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## **Pakistan's banking industry continue to remain resilient despite economic downturn: SBP Report**

Pakistan's banking industry was able to maintain its resilience and showed improvement in key solvency indicators despite current economic situation in the country. However, due to deterioration in macroeconomic indicators, the credit risk remained high.

According to Quarterly Performance Review of the Banking System for quarter ended March 31, 2009 released today by the State Bank of Pakistan, the aggregate Capital Adequacy Ratio (CAR) under Basel-II framework, for all banks improved to 12.9 percent (13.3 percent for commercial banks). The CAR improved to 13.8 percent jointly for banks and Development Finance Institutions (DFIs). This improvement was largely caused by reduction in risk-weighted assets, improvement in capital markets leading to appreciation in the value of available-for-sale investments and satisfactory earnings.

Asset base of the banking system grew 1.6 percent over the quarter to reach Rs 5,744 billion. The asset mix, however, witnessed a significant shift from advances to investments in Government papers and government-guaranteed debt securities that are relatively risk free and liquid. Resultantly, the liquidity profile further improved as compared to the second half of the year 2008 when the system faced a significant liquidity shortage, says the Report.

According to the Report, the heightened credit risk transpired in significant increase in Non-Performing Loans (NPLs). However, even in the face of constraining factors, the banking system earned before tax profit of Rs 26.2 billion for the March, 2009 quarter that was higher compared with Rs10.5 billion in Dec-08 quarter, though lower than corresponding quarter of 2008.

The Report pointed out that Non-Performing Loans (NPLs) of the banking system increased to Rs 379 billion (Rs 313 billion in Dec-08) giving infection ratio of 11.5 percent and net infection ratio of 3.9 percent, the Report said. NPLs are covered by the loan loss provisions to the extent of 69 percent, but due to increased loan provisions in absolute amounts, earnings of the banking system came under pressure and remained lower than corresponding quarters of last couple of years—after tax Return on Asset (ROA) of 1.1 percent for Q1-09 versus 1.2 percent for 2008 and 1.5 percent for 2007, the Report added.

The detailed Report can be accessed at SBP's website [http://www.sbp.org.pk/publications/q\\_reviews/qpr.htm](http://www.sbp.org.pk/publications/q_reviews/qpr.htm).

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