State Bank of Pakistan

Banking Supervision Department

Quarterly Performance Review of the Banking System

June 2005

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List of Abbreviations

CAR	Capital Adequacy Ratio
CB	Commercial Bank
COT	Carry Over Transaction
CY	Calendar Year
FB	Foreign Bank
IB	Islamic Bank
IBB	Islamic Banking Branch
IBS	Islamic Banking System
LPB	Local Private Bank
MCR	Minimum Capital Requirement
MTB	Market Treasury Bill
NII	Net Interest Income
NPL	Non Performing Loan
OMO	Open Market Operation
PIB	Pakistan Investment Bond
PSCB	Public Sector Commercial Bank
PTC	Participation Term Certificate
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
SME	Small and Medium Enterprise
TFC	Term Finance Certificate
ZTBL	Zarai Taraqiati Bank Limited

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 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 (Macauley 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 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 fulfills 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 /unremitted profit (net of accumulated losses, if any).

Tier II capital: 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: The tier III capital consisting of short-term subordinated debt would be solely 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 2005

The review is based on the data mainly taken from the Quarterly Reports of Condition and Annual Audited Accounts submitted by banks. It covers their global[1] operations, unless otherwise indicated. The banks have been divided into four groups namely, Public Sector Commercial Banks (PSCBs), Local Private Banks (LPBs), Foreign Banks (FBs) and Specialized Banks (SBs). PSCBs include two nationalized commercial banks and two provincial banks, whereas LPBs consist of three privatized banks and seventeen domestic private banks. The composition of these four groups has been given in Annex-IV. The performance of the banking industry as a whole and these groups in particular has been evaluated by using the financial soundness indicators.

1. Overview

The banking system continued its growth momentum during the quarter. The key indicators show an impressive picture of its financial health. In the wake of persistent growth in loans and rising interest rates, the banking system so far has succeeded in managing its credit, liquidity and market risks quite effectively. The strong operating performance, reflected by the substantial profits earned by majority of the banks, supports this perception to a great extent.

The after-tax profit (year-to-date) increased to Rs22.8 billion, which is almost double the level in the same period last year. The strong profits had a salutary impact on both the ROA and ROE, which increased to 1.4 percent and 22.1 percent, respectively, meeting the internationally accepted benchmarks. The bulk of earnings comprised mark-up income, which aided by persistent growth in loans and interest rates surged appreciably.

Despite the fact that the growth of Rs99 billion in loans exceeded that witnessed in the preceding quarter, it is well below the same in the corresponding quarter of the last year. It shows a moderating tendency in demand for loans after the corporate sector had already made heavy fixed investment for BMR purposes in CY04. This is evident by less than proportionate increase in loans i.e. Rs19.6 billion for the corporate sector: a mere 20.8 percent of total increase in domestic loans during the quarter under review. The rest flowed into consumer, SME and agriculture sectors. The sustained focus of banks on these sectors reflect their desire for loans

[1] Domestic operations of all the banks operating in Pakistan plus operations of overseas branches of Pakistani Banks

diversification as well as for enhancing their earning base, which until now has remained so heavily dependent on financing to the corporate sector.

A noticeable feature of the broad-based growth in loans in recent times has been the low incidence of NPLs, which signifies appreciable improvement in credit appraisal and monitoring standards of banks. The commercial banks saw a further decline of Rs3.4 billion in their NPLs. This coupled with growth in loans had a positive impact on the key ratio of net NPLs to net loans, which dropped to 2 percent. The specialized banks, however, added Rs12.8 billion to their total NPLs resulting in an increase of Rs9.4 billion in the NPLs of all banks. However, addition of these NPLs is of little systemic significance considering the fact that this increase is mainly due to the shifting of a former DFI to the specialized banks category and the slowdown in the recovery drive of one of the specialized banks because of natural calamities in certain areas.

The continuous and rapid inflow of deposits coupled with rising demand for consumer and SME financing has mainly contributed towards persistent and broad-based loan growth. An increase of Rs203.1 billion or 8.4 percent in deposits during this quarter is the highest ever witnessed in a single quarter. Apart from stimulating the lending activities, deposits have also kept the banking system fairly liquid despite the gradual uptick of interest rates recently. The strong growth during the quarter not only led to a fall in loans to deposits ratio to 66.6 percent from 68.2 percent in the preceding quarter but also encouraged banks to invest heavily in MTBs to take advantage of rising yields. This helped in keeping the overall liquidity conditions at sustainable level. Total investments of the banking system increased by Rs81 billion as compared to Rs52 billion in the preceding quarter.

While the sharp increase in investments helped reduce the risk-weighted assets, though slightly, the strong profits coupled with fresh capital injections further strengthened the total capital of the banking system. Consequently, capital adequacy ratio (CAR) improved to 10.9 percent from 10.7 percent in the last quarter, signalling healthy solvency position of the banking system.

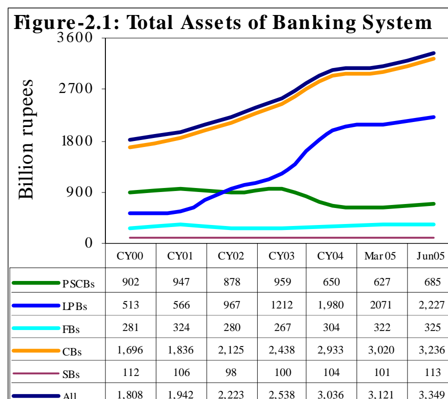
During the quarter, the volume of Islamic banking operations has grown with its asset base now standing at Rs54 billion after posting a growth of 7.7 percent, though its share in the overall banking system remained at 1.6 percent. During the quarter, one more bank has been granted in principle approval to start Islamic banking operations. This will increase the number of full-fledged Islamic banks to four. Also, the branch network of the existing Islamic banks (both Islamic Banking Institutions and Islamic Banking Branches) has increased to 62 from 54 in the last quarter. Keeping in view the current trend, the growth prospects for the Islamic banking operations are encouraging.

To conclude, the banking system has managed to consolidate its gains in the second quarter of CY05, and prospects are bright for yet another year of strong performance. However, achievement on this front is linked critically to the financial health and performance of the sectors to which the banking system has developed significant exposure in recent times. So far, the operating environment for the banks is conducive and the buoyant economic activities have enabled their borrowers to resist building pressures, especially the strong inflationary tendencies. However, any significant rise in interest rates, as well as soaring oil prices, has the potential of impacting their competitiveness and hence undermining their debt repayment capacity, and such an outcome might create problems for those banks, which fell short of ensuring minimum credit appraisal and monitoring standards. The stress testing results, though, show a fair degree of resilience of the banking system to withstand shocks of reasonable magnitude.

2. Assets and Funding Structure

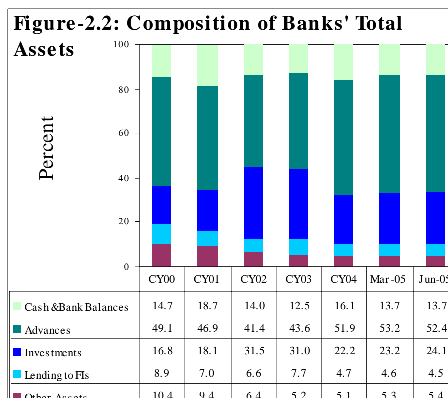
The growth in total assets significantly accelerated during this quarter as a result of massive inflow of funds. Total assets increased by Rs228.5 billion or 7.3 percent, which almost mirrors the growth in the corresponding quarter of the last year (see **Figure-2.1**). Deposits continued to provide the significant impulse as funds continued to pour in at a significant pace. Though loans continued to grow strongly as majority of the funds went to finance the lending activities of the banking system, asset-mix reflects a slight decline in their share (see **Figure-2.2**). This happened as investment in government securities increased substantially as yields on such securities increased gradually.

Figure-2.1: Total Assets of Banking System



	CY00	CY01	CY02	CY03	CY04	Mar 05	Jun05
PSCBs	902	947	878	959	650	627	685
LPBs	513	566	967	1212	1,980	2071	2,227
FBs	281	324	280	267	304	322	325
CBs	1,696	1,836	2,125	2,438	2,933	3,020	3,236
SBs	112	106	98	100	104	101	113
All	1,808	1,942	2,223	2,538	3,036	3,121	3,349

Figure-2.2: Composition of Banks' Total Assets



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
Cash &Bank Balances	14.7	18.7	14.0	12.5	16.1	13.7	13.7
Advances	49.1	46.9	41.4	43.6	51.9	53.2	52.4
Investments	16.8	18.1	31.5	31.0	22.2	23.2	24.1
Lending to FIs	8.9	7.0	6.6	7.7	4.7	4.6	4.5
Other Assets	10.4	9.4	6.4	5.2	5.1	5.3	5.4

In percentage terms, specialized banks (SBs) and public sector commercial banks (PSCBs) registered the highest increase, leading to increase in their combined share of the total assets of the banking system to 23.8 percent from 23.3 percent in the previous quarter (see **Figure-2.3**). The increase in their share owes largely to the two large banks in the PSCBs, which together accounted for around 83 percent of the increase in total assets of public sector banks (both PSCBs and SBs). Another important factor was the inclusion of SME Bank,[2] which pushed up the share of specialized banks. Local private banks (LPBs), being the largest group, absorbed around 68 percent of the increase in total assets which roughly corresponds to their share of total assets of the system. Foreign banks, after experiencing healthy growth in the last quarter,

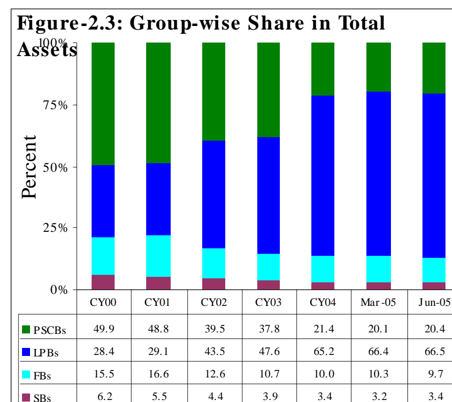
[2] Previously, SME Bank was classified among DFIs. After getting commercial banking license, SME Bank commenced its operations as commercial bank during this quarter. Keeping in view the specialized nature of its activities, the bank has been classified as specialized bank.

displayed subdued growth in their assets in this quarter causing a fractional decline in their share of total assets.

Total **deposits** of the banking system experienced a sharp rise of Rs203.1 billion during the quarter under review (see **Figure-2.4**). In fact, the growth in deposits was not only about five times of the growth in the last quarter but also overshadowed the healthy growth in earlier quarters. Apart from the persistent inflow of workers remittances, which have been the driving force behind the growing deposit base of the banking system since 9/11, privatization proceeds, strong economic activities, expanding branch network and better marketing efforts also contributed significantly. In addition to the persistent upward trend in private sector deposits, the public sector deposits also surged quite appreciably on account of privatization proceeds in this quarter.

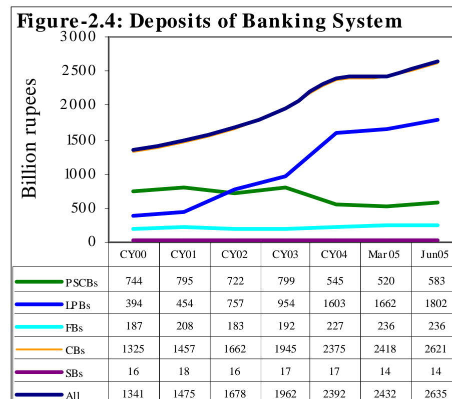
A deeper analysis shows that six banks, which saw more than Rs15 billion increase in their deposits each, accounted for 75 percent of the increase in deposits of the banking system. Out of these six banks, two banks don't rank among the top five banks of the industry in terms of balance sheet size. Deposits of the banking system indicate greater concentration vis-à-vis assets as top five banks hold 59.7 percent of the total deposits against 55.8 percent of assets held by them. While majority

Figure-2.3: Group-wise Share in Total Assets



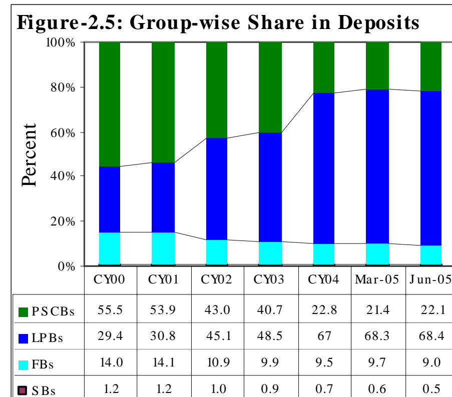
	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	49.9	48.8	39.5	37.8	21.4	20.1	20.4
LPBs	28.4	29.1	43.5	47.6	65.2	66.4	66.5
FBs	15.5	16.6	12.6	10.7	10.0	10.3	9.7
SBs	6.2	5.5	4.4	3.9	3.4	3.2	3.4

Figure-2.4: Deposits of Banking System



	CY00	CY01	CY02	CY03	CY04	Mar05	Jun05
PSCBs	744	795	722	799	545	520	583
LPBs	394	454	757	954	1603	1662	1802
FBs	187	208	183	192	227	236	236
CBs	1325	1457	1662	1945	2375	2418	2621
SBs	16	18	16	17	17	14	14
All	1341	1475	1678	1962	2392	2432	2635

Figure-2.5: Group-wise Share in Deposits



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	55.5	53.9	43.0	40.7	22.8	21.4	22.1
LPBs	29.4	30.8	45.1	48.5	67	68.3	68.4
FBs	14.0	14.1	10.9	9.9	9.5	9.7	9.0
SBs	1.2	1.2	1.0	0.9	0.7	0.6	0.5

of the banks continued to augment their deposit base, there were 9 banks, which saw a decline. The rate of growth, however, differed widely among all banks.

The LPBs, by virtue of their size, hold the largest chunk of 68.4 percent of all deposits (see **Figure-2.5**) and their contribution to the deposits growth of the system at 68.9 percent match up to their share. However, in percentage terms, PSCBs out stripped the other groups as their deposits grew at a rate of 12 percent. This led to a rise in their share of total deposits to 22.1 percent from 21.4 percent in the last quarter. Because of the overwhelming share of the largest bank in this group, its share in the deposit growth also remained enormous. This bank alone contributed 68.4 percent to the deposits growth of PSCBs and 21.2 percent to the growth of all banks. In a sharp contrast to the impressive growth by PSCBs and LPBs, deposits of FBs and SBs almost remained stagnant. A decline of around 11 percent in deposits of one of the major FBs mainly held up the growth witnessed by other banks of the group. The inclusion of SME Bank could not make any difference to the total deposits of SBs as it already has a very thin deposit base.

The deposit structure continued to exhibit predominance of saving deposits at 46 percent (see **Figure-2.6**). However, the share of these deposits declined during the quarter despite adding another Rs12.1 billion. In fact, it was the sharp rise in fixed deposits i.e. 26.9 percent, which increased their share to 21.4 percent from 18.3 percent in the last quarter. The apparent factor seems to be gradually rising return on deposits as well as absence of any lucrative alternative avenues for placement of funds. Moreover, a number of banks also announced very attractive deposit schemes in recent months which induced the growth in fixed deposits. In terms of growth, current account (non-remunerative) stood at second place with a growth of 9 percent over the last quarter.

Figure-2.6: Deposits Structure- Jun-05

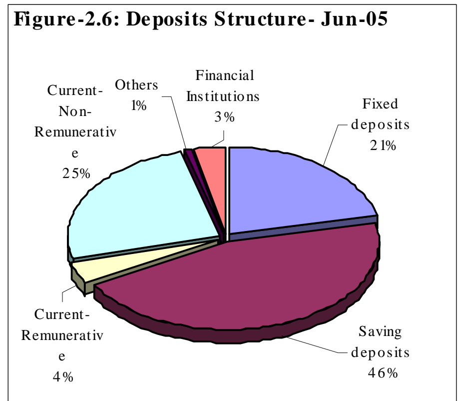
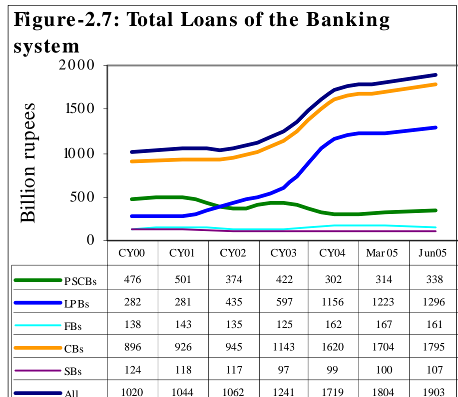


Figure-2.7: Total Loans of the Banking system



	CY00	CY01	CY02	CY03	CY04	Mar05	Jun05
PSCBs	476	501	374	422	302	314	338
LPBs	282	281	435	597	1156	1223	1296
FBs	138	143	135	125	162	167	161
CBs	896	926	945	1143	1620	1704	1795
SBs	124	118	117	97	99	100	107
All	1020	1044	1062	1241	1719	1804	1903

Total **borrowings** of the banking system increased by Rs18.4 billion during the quarter under review.

Apart from the normal business operations, inclusion of SME Bank also impacted the rise in total borrowings. Majority of the increase i.e. 80 percent was observed in repo borrowings, and LPBs and FBs were the main groups, which contributed in this respect. However, borrowings for export refinance, despite growing at a sluggish pace in this quarter, constitute the bulk of the total borrowings of Rs323.1 billion of the banking system.

After experiencing record levels of growth in CY04, the demand for **loans** in CY05 appears to be moderating. This is evident by an increase of Rs99 billion or 5.5 percent (see **Figure 2.7**) during this quarter, which though is higher than that in the preceding quarter, is well below the growth of Rs151.4 billion or 11.8 percent in the corresponding period last year. The relatively slower growth in the current quarter is explained by the lower credit appetite of the corporate sector, which received only 20.8 percent of total increase in domestic loans (see **Table-2.1**) as compared to 50 percent in the same period last year. The reasons for the sharp slow down in demand for loans by the corporate sector appear to be decline in funding needs for fixed investments as the sector approached fuller implementation of their BMR plans. This is evidenced by significant slow-down in lending for fixed investment, which grew at a modest rate of 0.47 percent as against 16.5 percent in the same period last year. Moreover, credit has become relatively more expensive with the gradual increase in interest rates over the last year.

Table-2.1: Sector-wise Break Up of Loans (Domestic Operations)*

(Billion Rupees)	Jun-04		Mar-05		Jun-05	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Corporate Sector	**741.4**	**54.9**	**924.4**	**54.1**	**944.0**	**52.3**
Fixed Investments	322.6	23.9	367.5	21.5	369.2	20.5
Working Capital	250.3	18.5	376.9	22.0	385.4	21.4
Trade Finance	168.5	12.5	180.0	10.5	189.3	10.5
SMEs	**231.7**	**17.2**	**294.8**	**17.2**	**313.6**	**17.4**
Fixed Investments	29.6	2.2	25.9	1.5	31.7	1.8
Working Capital	151.0	11.2	209.8	12.3	224.0	12.4
Trade Finance#	51.1	3.8	59.1	3.5	57.8	3.2
Agriculture production	**108.7**	**8.0**	**124.5**	**7.3**	**131.5**	**7.3**
Consumer Finance	**103.2**	**7.6**	**177.1**	**10.4**	**206.1**	**11.4**
Credit Cards	*11.2*	*0.8*	*15.5*	*0.9*	*19.3*	*1.1*
Auto Loans	*33.1*	*2.5*	*57.2*	*3.3*	*66.0*	*3.7*
Consumer Durables	*1.4*	*0.1*	*1.6*	*0.1*	*1.6*	*0.1*
Housing Loans	*8.3*	*0.6*	*21.7*	*1.3*	*27.1*	*1.5*
Personal Loans	*49.2*	*3.6*	*81.2*	*4.7*	*92.0*	*5.1*
Commodity Operations	**90.0**	**6.7**	**111.6**	**6.5**	**140.3**	**7.8**
Staff Loans	**39.7**	**2.9**	**41.1**	**2.4**	**40.5**	**2.2**
of which Housing Loans	28.0	2.1	27.9	1.6	28.8	1.6
Other	**36.1**	**2.7**	**36.1**	**2.1**	**28.0**	**1.6**
Total	**1350.9**	**100**	**1,709.7**	**100**	**1803.9**	**100**

* *Loans to both Public and Private sectors*

\# *Also include Export Finance*

Having said all this, the loan growth during the current quarter is still quite impressive if seen in the backdrop of seasonal slackness during this period of the year. In this respect, the role of public sector was very important as it absorbed around 40 percent of the increase in loans. In addition to the seasonal upsurge in financing for commodity operations, higher demand by certain public sector enterprises (PSEs), to keep their annual credit limits intact, also spurred the lending activities of banks.

The healthy growth trends in lending to consumer, SME and agriculture sectors also helped in compensating, to some extent, the sluggish demand by the corporate sector. In this respect, the contribution of the consumer sector was the most important. By adding another Rs29 billion during the quarter, it topped all sectors in terms of absolute growth. Consequently, its share in the total loans portfolio of

the banking system also increased to 11.4 percent from 10.4 percent in the preceding quarter

The break-up of growth in consumer financing into sub-sectors shows that, in absolute terms, personal loans registered the highest increase followed by auto loans. However, in percentage terms the housing loans have registered the highest growth rate followed by credit cards. The SME sector, which in terms of banks' exposure is the second largest after the corporate sector, drew further attention and went by Rs18.8 billion during this quarter leading to increase in its share in overall loans of the banking system to 17.4 percent from 17.2 percent in the last quarter. In this respect, the impact of Rs8.1 billion by the inclusion of SME bank was also quite significant. Agriculture sector also maintained the growth momentum. This sector contributed 7.3 percent to the overall loans growth, which helped this sector to maintain its share in overall loans portfolio at 7.3 percent.

The growing outreach of the banking system can also be gauged by the growth in total number of borrowers (see **Table-2.2**). During this quarter, banks were able to increase their client base by 236,019 at the rate of 6.5 percent, and the major contributing sectors, of course, were SME and consumer finance.

Table 2.2: Sector-wise number of Borrowers

Sectors	Dec-02	Dec-03	Dec-04	Mar-05	Jun-05
Corporate Sector	14,256	17,743	19,333	19,080	19,399
SME Sector	67,520	91,663	106,248	106,365	160,977
Agriculture	1,339,961	1,411,508	1,503,827	1,544,442	1,572,202
Consumer Finance	252,156	721,201	1,619,207	1,828,039	1,992,912
Commodity Operation	1,458	2,069	3,207	3,100	5,945
Staff Loans	72,570	69,796	72,633	73,585	73,317
Others	56,683	63,696	73,735	72,322	58,200
Total	**1,804,604**	**2,377,676**	**3,398,190**	**3,646,933**	**3,882,952**

Domestic operations covering both public and private sector borrowers

The end-use of loans shows around one third of the loans continuing to finance working capital needs of corporate and SME sectors (see **Figure-2.8 & 2.9**). Due to the low demand by the corporate sector, the share of fixed investments declined appreciably to 22 percent from 26 percent in corresponding quarter of last year. However, SME sector by channelling 31.1 percent of its loans growth into fixed investment prevented further decline in the share of this segment.

Figure-2.8: End-Use Distribution of Bank Loans - June-04

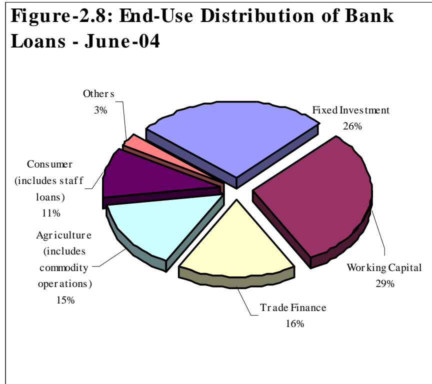
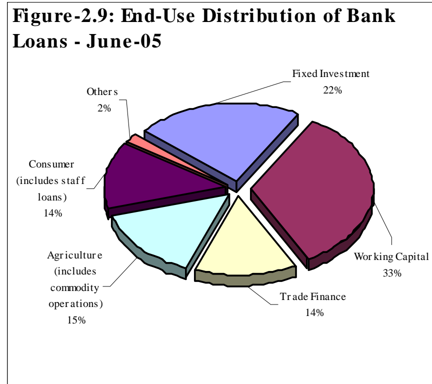


Figure-2.9: End-Use Distribution of Bank Loans - June-05

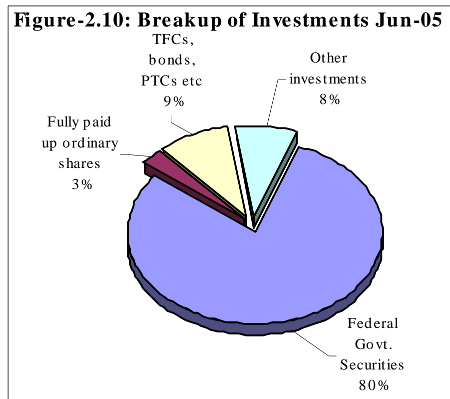


With the increasing yield on government securities, the banking system's appetite for **investment** increased significantly during the quarter under review. Total investments recorded an increase of Rs81.2 billion as compared to Rs52.0 billion in the last quarter. In fact, the entire increase owes exclusively to higher investment in MTBs as SBP strived to contain inflationary pressures by mopping up excess liquidity.

As a result of Rs90.1 billion increase in this quarter, total investment in MTBs reached to Rs421.7 billion from Rs331.6 billion in the last quarter. On the other hand, PIBs continued to exhibit the downward trend with the maturity of previous issues and absence of any new auction. Consequently, the share of these securities in banks' investment in government securities shrank to 25.1 percent from 29.5 percent. Simultaneously, the share of MTBs increased to 64.9 percent from 58.2 percent in the previous quarter.

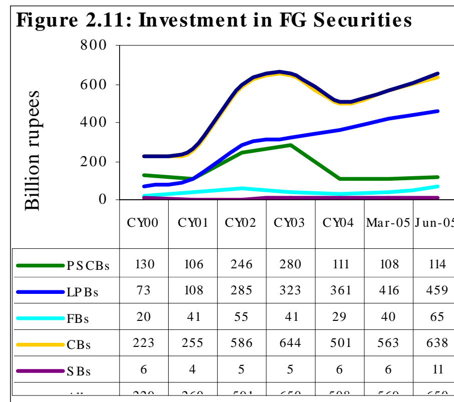
The government securities occupy the overwhelming share of banks' total investment and since the increase in investment during this quarter stemmed mainly from increase in MTBs, their share increased to 80 percent from 78 percent in the last quarter (see **Figure-2.10**). Investment in other market instruments like shares, TFCs/ Bonds /PTCs etc showed a declining trend.

Figure-2.10: Breakup of Investments Jun-05



Group-wise analysis shows that most of the increase in investment in

government securities was brought about by LPBs, which contributed 54.6 percent to the overall increase. However, in terms of percentage growth, FBs were more active as they augmented their portfolio of government securities by 64 percent, and their share in overall increase was also substantial at 31.7 percent (see **Figure-2.11**). Apparently, the FBs' greater interest in government securities originated from the lower activity in their loan portfolio.



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	130	106	246	280	111	108	114
LPBs	73	108	285	323	361	416	459
FBs	20	41	55	41	29	40	65
CBs	223	255	586	644	501	563	638
SBs	6	4	5	5	6	6	11

As the banking system accumulated larger volume of the government securities and extended more loans for commodity operations, its exposure to public sector also grew during the quarter under review (see **Table-2.3**).

Table 2.3: Banks' Exposure to Public Sector

(Percent)	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Mar-05	Jun-05
Credit	19.3	20.7	16.9	10	10.9	8.6	9.6
Total (Credit+Govt. papers)	36.6	35.5	44.3	39.9	32.4	29.1	31.2

Source: Weekly Statement

3. Financial Soundness of the Banking system

3.1 Solvency

The solvency of the banking system further improved during the quarter mainly on the back of strong profits. Besides profits, banks also continued injecting fresh capital through issuance of right-shares and subordinated term finance certificates to meet the enhanced capital requirements[3] and business expansion. As a result, the risk based capital of the banking system increased by around Rs16 billion to Rs212.5 billion against the required level of Rs155.7 billion at the end of June 2005. The quality of capital also improved significantly as the core capital accounted for around 98 percent of the increase in overall risk-based capital. This led to increase in the share of core capital in the overall capital to around 74 percent from 72 percent in the last quarter. More importantly, the core capital alone reached the level sufficient to meet the overall supervisory capital requirements (**see Figure-3.1.1).**

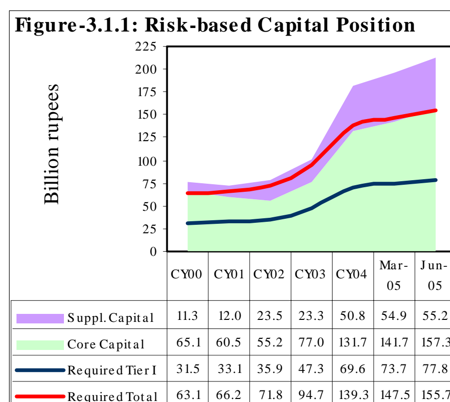


Figure-3.1.1: Risk-based Capital Position

	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
Suppl. Capital	11.3	12.0	23.5	23.3	50.8	54.9	55.2
Core Capital	65.1	60.5	55.2	77.0	131.7	141.7	157.3
Required Tier I	31.5	33.1	35.9	47.3	69.6	73.7	77.8
Required Total	63.1	66.2	71.8	94.7	139.3	147.5	155.7

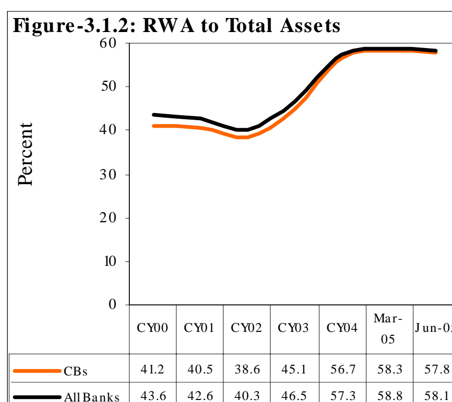


Figure-3.1.2: RWA to Total Assets

	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
CBs	41.2	40.5	38.6	45.1	56.7	58.3	57.8
All Banks	43.6	42.6	40.3	46.5	57.3	58.8	58.1

On the risk-profile, the risk-weighted assets to total assets ratio that hitherto was following a rising trend stabilized during the quarter (see **Figure- 3.1.2**). This happened on account of broad-based growth in assets unlike the previous quarters which mainly experienced loan-led growth.

The relatively stronger growth in risk-based capital as compared to risk-weighted assets led to further improvement in the solvency measures viz. capital to RWA and core capital to RWA ratios, which inched up to 10.9 percent and 8.1 percent

[3] Banks are required to raise their paid-up capital net of losses to Rs 2 bln by December 31, 2005.

respectively. The leverage of the system, though, slightly increased as the balance-sheet capital to total assets ratio declined by 10 bps to 6.6 percent. This decline, however, mainly emanated from a squeeze of Rs 3.9 billion in revaluation surpluses in the wake of rising interest rates.

The major threat to the solvency emanates from any likely deterioration in assets quality. A bank's ability to withstand adverse shocks and continue as a viable concern could be better measured by the cushion of unimpaired capital that is available to support the asset base. The capital coverage ratio[4] of 5.0 percent is quite comfortable. The ratio is well above the generally acceptable level of 1.5 percent and shows a marked improvement over the negative readings of CY01. The overall capital adequacy indicators signify a well-capitalized position[5] of the banking system (see **Table-3.1.1**).

Table 3.1.1 Capital Adequacy Indicators

Percent	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
CAR							
PSCBs	10.4	9.6	12.3	11.0	13.4	14.4	14.1
LPBs	9.2	9.5	9.7	9.0	10.1	10.4	10.8
FBs	18.0	18.6	23.2	23.0	17.4	17.2	15.0
Comm. Banks	11.4	11.3	12.6	11.1	11.4	11.8	11.8
SBs	(3.3)	(13.9)	(31.7)	(28.2)	(9.0)	(14.4)	(10.2)
All banks	9.7	8.8	8.8	8.5	10.5	10.7	10.9
Tier 1 Capital to RWA							
PSCBs	7.7	7.1	8.6	8.2	8.6	9.2	9.3
LPBs	8.1	8.4	6.6	7.1	7.5	7.8	8.3
FBs	17.9	18.6	23.0	23.0	17.1	16.8	14.5
Comm. Banks	9.8	9.7	9.7	9.1	8.6	8.9	9.1
SBs	(3.4)	(13.9)	(31.7)	(28.7)	(15.0)	(20.2)	(16.3)
All banks	8.3	7.3	6.2	6.5	7.6	7.7	8.1
Capital to Total Assets							
PSCBs	4.6	3.7	5.6	6.1	8.2	9.3	8.8
LPBs	3.5	3.8	5.2	5.1	6.5	6.6	6.6
FBs	8.8	8.5	10.6	10.0	9.0	8.9	7.7
Comm. Banks	4.9	4.6	6.1	6.0	7.1	7.4	7.2
SBs	(1.1)	(10.3)	(23.0)	(9.5)	(11.3)	(13.5)	(9.2)
All banks	4.6	3.8	4.8	5.4	6.5	6.7	6.6
Capital (Free of net NPLs) to Total Assets							
PSCBs	(1.1)	(2.2)	0.9	3.1	6.8	7.7	7.6
LPBs	(1.9)	(1.0)	2.4	3.2	4.9	5.2	5.4
FBs	8.0	8.0	10.1	9.6	9.0	9.0	7.9
Comm. Banks	0.2	(0.0)	2.8	3.9	5.8	6.1	6.1
SBs	(25.5)	(34.4)	(44.5)	(30.9)	(27.6)	(24.3)	(26.4)
All banks	(1.4)	(1.9)	0.7	2.5	4.6	5.2	5.0

Group-wise position shows that solvency indicators of the FBs declined during the quarter, LPBs and SBs witnessed improvement while PSCBs showed mixed results. The decline in FBs indicators, which though still stay higher than others, was mainly caused by the repatriation of profits by a couple of large banks in this group. The PSCBs though lost on overall CAR, their quality of capital improved during the quarter. The amelioration in solvency indicators of the specialized banks was mainly contributed by a new entrant viz. SME Bank which holds relatively better solvency position.

The dispersion analysis for the banks that are strategically important for the stability of the banking system shows that the largest five banks are having well-capitalized solvency position. During the quarter, they maintained their CAR and improved on core capital ratio. The next five largest banks more or less maintained their position whereas the next ten large banks showed slight improvement (see **Table-3.1.2**)

Table 3.1.2: Capital Adequacy Indicators of Top Banks in terms of Size

Capital Adequacy (%)	Capital/RWA		Tier 1 Capital / RWA		Net Worth / Total Assets	
	Mar-05	Jun-05	Mar-05	Jun-05	Mar-05	Jun-05
Top 5	10.9	10.9	7.1	7.4	6.9	6.6
Top 10	11.2	11.0	7.9	7.9	7.0	6.6
Top 20	11.6	11.6	8.5	8.6	7.2	6.9

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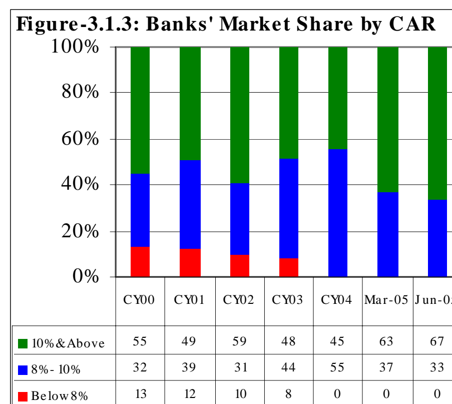
[4] Balance sheet capital less net non-performing loans to total assets

[5] For a well-capitalized bank the capital adequacy ratio should be above 10%, tier 1 capital to RWA ratio and capital to total assets ratio should be above 5%

On individual basis banks varied in their strength on solvency. The dispersion analysis reveals an improvement in the solvency position of individual banks. There is a shift in the number of banks towards higher and well-capitalized brackets of CAR (**see Table 3.1.3**). While the decline in lower brackets shows the improvement in solvency of individual banks, the corresponding decline in more than 15 percent bracket and convergence of banks into 10-15 percent bracket shows a tendency on the part of increasing number of banks to maintain an economic capital in relation to their risk exposure. This improvement is also supported by the increase in market share of the banks with CAR higher than 10 percent (**see Figure-3.1.3**). As regards minimum paid-up capital[6] requirement, the number of non-compliant banks declined to 9 from 12 in previous quarter.

Table 3.1.3 Distribution of Banks by CAR

	Total	Below 8%	8 to 10 %	10 to 15 %	Over 15 %
CY00	44	5	6	16	17
CY01	43	5	5	11	22
CY02	40	4	4	9	23
CY03	40	4	10	5	21
CY04	38	1	13	9	15
Mar-05	38	1	10	11	16
Jun-05	39	1	8	15	15



The outlook for the banking system does not indicate any imminent threat to its solvency. While improved earning ability promises a healthy growth in capital base, banks' ability to stem the flow of fresh infection in loan portfolio so far bodes well for the overall stability of the banking system.

3.2 Profitability

The banking system further consolidated its profitability position during the current quarter and its year-to-date net profit reached to Rs22.8 billion which represents around 69 percent of the total profit of the last year. The return on assets and equity also improved to 1.4 percent and 22.1 percent from 1.2 percent and 19.5 percent in the last year respectively. The major factors contributing towards this strong profitability included higher economic activity that led to significant expansion in the volume of banks' operations, change in asset-mix towards high-yielding assets and gradual rise in interest rates.

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[6] Net of losses

The commercial banks accounted for the whole profitability of the banking system as the specialized banks, though controlled their losses to some extent, are still in red. The performance of commercial banks improved over the last year as reflected in the key profitability indicators (see **Tables-3.2.1 & 3.2.2**). The results, which have been showing an improving pattern for the last three years, portray a substantially strengthened position by the end of this quarter. **Figure-3.2.1**. shows that core incomes for commercial banks have now reached almost 90 percent of the gross income and operating expenses have now been contained to about half of the gross income and are entirely met through net interest income.

Table-3.2.1: Profitability of Banking System

(Billion Rs)	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
Profit before tax							
PSCBs	3.9	0.2	10.9	16.1	14.3	3.8	8.7
LPBs	(0.6)	5.0	11.9	23.8	30.7	12.4	25.2
FBs	3.7	5.0	6.6	7.4	7.2	2.1	4.2
CBs	7.0	10.3	29.4	47.4	52.1	18.3	38.1
SBs	(2.5)	(9.2)	(10.4)	(3.3)	(2.6)	(2.1)	(2.0)
All Banks	4.5	1.1	19.0	44.1	49.6	16.2	36.1
Profit after tax							
PSCBs	1.8	(4.6)	4.8	9.4	8.0	2.4	5.2
LPBs	(3.5)	2.0	6.4	14.8	21.7	8.2	16.9
FBs	1.4	2.4	4.2	4.6	5.8	1.4	2.8
CBs	(0.2)	(0.2)	15.3	28.7	35.5	12.0	25.0
SBs	(2.6)	(9.5)	(12.4)	(3.7)	(2.6)	(2.1)	(2.1)
All Banks	(2.8)	(9.8)	2.9	25.1	32.9	9.9	22.8

Table-3.2.2: Profitability Indicators

(Percent)	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
After Tax ROA							
PSCBs	0.2	(0.5)	0.6	1.0	1.3	1.5	1.6
LPBs	(0.7)	0.4	0.8	1.4	1.2	1.6	1.6
FBs	0.6	0.8	1.5	1.5	2.0	1.8	1.8
CBs	(0.0)	(0.0)	0.8	1.2	1.3	1.6	1.6
SBs	(2.3)	(8.8)	(12.1)	(3.2)	(2.6)	(7.8)	(3.7)
All Banks	(0.2)	(0.5)	0.1	1.1	1.2	1.3	1.4
After Tax ROE *(based on Equity plus Surplus on Revaluation)*							
PSCBs	4.9	(12.2)	11.5	17.3	18.0	18.6	19.1
LPBs	(17.4)	10.3	17.3	26.2	20.1	24.8	24.8
FBs	6.1	9.1	15.2	14.9	21.7	20.1	20.8
CBs	(0.3)	(0.3)	14.3	20.5	19.8	22.7	22.9
SBs	-	-	-	-	-	-	-
All Banks	(3.5)	(12.6)	3.2	20.5	19.5	19.7	22.1

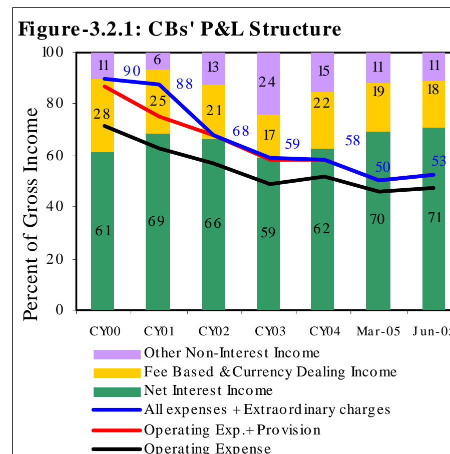


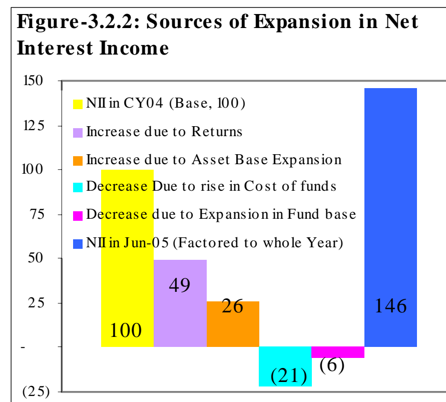
Figure-3.2.1: CBs' P&L Structure

The banking system's earning assets portfolio at 86 percent of total assets is now being dominated by loans and advances followed by investments. This high yield asset-mix gets further help from favourable change in rate structure. In line with SBP's policy drive to contain the inflationary pressures, the lending rates have been following noticeable gradual rise since the last quarter of CY04. Weighted average lending and deposit rates have significantly inched up since then. As the rise in lending rates was more prominent, the banking spread expanded to 6.6 percent in Jun-05 from 5.3 percent in Sep-04. The concomitant rise in govt. papers' returns is further increasing the spread.

In the face of rising interest rates and broadening base of high-yielding assets, the interest income got a further boost with year to date interest income reaching 76

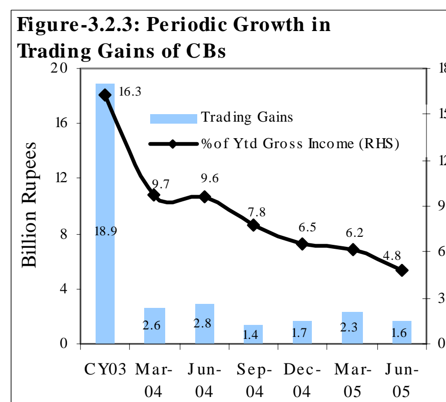
percent of last year's level. Consequently, net interest income also reached 73 percent of the last year's level despite the rising deposit rates, which caused the interest expense to grow at a comparatively faster pace. An in depth analysis for the growth in net interest income over the last year shows that the major contributing factor was improved returns on earning assets, aided by expansion in the base of these assets (see **Figure-3.2.2**).

Figure-3.2.2: Sources of Expansion in Net Interest Income



The composition of non-interest income has also been getting better with banks relying more on their auxiliary services to earn revenues. Now 84 percent of the non-interest income is from stable sources as compared to 60 percent for CY03. Fee-based income and income from dealing in foreign currencies, which are two major components of non-interest income, got support from healthy business activity and increased foreign trade business. Trading gains, which were at a record high in CY03 due to gains on sale of fixed income securities, have gradually come down to a reasonable level of around 5 percent (see **Figure-3.2.3**). Further, the trading gains now mainly comprise gains on quoted shares and other securities as opposed to gains on fixed income securities previously.

Figure-3.2.3: Periodic Growth in Trading Gains of CBs



The operating expenses of CBs, though well contained in relation to gross income at 47.2 percent, represent 59 percent of last year's level. In view of significant expansion in the branch-net work of the commercial banks, this increase seems quite justified. The provision expenses in absolute terms almost remained at last year's level. These expenses in relation to gross income, however, reduced to 5.2 percent as compared to 6.7 percent in the last year on account of higher gross income.

The group-wise performance of banks within the CBs shows that FBs were the most efficient in employing their assets (with ROA reaching 1.8 percent) while PSCBs and LPBs also did well by posting ROA of 1.6 percent each. SBs on the other hand, due to their high administrative costs and high provision against bad loans, could not bring the bottom-line out of red.

Table-3.2.3: Efficiency Indicators of Top Banks according to Size

(Percent)	Top 5	Top 10	Top 20	All
Share in Assets	55.8	73.4	92.7	-
Share in Net Interest Income	57.0	76.0	95.2	-
Share in Non Interest Income	52.0	72.6	93.0	-
Share in Provision Expense	37.4	49.9	102.6	-
Share in Non Interest Expense	58.0	74.1	91.3	-
Share in Net Profit	56.2	82.8	96.6	-
Share in Gross Income	55.6	75.1	94.6	-
ROA	1.5	1.6	1.5	1.4
ROE	22.3	24.6	21.7	22.1
Assets per employee (Million Rs)	33.2	33.1	34.1	33.7

An analysis of the profitability of systemically important banks has been carried out to assess the implications of their efficiency or performance for the whole banking system. For this, the performance has been analyzed of top 5, 10 and 20 banks according to their asset size. As evident from **Table-3.2.3**, the most systemically sensitive (Top 5) banks are doing equally good if not better than the rest, though most of them having carried a legacy of bad loans and huge administrative expenses. The main reasons for their better performance now are successful restructurings, so far relatively benign market conditions, economies of scale, and improved human capital efficiency as evident from assets per employee indicator which is more or less in line with overall system's level. On the back of these developments, their ROA has surpassed that of the system.

The strong profitability results for the second consecutive quarter of CY05 have brightened the chances of surpassing the profitability level achieved last year. However, the only caution to the foregoing could be deterioration in asset quality due to significant expansion in credit portfolio of the banks. The credit risk of the banking system and especially of CBs so far remains well contained, however, creation of provision as buffer for any downswing in the economic conditions would be befitting at this time.

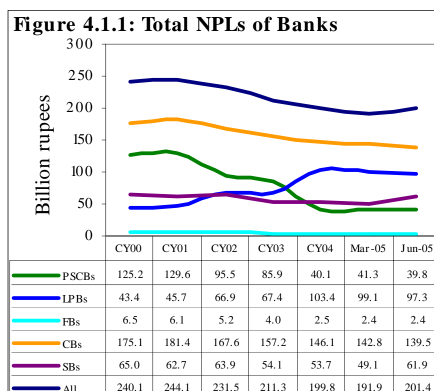
4. Risk Assessment of the Banking System

4.1 Credit Risk

The credit risk of the banking system, despite significant rise in loan portfolio, remained well contained during the June-05 quarter as well. The commercial banks, reducing their NPLs by another Rs3.4 billion during the quarter under review, further contained their credit risk (see **Figure-4.1.1 & 4.1.2**). The specialized banks, however, witnessed a surge in their NPLs by Rs12.8 billion due to the following reasons:

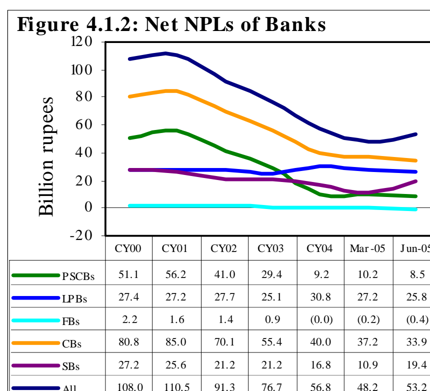
1. Shifting of one of the DFIs to SBs which added Rs7.3 billion to their NPLs.
2. The slowdown in the recovery operations of one of the SBs owing to the adverse climatic conditions in certain areas.

Figure 4.1.1: Total NPLs of Banks



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	125.2	129.6	95.5	85.9	40.1	41.3	39.8
LPBs	43.4	45.7	66.9	67.4	103.4	99.1	97.3
FBs	6.5	6.1	5.2	4.0	2.5	2.4	2.4
CBs	175.1	181.4	167.6	157.2	146.1	142.8	139.5
SBs	65.0	62.7	63.9	54.1	53.7	49.1	61.9
All	240.1	244.1	231.5	211.3	199.8	191.9	201.4

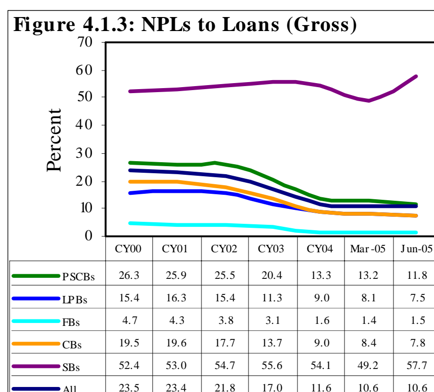
Figure 4.1.2: Net NPLs of Banks



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	51.1	56.2	41.0	29.4	9.2	10.2	8.5
LPBs	27.4	27.2	27.7	25.1	30.8	27.2	25.8
FBs	2.2	1.6	1.4	0.9	(0.0)	(0.2)	(0.4)
CBs	80.8	85.0	70.1	55.4	40.0	37.2	33.9
SBs	27.2	25.6	21.2	21.2	16.8	10.9	19.4
All	108.0	110.5	91.3	76.7	56.8	48.2	53.2

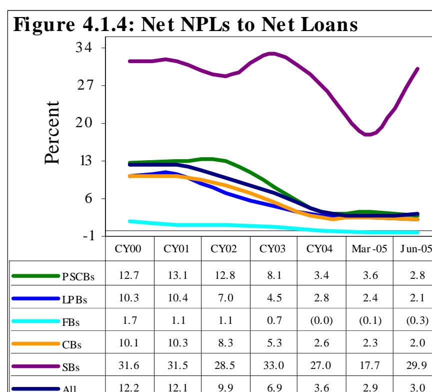
All this resulted in an increase of Rs9.4 billion in the NPLs of overall banking system. The net NPLs also went up by Rs5.1 billion. Factoring out the impact of inclusion of SME Bank, the addition in NPLs reduced to Rs2.2 billion. The impact of this increase, however, did not translate into key asset quality indicators which remained at almost last quarter's level due primarily to strong growth in the loan portfolio.

The deterioration in the loan quality of SBs is not that threatening keeping in view their marginal share in the overall banking system. The CBs which hold around 97 percent weight in the overall banking system continued improving their key indicators. Both the NPLs to loans and net NPLs to net loans ratios reduced to 7.8 percent and 2 percent from 8.4 percent and 2.3 percent in the last quarter respectively (see **Figure 4.1.3 & 4.1.4**). Their coverage ratio at 75.7 percent also improved over the last quarter (see **Figure 4.1.5**). All this reflects the strengthening of their credit appraisal and monitoring systems.



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	26.3	25.9	25.5	20.4	13.3	13.2	11.8
LPBs	15.4	16.3	15.4	11.3	9.0	8.1	7.5
FBs	4.7	4.3	3.8	3.1	1.6	1.4	1.5
CBs	19.5	19.6	17.7	13.7	9.0	8.4	7.8
SBs	52.4	53.0	54.7	55.6	54.1	49.2	57.7
All	23.5	23.4	21.8	17.0	11.6	10.6	10.6

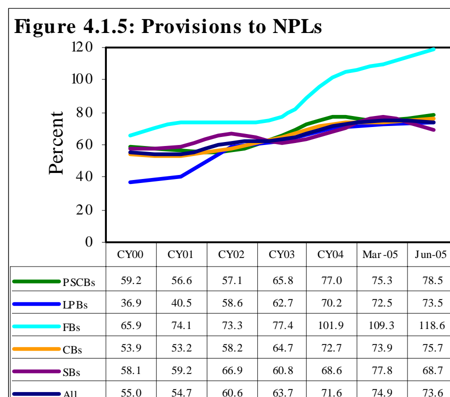
Figure 4.1.3: NPLs to Loans (Gross)



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	12.7	13.1	12.8	8.1	3.4	3.6	2.8
LPBs	10.3	10.4	7.0	4.5	2.8	2.4	2.1
FBs	1.7	1.1	1.1	0.7	(0.0)	(0.1)	(0.3)
CBs	10.1	10.3	8.3	5.3	2.6	2.3	2.0
SBs	31.6	31.5	28.5	33.0	27.0	17.7	29.9
All	12.2	12.1	9.9	6.9	3.6	2.9	3.0

Figure 4.1.4: Net NPLs to Net Loans

Amongst the commercial banks, the PSCBs made significant improvement in their key indicators. Not only their absolute NPLs declined, but also the provisioning against the NPLs was enhanced during the quarter. This is reflected in the NPLs to loans and net NPLs to net loans ratio that improved by 1.4 and 0.8 percentage points respectively. The highest reduction in the NPLs stock was made by LPBs of Rs1.8 billion. FBs have kept their NPLs at the previous quarter's level, while the provisions against the NPLs have been further enhanced, mainly on account of creating general provisions against consumer loans. They, however, experienced a slight deterioration in their NPLs to loans ratio on account of reduction in their loan portfolio.



	CY00	CY01	CY02	CY03	CY04	Mar-05	Jun-05
PSCBs	59.2	56.6	57.1	65.8	77.0	75.3	78.5
LPBs	36.9	40.5	58.6	62.7	70.2	72.5	73.5
FBs	65.9	74.1	73.3	77.4	101.9	109.3	118.6
CBs	53.9	53.2	58.2	64.7	72.7	73.9	75.7
SBs	58.1	59.2	66.9	60.8	68.6	77.8	68.7
All	55.0	54.7	60.6	63.7	71.6	74.9	73.6

Figure 4.1.5: Provisions to NPLs

The sector-wise position shows improvement in the loan quality in respect of loans to corporate sector. The infection ratio of corporate sector at 8.9 percent showed a reduction of 1 percentage point over the last quarter (see **Table 4.1**). This improvement in the loans to corporate sector, owing to their highest weight in the total outstanding loans, has kept the overall

Table-4.1: Segmentwise Infection Ratios of Loans Portfolio
(Domestic Operations) (Percent)

Segment	CBs		SBs		All Banks	
	Mar-05	Jun-05	Mar-05	Jun-05	Mar-05	Jun-05
Corporate	9.1	8.5	97.8	98.8	9.9	8.9
SME	9.6	9.5	98.8	95.0	10.2	13.1
Agriculture	10.1	7.8	45.1	52.3	34.3	37.0
Consumers	0.8	0.9	11.92	13.9	0.8	0.9
Credit cards	1.5	1.4	-	-	1.5	1.4
Auto loans	0.7	0.7	4.62	7.1	0.7	0.7
Durables	5.9	5.6	13.48	16.5	6.4	6.2
Mortgage	0.5	0.3	-	-	0.5	0.3
Personal Loans	0.6	1.0	-	-	0.6	1.0
Commodity Finance	1.3	1.2	-	-	1.3	1.2
Staff	1.5	1.5	-	0.1	1.4	1.4
Others	13.5	17.2	6.92	6.2	13.4	16.9
Total	**7.7**	**7.1**	**49.2**	**57.9**	**10.1**	**10.1**

infection ratio intact at 10.1 percent, despite the slight weakening of the indicators of the other sectors. The highest increase in NPLs is recorded by the SME sector, followed by agriculture sector. The deterioration in the quality of loans to SME sector is mainly due to the inclusion of SME Bank in the banking system. Isolating the impact of SME Bank the NPLs to loans ratio of SME sector grew marginally by 0.8 percentage points.

Though the credit risk scenario for the overall banking system paints a comfortable picture, the basic idea remains that the banks should focus on further strengthening their loan sanctioning, disbursement and recovery procedures. Moreover, the special nature of the relatively newer areas of financing viz. consumer and SME might require the banks to exercise extra vigilance especially with regard to the borrowers' repayment capacity which may weaken in the rising interest rate scenario. If the banks continue to maintain and improve their credit appraisal and also ensure close monitoring of loans, the probability of future defaults shall remain low.

4.2 Market Risk

The interest rate exposure of the banking system remained the highest followed by equity price and exchange rate exposures. The increase in the interest rates on the international front coupled with the monetary response towards the growing inflationary expectations has led to a significant rise in interest rates. This trend was more pronounced in the first half of the quarter under review, which ended into regaining the differential between the prevalent domestic yields and the yields on US Treasury (see **Figure-4.2.1**). This rise in the interest rates exposes the banks with long-term fixed income profile of assets by affecting their bottom line.

Figure-4.2.1: Differential b/w 6m MTB & US Treasury

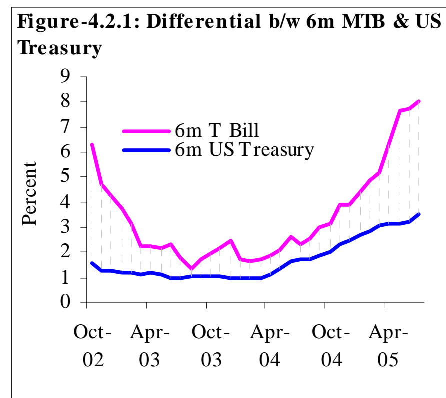
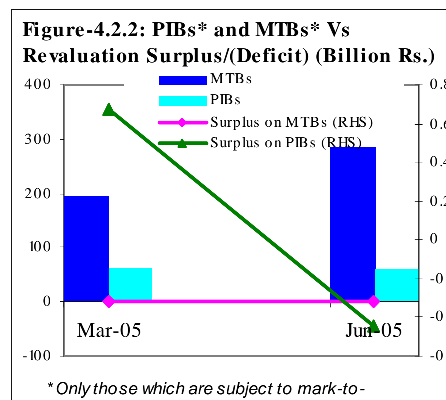


Figure-4.2.2: PIBs* and MTBs* Vs Revaluation Surplus/(Deficit) (Billion Rs.)



* Only those which are subject to mark-to-

As a result, the ***interest rate risk*** due to the increase in the loss expectancy as a result of the upward movement in

interest rates is not unlikely since the underlying value of the assets falls with each basis point increase in the interest rates. The *revaluation loss* is more obvious in the assets that have longer duration or the higher price sensitivity. The duration of the assets with each rise in interest rates though continue to fall but the level is still quite high. For example, the weighted average Macaulay's duration of all the Pakistan Investment Bonds (PIBs) stays at 4.35 years by the end of Jun-05. The scrip-wise duration of all the 3y, 5y, 10y, 15y and 20y PIBs in terms of their maturity stays at 36, 45, 52, 51 and 40 percent respectively. This shows that the price sensitivity of the 10-year PIBs, which constitute around 50 percent of the total PIB holdings and amount to around 37 percent of system's equity, is the highest. Since the higher duration causes the higher fall in the asset value with each rise in the current yields, the recent rise in the interest rates has resulted in revaluation losses on such securities **(see Figure-4.2.2)**. The deficit would have been more pronounced if the embedded losses on the held-to-maturity category of the fixed income securities had also been taken into consideration.

The repricing schedule of the rate sensitive assets and liabilities of the banks as of Jun-05 reveals that the banks are running liabilities sensitive position **(see Figure-4.2.3)**. Since the duration of the assets side is on the higher side than those of liabilities and the overall duration GAP of the balance sheet is largely positive, the increase in the interest rates may affect the market

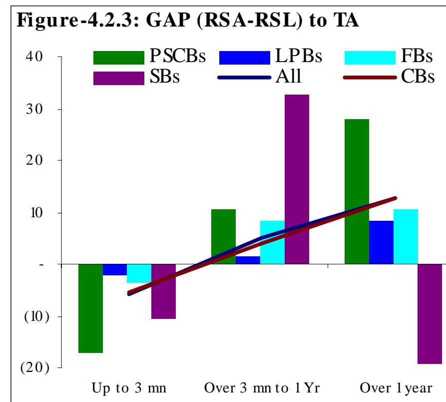


Figure-4.2.3: GAP (RSA-RSL) to TA

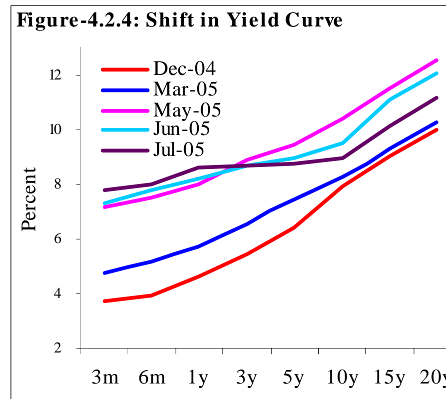


Figure-4.2.4: Shift in Yield Curve

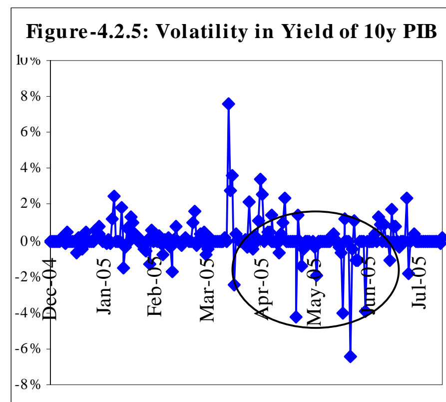


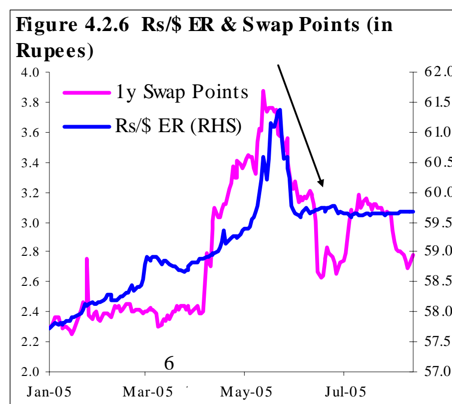
Figure-4.2.5: Volatility in Yield of 10y PIB

value of equity (MVE) of the banks. Group-wise, PSCBs are more prone to this risk.

Moreover, since the rise in the interest rates has not been uniform across all the maturities, the *yield curve risk* is of concern as well. The secondary market yield curve has become more flattened by the end of this quarter (see **Figure-4.2.4).** While it has been long since the last auction of PIBs, the prevailing secondary market yields are more based on the expectations of the market players. There has been an increase in the interest rates across all the tenors till the mid of the quarter under review. However, for onwards, the growth in the daily average yields on the long term securities turned negative (see **Figure-4.2.5**). The yield spread between the 6m MTBs and 10y PIBs squeezed sharply thus making the yield curve more flattened. This fall in the long-term indicative rates was more in response to the eased off long-term inflationary expectations. Though it seems to be positive where the banks may find some better prices of their portfolio, but since the secondary market of such long-term securities is not so active, such benefit may inertly be available. Further, the banks may face difficulty in managing their portfolios if the curve becomes steeper. Though the derivatives market has not been so developed as yet, the prudent use of derivatives may provide a better solution in such a scenario.

The ***exchange rate risk***, on the back of steady external inflows and SBP's support to reduce the pressures on rupee-dollar parity, remained in check for this quarter as well. However, the end of the Jun-05 quarter witnessed slight weakness of Pak Rupee against U.S. dollar amidst external account pressures and the year-end payments. The Rs/$ swap points remained positive in the beginning, increased sharply in April05 and subsequently eased off again after the end June 2005 pressure (see **Figure-4.2.6).** NOP in foreign exchange remained positive and within the limits for all the banks. Hence the direct foreign exchange risk remained well in check since the assets of the banks in foreign currencies are higher than those of liabilities, and the banks would gain from the depreciation of rupee. Moreover, the indirect foreign exchange risk is also well contained since the depreciation of rupee is not significant to impair the repayment capacity of the borrowers of foreign currency loans.

Figure 4.2.6 Rs/$ ER & Swap Points (in Rupees)



During the June quarter, the ***equity price risk*** of the banking sector has somewhat declined when seen in terms of the investment in equities. The absolute investment[7] in shares has decreased to Rs24 billion from Rs29 billion in the last quarter (see **Figure-4.2.7**). Resultantly, the overall exposure in terms of capital of the banking sector has declined to 11 percent from 13.9 percent in Mar-05. The improvement in this ratio partially owes to the strengthening of the capital base of the banking sector.

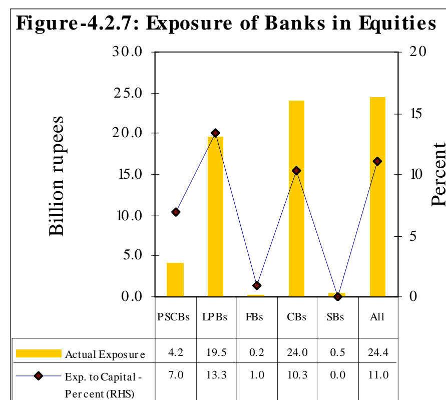


Figure-4.2.7: Exposure of Banks in Equities

The decrease in the equities investment is also reflected in its share in total investments of the banking sector that has fallen from 4 percent to 3 percent during the quarter under review. Group-wise, the LPBs carry the highest exposure which comes to 13.3 percent of their equity. However, this exposure has fallen by 3.1 percentage points from March 2005 level. Overall exposure of all the groups remained well below 15 percent.

On a bank-wise basis, a few banks continue to carry quite high exposure in equities[8] in relation to their capital (see **Figure-4.2.8**). Whilst most of the banks kept their exposures within reasonable limits, however, there are still couple of banks which remain significantly vulnerable to the market movements due to their excessive exposure. This is not a cause of concern from systemic stability point of view, as the market share of these banks was quite low.

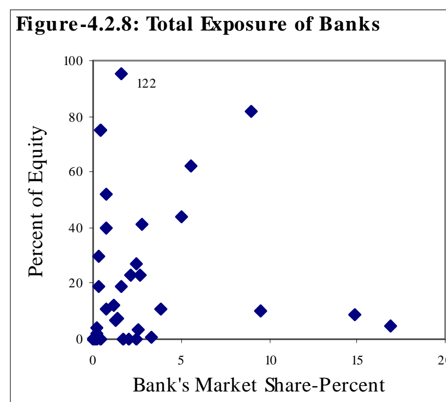


Figure-4.2.8: Total Exposure of Banks

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[7] At market value

[8] The exposure includes investment in shares at cost, badla financings and others.

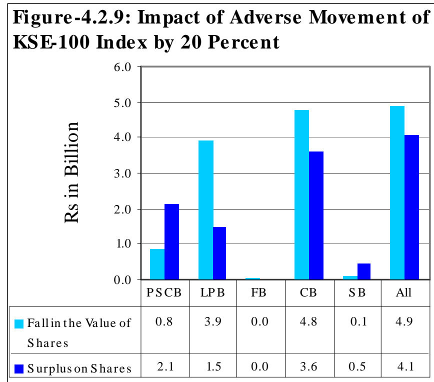


Figure-4.2.9: Impact of Adverse Movement of KSE-100 Index by 20 Percent

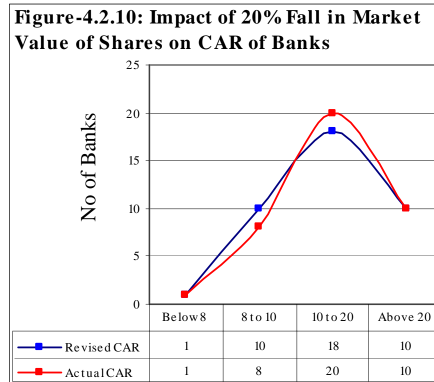


Figure-4.2.10: Impact of 20% Fall in Market Value of Shares on CAR of Banks

In order to check the resilience of the banks against the possible fall in the value of these investments, the investment in equities has been discounted by 20 percent. As any dip in the market may affect the capital base of the banks, therefore, it is imperative to see the relative strength of the surplus on shares available with banks as a shield against the decline in the market value of their equity investments (see **Figure-4.2.9**). Group-wise, the surplus of the LPBs shall fall short of the decline in the market values of their holdings. Bank-wise, 13 banks are already carrying deficit against these investments, and the surplus of 14 more banks might turn into deficit at the given discount rate. When the impact of this fall is translated in terms of the capital adequacy, two banks shall move to lower capital adequacy brackets; however, all commercial banks remain compliant with the benchmark of 8 percent (see **Figure-4.2.10**).

4.3 Liquidity Risk

SBP, in response to the growing inflationary pressures in the domestic market and the rising interest rates on the international front, significantly raised the interest rates during the June 2005 quarter. This along with the frequent Open Market Operations (OMOs) by SBP to reduce the rupee liquidity in the market and the significant growth in the private sector credit has reduced much of the excess liquidity available with the banks. The discount rate, after a couple of years, was adjusted back to

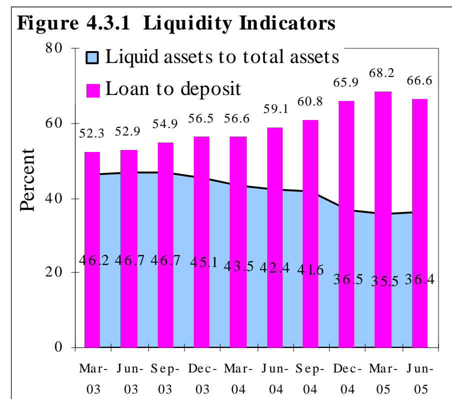


Figure 4.3.1 Liquidity Indicators

its previous level of 9 percent in April 2005 from 7.5 percent, which gave further momentum to the hikes in the interest rates, the rates, however again decelerated by the end of the quarter under review.

The overall liquidity position of the system remained comfortable during the quarter. SBP generally accepted less as compared to the offered amounts in the auctions to keep the market reasonably liquid. Moreover, both the target liquidity ratios slightly eased off during the quarter. The loan to deposit ratio toned down to 66.6 percent from 68.2 percent at the end of March 2005 (see **Figure 4.3.1**). The ratio of loans (net of Export Refinance) to deposits decreased to 62.4 percent from 63.8 percent in the previous quarter. The liquid assets in terms of total assets slightly improved to 36.4 percent from 35.5 percent at the end of the March 2005 quarter. This was mainly due to the increased investment in the government securities as a result of inching up of the returns on invetment in such securities. Nevertheless, the last month of the quarter witnessed squeezed inter-bank liquidity, which was witnessed by the frequent visits of the banks to SBP discount window to meet the short term liquidity requirements (see **Figure 4.3.2**).

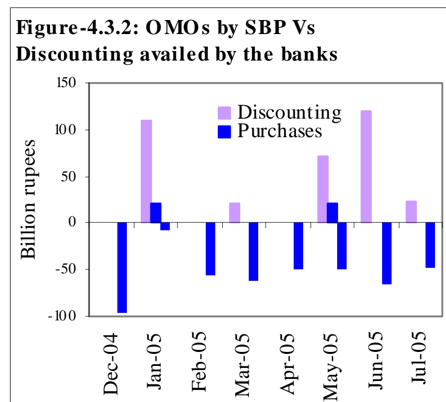


Figure-4.3.2: OMOs by SBP Vs Discounting availed by the banks

The maturity gaps between the assets and liabilities of the banks remained negative for the three months time bucket (see **Figure 4.3.3).** This raises a concern for the *funding liquidity risk* whereby the asset based liquidity is needed to meet the outflows. Group-wise, PSCBs are more exposed to this risk since their negative gap for the three months bucket significantly exceeds the acceptable benchmark. For the other sectors, it remained largely within the acceptable range. For the longer term maturity buckets the banks are largely running positive gap. Though the banks may resort to unwind their exposures in long-term assets but the option is attractive only in the presence of *market-based*

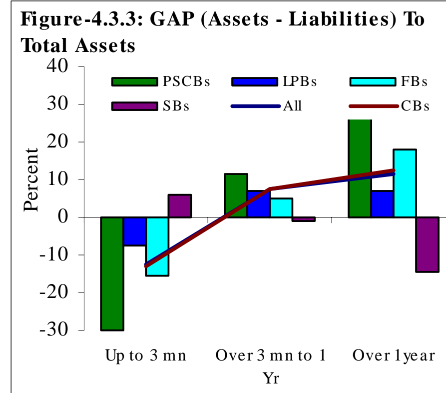


Figure-4.3.3: GAP (Assets - Liabilities) To Total Assets

liquidity of those assets. The *marketability risk* of such assets has risen due to the squeezed secondary market trading as 62 percent of the total investment in PIBs lies in Held-to-Maturity category. Consequently the bid-ask spread, a measure of the marketability of an asset, has been on the higher side (see **Figure 4.3.4**).

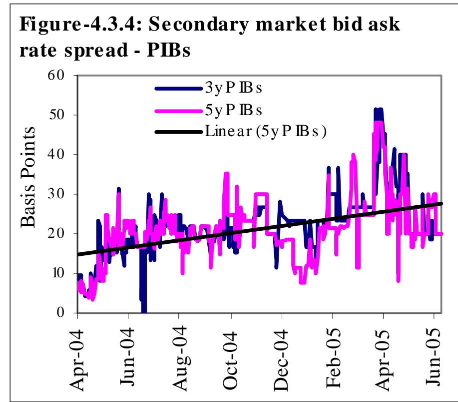


Figure-4.3.4: Secondary market bid ask rate spread - PIBs

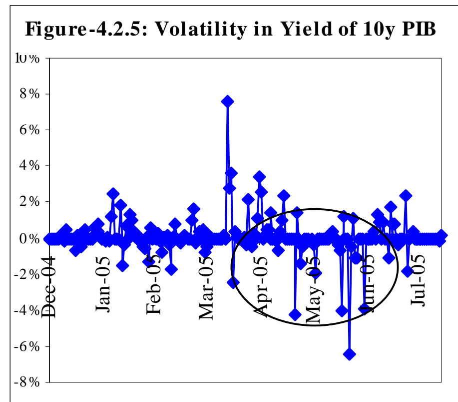


Figure-4.2.5: Volatility in Yield of 10y PIB

On external front, though the rupee remained under pressure during the first half of the quarter under review due to the rising international oil prices, the demand for other imports and the year-end payments, the stable inflows of the remittances and the support from SBP has eased off the dollar based liquidity. However, the rupee witnessed slight depreciation against US dollar and the rupee dollar exchange rate came to 59.7 at the end of June 05 from 59.4 at the end of March 05 (see **Figure 4.3.5**). For the rest of the major currencies, the rupee gained some value since the dollar appreciated in the international market. The kerb market premiums also registered a moderate increase. The rising trade deficit and the volatility in the kerb market premiums may squeeze the dollar-based liquidity.

5. Performance of Islamic Banking

The number of institutions/ branches engaged in Islamic banking as also the volume of their business is gradually increasing. As on end June-05, 3 full-fledged Islamic banks and 9 conventional banks were engaged in Islamic banking business. During the quarter under review the branch network of the Islamic banking participants increased to 62, operating in 13 cities of the four provinces, as against 54 on end March-05. These include 30 branches of conventional banks engaged in Islamic banking and 32 branches of Islamic banks.

Table-5.1: Sources and Uses of Funds

(Million rupees)	Mar-05		Jun-05	
SOURCES:	Amount	Percent	Amount	Percent
Deposits	33,266.0	66.3	37,834.6	70.0
Borrowings	6,820.5	13.6	6,664.5	12.3
Capital & other funds	5,761.3	11.5	6,076.6	11.2
Other liabilities	4,319.8	8.6	3,441.3	6.4
	50,167.6	**100.0**	**54,016.9**	**100.0**
USES:				
Financing	32,202.6	64.2	34,946.0	64.7
Investments	2,236.1	4.5	2,224.8	4.1
Cash, bank balances, placements	13,211.6	26.3	13,325.6	24.7
Other assets	2,517.2	5.0	3,520.5	6.5
	50,167.6	**100.0**	**54,016.9**	**100.0**

Expansion in branch network of Islamic banks seems to have helped the improvement in overall balance sheet footing of Islamic banking system. The total assets posting a growth of 7.7 percent stood at Rs54.0 billion at the end of June 2005 against Rs50.2 billion at end March 2005 (See **Table 5.1**). Despite this strong growth in assets, the share of IBS in overall banking system remained unchanged at 1.6 percent due to the fact that the overall banking system has shown almost the same growth rate.

Table-5.2: Key Performance Indicators

	Mar-05	Jun-05
NPFs to total financing	0.8%	1.0%
Net NPFs to net financing	0.0%	0.3%
Provision to NPFs	97.3%	74.4%
Net Markup Income to total assets	2.4%	2.5%
Non Markup Income to total assets	2.2%	1.5%
Operating Expense to Gross Income	52.3%	58.6%
ROA (average assets)	1.6%	1.1%

Disaggregated analysis of sources and uses of funds reveals that the deposits continue to be the major source of funds of Islamic banking business. The June-05 quarter witnessed further improvement in volume of deposits of IBS, which increased to 70 percent of total assets of IBS at end June-2005 against 66 percent in March-2005. Asset composition of IBS remained almost on the previous quarter's pattern. Consistent with the past trends the major chunk of funds was channelized into the core business of IBS, i.e. financing. The share of financing as a proportion of total assets remained unchanged at 64 percent. The share of investments, however, slightly declined**.** The strong asset quality of IBS witnessed during the last quarters, has portrayed some weaknesses in terms of slightly deteriorated infection ratios. Non-performing finances to total finances and net Non-performing finances to net financing have inched up to 1 percent and 0.3 percent respectively (see **Table 5.2**). A deeper analysis reveals that this discernable but slight deterioration is the outcome of inherited infections of some branches of conventional banks, which have recently been converted to Islamic banking business. Moreover, a big chunk of infected loan portfolio lies in OAEM

category. The non-performing financings coverage ratio standing at 97.3 percent at end March 05 decreased to 74.4 percent at end June 05 due to reversal in provisioning made by one of the Islamic banks. The Islamic banks/ branches need to be vigilant in monitoring the quality of their asset portfolio.

Murabaha and Ijarah dominating the financing profile of IBS comprise 78 percent of the total financings (see **Figure-5.1**); while the break up of deposits reflects the savings deposits carrying the highest share of 43 percent (see **Figure-5.2)** followed by current non-remunerative and fixed deposits comprising 28 percent and 27 percent respectively.

Presently, the liquidity position of Islamic banks is quite comfortable, with Islamic banking branches maintaining the liquidity well above the statutory requirements. However, during the quarter under review the cash and bank balances of Islamic banks registered minimal downward shift that can possibly be the outcome of higher demand for financing.

The quarter under review witnessed further improvement in the contribution of the net mark up income in the total income of the IBS reflecting the increasing reliance on core sources of income (see **Figure 5.3**). Moving on the same lines, though at somewhat slower pace, the non-mark up income has also shown improvement (see **Table 5.3**).

Figure-5.1: Breakup of Financings- June-05

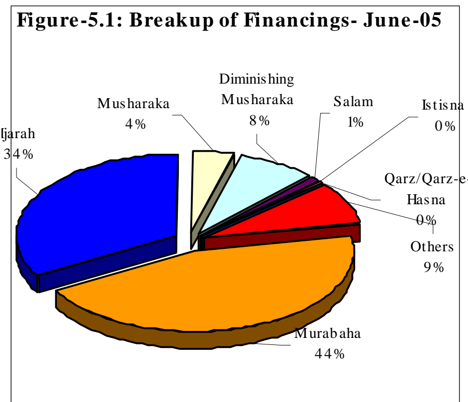


Figure-5.2: Breakup of Deposits- June-05

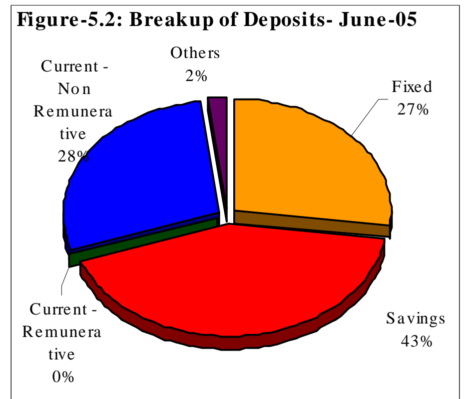
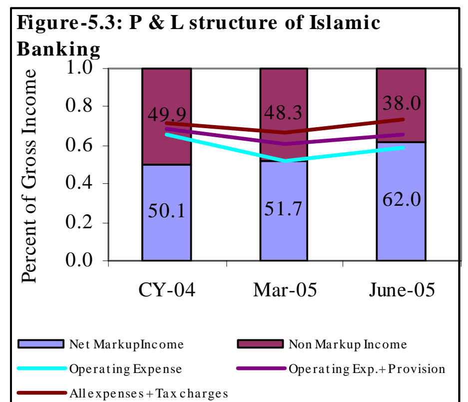


Figure-5.3: P & L structure of Islamic Banking



The profit after tax as a percentage of gross income decreased from 33 percent in quarter ended March 05 to 26 percent in June 05 quarter. Moreover, ROA (annualized) decreased to 1.2 percent as compared to 1.6 percent in March 05 quarter, which was below the commercial banks' average of 1.6 percent. The IBs/ IBBs need to diversify their asset side products to augment their core earnings and to keep their expenses under control in order to further strengthen their profitability.

Table-5.3: Profit & Loss Statement

(Million rupees)	Mar-05		Jun-05	
	Amount	Percent	Amount	Percent
Markup Income	525.8	100.0	1,215.3	100.0
Markup Expense	227.1	43.2	546.8	45.0
Net Markup Income	298.7	56.8	668.5	55.0
Provision Expense	(47.7)	-9.1	(75.7)	-6.2
Non Markup Income	279.6	53.2	409.6	33.7
Operating Expense	(302.2)	-57.5	(631.5)	-52.0
Profit Before Tax	228.4	43.4	370.2	30.5
Tax	(36.3)	-6.9	(86.1)	-7.1
Profit After Tax	192.1	36.5	284.0	23.4

6. Stress testing of the Banking System

Stress tests, carried out on the pattern of FSAP methodology, shows that over the first six months of CY05, banking system has improved its resilience to the shocks of both the univariate and multivariate types. This increased resilience has been realized on account of both improved solvency position of banks and containment in their exposure to these shocks. The exercise employs the macroprudential approach and focuses primarily on strategically significant 12 largest commercial banks as well as three groups of commercial banks viz. PSCBs, LPBs and FBs. The shocks have been devised in the light of different historical and hypothetical scenarios to measure the system's vulnerability in terms of deterioration in the quality of credit portfolio, adverse movement in exchange rate, interest rate, equity price and liquidity risk . In addition to the risk scenarios initially used by the FSAP mission, this study takes into account some additional risk scenarios as well.

The stress scenarios have been classified in three types of instantaneous shocks, including credit quality, market, and liquidity shocks (see **Box 6.1**).

Box 6.1
Reference Scenarios

Credit Risk

Scenario 1 assumes a 10 percent increase in NPLs (with a provisioning rate of 100 percent).

Scenario 2 assumes a shift in categories of classified loans (all loans classified as OAEM become substandard, all substandard loans become doubtful, and all doubtful loans become loss).

Scenario 3 assumes a 50 percent decline in the value of real estate collateral held by banks.

Scenario 4 assumes a cumulative impact of all shocks used in Scenarios 1, 2, and 3.

Scenario 5 refers to the NPLs to total loans ratio, which would wipe out capital (with a 50 percent provisioning rate for additional NPLs).

Market Risk: Interest Rate Risk

Scenario 6 assumes an increase in interest rates by 300 basis points.

Scenario 7 assumes an increase in interest rates of outlying maturities (by 100, 300, and 500 basis points)

Scenario 8 assumes a shift coupled with flattening of the yield curve by increasing 150,100 and 50 basis points in the outlying maturities respectively.

Scenario 9 assumes a shift coupled with steepening of the yield curve by increasing 50,100 and 150 basis points in the outlying maturities respectively

Market Risk: Exchange Rate Risk

Scenario 10 assumes a depreciation of ER by 25 percent (around double of the change in the monthly average PRS/US$ exchange rate (12.83) over the period from Jan 1994 to Dec 2003, in September 2000).

Scenario 11 is based on the hypothetical assumption of appreciation of rupee by 20 percent.

Scenario 12 assumes a 10 percent depreciation of the rupee and deterioration in the quality of 20 percent of unhedged foreign currency loans with 50 percent provisioning requirement.

Scenario 13 assumes a 10 percent depreciation of the rupee and deterioration in the quality of 50 percent of unhedged foreign currency loans with 100 percent provisioning requirement.

Market Risk: Equity Price Risk

Scenario 14 assumes the impact of a 20 percent fall in the index, based on largest percent change in the monthly Karachi Stock Exchange Index (KSE100 Index) over the period from Jan 2000 to Dec 2003, in May 2000 (19.2 percent), on the total direct and indirect exposure of banks on Stock Market-assuming equal percentage fall in the value of the overall exposure.

Scenario 15 assumes the impact with a 40 percent decline in the Stock Market Index.

Liquidity Risk

Scenario 16 assumes a 10 percent decline in the liquid liabilities.

Scenario 17 assumes a 20 percent decline in the liquid liabilities.

Calibration of Shocks

The results of the stress tests have been summarized in the **Box 6.2**. For each type of stress scenario, the impact has been gauged in terms of solvency i.e. the CAR of the banks. The results for the quarter have been compared with that of Dec-04 so as to capture a trend in the banks' vulnerability to these shocks.

Box 6.2

Results of "stress tests" of Pakistani Banking System

Single and multifactor sensitivity tests	Dec-04		Jun-05	
	%age Point Change in CAR	*Revised CAR- After Shock*	*%age Point Change in CAR*	*Revised CAR- After Shock*
Credit Shocks				
Scenario 1 Deterioration in the qualityof loan	(2.7)	8.7	(0.24)	11.5
Scenario 2 Shift in categories of classified loans	(0.1)	11.3	0.0	11.8
Scenario 3 Decline in the value of real estate collateral	(0.2)	11.2	(0.1)	11.7
Scenario 4 Cumulative impact of all shocks in 1,2 and 3	(3.6)	7.8	(1.1)	10.7
Scenario 5 Level of NPLs to loans ratio where capital wipes out (i.e. 32.2 % in June-05 and 32.4% in Dec-04)	(11.4)	-	11.8	-
Market Shocks; Interest Rate Shocks				
Scenario 6 Shift in the yield curve	(1.3)	10.1	(1.1)	10.6
Scenario 7 Shift and steepening of the yield curve (large shock)	(2.0)	9.4	(1.9)	9.9
Scenario 8 Shift & flattenining of the yield curve	(0.2)	11.2	(0.2)	11.6
Scenario 9 Shift and steepening of the yield curve	(0.6)	10.8	(0.6)	11.2
Market Shocks; Exchange Rate Shocks				
Scenario 10 Depreciation of Rs/US$ exchnage rate (double of the historical high)	0.4	11.8	1.6	13.4
Scenario 11 Appreciation of Rs/US$ exchnage rate (hypothetical)	(0.3)	11.1	(1.3)	10.4
Scenario 12 Depreciation in ER along with deterioration of quality of FX Loans (50 % Provisioning)	(0.2)	11.2	0.0	11.8
Scenario 13 Depreciation in ER alongwith deterioration of quality of FX Loans (100 percet provisioning)	(1.7)	9.7	(2.4)	9.3
Market Shocks; Equity Price Shocks				
Scenario 14 Fall in the KSE index (historical high)	(0.3)	11.1	(0.4)	11.4
Scenario 15 Fall in the KSE index (hypothetical scenario)	(0.8)	10.6	(1.2)	10.5
Liquidity Shocks				
Liquidity Coverage Ratio	***Actual***	***After Shock***	***Actual***	***After Shock***
Scenario 16 Fall in the Liquid Liabilities (1)	40.1	33.5	42.3	35.9
Scenario 17 Fall in the Liquid Liabilities (2)	40.1	25.2	42.3	27.9

Note: The results are not adjusted for deferred tax benefit accruing on these losses

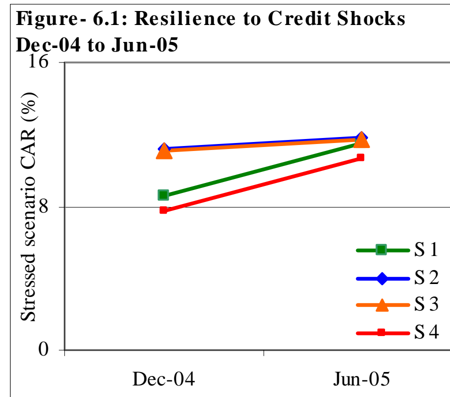
Analysis of the Results

The results of the stress scenarios in three types of shocks: credit, market, and liquidity shocks have been summarized as follows:

Credit Shocks

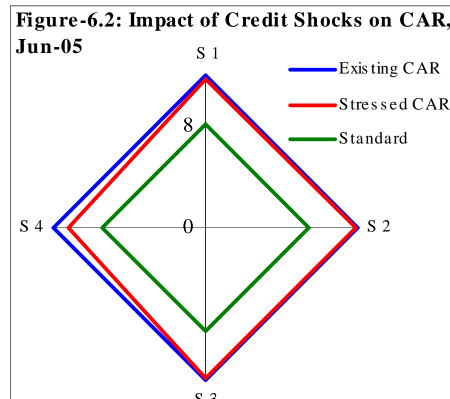
Banks show strong resilience towards different credit shocks and their capacity to withstand these shocks has significantly improved since Dec-04 (see **Figure-6.1**). This improvement mainly emanates from the amelioration in solvency position and containment in exposure to credit risk as reflected in decline in infected portfolio and increased provisioning coverage.

Figure- 6.1: Resilience to Credit Shocks Dec-04 to Jun-05



Of the different credit stress scenarios envisaged for this exercise, Scenario-1 (10 percent increase in NPLs requiring 100 percent provisioning) has the highest impact on the banks capital adequacy ratio. However, the intensity of this shock remains quite contained given the strong CAR as well as adequate provisioning against NPLs and surplus cushion available in the form of general provisions. Under this scenario, the CAR for all commercial banks declines to 11.5 percent from 11.8 percent. Since the major share of banks' existing NPLs is lying in loss category and have sufficient provisioning coverage, the downgrading of NPLs categories i.e. ***(Scenario-2)*** has little impact on system's CAR. The susceptibility of the banks to the fall in value of the mortgaged properties ***(Scenario-3***) has also lowered i.e. CAR falls by only 20bps from existing 11.8 percent. The combined effect of these three individual stresses ***(Scenario-4***) also does not have significant impact on the system's solvency ratio that comes down to 10.7 percent and stays well above the 8 percent standard (see **Figure-6.2).** The system is operating well below the critical infection levels i.e. the level of NPLs to loans ratio that completely erodes the system's capital base has been estimated at 32.2 percent, while currently this infection ratio is at 7.8 percent. (S***cenario 5***).

Figure-6.2: Impact of Credit Shocks on CAR, Jun-05



Group-wise, the local private banks show the highest sensitivity to credit risk shocks mainly due to relatively lower CARs. However, the group maintains its solvency ratio above the minimum standard in all individual as well as combined credit shocks scenarios (i.e. scenario 1, 2, 3 and 4). Foreign Banks show the highest resilience, as they have the strongest CAR and provisioning coverage (see **Figure-6.3**).

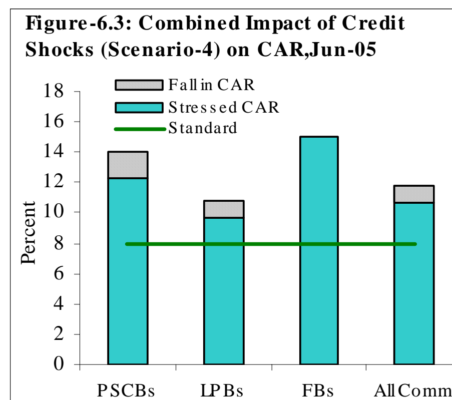


Figure-6.3: Combined Impact of Credit Shocks (Scenario-4) on CAR,Jun-05

Bank-wise analysis of the twelve large banks, which are strategically significant for the system's stability, shows that ten of these banks preserve their CARs above the 8 percent standard in individual as well as combined scenarios. The CAR of the two banks, which together hold 18 percent of the system's deposits, would fall below the 8 percent standard under scenario 4 capturing the combined impact of the three individual credit shocks (see **Figure-6.4**).

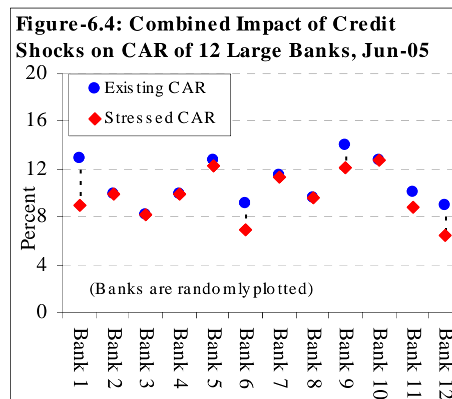


Figure-6.4: Combined Impact of Credit Shocks on CAR of 12 Large Banks, Jun-05

Market Shocks

In line with improved resilience to credit shock, the system continues to show strong resilience towards all the four ***interest rate*** shocks including parallel shift, the flattening and steepening of the yield curves.

Among the interest rate shocks, highest strain has been put by the large steepening in yield curve with a 100, 300 and 500 bps rise in outlying maturities ***(Scenario-7***). However, the CAR of the commercial banks, with a fall of 1.9 percentage points to 9.9 percent, stays well above the minimum level of 8 percent. The PSCBs due to high asset sensitive gaps in the longer-term time buckets show the highest susceptibility to this shock, and their CAR comes down by 4.9 percentage points to 9.1 percent.

With the parallel shift in yield curve by 300 basis points ***(Scenario-6***) the estimated decline in CAR would be 1.1 percentage points to 10.6 percent. PSCBs with the highest repricing GAPs show the highest vulnerability to this shock also and their CAR after shedding 2.9 percentage points reduced to 11.1 percent. And the impact of lower level of shocks under scenarios 8 & 9 remains contained (see **Figure-6.5**).

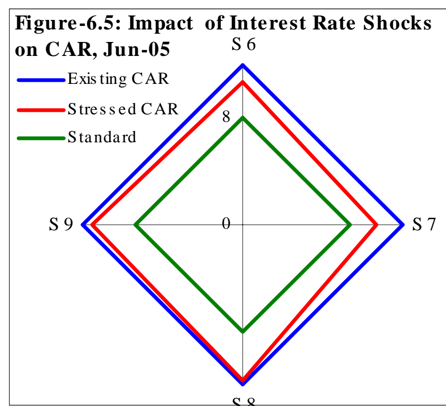


Figure-6.5: Impact of Interest Rate Shocks on CAR, Jun-05

Group wise, FBs due to their stronger capital adequacy ratios show the highest resilience towards interest rate shocks. But the dispersion in the level of fall in CAR among the 12 banks under study is considerable. Under the scenario 7, the CARs of five banks would fall below the required level of 8 percent.

The ***exchange rate*** shocks also do not show any significant bearing on the already strengthened CAR of all commercial banks. Since the banks are holding long position in foreign currency, the depreciation in rupee value ***(Scenario-10***) would in fact benefit them. However, under the hypothetical scenario of 20 percent appreciation in rupee value the CAR of the commercial banks would fall by 1.3 percentage points to 10.4 percent (see **Figure-6.6**). The results after taking into account the indirect impact of depreciation, i.e. deterioration in the credit quality of the foreign currency loans due to exchange rate movements, are also not a source of concern ***(Scenario 12 & 13***). However, on group-wise basis LPBs show susceptibility to extreme shocks ***(Scenario-13)*** as their overall CAR falls below the 8 percent, while other groups remain largely immune to this shock.

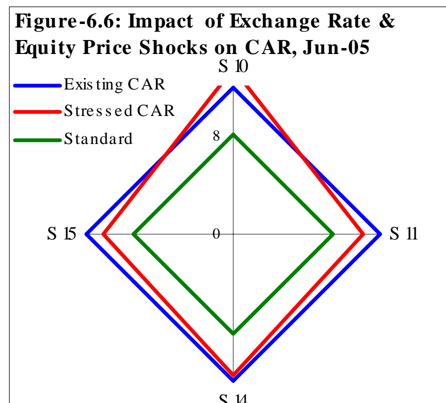


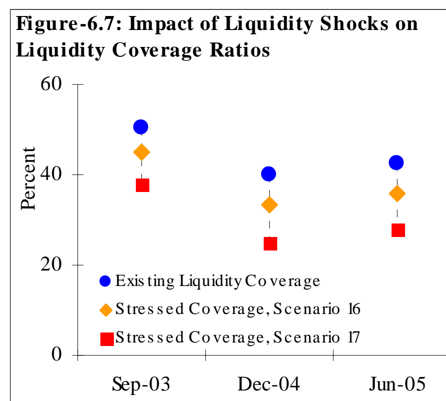
Figure-6.6: Impact of Exchange Rate & Equity Price Shocks on CAR, Jun-05

The equity price shocks cover both the direct and indirect exposure of the banks towards the stock market. The results of simple univariate shocks of decline in the stock market index show a slight increase in exposure to the stock market. The CAR under larger shock scenario i.e. 40 percent fall in the value of their holdings, i.e.

scenario-15, would lower to 10.5 percent (see Figure-6.6), while two of the 12 largest banks might face a fall in their CAR below 8 percent. Group wise, LPBs are carrying highest exposure, nevertheless their overall CAR remains above the 8 percent level.

Liquidity Risk:
The two scenarios i.e. Scenarios 18 and 19 have been identified to assess the system's ability to withstand severe withdrawals of funds. These scenarios assume 10 and 20 percent squeeze in the liquid liabilities, respectively, and the impact has been calibrated in terms of residual liquidity coverage ratio after these shocks. In recent quarters banks have significantly expanded their lending portfolio. This has squeezed the excess liquidity cushion, which the system was enjoying in the recent past; though the system continued to have sufficient liquidity cushion for ensuring continuity of operations. This quarter's results also signify stabilization in this trend of squeezing liquidity coverage (see **Figure-6.7**). All the groups and 10 of the 12 systemically important banks would have their liquid assets to liquid liabilities ratio above 20 percent in extreme shock scenario.

Figure-6.7: Impact of Liquidity Shocks on Liquidity Coverage Ratios



Conclusion:

The banking system shows an overall resilience to the historical and hypothetical shocks of both the univariate and multivariate types. Among the univariate shocks, interest rate shock of sharp steepening in yield curve is likely to put highest strain on the solvency ratio of the system, which though preserves the ratio above 8 percent standard. The other scenarios like increase in NPLs, negative shift in the categories of NPLs, fall in value of collateral, shift and mild movements in yield curve, and fall in stock market index would have a limited effect on the capital adequacy ratio. Group wise, LPBs, though with a double digit CAR, are more susceptible to the large shocks due to comparatively lesser cushion in their CARs and the high credit and market exposures, followed by PSCBs and FBs.

Financial Soundness Indicators

Annex-I

Indicators	2000	2001	2002	2003	2004	Mar-05	Jun-05
CAPITAL ADEQUACY							
Risk Weighted CAR							
Public Sector Commercial Banks	10.4	9.6	12.3	11.0	13.4	14.4	14.1
Local Private Banks	9.2	9.5	9.7	9.0	10.1	10.4	10.8
Foreign Banks	18.0	18.6	23.2	23.0	17.4	17.2	15.0
Commercial Banks	**11.4**	**11.3**	**12.6**	**11.1**	**11.4**	**11.8**	**11.8**
Specialized Banks	(3.3)	(13.9)	(31.7)	(28.2)	(9.0)	(14.4)	(10.2)
All Banks	**9.7**	**8.8**	**8.8**	**8.5**	**10.5**	**10.7**	**10.9**
Tier 1 Capital to RWA							
Public Sector Commercial Banks	7.7	7.1	8.6	8.2	8.6	9.2	9.3
Local Private Banks	8.1	8.4	6.6	7.1	7.5	7.8	8.3
Foreign Banks	17.9	18.6	23.0	23.0	17.1	16.8	14.5
Commercial Banks	**9.8**	**9.7**	**9.7**	**9.1**	**8.6**	**8.9**	**9.1**
Specialized Banks	(3.4)	(13.9)	(31.7)	(28.7)	(15.0)	(20.2)	(16.3)
All Banks	**8.3**	**7.3**	**6.2**	**6.5**	**7.6**	**7.7**	**8.1**
Capital to Total Assets							
Public Sector Commercial Banks	4.6	3.7	5.6	6.1	8.2	9.3	8.8
Local Private Banks	3.5	3.8	5.2	5.1	6.5	6.6	6.6
Foreign Banks	8.8	8.5	10.6	10.0	9.0	8.9	7.7
Commercial Banks	**4.9**	**4.6**	**6.1**	**6.0**	**7.1**	**7.4**	**7.2**
Specialized Banks	(1.1)	(10.3)	(23.0)	(9.5)	(11.3)	(13.5)	(9.2)
All Banks	**4.5**	**3.8**	**4.8**	**5.4**	**6.5**	**6.7**	**6.6**
ASSET QUALITY							
NPLs to Total Loans							
Public Sector Commercial Banks	26.3	25.9	25.5	20.4	13.3	13.2	11.8
Local Private Banks	15.4	16.3	15.4	11.3	9.0	8.1	7.5
Foreign Banks	4.7	4.3	3.8	3.1	1.6	1.4	1.5
Commercial Banks	**19.5**	**19.6**	**17.7**	**13.7**	**9.0**	**8.4**	**7.8**
Specialized Banks	52.4	53.0	54.7	55.6	54.1	49.2	57.7
All Banks	**23.5**	**23.4**	**21.8**	**17.0**	**11.6**	**10.6**	**10.6**
Provision to NPLs							
Public Sector Commercial Banks	59.2	56.6	57.1	65.8	77.0	75.3	78.5
Local Private Banks	36.9	40.5	58.6	62.7	70.2	72.5	73.5
Foreign Banks	65.9	74.1	73.3	77.4	101.9	109.3	118.6
Commercial Banks	**53.9**	**53.2**	**58.2**	**64.7**	**72.7**	**73.9**	**75.7**
Specialized Banks	58.1	59.2	66.9	60.8	68.6	77.8	68.7
All Banks	**55.0**	**54.7**	**60.6**	**63.7**	**71.6**	**74.9**	**73.6**
Net NPLs to Net Loans							
Public Sector Commercial Banks	12.7	13.1	12.8	8.1	3.4	3.6	2.8
Local Private Banks	10.3	10.4	7.0	4.5	2.8	2.4	2.1
Foreign Banks	1.7	1.1	1.1	0.7	(0.0)	(0.1)	(0.3)
Commercial Banks	**10.1**	**10.3**	**8.3**	**5.3**	**2.6**	**2.3**	**2.0**
Specialized Banks	31.6	31.5	28.5	33.0	27.0	17.7	29.9
All Banks	**12.2**	**12.1**	**9.9**	**6.9**	**3.6**	**2.9**	**3.0**
Net NPLs to Capital							
Public Sector Commercial Banks	124.5	160.2	83.4	50.0	17.2	17.5	14.2
Local Private Banks	153.5	125.2	54.8	40.5	24.1	20.1	17.6
Foreign Banks	9.0	5.8	4.7	3.3	(0.2)	(0.8)	(1.8)
Commercial Banks	**96.7**	**100.7**	**54.2**	**37.5**	**19.2**	**16.7**	**14.6**
Specialized Banks	-	-	-	-	-	-	-
All Banks	**131.3**	**150.5**	**85.5**	**55.4**	**28.8**	**23.0**	**24.1**
EARNINGS							
Return on Assets (Before Tax)							
Public Sector Commercial Banks	0.5	-	1.3	1.8	2.4	2.4	2.7
Local Private Banks	(0.1)	0.9	1.4	2.2	1.7	2.4	2.4
Foreign Banks	1.4	1.7	2.3	2.6	2.5	2.7	2.7
Commercial Banks	**0.4**	**0.6**	**1.5**	**2.1**	**1.9**	**2.5**	**2.5**
Specialized Banks	(2.3)	(8.4)	(10.2)	(2.5)	(2.5)	(7.8)	(3.5)
All Banks	**0.3**	**0.1**	**0.9**	**1.9**	**1.8**	**2.1**	**2.3**
Return on Assets (After Tax)							
Public Sector Commercial Banks	0.2	(0.5)	0.6	1.0	1.3	1.5	1.6
Local Private Banks	(0.7)	0.4	0.7	1.4	1.2	1.6	1.6
Foreign Banks	0.6	0.8	1.5	1.5	2.0	1.8	1.8
Commercial Banks	**(0.0)**	**(0.0)**	**0.8**	**1.2**	**1.3**	**1.6**	**1.6**
Specialized Banks	(2.3)	(8.8)	(12.1)	(3.2)	(2.6)	(7.8)	(3.7)
All Banks	**(0.2)**	**(0.5)**	**0.1**	**1.1**	**1.2**	**1.3**	**1.4**

Indicators	2000	2001	2002	2003	2004	Mar-05	Jun-05
ROE (Avg. Equity & Surplus) (Before Tax)							
Public Sector Commercial Banks	10.9	0.5	26.3	29.9	32.1	29.7	31.8
Local Private Banks	(3.2)	25.4	32.3	42.2	28.5	37.5	36.9
Foreign Banks	15.6	19.3	24.2	25.2	26.7	30.6	31.3
Commercial Banks	**8.8**	**12.2**	**27.5**	**34.0**	**29.1**	**34.7**	**35.0**
Specialized Banks	-	-	-	-	-	-	-
All Banks	**5.7**	**1.4**	**21.1**	**36.4**	**29.4**	**32.2**	**34.9**
ROE (Avg. Equity & Surplus) (After Tax)							
Public Sector Commercial Banks	4.9	(12.2)	11.5	17.3	18.0	18.6	19.1
Local Private Banks	(17.4)	10.3	17.3	26.2	20.1	24.9	24.8
Foreign Banks	6.1	9.1	15.2	14.9	21.5	20.1	20.8
Commercial Banks	**(0.3)**	**(0.3)**	**14.3**	**20.5**	**19.8**	**22.7**	**22.9**
Specialized Banks	-	-	-	-	-	-	-
All Banks	**(3.5)**	**(12.6)**	**3.2**	**20.5**	**19.5**	**19.7**	**22.1**
NII/Gross Income							
Public Sector Commercial Banks	61.8	69.9	69.5	64.1	64.1	72.3	69.7
Local Private Banks	63.2	72.1	65.5	56.8	62.8	69.5	71.8
Foreign Banks	54.0	59.4	57.5	55.3	57.6	65.0	64.5
Commercial Banks	**61.2**	**68.9**	**66.1**	**59.4**	**62.5**	**69.6**	**70.6**
Specialized Banks	78.6	86.7	78.0	75.8	90.9	89.2	86.8
All Banks	**62.3**	**70.4**	**67.1**	**60.5**	**64.0**	**70.6**	**71.1**
Cost / Income Ratio							
Public Sector Commercial Banks	70.1	62.3	56.9	42.8	39.4	40.4	40.2
Local Private Banks	80.9	67.3	60.0	53.2	56.3	47.9	49.4
Foreign Banks	59.4	54.5	45.4	48.3	49.0	45.7	46.5
Commercial Banks	**71.6**	**62.7**	**56.7**	**48.6**	**51.8**	**46.2**	**47.2**
Specialized Banks	70.5	59.0	84.7	55.6	47.9	56.0	63.1
All Banks	**71.6**	**62.4**	**59.1**	**49.1**	**51.6**	**46.7**	**48.2**
LIQUIDITY							
Liquid Assets/Total Assets							
Public Sector Commercial Banks	37.1	36.5	49.0	49.0	43.4	39.3	39.5
Local Private Banks	34.0	39.8	47.1	42.9	34.3	34.3	35.0
Foreign Banks	45.2	50.3	48.5	49.8	39.9	39.6	42.0
Commercial Banks	**37.5**	**39.9**	**48.1**	**46.0**	**36.9**	**35.9**	**36.6**
Specialized Banks	12.7	13.6	16.4	22.2	25.7	24.3	29.9
All Banks	**36.0**	**38.5**	**46.7**	**45.1**	**36.5**	**35.5**	**36.4**
Liquid Assets/Total Deposits							
Public Sector Commercial Banks	45.0	43.4	59.6	59.0	51.7	47.5	46.5
Local Private Banks	44.3	49.6	60.2	54.5	42.3	42.7	43.2
Foreign Banks	67.7	78.3	74.2	69.7	53.4	54.1	57.8
Commercial Banks	**48.0**	**50.3**	**61.5**	**57.9**	**45.5**	**44.8**	**45.2**
Specialized Banks	90.8	79.8	98.5	131.5	153.2	169.6	233.7
All Banks	**48.5**	**50.7**	**61.8**	**58.5**	**46.3**	**45.6**	**46.3**
Advances/Deposits							
Public Sector Commercial Banks	54.0	53.8	44.3	45.6	49.8	54.3	52.7
Local Private Banks	67.5	57.9	52.3	58.3	67.6	69.2	67.9
Foreign Banks	71.5	66.8	72.0	63.9	70.1	69.9	67.0
Commercial Banks	**60.5**	**56.9**	**51.0**	**53.6**	**63.7**	**66.1**	**64.5**
Specialized Banks	553.0	450.5	453.8	381.5	359.3	426.1	449.0
All Banks	**66.2**	**61.7**	**54.9**	**56.5**	**65.9**	**68.2**	**66.6**

NOTE: The indicators for March and June 2005 are based on Un-audited returns

Annex-II

Selected Indicators for Different Categories of Banks, June 30, 2005

Indicators	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	55.8%	73.4%	92.7%	100%
Share of Total Deposits	59.7%	77.7%	94.1%	100%
Share of Gross Income	55.6%	75.1%	94.6%	100%
Share of Risk Weighted Assets	52.5%	70.6%	92.1%	100%
Capital Adequacy				
Capital/RWA	10.9%	11.0%	11.6%	10.9%
Tier 1 Capital / RWA	7.4%	7.9%	8.6%	8.1%
Net Worth / Total Assets	6.6%	6.6%	6.9%	6.6%
Asset Composition				
Sectoral Distribution of Loans (Domestic)				
- Corporate Sector	49.0%	71.1%	92.4%	100%
- SMEs	53.8%	69.7%	87.9%	100%
- Agriculture	27.6%	30.2%	94.5%	100%
- Consumer Finance	59.0%	81.9%	95.8%	100%
- Commodity Financing	74.3%	88.9%	98.0%	100%
- Staff Loans	67.6%	84.6%	95.0%	100%
- Others	50.6%	68.0%	87.4%	100%
- **Total**	**51.8%**	**70.8%**	**92.6%**	**100%**
NPLs / Gross Loans	9.7%	9.1%	9.7%	10.6%
Net NPLs / Capital	16.3%	17.6%	20.9%	24.1%
Earning & Profitability				
ROA	1.5%	1.6%	1.5%	1.4%
ROE	22.3%	24.6%	21.7%	22.1%
Net Interest Income / Gross Income	72.9%	72.0%	71.5%	71.1%
Income from Trading & Foreign Exchange / Gross Income	8.9%	8.3%	8.3%	8.5%
Non-Interest Expense / Gross Income	50.3%	47.6%	46.5%	48.2%
Liquidity				
Liquid Assets / Total Assets	37.8%	36.5%	36.1%	36.4%
Liquid Assets held in Govt. Securities / Total Liquid Assets	55.2%	55.5%	54.4%	53.3%
Liquid Assets / Total Deposits	44.9%	43.8%	45.2%	46.3%

Major Banking Statistics, June 30, 2005 Annex-II

(Million Rs)

S. #	Name of Bank	Assets	Deposits	Equity
1	Bank of Khyber	23,972	16,911	2,194
2	Bank of Punjab	85,496	70,396	10,739
3	First Women Bank Limited	8,877	7,916	645
4	National Bank of Pakistan	566,310	487,387	46,781
5	Industrial Development Bank of Pakistan	8,717	10,506	(25,190)
6	Zarai Taraqiati Bank Limited	82,442	1,909	11,136
7	Pumjab Provincial Cooperative Bank	13,347	1,689	1,929
8	SME Bank	8,283	324	1,744
9	Allied Bank of Palistan	169,964	143,605	11,217
10	Bank Alfalah Limited	185,034	162,736	6,546
11	Bank Alhabib Limited	82,678	65,779	4,284
12	Askari Commercial Bank Limited	127,285	103,646	6,713
13	Crescent Commercial Bank Limited	10,680	5,482	2,192
14	Dawood Bank Limited	6,076	858	1,517
15	Habib Bank Limited	497,054	412,284	34,280
16	Faysal Bank Limited	93,178	70,032	11,165
17	KASB Bank Limited	15,965	10,289	1,725
18	MCB Bank Limited	300,393	241,461	17,956
19	Meezan Bank Limited	23,846	16,998	2,394
20	Metropolitan Bank Limited	72,605	51,452	4,564
21	Mybank Limited	14,546	10,729	1,862
22	NDLC-IFIC Bank Limited	23,745	14,299	4,115
23	PICIC Commercial Bank Limited	55,152	45,982	4,060
24	Prime Commercial Bank Limited	46,722	35,118	3,141
25	SaudiPak Commercial Bank Limited	39,312	31,414	2,577
26	Soneri Bank Limited	55,171	41,464	3,365
27	United Bank Limited	319,263	269,130	18,381
28	Union Bank Limited	87,984	69,629	4,132
29	ABN Amro Bank	56,388	45,557	3,103
30	Rupali Bank Limited	560	176	103
31	Oman International Bank	1,768	579	1,030
32	Habib Bank AG Zurich	42,166	28,354	2,277
33	HongKong & Shanghai Banking Corporation	14,183	9,704	1,688
34	Deutche Bank Limited	5,327	2,461	1,302
35	Bank of Tokyo	4,942	2,965	1,879
36	Citibank	67,676	46,043	4,874
37	Bank Albaraka	11,615	7,506	1,980
38	Standard Chartered Bank	111,842	87,565	5,858
39	American Express Bank	8,641	5,129	1,077
Total		**3,349,208**	**2,635,467**	**221,337**

Group-wise Composition of Banks **Annex-IV**

1997-1998	2003	2004	Jun-2005
A. Public Sector Comm. Banks (6) - Habib Bank Ltd. - National Bank of Pakistan - United Bank Ltd. - First Women Bank Ltd. - The Bank of Khyber - The Bank of Punjab **B. Local Private Banks (16)** - Askari Commercial Bank Ltd. - Bank Al-Falah Ltd. - Bank Al Habib Ltd. - Bolan Bank Ltd. - Faysal Bank Ltd. - Metropolitan Bank Ltd. - Platinum Commercial Bank Ltd - Prime Commercial Bank Ltd. - Prudential Commercial Bank Ltd - Gulf Commercial Bank Ltd. - Soneri Bank Ltd. - Union Bank Ltd. - Muslim Commercial Bank Ltd - Allied Bank of Pakistan - Trust Bank Ltd. - Indus Bank Ltd. **C. Foreign Banks (20)** - ABN Amro Bank - Al Baraka Islamic Bank - American Express Bank Ltd. - ANZ Grindlays Bank - Bank of America - Bank of Ceylon - The Bank of Tokyo – Mitsubishi - Citibank, N.A. - Credit Agricole Indosuez - Deutsche Bank A.G. - Doha Bank - Emirates Bank International - Habib Bank A. G. Zurich - The Hongkong & Shanghai Banking Corporation Ltd. - IFIC Bank Ltd. - Mashreq Bank PJSC - Oman International Bank S.A.O.G - Rupali Bank Ltd. - Societe Generale - Standard Chartered Bank **D. Specialized Banks (4)** - Agriculture Development Bank of Pakistan - Industrial Development Bank of Pakistan - Federal Bank for Co-operatives - Punjab Provincial Co-operative Bank Ltd. **All Commercial Banks (42)** Include A + B + C **All Banks (46)** Include A + B + C + D	**A. Public Sector Comm. Banks (5)** - Habib Bank Ltd[1] - National Bank of Pakistan - First Women Bank Ltd. - The Bank of Khyber - The Bank of Punjab **B. Local Private Banks (18)** - Askari Commercial Bank Ltd. - Bank Al-Falah Ltd. - Bank Al Habib Ltd. - Bolan Bank Ltd. - Faysal Bank Ltd. - Metropolitan Bank Ltd. - KASB Bank Ltd. - Prime Commercial Bank Ltd. - Saudi Pak Commercial Bank Ltd - PICIC Commercial Bank Ltd. - Soneri Bank Ltd. - Union Bank Ltd. - Muslim Commercial Bank Ltd. - Allied Bank of Pakistan - United Bank Ltd. - Meezan Bank - NDLC-IFIC Bank Ltd - Crescent Bank Ltd. **C. Foreign Banks (14)** - ABN Amro Bank - Al Baraka Islamic Bank - American Express Bank Ltd. - Bank of Ceylon[2] - The Bank of Tokyo – Mitsubishi - Citibank, N.A. - Credit Agricole Indosuez[3] - Deutsche Bank A.G. - Doha Bank[4] - Habib Bank A. G. Zurich - The Hongkong & Shanghai Banking Corporation Ltd. - Oman International Bank S.A.O.G - Rupali Bank Ltd. - Standard Chartered Bank **D. Specialized Banks (3)** - Zari Taraqiati Bank Ltd. - Industrial Development Bank of Pakistan - Punjab Provincial Co-operative Bank Ltd. **All Commercial Banks (37)** Include A + B + C **All Banks (40)** Include A + B + C + D	**A. Public Sector Comm. Banks (4)** - National Bank of Pakistan - First Women Bank Ltd. - The Bank of Khyber - The Bank of Punjab **B. Local Private Banks (20)** - Askari Commercial Bank Ltd. - Bank Al-Falah Ltd. - Bank Al Habib Ltd. - Bolan Bank Ltd. - Faysal Bank Ltd. - Metropolitan Bank Ltd. - KASB Bank Ltd. - Prime Commercial Bank Ltd. - Saudi Pak Commercial Bank Ltd - PICIC Commercial Bank Ltd. - Soneri Bank Ltd. - Union Bank Ltd. - Muslim Commercial Bank Ltd. - Allied Bank of Pakistan - United Bank Ltd. - Meezan Bank - NDLC-IFIC Bank Ltd - Crescent Bank Ltd. - Habib Bank Ltd - Dawood Bank **C. Foreign Banks (11)** - ABN Amro Bank - Al Baraka Islamic Bank - American Express Bank Ltd. - The Bank of Tokyo – Mitsubishi - Citibank, N.A. - Deutsche Bank A.G. - Habib Bank A. G. Zurich - The Hongkong & Shanghai Banking Corporation Ltd. - Oman International Bank S.A.O.G - Rupali Bank Ltd. - Standard Chartered Bank **D. Specialized Banks (3)** - Zari Taraqiati Bank Ltd. - Industrial Development Bank of Pakistan - Punjab Provincial Co-operative Bank Ltd. **All Commercial Banks (36)** Include A + B + C **All Banks (38)** Include A + B + C + D	**A. Public Sector Comm. Banks (4)** - National Bank of Pakistan - First Women Bank Ltd. - The Bank of Khyber - The Bank of Punjab **B. Local Private Banks (20)** - Askari Commercial Bank Ltd. - Bank Al-Falah Ltd. - Bank Al Habib Ltd. - Bolan Bank Ltd. - Faysal Bank Ltd. - Metropolitan Bank Ltd. - KASB Bank Ltd. - Prime Commercial Bank Ltd. - Saudi Pak Commercial Bank Ltd - PICIC Commercial Bank Ltd. - Soneri Bank Ltd. - Union Bank Ltd. - Muslim Commercial Bank Ltd. - Allied Bank of Pakistan - United Bank Ltd. - Meezan Bank - NDLC-IFIC Bank Ltd - Crescent Bank Ltd. - Habib Bank Ltd - Dawood Bank **C. Foreign Banks (11)** - ABN Amro Bank - Al Baraka Islamic Bank - American Express Bank Ltd. - The Bank of Tokyo – Mitsubishi - Citibank, N.A. - Deutsche Bank A.G. - Habib Bank A. G. Zurich - The Hongkong & Shanghai Banking Corporation Ltd. - Oman International Bank S.A.O.G - Rupali Bank Ltd. - Standard Chartered Bank **D. Specialized Banks (4)** - Zari Taraqiati Bank Ltd. - Industrial Development Bank of Pakistan - Punjab Provincial Co-operative Bank Ltd. - SME Bank Limited **All Commercial Banks (35)** Include A + B + C **All Banks (39)** Include A + B + C + D

1. *HBL now stands as local private bank after being privatized on 26-02-2004.*
2. *Bank of Ceylon was merged with Dawood Commercial Bank on 25-03-2004.*
3. *Credit Agricole was merged with NDLC-IFIC Bank on 19-04-2004.*
4. *Doha Bank was merged with Trust Commercial Bank which was later merged with Crescent Commercial Bank.*
5. *SME Bank Ltd has been included in Specialized Banks category after it has been granted the banking license during Jun 2005 quarter*