

Banking system assets grow by 7.7% to Rs 7.1 trillion in Oct- Dec quarter: SBP Report

The assets of the banking system grew by 7.7 percent to Rs 7.1 trillion during the October-December quarter of 2010. This growth in total assets, while in line with the established seasonal pattern of the fourth quarter, was particularly strong given the comparatively weak performance in the earlier three quarters of 2010.

The growth in total assets was primarily on account of investments in government papers and seasonal credit requirements of the private sector due to soaring input prices, according to State Bank of Pakistan's Quarterly Performance Review of the Banking System which was released today.

It said that net investments, with an increase of 14.3 % during the quarter, outpaced the subdued growth of 5.7 % in net advances. Within private sector credit, lending to textile and sugar industries accounted for two-third of the credit off- take of Rs 196 billion. On the funding side, deposits increased by 8.5 %, registering the highest quarterly growth during the last three years, the Report added.

During October-December quarter, banks remained fairly liquid on the back of growing share of investments in government papers. Further, banks' capital adequacy ratio observed improvement from 13.8 to 14 % during the quarter, the Report said.

Credit risk remained a challenge as banks accumulated Rs. 53.7 billion of fresh Non-Performing Loans, pushing infection ratio from 14 to 14.7 %, though bulk of incremental NPLs were confined to a few banks, the Report said and added that the results of the stress tests showed that the banking system is resilient to shocks emanating from a challenging macroeconomic and business environment.

According to the Report banks' profits before tax were up by 23.1 % during 2010 to reach Rs 111.2 billion, with Return On Assets (ROA) of 1.7% (1.3 % in

CY09) and Return On Equity (ROE) of 16.7 % (13.2 % in CY09). However, profits continued to remain heavily concentrated among the big five banks, the Report observed.

The Report stressed that there has been growing evidence of banks' flight towards quality as investments, mainly in government securities, now constitute around 30.4 percent of banks' assets compared with 19.3 percent in December, 2008. Share of advances has witnessed a concomitant drop, from 60.8 to 52.0 percent during the past two years, it said and added that unsurprisingly, return on government paper now accounts for 34.5 percent of banks' gross mark-up/interest income, compared to 28.8 percent in December, 2008.

This suggests that growth in government borrowings, in a rising interest rate scenario, has shored up banks' earnings, the Report said. Banks' disturbingly diminishing role as financial intermediaries is becoming evident from their Advances-to-Deposits ratio, which has dropped from 76.0 percent in September, 2008 to 61.4 percent by December, 2010, the Report added.

According to the Report the shift in asset mix, from advances to investments in government papers, has important implications. In the short run, lure of risk-free investments in government paper, coupled with high NPLs, has reduced banks' eagerness for extending private sector credit, it added.

The detailed Report is available at State Bank's website www.sbp.org.pk
