

Quarterly Performance Review of the Banking System

March 2010



State Bank of Pakistan
Banking Surveillance Department

QUARTERLY PERFORMANCE REVIEW OF THE BANKING SYSTEM March 2010

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The review presents performance of the banking system on the basis of unaudited Quarterly Report of Condition (QRC) submitted by banks for the quarter ended March 31, 2010. The statistics for Dec-09 are also based on QRC and these may vary from the annual audited results, which provide full year coverage of the banking system. For instance, the NPLs for Dec-09, after adjustment for the available annual audited results, came to Rs438.2 billion. Figures reported in graphs and tables are rounded but calculations and analysis are performed on un-rounded data.

Team Leader

Lubna Farooq Malik	lubna.farooq@sbp.org.pk
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Team Members

Muhammad Javaid Ismail	javid.ismail@sbp.org.pk
Amer Hassan	amer.hassan@sbp.org.pk
Rizwana Rifat	rizwana.rifat@sbp.org.pk
Mansoor Ahmad Zaidi	mansoor.zaidi@sbp.org.pk
Muhammad Shamil	muhammad.shamil@sbp.org.pk
Sarwat Amir	sarwat.amir@sbp.org.pk
Imran Malik	imran.malik@sbp.org.pk
Farrukh Bashir	farrukh.bashirsatti@sbp.org.pk

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Quarterly Performance Review of the Banking System March 2010

1. Overview

Table 1.1: Selected numbers of Balance Sheet and Profit & Loss Statement

	(billion Rupees)					
	CY04	CY07	CY08	Mar-09	Dec-09	Mar-10
Total Assets	3,043	5,172	5,627	5,744	6,529	6,435
Investments (net)	679	1,276	1,080	1,298	1,753	1,787
Advances (net)	1,574	2,688	3,183	3,024	3,248	3,170
Deposits	2,393	3,854	4,217	4,218	4,787	4,774
Equity	202	544	563	594	662	660
Profit Before Tax (PBT)	52	107	63	26	91	29
Profit After Tax (PAT)	35	73	43	16	54	18
Provisioning Charges	11	60	106	18	85	15
Non-Performing Loans	200	218	359	379	432	457
Non-Performing Loans (net)	59	30	109	117	125	133

Table 1.2: Highlights of the quarter ended Mar-10

	(in percent)					
	CY04	CY07	CY08	Mar-09	Dec-09	Mar-10
Asset Growth	19.7	18.8	8.8	1.6	6.9	(1.4)
Loans Growth	42.1	10.7	18.3	(5.6)	4.16	(2.4)
Deposit Growth	21.9	18.4	9.4	0.0	6.8	(0.3)
Investments Growth	(13.6)	53.1	(15.4)	20.0	10.0	1.9
Equity Growth	44.5	35.3	3.4	1.5	3.1	(0.2)
Capital Adequacy	10.5	12.3	12.3	12.9	14.1	13.7
Capital to Total Assets	6.7	10.5	10.0	10.3	10.1	10.3
NPLs to Loans (Gross)	11.6	7.6	10.5	11.5	12.2	13.1
Net NPLs to Net Loans	3.8	1.1	3.4	3.9	3.9	4.2
ROA (Before Tax)	1.9	2.2	1.2	1.8	1.5	1.8
ROE* (Before Tax)	30.5	1.5	11.4	17.7	14.5	17.8
Liquid Assets/ Total Deposits	46.5	45.1	38.2	41.5	44.1	43.7
Advances to Deposit Ratio	65.8	69.7	75.5	71.7	67.9	66.4

* Average Equity & Surplus

A challenging economic and business environment continues to affect the growth and asset quality of the banking system. After experiencing some let up during the last quarter, the rate of inflow of fresh Non Performing Loans (NPLs) slightly picked up during the quarter under review (see Table 1.1). However, this increase in NPLs also incorporates the effects of annual external audit review that generally involves additional classifications particularly based on subjective criteria exercised by independent, external auditors. While the underlying factors for high credit risk i.e. general slackened economic environment experienced slight improvements on few fronts, the overall economic conditions, security environment and power supply situation remained fragile¹.

In line with the established pattern of first calendar quarter and reduction in public sector advances, the asset base of the banking system contracted over the quarter under review. Banks' investments particularly in government papers, continued to grow, though at a decelerated pace compared with the trend of last six quarters. Accordingly, the asset mix slightly shifted towards investments. Deposits of the banking system, after experiencing a strong growth during last quarter, with

¹ SBP revised its estimates of GDP growth rate for the outgoing FY2009-10 to 4.1 percent from 3.3 vis-à-vis 2 percent growth in FY2008-09. Similarly, IMF has revised its estimates for the global economic growth to 4.25 percent in its latest World Economic Outlook of April 2010 (up from earlier estimates of 3.9 percent) as against an estimated contraction of 0.5 percent in 2009. In recent months, the country's external and fiscal accounts, and large-scale manufacturing have shown some signs of improvement, however there are relapses on inflation indicators and fiscal account. Nevertheless, the overall economic conditions remain susceptible to any slippages on fiscal account, some uncertainty surrounding foreign inflows, precarious security environment, lingering power shortages, and surge in global commodity prices.

slight decline remained almost stable. The baseline indicators of solvency slightly deteriorated due to increase in credit risk charge and market risk charge. The earnings of the system with slight improvement remained fair (see Table 1.2).

The quarter under review was marked with significant reduction in banks' lending to public sector and slight increase in advances to private sector which otherwise experienced consistent decline during the first three quarters of CY09 (see Table 3.1.2). The advances to public sector particularly for commodity operations remained significantly high and stagnant for second half of CY09. The unusually high level of commodity finance was burdening the liquidity profile of the system and limiting its ability to lend private sector. Incidentally, the reduction in public sector financing due to contraction of commodity finance during Mar-10 came just before the inception of wheat harvest (see Table 3.1.3). The post quarter statistics are showing that fresh lending for public sector commodity operations has in fact surpassed the previous level. The lending to private sector corporations showed some growth; however, SME and consumer sectors further shed their bank borrowings. Unlike the past quarter's widespread growth in advances to different sectors of the economy, a mixed trend was observed during Mar-10.

The NPLs of the system showed consistent increase since mid of CY08 and their amounts more than doubled since CY07. The increase in NPLs slightly picked up during the quarter; 5.8 percent QoQ

growth to Rs457 billion. The increase in NPLs mainly occurred in loss category with equivalent increase in partial provisions categories which increased provisioning requirements. However, given the benefit of liquid collaterals and Forced Sale Value (FSV) of pledged and mortgaged securities held against the NPLs, banks set aside relatively lower amount of provisions. Accordingly, provisioning coverage fractionally declined over the quarter and impairment ratio (net NPLs to equity) inched up, while decline in advances further increased infection ratios (see Table 1.2).

The lower loan loss charges preserved the banks' earnings from any significant deterioration, which has remained prominent feature since the latter half of CY08. However, the core earning position of the system also strengthened, as the net interest income and non-interest income improved compared with the results of Dec-09 and corresponding quarter of CY09. These improvements absorbed the effects of increased operating expenses and led to improvement in Return on Assets (ROA) by 30 bps to 1.8 percent. Compared to the recent trend of concentration of earnings in relatively larger size banks, the quarter also witnessed improvements in earnings of individual banks as the number of loss making banks came down (see Table 4.1.6).

Though the system posted satisfactory earnings during the quarter; the equity base of the system remained more or less stable due to the effects of annual external audit adjustments and dividends payouts for CY09 which were directly accounted for

in the retained earnings reported for Mar-10. However due to contraction in asset base of the system, leverage of the system lowered by 20 bps to 8.7 percent (see Figure 2.8). Nevertheless, increase in Risk Weighted Assets (RWA) due to increase in private sector credit coupled with substantial increase in Market Risk Weighted Assets (MRWA) and enhanced deductions for eligible risk based capital, the risk-based Capital Adequacy Ratio (CAR) declined to 13.7 percent, though still remaining high and well above the minimum regulatory requirements (see Table 1.2).

The deposit base of the banking system remained lackluster. However, the greater reduction in lending portfolio released additional liquidity into the system, which in the past few quarters experienced constrained liquidity condition reflected in low interbank activity and high liquidity injections by the SBP. Accordingly, the volatility in prices of financial assets also subsided and due to contained risk positions of banks, market risk of the system remained subdued.

Going forward, the heightened credit risk and increased portfolio of infected loans will remain the major challenges to be reckoned with by the banking system. However, the results of stress tests for stressed scenarios indicate the system's strong capacity to withstand extraordinary shocks in major risk factors and prevent the emergence of any systemic risk from any such event. The traditional credit pick up of second calendar quarter will lead to growth in the asset base of the system. The public sector borrowings for procurement of new wheat crop and liveliness in private

sector credit in line with higher projected economic growth rates are likely to increase the lending portfolio. However, the borrowing needs of the government for budgetary support as well as that of public sector enterprises (PSEs) will keep an upward pressure on banks' investments in government papers, though the rate of growth is likely to remain low. In this scenario, banks capacity to lend private sector and build high return earning assets will largely depend on a number of factors viz a viz; their ability to mobilize additional savings, manage increased credit risk and high infected portfolio, and early retirement of commodity finance by the government. The aggregate earnings of the system are likely to remain largely immune from heightened risk. Nevertheless, banks with relatively large size and better earning profile will continue to account for the major part of the system's overall earnings.

2. Balance Sheet Analysis

Figure 2.1: Quarterly Growth Rates of Total Assets

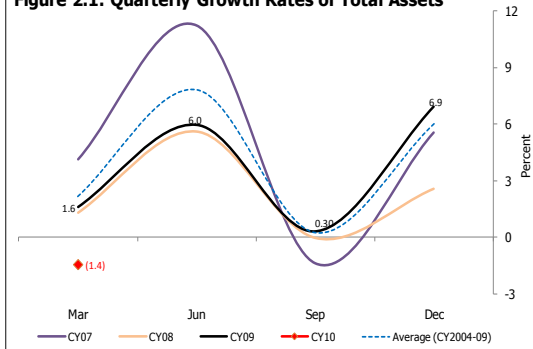


Figure 2.2: Composition of Assets

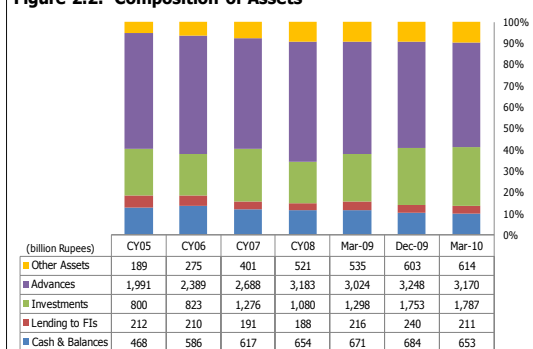


Figure 2.3: Growth in Advances & Deposits

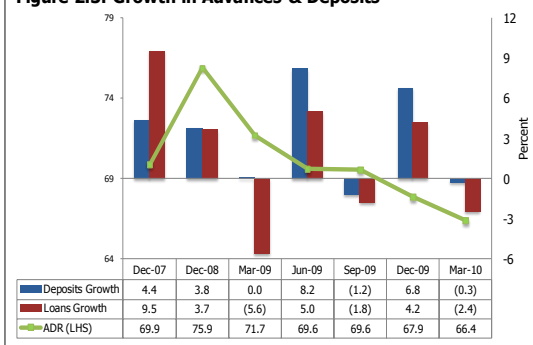
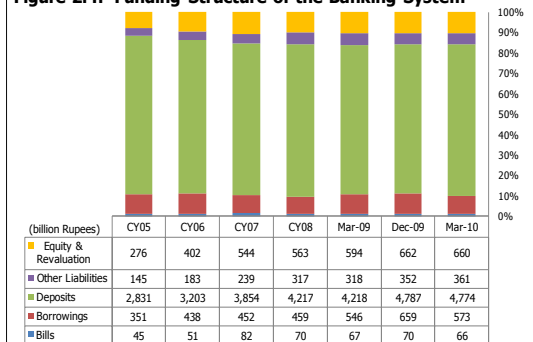


Figure 2.4: Funding Structure of the Banking System



After showing a strong growth during Dec-09, the asset base of the banking system marginally contracted in Mar-09. The first calendar quarter is generally marked with a slowdown in business activities and moderate growth in banks' assets. However, the contraction in asset base as well as bank credit also attributes to ongoing phase of slackened economic activities and banks' risk averse policy to consolidate their positions (see Figure 2.1).

The quarter under review was marked with a 16.3 percent retirement of public sector commodity finance, which had been showing signs of stagnancy since mid of CY09. This reduction in commodity finance coupled with drop in lending to public sector enterprises led to decrease in overall lending portfolio of banks, though lending to other segments, with slight internal shift, remained almost stable.

Over the last year and a half, banks significantly reoriented their asset allocation strategy. Due to ongoing economic slowdown, risk aversion of banks and lackluster demand for private sector credit, the public sector emerged as a major user of bank credit for budgetary support, commodity operations and meeting the financing requirements of public sector corporations that are beset with high inter-corporate receivables. Accordingly, the composition of the asset base gradually shifted away from advances to investments in government papers - and within advances from private sector to public sector and from Small and Medium Enterprises (SMEs) and consumer to corporate segment. As the investment portfolio continued to grow, the trend of

Table 2.1: Trends in Total Assets

	(billion Rupees)						
	CY05	CY06	CY07	CY08	Mar-09	Dec-09	Mar-10
PSCBs	724	836	1,036	1,042	1,074	1,229	1,202
LPBs	2,483	3,102	3,836	4,220	4,302	4,919	4,845
FBs	339	224	173	234	239	241	252
CBs	3,547	4,162	5,044	5,496	5,615	6,390	6,299
SBs	113	120	127	130	129	139	136
All Banks	3,660	4,282	5,171	5,627	5,744	6,529	6,435

gradual shift in asset-mix from advances to investments persisted in Mar-10 as well.

During the quarter under review, the deposit base of the system with negligible contraction remained almost stable compared to a 2.4 percent decline in loans & advances and 1.9 percent growth in investment portfolio. Accordingly, the asset and funding structure of the banking system changed over the quarter (see Figure 2.2, 2.3 and 2.4)

Table 2.2: Market share by Size of Banks

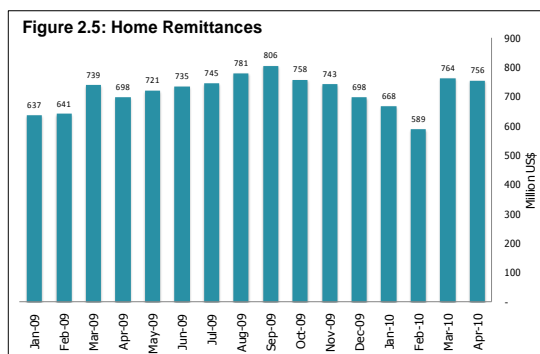
(percent)	CY08	Dec-09	Mar-10
Top 5 banks	52.4	50.8	49.9
6-10 Banks	21.1	22.2	22.7
11 to 20 banks	19.2	19.5	19.6
Rest of small Banks	7.2	7.5	7.7

Table 2.3: Balance Sheet Composition by Size of Banks

	Top 5 banks		6-10 Banks		11 to 20 banks		Rest of small Banks		All Banks	
(percent)	Dec-09	Mar-10	Dec-09	Mar-10	Dec-09	Mar-10	Dec-09	Mar-10	Dec-09	Mar-10
Cash & Bank	11.1	10.5	10.1	10.3	7.5	7.8	15.5	13.5	10.5	10.2
Lending to FIs	2.4	2.5	2.8	2.2	5.8	3.4	9.4	11.0	3.7	3.3
Investments	25.3	26.5	33.0	33.2	25.8	27.2	21.9	21.6	26.9	27.8
Advances	52.8	52.0	45.3	45.1	49.3	49.5	43.1	43.3	49.8	49.3
Other Assets	8.4	8.5	8.8	9.3	11.7	12.2	10.1	10.5	9.2	9.5
Total Assets	100	100	100	100	100	100	100	100	100	100
Bill Payables	1.0	0.9	1.2	1.2	1.0	0.9	1.0	1.4	1.1	1.0
Borrowings	6.4	5.0	11.0	9.3	17.4	16.6	13.6	13.8	10.1	8.9
Deposits	77.4	78.5	73.8	75.2	63.3	63.9	70.0	69.7	73.3	74.2
Other Liabilities	4.4	4.6	5.7	6.2	8.1	8.2	4.2	4.1	5.4	5.6
Net worth	10.8	11.0	8.3	8.1	10.2	10.4	11.2	11.0	10.1	10.3

Table 2.4 : Investments in CDNS Schemes

	Outstanding (billion Rs)	Growth (Qtrly) %	% of Banks' Deposits
Jun-08	1,094	2.1	28.5
Sep-08	1,114	1.9	29.5
Dec-08	1,143	2.5	30.1
Mar-09	1,267	10.9	32.7
Jun-09	1,359	7.3	32.9
Sep-09	1,424	4.7	34.2
Dec-09	1,476	3.6	33.4
Mar-10	1,530	3.7	34.6

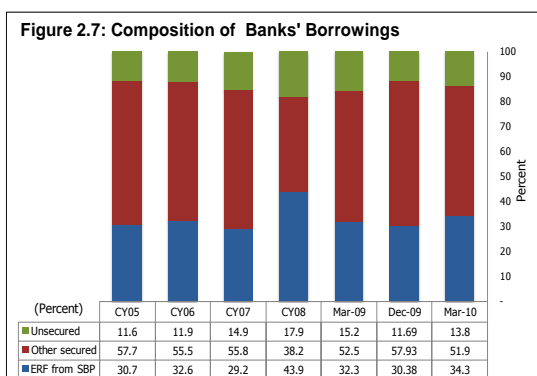
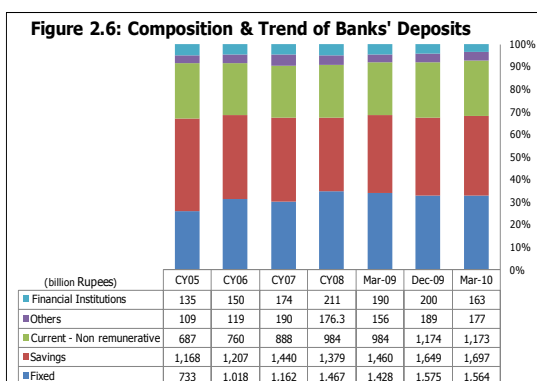


Cross-Sectional Analysis & Market Structure:

Detailed analysis along the groups by type of ownership shows that all groups witnessed marginal decline in asset base except for FBs that posted a moderate growth. Accordingly, the relative share of these groups remained more or less stable (see Table 2.1). On individual basis, most of the banks faced the contraction in their asset base. However, the decline was prominent in top 5 banks while some of the medium and small sized banks posted growth in asset base. Accordingly, the share of top five banks in the banking sector assets came down to 49.9 percent (50.8 percent in Dec-09) while the share of the medium and small sized banks inched up. The levels of change in balance sheet components and shift in asset-and-funding structures varied among banks (see Table 2.2 & 2.3). Details of market structure along with key factors and risk indicators are available at Annexure-III.

Growth & Dynamics of Different Components of Assets and Liabilities:

Deposits base of the banking system with marginal contraction of 0.3 percent (YoY



growth of 13.2 percent) remained stable during the quarter under review. The major source of banks' deposits and growth in monetary aggregates i.e. home remittance showed some slackness during the first two months, though it recovered in March, 2010 and post quarter weeks (see Figure 2.5). However, the banking system faced a strong competition from Central Directorate of National Savings' (CDNS) schemes in mobilizing savings since the latter half of CY08. The flow of funds to CDNS instruments slightly pacified during last quarter, however a slight uptick in the flow was again observed during the quarter under review and the quantum of CDNS mobilizations in terms of banks' deposit further increased (see Table 2.4). Disaggregated analysis of deposits, however, indicated mixed trend in different components of deposits. Deposits from financial institutions, fixed deposits and remunerative current accounts declined over the quarter while growth in saving deposits made for a major part of this decline in deposits (see Figure 2.6). The overall shift in the composition of deposits largely emanated from top 5 banks which followed a policy to consolidate their asset liability profile and shed costly deposits.

In the backdrop of contraction in asset base, the system's reliance on interbank **borrowings** came down significantly. This decline mainly occurred in both interbank secured borrowings and borrowings from the SBP while the share of unsecured interbank borrowings, which slightly grew, increased in Mar-10 (see Figure 2.7).

During the quarter under review, a number of banks recognized additional losses in their annual audited accounts for CY-09

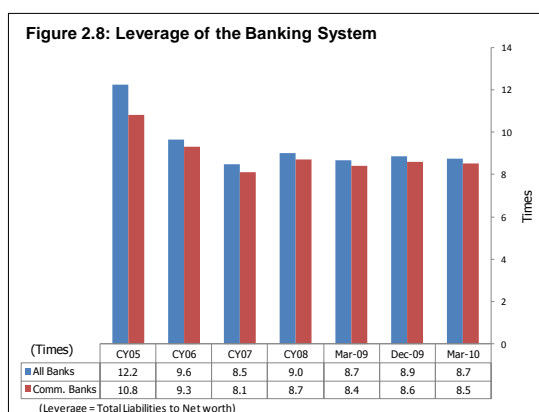
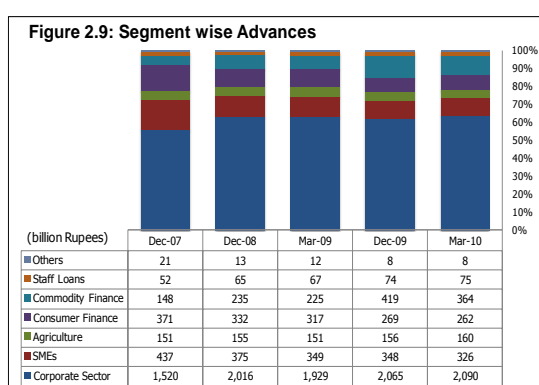


Table 2.5: Composition of Banks' Advances (domestic operations)
(in percent)

	CY06	CY07	CY08	Mar-09	Dec-09	Mar-10
Public	8.1	7.6	10.8	11.0	16.9	15.0
Private	91.9	92.4	89.2	89.0	83.1	85.0



and paid out dividend. However, these depletions were not recognized in quarterly report of condition for Dec-09, and were accounted for directly into retrained earnings for Mar-10. Therefore, in spite of satisfactory earnings for the quarter, **Shareholders' Equity** registered only a marginal growth of 0.4 percent that was also neutralized by matching reduction in revaluation surpluses. However, due to reduction in asset base, the leverage (liabilities to equity ratio) of the banking system slightly came down (see Figure 2.8)

As mentioned earlier, **advances** of the banking system declined by 2.4 percent during the quarter under review. However, unlike the trend that set in latter half of CY08 i.e. a gradual build up of public sector credit; the quarter under review witnessed a significant decline in lending to public sector and slight increase in the level of private sector lending. Accordingly, the relative share of both the sectors changed over the quarter (see Table 2.5)². Disaggregated analysis shows that major decline occurred in public sector commodity finance and corporations followed by contraction in lending to SME and consumer sector; aggregate decline in these sectors surpassed the slight growths in lending to corporate and agriculture sectors. Consequently, the segment wise composition of advances further shifted towards corporate sector (see Figure 2.9). The end-use analysis of advances indicates stability in the level of lending to major end-uses except for the commodity finance and consumer finance that declined during the quarter. The commodity finance, particularly the public sector borrowings, constituting three fourth of the overall

² The analysis of advances in the following paragraphs is based on domestic operations.

Table 2.6: End-use of Advances (domestic operations)

(amount in billion Rupees, share in percent)

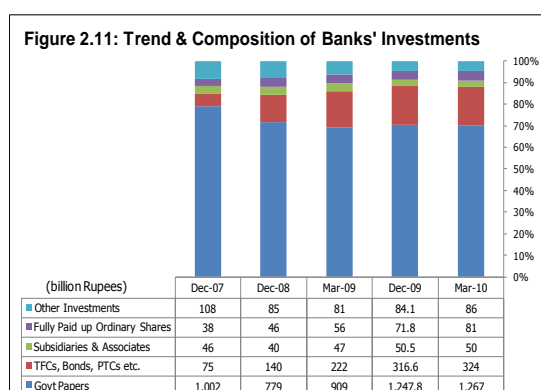
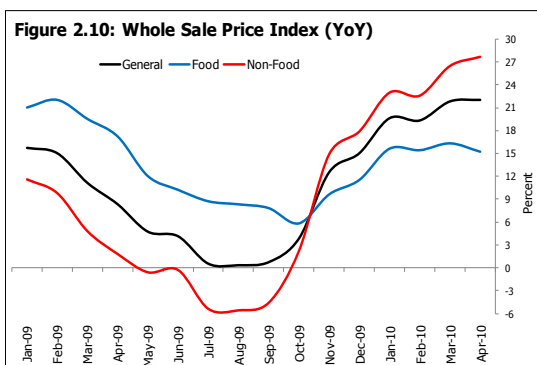
	Mar-09		Dec-09		Mar-10	
	Amount	Share	Amount	Share	Amount	Share
Fixed Investment	731.7	24.0	836.0	25.0	839.2	25.6
Corporate Sector	691.1	22.7	795.2	23.8	799.7	24.4
SMEs	40.6	1.3	40.7	1.2	39.4	1.2
Trade Finance	459.6	15.1	517.0	15.5	519.5	15.8
Corporate Sector	420.3	13.8	473.0	14.2	476.7	14.5
SMEs	39.2	1.3	44.0	1.3	42.8	1.3
Working Capital*	1,461.8	48.0	1,635.4	49.0	1,580.8	48.1
Corporate Sector	817.1	26.8	797.3	23.9	813.0	24.8
SMEs	269.3	8.8	263.0	7.9	243.6	7.4
Agriculture	150.7	4.9	156.5	4.7	160.2	4.9
Commodity Financing	224.7	7.4	418.5	12.5	364.0	11.1
Consumer Finance	316.7	10.4	268.6	8.0	261.9	8.0
Credit Cards	37.8	1.2	31.2	0.9	29.3	0.9
Auto Loans	87.6	2.9	66.3	2.0	67.4	2.1
Consumer Durable	0.3	0.0	0.2	0.0	0.1	0.0
Mortgage Loan	64.6	2.1	61.5	1.8	59.9	1.8
Other personal Loans	126.4	4.1	109.5	3.3	105.1	3.2
Staff Loans	66.7	2.2	73.9	2.2	74.6	2.3
Housing Finance	47.7	1.6	55.0	1.6	54.6	1.7
Others	19.1	0.6	18.9	0.6	20.1	0.6
Others	11.9	0.4	8.2	0.2	8.2	0.3
Total	3,048.5	100	3,339	100	3,284	100

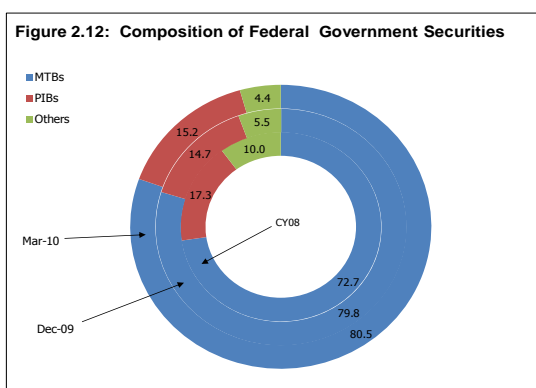
* Agriculture and commodity finance are added in this category for analysis in this section only.

portfolio, remained unusually high and stagnant since mid of CY09. During the quarter under review, it reduced by 16.3 percent, however its level still remains quite high (see Table 2.6). The post quarter statistics show that due to additional borrowing for wheat procurement, the public sector commodity has exceeded earlier levels.

Working capital, trade finance and fixed investment lending particularly to corporate sector witnessed slight increases. A significant reduction in working capital finance of SME sector was in line with the first calendar quarter's established pattern of slowdown in economic activities. Nevertheless, upward pressure in Whole Sale Price Index that started to emerge towards the end of last quarter persisted during the quarter as well (see Figure 2.10), requiring higher value of inventories in rupee terms to maintain the same level of operations.

During the quarter under review, **investments** continued to grow, however the growth rate remained significantly low i.e. 1.9 percent as compared to strong growth in recent quarters. Major growth occurred in government papers followed by equity investments and public sector bonds/sukuks (see Figure 2.11). The further breakup of government papers reveals that both short-term Market Treasury Bills (MTBs) and long-term Pakistan Investment Bonds (PIBs) registered increase. However, growth in MTBs was pronounced as compared to PIBs, which carry limited eligibility for statutory liquidity requirements and show more sensitivity to interest rate movements (see Figure 2.12).

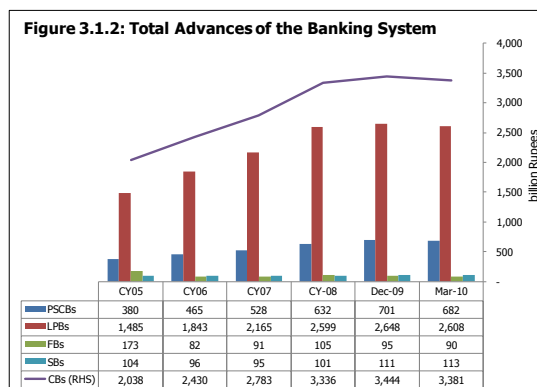
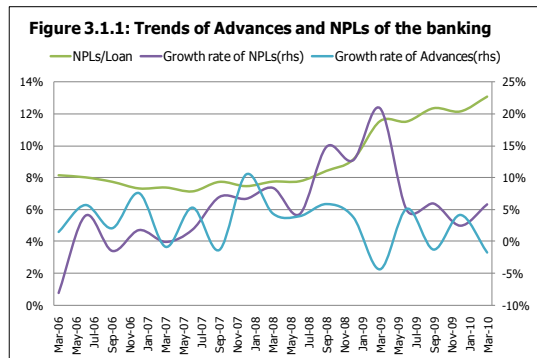




Going forward, the traditional pick up in the second calendar quarter is likely to inch up the growth of advances and deposit. As highlighted above, public sector commodity financing for wheat procurement has increased substantially post quarter. Given the government's borrowing targets for the coming months and further build up of commodity finance, the extension of credit to private sector will largely depend upon banks' ability to mobilize additional deposits. The latest available statistics for the second week of May, 2010 indicate moderate growth in deposits and advances while investments are more or less stable.

3. Risk Assessment of the Banking System

3.1. Credit Risk



The asset quality of the banking system deteriorated over the quarter due to decline in advances and growth in NPLs (see Figure 3.1.1). The lending portfolio came down during the quarter under review mainly due to unusual decline in public sector commodity finance. In line with the historical quarterly trend and continued challenging economic environment both at domestic & external fronts and domestic security concerns, lending to SME and Consumer sector declined; while positive LSM growth led to slight increase in lending to private sector corporations. Accordingly, the gross advances of the system contracted by 1.7 percent during Mar-10.

The contraction in advances occurred in most of the banking groups except for SBs (see Figure 3.1.2). Size wise, top 10 banks shed their share in advances by 190 bps, while share of some medium and small sized banks inched up (see Table 3.1.1).

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

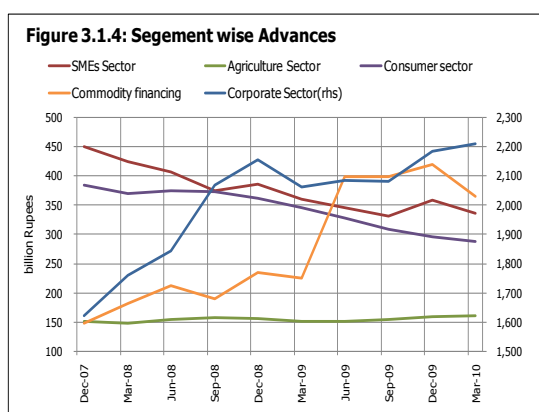
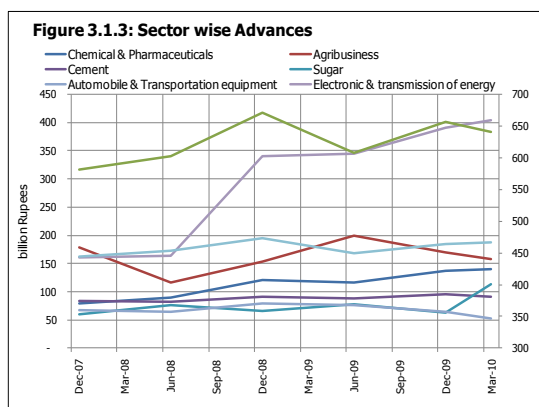
	Banks			
	Top 5	Top 10	Top 20	Industry
CY 07	48.8	72.6	94.1	100
Dec-08	52.9	74.2	93.6	100
Mar-09	52.7	73.9	93.4	100
Jun-09	53.5	74.7	93.5	100
Sep-09	53.5	74.7	93.5	100
Dec-09	53.7	74.7	93.2	100
Mar-10	52.5	72.8	93.0	100

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

Period	Public Sector Loans			Private Sector Loans		
	Amount	Share	Growth	Amount	Share	Growth
Dec 07	241	8.4	15.7	2,637	91.6	13.8
Dec 08	380	11.1	58.0	3,056	88.9	16.0
Mar 09	368	11.2	(3.1)	2,918	88.8	(4.5)
Jun 09	596	17.3	62.0	2,859	82.7	(2.0)
Sep 09	591	17.3	(1.0)	2,822	82.7	(1.3)
Dec 09	617	17.4	5.0	2,938	82.6	4.0
Mar-10	551	15.8	(10.7)	2,943	84.2	0.2

The public sector advances had gained weight over CY09, for meeting the commodity finance and settling of public sector utilities' inter-corporate debts. This trend saw a shift in the quarter under review as both the segments observed a sizeable decline. Resultantly, the share of public sector in gross advances came down by 1.6 percentage points (see Table 3.1.2).

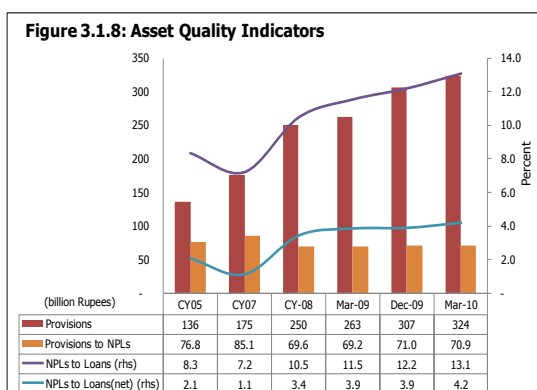
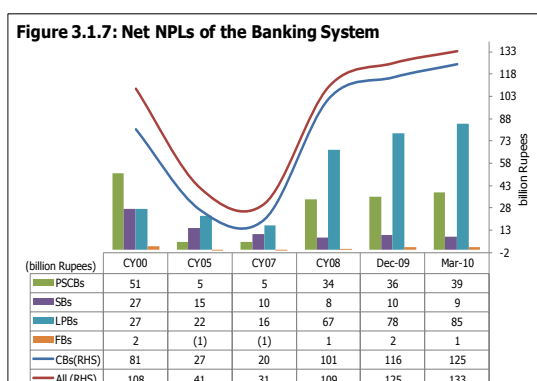
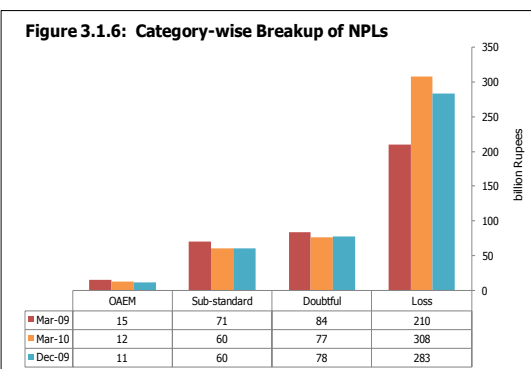
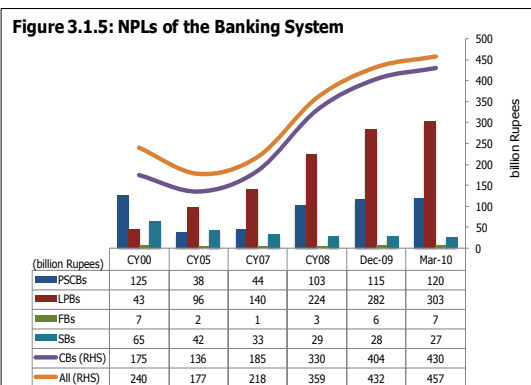
The decline in commodity finance was a welcome development as it provided ample liquidity to banks. However, in the first two weeks of May, 2010, banks' lending to



public sector for procurement of new wheat crop has exceeded the previous levels.

Analysis of private sector advances show improvements in LSM as reflected in corporate sectors like automobile and transportation, sugar, fertilizers & chemicals and energy, which lead to uptick in overall advances. Appreciable rise in advances to sugar sector resulted from ongoing crushing season which is usually at its peak during this time of the year. The healthy growth in automobile sector was partially financed through banking sector. In fact auto finance was the only segment where consumer financing increased. The energy sector continued to perform well, as far as the off-take of advances is concerned. Some of the new power projects underway generated demand for fixed / long-term loans as well as working capital and trade finance. However, slow down in private sector advances resulted from decline in demand from textile sector; financing to textile sector declined by 2.6 percent over Mar-10 (see Figure 3.1.3).

The segment-wise breakup of advances shows decrease in demand for loans in all segments except for corporate and agriculture (see Figure 3.1.3). In addition to negative growth in commodity finance, this quarter was depressed one for SMEs as the demand for long term loans by SMEs dried up. As highlighted earlier, demand for all consumer finance segments declined except for auto finance, leading to further decline in share of consumer finance in overall loan portfolio.



The infected portfolio of the banking sector grew at a 5.8 percent over Mar-10 (2.5 percent in Dec-09 quarter). Although this growth of infected portfolio remained high, the rate of increase in infected loans moderated significantly over the year (YoY 20.6 percent for Mar-10 and 63.3 percent for Mar-09). Relatively higher rate of increase in NPLs over Dec-09 also includes impact of upward adjustments in NPLs made in the annual audited financial statements, leading to higher NPLs than those reported in end December 2009 QRC.

The increase in NPLs occurred across all banking groups, with more profound increase in LPBs (see Figure 3.1.5). Category-wise breakup shows increase of Rs 25 billion in loss category and increase of equivalent value NPLs in partial provisions categories, indicating continuous flow of fresh NPLs (see Figure 3.1.6). This mix of increase enhanced overall provisioning requirements. However, actual increase in loan loss provisions was lower due to the rationalization of provisioning requirement i.e. allowing banks to avail 40% FSV benefit of collateral value held against the NPLs³. Despite this change, these requirements are still stringent compared with best practices and regulations in other jurisdictions. The benefit provided banks a breather from the strain on their resources caused by high provisioning requirements. On the other hand, lower provisioning requirements resulted in higher net NPLs and lower provisioning coverage (see Figure 3.1.8).

Increase in NPLs coupled with decrease in advances lead to increase in infection ratio

³ BSD Circular No. 10 of 2009.

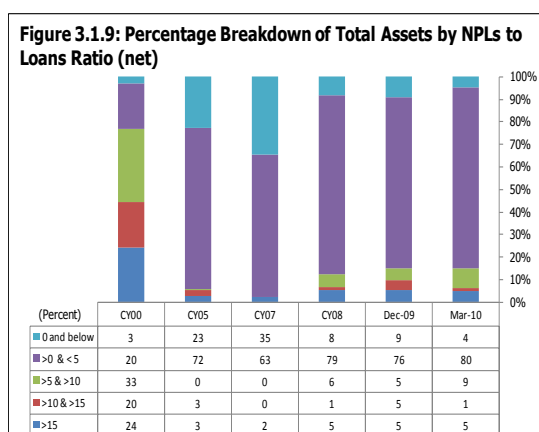


Table 3.1.3: Segment wise advances and NPLs

(amount in billion Rupees, ratio in percent)

Items	Dec-09			Mar-10		
	Loans	NPLs	Ratio	Loans	NPLs	Ratio
Corporate Sector	2,183.94	274.20	12.56	2,208.22	292.48	13.25
SMEs Sector	358.93	79.41	22.13	336.44	83.04	24.68
Agriculture Sector	160.09	26.49	16.55	160.57	27.66	17.23
Consumer sector	295.26	36.06	12.21	287.42	38.89	13.53
i. Credit cards	31.94	3.70	11.58	29.99	4.23	14.10
ii. Auto loans	67.54	5.73	8.48	68.60	6.09	8.88
iii. Consumer durable	1.07	0.11	9.86	0.95	0.09	9.29
iv. Mortgage loans	76.87	11.95	15.55	75.32	12.97	17.22
v. Other personal loans	117.84	14.58	12.37	112.56	15.51	13.78
Commodity financing	418.96	4.56	1.09	364.42	3.86	1.06
Staff Loans	74.19	0.88	1.19	74.93	0.97	1.30
Others	63.74	10.46	16.41	61.89	10.33	16.70
Total	3,555.10	432.08	12.15	3,493.89	457.24	13.09

Table 3.1.4: Sector wise Advances and NPLs

(amount in million Rupees, share in percent)

Item	Dec-09				Mar-10			
	Loans	Share in Loans (%)	NPLs	NPLs to Loan (%)	Loans*	Share in Loans (%)	NPLs	NPLs to Loan (%)
Chemical & Pharmaceuticals	136,530	3.84	9,181	6.72	139,788	4.00	9,511	6.80
Agribusiness	170,040	4.78	15,067	8.86	157,547	4.51	16,647	10.57
Textile	657,156	18.48	128,717	19.59	640,330	18.33	136,083	21.25
Cement	95,223	2.68	11,654	12.24	91,441	2.62	14,115	15.44
Sugar	62,484	1.76	12,264	19.63	113,548	3.25	12,709	11.19
Shoes & Leather garments	21,596	0.61	2,866	13.27	21,389	0.61	2,885	13.49
Auto & Transportation equipment	63,735	1.79	10,571	16.59	52,460	1.50	10,417	19.86
Financial	59,441	1.67	7,499	12.62	54,841	1.57	5,275	9.62
Insurance	1,476	0.04	1	0.09	1,129	0.03	1	0.13
Electronic & transmission of energy	390,022	10.97	28,696	7.36	403,516	11.55	30,741	7.62
Individuals	464,092	13.05	53,150	11.45	466,078	13.34	61,385	13.17
Others	1,433,303	40.32	152,408	10.63	1,351,821	38.69	157,475	11.65
Total	3,555,099	100.00	432,075	12.15	3,493,887	100.00	457,244	13.09

by 90 bps to 13.1 percent over the quarter. Further, percentage increase in provisions less than percentage increase in NPLs led to decrease in provisions coverage ratio by 10 bps to 70.9 percent and increase in Net NPLs to loan ratio by 30 bps to 4.2 percent (see Figure 3.1.8).

The disaggregated analysis of banking assets by infection ratio also depicts deterioration in the asset quality of individual banks. The banks over the time moved from lower infection category to higher one. The last three years saw a substantial change as a number of banks with above 0 net NPLs to loan ratio increased their share in assets base to 96 percent in Mar-10 from 65 percent in CY07. In line with worsening asset quality, the number of banks with 5 percent or more net infection ratio represented 15 percent of the banking assets and mostly include small sized banks (see Figure 3.1.9).

Corresponding to the overall trend, the infection ratio increased for all the segments except for commodity finance (see Table 3.1.3). The corporate sector which represent the highest advances exposure, contributed 73 percent increase in NPLs. However, infection ratio for corporate sector increased by 69 bps, as it was the only segment where advances increased. The increase in infection ratio is pronounced in other sectors, as advances have either remained stagnant or declined over the quarter. Sources of infected loans show that most of it originated from textile, cement and individuals. The textile sector, with highest share in advances and infection ratio above 21 percent, remains the most vulnerable (see Table 3.1.4). The NPLs by end use of loans show a more

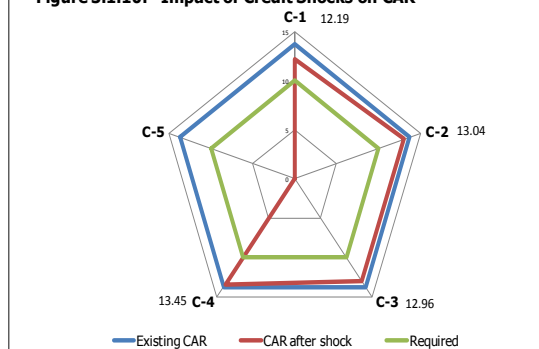
Table 3.1.5: NPLs to Loans by end use

	(amount in billion Rupees, ratio in percent)								
	Mar-09			Dec-09			Mar-10		
	Loans	NPLs	Ratio	Loans	NPLs	Ratio	Loans	NPLs	Ratio
Fixed Investment	797.3	107.6	13.5	889.7	125.9	14.2	897.8	133.0	14.8
Working Capital	1,522.9	178.4	11.7	1,697.7	203.9	12.0	1,635.2	212.3	13.0
Trade Finance	477.3	56.0	11.7	534.6	54.8	10.3	536.7	61.8	11.5
Others	489.1	37.3	7.6	433.2	47.4	10.9	424.2	50.2	11.8
Total	3,286.5	379.3	11.5	3,555.1	432.1	12.2	3,493.9	457.2	13.1

pronounced increase in infection for working capital and trade finance. Increasing infection in later case emanated from decline in overall trade activity (see Table 3.1.5)

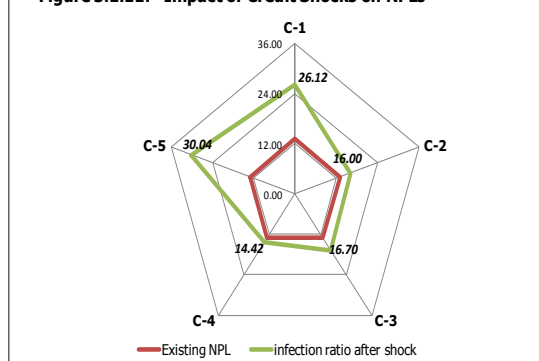
In the wake of the constrained economic conditions, the banks are engaging with the promising borrowers for containing the level of NPLs. Figures show that banks are facilitating rescheduling and restructuring of not only the loans which have gone into delinquency but also the performing loans to avoid the premature failure of viable businesses. Textile, Energy, sugar and Cement sector were the main beneficiaries of these arrangements.

Figure 3.1.10: Impact of Credit Shocks on CAR

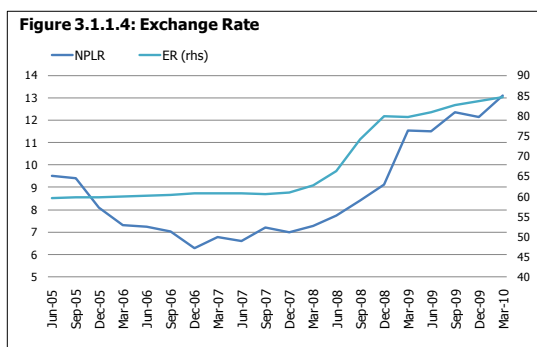
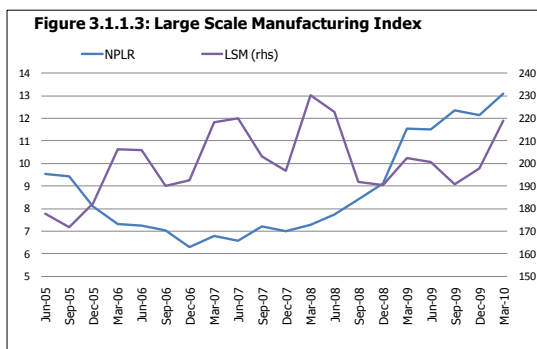
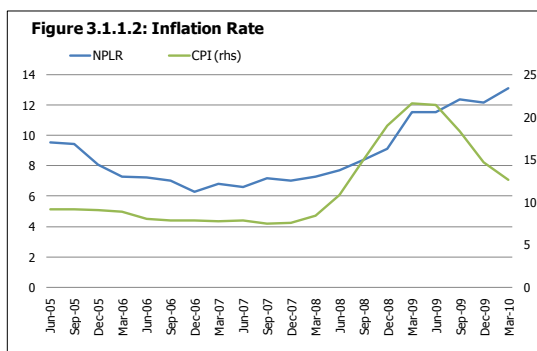
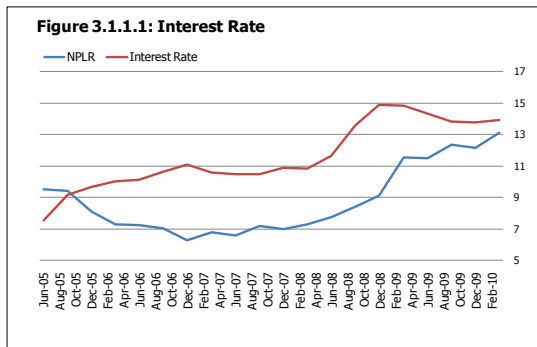


In order to assess the system's capacity to withstand unusual shocks in the risk factors, the lending portfolio of banks have been subjected to various shocks. The results of these stress tests show sufficient resilience of the system (see Figure 3.1.10 & 3.1.11). The impact varies across shock scenarios. The shock C-1, which implies increase in NPL in each classification category, remains the critical one; as it doubles the infection ratio and reduces the CAR of the system by 1.53 percentage points. Shocks C-2 to C-4, which envisages tightening of classification standards, deterioration of textile NPL and increased infection in consumer finance respectively, will moderately impact the asset quality ratio and CAR. The credit shock C-5 gauges level of NPL where CAR of the system becomes zero. A wide cushion between the present NPLs ratio i.e. 13.1 percent and the critical level i.e. 30.0 percent further substantiate resilience of the system as existing level of infection remain far below the critical level.

Figure 3.1.11: Impact of Credit Shocks on NPLs



3.1.1 Macroeconomic Stress Testing of Credit Risk



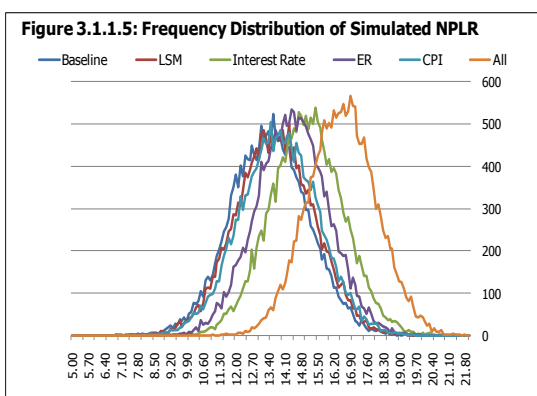
The macroeconomic stress testing of credit risk provides a quantitative measure of the possible impact of extreme (but plausible) shocks to macroeconomic variables affecting the credit portfolio of the banking system. Since CY08, the macroeconomic indicators had been showing adverse movements, specifically fiscal and external accounts recorded deficits coupled with inflationary pressures. Moreover, the economic conditions continue to remain challenging on account of rising fuel prices, power shortages and domestic law & order conditions. In this regard, the NPLs to loan ratio, a measure of banks' asset quality, had been deteriorating in tandem with weakening key macro indicators (see Figure 3.1.1.1-3.1.1.4).

The infection ratio of 13.09 percent for Mar-10 remained below the estimated ratio on account of less than expected increase in NPLs (YoY 20.5 percent for Mar-10 and 63 percent for Mar-09). This can be attributed to some improvements in the macroeconomic indicators during the quarter including the revival of the large scale manufacturing (LSM), improvement on external front (improved remittances, declining trade deficit and consequential improvement in current account deficit) and relatively stable exchange rate (EXR). Moreover, declining lending rates (LR) also checked the upward movement in infection ratio. Going forward, it is expected that in Jun-10, the growth in credit-off take will further arrest the increase in infection ratio amid improved macroeconomic outlook.

Table 3.1.1.1: Simulated NPL Ratios

	Baseline	LSM	LR	ER	CPI	CPI+LR	All
Average	13.39	13.62	14.96	14.35	13.80	15.35	16.50
75 P*	14.50	14.74	16.01	15.38	14.93	16.42	17.48
90 P*	15.52	15.77	16.96	16.32	15.91	17.37	18.39
95 P*	16.12	16.37	17.53	16.89	16.52	17.95	18.93
99 P*	17.27	17.42	18.67	17.93	17.66	19.01	19.91
99.5P*	17.74	17.85	19.00	18.32	18.02	19.40	20.22

P* represents percentile, CPI=Inflation, ER=Exchange rate, I=Interest rate, LSM=Large scale manufacturing.

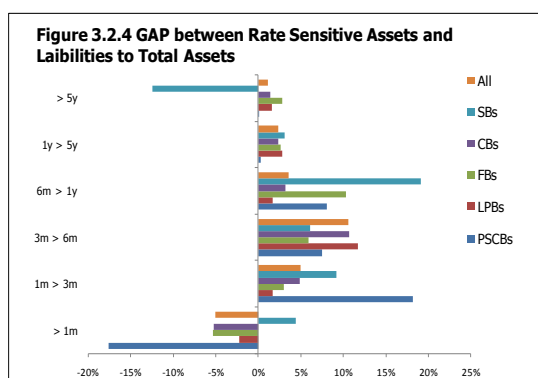
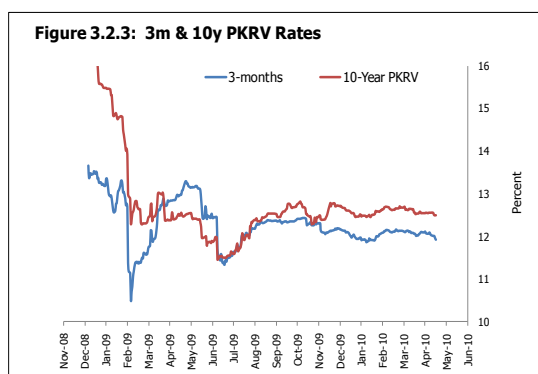
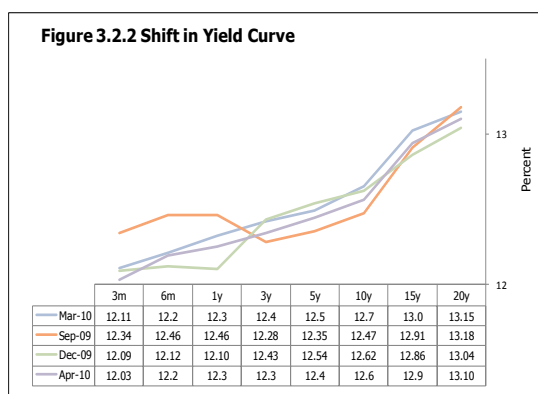
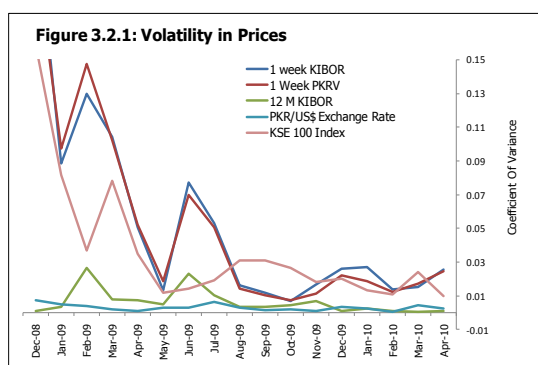
**Table 3.1.1.2: Impact of Simulated NPL Ratios**

NPLR	Change in Profitability*	Change in CAR	# of Banks with CAR<10
	Blns Rs.	Percent	
13.39	(10.60)	0.21	11
15.52	(85.00)	1.73	13
17.95	(170.00)	3.53	19
18.67	(195.60)	4.08	21
19.4	(220.50)	4.65	21

*change in profitability includes 100 percent provisioning

For a quantitative forecast of infection ratio for Jun-10 quarter and to stress test the macroeconomic variables, the CPV model is employed using the assumption that infection ratio serve as a good proxy for default rates or bankruptcies. The results of the CPV model forecast the NPLs to loans ratio at 13.39 percent for Jun-10 under the baseline, no shock scenario (see Table 3.1.1.1). The forecast seems reasonable keeping in view recent developments in economy and support the notion that growth of NPLs is expected to remain low in coming months. However, on application of single and multiple shocks, the probability distribution of expected infection ratio significantly deviates from the original baseline distribution (see Figure 3.1.1.5).

The forecasted NPLR distributions will be having marginal impact on the capital adequacy ratio of the banking system in base line scenario. The 30 bps increase in forecasted infection ratio will not significantly impact the CAR of the individual banks. The number of banks below the benchmark CAR will remain the same as at Mar-10 level (see Table 3.1.1.2).



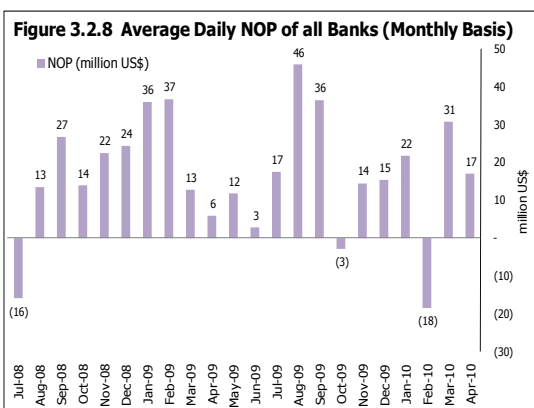
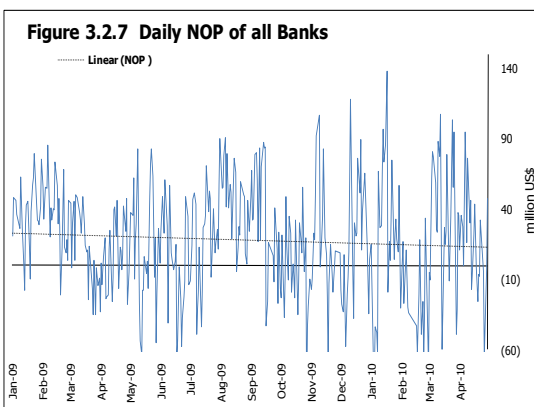
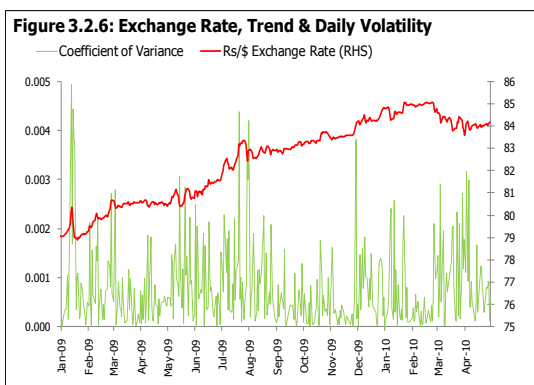
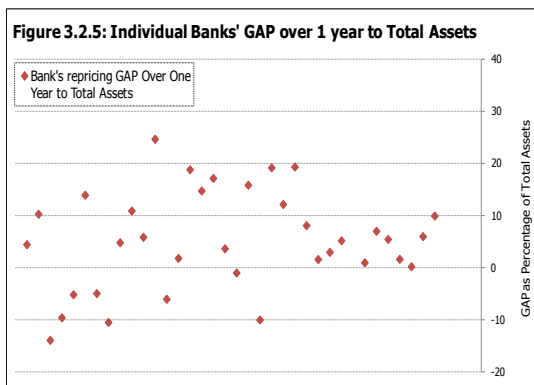
3.2. Market Risk

The price volatility of the financial assets during Mar-10 remained substantially lower when compared with corresponding period of last year (see Figure 3.2.1). The volatilities in interest rates, exchange rate and equity prices decreased in the first half of the quarter. However, it slightly increased in the second half of the quarter and continued post quarter.

Interest rate risk of the banking system remained subdued during the quarter. The yield curve somewhat steepened, with a small upward shift, (see Figure 3.2.2) owing to 20 bps increase in PKRV rates of up to one-year and marginal increase in 10 years rates. However, the yield curve again shifted downwards due to decline in interest rates in all maturities. The narrow yield spread between the long-term rates and the 3-months rate (see Figure 3.2.3), signifies that the yield curve is still flatter and banks have less incentive to take long-term risk positions.

The contained gap between the rate sensitive assets and liabilities in over-one-year bucket substantiates the banks' low preference to lock in long positions (see Figure 3.2.4). The narrow GAP in the longer time bucket suggests lower interest rate exposure of the banking system. Importantly, most of advances are KIBOR linked which require re-pricing over shorter tenors and limiting the re-pricing risk.

The re-pricing GAPS of the banking system for near term remains within the acceptable bench mark of ± 10 of total assets. GAPS in over one month buckets are significantly positive, while they are negative for up to 3 months bucket, due to high level of non-contractual interest bearing liabilities, mostly the saving



deposits. Group wise, however, PSCBs have gaps exceeding this acceptable level in these maturity bands, posing these banks to interest rate risk over the short term.

Though the banking system is running the re-pricing gap in over one year bucket within fairly acceptable levels, the individual banks however, hold significant positions. The bank wise position shows that 12 banks, most of which are medium sized banks, have gaps in over-one-year bucket exceeding 10 percent of their total assets (see Figure 3.2.4). These positions may affect the banks' revaluation gains if the interest rates go up or volatility increases.

Exchange Rate Risk of the banking system remained contained. Though there has been a gradual depreciation in exchange rate since mid of last year, Pak rupee (PKR) experienced some appreciation against USD in the latter half of the quarter under review (see Figure 3.2.6) as some external account witnessed some improvements. Exchange rate volatility remained low; rupee dollar exchange rate hovered around 84 – 85 (see Figure 3.2.6) which came down to 84.18 at the quarter end. The banks maintained net long position in foreign currency (see Figures 3.2.7 and 3.2.8) which show the market perception of depreciation of Pak rupee in near future. However, economic fundamentals will dictate the future trend of exchange rate.

Equity price risk is largely translated in the trends of the stock market. The volatility of stock market prices remained low, prices of equity stocks strengthened during the quarter and KSE-100 showed further recovery. Moreover, banks, with a

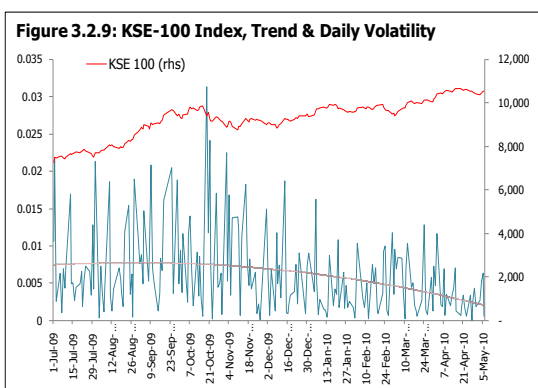


Table 3.2.1: Equity Exposure of the Banking System

(amount in billion Rupees)						
	Dec-08		Dec-09		Mar-10	
	Amount	% of Capital	Amount	% of Capital	Amount	% of Capital
PSCBs	5.4	4.3	18.9	13.9	20.5	15.4
LPBs	39.5	9.2	51.6	10.5	59.6	12.1
FBs	0.2	0.5	0.1	0.2	0.1	0.2
All CBs	45.1	7.7	70.6	10.6	80.2	12.1
All Banks	46.4	7.9	71.8	10.9	81.5	12.3

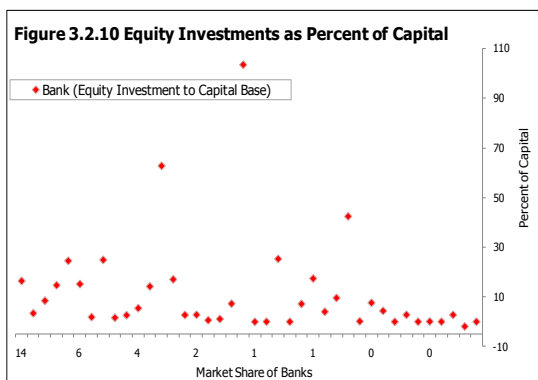


Table 3.2.2: Impact of Market Risk Shocks

	Number of Banks with CAR			CAR (Capital Adequacy Ratio)
	< 0%	0% - 10%	10% <	
Pre-Shock	1	4	35	13.72
Shocks:				% point change in CAR
IR-1	1	4	35	-0.32
IR-2	1	4	35	-0.36
ER-1	1	5	34	0.58
ER-2	1	4	35	-0.12
EQ-1	1	4	35	-0.18
EQ-2	1	4	35	-0.35
				Adjusted CAR after Shock
				13.40
				13.36
				14.30
				13.60
				13.54
				13.37

few exceptions, followed a cautious strategy and gradually reducing their exposures to stock market. The exceptions can be seen in a few large and medium-sized banks on account of substantial acquisition of equity stocks in settlement of their holdings of a leading mutual fund's units. As a result, banks' total investment in ordinary shares increased by around Rs 10 billion increasing their investment in shares to 12.3 percent of capital, which, though is well within the prudential limits (see Table 3.2.1). Group wise, LPBs contributed round 80 percent of the increase; however, their equity exposure in terms of capital remained below the industry average.

The bank wise position showed that few banks carried significant equity exposures. Of the forty banks, 12 banks holding a market share of 48 percent, maintain equity exposure above the industry average of 12.3 percent (see Figure 3.2.10); while 10 banks, with asset share of 38 percent, carry equity exposure greater than 15 percent of their capital.

The stress test results towards the adverse movements in various market risk factors show that the banking system remains fairly resilient, with less than half a percentage point decrease in CAR from most of the shocks (see Table 3.2.2). Both the contained risk exposures and healthy capital base provided enough cushion to the banks' capital to sustain these shocks.

Summing up, market risk profile of the banking system remained subdued on account of managed risk exposures and low volatilities in the market risk factors.

3.2.1 Analysis of Banks' Financial Derivative Business⁴

After enjoying significant growth for a couple of years, financial derivative business of banks continued to decline since CY08. However, during the last couple of quarters, the decline in the volumes of derivatives contracts remained insignificant (see Figure 3.2.1.1).

The number of derivatives contracts was highest in Mar-10, due to the significant increase in the number of contracts of Foreign Exchange Options (FX Options). FX Options though share less than 10 percent in terms of rupee values represent half of the total number of contracts of the derivatives business in Pakistan. During the quarter, the FX Options witnessed a strong growth in terms of both number of contracts as well as rupee value i.e. value more than doubled over the quarter. However, the aggregate decline in the Interest Rate Swaps (IRS) and Cross Currency Swaps (CCS) outpaced the increase made by the former, thus registering a net decline in the notional value of derivative business. No activity was observed in Forward Rate Agreements (FRAs) since end CY08 (see Figure & Table 3.2.1.).

The level of risk measured in terms of mark-to-market positions also showed some deterioration. Though level of losses declined on net mark-to market positions of these derivatives contracts, the mark-to-market losses in terms of notional value

Figure 3.2.1.1: Financial Derivatives Contracts, PKR Equivalent Notional Amounts (Market Making Transactions Only)

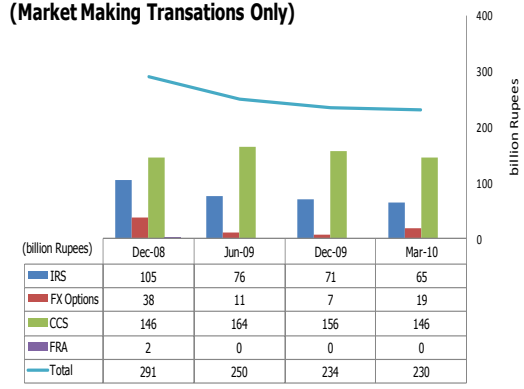
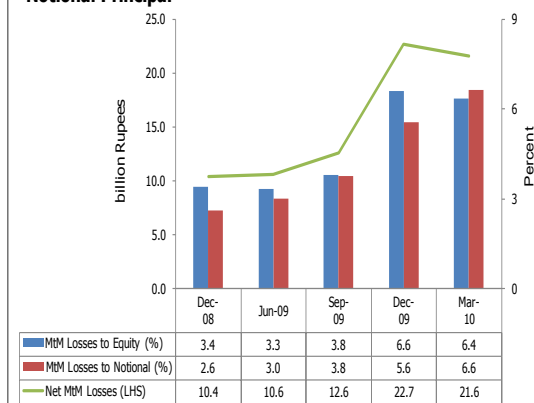


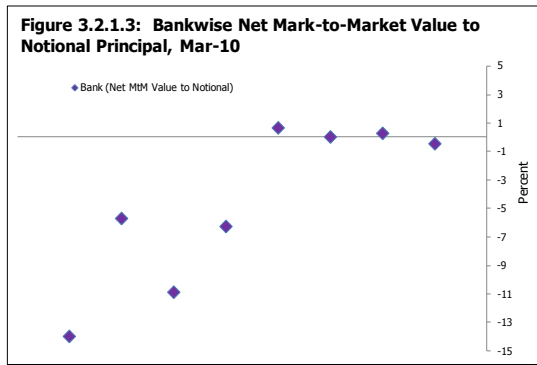
Table 3.2.1.1: Number of Derivative Contracts

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
IRS	79	73	75	64	57	56
FX Options	113	254	249	38	193	312
CCS	228	244	255	263	257	248
FRA	8	-	-	-	-	-
Total	428	571	579	365	507	616

Figure 3.2.1.2: Bankwise Net Mark-to-Market Value to Notional Principal



⁴ The analysis is based on the information of eight banks, including five Authorized Derivative Dealers, which are engaged in derivative business. For details in respect of background of derivative business in Pakistan, regulatory framework, and the features of permissible types of derivatives contracts; please refer to the Quarterly Performance Review of the Banking System for June 2009 quarter.

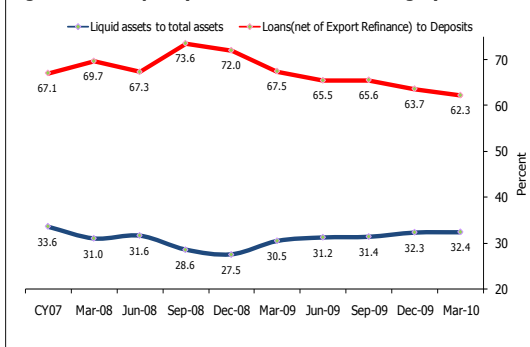


increased and stayed at its historically highest level (see Figure 3.2.1.2).

Bank wise, five banks out of total eight banks in the derivatives business carried mark-to-market losses on their derivative portfolio. Of these, two banks had their net mark to market losses more than 10% of the notional value of their derivatives contracts (see Figure 3.2.1.3).

3.3. Liquidity Risk

Figure 3.3.1 Liquidity Indicators of the Banking System



Liquidity of the banking system improved over the quarter. The key indicators witnessed an ease off in the liquidity of the banking system, primarily due to the shift of asset mix away from bank credit to investments.

The funding structure of the banks' liabilities remained stable during the quarter under review. Though, the deposit base declined marginally; customer deposits increased by half a percentage point. However, decline in advances by 1.7 percent that was more pronounced than decline in overall deposits, further eased off the advances to deposit ratio (see Figure 3.3.1). The ratio actually reached its lowest levels in last 6 years. Further, a substantial increase in investments (73 percent since September, 2008) and their share in total assets (from 19 percent in Sep-08 to 28 percent in Mar-10) during last year and a half had improved liquidity assets to total assets ratio. Incidentally, the liquid assets to total assets ratio of 32.4 percent is highest in the last three years.

Figure 3.3.2 Injections into the Banking System through OMOs & Discounting

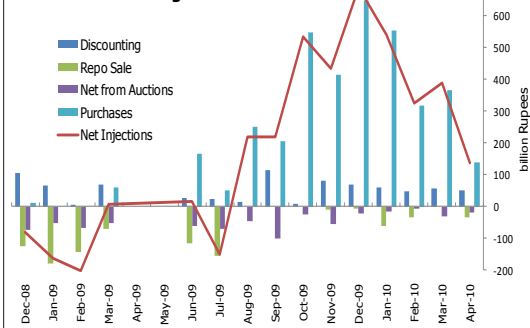
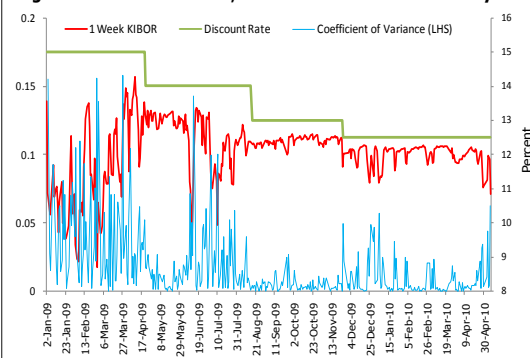
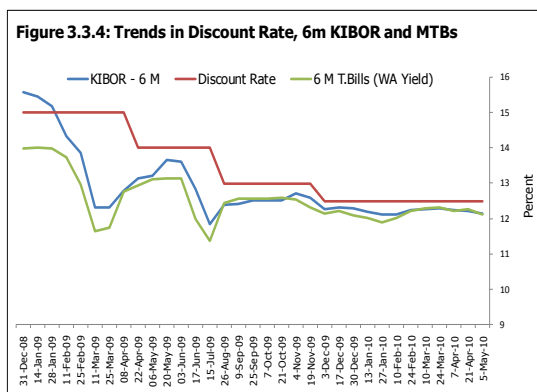


Figure 3.3.3 Discount Rate, 1 Week KIBOR and its Volatility



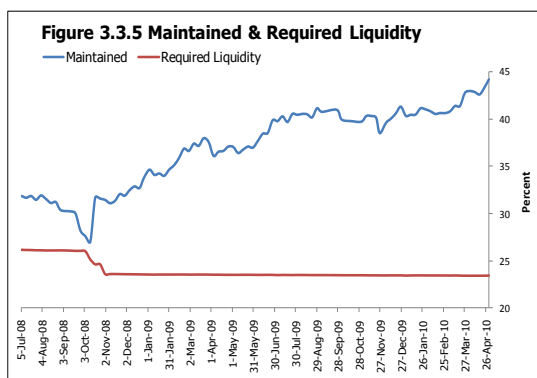
The improved liquidity condition also reflected in decreased liquidity support provided by SBP to the banking system. SBP injected Rs1.2 trillion into the system during Mar-10 compared to the Rs 1.7 trillion in last quarter; while in post quarter weeks, the demand for additional funds further eased off (see Figure 3.3.2).

The level of interbank rates, an indicator of market liquidity, while remaining less volatile and closer to the policy rate, experienced some decline in the recent months (see Figure 3.3.3). Given the high demand for credit from Government, banks

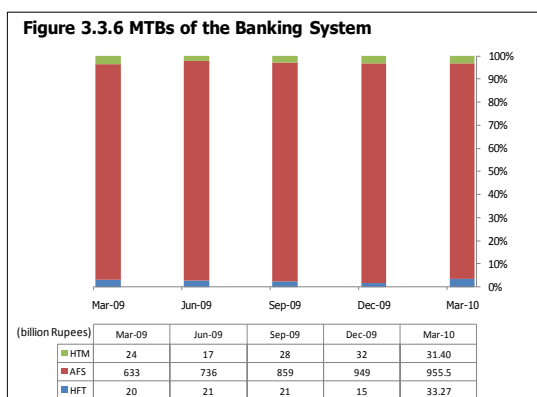


bargained higher rates on risk free government debt. As a result, the 6 months KIBOR, which stayed higher than that of the risk free rate, remained very close to the risk free rate (see Figure 3.3.4). In fact during Mar-10, the risk free rate was slightly higher than that of the KIBOR.

The liquidity preference of the banking system is also reflected in the increased surplus statutory liquidity reserves (see Figure 3.3.5). Like other indicators, the reserves are at historical highest levels.



Analysis on holding in risk-free government securities show that banks are persistently holding majority of their securities in Held for Trading (HFT) and Available for Sale (AFS) categories, while investments in Held-to-Maturity (HTM) stand negligible. Of the total increase in MTBs, 73 percent was placed in HFT, which doubled the total MTBs holdings in this category. In total, 97 percent of MTBs are held in the two trading categories i.e. HFT and AFS (see Figure-3.3.6). Similarly, in case of PIBs, most of the increase in PIBs was placed in HFT and AFS categories, increasing the share of PIB in these two categories to 73 percent of the total holding.



As for the fund-based liquidity, the banks are running large negative maturity gaps in the short-term i.e. up to 3 months bucket (see Figure 3.3.7), which represents the tight liquidity condition of the market. However, the level of liquidity concern reflected in this large negative gap may not be indicative of the factual position. Generally, the banks place their non-contractual saving and current deposits, which contribute a significant pie of total deposits, in the short-term bucket. But, in fact, significant part of these deposits is

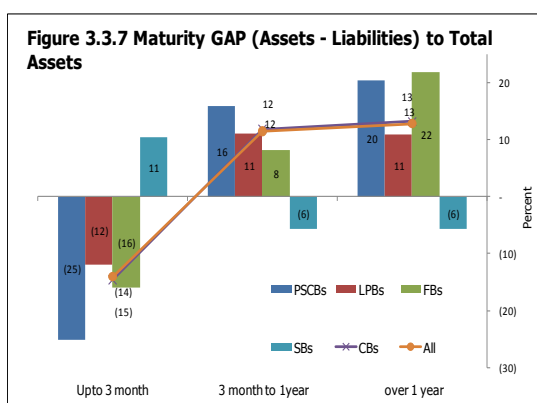


Table 3.3.1 Summary of Stress Test Results

Liquidity Shock: Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.

Quarter ended:	Number of Banks Becoming Illiquid after Shock				
	1 day	2 days	3 days	4 days	5 days
Mar-10	0	0	0	2	5
Dec-09	0	0	0	2	5
Sep-09	0	0	0	3	6
Jun-09	0	0	0	2	4
Mar-09	0	0	1	3	6

not volatile and remains with the banks for longer period. These deposits are payable on demand and do not have any stated maturity. Therefore, banks usually place them in nearest time bucket, thus magnifying the negative gap in short maturity bucket.

The stress test results substantiate the resilience of the banking system towards significant withdrawal of liquidity. Under a stress scenario, which assumes significant deposit withdrawal for consecutive five days; all banks exhibit capacity to sustain shock of significant deposit withdrawal for consecutive three days. It is only after four days of continuous withdrawal that two banks become illiquid and after five days, three more banks become illiquid (see Table 3.3.1).

4. Financial Soundness of the Banking System

4.1 Profitability

The banking system posted healthy profits for the first quarter of CY10 and was able to attain earning levels of Mar-09 as net-interest income and non-interest income surged and loan loss provisions decreased. These improvements also translated into an inch up in baseline profitability indicators (see Table 4.1.1 and 4.1.2).

LPBs remained the key contributor of earnings for the banking system, followed by PSCBs and SBs. FBs reported pre and post tax profit mainly due to an appreciable 52.2 percent reduction in loan loss provisions as compared to Mar-09. However, SBs reported an after-tax loss for Mar-10, owing to significant tax adjustments (see Table 4.1.1).

Disaggregate analysis of sources of net interest income highlight increase in mark-up/interest earned as earning assets continue to register appreciable growth since Mar-09. Accordingly, the share of the net interest income in gross income increased to 74.0 percent (72 percent in Mar-09). In line with the increase in investments, return on investment has been posting a consistent growth. During the quarter under review, the share of return on investments in total interest income increased by another 4.9 percentage points compared to Dec-09 results, while that of Loans and advances decreased by 4.4 percentage points (see Table 4.1.3).

Table 4.1.1: Profitability of Banking System

	(billion Rupees)						
	CY05	CY06	CY07	CY08	Mar-09	Dec-09	Mar-10
<i>Profit before tax</i>							
PSCBs	22.8	31.5	33.2	6.6	4.5	17.0	5.6
LPBs	60.5	85.6	69.5	52.5	19.8	70.2	23.1
FBs	11.6	6.3	2.4	0.0	0.6	(0.7)	0.1
CBs	94.9	123.5	105.2	59.0	24.9	86.5	28.8
SBs	(1.1)	0.1	1.7	4.2	1.3	3.9	0.4
All Banks	93.8	123.6	106.9	63.2	26.2	90.4	29.1
<i>Profit after tax</i>							
PSCBs	15.5	21.2	23.9	5.6	2.4	10.4	3.8
LPBs	41.1	59.1	47.3	34.7	12.3	43.3	14.4
FBs	8.0	4.3	1.1	0.6	0.2	(0.7)	0.0
CBs	64.6	84.6	72.2	41.0	14.9	53.0	18.3
SBs	(1.3)	(0.5)	0.9	2.3	0.9	1.3	(0.3)
All Banks	63.3	84.1	73.1	43.3	15.8	54.2	18.0

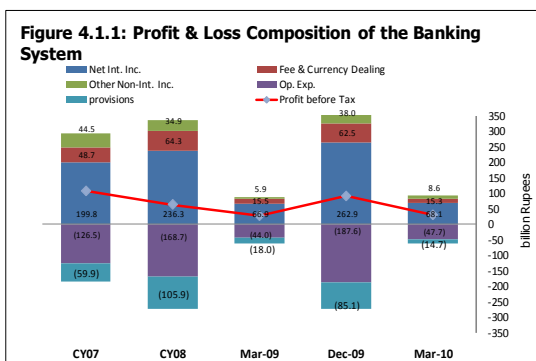
Table 4.1.2: Profitability Indicators

	(in percent)						
	CY05	CY06	CY07	CY08	Mar-09	Dec-09	Mar-10
<i>Before Tax ROA</i>							
PSCBs	3.3	4.0	3.5	0.6	1.7	1.5	1.9
LPBs	2.7	3.1	2.0	1.3	1.9	1.6	1.9
FBs	3.6	3.2	1.5	0.0	1.0	(0.3)	0.1
CBs	2.9	3.2	2.3	1.1	1.8	1.5	1.8
SBs	(1.0)	(1.3)	1.4	3.2	3.8	2.5	2.0
All Banks	2.8	3.1	2.2	1.2	1.8	1.5	1.8
<i>Before Tax ROE (based on Equity plus Surplus on Revaluation)</i>							
PSCBs	30.7	32.4	27.2	5.2	14.7	13.2	16.7
LPBs	40.1	36.2	20.4	12.9	18.1	15.2	18.8
FBs	38.9	30.0	13.1	0.0	6.7	(2.1)	0.7
CBs	37.2	34.7	21.8	10.6	16.8	13.9	17.4
SBs	-	-	-	-	-	-	-
All Banks	38.2	35.2	22.6	11.4	17.7	14.5	17.8

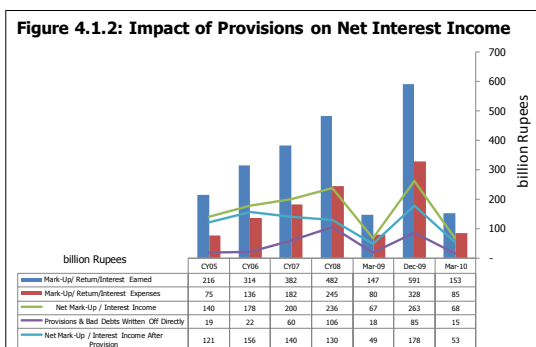
Data for CY07 has been restated due to introduction of Basel II.

Table 4.1.3: Mark-up / Return / Interest Earned

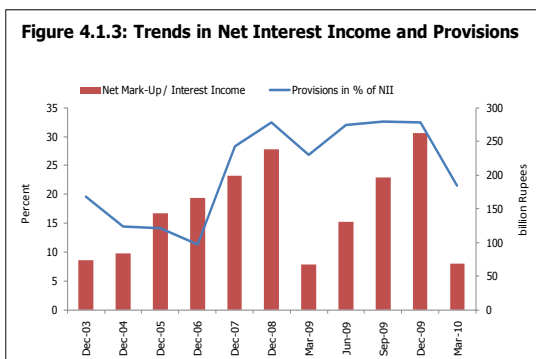
	(billion Rupees)									
Items	Dec-03 Amount	%	Dec-07 Amount	%	Dec-08 Amount	%	Dec-09 Amount	%	Mar-10 Amount	%
Loans & advances	67.2	58.9	273.8	71.3	359.0	74.2	412.1	69.7	100.1	65.3
Investments	40.9	35.9	80.6	21.0	92.7	19.1	148.4	25.1	45.9	30.0
Deposits, repo and others	5.9	5.2	29.8	7.7	32.4	6.7	30.6	5.2	7.1	4.7
Total	114.1	100	384.1	100	484.1	100	591.1	100	153.2	100



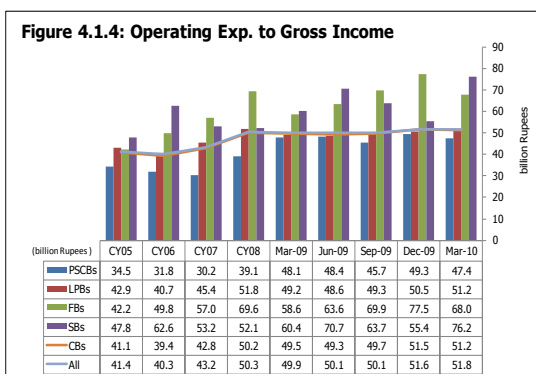
Non-interest income on the other hand decreased its share in gross income to 26 percent (27.7 percent in Dec-09). Analysis of components highlight that decline in share mainly resulted from fall in currency dealing income. However, healthy growth in other incomes, mainly trading gains and a strong growth in dividend income limited decline in overall share (see Figure 4.1.1).



Impact of FSV benefit⁵ became more prominent as banks reported better earning results for Dec-09 and Mar-10 as the banks booked lower loan loss provisions despite significant increase in NPLs in loss category (see Figure 4.1.2). Accordingly, the provision as percentage of net interest income saw a substantial decline (see Figure 4.1.3).



High administrative expenses and other business related expenses increased operating expenses as a percentage of gross income. Group-wise analysis reveals decline in ratio for PSCBs and FBs, while increase for SBs and LPBs. However, the decline in ratio for PSCBs stemmed from high concentration of deposits and advances towards one large bank and its strong earning capacity (see Figure 4.1.4).



The spread continues to shrink due to greater decrease in weighted average lending⁶ rate (WALR) as compared to the weighted average deposit rates (WADR). The WALR decreased by 56 bps as 3 months and 6 months KIBOR declined over the quarter. Meanwhile, the WADR also took a dip of 44 bps as banks, particularly large banks; shed their high cost deposits

⁵ See BSD Circular No. 10 of 2009 on Amendments in Prudential Regulations-Provisioning for Loans and Advances.

⁶ The weighted average rates are based on the data on mark-up/interest income and expense on advances and customer deposits respectively reported in the QRC for March, 2008. In the previous reports, data on interest rate published in monthly statistical bulletin had been used.

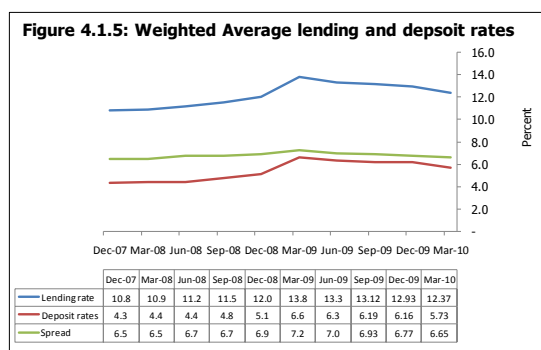


Table 4.1.4: Sources of change in Spread

	Net Income (Int Earned-Deposit Expense) Mar-09	Interest Income Rate Variance	Interest Income Volume Variance	Deposit Interest Rate Variance	Deposit Interest Volume Variance	Net Income (Int Earned-Deposit Expense) Mar-10
Dec-05	51.8	50.9	28.0	(26.7)	(5.4)	98.6
Dec-06	51.8	22.6	36.9	(44.1)	(9.8)	104.2
Dec-07	104.2	23.0	32.8	(18.3)	(21.3)	120.3
Dec-08	120.3	34.3	50.9	(33.8)	(20.8)	151.0
Mar-09	33.4	22.5	10.0	(23.2)	(3.8)	38.9
Dec-09	151.0	27.3	25.7	(45.1)	(21.2)	137.6
Mar-10	38.9	(11.7)	3.3	10.3	(9.3)	31.7

Table 4.1.5: Concentration of Earnings and Profitability

	(in percent)			
	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
ROA (After Tax)	2.0	1.7	1.3	1.1
ROE (After Tax)	18.3	16.5	13.2	10.9
Net Interest Income/ Gross Income	78.1	77.3	74.1	74.0
Income from Trading & Foreign Exchange / Gross Income	15.4	16.1	16.6	16.6
Non-Interest Expense / Gross Income	39.7	44.0	48.4	51.8
Provision Expense to Gross Income	14.6	14.8	15.5	16.0

Table 4.1.6: Percentage Breakdown of Banking System's Total Assets (TA) by ROA

	CY06		CY07		CY08		Dec-09		Mar-10	
	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA
ROA										
0 and below	6	2.1	10	8.5	16	14.5	20	12.8	15	10.6
0 to 0.5	3	1.8	2	2.4	3	10.2	4	10.8	6	6.2
0.5 to 1	6	9.9	4	1.9	5	8.2	5	13.6	4	11.1
1.0 to 1.5	5	9.6	10	34.9	4	5.7	1	0.5	2	2.3
1.5 and Over	19	76.6	13	52.3	12	61.5	10	62.2	13	69.7

in a pursuit of low cost, stable funding structure. Consequently, the spreads contracted only by 13 bps (see Figure 4.1.5).

Factors for the decline in spread also reflect in changes in interest income on advances and interest expense on deposits. The income has decreased mainly due to more pronounced decrease in mark-up on advances compared with rate paid to depositors. Similarly, volume driven change in income led to higher pay out to depositors due to 13.2 percent YoY increase in deposits. Due to pronounced YoY decrease in return on advances and high pay out to depositors, average spread decreased (see Table 4.1.4).

Unlike concentrated earning position of recent quarters, the improved earnings are widely shared by market players depending upon their size, asset and liability mix, and earning ability. Resultantly, the number of loss making banks decreased during the quarter. Though top five banks still represent majority share in the profit, better earning results and curtailment of losses by some medium and small sized banks also augmented the performance of the system (see Table 4.1.5).

Breakdown of ROA (before tax) by assets and number of institutions underlines persistent trend of improvement in ROA for banks with large assets base while opposite holds true for relatively small-sized banks. Due to better earning results for the first quarter of CY10, banks with ROA above one percent increased to 13 and their market share increased to 69.7 percent (see Table 4.1.6). Similarly, the number of banks having ROA (before tax) of 0 and below decreased from 20 in Dec-

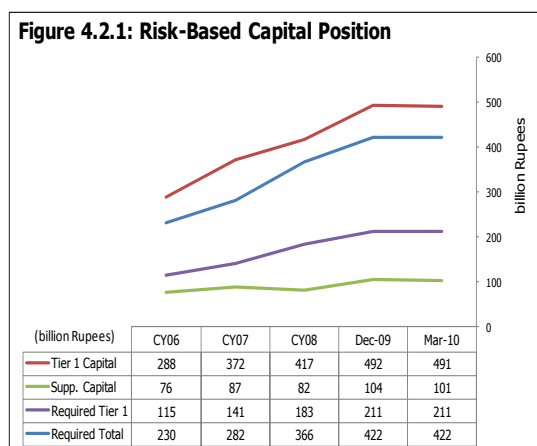
09 to 15, substantiating improved profitability of individual banks during the Mar-10.

Table 4.2.1: Capital Adequacy Indicators

	(In percent)				
	CY07	CY08	Mar-09	Dec-09	Mar-10
Capital Adequacy Ratio (CAR)					
PSCBs	17.8	13.2	13.9	14.8	13.7
LPBs	12.7	12.1	12.7	14.1	13.8
FBs	13.5	21.8	22.4	23.6	22.4
CBs	13.7	12.7	13.3	14.6	14.1
SBs	(6.2)	(4.9)	(2.1)	(2.1)	(0.5)
All banks	13.2	12.3	12.9	14.1	13.7
Tier 1 Capital to RWA					
PSCBs	13.0	11.0	11.6	12.4	11.6
LPBs	10.5	10.2	10.7	11.5	11.4
FBs	12.9	21.3	21.9	23.1	22.0
CBs	11.1	10.8	11.3	12.1	11.8
SBs	(11.9)	(10.1)	(7.4)	(6.3)	(5.3)
All banks	10.5	10.2	10.8	11.6	11.4
Capital to Total Assets					
PSCBs	13.7	10.7	11.1	11.1	11.1
LPBs	10.2	10.0	10.3	10.0	10.2
FBs	11.2	14.5	14.4	14.9	14.0
CBs	10.9	10.3	10.6	10.4	10.5
SBs	(5.5)	(3.2)	(2.7)	(1.8)	(0.9)
All banks	10.5	10.0	10.3	10.1	10.3

4.2 Solvency⁷

The overall capital position and the solvency indicators of the domestic banking industry remained buoyant indicating the presence of strong and resilient banks despite a 40 bps decline in CAR for Mar-10 (see Table 4.2.1). The sluggish macroeconomic recovery combined with the seasonal nature of the economy in general and the banking sector in particular led to a decline in CAR of the banks. Though the capital base decreased marginally by 0.2 percent during the quarter under review; however, on the back of capital injections by some of the banks and accumulation of profits resulted in 11 percent YoY growth in the capital base.

Figure 4.2.1: Risk-Based Capital Position

The capital adequacy ratio declined due to reduction in the eligible capital by 0.9 percent and 2.2 percent increase in RWA of the banks in Mar-10. The decline in eligible capital mainly originated from reduction in the retained earnings, coupled with higher deductions for equity investments in financial subsidiaries, goodwill and increased provisioning on impaired investments. However, increase in the paid-up capital and reserves kept the decline under check. As a result Tier-1 and Tier-2 capital reduced by 0.3 and 1.3 percentage points respectively. Despite a reduction in Tier-1 capital that contributes 82.8 percent of total eligible capital, it was still comfortably high at 2.3 times of the regulatory requirements (see Figure 4.2.1).

The RWA of the banks increased by 2.2 percent in Mar-10. Though the credit risk

⁷ The above discussion is based on the CAR calculations on Basel-II framework. Except for three SBs which are reporting on Basel-I reporting formats, all other banks have reported on Basel II. These three banks hold 0.4 percent of the banking systems assets.

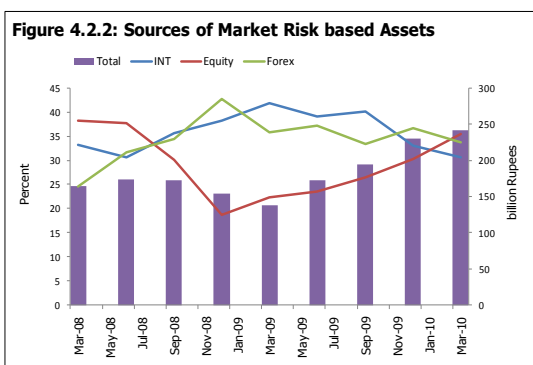
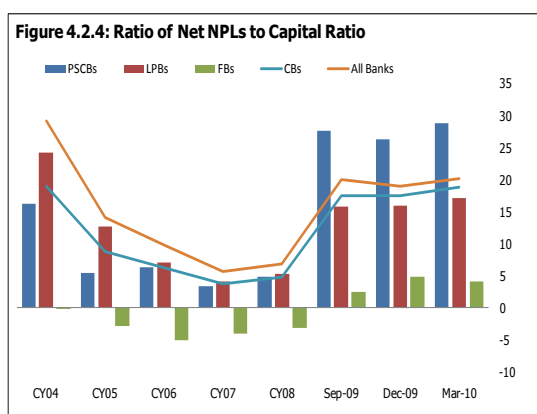
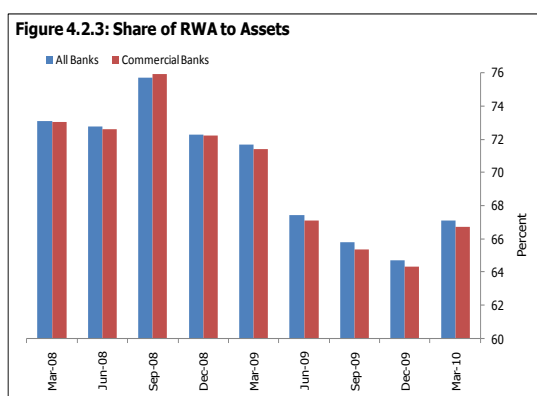


Table 4.2.2: Risk Weighted Assets

	(amount in billion rupees, share in percent)					
	CY08		Dec-09		Mar-10	
	Amount	Share	Amount	Share	Amount	Share
CRWA	3,459.2	85.0	3,443.3	81.5	3,471.3	80.4
MRWA	116.9	2.9	192.5	4.6	241.1	5.6
ORWA	494.3	12.1	587.8	13.9	604.9	14.0
Total (RWA)	4,070.4	100	4,223.5	100	4,317.3	100



weighted assets' (CRWA) have largest share in RWA, it continued to shed its weight in percentage terms due to deteriorating assets quality and slow down in advances over last year and a half. The trend persisted during Mar-10 as share of CRWA decreased by another 0.8 percentage points. The share of MRWA continues to rise since Mar-09 due to revival of banks' investments in the stock market. The MRWA observed a substantial increase of 25 percent during the quarter under review (see Table 4.2.2 & Figure 4.2.2).

Marginal increase in CRWA and surge in MRWA coupled with decline in total assets of the system led to significant increase in risk profile of the banks. Increased riskiness is reflected in 2.9 percentage point increase in RWA to total assets to 67.1 percent over Mar-10 (see Figure 4.2.3).

A gradual increase in banks' infected loan portfolio since Dec-08, has also built pressures on the solvency position of banks. Due to a slight uptick in the flow of fresh NPLs during the quarter under review, the capital impairment ratio of commercial banks further deteriorated by 1.4 percentage points to 18.8 percent over the quarter (see Figure 4.2.4). Most of the deterioration was accounted for by PSCBs and LPBs.

The status of individual banks' compliance with the regulatory requirements of CAR and minimum capital requirements (MCR) remained unchanged over the quarter. However, recently completed right issues and expected mergers of some other banks in coming quarters are expected to reduce the number of non-compliant banks in coming quarters (see Table 4.2.3).

Table 4.2.3: Distribution of Banks by CAR

	(In percent)				
	Total	Below 9	9 to 10	10 to 15	Over 15
Mar-08	39	3	7	11	18
Jun-08	39	2	9	9	19
Sep-08	40	4	9	7	20
CY08	40	4	5	10	21
Mar-09	40	4	1	13	22
Jun-09	40	6	1	12	21
Sep-09	40	6	0	13	21
Dec-09	40	6	0	13	21
Mar-10	40	6	0	13	21

The concentration analysis of solvency indicators in terms of their market share shows decline across all segments. The solvency ratios however, remained strong and well above the required level. The solvency issues of some of the weaker banks are expected to be resolved in the coming quarters, which will improve the solvency of the system (see Table 4.2.4).

Table 4.2.4: Concentration Analysis of Solvency Indicators

	(In percent)			
	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Capital to Risk Weighted Assets				
Mar-09	13.8	12.6	12.7	12.9
Dec-09	15.2	14.5	14.1	14.1
Mar-10	15.1	14.3	14.0	13.7
Tier 1 Capital to RWA				
Mar-09	11.3	10.3	10.5	10.8
Dec-09	12.3	11.5	11.5	11.6
Mar-10	11.9	11.3	11.2	11.4
Net Worth to Total Assets				
Mar-09	10.5	9.7	10.1	10.3
Dec-09	10.8	10.0	10.0	10.1
Mar-10	10.6	9.9	9.8	10.0

The SBP policy of continuously strengthening the capital base of the banks has so far helped in keeping the banking system solvent. Though the rising NPLs, continue to pose challenge to the solvency of the system, the results of the stress test show that the system still has sufficient capacity and resilience to withstand the adverse credit, market and liquidity shocks (see Annexure-III).

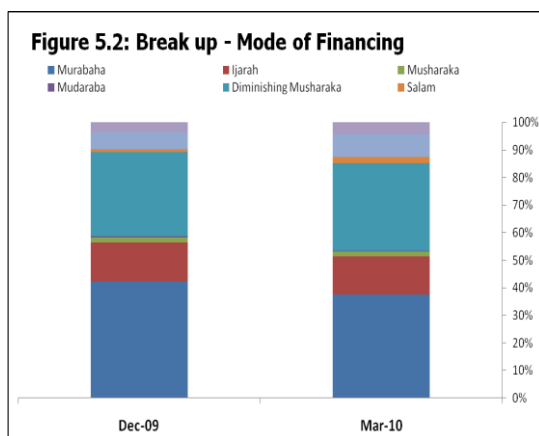
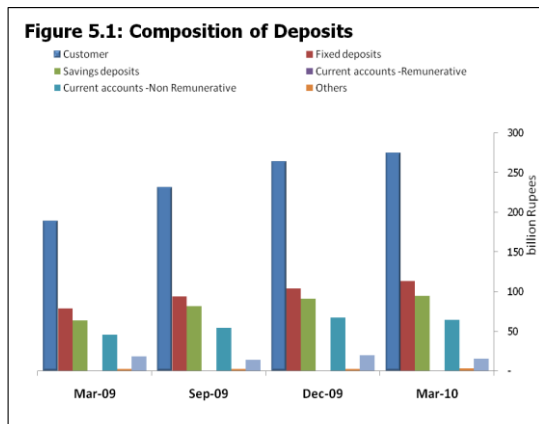
5. Performance of Islamic Banking

Table 5.1: Islamic Banking Growth over quarters

	(in percent)			
	Mar-09	Sep-09	Dec-09	Mar-10
Financing	(5.9)	(4.7)	14.7	1.5
Investment	16.1	20.8	11.7	0.9
Asset	0.7	3.3	13.3	1.3
Equity	1.8	3.1	4.5	0.8
Share of Islamic Banking in Assets of Banking Industry	4.8	5.3	5.6	5.8
Deposits	2.3	2.8	15.5	2.3
Islamic Banks (IBs)	6	6	6	6
Banks having Islamic Banking Divisions	12	13	13	13
Total Islamic Banking Network	521	550	650	654
of which Islamic Banking Divisions' Branches	135	144	172	176

Table 5.2: Islamic Banking at a Glance over quarters

	(billion Rupees)					
	Mar-09	% Share	Dec-09	% Share	Mar-10	% Share
Financing	136.2	49.3	153.5	41.9	155.8	42.0
Investments	49.0	17.7	72.2	19.7	72.9	19.6
Cash, bank balance, placements	68.1	24.6	104.7	28.6	104.4	28.1
Other assets	25.2	9.1	35.9	9.8	38.0	10.2
Total Assets	276.3	100.0	366.3	100.0	371.2	100.0
Deposits	206.2	85.2	282.6	87.1	289.1	87.9
Due to FIs	13.6	5.6	19.1	5.9	17.4	5.3
Other liabilities	22.1	9.2	22.7	7.0	19.0	5.8
Total Liabilities	242.0	100.0	324.4	100.0	328.9	100.0
Capital & other funds	36.4	13.1	41.9	11.4	42.2	11.4



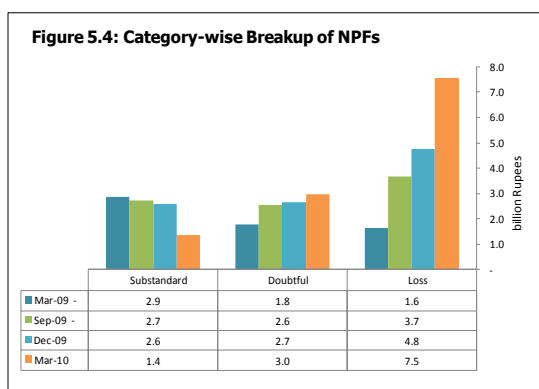
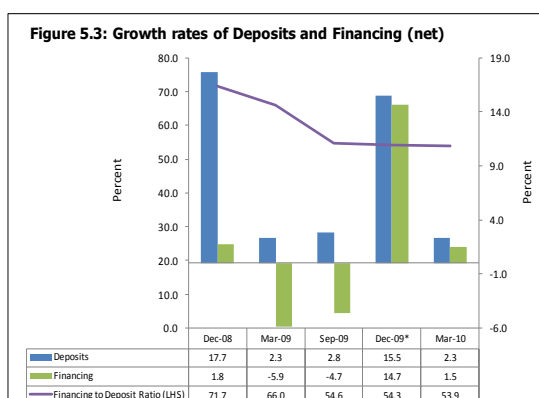
The Islamic banking system remained profitable and firm in Mar-10. Growth in assets of Islamic Banking (1.3 percent) continued to surpass the growth of assets in conventional banking (-1.4 percent) (see Table 5.1 and Annex-VI). The Islamic banking network increased by 0.6 percent (YoY growth 25.5 percent).

The balance sheet scenario of IBIs remained steady in Mar-10. The asset base observed passive growth of 1.3 percent. Analysis of assets showed a 1.7 percent growth in financing over the quarter, while it experienced 14.4 percent YoY growth (see Table 5.2). Investment portfolio though increased marginally during the quarter; posted a strong growth of 48.9 percent on YoY basis. On the funding side deposits and capital were the main source of IBIs funding which increased by 2.3 percent and 0.8 percent respectively (see Figure 5.1).

The break-up of financing showed changes in the composition of modes of financing. Murabaha, the major source of financing declined while Diminishing Musharaka, Salam and Istisna modes observed healthy increase (see Figure 5.2). In fact, salam and istisna saw an unusual increase of 106 percent and 37 percent respectively. As a result, financing shifted from its usual pattern in favour of these modes of financing. End use of financing show increase in long-term modes of financing mainly in fertilizer and oil & gas sectors. Working capital financing observed decline mainly due to seasonal adjustments. However, substantial increase in sugar financing under salam mode kept the

Table 5.3: Segmentwise Breakup of Financing

(amount in billion Rupees, share in percent)				
	Dec-09		Mar-10	
	Loans	Share	Loans	Share
Corporate Sector	103.5	65.2	109.9	67.9
SMEs	12.3	7.7	11.2	6.9
Agriculture	0.1	0.0	0.0	0.0
Consumer Finance:	31.7	20.0	31.8	19.7
Credit Cards	0.0	0.0	0.0	0.0
Auto Loans	13.3	8.4	13.8	8.5
Consumer Durable	0.0	0.0	0.0	0.0
Mortgage Loan	18.1	11.4	17.7	10.9
Other personal Loans	0.2	0.1	0.3	0.2
Commodity Financing	7.6	4.8	5.2	3.2
Staff Loans	3.0	1.9	3.0	1.9
Others	0.6	0.4	0.7	0.4
Total	158.6	100.0	161.8	100.0

**Table 5.4: Asset Quality Indicators**

Indicator	Mar-09	Sep-09	Dec-09	Mar-10
(Billion Rupees)				
Non-performing Financings	6.3	8.9	10.0	11.9
Provisions held	3.2	4.9	5.1	5.9
Net NPFs	3.1	4.0	4.8	5.9
(in percent)				
NPFs to total financing	4.5	6.5	6.3	7.3
Net NPFs to net financing	2.3	3.0	3.1	3.8
Provision to NPFs	50.6	55.0	51.7	50.0
Net NPFs to Capital	8.5	10.0	11.5	15.8

decline in working capital financing under check.

The segment-wise analysis depicts increase in concentration of corporate financing portfolio, which mainly came from growth in Diminishing Musharaka for plant and machinery. The consumer financing portfolio of Islamic banks that mainly includes auto and mortgage financing under ijarah and diminishing musharaka remained almost at previous quarter's level. SME financing declined while agri-financing remained negligible requiring focus of the IBIs for exploring these unattended areas (see Table 5.3).

Consistent increase in deposits with a subdued financing growth, led to further decline in financing to deposit ratio in Mar-10 (see Figure 5.3). The ratio, though highlight improved liquidity profile of Islamic Banking, it also reflects unemployed funds with IBIs due to limited avenues of investment and financing.

Increasing financing risk continued to pose challenge to IBIs. NPF increased by 18.0 percent, while, NPFs to financing ratio increased to 7.3 percent during the quarter under review. Category-wise analysis indicates a substantial increase in NPFs in Loss category which led to 14 percent increase in provisions (see Figure 5.4). However, provision coverage ratio declined, mainly due to lower provisioning requirements resulting from enhanced FSV benefit (see Table 5.4). Increasing net NPF ratio also deteriorated the capital impairment ratio by 4.3 percentage points.

Sector wise components show increase in chemical/pharmaceutical and sugar sectors. However, exceptional increase in NPLs in production & transmission of energy and individuals led to deterioration

Table 5.5: Comparative Position on Concentration of Funds

Items	(amount in billion Rupees, share in percent)							
	Dec-09				Mar-10			
	Financing	Share	NPFs	NPFs to Financing	Financing	Share	NPFs	NPFs to Financing
Chemical and Pharmaceuticals	14	8.5	0.01	0.1	17	10.3	0.01	0.1
Agribusiness	1	0.8	0.05	3.5	1	0.6	0.03	3.7
Textile	34	21.5	2.78	8.2	33	20.2	0.07	0.2
Cement	3	2.0	0.07	2.1	4	2.8	0.31	7.0
Sugar	5	2.8	0.32	7.2	10	5.9	0.04	0.4
Shoes and leather garments	2	1.5	0.01	0.5	2	1.2	0.90	47.3
Automobile and transportation equipment	5	3.1	0.84	17.2	3	2.0	0.00	0.1
Financial	3	1.6	0.00	0.1	2	0.9	-	-
Insurance	0	0.0	-	-	0	0.0	-	-
Electronics and electric appliances	1	0.8	-	-	2	1.0	0.04	2.6
Production and transmission of energy	7	4.4	0.02	0.2	7	4.4	1.65	23.3
Individuals	30	18.8	1.51	5.1	32	19.8	6.12	19.2
Others	54	34.1	4.40	8.1	50	31.0	2.68	5.4
Total	158.6	100.0	10.0	6.3	161.8	100.0	11.9	7.3

Table 5.6: Income Statement

	Mar-09	Sep-09	Dec-09	Mar-10
	(billion Rupees)			
Markup Income	7.8	23.1	31.6	9.0
Markup Expense	4.1	12.6	17.2	4.8
Net Markup Income	3.7	10.4	14.3	4.2
Provision Expense	0.9	2.6	3.1	0.7
Non Markup Income	0.5	2.8	3.7	1.0
Operating Expense	2.8	8.9	12.7	3.7
Profit Before Tax	0.5	1.7	2.3	0.8
Tax	0.0	0.2	0.5	0.1
Profit After Tax	0.5	1.5	1.8	0.7
Equity	36.4	40.1	41.9	42.2
	(in percent)			
Net Markup Income to total assets*	5.3	4.7	4.6	4.6
Non Markup Income to total assets*	0.7	1.2	1.2	1.1
Operating Expense to Gross Income	66.0	67.2	70.3	70.2
ROA (after tax)	0.8	0.7	0.6	0.8

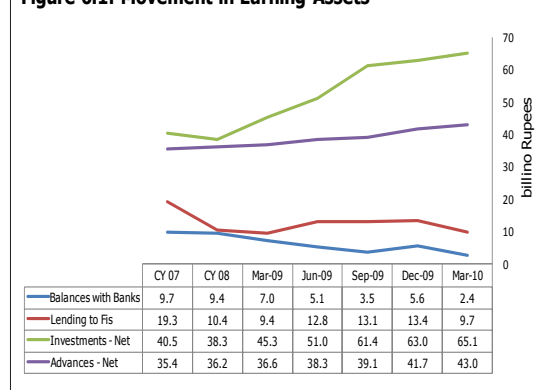
*Figures have been reinstated.

of infection ratio of Islamic banking (see Table 5.5).

The IBIs posted healthy profits during the quarter, at the back of higher net markup and non-markup income and lower provision expenses (see Table 5.6). Despite higher operating expenses, Islamic banking posted 60 percent higher profit before tax (PBT) over Mar-09. As a result, earning ratios improved. Though the earnings were mainly concentrated in IBBs, however, number of loss making Islamic banks decreased.

Table 6.1: DFIs at a Glance

	(billion Rupees)									
	CY08	%	Sep-09	%	Dec-09	%	Mar-10	%		
Balances with Treasury Banks	0.7	0.7	3.0	2.3	1.8	1.3	1.7	1.3		
Lending to FIs and Balances with other Banks	19.1	18.5	16.6	12.8	18.9	14.1	12.1	9.3		
Investments (net)	38.6	37.3	61.4	47.6	63.0	47.0	65.1	50.0		
Advances (net)	36.6	35.5	39.1	30.3	41.7	31.1	43.0	33.0		
Other Assets	8.2	8.0	9.1	7.0	8.6	6.4	8.5	6.5		
Total Assets	103.3	100.0	129.1	100.0	134.0	100.0	130.3	100.0		
Borrowing from FIs	43.8	42.4	49.0	37.9	51.5	38.5	49.2	68.7		
Deposits	5.9	5.7	19.0	14.7	18.1	13.5	16.4	22.9		
Other Liabilities	4.9	4.7	5.7	4.4	6.7	5.0	6.0	8.4		
Total Liabilities	54.6	52.9	73.6	57.0	76.3	56.9	71.7	100.0		
Shareholders Equity (including revaluation surplus/(Deficit))	48.7	47.1	55.5	43.0	57.7	43.1	58.6	45.0		

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

	(billion Rupees)				
	CY07	CY08	Mar-09	Dec-09	Mar-10
TFCs/PTCs	6.6	9.4	10.2	14.2	14.2
Quoted Shares	12.5	14.7	11.8	13.4	12.4
Fed Govt Securities	6.1	15.2	20.4	30.2	34.0
Others	15.6	9.4	6.8	7.1	6.6

6. Development Finance Institutions

DFIs witnessed a strong operating performance on the back of lower provisioning charge and higher non-interest income, though the infected asset portfolio further increased during Mar-10.

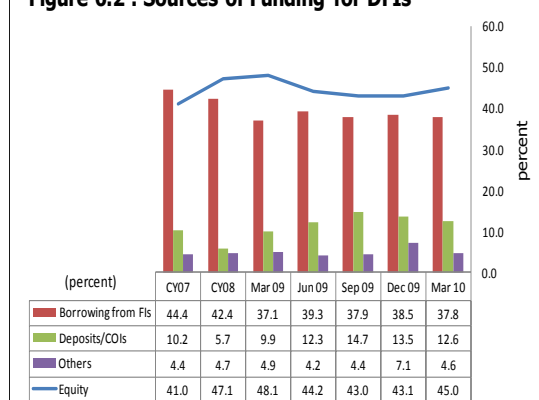
For the last couple of years and especially in CY 09, the DFIs saw dwindling profits due to rising NPLs and consequential higher provisioning charge. However, the closing quarter of CY09 brought about some respite in negative figures thus closing the financial year on a positive note. The trend continued in Mar-10 as DFIs increased profitability and performance indicators showed a historically high level.

The balance sheet footing of DFIs experienced a contraction as total assets declined by 3 percent over the quarter (see Table 6.1). The asset mix of the DFIs experienced a shift away from 'cash rich' to 'earning rich' components. Cumulative share of investments and advances increased to 83 percent in Mar-10 as compared to the 78 percent in Dec-09 (see Figure 6.1). Lending to FIs saw a significant reduction of 28 percent over the quarter owing to decline in all modes of lending to financial institutions i.e., clean/call, Repo and others.

Investments registered an increase of 3 percent over the quarter as cash rich assets found their way to investments. All of this increase was invested in government securities (see Table 6.2), mainly by a couple of newly entrant DFIs. Investments in quoted shares and others,

Table 6.3: Segment wise Loans of DFIs

	(amount in million Rupees, share in percent)					
	Dec-08		Dec-09		Mar-10	
	Loans	Share in Loans	Loans	Share in Loans	Loans	Share in Loans
Corporate Sector	25,647	57.5	33,588	65.2	35,666	67.7
SMEs Sector	486	1.1	388	0.8	341	0.6
Agriculture Sector	-	-	-	-	-	-
Consumer sector	17,448	39.1	16,098	31.3	15,183	28.8
i. Credit cards	-	-	-	0.0	-	0.0
ii. Auto loans	12	0.0	6.86	0.0	4.67	0.0
iii. Consumer durable	2	0.0	0.99	0.0	0.93	0.0
iv. Mortgage loans	17,267	38.7	15,981	31.1	15,082	28.6
v. Other personal loans	167	0.4	109	0.2	96	0.2
Commodity financing	-	-	-	-	-	-
Staff Loans	749	1.7	869	1.7	872	1.7
Others	263	0.6	544	1.1	583	1.1
Total	44,593	100.0	51,487	100.0	52,644	100

Figure 6.2 : Sources of Funding for DFIs

following a decline in the last quarter, further reduced in Mar-10 quarter.

Owing to the liquidity preference, DFIs, like banks, have placed major portion of their investments in AFS category, which now represent 78.6 percent of total investments (69.7 percent in Sep-09). Corollary to this, the investments in HTM category shrunk for the same period. This shift in investments provides more flexibility to DFIs to manage their portfolio.

On the funding side, the DFIs sector remains highly under-leveraged as 45 percent of its assets are financed through equity. The high level of capital coupled with asset-mix which mainly comprises of less risky investments also reflects in capital adequacy ratio of 54.8 percent. Around 50 percent of the asset base was financed through Borrowings from FIs and the deposits, which contribute 38 percent and 13 percent of the total funding respectively. Both of these components showed a cumulative 6 percent contraction in the quarter under review, thus causing an overall shrinking of the asset base (see Figure 6.2).

Despite the decline in asset base, the DFIs were able to post healthy profits during Mar-10 quarter. ROA of DFIs reached 2.8 percent as against the negative or insignificant earnings since CY07. The one of the key factors that supported these profits was the rationalization of provisioning requirement (see section 3.1 Credit risk). In fact, there was a net reversal of provisioning during the quarter, which supported net earnings. Further analysis of earnings, show that net income remained almost same both QoQ and YoY.

Table 6.4: Sector-wise Loans

(amount in billion Rupees, share in percent)						
	Mar-09	Share	Dec-09	Share	Mar-10	Share
Chemical	2.2	4.9	3.18	6.2	3.65	6.9
Agriculture	0.1	0.2	0.58	1.1	0.56	1.1
Textile	4.7	10.5	5.62	10.9	5.72	10.9
Cement	1.6	3.5	1.85	3.6	1.89	3.6
Sugar	1.1	2.4	1.61	3.1	2.04	3.9
Leather	0.1	0.3	0.04	0.1	0.04	0.1
Auto	1.0	2.2	1.39	2.7	1.29	2.4
Financial	0.9	1.9	0.84	1.6	0.51	1.0
Insurance	0.0	0.0	0.00	0.0	0.00	0.0
Electronics	0.7	1.6	0.89	1.7	0.88	1.7
Energy	6.5	14.6	9.20	17.9	10.42	19.8
Individuals	17.8	39.7	16.75	32.5	15.92	30.2
Others	8.2	18.2	9.53	18.5	9.73	18.5
Total	44.9	100.0	51.49	100.0	52.64	100.0

However, increase in non-interest income, due to increase in Dividend and trading gains, further supported the enhanced performance of DFIs.

The advances of DFIs, the second large asset after the investments, continued to show a steady growth since Dec-08. During Mar-10, gross advances grew by 2 percent. Segment-wise analysis showed that the advances portfolio of DFIs remained concentrated in the corporate sector. The consumer finance, mainly comprising mortgage financing, accounts for around 29 percent of overall advances. However, this large share mainly emanates from one housing finance DFI (see Table 6.3); while the consumer loan portfolio of other DFIs remains negligible and continuously reducing.

Analysis of advances by sector of economy shows that the main demand for advances was originated from Chemicals, Sugar and Production and Transmission of Energy sectors (see Table 6.4). The sectors like Automobile and Leather showed substantial reduction in advances. Textile sector that was once the mainstay of advances in corporate sector remained almost stagnant over the quarter.

Table 6.5: Key Performance Indicators

	(in percent)				
	CY07	CY08	Mar-09	Dec-09	Mar-10
Total Capital to Total RWA	43.7	53.4	56.1	51.2	54.8
Tier 1 Capital to Total RWA	44.0	53.3	55.6	51.1	54.7
Capital to Total Assets	41.0	47.1	48.1	43.1	45.0
NPLs to Total Loans	20.8	27.0	28.2	26.9	28.0
Net NPLs to Net Loans	4.6	11.2	12.0	9.8	11.8
Provision to NPLs	81.6	65.9	65.3	70.6	65.7
Net NPLs to Capital	3.2	8.4	8.6	7.0	8.6
ROA before Tax	0.8	1.5	1.2	1.8	4.0
ROA after Tax	-0.1	0.7	0.0	1.2	2.8
ROE before Tax	2.2	3.4	2.5	3.9	9.2
ROE after Tax	-0.3	1.6	0.0	2.7	6.4
Loans to Deposits	281.4	622.9	347.4	230.8	261.8
Net Interest Income to Gross Income	44.7	34.8	77.4	72.6	76.0
Non Interest Income to Gross Income	55.3	65.2	22.6	27.4	24.0
Operating Expense to Gross Income	39.1	22.7	31.8	34.2	33.8

The credit quality of DFIs experienced further declined due to rising NPLs. In absolute terms NPLs increased by Rs 892 million (6 percent) in Mar-10 quarter, the highest quarterly increase in NPLs since Mar-09. This increase mainly came from two DFIs which cumulatively hold 26 percent share in the DFIs. The Net NPLs showed even a greater increase, owing to the lower provision charge. As a result,

infection ratios further deteriorated over the quarter (see Table 6.5).

Managing asset quality is a challenge for the DFIs. Though low leverage and strong risk based capital adequacy reflects the resilience of the DFIs, these also highlight their untapped potential and need to explore the promising sectors of the economy in line with their charter.

7. Regulatory Developments

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

I. MICROFINANCE

Microfinance Credit Guarantee Facility (MCGF)

With a view to broaden the outreach of microfinance, the SBP has simplified the procedures for Banks/DFIs for issuance and payments of claims under the Microfinance Credit Guarantee Facility (MCFG). Banks/DFIs are advised to finalize their wholesale lending deals with MFBs/MFIs and submit their cases to SBP BSC for issuance of subject Guarantee as per procedure envisaged in the guidelines on MCGF. (*SMEFD Circular 1 of 2010*)

II. PRUDENTIAL REGULATIONS

Anti Money laundering- Suspicious Transactions

A new paragraph (4) in the Regulation M-3 of Prudential Regulations for Corporate and Commercial Bank has been included;

"The banks/ DFIs should provide timely information related to suspicious transactions to domestic law enforcement agencies (LEAs), sought in terms of legal powers available to them under their respective laws in order to support investigations/ prosecutions." (*BPRD Circular 7 of 2010*)

III. CORPORATE GOVERNANCE

a. *Shareholding of Chairman or President / Managing Director / Chief Executive, directly or indirectly in the Banking Company*

Banks/DFIs have been advised to report full particulars of the extent and value of direct and indirect holding of shares of their Chairman, Managing Director or Chief Executive Officer (by whatever name called) in the banking company to the State Bank of Pakistan on yearly basis and of

any change in the extent of such holding or any variation in the rights attaching thereto within 15 days of the close of each calendar year as per format prescribed for the purpose. (BPRD Circular 4 of 2010)

b. Disclosure-Presentation of Financial Statements Under revised IAS – 1

Keeping in view the adoption of IFRS-1, banks have been advised to follow following approaches for preparation of financials, while preparing quarterly, half yearly and annual financial statements, w.e.f. June 30, 2010 and onwards:

a) For preparation of Profit and Loss Account, two statement approach shall be adopted as mentioned in revised IAS – 1 (separate 'Profit and Loss Account' & 'Statement of Comprehensive Income')

b) Balance Sheet shall be renamed as 'Statement of Financial Position'.

Furthermore, the Surplus / (Deficit) on Revaluation of AFS only, may be included in the "Statement of Comprehensive Income." However, the same shall continue to be shown separately in the Balance Sheet i.e. Statement of Financial Position below the equity (BSD Circular 7 of 2010)

IV. RISK MANAGEMENT

Reciprocal Invested– Collective Schemes

To avoid the inflated position of capital due to artificially designed reciprocal crossholdings of banks, following instructions have been made applicable on banks/DFIs' investment in mutual funds of Asset Management Company (AMC) in which a bank/DFI has significant influence or control i.e. owns 20% or more equity interests in the AMC.

a) **Investment in Closed Ended Funds:** Where a bank/DFI owns less than 20% of the closed ended mutual funds being managed by above referred AMC and these mutual funds in turn also hold the

Capital (Tier-1 & Tier-2) instruments issued by the bank/DFI; the lower of the following two will be deducted from the Tier-1 capital for capital adequacy purpose.

- i. Bank/DFI's investment in such mutual funds, or
- ii. The mutual funds' investment in bank/DFI's capital instruments

b) Investment in Open Ended Funds: Where a bank/DFI owns open ended mutual funds being managed by above referred AMC and these mutual funds in turn also hold the Capital (Tier-1 & Tier-2) instruments issued by the bank/DFI; the lower of the following two will be deducted from the bank/DFI's Tier-1 capital for capital adequacy purpose.

- i. Bank/DFI's investment in such mutual funds, or
- ii. The mutual funds' investment in bank/DFI's capital instruments. *(BSD Circular 6 of 2010)*

V. FINANCE AND REFINANCING FACILITY

a. Introduction of Credit Guarantee Scheme for Small and Rural Enterprises

State Bank has launched the Credit Guarantee Scheme (CGS) for Small and Rural Enterprises to allow the banks to develop a cash flow based portfolio of fresh borrowers who are creditworthy, but cannot fit into their usual credit parameters. The Scheme has been bifurcated into two segments- One for NWFP, FATA and Gilgit-Baltistan; whereas the other is reserved for priority clusters/areas of other parts of the country. Under the scheme, SBP will share bonafide losses on the loans to the extent of 60% of participating financial institution fresh portfolio of financing to Small & Rural Enterprises. The banks are required to apply to State bank to attain the status of PFIs after which limits will be assigned as per criteria outlined in the scheme.

b. Long Term Financing Facility (LTFF) for Plant & Machinery: Maximum Borrowing Limit

In view of growing demand, diversify financing & risk and to accommodate larger number of

borrowers, it has been decided that henceforth maximum financing limit to a single export oriented project under LTFF Scheme shall not exceed Rs 1,000 million. However, banks/DFIs may continue to provide financing facilities as per their credit policies over and above the said maximum limit from their own sources subject to adherence of Prudential Regulations.

(SMEFD Circular Letter 4 of 2010)

c. Long Term Financing Facility (LTFF) for Plant & Machinery: Second Hand Machinery

It has been decided that LCs established for import of second hand machinery up-to June 30, 2010 shall also be eligible for refinancing under the LTFF Scheme. (SMEFD Circular Letter 3 of 2010)

d. Refinance Scheme for Revitalization of Small and Medium Enterprises (SMEs) in NWFP, Gilgit-Baltistan (GB) and FATA

To revitalize SMEs in NWFP, Gilgit-Baltistan (GB) and FATA, it has been decided to provide short term/working capital facilities and medium term/long-term refinancing facilities to SMEs as defined under Prudential Regulations of SMEs.

Financing availed under the Scheme is required to be utilized for investment in SME units located in NWFP, GB and FATA only. The Scheme shall be effective from the date of the instructions and shall remain valid up-to December 31, 2012. (SMEFD Circular Letter 2 of 2010)

VI. EXCHANGE POLICIES

Compliance of SBP Rules and Regulations by the Exchange Companies

In order to ensure availability and maintenance of data & record, Exchange Companies have been advised to maintain all record of their business transactions including those related to remittances transactions (both Inward and Outward) for 10 years from the date of transaction or longer if so prescribed under other laws, rules & regulations.

Further, all information/record should be maintained in such a manner that the same may be made readily available to SBP or any other relevant Law Enforcement Agency as and when required as per related laws. Further, any information/record requisitioned by any Law Enforcement Agency during their investigation/prosecution process should also be provided in timely manner as per the governing laws. Exchanges Companies have also been advised to ensure that complete originator information remains available through the payment chain with regard to FE Circular No. 01 dated January 01, 2009.

(Circular Letter 8 of 2010)

Annex-I

Group wise Balance Sheet and Income Statement of Banks

March 31, 2010

(million Rupees)

Financial Position	PSCB	LPB	FB	CB	SB	All Banks
ASSETS						
Cash & Balances With Treasury Banks	86,223	342,555	36,056	464,834	2,268	467,102
Balances With Other Banks	29,139	133,984	15,088	178,211	7,878	186,089
Lending To Financial Institutions	18,250	161,238	31,709	211,197	-	211,197
Investments - Net	335,114	1,370,156	67,314	1,772,584	14,097	1,786,682
Advances - Net	600,626	2,389,777	85,179	3,075,582	94,338	3,169,920
Operating Fixed Assets	29,899	204,846	3,386	238,131	5,046	243,177
Deferred Tax Assets	16,985	41,734	5,632	64,351	-	64,351
Other Assets	85,820	200,466	7,870	294,156	12,041	306,197
TOTAL ASSETS	1,202,055	4,844,756	252,234	6,299,045	135,669	6,434,714
LIABILITIES						
Bills Payable	7,537	51,169	6,109	64,815	1,015	65,829
Borrowings From Financial Institution	50,171	417,742	19,740	487,653	85,157	572,810
Deposits And Other Accounts	940,114	3,653,887	166,253	4,760,254	14,094	4,774,349
Sub-ordinated Loans	-	48,264	-	48,264	3,405	51,669
Liabilities Against Assets Subject To Finance Lease	57	52	-	109	12	120
Deferred Tax Liabilities	3,349	7,228	307	10,884	106	10,990
Other Liabilities	67,117	173,949	24,442	265,508	33,087	298,596
TOTAL LIABILITIES	1,068,346	4,352,290	216,851	5,637,487	136,876	5,774,363
NET ASSETS	133,709	492,466	35,383	661,558	(1,207)	660,351
NET ASSETS REPRESENTED BY:						
Share Capital	21,339	273,420	34,570	329,330	15,507	344,837
Reserves	36,648	117,758	93	154,499	4,730	159,229
Unappropriated Profit	50,735	57,162	905	108,802	(25,161)	83,640
Share Holders' Equity	108,722	448,341	35,568	592,630	(4,924)	587,706
Surplus/Deficit On Revaluation Of Assets	24,988	44,125	(185)	68,928	3,717	72,645
TOTAL	133,709	492,466	35,383	661,558	(1,207)	660,351
PROFIT AND LOSS STATEMENT						
Mark-Up/ Return/Interest Earned	26,376	117,877	5,496	149,749	3,423	153,171
Mark-Up/ Return/Interest Expenses	16,309	63,813	2,878	83,000	2,091	85,091
Net Mark-Up / Interest Income	10,067	54,065	2,617	66,749	1,331	68,080
Provisions & Bad Debts Written Off Directly/(Reversals)	2,101	11,766	640	14,507	172	14,679
Net Mark-Up / Interest Income After Provision	7,966	42,298	1,978	52,242	1,160	53,402
Fees, Commission & Brokerage Income	2,369	8,159	486	11,014	40	11,054
Dividend Income	368	1,321	0	1,689	69	1,758
Income From Dealing In Foreign Currencies	706	2,735	778	4,220	2	4,222
Other Income	1,188	5,059	(256)	5,990	859	6,849
Total Non - Markup / Interest Income	4,631	17,274	1,008	22,913	970	23,884
Administrative Expenses	12,597	59,573	2,985	75,155	2,130	77,285
Other Expenses	6,915	35,736	2,451	45,102	1,749	46,851
Total Non-Markup/Interest Expenses	6,965	36,490	2,464	45,919	1,753	47,672
Profit before Tax and Extra ordinary Items	5,632	23,082	522	29,236	377	29,614
Extra ordinary/unusual Items - Gain/(Loss)	-	-	461	461	3.33	464.78
PROFIT/ (LOSS) BEFORE TAXATION	5,632	23,082	60	28,775	374	29,149
Taxation	1,827	8,673	21	10,521	634	11,155
PROFIT/ (LOSS) AFTER TAX	3,805	14,409	39	18,254	(261)	17,993

Financial Soundness Indicators

(In percent)

Indicators	2006	2007	Sep 08	2008	Sep-09	Dec-09	Mar-10
CAPITAL ADEQUACY							
Risk Weighted CAR							
Public Sector Commercial Banks	15.2	16.1	15.1	13.2	15.6	14.8	13.7
Local Private Banks	12.7	11.8	11.2	12.1	14.2	14.1	13.8
Foreign Banks	15.0	14.6	18.5	21.8	23.8	23.6	22.4
Commercial Banks	13.3	12.8	12.2	12.7	14.9	14.6	14.1
Specialized Banks	(8.3)	(6.2)	(4.1)	(4.9)	(5.0)	(2.1)	(0.5)
All Banks	12.7	12.3	11.8	12.3	14.3	14.1	13.7
Tier 1 Capital to RWA							
Public Sector Commercial Banks	11.1	12.2	11.9	11.0	12.8	12.4	11.6
Local Private Banks	10.4	9.9	9.3	10.2	11.8	11.5	11.4
Foreign Banks	14.3	14.0	18.0	21.3	23.3	23.1	22.0
Commercial Banks	10.8	10.5	10.1	10.8	12.4	12.1	11.8
Specialized Banks	(13.3)	(12.5)	(9.1)	(10.1)	(8.2)	(6.3)	(5.3)
All Banks	10.0	10.0	9.7	10.2	11.9	11.6	11.4
Capital to Total Assets							
Public Sector Commercial Banks	12.2	13.7	12.9	10.7	11.9	11.1	11.1
Local Private Banks	9.2	10.2	9.8	10.0	10.3	10.0	10.2
Foreign Banks	10.1	11.2	13.3	14.5	14.8	14.9	14.0
Commercial Banks	9.9	10.9	10.5	10.3	10.8	10.4	10.5
Specialized Banks	(8.0)	(5.4)	(4.1)	(3.2)	(3.4)	(1.8)	(0.9)
All Banks	9.4	10.5	10.2	10.0	10.5	10.1	10.3
ASSET QUALITY							
NPLs to Total Loans							
Public Sector Commercial Banks	9.0	8.4	11.8	16.3	17.4	16.4	17.6
Local Private Banks	5.2	6.5	6.9	8.6	10.5	10.7	11.6
Foreign Banks	1.0	1.6	1.7	2.9	5.3	6.5	7.3
Commercial Banks	5.7	6.7	7.6	9.9	11.7	11.7	12.7
Specialized Banks	39.1	34.3	33.4	28.8	31.4	25.4	24.2
All Banks	6.9	7.6	8.4	10.5	12.4	12.2	13.1
Provision to NPLs							
Public Sector Commercial Banks	84.5	89.0	81.1	66.9	67.2	69.0	68.0
Local Private Banks	78.7	88.5	80.7	70.2	72.1	72.3	72.1
Foreign Banks	191.7	157.0	126.0	81.9	81.3	72.4	78.1
Commercial Banks	81.5	89.1	81.1	69.3	70.8	71.4	71.0
Specialized Banks	64.1	68.6	63.2	72.4	57.1	66.3	68.1
All Banks	77.8	86.1	79.0	69.6	69.7	71.0	70.9
Net NPLs to Net Loans							
Public Sector Commercial Banks	1.5	1.0	2.5	6.1	6.5	5.7	6.4
Local Private Banks	1.1	0.8	1.4	2.7	3.2	3.2	3.5
Foreign Banks	(1.0)	(0.9)	(0.5)	0.5	1.0	1.9	1.7
Commercial Banks	1.1	0.8	1.5	3.3	3.7	3.7	4.0
Specialized Banks	18.7	14.0	15.6	10.0	16.4	10.3	9.3
All Banks	1.6	1.1	1.9	3.4	4.1	3.9	4.2
Net NPLs to Capital							
Public Sector Commercial Banks	6.4	3.4	10.5	30.3	27.6	26.2	28.8
Local Private Banks	7.1	4.1	8.1	15.9	15.8	15.9	17.2
Foreign Banks	(5.1)	(4.1)	(1.4)	1.6	2.4	4.8	4.1
Commercial Banks	6.2	3.7	8.2	17.9	17.6	17.4	18.8
Specialized Banks	-	-	-	-	-	-	-
All Banks	9.7	5.6	10.4	19.4	19.9	18.9	20.2
EARNINGS							
Return on Assets (Before Tax)							
Public Sector Commercial Banks	4.0	3.5	1.5	0.6	1.5	1.5	1.9
Local Private Banks	3.1	2.0	2.2	1.3	1.7	1.6	1.9
Foreign Banks	3.2	1.5	1.1	0.0	0.1	(0.3)	0.1
Commercial Banks	3.2	2.3	2.0	1.1	1.6	1.5	1.8
Specialized Banks	(1.3)	1.4	1.8	3.2	1.3	2.5	2.0
All Banks	3.1	2.2	2.0	1.2	1.6	1.5	1.8

Financial Soundness Indicators

(In percent)

Indicators	2006	2007	Sep 08	2008	Sep-09	Dec-09	Mar-10
Return on Assets (After Tax)							
Public Sector Commercial Banks	2.7	2.5	1.2	0.5	1.0	0.9	1.3
Local Private Banks	2.1	1.4	1.5	0.9	1.0	1.0	1.2
Foreign Banks	2.1	0.7	0.3	0.3	(0.1)	(0.3)	0.1
Commercial Banks	2.19	1.6	1.4	0.8	1.0	0.9	1.2
Specialized Banks	(1.8)	0.71	1.1	1.8	(0.6)	0.6	0.1
All Banks	2.08	1.5	1.4	0.8	0.9	0.9	1.1
ROE (Avg. Equity & Surplus) (Before Tax)							
Public Sector Commercial Banks	32.4	27.2	11.8	5.2	12.8	13.2	16.7
Local Private Banks	36.2	20.4	22.2	12.9	16.4	15.2	18.8
Foreign Banks	30.0	13.1	9.9	0.0	0.4	(2.1)	0.7
Commercial Banks	34.7	21.8	19.3	10.6	14.7	13.9	17.4
Specialized Banks	-	-	-	-	-	-	-
All Banks	35.2	22.6	19.8	11.4	15.1	14.5	17.8
ROE (Avg. Equity & Surplus) (After Tax)							
Public Sector Commercial Banks	21.7	19.5	8.9	4.4	8.4	8.0	11.3
Local Private Banks	25.0	13.8	14.8	8.5	10.0	9.4	11.7
Foreign Banks	20.4	6.0	2.5	2.2	(0.9)	(2.0)	0.4
Commercial Banks	23.7	15.0	12.9	7.3	9.1	8.5	11.0
Specialized Banks	-	-	-	-	-	-	-
All Banks	23.8	15.4	13.3	7.8	9.0	8.6	11.1
NI/ Gross Income							
Public Sector Commercial Banks	69.5	65.9	64.5	65.4	68.2	62.6	68.5
Local Private Banks	73.5	70.7	72.0	73.3	75.7	75.8	75.8
Foreign Banks	65.8	59.1	56.6	61.3	60.6	64.4	72.2
Commercial Banks	72.1	69.2	69.8	71.3	73.8	73.1	74.4
Specialized Banks	40.1	42.8	48.7	46.6	48.2	47.9	57.8
All Banks	70.9	68.2	69.2	70.4	73.1	72.3	74.0
Cost / Income Ratio							
Public Sector Commercial Banks	31.8	30.2	35.2	39.1	45.7	49.3	47.4
Local Private Banks	40.7	45.4	48.7	51.8	49.3	50.5	51.2
Foreign Banks	49.8	57.0	61.0	69.6	69.9	77.5	68.0
Commercial Banks	39.4	42.8	46.7	50.2	49.7	51.5	51.2
Specialized Banks	62.6	53.2	53.5	52.1	63.7	55.4	76.2
All Banks	40.3	43.2	46.8	50.3	50.1	51.6	51.8
LIQUIDITY							
Liquid Assets/Total Assets							
Public Sector Commercial Banks	33.9	37.0	27.6	30.5	29.3	29.8	29.7
Local Private Banks	31.1	32.5	28.2	27.4	30.9	32.2	32.2
Foreign Banks	41.0	41.6	43.6	45.3	57.2	54.7	58.2
Commercial Banks	32.2	33.8	28.7	28.7	31.6	32.6	32.8
Specialized Banks	23.0	27.9	21.2	24.5	19.0	19.0	15.5
All Banks	31.9	33.6	28.6	28.6	31.4	32.3	32.4
Liquid Assets/Total Deposits							
Public Sector Commercial Banks	42.6	47.1	36.0	38.8	38.7	38.4	38.0
Local Private Banks	40.6	42.9	37.2	35.7	41.2	43.4	42.7
Foreign Banks	61.1	61.1	71.4	71.9	83.3	82.2	88.3
Commercial Banks	42.0	44.3	38.2	37.6	42.3	43.7	43.4
Specialized Banks	205.4	247.7	217.1	229.4	193.5	155.3	148.9
All Banks	42.7	45.1	38.7	38.2	42.7	44.1	43.7
Advances/Deposits							
Public Sector Commercial Banks	64.6	60.0	71.6	68.4	67.0	65.1	63.9
Local Private Banks	74.5	70.1	75.2	75.4	68.8	66.9	65.4
Foreign Banks	80.1	75.2	69.8	69.1	50.2	56.3	51.2
Commercial Banks	72.7	73.8	74.3	73.8	67.8	66.2	64.6
Specialized Banks	528.4	507.3	638.4	577.0	683.3	544.9	669.3
All Banks	74.6	69.7	76.0	75.5	69.6	67.9	66.4

Annex-III

Selected Indicators for Different Categories of Banks **in terms of Size - March 31, 2010**

(In percent)

Indicators	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	49.9	72.7	92.3	100
Share of Total Deposits	52.8	75.9	92.7	100
Share of Gross Income	59.7	79.3	94.1	100
Share of Risk Weighted Assets	52.8	72.7	92.3	100
Capital Adequacy				
Capital/RWA	14.8	14.1	13.7	13.7
Tier 1 Capital / RWA	12.0	11.2	11.2	11.4
Net Worth / Total Assets	11.0	10.1	10.2	10.3
Asset Composition				
Sectoral Distribution of Loans				
- Corporate Sector	50.9	73.8	92.5	100
- SMEs	42.0	61.5	89.3	100
- Agriculture	26.8	33.7	95.4	100
- Consumer Finance	50.6	75.6	92.3	100
- Commodity Financing	77.6	88.5	98.6	100
- Staff Loans	56.5	74.5	91.7	100
- Others	88.2	92.4	94.3	100
- Total	52.5	72.8	93.0	100
NPLs / Gross Loans	11.5	11.0	12.6	13.1
Net NPLs / Capital	13.5	13.9	19.3	20.2
Earning & Profitability				
ROA (After Tax)	2.0	1.7	1.3	1.1
ROE (After Tax)	18.3	16.5	13.2	11.1
Net Interest Income / Gross Income	78.1	77.3	74.1	74.0
Income from Trading & Foreign Exchange / Gross Income	15.4	16.1	16.6	16.6
Non-Interest Expense / Gross Income	39.7	44.0	48.4	51.8
Provision Expense to Gross Income	14.6	14.8	15.5	16.0
Liquidity				
Liquid Assets / Total Assets	30.1	32.5	31.9	32.4
Liquid Assets held in Govt. Securities / Total Liquid Assets	57.0	61.3	63.0	60.8
Liquid Assets / Total Deposits	38.3	41.9	42.8	43.7

Annex-IV

Bank-wise Major Statistics **March 31, 2010**

(million Rupees)

S. No.	Name of the Banks	Assets	Advances	Deposits	Equity
Public Sector Commercial Banks					
1	National Bank of Pakistan	917,846	457,227	713,840	114,472
2	First Women Bank Limited	10,957	2,981	9,488	1,094
3	The Bank of Punjab	236,676	128,479	191,211	12,294
4	The Bank of Khyber	36,576	11,939	25,576	5,849
Local Private Banks					
5	Allied Bank Limited	400,265	227,034	317,742	30,250
6	Bank Alfalah Limited	380,422	185,625	316,434	22,616
7	Askari Bank Limited	268,311	139,075	213,019	15,747
8	Bank Al Habib Limited	262,050	107,466	215,095	13,651
9	Mybank Limited	36,692	18,642	27,011	5,100
10	SAMBA Bank Limited	22,235	10,193	11,679	6,979
11	Atlas Bank Limited	28,732	18,402	24,268	2,167
12	Faysal Bank Limited	168,746	94,341	110,844	13,017
13	Habib Bank Limited	805,993	412,890	647,167	77,349
14	KASB Bank Limited	60,067	32,704	46,872	4,510
15	Arif Habib Bank Limited	40,654	22,325	32,196	3,788
16	JS Bank Limited	34,145	11,687	22,418	5,375
17	MCB Bank Limited	501,894	242,215	391,565	72,052
18	United Bank Limited	585,978	331,105	451,260	60,753
19	The Royal Bank of Scotland Limited	87,986	44,710	64,637	7,632
20	Habib Metropolitan Bank Limited	237,478	103,217	146,003	18,709
21	BankIslami Pakistan Limited	35,832	13,624	28,852	4,745
22	Emirates Global Islamic Bank	20,843	9,756	16,600	3,209
23	Soneri Bank Limited	98,667	49,972	75,167	8,836
24	SILKBANK Limited	67,675	35,897	48,811	5,506
25	NIB Bank Limited	207,289	84,035	95,992	41,528
26	Meezan Bank Limited	125,505	42,664	102,480	9,641
27	Dubai Islamic Bank Pakistan Limited	39,454	22,826	31,241	6,094
28	Standard Chartered Bank	315,532	124,553	209,731	48,521
29	Dawood Islamic Bank Limited	12,309	4,818	6,805	4,689
Foreign Banks					
30	Albaraka Islamic Bank B.S.C. (E.C.), Pakistan Operations	27,641	14,800	20,949	2,772
31	Citibank N.A. (Pakistan Operations)	97,031	25,713	63,209	8,637
32	Deutsche Bank AG (Pakistan Operations)	17,869	2,973	5,795	5,083
33	HSBC Bank Middle East Limited - (Pakistan Operations)	53,629	20,668	41,989	5,568
34	Oman International Bank S.A.O.G (Pakistan Operations)	3,818	438	553	2,822
35	The Bank of Tokyo-Mitsubishi UFJ Limited (Pakistan Operations)	8,094	2,931	2,716	4,066
36	Barclays Bank PLC (Pakistan Operations)	44,152	17,655	31,040	6,435
Specialized Banks					
37	The Punjab Provincial Cooperative Bank Ltd	12,985	6,165	1,689	5,160
38	Industrial Development Bank of Pakistan	4,525	141	3,502	(28,188)
39	Zarai Taraqati Bank Limited	112,471	85,672	6,938	19,999
40	SME Bank Limited	5,689	2,360	1,966	1,823
Total		6,434,714	3,169,920	4,774,349	660,351

Results of Stress Test of Banking System- **March 31, 2010**

		Number of Banks with CAR		
		< 0%	0% - 10%	10%<
<u>Pre-Shock</u>		1	4	35
<u>Post-Shock</u>				
<u>Credit Shocks</u>				
C-1	15% of performing loans moving to substandard, 15% of substandard to doubtful, 25% of doubtful to loss	1	7	32
C-2	Tightening of loan classification i.e. all NPLs under OAEM require 25% provisioning, all NPLs under substandard require 50% and all NPLs in doubtful category require 100% provisioning.	1	6	33
C-3	Deterioration of loans to the textile sector (25%) directly downgraded to doubtful category	1	6	33
C-4	25% of consumer loans (auto loans, personal loans & consumer durables only) classified into doubtful category.	1	5	34
C-5	Critical Infection Ratio (The ratio of NPLs to Loans where capital wipes out) estimated as 38% as against actual of Dec09: 12%)	1	38	1
<u>Market Shocks</u>				
<u>Interest Rate Shocks</u>				
IR-1	An increase in interest rates by 200 basis points.	1	4	35
IR-2	Shift coupled with flattening of the yield curve by increasing 500,300 and 200 basis points in the three maturities respectively.	1	4	35
<u>Exchange Rate Shocks</u>				
ER-1	Depreciation of exchange rate by 25%	1	5	34
ER-2	Appreciation of exchange rate by 5%	1	4	35
<u>Equity Price Shocks</u>				
Eq-1	Fall in the equity prices by 30%.	1	4	35
Eq-2	Fall in the equity prices by 50%.	1	4	35
<u>Combined Credit & Market Shocks</u>				
COMB-1	Interest rates increase (2%), deterioration of loans to the textile sector (25%) directly downgraded to doubtful category, and fall in equity prices by 30%.	1	8	31
COMB-2	Deterioration in loan portfolio (performing to substandard: 15%, substandard to doubtful: 15%, doubtful to loss: 20%), fall in the equity prices (50%).	1	8	31
<u>Liquidity Shock</u>		Number of Banks		
		Becoming Illiquid after Shock		
		3 days	4 days	5 days
L-1	Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	0	2	5

Annex-VI

Group wise Balance Sheet and Income Statement of Islamic Banks/Branches - March 31, 2010

(million Rupees)

Financial Position	Islamic Banks	Islamic Banking Branches	Total Islamic Banking
ASSETS			
Cash & Balances With Treasury Banks	18,790	6,998	25,788
Balances With Other Banks	28,418	8,563	36,982
Due from Financial Institutions	41,657	0	41,657
Investments - Net	41,519	31,373	72,893
Financing - Net	108,489	47,344	155,832
Operating Fixed Assets	9,286	2,894	12,180
Deferred Tax Assets	2,056	6	2,061
Other Assets	11,370	12,402	23,772
TOTAL ASSETS	261,585	109,580	371,165
LIABILITIES			
Bills Payable	2,695	707	3,402
Due to Financial Institution	10,296	7,148	17,443
Deposits And Other Accounts	206,928	82,163	289,090
Sub-ordinated Loans	0	0	-
Liabilities Against Assets Subject To Finance Lease	37	0	37
Deferred Tax Liabilities	0	8	8
Other Liabilities	10,480	8,483	18,963
TOTAL LIABILITIES	230,435	98,508	328,943
NET ASSETS	31,150	11,072	42,222
NET ASSETS REPRESENTED BY: -			
Share Capital	31,585	7,406	38,991
Reserves	1,197	9	1,206
Unappropriated Profit	(1,860)	2,913	1,053
Share Holders' Equity	30,922	10,328	41,250
Surplus/Deficit On Revaluation Of Assets	227	744	972
TOTAL	31,150	11,072	42,222
PROFIT AND LOSS STATEMENT			
Mark-Up Income	6,119	2,861	8,981
Mark-Up Expenses	3,281	1,475	4,756
Net Mark-Up	2,838	1,386	4,224
Provisions & Bad Debts Written Off Directly/(Reversals)	709	36	745
Net Mark-Up After Provision	2,129	1,350	3,480
Fees, Commission & Brokerage Income	302	160	462
Dividend Income	44	6	49
Income From Dealing In Foreign Currencies	301	13	313
Other Income	84	75	159
Total Non - Markup	731	254	984
2,860	1,604	4,464	
Administrative Expenses	2,716	923	3,639
Other Expenses	10	7	17
Total Non-Markup	2,726	930	3,656
Profit before Tax and Extra ordinary Items	134	674	808
Extra ordinary/unusual Items – Gain/(Loss)	0	0	0
PROFIT/ (LOSS) BEFORE TAXATION	134	674	808
Taxation	70	0	70
PROFIT/ (LOSS) AFTER TAX	65	674	739

Balance Sheet and Income Statement of DFIs-
March 31, 2010

(million Rupees)

Financial Position	All DFIs
ASSETS	
Cash & Balances With Treasury Banks	1,671
Balances With Other Banks	2,424
Lending To Financial Institutions	9,687
Investments - Net	65,105
Advances - Net	42,966
Operating Fixed Assets	2,979
Deferred Tax Assets	1,216
Other Assets	4,280
TOTAL ASSETS	130,328
LIABILITIES	
Bills Payable	-
Borrowings From Financial Institution	49,238
Deposits And Other Accounts	16,411
Sub-ordinated Loans	-
Liabilities Against Assets Subject To Finance Lease	28
Deferred Tax Liabilities	4
Other Liabilities	5,997
TOTAL LIABILITIES	71,679
NET ASSETS	58,650
NET ASSETS REPRESENTED BY: -	
Share Capital	48,278
Reserves	6,986
Unappropriated Profit	1,520
Share Holders' Equity	56,783
Surplus/Deficit On Revaluation Of Assets	1,866
TOTAL	58,650
OPERATING POSITION	
Mark-Up/ Return/Interest Earned	3,239
Mark-Up/ Return/Interest Expenses	1,735
Net Mark-Up / Interest Income	1,504
Provisions & Bad Debts Written Off Directly/(Reversals)	(23)
Net Mark-Up / Interest Income After Provision	1,527
Fees, Commission & Brokerage Income	(6)
Dividend Income	104
Income From Dealing In Foreign Currencies	(2)
Other Income	378
Total Non - Markup / Interest Income	474
Administrative Expenses	693
Other Expenses	(24)
Total Non-Markup/ Interest Expenses	668
Profit before Tax and Extra ordinary Items	1,333
Extra ordinary/unusual Items -- Gain/(Loss)	-
PROFIT/ (LOSS) BEFORE TAXATION	1,333
Taxation	405
PROFIT/ (LOSS) AFTER TAX	928

Capital Structure and Capital Adequacy Ratio of Banks and DFIs - March 31, 2010

(million Rupees)

		All Banks and DFIs	Public Banks	Foreign Banks	Private Sector Banks	Specialized Banks	All Banks	DFIs
Equity								
1.1	Fully Paid-up Capital/Capital Deposited with SBP	387,864	31,563	34,585	260,459	15,507	342,114	45,750
1.2	Balance in Share Premium Account	28,879	38	-	26,313	-	26,351	2,528
1.3	Reserve for issue of Bonus shares	5,160	2,691	-	2,469	-	5,160	-
1.4	General Reserves as disclosed on the Balance Sheet (including statutory reserve)	117,127	16,882	93	88,436	4,730	110,141	6,986
1.5	Un-appropriated/Unremitted profits (net of accumulated losses, if any)	83,961	50,735	898	55,970	(25,161)	82,441	1,520
1.6	Minority interest	-	-	-	-	-	-	-
1.7	Sub-Total (1.1 to 1.5)	622,990	101,909	35,575	433,647	(4,924)	566,206	56,783
	Deductions							
1.8	Goodwill	60,655	590	300	59,715	34	60,639	16
1.9	Shortfall in Provisions required against Classified assets	2,221	-	-	1,641	580	2,221	-
1.10	Deficit on account of revaluation of AFS investment	1,930	299	307	496	390	1,492	438
1.11	Any increase in equity capital resulting from a securitization transaction	14	-	-	14	-	14	-
1.12	Investments in TFCs of other banks	1,115	-	-	673	-	673	442
1.13	Other Deductions	11,819	2,140	-	8,366	158	10,664	1,155
1.14	Sub-Total (1.7 to 1.10)	77,754	3,029	607	70,905	1,162	75,703	2,051
1.15	Total Eligible Tier 1 capital	545,235	98,879	34,968	362,742	(6,086)	490,503	54,732
	Supplementary Capital							
2.1	Freely available General Provisions or reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	13,298	1,958	633	9,169	-	13,037	261
2.2	Revaluation reserves eligible upto 45%	38,718	11,618	6	24,068	2,023	37,716	1,002
2.3	Foreign Exchange Translation Reserves	21,781	6,813	-	14,969	-	21,781	-
2.4	Undisclosed reserves	-	-	-	-	-	-	-
2.5	Subordinated debt-up to maximum of 50% of total equity	41,227	-	-	38,022	3,204	41,227	-
2.6	Total Tier 2 Supplementary Capital(2.1 - 2.5)	114,726	20,389	639	85,929	6,505	113,462	1,263
	Deductions							
	Other deductions	11,819	2,140	-	8,366	158	10,664	1,155
	Total Deductions	11,819	2,140	-	8,366	158	10,664	1,155
	Total eligible tier 2 capital	102,906	18,249	639	77,563	6,347	103,097	108
2.7	Eligible tier 3 (as worked out in 3.9 below)	-	-	-	-	-	-	-
2.8	Total Supplementary Capital eligible for MCR(maximum upto 100% of Total Equity)	102,085	18,249	639	77,563	5,526	101,977	108
2.9	TOTAL CAPITAL (1.12+2.8)	647,320	117,128	35,607	440,305	(560)	592,480	54,840
	Risk Weighted Amounts							
3.3	Total Credit Risk Weighted Assets	3,536,043	663,342	123,853	2,587,531	96,603	3,471,329	64,714
3.4	Total Market Risk Weighted Assets	265,409	82,306	7,085	151,655	56	241,103	24,307
3.5	Total Operational Risk Assets	615,962	108,788	27,774	451,100	17,240	604,902	11,060
3.5	Total Risk Weighted Amount	4,417,414	854,436	158,712	3,190,286	113,899	4,317,333	100,081
Capital Adequacy Ratios								
	Tier 1 capital to Total Risk Weighted Amount	12.34%	11.57%	22.03%	11.37%	-5.34%	11.36%	54.69%
	Total Capital Adequacy Ratio	14.65%	13.71%	22.43%	13.80%	-0.49%	13.72%	54.80%
	Tier 2 capital to Total Risk Weighted Amount	2.31%	2.14%	0.40%	2.43%	5.57%	2.39%	0.11%
	OTHER DEDUCTIONS FROM TIER 1 AND TIER 2 CAPITAL							
1.1	Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	17,920	2,438	-	15,085	315	17,839	81
1.2	Significant minority investments in banking, securities and other financial entities	5,189	1,843	-	1,458	-	3,301	1,889
1.3	Equity holdings (majority or significant minority) in an insurance subsidiary (para 1.1 scope of Application)	-	-	-	-	-	-	-
1.4	Equity holdings (majority or significant minority) in an insurance subsidiary (para 1.1 scope of Application)	530	-	-	188	-	188	341
1.5	Significant minority and majority investments in commercial entities exceeding 15% of bank's capital	-	-	-	-	-	-	-
1.6	Securitization exposure subject to deduction (para 4.3.1 of instructions)	-	-	-	-	-	-	-
1.7	Others	-	-	-	-	-	-	-
1.7	Total Deductible Items to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital	23,639	4,281	-	16,731	315	21,328	2,311

Group-wise Composition of Banks

March 31, 2010

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

List of Abbreviations

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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