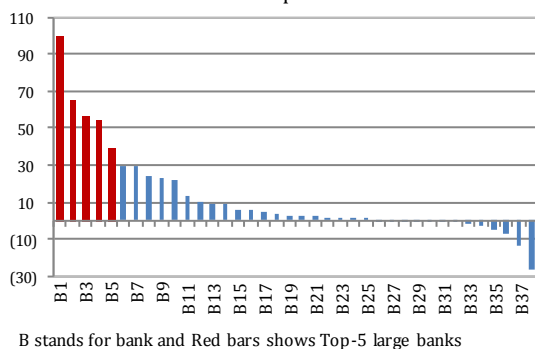
**Figure 1.11**

Maturity-wise flows in Fixed Deposits during H1CY13



**Figure 1.12**

Bank-wise distribution of Deposit Flows in H1CY13



(MTBs). This was, perhaps, due to banks' expectation of interest rate decline in line with phased reduction in SBP's policy rate as well as less government desire to finance its deficit through short-term funds to avoid frequent roll-overs.

### *Deposits catered the funding needs of the system..*

The overall deposit base posted a steady growth of 6.23 percent (PKR 455 billion) entirely contributed by customer deposits (PKR 497 billion) while financial institutions' deposits declined by 13 percent (PKR 42 billion). The composition of the customer deposits reveals some contrasting pattern (**Figure 1.8**). For example, while CASA deposits growth was higher than the overall deposit growth, fixed deposits after observing a decelerated growth pattern in last couple of years actually declined by 1.3 percent (PKR 26 billion) in H1-CY13.

The high CASA deposits growth in recent years may be attributed to multiple factors; (a) SBP enhanced ceiling of minimum rate on saving deposits to 6 percent in April 2012 which was further reinforced with the instructions to calculate the rate on monthly average balance<sup>17</sup> which increased real returns on saving deposits (b) banks concerted efforts to mobilize additional deposits for gaining reasonable risk free returns through investing in government securities<sup>18</sup>, and (c) robust monthly flow of home remittances etc (**Figure 1.9**).

Fixed deposits saw a significant fall since SBP raised minimum rate on saving deposits. Noticeably, funds raised through National Savings Scheme (NSS) (the nearest substitute of fixed deposits) remained on rise. The mirror imaged growth pattern between fixed and saving deposits along with consistent and growing stream of funds raised under NSS probably shows some degree of substitution of fixed deposits to either more liquid saving deposits or higher yielding NSS instruments (**Figure 1.10**).

However, despite overall decline in the fixed deposits, maturity-wise flow data reveals growth in short tenor fixed deposits (with maturity of 6 months or less) while long-term fixed deposits observed a sharp decline (**Figure 1.11**). Banks seems to have focused on managing cost of funds through short term and transactional deposits (current and saving) to minimize the impact of increase in minimum saving rate.

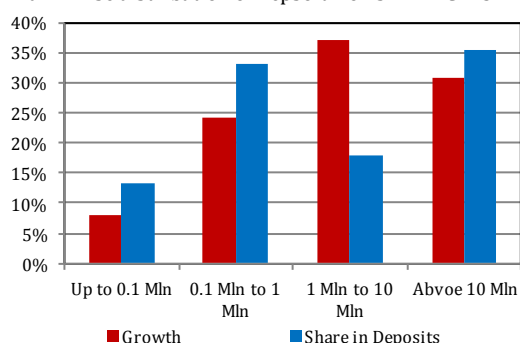
<sup>17</sup> It was observed that a large number of banks were paying minimum prescribed rate on saving deposits on minimum monthly balance. SBP vide its BPRD's circular No.1 dated March 15, 2013 instructed to pay minimum 6 percent rate on monthly average balance to safeguard the depositors' interest.

<sup>18</sup> Most of funds were invested in MTBs of shorter maturities (3, 6, and 12 months) than the fixed deposits.



**Figure 1.13**

Bank-wise distribution of Deposit Flows in H1-CY13

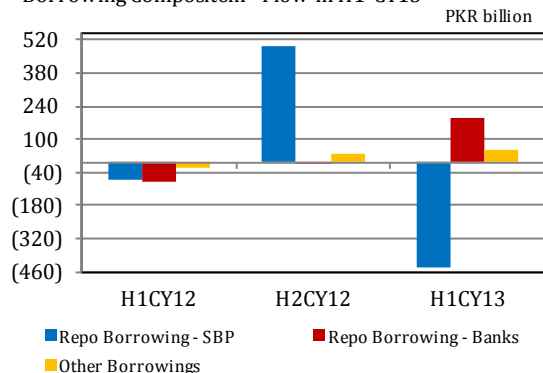


The deposit growth seemed mostly confined to large banks. Especially, top five banks with 54 percent share in assets of banking system contributed 69 percent in overall deposit growth of banking system. Some medium and small sized banks observed decline in their deposit base (**Figure 1.12**).

Size-wise deposit details exhibit some unsynchronized deposit contribution in growth compared to share. Deposit size within the range of PKR 1-10 million holding only 17.9 percent share in deposit base contributed 37 percent to deposit growth. In contrast, the contributions from other size-wise deposit segments were lesser than their respective shares in overall deposit base (**Figure 1.13**). This unparallel growth contribution may be due to migration of deposits within the size segments along with new deposits.

**Figure 1.14**

Borrowing Composition - Flow in H1-CY13



***Bank borrowings shrink as investment in government securities decelerated...***

Banks made net retirement of PKR 201 billion against borrowings from the financial institutions during H1-CY13 mostly from the SBP (**Figure 1.14**). The decline resulted due to improved liquidity profile of the banks owing to steady deposit growth, settlement of circular debt including cash in June CY13, net retirements in private sector loans and moderation in Federal Government reliance on bank borrowings.

Weekly data<sup>19</sup> show that financial borrowings remained below weekly average of Jan-June, 2013 during Q2-CY13. In the initial months of H1-CY13, SBP injected liquidity into the market to ease the liquidity pressures and smoothen the functioning of payment system. However, SBP reduced such injections in the second quarter owing to several factors like (a) to curtail medium term inflation anticipation and (b) to support the depreciating PKR through return on PKR<sup>20</sup>.

Equity base of the banking sector grew moderately by 2.3 percent (3.1 percent in H1-CY12) at the back of retained earnings for H1-CY13. The slower growth seems to be an outcome of dividend payouts announced in the Annual General Meetings for the year CY13 and lower return earned by banks during the period under review.

<sup>19</sup> Since borrowing from financial institutions is transitory in nature, a more frequent data (such as weekly) gives a better picture of trend of flow of funds.

<sup>20</sup> See Monetary Policy Statement – September 2013.

## Box 1.1

## Adjustment of Inter-Corporate Circular Debt in Energy Sector

The deficient energy supplies, kept the businesses operate far below their optimal level since long, which resulted in low credit demand for long-term funds. Most of the credit during last few years was disbursed for seasonal and short-term working capital needs, while flow of credit for fixed investment remained sluggish. The credit demand remained stagnant despite decline in the Weighted Average Lending Rate (WALR) by more than 400 bps due to slashing of SBP policy rate by 500 bps over the period Dec CY10 – Jun CY14. This is clearly indicative of the fact that cost of borrowing has not been the primary issue behind low credit demand. Rather a number of other issues stymied the private sector credit flows including persistent energy crisis.

The rising inter-corporate circular debt is one key offshoot of persistent and severe energy crisis that led to high concentration of bank lending to PTES. The trend of financing reveal that share of banks' advances to PTES grew from 7.2 percent in Sep-08 to 12.3 percent in Mar-13 to reach PKR 512 billion (**Figure B1.1**).

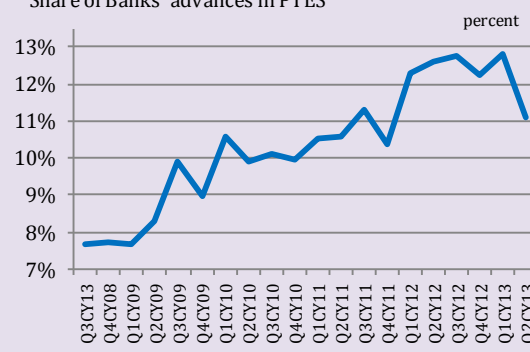
The Government in order to resolve energy sector related issues settled inter corporate circular debt in June-July, 2013. The total debt outstanding was PKR 502 billion as of end May CY13, of which, PKR 342 billion was adjusted in end-June CY13<sup>1</sup>. The settlement was carried out through a mix of cash payments, PIBs, and adjustment of dividends to be received by Government on account of its shareholding in PTES (**Table B1.1**).

As a result of above adjustments, the PTES advances declined by PKR 69 billion to PKR 443 billion in Jun-13. Consequently, concentration of banks' gross exposure in the PTES also dropped to 10.6 percent in Jun-13 from 12.3 percent in Mar-13 with most of the retirement observed in large private sector banks.

Although the settlement of circular debt is a positive development and is expected to improve energy supply, yet this may be considered only a short-term remedial measure. Incidentally, similar measures were taken in CY11 and CY12. However, higher customers' default rate and other structural weaknesses continued to pile up the circular debt. These structural issues revolved around a highly inefficient transmission and distribution system, high generation cost, electricity theft, subsidies, etc. To circumvent build up of further circular debt and to avoid concentration of this financing on banks' balance sheets, the Government needs to take concerted efforts for improving the overall distribution and collection mechanism<sup>2</sup>, which will create financing space for banks and enable them to enhance credit to the private sector.

**Figure B1.1**

Share of Banks' advances in PTES



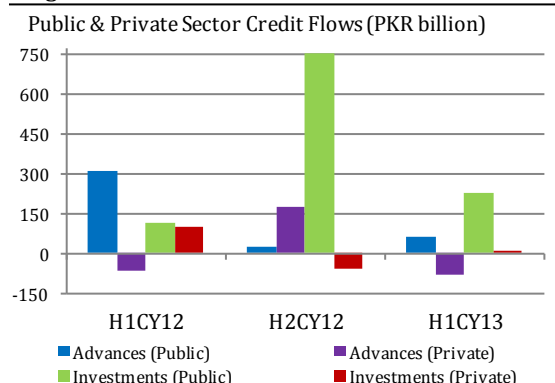
**Table B1.1: Adjustment of Inter-Corporate Circular Debt in Energy Sector\***

	PKR billion
Cash IPPs	161.23
PIB OGDCL	56.31
PIB PPL	23.36
PSO	81.33
of which	
CASH	33.21
PIBs	48.12
by GOP	19.71
<b>Total</b>	<b>341.96</b>
* As of end Jun-CY13	

<sup>1</sup> In July 2013, PKR 138.2 billion of circular debt was adjusted through settlement of payables against receivables of the power generation companies. The rest of PKR 23 billion (out of PKR 502 billion) of circular debt was withheld due to cases filed by IPPs in the Supreme Court.

<sup>2</sup> The Government of Pakistan formulated a much awaited National Energy Policy (2013-18) in July 2013 which aims at brining several improvements, including phasing out of subsidies, privatization of state owned power plants and DISCOs, lowering cost of power generation, restructuring of various related institutions and ministries, and formation of regional transmission and power trading system.

Asset quality of the banking sector marginally deteriorated during H1-CY13. A slight increase in NPLs coupled with a meager decline in lending portfolio increased the infection ratios, though provisions coverage and capital impairment ratios improved. Fund based liquidity profile of the banking sector remained steady; though, market liquidity remained under pressure which kept the interbank lending rates closer to the ceiling of the interest rate corridor. With decrease in borrowings, consistent growth in deposits became the sole supporter of the fund based liquidity. Market risk profile of the banking system stayed well contained despite uncertainties in the local economic environment and continuing stress in the external position

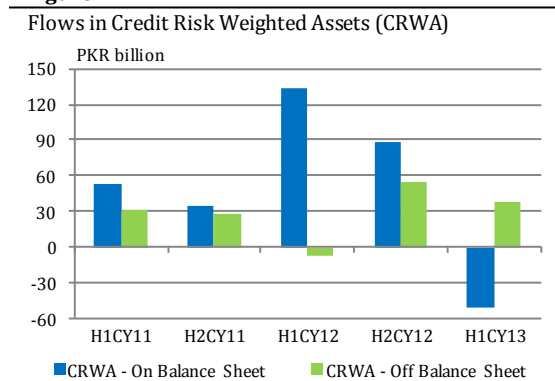
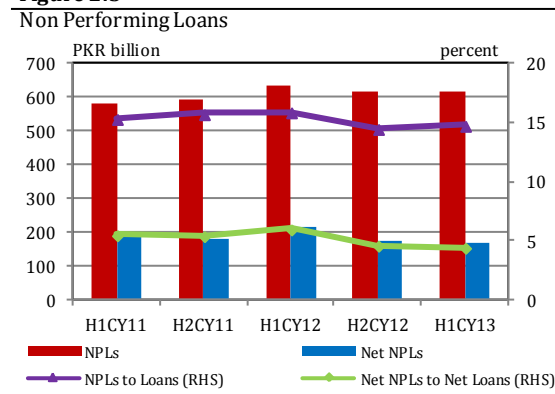
**Figure 2.1**

## Credit Risk

Persistent increasing trend in seasonal commodity financing, significant retirement of energy sector loans, recoveries against NPLs, and some growth in the consumer segment were the hallmarks of H1-CY13 (**Figure 2.1**). The sector continued to witness stagnancy in private credit flows accompanied by a high stock of infected portfolio that rose marginally during the review period.

### Credit Risk Weighted Assets (CRWA) declined...

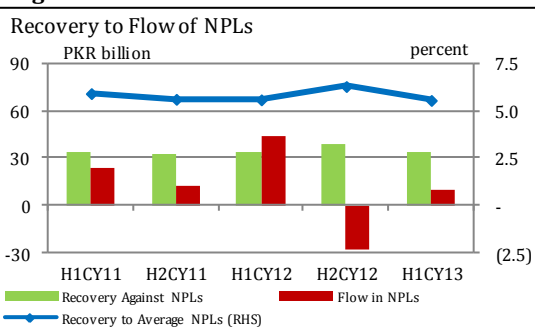
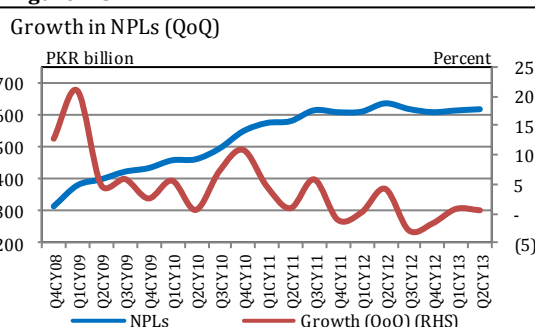
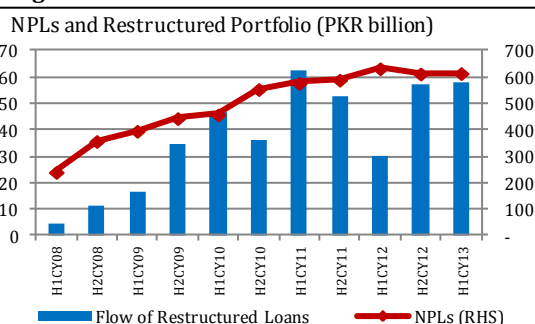
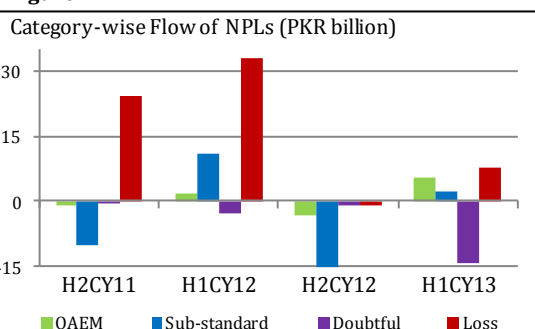
The CRWA decreased by 0.4 percent during H1-CY13 against 3.7 percent increase in corresponding period last year. This decline in CRWAs was attributable to 2.4 percent dip in fund based exposure on private sector (**Figure 2.2**). The off balance sheet assets, however, grew by 3.5 percent, thus increasing the off balance sheet CRWA by 6.1 percent. Within off balance sheet assets, 8.9 percent rise in contingent liabilities was the main contributing factor towards the growth.

**Figure 2.2****Figure 2.3**

### Mix of factors contributed towards nominal rise in infection ratio...

The asset quality observed marginal deterioration as NPLs increased by 1.5 percent to PKR 616 billion during the first half of CY13 (3 percent decline YoY). This coupled with a meager decline in loans, increased the infection ratio by 26 bps to 14.8 percent (**Figure 2.3**). Analysis of sources of NPL flows highlight that recoveries made during H1-CY13 were slightly on the lower side (1 percent less than H1-CY12), which contributed to minor rise in NPLs (**Figure 2.4**).

The accumulation of infected portfolio, receded in recent periods (**Figure 2.5**). The slowdown positively impacted the overall infections ratios; the gross (net) infections ratio saw a steady decline from a peak of 16.7 (6.4) percent in Sep-11 to 14.8 (4.4)

**Figure 2.4****Figure 2.5****Figure 2.6****Figure 2.7**

<sup>21</sup> In terms of R-8 of Prudential Regulations for Corporate, NPLs are classified in to three categories namely Sub-standard (overdue by 90 days, 25% provisions required), Doubtful (overdue by 180 days, 50% provisions required), and Loss (overdue by one year or more, 100% provisions required).

<sup>22</sup> Total provision exceed the required provisions as bank create general provision under various Prudential regulations, particularly for the Consumer Finance(CF) portfolio to protect banks from the risks associated with the economic cyclical nature of this business. In terms of regulation R-4 of the Prudential Regulation for CF, banks are required to maintain a general reserve at least equivalent to 1.5% of the consumer portfolio which is fully secured and 5% of the consumer portfolio which is unsecured.

<sup>23</sup> It is the highest level of coverage ratio since H1-CY10.

percent in Jun-13. Provisions coverage ratio also improved as partially provided for NPLs migrated to fully provided for category<sup>21</sup>. With dampening credit flows, incidence of NPLs lowered on bank gross income. The provisions charge came down to 7.8 percent of gross income in Jun-13, which consistently stayed above 10 percent during CY07-CY11 (see Box 2.1).

Over the last few years, in an effort to resolve NPLs, banks successfully restructured loan portfolio particularly the corporate borrowers. This approach facilitated banks in restricting flow of NPLs, while ensuring that the viable corporate remained operational. In line with trend in H2-CY12, a significant amount of NPLs were rescheduled/ restructured by banks during H1-CY13, which helped in reducing the rate of growth of NPLs (Figure 2.6).

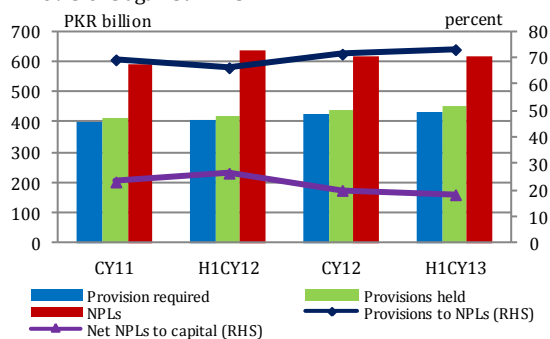
Moreover, a look at flows in different classification categories reveals that majority of these rescheduled/ restructured loans belonged to the Doubtful loans category, as the remaining three categories exhibited positive flows during H1-CY13 (Figure 2.7). Interestingly, Other Assets Especially Mentioned (OAEM) category showed rise mainly resulting from Agriculture sector, where seasonal factor as well as some other contingent factors like excessive rain and declaration of certain areas as calamity, played its part.

*Provisioning requirements rose as FSV benefit started wearing out...*

While NPLs slightly rose, required level of provisions significantly increased due to shifts within different categories of classification and wearing out of the FSV benefit. Banks kept the provisions to around 104 percent of the required level largely due to general reserve created by banks for consumer finance portfolio<sup>22</sup>. Increase in specific provisions, improved the provision coverage to 73.2 percent<sup>23</sup> in H1-CY13 compared to 71.5 percent in H2-CY12. Consequently, net infection reduced by 20 bps to 4.4 percent, while capital impairment represented by

**Figure 2.8**

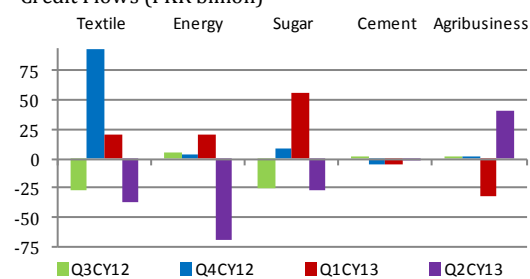
Provisions against NPLs

**Table 2.1: Asset Quality by Bank Category**

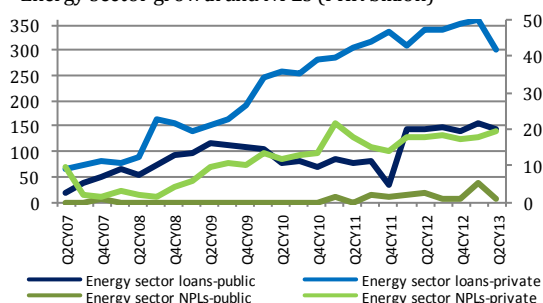
	in percent				
	CY12		H1CY13		
	Infection Ratio	Infection Ratio	Net Infection Ratio	Provision Coverage	Net NPLs to Capital
PSCBs	16.9	17.1	6.7	65.2	31.0
LPBs	13.3	13.5	3.3	77.8	13.7
FBs	13.4	11.3	0.5	95.9	0.7
<b>CBs</b>	<b>14.1</b>	<b>14.3</b>	<b>4.1</b>	<b>74.5</b>	<b>16.7</b>
SBs	27.6	30.7	17.2	53.2	100.1
<b>All banks</b>	<b>14.5</b>	<b>14.8</b>	<b>4.4</b>	<b>73.2</b>	<b>18.3</b>

**Figure 2.9**

Credit Flows (PKR billion)

**Figure 2.10**

Energy sector growth and NPLs (PKR billion)

**Table 2.2: NPL Ratio of Consumer Financing**

	Share		Infection Ratio	
	CY12	H1CY13	CY12	H1CY13
Credit cards	9.25	8.35	21.52	16.41
Auto loans	18.12	19.50	10.26	8.56
Consumer durable	0.05	0.04	71.65	68.34
Mortgage loans	21.17	19.76	31.38	31.10
Other personal loans	51.40	52.35	13.50	12.13
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>17.47</b>	<b>15.56</b>

Net NPLs to capital ratio, decreased by 107 bps to 18.3 percent (Figure 2.8).

### Infection rose across the board ...

During H1-CY13, the gross infection ratio increased for all categories of banks, except Foreign Banks (FBs). In case of Local Private Banks (LPBs), increase in NPLs of both public and private sector manufacturing concerns was the main reason behind this rise in infection. In terms of asset size, majority of the banks exhibited worsening of the infection ratios. However, medium sized banks ranked from 6 to 10 showed considerable decline in their infected portfolios as they improved recoveries from some of their corporate borrowers (Table 2.1).

### Textile and PTE sectors exhibited high concentration...

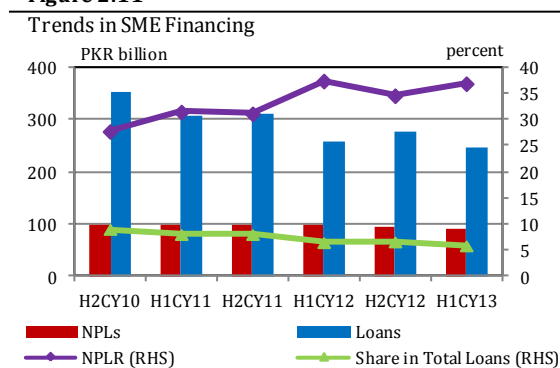
Owing to seasonal pattern of cotton and sugarcane products, finance to textile and sugar sectors exhibited growth in Q4-CY12 and Q1-CY13 respectively, while second and third quarters of CY13 observed a decline in lending activities (Figure 2.9). In line with the established pattern, outstanding exposure of the textile industry declined by 2.5 percent, as compared to 7.1 percent decrease in H1-CY12. However, being the largest sector in the industry, concentration concerns further intensified as its classified portfolio increased to 30.7 percent in H1-CY13, compared to 29.6 percent in H2-CY12. Though concentration concerns in the PTES remained significant, infection ratio of the sector worsened mainly in private sector as classified loans piled up (Figure 2.10).

### SME portfolio plunged again...

With the overall inhibited activity in advances, SME portfolio also followed suit and recorded 11.7 percent decrease thus reducing its share in total outstanding loans of the banking industry to 5.8 percent (6.6 percent in H2-CY12). The textile and sugar sector, which have direct linkages with or represent some of the SMEs, made net retirements. Consequently, demand for credit from the

SMEs also subsided and NPLs of the sector increased. As a result, the infection rate in the SME sector that was already the highest further increased by 230 bps to 36.9 percent (Figure 2.11).

**Figure 2.11**



*...while growth in consumer segment hinted at a probable revival*

In contrast to the overall shrinkage in lending portfolio, consumer finance exhibited gradual improvement. During the period under review, consumer finance increased by 4.9 percent to PKR 262 billion. Analysis of various categories shows that auto and personal loans were mainly responsible for this growth (Table 2.2). With growth in consumer portfolio and decline in NPLs, the overall infection ratio reduced to 15.56 percent.

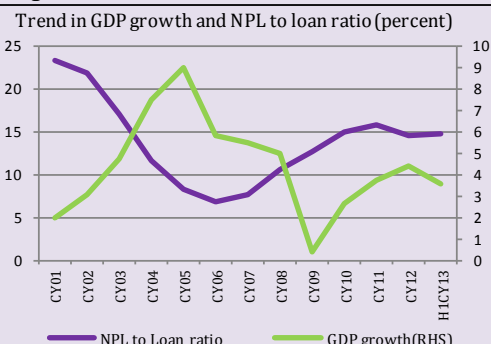
## Box 2.1

## Asset Quality

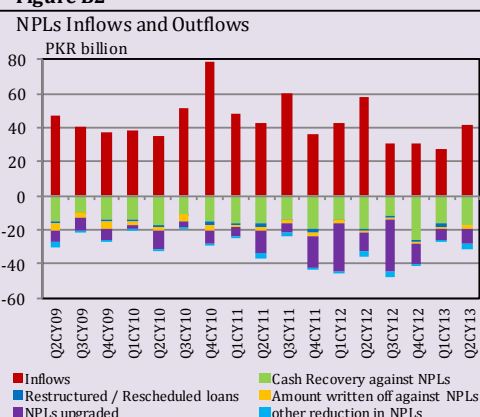
The asset quality of the banking industry significantly deteriorated over the last decade owing to constrained socio-political conditions and subdued economic growth. A multitude of factors influenced the growth of infected portfolio of banks including deceleration in GDP, continuing power shortages, security concerns, devastation caused by unusually high floods and torrential rains in 2010 and 2011, and slow pace of decision making in NPLs under litigation (Figure B1). Consequently, non-performing loans (NPLs) surged from PKR 218 billion in CY07 to a peak of PKR 635 billion in Jun-12. However, NPLs declined in recent times as they stood at PKR 616 billion in Jun-13. The decline in NPLs can be attributed to a number of reasons including the following:

- Since flow of credit remained subdued over the last few years, banks focused on managing the existing loan portfolio, which allowed them to limit the flow of fresh NPLs.
- State Bank rationalized its regulations through enhancing the FSV benefit on collateral held against the NPLs. An obvious outcome was lower provisions charge against the classified portfolio, leading to relatively improved earnings. However, while allowing this benefit, SBP placed bar on use of FSV benefit for dividend payouts<sup>24</sup>.
- In order to streamline and standardize disclosures of Islamic Banks/Islamic Banking Branches, all Financings, Advances, Inventories and any other related item(s) pertaining to Islamic modes of financing, previously reported under „Other Assets“ were allowed to be reported as a part of the „Islamic Financings and Related Assets“. These changes in disclosure provided one time enhancement in volume of financing of Islamic banks and dip in infection ratios<sup>25</sup>.
- Owing to multiple issues faced by the large corporate groups, banks pursued restructuring of promising borrowers. Successful restructuring of loan portfolio of such groups helped in restricting flow of NPLs, while ensuring that the viable corporate remained operational.
- During the last few years, banks remained focused on recovery of infected loans, which helped them in consistently improving cash recoveries against NPLs. Some banks adopted new and innovative strategies for recovery of NPLs which allowed them to clean up infected portfolio from their books, without incurring material losses (Figure B2).

**Figure B1**



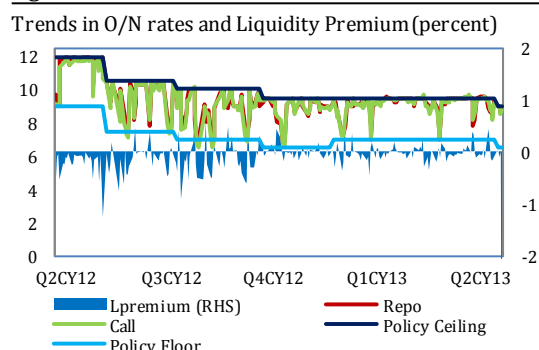
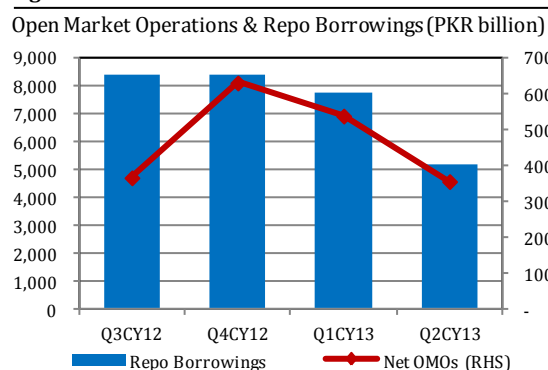
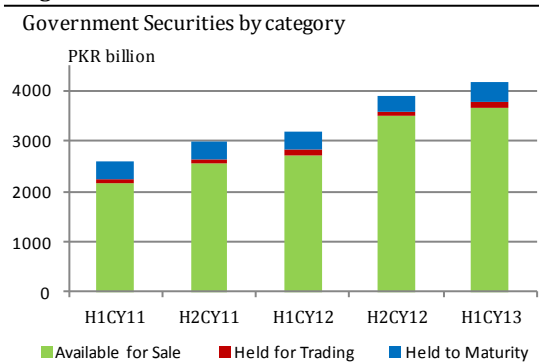
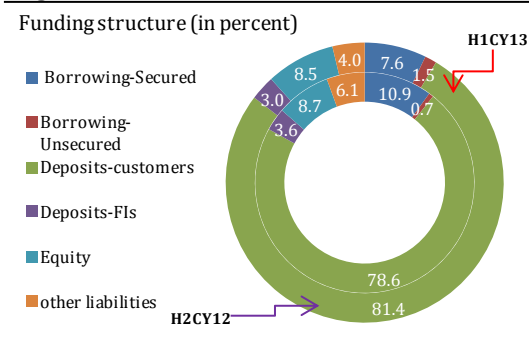
**Figure B2**



<sup>24</sup> Regulation 8 – „Classification and Provisioning“ of the Prudential Regulation for Corporate Commercial/Banking

<sup>25</sup> BSD Circular Letter No. 03 dated the 22nd January, 2013 URL: <http://www.sbp.org.pk/bsrvd/2013/CL3.htm>



**Figure 2.12****Figure 2.13****Figure 2.14****Figure 2.15**

## Liquidity Risk

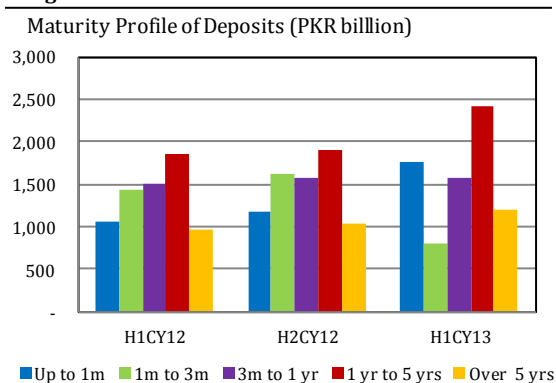
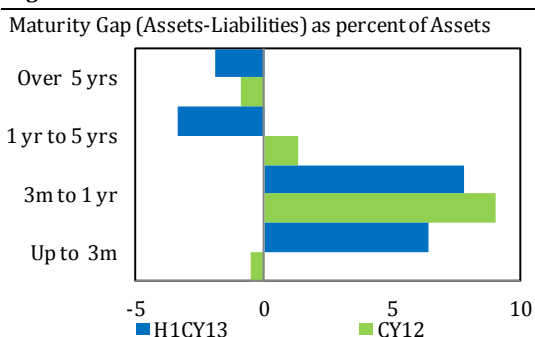
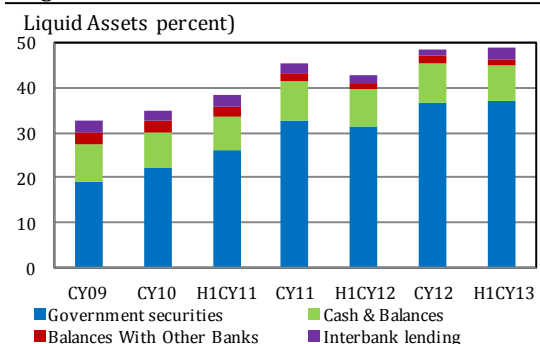
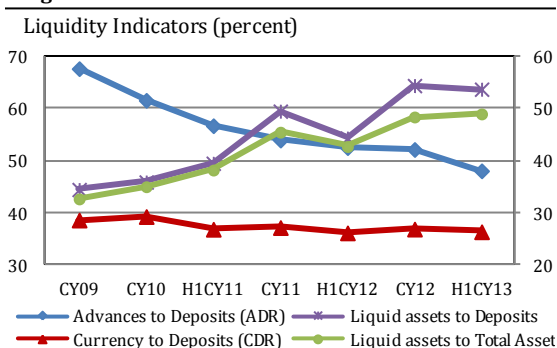
The liquidity profile of the banking sector remained steady during the first half of CY13 as banks further added to the stock of risk free government securities. With increased reliance of the Government on SBP for meeting its fiscal needs and subduing flows to the private sector, banks made net-retirement of secured borrowings from the SBP, while a decent deposits growth provided for most of its funding needs. However, liquidity strain in the market due to depleting foreign exchange reserves and unpredictable behavior of Government borrowings kept the overnight repo rate close to upper bound of interest rate corridor. Despite constrained market liquidity, rising fund based liquidity improved the liquidity indicators of the banking sector in the period under review.

**Market liquidity: SBP gradually reduced its influence in the market...**

During the period under review, SBP took various measures including narrowing down of interest rate corridor by 50 bps with the objective of managing exchange rate stability and controlling excess money supply. While these measures facilitated in limiting exchange rate depreciation, other objective remained unfulfilled due to heavy budgetary borrowings. In the meantime, gradual decline in Open Market Operations (OMOs), led banks to recourse to interbank market for meeting short term liquidity needs particularly in the second quarter of the CY13<sup>26</sup>. Together, these factors resulted in pushing the overnight rates towards the ceiling of the corridor and on some instances even crossing it during H1-CY13 (**Figure 2.12 & 2.13**). Higher overnight rates meant that during H1-CY13, banks did not utilize SBP's discount window as often as they did in H2-CY12.

Since market liquidity continued to remain strained during H1-CY13, banks persisted with their liquidity preference through placement of most of the securities into Available for Sale (AFS) category of investments. Banking sector registered a modest 6.1 percent increase in their investments in MTBs and PIBs (29.5 percent in H2-CY12), as Government was not able to raise the targeted amount in its auctions during H1-CY13. Given the unchanged liquidity preference of banks for managing market liquidity, most of these additional investments were placed in

<sup>26</sup> Please see Section 4.1 of Chapter 4 of Annual Report 2012-2013 (State of the Economy).

**Figure 2.16****Figure 2.17****Figure 2.18****Figure 2.19**

AFS category. In terms of share, 93 percent of MTBs and 73 percent of PIBs were placed in AFS category as of end Jun-13 (**Figure 2.14**).

### *Deposits continued to be the mainstay of fund based liquidity*

With a growth of 6.3 percent in H1-CY13 (7.2 percent in H2-CY12), deposits proved to be the sole contributor towards managing funding requirements (**Figure 2.15**). With 18.7 percent decline in borrowings further substantiated reliance of the banking sector on deposits during H1-CY13. Maturity profile of the deposits indicated that deposits maturing within one month increased, while the ones having maturity between one month and one year declined (**Figure 2.16**). Significant growth in current deposits (13.7 percent) and decline in fixed deposits (1.3 percent) was the reason behind this phenomenon. Moreover, long-term deposits (maturity greater than one year) registered a rise during the period under review coinciding with the consistent growth in savings deposits (8.3 percent in H1-CY13). As highlighted in chapter 1, the tilt in trend toward CASA was apparently an outcome of strategic marketing efforts of the banks for increasing non-remunerative low cost deposits pursuant to increase in minimum saving rate<sup>27</sup>.

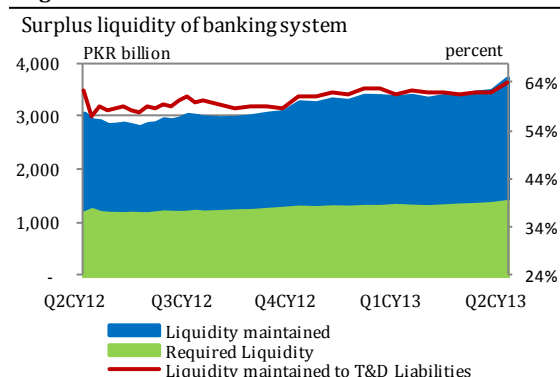
Continuous investment in short-term securities coupled with substantial growth in CASA deposits resulted in considerable improvement in up to 3 months maturity gap during H1-CY13 (**Figure 2.17**). Although lower than H2-CY12, 3 months to 1 year maturity GAP remained comfortable during H1-CY13 owing to growing investment in short-term Government securities of up to 12 months maturity. On the other hand, lack of long-term financing and growth in long-term deposits kept the maturity gap negative in over 1 year bucket during the period under review.

### *Fund based liquidity indicators remained steady...*

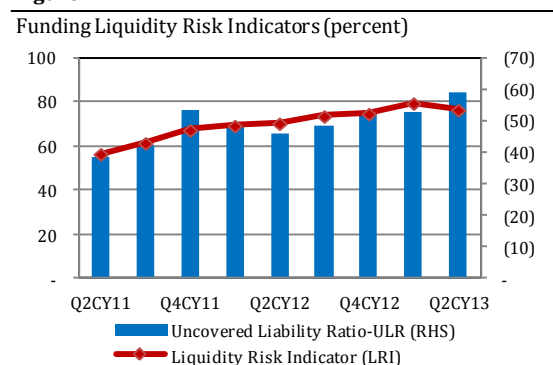
As mentioned earlier, constrained liquidity conditions led to higher amount of interbank lending, which together with growth in Government securities, helped in improving the liquid assets during H1-CY13 (**Figure 2.18**). However, the steady increase in liquid assets was slightly overshadowed by the higher growth in deposits during H1-CY13, thus resulting in a decline of 71 bps in

<sup>27</sup> SBP decided that the minimum profit rate would be 6.0% p.a. on all Pak Rupee saving deposits with effect from May 01, 2012 vide BPRD Circular No. 1 of 2012.



**Figure 2.20**

liquid assets to deposits ratio which stood at 63.7 percent. Given the significant decline in borrowings, the liquid assets as a percentage of total assets rose by 59 bps to 49.0 percent during the period under review (**Figure 2.19**). Despite continued growth in deposits, surplus liquidity maintained by banks remained more than double the level of SLR of 24 percent (**Figure 2.20**). With decline in private sector credit, growth in deposits further pushed down the ADR by 4.1 percentage points to 48.1 percent-lowest almost in decade.

**Figure 2.21**

Uncovered Liability Ratio (ULR), which measures liquidity shortage at an institutional level, improved due to ample liquid assets. Similarly, 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 further substantiated comfortable funding liquidity position of banks (**Figure 2.21**).

Over the last few years, the currency to deposits ratio (CDR) has exhibited a seasonal trend with a slight drop of 52 bps in Jun CY13 to 26.3 percent during H1-CY13. The steady growth in deposits, coupled with the reduction in SBP's market interventions led to the aforementioned dip in CDR, which explained the market liquidity constraints faced by the banking sector during H1-CY13.

### ***Banks would stand resilient towards various liquidity shocks***

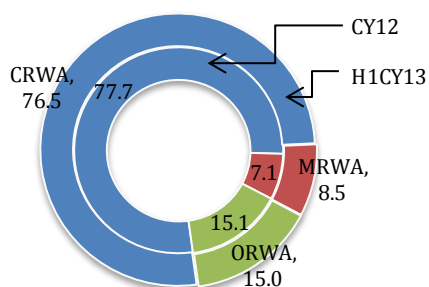
Banking sector would remain resilient in the face of different liquidity shocks. The results of stress tests on the banking sector reaffirms that system is satisfactorily placed to withstand liquidity shocks under different stress scenarios<sup>28</sup>. For instance, severe liquidity shocks of significant deposit withdrawal for consecutive five days would have negligible effect on the short-term liquidity of the banks. Further, the liquidity coverage ratio (LCR) of the banking system<sup>29</sup>, remained well above the acceptable benchmark of 1, as defined under Basel III.

<sup>28</sup> For number of banks failing stress scenarios, see Annexure 1.15

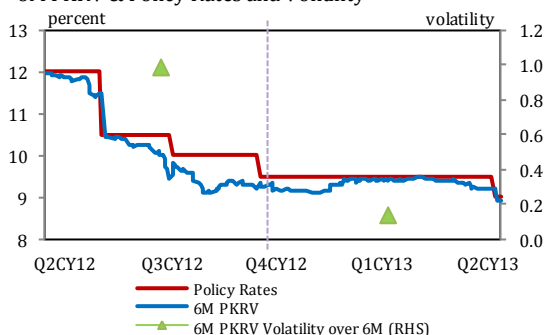
<sup>29</sup> The Liquidity Coverage Ratio will require banks to have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days.

**Figure 2.22**

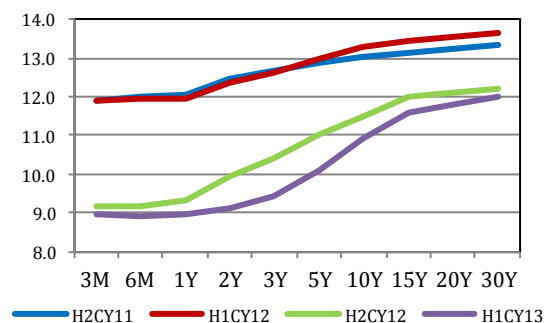
Risk Weighted Assets (in percent)

**Figure 2.23**

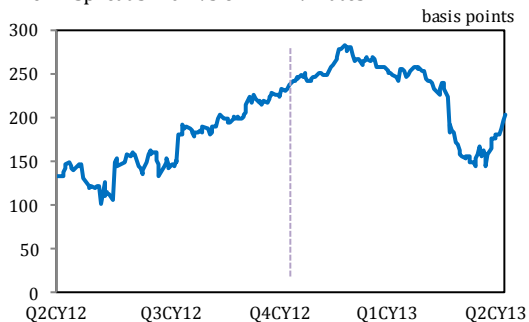
6M PKRV &amp; Policy Rates and Volatility

**Figure 2.24**

Yield Curves

**Figure 2.25**

Term Spreads: 10Y vs 6M PKRV Rates



## Market Risk

Market risk in the banking system remained manageable during H1-CY13 despite difficult economic environment and continuous strain in the external position. The increase in market risk was reflected by the increase in share of Market Risk Weighted Assets (MRWA)<sup>30</sup> to 8.5 percent (7 percent in H2-CY12) of the overall risk portfolio (**Figure 2.22**). Despite a rise in market risk exposures, SBP's prudent policies pertaining to limits on foreign exchange, equity exposures, and interest rate positions, were largely responsible for keeping the market risk under check.

### Low policy rate further steepened the yield curve

After reducing the policy discount rate by 2.5 percent during H2-CY12, SBP maintained the rate at 9.5 percent till the mid of Jun CY13, when it was further cut down by 50 bps. Several factors such as decline in inflation rate, lackluster growth in credit to private sector, and lower GDP growth were the reasons behind keeping the policy rates low (**Figure 2.23**). Consequently, with the increased expectation of further policy rate change, coupled with higher government borrowings from SBP, the overnight rates kept hovering around the ceiling of the interest rate corridor, though they stayed less volatile during H1-CY13 as compared to H2-CY12.

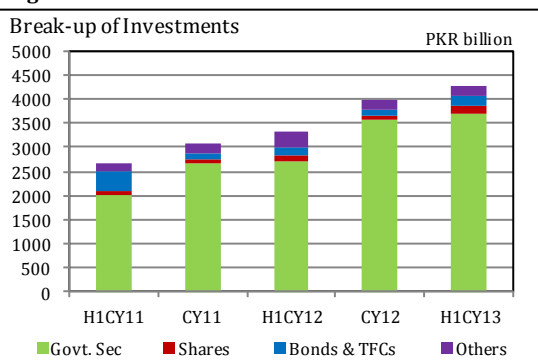
Following the trend of previous half-year, the yield curve further shifted downwards, with more pronounced dip over the short-term to medium-term horizon during H1-CY13 (**Figure 2.24**). The 6-month Pakistan Revaluation Rates (PKRV) dropped by 28 basis points as against a drop of 55 basis points in 10 years PKRV yield, thus steepening the yield curve over the medium to long term. Consequently, the term spread between 6-month and 10Y PKRV yields decreased from 230 basis points in Dec CY12 to 203 basis points in Jun CY13 (**Figure 2.25**).

### Net budgetary borrowing shifted from banking system to SBP

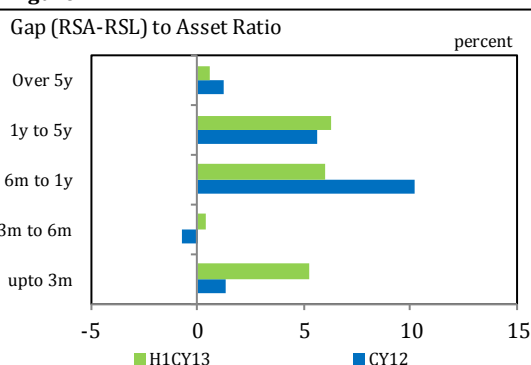
In the wake of persistent fiscal pressures, budgetary borrowing continued to remain high in H1-CY13. However, the focus of government borrowings shifted from banks to SBP. As a result, banks' investments in government papers decelerated in H1-CY13 compared to H2-CY12 (**Figure 2.26**). Given the low policy discount rate and constrained liquidity conditions, banks

<sup>30</sup> Risk weighted assets (RWAs) calculated based on Pillar I of Basel II Capital Accord.

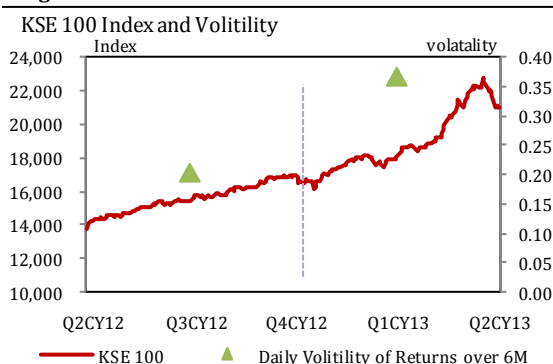
**Figure 2.26**



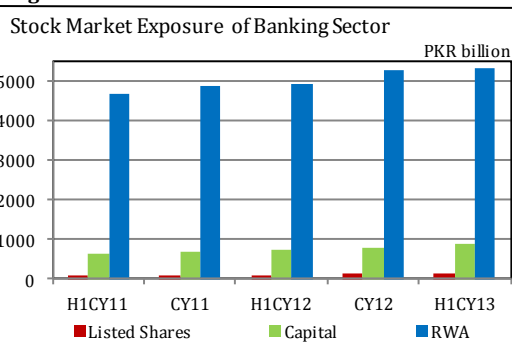
**Figure 2.27**



**Figure 2.28**



**Figure 2.29**



continued to prefer AFS category for placing the major portion of their investments ensuring flexibility in managing short term liquidity needs. Similar to H2-CY12 (surplus of PKR 22.3 billion) this preference helped banks in earning surplus of PKR 27.1 billion during H1-CY13.

***Positive re-pricing gaps, though within limits, may raise interest rate risk under an increasing interest rate scenario....***

During H1-CY13, the re-pricing gap between the rate sensitive assets (RSA) and rate sensitive liabilities (RSL) continued to remain well within tolerable limit of +/- 10 percent (**Figure 2.27**). Not only that the gap reduced compared to H2-CY12, it also remained positive for the entire portfolio, which meant that the interest rate exposures of the banking system stayed within manageable limits. However, the positive gap across all maturity buckets mainly driven by fixed income securities, may pose revaluation risk under an increasing interest rate scenario.

***KSE outperformed, bank's exposures stayed contained despite buoyant equity market***

Following the trend of CY12, KSE index reached all time high during H1-CY13, posting 24.3 percent gain over H2-CY12 to cross 21,000 levels (16,905 as of end CY12). The index experienced a steep rise towards the end of the half year, which increased the volatility in the stock indices (**Figure 2.28**). Much of this rise coincided with the elections as market positive expectations surged due to smooth political transition. In line with the increased activity in the stock exchange, equity exposure of banks rose by 14.5 percent during H1-CY13. In addition, strong performance of the equity market allowed banks to book healthy gains on sale of quoted shares. However, regulatory limit<sup>31</sup> imposed on investment in equities ensured that the overall exposure of banks remained well contained, i.e., only 1.5 percent of total assets and 17.1 percent of the capital (**Figure 2.29**).

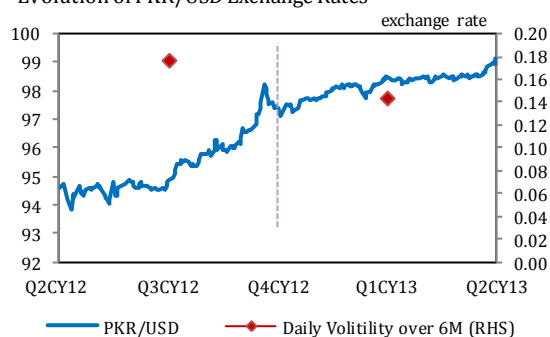
***Rupee continued to depreciate though the Rupee-dollar volatility stayed lower***

During H1-CY13, PKR posted a relatively stable outlook with a modest depreciation of 2.04 percent as compared to a depreciation of 2.65 percent in H2-CY12 (**Figure 2.30**). The PKR

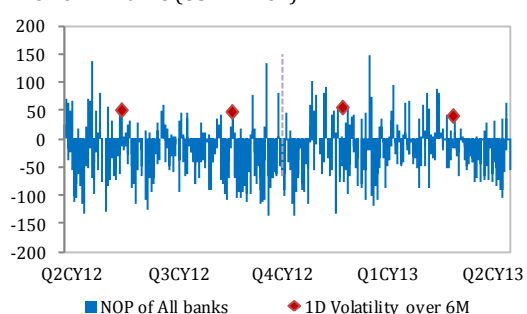
<sup>31</sup> In terms of Regulation R-6 of the Prudential Regulations for Corporate/Commercial banking, "the total investments of banks in shares should not exceed 20% of their own equity."

**Figure 2.30**

Evolution of PKR/USD Exchange Rates

**Figure 2.31**

NOP of All Banks (USD million)



came under pressure in the interbank and Kerb markets and touched all-time low of 99.1 in Jun CY13; however, the volatility in the exchange rate remained lower than the previous half year. Low policy rate, mounting public debt, and current account deficit were the factors contributing towards depreciation of PKR. Moreover, the excessive demand and supply mismatches driven by uncertain foreign flows and negative sentiments prevailing in the market negatively affected the exchange rate parity.

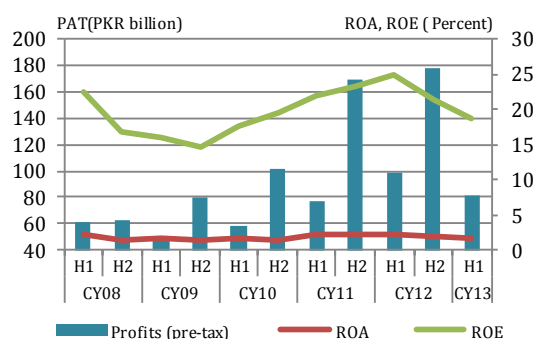
***Foreign currency positions largely remained short, though well contained***

Owing to the higher foreign currency payments compared to inflows, the overall Net Open Position (NOP) of the banking system remained on the shorter side with declining volatility during H1-CY13. Though, the depreciating value of local currency exposes the banks to currency risk especially when they are running net short positions, the exposures were well within manageable bounds of around 2 percent of the bank's capital (**Figure 2.31**).

The banking sector continued to post reasonable profits; though at a slower pace, due to higher provisions charge and shrinking interest margins. The solvency of the system improved further due to increase in capital base; Capital Adequacy Ratio stood well above the minimum benchmark, while a few banks find it challenging to comply with capital requirements. With strong capital position, the banking sector is expected to remain resilient to various stress scenarios; however, credit concentration remains the key risk factor that needs continuous vigilance.

**Figure 3.1**

Trends in Bank Profitability



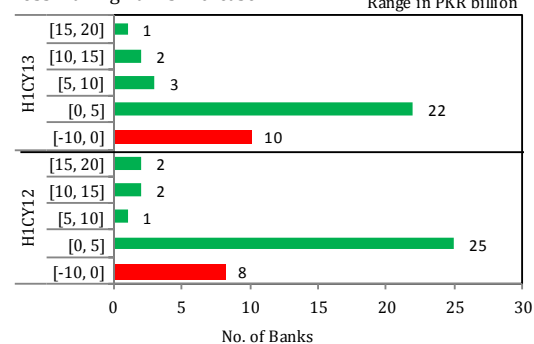
### Earnings deteriorated due to squeezing interest margins ...

Profitability of the banking sector declined by 16.5 percent during H1-CY13 compared to the first half of CY12, largely due to higher provisions charge against the classified portfolio, increase in cost of borrowings and a decline in returns on lending activities. Nevertheless, the banking sector with a profit of PKR 82.1 billion remained the second best performing sector<sup>32</sup> among the various sectors of the economy<sup>33</sup>. The earning indicators of ROA and ROE also declined by 70bps and 640bps to 1.7 percent and 18.5 percent respectively (Figure 3.1).

H1CY13	Share	ROA	ROE	AU	PM	NIM
Top 5	74.2	2.5	23.6	9.8	25.1	4.2
Top 6 to 10	21.1	1.7	23.9	9.0	18.6	3.4
Top 11 to 20	1.6	0.1	1.9	9.4	1.6	3.3
Top 21 to 30	3.1	0.8	7.0	8.8	9.1	4.1
Public Sector	14.6	1.3	13.3	9.2	14.1	3.2
Local Private	78.9	1.7	20.1	9.2	18.5	3.9
Foreign	2.8	1.9	11.2	7.9	23.7	4.7
Specialized	3.7	3.8	40.2	13.3	28.3	8.3
All Banks	100.0	1.7	18.6	9.5	18.0	3.9

**Figure 3.2**

Loss Making Banks Increase

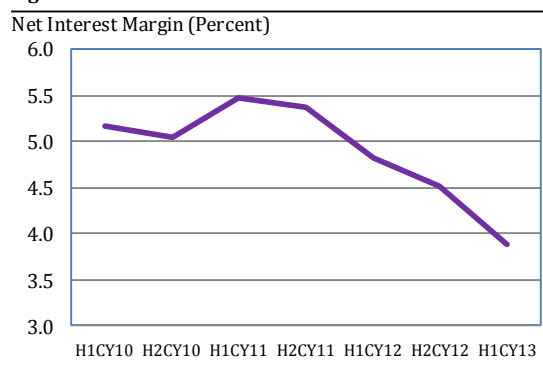


Analysis of concentration in profitability showed top five banks lead in most of the earnings indicators followed by top 6-10 banks (Table 3.1). The share of large 5 banks in total profitability enhanced to 74.2 percent against 70.9 percent in corresponding period last year. The higher concentration mainly resulted from increase in loss making banks that provided for higher provisions against infected portfolio during H1-CY13 (Figure 3.2).

The declining interest rates along with increase in borrowing cost squeezed the interest margins over the last couple of years. Net Interest Margin (NIM) of the banking sector maintained this downward trend during H1-CY13 as it decreased to 3.9 percent against 4.8 percent in H1-CY12 (Figure 3.3).

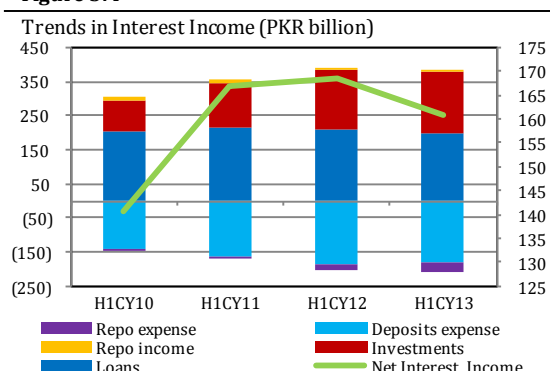
<sup>32</sup> The Oil and Gas sector was the largest in terms of profitability. During H1-CY13, the Profits before tax of the sector were in excess of PKR 250 billion.

<sup>33</sup> See Table 5.2 for sector-wise profitability.

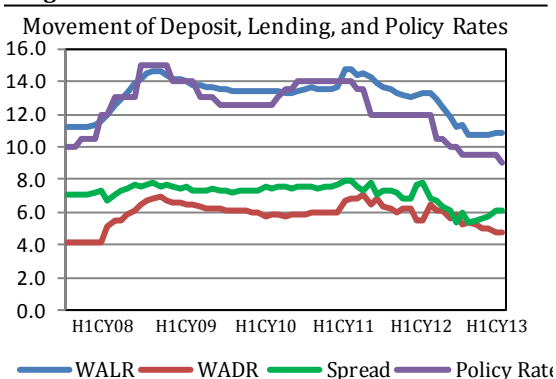
**Figure 3.3**

### ***Declining returns on loans and increasing repo expenses reduced the NII.***

During the first half CY13, the banks' Net Interest Income (NII) declined by 18.4 percent (YoY) due to reduction in markup income on loans and advances (**Figure 3.4**). This decrease was no surprise given 300 bps cumulative decline in policy rate over the period July-12 to June-13, which impacted the returns on KIBOR linked earning assets. Meanwhile, an increase in volume based earnings on investments mostly in government securities curtailed the decline in the markup / interest earnings to just 1.1 percent (YoY).

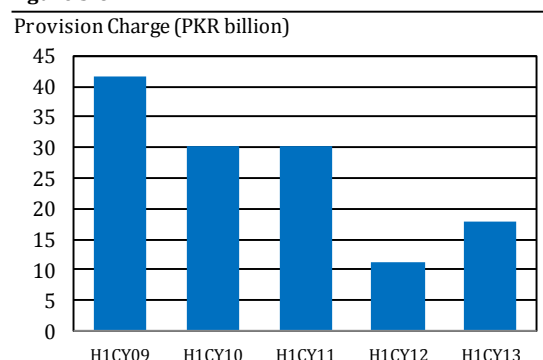
**Figure 3.4**

In addition, the mark up expense increased by 1.4 percent (YoY) on account of heavy repo borrowings from the SBP. The level of borrowings almost doubled that led to an increase in overall expense. Interestingly, expense on deposits decreased by 1.3 percent (YoY) despite an increase in minimum saving rate (MSR) over the year. Analysis of the issue highlighted that cost of deposits decelerated over the last few years. It declined to 7 percent in Jun-13 from 8.1 percent a year ago. Further, the share of deposit cost in overall mark-up/interest expense reduced to 80.4 percent in Jun-13 from 82.6 percent in Jun-12.

**Figure 3.5**

### ***Minimum saving rate policy curtailed decline in WADR ...***

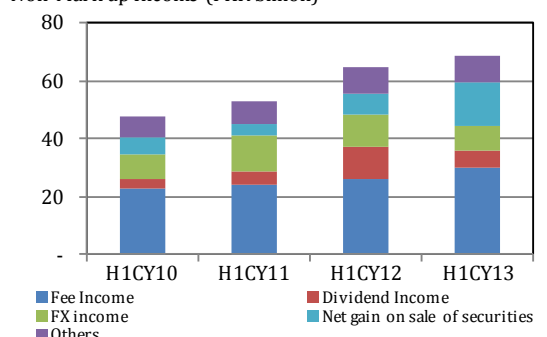
The trend of Weighted Average Lending Rate (WALR) and Weighted Average Deposit Rate (WADR) was quite synchronized with the SBP policy rate. Against the policy rate decline of 5 percentage points over Jun-11 to Jun-13, the WALR declined by 3.96 percentage points to 10.80 percent. The WADR also declined by 2.15 percentage points to 4.72 percent in Jun-13, which was relatively lower than the decrease in lending rates, a possible outcome of lifting up the minimum saving rate (**Figure 3.5**).

**Figure 3.6**

In addition to decline in interest income, increase in provisioning charge also dented the earnings of the banking system. After a significant decline in the provisioning and write-offs during H1-CY12, the provisions increased by 59 percent (YoY) in H1-CY13. The gradual wearing out of the FSV benefit and flow of fresh NPLs mainly increased the charge over the period under review (**Figure 3.6**).

**Figure 3.7**

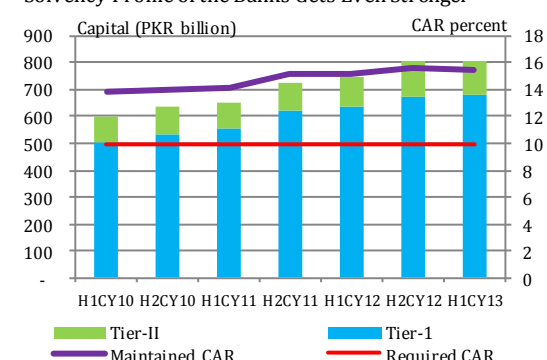
Non-Mark up Income (PKR billion)

**Non-mark up income kept earning at reasonable levels....**

In sharp contrast to NII, the non-mark up income observed YoY increase of 6.3 percent during H1-CY13. The growth was largely supported by improved fee based income and gain on sale of securities including T-bills, PIBs and listed stocks<sup>34</sup> (**Figure 3.7**). The fee income, which contributed 43.5 percent towards non-markup earnings, improved by 14.1 percent. The dividend income, though a smaller component of non-mark up income declined by 43.8 percent indicating that banks maintained short-term interest in the stock market.

**Figure 3.8**

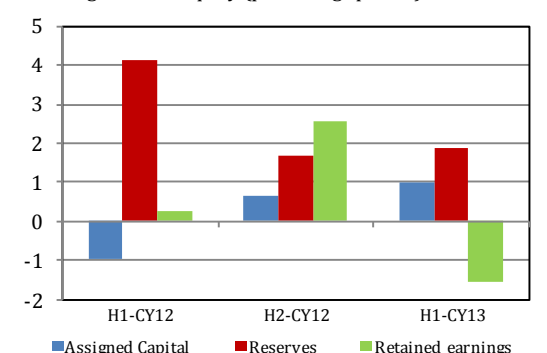
Solvency Profile of the Banks Gets Even Stronger

**Solvency**

The capitalization of the banking sector remained well above the local as well as Basel minima<sup>35</sup>, though Capital Adequacy Ratio (CAR) marginally declined by 10 bps to 15.5 percent during H1-CY13 (**Figure 3.8**). The decline in capital adequacy primarily resulted from dip in retained earnings (**Figure 3.9**). The leverage ratio<sup>36</sup> stood at a comfortable level, well above the Basel-III standard of 3 percent. Most banks met the CAR, while some continued to face challenges in achieving the prescribed Minimum Capital Requirements (MCR).

**Figure 3.9**

Share in growth of equity (percentage points)



Concentration analysis of solvency ratios showed that CAR of top 5 banks remained strong and well above the industry average (**Table 3.2**). With healthy profits over the years, banks have been able to enhance the capital base through internal capital accumulation that facilitated them in matching increase in RWAs and keeping the CAR high. The biggest increase in capital was observed in smaller banks (21-30 bracket). However, due to growth in MRWAs as well as increase in classified portfolio in some of these banks witnessed somewhat deteriorated capital ratios. Moreover, leverage represented by capital to assets ratio increased due to growth in credit mainly in investment portfolio during H1-CY13 (**Table 3.2**).

**CRWA decreased slightly...**

Given the decline in private sector credit, CRWA witnessed a decrease of 2.6 percent during H1-CY13. As a result, the share of CRWA in total RWA dipped to 76.7 percent in H1-CY13 from 78

<sup>34</sup> Banks benefited from taking long position in the declining interest rate scenario and therefore gained on the sale of government securities held with them, while improved valuation of the strongly performing stock indices facilitated in booking gain on sale of quoted shares.

<sup>35</sup> Banks are required to maintain minimum CAR of 10 percent.

<sup>36</sup> The leverage ratio is measured as the ratio of adjusted tier-I capital to adjusted on-balance sheet and off-balance sheet assets



**Table 3.2: Bank Category-Wise Solvency Ratios**

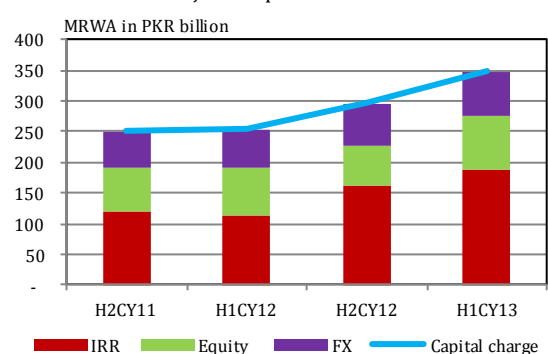
	in percent					
	Capital to RWA		Tier 1 to RWA		Capital to Assets	
	H2-CY12	H1-CY13	H2-CY12	H1-CY13	H2-CY12	H1-CY13
Top 5	16.7	16.5	13.8	13.7	10.1	9.9
6 to 10	13.6	13.7	10.7	10.7	6.8	6.9
11 to 20	11.5	11.7	9.8	10.1	8.0	7.7
21 to 30	18.6	16.5	19.1	16.5	12.0	11.8
PSCB	16.7	15.8	13.9	12.7	10.3	9.6
LPB	14.9	15.0	12.4	12.7	8.6	8.5
FB	30.7	26.4	30.5	26.2	16.5	16.3
SB	12.3	13.7	6.8	7.8	8.3	10.5
<b>Industry</b>	<b>15.6</b>	<b>15.5</b>	<b>13.0</b>	<b>13.0</b>	<b>9.1</b>	<b>8.9</b>

**Table 3.3: RWAs to Original Exposure**

Claims on	CY12			HCY13		
	Original Exposure	Risk Adjusted Amount	RWA to Original Exposure	Original Exposure	Risk Adjusted Amount	RWA to Original Exposure
GoP	2,432	-	-	2,583	-	-
PSEs	630	60	9.6	634	58	9.1
Banks	237	90	37.8	207	88	42.6
Corporates (excluding equity exposures)	<b>2,167</b>	<b>1,784</b>	<b>82.3</b>	<b>2,105</b>	<b>1,767</b>	<b>84.0</b>
Categorized as retail portfolio	575	376	65.4	549	356	64.8
Past due loans	202	195	96.3	198	194	98.0
<b>Total On Balance Sheet Exposures</b>	<b>7,763</b>	<b>3,390</b>	<b>43.7</b>	<b>7,920</b>	<b>3,338</b>	<b>42.2</b>
<b>Total Off Balance Sheet Exposures</b>	<b>3,885</b>	<b>604</b>	<b>15.5</b>	<b>4,022</b>	<b>647</b>	<b>16.1</b>

**Figure 3.10**

IRR remained major component of market risk



percent in H2-CY12. A look at the source of the changes show that most of the increase in on-balance sheet exposure during H1-CY13 resulted from an increased financing for public sector commodity procurement operations, which carry zero risk weight. The claims on most of the other categories either decreased or remained unchanged, which decreased the overall risk adjusted claims. Meanwhile credit risk adjusted off-balance sheet claims inched up due to increase in trade related contingencies and commitments (**Table 3.3**).

### *...while MRWA continued to grow*

MRWA witnessed a sizeable growth of 16.6 percent that enhanced its share in total RWAs by 120 bps to 8.3 percent in H1-CY13. Among the MRWA, Interest rate risk (IRR) provided for most of the increase in capital charge due to 17.4 percent increase in stock of investments in long term-PIBs. With 49.8 percent growth in equity investments of the banks, the associated capital charge also grew by 40.7 percent, while foreign currency positions related capital charge rose modestly by 3.1 percent during the period under review (**Figure 3.10**).

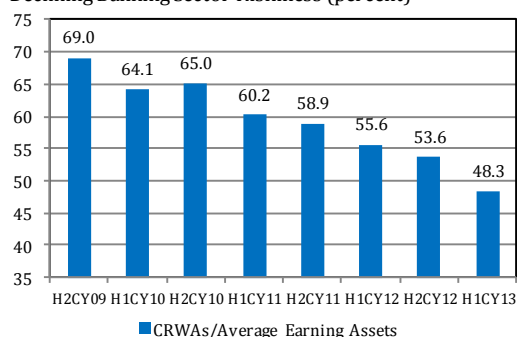
### *...whilst the riskiness of banking sector remained subdued...*

Given the reduction in CRWA, the overall riskiness of the banking sector (CRWA assets to average earning assets) continued to subside. This came as a no surprise as major part of the 10.5 percent expansion in earning assets during H1-CY13 carried low risk weights. Since CRWA declined by 0.38 percent, share of CRWA as a percentage of average earning assets declined by 5.3 percentage points in H1-CY13. This trend though favorable in short run, may compromise risk management capacity of the banking sector in future (**Figure 3.11**).

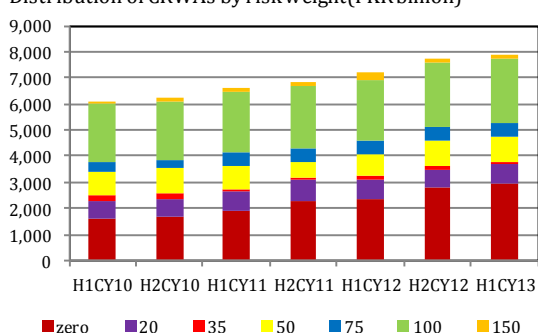


**Figure 3.11**

Declining Banking Sector Riskiness (percent)

**Figure 3.12**

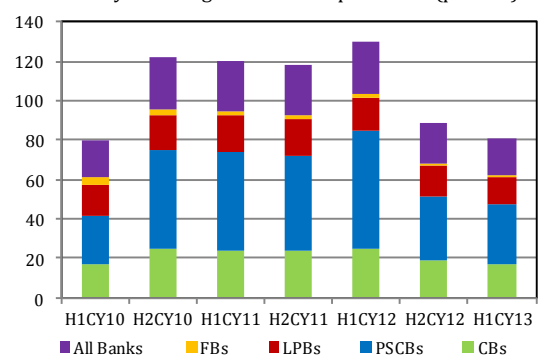
Distribution of CRWAs by riskweight(PKR billion)

**Table 3.4: Distribution of Banks by CAR**

	in percent			
	Less than 10	10 to 15	over 15	Total
H1CY10	6	15	19	40
H2CY10	5	13	20	38
H1CY11	5	12	21	38
H2CY11	5	10	23	38
H1CY12	5	11	22	38
H2CY12	5	9	24	38
H1CY13	5	11	22	38

**Figure 3.13**

Consistently declining Net NPL to Capital Ratio (percent)



Lower riskiness can be also traced into rising level of low risk weighted assets in the balance sheets of banks. In line with the large share of public sector investments, share of zero risk weighted asset reached its highest level of 36.9 percent during H1-CY13 from 36 percent in H2-CY12. Moreover, share of assets with risk weight of 20 percent increased to 9.8 percent of total CRWAs portfolio due to increase in exposure towards entities with better credit ratings. On the flip side, share of assets carrying 50 and 100 percent risk weight (usually assigned to the advances extended to unrated borrowers) continued to decline, an outcome of slow growth in private sector credit (**Figure 3.12**).

A higher capital base above the regulatory requirements provided 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 requirements in gradual manner. The outcome of this approach is obvious in comfortable CAR of most banks. (**Table 3.4**). Banks falling short of minimum CAR represent merely 6.6 percent of total asset of the industry and as such do not pose any serious concern to the solvency of the banking sector.

### ***Improved credit quality provided a breathing space for overall solvency profile of banking system***

Solvency risks from changes in credit quality continued to pacify during period under review, as capital impairment ratio (Net NPLs to Capital), an indicator of fraction of banks' equity that could be impaired by uncovered loan losses, improved significantly during H1-CY13. Though this improvement was broad based and observed across all categories of banks, the most profound impact was observed in LPBs category where the ratio came down from 15.9 percent in H2-CY12 to 13.7 percent in H1-CY13 (**Figure 3.13**).

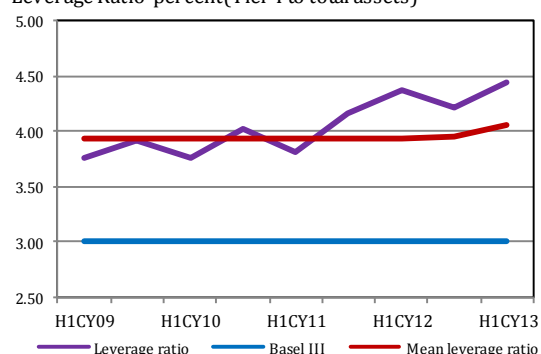
### ***Banking system leverage remained well within the prescribed limit***

The leverage ratio<sup>37</sup> for banking sector of Pakistan continued to improve at the back of rising equity levels. During H1-CY13, ratio increased by 24 bps due to inhibited growth in the on-balance

<sup>37</sup> Leverage ratio is defined as Tier-I capital as proportion of total assets (adjusted both sides for intangible assets). The inverse of leverage ratio is call leverage multiples. This ratio is not yet applicable in Pakistan.

**Figure 3.14**

Leverage Ratio-percent (Tier-I to total assets)



sheet exposure relative to Tier-I capital. On aggregate basis, leverage ratio stood at 4.4 percent in H1-CY13, much higher than the minimum of 3 percent set by the Basel Committee on Banking Supervision (**Figure 3.14**). With a comfortable level of this non-risk based indicator and potential of growth in the economy, banking industry enjoys enough buffer to further increase its leverage in the future (**Table 3.5**).

### Resilience of the banking system

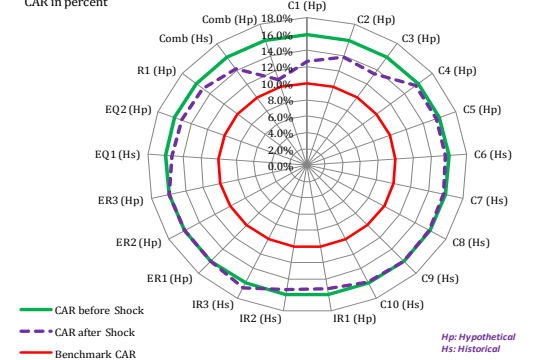
The banking system continued to exhibit resilience to various shocks under stress due to strong CAR of 15.5 percent. The stress shocks on the credit, market, liquidity and contagion risk on the banking sector reaffirms that system is satisfactorily placed to withstand the stress shocks<sup>38</sup>. Importantly, all banks with before-shock CAR of above 13.1%, including top 5 banks of the industry, would comfortably bear the solvency shocks.

Under sensitivity analysis, the after-shock CAR of the system would stay strong, though certain shocks to the credit risk portfolio would have significant impact on the solvency profile of the banking system. The credit shocks including shock (C-1) assuming an increase in NPLs equivalent to 10 percent of performing loans, (C-2) default of top 3 private sector individual borrowers (fund based exposures only), and (C-3) a shock of default of top three borrowers (both fund and non-fund based) would decrease the after-shock CAR of the banking system up to 333 bps (**Figure 3.15**). Keeping in view their systemic implication of high concentration of top corporate and group exposure, banks need close monitoring of such exposures.

Despite considerable rise in MRWA, overall 8.3 percent share continued to present a subdued market risk profile. As a result, market risk related sensitivity shocks had minimal effect on the solvency profile of banks (maximum decline of 85 bps in CAR). Similarly, analysis of liquidity stress tests, which envisaged significant withdrawals of deposits and volatile funds, and dip in value of liquid securities, showed that the ample fund based liquidity in the system would provide enough cushion to meet significant withdrawals of deposits and volatile funds. Similarly, haircut on value of government securities, would marginally decline the liquidity coverage ratio (LCR) as defined under Basel-III framework, would stay well above the minimum acceptable value of LCR of 1.

**Table 3.5: Capital Cushion H1-CY13**

amount in billion Rupees, ratio in percent			
	Existing	Simulated	Cushion
Capital	807	807	-
RWAs	5,222	8,073	2,851
CAR	15.5%	10.0%	

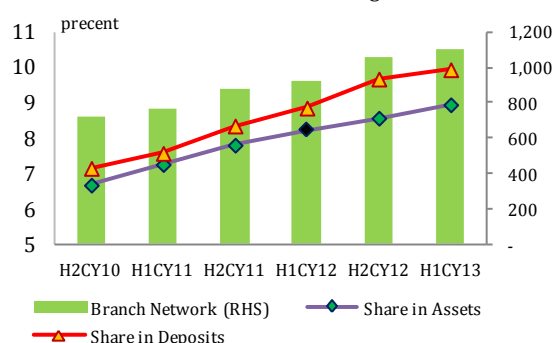
**Figure 3.15**Impact of Sensitivity Tests on Solvency of the Banking System - June-2013  
CAR in percent

<sup>38</sup> For number of banks failing stress scenarios, see Annexure 1.15

The increase in assets base of Islamic banking continued to outpace the growth in banking sector of Pakistan as share of Islamic banking reached 9 percent during H1-CY13. In sharp contrast to industry trend, flow of funds for financing activities outpaced investments. The financing was broad based with major portion extended for long-term investment under Ijarah and Diminishing Musharakah, while Musharakah financing saw a substantial surge. The assets quality indicators showed marginal improvement though Non-Performing Financing saw some increase. The earning performance moderated due to higher provision charge and increasing operating expenses largely incurred on expansion of outreach. The Capital adequacy with marginal improvements remained steady.

Figure 4.1

Share and Network of Islamic Banking



### ***Islamic banking continue gaining weight globally.....***

Islamic banking has been the major driver of Islamic finance over the last decade and has started to gain systemic importance. It expanded at a Compound Average Growth Rate (CAGR) of 19.1 percent during 2007-2012 enhancing the Islamic banking assets to around USD 1.28 trillion<sup>39</sup>.

### ***....and so is the case with Islamic banking in Pakistan***

Islamic banking in Pakistan continued its expansion in terms of size and penetration during H1CY13 though at decelerated pace (**Figure 4.1**). With 7.9 percent increase in assets, share of Islamic banking edged up by 40 bps to 9 percent. Though both financing and investment activities contributed to this growth, the former not only observed double digit surge but also outpaced investment activities for second half-year in a row. Investment activities remained largely confined to investment in Government Ijara Sukuks. The operating performance of Islamic Banking Institutions (IBIs) somewhat deteriorated due to higher provisions charge and soaring operating expenses (**Table 4.1**).

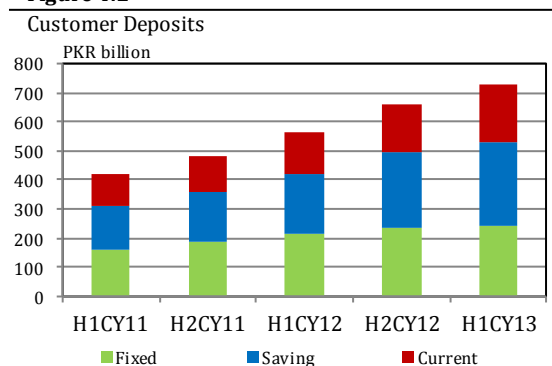
### ***Deposits continued to provide required funding...***

Deposits remained the key funding source for the Islamic Banking institutions (IBIs). The efforts of IBIs in expanding their outreach and utilization of the existing branch network remained the driving force behind the consistent increase in deposit base. The deposit base of IBI's increased by 9.1 percent during H1CY13, financing the essential expansion in Islamic banking assets. The customer's deposits at around 95 percent of deposits provided stable source of funding (**Figure 4.2**). The mix of Mudarbah (saving and term) and Qurd (current) deposit

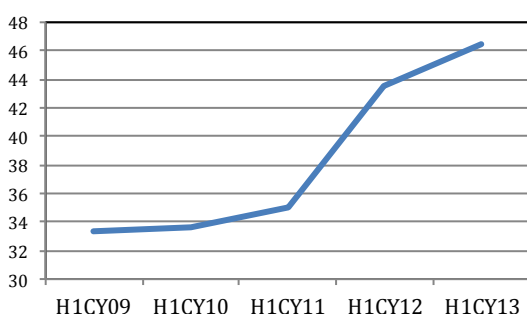
Table 4.1: Growth of Islamic Banking.

	PKR billion				
	All Banks				
	Dec-11	Jun-12	Dec-12	Jun-13	Jun-13
Total Assets	641	711	837	903	10,090
Investments (net)	274	346	394	439	4,253
Financing (net)	200	197	231	261	3,727
Deposits	521	603	771	771	7,756
	percent change				
Total Assets	14.4	10.9	17.7	7.9	3.4
Investments (net)	18.6	26.0	14.1	11.3	6.1
Financing (net)	6.2	(1.7)	17.5	12.8	(0.9)
Deposits	15.2	15.6	27.9	9.1	6.2

<sup>39</sup> IFSB; Islamic Financial Industry Stability Report, 2014

**Figure 4.2****Figure 4.3**

Private sector borrowers continued to grow ('000)

**Table 4.2: Islamic modes of financing**

	PKR billion			
	H1CY12	H2CY12	H1CY13	Growth(%)
Murabaha	75.1	85.4	97.6	14.3
Salam	7.4	7.3	13.4	82.8
Istina	10.8	17.7	15.1	(14.9)
Musharaka	2.4	1.9	4.0	108.6
Car Ijara	9.4	10.9	10.1	(7.7)
Plant and machinery Ijara	6.4	4.8	4.9	2.6
Equipment Ijara	5.7	5.9	6.7	13.0
Others Ijara	1.2	0.6	1.5	149.5
Diminishing Musharaka	74.2	87.1	90.2	3.7
Islamic Export refinance	8.8	11.8	12.6	6.7
Mudarabah	0.2	0.6	0.5	(19.7)
Other Islamic modes	6.7	10.9	18.6	70.9
<b>Total</b>	<b>208.4</b>	<b>244.9</b>	<b>275.2</b>	<b>12.4</b>

respectively at 69 and 26 percent remained in conformity with past trend and in alignment with overall business conduct of IBI's.

### *Financing remained robust and relatively broad based...*

Keeping the pace with development in H2CY12, growth in financing at 12.8 percent remained ahead of investment growth of 11.3 percent. As such, share of financing, which was on downhill for last 5 years<sup>40</sup>, increased by 123 bps to 29 percent. Private sector remained the prime user of the funds, with additional funds channeled to more diverse borrower categories (**Figure 4.3**). While public sector, with a mere 11 percent share of financing, observed surge of 59 percent, largely for financing the public sector commodity procurement operations.

Corporate sector utilized major part of the flows during H1-CY13 largely for long-term investment and trade financing needs. In terms of Islamic modes, the period under review observed some encouraging trends. Musharakah financing (sharing based mode) observed more than 100 percent increase to Rs 4.4 billion, while considerable financing under Ijara and Diminishing Musharakah (DM) was directed towards fixed capital formation. Additionally, banks ventured into financing commodity procurement operations under Murabaha financing. Salam financing also increased by 82 percent for financing trade and agribusiness related activities (**Table 4.2**). Fresh financing flows during the half year catered the financing requirements of textiles, chemical sector, and production and transmission of energy.

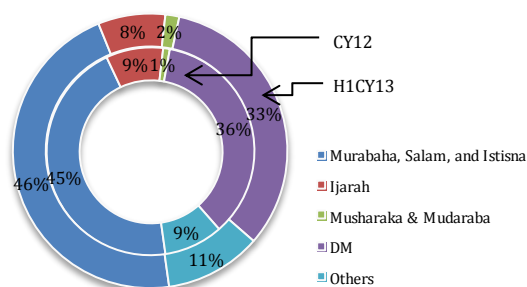
Despite improvements in credit flows, the share of trade related modes lead the financing landscape of Islamic banking. The financing under the Murabaha, Diminishing Musharakah and the Ijarah composed about 86 percent of financing mix (**Figure 4.4**). To encourage the participatory mode of financing, IBI's needs to refocus on asset led strategic policy by exploring the sharing based financing avenues. To this end, regulator is continuously making efforts for bringing about improvements in shariah compliance framework and harmonization of industry practices. During the period under review, SBP issued instruction for extending facilities in conformity with the various AAOIFI and shariah standards<sup>41</sup>.

<sup>40</sup> Share of Financing came down from 52 percent in CY08 to 28 percent in CY12.

<sup>41</sup> IBD Circulars No.1, 2 and 3 of 2013; see URL; <http://www.sbp.org.pk/ibd/2013/index.htm>

**Figure 4.4**

Financing Mix (in percent)

**Table 4.3: Segment wise financing**

	PKR million			
	H1CY12	H2CY12	H1CY13	Growth(%)
Corporate Sector:	146.5	179.0	192.9	7.8
Fixed Investment	63.7	76.9	82.1	6.7
Working Capital	71.6	89.4	88.8	(0.7)
Trade Finance	11.2	12.6	22.0	74.7
SMEs:	10.8	10.1	10.2	1.2
Fixed Investment	2.9	2.5	3.5	42.4
Working Capital	5.8	6.4	5.3	(16.2)
Trade Finance	2.1	1.2	1.3	8.0
Agriculture	0.1	0.2	0.2	21.6
Consumer Finance:	30.8	32.0	35.1	9.6
Commodity Financing	15.3	17.8	29.7	66.5
Others	4.6	4.5	5.4	19.92
Total	208.2	243.7	273.6	12.3

In line with the industry trend, consumer-financing portfolio of IBIs observed steady increase. This second major user of Islamic funds witnessed a growth of 10% percent, with most of disbursement confined to auto-financing and mortgages under car Ijara and DM modes. Rest of the consumer finance segments, with minor changes, remained almost static during the half year (Table 4.3). The share of SME and Agriculture in IBI's financing portfolio remained quite meager at about 4 percent, despite various regulatory measures for promoting SME and agriculture financing.

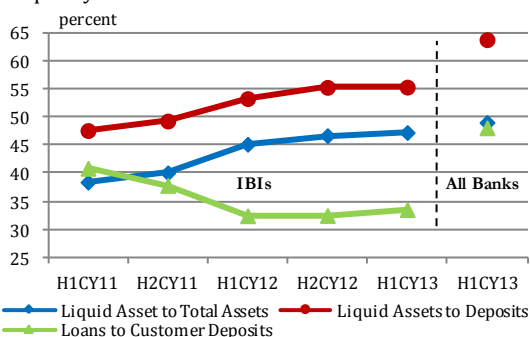
#### *..while investments largely confined to Ijarah Sukuk*

Over the last few years high fiscal needs of the government along with subdued credit flow to private sector and steady growth in deposits allowed IBIs to invest considerable amount of funds in Government Ijarah Sukuks at attractive rates. The trend continued during the H1CY13, as IBIs added another 12.9 percent Ijarah Sukuks, increasing their volume to PKR 314.6 billion. Consequently, liquidity indicators improved further during the period under review as liquid asset to total asset and liquid asset to deposit ratio at 47.2 percent & 55.3 percent respectively reached the corresponding ratios of conventional banking. However, it also kept the financing to deposit ratio dismally low at 33.5 percent as against 47.5 percent in conventional banks (Figure 4.5).

#### *Liquidity management a major challenge for the industry...*

**Figure 4.5**

Liquidity Ratios



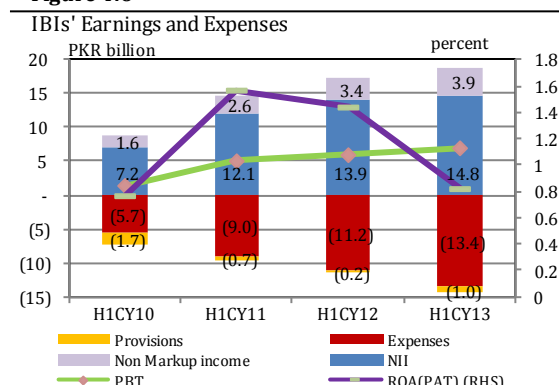
Though GoP Ijarah Sukuk provides Islamic banks with long-term liquidity management instruments, development of innovative Shariah compliant short maturity liquidity management instrument remains the major challenge. Inherent characteristics of Islamic modes of financing & deposit structures in wake of limited supply of the interbank liquidity instruments renders IBIs more vulnerable to liquidity risk compared to conventional banks. The SBP is working on developing such an instrument in collaboration with the industry. In the meantime, IBIs need to improve the fund management practices by diversifying the assets and the corresponding liabilities structures.

#### *Asset quality improved marginally.....*

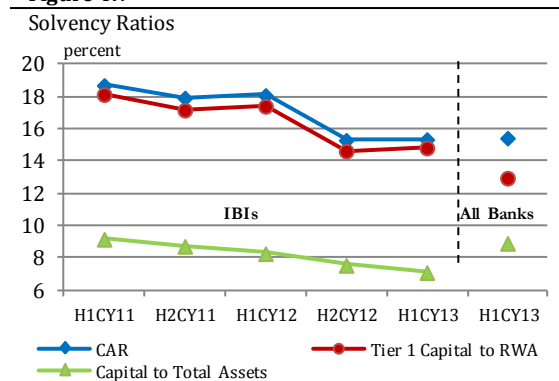
The asset quality of the loan portfolio continued to improve during the period under review though Non-performing Financing (NPFs) observed some increase. Both NPFs to financing and Net NPFs to Net Financing declined during H1CY13 as growth in financing outpaced growth in NPFs. Provisions

Table 4.4: Asset Quality						
	IBIs					All-Banks
	H1CY11	H2CY11	H1CY12	H2CY12	H1CY13	H1CY13
NPF to Financing	7.5	7.6	8.8	7.6	7.1	14.8
Net NPF to Financing	3.2	2.9	3.8	2.7	2.5	4.4
Provisions to NPFs	60.0	63.0	59.5	66.5	66.1	73.2
Net NPFs to Capital	14.3	10.2	13.4	11.1	12.2	19.4
	IBs			IBBs		
	H1CY12	H2CY12	H1CY13	H1CY12	H2CY12	H1CY13
NPF to Financing	11.5	9.2	8.7	4.3	4.3	3.9
Net NPF to Financing	4.4	2.9	2.9	2.8	2.3	1.9
Provisions to NPFs	64.4	70.5	69.2	36.9	48.5	52.3
Net NPFs to Capital	14.6	12.3	14.5	11.0	9.0	8.0

**Figure 4.6**



**Figure 4.7**



coverage ratio with a marginal dip remained steady at 66.1 percent. Capital at risk (Net NPFs to total Capital) inched up to 12.2 percent due to slow pace of growth in capital, though remained far below the industry average of 19.4 percent (**Table 4.4**).

#### *Earning of IBIs moderated somewhat .....*

The profitability of IBIs deteriorated during H1CY13 owing to persistent rise in the high operating expenses and sharp increase in the provision expenses. The profit before tax (PBT) witnessed YoY decline of 27 percent to PKR 4.3 billion. As a result, the ROA of the IBIs declined to 0.8 percent in H1CY13 compared to 1.4 percent in corresponding period last year (**Figure 4.6**)

In addition to four times increase in provisions charge due to higher NPFs, non-mark-up expense increased by 20 percent during the period under review. Accordingly operating expense to income ratio inched up to 71.7 percent. Although escalating administrative expense raises concerns on efficient operations of the IBIs, however, robust increase in branch network and related resources provide the very basis for this surge. As such, we can expect the efficiency ratios of the industry may remain high for some years to come. However, soaring provision expenses in lieu of restrained chunk of finance portfolio suggest serious operational deficiencies on part of the IBI's.

The overall CAR of the Islamic Banks<sup>42</sup> with minor improvements remained unchanged at 15.4 during H1-CY13 (**Figure 4.7**). Analysis of components show that eligible capital as well as Risk weighted assets increased by 2 percent each; increase in capital resulted from accumulation of retained earnings and increase in paid up capital post announcement of annual results; while growth in Risk Weighted Assets came from 50 percent increase in MRWA. All Islamic Banks maintained CAR well above the required level, though some of them face challenge in meeting the MCR of PKR 9 billion.

<sup>42</sup> Represent CAR of Islamic banks only.



*Twin deficits and sluggish macroeconomic performance (except for declining inflation) continued to test the financial markets during H1-CY13. The money market largely relied on substantial OMO injections by the central bank to maintain sufficient market liquidity, which remained under stress due to unpredictability of high Government financing needs. Similarly, the Foreign Exchange market also remained volatile and the market sentiment remained passive as current account turned negative and the FX reserves held with the central bank continued to decrease. Meanwhile, the bullish sentiments in the equity market further gained momentum and the index surged by 24.2 percent during the period on account of favorable corporate earnings, dividend expectations and smooth transition of the political process.*

### **Money Market liquidity and depleting reserves tested financial markets**

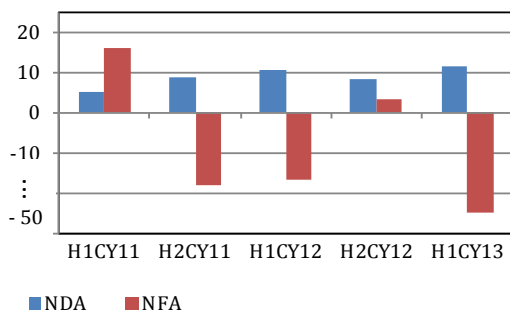
Financial markets remained largely resilient against economic challenges primarily emanating from persistent twin deficits and non-conducive business conditions (private sector crowding-out, energy shortages, law and order concerns etc). The markets were testing during H1-CY13 due to heavy fiscal borrowings, exchange rate volatility and negative market sentiments in response to depleting foreign exchange reserves. Despite these adverse developments, the financial markets exhibited reasonable performance and continued to provide intermediation to various economic segments during H1-CY13.

The money market witnessed stress in liquidity due to surge in the Government funding needs to bridge revenue-expenditure gap. Similarly, the FX market also remained under pressure as the current account deficit exacerbated and reserves depleted. However, the exchange rate (PKR/USD) depreciated by only 2.5 percent during the period. The equity market remained bullish and the benchmark KSE-100 index further increased to 21,005 points, showing a growth of 24.2 percent during H1-CY13 largely due to increased corporate profitability in line with the market expectations and dividend payouts.

The rising Government borrowings further increased the Net Domestic Assets (NDA) of the banking system by 11.5 percent (**Figure 5.1**). A consistent decline in FX reserves owing to repayment of IMF loans dampened the Net Foreign Assets (NFA) by 50.9 percent during the period. This further enhanced the Government financing requirements, most of which were met through central bank borrowings as the banks' appetite relatively subdued on account of unattractive return on investments and to some extent, due to liquidity strain in the money market (**Figure 5.2**).

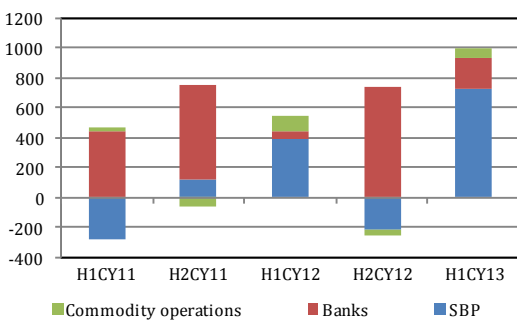
**Figure 5.1**

Half-yearly trends in M2 (percent change)



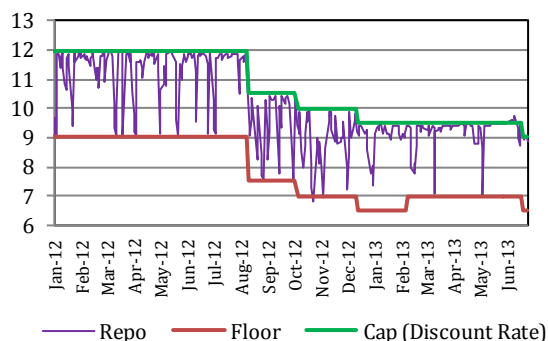
**Figure 5.2**

Pattern of Government Borrowings - Half-Yearly Flows (PKR billion)

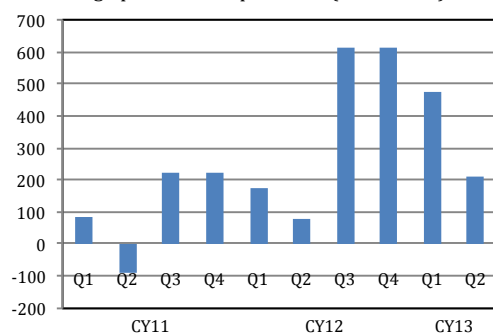


**Figure 5.3**

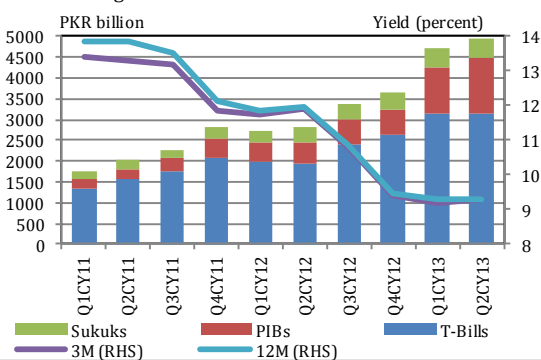
Trend of overnight Repo Rates (percent)

**Figure 5.4**

Outstanding Open Market Operations (PKR billion)

**Figure 5.5**

Outstanding stock of Government securities



## Money Market

The money market remained relatively under stress despite various measures taken by SBP including narrowing down of interest rate corridor by 50 bps<sup>43</sup> with the objective of managing exchange rate stability and controlling excess money supply (**Figure 5.3**). The latter objective remained unfulfilled due to increased reliance of the Government on SBP for managing its fiscal needs. In the meantime, gradual decline in OMOs, led banks to recourse to interbank window for meeting short term liquidity needs particularly in the second quarter of the year<sup>44</sup> (**Figure 5.4**). As a result, the overnight rate – a measure of market liquidity remained close to the ceiling of the interest rate corridor during most of the half year.

During H1-CY13, the Government increased borrowings from the banking system particularly the Central bank as it was not able to raise required funds from the market participants. The Federal Government borrowed PKR 665 billion mostly to roll over the maturing T-bills and increased expenses in the last quarter of the fiscal year including retirement of circular debt<sup>45</sup>. Meanwhile, the banks remained wary of investing in shorter-term securities in expectation of decline in discount rate. The stock of T-Bills witnessed deceleration during H1CY13 compared to increasing trend in last few years, while investment in PIBs grew substantially particularly in the Apr-Jun quarter due to settlement of inter-corporate circular debt (**Figure 5.5**).

## Auction profile of Government debt instruments posed mix picture

The auction of T-bills in general remained dismal until the announcement of election results in mid of May CY13. The offer to target ratio which started at 1.88 for first two T-bill auctions in month of January, 2013 reduced to as low as 0.57 during February auctions. During the first quarter, the aggregate offer to target ratio remained 1.38. However, post-election, the bidding patterns improved and the average offer to target ratio reached 1.5. Overall, the ratio deteriorated from 1.73 in H2-CY12 to 1.25 in H1-CY13 (**Figure 5.6**). This change in behavior of the market resulted from unattractive yields on short-term instrument and unpredictable behavior of government borrowings.

<sup>43</sup> The Monetary Policy Statement announced in Feb 2014 narrowed the interest rate corridor (Discount rate – Repo rate) from 300bps to 250bps.

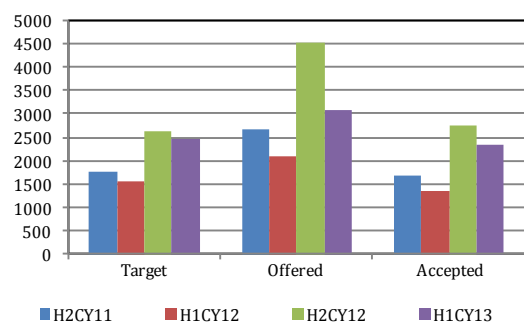
<sup>44</sup> The banks accessed the discount window 102 times during the second quarter of CY13 as against 57 times in the first quarter.

<sup>45</sup> The reduction in circular debt was arranged through a dynamic funding mechanism that included settlement through cash, issuance of PIBs and adjustment for receivable dividends by the incumbent Government.

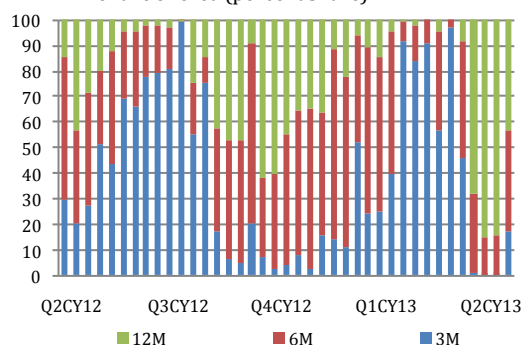


**Figure 5.6**

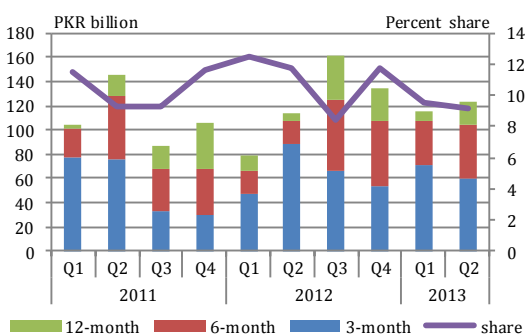
Profile of T-bill Auctions (PKR billion)

**Figure 5.7**

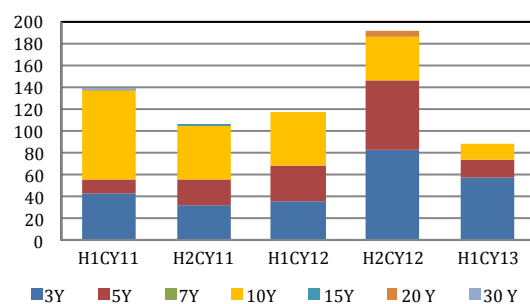
T-Bill Tenure offered (percent share)

**Figure 5.8**

Fluctuating share of Non-Competitive Bids

**Figure 5.9**

Accepted PIB Auction Profile (PKR billion)



The discount rate remained at 9.5 percent throughout the half year, before 50 bps cut in the last week of the June, 2013. The market perceived the rate to remain unchanged and subsequently, banks offered more in 6-month T-bills during Jan-Feb CY13. However, as the banks expected an increase in the discount rate, the 3-month bids offered rose sharply. Later on, as the inflation rate subsided to 5.1 percent in May CY13 (YoY basis) and with positive sentiments following the 11<sup>th</sup> May, 2013 election, the banks perceived the discount rate to decline, which increased the offers for 12-month T-bills to average 66 percent in May-Jun CY13 period (**Figure 5.7**).

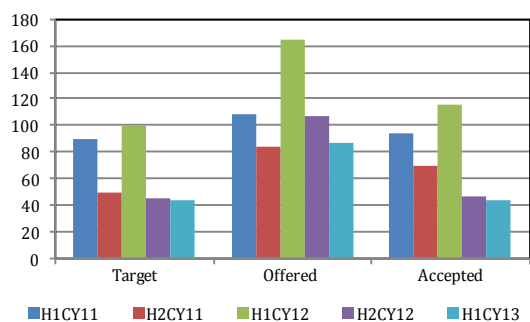
Besides, the participation of financial institutions in T-bill auctions, the Government also provided investment opportunities to general public and businesses through Non-Competitive Bids (NCBs). However, following the trend in T-bill auctions, the NCB acceptance also remained dull during the first quarter of CY13 and the acceptance ratio declined from 11.7 percent in Dec CY12 to 9.5 percent in Mar CY13 quarter. Though, the volume of NCBs increased in the second quarter, the higher acceptance of T-bills further reduced the ratio to 9.3 percent in Jun CY13 (**Figure 5.8**). A decline in NCBs can be explained in terms of higher yields available elsewhere to investors such as the equity market.

The PIB auctions also witnessed a mix picture during the first half CY13 as the Government rejected all the offered bids of PKR 70 billion against the target of PKR 75 billion during Q1-CY13 on account of higher offer rates by the bidders (banks and financial institutions). Meanwhile, the three auctions that took place in Q2-CY13 saw very high offerings (offerings of PKR 189 billion against the target amount of PKR 75 billion and the acceptance of PKR 87.3 billion). In line with the trend, most of the PIB subscriptions were predominately of 3-year tenure (**Figure 5.9**). The investors remained cautious of investing in longer tenure of 15-30 years on account of maturity mismatches (non-availability of long-term funding) and also due to high degree of macroeconomic and geo-political uncertainty involved in long term placements.

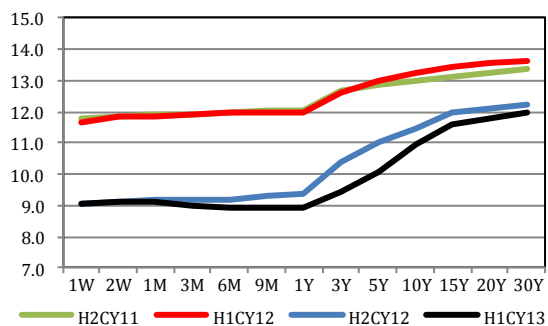
In addition to conventional modes of raising debt, the Government also borrowed by issuing Ijarah Sukuks. However, like the conventional debt instruments, PIBs and T-bills, the auction of Ijarah has also been relatively dull during H1-CY13 (**Figure 5.10**). A single issue of PKR 43 billion was targeted which was well received by the dealers with an offer to target ratio of 2.0. Despite enormous demand for Ijarah Sukuks by Shariah compliant and conventional financial institutions alike,

**Figure 5.10**

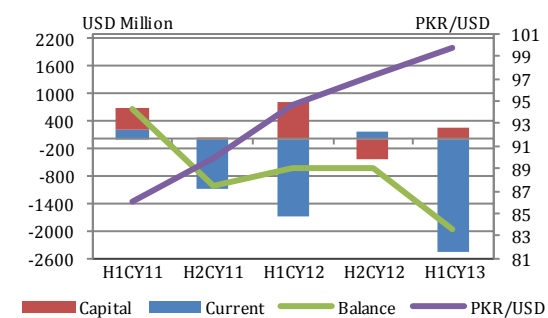
Auction Profile of Ijarah Sukuk (PKR billion)

**Figure 5.11**

Yield Curve (percent)

**Figure 5.12**

Developments in External Account



the size of Ijarah is strictly limited as it is backed by physical assets thereby imposes a limit on Government's ability to generate debt from Sukuks.

The yield curve after the announcement of 50bps reduction in the discount rate period (Jun CY13) revealed the limited effectiveness of the central bank decision on market as the short-term rates (1 week to 3 months) remained almost unchanged. This is also indicative of excess demand for market liquidity. Similarly, the PKRV rates<sup>46</sup> for medium term (3 months to 1 year) show a moderate downside in response to 50bps reduction in the policy discount rate. However, the impact of monetary easing has been highest on 3 to 10 years maturities which saw an average of 82 bps reduction in the rates (Figure 5.11).

## Foreign Exchange Market

### *Drying up of international flows kept the FX market under stress*

The FX market witnessed stress on account of volatility in the exchange rates as the current account turned negative in addition to continuous decline in international reserves. The start of H1-CY13 was optimistic as current account registered a surplus in last half of CY12<sup>47</sup>. But this trend could not be continued as current account deficit swelled to USD 2.5 billion in H1-CY13 along with weak foreign exchange reserve position, which created a self-enforcing sentiment of further decline in PKR/USD parity. Particularly, dried net financial flows and continued hefty payments of IMF loans, the country's foreign exchange reserves depleted to US \$ 6.01 billion<sup>48</sup> (Figure 5.12). As a result, the PKR/USD rate remained volatile both in the interbank and the kerb markets. However, with prudent interventions by the central bank<sup>49</sup>, the PKR/USD exchange rate depreciated marginally by 2.5 percent at the end of the first half CY13 (5.1 percent for FY13) thus keeping the FX market relatively stable.

<sup>46</sup> The Pakistan Revaluation Rates (PKRV) are calculated by money market dealers on daily basis and are used for revaluation of Government securities.

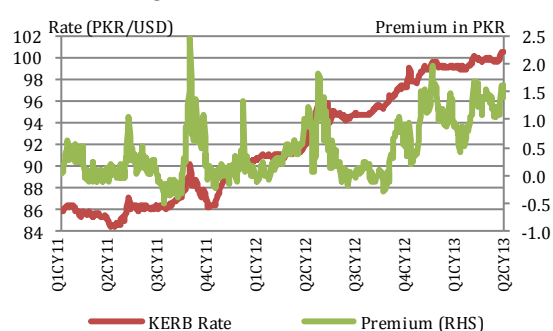
<sup>47</sup> Most of this improvement is due to the receipt of US \$1.8 billion under the Coalition Support Fund (CSF).

<sup>48</sup> Liquid FX reserves held with banks = banks' FX deposits - FX financing. The total liquid FX reserves stood at USD 11 billion including USD 6.01 billion held with SBP while USD 5.01 billion held with the commercial banks as deposits.

<sup>49</sup> In terms of MPS of Sep-2013, the SBP not only intervened in the FX market but also through monetary management kept the rates on rupee dominated bonds higher than on assets denominated in foreign currencies. Further, due to liquidity strain in the money market, the banks in order to avoid higher cost of OMO maintained rupee liquidity by rolling over their forward foreign exchange transactions with the central bank thus helping in stabilizing the exchange rate.

**Figure 5.13**

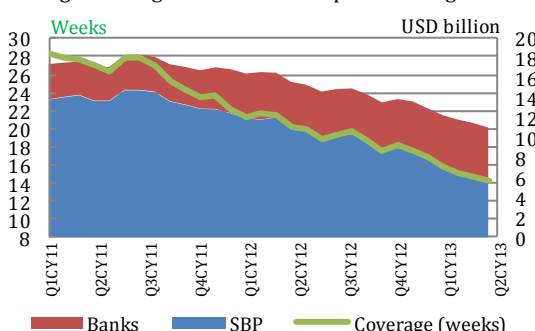
KERB Exchange Rate and Premium



The kerb market exhibited even more volatility on account of sluggish economy, tapering off of worker's remittances<sup>50</sup>, and uncertain political environment during pre-election period. Moreover, the gradual decline in FX reserves resulted in market's perception about central bank's limited ability to intervene in the market. As a result, the kerb market besides witnessing fluctuations in the exchange rate also saw kerb premium increased from PKR 0.25 during H2-CY12 upto PKR 1.96 during H1-CY13 (**Figure 5.13**). Additionally, the import coverage slashed from 18 weeks during Dec CY12 to 14.3 weeks at the end of H1-CY13 (**Figure 5.14**).

**Figure 5.14**

Foreign Exchange Reserves and Import Coverage



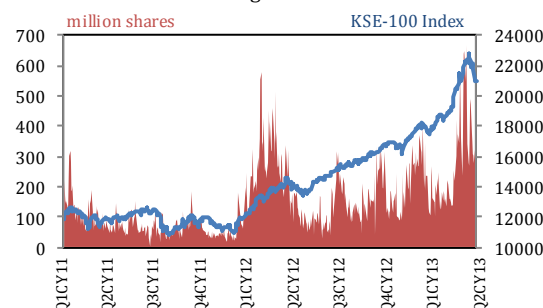
## Capital Markets

### Equity Market kept on making new records

The bullish sentiment gained further momentum in the leading equity market of the country, leading to sharp rise in equity prices during H1-CY13. The Karachi Stock Exchange (KSE) benchmark KSE-100 index surged by 24.2 percent during H1-CY13 and 52.2 percent for the year 2012-13 (**Figure 5.15**). The index kept on reaching historical highs throughout the half year, with some correction in post federal budget announcement.

**Figure 5.15**

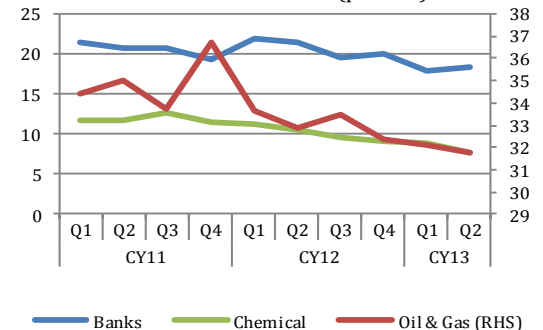
KSE-100 Index and Trading Volumes



The surge in index was despite the adverse developments in macroeconomic environment mainly in the external sector and constant depreciation of the domestic currency. However, strong corporate sector profitability, expectations of higher dividend payouts and smooth political transition after the general elections enhanced the local and foreign interests in the market. Likewise, the turnover – a measure of investors' interest, also improved drastically to 251 million shares as against 147 million shares in previous half.

**Figure 5.16**

Sector-Wise Performance of KSE (percent)



In terms of international comparison, the KSE outperformed other regional and world stock exchanges. In fact, many of the leading emerging and BRICS countries posted negative growth in its equity market indices. This is also reflected in the MSCI emerging market index that witnessed a decline of 10.9 percent during H1-CY13 (**Table 5.1**).

### Corporate Sector performance drive market momentum

Though, the growth in the benchmark KSE-100 index was robust, it varied across the sectors listed in the equity market. The

<sup>50</sup> Workers remittance declined in Jan 2013 stimulating KERB premium reaching highest level of 1.96, while it came down and touched its lowest in H1-CY13 (0.39 per dollar) in March 2013 as the flow of workers' remittances increased in the month of March and April 2013.

**Table 5.1: World Equity Market Indices**

	29 Jun 12	31 Dec 12	28 Jun 13	%Δ-H1CY13
USA (DJIA)	12880.1	13104.1	14909.6	13.8
USA (NAScomp)	2935.1	3019.5	3403.2	12.7
China (SSEA)	2225.4	2269.1	1979.2	-12.8
Japan (Nikkei)	9006.7	10395.1	13677.3	31.6
Britain (FTSE)	5571.1	5897.8	6215.4	5.4
France (CAC)	3195.6	3641.0	3738.9	2.7
Russia (RTI)	1350.5	1526.9	1275.0	-16.5
Germany (DAX)	6416.2	7612.3	7959.2	4.6
Turkey (ISE)	62543.4	78208.4	76294.5	-2.4
India (BSE)	17429.9	19426.7	19395.8	-0.2
Indonesia (JSE)	3955.5	4316.6	4818.8	11.6
Malaysia (KLSE)	1599.1	1688.9	1773.5	5.0
Pakistan (KSE)	13801.4	16905.3	21005.6	24.3
Singapore (STI)	2878.4	3167.0	3150.4	-0.5
Thailand (SET)	1172.1	1391.9	1451.9	4.3
Argentina (MERV)	2346.6	2854.2	2976.2	4.3
Brazil (BVSP)	35354.6	60952.0	47457.1	-22.1
MSCI Developed	1235.7	1338.5	1433.5	7.1
MSCI Emerging	937.3	1055.2	940.3	-10.9

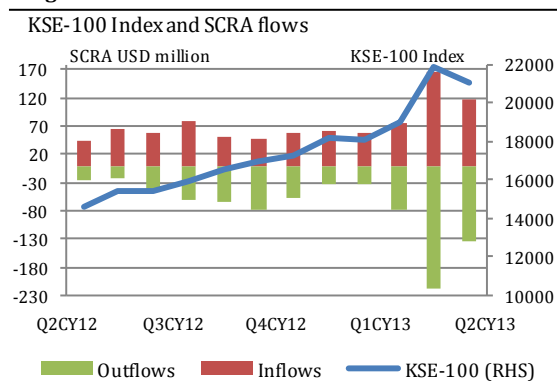
Source: Bloomberg

concentration in market capitalization and turnover also augmented during the period. Specifically, the turnover in the banking sector scrip boosted during last two months of H1CY13. While in terms of market performance, the share of oil and gas sector continued to dominate the market capitalization on account of improved profitability thus attracting investors' interests (**Figure 5.16**).

The corporate results played an integral part in the bullish behavior of the KSE. Nearly all the major listed sectors witnessed improved profitability (**Table 5.2**)<sup>51</sup>. As discussed earlier, banks' profitability declined on account of declining yields on government securities while the profits of oil and gas boosted on realization of receivables and increased revenues. Furthermore, owing to improvements in the equity markets and favorable yields on long-term securities, the profitability of the Modaraba Companies and Mutual funds (Mod/MF) also boosted during H1-CY13.

### ***SCRA flows are source of concern***

The improved corporate profitability and booming stock indices, attracted foreign interest and liquidity, which augmented the overall market momentum<sup>52</sup>. The gross SCRA inflows improved to USD 538.5 million during H1-CY13 showing an improvement of 56.9 percent over the preceding half year. However, the SCRA investments remained short-lived and heavy outflows were witnessed in the last two months in expectations of market correction on account of federal budget. Accordingly, the net SCRA flow for H1-CY13 remained negative USD 16.2 million as against positive USD 246.6 million during H2-CY12 (**Figure 5.17**). These heavy outflows pose a significant risk as it reduces stock prices and aggravates volatility. The effect of foreign outflows trickled-down on local investors leading to further correction in the index in the latter part of the H1-CY13.

**Figure 5.17**

<sup>51</sup> The Table 5.1 presents the half-yearly results announced by the listed companies until 30<sup>th</sup> August 2013.

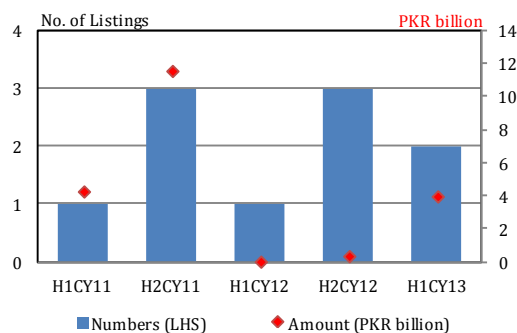
<sup>52</sup> One such measure of attracting foreign investors is P/E (Price to Earnings ratio). The KSE traded at a price-equity ratio of 7.5x (multiple) meanwhile, the regional markets traded at 11.5x during H1-CY13 implying the KSE traded at discount.

**Table 5.2**

Improved Corporate Profitability (PKR billion)				
	CY10	CY11	CY12	H1-CY13
Oil and Gas	162.11	196.11	240.5	250.49
Banks	107.84	158.82	172.2	84.31
Chemical	44.26	70.37	54.45	10.67
Cement	-5.63	4.2	24.58	8.14
Food	18.47	24.56	28.83	16.82
Power	-0.917	5.43	23.23	33.03
Textiles	30.54	35.43	16.51	3.62
Auto	7.47	7.65	11.19	6.28
Telecom	11.12	4.88	10.23	-3.69
Insurance	4.65	5.51	9.6	8.01
Pharma	5.21	6.44	7.71	3.73
Engineering	11.52	9.03	5.87	13.94
Mod/ MF	2.82	4.95	3.73	13.84
Transport	2.66	3.02	1.92	1.72
NBFC	-10.52	-2.33	1.64	0.82

**Figure 5.18**

Equity Listings in KSE

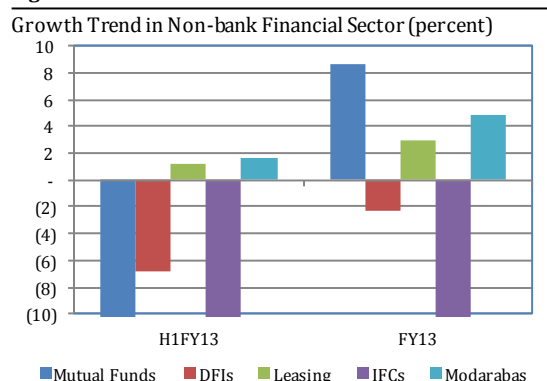
**Profile of Equity and Debt markets continued to strengthen.**

In addition to a record equity market performance, the listings in the equity and debt markets also carried on from the trend of previous half-year. The two new listings increased the listed capital by PKR 4 billion which is far more than the capital listed during CY12. Moreover, as the power sector remained dominant in getting bank credit recently, the equity market also witnessed a number of listings in the power sector (**Figure 5.18**).

The listing of debt instruments also observed some improvement as Term Finance Certificates (TFCs) worth of PKR 7 billion were listed during the half year as against PKR 5.2 billion in the previous half year. Banks listed of six new TFCs for meeting for the regulatory capital requirements and for meeting long-term financing needs. In addition, two TFCs of oil and gas sector were also listed during the period. With some improvement in economic and business environment, it is expected that the listing trend will further boost in future.

NBFIs observed moderate growth during H2FY13, due to improved performance of mutual funds at the back of strong performing equity markets. Rest of the sector observed a marginal contraction. NBFIs continued to focus on deposits mobilization for funding their business activities, while shedding borrowings from financial institutions. The core financing activities including leasing and Ijarah financing gained some momentum in Modaraba Companies and leasing companies. The overall profitability of NBFIs, improved markedly due to strong earnings of Modarba Companies and DFIs, however it failed to subside the growing solvency concerns of IFCs and few leasing firms.

Figure 6.1



### Overview of the NBFIs Sector

The Non-Banking Financial Institutions (NBFIs) in Pakistan constitute a diverse set of financial intermediaries<sup>53</sup>. However, net asset value (NAV) of Mutual funds, which represent 63 percent of NBFIs, remained the driving force behind change in growth pattern of the sector. During H2FY13, asset base of NBFIs observed a moderate growth of 4.7 percent mainly attributable to increase NAV of Mutual Funds, followed by growth in asset base of leasing and Modarba Companies (**Figure 6.1**).

The NAV of mutual funds, which dipped by 28 percent during the first half, revived on the back of robust performance of equity markets (**Table 6.1**). This coupled with downward movement in interest rates shifted the investors' interest from more risk averse money market funds (MMFs) to equity funds. Additionally, the interest in Islamic funds continued to increase, that led to 20 percent growth in its NAV during the period under review.

The NBFIs (excluding mutual funds) observed a contraction of 1 percent in the half year under review due to net reduction in assets base of Investment Finance Companies (IFCs) and Development Finance Institutions (DFIs) (**Figure 6.1**). Meanwhile, growth in Leasing and Modaraba Companies resulted from gradual revival of lease and Ijarah financing that was funded by reasonable growth in deposits and partly by borrowings from financial institutions<sup>54</sup>. However, on overall basis NBFIs continued to decrease reliance on borrowing from financial institutions either due to improved deposit mobilization or due to consolidation/restructuring of operations in the wake of challenging business environment.

	FY10	FY11	H1FY12	FY12	H1FY13	FY13
Assets in PKR billion	421.9	478.2	511.6	609.5	550.5	576.5
Share - Growth Rate and Share in percent	(10.2)	13.3	13.8	19.2	(9.7)	4.7
Assets (PKR Billion)						
Growth rate						
Share in Assets (percent)						
Mutual Funds	47.6	55.4	56.4	62.4	60.5	62.7
DFIs	26.8	25.7	28.1	24.7	25.5	23.8
Leasing	8.8	7.4	6.6	5.4	6.1	6.0
Investment Finance	6.2	5.4	3.7	2.6	2.5	2.1
Mudarabah	6.1	5.9	5.2	4.8	5.4	5.5

<sup>53</sup> 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 the SECP, NBFIs and Modarba Association of Pakistan and MUFAP website.

<sup>54</sup> As per monthly statistics on *Credit/Loans Classified By Borrowers* on SBP website, advances to NBFIs increased by 5.5 percent during Jan-Jun-2013.



**Table 6.2 :Performance of NBFIs**

	(Amount in PKR million, Ratios in %)				
	FY11	H1FY12	FY12	H1FY13	FY13
Profit after tax	1,704	933	907	3,926	3,823
<i>DFIs</i>	1,158	1,577	1,793	3,275	2,034
<i>other NBFIs</i>	546	(644)	(886)	651	1,789
Expense	12,683	9,645	13,510	9,082	14,229
Expense to income	745	1,034	1,489	231	372
ROA	1.36	0.13	1.18	2.03	2.70
ROE	3.77	0.36	3.36	5.71	7.29

### ***Operating performance of the NBFIs exhibited marked improvement...***

The profitability of NBFIs sector substantially improved during FY13 particularly in the second half of the year. It posted after tax profit of PKR 3.82 billion during FY13; compared to PKR 0.91 billion in FY12, showing more than 4 times increase YoY basis. Modaraba Companies, with profit of PKR 2 billion (YoY growth of 73 percent) followed by DFIs and Leasing Companies, while IFCs posted losses. Review of earning highlight varied reasons for increase in profitability of NBFIs like improvement in core leasing activity enhanced the earning of Modarabah and leasing companies, while lower provisions charge and gain on sale of investment added to the non-markup income of DFIs and Modarabas. Similarly, expense control due to decreased reliance on borrowings from financial institutions also jacked up earning of leasing companies. Accordingly, the return indicators observed a marked improvement over the year <sup>55</sup>(Table 6.2).

### ***Compliance with equity requirements remains the major challenge***

The NBFIs sector has been facing solvency issues for some time. Though improved earning provided for shortfall in some of the NBFIs, most of the leasing companies and IFCs still fail to meet Minimum Equity Requirements (MER). Furthermore, going concern status of some of these companies is also elusive due to deficit equity<sup>56</sup>. This is despite the fact that regulators allowed extension of couple of years to these companies for meeting the enhanced equity requirements.

## **Mutual Funds**

### ***NAV of mutual funds picked up .....***

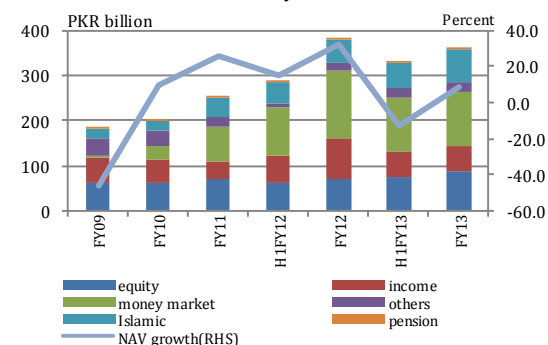
Mutual fund industry, after observing a dip in first half of the year, picked up again in H2FY13. The strong performing equity markets and changing interest rate scenario shifted the interest of the investors from more risk averse money market funds to equity funds. Islamic funds primarily contributed to overall growth followed by conventional equity funds. A record-breaking upturn in equity market not only increased investor's interest in equity funds but also boosted the NAV of Islamic and pension funds. Interest in money market funds continues to fade due to downward movement in interest rates (Figure 6.2 and 6.3).

<sup>55</sup> Figures have been annualized for return indicators ROA and ROE.

<sup>56</sup> As per annual reports of some of the NBFIs, SECP has not renewed licenses of some of these companies for sometime.

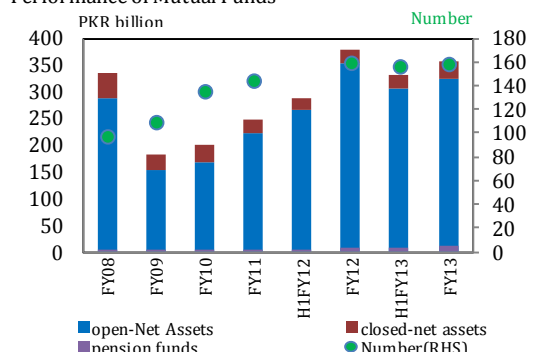
**Figure 6.2**

Profile of Mutual Fund Industry



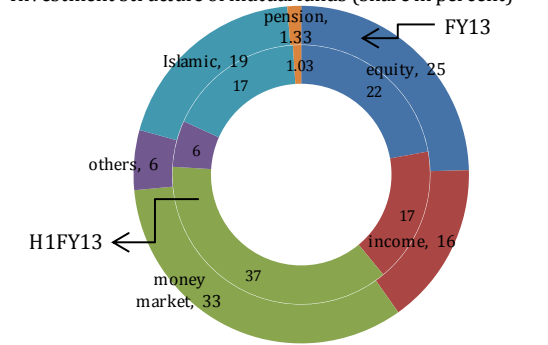
**Figure 6.3**

Performance of Mutual Funds



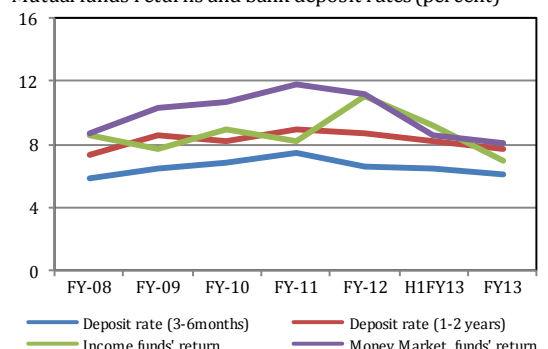
**Figure 6.4**

Investment structure of mutual funds (share in percent)



**Figure 6.5**

Mutual funds returns and bank deposit rates (percent)



Mutual funds industry saw a moderate growth of 8.6 percent in H2-FY13 at the back of sparkling performance of stock market. This was in sharp contrast to first half when NAV of the funds industry declined substantially. Though the growth was broad based, it was more pronounced in close ended funds which surged by 24.5 percent. The interest in close-ended mutual funds resurfaced during FY13, after remaining on downhill for few years, which enhance its share in the NAV of the funds by 111bps to 8.7 percent.

### *... due to stellar performance of equity market*

Over the last few years, growth in NAV of money market funds (MMF) provided for most of the increase in value of the funds industry. Similarly, income funds, with an investment mix of government securities, debt instruments (TFCs, Sukuks, etc) and banks deposits, supported the overall growth. However, investment strategy saw a shift during last half year where it tilted towards equity funds due to strong equity market performance and this trend continued in second half too. The equity funds, with a growth of 22.8 percent, drove the overall performance of the MF sector. The growth in equity funds was broad based, though with a varying extent; Islamic equity funds grew by 37.9 percent, while conventional equity funds with 85 percent share in NAV of equity funds also saw a healthy increase of 20.6 percent.

At the same time, decrease in NAV of the money market funds (conventional and Islamic) slowed down the momentum of fund industry. As a result, NAV of MMFs saw another dip of 1.8 percent during H2-FY13 (19.1 percent for FY13). Though, factors (substantial borrowing needs of the Government, providing risk free investment avenue and consistently growing equity market) responsible for surge in mutual fund industry during the previous half year still existed, dip actually took place due to expectation of slow demand of Government borrowing in future and decline in discount rate. Despite decline in the NAV, MMF still held a top seat in the market share followed by equity and income funds (**Figure 6.4**).

### *Declining variance in returns on interest based mutual funds and deposits affected the performance of funds industry...*

Returns seem to be another factor that played part in dip in NAV of the interest based funds products. Traditionally, the gap between return on mutual funds and bank deposit was quite high

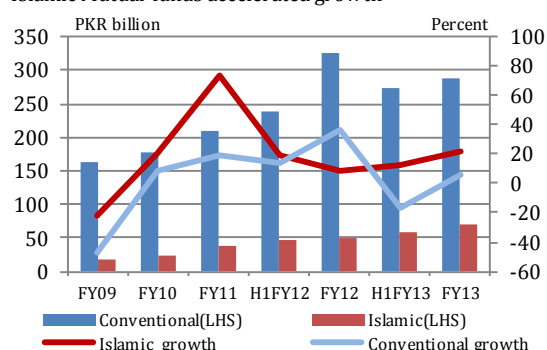


(on average 4 percent between money market funds and short term (3-6 months deposit rates). This phenomenon of attractive and consistent returns, with investment in safe haven, remained the key reasons behind increasing interest in the mutual funds over the last 3 years. However, market saw a shift in trend in H1FY13 as returns offered on MMF declined from 11 percent to 8 percent due to 4.5 percent cut in policy rate over the last 18 months. As a result the gap between return on bank deposits and mutual funds narrowed<sup>57</sup> (**Figure 6.5**) which ultimately affected the attractiveness of interest based fund products.

### ***Healthy growth in Islamic funds to some extent offset deceleration in overall NAV .....***

**Figure 6.6**

Islamic Mutual funds accelerated growth



The Islamic Fund industry, like overall Islamic financial industry, has seen stable growth over the years<sup>58</sup>. The Islamic fund industry, with 22 percent growth enhanced its share to 20 percent in the second half of FY13 (**Figure 6.6**). Growth pattern of various categories of Islamic funds considerably outpaced that of the industry trend. Islamic equity funds exhibited 38 percent growth while Islamic income funds registered 17 percent growth. Further, a marginal pickup of 0.1 percent in asset value of Islamic money market funds was in contrast to conventional money market funds. With the booming equity markets and huge potential in Islamic funds, this segment expects to show substantial growth and gains in the periods ahead.

### ***Future prospects of growth in both conventional and Islamic pension funds are bright...***

Pension funds though hold nominal 1.3 percent share in fund market yet they are slowly surfacing as an important segment of market. The growth mainly resulted from favorable tax treatment<sup>59</sup> available to this segment of funds and also due to increased awareness among the investor and public regarding this attractive avenue for long-term savings, particularly in old age. Pension funds showed a growth of 40 percent in the half year period which is more of a low base effect as market stands at PKR 4.8 billion in H2FY13.

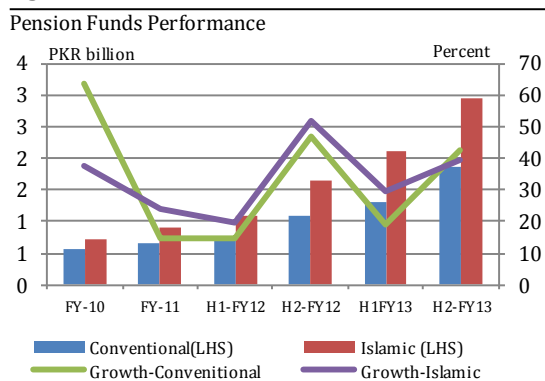
<sup>57</sup> MUFAP quarterly newsletter, Sep-Dec2012. In June 2013, the annualized return of open end money market funds was 8.1 percent while income funds exhibited a return of 6.9 percent (compared with weighted average return on deposits ranging between 6.1 to 7.7 percent with a maturity of 3 months to 2 years period).

<sup>58</sup> In terms of Islamic Financial Services Industry Stability Report, 2013 published by IFSB "Islamic asset and wealth management is a niche segment of the IFSI that has experienced stable growth since 2004. Islamic funds have grown from 285 in 2004 to 1,029 as at end-2012. As at end-2011, assets under management of Islamic funds grew to USD60 billion from USD 29.2 billion in 2004, representing a CAGR of 10.8%. This increased to USD64 billion as at end-October 2012".

<sup>59</sup> 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.

Currently there are 11 players operating in pension fund market and majority of these funds are subsidiaries or associates of large banks. In the wake of growing demand of shariah based products, Islamic pension funds hold 61 percent of market share relative to conventional funds (**Figure 6.7**). Keeping in view the long term nature of their fund base, these funds can provide for long term funding needs of market with stable returns. However, they should be wary of going into risky ventures owing to dependency of large number of old aged population on them.

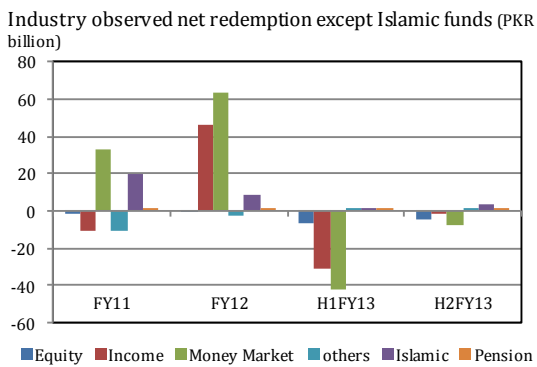
**Figure 6.7**



### **Industry observed net redemption due to heavy redemption in money market and income funds**

Sales and redemption pattern of mutual funds over the years have seen sales outpaced redemption except in 2009 due to liquidity crunch faced by market in the aftermath of freezing of stock exchange. In FY13, funds market again observed redemption pressure in both halves yet second half was relatively better than first half as market observed net redemption of PKR 9.18 billion as against 76.4 billion in first half (**Figure 6.8**). Overall in FY13, major redemption was seen in money market and income funds where investors offloaded their investment of PKR 83 billion. On the other hand, Islamic mutual funds including pension supported the industry by adding PKR 6.55 billion new funds across different categories of mutual funds.

**Figure 6.8**

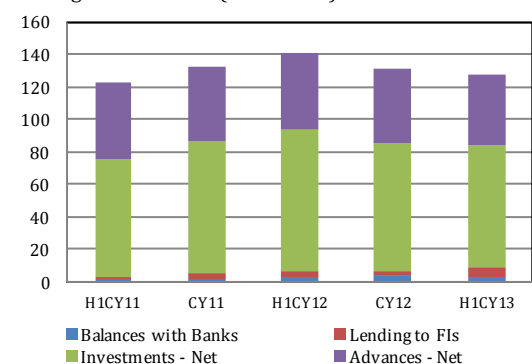


In the backdrop of growing demand of Islamic financial products<sup>60</sup>, SECP has announced formulation of Shariah Advisory Board (SAB) which is entrusted with the ascertainment of Islamic law for the purpose of development and promotion of Islamic financial institutions namely; Islamic mutual funds, pensions funds, Takaful operators and other FIs regulated by SECP. This move will play a crucial role in bringing an effective and efficient Shariah governance system enhancing the credibility of Islamic financial institutions.

<sup>60</sup> In H2FY13, ten new mutual funds were launched. Out of those, seven funds are established under Islamic category.

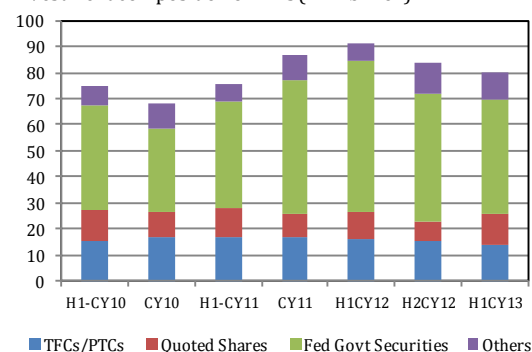
**Figure 6.9**

Earning Assets of DFIs (PKR billion)



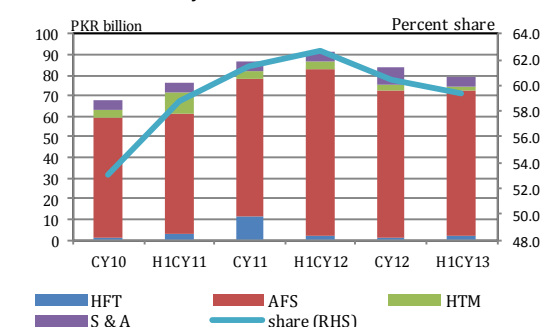
**Figure 6.10**

Investment composition of DFIs (PKR billion)



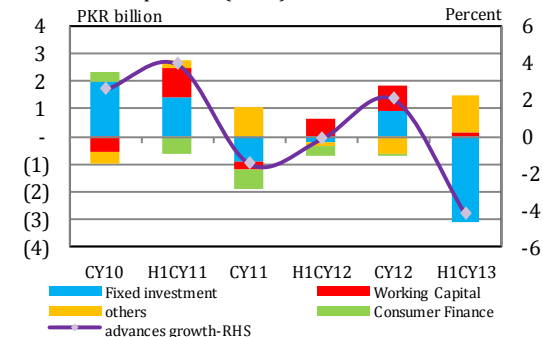
**Figure 6.11**

Investment Anatomy



**Figure 6.12**

Advances Composition (flows)



## Development Finance Institutions (DFIs)

### Asset base of DFIs observed contraction...

Assets bases of DFIs declined by 2.3 percent during H1CY13, due to squeeze in investment and advances portfolio. On the funding side, deposit of DFIs picked up and showed a healthy 15 percent growth in period under review, after observing a decline in previous half year. The borrowing which remained the main funding source of DFIs kept on declining for the second consecutive half; reducing its share in financing by 450 bps to 36.9 percent. The DFIs posted 13 percent higher earning in June-13 due to decrease in provision charge, increase in dividend income and gain on sale of securities. On solvency front, DFIs remained sufficiently capitalized with a high CAR of 54.6 percent, despite a marginal drop in the ratio during the half year. Some companies do fall short of MCR.

Over the last three years, consistent increase in investments in Federal Government securities boosted the assets base of the DFIs. The trend reversed in second half of CY12, which continued during the H1CY13 as investments portfolio further dropped by 4.2 percent. Despite 110 bps drop in share, investments still holds

the top seat in DFIs balance sheet (**Figure 6.9**). The DFIs channelized PKR 4.4 billion into stock market, which also exhibited industry expectation regarding declining interest rates in near future (**Figure 6.10**).

With investments being the main earning source of interest/mark-up income, DFIs opted flexible investment strategy of placing major chunk of investments in Available for Sale (AFS) category. This allowed the DFIs to off-load substantial portion of investment during the period under review. However, despite this decline, DFIs still holds 88 percent of their investment portfolio in

AFS (**Figure 6.11**).

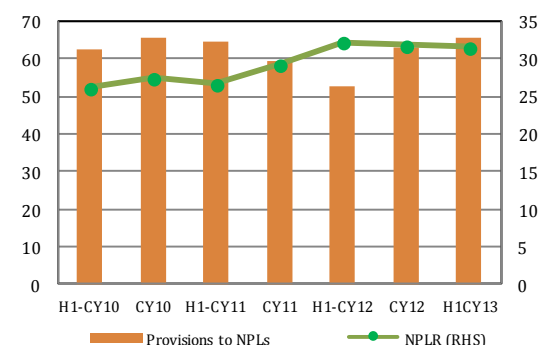
### ...while advances saw a nominal growth

In line with trend in the banking sector, lending portfolio of DFIs contracted by 4.2 percent in H1CY13. Breakup of incremental advances<sup>61</sup> reveals reduction in corporate sector advances mainly in fixed investment category. SMEs, the most affected sector due to prevailing economic and business environment made net retirement of PKR 9 billion. Consumer finance, the second largest

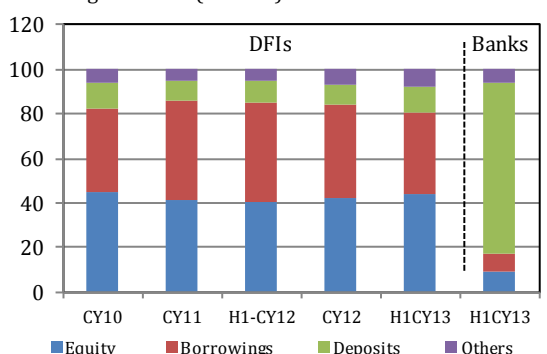
<sup>61</sup> Sectoral and segment based analysis of advances in this section is based on Un-audited quarterly data.

**Figure 6.13**

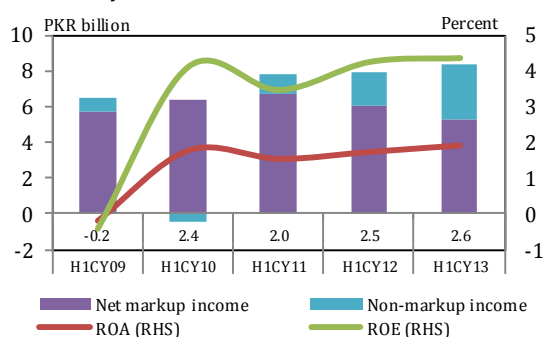
Asset quality of DFIs improved (Percent)

**Figure 6.14**

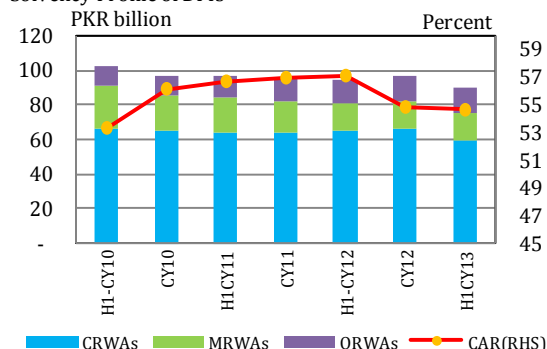
Funding structure (Percent)

**Figure 6.15**

Profitability of DFIs

**Figure 6.16**

Solvency Profile of DFIs



segment in DFIs loan portfolio, lost further shares due to decline in all financing categories (**Figure 6.12**). Sector-wise analysis demonstrated net payoffs in all sectors except sugar sector.

### **Asset quality indicators remained contained due to stagnant NPLs**

Due to smaller loan portfolio and sluggish economic growth over the last couple of years, the credit risk of DFIs kept a contained profile. This trend continued as asset quality saw a marginal improvement during the half under review. Infection ratio, with a

marginal change stood at 32 percent. Excluding housing finance company, infection ratio of DFIs declined by 72 bps to 24.3 percent; clearly indicating that relatively higher impact of NPL in special mortgage finance institution contributed to a high infection rate of DFIs. Provisions coverage ratio also improved due to upgrade of NPLs into doubtful category leading to decline in net infection rate to 13.7 percent in H1CY13 down from 14.7 percent in H2CY12 (**Figure 6.13**).

### **Funding structure observed a positive tilt towards deposits**

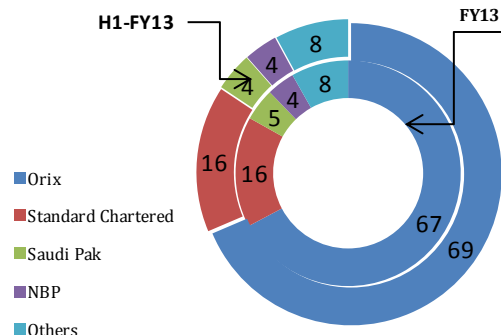
Unlike banks, which rely on deposits as main funding sources, DFIs dependence remained on capital and borrowing, which jointly fund 78.9 percent assets (**Figure 6.14**). However, DFIs borrowings dipped by 13 percent during H1CY13 mainly due to decline in secured borrowing under repo category. Deposit base on the other hand surged by 15 percent, inching up their share in funding to 11.4 percent; an increase of 170 bps. Equity of the DFIs also improved on the back of healthy profit made during H1CY13.

### **Operating performance of DFIs improved during H2FY13**

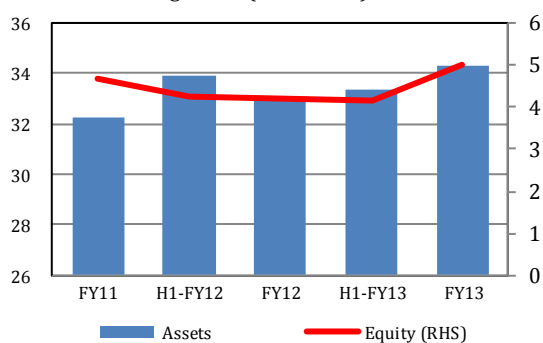
Operating performance of DFIs improved during June-2013. The sector posted after tax profit of PKR 2 billion mainly due to healthy 58 percent growth in non-markup income that more than off-set the decline in core income. The deceleration in mark-up income resulted from shrinking income on advances and investments and higher borrowings cost. Most of the increase in non-mark-up income was contributed by gain on sale of investments and healthy growth in dividend income. In addition, improvement in asset quality led to reversal in provisions, which also improved the earning of the DFIs. These healthy gains reflected in improved return indicators as both ROA and ROE inched up to 3.8 and 8.7 percent respectively in H1CY13 (**Figure 6.15**).

**Figure 6.17**

Asset concentration in Leasing sector

**Figure 6.18**

Profile of Leasing sector (PKR billion)

***Solvency remained strong though CAR observed some decline***

The DFIs maintained strong solvency profile over the years due to risk adverse behavior. This phenomenon is evident from substantial drop of 9.6 percent in credit risk weighted assets followed by market and operational risks. Further, eligible capital also declined due to carry on impact of higher provisioning charge by a single institution. As a result, CAR of industry marginally dropped by 37 bps, however it still stands at comfortable 55 percent level (**Figure 6.16**).

**Leasing**

The focus of the leasing business in Pakistan is on corporate segment and consumer finance, with most of the disbursements for machinery, equipment, and vehicle leasing. In addition, leasing companies are also trying to venture into other segments for business diversification, though the pace remains slow. The ownership structure show that 5 out of 8 companies are part of the local or foreign banking groups and hold majority share in asset base of the sector (**Figure 6.17**).

***Performance of leasing companies improved ....***

The leasing companies sustained the performance of the first half of the year and registered a moderate growth of 3 percent in asset base during H2-FY13 (4.2 percent during FY13) (**Figure 6.18**). Most of the increase came from core leasing business largely supported by healthy growth in deposits. The operating performance improved considerably with ROA and ROE inched up further. However, performance remained confined to a couple of large companies. The solvency of the sector improved at the back of healthy profits, however, majority of the companies still fall short of the required minimum capital requirements.

***Continuing increase in mobilization of retail funds...***

The leasing companies have generally been relying on the borrowing from financial institutions for funding their operation. Over the last two years, this trend observed some shift as leasing companies, particularly major player, augmented efforts for deposit mobilization through Certificates of Deposits (CoDs) and Certificates of Investments (CoIs), while decreasing reliance on borrowings. Their deposits base surged by 17.5 percent during H2-FY13 (34 percent during FY13), which enhanced its share in liabilities to 30.4 percent (**Table 6.3**).

**Table 6.3: Leasing sector ratios (Percent)**

	FY11	H1-FY12	FY12	H1-FY13	FY13
Leases and Advances to Assets	80.5	77.6	84.5	76.7	83.1
Investments to Assets	8.0	8.1	9.4	2.3	11.8
Borrowings to Liabilities	51.2	30.3	42.6	47.7	39.4
Deposits to Liabilities	17.7	18.3	21.6	24.5	30.4

Though, continuous growth in deposits is a good omen, most of the increase was limited to a couple of large leasing companies. Whilst, borrowings from financial institutions observe drop of around 20 percent due to host of factors including prevailing business environment, risk averse attitude of both lenders and leasing companies, improved access to retail deposits and slow demand for funding needs.

#### *...improved lease-financing disbursements*

The lease financing revived with a growth of 4.1 percent in the half year under review (2.4 percent for FY13). Fresh disbursements mainly financed vehicles, followed by machinery and equipments. Importantly, some of the leasing companies initiated Shariah based lease financing under various Islamic modes including Musharaka, Diminishing Musharaka and Ijarah modes. This new avenue of leasing will not only allow these companies to provide Shariah based products, but also enable them to diversify their products through tapping this underserved avenue of financing. In terms of assets structure, lease financing and advances remained the major financing activity of the leasing companies representing 83 percent of the total assets<sup>62</sup> (Table 6.3).

#### *Operating performance improved markedly...*

The profitability of the leasing sector observed considerable improvement mainly attributable to decline in total expenses. The sector posted profit after tax of PKR 498 million during FY13 compared to loss of PKR 371 million in FY12. Though income from lease business remained stagnant for the year, 11 percent YoY decline in overall expense boosted the overall earning of the leasing sector (Table 6.7). The decrease partly resulted from lower cost of borrowing and partly from lower provisions charge. The earnings performance was broad based as 6 out of 8 leasing companies posted profits. Improved profitability further increased the ROA and ROE<sup>63</sup> to 1.5 percent and 12.9 percent respectively during FY13 (Figure 6.19).

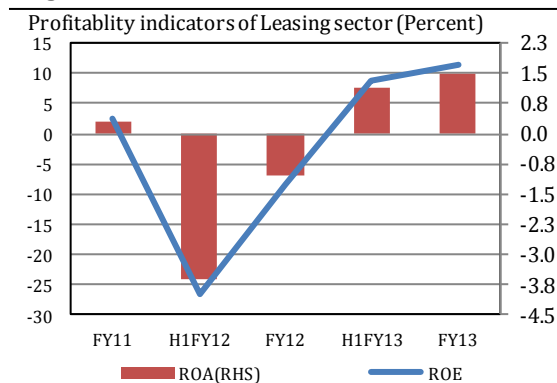
#### *...however, leasing sector continued to exhibit solvency concerns*

The equity base of the leasing sector observed 21 percent growth during H2FY13, due to accumulation of earnings and substantial

**Table 6.4 : Leasing sector performance indicators**

	amount in PKR million, ratio in percent				
	FY11	H1-FY12	FY12	H1-FY13	FY13
Profit after tax	106	(600)	(371)	179	498
Income from lease operations	3,369	1,877	3,481	1,820	3,475
Income from investment	2	19	56	35	49
Expense	3,757	2,454	4,394	2,075	3,889
Expense to income	97.0	111.2	99.3	97.0	86.2
Financial expense to income	55.8	56.1	52.7	53.0	46.0

**Figure 6.19**

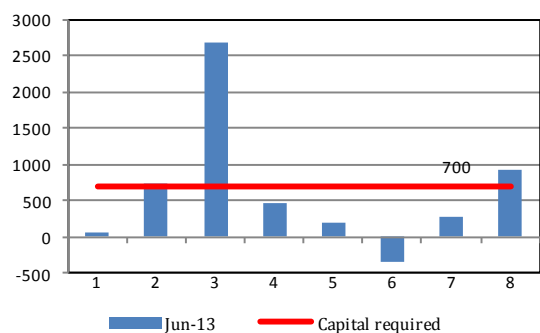


<sup>62</sup> NBFC and NE regulation, 2008 (Para 28a) requires Leasing companies to invest at least 70 percent of their assets in the business of leasing.

<sup>63</sup> Leasing sector review is based on data for half year ending Jun-13. However for two companies' financial year ends on December instead of June. To calculate ROA and ROE, profitability is annualized for overall sector.

**Figure 6.20**

Capital of leasing companies (PKR million)



capital injection by one of the leasing companies<sup>64</sup>. Despite improved equity base, leasing sector remained under-capitalized as only 3 out of 8 operative leasing firms complied with the existing minimum equity requirement (MER) of PKR 700 million set forth by SECP<sup>65</sup> (Figure 6.18). Earlier, SECP extended the period for meeting the MER of PKR 700 million by two years to end June 2013<sup>66</sup>. However, most of the non-compliant companies failed to meet the capital requirements within prescribed timelines, which made going concern status of some of the companies uncertain.

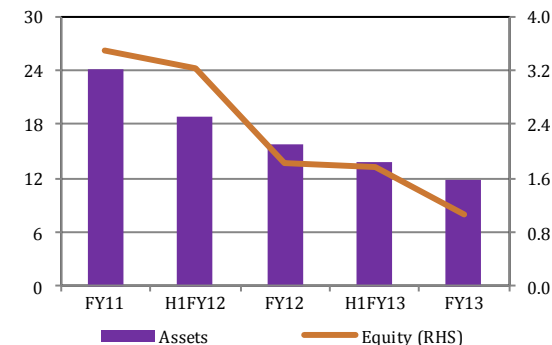
## Investment Banks

### *The IFCs share further declined in NBFCs.....*

The investment banking sector, comprising only seven companies, continued to face difficulties in improving its performance. The sector shed 14 percent of assets during H2FY13, which was observable across the sector, however, restructuring of the largest IFC was largely responsible for this substantial decline (Figure 6.21). In addition to challenging economic environment, stiff competition from the banking sector and other institutions, offering similar services, also adversely affected the performance of the IFCs.

**Figure 6.21**

Assets and Equity of IFCs (PKR billion)

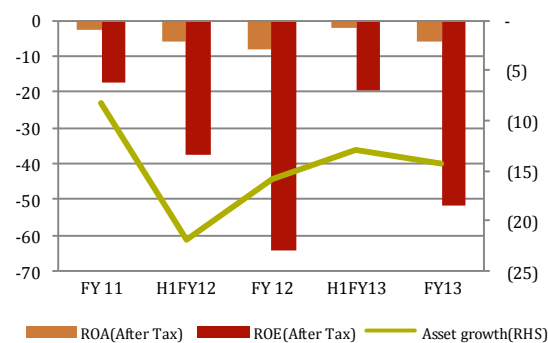


### *...due to funding constraints and shrinking business*

With continuing liquidity issues facing the IFCs, it largely focused on managing liability mix through either settlement or restructuring. The deposit dipped by 11 percent, while borrowings from financial institutions decreased by about 20 percent. Given the funding constraints, investment banks failed to generate new business, which led to balance sheet squeeze. The lease and advances portfolio decrease 18 percent, while the investments declined by 28 percent.

**Figure 6.22**

Profitability Indicators and Asset growth(percent)



### *..while solvency concerns continued due to deteriorating earnings*

The operating performance of the Investment banks continued in red due to shrinking business activity. The sector posted loss of

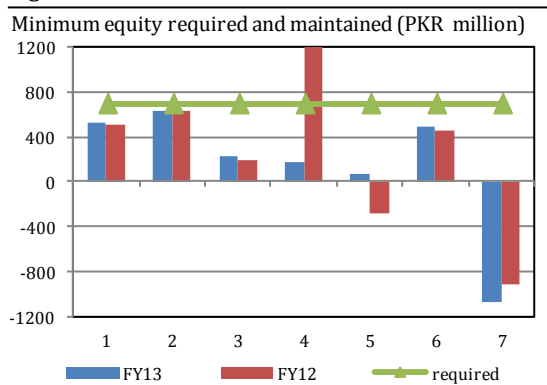
<sup>64</sup> During H2FY13, Saudi Pak Leasing issued non-cumulative non-redeemable/convertible preference shares of PKR 10 each aggregating to Rs 528.209 million against conversion of debt.

<sup>65</sup> For MER of PKR 700 million required to be met by end June 2013, number of non-compliant firms stays the same.

<sup>66</sup> 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 capital while existing companies to maintain Rs. 350 million by June 30, 2011, Rs. 500 million by June 30, 2012 and Rs. 700 million by June 30, 2013).



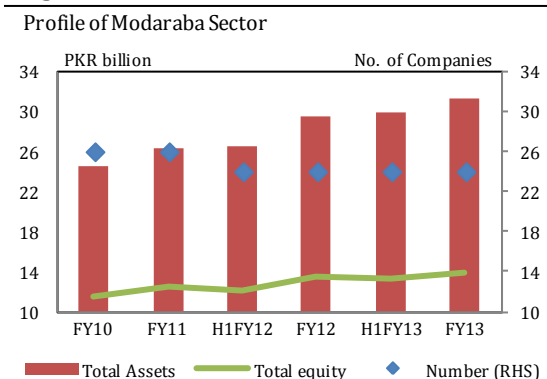
**Figure 6.23**



PKR 803 million during FY13. The waning business reflected in decreasing revenues, financing cost and administrative expenses, which kept the ROE and ROA negative for last many years (**Figure 6.22**). The persistent losses further eroded the already weak equity of the sector and at present none of the IFCs meet the Minimum Equity Requirements set by the SECP<sup>67</sup> (**Figure 6.23**).

The dismal state of affair of the sector merits the attention of the key policymakers. Towards that end some steps were taken recently including allowing the brokerage business to IFCs, there is still a sufficient space for further measures. To this end, strategy for NBFIs under preparation is expected to provide roadmap for growth and performance of the IFCs' sector.

**Figure 6.24**

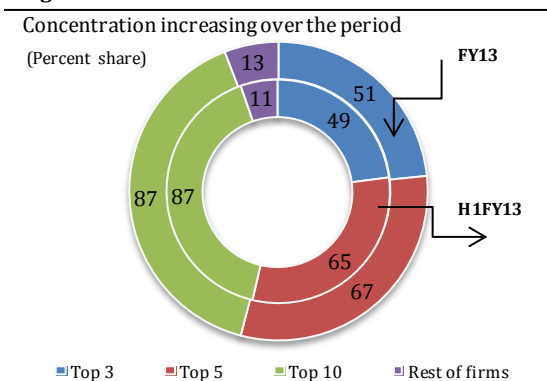


## Modaraba

Modaraba, the Islamic finance product, launched in the 1980s has come a long way to its present position. The sector, over the years, has seen consolidation and now comprised 24 Modaraba Management Companies. It primarily catered the unbanked sections of economic activity like rental services, small scale manufacturing and trading, as well as small scale retail and wholesale activity; a domain where the mainstream banking entities are reluctant to step in.

### *Modaraba Companies continue gradual and consistent growth...*

**Figure: 6.25**



Modaraba Companies assets, though count for very small **percentage** of the total financial sector, continued gradual and consistent growth over the last three years and with 4.8 percent increase during H2FY13 almost matched the asset base of leasing sector (**Figure 6.24**). Most of this growth resulted from increase in Ijarah assets and increase in investments in government securities. The growth however remained dependent on the performance of the top three firms, which now hold more than 50 percent of the asset base of the Modaraba Companies (**Figure 6.25**).

### *... while exhibiting robust operating performance*

Modaraba Companies posted a healthy profit of PKR 2 billion during FY13 compared to PKR 1.2 billion in the FY12. Total of 20 Modarabas declared profits and 17 Modarabas announced cash

<sup>67</sup> Minimum required equity for leasing was Rs.700 million and for IFS it was Rs.1000 million for June 30, 2013, and onwards, as per NBFC & NE Regulations 2008



Table 6.5: Performance Indicators of Modarabas							
	PKR billion and ratios in percent						
	FY08	FY10	FY11	H1FY12	FY12	H1FY13	FY13
Profit after tax	0.8	0.8	1.1	0.6	1.2	0.6	2.0
Income	5.5	7.9	8.1	3.3	9.0	3.7	10.2
Expenses	1.8	7.1	6.5	2.7	6.9	3.1	8.2
ROA	3.6	3.4	6.7	4.2	4.3	4.3	6.7
ROE	7.9	7.2	9.4	9.3	9.2	9.8	15.0

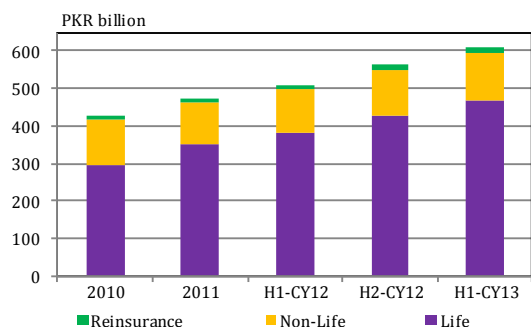
dividend with two Modarabas declaring bonus issued to their certificate holders.

The earning resulted from mix of improved Ijarah rentals and gain on sale of investments. As a result, ROA and ROE improved by 220 bps and 580 bps to 6.7 percent and 15 percent respectively during FY13. Healthy earning also improved the total equity of the Modaraba sector, which went up by 2.5 percent to Rs.13, 824 million during FY13 (**Table 6.5**).

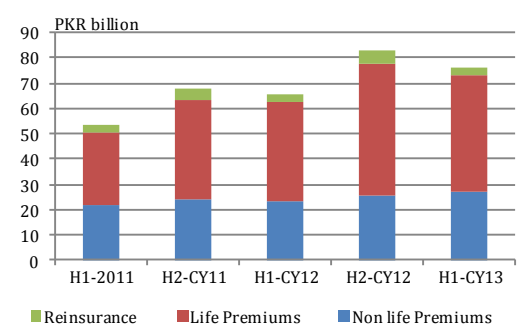
During H1-CY13, steady growth in premiums continued to strengthen asset base of the insurance sector. The life insurance business attracted 17.4 percent higher gross premiums on account of higher retention and improved coverage of new life business. Similarly, the nonlife gross premiums showed a healthy growth of 16.6 percent owing to some improvement in economic activity and revival of auto finance business. In terms of performance, the profitability of the insurance industry surged at the back of higher returns from booming stock market, which generally improved the soundness indicators of the industry.

**Figure 7.1**

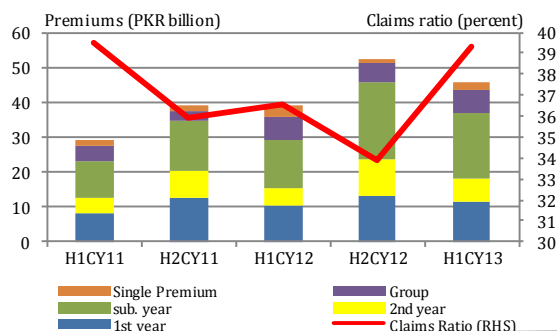
Steady growth in size of insurance industry

**Figure 7.2**

Insurance gross premium flows

**Figure 7.3**

Life insurance premiums and claims ratio (flows)



### Asset base of insurance further strengthened as life industry bolsters

The life insurance sector registered a healthy growth of 9.6 percent at the back of steady premium flows (**Figure 7.1**). The trend of life insurance as a major contributor towards the buildup of sector's assets<sup>68</sup> maintained during H1-CY13. The growth in life industry's assets supported insurance sector cross PKR 600 billion mark. The sector also witnessed a hefty 16.8 percent growth in gross premium accumulation with equally impressive growth in both life and nonlife businesses (**Figure 7.2**). In addition to offering innovative and attractive products, the asset base also increased due to gradual increase in real income of the prospective policyholders<sup>69</sup>. Furthermore, revival of auto finance and risk coverage for security related concerns contributed towards buildup of premiums.

Improved performance of the insurance sector reflected in healthy growth in earnings. The pre-tax profits improved by 73 percent (YoY) to PKR 7.2 billion with a major jump witnessed in the nonlife earnings<sup>70</sup>. Declining claims ratio coupled with robust capital gains and dividends from booming stock market surged profitability of the nonlife companies. Meanwhile, earnings of the life industry witnessed a moderate growth amid increase in the claims ratio and higher underwriting / management expenses.

### Life Insurance

#### Improved life premiums compromised by worsening claims ratio

The basis for life insurance coverage has been indemnification towards financial losses arising from consequences of death, illness and physical impairment. Apart from conventional policies offered by the life insurance industry of the country, the robust growth in recent years has been largely on account of unconventional unit-

<sup>68</sup> Life insurance, nonlife insurance and reinsurance

<sup>69</sup> Increase in real income is because of declining inflation rate.

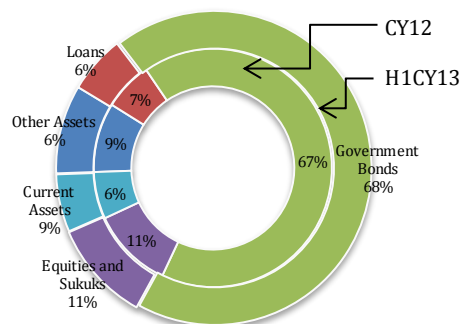
<sup>70</sup> The high profitability of the nonlife companies is solely due to large numbers of service providers (36) than the life insurance (9) as of end H1-CY13.

linked products and improved coverage of takaful - Shariah compliant insurance. During H1-CY13, the assets of conventional life insurance companies grew by 9.5 percent; while the family takaful companies witnessed 22 percent growth. Rising demand from prospective policyholders and growing financial business, particularly the Islamic banking complemented the increase in Takaful premiums.

During H1-CY13, the gross life insurance premiums witnessed a robust increase of 17.4 percent (YoY). The family takaful business witnessed yearly 38.9 percent growth in gross contributions as against growth of 16.3 percent in premiums accumulated under conventional means. As a result, the share of takaful business inched up to 5.5 percent of total industry premiums.

**Figure 7.4**

Structure of Life insurance (percent of assets)

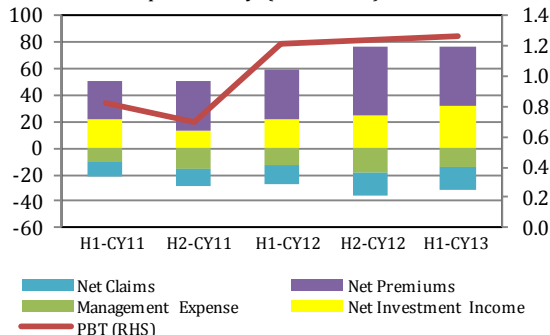


The retention of policyholders – a measure of trust; remained instrumental for growth in premiums. The second year and subsequent premiums witnessed a combined growth of 33.8 percent (YoY) thereby increasing its share to 55.6 percent. Similarly, the premiums from new coverage also increased by 12.2 percent, indicative of improved penetration (**Figure 7.3**). Meanwhile, the claims ratio also worsened to 39.3 percent during the period against 36.6 percent in H1-CY12. Much of the increase in claims was witnessed in case of death and surrenders. However, despite a rise in the claims ratio, 8 out of 9 companies witnessed underwriting surplus<sup>71</sup>.

Given the very nature of life insurance business consisting of long-term insurance contracts, much of the assets were placed in long-term government securities. In fact, the life insurance is the second largest investor in government bonds after the banking sector. During H1-CY13, the share of government bonds in total assets inched up to 68 percent, an increase of 1 percent over corresponding period last year (**Figure 7.4**)

**Figure 7.5**

Life insurance profitability (PKR billion)



The profitability of the life insurance increased by 4.1 percent to PKR 1.26 billion during H1-CY13 (**Figure 7.5**). This modest improvement was mainly contributed by increase in investment income, which further enhanced the ROI to 17.1 percent. This remarkable improvement, despite a declining interest rate scenario on government bonds, resulted from gains on sale of investments and higher returns on investment in equities. However, increase in expense including reinsurance cost and net claims kept the growth in net income and overall profitability under check. As such the ROA of the sector deteriorated over the period under review.

<sup>71</sup> Underwriting surplus is the excess of net premiums after deducting expenses of net claims, underwriting expenses and commission to other companies / agents.

**Table 7.1: Soundness of Life Insurance Companies**

(Percent)	CY11	H1CY12	H2CY12	H1CY13
Capital to Assets	2.1	1.9	2.0	1.9
Claims to Capital	336.5	365.4	401.7	387.0
Claims Ratio	37.1	36.1	35.1	39.3
Expense Ratio	38.5	32.6	35.3	32.1
Combined Ratio	75.6	68.7	70.4	71.4
Premium Retention	96.9	97.1	98.1	97.8
Return on Inv.	13.2	14.0	14.2	17.1
ROA	0.4	0.3	0.9	0.5

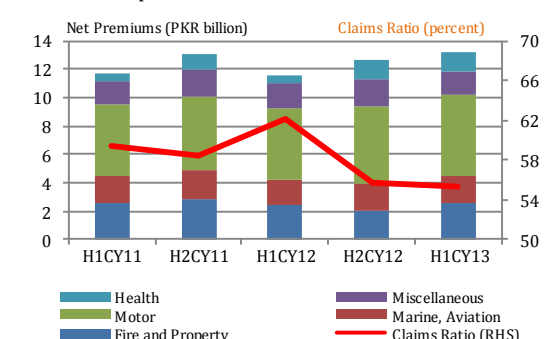
The financial soundness of the life industry highlighted mixed results (**Table 7.1**). The capital adequacy as measured by capital to assets ratio deteriorated marginally as growth in equity was moderate by deceleration in returns. The life insurance providers succeeded in limiting the expense ratio; however, the combined ratio increased due to an increase in the claims ratio. The life business in its present form is almost fully retained by the companies themselves (lack of reinsurance) which may stress the capital of the life insurance companies in face of any adverse shock.

## Nonlife Insurance

### *Nonlife benefited from Lower claims ratio and bullish equity market returns*

**Figure 7.6**

Non-life net premiums and claims ratio



Backed by revival in consumer finance, specifically auto loans and some improvements in economic activity as measured by the LSM index, the nonlife insurance business gathered momentum during H1-CY13. It witnessed a healthy 16.6 percent (YoY) increase in gross premiums; while premiums net of reinsurance registered a strong growth of 11.4 percent. Much of this improvement occurred due to surge in health insurance business that saw 100 percent increase during the period (**Figure 7.6**). Meanwhile, the motor insurance remained the highest contributor towards premium accumulation as its share increased to 43 percent.

In addition to improvements in premiums, the absolute claims remained almost at the level of corresponding period last year that reduced the claims ratio to 55.3 percent. The dip largely resulted from higher reinsurance coverage on nonlife business. Within the claim categories, the health insurance related claims remained high at 89.2 percent indicating a risky venture for the companies and posing technical risk in terms of mispricing of health premiums. Similarly, the motor and marine business also faced higher claims ratio of 57.9 percent and 51.8 percent respectively that also reduced the underwriting income and in fact, ten companies posted underwriting losses. However, investment income provided for improved profits and strengthened capital adequacy.

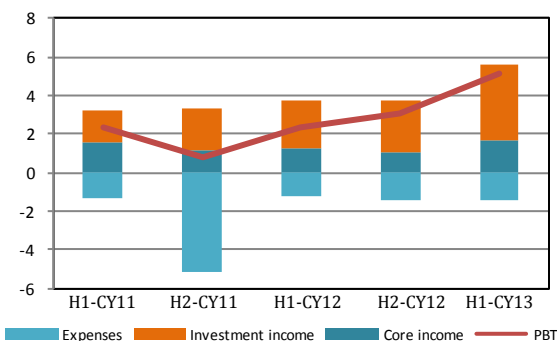
**Table 7.2: Soundness of Non-Life Insurance Companies**

(Percent)	CY11	H1CY12	H2CY12	H1CY13
Capital to Assets	52.8	52.6	50.7	49.5
Claims Ratio	58.9	62.1	55.6	55.3
Expense Ratio	27.1	10.4	13.5	13.3
Combined Ratio	86.0	72.5	69.1	68.6
Premium Retention	52.7	51.9	49.5	48.9
Return on Inv.	6.8	9.3	9.8	13.2
ROA	2.7	3.9	4.9	4.0

The salient feature of the performance of the nonlife insurance has been the robust growth in its profitability. During H1-CY13, the earning of non life insurance surged by 118 percent (YoY) to PKR 5.1 billion, that doubled the ROA to 8.2 percent (**Table 7.2**). Nonlife companies witnessed a vigorous growth in profitability owing to healthy returns on equity market investments and mutual funds. Furthermore, the dividend income and profits on bank deposits also contributed to significant growth of profitability (**Figure 7.7**).

**Figure 7.7**

Profitability of Nonlife Companies (PKR billion)



The soundness indicators of nonlife service providers exhibited relatively steady position. Improved earnings during the year boosted the equity base of the non-life business, which improved the capital to assets ratio by 40 bps. Meanwhile with a reduction in claims ratio, the expense ratio also reduced to 68.6 percent.

## Reinsurance

### *Asset base decline and yet profits rise*

The nonlife reinsurance witnessed a 9.3 percent decline in the asset base during H1-CY13 largely for settlement of amounts due to other insurers and dividend payout during the period under review. The company distributed PKR 900 million annual cash dividend for CY12 to its shareholders which reduced the equity of the company through partial liquidation of investments that shrunk by 4.7 percent. However, the gross premiums did improve by 9.7 percent (YoY) on account of healthy growth in nonlife business.

**Table 7.3: Profile of Reinsurance (PKR billion)**

	CY11	H1CY12	H2CY12	H1CY13
Equity	6.4	5.9	6.3	6.0
Investments	5.8	5.2	6.4	6.1
Gr. Premiums	6.9	3.1	5.1	3.4
Net. Premiums	3.5	2.1	2.1	2.2
Net Claims	2	1.0	1.0	1.1
Expenses	0.4	0.6	0.6	0.7
Profits	0.8	0.6	0.6	0.8
Assets	12.9	12.5	16.1	14.6

The operating performance of the company observed improvement during H1-CY13 as company posted 33 percent higher earnings (YoY) basis. Though underwriting income declined due to increase in claims and premium related expenses, profits of the company surged at the back of healthy returns on investments that led to increase in ROA to 10.4 percent in H1-CY13 compared to 9.4 percent in H1-CY12 (**Table 7.3**).

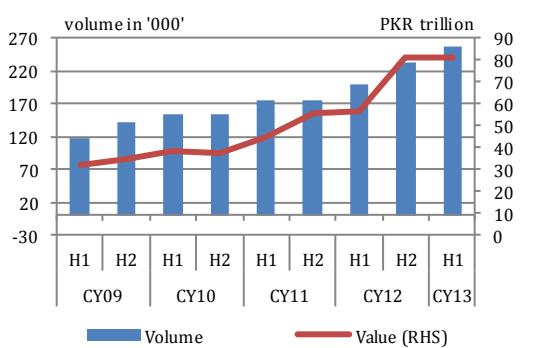
The payment system managed to handle both large valued and retail transactions efficiently during H1-CY13 with reduced downtime and without any material disruption. The Pakistan Real Time Interbank Settlement Mechanism (PRISM) settled increased value and quantum of transactions along with the provision of required liquidity facility through Intra-day Liquidity Facility (ILF) despite stressed marked liquidity conditions. The retail banking also grew, largely due to flourishing e-banking on the back of rising awareness and improved infrastructure. With significant number of new entrants, Branchless Banking (BB) also witnessed robust growth and diversity over the half year.

Table 8.1: Profile of Payment System Mechanisms				
Mechanism	H2-CY12		H1-CY13	
	Volume	Value	Volume	Value
Volume in thousands and value in trillion Rupees				
PRISM	231.9	80.9	256.1	81.1
Retail Payments	331,600	66.5	347,859	69.6
Paper based	180,800	52.5	177,599	53.9
E-transactions	150,800	14.0	170,260	15.7

One of the key objectives of SBP as a regulator of payment system is to ensure continued availability of safe and efficient payment system. SBP has come a long way with a number of initiatives to bring about further efficiency and reliability in the existing payment system of the country. Complementing SBP's endeavors, the large scale investment in IT infrastructure over years from financial institutions particularly banks, has resulted in innovative, resilient, and efficient Alternative Delivery Channels (ADCs) in payment system. Specifically, the development of core banking solutions has helped in achieving higher degree of operational efficiency, better and more diversified provision of services, and higher reliability of systems.

**Figure 8.1**

Growing trend of PRISM transactions



As a core Large Value Payment (LVP) mechanism, Pakistan Real Time Interbank Settlement Mechanism (PRISM)<sup>72</sup> continued to manage increased value and volume of large transactions during the half year under review. It handled PKR 81.1 trillion worth of 256 thousand transactions exhibiting growth of 0.3 percent and 10.4 percent in value and volume respectively over the previous half (**Table 8.1 & Figure 8.1**). Due to continued tight liquidity conditions during the half, SBP provided another PKR 4.1 trillion of ILF (5.1 percent of overall value) during H1-CY13, about 8.8 percent higher than the previous half year. The retail payment mechanism also played a significant part and handled PKR 69.6 trillion of 347.9 million transactions; growing by 4.6 percent and 4.9 percent in value and volume respectively. Though paper based transactions still lead the retail payments, e-banking share is continuously on the rise. With the entry of 3 new market players (all banks) during the half, BB grew with the rapid pace.

<sup>72</sup> PRISM transactions are classified as large value transactions due to high average size of transaction; however, there is no downside limit of the transaction.

**Box 8.1**

**PRISM** started operations with the settlement of interbank money market transactions and the domestic leg of FX market operations in July 2008. Since then, the scope of PRISM has been enhanced over time to provide a range of services such as; a) settlement of government securities, b) Intraday Liquidity Facility (ILF), c) SBP's internal transactions such as OMO/auction settlement, d) settlement of interbank fund transfer received in batches through NIFT, e) bank's own account transfer and f) excess to stock exchange member through their settlement banks.

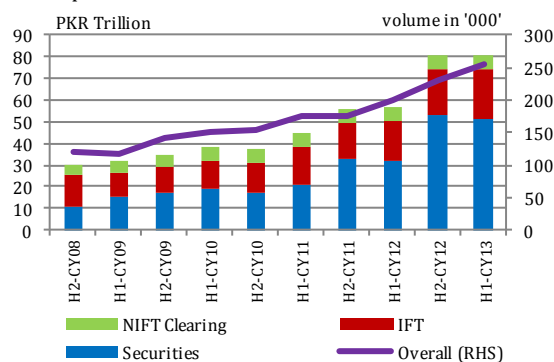
PRISM comprises two major applications i.e. RTS/X and Depo/X. The former is a fund transfer application operated through software installed by SBP at participant's premises. Depo/X is securities settlement web based application which is connected in real time with RTS/X to ensure transaction in Delivery vs. Payment (DvP) basis.

**Large Value transactions observed significant growth...**

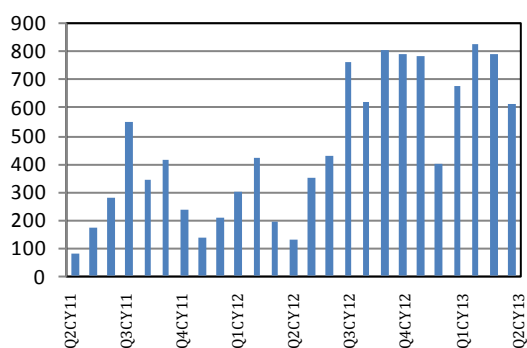
PRISM was established to address settlement risk by ensuring large value government securities transactions in real-time (thereby to reduce the settlement risk); however, the scope of its usage encompassed several other modes over time (**Box 8.1**). The consolidated data of multiple transactions handled through PRISM indicated that 256 thousand transactions valuing PKR 81.1 trillion were settled through this LVP mechanism<sup>73</sup>. The overall growth in the volume (10.4 percent) was entirely contributed by continued growth in transactions of Interbank Fund Transfer (IFT) and Retail Checque Clearing (RCC)<sup>74</sup>. However, the value of transactions revealed a negligible growth (0.3 percent) mainly due to dip in the value of securities settlements during the half. The higher volume lower value settlements through PRISM reduced the average transaction size by 8.9 percent to PKR 317 million <sup>75</sup> during the half (**Figure 8.2**).

**Figure 8.2**

Component of PRISM Transactions

**Figure 8.3**

Monthly utilization of ILF in PRISM (PKR billion)

**ILF remained on high side...**

In case a bank faces shortage of funds, SBP provides Intra-day Liquidity Facility (ILF); a fully collateralized liquidity facility extended against approved government securities, to ensure smooth functioning of payment system. Banks utilization of ILF from SBP grew by 8.8 percent to PKR 4.1 trillion in H1-CY13 (**Figure 8.3**). This allowed banks smooth settlement of transactions and avoid large queues and gridlock situations<sup>76</sup>. The ratio of ILF magnitude to PRISM value of transactions rose by 40 bps to 5.1 percent. The ILF value is growing since the launch of PRISM in 2008 and more so during last few years when market liquidity remained tight.

**Cash dominates the retail payment mechanism ...**

Retail payment mechanism comprises both paper and non-paper based modes of transactions. Cash dominated retail transactions mostly person to person (P2P) payments. Despite several issue associated with cash transactions (high economic cost due to manual counting, verification and storage of notes, risk of

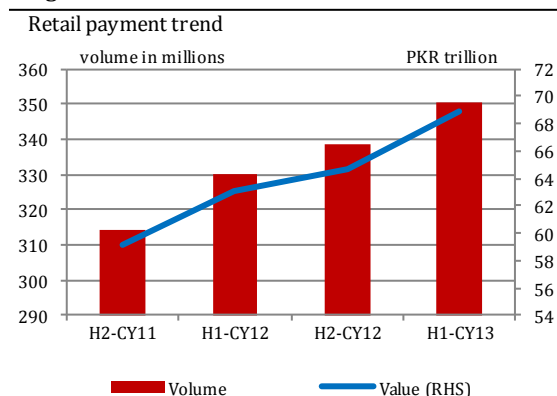
<sup>73</sup> The volume does not include Intra-day Liquidity Facility (ILF) which is also performed through PRISM.

<sup>74</sup> The growth in volume of IFT and CRR actually superseded the declining growth in transactions of securities settlement.

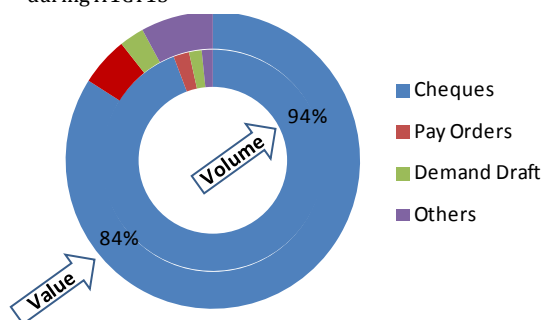
<sup>75</sup> IFT are relatively higher frequency lower value transactions. If IFT transactions are excluded, the average transaction size carried out through PRISM will increase to PKR 1,045 million in H1-CY13 (PKR 666 million in H1-CY12).

<sup>76</sup> If one bank face funding shortfall, it may create the shortage of funds for the recipient bank. A system wide similar situation where several banks' transactions are stuck is called Gridlock situation. PRISM system is also equipped with the Gridlock resolutions mechanism which when activated by SBP can offset large number of transactions on individual basis by reprioritizing payments in queue using different algorithms.

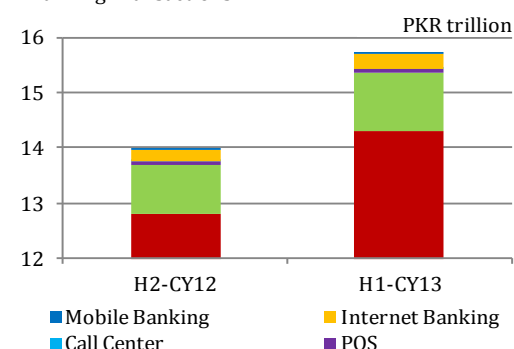


**Figure 8.4****Figure 8.5**

Composition of paper-based retail transactions during H1CY13

**Figure 8.6**

E-Banking Transactions



theft/loss etc), cash dominance may be attributed to host of factors including lack of awareness to alternative modes, liquidity preference, perceived public confidence on currency, cultural issues, low financial inclusion, and intended avoidance of record keeping for tax evasion. Apart from cash-based transactions, the rest of retail payments were subjugated by traditional cheque-based transactions followed by emerging e-banking transaction which accelerated in growth in recent years with the support of technological improvement (**Figure 8.4**).

### Cheques handled most of paper-based retail payments...

In order to bring efficiency in clearing and settlement processes, SBP is working on standardization of financial instruments with initial emphasis on standardization of cheques (also referred as cheque truncation) while at the same time improving its security features. This step intends to speed up the overall cheque clearing process and minimize the fraudulent activities.

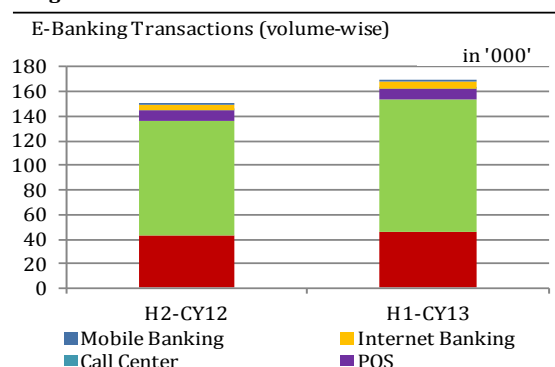
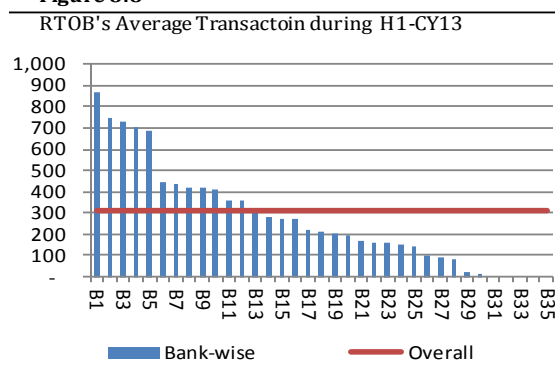
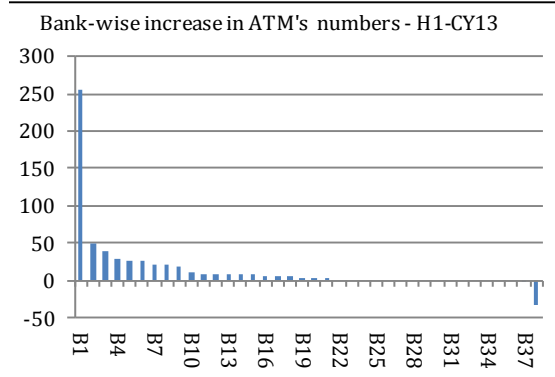
Overall, paper based retail payment mechanism handled PKR 53.9 trillion worth of 177.6 million transactions showing 2.7 percent growth in value while 1.8 percent decline in volume in H1-CY13 over the previous half. Resultantly, the average transaction size rose with a significant jump to PKR 303.2 thousand in the half under review against PKR 290.1 thousand in previous half. Segment-wise classification reveals a clear ruling of cheque-based transactions contributing 84.5 percent (PKR 45.5 trillion) share in value and 94.1 percent share in volume of retail payments followed by pay orders as the second best (**Figure 8.5**). Interestingly, 49.5 percent of cheques transactions were carried out for cash withdrawals contained only 16.8 percent share in volume. In contrast, cheque payments for transfer carries only 31.5 percent share in volume while 55.1 percent share in value (**Table 8.2**).

### e-banking continued to rise ...

In Pakistan, e-banking evolved over time, and with growing trend, has started to gain importance in retail banking. This technology based transaction mechanism has benefited the large customer base through efficient, reliable, and diversified banking services using non-traditional ADCs. Consequently, the value share of e-banking in overall retail payment transactions rose to 22.2 percent on end June – 2013 (20.6 percent as of end December 2012). During the half, 170.2 million e-banking transactions were conducted, showing an increase of 12.9

	Number (000,000)	Amount Billion PKR	Volume Share	Value share
Cash	83.1	7,980.8	48.9%	17.2%
Transfer	55.6	25,928.9	32.8%	56.0%
Clearing	31.1	12,358.6	18.3%	26.7%
Refund	0.0	28.4	0.0%	0.1%



**Figure 8.7****Figure 8.8****Figure 8.9****Table 8.3: E-Banking Infrastructure Position**

	CY12	H1CY13	Growth H1-CY13
ATMs	5,987	6,757	12.9%
Online Branches Network	9,412	10,013	6.4%
POS	34,229	33,748	-1.4%
Credit Cards (000)	1,274	1,088	-14.6%
Debit Cards (000)	17,588	20,267	15.2%
ATM Only Cards (000)	806	962	19.3%

percent; so was the case with value that grew by 10.6 percent to reach PKR 15.5 trillion (**Figure 8.6 & 8.7**). The basic infrastructure of payment system showed a considerable improvement with a significant addition of new Real Time Online Banking (RTOB), ATMs, and plastic cards during the half under review (**Table 8.3**).

### RTOBs dominated e-banking...

With the addition of 117 branches to the network, the number of online bank branches reached 10,013 which is 94.6 percent of total bank branches across the country. The overall value and volume of payments through RTOB grew by 11.7 percent and 5.9 percent respectively that increased the average transaction size to PKR 0.312 million in H1-CY13 compared to PKR 0.295million in the previous half. There were few banks with average transaction size significantly larger than overall industry average; however, the overall share of such banks in total value of transactions was quite small. Bank-wise value share of RTOB payments during H1-CY13 was confined to few banks only; much more than their relative asset share of the industry (**Figure 8.8**).

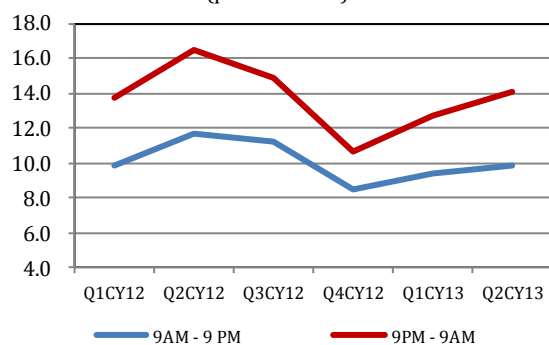
### ATM's growth was impressive...

With a growth of 8.4 percent, a total of 525 more ATMs were added by various banks (more so in the second quarter of CY13), thus bringing the total number of ATMs installed to 6,757<sup>77</sup>. The bank-wise data revealed that the growth in ATM's number was largely contributed by top five banks (in terms of assets) and partially by few other middle tier and small banks (**Figure 8.9**). The banking sector handled 107.3 million transactions worth PKR 1.07 trillion through ATM channel showing 18.6 percent and 16.1 percent growth in value and volume respectively. Furthermore, due to rise in per ATMs card withdrawal limit offered by various banks, the average ATMs transaction size increased from PKR 9,794 to PKR 10,007 during the half. However, the detailed bank-wise data reveals significant dispersion in average ATM transaction size amongst banks.

<sup>77</sup> The rise in ATM's number was partially resulted from SBP's instruction to add one ATM against each newly opened branch from CY13 onward and to fill the gap between numbers of existing branches with matching ATMs in next five years (BPRD Circular No.3 of 2012).

**Figure 8.10**

Downtime of ATMs (percent share)



The scope of ATM channel in the e-banking world has significantly widened in recent past. ATMs are now covering round the clock cash withdrawal and deposits, utility bill payments, domestic and cross-border fund transfer, credit card payments etc. The consistent availability of services in minimum time is imperative for the efficiency of ATMs. The downtime of ATMs during working hrs (9am to 9 pm) marginally reduced to 9.6 percent during H1-CY13<sup>78</sup> from 9.9 percent in previous half. However, the downtime for non-working hrs (9pm-9am) increased to 13.4 percent from 12.7 percent in the last half (**Figure 8.10**). A number of factors that may have added to downtime include migration to new software, frequent interruption in power supply, introduction to multi-vendor ATMs software, breakdown in system-wide link, security concerns, etc.

### The downfall in credit card business reduced POSs...

The number of credit cards during H1-CY13 reduced by 13.8 percent to 1.08 million as on June 30, 2013. Following the same trend, POS terminals also declined by 2.8 percent (976) during the half to 33,748 POSs nationwide on end June 2013. However, despite the decline in physical infrastructure, the value and volume of POS based payments showed a positive growth by 7.4 percent and 1.3 percent respectively. High valued transactions with lesser POSs resulted in improved average transaction size to PKR 5,112/- during H1-CY13 compared to PKR 4,824 in the previous half. It may be worth mentioning that banks remained shy from consumer finance especially during last few years due to heightened credit risk in this particular segment and availability of risk free government security as an alternative financing channel.

### Internet banking continued to gain importance ...

The use of internet banking, third largest mode in e-banking after RTOB and ATMs, is evolving with an impressive pace and creating its space in retail payment system. With the prime feature of convenience and improved security, internet banking has got its size doubled in last two years. During the half under consideration, internet banking observed a double-digit growth in value and volume, i.e., 18.6 percent and 26.7 percent respectively. This mode handled PKR 271 billion worth of 5.35 million transactions with an average transaction size of PKR 50,493 during H1-CY13.

<sup>78</sup> Average downtime of two quarters is calculated for full half

## Branchless banking growing...

With the fast growing technological innovations, the financial institutions (particularly banks) have joined hands with telecommunication sector to offer a wide ranged efficient, reliable and user friendly financial services through BB. This form of payment has resulted not only in enhanced reach of financial services to unbanked customers (financial inclusion) but also benefited banks in term of cost effectiveness. The BB can also provide tremendous opportunity for Government to Persons (G2P) and Person to Government (P2G) payments in Pakistan.

	<b>H1CY12</b>	<b>H2CY12</b>	<b>H1CY13</b>	<b>Growth H1CY13</b>
No. of Agents	29,525	41,567	93,862	125.8%
No. of Accounts (in 000)	1,447	2,112	2,643	25.1%
Deposits as of Date (million PKR )	753	1,055	2,391	126.6%
Transactions (No. in million)	54	67	86	27.8%
Value of Transactions (PKR billion)	200	292	344	17.9%
Average Size of Transaction (PKR)	3,732	4,343	4,005	-7.8%
Average No. of Transaction Per Day (in 000)	298	373	477	27.8%

BB was pioneered by Tameer Microfinance Bank through its Easy Paisa model in year 2009 and United Bank Limited's (UBL) Omni in 2010. After witnessing their success, six more players including banks and telecoms have now entered the arena of BB, which boosted the overall growth of BB services. During H1-CY13, the transactions observed substantial growth due to increasing number of BB's agents. In H1-CY13, BB managed PKR 344 billion worth of 86 million transactions with the growth of 27.8 percent and 17.9 percent in value and volume respectively **(Table 8.4)**. BB's payment is dominated by Over the counter (OTC) transactions - transactions from one CNIC to another CNIC that do not involve mobile wallet – which contributes around 83 percent share in BB. On the other side, M-wallets transactions was the second best with 12 percent share. On average, 477 thousand transactions were performed per day by agents with an average transaction size of Rs. 4,005. Alongside, BB accounts witnessed a growth of 25.1 percent during the half and reached 2.64 million in numbers. Similarly, the number of agents offering branchless banking services has crossed 93,800.

Branchless banking industry is expected to become more competitive and cost effective with the entry of new players. During the last two quarters, three new players, i.e., Mobicash, Time Pay, and HBL Express have initiated BB operations, whereas in addition U-Microfinance Bank commenced its branchless banking operations under the brand name U-Paisa in August 2013 as well.

## **Annexures**

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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. Moreover, FY stands for Financial Year.

## 1. Statistics of the Overall Banking System

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

PKR billion

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
Total Assets	4,353	5,172	5,628	6,516	7,117	8,171	8,653	9,711	10,090
Investments (net)	833	1,276	1,087	1,737	2,157	3,055	3,275	4,013	4,253
Advances (net)	2,428	2,688	3,173	3,240	3,358	3,349	3,573	3,804	3,727
Deposits	3,255	3,854	4,218	4,786	5,451	6,244	6,803	7,294	7,756
Equity	402	544	563	660	695	784	808	882	901
Profit Before Tax (ytd)	124	107	63	81	105	170	99	178	82
Profit After Tax (ytd)	84	73	43	54	65	112	64	118	55
Provisioning Charges (ytd)	22	60	106	97	75	50	11	40	18
Non-Performing Loans	177	218	359	446	556	592	635	615	616
Non-Performing Loans (net)	39	30	109	134	185	182	214	176	165

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	CY11	Jun-12	CY12	Jun-13		
Growth Rates	YoY	YoY	YoY	YoY	YoY	QoQ	YoY	YoY	QoQ	YoY
Assets	18.8	8.8	15.8	9.2	14.8	3.2	12.2	18.9	3.7	16.6
Loans (Net)	10.7	18.0	2.1	3.7	(0.3)	4.2	5.6	12.9	(0.1)	4.3
Deposits	18.4	9.4	13.5	13.9	14.5	7.7	14.0	16.8	7.2	14.0
Investments (Net)	53.1	(14.8)	59.9	24.2	41.6	2.7	25.0	31.4	2.2	29.8
Equity	35.3	3.4	17.3	5.2	12.9	2.6	11.8	12.5	4.3	11.5
KEY FSIs:	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13		
Capital Adequacy Ratio	12.3	12.2	14.0	13.9	15.1	15.1	15.6	15.5		
Capital to Total Assets	10.5	10.0	10.1	9.8	9.6	9.3	9.1	8.9		
NPLs to Loans (Gross)	7.6	10.5	12.6	14.9	15.7	15.9	14.5	14.8		
Net NPLs to Net Loans	1.1	3.4	4.1	5.5	5.4	6.0	4.6	4.4		
ROA (Before Tax)	2.2	1.2	1.3	1.5	2.2	2.4	2.0	1.7		
ROE^ (Before Tax)	22.6	11.4	13.2	15.5	23.0	25.9	21.4	18.5		
Liquid Assets/ Total Deposits	45.1	37.7	44.5	47.1	59.5	54.3	64.5	63.7		
Advances to Deposit Ratio	69.7	75.2	67.7	61.6	53.6	52.5	52.2	48.1		

^ Based on Average Equity plus Surplus on Revaluation.

# 1. Statistics of the Overall Banking System

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

June 30, 2013 (Un-audited)

PKR million

Financial Position	PSCB	LPB	FB	CB	SB	All Banks	Absolute change	
							QoQ	YoY
<b>ASSETS</b>								-
Cash & Balances With Treasury Banks	115,635	638,208	38,883	792,726	4,359	797,085	112,420	82,277
Balances With Other Banks	25,613	99,308	1,769	126,690	11,405	138,094	(23,443)	1,610
Lending To Financial Institutions	132,474	175,755	26,596	334,826	1,553	336,379	131,756	164,049
Investments - Net	563,667	3,549,227	113,150	4,226,045	27,063	4,253,108	93,436	977,638
Advances - Net	849,470	2,723,378	51,639	3,624,487	102,251	3,726,738	(4,542)	153,976
Operating Fixed Assets	34,464	209,678	1,498	245,640	5,985	251,625	1,933	9,374
Deferred Tax Assets	26,763	47,548	4,041	78,351	572	78,923	(1,799)	(3,794)
Other Assets	159,620	327,169	8,268	495,057	13,270	508,327	45,627	52,264
<b>TOTAL ASSETS</b>	<b>1,907,706</b>	<b>7,770,270</b>	<b>245,845</b>	<b>9,923,822</b>	<b>166,457</b>	<b>10,090,279</b>	<b>355,389</b>	<b>1,437,393</b>
<b>LIABILITIES</b>								-
Bills Payable	19,731	131,377	7,484	158,593	468	159,061	45,253	55,649
Borrowings From Financial Institution	26,400	668,927	56,385	751,712	82,829	834,541	(200,375)	326,076
Deposits And Other Accounts	1,563,995	6,046,280	127,023	7,737,297	18,360	7,755,658	519,529	952,761
Sub-ordinated Loans	-	49,734	-	49,734	3,405	53,139	(2,805)	(4,750)
Liabilities Against Assets Subject To Finance Lease	41	-	7	47	9	56	20	(27)
Deferred Tax Liabilities	7,046	15,320	56	22,422	352	22,774	3,914	8,584
Other Liabilities	107,317	198,019	14,878	320,214	43,519	363,733	(47,547)	5,788
<b>TOTAL LIABILITIES</b>	<b>1,724,529</b>	<b>7,109,656</b>	<b>205,834</b>	<b>9,040,019</b>	<b>148,942</b>	<b>9,188,961</b>	<b>317,988</b>	<b>1,344,080</b>
<b>NET ASSETS</b>	<b>183,177</b>	<b>660,614</b>	<b>40,011</b>	<b>883,802</b>	<b>17,515</b>	<b>901,318</b>	<b>37,401</b>	<b>93,313</b>
<b>NET ASSETS REPRESENTED BY:</b>								-
Share Capital	47,059	367,866	41,040	455,965	15,351	471,316	5,049	12,348
Reserves	51,196	110,270	155	161,621	11,312	172,933	2,063	26,911
Unappropriated Profit	42,304	111,655	(1,286)	152,673	(16,436)	136,237	13,696	6,919
<b>Share Holders' Equity</b>	<b>140,559</b>	<b>589,791</b>	<b>39,909</b>	<b>770,259</b>	<b>10,227</b>	<b>780,486</b>	<b>20,809</b>	<b>46,178</b>
Surplus/Deficit On Revaluation Of Assets	42,618	70,823	102	113,543	7,288	120,831	16,593	47,135
<b>TOTAL</b>	<b>183,177</b>	<b>660,614</b>	<b>40,011</b>	<b>883,802</b>	<b>17,515</b>	<b>901,318</b>	<b>37,401</b>	<b>93,313</b>
<b>PROFIT AND LOSS STATEMENT</b>	<b>PSCB</b>	<b>LPB</b>	<b>FB</b>	<b>CB</b>	<b>SB</b>	<b>All Banks</b>	<b>Change (YoY)</b>	
Mark-Up/ Return/Interest Earned	69,221	301,629	8,332	379,181	8,141	387,323	(4,500)	
Mark-Up/ Return/Interest Expenses	45,295	174,994	3,839	224,128	2,436	226,564	3,207	
<b>Net Mark-Up / Interest Income</b>	<b>23,926</b>	<b>126,634</b>	<b>4,492</b>	<b>155,053</b>	<b>5,705</b>	<b>160,758</b>	<b>(7,707)</b>	
Provisions & Bad Debts Written Off Directly/(Reversals)	5,229	12,414	(362)	17,281	509	17,790	6,602	
<b>Net Mark-Up / Interest Income After Provision</b>	<b>18,697</b>	<b>114,221</b>	<b>4,855</b>	<b>137,772</b>	<b>5,196</b>	<b>142,968</b>	<b>(14,309)</b>	
Fees, Commission & Brokerage Income	6,121	23,040	702	29,863	46	29,909	3,695	
Dividend Income	1,732	4,253	-	5,986	144	6,129	(4,786)	
Income From Dealing In Foreign Currencies	2,090	5,560	345	7,995	1	7,996	(3,212)	
Other Income	5,743	16,336	213	22,292	2,458	24,750	8,437	
<b>Total Non - Markup / Interest Income</b>	<b>15,686</b>	<b>49,190</b>	<b>1,260</b>	<b>66,136</b>	<b>2,649</b>	<b>68,784</b>	<b>4,134</b>	
	34,383	163,410	6,115	203,908	7,844	211,752	(10,175)	
Administrative Expenses	21,976	97,445	3,823	123,244	4,790	128,034	6,507	
Other Expenses	407	1,165	22	1,594	(4)	1,590	702	
<b>Total Non-Markup/Interest Expenses</b>	<b>22,383</b>	<b>98,610</b>	<b>3,845</b>	<b>124,838</b>	<b>4,786</b>	<b>129,623</b>	<b>7,209</b>	
Profit before Tax and Extra ordinary Items	12,000	64,801	2,270	79,070	3,059	82,129	(17,384)	
Extra ordinary/unusual Items - Gain/(Loss)	-	-	-	-	0.41	0.41	(915)	
<b>PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>12,000</b>	<b>64,801</b>	<b>2,270</b>	<b>79,070</b>	<b>3,058</b>	<b>82,129</b>	<b>(16,469)</b>	
Less: Taxation	3,909	21,646	771	26,326	920	27,246	(7,688)	
<b>PROFIT/ (LOSS) AFTER TAX</b>	<b>8,091</b>	<b>43,154</b>	<b>1,499</b>	<b>52,744</b>	<b>2,138</b>	<b>54,882</b>	<b>(8,781)</b>	



# 1. Statistics of the Overall Banking System

Table 1.4: Financial Soundness Indicators\*

Indicators	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Percent Jun-13
<b>CAPITAL ADEQUACY</b>									
<b>Risk Weighted CAR<sup>a</sup></b>									
Public Sector Commercial Banks	15.2	16.1	13.4	15.1	14.7	16.5	14.4	16.7	15.8
Local Private Banks	12.7	11.8	11.9	13.9	13.6	14.4	14.9	14.9	15.0
Foreign Banks	15.0	14.6	21.8	23.0	23.8	31.3	31.0	30.7	26.4
<b>Commercial Banks</b>	<b>13.3</b>	<b>12.8</b>	<b>12.6</b>	<b>14.5</b>	<b>14.1</b>	<b>15.3</b>	<b>15.2</b>	<b>15.6</b>	<b>15.5</b>
Specialized Banks	-8.3	-6.2	-4.9	-1.5	4.7	8.9	10.9	12.3	13.7
<b>All Banks</b>	<b>12.7</b>	<b>12.3</b>	<b>12.2</b>	<b>14.0</b>	<b>13.9</b>	<b>15.1</b>	<b>15.1</b>	<b>15.6</b>	<b>15.5</b>
<b>Tier 1 Capital to RWA</b>									
Public Sector Commercial Banks	11.1	12.2	10.9	12.6	12.2	14.4	12.3	13.9	12.7
Local Private Banks	10.4	9.9	10.0	11.4	11.4	12.3	12.7	12.4	12.7
Foreign Banks	14.3	14.0	21.3	22.5	23.5	31.1	30.8	30.5	26.2
<b>Commercial Banks</b>	<b>10.8</b>	<b>10.5</b>	<b>10.6</b>	<b>12.0</b>	<b>12.0</b>	<b>13.3</b>	<b>13.2</b>	<b>13.2</b>	<b>13.1</b>
Specialized Banks	-13.3	-12.5	-10.1	-5.8	-0.9	3.4	5.4	6.8	7.8
<b>All Banks</b>	<b>10.0</b>	<b>10.0</b>	<b>10.1</b>	<b>11.6</b>	<b>11.6</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>
<b>Capital to Total Assets</b>									
Public Sector Commercial Banks	12.2	13.7	10.7	11.3	11.7	10.6	10.1	10.3	9.6
Local Private Banks	9.2	10.2	10.0	9.9	9.3	9.2	8.9	8.6	8.5
Foreign Banks	10.1	11.2	14.5	14.8	14.8	16.7	17.6	16.5	16.3
<b>Commercial Banks</b>	<b>9.9</b>	<b>10.9</b>	<b>10.3</b>	<b>10.4</b>	<b>9.9</b>	<b>9.7</b>	<b>9.4</b>	<b>9.1</b>	<b>8.9</b>
Specialized Banks	-8.0	-5.4	-3.2	-1.7	1.2	5.4	7.6	8.3	10.5
<b>All Banks</b>	<b>9.4</b>	<b>10.5</b>	<b>10.0</b>	<b>10.1</b>	<b>9.8</b>	<b>9.6</b>	<b>9.3</b>	<b>9.1</b>	<b>8.9</b>
<b>ASSET QUALITY</b>									
<b>NPLs to Total Loans</b>									
Public Sector Commercial Banks	9.0	8.4	16.3	16.9	22.9	21.1	22.7	16.9	17.1
Local Private Banks	5.2	6.5	8.7	11.1	12.5	13.8	13.4	13.3	13.5
Foreign Banks	1.0	1.6	2.9	6.7	9.5	10.4	11.1	13.4	11.3
<b>Commercial Banks</b>	<b>5.7</b>	<b>6.7</b>	<b>9.9</b>	<b>12.1</b>	<b>14.5</b>	<b>15.3</b>	<b>15.5</b>	<b>14.1</b>	<b>14.3</b>
Specialized Banks	39.1	34.3	28.8	25.5	28.7	30.1	30.4	27.6	30.7
<b>All Banks</b>	<b>6.9</b>	<b>7.6</b>	<b>10.5</b>	<b>12.6</b>	<b>14.9</b>	<b>15.7</b>	<b>15.9</b>	<b>14.5</b>	<b>14.8</b>
<b>Provision to NPLs</b>									
Public Sector Commercial Banks	84.5	89.0	66.9	67.8	52.4	58.2	50.0	62.8	65.2
Local Private Banks	78.7	88.5	70.2	71.0	73.2	74.6	74.9	75.2	77.8
Foreign Banks	191.7	157.0	81.9	75.2	86.6	89.3	88.7	94.0	95.9
<b>Commercial Banks</b>	<b>81.5</b>	<b>89.1</b>	<b>69.3</b>	<b>70.1</b>	<b>66.9</b>	<b>69.9</b>	<b>66.9</b>	<b>72.0</b>	<b>74.5</b>
Specialized Banks	64.1	68.6	72.4	65.7	63.4	59.1	55.5	61.3	53.2
<b>All Banks</b>	<b>77.8</b>	<b>86.1</b>	<b>69.6</b>	<b>69.9</b>	<b>66.7</b>	<b>69.3</b>	<b>66.3</b>	<b>71.5</b>	<b>73.2</b>
<b>Net NPLs to Net Loans</b>									
Public Sector Commercial Banks	1.5	1.0	6.1	6.1	12.4	10.1	12.8	7.1	6.7
Local Private Banks	1.1	0.8	2.7	3.5	3.7	3.9	3.7	3.6	3.3
Foreign Banks	-1.0	-0.9	0.5	1.8	1.4	1.2	1.4	1.0	0.5
<b>Commercial Banks</b>	<b>1.1</b>	<b>0.8</b>	<b>3.3</b>	<b>4.0</b>	<b>5.3</b>	<b>5.1</b>	<b>5.7</b>	<b>4.4</b>	<b>4.1</b>
Specialized Banks	18.7	14.0	10.0	10.5	12.8	14.9	16.2	12.9	17.2
<b>All Banks</b>	<b>1.6</b>	<b>1.1</b>	<b>3.4</b>	<b>4.1</b>	<b>5.5</b>	<b>5.4</b>	<b>6.0</b>	<b>4.6</b>	<b>4.4</b>
<b>Net NPLs to Capital</b>									
Public Sector Commercial Banks	6.4	3.4	30.3	27.4	48.8	41.8	60.0	32.2	31.0
Local Private Banks	7.1	4.1	15.9	17.4	18.9	17.1	16.8	15.9	13.7
Foreign Banks	-5.1	-4.1	1.6	4.4	2.6	1.9	2.1	1.4	0.7
<b>Commercial Banks</b>	<b>6.2</b>	<b>3.7</b>	<b>17.9</b>	<b>18.8</b>	<b>25.0</b>	<b>21.6</b>	<b>24.9</b>	<b>18.7</b>	<b>16.7</b>
Specialized Banks	-	-	-	-	-	-	-	1.0	-
<b>All Banks</b>	<b>9.7</b>	<b>5.6</b>	<b>19.4</b>	<b>20.4</b>	<b>26.7</b>	<b>23.1</b>	<b>26.5</b>	<b>19.9</b>	<b>18.3</b>
<b>EARNINGS</b>									
<b>Return on Assets (Before Tax)</b>									
Public Sector Commercial Banks	4.0	3.5	0.6	1.5	1.8	2.0	1.8	1.6	1.3
Local Private Banks	3.1	2.0	1.3	1.3	1.5	2.3	2.5	2.1	1.7
Foreign Banks	3.2	1.5	0.0	-0.3	0.9	2.3	1.4	0.4	1.9
<b>Commercial Banks</b>	<b>3.2</b>	<b>2.3</b>	<b>1.1</b>	<b>1.3</b>	<b>1.5</b>	<b>2.2</b>	<b>2.3</b>	<b>2.0</b>	<b>1.6</b>
Specialized Banks	-1.3	1.4	3.2	3.1	2.0	2.4	3.1	2.7	3.4
<b>All Banks</b>	<b>3.1</b>	<b>2.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.5</b>	<b>2.2</b>	<b>2.4</b>	<b>2.0</b>	<b>1.7</b>

# 1. Statistics of the Overall Banking System

## Financial Soundness Indicators\* cont'd:

Indicators	Percent								
	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
<b>EARNINGS</b>									
<b>Return on Assets (After Tax)</b>									
Public Sector Commercial Banks	2.7	2.5	0.5	1.3	1.3	1.4	1.1	1.2	0.9
Local Private Banks	2.1	1.4	0.9	0.9	0.9	1.5	1.6	1.4	1.1
Foreign Banks	2.1	0.7	0.3	(0.3)	0.4	1.5	0.6	(0.1)	1.2
<b>Commercial Banks</b>	<b>2.2</b>	<b>1.6</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>	<b>1.1</b>
Specialized Banks	(1.8)	0.7	1.8	1.2	1.2	1.6	2.1	1.8	2.2
<b>All Banks</b>	<b>2.1</b>	<b>1.5</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.5</b>	<b>1.6</b>	<b>1.3</b>	<b>1.1</b>
<b>ROE (Avg. Equity &amp; Surplus) (Before Tax)</b>									
Public Sector Commercial Banks	32.4	27.2	5.2	13.3	15.2	18.0	16.9	15.6	13.3
Local Private Banks	36.2	20.4	12.9	13.2	15.6	24.7	27.9	24.1	20.1
Foreign Banks	30.0	13.1	0.0	(2.4)	5.8	14.5	8.4	2.2	11.2
<b>Commercial Banks</b>	<b>34.7</b>	<b>21.8</b>	<b>10.6</b>	<b>12.4</b>	<b>15.0</b>	<b>22.7</b>	<b>24.5</b>	<b>21.2</b>	<b>18.2</b>
Specialized Banks	-	-	-	-	-	-	-	1.0	-
<b>All Banks</b>	<b>35.2</b>	<b>22.6</b>	<b>11.4</b>	<b>13.2</b>	<b>15.5</b>	<b>23.0</b>	<b>25.9</b>	<b>21.4</b>	<b>18.5</b>
<b>ROE (Avg. Equity &amp; Surplus) (After Tax)</b>									
Public Sector Commercial Banks	21.7	19.5	4.4	11.4	11.2	12.2	11.0	11.2	9.0
Local Private Banks	25.0	13.8	8.5	8.6	9.3	16.1	18.1	15.9	13.4
Foreign Banks	20.4	6.0	2.2	(2.3)	2.7	9.5	3.5	(0.5)	7.4
<b>Commercial Banks</b>	<b>23.7</b>	<b>15.0</b>	<b>7.3</b>	<b>8.6</b>	<b>9.4</b>	<b>14.9</b>	<b>15.8</b>	<b>14.0</b>	<b>12.2</b>
Specialized Banks	-	-	-	-	-	-	-	4.0	-
<b>All Banks</b>	<b>23.8</b>	<b>15.4</b>	<b>7.8</b>	<b>8.9</b>	<b>9.6</b>	<b>15.1</b>	<b>17.3</b>	<b>14.2</b>	<b>12.4</b>
<b>NII/Gross Income</b>									
Public Sector Commercial Banks	69.5	65.9	65.4	63.0	69.1	69.4	66.7	64.1	60.4
Local Private Banks	73.5	70.7	73.2	75.9	77.2	77.9	73.7	73.0	72.0
Foreign Banks	65.8	59.1	61.3	64.8	67.6	72.2	73.3	69.0	78.1
<b>Commercial Banks</b>	<b>72.1</b>	<b>69.2</b>	<b>71.2</b>	<b>73.3</b>	<b>75.4</b>	<b>76.2</b>	<b>72.6</b>	<b>71.3</b>	<b>70.1</b>
Specialized Banks	40.1	42.8	46.6	44.7	51.0	67.3	62.7	63.7	66.4
<b>All Banks</b>	<b>70.9</b>	<b>68.2</b>	<b>70.3</b>	<b>72.4</b>	<b>74.7</b>	<b>76.0</b>	<b>72.3</b>	<b>71.1</b>	<b>70.0</b>
<b>Cost / Income Ratio</b>									
Public Sector Commercial Banks	31.8	30.2	39.1	47.5	49.1	49.9	57.7	55.4	56.5
Local Private Banks	40.7	45.4	51.6	50.1	52.5	50.8	50.8	52.6	56.1
Foreign Banks	49.8	57.0	69.6	77.5	65.2	59.3	61.0	75.8	66.8
<b>Commercial Banks</b>	<b>39.4</b>	<b>42.8</b>	<b>50.0</b>	<b>50.9</b>	<b>52.4</b>	<b>50.9</b>	<b>52.3</b>	<b>53.8</b>	<b>56.4</b>
Specialized Banks	62.6	53.2	52.1	61.3	61.3	60.4	59.5	62.4	56.6
<b>All Banks</b>	<b>40.3</b>	<b>43.2</b>	<b>50.1</b>	<b>51.2</b>	<b>52.7</b>	<b>51.1</b>	<b>52.5</b>	<b>54.1</b>	<b>56.4</b>
<b>LIQUIDITY</b>									
<b>Liquid Assets/Total Assets</b>									
Public Sector Commercial Banks	33.9	37.0	30.6	31.1	34.6	40.9	32.6	38.0	37.0
Local Private Banks	31.1	32.5	26.8	32.3	35.7	46.2	44.7	50.8	51.7
Foreign Banks	41.0	41.6	45.2	55.0	64.6	68.6	67.4	69.4	72.7
<b>Commercial Banks</b>	<b>32.2</b>	<b>33.8</b>	<b>28.3</b>	<b>32.9</b>	<b>36.4</b>	<b>45.9</b>	<b>43.1</b>	<b>48.8</b>	<b>49.4</b>
Specialized Banks	23.0	27.9	24.5	19.8	19.6	23.5	23.8	23.7	24.1
<b>All Banks</b>	<b>31.9</b>	<b>33.6</b>	<b>28.2</b>	<b>32.7</b>	<b>36.1</b>	<b>45.5</b>	<b>42.7</b>	<b>48.4</b>	<b>49.0</b>
<b>Liquid Assets/Total Deposits</b>									
Public Sector Commercial Banks	42.6	47.1	38.9	40.1	43.5	51.3	40.5	49.4	45.1
Local Private Banks	40.6	42.9	35.0	43.4	45.8	59.5	55.8	66.5	66.5
Foreign Banks	61.1	61.1	71.6	82.4	96.4	104.3	101.6	108.0	140.8
<b>Commercial Banks</b>	<b>42.0</b>	<b>44.3</b>	<b>37.1</b>	<b>44.0</b>	<b>46.8</b>	<b>59.1</b>	<b>54.0</b>	<b>64.1</b>	<b>63.4</b>
Specialized Banks	205.4	247.7	229.4	167.1	149.4	202.0	202.1	214.0	218.4
<b>All Banks</b>	<b>42.7</b>	<b>45.1</b>	<b>37.7</b>	<b>44.5</b>	<b>47.1</b>	<b>59.5</b>	<b>54.3</b>	<b>64.5</b>	<b>63.7</b>
<b>Advances/Deposits</b>									
Public Sector Commercial Banks	64.6	60.0	68.4	65.2	58.0	55.2	59.0	60.9	54.3
Local Private Banks	74.5	70.1	75.1	66.6	61.3	52.0	49.7	48.8	45.0
Foreign Banks	80.1	75.2	68.9	56.1	42.0	39.6	39.7	37.4	40.7
<b>Commercial Banks</b>	<b>72.7</b>	<b>73.8</b>	<b>73.6</b>	<b>66.0</b>	<b>60.1</b>	<b>52.3</b>	<b>51.2</b>	<b>50.9</b>	<b>46.8</b>
Specialized Banks	528.4	507.3	577.0	560.8	491.5	540.1	535.9	556.9	556.9
<b>All Banks</b>	<b>74.6</b>	<b>69.7</b>	<b>75.2</b>	<b>67.7</b>	<b>61.6</b>	<b>53.6</b>	<b>52.5</b>	<b>52.2</b>	<b>48.1</b>

\* Data of IDBP, PPCBL, and SME is based on Basel I.

# 1. Statistics of the Overall Banking System

**Table 1.5: Banks' category-wise key variables**

## All Banks

PKR billion

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
Paid up Capital	168	248	281	325	358	405	459	428	471
Equity	402	544	563	660	695	784	808	882	901
Deposits	3,255	3,854	4,218	4,786	5,451	6,244	6,803	7,294	7,756
Liabilities	3,951	4,627	5,065	5,856	6,422	7,386	7,845	8,829	9,189
Advances (net of Provision)	2,428	2,688	3,173	3,240	3,358	3,349	3,573	3,804	3,727
Investments (net of Provisions)	833	1,276	1,087	1,737	2,157	3,055	3,275	4,013	4,253
Assets	4,353	5,172	5,628	6,516	7,117	8,171	8,653	9,711	10,090
Income	385	475	582	690	721	856	456	930	456
Expense	262	368	519	609	617	686	358	752	374
Profit before tax	124	107	63	81	105	170	99	178	82
Profit after tax	84	73	43	54	65	112	64	118	55

## Public Sector Commercial Banks

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
Paid up Capital	12,278	16,671	18,544	21,339	34,030	41,414	43,096	61,284	47,059
Equity	102,043	142,270	111,986	139,219	159,790	166,172	163,828	188,541	183,177
Deposits	665,642	812,856	819,683	952,373	1,087,506	1,248,199	1,302,371	1,414,547	1,563,995
Liabilities	734,145	893,622	930,324	1,090,831	1,205,801	1,396,686	1,454,196	1,649,868	1,724,529
Advances (net of Provision)	429,716	487,362	560,666	620,596	630,704	689,423	768,577	861,295	849,470
Investments (net of Provisions)	179,883	296,670	204,784	297,689	383,310	479,609	456,008	588,623	563,667
Assets	836,189	1,035,892	1,042,310	1,230,050	1,365,591	1,562,858	1,618,023	1,838,410	1,907,706
Income	73,519	90,970	103,421	119,979	108,949	121,753	81,519	168,541	84,907
Expense	41,961	57,748	96,855	103,218	131,722	151,113	67,604	140,935	72,907
Profit before tax	31,558	33,222	6,566	16,762	22,773	29,359	13,915	27,606	12,000
Profit after tax	21,192	23,851	5,644	14,372	16,798	19,833	9,083	19,803	8,091

## Local Private Banks

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
Paid up Capital	124,252	199,547	214,571	253,015	274,587	309,306	360,079	309,642	367,866
Equity	287,882	389,726	421,074	487,719	498,613	567,665	589,875	639,646	660,614
Deposits	2,425,781	2,909,310	3,236,220	3,655,994	4,188,181	4,810,209	5,321,893	5,702,710	6,046,280
Liabilities	2,886,107	3,446,053	3,799,764	4,417,543	4,875,191	5,635,806	6,047,823	6,826,456	7,109,656
Advances (net of Provision)	1,807,163	2,039,623	2,429,934	2,435,792	2,568,695	2,499,799	2,642,507	2,784,738	2,723,378
Investments (net of Provisions)	598,435	936,764	847,045	1,373,082	1,679,542	2,442,332	2,697,062	3,312,668	3,549,227
Assets	3,173,989	3,835,779	4,220,838	4,905,262	5,373,804	6,203,471	6,637,698	7,466,101	7,770,270
Income	273,918	348,149	437,498	524,275	470,401	528,855	351,582	717,584	350,818
Expense	187,158	278,615	385,022	463,734	547,425	660,306	271,255	572,018	286,018
Profit before tax	86,760	69,530	52,477	60,541	77,024	131,451	80,327	145,566	64,801
Profit after tax	59,490	47,263	34,704	39,265	45,646	85,716	52,095	95,896	43,154

# 1. Statistics of the Overall Banking System

## Foreign Banks

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
Paid up Capital	17,469	17,085	32,130	34,885	33,992	38,720	40,285	41,149	41,040
Equity	22,686	19,373	33,971	35,739	34,509	42,530	42,446	40,783	40,011
Deposits	150,093	117,561	147,938	160,936	156,331	167,870	160,354	158,703	127,023
Liabilities	201,081	153,339	200,590	205,297	198,745	212,744	199,377	205,908	205,834
Advances (net of Provision)	120,223	88,455	101,921	90,325	65,628	66,411	63,724	59,322	51,639
Investments (net of Provisions)	38,477	26,427	22,593	52,373	79,809	113,382	90,755	85,519	113,150
Assets	223,783	172,711	234,562	241,037	233,253	255,274	241,823	246,690	245,845
Income	24,107	20,169	24,005	27,741	23,100	22,979	13,194	25,143	9,592
Expense	17,784	17,733	23,998	28,591	25,147	28,579	11,405	24,227	7,322
Profit before tax	6,323	2,435	7	(850)	2,046	5,601	1,789	916	2,270
Profit after tax	4,288	1,122	651	(809)	960	3,660	740	(227)	1,499

## Specialized Banks

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
Paid up Capital	14,452	14,849	15,506	15,507	15,507	15,508	15,508	15,508	15,351
Equity	(10,214)	(6,931)	(4,163)	(2,424)	1,791	7,990	11,855	13,239	17,515
Deposits	13,491	14,320	13,883	16,588	18,962	17,327	18,279	17,738	18,360
Liabilities	129,173	134,125	134,332	142,414	142,577	141,179	143,486	146,713	148,942
Advances (net of Provision)	70,617	72,647	80,114	93,031	93,197	93,585	97,954	98,785	102,251
Investments (net of Provisions)	16,581	15,926	12,147	13,819	14,495	19,546	31,644	26,430	27,063
Assets	118,959	127,193	130,178	139,990	144,367	149,169	155,341	159,952	166,457
Income	13,944	15,943	17,039	17,612	14,063	12,022	10,178	19,053	10,790
Expense	14,710	14,272	12,888	13,392	16,909	15,540	7,611	14,962	7,732
Profit before tax	(766)	1,671	4,151	4,220	2,846	3,518	2,567	4,091	3,058
Profit after tax	(1,075)	875	2,317	1,617	1,665	2,388	1,745	2,760	2,138

# 1. Statistics of the Overall Banking System

**Table 1.6: Concentration in the Banking System**

June 30, 2013 (Un-audited)

Indicators	Percent						
	Top 5 Banks	6-10 Banks	11-20 Banks	21-28 Banks	FBs	SBs	Industry
<b>Asset</b>							
Share of Total Assets	53.2	21.2	17.7	3.8	2.4	1.6	100
<b>Share of Total Investments</b>	54.9	21.5	16.9	3.5	2.6	0.6	100
<i>of which investment in Government Securities</i>	86.3	85.7	86.5	86.0	100.0	84.8	87
<b>Advances</b>							
Advances:public	66.6	14.3	15.7	3.1	0.2	0.1	100.0
Advances:private	47.6	22.0	20.8	4.2	1.7	3.7	100.0
<b>Sectoral Distribution of Loans</b>							
Corporate Sector	50.1	21.7	22.0	4.2	1.9	0.2	100.0
SMEs	40.3	23.0	29.9	2.7	0.2	4.0	100.0
Agriculture	37.5	4.6	8.3	0.5	0.0	49.1	100.0
Consumer Finance	59.8	15.2	16.4	7.9	0.6	0.0	100.0
Commodity Financing	57.0	25.4	13.9	3.6	0.0	0.0	100.0
Staff Loans	59.1	11.9	19.7	4.2	2.0	3.1	100.0
Others	91.3	3.4	0.9	0.4	3.6	0.4	100.0
<b>Total</b>	51.7	20.3	19.7	4.0	1.4	2.9	100.0
NPLs / Gross Loans	12.2	15.8	18.7	12.3	11.3	30.7	14.8
Net NPLs / Capital	7.3	34.5	41.6	17.4	0.7	100.1	18.3
<b>Liabilities</b>							
<b>Share of Total Deposits</b>	54.9	21.3	18.1	3.9	1.6	0.2	100.0
Customer Fixed Deposits	51.7	20.5	20.1	5.2	2.4	0.1	100.0
Customer CASA	55.8	21.6	17.4	3.5	1.4	0.3	100.0
Customer Deposits others	32.0	37.3	26.0	3.1	1.3	0.4	100.0
Financial Institutions Remunerative Deposits	44.7	29.2	22.7	2.5	0.5	0.4	100.0
Financial Institutions Non-Remunerative Deposits	93.6	2.6	1.9	0.7	1.2	0.0	100.0
<b>Capital Adequacy</b>							
Capital/RWA (Capital Adequacy Ratio)	16.5	13.7	11.8	19.6	26.4	13.7	15.5
Tier 1 Capital / RWA	13.7	10.7	10.4	19.9	26.2	7.8	13.0
Net Worth / Total Assets	9.9	6.9	6.8	11.3	16.3	10.5	8.9
Share of Risk Weighted Assets	54.0	18.2	18.4	3.9	2.9	2.6	100.0
<b>Earning &amp; Profitability</b>							
Profit/Loss (Before Tax)	74.2	21.1	-1.1	-0.7	2.8	3.7	100.0
Net Interest Income / Gross Income	70.8	67.6	67.4	77.5	78.1	68.3	70.0
Non-Interest Expense / Gross Income	29.2	32.4	32.6	22.5	21.9	31.7	30.0
Provision Expense to Gross Income	6.0	2.3	22.3	17.1	-6.3	6.1	7.8
<b>Liquidity</b>							
Liquid Assets / Total Assets	50.5	48.9	44.7	44.7	72.7	24.1	49.0
Liquid Assets / Total Deposits	63.5	63.5	57.0	57.5	140.8	218.4	63.7
Advances to deposits ratio	45.4	46.4	51.3	51.0	40.7	556.9	48.1

# 1. Statistics of the Overall Banking System

## Asset Quality:

**Table 1.7: Asset Quality Indicators of the Banking System**

### Banking System: Selected Indicators of Asset Quality

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
Advances	2,564,055	2,875,686	3,422,549	3,551,331	3,729,003	3,759,235	3,993,626	4,243,561	4,177,875
NPLs	176,766	217,998	359,238	446,005	555,968	591,579	634,790	614,929	616,470
Provision	137,672	187,603	249,914	311,588	370,778	410,016	420,864	439,421	451,136
Advances (net)	2,427,719	2,688,087	3,172,636	3,239,744	3,358,225	3,349,219	3,572,762	3,804,140	3,726,738
Net NPLs	39,094	30,395	109,324	134,417	185,190	181,563	213,926	175,541	165,334

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

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
OAEM	12,660	8,999	11,558	12,152	14,141	15,521	17,429	14,320	19,811
Sub Standard	17,718	36,520	78,503	63,905	53,030	50,262	61,056	46,060	48,541
Doubtful	17,429	24,248	67,877	77,809	68,665	58,346	55,700	54,847	40,598
Loss	128,959	148,233	201,301	292,138	420,132	467,450	500,606	499,702	507,520
Total	176,766	217,999	359,238	446,005	555,968	591,579	634,790	614,929	616,470

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

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
OAEM	176	715	743	-	-	-	-	-	-
Sub Standard	3,516	9,366	17,490	13,666	11,787	9,669	11,684	9,172	8,927
Doubtful	6,670	12,454	29,782	32,386	31,255	20,196	15,940	19,978	16,625
Loss	107,147	144,173	185,746	251,691	311,391	364,059	375,971	393,684	407,546
Total	117,508	166,708	233,761	297,743	354,434	393,924	403,596	422,834	433,097

### Category-wise Break up of Banks' Advances

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
PSCBs	465,065	526,566	629,389	700,902	716,562	786,264	866,735	963,624	955,840
LPBs	1,881,906	2,163,480	2,587,530	2,643,594	2,826,985	2,785,927	2,938,345	3,093,144	3,041,894
FBs	122,626	90,666	104,440	95,113	71,495	73,215	70,715	67,873	57,940
CBs	2,469,597	2,780,712	3,321,360	3,439,608	3,615,042	3,645,407	3,875,796	4,124,641	4,055,675
SBs	94,459	94,974	101,189	111,723	113,961	113,828	117,831	118,920	122,200
Industry	2,564,055	2,875,686	3,422,549	3,551,331	3,729,003	3,759,235	3,993,626	4,243,561	4,177,875

# 1. Statistics of the Overall Banking System

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

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
PSCBs	41,841	44,054	102,656	118,400	163,786	166,289	196,399	163,057	163,153
LPBs	96,475	139,997	224,395	292,780	352,672	383,437	394,720	409,930	409,260
FBs	1,253	1,409	3,077	6,369	6,774	7,623	7,883	9,097	6,572
CBs	139,568	185,460	330,128	417,549	523,232	557,349	599,003	582,085	578,984
SBs	37,198	32,538	29,110	28,456	32,736	34,230	35,788	32,845	37,485
Industry	176,766	217,998	359,238	446,005	555,968	591,579	634,790	614,929	616,470

## Category-wise Banks' Provisions

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
PSCBs	35,349	39,204	68,723	80,305	85,858	96,840	98,158	102,329	106,371
LPBs	76,080	123,855	157,598	207,803	258,289	286,128	295,838	308,406	318,516
FBs	2,403	2,211	2,519	4,788	5,867	6,804	6,991	8,551	6,301
CBs	113,831	165,271	228,839	292,896	350,014	389,773	400,987	419,285	431,188
SBs	23,841	22,332	21,075	18,692	20,764	20,244	19,877	20,135	19,949
Industry	137,672	187,603	249,914	311,588	370,778	410,016	420,864	439,421	451,136

## Category-wise Banks' Advanes (net of provisions)

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
PSCBs	429,716	487,362	560,666	620,596	630,704	689,423	768,577	861,295	849,470
LPBs	1,807,163	2,039,623	2,429,934	2,435,792	2,568,695	2,499,799	2,642,507	2,784,738	2,723,378
FBs	120,223	88,455	101,922	90,325	65,628	66,411	63,724	59,322	51,639
CBs	2,357,102	2,615,440	3,092,522	3,146,713	3,265,028	3,255,634	3,474,808	3,705,355	3,624,487
SBs	70,617	72,647	80,114	93,031	93,197	93,585	97,954	98,785	102,251
Industry	2,427,719	2,688,087	3,172,636	3,239,744	3,358,225	3,349,219	3,572,762	3,804,140	3,726,738

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

PKR million

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
PSCBs	6,492	4,850	33,934	38,095	77,928	69,448	98,241	60,729	56,782
LPBs	20,395	16,142	66,797	84,977	94,382	97,309	98,882	101,524	90,743
FBs	(1,150)	(803)	558	1,581	907	819	892	579	271
CBs	25,737	20,189	101,289	124,653	173,218	167,576	198,016	162,832	147,797
SBs	13,356	10,206	8,035	9,764	11,972	13,987	15,911	12,709	17,537
Industry	39,094	30,395	109,324	134,417	185,190	181,563	213,926	175,541	165,334



# 1. Statistics of the Overall Banking System

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

amount in PKR million, ratio in percent

	Jun-12			Dec-12			Jun-13		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
<b>Corporate Sector</b>	2,583,699	439,543	17.0	2,760,068	418,993	15.2	2,698.3	425.9	15.8
<b>SMEs Sector</b>	257,815	96,478	37.4	276,684	95,740	34.6	244.2	90.1	36.9
<b>Agriculture Sector</b>	190,630	34,610	18.2	203,503	29,587	14.5	213.9	39.6	18.5
<b>Consumer sector</b>	245,191	44,406	18.1	250,264	43,718	17.5	262.4	40.8	15.6
<i>i. Credit cards</i>	23,183	4,873	21.0	23,154	4,983	21.5	21.9	3.6	16.4
<i>ii. Auto loans</i>	45,496	4,731	10.4	45,348	4,653	10.3	51.2	4.4	8.6
<i>iii. Consumer durable</i>	135	93	68.9	126	90	71.7	0.1	0.1	68.3
<i>iv. Mortgage loans</i>	55,216	16,767	30.4	52,990	16,628	31.4	51.9	16.1	31.1
<i>v. Other personal loans</i>	121,160	17,942	14.8	128,647	17,364	13.5	137.4	16.7	12.1
<b>Commodity financing</b>	535,897	6,246	1.2	512,847	5,867	1.1	565.5	5.8	1.0
<b>Staff Loans</b>	80,838	1,463	1.8	84,515	1,588	1.9	85.1	1.2	1.4
<b>Others</b>	99,557	12,045	12.1	108,417	11,750	10.8	108.5	13.0	12.0
<b>Total</b>	3,993,626	634,790	15.9	4,196,299	607,243	14.5	4,177.9	616.5	14.8

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

amount in PKR million, ratio in percent

	Jun-12			Dec-12			Jun-13		
	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio	Advances	NPLs	Infection Ratio
Agribusiness	350,683	37,133	10.6	354,343	32,343	9.1	364.1	42.3	11.6
Automobile/Transportation	56,011	11,050	19.7	56,329	11,140	19.8	58.1	12.9	22.2
Cement	63,352	17,989	28.4	58,351	17,112	29.3	53.8	15.9	29.5
Chemical & Pharmaceuticals	153,278	14,310	9.3	150,101	14,909	9.9	151.7	15.5	10.2
Electronics	55,164	24,485	44.4	57,003	23,894	41.9	53.9	24.8	46.0
Financial	77,027	10,051	13.0	81,725	8,547	10.5	106.2	8.1	7.6
Individuals	337,424	54,166	16.1	333,309	54,106	16.2	341.9	49.7	14.5
Insurance	684	1	0.1	340	1	0.2	0.2	0.0	0.4
Others	1,638,085	229,317	14.0	1,783,342	205,755	11.5	1,764.2	207.8	11.8
Production/Transmission of Energy	483,109	20,377	4.2	492,814	18,265	3.7	443.3	19.9	4.5
Shoes & Leather garments	24,513	3,351	13.7	23,742	3,048	12.8	24.4	3.0	12.1
Sugar	122,274	11,544	9.4	105,558	10,898	10.3	134.3	7.1	5.3
Textile	632,023	201,018	31.8	699,342	207,225	29.6	681.8	209.5	30.7
<b>Total</b>	3,993,626	634,790	15.9	4,196,299	607,243	14.5	4,177.9	616.5	14.8

# 1. Statistics of the Overall Banking System

## Soundness & Resilience:

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

PKR billion

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun13
<b>Profit Before Tax</b>									
PSCBs	31.5	33.2	6.6	16.8	22.8	29.4	13.9	27.6	12.0
LPBs	85.6	69.5	52.5	60.5	77.0	131.5	80.3	145.6	64.8
FBs	6.3	2.4	0.0	(0.9)	2.0	5.6	1.8	0.9	2.3
CBs	123.5	105.2	59.0	76.5	101.8	166.4	96.0	174.1	79.1
SBs	0.1	1.7	4.2	4.2	2.8	3.5	2.6	4.1	3.1
All Banks	123.6	106.9	63.2	80.7	104.7	169.9	98.6	178.2	82.1
<b>Profit After Tax</b>									
PSCBs	21.2	23.9	5.6	14.4	16.8	19.8	9.1	19.8	8.1
LPBs	59.1	47.3	34.7	39.3	45.6	85.7	52.1	95.9	43.2
FBs	4.3	1.1	0.6	(0.8)	1.0	3.7	0.7	(0.2)	1.5
CBs	84.6	72.2	41.0	52.8	63.4	109.2	61.9	115.5	52.7
SBs	(0.5)	0.9	2.3	1.6	1.7	2.4	1.7	2.8	2.1
All Banks	84.1	73.1	43.3	54.4	65.1	111.6	63.7	118.2	54.9

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

Percent

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
<b>Before Tax ROA</b>									
PSCBs	4.0	3.5	0.6	1.5	1.8	2.0	1.8	1.6	1.3
LPBs	3.1	2.0	1.3	1.3	1.5	2.3	2.5	2.1	1.7
FBs	3.2	1.5	0.0	-0.3	0.9	2.3	1.4	0.4	1.9
CBs	3.2	2.3	1.1	1.3	1.5	2.2	2.3	2.0	1.6
SBs	-1.3	1.4	3.2	3.1	2.0	2.4	3.1	2.7	3.4
All Banks	3.1	2.2	1.2	1.3	1.5	2.2	2.4	2.0	1.7
<b>Before Tax ROE (based on Equity plus Surplus on Revaluation)</b>									
PSCBs	32.4	27.2	5.2	13.3	15.2	18.0	16.9	15.6	13.3
LPBs	36.2	20.4	12.9	13.2	15.6	24.7	27.9	24.1	20.1
FBs	30.0	13.1	0.0	-2.4	5.8	14.5	8.4	2.2	11.2
CBs	34.7	21.8	10.6	12.4	15.0	22.7	24.5	21.2	18.2
SBs	-	-	-	-	-	-	-	1.0	-
All Banks	35.2	22.6	11.4	13.2	15.5	23.0	25.9	21.4	18.5

## 1. Statistics of the Overall Banking System

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

amount in PKR billion, share in percent

Items	CY10		CY11		Jun-12		CY12		Jun-13	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans & advances	398.9	63.9	423.5	56.6	211.8	54.1	420.9	53.1	195.7	50.5
Investments	196.3	31.4	297.8	39.8	169.7	43.3	350.4	44.2	183.3	47.3
Deposits, repo and others	29.4	4.8	26.4	3.5	10.3	2.6	21.1	2.7	8.3	2.1
<b>Total</b>	<b>624.7</b>	<b>100.0</b>	<b>747.7</b>	<b>100.0</b>	<b>391.8</b>	<b>100.0</b>	<b>792.3</b>	<b>100.0</b>	<b>387.3</b>	<b>100.0</b>

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

	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun13
Less than 10	7	9	9	6	5	5	5	5	5
10 to 15	15	12	10	15	13	10	11	9	11
Over 15	17	18	21	19	20	23	22	24	22
<b>Total</b>	<b>39</b>	<b>39</b>	<b>40</b>	<b>40</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>38</b>	<b>38</b>

# 1. Statistics of the Overall Banking System

**Table 1.14: Capital Structure and Capital Adequacy of All Banks and DFIs**

June 30, 2013 (Un-audited)

PKR million

	All Banks and DFIs	PSCBs	LPBs	FBs	SBs	All Banks	DFIs
<b>Equity</b>							
1.1 Fully Paid-up Capital/Capital Deposited with SBP	521,851	47,520	369,531	41,040	15,351	473,442	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	-	-	-	-	-	-	-
General Reserves as disclosed on the Balance Sheet (including statutory reserve)	175,934	25,139	132,785	155	11,312	169,391	6,543
1.5 Un-appropriated/Unremitted profits (net of accumulated loss	136,436	41,604	110,178	(1,286)	(16,436)	134,060	2,376
1.6 Sub-Total (1.1 to 1.5)	<b>798,959</b>	<b>131,262</b>	<b>562,432</b>	<b>39,909</b>	<b>10,227</b>	<b>741,631</b>	<b>57,328</b>
<b>Deductions</b>							
1.7 Goodwill	42,557	1,361	40,860	269	0	42,491	66
1.8 Shortfall in Provisions required against Classified assets	2,253	204	1,816	234	-	2,253	-
1.9 Deficit on account of revaluation of AFS investment	35	68	201	4	(280)	(8)	43
1.10 Any increase in equity capital resulting from a securitization t	399	-	399	-	-	399	-
1.11 Investments in TFCs of other banks	9,771	536	2,874	-	-	3,410	6,361
1.12 <b>Other Deductions</b>	<b>18,620</b>	<b>3,019</b>	<b>13,834</b>	<b>-</b>	<b>98</b>	<b>16,952</b>	<b>1,668</b>
1.13 <b>Sub-Total (1.7 to 1.12)</b>	<b>73,635</b>	<b>5,188</b>	<b>60,913</b>	<b>507</b>	<b>(182)</b>	<b>65,498</b>	<b>8,137</b>
1.14 <b>Total Eligible Tier 1 capital(1.6 less 1.13)</b>	<b>725,324</b>	<b>126,074</b>	<b>501,520</b>	<b>39,403</b>	<b>10,409</b>	<b>676,133</b>	<b>49,190</b>
<b>Supplementary Capital</b>							
2.1 Freely available General Provisions or reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	15,823	3,524	10,481	162	1,472	15,639	184
2.2 Revaluation reserves eligible upto 45%	67,177	21,357	40,989	69	3,370	65,784	1,392
2.3 Foreign Exchange Translation Reserves	34,825	9,116	25,709	-	-	34,825	-
2.4 Undisclosed reserves	(16)	-	(16)	-	-	(16)	-
2.5 Subordinated debt-up to maximum of 50% of total equity	30,483	-	27,278	-	3,204	30,483	-
2.6 <b>Total Tier 2 Supplementary Capital(2.1 to 2.5)</b>	<b>148,292</b>	<b>33,998</b>	<b>104,441</b>	<b>231</b>	<b>8,046</b>	<b>146,716</b>	<b>1,576</b>
<b>Deductions</b>							
2.7 Other deductions	18,620	3,019	13,834	-	98	16,952	1,668
2.8 <b>Total Deductions</b>	<b>18,620</b>	<b>3,019</b>	<b>13,834</b>	<b>-</b>	<b>98</b>	<b>16,952</b>	<b>1,668</b>
2.9 <b>Total eligible tier 2 capital</b>	<b>129,672</b>	<b>30,979</b>	<b>90,607</b>	<b>231</b>	<b>7,947</b>	<b>129,764</b>	<b>(92)</b>
2.10 <b>Eligible tier 3</b>							
Total Supplementary Capital eligible for MCR(maximum upto 100% of Total Equity)	129,672	30,979	90,607	231	7,947	129,764	(92)
2.13 <b>TOTAL CAPITAL (1.14 plus 2.9)</b>	<b>854,996</b>	<b>157,053</b>	<b>592,126</b>	<b>39,634</b>	<b>18,356</b>	<b>805,897</b>	<b>49,098</b>
<b>Risk Weighted Amounts</b>							
3.1 <b>Total Credit Risk Weighted Assets</b>	<b>4,061,006</b>	<b>792,118</b>	<b>2,984,018</b>	<b>109,305</b>	<b>115,825</b>	<b>4,001,265</b>	<b>59,741</b>
3.2 <b>Total Market Risk Weighted Assets</b>	<b>450,801</b>	<b>72,844</b>	<b>349,227</b>	<b>12,418</b>	<b>318</b>	<b>434,808</b>	<b>15,993</b>
3.3 <b>Total Operational Risk Assets</b>	<b>798,036</b>	<b>130,491</b>	<b>607,191</b>	<b>28,576</b>	<b>17,621</b>	<b>783,879</b>	<b>14,156</b>
3.4 <b>Total Risk Weighted Amount</b>	<b>5,309,843</b>	<b>995,453</b>	<b>3,943,061</b>	<b>150,300</b>	<b>133,764</b>	<b>5,219,952</b>	<b>89,891</b>
<b>Capital Adequacy Ratios</b>							
4.1 <b>Credit Risk Capital Adequacy Ratio</b>	<b>21.1%</b>	<b>19.8%</b>	<b>19.8%</b>	<b>36.3%</b>	<b>15.8%</b>	<b>20.1%</b>	<b>82.2%</b>
4.2 <b>Tier 1 capital to Total Risk Weighted Amount</b>	<b>13.7%</b>	<b>12.7%</b>	<b>12.7%</b>	<b>26.2%</b>	<b>7.8%</b>	<b>13.0%</b>	<b>54.7%</b>
4.3 <b>Total Capital Adequacy Ratio</b>	<b>16.1%</b>	<b>15.8%</b>	<b>15.0%</b>	<b>26.4%</b>	<b>13.7%</b>	<b>15.4%</b>	<b>54.6%</b>
<b>Other Deductins from Tier 1 and Tier 2 Capital</b>							
5.1 Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	97	-	-	-	97	97	-
5.2 Significant minority investments in banking, securities and other financial entities	29,629	4,356	24,325	-	100	28,781	849
5.3 Equity holdings (majority or significant minority) in an insurance subsidiary(para 1.1 scope of Application)	6,322	1,683	2,312	-	-	3,994	2,328
5.4 Significant minority and majority investments in commercial entities exceeding 15% of Banks Capital	542	-	384	-	-	384	159
5.5 Securitization exposure subject to deduction (para 4.3.1 of instructions)	648	-	648	-	-	648	-
5.6 Others	-	-	-	-	-	-	-
5.7 <b>Total Deductible Items to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital ( 5.1 to 5.6)</b>	<b>37,239</b>	<b>6,038</b>	<b>27,668</b>	<b>-</b>	<b>197</b>	<b>33,903</b>	<b>3,336</b>

# 1. Statistics of the Overall Banking System

**Table 1.15: Stress Testing Results of the Banking System**

June 30, 2013 (Un-audited)

Shock Details			Number of Banks with CAR*		
Pre-Shock Position			< 8%	8% > 10%	> 10%
			2	1	33
Credit Shocks			< 8%	8% > 10%	> 10%
C-1	10% of performing loans become non-performing, 50% of substandard loans downgrade to doubtful, 50% of doubtful to loss.	Hypothetical	7	3	27
C-2	Default of top 3 private sector individual borrowers (fund based exposures only) of the banks.	Hypothetical	5	3	29
C-3	Default of top 3 private sector Individuals (both fund based and non-fund based exposures) of the banks.	Hypothetical	6	4	27
C-4	All NPLs under substandard downgrade to doubtful and all doubtful downgrade to loss.	Hypothetical	4	0	33
C-5	Increase in provisions against NPLs equivalent to 25% of Net NPLs.	Hypothetical	4	2	31
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	4	0	33
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	4	0	33
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	4	0	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	3	1	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	3	1	33
C-11	Critical Infection Ratio (The ratio of NPLs to Loans where capital would wipe out)	Hypothetical	NPLR	Critical NPLR	Difference
			13.99%	51.98%	37.99%
Market Shocks			Number of Banks with CAR		
			< 8%	8% > 10%	> 10%
IR-1	Parallel upward shift in the yield curve - increase in interest rates by 300 basis points along all the maturities.	Hypothetical	4	2	31
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	4	2	31
IR-3	Downward Shift plus flattening of the yield curve by decreasing the interest rates along 3m, 6m, 1y, 3y, 5y and 10y maturities equivalent to the maximum quarterly increase experienced during the last 4 years (April-09).	Historical	2	2	33
ER-1	Depreciation of Pak Rupee exchange rate by 30%.	Hypothetical	3	1	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	3	1	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	3	1	33
EQ-1	Fall in general equity prices by 41.4% (Oct08-Jan09).	Historical	4	1	32
EQ-2	Fall in general equity prices by 50%.	Hypothetical	4	1	32
Combined Credit & Market Shocks			< 8%	8% > 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	5	1	31
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	9	6	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	2
			Number of Banks with		
			LCR<1		LCR>2
L-3	Shock to Liquidity Coverage Ratio Applying 20% haircut to the value of Investments in Government Securities*	Hypothetical	8		7

\* Excluding IDBL.

# 1. Statistics of the Overall Banking System

**Table 1.16: List of Banks**

CY11	Jun-12	CY12	Jun-13
<b>A. Public Sector Com. Banks (5)</b>	<b>A. Public Sector Com. Banks (5)</b>	<b>A. Public Sector Com. Banks (5)</b>	<b>A. Public Sector Com. Banks (5)</b>
First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.
National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan
Sindh Bank Ltd.	Sindh Bank Ltd.	Sindh Bank Ltd.	Sindh Bank Ltd.
The Bank of Khyber	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber
The Bank of Punjab	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab
<b>B. Local Private Banks (22)</b>	<b>B. Local Private Banks (22)</b>	<b>B. Local Private Banks (22)</b>	<b>B. Local Private Banks (22)</b>
AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.	AlBaraka Bank (Pakistan) Ltd.
Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.
Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.
Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.
Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.
BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.
Burj Bank Ltd. #	Burj Bank Ltd. #	Burj Bank Ltd. #	Burj Bank Ltd. #
Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.
Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.
Habib Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.
Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.
JS Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.
KASB Bank Ltd.	KASB Bank Ltd.	KASB Bank Ltd.	KASB Bank Ltd.
MCB Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.
Meezan Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.
NIB Bank Ltd.	NIB Bank Ltd.	NIB Bank Ltd.	NIB Bank Ltd.
SAMBA Bank Ltd.	SAMBA Bank Ltd.	SAMBA Bank Ltd.	SAMBA Bank Ltd.
Silk Bank Ltd.	Silk Bank Ltd.	Silk Bank Ltd.	Silk Bank Ltd.
Soneri Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.
Summit Bank Ltd. ^	Summit Bank Ltd. ^	Summit Bank Ltd. ^	Summit Bank Ltd. ^
United Bank Ltd.	United Bank Ltd.	United Bank Ltd.	United Bank Ltd.
<b>C. Foreign Banks (7)</b>	<b>C. Foreign Banks (7)</b>	<b>C. Foreign Banks (7)</b>	<b>C. Foreign Banks (7)</b>
Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.
Barclays Bank PLC	Barclays Bank PLC	Barclays Bank PLC	Barclays Bank PLC
Citibank N.A.	Citibank N.A.	Citibank N.A.	Citibank N.A.
Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG
HSBC Bank Middle East Ltd.	HSBC Bank Middle East Ltd.	HSBC Bank Middle East Ltd.	HSBC Bank Middle East Ltd.
Industrial and Commercial Bank of China Ltd.^	Industrial and Commercial Bank of China Ltd.^	Industrial and Commercial Bank of China Ltd.^	Industrial and Commercial Bank of China Ltd.^
Oman International Bank S.A.O.G.	HSBC Bank Oman S.A.O.G. ##	HSBC Bank Oman S.A.O.G. ##	HSBC Bank Oman S.A.O.G. ##
<b>D. Specialized Banks (4)</b>	<b>D. Specialized Banks (4)</b>	<b>D. Specialized Banks (4)</b>	<b>D. Specialized Banks (4)</b>
Industrial Development Bank of Pakistan	Industrial Development Bank Ltd. ###	Industrial Development Bank Ltd. ###	Industrial Development Bank Ltd. ###
Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.
SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.
Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.
<b>All Commercial Banks (34)</b>	<b>All Commercial Banks (34)</b>	<b>All Commercial Banks (34)</b>	<b>All Commercial Banks (34)</b>
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
<b>All Banks (38)</b>	<b>All Banks (38)</b>	<b>All Banks (38)</b>	<b>All Banks (38)</b>
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

# 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.

### The name of "Industrial Development Bank of Pakistan" was changed to "Industrial Development Bank Ltd." with effect from November 13, 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.

## 2. Islamic Banking

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

(June 30, 2013)

PKR million

Financial Position	Islamic Banks	Islamic Banking Branches	Islamic Banking Institutions	Absolute change	
ASSETS				QoQ	YoY
Cash & Balances With Treasury Banks	43,137	20,057	63,194	17,863	17,063
Balances With Other Banks	13,958	15,937	29,896	6,422	9,437
Due from Financial Institutions	15,977	4,439	20,416	(2,792)	1,247
Investments - Net	273,605	165,149	438,754	8,580	93,076
Financing - Net	169,733	91,034	260,766	24,597	63,932
Operating Fixed Assets	12,477	5,387	17,863	101	1,908
Deferred Tax Assets	3,187	-	3,187	237	365
Other Assets	47,373	21,662	69,034	1,578	4,918
<b>TOTAL ASSETS</b>	<b>579,447</b>	<b>323,664</b>	<b>903,111</b>	<b>56,586</b>	<b>191,946</b>
<b>LIABILITIES</b>					
Bills Payable	7,296	2,574	9,870	781	2,007
Due to Financial Institution	21,529	9,003	30,532	(11,188)	12,481
Deposits And Other Accounts	497,220	273,726	770,945	66,937	168,425
Sub-ordinated Loans	-	-	-	-	-
Liabilities Against Assets Subject To Finance Lease	-	-	-	-	(1)
Deferred Tax Liabilities	-	13	13	(18)	12
Other Liabilities	12,170	15,187	27,357	(760)	3,596
<b>TOTAL LIABILITIES</b>	<b>538,214</b>	<b>300,503</b>	<b>838,717</b>	<b>55,752</b>	<b>186,520</b>
<b>NET ASSETS</b>	<b>41,233</b>	<b>23,161</b>	<b>64,394</b>	<b>834</b>	<b>5,426</b>
<b>NET ASSETS REPRESENTED BY: -</b>					
Share Capital	38,629	10,198	48,827	50	2,469
Reserves	2,037	7	2,044	187	781
Unappropriated Profit	537	12,108	12,645	1,545	1,974
Share Holders' Equity	41,203	22,314	63,516	1,782	5,224
Surplus/Deficit On Revaluation Of Assets	30	847	878	(948)	202
<b>TOTAL</b>	<b>41,233</b>	<b>23,161</b>	<b>64,394</b>	<b>834</b>	<b>5,426</b>
<b>PROFIT AND LOSS STATEMENT</b>	<b>Islamic Banks</b>	<b>Islamic Banking</b>	<b>Islamic Banking</b>	<b>Absolute</b>	<b>YoY</b>
Mark-Up Income	22,030	12,711	34,740	1,763	
Mark-Up Expenses	12,627	7,316	19,943	901	
<b>Net Mark-Up Income</b>	<b>9,402</b>	<b>5,395</b>	<b>14,797</b>	<b>863</b>	
Provisions & Bad Debts Written Off Directly/(Reversals)	576	388	964	747	
<b>Net Mark-Up Income After Provision</b>	<b>8,826</b>	<b>5,007</b>	<b>13,833</b>	<b>115</b>	
Fees, Commission & Brokerage Income	1,149	807	1,956	562	
Dividend Income	108	23	132	(354)	
Income From Dealing In Foreign Currencies	480	43	523	58	
Other Income	982	318	1,300	194	
<b>Total Non - Markup Income</b>	<b>2,719</b>	<b>1,191</b>	<b>3,910</b>	<b>460</b>	
<b>Total Income</b>	<b>11,546</b>	<b>6,197</b>	<b>17,743</b>	<b>575</b>	
Administrative Expenses	9,071	4,091	13,162	2,077	
Other Expenses	141	111	252	93	
<b>Total Non-Markup Expenses</b>	<b>9,211</b>	<b>4,202</b>	<b>13,414</b>	<b>2,169</b>	
Profit before Tax and Extra ordinary Items	2,334	1,995	4,330	(1,594)	
Extra ordinary/unusual Items -- Gain/(Loss)	-	-	-	-	
<b>PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>2,334</b>	<b>1,995</b>	<b>4,330</b>	<b>(1,594)</b>	
Less: Taxation	732	70	802	(337)	
<b>PROFIT/ (LOSS) AFTER TAX</b>	<b>1,602</b>	<b>1,926</b>	<b>3,528</b>	<b>(1,257)</b>	



## 2. Islamic Banking

**Table 2.2: Financial Soundness Indicators of Islamic Banking**

	Percent					
	Dec-09	Dec-10	Dec-11	Jun-12	Dec-12	Jun-13
<b>Capital</b>						
Total Capital to Total RWA*	18.5	16.8	18.0	18.1	15.3	15.4
Tier 1 Capital to Total RWA*	18.4	16.3	17.2	17.4	14.7	14.8
Capital to Total Assets	11.4	9.7	8.7	8.3	7.6	7.1
<b>Asset Quality</b>						
NPFs to Total Financing	6.3	7.3	7.6	8.8	7.6	7.1
Net NPFs to Net Financing	3.1	3.2	2.9	3.8	2.7	2.5
Provision to NPFs	51.7	58.6	63.0	59.5	66.5	66.1
<b>Earnings</b>						
ROA before Tax	0.7	0.6	1.9	1.8	1.4	1.0
ROA after Tax	0.6	0.6	1.6	1.4	1.2	0.8
ROE before Tax	5.9	5.9	20.8	20.6	16.8	13.6
ROE after Tax	4.6	5.2	17.3	16.6	14.1	11.1
Net Mark-Up Income to Gross Income	79.4	78.5	82.4	80.2	80.1	79.1
Non Mark-Up Income to Gross Income	20.6	21.5	17.6	19.8	19.9	20.9
Operating Expense to Gross Income	70.3	72.6	60.4	64.7	67.3	71.7
<b>Liquidity</b>						
Financing to Deposits	54.3	46.2	38.4	32.7	32.7	33.8

\* Ratio pertains to Islamic Banks only and does not include Islamic Banking Branches

## 2. Islamic Banking

**Table 2.3: List of Islamic Banks**

As of December 31, 2012	As of June 30, 2013
<b>Islamic Banks</b>	<b>Islamic Banks</b>
1 AlBaraka Bank (Pakistan) Ltd.	1 AlBaraka Bank (Pakistan) Ltd.
2 BankIslami Pakistan Ltd.	2 BankIslami Pakistan Ltd.
3 Burj Bank Ltd.	3 Burj Bank Ltd.
4 Dubai Islamic Bank Pakistan Ltd	4 Dubai Islamic Bank Pakistan Ltd
5 Meezan Bank Ltd	5 Meezan Bank Ltd
<b>Conventional Banks having Islamic Banking Branches</b>	<b>Conventional Banks having Islamic Banking Branches</b>
1 Askari Bank Ltd.	1 Askari Bank Ltd.
2 Bank Al Habib Ltd	2 Bank Al Habib Ltd
3 Bank Alfalah Ltd	3 Bank Alfalah Ltd
4 Faysal Bank Ltd.	4 Faysal Bank Ltd.
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 Silk Bank Ltd	9 Silk Bank Ltd
10 Soneri Bank Ltd	10 Soneri Bank Ltd
11 Standard Chartered Bank	11 Standard Chartered Bank
12 The Bank of Khyber	12 The Bank of Khyber
13 United Bank Ltd.	13 <i>The Bank of Punjab*</i>
	14 United Bank Ltd.
<b>Grand Total 18 (5+13)</b>	<b>Grand Total 19 (5+14)</b>

*\* The Bank of Punjab started its Islamic Banking operations during H1CY13*

### 3. Non-Banking Financial Institutions

**Table 3.1: Balance Sheets and Income Statements of DFIs**

Financial Position	CY09	CY10	CY11	Jun-12	CY12	Jun-13	PKR million
							Absolute change YoY
ASSETS							
Cash & Balances With Treasury Banks	1,716	1,740	2,341	481	519	513	32
Balances With Other Banks	6,713	2,866	1,423	2,522	3,601	2,518	(4)
Lending To Financial Institutions	12,085	8,720	2,909	3,172	2,198	5,534	2,362
Investments - Net	62,102	64,115	81,379	88,005	79,065	75,773	(12,233)
Advances - Net	41,416	45,234	46,547	46,737	45,988	43,726	(3,011)
Operating Fixed Assets	3,098	2,974	2,930	2,960	4,545	3,329	369
Deferred Tax Assets	1,277	1,098	1,193	1,219	3,345	1,116	(102)
Other Assets	3,786	5,500	5,103	5,572	1,164	4,710	(862)
TOTAL ASSETS	132,193	132,248	143,825	150,669	140,426	137,218	(13,450)
LIABILITIES							
Bills Payable	-	-	-	-	-	-	-
Borrowings From Financial Institution	51,522	50,306	64,885	67,693	58,165	50,610	(17,083)
Deposits And Other Accounts	18,074	15,856	12,074	14,081	13,510	15,578	1,497
Sub-ordinated Loans	-	-	-	-	-	-	-
Liabilities Against Assets Subject To Finance Lease	30	15	19	14	11	8	(6)
Deferred Tax Liabilities	2	637	669	719	8,181	914	195
Other Liabilities	5,814	6,757	6,899	7,537	898	9,956	2,419
TOTAL LIABILITIES	75,442	73,571	84,546	90,045	80,764	77,066	(12,980)
NET ASSETS	56,751	58,677	59,279	60,624	59,662	60,153	(471)
NET ASSETS REPRESENTED BY: -							
Share Capital	47,269	48,343	48,409	48,627	48,409	48,627	-
Reserves	7,250	7,272	7,454	6,018	6,638	6,226	208
Unappropriated Profit	342	2,116	2,513	4,776	2,501	3,048	(1,728)
Share Holders' Equity	54,860	57,732	58,375	59,421	57,548	57,901	(1,520)
Surplus/Deficit On Revaluation Of Assets	1,891	945	904	1,203	2,114	2,252	1,049
TOTAL	56,751	58,677	59,279	60,624	59,662	60,153	(471)
OPERATING POSITION							
	CY09	CY10	CY11	Jun-12	CY12	Jun-13	Change YoY
Mark-Up/ Return/Interest Earned	12,592	13,942	15,202	7,501	14,928	5,814	(1,687)
Mark-Up/ Return/Interest Expenses	6,720	7,318	8,030	4,463	8,524	3,148	(1,316)
Net Mark-Up / Interest Income	5,872	6,625	7,172	3,038	6,403	2,667	(371)
Provisions & Bad Debts Written Off Directly/(Reversals)	3,133	1,238	941	(129)	3,975	(175)	(46)
Net Mark-Up / Interest Income After Provision	2,739	5,386	6,231	3,167	2,428	2,842	(325)
Fees, Commission & Brokerage Income	191	148	124	56	108	36	(20)
Dividend Income	423	484	854	223	1,036	338	115
Income From Dealing In Foreign Currencies	20	(483)	(160)	73	148	29	(44)
Other Income	844	1,194	534	593	1,329	1,087	494
Total Non - Markup / Interest Income	1,479	1,343	1,352	945	2,620	1,491	546
Total Income	4,217	6,729	7,583	4,112	5,049	4,333	221
Administrative Expenses	2,647	2,977	3,102	1,547	3,397	1,724	177
Other Expenses	62	166	1,905	18	399	(33)	(50)
Total Non-Markup/Interest Expenses	2,709	3,144	5,007	1,565	3,796	1,692	126
Profit before Tax and Extra ordinary Items	1,508	3,586	2,576	2,547	1,253	2,642	95
Extra ordinary/unusual Items -- Gain/(Loss)	(25)	-	-	-	-	-	-
Profit/( Loss) Before Taxation	1,533	3,586	2,576	2,547	1,253	2,642	95
Less: Taxation	630	1,690	1,690	754	1,500	608	(146)
Profit/( Loss) after Taxation	904	1,896	886	1,793	(248)	2,034	241

### 3. Non-Banking Financial Institutions

**Table 3.2: Financial Soundness Indicators of DFIs**

	Percent						
	CY08	CY09	CY10	CY11	Jun-12	CY12	Jun-13
<b>Capital</b>							
Total Capital to Total RWA	53.4	52.5	56.1	56.9	57.1	54.8	54.6
Tier 1 Capital to Total RWA	53.3	52.4	56.5	57.4	57.5	54.9	54.7
Capital to Total Assets	47.1	42.9	44.4	41.2	40.2	42.5	43.8
<b>Asset Quality</b>							
NPLs to Total Loans	27.0	27.1	29.9	29.3	32.3	31.8	31.6
Net NPLs to Net Loans	11.2	10.1	14.8	14.4	18.3	14.7	13.7
Provision to NPLs	65.9	69.8	59.4	59.4	52.9	63.1	65.5
Net NPLs to Capital	8.4	7.4	11.4	11.3	14.1	11.3	10.0
<b>Earnings</b>							
ROA before Tax	1.5	1.3	2.7	1.9	3.4	0.9	3.8
ROA after Tax	0.7	0.8	1.4	0.6	2.4	-0.2	2.9
ROE before Tax	3.4	2.9	6.2	4.4	8.4	2.1	8.7
ROE after Tax	1.6	1.7	3.3	1.5	5.9	-0.4	6.7
Net Interest Income to Gross Income	34.8	79.9	83.1	84.1	76.3	71.0	64.1
Operating Expense to Gross Income	22.7	36.9	39.5	58.7	39.3	42.1	40.7
<b>Liquidity</b>							
Loans to Deposits	622.9	229.2	285.3	385.5	331.9	340.4	280.7
Liquid Assets/Total Assets	31.2	35.9	32.6	40.3	42.3	39.5	37.9
Liquid Assets/Total Deposits	547.3	262.4	271.6	480.6	453.0	410.7	333.8

### 3. Non-Banking Financial Institutions

**Table 3.3: List of Development Finance Institutions**

As of December 31, 2012	As of June 30, 2013
1. House Building Finance Company Ltd.	1. House Building Finance Company Ltd.
2. PAIR Investment Company Ltd.	2. PAIR Investment Company Ltd.
3. Pak Brunei investment Company Ltd.	3. Pak Brunei investment Company Ltd.
4. Pak Libya Holding Company Ltd.	4. Pak Libya Holding Company Ltd.
5. Pak Oman Investment Company Ltd.	5. Pak Oman Investment Company Ltd.
6. Pak-China Investment Company Ltd.	6. Pak-China Investment Company Ltd.
7. Pakistan Kuwait Investment Company Ltd.	7. Pakistan Kuwait Investment Company Ltd.
8. Saudi Pak Industrial & Agricultural Investment Company Ltd.	8. Saudi Pak Industrial & Agricultural Investment Company Ltd.

### 3. Non-Banking Financial Institutions

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

#### Investment Banks

PKR million

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	H1FY13	FY13
Equity	4,811	6,236	6,659	5,921	9,038	7,482	4,349	4,286	3,503	1,707	1,750	1,066
Deposits	12,810	12,263	19,907	25,024	15,204	12,593	8,869	6,472	7,176	6,071	4,513	4,005
Liabilities	31,258	29,338	44,382	48,606	35,550	35,896	26,526	22,007	20,648	17,493	12,070	10,767
Advances	10,715	13,535	21,274	22,502	18,537	18,721	14,181	7,852	4,774	3,913	2,569	3,294
Investments	19,888	17,386	20,931	24,088	20,854	17,070	11,196	9,270	11,167	5,696	5,413	3,873
Assets	36,069	35,568	51,041	54,527	44,588	43,378	30,875	26,294	24,140	16,644	13,821	11,762
Income	4,699	3,690	4,598	6,441	4,662	5,201	2,835	2,767	2,462	1,602	775	976
Expense	3,959	2,051	4,302	5,058	4,278	4,695	4,953	4,563	2,961	3,291	943	1,788

#### Leasing Companies

PKR million

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	H1FY13	FY13
Paid up Capital	3,713	3,554	4,683	5,104	5,259	6,467	7,666	4,277	4,277	3,977	3,977	4,505
Equity	4,811	6,236	6,659	5,921	9,038	7,482	4,349	4,582	4,950	4,223	4,181	5,023
Deposits	12,810	12,263	19,907	25,024	15,204	12,593	8,869	13,290	5,295	6,358	7,020	8,386
Liabilities	31,258	29,338	44,382	48,606	35,550	35,896	26,526	32,406	28,568	28,692	29,174	29,290
Advances	10,715	13,535	21,274	22,502	18,537	18,721	14,181	29,285	26,934	26,551	25,274	28,543
Investments	19,888	17,386	20,931	24,088	20,854	17,070	11,196	3,635	2,799	2,993	3,095	4,048
Assets	36,069	35,568	51,041	54,527	44,588	43,378	30,875	36,989	33,473	32,874	33,356	34,341
Income	4,699	3,690	4,598	6,441	4,662	5,201	2,835	4,686	4,078	4,411	2,323	4,526
Expense	3,959	2,051	4,302	5,058	4,278	4,695	4,953	5,053	3,900	4,379	2,075	3,880

#### Modarabas

PKR million

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	H1FY13	FY13
Paid up Capital	8,187	8,081	7,912	7,547	7,193	7,828	8,529	8,439	8,746	12,103	13,245	9,367
Equity	7,983	8,652	9,965	10,326	11,148	11,845	10,839	11,489	12,455	13,013	13,313	13,824
Liabilities	7,990	9,471	11,607	13,602	15,191	17,805	12,248	13,000	13,921	16,512	16,177	17,610
Assets	15,973	18,026	21,572	23,927	26,339	29,643	23,087	24,489	26,343	29,522	29,988	31,434

### 3. Non-Banking Financial Institutions

**Table 3.5: List of Non-Banking Finance Companies**

<b><u>Investment Banks</u></b>			
<b>As of June 30,2013</b>		<b>As of December 31,2013</b>	
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
<b><u>Leasing Companies</u></b>			
<b>As of June 30,2013</b>		<b>As of December 31,2013</b>	
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	SME Leasing Limited	7	SME Leasing Limited
8	Standard Chartered Leasing Limited	8	Standard Chartered Leasing Limited



### 3. Non-Banking Financial Institutions

<u>Modarabas</u>			
As of June 30,2013		As of December 31,2013	
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 Pak Modaraba	9	First Pak Modaraba
10	First Treet Manufacturing Modaraba	10	First Treet Manufacturing Modaraba
11	Habib Bank Modaraba	11	Habib Bank Modaraba
12	Habib Modaraba	12	Habib Modaraba
13	IBL Modaraba	13	IBL Modaraba
14	Imrooz Modaraba	14	Imrooz Modaraba
15	KASB Modaraba	15	KASB Modaraba
16	Modaraba Al-Mali	16	Modaraba Al-Mali
17	National Bank Modaraba	17	National Bank Modaraba
18	Paramount Modaraba	18	Paramount Modaraba
19	Prudential Modaraba	19	Prudential Modaraba
20	Punjab Modaraba	20	Punjab Modaraba
21	Standard Chartered Modaraba	21	Standard Chartered Modaraba
22	Trust Modaraba	22	Trust Modaraba
23	UDL Modaraba	23	UDL Modaraba
24	Unicap Modaraba		

## 4. Insurance Sector

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

### Non-Life Insurance Business

PKR million

	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	Dec-12	Jun-13
Paid-up capital	7,734	8,807	10,245	11,827	13,909	13,347	14,601	16,205	16,277	17,698
Investments	22,528	34,419	69,677	60,195	63,122	59,268	56,821	55,018	59,096	59,951
Gross Premium	27,712	33,250	38,196	41,707	43,441	45,813	45,717	23,289	48,706	27,175
Net Premium	15,931	20,403	23,076	26,293	25,298	25,491	24,743	11,919	24,505	13,282
Net Claims Incurred	9,017	11,807	17,378	26,297	21,283	17,162	14,640	7,406	14,380	7,354
Net Profit after tax	5,863	16,819	56,153	(4,089)	5,995	3,605	3,066	3,473	5,025	4,387
Total Assets	53,753	74,334	121,771	114,497	123,654	121,856	112,883	117,694	120,881	126,737

### Life Insurance Business

PKR million

	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	Dec-12	Jun-13
Paid-up capital	2,362	2,748	2,847	3,391	4,467	5,895	5,895	6,273	6,273	6,624
Investments	109,581	129,084	154,675	165,319	199,364	227,547	269,330	307,356	329,505	369,131
Gross premium	18,552	22,571	27,692	34,861	41,943	53,831	69,936	38,909	91,406	45,666
Net premium	17,964	21,848	26,818	33,786	40,771	52,531	66,274	37,770	89,385	44,644
Net claims incurred	8,818	10,994	13,353	16,737	19,774	21,214	20,469	14,045	32,916	17,532
Net profit (after tax)	393	657	1,679	(137)	1,068	940	1,519	834	2,447	881
Total assets	142,329	164,605	191,746	213,959	228,581	292,810	348,993	380,271	428,884	470,068

### Reinsurance Business

PKR million

	CY05	CY06	CY07	CY08	CY09	CY10	CY11	Jun-12	Dec-12	Jun-13
Paid up Capital	450	450	540	3,000	3,000	3,000	3,000	3,000	3,000	6,061
Investments	2,873	3,588	6,412	5,459	5,481	4,674	5,793	5,226	6,434	6,137
Gross Premium	4,160	4,499	4,731	4,555	5,839	6,552	6,893	3,081	8,154	3,404
Net Premium	2,005	1,415	1,695	1,896	2,170	2,940	3,535	2,069	4,096	2,178
Net Claims incurred	823	777	931	962	904	1,688	2,018	1,009	2,217	1,006
Net Profit after tax	594	672	3,727	886	269	526	844	446	1,104	597
Total Assets	5,634	6,464	10,447	12,528	12,372	12,535	12,878	12,523	14,565	14,645

## 4. Insurance Sector

**Table 4.2: List of Insurance Companies**

### Non-Life Insurance

As on December 2012		As on June 2013	
1	ACE Insurance Limited	1	ACE Insurance Limited
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 December 2012		As on June 2013	
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

## 4. Insurance Sector

### Life Insurance

As on December 2012	As on June 2013
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 December 2012	As on June 2013
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 December 2012	As on June 2013
1 Pakistan Reinsurance Company Limited	1 Pakistan Reinsurance Company Limited

## Acronyms

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AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions	CPSS	Committee Of Payment And Settlement
ADB	Asian Development Bank	CRR	Cash Reserve Requirement
ADCs	Alternative Delivery Channels	CRWA	Credit Risk Weighted Assets
ADR	Advances to Deposit Ratio	CSF	Coalition Support Fund
Ads	Authorized Dealers	CSF	Competitiveness Support Fund
AFS	Available-For-Sale	CY	Calendar Year
AGD	Accumulated Gross Disbursements	DCMC	Debt Capital Market Committee
AHFL	Asian Housing Finance Limited	DFIs	Development Finance Institutions
AIG	American International Group, Inc	DM	Diminishing Musharakah
ALM	Asset Liability Management	DMMD	Domestic Markets & Monetary Management
AMC	Asset Management Companies	DNS	Deferred Net Settlement Systems
AML	Anti Money Laundering	DPCO	Debt Policy Co-ordination Office
AMZVL	AMZ Ventures	DSC	Defense Saving Certificates
ASEAN	Southeast Asian Nations	DVF	Delivery Vs. Free
ATM	Automated-Teller Machines	DVP	Delivery Vs. Payment
BB	Branchless Banking	DW	Discount Window
BCBS	Basel Committee Of Banking Supervision	EA	Emerging Asia
BIS	Bank Of International Settlement	e-banking	Electronic Banking
BOP	Balance of Payment	E-bond	Electronic Bond
BPRD	Banking Policy and Regulation Department	ECB	European Commercial Bank
bps	Basis Points	EFS	Export Finance Schemes
BRICS	Brazil, Russia, India, China, and South Africa	EPS	Earnings per Share
BRRGM	B.R.R. Guardian Modaraba	EWS	Early Warning System
BSC	Banking Services Corporation	FB	Foreign Bank
BSCs	Behbood Savings Certificates	FCA	Foreign Currency Account
BSD	Banking Surveillance Department	FDI	Foreign Direct Investments
CAD	Current Account Deficit	FIFO	First In First Out
CAELS	Capital Adequacy Asset Quality Earnings	FMAP	Financial Market Association Of Pakistan
CAGR	Compound Average Growth Rate	FPI	Foreign Portfolio Investments
CAMELS	Capital, Assets, Management, Earnings, Liquidity and Sensitivity	FRA	Forward Rate Agreement
CAR	Capital Adequacy Ratio	FRDL	Fiscal Responsibility and Debt Limitation Act
CASA	Current Account Saving Account	FSB	Financial Stability Board
CBs	Commercial Banks	FSR	Financial Stability Report
CDC	Central Depository Company	FSV	Forced Sale Value
CDD	Customer Due Diligence	FY	Financial Year
CDNS	Central Directorate of National Savings	FY	Fiscal Year
CDR	Currency to Deposits Ratio	FX	Foreign Exchange
CDS	Credit Default Swaps	G2P	Government to Person
CDS	Central Depository System	GDP	Gross Domestic Product
CF	Consumer Finance	GFC	Global Financial Crisis
CFS	Continuous Funding System	GoP	Government Of Pakistan
CIB	Credit Information Bureau	GPF	General Provident Fund
CIC	Currency in circulation	HBFCCL	House Building Finance Corporation Limited
CNIC	Computerized National Identity Card	HLB	Habib Bank Limited
CoDs	Certificate of Deposits	HFCs	Housing Finance Companies
COFI	Cost of Financial Intermediation	HFT	Held-For-Trading
CoIs	Certificate of Investments	HHI	Herfindahl Index
CPI	Consumer Price Index	IBD	Islamic Banking Department
		IBIs	Islamic Banking Institutions
		IDB	Industrial Development Bank

IDR	Investments to Deposit Ratio	NCSS	National Clearing And Settlement System
IFCs	Investment Finance Companies	NDA	Net Domestic Assets
IFIs	International Financial Institutions	NDLC	National Developing Leasing Corporation
IFSB	Islamic Financial Services Board	NEER	Nominal Effective Exchange Rate
IFSI	Islamic Financial Services Industry	NFA	Net Foreign Assets
IFT	Interbank Fund Transfers	NGOs	Non-Governmental Organization
ILF	Intra-Day Liquidity Facility	NICL	National Insurance Company Limited
IMF	International Monetary Fund	NIFT	National Institutional Facilitation Technologies (Pvt.) Limited
IDR	Investment to Deposit Ratio	NII	Net Interest Income
IPO	Initial Public Offering	NIM	Net Interest Margin
IPS	Investment Portfolio Securities	NIT	National Investment Trust Ltd
IRR	Interest Rate Risk	NOP	Net Open Position
IRS	Interest Rate Swap	NR	Non-Remunerative
IT	Information Technology	NPFs	Non-Performing Financing
KDA	Khass Deposit Accounts	NPLs	Non-Performing Loans
KDS	Khass Deposit Certificates	NPLR	Non-Performing Loan Ratio
KIBOR	Karachi Inter-Bank Offer Rate	NSB	National Savings Bond
KONIA	Karachi Overnight Index Average	NSS	National Savings Schemes
KSE	Karachi Stock Exchange	NTN	National Tax Number
KYC	Know Your Customer	O/N	Overnight
LCR	Liquidity Coverage Ratio	OAEM	Other Assets Especially Mentioned
LHS	Left Hand Side	OMOs	Open Market Operations
LIBOR	London Inter-Bank Rate	OSD	Off-Site Supervision and Support Department
LICs	Life Insurance Companies	OTC	Over the Counter
LMM	Locally Manufactured Machinery	P2G	Person to Government
LoLR	Lender of Last Resort	P2P	Person to Person
LPBs	Local Private Banks	PBA	Pakistan Banks' Association
LRI	Liquidity Risk Indicator	PBA	Pensioners' Benefit Account
LSM	Large Scale Manufacturing	PBIC	Pak Brunei Investment company Ltd
LVP	Large Value Payment	PBT	Profit Before Tax
M&As	Mergers and Acquisitions	PCIC	Pak China Investment Company Ltd.
MCR	Minimum Capital Requirement	PE&VCF	Private Equity and Venture Capital Fund
MER	Minimum Equity Requirements	PEPCO	Pakistan Electric Power Company
MICR	Magnetic Ink Character Recognition	PIB	Pakistan Investment Bond
MMA	Mahana Amdani Accounts	PIIC	Pak-Iran Investment Company Ltd.
MMF	Money Market Funds	PKIC	Pakistan Kuwait Investment Company (Pvt)
MNSB	Multilateral Net Settlement Batches	PKR	Pakistani Rupee
Mod/MF	Modaraba Companies and Mutual funds	PKRV	Pakistan Revaluation Rate
MoF	Ministry Of Finance	PLA	Personal ledger Accounts
MPS	Monetary Policy Statement	PLHC	Pak-Libya Holding Company (Pvt) Ltd.
MRTBs	Market Related Treasury Bills	PLS	Profit-Loss Sharing
MRWA	Market Risk Weighted Assets	POIC	Pak Oman Investment Company
MSCI	Morgan Stanley Capital International	POL	Pakistan Oilfields Limited
MSR	Minimum Saving Rate	POS	Point Of Sale
MTBs	Market Treasury Bills	PPEML	Pakistan Private Equity Management Ltd.
MUFAP	Mutual Funds Association of Pakistan	PPTFC	Privately Placed Term Finance Certificates
NAV	Net Asset Value	PRC	Publication Review Committee
NBFCs	Non-banking Finance Companies	PRCL	Pakistan Reinsurance Company Limited
NBFIs	Non-Bank Financial Institutions	PRISM	Pakistan Real-Time Interbank Settlement
NBP	National Bank of Pakistan	PSC	Private Sector Credit
NCB	Non-Competitive Bids	PSCBs	Public Sector Commercial Banks
NCCPL	National Clearing Company of Pakistan Ltd.	PSEFT	Payment Systems And Electronic Fund
NCS	National Coinsurance Scheme		

PSEs	Public Sector Enterprises
PTES	Production & Transmission of Energy Sector
RCC	Retail Cheque Clearing
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
RPI	Real Private Investment
RSA	Rate Sensitive Assets
RSL	Rate Sensitive Liabilities
RTGS	Real-Time Gross Settlement
RTOB	Real Time Online Banking
RWA	Risk Weighted Assets
S&DWH	Statistics & Data Warehouse Department
SA	Savings Accounts
SAB	Shariah Advisory Board
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
STD	Short-Term Debt And Liabilities
SWIFT	Society For Worldwide Interbank Financial
T-Bill	Treasury Bills
TCP	Trading Corporation of Pakistan
TDL	Time And Demand Liabilities
TFC	Term Finance Certificate
TMTV	TMT Ventures
TRGPL	TRG Pakistan Limited
TSA	Treasury Single Account
UAE	United Arab Emirates
UBL	United Bank Limited
ULR	Uncovered Liability Ratio
USD	US Dollar
VC	Venture Capital
VCCs	Venture Capital Companies
WADR	Weighted Average Deposits Rate
WALR	Weighted Average Lending Rate
WAPDA	Water and Power Development Authority
WEO	World Economic Outlook
YoY	Year on Year