

# Quarterly Performance Review

*of the banking system*

**Banking Surveillance Department**  
**State Bank of Pakistan**

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## Acknowledgments

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The team bears the responsibility of all errors and omissions. The analysis and commentary in the report are entirely those of the team and do not necessarily represent the views of the SBP management.

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**Note:** This is the last quarterly performance review (QPR) of the banking system. Going forward, QPR will be replaced by bi-annual Financial Stability Reports (FSR). However, to accommodate the data needs of various stakeholders, we would continue to post quarterly banking statistics (including Financial Soundness Indicators) on SBP website.

## Overview & Outlook

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The last quarter of CY10 presents a mixed picture for banks in Pakistan. Banks' profits have increased by 23.1 percent during 2010, though continue to remain concentrated among the big five banks. Liquidity in the system has improved and solvency has strengthened further. While Non-Performing Loans (NPLs) continue to accumulate, the rate has slowed down (YoY basis) with the bulk of incremental NPLs confined to a few banks.

There has been growing evidence of banks' flight towards quality as investments, mainly in government securities<sup>1</sup>, now constitute around 30.4 percent of banks' assets compared with 19.3 percent in Dec-08. Share of advances has witnessed a concomitant drop, from 60.8 to 52.0 percent during the past two years. Unsurprisingly, return on government paper now accounts for 34.5 percent of banks' gross mark-up/interest income, compared to 28.8 percent in Dec-08. This suggests that growth in government borrowings, in a rising interest rate scenario, has shored up banks' earnings. Banks' disturbingly diminishing role as financial intermediaries is becoming evident from their Advances-to-Deposits ratio, which has dropped from 76.0 percent in Sep-08 to 61.4 percent by Dec-10.

The shift in asset mix, from advances to investments in government papers, has important implications. In the short run, it has reduced banks' eagerness for extending private sector credit. The lure of risk-free investments in government paper, coupled with high NPLs, has doused their risk appetite. Additionally, they have been able to extend commodity finance well-above the risk-free rate; during Q4-2010, banks charged a premium of 2.75 percentage points above KIBOR on these loans.<sup>2</sup> Under these circumstances, the private sector might find bank credit discernibly expensive, thus keeping its borrowings largely confined to immediate working capital needs.<sup>3</sup> Credit demand from the private sector has been subdued also on account of severe energy shortages, the difficult law and order situation, and an uncertain business environment. On the supply side, banks have shown a preference for maintaining liquidity rather than increasing exposure to the private sector.

If continues unabated, this trend of banks' rising exposure to government borrowings is likely to restrain the performance of the private sector. Further, the growing share of government paper in the asset mix might weaken banks' capacity to effectively manage the risks of private sector borrowers, particularly once the reversal in the asset mix eventually takes place. Admittedly, this is not going to happen soon, given the government's strong demand for funds to finance its budgetary and other needs, and challenging business conditions for the private sector. However, as our domestic experience of credit cycles and the US episode of subprime lending suggests, banks, once awash with liquidity and in pursuit of higher yields, might struggle to effectively manage the risks of another surge in private credit.

On the flip side, this shift in asset mix has improved the liquidity profile of banks and is also likely to help stem the rate of infection in their asset portfolio. Hopefully, this will also encourage private businesses to raise funds from the capital market, assuming that: (i) they find bank credit expensive, (ii) have the brand and credibility to attract investors, (iii) can bear the cost and comply with cumbersome listing regulations, and (iv) are unfettered by concerns over dilution in family ownerships. Indeed, some

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<sup>1</sup> During Q4-CY10, 90.9 percent of incremental investments were in government papers.

<sup>2</sup> This is significant, given the dual comfort of government guarantee and presence of collateral (like stock of wheat etc). However, even an interest rate of 16.27 percent (3 month KIBOR + spread of 2.75 percentage points) makes the real interest rate barely positive when compared with the 15.5 percent of inflation rate for Dec-10.

<sup>3</sup> This has been the case during Q4-CY10, as higher input prices propelled seasonal demand for private sector credit, largely for working capital needs.

private firms have been able to raise money directly from the public through TFCs, and at rates lower than those being charged for government borrowings for commodity finance. Most firms, however, continue to rely on bank credit, which not only keeps their borrowing costs high but also deprives individual and institutional savers of alternative investment opportunities.

During the quarter under review (Q4-CY10), assets of the banking system grew by 7.7 percent to reach Rs. 7.1 trillion. This growth in total assets, while in line with the established seasonal pattern of the fourth quarter, is particularly strong given the comparatively weak performance in the first three quarters of CY10.<sup>4</sup> Total assets have grown primarily because of investments in government papers and seasonal credit requirements of the private sector, thanks to soaring input prices. On banks' liabilities side, deposits increased by 8.5 percent, registering the highest QoQ growth during the last three years, on the back of improvements in the external current account and strong inflows of workers' remittances.

A look at the break-up of total assets reveals that net investments, with an increase of 14.3 percent during the quarter, have markedly outpaced the subdued growth of 5.7 percent in net advances. It appears that the bulk of incremental deposits have been placed by banks in government papers, another indication of ineffective financial intermediation. Within private sector credit, lending to textile and sugar industries has grown by 19.6 percent and 28.2 percent respectively, accounting for two thirds of the credit off- take of Rs. 196 billion during Q4.

In terms of banks' risk profiles, credit risk remains the most significant, and for obvious reasons. First, it accounts for around 80 percent of banks' risk-weighted assets, and is thus markedly more significant than market and operational risks combined.<sup>5</sup> Second, the challenge of reversing the rising trend in NPLs is still not over; in this quarter alone, banks accumulated new NPLs of Rs. 53.7 billion, pushing infection ratio (NPLs to loans-NPLR) from 14 percent to 14.7 percent. On a positive note, 77.6 percent of incremental NPLs during Q4 were confined to a handful of banks, with some banks even enjoying a YoY decline.

Other key risks of the banking system remained subdued during the quarter, in particular liquidity risk. Banks have maintained excess liquidity which prompted SBP to even step in for net mop up on some occasions. On the interest rate side, the spike in the policy rate shifted and steepened the yield curve. Understandably, as in a rising interest rate scenario, banks' bidding patterns during Q4 reflected their greater preference for short term securities. In case of long term securities, banks' bids were partially accepted by the government.

**Table 1: Highlights of the quarter ended December 2010**

	(in percent)					
	CY07	CY08	CY09	Sep-10	Dec-10	
<b>Growth Rates</b>	YoY	YoY	YoY	QoQ	QoQ	YoY
Asset	18.8	8.8	15.8	(2.3)	7.7	9.3
Loans (Net)	10.7	18.0	2.1	(2.0)	5.7	3.1
Deposit	18.4	9.4	13.5	(2.1)	8.5	13.9
Investments (Net)	53.1	(14.8)	59.9	(1.0)	14.3	22.2
Equity	35.3	3.4	17.3	(1.9)	6.3	5.4
<b>KEY FSIs:</b>						
Capital Adequacy Ratio	12.3	12.2	14.0	13.8	14.0	
Capital to Total Assets	10.5	10.0	10.1	9.9	9.8	
NPLs to Loans (Gross)	7.6	10.5	12.6	14.0	14.7	
Net NPLs to Net Loans	1.1	3.4	4.1	4.5	5.4	
ROA (Before Tax)	2.2	1.2	1.3	1.6	1.7	
ROE <sup>^</sup> (Before Tax)	22.6	11.4	13.2	16.2	16.7	
Liquid Assets/ Total Deposits	45.1	37.7	44.5	44.4	45.9	
Advances to Deposit Ratio	69.7	75.2	67.7	63.1	61.4	

<sup>^</sup> Based on Average Equity plus Surplus on Revaluation

Note: Growth rates for Dec-10 are based on quarterly basis

<sup>4</sup>Contraction in assets and liabilities of the banking system during Sep-10 was largely in line with the established pattern of the third quarter, as exhibited by Figure 1.1 below. For detailed discussion, see QPR of Sep-10 available on SBP website.

<sup>5</sup>For commercial banks, it is obvious that the bulk of their assets consist of loans and not the trading portfolios, which keeps market risk subdued. In case of operational risk, its relatively lower share in risk-weighted assets is primarily due to the methodology used in measuring operational risk charge.

Banks' profits have increased by 23.1 percent during CY10 to reach Rs. 111.2 billion. Similar to previous years, these profits continue to remain concentrated in the big five banks, which held 95 percent of total pre-tax profits, with only a 51 percent share in total assets. Banks' profitability has been the outcome of growing interest income and lower provisions on account of FSV benefits (due to SBP's relaxation in provisioning requirements since November 2009).

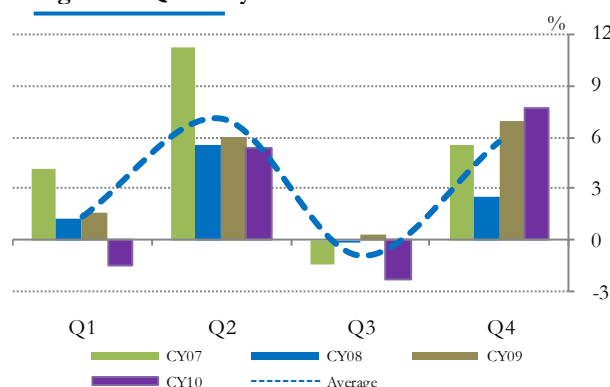
Healthy profits, accumulation of reserves, enhanced minimum capital requirements, and moderate growth in risk-weighted assets help explain the increase in banks' capital adequacy ratio (CAR) from 13.8 to 14 percent during the quarter. The capital structure of some of the smaller banks has observed considerable improvement, primarily on account of three mergers and the formation of Sindh Bank. However, around half of the banks are confronted with the challenge of meeting the recently enhanced MCR of Rs. 7 billion. But if viewed in terms of CAR (a risk-sensitive measure of capital adequacy), banks with around 94 percent market share have maintained the required CAR of 10 percent. This suggests that in overall terms, the banking industry is well capitalized.

Going forward, the historical trend of slowdown in the March-quarter is likely to prevail, followed by revival in credit disbursement as well as in deposit mobilization during the June-quarter. Credit infection is expected to decelerate on the back of some let-up in non-performing loans and banks' shift of asset mix towards risk-free investments. However, reversal in asset mix does not appear likely in the short run, given the borrowing needs of the government and the challenging market conditions for private businesses. Finally, the results of the stress tests indicate that the banking system is resilient to shocks emanating from a challenging macroeconomic and business environment.

## Chapter 1: Assessment of Financial Intermediation

*During the quarter under review, total assets of the banking system have grown primarily because of investment in government papers and seasonal credit requirements by private sector on the back of soaring input prices. Credit to public sector showed a decline due to retirement of advances availed for wheat procurement and repayments by energy sector. Deposit growth was helped by improvements in external sector. Overall asset mix of banks moved further from advances to investments because of relentless government borrowings and banks' risk-averse behavior. This trend, however, highlights the receding role of banks in financial intermediation.*

**Figure 1.1: Quarterly Growth Rates of Total Assets**



### Growth in total assets surpass seasonal trend...

Incessant government borrowings and seasonal demand for private credit on the back of rising input prices helped banking assets grow by 7.7 percent during the quarter (Q4-CY10). Growth in total assets during fourth quarter, though in line with historical trends, is particularly strong given the comparatively weak performance in the earlier three quarters of CY10 (**Figure 1.1**).

### ...mainly as investment in govt. papers surged

A major portion of growth in assets can be ascribed to soaring investments in government securities. Total investment (net of provisions) grew by Rs. 269 billion, posting growth of 14.3 percent during the quarter (**Table 1.1**). On YoY basis, investments registered strong growth of 22.2 percent with the predominant share (72.9 percent) in government papers including T-bills and PIBs. Apart from traditional interest-bearing government securities, the quarter under review also witnessed 96 percent growth in investments by Islamic banking institutions, due to their investment of Rs 89 billion in two tranches of Government of Pakistan Ijarah Sukuk<sup>6</sup>.

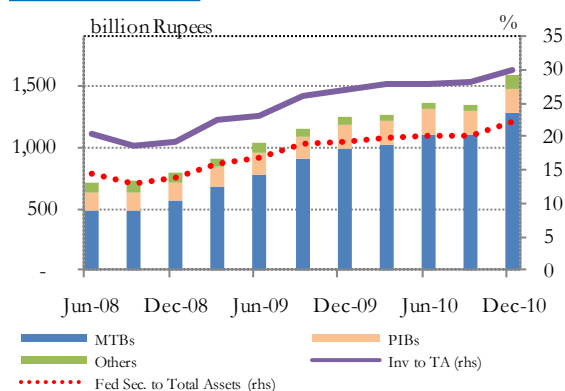
**Table 1.1: Composition of Total Assets by Type**

	billion Rupees				
	Dec-07	Dec-08	Dec-09	Sep-10	Dec-10
Cash & Balances	617	654	708	672	745
Lending to FIs	191	188	238	281	219
Investments (net)	1,276	1,080	1,737	1,873	2,142
Advances (net)	2,688	3,183	3,240	3,167	3,349
Other Assets	401	521	593	632	683
Total Assets	5,172	5,627	6,516	6,626	7,138

<sup>6</sup> For details, see Islamic Banking Bulletin, December 2010.



**Figure 1.2: Banks' Investments**

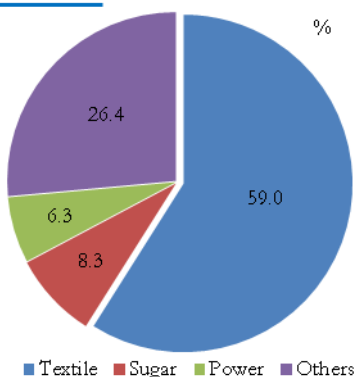


Over the last two years, power supply shortages, weak law and order situation and lackluster economic performance with the consequent rise in credit risk have been the main reasons for banks' flight to quality. Simultaneously, government's reliance on borrowings from commercial banks have surged owing to a) delays in imposition of tax reforms, b) failure to generate sufficient external financing, c) persistent growth in current expenditures directed toward flood relief activities and d) pressures to limit budgetary borrowings from SBP. The burgeoning government borrowings provided banks a continuous stream of lucrative risk-free securities. Unsurprisingly, the amount of investments (net of provisions) doubled from Rs 1.08 trillion in CY08 to Rs 2.14 trillion in Q4-CY10. The share of net investments in total assets also increased from 19 percent in Dec-08 to 30 percent by Dec-10 (**Figure 1.2**). Consequently, net advances as a percentage of total assets dropped from 56.7 percent in CY08 to 46.9 percent in Q4-CY10.

### Higher input prices propelled seasonal demand for private sector credit

Despite shift in asset mix, bank credit increased by Rs. 196 billion during the quarter, registering 5.6 percent growth (QoQ). The rise in credit off-take was influenced by inventory buildup and pickup in economic activities, thanks to seasonal requirements of the manufacturing sector on the back of soaring input prices. In particular, prices of key industrial inputs<sup>7</sup> (i.e. cotton, sugarcane and oil) witnessed a sharp rise in international markets – increasing the borrowing need of manufacturing sector for working capital. Resultantly, private sector commodity finance, corporate sector credit and SME finance registered 63.5 percent, 9.3 percent and 9.1 percent QoQ growth respectively<sup>8</sup>.

**Figure 1.3: Sectoral Composition of Credit**



<sup>7</sup> It is estimated that around 80 percent of the increase in value of exports was due to higher price effect (Monetary Policy Statement of the SBP – Jan 2011).

<sup>8</sup> This covers banks' domestic operations only.

**Table 1.2: Domestic Lending to Private Sector**

	billion Rupees		
	Sep-10	Dec-10	Change
Corporate Sector	1,845.8	2,017.4	171.6
Fixed Investment	713.8	734.0	20.3
Working Capital	630.8	736.8	106.1
Trade Finance	501.3	546.6	45.3
SMEs	308.1	336.2	28.2
Working Capital	232.9	262.9	30.0
Agriculture	167.8	168.5	0.7
Consumer Finance	242.2	237.6	(4.6)
Commodity Financing	57.2	93.6	36.4
Staff Loans	76.7	77.2	0.6
Others	7.9	11.4	3.5

Despite higher lending rates and declining growth of large-scale manufacturing sector, lending to textile and sugar sectors grew by 19.6 percent and 28.2 percent respectively, accounting for two third of the credit off take during the quarter (**Figure 1.3**). Other significant increase in credit disbursements was in electronics and in the energy sector. On the other hand, chemical and pharmaceutical sector that had increased its borrowings over the last several quarters, retired 5.1 percent of its bank credit during the quarter under review.

Disaggregated analysis of the credit to private sector reveals that advances to all segments have grown except for consumer financing. Lending to SME sector also bounced back during the quarter as the sector borrowed Rs. 28 billion against a continuously declining credit in the first three quarters of CY10 (**Table 1.2**).

### ...while lending to public sector & FIs dropped

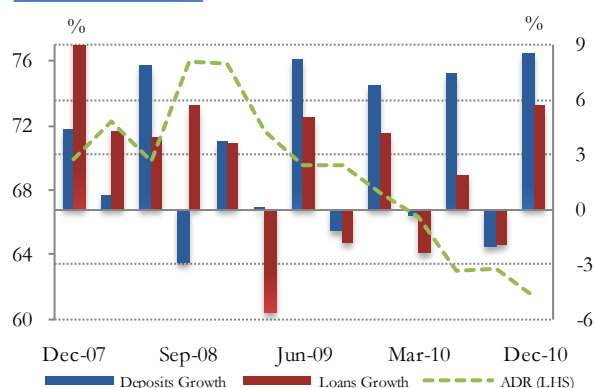
Domestic lending to public sector mainly caters the budgetary needs of the governments, lending to Public Sector Enterprises and for commodity finance operations. During the quarter, retirement against commodity finance and by PSEs including oil refinery and a state-owned oil marketing company lead to a 6.2 percent decline in public sector loans (Rs. 36 billion). In particular, the credit to PSEs declined by Rs. 19.3 billion and for commodity financing by another Rs. 16.3 billion (**Table 1.3**).

**Table 1.3: Credit to Public Sector and Financial Institutions**

Domestic Operations		Amount in billion Rupees, growth in percent					
PSEs			Commodity Finance		Financial Institutions		
	Amount	Growth	Amount	Growth	Amount	Growth	
Dec-08	202.1	8.1	137.6	20.0	187.1	0.9	
Dec-09	244.9	5.5	320.0	-1.4	240.1	33.3	
Sep-10	203.0	10.2	379.9	-6.5	280.9	-3.8	
Dec-10	183.7	-9.5	363.6	-4.3	219.1	-22.0	

Further, lending to financial institutions dropped by 22 percent to Rs. 219.1 billion during the quarter. This was due to banks' greater participation in auctions of government securities that squeezed funds for lending in the money market.

**Figure 1.4: Growth in Advances & Deposits**



## ADR continued to fall, with receding financial intermediation

Over the last two years, deteriorating asset quality has made banks cautious of lending to private sector except for higher quality borrowers or for seasonal credit. With government's increasing reliance on borrowings from commercial banks, banks' risk appetite for private credit has slacked further. This has translated into growing investment in government papers with a concomitant deterioration in ADR, from around 76 percent in Sep-08 to 61.4 percent in Dec-10 (**Figure 1.4**). Declining ADR highlights the fact that banks were not constrained by the availability of funds; rather it was growing level of NPLs that made banks wary of lending to the private sector. Borrowing needs of the government and consequent supply of risk-free securities at attractive rates further dampened the banks' risk-appetite. These factors collectively encouraged banks' shift from advances to investments, with consequent fall in ADR. If this trend continues unabated, it would reduce the effectiveness of banks' role as financial intermediaries.

## Foreign banks more into investment than lending

Unlike other banks, foreign banks have 15.6 percent of their assets in lending to financial institutions and only 28.1 percent into net advances. Foreign banks remain confined to selective lending and are generally more risk-averse than other banks. This is in stark contrast with other commercial banks, particularly top five banks, where these ratios are 2.2 percent and 48.1 percent respectively (**Table 1.4**).

It appears that the size and outreach have significant bearing on banks' asset-liability management strategies. Large size banks have wider outreach and enjoy stronger brand recognition due to their long presence in the market. They are able to mobilize higher amount of relatively cheaper and less rate-

**Table 1.4: Assets Composition by Size of Banks**

Dec-10				
	billion Rupees			
	Top 5 banks	6-10 banks	11 - 20 banks	Rest of banks
Market Share	51.0	22.6	16.8	4.4
Cash & Bank	10.9	9.2	9.1	11.6
Lending to FIs	2.2	3.4	2.3	6.2
Investments	29.5	30.8	33.1	26.6
Advances	48.1	46.2	46.3	44.7
Other Assets	9.3	10.4	9.2	10.9
Total Assets	100	100	100	100
	Local banks	Foreign banks	Specialized banks	All banks
Market Share	94.7	3.3	2.0	100.0
Cash & Bank	10.2	15.8	12.2	10.4
Lending to FIs	2.7	15.6	0.0	3.1
Investments	30.3	34.2	10.2	30.0
Advances	47.2	28.1	65.5	46.9
Other Assets	9.6	6.4	12.1	9.6
Total Assets	100	100	100	100

<b>Table 1.5: Concentration of Lending in the Banking System</b>			
	(in percent of total industry)		
	Top 5 banks	Top 10 banks	Top 20 banks
Dec-07	48.8	72.6	94.1
Dec-08	52.9	74.2	93.6
Dec-09	53.7	74.7	93.2
Sep-10	51.8	73.8	92.3
Dec-10	52.3	74.5	92.8

sensitive deposits. The stable deposit-base of large banks allows them to take longer positions without significant risk of asset-liability mismatch. Share of top-5 banks in total bank lending has been above 50 percent of the industry and has further inched up (**Table 1.5**). On the other hand, small-sized banks (and especially foreign banks) have to rely on urban clientele and money market activities because of their narrow deposit-base which in turn restrict their ability to diversify their credit portfolio.

### Three Mergers and establishment of a new bank shifts assets to local banks

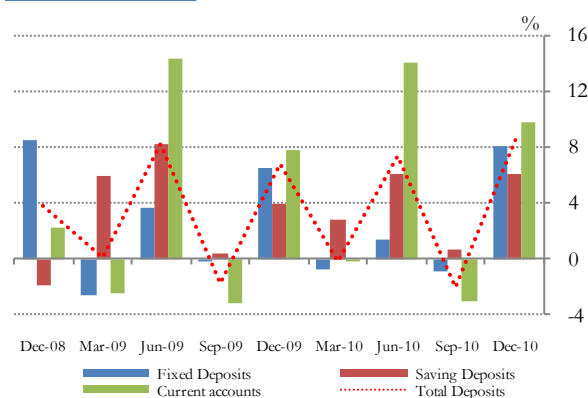
Market share of smaller banks slightly increased during Q4-CY10 on account of establishment of Sindh Bank (public sector commercial bank) and merger of Royal Bank of Scotland into Faysal Bank (a local private bank). Similarly, AlBaraka Islamic bank, a foreign bank, became locally incorporated after its merger with Emirates Global Islamic bank. This resulted into contraction of foreign banks' assets by around Rs. 23 billion<sup>9</sup> (**Table 1.6**).

### Deposits register decent growth...

During the quarter, total deposits of the banking system increased by 8.5 percent, compared to 6.8 percent growth during same quarter last year (**Figure 1.5**). The growth in total deposits has been dominated by non-remunerative current accounts, which grew by 9.7 percent in the same quarter. Savings and non-remunerative current account have witnessed higher growth in line with increase in seasonal credit disbursement, as part of the disbursed loan return to the banking system. On the other hand, fixed deposits that are largely influenced by depositors' disposable income and preferences for savings, have registered an 8.1 percent growth in Dec-10 compared to 6.6 percent in Dec-09.

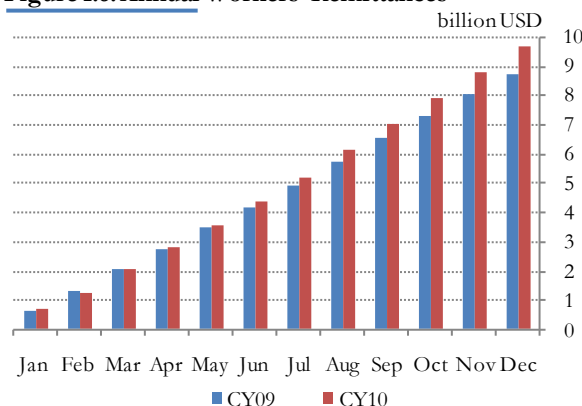
<b>Table 1.6: Total Assets by Type of Bank</b>					
	billion Rupees				
	CY07	CY08	CY09	Sep-10	Dec-10
PSCBs	1,036	1,042	1,230	1,236	1,358
LPBs	3,836	4,220	4,905	4,998	5,404
FBs	173	234	241	257	234
CBs	5,044	5,496	6,376	6,491	6,995
SBs	127	130	140	135	142
All Banks	5,171	5,627	6,516	6,626	7,138

**Figure 1.5: Growth in Customer Deposits**



<sup>9</sup> During the quarter, another merger between two local banks, Arif Habib and Atlas Bank, resulted into Summit Bank. However, this does not affect the overall share of local private banks.

**Figure 1.6: Annual Workers' Remittances**



**Table 1.7: Deposits by Size of Bank**  
**Dec-10**

	(in percent)			
	Top 5 banks	6-10 banks	11 - 20 banks	Rest of banks
Market Share in Deposits	53.3	23.6	15.7	4.1
Customers	96.2	95.9	96.4	97.7
Fixed Deposits	26.0	30.8	42.6	43.0
Saving Deposits	37.5	34.8	31.2	32.4
Current accounts - Remunerative	4.5	2.3	0.0	1.3
Current accounts - Non-remun.	27.9	26.8	21.6	19.9
Others	0.4	1.2	1.1	1.1
Financial Institutions	3.8	4.1	3.6	2.3
Remunerative Deposits	1.7	4.0	3.5	2.2
Non-remunerative Deposits	2.1	0.1	0.1	0.1
Total Deposits	100	100	100	100
	Local banks	Foreign banks	Specialized banks	All banks
Market Share in Deposits	96.8	2.9	0.3	100
Customers	96.3	97.6	95.8	96.3
Fixed Deposits	30.6	51.3	18.9	31.1
Saving Deposits	35.6	25.3	39.1	35.3
Current accounts - Remunerative	3.1	0.4	0.9	3.0
Current accounts - Non-remun.	26.3	20.3	35.3	26.1
Others	0.7	0.3	1.7	0.7
Financial Institutions	3.7	2.4	4.2	3.7
Remunerative Deposits	2.5	1.5	4.2	2.5
Non-remunerative Deposits	1.2	0.9	0.1	1.2
Total Deposits	100	100	100	100

Part of growth in deposits came from improvements in external sector on the back of continued high workers' remittances amounting to \$2.6 billion during the quarter. Cumulative amount of remittances during CY10 was \$965 million higher than that of remittances during CY09 (**Figure 1.6**).

Due to growth in deposits and comfortable liquidity profiles, banks' reliance on borrowings from the money market remained low during the quarter. The share of borrowings from financial institutions in total assets declined from 10.1 percent in Dec-09 to 7.7 percent in Dec-10.

Top five banks were able to mobilize Rs. 261 billion in new deposits of which Rs. 136 billion were in savings and non-remunerative current account. Consequently, the share of fixed deposits continued to remain far lower in top five banks (26 percent) than in smaller banks (43 percent) or even compared with industry average (31 percent) (**Table 1.7**). Since most of the advances are made by large banks, bulk of their credit disbursements remain within these banks in term of current accounts of businesses and saving accounts of private individuals. Further, large banks have also been successful in raising low-cost and relatively rate-insensitive deposits.

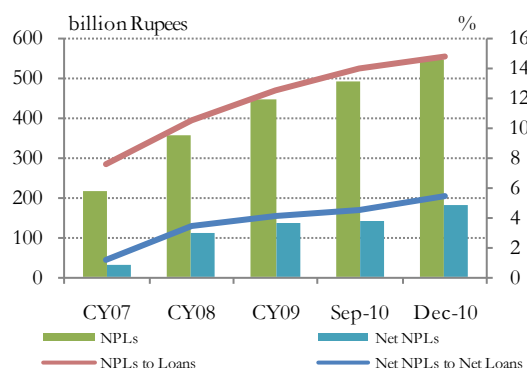
## Chapter 2: Risk Analysis

*Risk profile of the banking system offers a mixed picture. Banks liquidity positions have strengthened during the quarter, offering better cushion against liquidity shocks. However, NPLs continue to accumulate, albeit at a slower pace and with incremental NPLs heavily concentrated in a few banks. Growing infection has tempered banks' appetite for private sector credit, shifting their portfolios towards investments in government papers. Market risk has remained subdued during the quarter, despite shift and steepening of the yield curve and a bullish equity market.*

### 2.1: Credit Risk

**Despite some let up, NPLs continue to accumulate...**

**Figure 2.1.1: Trends in Non Performing Loans**



Credit risk tops the risk matrix of banks in Pakistan, accounting for around 80 percent of their risk weighted assets. With continuous growth in Non-performing loans (NPLs) since CY07, credit risk has been a major challenge for banks. After experiencing a slowdown in earlier quarters, NPLs were up by 10.9 percent during Q4-CY10, the highest quarter growth since Q1-CY09. With 53.7 billion of incremental NPLs this quarter, infection ratio (NPLs to loans) has further deteriorated from 14 percent to 14.7 percent over the same period (Figure 2.1.1).

Despite build up of new NPLs over the quarter (Q4-CY10), year-on-year trend reveals marginal slow down. Specifically, banks experienced a relatively slower growth in NPLs (22.8 percent) during Dec-10, compared with 24.2 percent during CY09 and 64.8 percent during CY08<sup>10</sup>.

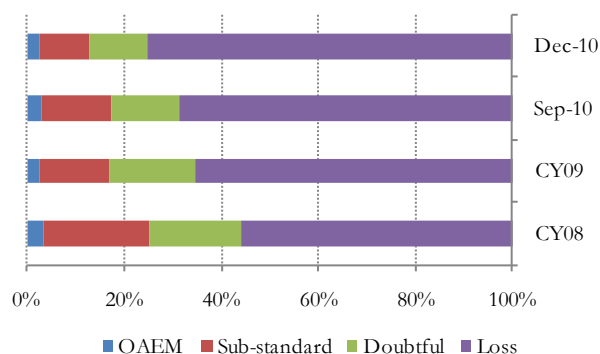
**...though incremental NPLs are heavily concentrated**

Notwithstanding the significant rise in NPLs during Q4, a substantial part (77.6 percent) of the additional NPLs was concentrated in a few banks

	(amount in billion Rupees)				
	CY07	CY08	CY09	Sep-10	Dec-10
PSCBs	44	103	118	123	164
LPBs	140	224	293	331	344
FBs	1	3	6	8	7
CBs	185	330	418	462	515
SBs	33	29	28	32	32
All	218	359	446	494	548

<sup>10</sup> Preliminary estimates for Q1-CY11 indicate a QoQ slow down in NPLs as well, from 10.9 percent in Q4-CY10 to 4.7 during Q1-CY11 quarter.

**Figure 2.1.2: Category-wise Breakup of NPLs**



(Table 2.1.1). In case of local private banks, there has been a mixed trend as some banks were able to reduce NPLs while others observed expansion during the quarter. Though foreign banks observed contraction in NPLs, it was primarily on account of merger of EGIBL and Albaraka Islamic bank.

### ...and so does the sharp rise in *Loss* category

By classification categories, NPLs have contracted by 12 percent during Q4-CY10 in the first three categories i.e. OEAM, substandard and doubtful (Figure 2.1.2). However, Loss category of NPLs witnessed significant increase of Rs. 72.2 billion, experiencing 21.3 percent QoQ growth. This has been due to downgrading of initial categories as well as inflow of fresh NPLs directly into loss category. As in the case of incremental NPLs, bulk (81.6 percent) of NPLs under loss category have been booked by a few banks.

### Smaller banks bear the brunt of credit risk

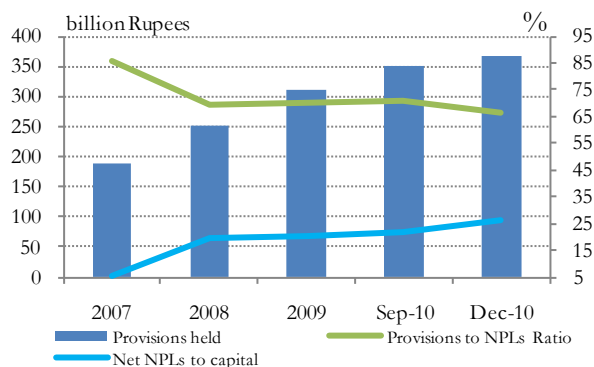
While growing NPLs has generally been a drag on banks profits and solvency profiles, larger banks appear more resilient, given their stronger capital buffers, greater outreach and diversification in lending and deposits base. Despite a noticeable increase in lending portfolios of top 5 banks, their NPLs and infection ratios remained relatively low, reflecting their ability to attract less risky borrowers. In fact, as much as 73 percent of banks' lending to public sector resides in the top 5 banks.

Conversely, relatively smaller banks, with limited outreach and low diversification in their asset base, have to bear the brunt of the increased credit risk. In particular, banks ranked 11-20 in terms of share in banks total assets appear considerably more vulnerable as reflected in their unusually higher infection ratio and significantly lower provisioning coverage (Table 2.1.2). For instance, infection ratio

Table 2.1.2: Asset Quality Indicators				
(In percent)				
Dec-10	Infection Ratio	Net Infection Ratio	Provision Coverage	Net NPLs to Capital
Top 5 banks	12.4	3.2	76.7	14.3
Top 6-10 banks	10.5	2.8	74.9	16.9
Top 11-20 banks	24.7	14.3	49.3	86.2
Top 21-29	17.4	9.4	50.7	24.3
FBs	9.8	1.4	86.5	2.7
SBs	28.4	12.5	64.2	335.5
Banks excluding SBs	14.3	5.2	66.9	24.6
<b>All banks</b>	<b>14.7</b>	<b>5.4</b>	<b>66.7</b>	<b>26.1</b>



**Figure 2.1.3: Provisions against NPLs**



which averaged 12.4 percent for top-5 banks was as high as 24.7 percent for banks ranked 11-20.

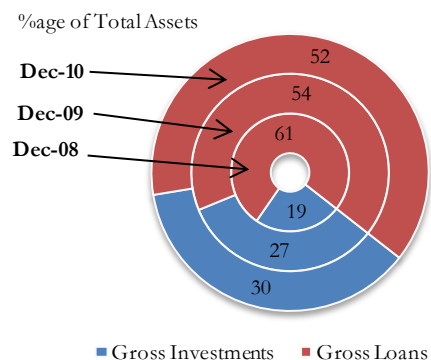
### Despite rise in provisions, coverage ratio dropped

With additional provisions of Rs. 14.1 billion, provisions increased by 4 percent during the quarter. This rise in provisions was however slower than 4.3 percent growth in the previous quarter (Q3-CY10). Consequently, NPLs coverage ratio (provisions to NPLs) deteriorated from 71.1 percent to 66.7 percent during Q4-CY10 (**Figure 2.1.3**). This also led to a rise in capital impairment ratio (net NPLs to capital) of the system from 21.8 percent to 26.1 percent. The drop in coverage ratio and surge in capital impairment has been on account of strong growth of NPLs during the quarter coupled with lower provisions due to FSV benefit<sup>11</sup>.

### Banks' risk-aversion on rise

With challenging economic conditions and growing NPLs, banks were shy of venturing into risky lending opportunities. In such testing times, relentless borrowings by the government have been a blessing for commercial banks, providing a convenient option to place bulk of their funds in risk-free securities. Accordingly, there has been noticeable flight to quality in banks' lending portfolios. For instance, investment in government papers has posted a strong growth of 18.3 percent, compared with 9.6 percent growth in lending to private sector. Accordingly, share of investments in total assets has consistently grown since CY08 with concomitant fall in share of advances (**Figure 2.1.4**). While public sector lending has dropped during the quarter on account of retirement of commodity finance, banks have preferred to

**Figure 2.1.4: Investments & Loans**



<sup>11</sup> BSD Circular No. 10 of 2009 allows banks to take FSV benefit on pledged stocks and mortgages held as collateral against NPLs for three years from the date of classification for calculating provisioning requirement w.e.f. 30-09-2009. Further, lower provisions could also be partly explained by additional relaxations given by SBP in case of debt guaranteed by the government.

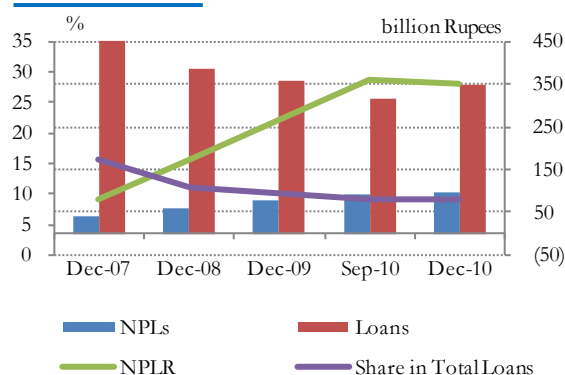


maintain excess liquidity than venturing into relatively risky lending.

Within private sector, lending to corporate sector posted stable growth. The sector enjoyed relatively lower infection ratio because of its greater capacity to withstand untoward shocks like power shortages and macroeconomic stresses. As of Dec-10, 63 percent of banks' loan portfolio was taken by corporate sector with significantly lower infection ratio (15.4 percent) compared with SMEs (28 percent). However, as the magnitude of lending to corporate sector is substantially higher, even moderate deterioration in asset quality has serious implications for banks profits.

In terms of sectoral distribution of loans and NPLs for Q4 (**Table 2.1.3**), textile sector continued to remain the largest user of bank credit, on account of working capital requirements fuelled by soaring input prices. In line with its borrowing magnitude, banks' 31.3 percent of NPLs were also in the textile sector. Credit supply to energy sector also remained high during the quarter on account of rising fuel prices. Further, share of agribusiness loans improved from 4.7 percent to 5.9 percent (YoY), on the back of less than expected impact of floods and seasonal financing needs at times of high input prices.

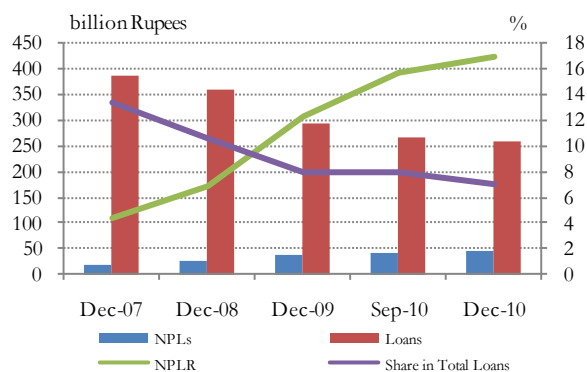
**Figure 2.1.5: Trends in SME Finance**



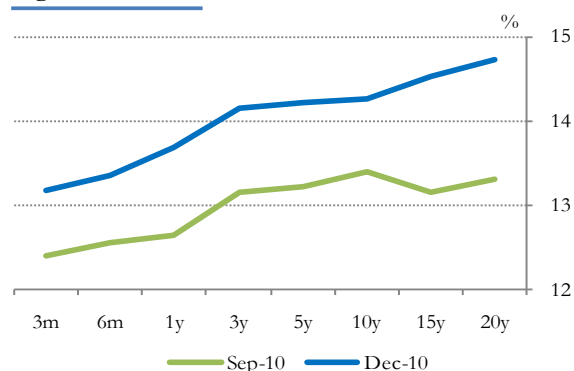
### Lending to SMEs and consumers remain cautious

Lending to SMEs surged by Rs. 29 billion during Q4 after contracting by Rs. 41 billion in earlier three quarters of CY10 (**Figure 2.1.5**). The recent hike in the lending to SME has been on account of different revival schemes in post-flood scenario in which the SME and agricultural related small industries were provided credit guarantee schemes. Further, banks were given relaxations in provisioning requirements on restructured and rescheduled loans to affected SMEs.

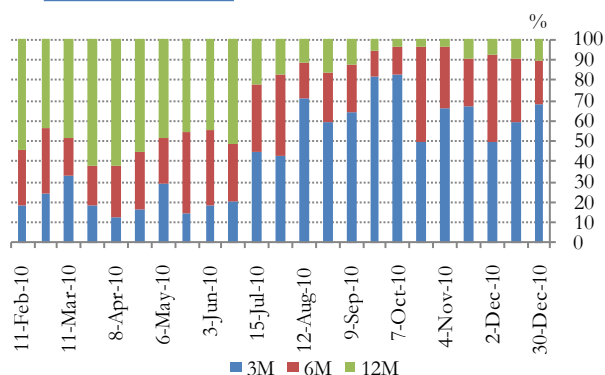
**Figure 2.1.6: Trends in Consumer Finance**



**Figure 2.2.1: Shift in Yield Curve**



**Figure 2.2.2: Tenor-wise Offers in T-bill**



However, over the past few years, lending to SMEs has consistently declined along with its share in banks' total loan portfolio, mainly due to rising interest cost and crippling power shortages. Banks' declining interest in this segment has primarily been on account of higher infection rate (NPLR) for SMEs which reached 28 percent by Dec-10 against 9.2 percent in Dec-07. However, part of the rise in NPLR is simply because of declining amount of loans extended to SMEs.

Likewise, consumer finance has also been on a consistent decline as NPLs have been on a rise. Infection ratio has deteriorated from 4.4 percent in Dec-07 to 16.9 percent by Dec-10, dampening banks' appetite for consumer credit (**Figure 2.1.6**).

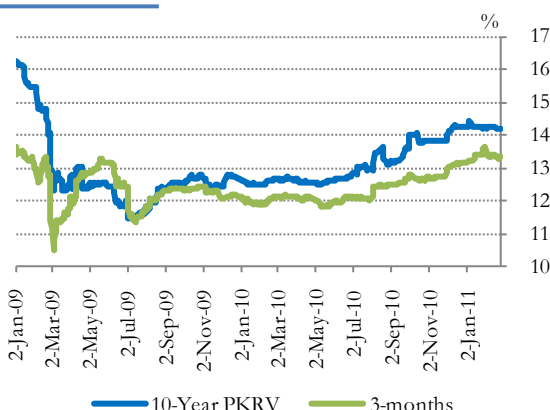
## 2.2: Market and Liquidity Risk

### Patterns in T-Bill auctions signal banks' interest in short tenor securities

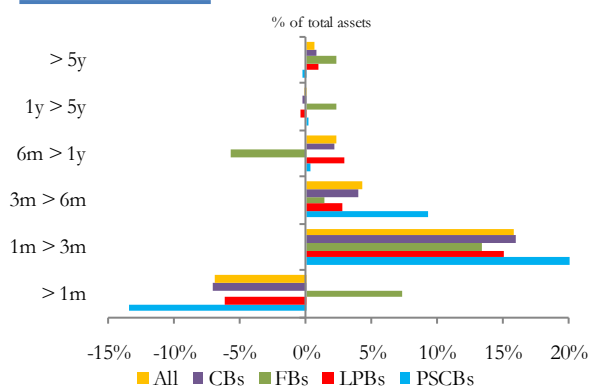
To curb inflationary pressures, fuelled by relentless government borrowing from State Bank, policy rate was increased by 100bps during the quarter, staggered in two stages of 50 bps each<sup>12</sup>. This shifted the yield curve upwards, with higher increase in longer term maturities (**Figure 2.2.1**). Specifically, PKRV rates of 3 months, 1 year and 10 year maturities increased by around 78, 103 and 85bps points respectively during the quarter.

In view of a rising interest rate scenario, banks appeared more inclined to lock their funds in short term maturities. Expectations of higher inflation and interest rates were evident from the bidding patterns of T-Bill auctions as bids for 12-months T-bills significantly dropped while those of 3-months T-bills surged (**Figure 2.2.2**). In case of long term securities (PIBs), while banks were bidding, government partially accepted these bids during Q4.

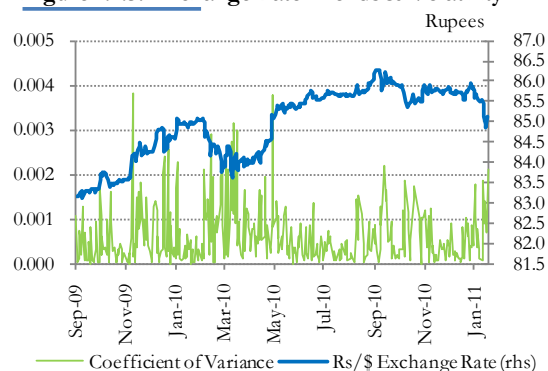
**Figure 2.2.3: Yield Spread between 3m & 10y PKRV Rates**



**Figure 2.2.4: Risk Sensitive GAP Analysis**



**Figure 2.2.5: Exchange Rate Trends & Volatility**



The yield spread between the indicative long term rate of 10-year and short term rate of 3-months, while still positive, exhibited a declining trend during the quarter (**Figure 2.2.3**). This squeeze in spread offered lower incentive for market players to take long term positions and explain banks' greater appetite for short term securities.

### Reporting conventions make gap for short maturities appear negative...

Out of short term maturities, gap (between risk sensitive assets and liabilities) for less-than-a-month band followed an established pattern of remaining strongly negative (**Figure 2.2.4**). As a matter of common practice, banks' place high percentage of their non-contractual deposits (current and saving) in short term bucket which substantially increases liabilities in these bands, resulting in a negative maturity gap. This phenomenon is evident from three month maturity gap of PSCBs which is significantly large owing to higher amount of placement of their non-contractual deposits in short-time bucket, whereas, for the longer-term maturities, the gap generally stayed positive. In order to address this issue and improve reporting of maturity gaps, SBP has issued new guidelines requiring banks to report their non-contractual maturities as per expected maturities based on objective and systemic behavioral study<sup>13</sup>.

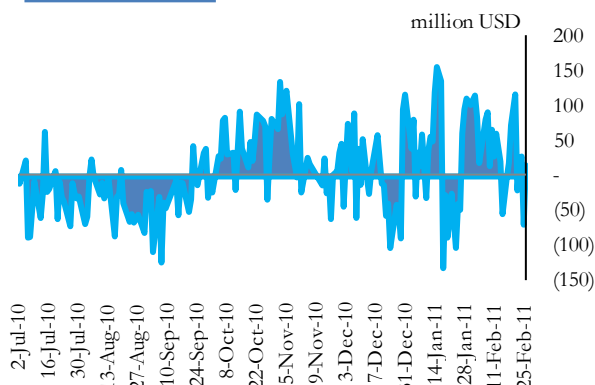
### Recovery in current account helps exchange rate improve

During Q4-CY10, current account turned surplus (US\$ 613 million) for the first time since Q3-CY05. Impressive recovery in current account was driven primarily by a robust growth in exports and strong inflows of remittances. This took pressure off the exchange rate, as PKR/USD rate during the quarter gradually appreciated by 57 *paisas* to come down to

<sup>12</sup> SBP increased its policy rates by 50 bps w.e.f September 29 and then again by 50 bps w.e.f November 30, 2010.

<sup>13</sup> See BSD Circular No 03 of 2011.

**Figure 2.2.6: Average Daily NOP of all Banks**



**Figure 2.2.7: KSE-100 Index Trends**



**Table 2.2.1: Investments in Shares by the Banking System**

	Sep-10		Dec-10	
	Amount	% of Capital	Amount	% of Capital
Top 5	42.2	11.2	45.9	11.7
Banks 6-10	10.4	9.2	9.3	7.9
Banks 11-20	21.1	23.5	27.2	27.3
Banks 21-29	1.8	4.8	2.9	6.0
<b>All Local Banks</b>	<b>75.62</b>	<b>12.23</b>	<b>85.3</b>	<b>12.9</b>
Foreign Banks	0.1	0.2	0.1	0.2
<b>All Commercial Banks</b>	<b>75.68</b>	<b>11.55</b>	<b>85.4</b>	<b>12.3</b>
<b>ALL Banks</b>	<b>77.2</b>	<b>11.8</b>	<b>87.1</b>	<b>12.5</b>

Rs. 85.7, compared to a depreciation of 82 *paisas* in the previous quarter (**Figure 2.2.5**).

Healthy inflows helped banking system keep an overall long position, contrary to a predominantly short position in Sep-10 quarter. Further, in the backdrop of increasing commodity prices in international markets, particularly of crude oil, banks also expected future demand for dollars for payments against oil imports<sup>14</sup> (**Figure 2.2.6**). This trend to generally hold long position in FX continued in the first two months of CY11 as well.

### Equity market turned bullish...

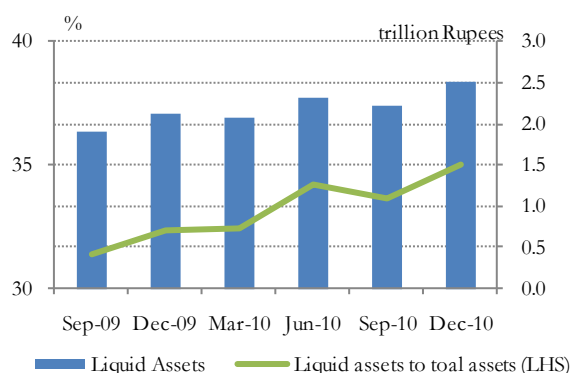
The equity market benefited significantly from the sustained foreign inflows in the stock market coupled with announcements of better corporate earnings. Furthermore, the expected launch of the much-awaited leverage product (Margin Trading System) also boosted the benchmark KSE-100 index by 20.1 percent in Q4-CY10 (**Figure 2.2.7**). With the prevailing bullish run in Q4, the banks booked net surplus of Rs 5.4 billion on revaluation of their equity portfolio against Rs 19.3 million booked in Sep-10 quarter.

### ...with banks' exposure slightly up

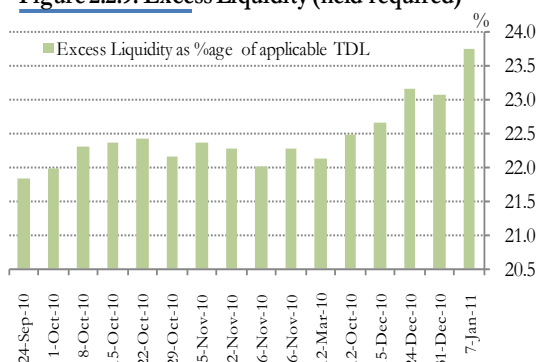
Anticipating a higher return in stocks, the banks' investments in the equity market also jumped up by 12.9 percent, with their share as percent of bank capital increasing from 11.8 percent in Q3 to 12.5 percent in Q4. In monetary terms, the increase in investments has been more pronounced in the medium and small sized banks (asset-wise ranked 11-29) while, the share of specialized and top 10 banks observed a reduction in its equity investment to bank capital ratio (**Table 2.2.1**).

<sup>14</sup> In recent years, oil imports have typically accounted for around 28% of total import bills.

**Figure 2.2.8: Growth in Liquid Assets**



**Figure 2.2.9: Excess Liquidity (held-required)**



## Higher investments bolster liquidity indicators...

Banks' liquidity position over the quarter remained quite comfortable, as banks continued to build excess liquid reserves. In particular, liquid assets registered a growth of 12.2 percent during the quarter (YoY growth of 18.4 percent).

Due to ongoing tight monetary policy stance and soaring government borrowings, coupled with heightened credit risk, bulk of banks funds went into shorter term risk-free govt. securities. This prompted share of government securities in overall investments to rise from 70.4 percent in Sep-10 to 72.9 percent in Dec-10, further pushing up the share of liquid assets in total assets (**Figure 2.2.8**). Consequently, excess liquidity (required minus held by banks) continued to rise (**Figure 2.2.9**). Another indicator of sufficient liquidity in the market was consistently declining trend in net injections. In fact, SBP resorted to net mop-up of Rs. 286 billion during the quarter to keep money supply in line with its overall policy objectives, in marked contrast with net injections of Rs. 420 billion in Q3-CY10.

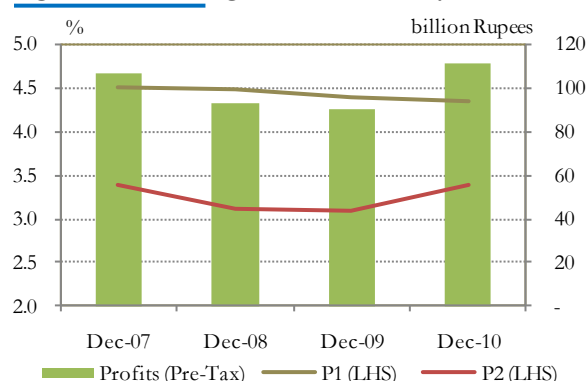
## Chapter 3: Soundness and Resilience of the Banking System

Banks profits increased by 23.1 percent during 2010, though continued to remain concentrated in big five banks. Profits were driven by higher interest income, particularly from government papers, and lower provisions on account of FSV benefits. Solvency profiles, specifically of some smaller banks, improved too. While banks were mostly compliant with CAR, enhanced MCR of Rs. 7 billion remained a challenge. Results of stress tests indicate that banking system in general is resilient against shocks emanating from business and economic environment.

### 3.1: Profitability

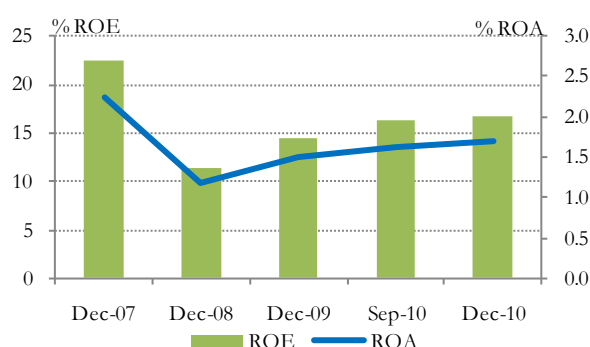
#### Banks' profits rise above CY07 level

**Figure 3.1.1: Banking Sector Profitability**



The banking system witnessed a healthy growth of 23.1 percent (YoY) in profits despite the threats emanating from the deteriorating quality of its assets (Figure 3.1.1). Profits were driven by significant growth in the interest income as well as by relaxation in the FSV for provisioning which eased the banks' expenses, helping banks to post profits in excess of Rs. 111.2 billion.

**Figure 3.1.2: Profitability Indicators (Pre-Tax)**



Besides the conventional measure of profitability (pre-tax profits), an alternative set of indicators (P1 and P2) that take into account the relative performance with respect to the size of assets highlights a mix trend of banks' earnings<sup>15</sup>. The ratio, P1 deteriorated marginally in Q4-CY10 on account of a much proportional increase in interest expenses whereas P2 showed improvement due to lower provisioning because of FSV benefit. In terms of soundness indicators, both the pre-tax Return on Assets (ROA) and Return on Equity (ROE) of the banking sector inched up to reach its highest level since Dec-08, though still significantly lower than CY-07 level (Figure 3.1.2).

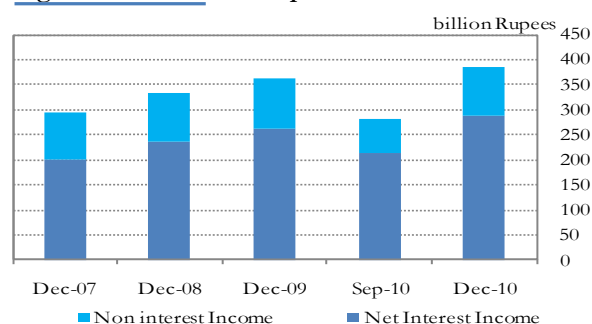
<sup>15</sup> Alternative measures of profitability include:

$P1 = ((\text{interest earned} + \text{other income} - \text{interest expense} - \text{other expense}) / \text{average assets}) * 100$

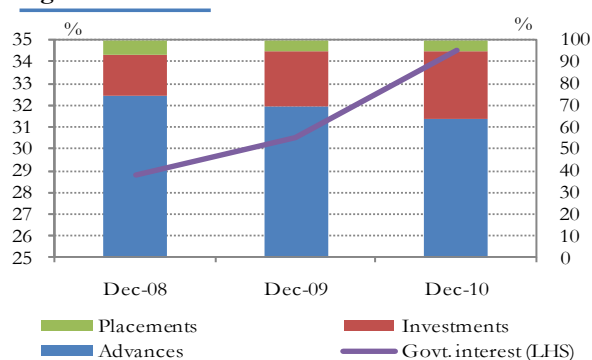
$P2 = ((\text{interest earned} + \text{other income} - \text{interest expense} - \text{other expense} - \text{provisions}) / \text{average assets}) * 100$

Table 3.1.1: Concentration of Earnings and Profitability				
Dec-10				
	(In percent)			
	ROA (Before Tax)	ROE (Before Tax)	ROA (After Tax)	ROE (After Tax)
Top 5 banks	3.1	28.6	1.9	17.5
Top 5 to 10 banks	0.9	12.0	0.6	8.0
Top 11 to 20 banks	(0.7)	(7.2)	(0.6)	(6.0)
21-30 banks	(2.0)	(10.9)	(1.7)	(9.7)
<b>All 30 banks</b>	<b>1.7</b>	<b>16.5</b>	<b>1.0</b>	<b>9.7</b>
FBs	0.3	2.7	0.1	1.5
SBs	2.4	0.0	1.5	0.0
<b>All Banks</b>	<b>1.7</b>	<b>16.7</b>	<b>1.0</b>	<b>9.8</b>

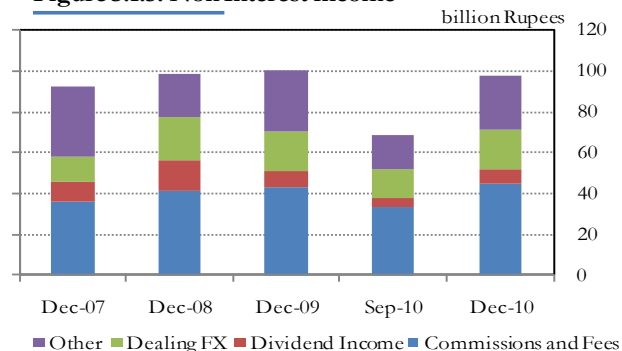
**Figure 3.1.3: Income Components**



**Figure 3.1.4: Shares in Interest Income earned**



**Figure 3.1.5: Non Interest income**



## ...and continue to remain highly concentrated in Top 5 banks

The Top 5 banks, with 51 percent share in total asset of the banking system, contributed towards 95 percent of the total pre-tax profits of the industry<sup>16</sup>. Of the remaining 35 banks, 17 booked net losses and remaining 18 banks contributed only 5 percent in the total earnings. In terms of the key profitability indicators, the top 5 banks exhibited the highest ROA and ROE ratios followed by the next tier of banks i.e. top 6-10 banks (Table 3.1.1).

## Profits rise with higher returns from government securities

The significant growth in the banking profits has mainly originated from the net interest income (NII) which constituted 91 percent of net income for Q4<sup>17</sup>. The net interest income, despite rising level of delinquencies and low return on advances, still managed its upward trend mainly due to rising proportion of interest earned from government securities. Return on government papers contributed as much as 34.5 percent of banks' gross interest income earned during CY10, compared to 30.5 and 28.8 percent for CY09 and CY08 respectively (Figure 3.1.3). Further, government borrowings from the banking sector, particularly for commodity financing, provided banks the return which was well above the risk free rate.

On the other hand, non-interest income has remained virtually stagnant, hovering around Rs. 95 to 99 billion since CY08 (Figure 3.1.5). Major part of non-interest income was contributed by fee based income from banking services, which has been fairly stagnant as E-banking solutions have reduced banks' margins.

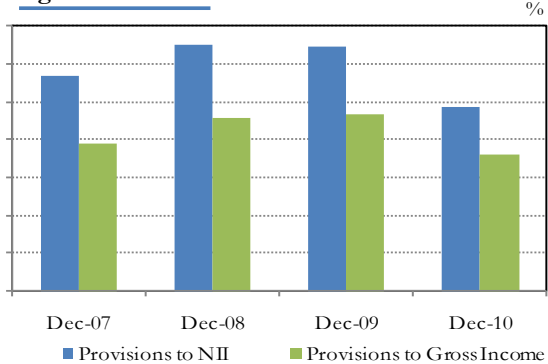
<sup>16</sup> The share of top 5 banks in pre-tax profits of the banking system was 102 percent in CY09 and 96 percent in CY08.

<sup>17</sup> Net income = net interest income + non-interest income.



### ....and lower provisions thanks to FSV benefit

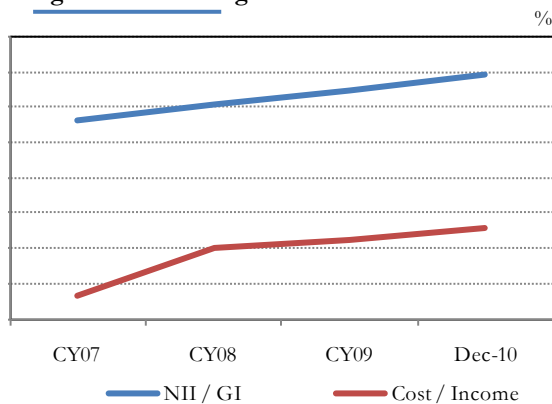
**Figure 3.1.6: FSV Benefits**



Rising credit risk over the last few years has been eating up much of the profits of the banking system. However, introduction of FSV benefit since 2009 has eased the effect of provisions on bank expenses, as share of provisions in net interest income has dropped significantly (**Figure 3.1.6**). On the downside, lower provisions due to FSV benefits have reduced coverage ratio from 71.1 percent in CY09 to 66.7 percent by Dec-10 (see Figure 2.1.3).

### Banks' administrative expenses respond to inflationary trend

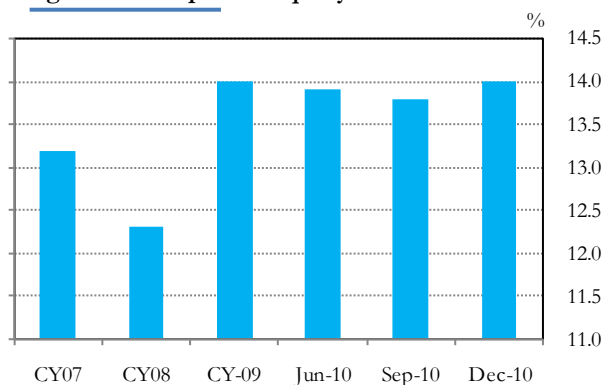
**Figure 3.1.7: Earning Ratios**



With an increase in administrative expenses by 10 percent (YoY), the cost to income ratio of the banking system has marginally deteriorated from 51.8 percent in CY09 to 53 percent during Q4-CY10 (**Figure 3.1.7**). The increase in administrative expenses has been on account of rise in salaries and overhead expenses, fuelled by inflationary pressures.

Further, interest expenses in form of return on deposits made a major contribution in total expenses. Consequently, total expenses increased during the quarter, causing a marginal decline in NII to gross income ratio.

**Figure 3.2.1: Capital Adequacy of Banks**



## 3.2: Solvency

### Banks solvency profile improved, particularly of smaller banks

Healthy growth in banking profits in the quarter under consideration, coupled with accumulation of the reserves, improved the solvency profile of the banking sector. The baseline Capital Adequacy Ratio (CAR) strengthened from 13.8 percent in Sep-10 to 14.0 percent in Dec-10 (**Figure 3.2.1**). This improvement was on account of enhanced MCR



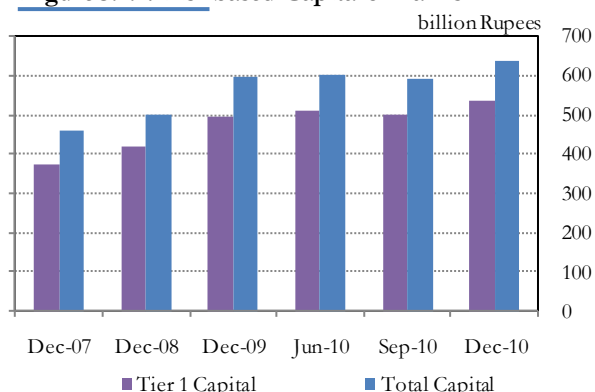
Table 3.2.1: Category-Wise Solvency Ratios						
	Capital to RWA		Tier 1 to RWA		Capital to Assets	
	Sep-10	Dec-10	Sep-10	Dec-10	Sep-10	Dec-10
Top 5	16.3	16.1	13.4	13.4	11.3	10.3
6 to 10	8.8	8.9	6.2	6.7	7.4	5.0
11 to 20	13.4	12.1	12.1	11.2	9.1	8.5
21 to 29	14.4	24.1	14.7	23.8	11.7	13.2
All 29	14.0	16.0	11.7	14.7	10.0	9.7
FBs	23.9	24.6	23.5	24.3	14.4	14.8
SBs	2.2	4.6	(3.4)	(0.9)	0.3	3.9
Industry	13.8	14.0	11.6	11.8	9.9	9.7

requirements of Rs. 7 billion set by SBP<sup>18</sup> as well as banks' lower risk appetite.

There has been considerable improvement in the capital structure of smaller banks (21-29 in terms of share in total assets) (**Table 3.2.1**). This has been due to establishment of (and thus capital injection in) a state-owned bank by the government and three merger activities<sup>19</sup>. Further, with the reduction in number of foreign banks, while their level of capital and RWA fell during the quarter, their CAR marginally improved from 23.9 percent to 24.6 percent.

However, despite an increase in the capital base of top 20 banks, their CAR and Tier-1 ratios deteriorated as increase in risk weighted assets of these banks was more pronounced during Dec-10 quarter.

**Figure 3.2.2: Risk based Capital of Banks**



### Quality of bank capital further strengthened....

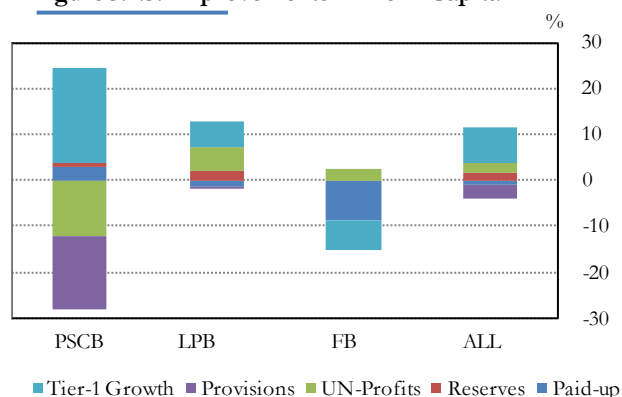
Apart from 6.9 percent increase in the capital base of banking system during Q4, the quality of capital also improved. With addition of Rs. 39 billion to Tier-1 capital, its share in total capital inched up from 83.4 to 84.2 percent (**Figure 3.2.2**). Much of the improvement in Tier-1 capital of the banking system was due to an increase in the buildup of unappropriated profits and accumulation in the stock of the general and statutory reserves in the wake of enhanced MCR requirements set by SBP.

Segment-wise, the public sector banks witnessed deterioration in their Tier-1 capital level on account of higher provisioning and accumulated losses. In case of foreign banks, their capital position deteriorated (by Rs. 2.3 billion) due to merger of Albaraka Bank with EGIBL. On the other hand, large private banks witnessed an improvement in

<sup>18</sup> BSD Circular 7 of 2009 has laid out instructions and timeframe to enhance MCR requirements for Banks/DFIs

<sup>19</sup> The RBS merged into Faysal Bank, and Atlas Bank into Summit Bank and Albaraka Islamic Bank into EGIBL (later named as Albaraka Bank Pakistan).

**Figure 3.2.3: Improvements in Tier-1 Capital**

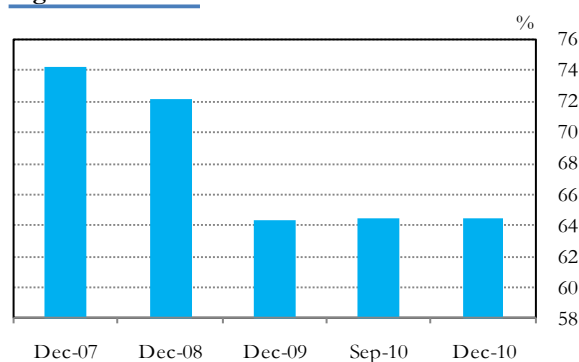


their Tier-1 capital by 5.4 percent on account of higher un-appropriated profits (Figure 3.2.3).

### ...but banks are wary of taking risk despite higher capital

The December quarter witnessed a reasonable growth in the banks' advances (5.7 percent QoQ), increasing the risk weighted assets (RWA) of the banking system by 5.9 percent. Despite relatively stronger growth in capital (6.9 percent), the banks were cautious to venture into risky lending. Burgeoning borrowing needs of the government with consequent supply of risk-free securities at attractive rates provided additional excuse for banks' lack of risk-appetite. Consequently, share of banks' RWAs in total assets remained significantly lower than CY07 level (Figure 3.2.4).

**Figure 3.2.4: RWA to Assets of Commercial Banks**



The credit risk weighted assets (CRWA), with 79.5 percent share, were the leading component of aggregate RWA. The banks' interest in equity and interest exposures marginally enhanced their overall market risk exposure which witnessed a growth in its share to 6.1 percent during the quarter (Table 3.2.2). Further, share of operational risk weighted assets (ORWA) slightly inched up during Q4 on account of rise in banking profits<sup>20</sup>.

### Many banks struggle to meet growing MCR

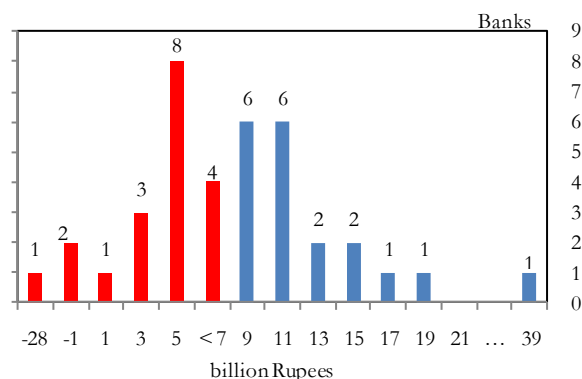
Because of deterioration in asset quality since 2008, coupled with the lack of interest by foreign shareholders, a number of banks have been unable to meet regulatory minimum capital requirement (MCR). Data for paid-up capital of the banks (free of losses) reveals that 15 banks were falling short of MCR of Rs. 6 billion during the quarter. With MCR of Rs. 7 billion from 31<sup>st</sup> December, 2010, 19 banks fell short of enhanced MCR (Figure 3.2.5). On the

**Table 3.2.2: Risk Weighted Assets**

	(amount in billion Rupees, share in percent)					
	Dec-09		Sep-10		Dec-10	
	Amount	Share	Amount	Share	Amount	Share
CRWA	3,443	81.5	3,437	80.0	3,621	79.5
MRWA	192	4.6	254	5.9	277	6.1
ORWA	588	13.9	607	14.1	655	14.4
Total (RWA)	4,224	100	4,298	100	4,553	100

<sup>20</sup> The operational risk weighted assets are calculated under the Basic Indicator Approach of Basel II Framework that requires the banks to set ORWA equal to an average of three years of annual gross income. So rising gross income would result in higher capital charge for operational risk.

**Figure 3.2.5: Distribution of Bank Capital**



**Table 3.2.3: Distribution of Banks by CAR**

	(In percent)			
	Total	less than 10	10 to 15	Over 15
Dec-08	40	9	10	21
Dec-09	40	6	15	19
Sep-10	40	6	14	20
Dec-10	38	6	12	20

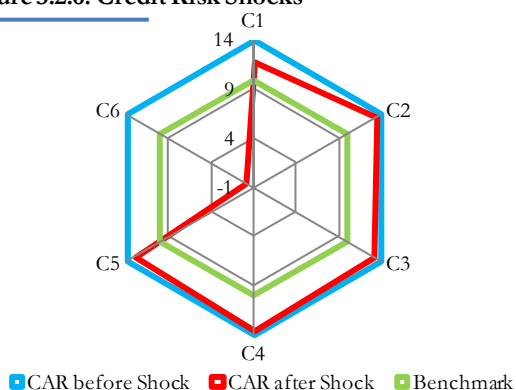
other hand, six banks were MCR non-compliant, as they failed to meet CAR requirement of 10 percent (**Table 3.2.3**). However, these non-compliant banks are already in the process of restructuring. Collectively, 32 banks with market share of around 94 percent had their CARs exceeding 10 percent, reflecting an overall healthy and resilient banking system.

### 3.3: Resilience of the Banking System

#### Strong capital base provides sufficient resilience against major shocks

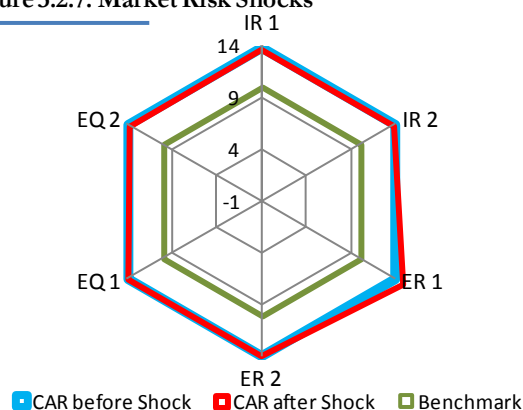
The sensitivity based stress test results on aggregate banking portfolio for Q4-CY10 highlight a strong solvency profile sufficient to withstand major shocks in the credit, market and liquidity risk factors. Similarly, in case of macroeconomic stress testing, the average forecasts of NPL to loan ratios (NPLR) under different stress conditions does not significantly affect the provision requirements and hence profitability & capital adequacy of the banking system.

**Figure 3.2.6: Credit Risk Shocks**



The credit shocks under sensitivity analysis included different hypothetical scenarios covering down-gradation of loan classifications and sector-wise concentration etc. Critical infection ratio (C-6), which is stressed NPLR resulting in complete erosion of capital of the banking system, came out around 31.9 percent as against the present level of actual NPLR at 14.7 percent. It suggests that deterioration in credit portfolio needs to be almost twice as bad as its present level to wipe out the equity of banking system. Second major impact came from the shock (C5) of 20 percent of performing loans moving to substandard, 50 percent of substandard to doubtful and 50 percent

**Figure 3.2.7: Market Risk Shocks**



of doubtful to loss as industry CAR deteriorated by 0.9 percent (**Figure 3.2.6**<sup>21</sup>).

In case of the market risk that accounts for only 6.1 percent of banking sector RWA, the sensitivity analysis applied on the presumed adverse movements in the interest rates and the exchange rates did not significantly deteriorated the CAR of the banks (**Figure 3.2.7**). The market risk shocks included steepening and flattening of the yield curve by at least 300bps increase in interest rates, depreciation and appreciation of USD/PKR rate and a rather extreme fall by 50 percent in the equity market (KSE).

Similarly the liquidity stress tests on individual bank portfolio reveal a healthy picture of the banking system as nearly all the banks remained liquid in the stress tests despite the assumption of significant withdrawals of bank deposits by 5 percent continuously for five consecutive days. However, in case of combined scenarios, (credit, market and liquid) the high severity of shocks identified 11 banks unable to meet CAR requirements.

The macroeconomic stress test, using the explicit relationship between the banking sector NPLR and macroeconomic aggregates highlight the worsening of asset quality in response to worsening of projected macroeconomic performance<sup>22</sup>.

In line with the macroeconomic projections produced by the CPV model, the forecasted NPLR for Q1-CY11 is 15.31 percent (**Table 3.2.4**). However, in case of extreme macroeconomic projections, the interest rate (LR) shock can further erode the asset quality to 21.09 percent with 0.5 percent probability.

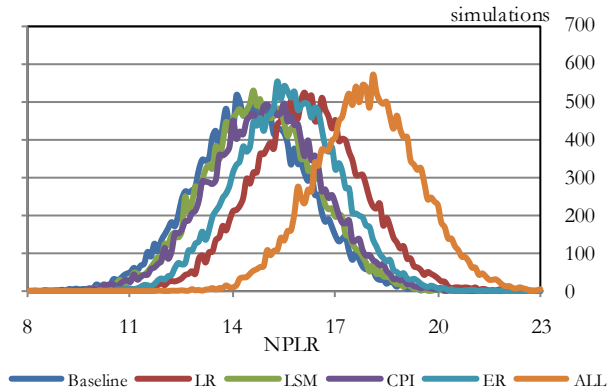
	Baseline	LR	LSM	CPI	All
Average	15.31	16.94	15.57	15.75	18.7
75 P*	16.42	18.03	16.67	16.86	19.72
90 P	17.41	19.02	17.67	17.88	20.65
95 P	18.03	19.59	18.22	18.49	21.19
99 P	19.1	20.69	19.29	19.59	22.26
99.5P	19.5	21.09	19.65	19.97	22.61

P\* represents percentile

<sup>21</sup> In the graph, blue line indicates before shock CAR of the industry, while red line indicates aftershock CAR for each scenario. The closer the red line is to the point of origin, the severe the impact of a given scenario.

<sup>22</sup> The macroeconomic stress testing has been conducted by using the Credit Portfolio View (CPV) Model. For details, see QPR of September 2009.

**Figure 3.2.8: Simulated NPL Ratios**



Similarly, simulations derived from the CPV model indicate a major shift in NPLR from the baseline (no shock scenario) to adverse movement in macroeconomic aggregates projected for Q1-CY11 (**Figure 3.2.8**) indicating the vulnerability of NPLR to sluggish macroeconomic performance.

## Annexes

## Group-wise Balance Sheet and Income Statement of Banks December 31, 2010

(Amount in million Rupees)

Financial Position	PSCB	LPB	FB	CB	SB	All Banks
<b>ASSETS</b>						
Cash & Balances With Treasury Banks	101,098	421,804	32,795	555,697	3,768	559,465
Balances With Other Banks	45,540	122,023	4,079	171,642	13,565	185,207
Lending To Financial Institutions	33,460	149,207	36,480	219,146	-	219,146
Investments - Net	350,702	1,696,712	79,863	2,127,277	14,553	2,141,831
Advances - Net	627,726	2,562,263	65,627	3,255,617	93,174	3,348,791
Operating Fixed Assets	31,668	185,426	2,208	219,302	4,925	224,227
Deferred Tax Assets	17,784	48,268	5,878	71,930	618	72,548
Other Assets	149,992	217,902	6,893	374,787	11,653	386,440
<b>TOTAL ASSETS</b>	<b>1,357,970</b>	<b>5,403,606</b>	<b>233,823</b>	<b>6,995,399</b>	<b>142,256</b>	<b>7,137,654</b>
<b>LIABILITIES</b>						
Bills Payable	7,108	60,179	5,555	72,841	376	73,218
Borrowings From Financial Institution	35,509	416,729	15,475	467,712	82,852	550,565
Deposits And Other Accounts	1,087,745	4,188,197	156,331	5,432,273	17,693	5,449,966
Sub-ordinated Loans	-	51,091	-	51,091	3,405	54,497
Liabilities Against Assets Subject To Finance Lease	121	22	-	142	22	165
Deferred Tax Liabilities	3,334	7,849	166	11,349	269	11,618
Other Liabilities	73,019	171,684	21,598	266,302	34,177	300,478
<b>TOTAL LIABILITIES</b>	<b>1,206,836</b>	<b>4,895,750</b>	<b>199,125</b>	<b>6,301,711</b>	<b>138,795</b>	<b>6,440,506</b>
<b>NET ASSETS</b>	<b>151,134</b>	<b>507,855</b>	<b>34,698</b>	<b>693,687</b>	<b>3,461</b>	<b>697,148</b>
<b>NET ASSETS REPRESENTED BY:</b>						
Share Capital	34,030	295,257	33,847	363,134	15,507	378,641
Reserves	38,046	118,836	93	156,974	7,314	164,288
Unappropriated Profit	57,259	51,887	1,054	110,200	(23,312)	86,888
<b>Share Holders' Equity</b>	<b>129,335</b>	<b>465,979</b>	<b>34,994</b>	<b>630,308</b>	<b>(491)</b>	<b>629,817</b>
Surplus/Deficit On Revaluation Of Assets	21,799	41,876	(296)	63,380	3,952	67,331
<b>TOTAL</b>	<b>151,134</b>	<b>507,855</b>	<b>34,698</b>	<b>693,687</b>	<b>3,461</b>	<b>697,148</b>
<b>PROFIT AND LOSS STATEMENT</b>						
Mark-Up/ Return/Interest Earned	112,118	489,764	20,576	622,458	10,364	632,822
Mark-Up/ Return/Interest Expenses	68,798	260,724	10,435	339,958	4,592	344,550
<b>Net Mark-Up / Interest Income</b>	<b>43,320</b>	<b>229,040</b>	<b>10,140</b>	<b>282,500</b>	<b>5,772</b>	<b>288,272</b>
Provisions & Bad Debts Written Off Directly/(Reversals)	10,749	55,012	2,608	68,369	1,422	69,791
<b>Net Mark-Up / Interest Income After Provision</b>	<b>32,570</b>	<b>174,028</b>	<b>7,533</b>	<b>214,130</b>	<b>4,351</b>	<b>218,481</b>
Fees, Commission & Brokerage Income	10,392	32,666	1,841	44,899	66	44,966
Dividend Income	1,634	5,026	1	6,661	106	6,766
Income From Dealing In Foreign Currencies	2,287	13,895	3,818	20,000	0	20,000
Other Income	6,438	15,636	(1,166)	20,909	5,142	26,051
<b>Total Non - Markup / Interest Income</b>	<b>20,752</b>	<b>67,223</b>	<b>4,494</b>	<b>92,469</b>	<b>5,314</b>	<b>97,783</b>
Administrative Expenses	53,322	241,251	12,026	306,599	9,665	316,264
Other Expenses	30,540	155,007	9,272	194,818	6,541	201,360
<b>Total Non-Markup/Interest Expenses</b>	<b>83,862</b>	<b>396,258</b>	<b>21,298</b>	<b>501,417</b>	<b>16,206</b>	<b>517,624</b>
Profit before Tax and Extra ordinary Items	22,522	83,405	2,683	108,610	3,112	111,722
Extra ordinary/unusual Items - Gain/(Loss)	-	-	449	449	12.67	461.65
<b>PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>22,522</b>	<b>83,405</b>	<b>2,234</b>	<b>108,161</b>	<b>3,099</b>	<b>111,261</b>
Taxation	10,503	33,227	882	44,612	1,224	45,835
<b>PROFIT/ (LOSS) AFTER TAX</b>	<b>12,019</b>	<b>50,179</b>	<b>1,352</b>	<b>63,550</b>	<b>1,876</b>	<b>65,425</b>

## Financial Soundness Indicators

(In percent)

Indicators	2007	2008	2009	Mar-10	Jun-10	Sep-10	Dec-10
<b>CAPITAL ADEQUACY</b>							
<b>Risk Weighted CAR</b>							
Public Sector Commercial Banks	16.1	13.4	15.1	13.7	13.9	12.5	12.8
Local Private Banks	11.8	11.9	13.9	13.8	14.0	14.1	14.2
Foreign Banks	14.6	21.8	23.0	22.4	22.7	23.9	24.6
<b>Commercial Banks</b>	<b>12.8</b>	<b>12.6</b>	<b>14.5</b>	<b>14.1</b>	<b>14.3</b>	<b>14.2</b>	<b>14.2</b>
Specialized Banks	(6.2)	(4.9)	(1.5)	(0.5)	(1.5)	2.2	4.7
<b>All Banks</b>	<b>12.3</b>	<b>12.2</b>	<b>14.0</b>	<b>13.7</b>	<b>13.9</b>	<b>13.8</b>	<b>14.0</b>
<b>Tier 1 Capital to RWA</b>							
Public Sector Commercial Banks	12.2	10.9	12.6	11.6	11.9	10.4	10.7
Local Private Banks	9.9	10.0	11.4	11.4	11.7	11.8	12.0
Foreign Banks	14.0	21.3	22.5	22.0	22.3	23.6	24.3
<b>Commercial Banks</b>	<b>10.5</b>	<b>10.6</b>	<b>12.0</b>	<b>11.8</b>	<b>12.1</b>	<b>12.0</b>	<b>12.1</b>
Specialized Banks	(12.5)	(10.1)	(5.8)	(5.3)	(5.6)	(3.4)	(0.9)
<b>All Banks</b>	<b>10.0</b>	<b>10.1</b>	<b>11.6</b>	<b>11.4</b>	<b>11.7</b>	<b>11.6</b>	<b>11.8</b>
<b>Capital to Total Assets</b>							
Public Sector Commercial Banks	13.7	10.7	11.3	11.1	10.0	11.0	11.1
Local Private Banks	10.2	10.0	9.9	10.2	9.9	9.6	9.4
Foreign Banks	11.2	14.5	14.8	14.0	14.6	14.4	14.8
<b>Commercial Banks</b>	<b>10.9</b>	<b>10.3</b>	<b>10.4</b>	<b>10.5</b>	<b>10.1</b>	<b>10.1</b>	<b>9.9</b>
Specialized Banks	(5.4)	(3.2)	(1.7)	(0.9)	(1.3)	0.3	2.4
<b>All Banks</b>	<b>10.5</b>	<b>10.0</b>	<b>10.1</b>	<b>10.3</b>	<b>9.9</b>	<b>9.9</b>	<b>9.8</b>
<b>ASSET QUALITY</b>							
<b>NPLs to Total Loans</b>							
Public Sector Commercial Banks	8.4	16.3	16.9	17.6	16.5	17.6	22.9
Local Private Banks	6.5	8.7	11.1	11.6	11.6	12.6	12.2
Foreign Banks	1.6	2.9	6.7	7.3	8.6	9.2	9.8
<b>Commercial Banks</b>	<b>6.7</b>	<b>9.9</b>	<b>12.1</b>	<b>12.7</b>	<b>12.5</b>	<b>13.6</b>	<b>14.3</b>
Specialized Banks	34.3	28.8	25.5	24.2	24.9	27.9	28.4
<b>All Banks</b>	<b>7.6</b>	<b>10.5</b>	<b>12.6</b>	<b>13.1</b>	<b>12.9</b>	<b>14.0</b>	<b>14.7</b>
<b>Provision to NPLs</b>							
Public Sector Commercial Banks	89.0	66.9	67.8	68.0	72.3	69.3	54.1
Local Private Banks	88.5	70.2	71.0	72.1	74.1	72.2	72.6
Foreign Banks	157.0	81.9	75.2	78.1	78.7	80.5	86.5
<b>Commercial Banks</b>	<b>89.1</b>	<b>69.3</b>	<b>70.1</b>	<b>71.0</b>	<b>73.7</b>	<b>71.5</b>	<b>66.9</b>
Specialized Banks	68.6	72.4	65.7	68.1	66.5	65.1	64.2
<b>All Banks</b>	<b>86.1</b>	<b>69.6</b>	<b>69.9</b>	<b>70.9</b>	<b>73.2</b>	<b>71.1</b>	<b>66.7</b>
<b>Net NPLs to Net Loans</b>							
Public Sector Commercial Banks	1.0	6.1	6.1	6.4	5.2	6.2	12.0
Local Private Banks	0.8	2.7	3.5	3.5	3.3	3.9	3.7
Foreign Banks	(0.9)	0.5	1.8	1.7	2.0	1.9	1.4
<b>Commercial Banks</b>	<b>0.8</b>	<b>3.3</b>	<b>4.0</b>	<b>4.0</b>	<b>3.6</b>	<b>4.3</b>	<b>5.2</b>
Specialized Banks	14.0	10.0	10.5	9.3	10.0	11.9	12.5
<b>All Banks</b>	<b>1.1</b>	<b>3.4</b>	<b>4.1</b>	<b>4.2</b>	<b>3.8</b>	<b>4.5</b>	<b>5.4</b>
<b>Net NPLs to Capital</b>							
Public Sector Commercial Banks	3.4	30.3	27.4	28.8	24.3	27.6	49.9
Local Private Banks	4.1	15.9	17.4	17.2	15.9	19.1	18.6
Foreign Banks	(4.1)	1.6	4.4	4.1	4.5	4.4	4.4
<b>Commercial Banks</b>	<b>3.7</b>	<b>17.9</b>	<b>18.8</b>	<b>18.8</b>	<b>17.0</b>	<b>20.1</b>	<b>24.6</b>
Specialized Banks	-	-	-	-	-	-	-
<b>All Banks</b>	<b>5.6</b>	<b>19.4</b>	<b>20.4</b>	<b>20.2</b>	<b>18.4</b>	<b>21.8</b>	<b>26.1</b>
<b>EARNINGS</b>							
<b>Return on Assets (Before Tax)</b>							
Public Sector Commercial Banks	3.5	0.6	1.5	1.9	1.8	1.6	1.8
Local Private Banks	2.0	1.3	1.3	1.9	1.8	1.7	1.7
Foreign Banks	1.5	0.0	(0.3)	0.1	0.6	0.3	0.3
<b>Commercial Banks</b>	<b>2.3</b>	<b>1.1</b>	<b>1.3</b>	<b>1.8</b>	<b>1.8</b>	<b>1.6</b>	<b>1.6</b>
Specialized Banks	1.4	3.2	3.1	2.0	2.6	1.7	2.4
<b>All Banks</b>	<b>2.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.8</b>	<b>1.8</b>	<b>1.6</b>	<b>1.7</b>



## Financial Soundness Indicators

(In percent)

Indicators	2007	2008	2009	Mar-10	Jun-10	Sep-10	Dec-10
<b>Return on Assets (After Tax)</b>							
Public Sector Commercial Banks	2.5	0.5	1.3	1.3	1.2	1.1	0.9
Local Private Banks	1.4	0.9	0.9	1.2	1.1	1.0	1.0
Foreign Banks	0.7	0.3	(0.3)	0.1	0.4	0.1	0.1
<b>Commercial Banks</b>	<b>1.6</b>	<b>0.8</b>	<b>0.9</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>
Specialized Banks	0.71	1.8	1.2	0.1	0.6	0.0	1.5
<b>All Banks</b>	<b>1.5</b>	<b>0.8</b>	<b>0.9</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>1.0</b>
<b>ROE (Avg. Equity &amp; Surplus) (Before Tax)</b>							
Public Sector Commercial Banks	27.2	5.2	13.3	16.7	16.8	15.1	16.3
Local Private Banks	20.4	12.9	13.2	18.8	18.2	16.8	16.8
Foreign Banks	13.1	0.0	(2.4)	0.7	3.8	2.7	2.7
<b>Commercial Banks</b>	<b>21.8</b>	<b>10.6</b>	<b>12.4</b>	<b>17.4</b>	<b>17.1</b>	<b>15.8</b>	<b>16.2</b>
Specialized Banks	-	-	-	-	-	-	-
<b>All Banks</b>	<b>22.6</b>	<b>11.4</b>	<b>13.2</b>	<b>17.8</b>	<b>17.7</b>	<b>16.2</b>	<b>16.7</b>
<b>ROE (Avg. Equity &amp; Surplus) (After Tax)</b>							
Public Sector Commercial Banks	19.5	4.4	11.4	11.3	11.2	10.5	8.7
Local Private Banks	13.8	8.5	8.6	11.7	11.2	10.2	10.1
Foreign Banks	6.0	2.2	(2.3)	0.4	2.5	1.5	1.5
<b>Commercial Banks</b>	<b>15.0</b>	<b>7.3</b>	<b>8.6</b>	<b>11.0</b>	<b>10.7</b>	<b>9.9</b>	<b>9.5</b>
Specialized Banks	-	-	-	-	-	-	-
<b>All Banks</b>	<b>15.4</b>	<b>7.8</b>	<b>8.9</b>	<b>11.1</b>	<b>10.9</b>	<b>9.9</b>	<b>9.8</b>
<b>NI/Gross Income</b>							
Public Sector Commercial Banks	65.9	65.4	63.0	68.5	70.0	71.0	67.6
Local Private Banks	70.7	73.2	75.9	75.8	77.2	77.9	77.3
Foreign Banks	59.1	61.3	64.8	72.2	68.4	68.2	69.3
<b>Commercial Banks</b>	<b>69.2</b>	<b>71.2</b>	<b>73.3</b>	<b>74.4</b>	<b>75.6</b>	<b>76.3</b>	<b>75.3</b>
Specialized Banks	42.8	46.6	44.7	57.8	46.6	51.2	52.1
<b>All Banks</b>	<b>68.2</b>	<b>70.3</b>	<b>72.4</b>	<b>74.0</b>	<b>74.7</b>	<b>75.6</b>	<b>74.7</b>
<b>Cost / Income Ratio</b>							
Public Sector Commercial Banks	30.2	39.1	47.5	47.4	49.5	51.0	48.1
Local Private Banks	45.4	51.6	50.1	51.2	52.4	53.3	53.3
Foreign Banks	57.0	69.6	77.5	68.0	63.2	64.5	63.8
<b>Commercial Banks</b>	<b>42.8</b>	<b>50.0</b>	<b>50.9</b>	<b>51.2</b>	<b>52.4</b>	<b>53.4</b>	<b>52.8</b>
Specialized Banks	53.2	52.1	61.3	76.2	57.8	61.2	59.1
<b>All Banks</b>	<b>43.2</b>	<b>50.1</b>	<b>51.2</b>	<b>51.8</b>	<b>52.6</b>	<b>53.6</b>	<b>53.0</b>
<b>LIQUIDITY</b>							
<b>Liquid Assets/Total Assets</b>							
Public Sector Commercial Banks	37.0	30.6	31.1	29.7	33.6	29.4	31.8
Local Private Banks	32.5	26.8	32.3	32.2	33.6	33.8	35.0
Foreign Banks	41.6	45.2	55.0	58.2	58.5	59.6	65.5
<b>Commercial Banks</b>	<b>33.8</b>	<b>28.3</b>	<b>32.9</b>	<b>32.8</b>	<b>34.6</b>	<b>34.0</b>	<b>35.3</b>
Specialized Banks	27.9	24.5	19.8	15.5	17.3	15.9	20.1
<b>All Banks</b>	<b>33.6</b>	<b>28.2</b>	<b>32.7</b>	<b>32.4</b>	<b>34.2</b>	<b>33.6</b>	<b>35.0</b>
<b>Liquid Assets/Total Deposits</b>							
Public Sector Commercial Banks	47.1	38.9	40.1	38.0	41.9	37.4	39.7
Local Private Banks	42.9	35.0	43.4	42.7	44.0	43.8	45.1
Foreign Banks	61.1	71.6	82.4	88.3	85.7	86.6	97.9
<b>Commercial Banks</b>	<b>44.3</b>	<b>37.1</b>	<b>44.0</b>	<b>43.4</b>	<b>44.9</b>	<b>44.1</b>	<b>45.5</b>
Specialized Banks	247.7	229.4	167.1	148.9	134.5	157.7	161.4
<b>All Banks</b>	<b>45.1</b>	<b>37.7</b>	<b>44.5</b>	<b>43.7</b>	<b>45.3</b>	<b>44.4</b>	<b>45.9</b>
<b>Advances/Deposits</b>							
Public Sector Commercial Banks	60.0	68.4	65.2	63.9	58.3	62.7	57.7
Local Private Banks	70.1	75.1	66.6	65.4	62.7	61.7	61.2
Foreign Banks	75.2	68.9	56.1	51.2	49.6	47.6	47.6
<b>Commercial Banks</b>	<b>73.8</b>	<b>73.6</b>	<b>66.0</b>	<b>64.6</b>	<b>61.4</b>	<b>61.4</b>	<b>59.9</b>
Specialized Banks	507.3	577.0	560.8	669.3	534.5	693.1	526.6
<b>All Banks</b>	<b>69.7</b>	<b>75.2</b>	<b>67.7</b>	<b>66.4</b>	<b>63.0</b>	<b>63.1</b>	<b>61.4</b>

**Selected Indicators for Different Categories of Banks**  
**In terms of size-December 31, 2010**

(In percent)

Indicators	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	51.0	73.6	91.9	100
Share of Total Deposits	53.3	77.0	92.6	100
Share of Gross Income	60.4	78.1	94.2	100
Share of Risk Weighted Assets	52.4	72.7	92.1	100
<b>Capital Adequacy</b>				
Capital/RWA	15.8	14.0	13.7	14.0
Tier 1 Capital / RWA	13.0	11.3	11.3	11.8
Net Worth / Total Assets	10.8	9.7	9.6	9.9
<b>Asset Composition</b>				
<b>Sectoral Distribution of Loans</b>				
- Corporate Sector	49.3	73.8	91.8	100
- SMEs	44.2	63.3	88.4	100
- Agriculture	28.8	38.5	95.5	100
- Consumer Finance	53.3	77.7	92.5	100
- Commodity Financing	74.3	90.7	97.7	100
- Staff Loans	55.8	75.2	91.6	100
- Others	86.6	95.1	95.4	100
- <b>Total</b>	<b>52.1</b>	<b>74.0</b>	<b>92.5</b>	<b>100</b>
NPLs / Gross Loans	12.4	13.6	14.3	14.7
Net NPLs / Capital	14.3	23.8	25.9	26.1
<b>Earning &amp; Profitability</b>				
ROA (After Tax)	1.9	1.5	1.2	1.0
ROE (After Tax)	17.5	15.2	11.7	9.8
Net Interest Income / Gross Income	78.1	77.4	74.9	74.7
Income from Trading & Foreign Exchange / Gross Income	15.1	15.6	16.6	16.8
Non-Interest Expense / Gross Income	40.4	45.8	50.0	53.0
Provision Expense to Gross Income	14.4	14.6	17.8	18.1
<b>Liquidity</b>				
Liquid Assets / Total Assets	34.0	34.1	34.5	35.0
Liquid Assets held in Govt. Securities / Total Liquid Assets	62.0	63.8	64.8	63.2
Liquid Assets / Total Deposits	42.7	42.7	44.8	45.9

## Bank-wise Major Statistics

### December 31, 2010

(Amount in million Rupees)

S. No.	Name of the Banks	Assets	Advances	Deposits	Equity
<b>Public Sector Commercial Banks</b>					
1	National Bank of Pakistan	1,027,376	474,458	832,391	119,843
2	First Women Bank Limited	12,778	6,320	10,195	1,164
3	The Bank of Punjab	256,856	128,645	208,177	10,723
4	The Bank of Khyber	50,747	18,296	36,981	9,339
5	Sindh Bank Limited	10,213	7	1	10,065
		<b>1,357,970</b>	<b>627,726</b>	<b>1,087,745</b>	<b>151,134</b>
<b>Local Private Banks</b>					
5	Allied Bank Limited	452,773	253,054	371,284	36,022
6	Bank Alfalah Limited	412,934	207,793	354,040	23,328
7	Askari Bank Limited	315,889	153,361	255,937	16,371
8	Bank Al Habib Limited	303,749	125,773	249,774	15,982
9	Mybank Limited	39,916	20,204	29,479	4,522
10	SAMBA Bank Limited	30,511	12,138	14,872	7,926
11	Atlas Bank Limited	26,322	16,389	19,313	265
12	Faysal Bank Limited	184,756	97,223	129,174	13,019
13	Habib Bank Limited	888,273	436,217	721,069	89,490
14	KASB Bank Limited	58,331	30,411	46,274	2,836
15	Summit Bank Ltd (formerly Arif Habib Bank Limited)	50,037	22,891	42,295	3,738
16	JS Bank Limited	39,294	14,501	26,276	5,748
17	MCB Bank Limited	572,562	254,552	431,372	79,204
18	United Bank Limited	700,335	333,580	550,646	68,324
19	The Royal Bank of Scotland Limited	86,298	38,964	66,134	6,791
20	Habib Metropolitan Bank Limited	252,058	119,767	160,458	20,255
21	BankIslami Pakistan Limited	45,184	18,466	38,196	4,777
23	Soneri Bank Limited	108,826	54,758	82,017	8,978
24	SILKBANK Limited	72,484	44,360	55,706	4,831
25	NIB Bank Limited	167,393	77,325	99,169	16,706
26	Meezan Bank Limited	154,768	46,188	131,070	11,014
27	Dubai Islamic Bank Pakistan Limited	39,887	22,766	31,415	6,047
28	Standard Chartered Bank	322,200	128,683	220,266	51,347
29	Dawood Islamic Bank Limited	17,831	5,622	12,636	4,373
30	Albaraka Islamic Bank B.S.C.	60,996	27,278	49,324	5,963
		<b>5,403,606</b>	<b>2,562,263</b>	<b>4,188,197</b>	<b>507,855</b>
<b>Foreign Banks</b>					
31	Citibank N.A. (Pakistan Operations)	97,592	19,244	68,305	9,111
32	Deutsche Bank AG (Pakistan Operations)	17,740	3,245	6,066	5,303
33	HSBC Bank Middle East Limited - (Pakistan Operations)	56,946	22,242	46,461	6,199
34	Oman International Bank S.A.O.G (Pakistan Operations)	4,057	478	848	2,857
35	The Bank of Tokyo-Mitsubishi UFJ Limited (Pakistan Operations)	9,044	2,981	2,350	4,701
36	Barclays Bank PLC (Pakistan Operations)	48,444	17,437	32,302	6,528
		<b>233,823</b>	<b>65,627</b>	<b>156,331</b>	<b>34,698</b>
<b>Specialized Banks</b>					
37	The Punjab Provincial Cooperative Bank Ltd	14,119	5,757	2,552	7,724
38	Industrial Development Bank of Pakistan	4,214	108	3,313	(28,098)
39	Zarai Taraqiati Bank Limited	117,957	84,798	9,602	21,871
40	SME Bank Limited	5,966	2,511	2,226	1,963
		142,256	93,174	17,693	3,461
	<b>Total</b>	<b>7,137,654</b>	<b>3,348,791</b>	<b>5,449,966</b>	<b>697,148</b>

**Results of Stress Tests of Banking System**  
**December 31, 2010**

	Shock Details	Number of Banks with CAR		
		< 0%	0% - 10%	> 10%
	Pre-Shock Position	3	5	32
<b>Credit Risk Shocks</b>		<b>&lt; 0%</b>	<b>0% - 10%</b>	<b>&gt; 10%</b>
<b>C-1</b>	20% of performing loans moving to substandard, 50% of substandard to doubtful, 50% of doubtful to loss.	3	8	29
<b>C-2</b>	Tightening of loan classification i.e. All NPLs under substandard downgraded to doubtful and all doubtful downgraded to loss.	3	5	32
<b>C-3</b>	Deterioration in performing loans of the textile sector (30%) directly downgraded to doubtful category of NPLs.	3	8	29
<b>C-4</b>	50% of consumer loans (credit cards, auto loans, personal loans & consumer durables only) directly classified into doubtful category of NPLs.	3	5	32
<b>C-5</b>	Deterioration in performing loans of the SME Sector (25%) and Agri Sector (25%) downgraded to Doubtful category of NPLs.	3	7	30
<b>C-6</b>	Critical Infection Ratio (The ratio of NPLs to Loans where capital wipes out)	3	37	0
<b>Market Risk Shocks</b>		<b>&lt; 0%</b>	<b>0% - 10%</b>	<b>&gt; 10%</b>
<b>IR-1</b>	Increase in interest rates by 300 basis points.	3	7	30
<b>IR-2</b>	Flattening of yield curve by increasing 300, 200 and 100 basis points at the short, middle and long end respectively.	3	6	31
<b>ER-1</b>	Depreciation of Pak Rupee exchange rate by 25%	3	6	31
<b>ER-2</b>	Appreciation of Pak Rupee exchange rate by 5%	3	5	32
<b>EQ-1</b>	Fall in general equity prices by 30%.	3	5	32
<b>EQ-2</b>	Fall in general equity prices by 50%.	3	5	32
<b>Combined Credit &amp; Market Shocks</b>		<b>&lt; 0%</b>	<b>0% - 10%</b>	<b>&gt; 10%</b>
<b>COMB-1</b>	Increase in General Interest rates by 3%, deterioration in performing loans of the SME Sector (25%) and Agri Sector (25%) downgraded to Doubtful category of NPLs, deterioration of loans to the textile sector (30%) directly downgraded to doubtful category, and fall in equity prices by 30%.	3	12	25
<b>COMB-2</b>	Flattening of yield curve by increasing 300, 200 and 100 basis points at the short, middle and long end respectively, 20% of performing loans moving to substandard, 50% of substandard to doubtful, 50% of doubtful to loss., fall in equity prices by 50%.	3	8	29
<b>Liquidity Risk Shocks</b>		<b>3 Days</b>	<b>4 Days</b>	<b>5 Days</b>
<b>L-1</b>	Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	0	0	2

**Group wise Balance Sheet and Income Statement of  
Islamic Banks/Branches – December 31, 2010**

(Amount in million Rupees)

Financial Position	Islamic Banks	Islamic Banking Branches	Total Islamic Banking
<b>ASSETS</b>			
Cash & Balances With Treasury Banks	24,857	11,331	36,188
Balances With Other Banks	21,794	5,431	27,225
Due from Financial Institutions	18,707	550	19,257
Investments - Net	95,353	62,451	157,803
Financing - Net	120,320	60,079	180,399
Operating Fixed Assets	10,087	2,958	13,045
Deferred Tax Assets	2,153	0	2,153
Other Assets	25,395	15,515	40,910
<b>TOTAL ASSETS</b>	<b>318,666</b>	<b>158,315</b>	<b>476,981</b>
<b>LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>-</b>
Bills Payable	3,257	879	4,136
Due to Financial Institution	10,176	8,132	18,308
Deposits And Other Accounts	262,641	127,419	390,060
Sub-ordinated Loans	0	0	-
Liabilities Against Assets Subject To Finance Lease	19	0	19
Deferred Tax Liabilities	32	485	517
Other Liabilities	10,366	7,155	17,521
<b>TOTAL LIABILITIES</b>	<b>286,492</b>	<b>144,070</b>	<b>430,562</b>
<b>NET ASSETS</b>	<b>32,174</b>	<b>14,245</b>	<b>46,419</b>
<b>NET ASSETS REPRESENTED BY: -</b>	<b>0</b>	<b>0</b>	<b>-</b>
Share Capital	32,984	7,923	40,907
Reserves	652	0	653
Unappropriated Profit	(2,015)	4,643	2,628
<b>Share Holders' Equity</b>	<b>31,621</b>	<b>12,566</b>	<b>44,188</b>
Surplus/Deficit On Revaluation Of Assets	553	1,679	2,232
<b>TOTAL</b>	<b>32,174</b>	<b>14,245</b>	<b>46,419</b>
<b>PROFIT AND LOSS STATEMENT</b>			
Mark-Up Income	23,671	12,710	36,381
Mark-Up Expenses	13,178	6,946	20,124
<b>Net Mark-Up</b>	<b>10,493</b>	<b>5,764</b>	<b>16,257</b>
Provisions & Bad Debts Written Off Directly/(Reversals)	2,511	623	3,134
<b>Net Mark-Up After Provision</b>	<b>7,982</b>	<b>5,141</b>	<b>13,123</b>
Fees, Commission & Brokerage Income	1,033	596	1,628
Dividend Income	322	51	374
Income From Dealing In Foreign Currencies	1,726	83	1,809
Other Income	285	366	651
<b>Total Non - Markup</b>	<b>3,367</b>	<b>1,096</b>	<b>4,462</b>
	<b>11,348</b>	<b>6,237</b>	<b>17,585</b>
Administrative Expenses	11,003	3,758	14,761
Other Expenses	221	58	280
<b>Total Non-Markup</b>	<b>11,224</b>	<b>3,817</b>	<b>15,041</b>
<b>Profit before Tax and Extra ordinary Items</b>	<b>124</b>	<b>2,420</b>	<b>2,544</b>
Extra ordinary/unusual Items -- Gain/(Loss)	0	0	0
<b>PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>124</b>	<b>2,420</b>	<b>2,544</b>
Taxation	278	0	278
<b>PROFIT/ (LOSS) AFTER TAX</b>	<b>(154)</b>	<b>2,420</b>	<b>2,266</b>

## Balance Sheet and Income Statement of DFIs December 31, 2010

(Amount in million Rupees)

Financial Position	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
<b>ASSETS</b>					
Cash & Balances With Treasury Banks	1,775	1,671	1,745	1,792	1,761
Balances With Other Banks	5,567	2,424	2,186	541	2,545
Lending To Financial Institutions	13,370	9,687	9,825	9,916	8,971
Investments - Net	63,007	65,105	73,154	63,519	64,395
Advances - Net	41,707	42,966	44,943	43,386	45,410
Operating Fixed Assets	3,015	2,979	2,957	2,899	3,046
Deferred Tax Assets	1,180	1,216	1,394	1,458	1,318
Other Assets	4,357	4,280	4,132	5,731	6,814
<b>TOTAL ASSETS</b>	<b>133,978</b>	<b>130,328</b>	<b>140,336</b>	<b>129,241</b>	<b>134,261</b>
<b>LIABILITIES</b>					
Bills Payable	-	-	-	-	-
Borrowings From Financial Institution	51,522	49,238	57,288	45,886	50,306
Deposits And Other Accounts	18,074	16,411	17,580	17,360	15,856
Sub-ordinated Loans	-	-	-	-	-
Liabilities Against Assets Subject To Finance Lease	30	28	18	16	15
Deferred Tax Liabilities	11	4	-	-	51
Other Liabilities	6,636	5,997	7,216	7,504	8,522
<b>TOTAL LIABILITIES</b>	<b>76,273</b>	<b>71,679</b>	<b>82,102</b>	<b>70,766</b>	<b>74,751</b>
<b>NET ASSETS</b>	<b>57,705</b>	<b>58,650</b>	<b>58,235</b>	<b>58,475</b>	<b>59,510</b>
<b>NET ASSETS REPRESENTED BY: -</b>		<b>6,029</b>			
Share Capital	46,769	48,278	48,278	48,278	48,385
Reserves	8,575	6,986	7,170	7,040	7,211
Unappropriated Profit	(426)	1,520	2,135	2,717	2,602
<b>Share Holders' Equity</b>	<b>54,917</b>	<b>56,783</b>	<b>57,583</b>	<b>58,035</b>	<b>58,198</b>
Surplus/Deficit On Revaluation Of Assets	2,788	1,866	651	440	1,312
<b>TOTAL</b>	<b>57,705</b>	<b>58,650</b>	<b>58,235</b>	<b>58,475</b>	<b>59,510</b>
<b>OPERATING POSITION</b>					
Mark-Up/ Return/Interest Earned	12,549	3,239	6,786	10,281	13,785
Mark-Up/ Return/Interest Expenses	6,742	1,735	3,620	5,615	7,317
<b>Net Mark-Up / Interest Income</b>	<b>5,807</b>	<b>1,504</b>	<b>3,166</b>	<b>4,666</b>	<b>6,468</b>
Provisions & Bad Debts Written Off Directly/(Reversals)	2,955	(23)	(863)	506	790
<b>Net Mark-Up / Interest Income After Provision</b>	<b>2,852</b>	<b>1,527</b>	<b>4,029</b>	<b>4,160</b>	<b>5,678</b>
Fees, Commission & Brokerage Income	211	(6)	(755)	291	79
Dividend Income	413	104	168	312	484
Income From Dealing In Foreign Currencies	82	(2)	21	-	-
Other Income	1,488	378	361	658	904
<b>Total Non - Markup / Interest Income</b>	<b>2,194</b>	<b>474</b>	<b>(205)</b>	<b>1,260</b>	<b>1,468</b>
<b>5,046</b>	<b>2,001</b>	<b>3,823</b>	<b>5,421</b>	<b>7,146</b>	
Administrative Expenses	2,631	693	1,433	2,238	2,878
Other Expenses	102	(24)	4	112	(5)
<b>Total Non-Markup/Interest Expenses</b>	<b>2,734</b>	<b>668</b>	<b>1,437</b>	<b>2,349</b>	<b>2,873</b>
Profit before Tax and Extra ordinary Items	2,312	1,333	2,386	3,071	4,273
Extra ordinary/unusual Items – Gain/(Loss)	221	-	-	-	-
<b>PROFIT/ (LOSS) BEFORE TAXATION</b>	<b>2,091</b>	<b>1,333</b>	<b>2,386</b>	<b>3,071</b>	<b>4,273</b>
Taxation	630	405	673	920	1,561
<b>PROFIT/ (LOSS) AFTER TAX</b>	<b>1,461</b>	<b>928</b>	<b>1,714</b>	<b>2,151</b>	<b>2,712</b>

## Capital Structure and Capital Adequacy Ratios of Banks & DFIs

### December 31, 2010

(Amount in million Rupees)

		All Banks and DFIs	PSCBs	LPB	FB	SB	All Banks	DFIs
<b>Equity</b>								
1.1	Fully Paid-up Capital/Capital Deposited with SBP	406,734.6	37,254.3	274,376.2	33,846.8	15,507.4	360,984.6	45,750.0
1.2	Balance in Share Premium Account	20,713.0	10,000.0	8,077.9	-	-	18,077.9	2,635.1
1.3	Reserve for issue of Bonus shares	-	-	-	-	-	-	-
1.4	General Reserves as disclosed on the Balance Sheet (including statutory reserve)	131,762.0	18,075.9	99,041.8	92.7	7,313.8	124,524.1	7,237.9
1.5	Un-appropriated/Unremitted profits (net of accumulated losses, if any)	89,468.6	42,979.9	66,208.0	1,058.5	(23,311.8)	86,934.6	2,533.9
1.6	Minority interest	-	-	-	-	-	-	-
1.7	<b>Sub-Total (1.1 to 1.5)</b>	<b>648,678.1</b>	<b>108,310.0</b>	<b>447,703.8</b>	<b>34,998.1</b>	<b>(490.6)</b>	<b>590,521.2</b>	<b>58,156.9</b>
	<b>Deductions</b>							
1.8	Goodwill	39,215.7	726.4	38,191.5	271.5	8.7	39,198.2	17.5
1.9	Shortfall in Provisions required against Classified assets	1,433.6	-	1,433.6	-	-	1,433.6	-
1.10	Deficit on account of revaluation of AFS investment	3,990.5	665.9	1,896.7	447.2	397.2	3,407.1	583.4
1.11	Any increase in equity capital resulting from a securitization transaction	-	-	-	-	-	-	-
1.12	Investments in TFCs of other banks	885.7	-	6.6	-	-	6.6	879.1
1.13	Other Deductions	12,446.8	2,140.4	8,661.4	-	157.7	10,966.4	1,487.2
1.14	<b>Sub-Total (1.7 to 1.10)</b>	<b>57,986.1</b>	<b>3,532.7</b>	<b>50,203.7</b>	<b>718.7</b>	<b>563.7</b>	<b>55,011.9</b>	<b>2,967.3</b>
1.15	<b>Total Eligible Tier 1 capital</b>	<b>590,692.1</b>	<b>104,777.3</b>	<b>397,500.0</b>	<b>34,279.3</b>	<b>(1,054.3)</b>	<b>535,509.4</b>	<b>55,189.6</b>
	<b>Supplementary Capital</b>							
2.1	Freely available General Provisions or reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	13,785.5	3,020.4	8,682.6	437.3	1,462.9	13,603.3	182.3
2.2	Revaluation reserves eligible upto 45%	35,291.8	10,546.7	21,771.1	-	2,127.1	34,444.9	846.9
2.3	Foreign Exchange Translation Reserves	23,767.2	7,324.1	16,443.0	-	-	23,767.2	-
2.4	Undisclosed reserves	-	-	-	-	-	-	-
2.5	Subordinated debt-up to maximum of 50% of total equity	40,025.4	-	36,821.1	-	3,204.3	40,025.4	-
2.6	<b>Total Tier 2 Supplementary Capital(2.1 - 2.5)</b>	<b>112,671.2</b>	<b>20,891.3</b>	<b>83,519.2</b>	<b>437.3</b>	<b>6,794.3</b>	<b>111,840.7</b>	<b>1,029.2</b>
	<b>Deductions</b>							
	Other deductions	12,446.8	2,140.4	8,661.4	-	157.7	10,966.4	1,487.2
	Total Deductions	12,446.8	2,140.4	8,661.4	-	157.7	10,966.4	1,487.2
	Total eligible tier 2 capital	100,224.5	18,750.9	74,857.8	437.3	6,636.6	100,874.3	(458.1)
2.7	<b>Eligible tier 3 (as worked out in 3.9 below)</b>							
2.8	<b>Total Supplementary Capital eligible for MCR(maximum upto 100% of Total Equity)</b>	<b>100,224.5</b>	<b>18,750.9</b>	<b>74,857.8</b>	<b>437.3</b>	<b>6,636.6</b>	<b>100,682.5</b>	<b>(458.1)</b>
2.9	<b>TOTAL CAPITAL (1.12+2.8)</b>	<b>690,916.5</b>	<b>123,528.2</b>	<b>472,357.8</b>	<b>34,716.6</b>	<b>5,582.3</b>	<b>636,191.9</b>	<b>54,731.6</b>
	<b>Risk Weighted Amounts</b>							
3.3	Total Credit Risk Weighted Assets	3,688,523.8	684,698.4	2,727,852.3	107,672.5	100,946.4	3,621,169.7	67,354.1
3.4	Total Market Risk Weighted Assets	298,695.5	88,980.4	180,417.3	7,593.2	58.5	277,049.4	21,646.1
3.5	Total Operational Risk Assets	666,924.1	117,310.0	493,355.9	25,750.0	18,954.6	655,370.4	11,553.7
3.5	Total Risk Weighted Amount	4,654,143.4	890,988.8	3,401,625.5	141,015.7	119,959.5	4,553,589.6	100,553.9
	<b>Capital Adequacy Ratios</b>							
	<b>Tier 1 capital to Total Risk Weighted Amount</b>	<b>12.7%</b>	<b>11.8%</b>	<b>11.7%</b>	<b>24.3%</b>	<b>-0.9%</b>	<b>11.8%</b>	<b>54.9%</b>
	<b>Total Capital Adequacy Ratio</b>	<b>14.8%</b>	<b>13.9%</b>	<b>13.9%</b>	<b>24.6%</b>	<b>4.7%</b>	<b>14.0%</b>	<b>54.4%</b>
	<b>OTHER DEDUCTIONS FROM TIER 1 AND TIER 2 CAPITAL</b>							
1.1	Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	19,163.8	2,101.7	15,030.7	-	315.5	17,447.8	1,716.0
1.2	Significant minority investments in banking, securities and other financial entities (para 1.1 scope of Application)	4,477.2	2,179.1	1,384.5	-	-	3,563.7	913.5
1.3	Equity holdings (majority or significant minority) in an insurance subsidiary (para 1.1 scope of Application)	594.6	-	249.6	-	-	249.6	345.0
1.4	Significant minority and majority investments in commercial entities exceeding 15% of bank's capital	627.9	-	627.9	-	-	627.9	-
1.5	Securitization exposure subject to deduction (para 4.3.1 of instructions)	-	-	-	-	-	-	-
1.6	Others	43.9	-	43.9	-	-	43.9	-
1.7	<b>Total Deductible Items to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital</b>	<b>24,907.4</b>	<b>4,280.8</b>	<b>17,336.6</b>	<b>-</b>	<b>315.5</b>	<b>21,932.9</b>	<b>2,974.5</b>

## Group-wise Composition of Banks

### December 31, 2010

2007	2008	2009	Dec-10
<b>A. Public Sector Com. Banks (4)</b>	<b>A. Public Sector Com. Banks (4)</b>	<b>A. Public Sector Com. Banks (4)</b>	<b>A. Public Sector Com. Banks (5)</b>
First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.
National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan
The Bank of Khyber	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber
The Bank of Punjab	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab <i>Sindh Bank Ltd.</i>
<b>B. Local Private Banks (26)</b>	<b>B. Local Private Banks (25)</b>	<b>B. Local Private Banks (25)</b>	<b>B. Local Private Banks (23)</b>
Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.	<i>Albaraka Islamic Bank B.S.C. *</i> Allied Bank Ltd.
Arif Habib Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.
Askari Bank Ltd.	Atlas Bank Ltd.	<i>Atlas Bank Ltd.</i>	Bank AL Habib Ltd.
Atlas Bank Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank Alfalah Ltd.
Bank AL Habib Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.
Bank Alfalah Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.
BankIslami Pakistan Ltd.	Dawood Islamic Bank Ltd.	Dawood Islamic Bank Ltd.	Dawood Islamic Bank Ltd.
Crescent Commercial Bank Ltd.	Emirates Global Islamic Bank Ltd.	<i>Emirates Global Islamic Bank Ltd.</i>	<i>Faysal Bank Ltd.</i>
Dawood Islamic Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.	Habib Bank Ltd.
Dubai Islamic Bank Pakistan Ltd.	Habib Bank Ltd.	Habib Bank Ltd.	Habib Metropolitan Bank Ltd.
Emirates Global Islamic Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	JS Bank Ltd.
Faysal Bank Ltd.	JS Bank Ltd.	JS Bank Ltd.	KASB Bank Ltd.
Habib Bank Ltd.	KASB Bank Ltd.	KASB Bank Ltd.	MCB Bank Ltd.
Habib Metropolitan Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.	Meezan Bank Ltd.
JS Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.	Mybank Ltd.
KASB Bank Ltd.	Mybank Ltd.	Mybank Ltd.	NIB Bank Ltd.
MCB Bank Ltd.	NIB Bank Ltd.	NIB Bank Ltd.	SAMBA Bank Ltd.
Meezan Bank Ltd.	SAMBA Bank Ltd.	SAMBA Bank Ltd.	Silk Bank Ltd.
Mybank Ltd.	Saudi Pak Commercial Bank Ltd.	Silk Bank Ltd.	Soneri Bank Ltd.
NIB Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.	Standard Chartered Bank (Pakistan) Ltd.
PICIC Commercial Bank Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.	United Bank Ltd.
Saudi Pak Commercial Bank Ltd.	The Royal Bank of Scotland Ltd.	<i>The Royal Bank of Scotland Ltd.</i>	Dubai Islamic Bank Pakistan Ltd.
Soneri Bank Ltd.	United Bank Ltd.	United Bank Ltd.	Summit Bank Ltd.
Standard Chartered Bank (Pakistan) Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	
United Bank Ltd.	Arif Habib Bank Ltd.	Arif Habib Bank Ltd.	
ABN AMRO Bank (Pakistan) Ltd.			
<b>C. Foreign Banks (6)</b>	<b>C. Foreign Banks (7)</b>	<b>C. Foreign Banks (7)</b>	<b>C. Foreign Banks (6)</b>
Albaraka Islamic Bank B.S.C.	Albaraka Islamic Bank B.S.C.	<i>Albaraka Islamic Bank B.S.C.</i>	Bank of Tokyo - Mitsubishi UFJ, Ltd.
Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Deutsche Bank AG
Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG	Citibank N.A.
Citibank N.A.	Citibank N.A.	Citibank N.A.	Oman International Bank S.A.O.G.
Oman International Bank S.A.O.G.	Oman International Bank S.A.O.G.	Oman International Bank S.A.O.G.	Barclays Bank PLC
The Hongkong & Shanghai Banking Corporation Ltd.	Barclays Bank PLC	Barclays Bank PLC	HSBC Bank Middle East Ltd.
	HSBC Bank Middle East Ltd.	HSBC Bank Middle East Ltd.	
<b>D. Specialized Banks (4)</b>	<b>D. Specialized Banks (4)</b>	<b>D. Specialized Banks (4)</b>	<b>D. Specialized Banks (4)</b>
Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan
Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.
SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.
Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.
<b>All Commercial Banks (36)</b>	<b>All Commercial Banks (36)</b>	<b>All Commercial Banks (36)</b>	<b>All Commercial Banks (34)</b>
Include A + B + C	Include A + B + C	Include A + B + C	Include A + B + C
<b>All Banks (40)</b>	<b>All Banks (40)</b>	<b>All Banks (40)</b>	<b>All Banks (38)</b>
Include A + B + C + D	Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

\* Descheduling of Albaraka Islamic Bank Pakistan Operations and merger into Emirates Global Islamic Bank Limited with effect from October 29, 2010. Subsequent upon its merger, name has been changed from "Emirates Global Islamic Bank Limited" to "AlBaraka Bank (Pakistan) Limited" with effect from the close of business on October 29, 2010.

SBP declared "Sindh Bank Limited" as a scheduled bank with effect from December 24, 2010.

\*Descheduling of Atlas Bank Limited with effect from the close of business on December 31, 2010, on account of its merger with and into Summit Bank Limited.



## Abbreviation

ADD	Authorized Derivatives Dealer	NMI	Non-Market Maker Financial Institution
ADR	Advances to Deposits Ratio	NOP	Net Open Position
AFS	Available For Sale	NPF	Non Performing Finance
ALM	Asset Liability Management	NPL	Non Performing Loan
BIA	Basic Indicator Approach	NPLR	Loan Infection Ratio
Bps	Basis Points	NSS	National Saving Scheme
CAR	Capital Adequacy Ratio	OMO	Open Market Operation
CB	Commercial Bank	ORWA	Operational Risk Weighted Amounts
CCF	Credit Conversion Factor		
CCS	Cross Country Swaps	OTC	Over the Counter
CDNS	Central Directorate of National Saving	PAT	Profit After Tax
CPI	Consumer Price Index	PIB	Pakistan Investment Bond
CPV	Credit Portfolio View	PKR	Pak Rupee
CRR	Cash Reserve Requirements	PSCB	Public Sector Commercial Bank
CRWA	Credit Risk Weighted Amounts	PSE	Public Sector Enterprise
CY	Calendar Year	PTCs	Participation Term Certificates
DFIs	Development Finance Institutions	QoQ	Quarter on Quarter
ERF	Export Refinance	QPR	Quarterly Performance Review
EURIBOR	Euro Interbank Offered Rate	QRC	Quarterly Report of Condition
EXR	Exchange Rate		
FB	Foreign Bank	ROA	Return on Asset
FDBR	Financial Derivatives Business Regulations	ROE	Return on Equity
FDR	Financing to Deposits Ratio	RSA	Rate Sensitive Assets
FRA	Forward Rate Agreements	RSL	Rate Sensitive Liabilities
FSV	Forced Sale Value	RWA	Risk Weighted Assets
GDP	Gross Domestic Product	SA	Standardized approach
GoP	Government of Pakistan	SB	Specialized Bank
HFT	Held For Trading	SBP	State Bank of Pakistan
HTM	Held-to-Maturity	SECP	Securities and Exchange Commission of Pakistan
IBIs	Islamic Banking Institutions	SLR	Statutory Liquidity Requirements
IRS	Interest Rate Swaps		
KIBOR	Karachi Interbank Offered Rate	SME	Small and Medium Enterprise
LIBOR	London Inter Bank offered Rate	TFCs	Term Finance Certificates
LPB	Local Private Bank	USD	United States Dollar
LSM	Large Scale Manufacturing	WALR	Weighted Average Lending rate
MCR	Minimum Capital Requirement	WPI	Wholesale Price Index
MRWA	Market Risk Weighted Amounts	YoY	Year on Year
MTB	Market Treasury Bill		
NII	Net Interest Income		

## 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.