

Quarterly Performance Review of the Banking System

December 2009



State Bank of Pakistan
Banking Surveillance Department

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Quarterly Performance Review of the Banking System December 2009¹

1. Overview

Table 1.1: Highlights of the Banking System

	(billion Rupees)						
	CY04	CY05	CY06	CY07	CY08	Sep-09	Dec-09
Total Assets	3,043	3,660	4,353	5,172	5,627	6,105	6,529
Investments (net)	679	800	833	1,276	1,080	1,593	1,753
Advances (net)	1,574	1,991	2,428	2,688	3,183	3,119	3,248
Deposits	2,393	2,832	3,255	3,854	4,217	4,483	4,787
Equity	202	292	402	544	563	641	662
Profit Before Tax (PBT)	52	94	124	107	63	70	91
Profit After Tax (PAT)	35	63	84	73	43	42	54
Provisioning Charges	11	19	22	60	106	64	85
Non-Performing Loans	200	177	177	218	359	422	432
Non-Performing Loans (net)	59	41	39	30	109	128	125

The banking system experienced some let up in the buildup of credit risk, which has significantly increased over the last six quarters or so, as the growth in banking system's NPLs substantially pacified during the quarter under review. One of the underlying factors for high credit risk i.e. general slackened economic environment showed slight improvement on a few fronts. However, overall economic conditions, power supply situation, and security environment remained tenuous². The asset base of the banking system and its key elements posted strong growth; particularly the deposits base and lending to private sector, which consistently declined over first three quarters of CY09, showed the signs of recovery. However, the asset mix of the banking system further shifted towards the investments as banks continued to invest heavily in government papers and bonds of Public Sector Enterprises (PSEs). In line with strong growth in both asset base as well as the risk-adjusted exposures, the baseline solvency indicators slightly came off, though still staying in high ranges.

The asset base of the banking system posted a strong growth that was parallel to the levels of mid of outgoing decade – a period marked with high economic growth and the absence of other structural shortcomings. Deposits of the system, after remaining lackluster during the first three quarters of CY09, posted heartening growth. On the asset side, lending portfolio also increased, however the distinguishing phenomenon was the pickup in lending to

¹The report presents performance of the banking system on the basis of unaudited Quarterly Report of Condition (QRC) submitted by banks for the quarter ended 31st December, 2009. The statistics in the report may vary from the annual audited results, which provide full year coverage of the banking system.

² SBP predicts that GDP growth rate for outgoing FY2009-10 will be around 3 percent vis-à-vis 2 percent in last year. Similarly, the global economy is also expected to grow at 3.9 percent as against an estimated contraction of 0.8 percent in 2009 (IMF's forecasts). In recent months, the country's external and fiscal accounts, inflation statistics, and large-scale manufacturing have shown some signs of improvement. However, the overall economic conditions remain susceptible to any slippages on fiscal account, uncertainty surrounding foreign inflows, precarious security environment, lingering power shortages, and surge in global commodity prices.

Table 1.2: Highlights of the quarter ended Dec-09

	(in percent)				
	CY08	Mar-09	Jun-09	Sep-09	Dec-09
Asset Growth	8.8	1.6	6.0	0.3	6.9
Loans Growth	18.3	(5.6)	5.0	(1.8)	4.16
Deposit Growth	9.4	0.0	8.2	(1.7)	6.8
Investments Growth	(15.4)	20.0	8.5	13.1	10.0
Equity Growth	3.4	1.5	4.7	3.0	3.1
Capital Adequacy	12.3	12.9	13.5	14.3	14.1
Capital to Total Assets	10.0	10.3	10.2	10.5	10.1
NPLs to Loans (Gross)	10.5	11.5	11.5	12.4	12.2
Net NPLs to Net Loans	3.4	3.9	3.7	4.1	3.9
ROA (Before Tax)	1.2	1.8	1.7	1.6	1.5
ROE* (Before Tax)	11.4	17.7	16.0	15.1	14.5
Liquid Assets/ Total Deposits	38.2	41.5	41.7	42.7	44.1
Advances to Deposit Ratio	75.5	71.7	69.6	69.6	67.9

Note: Growth rates are on quarterly basis, except for CY08 that represents annual growth

* Average Equity & Surplus

domestic private sector that had gradually declined during the preceding three quarters. Moreover, unlike the previous quarter's skewed growth in power sector, the growth was widely shared by different leading sectors of the economy. Incidentally, the public sector's demand for bank credit remained high for meeting budgetary requirements and resolving the issues of PSEs' inter-corporate receivables. Therefore, the banks' holding of government papers as well as the bonds of PSEs registered a strong increase and the asset base of the system further shifted towards investments.

The Non Performing Loans (NPLs) of the system had been showing consistent and fast increase for the last one and a half year or so and almost doubled since CY07. However, the growth in NPLs substantially decelerated during the quarter under review; 2.5 percent QoQ growth to Rs432 billion. The increase mainly occurred in Loss category that requires full provisioning coverage, and banks set aside relatively higher amount of provisions. Accordingly the provisioning coverage improved over the quarter and impairment ratio (net NPLs to equity) came down, while increase in lending portfolio further contributed towards the decline in infection ratios.

The slowdown in loan infection rate preserved the banks' earnings from significant dint, which has been the hallmark of last few quarters. Though more than proportionate growth in net-markup and non-mark up incomes augmented earnings, faster accumulation of operating expenses moderated the Return on Assets (ROA). The indicator, with slight contraction, remained almost stable at the last quarter's level but significantly higher than last year's results. The overall earnings capacity of the system has remained fair; however, the earnings are largely concentrated in large and medium-sized banks, as most of the small-sized banks' bottom lines were either low or in red.

Accumulation of year to date profits, equity injections, and growth in revaluation surpluses have significantly raised the equity base of the system. However due to stronger increase in asset base during the quarter under review, the leverage of the system slightly inched up. Moreover, pick up in lending to private sector led to substantial increase in risk-weighted assets (RWA). Accordingly, risk based Capital Adequacy Ratio (CAR) of the system also slightly came off, though remained in comfortable range i.e. 14.1 percent.

The deposit base of the system enlivened during the quarter under review and posted heartening growth of 6.8 percent. A major part of these additional funds was invested in short-term government papers, thus further improving the fund-based liquidity indicators of the system. However, stronger credit demand from PSEs, pick up in private sector credit coupled with relatively low activity in interbank market kept the market based liquidity under strain for most part of the quarter under review. The market risk of the system, however, remained moderate.

In the coming quarters, the heightened credit risk and increased portfolio of infected loans will remain the major challenge for the banking system. Nevertheless, the results of stress tests reflect system's strong capacity to endure extraordinary shocks in major risk factors and avert the emergence of any systemic risk. The traditional slowdown of first calendar quarter is likely to dampen the growth of banks' lending portfolio and deposits. The tapered growth in deposits coupled with banks' increased risk aversion and public sector's high demand for bank credit are likely to shift asset mix further towards government papers. However, banks capacity to lend private sector will largely depend upon their ability to mobilize additional funds and retirement of commodity operation borrowings by the government. The aggregate earnings of the system are expected to remain fair and largely immune from heightened credit risk. However, the individual banks are likely to

experience mixed results depending upon their sizes and relative earning capacity.

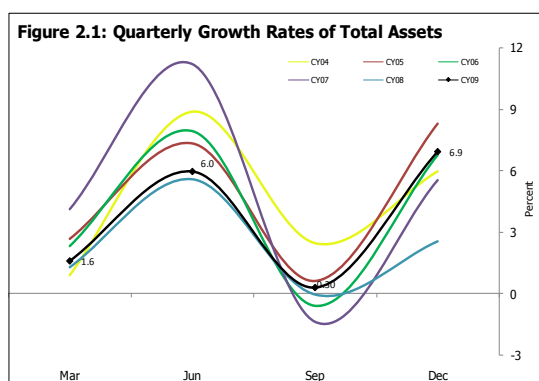
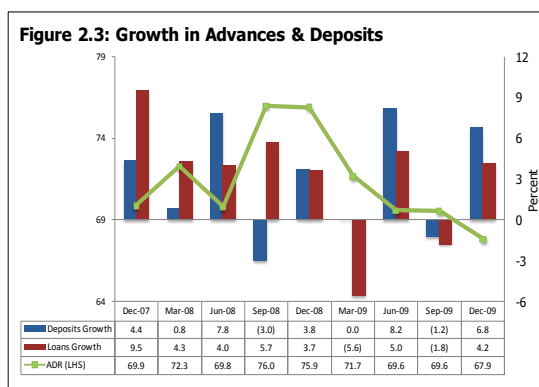
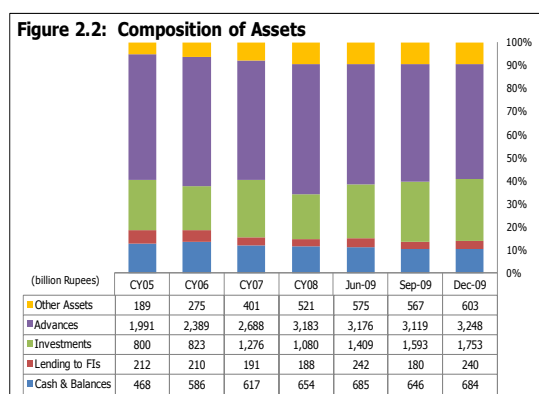


Table 2.1: Trends in Total Assets

	(billion Rupees)						
	CY05	CY06	CY07	CY08	Jun-09	Sep-09	Dec-09
PSCBs	724	836	1,036	1,042	1,173	1,152	1,229
LPBs	2,483	3,102	3,836	4,220	4,539	4,583	4,919
FBs	339	224	173	234	241	234	241
CBs	3,547	4,162	5,044	5,496	5,953	5,973	6,390
SBs	113	120	127	130	134	132	139
All Banks	3,660	4,282	5,171	5,627	6,087	6,105	6,529



2. Balance Sheet Analysis

After showing a general passive growth for the last couple of years, which are also marked with slowdown in economic activities and challenging security environment, the banking system posted a strong growth during the quarter under review. The growth was also in line with the established pattern of Pakistani economy and past trends of the banking system for the last calendar quarter (see Figure 2.1 & Table 2.1).

The traditional pickup in economic activity in the wake of Kharif crops harvest reflected in significant increase in banks' lending to domestic private sector while the deposits of the banking system also posted heartening growth. However, the investment portfolio of banks particularly investments in government papers and bonds of PSEs grew significantly and took the major share of the increase in banks' asset base. Accordingly, a trend in the relative share of two key asset components i.e. advances and investments continued during the quarter as well. Namely, the ongoing economic slowdown has significantly influenced the asset allocation strategy and flow of funds to the banking system. The private sector's low demand for bank credit has been reinforced by banks' risk aversion due to heightened credit risk. In this scenario, public sector has emerged as a leading consumer of bank credit - both in the form of government papers for budgetary support as well as the borrowings for PSEs which are facing financial constraints due to inter-corporate receivables and commodity operations. Accordingly, the composition of the asset base over the last one year or so has shifted away from advances to investments - and internal composition of advances from private sector to public sector and from Small and Medium Enterprises (SME) and Consumer to Corporate segment.

During the quarter under review, growth in deposits remained significantly higher than that in advances, and investment portfolio again

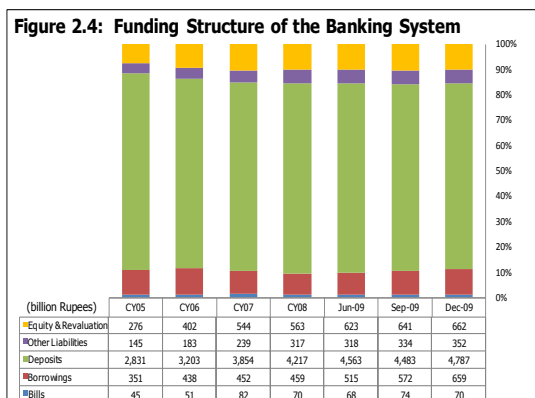
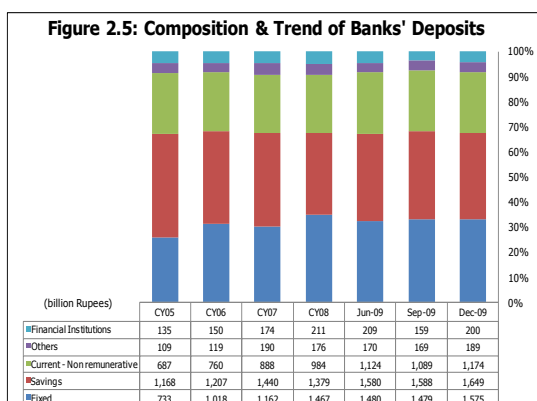


Table 2.2 : Investments in CDNS Schemes

	Outstanding (Million Rs)	Growth (Qtrly) %	% of Banks' Deposits
Jun-08	1,093,519	2.1	28.5
Sep-08	1,114,223	1.9	29.5
Dec-08	1,142,543	2.5	30.1
Mar-09	1,266,629	10.9	32.7
Jun-09	1,359,481	7.3	32.9
Sep-09	1,423,668	4.7	34.2
Dec-09	1,475,631	3.6	33.4



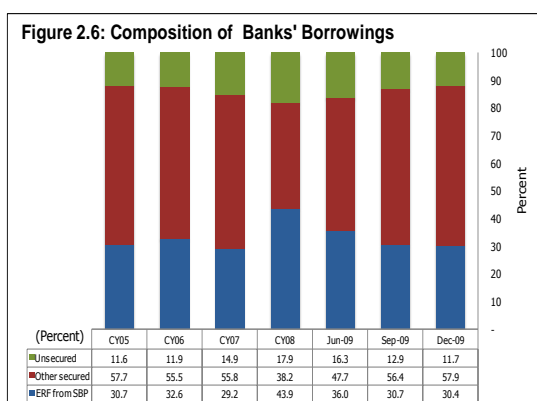
posted a strong increase. Accordingly, the asset and funding structure changed over the quarter (see Figure 2.2, 2.3 and 2.4).

Cross-Sectional Analysis & Market Structure:

Detailed analysis along the major banking group shows that all groups registered growth though the rate of this growth was pronounced in LBP's followed by PSCBs, while FBs posted a marginal increase in their asset base (see Table 2.1). On individual basis, the growth was prevalent among most of banks as a few, mainly small sized, banks witnessed decline in their asset base. However, levels of growth and shifts in asset-and-funding structures varied from bank to bank. Overall, larger-sized banks performed relatively better in building their market share. Accordingly, the share of top five and top ten banks inched up to 50.8 and 73.0 percent, respectively. Details of market structure along key factors and risk indicators are available at Annexure-III.

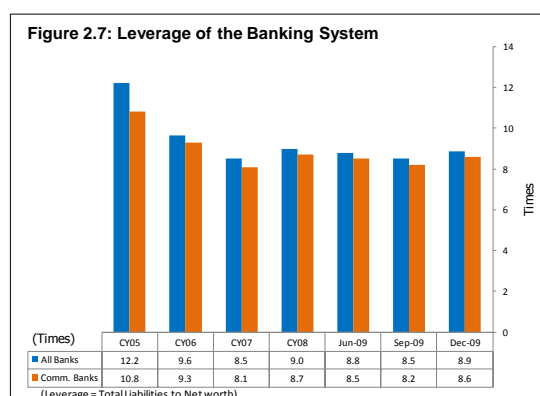
Growth & Dynamics of Different Components of Assets and Liabilities:

Deposits of the banking system, after marginally declining in the last quarter, posted a strong over-the-quarter growth of 6.8 percent (YoY 13.5 percent) which is the highest growth rate for Oct-Dec quarter since CY05. Since the later months of CY08, the banking system has been facing a strong competition from Central Directorate of National Savings' (CDNS) schemes in mobilizing deposits. Flow of funds to CDNS somewhat pacified during the quarter under review thus helping banks to attract substantial growth in their deposit base. However, the quantum of CDNS mobilizations still remained high (see Table 2.2). Disaggregated analysis shows that all categories of deposit registered growth however significant growth occurred in Current Account category, reflecting the effects of growth in lending portfolio a part of which ultimately ended up in the current accounts. Similarly, non-remunerative Financial



Institutions deposits, which though constitute a nominal share of overall deposits, also grew at faster pace. Accordingly, the composition of deposits shifted towards the current accounts (see Figure 2.5).

Since the growth in asset base was stronger than increase in deposits, banks covered this gap through **borrowings** which strongly increased by the end of quarter. The increase mainly occurred in interbank secured borrowings indicating that the increased level of GoP papers, inter alia, enabled the banks to resort to secured borrowings (see Figure 2.6).

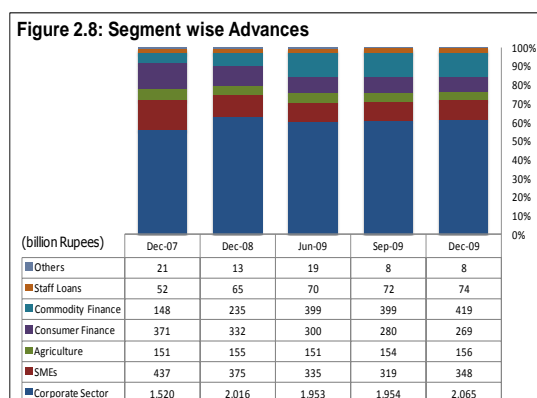


Banks' **equity base** on account of year to date profits and revaluation surpluses registered patterned increase during the quarter. The buildup of retained earnings, capital injections by a few banks for meeting the Minimum Capital Requirements (MCR), and improvements in revaluation surpluses led to a strong YOY increase of 13.5 percent in the net worth (equity plus revaluation surplus). However, due to stronger growth in asset base during the quarter under review, the leverage ratio inched up, though its level remained low (see Figure 2.7).

Table 2.3: Composition of Banks' Advances (domestic operations)

(in percent)

	CY06	CY07	CY08	Mar-09	Jun-09	Sep-09	Dec-09
Public	8.1	7.6	10.8	11.0	17.4	17.5	16.9
Private	91.9	92.4	89.2	89.0	82.6	82.5	83.1



As mentioned earlier, **advances** of the banking system posted significant increase during the quarter under review. Unlike trends for the last six quarters or so, the growth was observed mainly in domestic private sector. However, due to low aggregate demand in the economy as well as abroad, high borrowing costs on account of tight monetary policy, unresolved political and security issues, and the increased credit risk in the economy, banks' lending to private sector showed a marginal decline on YoY basis. This reduction has been mainly taken up by PSEs and commodity operations, accordingly the relative share of public and private sector advances changed over the period (see Table 2.3)³. Disaggregated analysis shows that growth was

³ The analysis of advances in the following paragraphs is mainly based on domestic operations.

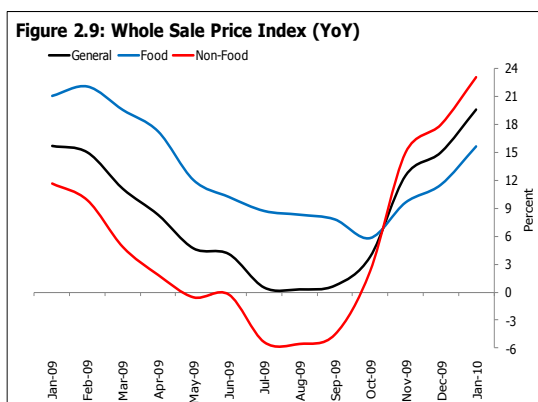
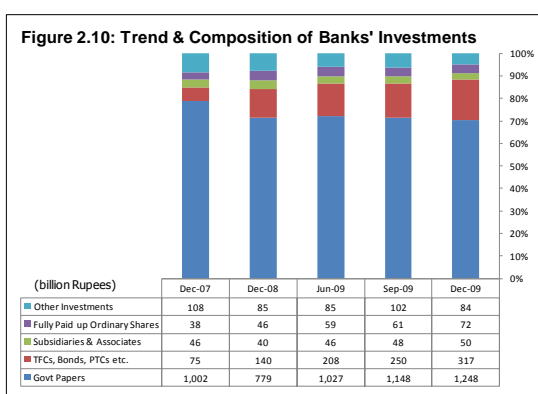


Table 2.4: End-use of Advances (domestic operations)
(amount in billion Rupees, share in percent)

	Dec-08		Sep-09		Dec-09	
	Amount	Share	Amount	Share	Amount	Share
Fixed Investment	738.1	23.1	828.2	26.0	836.0	25.0
Corporate Sector	694.2	21.7	788.5	24.8	795.2	23.8
SMEs	43.9	1.4	39.7	1.2	40.7	1.2
Trade Finance	480.6	15.1	474.9	14.9	517.0	15.5
Corporate Sector	438.3	13.7	436.5	13.7	473.0	14.2
SMEs	42.3	1.3	38.4	1.2	44.0	1.3
Working Capital*	1,562.9	49.0	1,523.0	47.8	1,635.4	49.0
Corporate Sector	883.3	27.7	729.0	22.9	797.3	23.9
SMEs	288.8	9.0	240.8	7.6	263.0	7.9
Agriculture	155.5	4.9	154.3	4.8	156.5	4.7
Commodity Financing	235.4	7.4	398.8	12.5	418.5	12.5
Consumer Finance	332.2	10.4	280.1	8.8	268.6	8.0
Credit Cards	40.7	1.3	34.2	1.1	31.2	0.9
Auto Loans	95.3	3.0	72.5	2.3	66.3	2.0
Consumer Durable	0.3	0.0	0.2	0.01	0.2	0.00
Mortgage Loan	66.9	2.1	62.2	2.0	61.5	1.8
Other personal Loans	128.8	4.0	111.0	3.5	109.5	3.3
Staff Loans	64.5	2.0	71.9	2.3	73.9	2.2
Housing Finance	46.7	1.5	53.2	1.7	55.0	1.6
Others	17.8	0.6	18.6	0.6	18.9	0.6
Others	13.5	0.4	7.6	0.2	8.2	0.2
Total	3,191.8	100	3,186	100	3,339	100

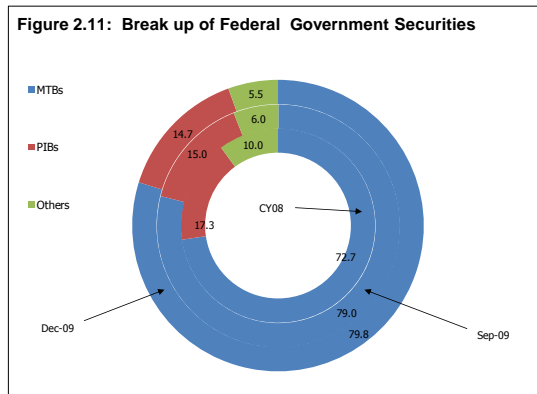
* Agriculture and commodity finance are added in this category for analysis in this section only.



observed in all segments and end-uses, barring consumer finance which following its last two years' trend further came off during the quarter. The corporate sector, in accordance with its share in bank credit, accounted for the chunk of increase in advances. Lending to SME sector, after following a consistent decline over the last three quarters, rose by 9.1 percent. Accordingly, the segment wise composition of advance with slight change remained dominated by Corporate (see Figure 2.8). The end-use analysis of advances shows increase in all end uses, except for the consumer finance. However working capital finance posted the strongest growth, indicating the traditional post Kharif crops pick up in the economy and built up of inventories by the businesses. Moreover, the growth was somewhat influenced by the rise in Whole Sale Price Index (WPI) towards the end of quarter (see Figure 2.9), indicating that entrepreneurs, in rupee terms, needed higher inventories for maintaining the same level of operations as compared with last year. The financing for commodity operations, particularly the public sector borrowings, which constitutes three fourth of the overall portfolio, have been showing unusually high and stagnant levels for the last six quarters or so. During the quarter under review the public sector commodity financing slightly came off, however, its level remains quite high. Since a major share of this financing comprises wheat procurement and the next wheat crop harvest is due within next couple of months, additional borrowings by the public sector could burden liquidity profile of banks as well as their ability to lend to other sectors in coming months (see Table 2.4).

In the backdrop of slowdown in economic activities, heightened demand by public sector for bank credit, and spike in credit risk; **Investments** in government papers and bonds of public utility corporations⁴ have been attracting increased preference of banks since

⁴ The Government of Pakistan has setup a company viz. Pakistan Power Holding (Pvt) Ltd for resolving the circular debt of the power utilities. Increase in banks' investment in TFCs, bonds, PTCs etc. during the quarter represents the TFCs issued by the company.



the last quarter of CY08. During the quarter under review, the investments again posted a strong increase of 10 percent – mainly in the government papers followed by bonds of public utilities and equity investments (see Figure 2.10). The increase accounted for more than one third of the overall growth in banking system’s asset base. The further breakup of government papers shows that portfolio of both short-term Market Treasury Bills (MTBs) and long-term Pakistan Investment Bonds (PIBs) registered increase. However, MTBs remained the focus of banks’ preference while the growth in PIBs, which are more susceptible to interest rate movements and carry limited eligibility for the Statutory Liquidity Reserve requirement (SLR), remained subdued (see Figure 2.11).

Going forward, the traditional slowdown during first calendar quarter is likely to dampen the growth of advances and deposits. Though the public sector borrowings for commodity operations have slightly came off in the post quarter weeks, its level is still high. Considering the government’s borrowing targets for the coming months and the fact that the next wheat crop is in the offing, banks’ ability to lend to private sector will mainly depend upon their ability to mobilize additional deposits. The latest available statistics for the third week of Feb-10 show slight but consistent growth in investments accompanied by marginal contraction in both advances and deposits.

3. Risk Assessment of the Banking System

3.1. Credit Risk

The banking system witnessed significant respite in the buildup of credit risk which had been on the rise since the mid of CY08. In the backdrop of global financial and economic crisis, precarious security situation in some parts of the country, power shortages, high interest rates and slackened aggregate demand, the NPLs portfolio of the banking system doubled over the last two years. The quarter under review however witnessed let up in the growth rate of NPLs. Moreover, in line with the last calendar quarter's traditional pickup in economic activities as well as the improvement in some economic indicators; the lending portfolio, especially the lending to private sector posted heartening growth. Accordingly, the base line indicators of credit risk witnessed slight improvement.

The advances registered healthy growth of 4 percent over the Dec-09, against decline during Sep-09. However, YoY advances saw a marginal increase of 1.4 percent. Due to their extended outreach, the LPBs remained the biggest lenders in absolute terms on QoQ and YoY, followed by PSCBs, FBs and SBs. As increase in advances is distributed across various groups, relative share of various banking groups in the overall loan composition remained same (See figure 3.1.2). In terms of bank size, increase in advances is more pronounced in large and medium sized banks (see Table 3.1.1)

A positive development during the quarter is a 4 percent growth in private sector advances, after contracting during first nine month of 2009. As a result composition of advances tilted towards private sector advances. The lending to PSEs also showed an upsurge by 5 percent QoQ (see Table 3.1.2).

It is important to highlight that the focus of banking sector credit was lopsided in favor of

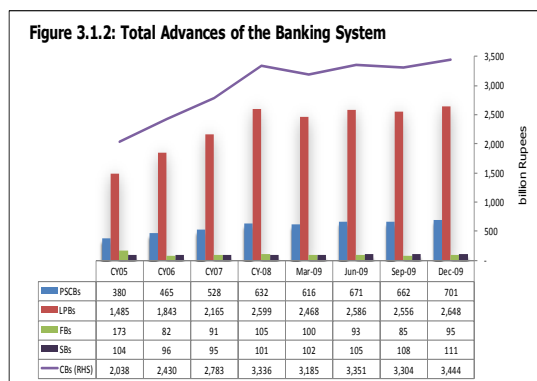
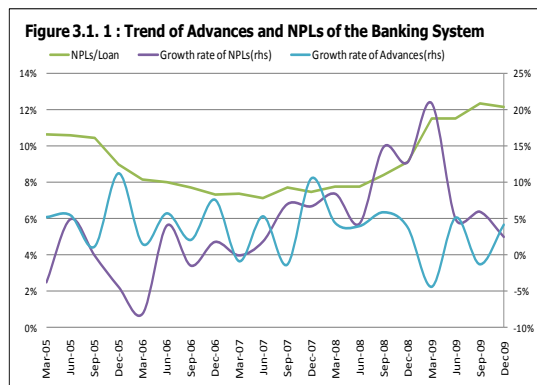


Table 3.1.1 : Concentration of Lending in the Banking System
(in percent)

	Banks			
	Top 5	Top 10	Top 20	Industry
CY 07	48.8	72.6	94.1	100
Dec-08	52.9	74.2	93.6	100
Mar-09	52.7	73.9	93.4	100
Jun-09	53.5	74.7	93.5	100
Sep-09	53.5	74.7	93.5	100
Dec-09	53.7	73.4	93.2	100

Table 3.1.2: Composition of Banks' Advances
(amount in billion Rupees, growth in percent)

Period	Public Sector Loans	Growth in Public Sector	Private Sector loans	Growth in Private Sector
Dec 07	241	16	2,637	14
Dec 08	380	58	3,056	16
Mar 09	368	(3)	2,918	(5)
Jun 09	596	62	2,859	(2)
Sep 09	591	(1)	2,822	(1)
Dec 09	617	5	2,938	4

Figure 3.1.3: NPLs of the Banking System

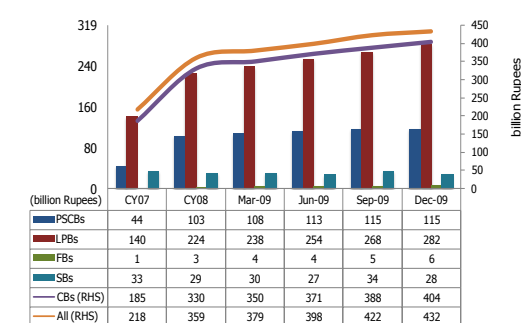


Figure 3.1.4: Category-wise Breakup of NPLs

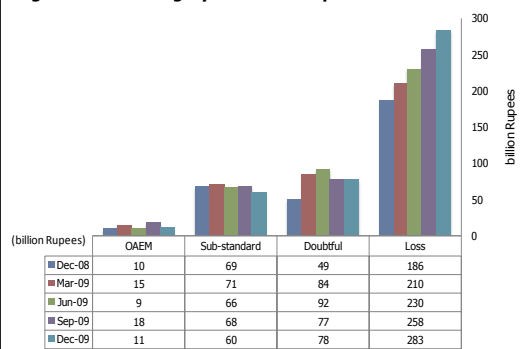


Figure 3.1.5: NPLs to Loans (Gross)

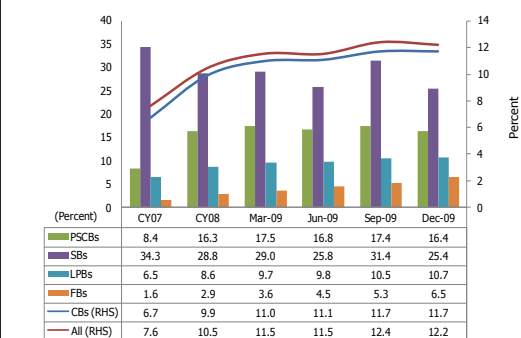
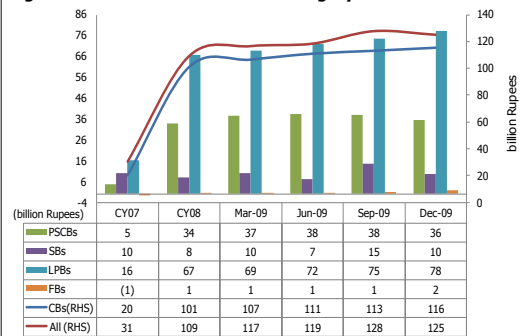


Figure 3.1.6: Net NPLs of the Banking System



public sector for last year and a half; firstly to meet the fiscal needs of the government through issuance of Bonds i.e, T Bills and Ijara Sukuks; secondly to meet the borrowing requirements of the public sector enterprises and lastly to finance public sector commodity operations. Interestingly, banks are providing finances to the PSEs at market rate despite their lower credit risk profile viz-a-viz the businesses and green field projects in private sector. As a result, lending to PSEs increased by 62 percent YoY, whereas the private sector lending declined by 4 percent.

Increasing infection of advances continued to pose challenge for the banking system. However, infected portfolio increased marginally by 2 percent during Dec-09 due to decrease in NPLs of some banks. Most of the increase came from LFBs; among them substantial increase took place in middle tier and small sized banks. (see Figure 3.1.3) The category-wise breakup shows a shift of substantial portion of partially provided NPLs to loss category, which lead to increase in provisions more than increase in NPLs. Resultantly Net NPLs decreased by 2.1 percent. (see Figure 3.1.4 & 3.1.6). A marginal increase in NPLs coupled with healthy growth in advances led to decrease in infection ratios; NPLs to loans ratio declined to 12.2 percent while net NPLs to Loans declined to 3.9 percent (see Figure 3.1.5 & 3.1.7).

Improved provisions enhanced the NPL coverage ratio to 71 percent in Dec-09 from 69.7 percent in the previous quarter (see Figure 3.1.7). As highlighted in QPR for Sept-09 the benefit of Forced Sale value (FSV) was increased from 30 percent to 40 percent⁵. Despite this favorable change, provisions and provisions coverage has improved. This may be due to the fact that the data reported by banks through QRC has shorter reporting time and cannot fully cover the financial dynamics, including infected portfolio that are fully

⁵ See Chapter 3.1 Credit Risk and special section: 2 Regulatory Developments in QPR of the Banking System for the quarter ended Sep-09.

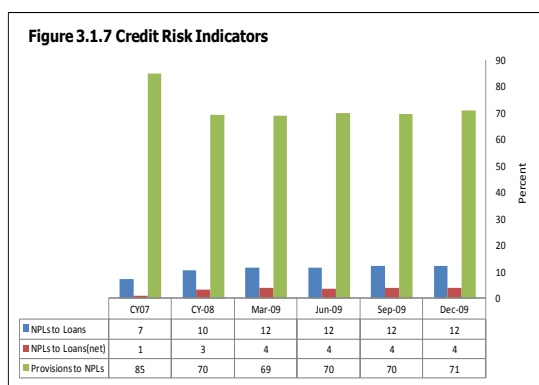


Table 3.1.3 : Segment wise advances and NPLs

Items	Dec-08			Sep-09			Dec-09		
	Loans	NPLs	Ratio	Loans	NPLs	Ratio	Loans	NPLs	Ratio
Corporate Sector	2,155	191	9%	2,082	264	13%	2,184	274	13%
SMEs Sector	386	61	16%	331	76	23%	359	79	22%
Agriculture Sector	156	25	16%	155	33	21%	160	26	17%
Consumer sector	361	25	7%	308	34	11%	295	36	12%
i. Credit cards	41	2	5%	35	3	9%	32	4	12%
ii. Auto loans	97	6	6%	74	6	8%	68	6	8%
iii. Consumer durable	1	0	8%	1	0	8%	1	0	10%
iv. Mortgage loans	81	6	7%	77	11	14%	77	12	16%
v. Other personal loans	140	11	8%	121	14	12%	118	15	12%
Commodity financing	235	3	1%	399	3	1%	419	5	1%
Staff Loans	65	1	1%	72	1	1%	74	1	1%
Others	79	8	10%	66	11	17%	64	10	16%
Total	3,436	314	9%	3,412	422	12%	3,555	432	12%

Table 3.1.4: NPLs to loans by end use

	Dec-08			Sep-09			Dec-09		
	Loans	NPLs	Ratio	Loans	NPLs	Ratio	Loans	NPLs	Ratio
Fixed Investment	808	103	13	892	119	13	890	126	14
Working Capital	1,625	141	9	1,585	200	13	1,698	204	12
Trade Finance	499	36	7	490	57	12	535	55	10
Others	505	34	7	446	46	10	433	47	11
Total	3,436	314	9	3,412	422	12	3,555	432	12

Table 3.1.5 : Segment-wise & Banking Group-wise Breakup of NPLs

Segments	(in percent)			
	PSCBs	LPBs	FBs	SBs
Corporate & Commercial	33	64	2	1
SMEs	20	69	0	10
Agriculture	13	25	0	61
Consumer	12	85	3	0
i. Credit cards	0	89	11	0
ii. Auto loans	0	98	1	0
iii. Consumer durable	67	15	0	18
iv. Mortgage loans	17	80	3	0
v. Other personal loans	16	83	1	0
Commodity Finance	22	78	0	0
Others	0	98	0	1
Staff Loan	1	94	2	3

accounted for in annual audited accounts⁶. As such the impact of change in provision requirements might be visible in the annual audited accounts of the banks and may result in change in NPLs and provision.

Segment analysis shows increase in all loans segments except consumer finance which continues to shed its share in overall lending portfolio. Among the corporates, working capital finance followed by trade finance contributed the leading share of increase in lending during the quarter. The overall increase on YoY basis in fixed investments, working capital and trade finances also reflects the pick up in economic activities (see Table 3.1.3 & 3.1.4). In line with its share, corporate segment is the main contributor in overall NPLs; corporate NPLs increased by 4 percent QoQ. A healthy development during the quarter is revival of SME finance which was on decline for more than a year. A reasonable amount of loans to SMEs were in shape of Fixed Investments showing some growth in new businesses.

Commodity operations continue to increase its share in overall financing; it added another 5 percent QoQ. Composition of commodity finance shows that private sector owes 24 percent of the total financing while the rest is owed by GoP. Further, public sector commodity operations now constitutes 52 percent of total public borrowing. This piling up of commodity finance is a cause of concern and needs to be addressed. The next wheat season is around the corner and more funds will be needed to run the wheat procurement operations, which will further add to public debt burden. (see Table 3.1.3 and 3.1.5).

The agricultural lending has out-performed all other segments in this quarter as its indicators remained positive with growth in advances and reduction in NPLs. This trend can be attributed

⁶ See Box 1 of QPR of Banking system for quarter ended Dec-09 on analysis of variance between December quarter data and annual audited accounts.

Table 3.1.6 : Sector wise Advances and NPLs

Item	(billion Rupees)								
	Dec-08			Sep-09			Dec-09		
	Loans	NPLs	Infection	Loans	NPLs	Infection	Loans	NPLs	Infection
Chemical & Pharmaceuticals	121	9	8%	123	9	7%	137	9	7%
Agribusiness	153	14	9%	191	16	8%	170	15	9%
Textile	671	98	15%	586	121	21%	657	129	20%
Cement	91	6	7%	90	10	11%	95	12	12%
Sugar	65	6	9%	57	11	19%	62	12	20%
Shoes & Leather garments	25	2	9%	21	3	13%	22	3	13%
Automobile & Transportation	79	6	7%	74	11	15%	64	11	17%
Financial	61	3	5%	48	7	15%	59	7	13%
Insurance	4	0	0%	1	0	0%	1	0	0%
Electronic & transmission of energy	340	12	3%	401	28	7%	390	29	7%
Individuals	473	41	9%	459	56	12%	464	53	11%
Others	1,355	117	9%	1,363	151	11%	1,433	152	11%
Total	3,436	314	9%	3,412	422	12%	3,555	432	12%

to seasonal financing as well as increasing commodity prices which improved the repayment capacity of the borrowers and augers well for the banks involved in agri-finance activities.

The Consumer finance continues to decline in absolute terms. Decline is seen across all the sub-segments of the consumer finance during Dec-09 (see Table 3.1.3). This coupled with rising NPLs have increased the infection ratio from below 5 percent in March, 2008 to above 12 percent in Dec-09.

The end-use analysis of the advances show that there has been a significant increase in NPLs YoY. The NPLs for fixed investments, working capital usage and trade finances rose by 22 percent, 45 percent and 52 percent respectively. However, the increase in NPLs on QoQ basis has been 6 percent and 2 percent for fixed investment and working capital, respectively, while NPLs in Trade finance has fallen by 3.7 percent (see Table 3.1.4).

In line with the overall trend, advances increased for all sectors except agribusiness and electronics transmission of energy. Textile sector with largest concentration of loans saw 12 percent growth QoQ signaling some signs of revival of business activity though, no let up in increasing NPLs. The chemical and pharmaceutical sector also kept up its pace with growing demand for fertilizers, pesticides, industrial and household chemicals and pharmaceuticals. It's share in advances has seen continuous expansion with upcoming projects (see Table 3.1.6). The production and transmission of energy has become the largest source of Public sector borrowing after commodity operations. It accounts for 18 percent of total government borrowing from commercial banks (excluding bonds).

The performance of loans to sugar industry lags behind significantly, despite the steep rise in sugar prices during the current year; the NPLs have seen a significant increase of 14 percent QoQ and 107 percent YoY. A few

Table 3.1.7: Credit shocks				
		Number of Banks with CAR		
		< 0%	0% - 9%	>9%
<u>Pre-Shock</u>		2	4	34
<u>Post-Shock</u>				
C-1	15% of performing loans moving to substandard, 15% of substandard to doubtful, 25% doubtful to loss	2	5	33
C-2	Tightening of loan classification i.e. all NPLs under OAEM require 25% provisioning, all NPLs under substandard require 50% and all NPLs in doubtful category require 100% provisioning.	2	4	34
C-3	Deterioration of loans to the textile sector (25%) directly downgraded to doubtful category	2	5	33
C-4	25% of consumer loans (auto loans, personal loans & consumer durables only) classified into doubtful category.	2	4	34

Table 3.1.8: Credit shocks-impact on CAR		
Shock	Impact of Shocks	
	%point change in CAR after shock	Adjusted CAR after shock
Credit Shock C-1	(1.60)	12.50
Credit Shock C-2	(0.70)	13.40
Credit Shock C-3	(0.80)	13.30
Credit Shock C-4	(0.30)	13.80

banks have taken large exposures in this sector and NPLs are also concentrated in these banks (see Table 3.1.6).

The advances to cement sector also performed slackly as the growth in NPLs was considerably higher than the growth of loans. The growth in NPLs can be attributed to failure of a specific unit of cement industry as otherwise the cement sector is performing fairly. In this sector again, the unhealthy concentration of Loans and NPLs is very much visible (see Table 3.1.6).

The demand for automobiles increased during Dec-09 compared to the corresponding quarter of the last year. However, auto financing decreased mainly due to higher prices, increased lending rates and cautious approach of banks towards consumer finance. The sector has seen inverse growth in loans both on QoQ and YoY basis, coupled with considerable increase in NPLs. The other sector like Insurance, Financial and Electronic transmission of energy have given a mixed performance with indicators varying on quarterly and yearly basis. Their trend shows some progress in the current period offset by negative results during the past three quarters. (see Table 3.1.6)

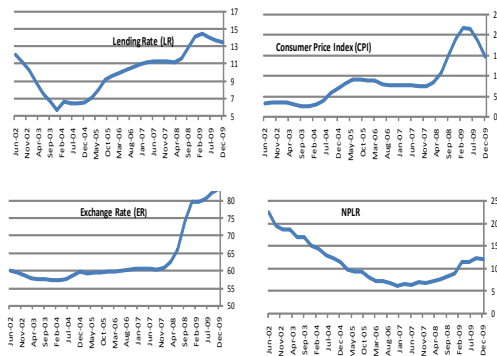
The loans of the banking system have been tested for various shocks to assess the impact of these scenarios on the capital of the banks. The description of these shocks and the changes in CAR along with the respective number of banks are provided in Table 3.1.7. The impact of shocks varies from 30 bps to 160 bps; C-1 is the most critical shock, reducing the CAR of banking system to 12.50 percent from current 14.1 percent. The shocks C-2 and C-3 have moderate impact and the level of this impact also remains lower than the last quarter's level, indicating an improvement in banks' risk profiles .

The quarter under review has witnessed some sign of improvements in the form of deceleration in the growth of NPLs and pick up

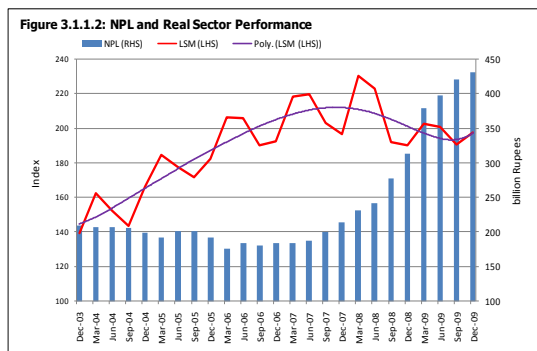
in credit to private sector. However, the overall economic and social environment remains tenuous. Therefore, banks need to not only maintain the current vigilance but also review their lending policies, strengthen risk management systems and both bolster and rationalize their recovery regime to make it responsive to the dictates of economic cycle.

3.1.1 Macroeconomic Stress Testing of Credit Risk

Figure 3.1.1.1: Performance of the Key Macroeconomic and Financial Variables



Macroeconomic stress testing is based on the assumption that the performance of macroeconomic variables impacts the NPL ratio of the banking system. In recent quarters, the macroeconomic outlook of the country remained mixed (see Figure 3.1.1.1). The lending rate has reduced in recent quarters on account of decrease in discount rate. Moreover, the CPI rate (measured on year-to-year basis) also declined significantly in recent quarters on account of low food inflation (see Figure 3.1.1.1).

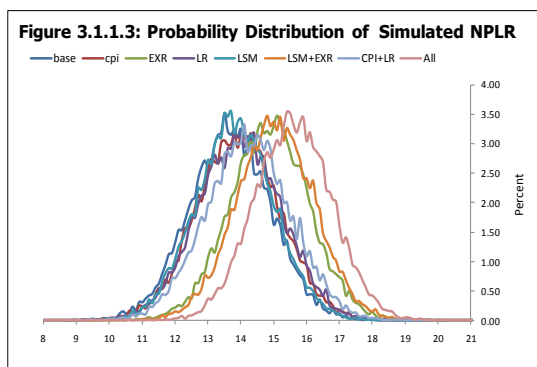


However, overall macroeconomic environment remain tenuous. For instance, the exchange rate continued to depreciate despite economic recovery and a reduction in the current account deficit. Moreover, the NPLs that witnessed a declining trend in year 2006 also increased substantially over last couple of years on account of slackened aggregate demand, power shortages, high commodity prices and security environment (see Figure 3.1.1.1).

Table 3.1.1.1: Simulated NPL Ratios

	Baseline	CPI	EXR	LR	LSM	LSM+EXR	CPI+LR	All
Average	13.62	13.86	14.82	13.92	13.76	15.00	14.17	15.54
75P*	14.46	14.71	15.63	14.78	14.55	15.80	15.02	16.33
90P*	15.20	15.48	16.34	15.56	15.27	16.51	15.82	17.03
95P*	15.65	15.93	16.80	16.00	15.72	16.95	16.28	17.45
99P*	16.48	16.77	17.60	16.82	16.51	17.77	17.12	18.22
99.5P*	16.81	17.09	17.93	17.14	16.80	18.05	17.42	18.51

* P represents level of percentiles



In this regard, the Credit Portfolio View (CPV) model is employed⁷ to foresee NPLs to Loan ratio for Mar-10 quarter. Under the baseline scenario, the NPLs for Mar-10 is projected to be 13.62 percent, against 12.2 percent for Dec-09. At lower probability level of 0.5 percent, the NPLs is expected to worsen beyond 16.81 percent (see Figure 3.1.1.1).

In case of applying single and multiple factor shocks, the NPLR is projected to be higher than the baseline case. For instance, the shock to Large Scale Manufacturing (LSM) will create an average shock of 13.76 percent of NPLR. At one percent probability level, the NPLR is expected to worsen beyond 16.51 percent. Furthermore, while applying shocks to all macroeconomic variables (see Table 3.1.1.1), there is one percent probability that the NPLR may worsen beyond 18.22 percent in Mar-10.

⁷ The reasons for using the CPV model are (a) easiness of implementation and (b) its worldwide acceptability among financial supervisory authorities.

Table 3.1.1.2: Impact of Simulated NPL Ratios

NPLR	Change in Profitability* (billion Rupees)	Change in CAR (in percentage points)	No of banks with CAR < 10%
13.62	52.12	1.07	11
14.46	81.99	1.70	12
15.20	108.23	2.26	15
15.65	124.29	2.60	15
16.48	153.84	3.25	18
16.81	165.53	3.50	18

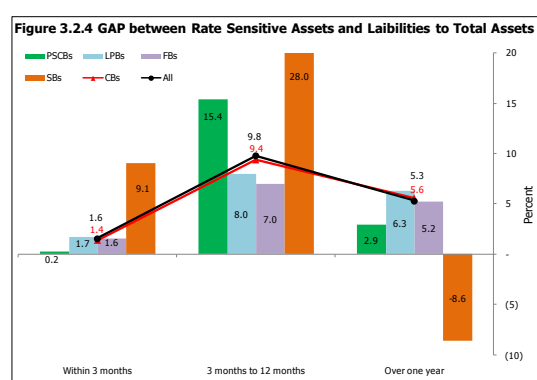
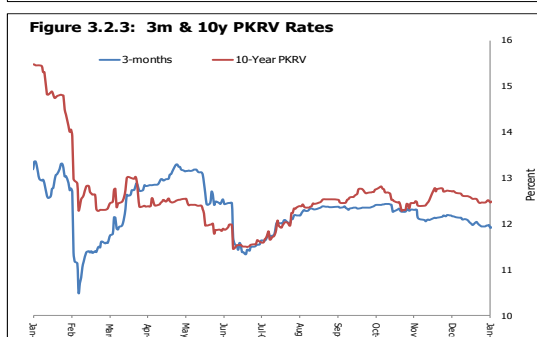
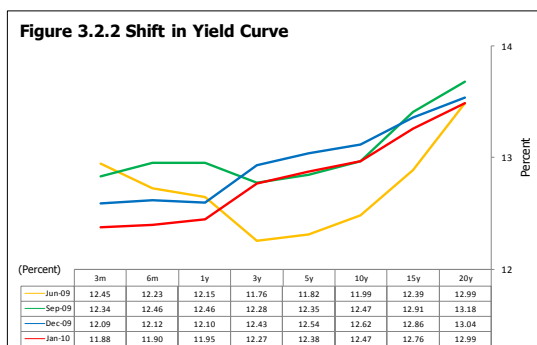
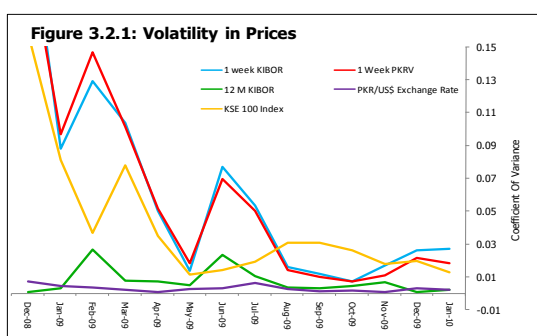
* Change in profitability indicates 100 percent provisioning.

In addition to calculating the projected NPLR at different percentiles, probability distribution of the baseline and stressed NPLR. In case of shock applied to all the macroeconomic variables, there is much deviation of the new distribution from the original baseline case (see Figure 3.1.1.1).

While calculating the impact of simulated NPLR on the capital adequacy of the banking system, the simulated stress results significantly affect the banks' profits and CAR (see Table 3.1.1.2).

As highlighted in earlier chapter 3.1, the full impact of NPLs appears in annual audited accounts, which are usually announced with a lag of about 3 months. Therefore, chances of variance of actual rate from projected rate usually increase for Mar-10 quarter.

3.2. Market Risk

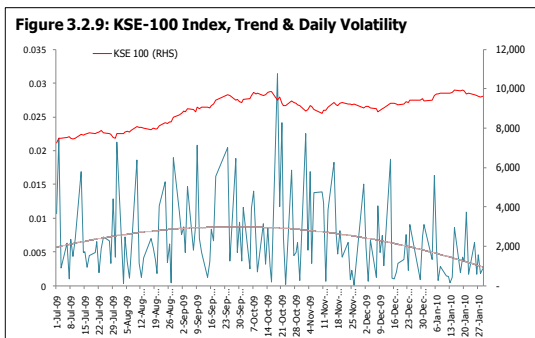
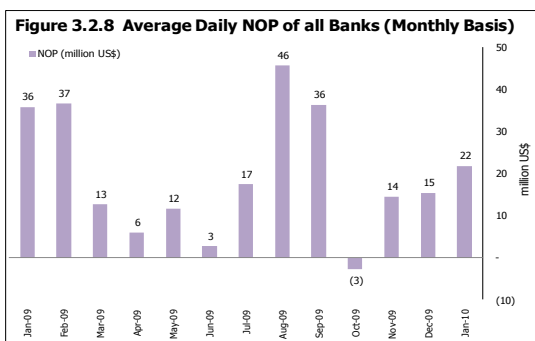
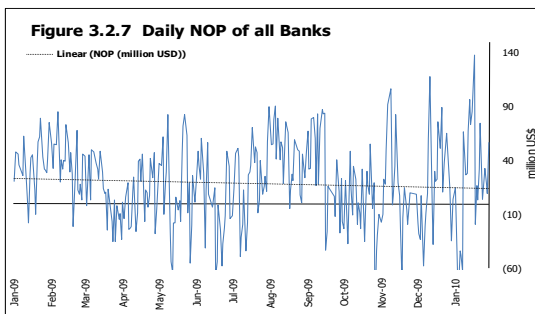
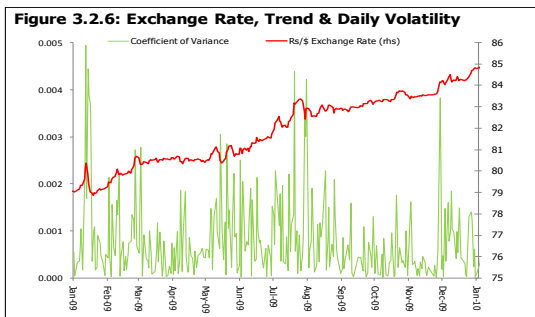
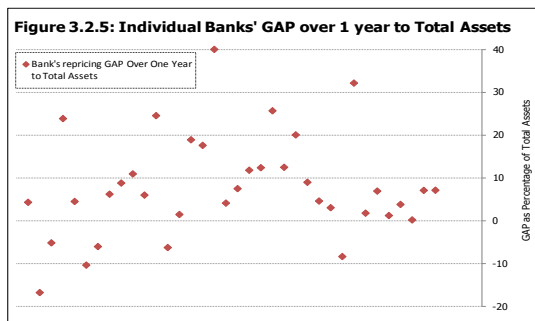


The volatility in financial assets' prices after remaining low slightly surged in the later half of the quarter under review; the volatility in overnight lending and exchange rates marginally inched up towards the end of quarter, while the volatility in equity prices remained subdued. Nevertheless, the volatility in interest rates too remained substantially lower than the pre-Aug-09⁸ levels which were posing significant challenge to both the SBP and market players (see Figure 3.2.1).

Interest rate risk, i.e. the risk of decline in the net worth and earnings of banks due to movements in interest rates, constitutes a major component of banking system's market risk profile. The interest rate risk of the system remained subdued during Dec-09. The yield curve, with slight decline in the short and long-terms tenors and inch up for medium-term tenors, turned positively sloped by the end of quarter and afterwards (see Figure 3.2.2). The detailed analysis of the daily interest rates movements shows that 3-months PKRV rates declined over the period while 10-year PKRV rates after facing a decline during Nov-09 remained more or less stable at Sep-09 levels. Accordingly, the spread after converging in Nov-09 widened by the end of Dec-09 and afterwards (see Figure 3.2.3). The lowering of rates for upto one year tenor resulted in revaluation surpluses on MTBs while inch up in the medium-term rates led to revaluation deficits on PIBs holdings of banks.

High re-pricing GAPs in the backdrop of volatile interest rate scenario, expose the bank to significant yield curve and re-pricing risks. The GAP position of Pakistani banks however remains within comfortable range i.e. ± 10 percent of asset base. All groups except SBs, on aggregate basis, carry more or less well-contained re-pricing profiles. Although PSCBs maintain slightly higher GAPs in 3 months to 1 year tenor, however due to shorter duration

⁸ In order to reduce the interest rate volatility, the SBP introduced Interest Rate Corridor mechanism in Aug-09. For further details, please refer to DMMD Circular No. 1 of 2009 (<http://www.sbp.org.pk/dmmd/2009/C1.htm>).



and low sensitivity of the tenor, adverse movements in interest rates are likely to have only a limited impact on PSCBs' market value of equity (see Figure 3.2.4). The disaggregated analysis also suggests that most of the banks are maintaining contained re-pricing GAP positions in over one year time frame (see Figure 3.2.5).

On Exchange Rate Risk front, there has been a gradual depreciation in exchange rate since mid of last year. The Pak rupee (PKR) further depreciated during the quarter, while volatility in exchange rate after remaining low in initial months inched up in Dec-09 (see Figure 3.2.6); thus exposing the banks with short foreign currency positions to exchange rate risk. However, banks have effectively responded to this exchange rate setting by generally maintaining a long Net Open Position (NOP) (see Figures 3.2.7 & 3.2.8).

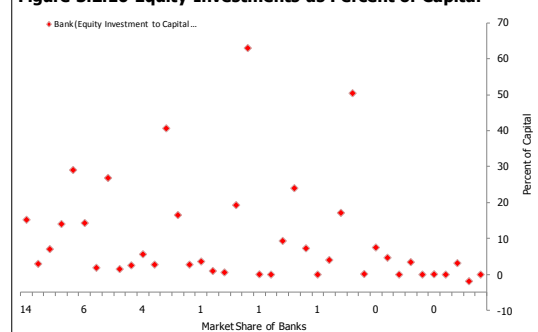
Equity price risk primarily emanates from banks' exposure in equity stocks and market. The prices of equity stocks remained stable and volatility therein also remained low during the quarter under review, though in the post quarter week KSE-100 Index made some recovery (see Figure 3.2.9). Generally banks' interest in equity investments remained subdued. However, due to substantial acquisition of equity stocks by a few banks, the aggregate investments of the banking system increased sharply by 17 percent to Rs71.8 billion (see Table 3.2.1).

The banking system generally maintains contained equity exposure, however some individual banks are, carrying high exposures; twelve banks with market share of 46.8 percent, hold equity exposure greater than industry average of 10.9 percent of banks' own net-worth; while 10 banks, with market share of 33 percent, are carrying equity exposures higher than 15 percent of their net worth⁹ (see Figure 3.2.10). Incidentally, these statistics have been significantly influenced by above-

⁹ SBP's limit on banks' equity exposure.

Table 3.2.1: Equity Exposure of the Banking System

	(amount in billion Rupees)					
	Dec-08		Sep-09		Dec-09	
	Amount	% of Capital	Amount	% of Capital	Amount	% of Capital
PSCBs	5.4	4.3	6.7	4.9	18.9	13.9
LPBs	39.5	9.2	53.2	11.2	51.6	10.5
FBs	0.2	0.5	0.1	0.3	0.1	0.2
All CBs	45.1	7.7	60.0	9.3	70.6	10.6
All Banks	46.4	7.9	61.3	9.6	71.8	10.9

Figure 3.2.10 Equity Investments as Percent of Capital**Table 3.2.2: Impact of Market Risk Shocks**

	Number of Banks with CAR			CAR (Capital Adequacy Ratio)	
	< 0%	0% - 10%	10% <		
Pre-Shock	2	4	34	14.12	
Shocks:				% point change in CAR	Adjusted CAR after Shock
IR-1	2	5	33	-0.53	13.59
IR-2	2	5	33	-0.58	13.54
ER-1	2	5	33	0.58	14.70
ER-2	2	4	34	-0.12	14.00
EQ-1	2	4	34	-0.11	14.01
EQ-2	2	4	34	-0.24	13.88

mentioned substantial acquisition by a few banks.

The analysis of the banking system's market risk exposures and dynamics of key risk factors indicates a subdued risk profile. In order to assess banks' resilience to unusual shocks in risk factors, they have been subjected to six different market risk shocks (see Table 3.2.2 and Annex-V).

The results of these stress tests also demonstrate the strong capacity of banks to withstand unusually high movements in market prices (see Table 3.2.3). Both strong capital adequacy of banks and their well-contained risk positions underlie this capacity.

3.2.1 Analysis of Banks' Financial Derivative Business¹⁰

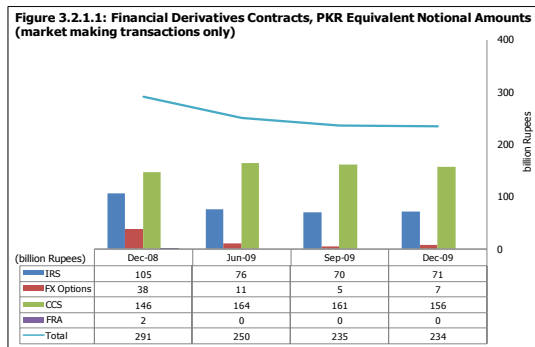
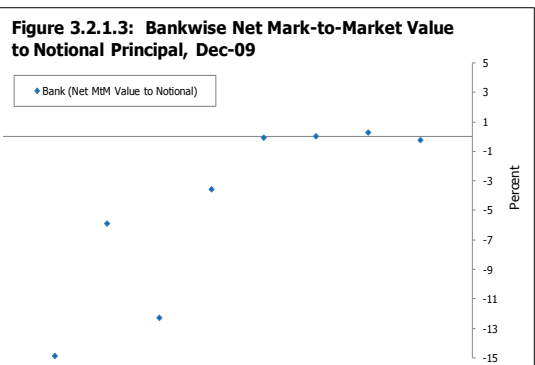
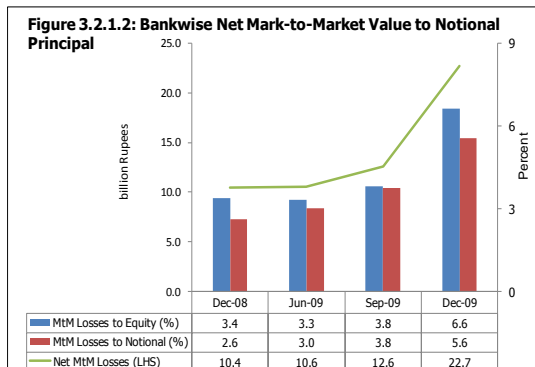


Table 3.2.1.1: Number of Derivative Contracts

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
IRS	79	73	75	64	57
FX Options	113	254	249	38	193
CCS	228	244	255	263	257
FRA	8	0	0	0	0
Total	428	571	579	365	507



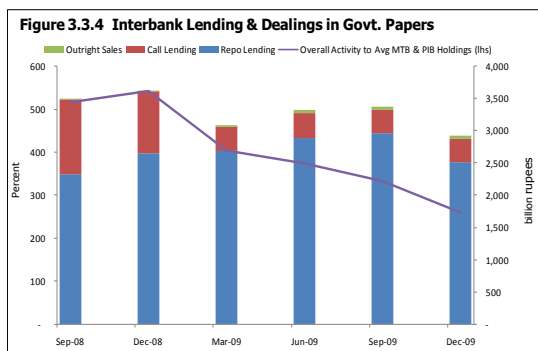
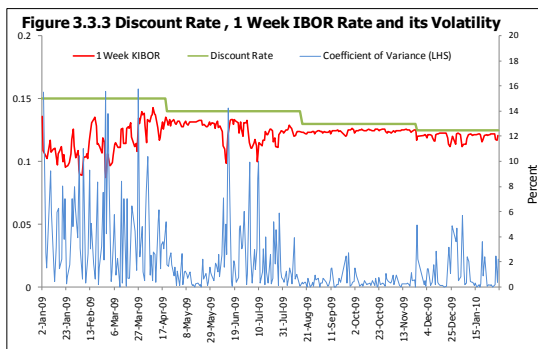
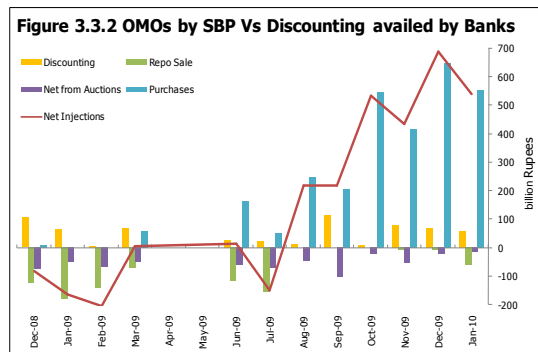
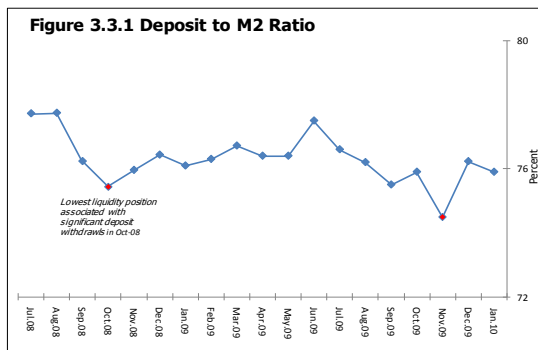
After registering significant growth for a couple of years, banks' financial derivative business has been experiencing consistent decline since the mid of CY08. However, during the quarter under review the financial derivative business of banks showed some signs of stabilization, as the outstanding notional amount of all derivatives contracts with minute decline remained stable at last quarter's level (see Figure 3.2.1.1). However, Interest Rate Swaps (IRS) and Foreign Exchange Options (FX Options) showed growth while decline in Cross Currency Swaps (CCS) neutralized the growth in the former types. Moreover, the number of FX Option contracts posted a strong increase over the quarter. The Forward Rate Agreements (FRAs), which traditionally could not get significant popularity in Pakistani market, did not observe any activity during the quarter as well (see Figure & Table 3.2.1.1).

The risk profile of banks' derivative positions deteriorated during the quarter under review as the net mark-to-market losses of the banks engaged in derivative business almost doubled (QoQ increase of 81 percent). The relative indicators accordingly witnessed significant weakening (see Figure 3.2.1.2).

Disaggregated analysis of the banks shows that six out of eight banks are carrying mark-to-market losses on their derivative portfolio. A few of the banks have significantly risky exposures as reflected by high net mark-to-market losses on derivative portfolio in terms of outstanding notional principal (see Figure 3.2.1.3) signifying that these banks could face further stresses in case of further adverse movements in underlying prices.

¹⁰ The analysis is based on the information of eight banks, including five Authorized Derivative Dealers, which are engaged in derivative business. For details in respect of background of derivative business in Pakistan, regulatory framework, and the features of permissible types of derivatives contracts; please refer to the Quarterly Performance Review of the Banking System for June 2009 quarter.

3.3. Liquidity Risk

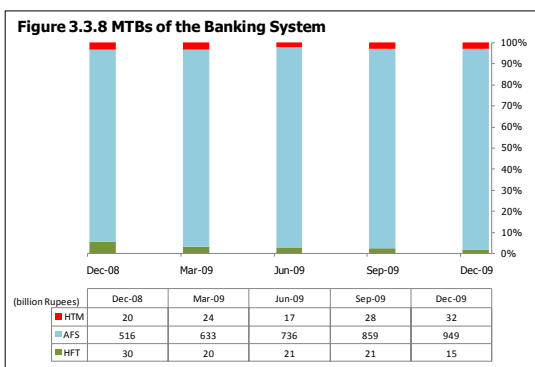
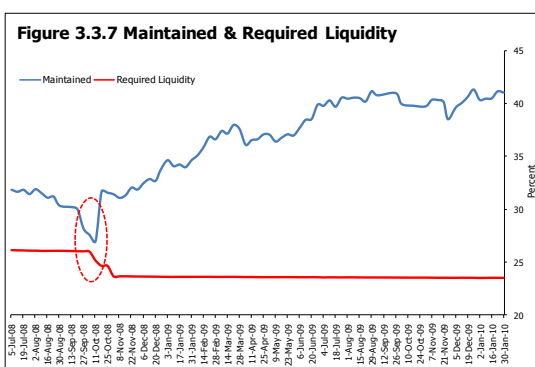
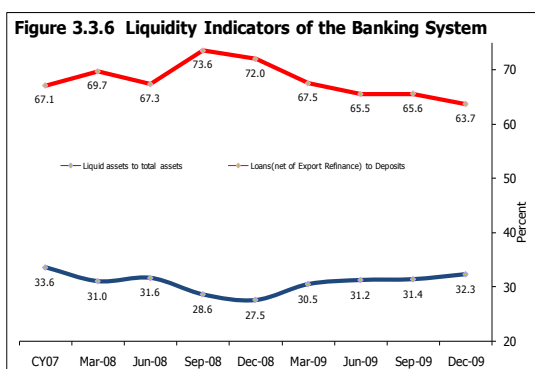
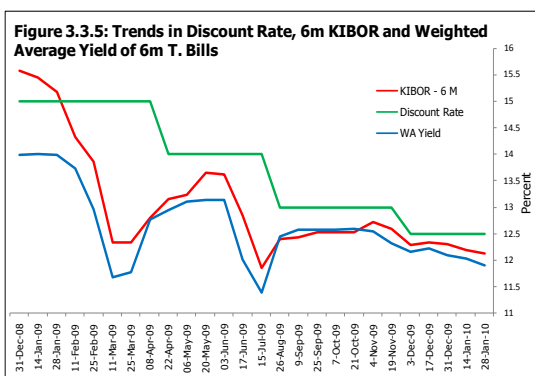


The deposit base of the banking system witnessed heartening increase during the quarter under review. Since a substantial part of this increase took place towards the end of quarter, the overall liquidity profile of the banking system remained strained due to high public sector demand for bank credit and pick up in credit to private sector. In line with the dynamics of monetary aggregates, deposits' share in broad money (M2) during the month of November, 2009 fell even below October 2008¹¹ levels, though it recovered in the following months (see Figure 3.31).

The SBP continuously injected the additional funds into the market through discounting and OMOs to keep the market liquid and stabilize the interest rates. The quantum of these injections remained significantly higher than the last quarter's level; OMO average outstanding balance of Rs 76.2 billion as compared to Rs 23.6 billion in last quarter (see Figure 3.3.2).

Keeping in view the improvements in some economic indicators, i.e. fiscal consolidation and government's contained borrowing from the SBP, improvements in external account and reduction in inflation; SBP further lowered its policy rate by 50 bps in the last week of November 2009. However the short-term interbank rates, which also came off in line with this policy move, remained close to the policy rate indicating constrained market conditions (see Figure 3.3.3) – a phenomenon that also reflects in the relatively low volumes of interbank activity (see Figure 3.3.4). The improvements in economic indicators along with healthy growth in deposits also facilitated the reduction in 6 months KIBOR and weighted average yield of Market Treasury Bills (MTBs) (see Figure 3.3.5).

¹¹ In the backdrop of global financial crisis and a number of domestic factors the banking system witnessed a significant liquidity stress and deposit withdrawal in October 2008. For details, please refer to Quarterly Performance Review of the Banking System, December 2008.

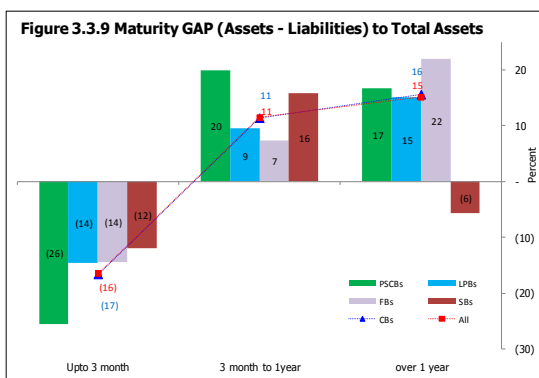


The balance sheet indicators of liquidity improved over the quarter as the Advances to Deposit Ratio (ADR) further came off and quantum of liquid assets increased by the end of quarter (see Figure 3.3.6), while surplus statutory liquidity reserve of the system remained high (see Figure 3.3.7).

Banks' fund-based liquidity mainly reflects in their holdings of short-term, risk-free MTBs in different investment categories, particularly in Held for Trading (HFT) and Available for Sale (AFS) categories. During the quarter under review, banks further increased their MTB portfolio by 10 percent; a major part of this increase was contributed by AFS category which has been the focus of banks' investment activity. This category along with HFT constitutes around 97 percent of banks' aggregate MTBs holdings (see Figure-3.3.8), highlighting banks' high liquidity preference as well as the capacity to meet the unexpected liquidity demands by selling or borrowing against these securities.

Although the fund-based liquidity position of banks remains comfortable, there are maturity mismatches which are higher than ± 10 percent of banks' asset base (see Figure 3.3.9). In the backdrop of relatively constrained interbank market conditions, these GAPs could pose significant challenges in Asset Liability Management (ALM). However, strong equity base of banks (around 10.1 percent of the system's asset base) ward off the risks of maturity mismatches to some extent, especially in case of well-capitalized banks. Nevertheless, there remains the need for the enhanced vigilance on the part of banks in managing their maturity mismatches and asset-liability profiles.

For assessing banks' capacity to meet the unusually high deposits withdrawals in extreme situation, they have been subjected to stress test. The test assesses individual banks' ability to honor the daily demand for high deposit withdrawal by liquidating 80 percent of their liquid assets and one percent of non-liquid assets.



The test results show that all banks can sustain the deposit withdrawal for three consecutive days. However, after consecutive fourth and fifth day of deposit withdrawal, 2 and 5 banks respectively would need to go for forced selling of their non-liquid assets to meet the depositors' demand (see Table 3.3.1). Comparison with Sep-09 results show some improvement in the liquidity position as lesser banks will face liquidity stress after deposit withdrawal for 5 consecutive days.

Table 3.3.1 Summary of Stress Test Results

Quarter ended:	Number of Banks Becoming Illiquid after Shock				
	1 day	2 days	3 days	4 days	5 days
Dec-09	0	0	0	2	5
Sep-09	0	0	0	3	6
Jun-09	0	0	0	2	4
Mar-09	0	0	1	3	6

Table 4.4.1: Break-up of Fraud and Forgeries
Cases detected during the quarter

Category	(amount in million Rupees, share in percent)							
	Jun-09				Sep-09			
	No. of Cases	Amount Involved	Cases	Amount	No. of Cases	Amount Involved	Cases	Amount
Serious frauds	20	1,229	2.9	81.7	22	1,166	2.9	83.6
Medium severity cases	69	208	10.0	13.8	48	166	6.3	11.9
Low severity cases	603	67	87.1	4.4	688	62	90.8	4.5
Total	692	1,504	100	100	758	1,394	100	100

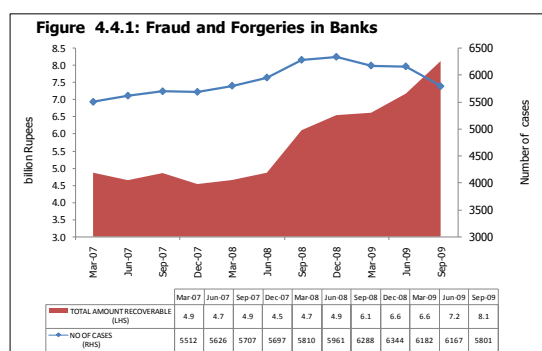


Table 4.4.2: Break-up of Fraud and Forgeries
Cases outstanding

Category	(amount in million Rupees, share in percent)							
	Jun-09				Sep-09			
	No. of Cases	Amount Outstanding	Cases	Amount	No. of Cases	Amount Outstanding	Cases	Amount
Serious frauds	156	4,563	2.5	63.5	166	5,433	2.9	66.8
Medium severity cases	424	1,212	6.9	16.9	422	1,298	7.3	16.0
Low severity cases	5,587	1,411	90.6	19.6	5,213	1,405	89.9	17.3
Total	6,167	7,185	100	100	5,801	8,137	100	100

Criteria for Fraud and Forgeries Categories

Serious Frauds
Medium severity Cases
Low Severity Cases

Table 4.4.3: Category-wise Outstanding Fraud and forgery Cases-as of Sep-09

Category	(million Rupees)					
	Serious Fraud Cases		Medium Severity Cases		Low Severity Cases	
	Cases	Amount Recoverable	Cases	Amount Recoverable	Cases	Amount Recoverable
Big Five						
SBs	2	32	12	28	1,442	967
LPBs	111	4,007	225	682	1,508	235
FBs	2	32	2	15	10	1
PSCBs	50	1,353	183	573	257	57
CBs	163	5,392	410	1,270	1,775	294
DFIs	1	9	0	0	1,996	144
Total	166	5,433	422	1,298	5,213	1,405

¹² Analysis of this section includes banks and DFIs.

¹³ See Quarterly Performance Review of the Banking System for Dec-08, Mar-09 and Jun-09.

3.4 Operational Risk¹²

Operational risk is an integral part of overall risk of the banking system. Recent developments, across different financial and regulatory jurisdictions, coupled with increased domestic competition within Pakistan's banking system have further exposed banks towards risks emanating from various banking operations. Apart from ensuring sound systems and best practices in the management of operational risk, SBP monitors the magnitude and trends of the risk originating from failures in control environment and system of banks¹³.

The banking system reported 758 fresh cases of fraud and forgeries, which are higher than those reported in Jun-09. However, 83.6 percent amount of the fresh cases belongs to Serious Fraud cases (see Table 4.4.1).

Analysis of aggregate data shows that number of fraud and forgery cases decreased, while the amount outstanding increased. Disaggregated analysis show that most of this increase came from Serious Fraud cases, with some increase contributed by Medium Severity cases. Decrease in fraud and forgery cases indicate that number of cases settled during the quarter is greater than the number of fresh cases. Increase in outstanding amount indicates settlement of large number of small value cases, while large value cases remain unsettled. Though it is a matter of concern however, this may have resulted from lengthy investigations and legal proceedings involved in settlement of high value fraud cases (see Figure 4.4.1 & Table 4.4.2).

Group-wise analysis reveals that majority of fraud and forgery cases, both in terms of number and value are concentrated in LPBs. Among the fraud categories, amount-wise LPBs hold major share in Serious Fraud cases while, Low Severity cases are concentrated in SBs and LPBs, which is fair representation of the size of banks (see Table 4.4.3).

Banks are in a business of taking risk therefore, it cannot be eliminated. Greater emphasis should be made to minimize level of risk posed by each business line within acceptable risk tolerance level. The banks' need to improve their internal controls, particularly to avoid Serious Fraud cases to minimize their operational losses and additional capital charge for operational risk.

4. Financial Soundness of the Banking System

4.1 Profitability

The profitability of the banking system improved over the last year mainly due to high net interest and non-interest income. However, high provisions and increasing administrative expenses impeded the overall profitability (see Table 4.1.1). Healthy earnings of the system along with higher base effect reflected in improved baseline profitability indicators YoY (see Table 4.1.2). The profitability, however, varies across banks; top five banks, representing 51 assets of the system, further consolidated their share in earnings and accounts for more than 100 percent of the system's earnings for full year. The earnings of other banks correspond to their respective size; among them a good number of banks posted losses (see Table 4.1.3).

LPBs remained the key earning source for banking system, followed by PSCBs and SBs. FBs, however, reported pre-tax loss for the year, owing to high administrative expense of recently established banks (see Table 4.1.1).

Analysis of the components of the profit and loss show that net-interest income continues to grow but at a slow rate due to increasing interest expenses. On the other hand, non-interest income has declined on YoY basis compared with healthy results of CY05 to CY08. Accordingly, net-interest income increased its share in gross income to 72.3 percent (70.4 percent in CY08), while that of non-interest income in gross income decreased to 27.7 percent (see Figure 4.1.1).

The share of income from investments in total interest income carried its momentum further, increasing by 170 bps. This shows an increasing appetite of banks for lending to government as it is a more feasible option for placement of their funds. Contrary to

Table 4.1.1: Profitability of Banking System

	(billion Rupees)					
	CY05	CY06	CY07	CY08	Sep-09	Dec-09
<i>Profit before tax</i>						
PSCBs	22.8	31.5	33.2	6.6	12.3	17.0
LPBs	60.5	85.6	69.5	52.5	55.5	70.2
FBs	11.6	6.3	2.4	0.01	0.1	(0.7)
CBs	94.9	123.5	105.2	59.0	67.9	86.5
SBs	(1.1)	0.1	1.7	4.2	2.2	3.9
All Banks	93.8	123.6	106.9	63.2	70.1	90.4
<i>Profit after tax</i>						
PSCBs	15.5	21.2	23.9	5.6	8.1	10.4
LPBs	41.1	59.1	47.3	34.7	34.1	43.3
FBs	8.0	4.3	1.1	0.6	(0.2)	(0.7)
CBs	64.6	84.6	72.2	41.0	41.9	53.0
SBs	(1.3)	(0.5)	0.9	2.3	0.3	1.3
All Banks	63.3	84.1	73.1	43.3	42.2	54.2

Table 4.1.2: Profitability Indicators

	(in percent)					
	CY05	CY06	CY07	CY08	Sep-09	Dec-09
<i>Before Tax ROA</i>						
PSCBs	3.3	4.0	3.5	0.6	1.5	1.5
LPBs	2.7	3.1	2.0	1.3	1.7	1.6
FBs	3.6	3.2	1.5	0.0	0.1	(0.3)
CBs	2.9	3.2	2.3	1.1	1.6	1.5
SBs	(1.0)	(1.3)	1.4	3.2	1.3	2.5
All Banks	2.8	3.1	2.2	1.2	1.6	1.5
<i>Before Tax ROE</i> (based on Equity plus Surplus on Revaluation)						
PSCBs	30.7	32.4	27.2	5.2	12.8	13.2
LPBs	40.1	36.2	20.4	12.9	16.4	15.2
FBs	38.9	30.0	13.1	0.0	0.4	(2.1)
CBs	37.2	34.7	21.8	10.6	14.7	13.9
SBs	0.0	0.0	0.0	0.0	-	-
All Banks	38.2	35.2	22.6	11.4	15.1	14.5

Data for CY07 has been restated due to introduction of Basel II.

Table 4.1.3: Concentration of Earnings and Profitability

	(in percent)			
	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
ROA (After Tax)	1.9	1.6	1.2	0.9
ROE (After Tax)	18.3	16.0	11.6	8.6
Net Interest Income/ Gross Income	76.2	75.0	72.5	72.3
Income from Trading & Foreign Exchange / Gross Income	14.9	16.5	16.8	17.2
Non-Interest Expense / Gross Income	39.1	43.0	47.5	51.6
Provision Expense to Gross Income	18.7	20.2	22.2	23.4

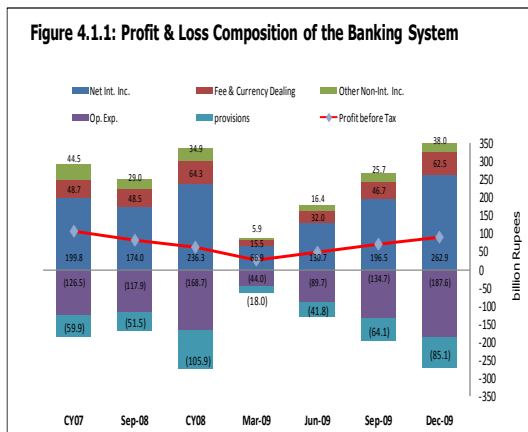


Table 4.1.4: Mark-up / Return / Interest Earned

Items	Dec-03		Dec-07		Dec-08		Sep-09		Dec-09	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Loans & advances	67.2	58.9	273.8	71.3	359.0	74.2	311.2	71.4	412.1	69.7
Investments	40.9	35.9	80.6	21.0	92.7	19.1	102.0	23.4	148.4	25.1
Deposits, repo and others	5.9	5.2	29.8	7.7	32.4	6.7	22.9	5.2	30.6	5.2
Total	114.1	100	384.1	100	484.1	100	436.1	100	591.1	100

Figure 4.1.2: Impact of Provisions on Net Interest Income

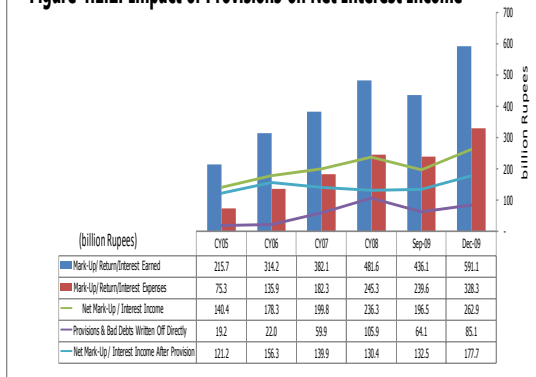


Figure 4.1.3: Operating Exp. to Gross Income

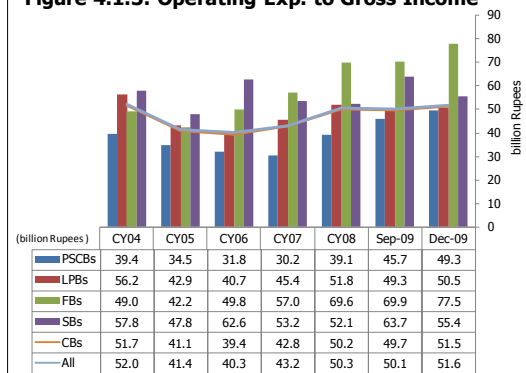
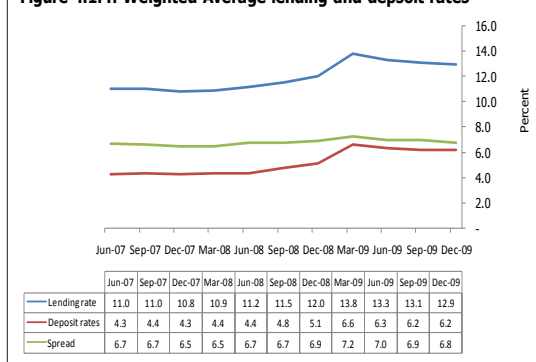


Figure 4.1.4: Weighted Average lending and deposit rates



investments, loans and advances share decreased further to 69.7 whereas share of interest expensed for Deposits and others saw a marginal decline (see Table 4.1.4).

The rising NPLs have significantly increased the loan loss provisioning over the last couple of years and continue to dent the overall earning of the banking system. However, provisions for end Dec-09 are lower than CY08. As a result net interest income adjusted for loan loss provisioning observed increase of 36.3 percent over CY08 (see Figure 4.1.2).

Operating expenses to gross income further increased mainly due to increasing administrative expenses, which observed YoY increase of 13.9 percent YoY. As a result cost to income ratio increased by 130 bps. The administrative expenses have remained high due to increase in operating overheads. Group-wise analysis reveals increase in ratio for all categories of banks on QoQ basis though increase is more pronounced for foreign banks. However, the ratio decreased for LPBs YoY basis (see Figure 4.1.3).

A healthy increase in private sector lending, mainly in corporate segment, which usually borrow at lower rate and 50 bps decrease in the policy rate lead to 20 bps decline in weighted average lending rate¹⁴ (WALR). However, weighted average deposit rate (WADR) saw a minor drop of 3 bps. Consequently, the spreads contracted by further 17 bps. YoY comparison shows a 10 bps drop in spread over the year (see Figure 4.1.4).

Breakdown of banking ROA (before tax) by assets and number of institutions reinforces trend of improvement in ROA for banks with large assets base as opposed to small sized banks. Banks with ROA above one percent declined to 11 from 13 over the quarter; their market share also dropped to 62.7 percent

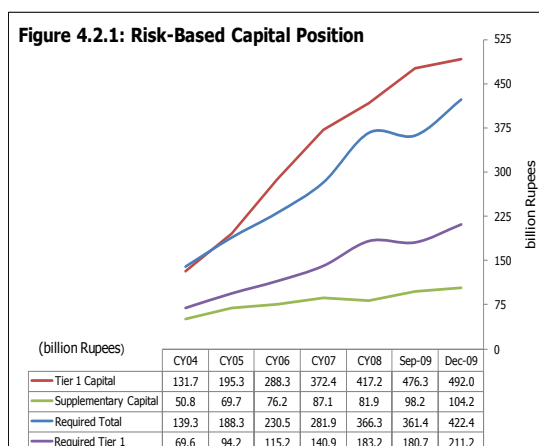
¹⁴ The weighted average rates are based on the data on mark-up/interest income and expense on advances and customer deposits respectively reported in the QRC for March, 2008. In the previous reports, data on interest rate published in monthly statistical bulletin had been used.

Table 4.1.5: Percentage Breakdown of Banking System's Total Assets (TA) by ROA										
ROA	CY06		CY07		CY08		Sep-09		Dec-09	
	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA
0 and below	6	2.1	10	8.5	16	14.5	20	13.3	20	12.8
0 to 0.5	3	1.8	2	2.4	3	10.2	3	6.6	4	10.8
0.5 to 1	6	9.9	4	1.9	5	8.2	4	11.2	5	13.6
1.0 to 1.5	5	9.6	10	34.9	4	5.7	4	8.8	1	0.5
1.5 and Over	19	76.6	13	52.3	12	61.5	9	60.0	10	62.2

(see Table 4.1.5). These developments indicate that earning performance of the banking system is concentrated towards large sized banks with middle tier and small sized banks under stress.

Table 4.2.1: Capital Adequacy Indicators

Percent	Basel-I			Basel-II			
	CY04	CY05	CY06	CY07	CY08	Sep-09	Dec-09
CAR							
PSCBs	13.4	14.5	15.2	16.1	13.2	15.6	14.8
LPBs	10.1	10.6	12.7	11.8	12.1	14.2	14.1
FBs	17.4	16.4	15.0	14.6	21.8	23.8	23.6
CBs	11.4	11.9	13.3	12.8	12.7	14.9	14.6
SBs	(9.0)	(7.7)	(8.3)	(6.2)	(4.9)	(5.0)	(2.1)
All banks	10.5	11.3	12.7	12.3	12.3	14.3	14.1
Tier 1 Capital to RWA							
PSCBs	8.6	8.8	11.1	12.2	11.0	12.8	12.4
LPBs	7.5	8.3	10.4	9.9	10.2	11.8	11.5
FBs	17.1	16.1	14.3	14.0	21.3	23.3	23.1
CBs	8.6	9.1	10.8	10.5	10.8	12.4	12.1
SBs	(15.0)	(13.6)	(13.3)	(12.5)	(10.1)	(8.2)	(6.3)
All banks	7.6	8.3	10.0	10.0	10.2	11.9	11.6
Capital to Total Assets							
PSCBs	8.7	12.6	12.2	13.7	10.7	11.9	11.1
LPBs	6.5	7.0	9.2	10.2	10.0	10.3	10.0
FBs	8.9	9.5	10.1	11.2	14.5	14.8	14.9
CBs	7.2	8.4	9.9	10.9	10.3	10.8	10.4
SBs	(9.4)	(8.1)	(8.0)	(5.4)	(3.2)	(3.4)	(1.8)
All banks	6.7	7.9	9.4	10.5	10.0	10.5	10.1

Figure 4.2.1: Risk-Based Capital Position

4.2 Solvency¹⁵

Strong growth in assets of the banking system coupled with increase in private sector lending and investments in PSEs' bonds during the quarter under review led to a slight contraction in baseline indicators of solvency. However, the ratio remains high and in the satisfactory range. Moreover, risk to solvency from heightened credit risk lowered on the back of deceleration in loan's infection rate and adequate provisioning by banks for loan losses.

During the quarter under review, CAR¹⁶ dropped by 0.2 percentage points, as banks made significant lending to private sector and invested heavily in bonds of PSEs, leading to relatively greater increase in risk-weighted assets (RWA). Similarly, higher growth in asset base vis-à-vis capital base contracted the capital to total assets ratio by 0.4 percentage points to 10.1 percent (see Table 4.2.1).

Detailed analysis shows that total risk-based regulatory capital increased by 3.8 percent, and stayed well above the required level. Tier 1 capital, being the mainstay of banks' capital, rose by 3.3 percent mainly on account of the accumulation of year to date profits. Supplementary capital also continued to grow, as there was increase in revaluation surpluses, foreign exchange translation reserves and subordinated debt, while the overall cap on Tier 2 capital of individual banks also enhanced with the increase in Tier 1 capital. The total capital held was higher than the required level by 42 percent vis-à-vis a surplus of 59 percent in last quarter – the contraction reflects both the 1 percentage point raise in required threshold to 10 percent as well as the relatively higher growth in RWA (see Figure 4.2.1).

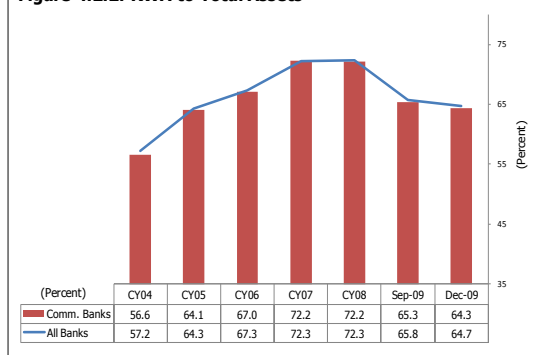
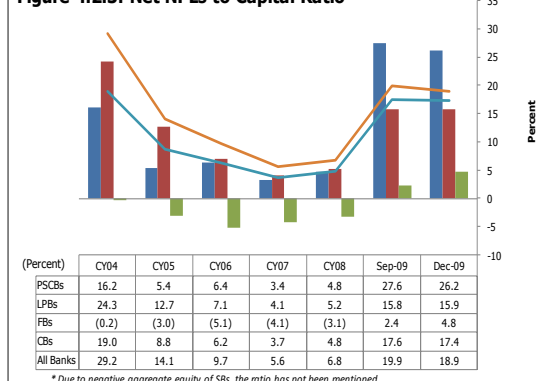
Increase in lending to private sector, investments in PSEs' bonds and operational

¹⁵ The above discussion is based on the CAR calculations on Basel-II framework. Except for three SBs which are reporting on Basel-I reporting formats, all other banks have reported on Basel II. These three banks hold 0.4 percent of the banking systems assets.

¹⁶ The above discussion is based on the CAR calculations on Basel-II framework. Except for three SBs which are reporting on Basel-I reporting formats, all other banks have reported on Basel II. These three banks hold 0.4 percent of the banking systems assets.

Table 4.2.2: Risk Weighted Assets

(amount in billion Rupees, Share in percent)						
	CY08		Sep-09		Dec-09	
	Amount	Share	Amount	Share	Amount	Share
CRWA	3,459	85.0	3,286	81.8	3,443	81.5
MRWA	117	2.9	195	4.8	192	4.6
ORWA	494	12.1	535	13.3	588	13.9
Total RWA	4,070	100.0	4,016	100.0	4,224	100.0

Figure 4.2.2: RWA to Total Assets**Figure 4.2.3: Net NPLs to Capital Ratio****Table 4.2.3: Distribution of Banks by CAR**

	Total	Below 9%	9 to 10%	10 to 15 %	Over 15 %
CY04	38	1	13	9	15
CY05	39	2	7	13	17
CY06	39	3	4	15	17
CY07	39	3	6	12	18
CY08	40	4	5	10	21
Jun-09	40	6	1	12	21
Sep-09	40	6	0	13	21
Dec-09	40	6	0	13	21

* From December 31, 2009, banks are required to maintain minimum CAR of 10 percent

risk charge resulted in an over the quarter increase of 5.2 percent in total RWAs, though there was slight reduction in Market risk weighted asset (MRWA) (see Table 4.2.2).

However, since the larger share of the increase in banks' fund base was invested in risk-free, short-term government papers, the overall risk profile of the banking system further lowered as reflected in decline in RWA to total asset ratio (see Figure 4.2.2).

Heightened credit risk, reflecting in weakening of asset quality indicators, have increased the risk to solvency over the last few quarters. However, the quarter under review witnessed some respite in the risk; the infection rate in banks' lending portfolio decelerated and banks made more than proportionate provisioning to cover the expected loan losses. Accordingly the capital impairment ratio declined by 1.0 percentage points over the quarter under review (see Figure 4.2.3).

The disaggregated analysis reveals that there is no change in the solvency position of individual banks in terms of ability to meet the minimum regulatory requirements, as the number of banks meeting minimum regulatory CAR i.e. 10.0 percent remained the same (see Table 4.2.3).

Analysis of banks' paid-up capital positions shows that 23 banks including 6 foreign banks are fully compliant with the minimum paid-up capital requirement (MCR)¹⁷. Rest of the banks are in the process of meeting the MCR either through fresh capital injection or through mergers and acquisitions (see Figure 4.2.4).

The concentration analysis for solvency indicators in terms of banks' market share reflects that top five and top ten banks, in line with market share, are contributing notably to the sustained solvency position of the system. During the quarter under review, the largest 5 banks posted greater increase in their asset base as well as the RWA, accordingly they

¹⁷ For details on Minimum Capital Requirements, please refer to BSD Circular No. 07 of 2009

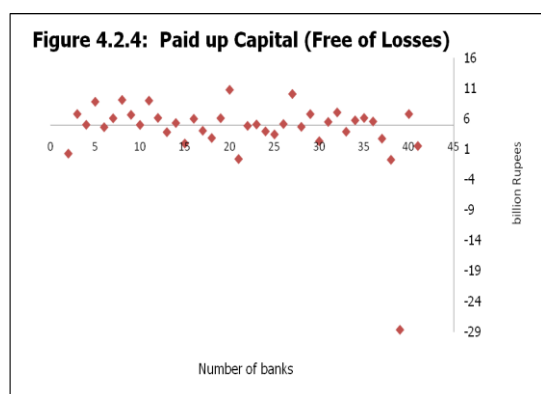


Table 4.2.4 Concentration Analysis of Solvency Indicators
(in percent)

	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Capital to Risk Weighted Assets				
CY04	10.3	11.6	11.3	10.5
CY05	11.4	11.3	11.9	11.3
CY06	14.0	13.1	13.1	12.7
CY07	14.7	13.3	13	13.2
CY08	12.7	11.8	11.9	12.2
Sep-09	15.6	14.5	14.3	14.3
Dec-09	15.2	14.5	14.1	14.1
Tier 1 Capital to RWA				
CY04	6.6	8.1	8.2	7.6
CY05	7.8	7.9	8.7	8.3
CY06	10.8	10.3	10.3	10.0
CY07	11.1	10.2	11.2	11.4
CY08	10.3	9.5	9.8	10.2
Sep-09	12.5	11.7	11.7	11.9
Dec-09	12.3	11.5	11.5	11.6
Net Worth to Total Assets				
CY04	6.6	7.1	6.9	6.5
CY05	8.4	8.3	8.2	7.9
CY06	9.7	9.8	9.5	9.4
CY07	10.7	10.9	10.4	10.5
CY08	10.3	10.3	10.1	10.4
Sep-09	11.1	10.3	10.4	10.5
Dec-09	10.8	10.0	10.0	10.1

experienced relatively higher contraction in their CARs (see Table 4.2.4).

The overall solvency and resilience of the banking system remain strong. The quarter under review also witnessed a let up in the buildup of credit risk and its hazards to the solvency position of the system, though the overall credit risk remains high. Nevertheless, the results of single-factor sensitivity stress test show that system has sufficient capacity to withstand unusual movements in different credit risk factors and prevent such scenarios from translating into systemic risk (see Annex-V).

Going forward, the SBP's policy initiative to enhance the capital requirements in phased manner¹⁸ will further strengthen the solvency position of the system through additional capital injections and merger of weaker institutions.

¹⁸ Banks are required to meet the MCR of Rs10 billion by end of 2013. For details, please refer to BSD Circular No. 07 of 2009.

5. Performance of Islamic Banking

Table 5.1: Islamic Banking Growth over quarters

	(in percent)				
	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
Financing	1.8	(5.9)	3.0	(4.7)	14.7
Investment	4.7	16.1	9.3	20.8	11.7
Asset	10.1	0.7	12.4	3.3	13.3
Equity	10.1	1.8	6.8	3.1	4.5
Share of Islamic Banking in Assets of Banking Industry	4.9	4.8	5.1	5.3	5.6
Deposits	17.7	2.3	15.5	2.8	15.5
(in numbers)					
Islamic Banks (IBs)	6	6	6	6	6
Banks having Islamic Banking Divisions	12	12	12	13	13
Total Islamic Banking Network	514	521	528	550	650
of which Islamic Banking Divisions' Branches	130	135	137	144	172

Table 5.2: Islamic Banking at a Glance

	(billion Rupees)									
	Dec-08	%	Jun-09	%	Sep-09	%	Dec-09	%		
Financing	144.7	51.6	140.0	44.8	133.7	41.4	153.5	41.9		
Investments	42.2	15.1	53.5	17.1	64.7	20.0	72.2	19.7		
Cash, bank balance, placements	64.5	24.6	89.6	28.7	92.5	28.6	104.7	28.6		
Other assets	25.0	8.7	29.5	9.4	32.3	10.0	35.9	9.8		
Total Assets	276.3	100.0	312.6	100.0	323.2	100.0	366.3	100.0		
Deposits	201.7	83.4	238.2	86.9	244.8	86.4	282.6	87.1		
Due to FIs	17.4	8.5	12.6	4.6	14.1	5.0	19.1	5.9		
Other liabilities	21.4	8.1	23.3	8.5	24.3	8.6	22.7	7.0		
Total Liabilities	240.5	100.0	274.1	100.0	283.2	100.0	324.4	100.0		
Capital & other funds	35.8	13.0	38.9	12.4	40.1	12.4	41.9	11.4		

Figure 5.1: Composition of Deposits

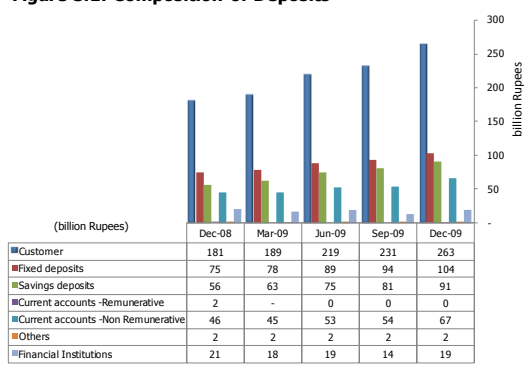
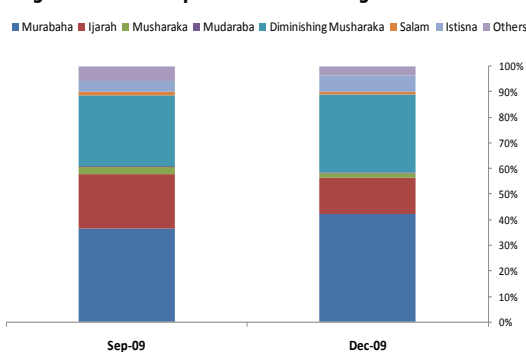


Figure 5.2: Break up - Mode of Financing



Islamic Banking operations remain profitable and steady in Dec-09 quarter. Growth in assets of Islamic Banking (13.3 percent) continues to surpass the growth of assets in conventional banking (7.0 percent), thereby expanding the share of IBIs in the industry as a whole (see Table 5.1 and Annex-VI). The Islamic banking network increased by 18.2 percent (YoY growth 26.4 percent).

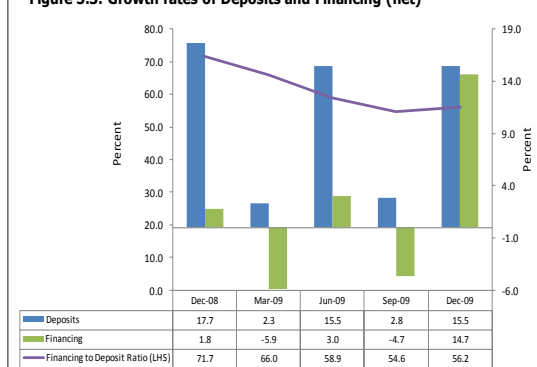
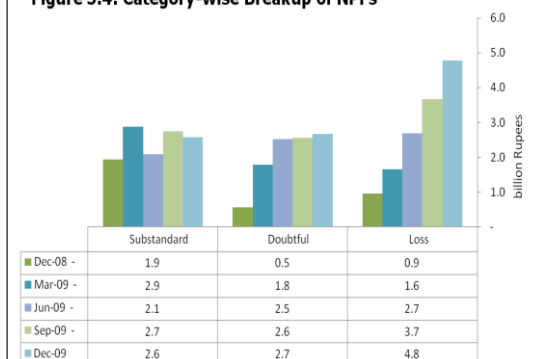
The balance sheet composition of Islamic Banks remains stable during the quarter. However, in line with the historical quarterly trend, most components saw improvement during Dec-09. On the asset side, significant increase took place in Financing and Investments. (see Table 5.2). Interestingly, financing declined during the last three quarters, however, 14.7 percent growth during Dec-09 not only off-set the decline, but also increased financing by 6.1 percent YoY. Investments, on the other hand, increased by 11.6 percent, coming mainly from PIA Sukuk of Rs6.8 billion and WAPDA Sukuk of Rs8 billion. The investments saw YoY increase of 71 percent mainly due to various Sukuk issues during the year, which is a healthy development for the IBIs. Deposits continue to be the main stay in the funding structure of IBIs. The fund base of Islamic banking saw a healthy growth due to across the board increase in all categories of deposit (see Figure 5.1).

Financing observed substantial change in the composition due to significant increase in Murabaha and Istisna modes during Dec-09. Among the core modes of financing, Mudarbah increased its share marginally while Musharaka declined in absolute and percentage terms. Increase in Financing YoY is also contributed by Murabaha and Istisna (see Figure 5.2). Group-wise analysis reveals that increase in Financing was more prominent in IBs.

The segment analysis show increase in concentration of corporate financing portfolio,

Table 5.3: Segmentwise Breakup of Financing

	(amount in billion Rupees, share in percent)			
	IBIs	Share in Total Loan	All Banks	Share in Total Loan
Corporate Sector	103.5	65.2%	2,183.9	61.4%
SMEs	12.3	7.7%	358.9	10.1%
Agriculture	0.1	0.0%	160.1	4.5%
Consumer Finance:	31.7	20.0%	295.3	8.3%
Credit Cards	0.0	0.0%	31.9	0.9%
Auto Loans	13.3	8.4%	67.5	1.9%
Consumer Durable	0.0	0.0%	1.1	0.0%
Mortgage Loan	18.1	11.4%	76.9	2.2%
Other personal Loans	0.2	0.1%	117.8	3.3%
Commodity Financing	7.6	4.8%	419.0	11.8%
Staff Loans	3.0	1.9%	74.2	2.1%
Others	0.6	0.4%	63.7	1.8%
Total	158.6	100%	3,555.1	100%

Figure 5.3: Growth rates of Deposits and Financing (net)**Figure 5.4: Category-wise Breakup of NPFs****Table 5.4: Asset Quality Indicators**

Indicator	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
(billion Rupees)					
Non-performing Financings	3.4	6.3	7.3	8.9	10
Provisions held	2.3	3.2	4.0	4.9	5.1
Net NPFs	1.1	3.1	3.3	4.0	4.8
(in percent)					
NPFs to total financing	2.3	4.5	5.0	6.5	6.3
Net NPFs to net financing	0.8	2.3	2.4	3.0	3.1
Provision to NPFs	67.6	50.6	54.4	55.0	51.7
Net NPFs to Capital (ratio)	3.1	8.5	8.5	10.0	11.5

largely coming from growth in Murabaha financing. Interestingly, the consumer finance of IBIs saw a rise despite the decrease in overall consumer financing of the banking industry. Increase in Diminishing Musharaka facilitated that increase while decline in Ijarah somewhat dampened the growth in consumer financing. SME financing observed some increase, however, in absolute terms, still represents one of the neglected areas of Islamic Banking (see Table 5.3). IBIs may develop products for channelization of their funds to their unexplored opportunities and bring in more diversification to their portfolio.

The Financing to Deposit ratio which had been decreasing over the last four quarters marginally improved during the quarter under review (see Figure 5.3). Given the healthy increase in Deposits over the year, the FDR of 56.2 percent is still on the lower side. However, it has improved the liquidity profile of IBIs.

Increasing NPFs remains the key challenge facing IBIs; though the rate of increase in infected portfolio subsided during Dec-09. That coupled with healthy growth in financing led to 20 bps decrease in NPFs to Financing ratio to 6.3 percent. Category-wise analysis show continuous increase in NPFs in Loss category which now constitutes almost half of the NPFs (see Figure 5.4). However, increase in NPFs has resulted in marginal change in provision largely due to enhancement of FSV benefit on classified loans. Resultantly, net NPFs to financing ratio increased and provision coverage ratio declined. Increasing net NPFs also deteriorated the capital impairment ratio by 1.5 percentage points (see Table 5.4).

Sector wise analysis shows that Textile, Others and Individuals have the major share in financing. However, infection ratio is quite high for Automobile & Transportation Equipment and Textile (see Table 5.5).

The year to date profits of IBIs was at December 2008 level (see Table 5.6). However, Islamic banks saw a marginal decline

Table 5.5: Comparative Position on Concentration of Funds Dec-09								
Items	Islamic Banks				All Banks			
			NPLs				NPLs	
	Financing	Share	NPF	to Loan	Advances	Share	NPLs	to Loan
Chemical and Pharmaceuticals	14	8.5	0.01	0.1	137	3.59	9	6.7
Agribusiness	1	0.8	0.05	3.5	170	5.59	15	8.9
Textile	34	21.5	2.78	8.2	657	17.18	129	19.6
Cement	3	2.0	0.07	2.1	95	2.64	12	12.2
Sugar	5	2.8	0.32	7.2	62	1.68	12	19.6
Shoes and leather garments	2	1.5	0.01	0.5	22	0.62	3	13.3
Automobile and transportation equipment	5	3.1	0.84	17.2	64	2.16	11	16.6
Financial	3	1.6	0.00	0.1	59	1.41	7	12.6
Insurance	0	0.0	-	-	1	0.02	0	0.1
Production and transmission of energy	7	4.4	0.02	0.2	300	9.41	0	-
Individuals	30	18.8	1.51	5.1	464	12.31	53	11.5
Others	54	34.1	4.40	8.1	1,433	41.07	152	10.6
Total	158.6	100.0	10.00	6.3	3,555.1	100.00	432.1	12.2

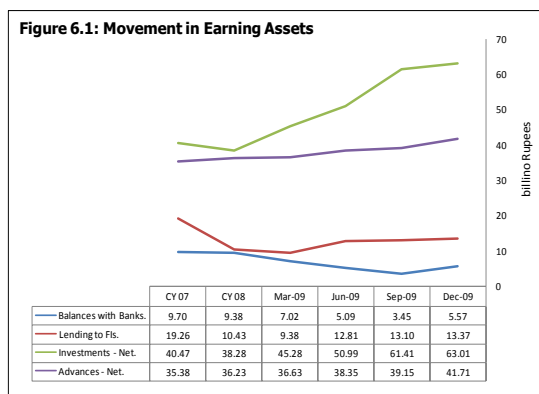
Table 5.6: Income Statement

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
	(billion Rupees)				
Markup Income	22.0	7.8	15.4	23.1	31.6
Markup Expense	11.3	4.1	8.3	12.6	17.2
Net Markup Income	10.6	3.7	7.2	10.4	14.3
Provision Expense	1.0	0.9	1.7	2.6	3.1
Non Markup Income	2.1	0.5	1.6	2.8	3.7
Operating Expense	9.7	2.8	5.7	8.9	12.7
Profit Before Tax	2.0	0.5	1.4	1.7	2.3
Tax	0.2	0.0	0.3	0.2	0.5
Profit After Tax	1.8	0.5	1.1	1.5	1.8
Equity	35.8	36.4	38.9	40.1	41.9
	(in percent)				
Net Markup Income to total assets	4.5	1.3	2.2	3.2	3.9
Non Markup Income to total assets	0.9	0.2	0.5	0.9	1.0
Operating Expense to Gross Income	76.0	66.0	65.1	67.2	70.3
ROA (after tax)	0.8	0.8	0.8	0.7	0.6

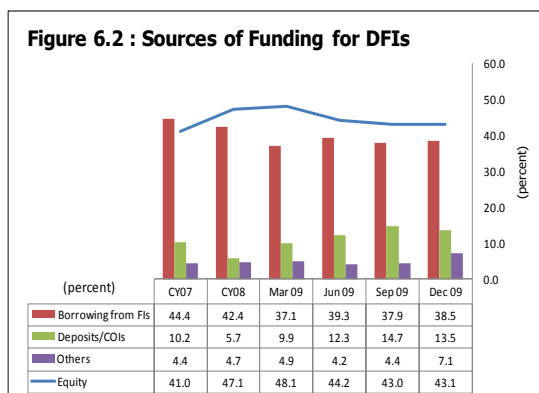
in ROA primarily due to shift in the mix of earning assets towards low return assets. Further, IBB's profitability keeps netting off the profitability of Islamic Banks.

Table 6.1: DFIs at a Glance

	(billion Rupees)					
	CY08	%	Sep-09	%	Dec-09	%
Balances with Treasury Banks	0.7	0.7	3.0	2.3	1.8	1.3
Lending to Fis and Balances with other Banks	19.1	18.5	16.6	12.8	18.9	14.1
Investments	38.6	37.3	61.4	47.6	63.0	47.0
Advances	36.6	35.5	39.1	30.3	41.7	31.1
Other Assets	8.2	8.0	9.1	7.0	8.6	6.4
Total Assets	103.3	100.0	129.1	100.0	134.0	100.0
Borrowing from Fis	43.8	42.4	49.0	37.9	51.5	38.5
Deposits	5.9	5.7	19.0	14.7	18.1	13.5
Other Liabilities	4.9	4.7	5.7	4.4	6.7	5.0
Total Liabilities	54.6	52.9	73.6	57.0	76.3	56.9
Shareholders Equity						
(including revaluation surplus/(Deficit))	48.7	47.1	55.5	43.0	57.7	43.1

Figure 6.1: Movement in Earning Assets**Table 6.2: Investment Portfolio of DFIs**

	(billion Rupees)					
	CY07	CY08	Mar-09	Jun-09	Sep-09	Dec-09
TFCs/PTCs	7	9	10	11	12	14
Quoted Shares	13	15	12	13	14	13
Fed Govt Securities	6	15	20	23	29	30
Others	16	9	7	7	9	7

Figure 6.2 : Sources of Funding for DFIs

6. Development Finance Institutions

The quarter under review showed some healthy trends for DFIs sector, namely improvement in earning position, growth in lending portfolio and decreases in loan infection ratio.

The asset base of DFIs continued to grow and reached Rs134 billion by the end of Dec-09. As DFIs maintain an overall risk averse policy, investments, particularly in the public sector securities, continue to form major part of DFIs' asset base, followed by advances, lending to FIs and Balances with other banks. However, during the quarter under review, the lending portfolio also witnessed a improved growth, and the relative share of the key asset components shifted accordingly (see Table 6.1 & Figure 6.2). Although the capital market remained more or less stable during the quarter, DFIs marginally shed their equity investments; reflecting their risk aversion and increased preference for TFCs, Bonds and Sukuks of the public sector (See Table 6.2).

The breakup of DFIs' investments by category shows that they are shifting their portfolio towards AFS category, shedding the HTM and HFT portfolios, thus maintaining a liquid profile while keeping flexible positions for any change in the ALM policy.

On the funding side, the equity remains the mainstay of the DFIs, supporting around 43 percent of their asset base. During the quarter under review, due to compatible growth in equity base and borrowings, their relative share remained more or less stable at the last quarter's level (see Figure 6.2). Deposits that constitute relatively smaller share of fund base witnessed a decline during the quarter. However, due to a strong equity base, the DFIs largely remained immune from risk of asset liability mismatches, although few of DFIs are prone to short term liquidity stresses.

Table 6.3: Segment wise Loans of DFIs

	(amount in million Rupees, share in percent)					
	Dec-08		Sep-09		Dec-09	
	Loans	Share in Loans	Loans	Share in Loans	Loans	Share in Loans
Corporate Sector	25,647	57.5	29,646	61.1	33,488	65.2
SMEs Sector	486	1.1	455	0.9	388	0.8
Agriculture Sector	-	-	-	-	-	-
Consumer sector	17,448	39.1	16,609	34.2	16,098	31.3
i. Credit cards	-	-	-	-	-	0.0
ii. Auto loans	12	0.0	8	0.0	6.86	0.0
iii. Consumer durable	2	0.0	1	0.0	0.99	0.0
iv. Mortgage loans	17,267	38.7	16,479	34.0	15,981	31.1
v. Other personal loans	167	0.4	121	0.2	109	0.2
Commodity financing	-	-	-	-	-	-
Staff Loans	749	1.7	829	1.7	869	1.7
Others	263	0.6	966	2.0	544	1.1
Total	44,593	100.0	48,505	100.0	51,387	100.0

Advances have paced up both on QoQ and YoY basis, and the growth rate of advances in DFIs has been more pronounced in comparison with banks. However, the share of DFIs' lending in overall lending is minute. The relative share of public and private sector lending in loans of DFIs' remained almost same over the quarter i.e. 02:98; however, the share of government borrowing declined quite significantly YoY. The segment analysis shows that DFIs continues to concentrate heavily in Corporate sector. Though consumer finance, particularly mortgage finance, constitutes a significant share of overall lending portfolio of DFIs, however this has been predominately contributed by one housing finance institution (see Table 6.3). Sector-wise analysis shows that there has been increased lending activity in traditional sectors like Textile, Cement, Sugar and Energy. However, after last several quarters there has been a significant increase in loan to agri-business activity; though, all of this increase has been posted by one DFI (see Figure 6.4).

Table 6.4: Sector-wise Loans

	(amount in billion Rupees, share in percent)			
	Sep-09	Share	Dec-09	Share
Chemical	3.22	6.6	3.18	6.2
Agriculture	0.09	0.2	0.58	1.1
Textile	4.91	10.1	5.62	10.9
Cement	1.67	3.4	1.85	3.6
Sugar	1.39	2.9	1.61	3.1
Leather	0.12	0.2	0.04	0.1
Auto	1.46	3.0	1.39	2.7
Financial	0.74	1.5	0.84	1.6
Insurance	0.00	0.0	0.00	0.0
Electronics	0.87	1.8	0.89	1.7
Energy	8.03	16.6	9.20	17.9
Individuals	17.22	35.5	16.75	32.5
Others	8.79	18.1	9.53	18.5
Total	48.50	100.0	51.49	100.0

On earning side, the performance of DFIs showed positive trends as some DFIs increased their net profits while a couple of others contracted their year to date losses. The overall profitability of the system also significantly improved over the quarter. The ROA improved YoY, after remaining below the CY08 years level during the first three quarters of current year. The improvements in earnings were largely contributed by the more than proportionate growth in both net-interest income and non-interest income; the latter was particularly reinforced by trading gains, fee and commission incomes and dividends. These improvements in income that were augmented by contained accumulation of operating expenses not only absorbed the significantly higher loan loss charges but elevated the baseline indicators of profitability (see Table 6.5).

Due to small portfolio of loans and advances, the DFI sector on aggregate basis is keeping a contained credit risk profile. During the quarter

Table 6.5: Key Performance Indicators

	(in percent)				
	CY07	CY08	Jun-09	Sep-09	Dec-09
Total Capital to Total RWA	43.7	53.4	51.1	49.8	51.2
Tier 1 Capital to Total RWA	44.0	53.3	51.0	49.4	51.1
Capital to Total Assets	41.0	47.1	44.2	43.0	43.1
NPLs to Total Loans	20.8	27.0	27.0	27.4	26.9
Net NPLs to Net Loans	4.6	11.2	9.9	10.0	9.8
Provision to NPLs	81.6	65.9	70.3	70.4	70.6
Net NPLs to Capital	3.2	8.4	7.3	7.1	7.0
ROA before Tax	0.8	1.5	-0.4	1.3	1.8
ROA after Tax	-0.1	0.7	-1.1	0.7	1.2
ROE before Tax	2.2	3.4	-0.8	2.9	3.9
ROE after Tax	-0.3	1.6	-2.3	1.5	2.7
Loans to Deposits	281.4	622.9	267.4	206.2	230.8
Net Interest Income to Gross Income	44.7	34.8	88.0	80.2	72.6
Non Interest Income to Gross Income	55.3	65.2	12.0	19.8	27.4
Operating Expense to Gross Income	39.1	22.7	39.0	41.2	34.2

under review, NPLs grew by 4 percent (18 percent YoY); however, infection ratio declined due to healthy growth in advances. Moreover, corresponding increase in provisions kept the NPL to Loan Ratio (net) in check. The NPL coverage ratio remained stable at last quarter's level, and witnessed improvement over CY08 (see Table 6.5).

In terms of solvency, DFIs enjoy a strong capital base. Due to growth in Loans and investments in Bonds of PSEs, CRWAs of the DFIs increased over the quarter. However this increase was more than covered by the decline in MRWAs which came off in line with decline in DFIs' holding of equity investments. Accordingly, the CAR of the sector improved to 51.2 percent at the back of increase in equity base. Incidentally, such a high CAR coupled with low leverage of the sector highlights the need for the broadening of business activities.

The lending of the sector are largely concentrated in a few segments, while heavy reliance on high cost borrowings from financial institutions keep the earnings and asset allocation strategies under strain. There is a need on the part of DFIs to broaden the sources of funds, particularly by focusing on deposit mobilization. Moreover, they should endeavour to expand their lending operations into the underserved but promising sectors of the economy. This move will help them in achieving their full potential as well as their foremost objective i.e. contribution towards the sustainable economic growth by financing medium and long-term projects in industrial and agricultural sectors.

7. Regulatory Developments

Following section highlights the regulatory developments that have taken place during the quarter and post quarter till February, 2010.

CONSUMER FACILITATION

Relief Package for Small Farmers of Malakand Division and FATA – Write off/Remission of Agri. Loans

The Prime Minister of Pakistan announced a relief package for remission / write-off of small farmers' agriculture loans outstanding balances as on 30-6-2009 of different districts of Malakand Division, Kurram Agency and Khyber Agency. The banks are required to submit their reimbursement claims to Agricultural Credit Department, SBP on the prescribed format duly audited and authenticated by their Internal Audit Department up to 15th December, 2009.

(ACD Circular No.2 of December 02, 2009)

Master Circular -Unclaimed Deposits

It has been clarified to banks that traveler cheques, like any other 'financial instrument' also fall under the provisions of Section 31 of the Banking Companies Ordinance, 1962. Therefore, the funds on account of traveler cheques (unclaimed) for a period exceeding ten years are required to be surrendered to SBP, after completing the prescribed formalities as per provision of law.

(BPRD Circular Letter No 3 of December 3, 2009)

A. Exemption of School Management Committee accounts (SMC) from Levy of Service Charges

Banks have been advised to reactivate SMC accounts (if any) immediately, for the purpose of transferring public funds for smooth

functioning of primary schools. They have also been advised that accounts opened and maintained by School Management Committees (SMCs) duly constituted by Education Department, Government of Sindh shall be exempted from levy of service charges on account of non-maintenance of minimum balance requirement.

(BPRD Circular No 2 of January 25, 2010)

B. Deduction of Insurance Premium and other charges in excess of Actual Cost or the amount paid to service providers

Banks/DFIs have been advised to clearly disclose all charges recoverable from the customers at the time of entering into agreement with them and the same shall also be duly incorporated in their schedule of charges.

(BPRD Circular Letter No 5 dated the February 25, 2010)

C. Payment and Settlement of Home Remittance Transactions under Pakistan Remittance Initiative (PRI)

After the successful implementation of Payment Systems Architecture for Home Remittances Transactions among five banks (ABL, HBL, MCB, NBP and UBL), KASB Bank Ltd. and JS Bank Ltd have also been added as participants in this mechanism.

(PSD Circular No. 1 dated November 13, 2009)

I. PRUDENTIAL REGULATIONS

A. Anti Money Laundering

1. Currency Transaction Report (CTR) Under Anti-Money Laundering Ordinance, 2009

SBP has advised all banks / DFIs to ensure compliance of the requirement set out in the notification from the Ministry of Finance that any currency transaction exceeding rupees twenty-five lacs (Rs 2.5 million) shall be

reported as CTR to Financial Monitoring Unit under section 2 of the Anti-Money Laundering Ordinance 2007 (XLV of 2007).

(BPRD Circular Letter No.39 dated December 24, 2009)

2. Amendment in Regulation M-2 (Anti-Money Laundering Measures)

1. Paragraph (e) of Prudential Regulation M-2 has been amended as follows: "(e) Banks / DFIs shall not allow personal accounts to be used for business purposes except proprietorships, small businesses and professions where constituent documents are not available and the banks / DFIs are satisfied with KYC profile of the account holder, purpose of relationship and expected turnover of the account keeping in view financial status & nature of business of that customer."

(BPRD Circular Letter No. 42 dated December 3, 2009)

3. Branch Licensing Policy

In order to enhance outreach of financial services to the underserved areas by Microfinance Banks (MFBs) and provide them an enabling environment for resorting to cost effective means of deposit mobilization, SBP has decided to enhance the scope of permanent booths in line with the Branch Licensing Policy for Banks.

(BPRD Circular Letter No. 16 dated December 26, 2009)

4. Issuance of Statement of Account (SOA) to Account Holders

State Bank of Pakistan has revisited the instructions on the subject and has made few amendments.

Banks have been advised to dispatch, free of charge SOAs to their account- holders having a closing balance equal to or exceeding Rs.10,000/= at least twice in a year on six

monthly basis within one month from the close of half-year, and at least once in a calendar year for balance less the Rs. 10,000/= . The SOAs of account holders/customers having a closing balance exceeding Rs.10,000/= shall be sent either through a courier company or express post services of Pakistan Post.

Arrangements shall also be made for confirmation of dispatch of all SOAs and maintenance of proper record. Where an SOA is returned / undelivered, the banks may make all efforts to update record/address of the account holders. Banks may charge a maximum of Rs. 35 for each duplicate / additional SOA. Banks may further ensure that where an account has been marked as dormant, no "Service Charges" shall be deducted by the banks and dispatch of SOAs shall be stopped. Upon activation, banks need to print statements on due date from the date the account was flagged dormant. The banks may also send statement of account in Electronic Form instead of hard copy to their customers subject to the consent from the customers and as per instructions mentioned in the above paragraph.

The banks have been allowed to charge a maximum of Rs.35 issuance of duplicate statement for banks' account holders.

(BPRD Circular No. 2 dated January 5, 2010)

B. CONSUMER FINANCING

1. Amendments in Prudential Regulations for Consumer Financing

Addition of new regulation R-5A: Rescheduling / Restructuring of Non-Performing Consumer Loans: Banks /DFIs have been advised to frame policy for rescheduling / restructuring of non-performing consumer loans duly approved by the Board of Directors or by the Country Head/Executive/Management Committee in case of branches of foreign banks.

a) For the purpose of rescheduling/ restructuring, banks/DFIs have been allowed to club outstanding amounts on account of personal loans and credit cards and create one loan or convert revolving facility into an installment loan. The new loan shall be placed in the lowest category of classification amongst the classifications of the loans clubbed. Further, they can change the tenure of the loan by maximum two years beyond any regulatory cap on maximum tenure.

b) Rescheduling/ restructuring should not be done just to avoid classification of loans and provisioning. Further, consumer financing facilities of any borrower should not be rescheduled/ restructured more than once within 12 months and three times during five year period.

c) The banks/DFIs should, interalia, take into account the repayment capacity of the borrower, though the condition of 50% of Debt Burden Requirement (DBR) mentioned as per Regulation R-3 shall not be applicable to loan rescheduled/ restructured. However, any new consumer financing facility extended to a borrower who is availing any rescheduled/ restructured facility shall be subject to observance of minimum DBR prescribed in the Regulation R-3.

d) The status of classification of the NPLs shall not be changed because of rescheduling / restructuring unless borrower has paid at least 10% of the rescheduled / restructured amount or six installments as per agreed terms & conditions of the rescheduling/ restructuring.

e) If the borrower defaults (i.e. reaches 90 dpd) again within one year after declassification, the loan shall be classified as under:

Type of Consumer Loan	Classification
Unsecured	Loss
Secured	Same category in which it was prior to rescheduling / restructuring. Banks/ DFIs, however, at their discretion may further downgrade the classification based on their own internal policies.

2. Aggregate Limit for Credit Cards and Personal Loans

The following paragraph has been added at the end of Prudential Regulation R-7 and R-23 of Consumer Finance:

Banks/DFIs may merge the clean limits to single person for Credit Cards and Personal Loans subject to the condition that total clean limit availed by him/her from all banks/DFIs does not exceed Rs. 2,000,000 at any point in time. It is re-emphasized that the aggregate clean limit of the borrower should not exceed Rs. 2000,000 in any case.

(BPRD Circular Letter No. 43 dated December 31, 2009)

II. DISCLOSURE REQUIREMENTS-ROTATION OF EXTERNAL AUDITORS OF FOREIGN BANK BRANCHES

It has been decided that all foreign banks operating as branches in Pakistan may continue with the same external auditors or its affiliated firm(s) in Pakistan that has been appointed by their head offices, instead of rotating the external auditors as emphasized in the above referred circular letter. However, engagement partner(s) shall be rotated by the external audit firm(s) after every five years.

(BPRD Circular No. 8 dated November 12, 2009)

III. FINANCE AND REFINANCING FACILITY

1. Scheme for Financing Power Plants Using Renewable Energy

Table 7.1: Rate of Refinancing

Tenor	Rate of Refinance	Banks' / DFIs' Spread	(in percent)
			End Users' Rate
Up-to 5 years	9.90	2.50	12.40
Over 5 years and up-to 10 years	9.50	3.00	12.50

Under the scheme, financing shall be available to the prospective sponsors desirous of setting up of Power Projects with a capacity of up-to 10 MW, complying with requirements of Alternative Energy Development Board (AEDB), the concerned regulatory authority and other relevant Government Department / Authority, in compliance with the prevalent Renewable Energy Policy of the Government of Pakistan. Financing shall be available only for purchase of new imported and locally manufactured plant, machinery and equipment to establish new Power Plants of up-to 10 MW installed capacity using alternative / renewable energy sources (wind, hydel, biogas, biofuels, bagasse cogeneration, solar power and geothermal as fuel). LCs established up-to June 30, 2012 shall be eligible for financing under the Scheme. (SMEFD Circular No. 19 dated December 01, 2009)

The rates of mark up are linked with weighted average yields of 5 and 10 years PIBs. Existing Rates are at Table 7.1:

2. Revision of Financing Rates under the Export Finance Scheme (EFS)

The rate of refinance under the Export Finance Scheme applicable from January 1, 2010 and onward till further instructions shall be 7.5% p.a. The financing facilities under Part-B (Export Sales) of the Scheme for financing Locally Manufactured Machinery shall also attract similar mark up rate structure.

The reimbursement of mark-up rate benefit to exporters, on excess performance under Part-II of the Scheme, will be adjusted accordingly keeping in view the revised mark-up rates. (SMEFD Circular No. 20 dated December 20, 2009)

IV. ISLAMIC BANKING

A. Adoption of Shariah Standards Issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

It has been decided that AAOIFI Shariah Standards will be adopted in gradual manner, for Islamic Banking Industry in Pakistan. In the first phase, AAOIFI's Shariah Standards No.3 (Default in Payment by a Debtor), No.8 (Murabaha to the Purchase Orderer), No.9 (Ijarah & Ijarah Muntahia Bittamleek) and No.13 (Mudaraba) have been reviewed and adopted. The adoption of their AAOIFI Shariah Standards for IBIs is in addition to current Prudential Regulations, guidelines and other circulars and directives issued by different SBP departments from time to time and are not replacing them by any means. Further, in case of any conflict with the Shariah Standards adopted, SBP regulations and instructions shall prevail.

(IBD Circular No. 1 dated January 12, 2010)

B. PIA Sukuk Certificates

In terms of Government of Pakistan's Notification; Sukuk certificates issued by Pakistan International Airline Corporation (PIA), have been notified as approved security for the purpose of section 13 of BCO, 1962 –

a) requirement as to minimum paid-up capital and reserves; and b) Under Section 29 of BCO, 1962 - maintenance of liquid assets for Islamic banks and Islamic banking Branches only to the extent of 5% of their Demand and Time Liabilities.

(BSD Circular No. 1 dated February 23, 2010)

Annex-I

Group wise Balance Sheet and Income Statement of Banks- December 31, 2009

(million Rupees)

Financial Position	PSCB	LPB	FB	CB	SB	All Banks
ASSETS						
Cash & Balances With Treasury Banks	106,636	369,899	34,783	511,318	3,330	514,649
Balances With Other Banks	33,560	108,675	16,270	158,505	11,279	169,784
Lending To Financial Institutions	24,172	183,600	32,118	239,890	233	240,123
Investments - Net	310,664	1,375,560	52,373	1,738,596	14,610	1,753,206
Advances - Net	621,063	2,444,099	90,451	3,155,613	92,594	3,248,207
Operating Fixed Assets	29,581	206,345	3,580	239,505	5,070	244,575
Deferred Tax Assets	15,268	35,445	5,229	55,941	3	55,945
Other Assets	88,310	195,665	6,653	290,629	11,643	302,271
TOTAL ASSETS	1,229,254	4,919,287	241,456	6,389,998	138,762	6,528,760
LIABILITIES						
Bills Payable	8,694	55,098	3,596	67,387	2,195	69,583
Borrowings From Financial Institution	64,374	490,763	16,722	571,859	86,695	658,554
Deposits And Other Accounts	953,373	3,655,609	160,755	4,769,736	16,993	4,786,729
Sub-ordinated Loans	-	48,625	-	48,625	3,405	52,031
Liabilities Against Assets Subject To Finance Lease	63	60	-	122	12	135
Deferred Tax Liabilities	2,809	4,279	353	7,442	106	7,547
Other Liabilities	64,030	172,573	24,141	260,744	31,850	292,594
TOTAL LIABILITIES	1,093,343	4,427,007	205,567	5,725,916	141,256	5,867,173
NET ASSETS	135,912	492,281	35,889	664,081	(2,494)	661,587
NET ASSETS REPRESENTED BY:						
Share Capital	21,339	250,067	34,884	306,291	15,507	321,797
Reserves	33,243	128,593	76	161,912	3,447	165,359
Unappropriated Profit	54,558	68,058	1,036	123,652	(25,163)	98,489
Share Holders' Equity	109,141	446,718	35,996	591,854	(6,209)	585,645
Surplus/Deficit On Revaluation Of Assets	26,771	45,562	(106)	72,227	3,715	75,942
TOTAL	135,912	492,281	35,889	664,081	(2,494)	661,587
PROFIT AND LOSS STATEMENT						
Mark-Up/ Return/Interest Earned	98,734	459,702	22,207	580,643	10,463	591,106
Mark-Up/ Return/Interest Expenses	62,336	248,699	12,188	323,223	5,031	328,254
Net Mark-Up / Interest Income	36,398	211,003	10,020	257,421	5,432	262,852
Provisions & Bad Debts Written Off Directly/(Reversals)	12,440	67,567	4,609	84,616	523	85,139
Net Mark-Up / Interest Income After Provision	23,958	143,436	5,411	172,805	4,908	177,713
Fees, Commission & Brokerage Income	9,765	31,167	2,022	42,953	99	43,053
Dividend Income	3,000	5,114	9	8,123	83	8,206
Income From Dealing In Foreign Currencies	3,236	12,635	3,541	19,412	-	19,412
Other Income	5,725	18,429	(44)	24,110	5,718	29,828
Total Non - Markup / Interest Income	21,726	67,346	5,527	94,599	5,901	100,499
Administrative Expenses	45,684	210,782	10,938	267,403	10,809	278,212
Other Expenses	27,629	136,694	11,780	176,104	6,307	182,411
Total Non-Markup/Interest Expenses	28,663	140,586	12,044	181,292	6,276	187,569
Profit before Tax and Extra ordinary Items	17,021	70,196	(1,106)	86,111	4,532	90,644
Extra ordinary/unusual Items - Gain/(Loss)	-	-	(385)	(385)	663.99	278.87
PROFIT/ (LOSS) BEFORE TAXATION	17,021	70,196	(721)	86,496	3,868	90,365
Taxation	6,634	26,933	(34)	33,532	2,597	36,130
PROFIT/ (LOSS) AFTER TAX	10,388	43,263	(687)	52,964	1,271	54,235

Financial Soundness Indicators

(In percent)

Indicators	2005	2006	2007	2008	Sep-09	Dec-09
CAPITAL ADEQUACY						
Risk Weighted CAR						
Public Sector Commercial Banks	14.5	15.2	16.1	13.2	15.6	14.8
Local Private Banks	10.6	12.7	11.8	12.1	14.2	14.1
Foreign Banks	16.4	15.0	14.6	21.8	23.8	23.6
Commercial Banks	11.9	13.3	12.8	12.7	14.9	14.6
Specialized Banks	(7.7)	(8.3)	(6.2)	(4.9)	(5.0)	(2.1)
All Banks	11.3	12.7	12.3	12.3	14.3	14.1
Tier 1 Capital to RWA						
Public Sector Commercial Banks	8.8	11.1	12.2	11.0	12.8	12.4
Local Private Banks	8.3	10.4	9.9	10.2	11.8	11.5
Foreign Banks	16.1	14.3	14.0	21.3	23.3	23.1
Commercial Banks	9.1	10.8	10.5	10.8	12.4	12.1
Specialized Banks	(13.6)	(13.3)	(12.5)	(10.1)	(8.2)	(6.3)
All Banks	8.3	10.0	10.0	10.2	11.9	11.6
Capital to Total Assets						
Public Sector Commercial Banks	12.6	12.2	13.7	10.7	11.9	11.1
Local Private Banks	7.0	9.2	10.2	10.0	10.3	10.0
Foreign Banks	9.5	10.1	11.2	14.5	14.8	14.9
Commercial Banks	8.4	9.9	10.9	10.3	10.8	10.4
Specialized Banks	(8.1)	(8.0)	(5.4)	(3.2)	(3.4)	(1.8)
All Banks	7.9	9.4	10.5	10.0	10.5	10.1
ASSET QUALITY						
NPLs to Total Loans						
Public Sector Commercial Banks	10.0	9.0	8.4	16.3	17.4	16.4
Local Private Banks	6.4	5.2	6.5	8.6	10.5	10.7
Foreign Banks	1.2	1.0	1.6	2.9	5.3	6.5
Commercial Banks	6.7	5.7	6.7	9.9	11.7	11.7
Specialized Banks	46.0	39.1	34.3	28.8	31.4	25.4
All Banks	8.3	6.9	7.6	10.5	12.4	12.2
Provision to NPLs						
Public Sector Commercial Banks	86.8	84.5	89.0	66.9	67.2	69.0
Local Private Banks	76.4	78.7	88.5	70.2	72.1	72.3
Foreign Banks	145.9	191.7	157.0	81.9	81.3	72.4
Commercial Banks	80.4	81.5	89.1	69.3	70.8	71.4
Specialized Banks	64.8	64.1	68.6	72.4	57.1	66.3
All Banks	76.7	77.8	86.1	69.6	69.7	71.0
Net NPLs to Net Loans						
Public Sector Commercial Banks	1.5	1.5	1.0	6.1	6.5	5.7
Local Private Banks	1.6	1.1	0.8	2.7	3.2	3.2
Foreign Banks	(0.6)	(1.0)	(0.9)	0.5	1.0	1.9
Commercial Banks	1.4	1.1	0.8	3.3	3.7	3.7
Specialized Banks	23.1	18.7	14.0	10.0	16.4	10.3
All Banks	2.1	1.6	1.1	3.4	4.1	3.9
Net NPLs to Capital						
Public Sector Commercial Banks	5.5	6.4	3.4	30.3	27.6	26.2
Local Private Banks	13.0	7.1	4.1	15.9	15.8	15.9
Foreign Banks	(3.0)	(5.1)	(4.1)	1.6	2.4	4.8
Commercial Banks	9.0	6.2	3.7	17.9	17.6	17.4
Specialized Banks	-	-	-	-	-	-
All Banks	14.3	9.7	5.6	19.4	19.9	18.9
EARNINGS						
Return on Assets (Before Tax)						
Public Sector Commercial Banks	3.3	4.0	3.5	0.6	1.5	1.5
Local Private Banks	2.7	3.1	2.0	1.3	1.7	1.6
Foreign Banks	3.6	3.2	1.5	0.0	0.1	(0.3)
Commercial Banks	2.9	3.2	2.3	1.1	1.6	1.5
Specialized Banks	(1.0)	(1.3)	1.4	3.2	1.3	2.5
All Banks	2.8	3.1	2.2	1.2	1.6	1.5

Financial Soundness Indicators

(In percent)

Indicators	2005	2006	2007	2008	Sep-09	Dec-09
Return on Assets (After Tax)						
Public Sector Commercial Banks	2.2	2.7	2.5	0.5	1.0	0.9
Local Private Banks	1.8	2.1	1.4	0.9	1.0	1.0
Foreign Banks	2.5	2.1	0.7	0.3	(0.1)	(0.3)
Commercial Banks	2.0	2.2	1.6	0.8	1.0	0.9
Specialized Banks	(1.2)	(1.8)	0.71	1.8	(0.6)	0.6
All Banks	1.9	2.1	1.5	0.8	0.9	0.9
ROE (Avg. Equity & Surplus) (Before Tax)						
Public Sector Commercial Banks	30.7	32.4	27.2	5.2	12.8	13.2
Local Private Banks	40.1	36.2	20.4	12.9	16.4	15.2
Foreign Banks	38.9	30.0	13.1	0.0	0.4	(2.1)
Commercial Banks	37.2	34.7	21.8	10.6	14.7	13.9
Specialized Banks	-	-	-	-	-	-
All Banks	38.2	35.2	22.6	11.4	15.1	14.5
ROE (Avg. Equity & Surplus) (After Tax)						
Public Sector Commercial Banks	20.9	21.7	19.5	4.4	8.4	8.0
Local Private Banks	27.2	25.0	13.8	8.5	10.0	9.4
Foreign Banks	27.1	20.4	6.0	2.2	(0.9)	(2.0)
Commercial Banks	25.4	23.7	15.0	7.3	9.1	8.5
Specialized Banks	-	-	-	-	-	-
All Banks	25.8	23.8	15.4	7.8	9.0	8.6
NII/Gross Income						
Public Sector Commercial Banks	71.3	69.5	65.9	65.4	68.2	62.6
Local Private Banks	73.0	73.5	70.7	73.3	75.7	75.8
Foreign Banks	61.5	65.8	59.1	61.3	60.6	64.4
Commercial Banks	71.3	72.1	69.2	71.3	73.8	73.1
Specialized Banks	87.7	40.1	42.8	46.6	48.2	47.9
All Banks	72.0	70.9	68.2	70.4	73.1	72.3
Cost / Income Ratio						
Public Sector Commercial Banks	34.3	31.8	30.2	39.1	45.7	49.3
Local Private Banks	43.1	40.7	45.4	51.8	49.3	50.5
Foreign Banks	42.2	49.8	57.0	69.6	69.9	77.5
Commercial Banks	41.2	39.4	42.8	50.2	49.7	51.5
Specialized Banks	47.8	62.6	53.2	52.1	63.7	55.4
All Banks	41.5	40.3	43.2	50.3	50.1	51.6
LIQUIDITY						
Liquid Assets/Total Assets						
Public Sector Commercial Banks	35.6	33.9	37.0	30.5	29.3	29.8
Local Private Banks	32.4	31.1	32.5	27.4	30.9	32.2
Foreign Banks	41.8	41.0	41.6	45.3	57.2	54.7
Commercial Banks	33.9	32.2	33.8	28.7	31.6	32.6
Specialized Banks	25.8	23.0	27.9	24.5	19.0	19.0
All Banks	33.7	31.9	33.6	28.6	31.4	32.3
Liquid Assets/Total Deposits						
Public Sector Commercial Banks	44.7	42.6	47.1	38.8	38.7	38.4
Local Private Banks	40.3	40.6	42.9	35.7	41.2	43.4
Foreign Banks	57.9	61.1	61.1	71.9	83.3	82.2
Commercial Banks	42.7	42.0	44.3	37.6	42.3	43.7
Specialized Banks	183.2	205.4	247.7	229.4	193.5	155.3
All Banks	43.5	42.7	45.1	38.2	42.7	44.1
Advances/Deposits						
Public Sector Commercial Banks	59.8	64.6	60.0	68.4	67.0	65.1
Local Private Banks	70.8	74.5	70.1	75.4	68.8	66.9
Foreign Banks	68.7	80.1	75.2	69.1	50.2	56.3
Commercial Banks	68.4	72.7	73.8	73.8	67.8	66.2
Specialized Banks	400.7	528.4	507.3	577.0	683.3	544.9
All Banks	70.2	74.6	69.7	75.5	69.6	67.9

Annex-III

Selected Indicators for Different Categories of Banks **in terms of Size-December 31, 2009**

(In percent)

Indicators	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	50.8	73.0	92.5	100
Share of Total Deposits	53.7	76.0	92.9	100
Share of Gross Income	60.4	80.2	94.8	100
Share of Risk Weighted Assets	52.7	72.7	92.1	100
Capital Adequacy				
Capital/RWA	15.2	14.5	14.1	14.1
Tier 1 Capital / RWA	12.3	11.5	11.5	11.6
Net Worth / Total Assets	10.8	10.0	10.0	10.1
Asset Composition				
Sectoral Distribution of Loans (Domestic)				
- Corporate Sector	51.9	74.3	92.7	100
- SMEs	43.4	62.8	89.8	100
- Agriculture	27.8	34.7	95.4	100
- Consumer Finance	51.4	75.1	92.5	100
- Commodity Financing	77.3	88.6	98.8	100
- Staff Loans	57.1	74.6	91.7	100
- Others	90.0	92.2	94.1	100
- Total	53.7	73.4	93.2	100
NPLs / Gross Loans	10.5	9.9	11.7	12.2
Net NPLs / Capital	12.3	12.4	18.1	18.9
Earning & Profitability				
ROA (After Tax)	1.9	1.6	1.2	0.9
ROE (After Tax)	18.3	16.0	11.6	8.6
Net Interest Income / Gross Income	76.2	75.0	72.5	72.3
Income from Trading & Foreign Exchange / Gross Income	14.9	16.5	16.8	17.2
Non-Interest Expense / Gross Income	39.1	43.0	47.5	51.6
Provision Expense to Gross Income	18.7	20.2	22.2	23.4
Liquidity				
Liquid Assets / Total Assets	29.8	32.2	31.8	32.3
Liquid Assets held in Govt. Securities / Total Liquid Assets	55.3	60.2	61.2	59.1
Liquid Assets / Total Deposits	38.5	42.2	43.2	44.1

Annex-IV

Bank-wise Major Statistics-December 31, 2009

(million Rupees)

S. No.	Name of the Banks	Assets	Advances	Deposits	Equity
Public Sector Commercial Banks					
1	National Bank of Pakistan	943,073	476,181	727,465	115,883
2	First Women Bank Limited	10,341	3,280	8,757	1,152
3	The Bank of Punjab	236,749	130,242	190,865	12,607
4	The Bank of Khyber	39,092	11,361	26,286	6,270
Local Private Banks					
5	Allied Bank Limited	419,080	237,484	328,776	29,801
6	Bank Alfalah Limited	391,114	192,488	324,760	23,609
7	Askari Bank Limited	255,071	135,623	205,970	15,295
8	Bank Al Habib Limited	251,941	105,985	189,280	14,054
9	Mybank Limited	35,737	17,443	26,849	5,383
10	SAMBA Bank Limited	23,770	9,744	12,521	7,100
11	Atlas Bank Limited	30,626	19,258	26,174	2,238
12	Faysal Bank Limited	180,897	97,302	123,675	12,406
13	Habib Bank Limited	824,055	432,929	653,452	81,203
14	KASB Bank Limited	61,888	30,574	43,900	7,672
15	Arif Habib Bank Limited	38,217	18,574	31,307	4,075
16	JS Bank Limited	32,051	11,710	21,314	4,783
17	MCB Bank Limited	513,787	253,767	367,275	69,850
18	United Bank Limited	618,497	353,020	492,036	60,778
19	The Royal Bank of Scotland Limited	93,430	48,602	63,636	8,770
20	Habib Metropolitan Bank Limited	237,384	102,310	142,323	18,790
21	BankIslami Pakistan Limited	34,477	13,279	28,157	4,720
22	Emirates Global Islamic Bank	19,701	9,631	15,081	3,442
23	Soneri Bank Limited	95,963	48,732	73,548	7,806
24	SILKBANK Limited	68,287	32,100	49,610	1,176
25	NIB Bank Limited	207,768	83,556	93,908	41,384
26	Meezan Bank Limited	124,160	44,274	100,333	9,296
27	Dubai Islamic Bank Pakistan Limited	35,401	20,606	27,981	6,072
28	Standard Chartered Bank	312,909	120,315	206,958	47,781
29	Dawood Islamic Bank Limited	13,077	4,792	6,785	4,797
Foreign Banks					
30	Albaraka Islamic Bank B.S.C. (E.C.), Pakistan Operations	29,305	14,755	22,636	2,753
31	Citibank N.A. (Pakistan Operations)	89,853	28,372	58,147	8,698
32	Deutsche Bank AG (Pakistan Operations)	15,221	3,457	5,981	5,209
33	HSBC Bank Middle East Limited - (Pakistan Operations)	51,779	23,248	40,797	5,504
34	Oman International Bank S.A.O.G (Pakistan Operations)	3,945	387	690	2,848
35	The Bank of Tokyo-Mitsubishi UFJ Limited (Pakistan Operations)	8,542	2,199	2,740	4,081
36	Barclays Bank PLC (Pakistan Operations)	42,811	18,033	29,764	6,797
Specialized Banks					
37	The Punjab Provincial Cooperative Bank Ltd	13,742	6,297	2,412	4,275
38	Industrial Development Bank of Pakistan	4,598	143	3,627	(28,173)
39	Zarai Taraqati Bank Limited	114,171	83,654	8,751	19,830
40	SME Bank Limited	6,252	2,501	2,203	1,573
Total		6,528,760	3,248,207	4,786,729	661,587

Results of Stress Test of Banking System- **December 31, 2009**

		Number of Banks with CAR		
		< 0%	0% - 10%	10%<
Pre-Shock		2	4	34
Post-Shock				
Credit Shocks				
C-1	15% of performing loans moving to substandard, 15% of substandard to doubtful, 25% of doubtful to loss	2	5	33
C-2	Tightening of loan classification i.e. all NPLs under OAEM require 25% provisioning, all NPLs under substandard require 50% and all NPLs in doubtful category require 100% provisioning.	2	4	34
C-3	Deterioration of loans to the textile sector (25%) directly downgraded to doubtful category	2	5	33
C-4	25% of consumer loans (auto loans, personal loans & consumer durables only) classified into doubtful category.	2	4	34
C-5	Critical Infection Ratio (The ratio of NPLs to Loans where capital wipes out) estimated as 38% as against actual of Dec09: 12%)	40	0	0
Market Shocks				
Interest Rate Shocks				
IR-1	An increase in interest rates by 200 basis points.	2	5	33
IR-2	Shift coupled with flattening of the yield curve by increasing 500,300 and 200 basis points in the three maturities respectively.	2	5	33
Exchange Rate Shocks				
ER-1	Depreciation of exchange rate by 25%	2	5	33
ER-2	Appreciation of exchange rate by 5%	2	4	34
Equity Price Shocks				
Eq-1	Fall in the equity prices by 30%.	2	4	34
Eq-2	Fall in the equity prices by 50%.	2	4	34
Combined Credit & Market Shocks				
COMB-1	Interest rates increase (2%), deterioration of loans to the textile sector (25%) directly downgraded to doubtful category, and fall in equity prices by 30%.	2	6	32
COMB-2	Deterioration in loan portfolio (performing to substandard: 15%, substandard to doubtful: 15%, doubtful to loss: 20%), fall in the equity prices (50%).	2	7	31
Liquidity Shock		Number of Banks Becoming Illiquid after Shock		
		3 days	4 days	5 days
L-1	Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	0	2	5

Annex-VI

Group wise Balance Sheet and Income Statement of Islamic Banks/Branches - December 31, 2009

(million Rupees)

Financial Position	Islamic Banks	Islamic Banking Branches	Total Islamic Banking
ASSETS			
Cash & Balances With Treasury Banks	21,471	8,097	29,568
Balances With Other Banks	18,994	10,448	29,442
Due from Financial Institutions	45,566	120	45,686
Investments - Net	41,021	31,212	72,233
Financing - Net	107,337	46,133	153,470
Operating Fixed Assets	9,182	3,805	12,987
Deferred Tax Assets	1,276	1	1,277
Other Assets	11,274	10,358	21,632
TOTAL ASSETS	256,121	110,174	366,296
LIABILITIES			
Bills Payable	2,534	605	3,139
Due to Financial Institution	12,128	6,976	19,104
Deposits And Other Accounts	200,974	81,658	282,632
Sub-ordinated Loans	0	0	-
Liabilities Against Assets Subject To Finance Lease	43	0	43
Deferred Tax Liabilities	0	6	6
Other Liabilities	9,363	10,117	19,480
TOTAL LIABILITIES	225,041	99,362	324,403
NET ASSETS	31,080	10,812	41,892
NET ASSETS REPRESENTED BY: -			
Share Capital	30,500	7,176	37,676
Reserves	1,893	9	1,902
Unappropriated Profit	(1,526)	2,925	1,399
Share Holders' Equity	30,867	10,110	40,977
Surplus/Deficit On Revaluation Of Assets	213	702	915
TOTAL	31,080	10,812	41,892
PROFIT AND LOSS STATEMENT			
Mark-Up Income	21,643	9,919	31,561
Mark-Up Expenses	11,919	5,327	17,246
Net Mark-Up	9,724	4,592	14,316
Provisions & Bad Debts Written Off Directly/(Reversals)	2,720	345	3,065
Net Mark-Up After Provision	7,004	4,247	11,251
Fees, Commission & Brokerage Income	1,029	381	1,410
Dividend Income	220	72	292
Income From Dealing In Foreign Currencies	1,361	54	1,416
Other Income	368	233	601
Total Non - Markup	2,979	740	3,719
	9,983	4,987	14,970
Administrative Expenses	9,791	2,821	12,613
Other Expenses	41	31	72
Total Non-Markup	9,832	2,852	12,685
Profit before Tax and Extra ordinary Items	151	2,135	2,285
Extra ordinary/unusual Items – Gain/(Loss)	0	0	0
PROFIT/ (LOSS) BEFORE TAXATION	151	2,135	2,285
Taxation	512	0	512
PROFIT/ (LOSS) AFTER TAX	(361)	2,135	1,774

Balance Sheet and Income Statement of DFIs-
December 31, 2009

(million Rupees)

Financial Position	All DFIs
ASSETS	
Cash & Balances With Treasury Banks	1,774.9
Balances With Other Banks	5,566.8
Lending To Financial Institutions	13,370.0
Investments - Net	63,007.3
Advances - Net	41,707.0
Operating Fixed Assets	3,015.1
Deferred Tax Assets	1,179.8
Other Assets	4,357.0
TOTAL ASSETS	133,977.8
LIABILITIES	
Bills Payable	-
Borrowings From Financial Institution	51,521.6
Deposits And Other Accounts	18,073.6
Sub-ordinated Loans	-
Liabilities Against Assets Subject To Finance Lease	30.4
Deferred Tax Liabilities	11.2
Other Liabilities	6,635.8
TOTAL LIABILITIES	76,272.6
NET ASSETS	57,705.3
NET ASSETS REPRESENTED BY: -	
Share Capital	46,768.6
Reserves	8,340.3
Unappropriated Profit	(191.8)
Share Holders' Equity	54,917.1
Surplus/Deficit On Revaluation Of Assets	2,788.2
TOTAL	57,705.3
OPERATING POSITION	
Mark-Up/ Return/Interest Earned	12,548.8
Mark-Up/ Return/Interest Expenses	6,742.1
Net Mark-Up / Interest Income	5,806.7
Provisions & Bad Debts Written Off Directly/(Reversals)	2,954.9
Net Mark-Up / Interest Income After Provision	2,851.8
Fees, Commission & Brokerage Income	211.0
Dividend Income	413.4
Income From Dealing In Foreign Currencies	81.9
Other Income	1,488.0
Total Non - Markup / Interest Income	2,194.3
	5,046.1
Administrative Expenses	2,631.4
Other Expenses	102.5
Total Non-Markup/Interest Expenses	2,733.9
Profit before Tax and Extra ordinary Items	2,312.1
Extra ordinary/unusual Items -- Gain/(Loss)	221.1
PROFIT/ (LOSS) BEFORE TAXATION	2,091.0
Taxation	630.2
PROFIT/ (LOSS) AFTER TAX	1,460.9

Annex-VIII

Capital Structure and Capital Adequacy Ratio of Banks and DFIs - December 31, 2009

(million Rupees)

	All Banks and DFIs	PSPB	LPB	FB	SB	All Banks	DFIs
Equity							
1.1 Fully Paid-up Capital/Capital Deposited with SBP	378,452	31,563	252,256	34,884	15,507	334,211	44,241
1.2 Balance in Share Premium Account	27,418	38	24,852	-	-	24,890	2,528
1.3 Reserve for issue of Bonus shares	-	-	-	-	-	-	-
1.4 General Reserves as disclosed on the Balance Sheet (including statutory reserve)	113,366	16,001	86,732	76	3,447	106,256	7,110
1.5 Un-appropriated/Unremitted profits (net of accumulated losses, if any)	97,596	54,559	66,614	1,036	(25,163)	97,045	551
1.6 Minority interest	-	-	-	-	-	-	-
1.7 Sub-Total (1.1 to 1.5)	616,831	102,161	430,454	35,996	(6,209)	562,402	54,429
Deductions							
1.8 Goodwill	59,275	6	58,869	329	59	59,263	12
1.9 Shortfall in Provisions required against Classified assets	841	497	-	-	343	841	-
1.10 Deficit on account of revaluation of AFS investment	2,107	417	636	199	440	1,693	414
1.11 Any increase in equity capital resulting from a securitization	-	-	-	-	-	-	-
1.12 Investments in TFCs of other banks	635	-	-	-	-	-	635
1.13 Other Deductions	9,795	1,986	6,496	-	158	8,639	1,155
1.14 Sub-Total (1.7 to 1.10)	72,652	2,906	66,001	529	1,000	70,436	2,216
1.15 Total Eligible Tier 1 capital	544,179	99,255	364,453	35,467	(7,210)	491,966	52,213
	5,427						
Supplementary Capital							
2.1 Freely available General Provisions or reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	12,355	1,647	8,496	737	1,263	12,143	212
2.2 Revaluation reserves eligible up to 45%	38,870	12,009	23,804	7	2,044	37,864	1,006
2.3 Foreign Exchange Translation Reserves	22,569	6,978	15,591	-	-	22,569	-
2.4 Undisclosed reserves	-	-	-	-	-	-	-
2.5 Subordinated debt-up to maximum of 50% of total equity	42,425	-	39,221	-	3,204	42,425	-
2.6 Total Tier 2 Supplementary Capital(2.1 - 2.5)	116,219	20,633	87,112	744	6,511	115,000	1,218
Deductions							
Other deductions	9,795	1,986	6,496	-	158	8,639	1,155
Total Deductions	9,795	1,986	6,496	-	158	8,639	1,155
Total eligible tier 2 capital	106,424	18,647	80,616	744	6,353	106,361	63
2.7 Eligible tier 3 (as worked out in 3.9 below)							
2.8 Total Supplementary Capital eligible for MCR (maximum up to 100% of Total Equity)	104,275	18,647	79,943	744	4,878	104,212	63
2.9 TOTAL CAPITAL (1.12+2.8)	648,454	117,902	444,396	36,211	(2,332)	598,326	52,277
Risk Weighted Amounts							
3.3 Total Credit Risk Weighted Assets	3,508,734	626,970	2,596,332	123,508	96,455	3,443,265	65,469
3.4 Total Market Risk Weighted Assets	217,061	60,572	126,558	5,282	54	192,467	24,594
Total Operational Risk Assets	599,938	110,868	434,755	24,946	17,240	587,808	12,130
3.5 Total Risk Weighted Amount	4,325,733	798,409	3,157,645	153,736	113,749	4,223,539	102,194
Capital Adequacy Ratios (CAR)							
Credit Risk Capital Adequacy Ratio	18.54%	18.81%	17.14%	29.32%	-0.89%	17.38%	79.85%
Tier 1 capital to Total Risk Weighted Amount	12.58%	12.43%	11.54%	23.07%	-6.34%	11.65%	51.09%
Total Capital Adequacy Ratio	14.99%	14.77%	14.07%	23.55%	-2.05%	14.17%	51.15%
Tier 2 capital to Total Risk Weighted Amount	2.41%	2.34%	2.55%	0.48%	5.59%	2.52%	0.06%
OTHER DEDUCTIONS FROM TIER 1 AND TIER 2 CAPITAL							
						(Rs in thousands)	
1.1 Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	13,737	2,102	11,239	-	315	13,656	81
1.2 Significant minority investments in banking, securities and other financial entities	5,300	1,870	1,540	-	-	3,410	1,890
(para 1.1 scope of Application)	-	-	-	-	-	-	-
1.3 Equity holdings (majority or significant minority) in an insurance subsidiary	552	-	213	-	-	213	340
(para 1.1 scope of Application)	-	-	-	-	-	-	-
1.4 Significant minority and majority investments in commercial entities exceeding 15% of bank's capital	-	-	-	-	-	-	-
1.5 Securitization exposure subject to deduction (para 4.3.1 of instructions)	-	-	-	-	-	-	-
1.6 Others	-	-	-	-	-	-	-
1.7 Total Deductible Items to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital	19,589.2	3,971.4	12,991.9	-	315.5	17,278.8	2,310.4

Group-wise Composition of Banks-December 31, 2009

2006	2007	2008	Dec-09
A. Public Sector Com. Banks (4) National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab B. Local Private Banks (24) Askari Commercial Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. Prime Commercial Bank Ltd. Saudi Pak Commercial Bank Ltd. PICIC Commercial Bank Ltd. Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. Crescent Commercial Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd. Arif Habib Rupali Bank Ltd. Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. C. Foreign Banks (7) ABN AMRO Bank N.V. Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. The Hongkong & Shanghai Banking Corporation Ltd. D. Specialized Banks (4) Zarai Taraqiat Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd. All Commercial Banks (35) Include A + B + C All Banks (39) Include A + B + C + D	A. Public Sector Com. Banks (4) National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab B. Local Private Banks (26) Askari Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. ABN AMRO Bank (Pakistan) Ltd. Saudi Pak Commercial Bank Ltd. PICIC Commercial Bank Ltd. Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. Crescent Commercial Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd.. Arif Habib Bank Ltd. Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. Emirates Global Islamic Bank Ltd. Dawood Islamic Bank Ltd C. Foreign Banks (6) Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. The Hongkong & Shanghai Banking Corporation Ltd. D. Specialized Banks (4) Zarai Taraqiat Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd. All Commercial Banks (36) Include A + B + C All Banks (40) Include A + B + C + D	A. Public Sector Com. Banks (4) National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab B. Local Private Banks (25) Askari Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. The Royal Bank of Scotland Ltd. Saudi Pak Commercial Bank Ltd. Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. SAMB Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd.. Arif Habib Bank Ltd. Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. Emirates Global Islamic Bank Ltd. Dawood Islamic Bank Ltd C. Foreign Banks (7) Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. Barclays Bank PLC HSBC Bank Millde East Ltd. D. Specialized Banks (4) Zarai Taraqiat Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd. All Commercial Banks (36) Include A + B + C All Banks (40) Include A + B + C + D	A. Public Sector Com. Banks (4) National Bank of Pakistan First Women Bank Ltd. The Bank of Khyber The Bank of Punjab B. Local Private Banks (25) Askari Bank Ltd. Bank Alfalah Ltd. Bank AL Habib Ltd. Mybank Ltd. Faysal Bank Ltd. Habib Metropolitan Bank Ltd. KASB Bank Ltd. The Royal Bank of Scotland Ltd. Silk Bank Ltd. Soneri Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. MCB Bank Ltd. Allied Bank Ltd. United Bank Ltd. Meezan Bank Ltd. NIB Bank Ltd. SAMB Bank Ltd. Habib Bank Ltd. Atlas Bank Ltd. Arif Habib Bank Ltd. Dubai Islamic Bank Pakistan Ltd. BankIslami Pakistan Ltd. JS Bank Ltd. Emirates Global Islamic Bank Ltd. Dawood Islamic Bank Ltd. C. Foreign Banks (7) Albaraka Islamic Bank B.S.C. Bank of Tokyo - Mitsubishi UFJ, Ltd. Deutsche Bank AG Citibank N.A. Oman International Bank S.A.O.G. Barclays Bank PLC HSBC Bank Millde East Ltd. D. Specialized Banks (4) Zarai Taraqiat Bank Ltd. Industrial Development Bank of Pakistan Punjab Provincial Co-operative Bank Ltd. SME Bank Ltd. All Commercial Banks (36) Include A + B + C All Banks (40) Include A + B + C + D

List of Abbreviations

ADD	Authorized Derivatives Dealer
ADR	Advances to Deposits Ratio
AFS	Available For Sale
ALM	Asset Liability Management
BIA	Basic Indicator Approach
bps	Basis Points
CAR	Capital Adequacy Ratio
CB	Commercial Bank
CCF	Credit Conversion Factor
CCS	Cross Country Swaps
CDNS	Central Directorate of National Saving
CPI	Consumer Price Index
CPV	Credit Portfolio View
CRR	Cash Reserve Requirements
CRWA	Credit Risk Weighted Amounts
CY	Calendar Year
DFIs	Development Finance Institutions
ERF	Export Refinance
EURIBOR	Euro Interbank Offered Rate
EXR	Exchange Rate
FB	Foreign Bank
FDBR	Financial Derivatives Business Regulations
FDR	Financing to Deposits Ratio
FRA	Forward Rate Agreements
FSV	Forced Sale Value
GDP	Gross Domestic Product
GoP	Government of Pakistan
HFT	Held For Trading
HTM	Held-to-Maturity
IBIs	Islamic Banking Institutions
IRS	Interest Rate Swaps
KIBOR	Karachi Interbank Offered Rate
KSE	Karachi Stock Exchange
LIBOR	London Interbank Offered Rate
LoLR	Lender of Last Resort
LPB	Local Private Bank
LR	Interest Rate
LSM	Large Scale Manufacturing
MCR	Minimum Capital Requirement
MRWA	Market Risk Weighted Amounts
MTB	Market Treasury Bill
NII	Net Interest Income

NMI	Non-Market Maker Financial Institution
NOP	Net Open Position
NPF	Non Performing Finance
NPL	Non Performing Loan
NPLR	Loan Infection Ratio
NSS	National Saving Scheme
OMO	Open Market Operation
ORWA	Operational Risk Weighted Amounts
OTC	Over the Counter
PAT	Profit After Tax
PIB	Pakistan Investment Bond
PKR	Pak Rupee
PSCB	Public Sector Commercial Bank
PSE	Public Sector Enterprise
PTCs	Participation Term Certificates
QoQ	Quarter on Quarter
QPR	Quarterly Performance Review
QRC	Quarterly Report of Condition
ROA	Return on Asset
ROE	Return on Equity
RSA	Rate Sensitive Assets
RSL	Rate Sensitive Liabilities
RWA	Risk Weighted Assets
SA	Standardized approach
SB	Specialized Bank
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SLR	Statutory Liquidity Requirements
SME	Small and Medium Enterprise
TFCs	Term Finance Certificates
USD	United States Dollar
WALR	Weighted Average Lending rate
WPI	Wholesale Price Index
YoY	Year on Year

Glossary

Capital Adequacy Ratio is the amount of risk-based capital as a percent of risk-weighted assets.

Coefficient of Variance The coefficient of variance is the ratio of Standard Deviation to Arithmetic Mean. The coefficient is a useful statistical tool for comparing the degree of volatility of more than one data sets when their means are significantly different from each other.

Consumer Financing means any financing allowed to individuals for meeting their personal, family or household needs. The facilities categorized as Consumer Financing include credit cards, auto loans, housing finance, consumer durables and personal loans.

Corporate means and includes public limited companies and such entities, which do not come under the definition of SME.

Credit risk arises from the potential that a borrower or counter-party will fail to perform an obligation or repay a loan.

Discount rate is the rate at which SBP provides three-day repo facility to banks, acting as the lender of last resort.

Duration (Macaulay's Duration) is a time weighted present value measure of the cash flow of a loan or security that takes into account the amount and timing of all promised interest and principal payments associated with that loan or security. It shows how the price of a bond is likely to react to different interest rate environments. A bond's price is a function of its coupon, maturity and yield.

Force Sale Value (FSV) means the value that can currently be obtained by selling the mortgaged / pledged assets in a forced / distressed sale conditions. This value fully reflects the possibility of price fluctuations.

GAP is the term commonly used to describe the rupee volume of the interest-rate sensitive assets versus interest-rate sensitive liabilities mismatch for a specific time frame; often expressed as a percentage of total assets.

Gross income is the net interest income (before provisions) plus non-interest income; the income available to cover the operating expenses.

Interbank rates are the two-way quotes namely bid and offer rates quoted in interbank market are called as interbank rates.

Interest rate risk is the exposure of an institution's financial condition to adverse movement in interest rates, whether domestic or worldwide. The primary source of interest rate risk is difference in timing of the re-pricing of bank's assets, liabilities and off-balance sheet instruments.

Intermediation cost is the administrative expenses divided by the average deposits and borrowings.

Liquid assets are the assets that are easily and cheaply turned into cash – notably cash and short-term securities. It includes cash and balances with banks, call money lending, lending under repo and investment in government securities.

Liquidity risk is the risk that the bank will be unable to accommodate decreases in liabilities or to fund increases in assets. The liquidity represents the bank's ability to efficiently and economically accommodate decreases in deposits and to fund increases in loan demand without negatively affecting its earnings.

Market risk is the risk that changes in the market rates and prices will impair an obligor's ability to perform under the contract negotiated between the parties. Market risk reflects the degree to which changes in interest rates, foreign exchange rates, and equity prices can adversely affect the earnings of a bank.

Net interest income is the total interest income less total interest expense. This residual amount represents most of the income available to cover expenses other than the interest expense.

Net Interest Margin (NIM) is the net interest income as a percent of average earning assets.

Net loans are the loans net of provision held for NPLs.

Net Non-Performing Loans (NPLs) is the value of non-performing loans minus provision for loan losses.

Net NPLs to net loans means net NPLs as a percent of net loans. It shows the degree of loans infection after making adjustment for the provision held.

Non-Performing Loans (NPLs) are loans and advances whose mark-up/interest or principal is overdue by 90 days or more from the due date.

NPLs to loans ratio/Infection ratio stands for NPLs as a percent of gross loans.

Paid-up capital is the equity amount actually paid by the shareholders to a company for acquiring its shares.

Rate Sensitive Assets (RSA) are assets susceptible to interest rate movements; that will be re-priced or will have a new interest rate associated with them over the forthcoming planning period.

Repricing risk arises from timing differences in the maturity of fixed rate and the repricing of floating rates as applied to banks' assets, liabilities and off-balance sheet positions

Return on assets measures the operating performance of an institution. It is the widely used indicator of earning and is calculated as net profit as percentage of average assets.

Return on equity is a measure that indicates the earning power of equity and is calculated as net income available for common stockholders to average equity

Risk weighted Assets: Total risk weighted assets of a bank would comprise two broad categories: credit risk-weighted assets and market risk-weighted assets. Credit risk weighted assets are calculated from the adjusted value of funded risk assets i.e. on balance sheet assets and non-funded risk exposures i.e. off-balance sheet item. On the other hand for market risk-weighted assets, first the capital charge for market risk is calculated and then on the basis of this charge amount the value of Market Risk Weighted Assets is derived.

Secondary market is a market in which securities are traded following the time of their original issue.

SME means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing/ service concern) and 50 persons (if it is trading concern) and also fulfils the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:

(a) A trading / service concern with total assets at cost excluding land and building upto Rs50 million.

(b) A manufacturing concern with total assets at cost excluding land and building upto Rs100 million.

(c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs300 million as per latest financial statements.

Tier-I capital: The risk based capital system divides capital into two tiers- core capital (Tier I) and supplementary capital (Tier II and Tier III). Tier 1 capital includes fully paid up capital, balance in share premium account, reserve for issue of bonus shares, general reserves as disclosed on the balance-sheet and un-appropriated /un-remitted profit (net of accumulated losses, if any).

Tier-II capital or Supplementary Capital (Tier II & III) is limited to 100 percent of core capital (Tier I). Tier II includes; general provisions or general reserves for loan losses, revaluation reserves, exchange translation reserves, undisclosed reserves and subordinated debt.

Tier-III capital consists of short-term subordinated debt and is solely held for the purpose of meeting a proportion of the capital requirements for market risks.

Yield risk is the risk that arises out of the changes in interest rates on a bond or security when calculated as that rate of interest, which, if applied uniformly to future time periods sets the discounted value of future bond coupon and principal payments equal to the current market price of the bond.

Yield curve risk materializes when unanticipated shifts have an adverse effect on the bank's income or underlying economic value.