

December 23, 2009

Risk-based CAR of banks improves to 14.3% by end-September: SBP Report

The risk-based capital adequacy ratio (CAR) of all banks operating in the country has improved to 14.3 percent in the quarter ended September 30, 2009, according to Quarterly Performance Review of the Banking System of the State Bank released today.

The Report said that the banking system shows strong capacity to withstand unusual shocks in the major risk factors and chances of any systemic risk remains contained. "In the wake of traditional pick up in the economic activity during the outgoing quarter, the credit to private sector is likely to gain momentum," it added.

It said that during the July-September, 2009 quarter, the overall profitability of the banking system remained fair. However, the earnings were largely skewed towards large and medium-sized banks as the bottom line of most of small sized banks was low or in negatives. Banks posted aggregate pre-tax profit of Rs70.1 billion for the first three quarters of the outgoing year with the Pre-tax Return on Assets of 1.6 percent (1.2 percent for CY-08), the Report added.

SBP's Report pointed out that accumulation of year-to-date earnings and equity injections raised the equity base of the banking system. "This growth was also augmented by improvement in revaluation surpluses on equity investments, and the leverage of the system slightly came off," it said and added that improvement in eligible capital and reduction in Risk Weighted Assets (RWA) as the banks shifted their asset mix from private sector credit to investments in Federal Government papers, improved the risk based Capital Adequacy Ratio (CAR).

The Report said that asset base of the banking system with marginal growth remained stable during the quarter under review. The deposits base, which grew significantly during the last quarter, contracted over the quarter under review. On the asset side, decline in advances took place in both public and private sector lending. However, lending to private sector corporations in power & energy sector actually showed significant growth.

It said the non-performing loans (NPLs) of the banking system after showing some let up in the last quarter, again increased during the quarter under review, while the asset base with shift in asset mix from advances to investments and decline in deposit base remained stable. Due to increase in NPLs, the net infection ratio increased to 4.1 percent, the Report added.

The detailed review Report is available at SBP's website:

http://www.sbp.org.pk/publications/q_reviews/q_review_September_09.pdf
