



**State Bank of Pakistan**  
Banking Surveillance Department

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Quarterly Performance Review  
of the Banking System

**JUNE 2008**

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## **List of Abbreviations**

CAR	Capital Adequacy Ratio
CB	Commercial Bank
CDR	Credit to Deposit Ratio
CRR	Cash Reserve Requirement
CY	Calendar Year
FB	Foreign Bank
HTM	Held-to-Maturity
IB	Islamic Bank
IBB	Islamic Bank Branch
IBI	Islamic Banking Institution
LPB	Local Private Bank
MCR	Minimum Capital Requirement
MTB	Market Treasury Bill
NII	Net Interest Income
NOP	Net Open Position
NPF	Non Performing Finance
NPL	Non Performing Loan
NSS	National Saving Scheme
OMO	Open Market Operation
PIB	Pakistan Investment Bond
PSCB	Public Sector Commercial Bank
ROA	Return on Asset
ROE	Return on Equity
RSA	Rate Sensitive Asset
RSL	Rate Sensitive Liability
RWA	Risk Weighted Asset
SBP	State Bank of Pakistan
SB	Specialized Bank
SLR	Statutory Liquidity Requirement
SME	Small and Medium Enterprise

## Glossary

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

**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.

**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.



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## **Quarterly Performance Review of the Banking System June 2008**

### **1. Overview**

Pakistan's banking system has been showing steady growth, satisfactory operating performance, strong resilience towards major risk factors, and efficiency; reflecting upon the strong fundamentals that the system has developed during financial reform process. Even in the face of recent adverse movements in macro environmental factors, the performance of the banking system on key financial soundness indicators continue to be reassuring.

The statistics on financial soundness indicators for June 2008 show that the banking system maintained its momentum in terms of earnings, solvency and asset quality. The system has also registered growth that, in line with slack down in economic activity, is at slightly slower pace as compared with the trends for the recent years.

The asset base of the banking system grew by 5.6 percent over the quarter to Rs5,513 billion ; this growth is supported by 6.1 percent growth in shareholders' equity and 7.8 percent growth in deposits. The risk based capital adequacy ratio of 12.1 percent is well above the minimum required level of 8 percent, while the stress testing results show that the system has strong resilience for withstanding any unusual but plausible shocks. Despite the policy of aggressive credit expansion and building pressures in the economy, infected loans have increased marginally. The overall asset quality in terms of loan loss coverage and likely impact on the solvency has remained firm during the quarter. The infection ratio (net) in June 2008 stayed at the previous quarter level of 1.3 percent, signifying that the banks set aside matching reserves out of their earnings to cover the loan losses. Accordingly, the NPL coverage and capital impairment ratios also remained intact. Besides the improvement in banks' risk management practices, regulatory drive of SBP for strengthening the prudential norms in respect of loan loss recognition and charge offs have contributed towards the satisfactory asset quality indicators and creation of cushion to weather out any potential adversity in credit risk.

Nevertheless, banks' strong earning capacity enabled them to absorb these additional charges as banks posted year to date pre-tax profit of Rs61.5 billion in June 2008 compared to full year profit of Rs 107 billion in year 2007. Resultantly, the pre-tax ROA improved to 2.3 percent (2.2 percent in March 2008), though the results were tapered by the higher base, which the system has achieved on the back of strong growth in recent years.

Since the banking system shows strong performance and holds a promising outlook, the investors maintained their confidence in the banking system. Of particularly significance is the latest entry of reputable bank like Barclays and

other international institutional investors. Confidence reflects in strong equity base well protected against impairment as the unprovided infected loans which could impair solvency remain low at 6.9 percent of the capital base – 6.8 percent in March-2008. The solvency when measured in terms of underlying risks, stands at comfortable level i.e. capital adequacy ratio of 12.1 percent in June 2008 - 12.3 percent in March-2008. This slight relapse, nevertheless, comes from the growth of risk-weighted assets as well as the introduction of capital charge for Operational Risk under the Basel-II regime.

During the recent years of high economic growth, the banks have effectively supported the expansion in economic activities. During the quarter under review banks further lend Rs112 billion of advances. Accordingly, their asset profile during the quarter shifted towards Loans and Advances, which not only carry higher risk weights but also lack liquidity and thus could pose asset-liability management challenges to the banks. Though the system's loan to deposits ratio was quite high and a tight monetary policy was in vogue, though somewhat relaxed recently in October for coping with the usual post-Eid liquidity stress, the banks effectively managed their asset and liquidity profile while continuing to meet the crucial financing needs of the economy.

The banking system has so far largely maintained strong performance that it achieved during the years of strong economic growth. The prevailing trends and indicators suggest that the system is well placed to maintain this momentum and is financially sound to withstand any plausible shocks in the key risk factors. Nevertheless, gradual increase in NPLs in the backdrop of slowdown in economic activities poses a significant challenge to the banks. The post quarter developments on the liquidity front also raised serious challenge for the banks in maintaining the growth momentum in the last quarter of the outgoing year. SBP has taken a number of measures to ensure adequate liquidity in the system and it is expected that credit growth will keep its pace in the last half of the year, particularly in the last quarter, which traditionally is marked with acceleration in economic activities and sets the pace of the economic growth in the following quarters.

SBP has also stayed alive to the emerging developments and effectively tailored its policy responses for catering to any emerging risks. Of late, SBP has taken a number of policy measures, including enhancement of minimum capital requirement and its linkage to the underlying risks of individual institutions, which is also in line with the primary strategy of the Basel Committee to strengthen the capital buffers<sup>1</sup>. This move will further augment the soundness of the banking system and incentivize the banks to further improve their systems and risk management capacities.

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<sup>1</sup> "Comprehensive strategy to address the lessons of the banking crisis" announced by the Basel Committee on Banking Supervision on 20 November 2008 available at <http://www.bis.org/press/p081120.htm>

## **Executive Summary**

### **Asset & Funding Structure**

The asset base of the banking system registered a growth of 5.6 percent during the quarter. This growth was well supported by strong increase in deposits and equity; the increase in deposits in fact was greater than overall increase in asset base. Accordingly, the share of deposits in overall funding structure increased to 76 percent and the banks reduced their dependence on borrowings to 7.6 percent. On the asset structure front, the last two quarters' trend of gradual shift in asset mix from investments to loans prevailed during the quarter under review and loan portfolio increased by 4.0 percent while investments declined. However, SBP's policy initiative to raise the CRR and SLR requirements for banks led to a significant increase in cash and treasury bank balances. LPBs remained the leading group as it increased its market share to 75 percent, while PSCBs shed their share to 19 percent. However, FBs registered a slight inch up in their market share.

### **Profitability**

The banking system witnessed improvement in profits during the quarter under review. The system posted a before tax profit of Rs61.4 billion compared with full year results of Rs107 billion for CY07 and an after tax profit of Rs45.9 billion compared with Rs73 billion for CY07. Profitability indicators such as return on assets (ROA) and return on equity (ROE) too showed improvement compared with the corresponding quarter as well as the full year results of CY07. Group-wise, LPBs remained the highest contributors of system's profits; their pre and after-tax profit stood at Rs47 billion and Rs36.5 billion respectively. PSCB which witnessed decline in their profitability in the last quarter due to losses on one of the group banks improved their profitability. The pre and after tax profits of FBs increased from Rs0.8 billion and Rs0.3 billion respectively in Mar-08 to Rs2.1 billion and Rs1.0 billion in Jun-08. The group wise analysis of efficiency in utilization of assets and capital reflected in improved ROA and ROE for all the banking groups during the quarter.

### **Solvency**

Solvency position of the banking system remained strong during the quarter under review. The composition of qualifying risk based capital improved during the quarter as increase in the capital came from core capital. The qualifying risk based capital increased to Rs484.2 billion in Jun-08 quarter (Rs469.8 billion in

Mar-08). The core capital being the mainstay of banks' capital, contributing 80.1 percent of total capital, rose by 4 percent whereas the supplementary capital declined marginally by 0.6 percent during the quarter under review. The ratio of core capital to total capital show significant improvement since CY03 when the same was around 76.7 percent signifying improvement in quality of banks' solvency and increase in direct stake of the owners and shareholders. Total Risk Weighted Assets of the banking system increased by 4.8 percent to Rs4,011.6 billion in Jun 08 at the back of healthy increase in advances. Due to relatively higher increase in Risk weighted assets than capital, the CAR of the banking industry slightly declined to 12.1 percent. However, the Core Capital to RWAs ratio remained at previous quarter's level of 9.7 percent. With SBP's recent initiative of enhancing the minimum CAR to 9 percent by end December, 2008 along with higher MCR of Rs 5 billion will enhance the quality of the capital and provide additional buffer in face of any stress.

### **Credit Risk**

Asset quality of the banking system remained firm as the key asset quality indicators viz. infection and impairment ratios stayed at the last quarter levels. Loan portfolio continued to grow (quarter increase represents 43 percent of the full year increase in CY07) while undergoing some changes in the portfolio mix, especially decline in consumer finance. Increase in NPLs though slowed down, however, emerging vulnerabilities in the macro-economic environment viz. slowdown in economic activities, rising interest rates, and high inflation continue to pose challenge for banks. Banks need to improve their credit management process and keep check on the flow of the NPLs to maintain their solvency and profitability pattern achieved over the recent years.

### **Liquidity Risk**

The overall trend of tight monetary policy continued in the quarter ended Jun-08 though there was a slight increase in liquid assets to total assets ratio to 31.6 percent from 31 percent in Mar-08 and decrease in loan to deposit ratio to 70.4 percent from 72.6 in Mar-08. The surplus liquidity remained relatively stable during the quarter, however it has significantly declined since Aug-07. Total liquidity which was around 32.2 percent of the TDL in CY07 dropped to 31.2 percent in Jun-08. Because of the effective liquidity management in LPBs, asset liability gap of the overall banking sector remained in the range of  $\pm 10$  percent while a couple of other groups experienced the higher gap in different maturity buckets. All in all, the liquidity risk stood calm as the availability of market-based liquidity remained sufficient during the quarter.

## **Market Risk**

There was a slight increase in interest rate risk during the quarter under review. The interest rates along the yield curve showed an upward shift following the announcement of SBP's raise in policy discount rate to 12 percent in the second half of May-08. The overall re-pricing gaps of the banking system were within the acceptable limits though SBs and PSCBs were having higher gaps in medium term (3months to 1 year) buckets. On exchange rate risk, rupee dollar exchange rate witnessed persistent depreciation and reached to the level of Rs. 68.4 by the end of June 2008. Equity exposure of the banking system has increased to Rs. 48.3 billion (Rs. 42.7 billion in Mar-08), with LPBs continuing to hold the major share. In terms of capital, the equity exposure of the system remained within the prudential limits, as it was less than 10 percent for all the groups except for LPBs with 10.2 percent.

## **Performance of Islamic Banking**

Islamic banking has shown tremendous growth over the years. 6 full-fledged Islamic Banks (IBs) and 12 conventional banks are now operating with 326 Islamic Banking branches across Pakistan. Continuous growth of Islamic Banking over the last 5 years has increased the size of its balance sheet. Islamic banks with YoY growth of 48 percent now hold 4.4 percent of the total assets of the banking sector. Major developments regarding the Islamic banking sector are higher financing and associated rise in Non Performing Financing (NPF). In wake of tight monetary policy, asset mix shifted to cash and bank balances from investment and financing. While financing is still predominantly Murabaha based, other modes are also gaining popularity. Combined share of Murabaha, Ijarah and diminishing Musharaka stands at 88.9 percent of overall financing. Satisfactory earnings, sound solvency and expansion of branch network will help IBIs to further increase their market share in the banking system. Another important development, which occurred post quarter, is the issuance of Ijara Sukkuk, which will resolve a long outstanding issue through providing a risk free SLR eligible investment avenue to the Islamic banking system.

## **Resilience of the Banking System-Sensitivity Analysis**

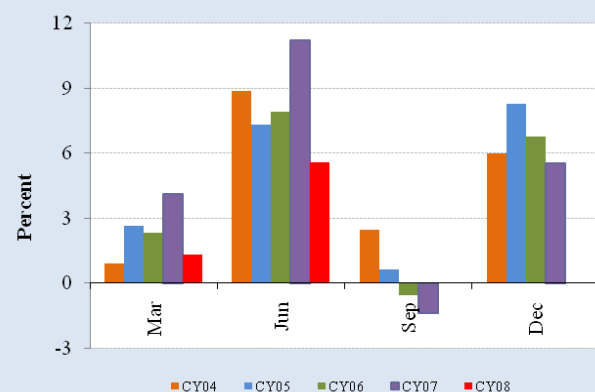
Because of its healthy solvency profile, the banking system is assessed to be resilient towards moderate level shocks to credit and market risk factors. The assessment has been made through a stress test using simple sensitivity analysis which envisages historical as well as hypothetical shocks to the market and credit risk factors. Credit shocks, being the major risk factor, may affect the resilience of a few banks, especially the banks having greater exposures in consumer finance.

## 2. Asset and Funding Structure

The banking system posted strong growth in asset base during the quarter. This growth was though lower than the unprecedentedly high growth of corresponding quarter of the last year, however, in absolute rupee value (Rs292 billion) the growth matches the growths observed in corresponding period of CY06 and CY05. However, higher-base achieved through strong growth over the recent years gives a growth rate of

5.6 percent in asset base – 11.2 percent and 7.9 percent in CY07 and CY06, respectively (see Figure-2.1). Nevertheless, the post quarter developments on the liquidity front have raised serious challenge for the banks in maintaining the growth momentum in the last quarter of the outgoing year. Namely, recent pre-Eid-ul-Fitar heavy deposits withdrawal and delinquency of deposits in retracting to the banking system followed by a further deposits withdrawal in the wake of ill-founded rumor-mongering have constrained the liquidity profile of a number of banks. Given the measures taken by SBP, latest post quarter statistics show that the constrained liquidity is unlikely to significantly affect the credit growth in last quarter, which traditionally is marked with high credit growth and acceleration in economic activities.

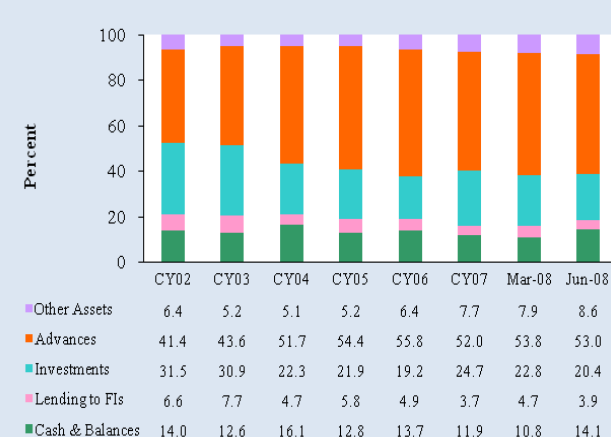
Figure 2.1: Total Assets Growth Rates (Quarterly Basis)



As the banks were repositioning their lending strategy due to slackness in the demand for bank credit in the face of slowdown in economic growth and tightening of monetary regime, the asset structure of the banking system continued its gradual shift from advances to investments during the first three quarters of the last year. This trend reversed in the last quarter of CY07 as the demand for advances started to show liveliness and their share in asset base started to rise. The Jun-08 quarter also witnessed significant increase in advances that grew by Rs112 billion over the quarter.

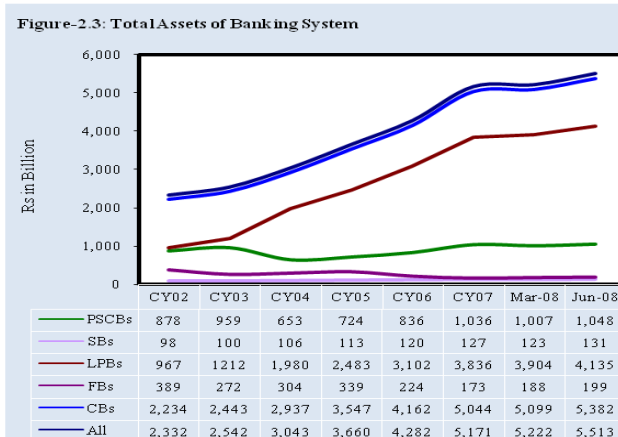
This increase in advances primarily emerged from the increased demand from Corporate Sector and

Figure-2.2: Composition of Banks' Total Assets

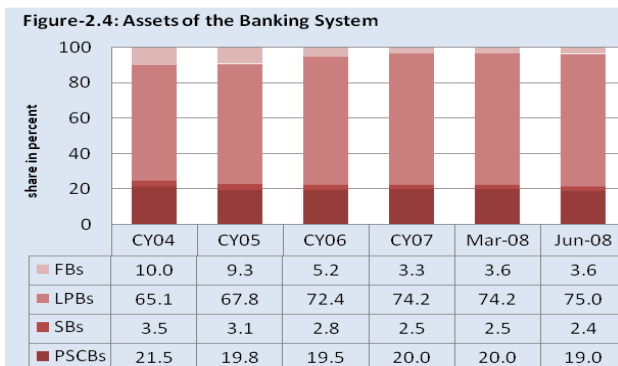


Commodity Operations while SME and Consumer sectors reduced their borrowings from the banking system. In the last week of Jun-08, SBP raised the CRR and SLR requirements for banks resulting in a significant increase in cash and treasury bank balances. Their share in total assets inched up to 14.1 percent from 10.8 percent in Mar-08. Accordingly, advances slightly shed their weight in asset base of the system (from 53.8 percent in Mar-08 to 53.0 percent, while investments declined in both absolute rupee terms and as proportion of total assets (see Figure 2.2).

On the funding side, a strong growth of Rs304 billion in deposits during the quarter well supported the assets growth of Rs292. The support of deposits towards overall asset base increased to 76.0 percent (74.4 percent in Mar-08), and banks reduced their dependence on borrowings by 1.2 percentage points to 7.6 percent of total assets. The shareholders' equity increased by 6.1 percent over the quarter, however due to contraction of revaluation surpluses the net assets (net worth) as percentage of total assets slightly came down to 10.2 percent (10.4 percent in Mar-04).



The group-wise composition of the assets shows that LPBs remained the leading group; since the inception of the outgoing year, these banks slightly increased their market share to 75.0 percent. PSCBs that showed slight improvement during the latter half of the CY07 again shed their share to 19.0 percent. However, FBs whose market share was witnessing a persistent decline due to the mergers and reorganization of the group banks into LPBs, registered a slight inch up in their market share (see Figure 2.3 & 2.4).



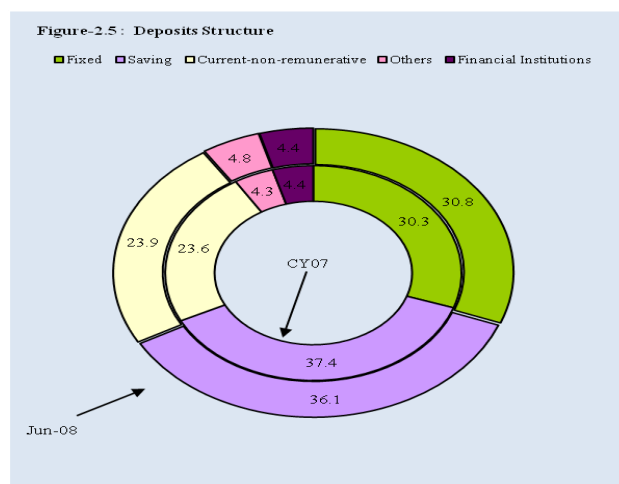
The banking system of the country has a high concentration as a fewer number of banks hold a major share of the system's total assets. The five large banks hold around one-half of the total assets. This concentration has been following an overall declining trend as the medium sized banks are gradually building up their market share. However, during the quarter under review the five large



banks again increased their market share by 60 bps to 51.8 percent. Annex-II shows the structure of the market on key financials.

**Deposits** finance the largest portion of the asset base. In line with growth in asset base, deposit component also grew at higher pace i.e. 7.8 percent (Rs304 billion) over the quarter and more than covered the overall increase of Rs292 billion in asset base. Accordingly, the share of deposits in overall funding structure inched up to 76 percent from 74.4 percent in last quarter. The deposits of the banking system have been showing a strong growth for the last four years that has accumulated higher base which also tempers the growth rates. Accordingly, Year-on-Year statistics shows 13.7 percent (Rs504 billion) growth since the corresponding quarter of the last year - 19.2 percent (Rs593 billion) and 17.3 percent (Rs455 billion) in Jun-07 and Jun-06 quarters, respectively. One of the leading factors, which underlie the strong growth in deposits in recent years viz. the workers' remittances increased by 25 percent over the corresponding quarter of the last year.

A cross sectional analysis of the deposits in terms of composition shows that share of current and fixed deposits inched up while the share of savings account marginally receded. Saving deposits still constitute the major share of deposits followed by fixed/term and non-remunerative current accounts. The industry has been witnessing a gradual shift in deposits from savings to term deposits for quite some time. This phenomenon was



largely ensued by SBP's policy drive to encourage the banks to mobilize matching longer terms deposit for funding their longer-terms assets. Resultantly, fixed deposits have gained a significant share of savings deposits since 2004. The results of the last few quarters however signify that this trend of gradual shift has stabilized to some extent. However, SBP's recent policy initiative of exempting term deposits of one year and above maturity also from statutory liquidity requirements is expected to invigorate this trend (see Figure- 2.5). The currency-wise composition of deposits shows a shift towards foreign currency deposits which rose to 13.7 percent of total deposits from 13.0 percent in Mar-08 and 12.3 percent in CY-07.

Due to higher growth in deposits, the banking system retired **borrowings** of Rs39 billion during the quarter. Banks mainly retired their security-backed borrowings and increased the reliance on unsecure interbank borrowings. Total

secured borrowings declined by Rs49 billion while unsecured borrowings increased by Rs9.3 billion during the quarter. Consequently, the share of secured borrowings in overall borrowings came down to 80.5 percent (84.3 percent in Mar-08).

The **capital** is the second largest source of funding for the banking system, contributing 10.2 percent of the system's overall funding structure. Shareholders' equity grew by 6.1 percent over the quarter. This growth was also tapered by significant year-to-date losses posted by a couple of banks, nevertheless, on the back of fresh injection of equity and strong overall earnings, the shareholders equity showed a YoY growth of 16.9 percent and stands at Rs481 billion (412 billion in Jun-07). This increase in capital cushion also owes a great deal to the MCR policy, which have encouraged not only the retaining of higher portion of earnings but also the fresh injection of equity for meeting the enhanced MCR. During the quarter under review, a general rise in interest rates and slack down in stock market resulted in mark down in the value of both fixed-income and equity securities of banks, and revaluation surpluses squeezed by 12.4 percent to Rs80 billion. Therefore, the share of net assets i.e. shareholders equity plus revaluation surpluses slightly decreased to 10.2 percent from 10.4 percent in Mar-08.

**Advances** of the banking system largely maintained their growth momentum that picked up in the last quarter of CY07. Advances in fact showed a lackluster demand during the first three quarter of the last years; it was only in the last quarter that the advances, following the seasonal pattern, rose at strong pace. This liveliness in demand for bank credit, in line with established seasonal trend, subsisted during the first two quarters of the outgoing year. During the quarter under review, advances (net) grew by Rs112 billion (4.0 percent), Rs116 billion in Mar-08. However, due to higher increase in cash and bank balances, share of

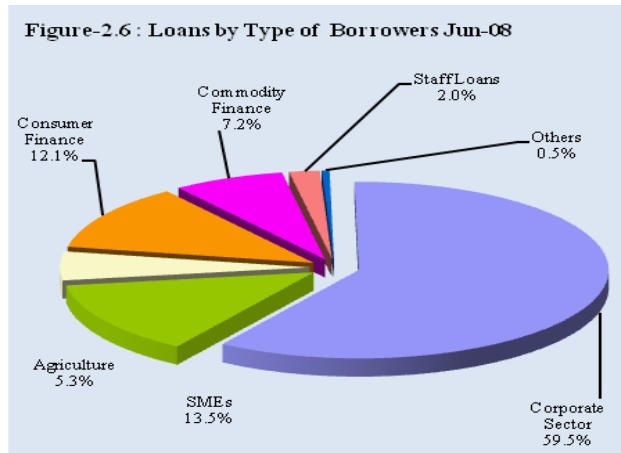
**Table 2.1: End-use of Advances (net)**  
Amount in billion Rs, share in percent

	Sep-07		Dec-07		Mar-08		Jun-08	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
<b>Fixed Investment</b>	<b>546.1</b>	<b>22.3</b>	<b>609.2</b>	<b>22.6</b>	<b>637.2</b>	<b>22.6</b>	<b>663.9</b>	<b>22.8</b>
Corporate Sector:	499.0	20.4	549.0	20.3	582.5	20.7	617.3	21.2
SMEs:	47.1	1.9	60.3	2.2	54.7	1.9	46.6	1.6
<b>Trade Finance</b>	<b>393.9</b>	<b>16.1</b>	<b>415.9</b>	<b>15.4</b>	<b>442.8</b>	<b>15.7</b>	<b>443.5</b>	<b>15.2</b>
Corporate Sector:	329.9	13.5	348.0	12.9	385.3	13.7	394.9	13.5
SMEs:	64.0	2.6	67.9	2.5	57.5	2.0	48.6	1.7
<b>Working Capital*</b>	<b>1,074.5</b>	<b>43.9</b>	<b>1,231.6</b>	<b>45.6</b>	<b>1,306.3</b>	<b>46.3</b>	<b>1,382.4</b>	<b>47.4</b>
Corporate Sector:	504.3	20.6	623.2	23.1	679.3	24.1	719.1	24.7
SMEs:	283.7	11.6	309.1	11.4	297.4	10.5	298.4	10.2
Agriculture	148.1	6.0	150.8	5.6	147.6	5.2	154.2	5.3
Commodity Financing	138.4	5.7	148.4	5.5	182.0	6.5	210.8	7.2
<b>Consumer Finance:</b>	<b>356.6</b>	<b>14.6</b>	<b>371.4</b>	<b>13.8</b>	<b>365.3</b>	<b>13.0</b>	<b>353.8</b>	<b>12.1</b>
Credit Cards	47.5	1.9	46.8	1.7	44.8	1.6	44.0	1.5
Auto Loans	111.4	4.5	111.4	4.1	109.7	3.9	103.9	3.6
Consumer Durable	1.4	0.1	1.1	0.0	1.0	0.0	0.5	0.0
Mortgage Loan	60.6	2.5	67.4	2.5	65.6	2.3	66.9	2.3
Other personal Loans	135.8	5.5	144.7	5.4	144.2	5.1	138.6	4.8
<b>Staff Loans</b>	<b>50.6</b>	<b>2.1</b>	<b>52.2</b>	<b>1.9</b>	<b>51.7</b>	<b>1.8</b>	<b>57.5</b>	<b>2.0</b>
Housing Finance	35.7	1.5	36.8	1.4	36.4	1.3	40.7	1.4
Others	14.8	0.6	15.4	0.6	15.3	0.5	16.7	0.6
<b>Others</b>	<b>26.4</b>	<b>1.1</b>	<b>20.6</b>	<b>0.8</b>	<b>17.1</b>	<b>0.6</b>	<b>15.3</b>	<b>0.5</b>
<b>Total</b>	<b>2,448.1</b>	<b>100.0</b>	<b>2,700.9</b>	<b>100.0</b>	<b>2,820.4</b>	<b>100.0</b>	<b>2,916.5</b>	<b>100.0</b>

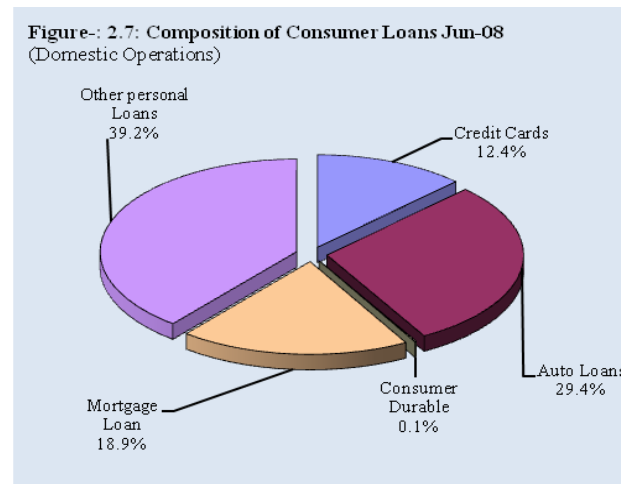
\* agriculture and commodity finance are added in this category for analysis in this section only

advances in overall asset base slightly receded to 53.0 percent (53.8 percent in Mar-08).

Detailed composition of the advances<sup>2</sup> shows that mainly the corporate and commodity finance increased their usage of bank credit. There was a slight increase in advances to agriculture sector while other two major sectors viz. SME and Consumer Sector reduced their borrowing from banks. Both these sectors reduced their bank borrowings during Mar-08 quarter as well. The corporate sector, the largest user of banks credit, borrowed additional advances of Rs84 billion during the quarter. This increase coupled with an increase of Rs29 billion in commodity financing made for the reductions of Rs16 billion in lending to SME sector and Rs11 billion to consumers. Accordingly, corporate sector further inched up its share in overall advances of the banking system. SME and consumer sector that are the second and third largest users of bank credit, respectively, have shed their share in the overall advances of the banking sector (see Figure 2.6).



There was only a slight shift in the end use of advances. Working capital registered a slight an inch up in its share, while trade finance showed a minor reduction. The **consumer finance**, which had been showing a consistent increase uptill end of CY07, witnessed a decline of Rs 11 billion during the quarter, a decline of Rs 6 billion in Mar-08 quarter, and its share in overall loans receded to 12.1 percent (see Table-2.1). The breakup of consumer finance data shows that lending to all consumer finance categories witnessed decline during the quarter, however, it was more conspicuous in auto and personal loans that declined by 5.0 and 4.0 percent respectively. However, the internal composition of the consumer finance did not witness any major shift, with

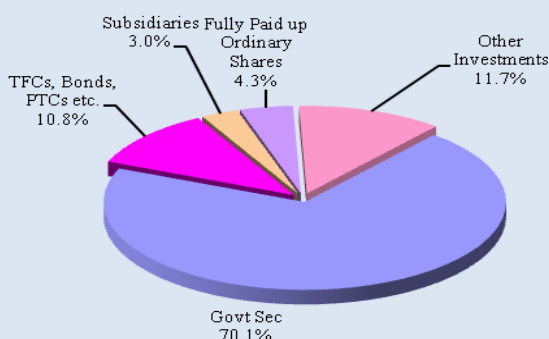


<sup>2</sup> The following analysis of composition of advances and shift therein is based on the banks' domestic operations only.

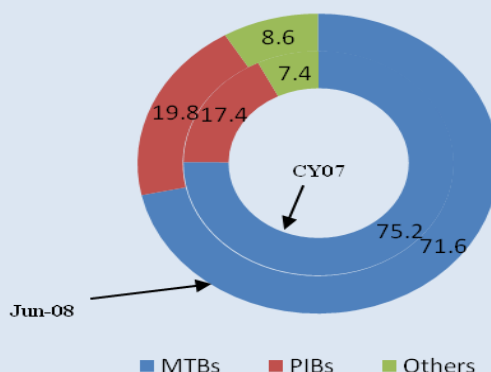
personal loans contributing the largest share of consumer finance followed by auto and mortgage loans (see Figure 2.7).

**Investments**, the second largest component of the banks' asset base, has been following a declining trend since the last quarter of CY07. During the quarter under review, investments (net) of the banking sector further declined by Rs65 billion and their share in total assets receded to 20.4 percent (22.8 percent in Mar-08). A disaggregated analysis shows that overall decline was largely caused by decrease in investment in govt. papers which declined by Rs 63 billion during the quarter. Other two major categories of investments i.e. equity stock and bonds and debentures increased by Rs5 billion each. Nevertheless, the overall investment structure remained highly skewed toward govt. papers which still constitute 70.1 percent of the total

**Figure-: 2.8: Breakup of Investments Jun-08**



**Figure-2.9: Break up of Federal Securities**



investments of the banking system (see Figure-2.8). The breakup of investment in govt. papers shows that though all the categories of govt. papers have declined since the end of CY07, the most significant decline was observed in MTBs. Accordingly their share in overall stock of govt. papers vis-à-vis PIBs and other govt. papers has squeezed over the last two quarters (see Figure-2.9).

### 3. Financial Soundness of the Banking System

#### 3.1 Solvency<sup>3</sup>

Solvency position of the banking system remained strong during the quarter under review.

The qualifying risk based capital of the banking system stood at Rs484.2 billion in Jun-08 quarter up from Rs469.8 billion in Mar-08 and Rs419 billion in the corresponding period of Jun-07. The core capital being the mainstay of banks' capital rose by 4 percent whereas the supplementary capital declined marginally by 0.6 percent during the quarter under review (see Figure 3.1.1). As a result, the share of Core capital in total capital increased to 80.1 percent in Jun-08 from 79.3 percent in Mar-08. The ratio of core capital to total capital has improved significantly since CY03 when the same was around 76.7 percent of total capital thus signifying improvement in quality

of banks' solvency and increase in direct stake of the owners and shareholders in the bank (see Figure 3.1.2).

Total Risk Weighted Assets (RWA) of the banking system increased by 4.8 percent to Rs4,011.6 billion in Jun 08 at the back of healthy growth in advances. Due to relatively higher increase in RWA,

Figure-3.1.1: Risk-Based Capital Position

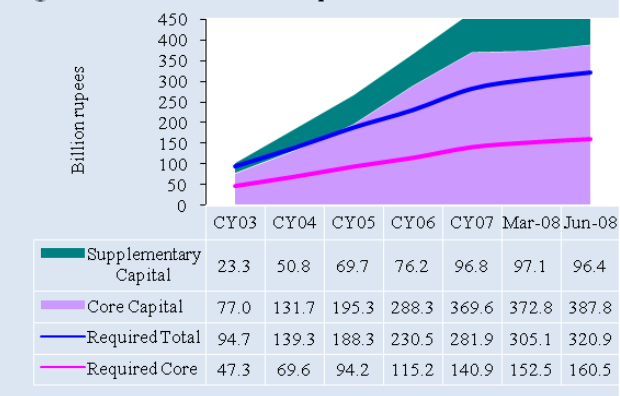
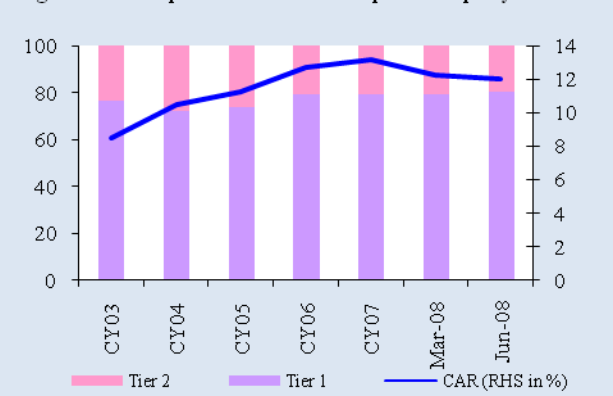


Table-3.1.1: Capital Adequacy Indicators

Percent CAR	Basel-I					Basel-II*	
	CY03	CY04	CY05	CY06	CY07	Mar-08	Jun-08
PSCBs	11.0	13.4	14.5	15.2	17.4	15.6	15.5
LPBs	9.0	10.1	10.6	12.7	12.8	12.0	11.6
FBs	23.0	17.4	16.4	15.0	13.5	14.9	14.0
CBs	11.1	11.4	11.9	13.3	13.8	12.8	12.4
SBs	(28.2)	(9.0)	(7.7)	(8.3)	(7.8)	(5.8)	(0.7)
All banks	8.5	10.5	11.3	12.7	13.2	12.3	12.1
<b>Tier 1 Capital to RWA</b>							
PSCBs	8.2	8.6	8.8	11.1	13.0	11.4	11.9
LPBs	7.0	7.5	8.3	10.4	10.5	9.9	9.5
FBs	23.0	17.1	16.1	14.3	12.9	14.2	13.4
CBs	9.1	8.6	9.1	10.7	11.1	10.3	10.1
SBs	(28.7)	(15.0)	(13.6)	(13.3)	(13.5)	(11.9)	(7.8)
All banks	6.5	7.6	8.3	10.0	10.5	9.7	9.7
<b>Capital to Total Assets</b>							
PSCBs	6.1	8.7	12.6	12.2	13.7	13.7	12.8
LPBs	5.3	6.5	7.0	9.2	10.2	10.1	9.8
FBs	9.9	8.9	9.5	10.1	11.2	10.3	10.5
CBs	6.1	7.2	8.4	9.9	10.9	10.8	10.4
SBs	(10.0)	(9.4)	(8.1)	(8.0)	(5.5)	(6.2)	0.4
All banks	5.5	6.7	7.9	9.4	10.5	10.4	10.2

\* The CAR calculation for One PSCB and two SBs are based on Basel-I reporting formats, all other banks have reported on Basel II. These three banks hold 0.6 percent of the banking systems assets

Figure:-3.1.2 Capital Structure and Capital Adequacy



<sup>3</sup> The above discussion is based on the CAR calculations on Basel-II framework. Except for one PSCB and two SBs which are reporting on Basel-I reporting formats, all other banks have reported on Basel II. These three banks hold 0.6 percent of the banking systems assets

the CAR of the banking industry declined to 12.1 (see Table 3.1.1). However, the Core Capital to RWAs ratio stood at previous quarters level of 9.7 percent. Both the ratios exceeded the generally acceptable benchmarks for well-capitalized banks.

CAR of all the groups witnessed slight decline except for the SBs which managed to increase their CAR by 5.1 percentage point. Core Capital to RWAs of PSCBs registered increase of 0.5 percentage point whereas that of SBs declined by 4.1 percentage point.

The other key solvency ratios stood firm during the quarter; Capital to total assets ratio, mainly due to contraction in one of the key component of the supplementary capital i.e. revaluation reserves hence it declined marginally by 0.2 percentage point to 10.2 percent in Jun-08 (see Table 3.1.1). After adjusting the capital with net NPAs, this ratio stood at around 9.46 percent.

The disaggregated analysis shows that 28 banks have CAR of more than 10 per cent stood (see Table 3.1.2). Of the remaining, nine banks have their CAR above 8 percent. The market share of well capitalized banks stood at 71.6 percent in Jun-08 whereas 99 percent of the banking system assets rest with the banks having CAR of 8 percent and above. (see Figure 3.1.4).

As regards the compliance with minimum capital requirement, 35 out of 39 banks are satisfactorily meeting the prevailing requirement, including 5 foreign

Table-3.1.2: Distribution of Banks by CAR

	Total	Below 8%	8 to 10 %	10 to 15 %	Over 15 %
CY03	40	4	10	5	21
CY04	38	1	13	9	15
CY05	39	2	7	13	17
CY06	39	3	4	15	17
CY07	39	3	6	12	18
Mar-08	39	3	7	11	18
Jun-08	39	2	9	9	19

Figure-3.1.3: RWA to Total Assets

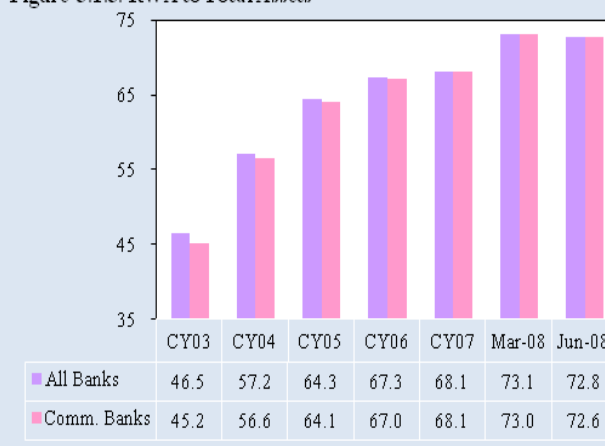
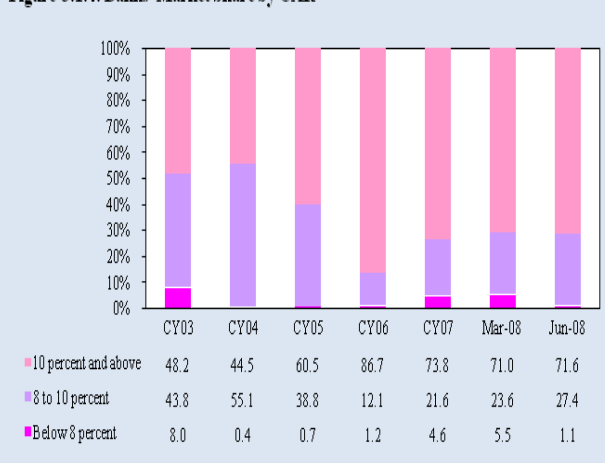


Figure-3.1.4: Banks' Market Share by CAR

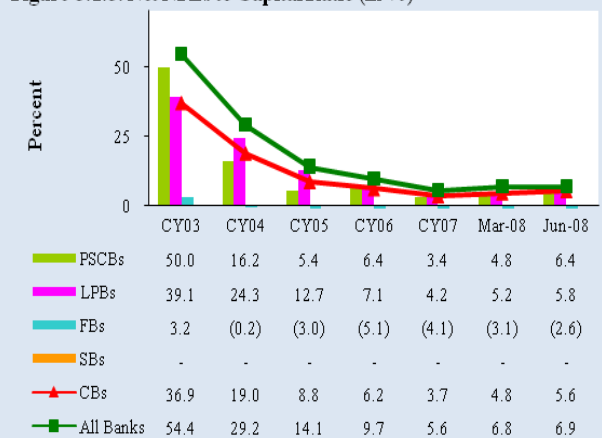


banks, which are required to keep Rs2 billion. The remaining 4 banks are under process of restructuring/ privatization.

The risk to banks' solvency emanating from the deterioration in asset quality also remained subdued during the quarter. Capital impairment ratio, i.e. net NPLs to Capital ratio slightly increased by 10 bps to 6.9 percent in Jun-08. The uncovered portion of NPLs has come down to a level where the threat it poses to the capital has been reduced significantly as compared to CY03 level (see Figure 3.1.5). This has

been brought about with the increase in the loan loss provisioning as well as the growth in capital base.

Figure-3.1.5: Net NPLs to Capital Ratio (in %)



Despite shift of capital adequacy regime from Basel-I to Basel-II, and recent economic slowdown in domestic as well as global markets, the solvency position of the banking system so far has remained strong. However, the emerging vulnerabilities in the macroeconomic environment could lead to reduction in corporate sector profitability and constrain the income and repayment capacity of the household, which might bring the solvency indicators of the banking system under pressure. To this end, SBP recent policy decision to increase the minimum CAR to 9 percent banks coupled with increase in MCR to Rs 5 billion by end of December, 2008 will enhance the quality of the capital and provide additional buffer in the face of any stress.



### 3.2 Profitability

The profitability of the banking system witnessed improvement over the previous quarter of CY08. The system posted a before tax profit of Rs33.3 billion during the quarter, translating into year to-date profit of Rs61.4 billion. The after tax profit of Rs45.9 billion during the first of the CY08 even higher than Rs45.4 billion in Jun-07. Accordingly, the key profitability indicators; return on assets (ROA) and return on equity (ROE) showed improvement compared with the corresponding quarter as well as the full year results of CY07 (see Table 3.2.1 & 3.2.2). It may be mentioned that the world witnessed a financial turmoil in terms of huge losses arising out of sub-prime mortgage and derivative transactions in the sophisticated economies resulting in losses to the prominent financial institutions and ensuing chain reaction in the capital markets of the developed countries. The profitability of the banking sector of Pakistan seen from the global perspective is a reflective of the intrinsic safety and soundness of the system as well as the individual banks.

Table-3.2.1: Profitability of Banking System							
(Billion Rs)	CY03	CY04	CY05	CY06	CY07	Mar-08	Jun-08
<i>Profit before tax</i>							
PSCBs	16.1	14.2	22.8	31.5	33.2	3.2	9.8
LPBs	23.8	31.0	60.5	85.6	69.7	24.5	47.0
FBs	7.1	7.2	11.6	6.3	2.5	0.8	2.1
CBs	47.0	52.4	94.9	123.5	105.4	28.5	59.0
SBs	(3.3)	(0.4)	(1.1)	0.1	1.7	(0.5)	2.4
All Banks	43.7	52.0	93.8	123.6	107.1	28.1	61.4
<i>Profit after tax</i>							
PSCBs	9.4	8.0	15.5	21.2	23.9	1.6	6.1
LPBs	14.8	21.8	41.1	59.1	47.4	16.4	36.5
FBs	4.2	5.8	8.0	4.3	1.2	0.3	1.0
CBs	28.4	35.6	64.6	84.6	72.4	18.4	43.6
SBs	(3.7)	(0.9)	(1.3)	(0.5)	0.9	(0.5)	2.4
All Banks	24.7	34.7	63.3	84.1	73.3	17.9	45.9
Table-3.2.2: Profitability Indicators							
(Percent)	CY03	CY04	CY05	CY06	CY07	Mar-08	Jun-08
<i>After Tax ROA</i>							
PSCBs	1.0	1.3	2.2	2.7	2.5	0.6	1.2
LPBs	1.4	1.2	1.8	2.1	1.4	1.7	1.8
FBs	1.5	2.0	2.5	1.5	0.7	0.8	1.1
CBs	1.2	1.3	2.0	2.2	1.6	1.5	1.7
SBs	(3.7)	(0.8)	(1.2)	(0.4)	0.7	0.0	3.6
All Banks	1.0	1.2	1.9	2.1	1.5	1.4	1.7
<i>After Tax ROE (based on Equity plus Surplus on Revaluation)</i>							
PSCBs	17.3	17.2	20.9	21.7	19.5	4.7	9.0
LPBs	25.8	20.2	27.2	25.3	13.9	16.6	18.3
FBs	14.8	21.5	27.1	15.6	6.3	7.1	9.8
CBs	20.3	19.6	25.4	23.7	15.0	13.3	15.7
SBs	-	-	-	-	-	-	-
All Banks	20.0	20.3	25.8	24.2	15.5	13.2	16.7

Group-wise, LPBs, due to the relatively large size of their assets, remained the key contributors of system's profits; pre and after-tax profit stood at Rs47 billion and Rs36.5 billion respectively. PSCB which witnessed decline in their profitability in the last quarter, due to huge losses to one of the PSCB, have come up with improved profitability. FBs witnessed improvement in their profitability. The pre and after tax profits of FBs increased from Rs0.8 billion and Rs0.3 billion respectively to Rs2.1 billion and Rs1.0 billion respectively. The analysis of

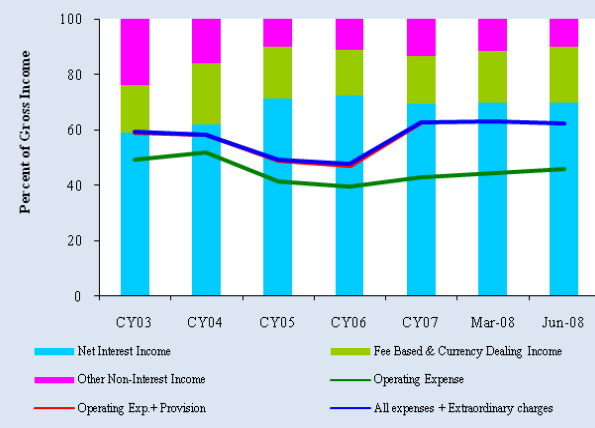


efficiency in utilization of assets and capital of all banking groups shows improvement as both ROA and ROE increased during the quarter. The ROA inched up by 30 bps to 1.7 percent and ROE by 350 bps to 16.7 percent. Group-wise, ROA and ROE after tax for PSCBs almost doubled to 1.2 and 9.0 percent respectively over the previous quarter.

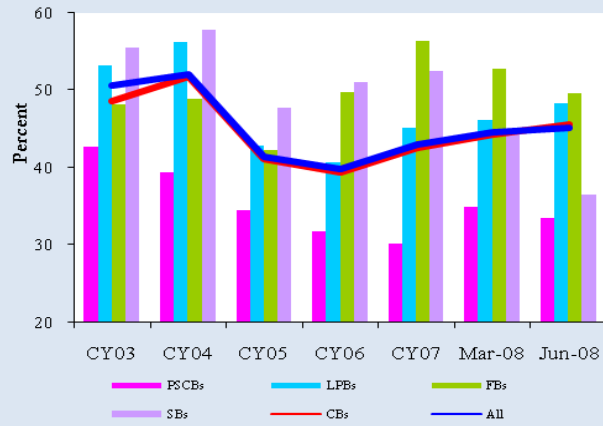
The detailed analysis of the commercial banks' profit and loss composition shows that during the quarter under review, the income composition of CBs witnessed a slight change. The share of net interest income in the gross income declined marginally by 0.1 percentage points to 69.7 percent, whereas the non-interest income increased by an equal percentage point to 30.3 percent of total gross income. Among the non-interest income, the fee based and currency-dealing income showed strong growth, with their share in the gross income increased by 1.5 percentage points to 20.3 percent. The share of other non-interest incomes, comprising of non-recurring incomes like trading gains and dividend income, shrank from 11.5 percent in Mar-08 to 10.0 percent in Jun-08. On overall basis, all expenses as a percentage of gross income declined to 62.5 from 63.0 percent during the quarter under review (see Figure 3.2.1).

Detailed analysis of the expenses shows that operating expenses as percent of gross income declined by 0.49 percentage points in Jun-08. All groups barring LPBs have shown improvement in their operating efficiency in terms of operating expense to gross income

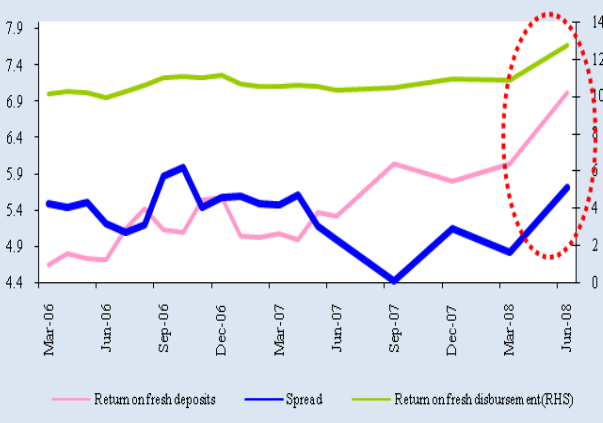
**Figure-3.2.1: CBs' P&L Structure**



**Figure-3.2.2: Operating Exp. to Gross Income**



**Figure-3.2.3: Weighted Average Rates for Fresh Disbursements and Fresh Deposits (in%)**



ratio. The ratio for LPBs increased by 2.19 percentage point whereas that of PSCBs, FBs and SBs declined by 1.4, 3.1 and 8.5 percentage point, respectively (see Figure 3.2.2).

The analysis of core income reveals that CBs' net mark up/interest income has shown improvement over the year. It increased by 103 percent to Rs109.7 billion in the June-08. The increase is attributable to higher increase in return on fresh disbursements during the quarter. Although, the return on fresh deposits have also increased, the return on fresh disbursements being higher have resulted in increase in spread by 0.90 percentage point to 5.72 percent over March-08. When compared with the corresponding quarter of the year, spreads have increased by only 0.73 percentage points (see Figure 3.2.3). It would be relevant to highlight that SBP fixed a floor of 5 percent for all saving deposits, the impact of which will be visible in the coming quarters.

The further analysis of ROA shows that 23 banks have ROA of one percent and above and their market share stood at 86.2 percent in Jun-08 (see Table 3.2.3). As the banks in better ROA range has increased, the number of banks

Table:3.2.3: %age Breakdown of Banking System's Total Assets (TA) by ROA

ROA	CY05		CY06		CY07		Mar-08		Jun-08	
	No. of Banks	% Share in TA	No. of Banks	% Share in TA	No. of Banks	% Share in TA	No. of Banks	% Share in TA	No. of Banks	% Share in TA
0 and below	7	3.5	6	2.1	10	8.5	11	9.5	9	2.8
0 to 0.5	4	2.8	3	1.8	2	2.4	4	7.8	4	8.2
0.5 to 1	2	7	6	9.9	4	1.9	6	6.2	3	2.9
1.0 to 1.5	5	4	5	9.6	10	34.9	8	22.3	5	11.6
1.5 and Over	21	82.7	19	76.6	13	52.3	10	54.3	18	74.6

with ROA below 1.0 percent decreased to 16 in Jun-08 from 21 in Mar-08. Some of the banks in this category either have been established recently or have undergone a change of management during the last couple of years.

The banking system in Pakistan has so far largely remained insulated from the effects of the financial turmoil and economic down turn in the developed economies. However, the global slowdown in economic growth as well as the weakening economic conditions at home that is marked with slowdown in economic activities, high inflation and interest rates and inactivity in the capital market may impact the financial performance of the banks. However, it is expected that the banking system will continue to exhibit its strength through maintaining its earning stream in quarter ahead.

## 4. Risk Assessment of the Banking System

### 4.1 Credit Risk

Assets quality indicators for the June-08 stayed firm as credit portfolio of the banking system continued to increase. The increase in advances (net) by Rs 112 billion during the quarter represents 43 percent of the full year increase in CY07.

The pace of increase in Non Performing Loans (NPLs) observed during the last three quarters slow down in Jun-08. The NPLs of the banking system witness marginal increment of Rs 9.6 billion compared to increase of Rs 26 billion in the previous quarter (see Figure 4.1.1). Most of the increase came from 4 of the top 10 banks. Groupwise, PSCBs and LPBs contributed increase in NPLs, while the NPLs of specialized banks followed the declining trend. Among the LPBs, the banks which consolidated in last couple of years are continuously re-profiling their portfolio and doing more stringent classification which has led to increase in their infected portfolios.

The category-wise break-up of NPLs show that NPLs continued to shift from lower risk categories to higher ones. A major portion of the NPLs resides in loss category which represents 68 percent of the total NPLs (see Figure 4.1.2). As most of the loans in the loss category require 100 percent provisioning, increase of NPLs in loss category has resulted in increased provisioning requirements. As a result the net NPLs of the system increased marginally by Rs 2 billion to Rs39 billion in June-08. This increase is well below the increase of Rs6 billion

Figure 4.1.1: NPLs of Banking System

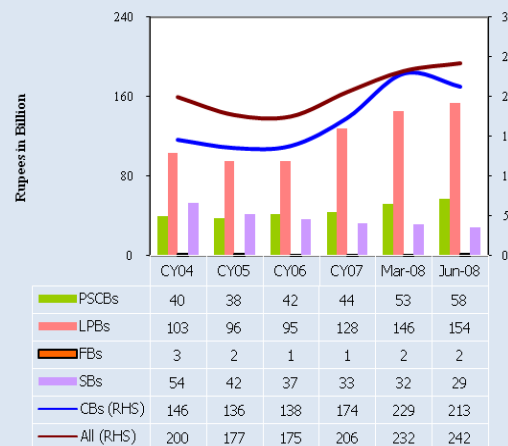


Figure 4.1.2: Category-wise Breakup of NPLs

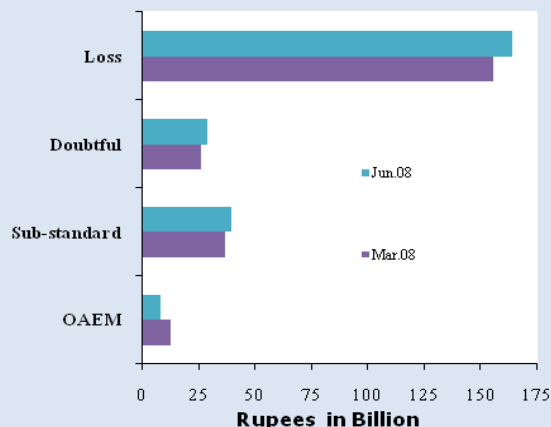
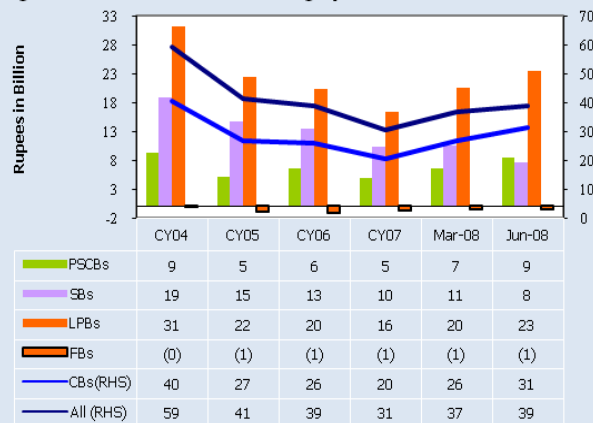


Figure 4.1.3: Net NPLs of Banking System



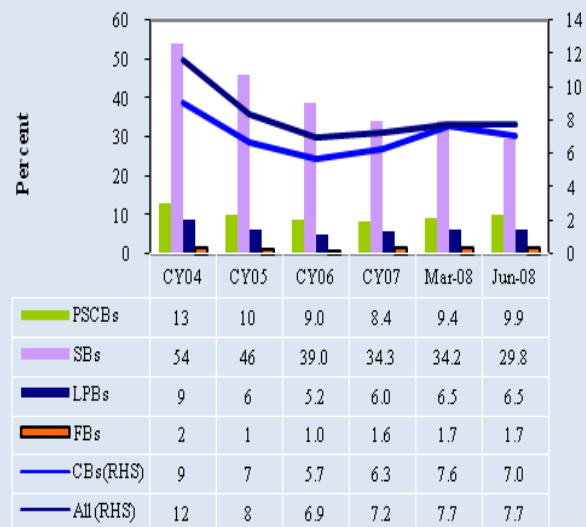
during the first quarter of the year. Group wise, net-NPLs increased for all categories of banks except for SBs. (see Figure 4.1.3).

Increase in credit portfolio combined with a relatively slower increase in NPLs and compatible loan loss provisioning maintained the assets quality indicators at previous quarters level. The NPLs to Loans ratio for the system remained 7.7 percent. With a 4.5 percentage points decline in the NPLs to loan ratio, specialized banks mainly contributor in keeping the ratio at the previous quarter level, though the PSCBs witnessed deterioration (see Figure 4.1.4)

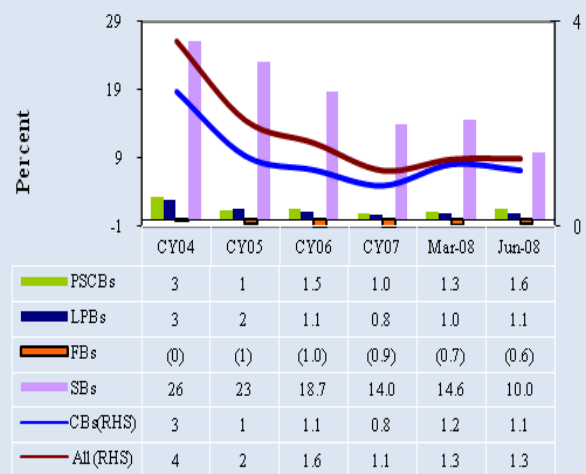
NPLs to Loan (net), one of the key asset quality determinants also stayed at the last quarter's level i.e. 1.3 percent. Better recovery efforts and higher loan loss provisioning during the quarter were the factors behind this development. The ratio has increased marginally across all the groups. SBs showed major improvement where the ratio decreased by 4.6 percentage points, while the deterioration for PSCBs was mainly caused by the increase in infected portfolio of one bank (see Figure 4.1.5).

The provisions against NPLs witnessed increase of Rs8 billion. This increase in provisions largely offsets the increase in NPLs of Rs 9.6 billion, consequently maintaining the NPL coverage ratio at 84 percent (see Figure 4.1.6).

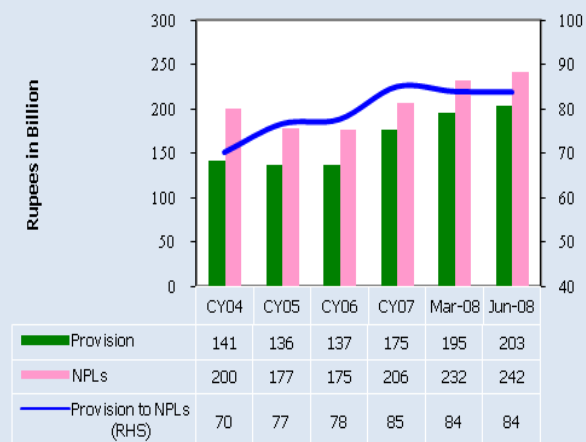
**Figure 4.1.4: NPLs to Loans (Gross)**



**Figure-4.1.5: NPLs to Loans (net)**



**Figure 4.1.6: Provision against NPLs**



However Net NPLs to capital ratio of the system slightly increased by 10 bps to 6.9 percent.

Segment-wise analysis of the domestic loan portfolio shows that the portfolio increased by Rs96 billion, which mainly came from increase in Corporate, Agriculture and Commodity Finance. Disaggregated analysis of NPLs highlights increase in the infected portfolio of Corporate, SME and Consumer Finance. As a result, the NPLs to loan ratio deteriorated not only on overall basis but also for all the segments except agriculture and commodity finance. It would be interesting to note that consumer finance NPLs continues

to increase despite the fact that consumer finance is shedding its weight in the overall loan portfolio. The banks, therefore, have to keep a close watch on this segment of financing and make efforts for improving their systems and control for efficiently managing their consumer portfolio. (Table 4.1.1)

<b>Sector</b>	<b>All</b>		
	<b>Dec-07</b>	<b>Mar-08</b>	<b>Jun-08</b>
<b>Corporate</b>	7.2	7.6	8.0
<b>SMEs</b>	9.4	8.9	10.1
<b>Agriculture</b>	18.7	19.7	16.6
<b>Consumers</b>	4.4	4.6	5.7
<i>Credit Cards</i>	3.4	3.6	4.7
<i>Auto Loans</i>	4.7	5.7	5.9
<i>Consumer Durables</i>	9.8	16.8	21.9
<i>Mortgage Loans</i>	5.4	4.0	6.1
<i>Others</i>	4.1	4.2	5.5
<b>Commodity Finance</b>	1.0	0.9	0.8
<b>Staff Loans</b>	1.2	3.3	1.0
<b>Others</b>	18.9	7.8	5.9
<b>Total</b>	7.5	7.5	7.8

In conclusion, asset quality of the banking system has remained firm during the quarter. Loan portfolio continues to grow while undergoing some changes in the portfolio mix, especially decline in Consumer Finance. Increase in NPLs though slowed down, however, emerging vulnerabilities in the macro-economic environment viz. slowdown in economic activities, rising interest rates, and high inflation continue to pose challenge for the system. The banks need to improve their credit management process and keep check on the flow of the NPLs to maintain the solvency and profitability pattern achieved over the recent years.

## 4.2 Market Risk

Market risk profile of the banking system largely emanates from **interest rate risk**.

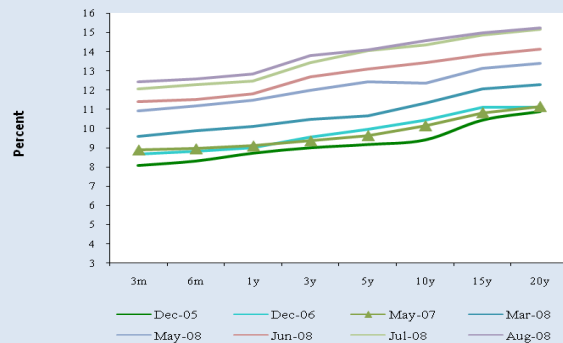
During the June-08 quarter, interest rates along the yield curve showed an upward shift following the announcement of SBP raising its policy discount rate by 150 basis points to 12 percent in the second half of May 2008 and another 200 bps increase in November, 2008. CRR was raised in May by 100 basis points for deposits up to one year maturity leaving term deposits of over a year zero rated. However, CRR was later decreased by 400 bps in October 2008 which checked the increase in the overnight rates as well as the banking spreads.

During the quarter under review, short term interest rates moved up in the range of 163 to 178 basis points while the long term rate increased by 66 to 107 basis points for different time maturities (see Figure 4.2.1). This is also obvious in the increasing trend of yield spread between the 3m and 10 year interest rates (see Figure 4.2.2). Since the movements along

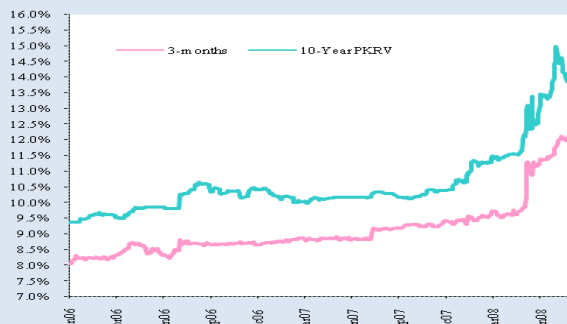
the yield curve were not significant, interest rate risk remained subdued.

Re-pricing gaps, i.e. the GAPS between the rate sensitive assets and rate sensitive liabilities of the banking system were largely within the acceptable range. For all the three time buckets, upto 3 months, 3-12 months and over 1 year

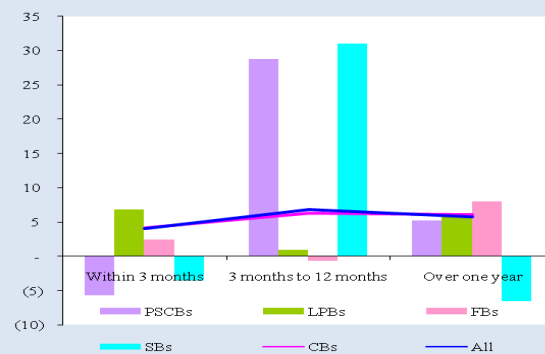
**Figure 4.2.1: Shift in Yield Curve**



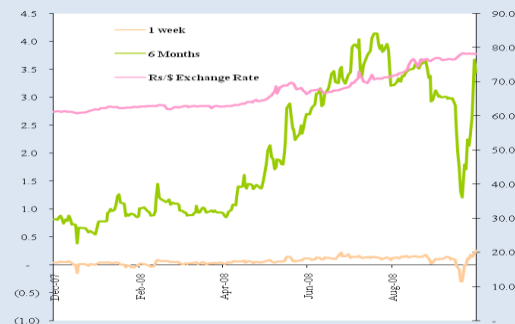
**Figure 4.2.2: 3m & 10y PKRV Rates**



**Figure 4.2.3 GAP between Rate Sensitive Assets and Liabilities to Total Assets (in %)**



**Figure 4.2.4 Exchange Rate and Swap Point**



buckets, the re-pricing GAP was well below the +/- 10 percent of the total assets (see Figure 4.2.3).

The banks are carrying short positions in the shorter term and long position in the longer term time buckets. The high gaps involve re-pricing risk especially when the yield curve movement suggests increase in the interest rates in the wake of inflationary expectation associated with growth.

**Exchange rate risk**, takes into account the impact of changes in the exchange rate on the net value of foreign currency assets and liabilities. Rupee dollar exchange rate which hovered around Rs 60 during the last year, experienced depreciation since Dec.07 and increased to 68.4 rupees as on June 30, 2008 (see Figure 4.2.4). The rupee has been under pressure overall in CY08 and after touching the lowest by the end of October i.e. Rs81.5 in the interbank market it has been showing the sign of stabilization and recovery. Swap points, also experienced slight increase because of the anticipated depreciation in exchange rate in the coming months. Net open position of the banks remained positive during the last couple of years, showed mixed trend this time around. Although it was negative during the quarter, but turned positive post quarter (See Figure 4.2.5).

Equity exposure of the banking system (which includes investments fully paid up shares both in listed and unlisted stocks but excluding the subsidiaries and associates) has increased to Rs48.34 billion from Rs42.76 billion in Mar-08 (see Figure 4.2.6).

Figure 4.2.5 NOP in Million \$

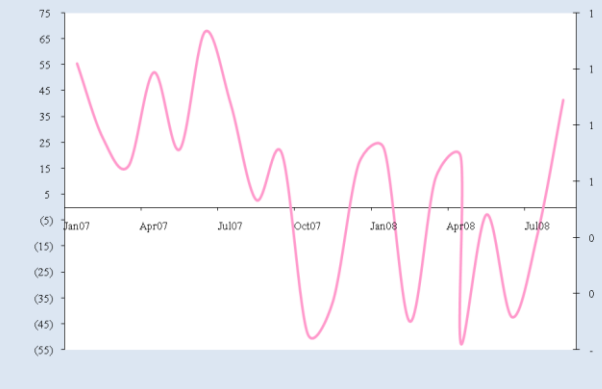


Figure 4.2.6 Exposure of Banks in Equities June-08

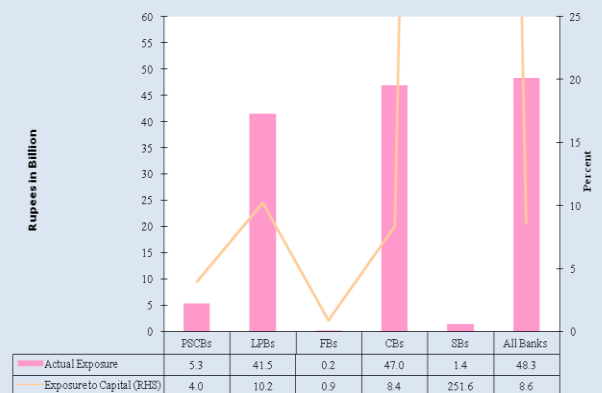
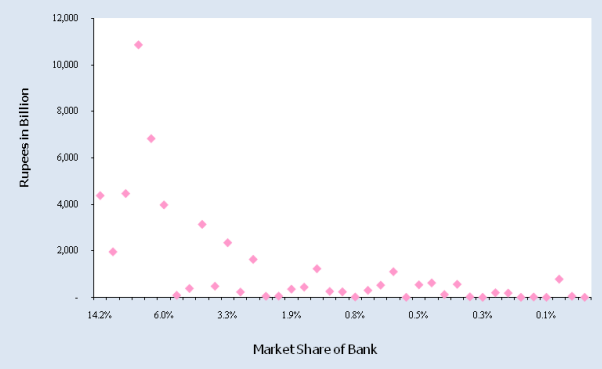
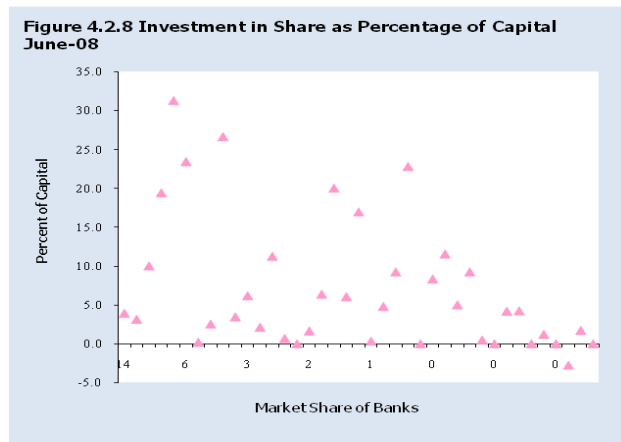


Figure 4.2.7 Investment in Fully Paid up Ordinary Shares June-08



Investments in terms of capital (percentage of the net assets), therefore, experienced slight increase to 8.61 percent compared to 7.80 percent over the previous quarter. This increase has also been result of slower growth in the capital base. Group wise, LPBs have the largest equity exposure of Rs41.50 billion followed by Rs5.3 billion of PSCBs. In terms of capital, this exposure remained less than 10 percent for all the banking groups. The high ratio of exposure to capital of SBs is because of the high negative equity of the one of the SBs.

Disaggregated analysis show that top 5 banks (holding about 51.8 percent of the assets), hold slightly over 58 percent of exposure in the total equity investment (see Figure 4.2.7). Further 23 banks out of 39 banks had equity exposures of less than 5 percent in terms of their net assets (see Figure 4.2.8). The exposure of equity market is within the manageable limit for overall banking sector but a few of the banks may be exposed to higher equity price risk.



In essence, movements in the interest rates and exchange rate have been putting strain on the market risk. Further inflationary expectations and trade imbalances continue to put pressure on the rupee and interest rate leading to possible re-pricing risk in near future.



### 4.3 Liquidity Risk

The liquidity position of the banking system continued to reflect signs of stringent monetary policy, even though there was a marginal increase in liquid assets to total assets ratio. The ratio moved to 31.6 percent from 31 percent in Mar-08 and the loan (ERF adjusted) to deposit ratio also declined to 67.3 percent from 69.7 percent over the period (see Figure 4.3.1). Though the deposits had increased since the inception of the outgoing year, the demand for advances also grew ever stronger. Therefore, liquid assets to total assets and loans to deposit ratio of the banking system witnessed significant deterioration till Jun-08.

Surplus liquidity i.e. in excess of the statutory requirements of the banking system though remained at comfortable levels, has declined significantly since Aug-07. Total liquidity which was about 32.2 percent of the TDL in CY07 stood at 30.1 percent in Jun-08. Higher liquidity requirements partially resulting from increase in SLR by SBP has also contracted the banks' surplus liquidity (See Figure 4.3.2). Post quarter development shows the same trend in surplus reserves thus further tightening the liquidity position. However, the recent SBP's policy move of exempting the longer-term deposits from SLR is expected to strengthen the bank's liquidity position.

Figure 4.3.1 Liquidity Indicators

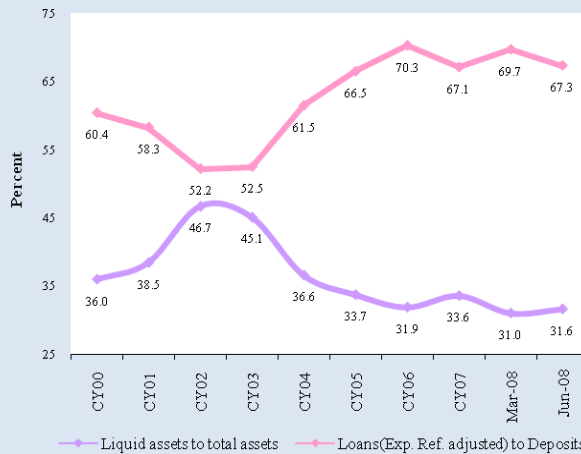
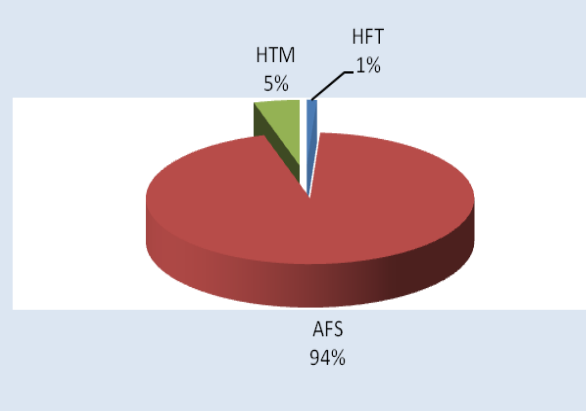


Figure 4.3.2 Excess Reserves Held by the Banking System

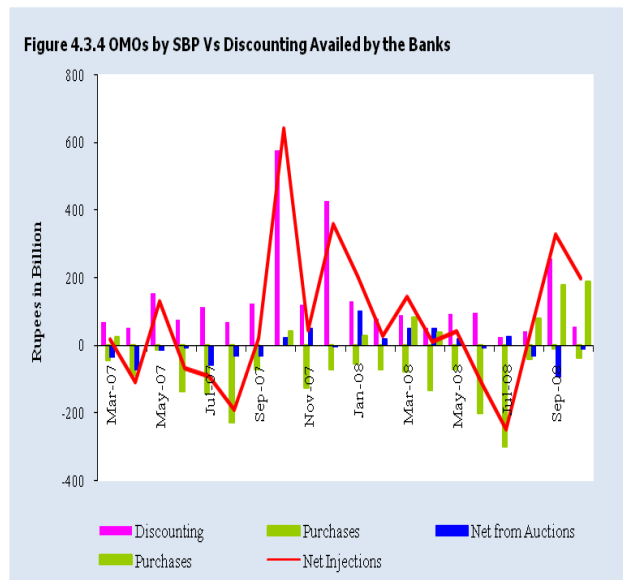


Figure:-4.3.3 MTBs of the Banking System

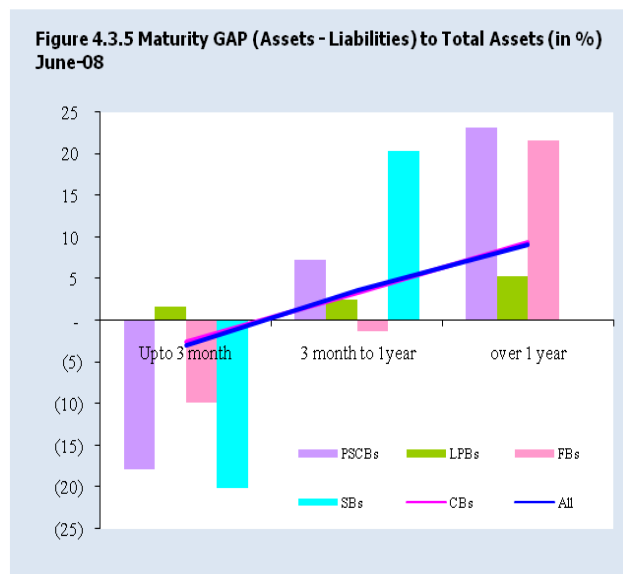


Various categories of Government securities in Held for Trading (HFT), Available for Sale (AFS) and Held to Maturity (HTM) also reflects the liquidity available with the banking system. Total investment in the PIB & MTBs in Jun-08 decreased from Mar-08 level but it was still higher than the Mar-07 level. Around 95 percent of MTBs have been placed in both the HFT and AFS categories (see Figure:- 4.3.3). The liquidity (MTB holdings) has decreased by 6.4 percent in Jun-8 due to a decline in MTBs holding in AFS categories by 7.9 percent.

In order to implement its tight monetary policy stance, the SBP continued to focus on the shorter-end of the yield curve by effectively using Open Market Operations (OMOs). These interventions in the interbank market, by draining out excess liquidity, were aimed at keeping overnight repo rates in a desired range consistent with the monetary policy stance. The frequent open market operations (OMOs) during this period has mopped up excess liquidity from the banking system (see Figure: 4.3.4). However, significant discounting has also been observed during the period to avail short-term liquidity support.



GAPs between the maturity of assets and liabilities, a measure of funding liquidity risk, were on the satisfactory level for overall banking sector. The PSCB, FB and SB groups experience the significant gap as percentage of total assets beyond 10 percent limit in different maturity buckets. However, due to good liquidity management by the LPBs group holding significant share in the banking sector, overall banking sector remained within the manageable limit of  $\pm 10$  percent range (see Figure:4.3.5).



In general, the liquidity of the banking system has remained within acceptable limits due to effective asset liability management. However, increasing trend in interest rates could strain the market-based liquidity for banks, which are already operating with high advances to deposits ratio. Nevertheless, the recent reduction in CRR and SLR by SBP is expected to facilitate the industry in meeting the forthcoming high credit demand in the last quarter.

## 5. Performance of Islamic Banking

Islamic Banking in Pakistan showed consistent growth over the quarter under review. The segment comprises six full fledged Islamic Banks (IBs) having 223 branches and 12 conventional banks operating with 103 Islamic Banking branches (see Table 5.1).

	CY02	CY03	CY04	CY05	CY06	CY07	Mar-08	Jun-08
No. of Islamic Banks (IBs)	1	1	2	2	4	6	6	6
No. of Branches	6	10	23	37	93	186	210	223*
No. of conventional banks operating Islamic Banking Branches	-	3	7	9	12	12	12	12
No. of Islamic Banking Branches (IBBs)	-	7	21	33	57	103	103	103

\* This includes 4 Sub Branches.

The size of Islamic Banking system grew by 10.8 percent during the quarter (YoY growth 48 percent) against an increase of 3.07 percent of all banks. Consequently, the share of Islamic Banks in the banking system continued to increase i.e. it increased by 30 bps to 4.4 percent in Jun-08.

	CY03	CY04	CY05	CY06	CY07	Mar-08	Jun-08
<b>SOURCES</b>							
Deposits	8.4	30.2	49.9	83.7	147.4	152.5	168.9
Borrowings	1.9	6.6	9.0	10.8	15.0	13.3	17.0
Capital & other funds	2.0	5.1	7.8	16.3	29.5	31.2	32.2
Other liabilities	0.6	2.3	4.7	8.4	14.4	15.4	17.3
	<b>12.9</b>	<b>44.1</b>	<b>71.5</b>	<b>119.3</b>	<b>206.2</b>	<b>212.3</b>	<b>235.3</b>
<b>USES:</b>							
Financing	8.7	27.5	45.8	65.6	106.4	119.7	131.5
Investments	1.2	2.0	1.9	7.3	31.2	31.9	34.9
Cash, bank balance, placements	2.0	11.9	19.3	31.4	50.8	42.9	48.1
Other assets	1.0	2.7	4.5	15.0	17.9	17.8	20.9
	<b>12.9</b>	<b>44.1</b>	<b>71.5</b>	<b>119.3</b>	<b>206.2</b>	<b>212.3</b>	<b>235.3</b>

A review of the sources and uses of funds reveals that the deposits and financing dominate the balance sheet of the Islamic Banking System. Deposits grew at a rate of 10.8 percent during the quarter under review (YoY growth 56 percent) and their share in overall funding structure remained at 71.8 percent.

Financing showed over the quarter growth of 9.8 percent (YoY growth of 66.8 percent) and its share in asset base slightly inched up to 55.9 percent. Investments declined by 20 bps (YoY growth 203.2 percent) to 14.8 percent while share of Cash, Bank Balance and Placements experienced an increase in their share to 20.4 percent.

Asset quality of the Islamic banks deteriorated during the quarter. The Non Performing Financing (NPF) of the system increased sharply by 52 percent during Jun-08 quarter and the NPF ratios witnessed significant increase. This increase was largely the result of overall economic slowdown in the economy as a trend of general increase in NPLs is also prevalent in the conventional banks. The NPF to total financing ratio increased by 0.6 percentage

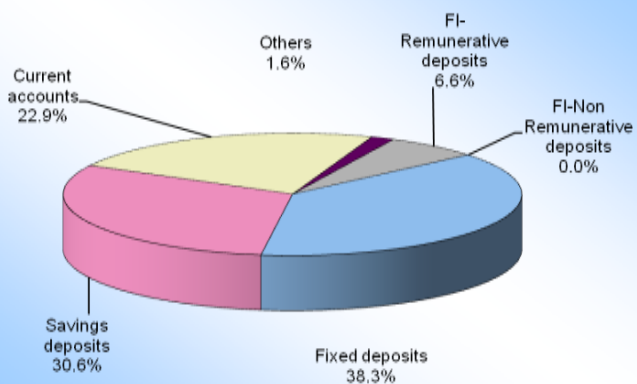
Indicator	CY03	CY04	CY05	CY06	CY07	Mar-08	Jun-08
NPFs to total financing	0.7	0.9	1.0	1.3	1.2	1.5	2.1
Net NPFs to net financing	-	0.2	0.2	0.4	(0.1)	0.2	0.8
Provision to NPFs	100.0	82.3	80.6	72.0	108.7	84.2	62.2
Net Markup Income to total assets	1.7	1.4	2.3	2.4	2.9	4.1	3.9
Non Markup Income to total assets	2.2	1.4	1.7	0.9	1.2	1.0	1.0
Operating Expense to Gross Income	54.6	65.3	49.9	72.8	70.0	74.3	73.5
ROA (average assets)	2.2	1.2	1.7	0.9	0.9	0.8	0.9
Growth in Assets	84.5	241.8	62.0	66.9	16.1	3.0	10.8
Growth in Deposits	64.6	259.5	65.4	67.7	18.5	3.5	10.8
Growth in Financing	147.0	218.2	66.3	43.3	20.5	12.5	9.8

points to 2.1 percent while Net NPFs to financing ratio rose to 0.8 percent (see Table 5.3).

Due to slightly fast growth in deposit, financing to deposits ratio declined slightly to 77.9 percent in Jun-08 from 78.5 percent in Mar-08. This higher than conventional banking ratio, reflects upon the very nature of Islamic Banking operations as well as the lack of alternative remunerative avenues in the financial market for placement of funds. However, with the development of sufficient Sharia compliant investment products, increasing Islamic Banking awareness among the general public, continued expansion and entry of new players Islamic banks are expected to shift their asset profile from financing to alternative avenues.

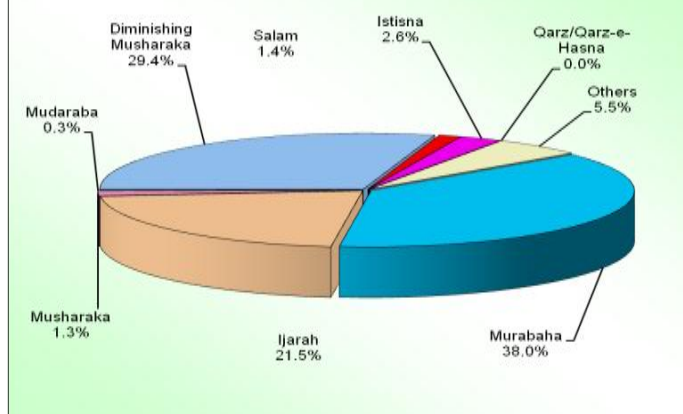
	CY03	CY04	CY05	CY06	CY07	Mar-08	Jun-08
Markup Income	0.4	1.1	3.2	6.4	12.7	4.2	9.1
Markup Expense	0.2	0.5	1.5	3.5	6.8	2.1	4.5
Net Markup Income	0.2	0.6	1.6	2.9	5.9	2.2	4.5
Provision Expense	(0.0)	0.0	0.2	0.2	0.8	0.2	0.3
Non Markup Income	0.3	0.6	1.2	1.1	2.4	0.5	1.1
Operating Expense	0.3	0.8	1.4	2.9	5.9	2.0	4.2
Profit Before Tax	0.2	0.4	1.2	0.8	1.7	0.5	1.2
Tax	0.0	0.0	0.3	(0.0)	(0.2)	0.1	0.19
Profit After Tax	0.2	0.3	1.0	0.9	1.6	0.4	1.0

**Figure 5.1: Composition of Deposits-June 2008**



Due to slightly slower growth during the quarter, the share of capital in total assets slightly declined to 13.7 percent from 14.7 percent in Mar-08. Capital adequacy of the IBIs though also declined by 40 bps to 18.2 percent, however the same remained still well above the minimum required CAR of 8 percent. This strong CAR indicates IBIs sound solvency position as well as their ability to support business expansion.

**Figure 5.2: Mode of Financing- June 2008**



The composition of deposits shows that there is clear shift in deposits mix. The breakup of deposits reveals that fixed deposits have declined by 60 bps to 38.3

percent in Jun-08, while saving deposits have declined by 70 bps to 30.6 percent in Jun-08. Non-remunerative current deposits have increased by 230 bps from 20.6 percent in Mar-08 to 22.9 percent in Jun-08 whereas deposits from financial institutions have declined by 140 bps to 6.6 percent in Jun-08 (see Figure-5.1). The composition of financing reflects that Murabaha and Ijarah continued to remain the major source of financing; however, they are losing their share to other modes like Musharika, Diminishing Musharika and Istisna. The share of Murahaba and Ijarah decreased by 5.5 and 0.9 percentage points respectively during the quarter. The share of Diminishing Musharaka has increased from 25.4 percent in Mar-08 to 29.4 percent in Jun-08. The combined share of these three modes of financing constitutes 88.9 percent of the total financing by Islamic Banking Institutions as compared with the last quarter figure of 91.3. (see Figure-5.2).

Despite increase in NPF, IBBs have managed to enhance their profitability, which is reflected from the profit after tax of Rs1 billion for the quarter under review compared with Rs410 million in corresponding quarter of CY07 (YoY growth 57 percent). Net markup income and non-mark-up income also reflected increasing trend during the quarter under review compared to corresponding period of the last year (see Table-5.4). The incidence of higher Operating expense as percentage of gross income i.e. 73.5 percent shows improvement over the last quarter; however the ratio stills remains higher than previous years' statistics. This increase in cost income ratio can be traced to higher outlays on induction of qualified and experienced personnel, better product development as well as institution of technology and risk management regime. The ROA has remained 0.9 percent for the quarter-ended Jun-08 (see Table-5.3).

The overall performance of IBIs during the quarter remained heartening. However, recent increase in NPF raises a caveat. IBBs need to improve and strengthen their risk management capacities for better coping with the building vulnerabilities in the macroeconomic environment. Nonetheless, with improved profitability coupled with sound capital adequacy, and well-maintained and expanding branch network, IBIs are well placed to expand and gain further share in the banking system.

## 6. Resilience of Pakistan's Banking System to Stress Tests

Resilience of the banking system of Pakistan has been assessed using the top-down approach to stress testing. This exercise assesses the impact of various stress scenarios on the banking system using simple sensitivity analysis. The stress testing exercise assumes the stress scenarios along the three factors i.e. credit quality, market and liquidity shocks (see Box 6.1).

### Box-6.1

#### *Reference Shocks for Stress Tests For the Quarter ended on Jun 30, 2008*

##### Credit Shocks

**Credit Shock C-1** assumes a 12 percent (double of the increase during the last Quarter) increase in NPLs (with a provisioning rate of 100 percent).

**Credit Shock C-2** assumes a downward shift of NPLs from Substandard to Doubtful and from Doubtful to Loss category.

**Credit Shock C-3** assumes a cumulative impact of the above two shocks (C-1 & C-2)

**Credit Shock C-4** assumes an increase in NPLs of consumer loans upto 10%age points rise in NPLs to Loans ratio of consumer finance (with 100% provisioning against increased NPLs)

**Credit Shock C-5** Level of NPLs to loans ratio where capital wipes out (i.e. 23.4%)

##### Market Shocks

###### *Interest Rate Shocks:*

**Market Shock IR-1** assumes an increase in interest rates by 200 basis points along all the maturities.

**Market Shock IR-2** assumes a shift and steepening in the yield curve by increasing interest rates of all the three maturities (by 50, 100, and 150 basis points)

**Market Shock IR-3** assumes a shift coupled with flattening of the yield curve by increasing 150,120 and 100 basis points in the three maturities respectively.

###### *Exchange Rate Shocks:*

**Market Shock ER-1** assumes a depreciation of ER by 13 percent (closer to the highest change in the monthly average PRS/US\$ exchange rate (12.83) over the period since 1994, in September 2000).

**Market Shock ER-2** assumes an appreciation of rupee by 10 percent-(double of the last 10 years' largest quarterly appreciation of ER) .

###### *Equity Price Risk Shocks:*

**Market Shock E-1** assumes the impact of a 30 percent decline in the price of stock holdings.

**Market Shock E-2** assumes the impact of a 50 percent decline in the price of stock holdings.

##### Combined Credit & Market Shock

**Combined Credit & Market Shock C&M-1** assumes a combined shock of 12 percent increase in NPLs, adverse shift in NPLs category, increase in interest rate by 200 bps and a fall in stock prices by 30 percent.

##### Liquidity Shocks

**Liquidity Shock L-1** assumes a 5 percent decline in the liquid liabilities and its impact on liquidity coverage ratio calculated after excluding Govt. securities under Held to Maturity category from liquid assets.

**Liquidity Shock L-2** assumes a 10 percent decline in the liquid liabilities and its impact on liquidity coverage ratio calculated after excluding Govt. securities under Held to Maturity category from liquid assets.

The ensuing paragraphs discuss the impact of various stress scenarios on the capital of commercial banks (CBs), both individually as well as group-wise viz. Public Sector Commercial Banks (PSCBs), Local Private Banks (LPBs) and Foreign Banks (FBs) (see Box 6.2). As for liquidity, the impact of the shocks has been gauged in terms of liquidity coverage ratio<sup>4</sup>.

Box - 6.2				
Results of Stress Tests of the Banking System				
Based on Data of June 2008 Quarter				
<i>Shocks</i>			Impact of Shocks	
			%age Point Change in CAR	Adjusted CAR- After Shock
<b><u>Credit Shocks</u></b>				
Credit Shock	C-1	Deterioration in the quality of loan	-0.6	11.4
Credit Shock	C-2	Shift in categories of classified loans	-0.5	11.5
Credit Shock	C-3	Cumulative impact of all shocks in 1 and 2	-1.2	10.9
Credit Shock	C-4	Deterioration in NPLs ratio of consumer finance	-0.8	11.2
Credit Shock	C-5	Level of Critical Infection Ratio	-12.1	0.0
<b><u>Market Shocks</u></b>				
<b><u>Interest Rate Shocks</u></b>				
Market Shock	IR-1	Shift in the yield curve	-0.4	11.6
Market Shock	IR-2	Shift and steepening of the yield curve	-0.3	11.8
Market Shock	IR-3	Shift & flattening of the yield curve	-0.2	11.8
<b><u>Exchange Rate Shocks</u></b>				
Market Shock	ER-1	Depreciation of Rs/US\$ exchange rate (the historical high)	0.1	12.2
Market Shock	ER-2	Appreciation of Rs/US\$ exchange rate (hypothetical)	-0.1	12.0
<b><u>Equity Price Shocks</u></b>				
Market Shock	E-1	Fall in the Equity Prices (historical)	-0.2	11.9
Market Shock	E-2	Fall in the Equity Prices (hypothetical scenario)	-0.4	11.6
<b><u>Combined Credit and Market Shocks</u></b>				
Combined Credit &				
Market Shock	C&M-1	Combines C-1, C-2, IR-1 & E-1	-1.8	10.2
<b><u>Liquidity Shocks</u></b>				
<b><u>Liquidity Coverage Ratio</u></b>			<b><i>Actual</i></b>	<b><i>Stressed</i></b>
Liquidity Shock	L-1	5 Percent Fall in the Liquid Liabilities	34.8	31.3
Liquidity Shock	L-2	10 Percent Fall in the Liquid Liabilities	34.8	27.5

*Note: The results have not been adjusted for the impact of deferred tax benefits.*

<sup>4</sup> ratio of liquid assets to liquid liabilities



## Credit Risk

Credit shocks assume an increase in the provisioning due to increase in NPLs, adverse shift in NPLs categories and deterioration in the quality of consumer portfolio. Under **Credit Shock C-1**, the shock assumes an impact of 12 percent increase in NPLs of all banks directly downgraded to loss category i.e. requiring a 100 percent provisioning against this increased NPLs. The study shows that under this shock the banking system would have to create additional provisioning of Rs 29 billion, which would reduce their CAR to 11.1 percent from 12.1 percent in Jun-08. Group-wise, Public Sector Commercial Bank (PSCB's) would experience a greater decline in its CAR to 14.7 percent from the existing 15.5 percent. Under **Credit Shock C-2**, which assumes an adverse shift in the categories of NPLs, banking system would require an additional provisioning of Rs 24.6 billion, which may reduce the CAR to 11.5 percent from the existing 12.1 percent. Group-wise, barring the specialized banks, after shock CAR of all groups stays more than 11.1 percent. This is because of the lower impact of this shock since almost 80 percent of the NPLs lie in loss category, which already require 100 percent provisioning.

The combined effect of the above mentioned two shocks is discussed under **Credit Shock C-3**, Banking system would require an additional provisioning of Rs 53.5 billion and its CAR would reduce to 10.9 percent. Group-wise, barring the specialized banks, after shock CAR of all groups would stay more than 10 percent. Rising NPLs in consumer finance is a concern not only for banks but also for the regulator. In order to assess the resilience of the banking system against any shock to the consumer portfolio, a stress scenario has been taken under **Credit Shock C-4**, which takes into account a 10 percent rise in NPLs to loans ratio of consumer finance. Under this shock, the banking system would have to create an additional provisioning of Rs 37.4 billion, which may lower the CAR of all banks to 11.2 percent. Group-wise, excluding the specialized banks, CAR of all groups would stay above 10 percent. **Credit Shock C-5** is an extreme value shock, which determines the level of NPLs to loan ratio that can wipe out the whole capital. As of June 30, 2008 the NPLs to loan ratio stayed at 7.7 percent. Assuming a 100 percent provisioning against the increased NPLs, the study shows that the whole capital base of the banking system would wipe out if NPLs to loan ratio increases to 23.2 percent. Hence the infection ratio of the banking system would have to increase three times for reaching this extreme shock.

## **Market Risk**

### ***Interest Rate Risk***

Three stress scenarios IR-1 to IR-3 have been devised to gauge the impact of change in interest rate on the value of the equity and hence CAR of the banks. Under the Market Shock **IR-1**, which takes into account an upward shift in the yield curve by 200bps, the banking system would experience a fall in the market value of equity by around Rs19.4 billion, which may cause a decline in its CAR to 11.6 percent. **Market Shock IR-2** considers steepening of the yield curve by increasing interest rates of all the three maturities by 50, 100 and 150 basis points respectively. Under this shock, the banking system would experience a fall in the market value of equity by around Rs13.6 billion, which may cause a decline in its CAR to 11.8 percent. **Market Shock IR-3** considers flattening of the yield curve by increasing interest rates of all the three maturities by 150, 120 and 100 basis points respectively. As a result of this shock, the banking system may experience a lower fall in the market value of equity which in absolute terms would be around Rs10 billion and may cause a decline in the CAR of the banking system to 11.8 percent from the existing 12.1 percent.

### ***Exchange Rate Risk***

Of the exchange rate shocks, the first scenario **Market Shock ER-1** considers a historical level of depreciation in the rupee by 13 percent. Since the foreign currency assets of the banks exceed the foreign currency liabilities, the banking system would actually gain from this depreciation. Overall, around 15 banks have net short positions in foreign currency, which means that they would lose in case of depreciation of local currency. However, their losses in terms of capital are small and CAR of all banks remains above the 8 percent level under this shock. **Market shock ER-2** considers appreciation in the value of rupee by 10 percent. Under this shock the banking system would lose Rs3.2 billion, which may reduce its CAR by 0.1 percentage point to 12.0 percent. Both the groups and individual banks show their resilience towards this shock.

### ***Equity Price Risk***

Equity market remained volatile during the June 2008 quarter. To gauge the sensitivity of the banks towards equity price movements, two market shocks (E1 & E2) have been assumed.

**Market Shock E-1** assumes a 30 percent fall in the price of direct equity investment. Of the total 39 banks 8 banks do not have exposure in equities and hence do not carry direct equity price risk. Of the remaining 31 banks, 5 banks have sufficient cushion available in the form of surplus on revaluation of these equity holdings to absorb the impact of this shock. However, the remaining 25 banks would get affected by this shock. The analysis shows the CAR of only one bank would fall to below the 8 percent level due to this shock. **Market Shock E-2**, assumes 50 percent fall in the price of direct equity investment. Under this shock, the banking system would experience decline in CAR by about 0.5 percentage points to 11.6 percent. Group wise, the aftershock CAR of all groups would remain above 11 percent under this shock.

### **Combined Credit and Market Shock**

This shock assumes a combined impact of a 12 percent increase in NPLs, adverse shift in NPLs, increase in interest rate by 200 bps and fall of equity prices by 30 percent. The results show that this combined shock will cost the banking system around Rs82.5 billion and when its impact is taken on CAR, the CAR comes down to 10.2 percent, which is still higher than the minimum 8 percent benchmark. However, the bank wise position shows that the CAR of 7 commercial banks may come down to below the 8 percent level under this combined shock.

### **Liquidity Risk**

Liquidity coverage ratio (Ratio of liquid assets to liquid liabilities) has been used to assess the liquidity position of the banks. Two liquidity shocks L-1 & L-2 have been used for this purpose.

Liquidity coverage ratio of the banking system stayed at 34 percent in June 2008 quarter. Under **Liquidity Shock L-1**, a shock of 5 percent decline in the liquid liabilities, liquidity coverage ratio (calculated after excluding HTM securities from liquid assets) of entire banking system would reduce to 31 percent. Under Liquidity Shock L-2, a shock of 10 percent decline in the liquid liabilities, the liquidity coverage ratio may decrease to 27 percent.

**Financial Soundness Indicators of the Banking System**

Indicators	2002	2003	2004	2005	2006	2007	Mar-08	Jun-08
<b>CAPITAL ADEQUACY</b>								
<b>Risk Weighted CAR</b>								
Public Sector Commercial Banks	12.3	11.0	13.4	14.5	15.2	17.8	15.6	15.5
Local Private Banks	9.7	9.0	10.1	10.6	12.7	12.8	12.0	11.6
Foreign Banks	23.2	23.0	17.4	16.4	15.0	13.5	14.9	14.0
<b>Commercial Banks</b>	<b>12.6</b>	<b>11.1</b>	<b>11.4</b>	<b>11.9</b>	<b>13.3</b>	<b>13.8</b>	<b>12.8</b>	<b>12.4</b>
Specialized Banks	(31.7)	(28.2)	(9.0)	(7.7)	(8.3)	(7.8)	(5.8)	(0.7)
<b>All Banks</b>	<b>8.8</b>	<b>8.5</b>	<b>10.5</b>	<b>11.3</b>	<b>12.7</b>	<b>13.2</b>	<b>12.3</b>	<b>12.1</b>
<b>Tier 1 Capital to RWA</b>								
Public Sector Commercial Banks	8.6	8.2	8.6	8.8	11.1	13.0	11.4	11.9
Local Private Banks	6.6	7.0	7.5	8.3	10.4	10.5	9.9	9.5
Foreign Banks	23.0	23.0	17.1	16.1	14.3	12.9	14.2	13.4
<b>Commercial Banks</b>	<b>9.7</b>	<b>9.1</b>	<b>8.6</b>	<b>9.1</b>	<b>10.8</b>	<b>11.1</b>	<b>10.3</b>	<b>10.1</b>
Specialized Banks	(31.7)	(28.7)	(15.0)	(13.6)	(13.3)	(13.5)	(11.9)	(7.8)
<b>All Banks</b>	<b>6.2</b>	<b>6.5</b>	<b>7.6</b>	<b>8.3</b>	<b>10.0</b>	<b>10.5</b>	<b>9.7</b>	<b>9.7</b>
<b>Capital to Total Assets</b>								
Public Sector Commercial Banks	5.6	6.1	8.7	12.6	12.2	13.7	13.7	12.8
Local Private Banks	5.2	5.3	6.5	7.0	9.2	10.2	10.1	9.8
Foreign Banks	10.6	9.9	8.9	9.5	10.1	11.2	10.3	10.5
<b>Commercial Banks</b>	<b>6.1</b>	<b>6.1</b>	<b>7.2</b>	<b>8.4</b>	<b>9.9</b>	<b>10.9</b>	<b>10.8</b>	<b>10.4</b>
Specialized Banks	(23.0)	(10.0)	(9.4)	(8.1)	(8.0)	(5.5)	(6.2)	0.4
<b>All Banks</b>	<b>4.8</b>	<b>5.5</b>	<b>6.7</b>	<b>7.9</b>	<b>9.4</b>	<b>10.5</b>	<b>10.4</b>	<b>10.2</b>
<b>ASSET QUALITY</b>								
<b>NPLs to Total Loans</b>								
Public Sector Commercial Banks	25.5	20.4	13.3	10.0	9.0	8.4	9.4	9.9
Local Private Banks	15.4	11.3	9.0	6.4	5.2	6.0	6.5	6.5
Foreign Banks	3.8	3.1	1.6	1.2	1.0	1.6	1.7	1.7
<b>Commercial Banks</b>	<b>17.7</b>	<b>13.7</b>	<b>9.0</b>	<b>6.7</b>	<b>5.7</b>	<b>6.3</b>	<b>6.9</b>	<b>7.0</b>
Specialized Banks	54.7	55.6	54.1	46.0	39.1	34.3	34.2	29.8
<b>All Banks</b>	<b>21.8</b>	<b>17.0</b>	<b>11.6</b>	<b>8.3</b>	<b>6.9</b>	<b>7.2</b>	<b>7.7</b>	<b>7.7</b>
<b>Provision to NPLs</b>								
Public Sector Commercial Banks	57.1	65.8	77.0	86.8	84.5	89.0	87.5	85.2
Local Private Banks	58.6	62.7	69.9	76.4	78.7	87.2	86.0	84.8
Foreign Banks	73.3	78.7	101.9	145.9	191.7	157.0	138.4	133.8
<b>Commercial Banks</b>	<b>58.2</b>	<b>64.8</b>	<b>72.4</b>	<b>80.4</b>	<b>81.5</b>	<b>88.2</b>	<b>86.8</b>	<b>85.4</b>
Specialized Banks	66.9	61.5	64.9	64.8	64.1	68.6	67.1	73.9
<b>All Banks</b>	<b>60.6</b>	<b>63.9</b>	<b>70.4</b>	<b>76.7</b>	<b>77.8</b>	<b>85.1</b>	<b>84.1</b>	<b>84.0</b>
<b>Net NPLs to Net Loans</b>								
Public Sector Commercial Banks	12.8	8.1	3.4	1.5	1.5	1.0	1.3	1.6
Local Private Banks	7.0	4.5	2.9	1.6	1.1	0.8	1.0	1.1
Foreign Banks	1.1	0.7	(0.0)	(0.6)	(1.0)	(0.9)	(0.7)	-0.6
<b>Commercial Banks</b>	<b>8.3</b>	<b>5.3</b>	<b>2.7</b>	<b>1.4</b>	<b>1.1</b>	<b>0.8</b>	<b>1.0</b>	<b>1.1</b>
Specialized Banks	28.5	32.5	29.3	23.1	18.7	14.0	14.6	10.0
<b>All Banks</b>	<b>9.9</b>	<b>6.9</b>	<b>3.8</b>	<b>2.1</b>	<b>1.6</b>	<b>1.1</b>	<b>1.3</b>	<b>1.3</b>
<b>Net NPLs to Capital</b>								
Public Sector Commercial Banks	83.4	50.0	16.2	5.5	6.4	3.4	4.8	6.4
Local Private Banks	54.8	39.1	24.3	13.0	7.1	4.2	5.2	5.8
Foreign Banks	4.7	3.2	(0.2)	(3.0)	(5.1)	(4.1)	(3.1)	(2.6)
<b>Commercial Banks</b>	<b>54.2</b>	<b>36.9</b>	<b>19.0</b>	<b>9.0</b>	<b>6.2</b>	<b>3.7</b>	<b>4.8</b>	<b>5.6</b>
Specialized Banks	-	-	-	-	-	-	-	-
<b>All Banks</b>	<b>85.5</b>	<b>54.4</b>	<b>29.2</b>	<b>14.3</b>	<b>9.7</b>	<b>5.6</b>	<b>6.8</b>	<b>6.9</b>
<b>EARNINGS</b>								
<b>Return on Assets (Before Tax)</b>								
Public Sector Commercial Banks	1.3	1.8	2.4	3.3	4.0	3.6	1.3	2
Local Private Banks	1.4	2.2	1.7	2.7	3.1	2.0	2.5	2.4
Foreign Banks	2.3	2.6	2.5	3.6	3.2	1.5	1.7	2.3
<b>Commercial Banks</b>	<b>1.5</b>	<b>2.1</b>	<b>2.0</b>	<b>2.9</b>	<b>3.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>
Specialized Banks	(10.2)	(3.3)	(0.4)	(1.0)	(1.3)	1.4	0.0	3.6
<b>All Banks</b>	<b>0.9</b>	<b>1.8</b>	<b>1.9</b>	<b>2.8</b>	<b>3.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>
<b>Return on Assets (After Tax)</b>								
Public Sector Commercial Banks	0.6	1.0	1.3	2.2	2.7	2.5	0.6	1.2
Local Private Banks	0.8	1.4	1.2	1.8	2.1	1.4	1.7	1.8
Foreign Banks	1.5	1.5	2.0	2.5	2.1	0.7	0.8	1.1
<b>Commercial Banks</b>	<b>0.8</b>	<b>1.2</b>	<b>1.3</b>	<b>2.0</b>	<b>2.2</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>
Specialized Banks	(12.1)	(3.7)	(0.8)	(1.2)	(1.8)	0.7	0.0	3.6
<b>All Banks</b>	<b>0.1</b>	<b>1.0</b>	<b>1.2</b>	<b>1.9</b>	<b>2.1</b>	<b>1.5</b>	<b>1.4</b>	<b>1.7</b>

**Financial Soundness Indicators of the Banking System**

Indicators	2002	2003	2004	2005	2006	2007	Mar-08	Jun-08
<b>ROE (Avg. Equity &amp; Surplus) (Before Tax)</b>								
Public Sector Commercial Banks	26.3	29.9	30.8	30.7	32.4	27.2	9.6	14.6
Local Private Banks	32.3	41.5	28.8	40.1	36.2	20.4	24.7	23.6
Foreign Banks	24.2	25.0	26.7	38.9	30.0	13.5	16.0	21.5
<b>Commercial Banks</b>	<b>27.5</b>	<b>33.7</b>	<b>29.0</b>	<b>37.2</b>	<b>34.7</b>	<b>21.9</b>	<b>20.7</b>	<b>21.3</b>
Specialized Banks	-	-	-	-	-	-	-	-
<b>All Banks</b>	<b>21.1</b>	<b>35.4</b>	<b>30.5</b>	<b>38.2</b>	<b>35.2</b>	<b>22.6</b>	<b>20.7</b>	<b>22.4</b>
<b>ROE (Avg. Equity &amp; Surplus) (After Tax)</b>								
Public Sector Commercial Banks	11.5	17.3	17.2	20.9	21.7	19.5	4.7	9.0
Local Private Banks	17.3	25.8	20.2	27.2	25.0	13.9	16.6	18.3
Foreign Banks	15.2	14.8	21.5	27.1	20.4	6.3	7.1	9.8
<b>Commercial Banks</b>	<b>14.3</b>	<b>20.3</b>	<b>19.6</b>	<b>25.4</b>	<b>23.7</b>	<b>15.0</b>	<b>13.3</b>	<b>15.7</b>
Specialized Banks	-	-	-	-	-	-	-	-
<b>All Banks</b>	<b>3.2</b>	<b>20.0</b>	<b>20.3</b>	<b>25.8</b>	<b>23.8</b>	<b>15.5</b>	<b>13.2</b>	<b>16.7</b>
<b>NII/Gross Income</b>								
Public Sector Commercial Banks	69.5	64.1	63.7	71.3	69.5	65.9	66.2	68.6
Local Private Banks	65.5	55.9	62.0	73.0	73.5	70.8	71.5	71.2
Foreign Banks	57.5	55.3	57.7	61.5	65.8	59.1	57.9	52.5
<b>Commercial Banks</b>	<b>66.1</b>	<b>58.9</b>	<b>61.9</b>	<b>71.3</b>	<b>72.1</b>	<b>69.3</b>	<b>69.8</b>	<b>69.7</b>
Specialized Banks	78.0	62.2	81.9	87.7	40.1	42.8	56.2	43.4
<b>All Banks</b>	<b>67.1</b>	<b>59.2</b>	<b>62.8</b>	<b>72.0</b>	<b>70.9</b>	<b>68.3</b>	<b>69.1</b>	<b>68.7</b>
<b>Cost / Income Ratio</b>								
Public Sector Commercial Banks	56.9	43.9	39.5	34.3	31.8	30.2	35.0	33.6
Local Private Banks	60.0	53.2	56.2	43.1	40.7	45.2	46.2	48.4
Foreign Banks	45.4	48.2	49.0	42.2	49.8	56.4	52.8	49.7
<b>Commercial Banks</b>	<b>56.7</b>	<b>49.0</b>	<b>51.7</b>	<b>41.2</b>	<b>39.4</b>	<b>42.6</b>	<b>44.3</b>	<b>45.6</b>
Specialized Banks	84.7	67.5	57.8	47.8	62.6	52.5	45.1	36.6
<b>All Banks</b>	<b>59.1</b>	<b>50.5</b>	<b>52.0</b>	<b>41.5</b>	<b>40.3</b>	<b>43.0</b>	<b>44.6</b>	<b>45.1</b>
<b>LIQUIDITY</b>								
<b>Liquid Assets/Total Assets</b>								
Public Sector Commercial Banks	49.0	49.1	43.9	35.6	33.9	37.5	32.3	32.3
Local Private Banks	47.1	42.9	34.3	32.4	31.1	32.5	30.6	31.5
Foreign Banks	48.5	49.2	39.8	41.8	41.0	41.5	39.0	37.6
<b>Commercial Banks</b>	<b>48.1</b>	<b>46.1</b>	<b>37.0</b>	<b>33.9</b>	<b>32.2</b>	<b>33.8</b>	<b>31.2</b>	<b>31.9</b>
Specialized Banks	16.4	22.9	25.3	25.8	23.0	25.9	22.1	21.0
<b>All Banks</b>	<b>46.7</b>	<b>45.1</b>	<b>36.6</b>	<b>33.7</b>	<b>31.9</b>	<b>33.6</b>	<b>31.0</b>	<b>31.6</b>
<b>Liquid Assets/Total Deposits</b>								
Public Sector Commercial Banks	59.6	59.0	52.6	44.7	42.6	47.7	41.6	40.7
Local Private Banks	60.2	54.5	42.3	40.3	40.6	42.8	40.4	40.7
Foreign Banks	74.2	68.9	53.4	57.9	61.1	61.0	54.8	54.6
<b>Commercial Banks</b>	<b>61.5</b>	<b>57.8</b>	<b>45.7</b>	<b>42.7</b>	<b>42.0</b>	<b>44.4</b>	<b>41.2</b>	<b>41.1</b>
Specialized Banks	98.5	135.0	154.1	183.2	205.4	229.6	204.3	203.5
<b>All Banks</b>	<b>61.8</b>	<b>58.5</b>	<b>46.5</b>	<b>43.5</b>	<b>42.7</b>	<b>45.1</b>	<b>41.7</b>	<b>41.6</b>
<b>Advances/Deposits</b>								
Public Sector Commercial Banks	44.3	45.7	49.7	59.8	64.6	60.0	65.9	63.7
Local Private Banks	52.3	58.2	67.3	70.8	74.5	70.1	72.2	69.4
Foreign Banks	72.0	63.8	70.1	68.7	80.1	75.2	66.6	66.5
<b>Commercial Banks</b>	<b>51.0</b>	<b>53.6</b>	<b>63.6</b>	<b>68.4</b>	<b>72.7</b>	<b>68.1</b>	<b>70.7</b>	<b>68.2</b>
Specialized Banks	453.8	379.1	370.5	400.7	528.4	507.2	544.5	559.9
<b>All Banks</b>	<b>54.9</b>	<b>56.4</b>	<b>65.8</b>	<b>70.2</b>	<b>74.6</b>	<b>69.8</b>	<b>72.3</b>	<b>69.8</b>

\* For March and June quarters Risk Weighted CAR and Tier 1 Capital to RWA of One PSCB and two SBs are based on Basel-I

Note: The indicators for March 2008 and June 2008 are based on Un-audited returns.

**Selected Indicators for Different Categories of Banks in terms of Size-Jun08**

Indicators	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	51.8%	73.8%	93.2%	100%
Share of Total Deposits	54.8%	76.9%	94.2%	100%
Share of Gross Income	54.6%	74.8%	94.4%	100%
Share of Risk Weighted Assets	51.6%	73.6%	93.5%	100%
<b>Capital Adequacy</b>				
Capital/RWA	13.2%	12.0%	11.9%	12.1%
Tier 1 Capital / RWA	10.3%	9.5%	11.7%	12.0%
Net Worth / Total Assets	10.4%	9.8%	10.0%	10.2%
<b>Asset Composition</b>				
<b>Sectoral Distribution of Loans (Domestic)</b>				
- Corporate Sector	48.0%	72.7%	93.1%	100%
- SMEs	43.4%	65.3%	89.9%	100%
- Agriculture	32.5%	43.2%	94.3%	100%
- Consumer Finance	45.0%	73.0%	95.4%	100%
- Commodity Financing	73.9%	93.0%	98.0%	100%
- Staff Loans	64.4%	76.4%	92.8%	100%
- Others	7.3%	71.6%	78.5%	100%
- Total	48.2%	71.7%	93.3%	100%
NPLs / Gross Loans	8.1%	7.3%	7.5%	7.7%
Net NPLs / Capital	6.8%	6.5%	7.1%	7.0%
<b>Earning &amp; Profitability</b>				
ROA	1.3%	1.0%	0.9%	0.9%
ROE	11.9%	9.5%	0.9%	8.4%
Net Interest Income / Gross Income	74.5%	71.5%	69.2%	68.7%
Income from Trading & Foreign Exchange / Gross Income	16.9%	19.0%	19.2%	19.5%
Non-Interest Expense / Gross Income	37.3%	40.9%	43.6%	45.1%
<b>Liquidity</b>				
Liquid Assets / Total Assets	33.8%	32.5%	31.6%	31.7%
Liquid Assets held in Govt. Securities / Total Liquid Assets	46.1%	47.6%	46.7%	45.2%
Liquid Assets / Total Deposits	42.0%	41.0%	41.1%	41.8%

## Annex-III

**Bank-wise Major Statistics June 30, 2008**

(Rupees In Million)

Sr.#	Name of the Banks	Assets	Deposits	Equity
1	The Bank of Khyber	34,403	24,497	5,655
2	The Bank of Punjab	220,310	180,824	15,116
3	First Women Bank Limited	8,030	6,396	1,066
4	National Bank of Pakistan	785,520	621,660	111,995
5	Industrial Development bank of Pakistan	7,246	4,637	(28,195)
6	Zarai Taraqiati Bank Limited	102,019	4,850	21,312
7	The Punjab Provincial Cooperative Bank Limited	14,827	1,929	4,713
8	SME Bank Limited	7,119	2,144	2,717
9	Allied Bank Limited	344,955	293,982	21,853
10	Bank Alfalah Limited	331,469	287,771	16,983
11	Bank Al Habib Limited	168,686	136,747	10,668
12	Askari Bank Limited	194,371	153,324	11,793
13	Crescent Commercial Bank Limited	18,466	10,224	6,069
14	Atlas Bank Limited	30,704	22,176	4,837
15	Habib Bank Limited	696,585	563,557	62,504
16	Faysal Bank Limited	137,400	99,612	14,513
17	KASB Bank Limited	53,708	44,326	4,184
18	Dubai Islamic Bank Pakistan Limited	27,305	22,089	4,200
19	JS Bank Limited	24,167	14,078	5,373
20	Bank Islami Pakistan Limited	16,569	11,340	4,260
21	Arif Habib Bank Limited	25,297	15,539	6,446
22	Emirates Global Islamic Bank	13,330	7,247	4,283
23	First Dawood Islamic Bank	8,473	4,071	4,108
24	ABN AMRO Bank (Pakistan) Limited	117,594	89,481	6,926
25	MCB Bank Limited	450,337	350,722	55,985
26	Meezan Bank Limited.	71,737	57,842	6,144
27	Metropolitan Bank Limited	192,429	128,973	13,815
28	Mybank Limited	45,456	31,957	6,234
29	NIB Bank Limited	180,098	112,805	38,077
30	Saudi Pak Commercial Bank Limited	50,913	42,347	1,390
31	Soneri Bank Limited	81,561	64,730	6,853
32	United Bank Limited	576,015	465,535	44,620
33	Standard Chartered Bank (Pakistan) Limited	277,026	173,683	43,955
34	Oman International Bank	2,683	494	2,048
35	Hong Kong & Shanghai Banking Corporation	45,664	37,223	4,009
36	Deutsche Bank AG	15,271	7,407	3,743
37	The Bank of Tokyo-Mitsubishi UFJ Limited	7,696	1,357	2,483
38	Citibank N.A.	104,539	72,669	6,225
39	Albaraka Islamic Bank B.S.C. (E.C.)	23,029	17,986	2,390

**Group-wise Composition of Banks June 30, 2008**

2005	2006	2007	Mar-08	Jun-08
<b><u>A. Public Sector Com. Banks (4)</u></b>	<b><u>A. Public Sector Com. Banks (4)</u></b>	<b><u>A. Public Sector Com. Banks (4)</u></b>	<b><u>A. Public Sector Com. Banks (4)</u></b>	<b><u>A. Public Sector Com. Banks (4)</u></b>
National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan	National Bank of Pakistan
First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.	First Women Bank Ltd.
The Bank of Khyber	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber	The Bank of Khyber
The Bank of Punjab	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab	The Bank of Punjab
<b><u>B. Local Private Banks (20)</u></b>	<b><u>B. Local Private Banks (24)</u></b>	<b><u>B. Local Private Banks (26)</u></b>	<b><u>B. Local Private Banks (25)</u></b>	<b><u>B. Local Private Banks (25)</u></b>
Askari Commercial Bank Ltd.	Askari Commercial Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.	Askari Bank Ltd.
Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.	Bank Alfalah Ltd.
Bank Al Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.	Bank AL Habib Ltd.
My Bank Ltd.	Mybank Ltd.	Mybank Ltd.	Mybank Ltd.	Mybank Ltd.
Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.	Faysal Bank Ltd.
Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.	Habib Metropolitan Bank Ltd.
KASB Bank Ltd.	KASB Bank Ltd.	KASB Bank Ltd.	KASB Bank Ltd.	KASB Bank Ltd.
Prime Commercial Bank Ltd.	Prime Commercial Bank Ltd.	ABN AMRO Bank (Pakistan) Ltd 1	ABN AMRO Bank (Pakistan) Ltd 1	ABN AMRO Bank (Pakistan) Ltd 1
Saudi Pak Commercial Bank Ltd	Saudi Pak Commercial Bank Ltd	Saudi Pak Commercial Bank Ltd	Saudi Pak Commercial Bank Ltd	Saudi Pak Commercial Bank Ltd
PICIC Commercial Bank Ltd.	PICIC Commercial Bank Ltd.	PICIC Commercial Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.
Soneri Bank Ltd.	Soneri Bank Ltd.	Soneri Bank Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.
Union Bank Ltd.	Standard Chartered Bank (Pakistan) Ltd.	Standard Chartered Bank (Pakistan) Ltd.	MCB Bank Ltd.	MCB Bank Ltd.
MCB Bank Ltd.	MCB Bank Ltd.	MCB Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.
Allied Bank Ltd.	Allied Bank Ltd.	Allied Bank Ltd.	United Bank Ltd.	United Bank Ltd.
United Bank Ltd.	United Bank Ltd.	United Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.
Meezan Bank Ltd.	Meezan Bank Ltd.	Meezan Bank Ltd.	NIB Bank Ltd.	NIB Bank Ltd.
NIB Bank Ltd.	NIB Bank Ltd.	NIB Bank Ltd.	Crescent Commercial Bank Ltd.	Crescent Commercial Bank Ltd 2
Crescent Commercial Bank Ltd.	Crescent Commercial Bank Ltd.	Crescent Commercial Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.
Habib Bank Ltd.	Habib Bank Ltd.	Habib Bank Ltd.	Atlas Bank Ltd.	Atlas Bank Ltd.
Dawood Bank Ltd.	Atlas Bank Ltd.	Atlas Bank Ltd.	Arif Habib Bank Ltd.	Arif Habib Bank Ltd.
<b><u>C. Foreign Banks (11)</u></b>	Arif Habib Rupali Bank Ltd.	Arif Habib Bank Ltd.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.
ABN AMRO Bank N.V.	Dubai Islamic Bank Pakistan Ltd.	Dubai Islamic Bank Pakistan Ltd.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.
Albaraka Islamic Bank B.S.C.	BankIslami Pakistan Ltd.	BankIslami Pakistan Ltd.	JS Bank Ltd.	JS Bank Ltd.
American Express Bank Ltd 7.	JS Bank Ltd.	JS Bank Ltd.	Emirates Global Islamic Bank Ltd.	Emirates Global Islamic Bank Ltd.
The Bank of Tokyo – Mitsubishi.	<b><u>C. Foreign Banks (7)</u></b>	Emirates Global Islamic Bank Ltd.	Dawood Islamic Bank Ltd	Dawood Islamic Bank Ltd
Citibank N.A.	ABN AMRO Bank N.V.	Dawood Islamic Bank Ltd	<b><u>C. Foreign Banks (6)</u></b>	<b><u>C. Foreign Banks (6)</u></b>
Deutsche Bank AG	Albaraka Islamic Bank B.S.C.	<b><u>C. Foreign Banks (6)</u></b>	Albaraka Islamic Bank B.S.C.	Albaraka Islamic Bank B.S.C.
Habib Bank AG Zurich	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Albaraka Islamic Bank B.S.C.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	Bank of Tokyo - Mitsubishi UFJ, Ltd.
Oman International Bank S.A.O.G.	Citibank N.A.	Bank of Tokyo - Mitsubishi UFJ, Ltd.	The Hongkong & Shanghai Banking Corporation Ltd.	HSBC Bank Millde East Limited
The Hongkong & Shanghai Banking Corporation Ltd.	The Hongkong & Shanghai Banking Corporation Ltd.	The Hongkong & Shanghai Banking Corporation Ltd.	Deutsche Bank AG	Deutsche Bank AG
Rupali Bank Ltd.	Deutsche Bank AG	Deutsche Bank AG	Citibank N.A.	Citibank N.A.
Standard Chartered Bank	Oman International Bank S.A.O.G.	Citibank N.A.	Oman International Bank S.A.O.G.	Oman International Bank S.A.O.G.
<b><u>D. Specialized Banks (4)</u></b>	<b><u>D. Specialized Banks (4)</u></b>	<b><u>D. Specialized Banks (4)</u></b>	<b><u>D. Specialized Banks (4)</u></b>	<b><u>D. Specialized Banks (4)</u></b>
Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.	Zarai Taraqati Bank Ltd.
Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan	Industrial Development Bank of Pakistan
Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Industrial Development Bank of Pakistan	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.
SME Bank Ltd	SME Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.	Punjab Provincial Co-operative Bank Ltd.
<b><u>Commercial Banks (35)</u></b>	<b><u>All Commercial Banks (35)</u></b>	SME Bank Ltd.	SME Bank Ltd.	SME Bank Ltd.
Include A + B + C	Include A + B + C	<b><u>All Commercial Banks (36)</u></b>	<b><u>All Commercial Banks (35)</u></b>	<b><u>All Commercial Banks (35)</u></b>
<b><u>All Banks (39)</u></b>	<b><u>All Banks (39)</u></b>	Include A + B + C	Include A + B + C	Include A + B + C
Include A + B + C + D	Include A + B + C + D	<b><u>All Banks (40)</u></b>	<b><u>All Banks (39)</u></b>	<b><u>All Banks (39)</u></b>
		Include A + B + C + D	Include A + B + C + D	Include A + B + C + D

1. The name of ABN Amro Bank (Pakistan) Ltd was changed to The Royal Bank of Scotland Limited with effect from August 01, 2008
- 2 The name of Crescent Commercial Bank Ltd was changed to Samba Bank Ltd w.e.f October 20, 2008.