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## **Banks resilient enough to cope challenges** **under strong oversight: SBP Report**

Pakistan's banking system effectively coped with several challenges emanated from economic slowdown, both at home and abroad, due to strong resilience built over the years and effective regulatory and supervisory regime.

According to State Bank of Pakistan's Quarterly Performance Review of the Banking System for the quarter ended December 31, 2008 released today, asset base of the banking system grew 2.6 percent over the quarter to reach Rs 5,653 billion, well supplemented by 3.6 percent and 7 percent growth in deposit and shareholders' equity, respectively. The liquidity profile of the banking system remained constrained for most part of the quarter. However, post quarter statistics indicate significant easing out in liquidity profile because of the gradual increase in deposits and reduction in banks' advances.

The Report pointed out that in line with deterioration in macroeconomic indicators, the credit risk remained heightened during the quarter. Non-performing Loans (NPLs) of the banking system increased to Rs 313 billion (Rs 278 billion in Sep-08) giving infection ratio of 9.1 percent and net infection ratio of 2.5 percent, it said. However, satisfactory earnings enabled the system to cover these loan losses. NPLs are covered by the loan loss provisions to the extent of 75 percent, but due to these increased loan provisions in absolute amounts, earnings of the banking system came under pressure and remained lower than last couple of years' levels – ROA of 1.2 percent for the year 2008 versus 1.5 percent for 2007 and 2.0 percent for 2006.

It said overall solvency position of the banking system registered an improvement. The Capital Adequacy Ratio (CAR) under Basel-II framework, which also accounts for the operational risk charge, improved to 12.2 percent (12.6 percent for commercial banks) due to fresh injection of equity and satisfactory earnings. The CAR improved to 13 percent jointly for banks and Development Finance Institutions (DFIs), it added.

"Banking system shows strong resilience to unusual shocks in major risk factors. This strength of the banking system largely came from the prudent regulatory and supervisory regime, strengthening of risk management and governance standards in banks as well as the improved solvency position," the Report emphasized.

"Going forward, due to constrained economic environment both at home and globally, the credit risk, earnings, and growth rates of the banking system are likely to remain under some strain in coming quarters," the Report anticipated.

The detailed Report can be accessed at SBP's website <http://www.sbp.org.pk>.

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