

Quarterly Performance Review of the Banking System September 2009



State Bank of Pakistan
Banking Surveillance Department

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Quarterly Performance Review of the Banking System September 2009¹

1. Overview

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

	CY04	CY05	CY06	CY07	Sep-08	CY08	Jun-09	Sep-09
	(billion Rupees)							
Total Assets	3,043	3,660	4,353	5,172	5,511	5,627	6,087	6,105
Investments (net)	679	800	833	1,276	1,028	1,080	1,409	1,593
Advances (net)	1,574	1,991	2,428	2,688	3,089	3,183	3,176	3,119
Deposits	2,393	2,832	3,255	3,854	4,064	4,217	4,563	4,483
Equity	202	292	402	544	562	563	623	641
Profit Before Tax (PBT)	52	94	124	107	82	63	48	70
Profit After Tax (PAT)	35	63	84	73	53	43	29	42
Provisioning Charges	11	19	22	60	52	106	42	64
Non-Performing Loans	200	177	177	218	278	359	398	422

The general slowdown in economic activities and associated deterioration in the business environment continued to reflect in slow growth of banking system and increase in non-performing loans (NPLs), as the overall macroeconomic outlook with slight improvement on a few fronts remained tenuous². The NPLs of the system after showing some let up in last quarter, again increased at relatively fast pace during the quarter under review, while the asset base with shift in asset mix from advances to investments and decline in deposit base remained stable. Due to growth in capital as well as further decline in risk-adjusted exposures, the base line indicators of solvency improved, though the risk to solvency from heightened credit risk and deteriorating asset quality increased further.

Table 1.2: Highlights of the quarter ended Sep-09

	Sep-08	CY08	Mar-09	Jun-09	Sep-09
	(in percent)				
Asset Growth	0.0	8.8	1.6	6.0	0.3
Loans Growth	5.7	18.3	(5.6)	5.0	(1.8)
Deposit Growth	3.0	9.4	0.0	8.2	(1.7)
Investments Growth	(8.4)	(15.4)	20.0	8.5	13.1
Equity Growth	0.1	3.4	1.5	4.7	3.0
Capital Adequacy	11.8	12.3	12.9	13.5	14.3
Capital to Total Assets	10.2	10.0	10.3	10.2	10.5
NPLs to Loans	8.4	10.5	11.5	11.5	12.4
Net NPLs to Net Loans	1.9	3.4	3.9	3.7	4.1
ROA (Before Tax)	2.0	1.2	1.8	1.7	1.6
ROE* (Before Tax)	19.8	11.4	17.7	16.0	15.1
Liquid Assets/ Total Deposits	38.7	38.2	41.5	41.7	42.7
Advances to Deposit Ratio	76.0	75.5	71.7	69.6	69.6

Note: Growth rates are on quarterly basis, except for CY08 that represents annual growth
* Average Equity & Surplus

The asset base of the banking system with marginal growth remained stable during the quarter under review. The deposits base, which grew significantly during the last quarter, contracted over the quarter under review. On the asset side, decline in advances took place in both public and private sector lending. However, lending to private sector corporations in power & energy sector actually showed significant growth. As the funds realized from the retirements of loans and advances were mainly invested in federal government papers and the bonds of public sector utility corporations, the overall asset-mix further shifted from loans and advances to investments.

The increased macroeconomic vulnerabilities and constrained repayment capacity of borrowers have resulted in significant increase

¹The report presents performance of the banking system on the basis of unaudited Quarterly Report of Condition submitted by banks for the quarter ended 30th September, 2009.

²IMF's World Economic Outlook for October 2009 predicts that world Gross Domestic Product (GDP) would decline by 1.0 percent in 2009 followed by around 3 percent growth in 2010. Pakistan's economy also grew by only 2.0 percent during FY09 – the lowest for the outgoing decade – while the projection of 3.3 percent for FY10 also remains modest.

in NPLs of the banking system during the last three quarters or so. The quarter under review witnessed an inch up in infection rate as the NPLs accumulated at relatively faster rate of 6.0 percent to Rs422 billion. Due to a reduction in loans and advances, the infection ratio deteriorated. The inflow of fresh NPLs occurred mainly in OAEM (for agriculture) and Loss categories. Due to zero provisioning requirements for former category as well as the Forced Sale Value (FSV) benefit in provisioning requirements, the provisioning coverage of NPLs slightly receded to 69.7 percent and capital impairment ratio inched up to 19.9 percent for the banking system (17.6 percent for commercial banks).

The significant increase in loans loss provisioning moderated the earnings of the system; year to date profits grew at slightly slower than the proportionate rate and their level remained lower than the corresponding quarter of the last year. The baseline indicators of Return on Asset (ROA) and Return on Equity (ROE) with slight contraction over the quarter were also lower than the corresponding period of year, though still higher than entire year results of CY08. The overall profitability of the system has remained fair, however, the earnings were largely skewed towards large and medium-sized banks as the bottom line of most of small sized banks was low or in negatives.

Accumulation of year to date earnings and equity injections raised the equity base of the system. This growth was also augmented by improvement in revaluation surpluses on equity investments, and the leverage of the system slightly came off. Moreover, improvement in eligible capital and reduction in Risk Weighted Assets (RWA) as the banks shifted their asset mix from private sector credit to investments in Federal Government papers, improved the risk based Capital Adequacy Ratio (CAR).

The reduction in deposit base during the quarter under review was accompanied by concomitant decline in advances and increase in short-term federal government papers, thus

slightly improving the fund-based liquidity indicators of the system. However, reduction in deposit base and slow growth in monetary aggregates (M2) coupled with banks' increased investments in government papers kept the market liquidity under strain for most part of the quarter under review. However, the market risk of the system remained subdued. A strong recovery by capital market not only covered the revaluation losses, which accumulated during later half of CY08, but also posted aggregate mark-to-market surplus. Interest rate risk with slight increase also remained low, as the slight inch up in interest rates by the end of quarter led to depreciation in the value of fixed income securities, while re-pricing mismatches remained within acceptable ranges.

Going forward, the heightened credit risk and increase in infected loan portfolio will remain the major challenge for the banking system. Nevertheless, the system shows strong capacity to withstand unusual shocks in the major risk factors and chances of any systemic risk remains contained. In the wake of traditional pick up in the economic activity during outgoing quarter, the credit to private sector is likely to gain momentum. However, slow growth in deposit base, increased risk aversion of banks and public sector's increased demand for bank credit could strain the flow of credit to private sector and slightly shift the asset mix further towards government papers. Even in the face of dampening impact from increasing NPLs, the earnings are expected to remain fair on aggregate basis. However, depending on their size and respective earning capacity, individual banks could post divergent results.

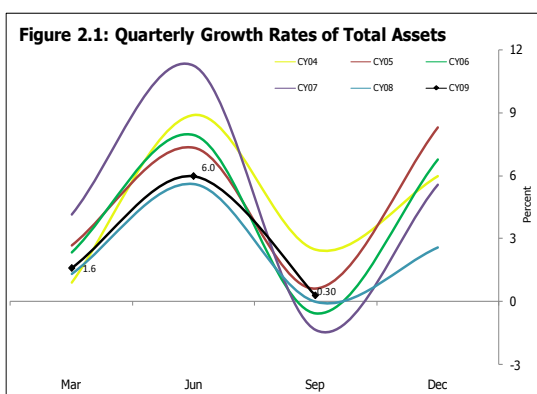
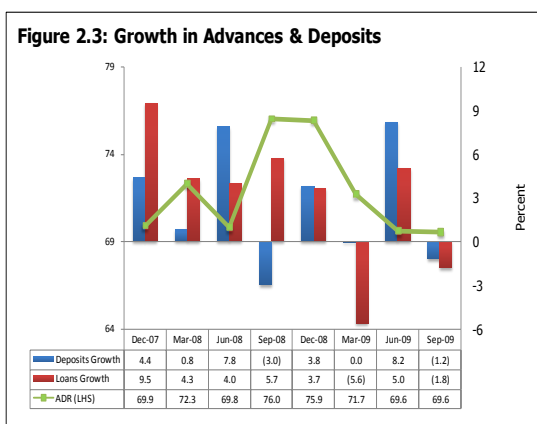
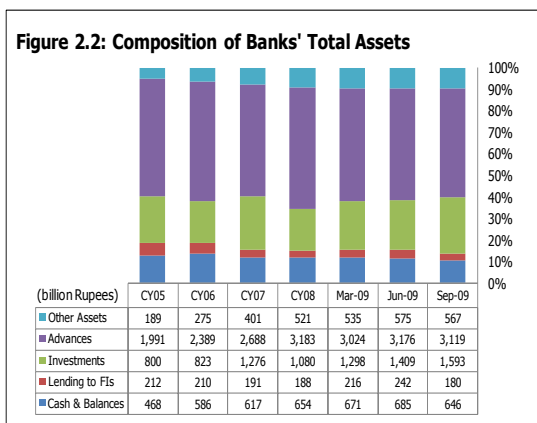


Table 2.1: Trends in Total Assets

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



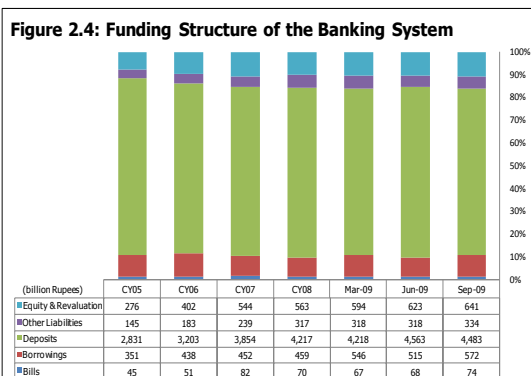
2. Balance Sheet Analysis

In line with seasonal pattern of economic activity and established trend, the asset base of the banking system remained almost stable during Sep-09 (see Figure 2.1 and Table 2.1). However, the relative share of two key assets components i.e. advances and investments continued to follow the trend that has been in vogue for the last one year or so. That is, the ongoing economic slowdown has significantly influenced the flow of deposit to the banking system as well as the asset allocation strategy. The private sector's low demand for bank credit is reinforced by banks' risk aversion due to heightened credit risk. In this scenario, public sector has emerged a leading user of banks credit - both in the form of GoP papers for budgetary support as well as the borrowings for commodity operations and public sector enterprises (PSEs) which are facing financial constraints mainly due to intra-corporate receivables. Accordingly, the composition of the asset base has been shifting away from advances to investments - and internal composition of advances from private sector to public sector and from SME and Consumer to Corporate segment.

During the quarter under review, both advances and deposits of the banking system marginally declined, while investments continued to witness significant growth. Accordingly, the asset and funding structure changed over the quarter (see Figure 2.2 and 2.3).

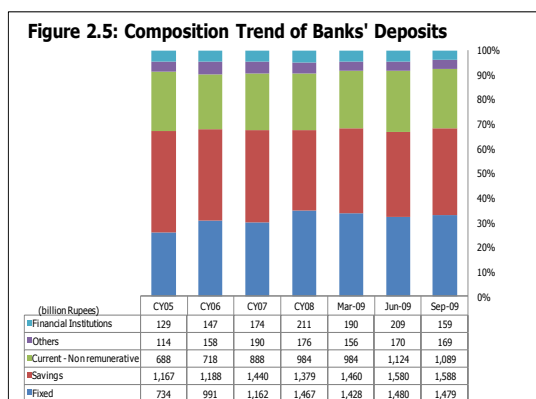
Cross-Sectional Analysis & Market Structure:

Disaggregated analysis along the major banking group shows that unlike PSCBs and FBs, LPBs witnessed a marginal increase in their asset base though the constituent banks witnessed mixed results. Decline in PSCBs's asset base was also largely contributed by one large bank, while other banks registered modest growth. Similarly, a couple of FBs which are following expansionary strategy posted strong growth which, however, was neutralized by decline in the asset base of other banks (see Table 2.1).

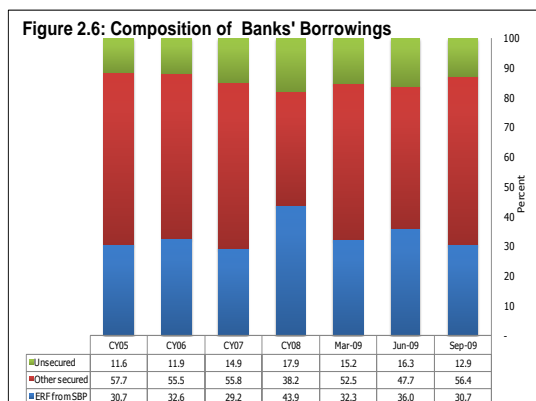


On individual basis, relatively medium-sized banks performed better in building their market share. The share of top five and top ten banks slightly came off to 50.5 and 72.9 percent, respectively. Details of market structure along key factors and risk indicators are given at Annexure-III.

Growth & Dynamics of Different Components of Assets and Liabilities:



Deposits of the banking system, declined marginally by 1.7 percent. Since the later half of CY08, the banking system has been facing a tough competition from Central Directorate of National Savings' (CDNS) schemes in mobilizing the additional funds. Total investment in CDNS scheme further increased by 5 percent over the quarter (28 percent YoY basis); these investments now come to around 34 percent of banks' domestic deposits as against 30 percent in corresponding quarter of the last year. Disaggregated analysis of the deposits shows that over the quarter decline was largely contributed by Financial Institutions deposits and current accounts, however, the overall composition of deposits remained more or less stable at previous quarter's level (see Figure 2.5).



Banks made good the decline in deposits through **borrowings** which increased by 11 percent by the end of quarter. However, the internal composition of borrowings changed from unsecured to secured borrowings as the increased level of GoP papers, inter alia, allowed the banks to replace their unsecured borrowings with secured ones (see Figure 2.6).

The buildup of year to date profits, capital injections by a few banks for meeting the Minimum Capital Requirements (MCR), and improvements in revaluation surpluses led to a stronger increase (as compared with growth in asset base) in *shareholders' equity and net worth*. Accordingly, the leverage (total assets to equity) of the system slightly came off.

Table 2.2: Composition of Banks' Advances

	(in percent)						
	CY06	CY07	Jun-08	CY08	Mar-09	Jun-09	Sep-09
Public	8.1	7.6	8.0	10.8	11.0	17.4	17.5
Private	91.9	92.4	92.0	89.2	89.0	82.6	82.5

Figure 2.7: Segment -wise Advances

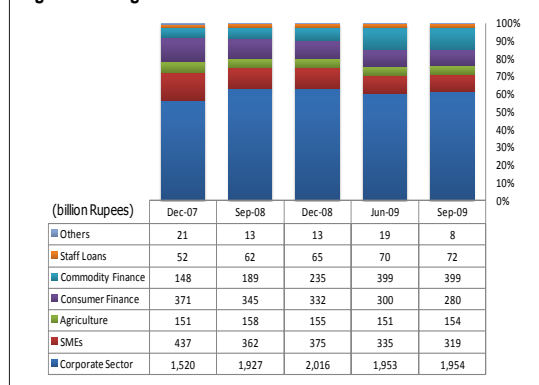
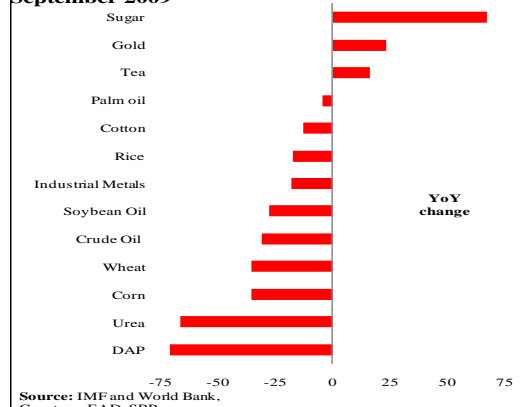


Table 2.3: End-use of Advances (net)

	(amount in billion Rupees, share in percent)							
	Dec-07		Dec-08		Jun-09		Sep-09	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Fixed Investment	609.2	22.6	738.1	23.1	766.9	23.8	828.2	26.0
Corporate Sector	549.0	20.3	694.2	21.7	727.9	22.6	788.5	24.8
SMEs	60.3	2.2	43.9	1.4	39.0	1.2	39.7	1.2
Trade Finance	415.9	15.4	480.6	15.1	474.1	14.7	474.9	14.9
Corporate Sector	348.0	12.9	438.3	13.7	435.8	13.5	436.5	13.7
SMEs	67.9	2.5	42.3	1.3	38.3	1.2	38.4	1.2
Working Capital*	1,231.6	45.6	1,562.9	49.0	1,596.0	49.5	1,523.0	47.8
Corporate Sector	623.2	23.1	883.3	27.7	788.9	24.5	729.0	22.9
SMEs	309.1	11.4	288.8	9.0	257.9	8.0	240.8	7.6
Agriculture	150.8	5.6	155.5	4.9	150.5	4.7	154.3	4.8
Commodity Financing	148.4	5.5	235.4	7.4	398.7	12.4	398.8	12.5
Consumer Finance	371.4	13.8	332.2	10.4	299.8	9.3	280.1	8.8
Credit Cards	46.8	1.7	40.7	1.3	35.8	1.1	34.2	1.1
Auto Loans	111.4	4.1	95.3	3.0	79.1	2.5	72.5	2.3
Consumer Durable	1.1	0.0	0.3	0.0	0.2	0.01	0.2	0.01
Mortgage Loan	67.4	2.5	66.9	2.1	61.7	1.9	62.2	2.0
Other personal Loans	144.7	5.4	128.8	4.0	123.0	3.8	111.0	3.5
Staff Loans	52.2	1.9	64.5	2.0	69.7	2.2	71.9	2.3
Housing Finance	36.8	1.4	46.7	1.5	50.2	1.6	53.2	1.7
Others	15.4	0.6	17.8	0.6	19.4	0.6	18.6	0.6
Others	20.6	0.8	13.5	0.4	19.5	0.6	7.6	0.2
Total	2,700.9	100	3,191.8	100	3,225.9	100	3,186	100

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

Figure 2.8: Percent Change in Price - September 2009



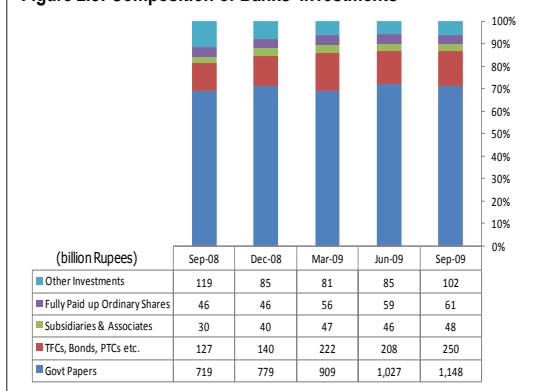
Source: IMF and World Bank, Courtesy: EAD, SBP

As mentioned earlier, **advances** of the banking system declined slightly during the quarter under review. Unlike last quarter's strong growth in public sector advances, the decline was observed both in public and private sector advances. Due to low aggregate demand in the economy as well as abroad, high borrowing costs on account of tight monetary policy, unresolved political and security issues, and the heightened credit risk in the economy, banks' lending to private sector has reduced significantly since the inception of the outgoing year. This reduction has been mainly taken up by public sector enterprises and commodity operations (see Table 2.2)³. Though aggregate advances showed reduction during the quarter under review, dynamics of different components and end-uses of advances show some instructive trends. The corporate sector, specifically the private sector corporations in energy & power sector, has in fact increased the bank borrowings; while reduction in overall advances portfolio mainly came from SME and Consumer sectors. Accordingly, the segment-wise composition of advance with slight change remained dominated by Corporate (see Figure 2.7). The end-use analysis of advances shows that reduction in advances mainly occurred in Working Capital finance, while Fixed Investments and Trade Finance showed increase –even for SME sector. This development indicates some revival in the entrepreneurs' outlook of the economy in coming days that they have started to invest in capital goods. Moreover, the reduction in working capital in itself could be traced to the reduction in commodity prices and easing out of Whole Sale Price Index (WPI) (see Figure 2.8), suggesting that businesses now, in rupee terms, need lesser inventories for maintaining the same level of operations as compared with last year (see Table 2.3).

Investments, particularly the investment in government papers and bonds of public sector utility corporations, have been attracting

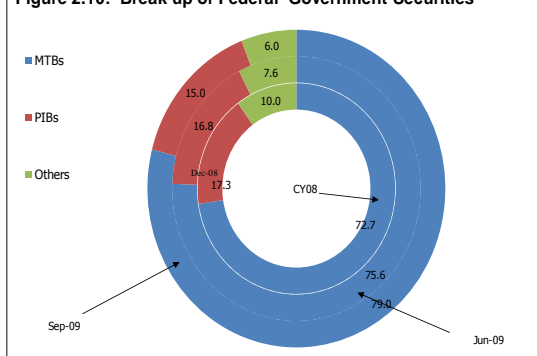
³ The analysis of advances in the following paragraphs is mainly based on domestic operations.

Figure 2.9: Composition of Banks' Investments



increased preference of banks since the last quarter of CY08. During the quarter under review, the investments again posted a strong increase of 13.1 percent – mainly in the government papers followed by bonds of public utilities and a marginal increase in equity investments (see Figure 2.9). The further breakup of GoP papers indicates that short-term Market Treasury Bills (MTBs) were the focus of banks' preference. The level of longer term Pakistan Investment Bonds (MTBs), which are subject to higher market risk and carry limited eligibility for the statutory liquidity reserve requirement (SLR), remained stable (see Figure 2.10).

Figure 2.10: Break up of Federal Government Securities



Going forward, the traditional pick up in the economic activity during last quarter is likely to increase the level of banks' advances. While reducing its commodity operation borrowings for wheat, the public sector is likely to borrow for rice and fertilizers. Nevertheless, the private sector credit is expected to rise during the quarter under review. However, banks ability to ensure smooth flow of credit to productive sectors of the economy and build up their portfolio of earning assets will largely depend upon their ability to mobilize additional deposits and divert assets from liquid assets to loans and advances. The latest available statistics for the first week of Nov-09 show significant growth in investments accompanied by moderate growth in loans advances, while deposits showing some stagnancy.

3. Risk Assessment of Banking System

3.1. Credit Risk

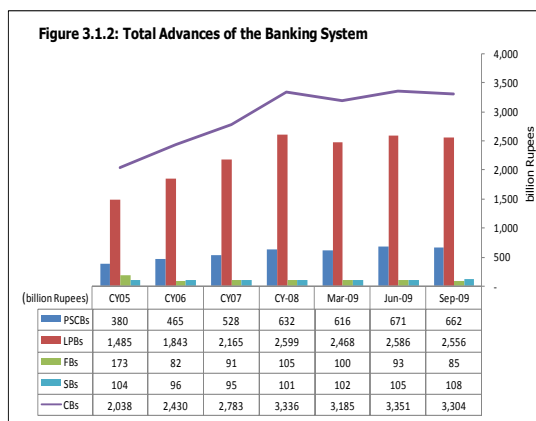
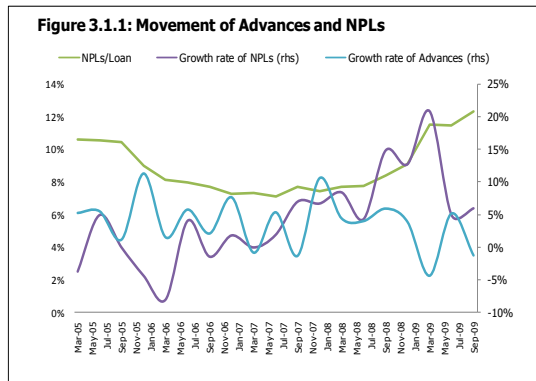


Table 3.1.1: Concentration of Lending in the Banking System
(in percent)

	Banks			
	Top 5	Top 10	Top 20	Industry
Sep-07	48.2	71.8	92.6	100
CY07	48.8	72.6	94.1	100
Mar-08	48.8	72.6	94.1	100
Jun-08	48.2	71.7	93.3	100
Sep-08	48.2	71.5	92.9	100
Dec-08	52.9	74.2	93.6	100
Mar-09	52.7	73.9	93.4	100
Jun-09	53.5	74.7	93.5	100
Sep-09	53.5	74.7	93.5	100

Table 3.1.2: Composition of Banks' Advances.

Period	(in Percent)			
	Public Sector Loans	Growth in Public Sector	Private Sector Loans	Growth in Private Sector
CY05	8.0	7.7	92.0	22.2
CY06	8.1	13.0	91.9	12.0
CY07	7.6	5.5	92.4	13.1
CY08	10.8	68.0	89.2	14.1
Mar-09	11.0	(2.9)	89.0	(4.7)
Jun-09	17.4	67.8	82.6	(1.8)
Sep-09	17.5	(1.0)	82.5	(1.3)

The asset quality of the banking system further deteriorated during the quarter. Owing to a number of factors including the continuous recessionary trends, poor law and order situation, energy shortfall and uncertain external environment, the system has been experiencing a consistent and significant increase in NPLs for the last one year or so. Since there was a reduction in overall lending portfolio of banks, the infection ratio (NPLs to Loans) of the system further inched up during Sep-09 (see Figure 3.1.1).

The group wise analysis show decline in advances of all groups except SBs. Foreign Banks' (FBs) portfolio in relative terms witnessed the most significant decline followed by PSCBs (see Figure 3.1.2). However, the relative share of different groups in the overall loan portfolio remained stable. Similarly, the reduction in loans and advances was prevalent in all banks, irrespective of their size (see Table 3.1.1).

The decrease in lending is shared both by private and public sector. Advances to private sector continued its declining trend. However, the period saw a small contraction of 1 percent in public sector lending, which is contrary to last quarter growth of 67.8 percent (see Table 3.1.2). The declining trend in lending to private sector can be associated with a combination of higher financing costs, the risk aversion by banks and attractiveness of risk free avenues of government papers, bonds of and lending to public sector enterprises (PSEs). However, the composition of public sector and private sector advances in overall mix showed negligible changes on QoQ basis.

Domestic and foreign composition of advances shows that the decline in overall advances has been somewhat neutralized by a healthy increase of 16.4 percent in foreign advances (see Table 3.1.3).

Table 3.1.3: Composition of Domestic and Foreign Gross Loans				
		(billion Rupees)		
	Domestic	% Share of Domestic	Foreign	% Share of Foreign
Sep-08	3,055.3	92.3	253.8	7.67
Dec-08	3,191.8	92.9	244.7	7.12
Mar-09	3,048.5	92.8	238.1	7.24
Jun-09	3,225.9	93.3	229.8	6.65
Sep-09	3,185.6	93.4	226.6	6.64

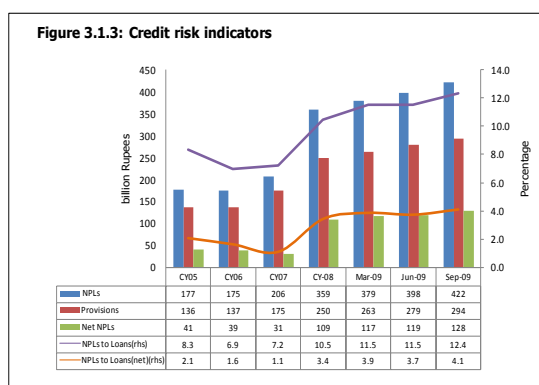
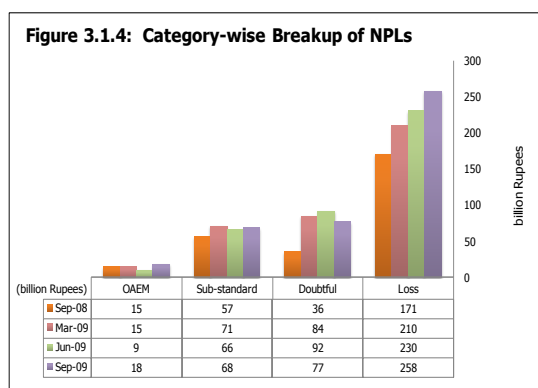


Table 3.1.4: Concertation-NPLs to Loans							
	(in percent)						
	CY05	CY06	CY07	CY08	Mar-09	Jun-09	Sep-09
Top 5 Banks	8.2	6.8	6.8	9.0	10.2	10.3	10.8
Top 10 Banks	7.6	6.0	6.9	9.6	10.8	10.8	11.4
Top 20 Banks	7.6	6.2	6.7	10.1	11.2	11.2	11.9
Industry	8.3	6.9	7.2	10.5	11.5	11.5	12.4



The asset quality of the banking system deteriorated further with a 6 percent and 7.9 percent increase in NPLs and net NPLs respectively. This increase coupled with decline in advances increased the infection ratio to 12.4 percent and net infection ratio to 4.1 percent (see Figure 3.1.3). Most of the increase in NPLs was contributed by LPBs and SBs. The analysis by size of banks show the infection ratio of large banks is below the industry average, while the medium and small sized banks have higher infection ratio which is impacting the overall ratio of the system. Increase in infection ratio in small sized banks indicates inverse relationship between the strength of the bank and infection ratio (see Table 3.1.4).

Category-wise breakup shows that substantial part of the overall increase in NPLs occurred in loss category, which explains 5.1 percent increase in provisions. NPLs in OAEM, which nearly doubled over the quarter, represent flow of fresh NPLs in Agriculture sector (see Figure 3.1.4). This increase in OAEM category indicates that in case banks are not able to recover these loans, they will have to provide for additional provisions in periods ahead, thus bringing earning under stress.

It would be relevant to highlight that SBP enhanced the benefit on FSV from 30 percent to 40 percent, which will impact the infection indicators in multiple ways; decrease provisioning requirements, reduce NPLs coverage ratio and increase net infection ratio (Net NPLs to net loans). Another obvious impact would be the increase in capital impairment ratio, which has already increased by 90 bps to 19.9 percent in Sep-09. Nonetheless, the benefit of collateral value for making provisions is an international norm. Further, keeping in view the present down turn, the move will facilitate banks in improving their performance.

Ancillary development is the interim instructions issued for facilitating the rescheduling/restructuring of those loans which

are facing delinquencies due to economic recession. As banks were already rescheduling/restructuring loans, these instructions will provide further incentive for keeping those promising businesses alive which are facing problems only due to macroeconomic conditions.

Sector Analysis:

The loans to corporate, representing 61 percent of the overall portfolio, observed a negligible decline over the quarter. Increase in lending to electronics and transmission of energy increased the share of corporate sector in overall advances (see Table 3.1.5). Increased demand of loans for establishing power project to meet the power shortfall explains the increasing share of energy sector. The Chemical & Pharmaceuticals and Cement were other key sectors which gained some share at the back of increasing cement export and demand for fertilizers and pesticides to support agriculture.

Table: 3.1.5: Sector-wise Advances and NPLs

Item	Jun-09				Sep-09			
	Loans*		NPLs		Loans*		NPLs	
	Share of Loan [%]	NPLs to Loan Ratio [%]			Share of Loan [%]	NPLs to Loan Ratio [%]		
Chemical & Pharmaceuticals	116.12	3.36	9.63	8.30	122.52	3.59	8.87	7.24
Agribusiness	198.91	5.76	14.49	7.28	190.70	5.59	15.75	8.26
Textile	607.99	17.59	114.16	18.78	586.25	17.18	120.57	20.57
Cement	87.69	2.54	9.97	11.37	90.01	2.64	9.99	11.10
Sugar	77.35	2.24	7.89	10.20	57.25	1.68	10.72	18.73
Shoes & Leather garments	22.94	0.66	2.68	11.70	21.06	0.62	2.65	12.61
Automobile & Transportation equipment	76.88	2.22	13.57	17.65	73.82	2.16	10.73	14.53
Financial	53.59	1.55	6.68	12.46	48.15	1.41	7.32	15.20
Insurance	1.26	0.04	0.00	0.07	0.58	0.02	0.00	0.23
Electronic & transmission of energy	345.23	9.99	28.16	8.16	400.70	11.74	27.98	6.98
Individuals	449.26	13.00	44.36	9.87	458.58	13.44	56.04	12.22
Others	1,418.54	41.05	146.36	10.32	1,362.67	39.93	151.01	11.08
Total	3,455.75	100.00	397.94	11.52	3,412.26	100.00	421.63	12.36

Advances to Sugar, Textile, Automobile & transportation, Financial and other sectors decreased during the quarter. In the backdrop of current sugar crises, banks have recovered outstanding loans from sugar mills, whereas textile sector is currently faced with the electricity and gas shortages and lower export demands. The slowdown in business activity has also resulted in lower demand for loans within financial sector thus creating a considerable decline. The auto assemblers were effected by low demand due to shrinking auto loans, continued inflation and declining rupee value in relation to Japanese Yen and US \$ which made their imported parts more costlier.

Accordingly, the infection ratios of Chemical & Pharmaceutical, Cement, Automobile & transportation and transmission of energy decreased over the quarter. The infection ratio for sugar sector increased by phenomenal 36 percent. However, the textile sector due to its constraining factors continued to have the highest NPLs both in terms of infection ratio and absolute amount.

Segment analysis:

Segment analysis show increase in advances and share of Corporate, and Agriculture and related Commodity Finance. However, overall segment concentration remained in line with previous quarters with minor changes.

Infection ratio increased for all segments except Commodity Finance. A considerable deterioration occurred in agriculture, where infection ratio worsened by 4.5 percentage to 21.1 percent. Increase in NPLs of SME remains main area of concern as infection ratio reached 22.9 percent (see Table 3.1.7).

The Consumer Loans continued their downward slide with increasing NPLs as banks are avoiding the risks associated with these facilities, the rate of interest on these loans remain high and inflationary pressures restrained the purchasing power of the consumers. The consumer credit contracted by 6 percent on QoQ basis, while its infection ratio increase by another 2 percentage points to 11.1 percent. The deterioration mainly took place in secured consumer loans; mortgages increased marginally over the quarter with a 230 bps increase in infection ratio (see Table 3.1.7).

For the period under review, the end-use analysis of advances (net) shows 8 percent increase in fixed investments (long term loans) for Corporate sector which depicts some signs of capital intensive activity. However, the working capital financing has shown declining trend in Corporate and SME sectors over the quarter (see Table 3.1.6). The movements in the end-use of loans can be further explained by a major increase in long-term loans which were taken up by energy sector during the quarter (see Table 3.1.8). Accordingly the infection ratio for fixed investment declined largely on account of improvement in corporate sector capital formation, while it continue to increase for working capital loans .

Table 3.1.6: Segment-wise advances and NPLs

Items	Jun-09				Sep-09			
	Loans	Share in Loans	NPLs	Ratio	Loans	Share in Loans	NPLs	Ratio
Corporate Sector	2,083.38	60.29	251.09	12.05	2,081.54	61.00	263.79	12.67
SMEs Sector	345.15	9.99	77.42	22.43	330.75	9.69	75.85	22.93
Agriculture Sector	150.76	4.36	25.09	16.64	154.75	4.54	32.72	21.14
Consumer sector	327.67	9.48	29.95	9.14	308.05	9.03	34.20	11.10
i. Credit cards	36.50	1.06	2.80	7.67	35.02	1.03	3.18	9.07
ii. Auto loans	80.47	2.33	5.35	6.65	73.82	2.16	6.05	8.19
iii. Consumer durable	1.24	0.04	0.10	7.75	1.18	0.03	0.09	7.79
iv. Mortgage loans	76.53	2.21	9.09	11.88	77.40	2.27	10.98	14.18
v. Other personal loans	132.94	3.85	12.61	9.49	120.64	3.54	13.90	11.52
Commodity financing	398.99	11.55	3.95	0.99	399.34	11.70	3.25	0.81
Staff Loans	69.91	2.02	0.79	1.13	72.14	2.11	0.84	1.17
Others	79.88	2.31	9.65	12.09	65.68	1.92	10.97	16.71
Total	3,455.75	100.00	397.94	11.52	3,412.26	100.00	421.63	12.36

Table 3.1.7: NPLs to loans by end use

	Sep-08			Jun-09			Sep-09		
	Loans	NPLs	Ratio	Loans	NPLs	Ratio	Loans	NPLs	Ratio
Fixed Investment	794.9	86.0	10.8	831.0	115.4	13.9	892.2	118.8	13.3
Working Capital	1,516.2	130.0	8.6	1,654.8	190.2	11.5	1,584.6	199.9	12.6
Trade Finance	480.9	30.6	6.4	492.4	52.0	10.6	489.6	56.9	11.6
Others	517.1	31.6	6.1	477.5	40.4	8.5	445.9	46.0	10.3
Total	3,309.0	278.2	8.4	3,455.7	397.9	11.5	3,412.3	421.6	12.4

Table 3.1.8: Credit shocks				
		Number of Banks with CAR		
		< 0%	0% - 9%	>9%
Pre-Shock		3	3	34
Post-Shock				
C-1	15% of performing loans moving to substandard, 15% of substandard to doubtful, 25% doubtful to loss	3	6	31
C-2	Tightening of loan classification i.e. all NPLs under OAEM require 25% provisioning, all NPLs under substandard require 50% and all NPLs in doubtful category require 100% provisioning.	3	3	34
C-3	Deterioration of loans to the textile sector (25%) directly downgraded to doubtful category	3	4	33
C-4	25% of consumer loans (auto loans, personal loans & consumer durables only) classified into doubtful category.	3	3	34

Table 3.1.9: Credit shocks-impact on CAR		
Shock	Impact of Shocks	
	% point change in CAR after shock	Adjusted CAR after shock
Credit Shock C-1	(2.30)	12.00
Credit Shock C-2	(1.30)	13.00
Credit Shock C-3	(1.26)	13.10
Credit Shock C-4	(0.56)	13.80

In order to assess the resilience of the banking system to adverse movements in credit risk factors, lending portfolio has been stress tested against four different types of shocks (see Table 3.1.9).

The credit shocks, C-1 will have the biggest impact on CAR, reducing it from current 14.3 to post shock CAR of 12 percent (see Table 3.1.10.). The shock C-4 will least impact the CAR due to diminishing consumer portfolio. The impact of C-2 and C-3 will be relatively moderate. With increasing credit risk , Macro Stress Testing of Credit Risk forecast increase in NPL to loans ratio for Dec-09 to by 0.5 percentage point to 12.95 (see 3.1.2: *Macro-stress Testing of Credit Risk*).

3.1.1 Macroeconomic Stress Testing of Credit Risk

Figure 3.1.1.1: Macroeconomic Indicators

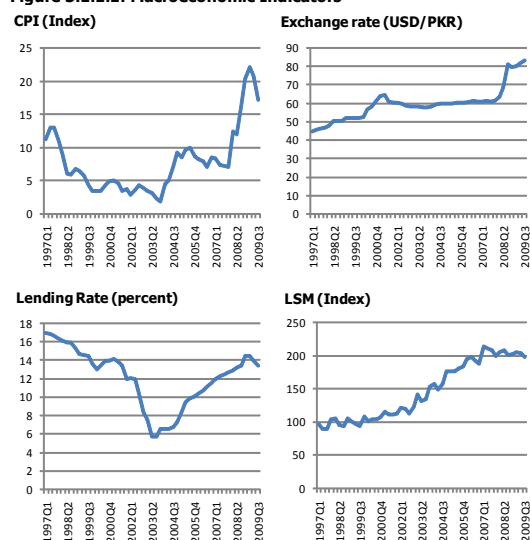
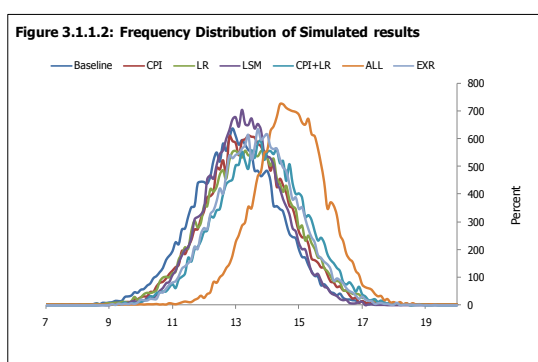


Table 3.1.1.1: Simulated NPL Ratios projected for Dec-09

	Baseline	CPI	LR	LSM	EXR	CPI+LR	All
Average	12.95	13.33	13.39	13.22	13.61	13.75	14.68
75P*	13.87	14.23	14.34	14.02	14.49	14.69	15.43
90P*	14.7	15.05	15.21	14.74	15.29	15.55	16.09
95P*	15.19	15.55	15.71	15.17	15.79	16.04	16.48
99P*	16.14	16.42	16.72	15.95	16.69	16.93	17.26
99.5P*	16.48	16.72	17.06	16.26	17.03	17.33	17.53

*P represents percentiles



Macroeconomic stress testing is based on the assumption that the performance of macroeconomic variables impacts the NPL ratio of the banking system. In this regard, the Credit Portfolio View (CPV) model is employed⁴. The new feature of the macroeconomic modeling exercise, using the CPV conducted from Jun-09 onwards is the inclusion of Large Scale Manufacturing (LSM) data in place of the constructed GDP series. The inclusion of the LSM data changed the significance of macroeconomic variables. For instance, the exchange rate variable became significant which was insignificant in earlier exercises⁵ (see Figure 3.1.1.1).

The Monte Carlo simulated NPL ratio for Dec-09 using the data for Mar-97 to Sep-09 is forecasted at 12.95 percent. In case of unexpected events, the baseline (No Shock) scenario, there is 1 percent probability that the NPL ratio may increase beyond 16.14 percent and 0.5 percent probability that it may exceed 16.48 percent. Similarly, if the lending rate (LR) shock is applied on historical worst case scenario, the NPL ratio may exceed 17.06 percent with 0.5 percent probability (see Table 3.1.1.1).

The probability distribution of the simulations under various scenarios presents a clear deviation of the NPL ratios from the baseline scenario. In case of shocks applied to all the macroeconomic variables, the distribution is significantly away from the baseline case (see Figure 3.1.1.2).

Comparison of actual NPL ratio with forecasted NPLR over the last six quarters shows that forecasts were close to the actual observed ratios. However, there has been a significant deviation in year CY09, primarily due to abnormal recognition of NPLs by some leading

⁴ The reasons for using the CPV model are (a) easiness of implementation and (b) its worldwide acceptability among financial supervisory authorities.

⁵ See QPRs for the period Sep-08, Dec-08 and Mar-09.

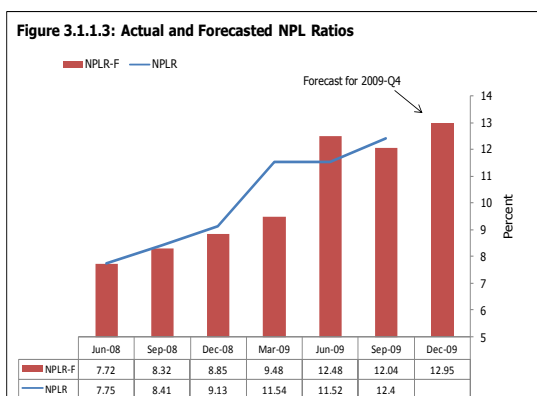


Table 3.1.1.2: Impact of Simulated NPL Ratios on Bank Profits and Capital

Shock	Change in Profitability* (billion Rupees)	No Of banks with CAR < 9 %
12.95 Percent	19.04	3
16.14 Percent	127.16	6
16.72 Percent	146.9	7
17.03 Percent	157.43	8
17.53 Percent	174.43	8

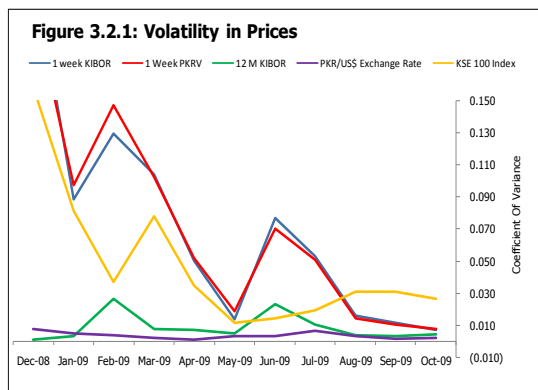
* change in profitability indicates 100 percent provisioning

banks, which led to lower than projected value. Given such data limitation some deviation is a natural phenomenon.

For Dec-09, model has project NPLR to increase to by 59 basis points to 12.95 percent. It would be important to highlight that December quarter results do not include the full impact of the classified loans and actual impact is clear only after the announcement of annual results. Accordingly, these results also impact the NPLR for March Quarter. Therefore, chances of variance from the projected NPL ratio increase for December and March quarters (see Figure 3.1.1.3).

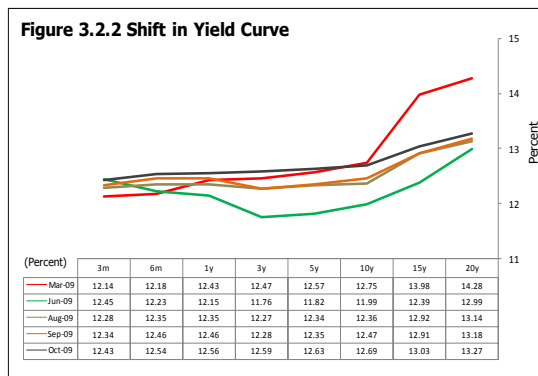
The projected increase in NPL ratio will impact both profitability and solvency of the system (see Table 3.1.1.2). As the NPL ratio increases, profitability and capital of the banks are wiped out. In worst case scenario, 8 banks will fail to meet the required minimum CAR.

3.2. Market Risk

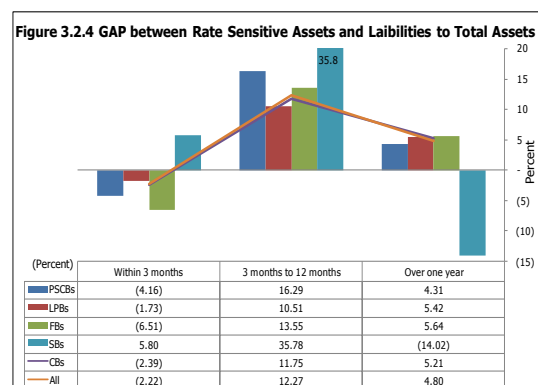
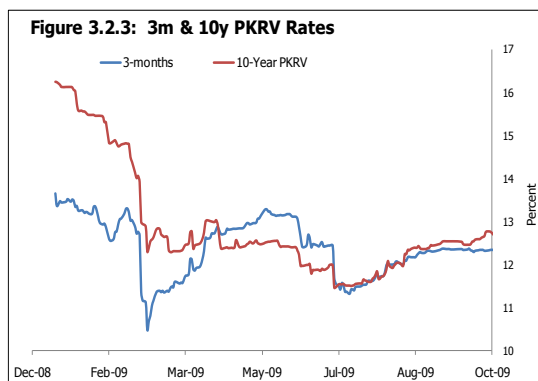


The quarter under review witnessed a decline in the volatility of financial assets' prices. The volatility in overnight interest rates and exchange rates that increased in the month of Jun-09, gradually declined over the following months; the volatility in stock prices also remained low (see Figure 3.2.1).

In recent quarters, considerable volatility in short-term overnight interest rates had remained a significant challenge for both SBP as well as the market. However, recently introduced mechanism of Interest Rate Corridor seemed to have helped in stabilizing the short-term interest rates.



Interest rate risk, i.e. the risk of change in the value of net worth and earnings of banks due to interest rates movements, is major component of market risk. The interest rate risk of the banking system with slight inch up remained subdued during Sep-09. By the end of quarter and afterwards, the yield curve with slight decline in the short-terms tenors inched up for longer tenors and turned out to be positively sloped (see Figure 3.2.2). Similarly, the PKRV rates for 3 months and 10 years tenor that declined sharply in the first week of the quarter under review and almost converged, gradually rose by the end of quarter and the spread between the both rates restored (see Figure 3.2.3). The inch up in rates however led to deterioration in mark-to-market value of the fixed income securities of banks.



Interest rate risk is significantly influenced by the presence of major re-pricing GAPS, exposing the banks to re-pricing and yield curve risk when there is large movements in interest rates. The GAP position of banks however remained within comfortable ranges i.e. ± 10 percent of total assets. All the groups barring SBs on aggregate basis also maintained more or less well-contained risk positions. Although PSCBs and FBs carry slightly excess GAPS in 3 months to 1 year time bucket, however due to shorter duration of the tenor, these GAPS are likely to have only a limited impact on the

Figure 3.2.5 Exchange Rate and Swap Points

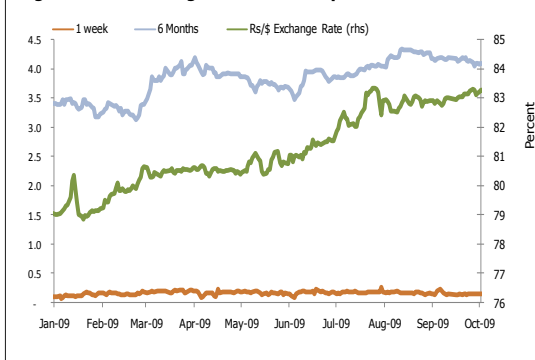


Figure 3.2.6 Daily NOP of all Banks

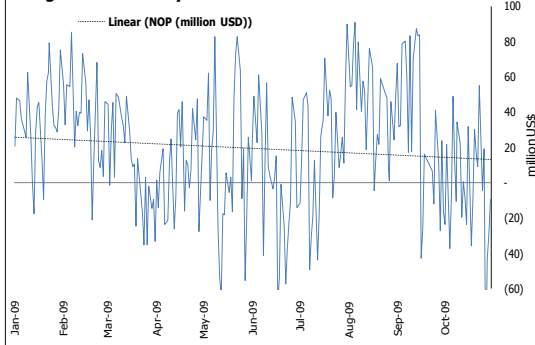


Figure 3.2.7 Average Daily NOP of all Banks

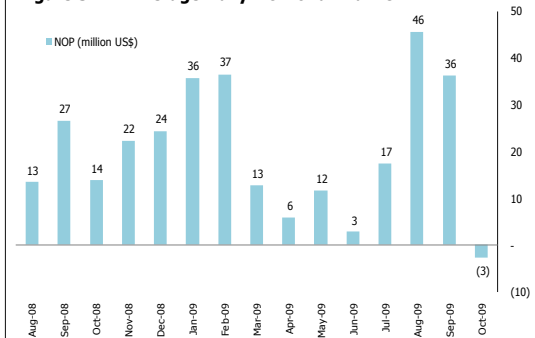
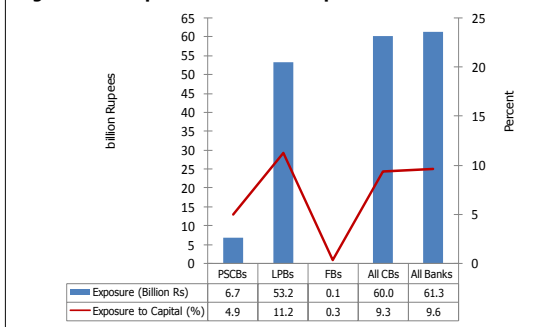


Figure 3.2.8 Exposure of Banks in Equities



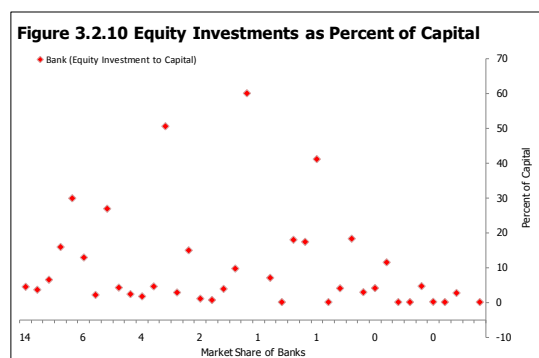
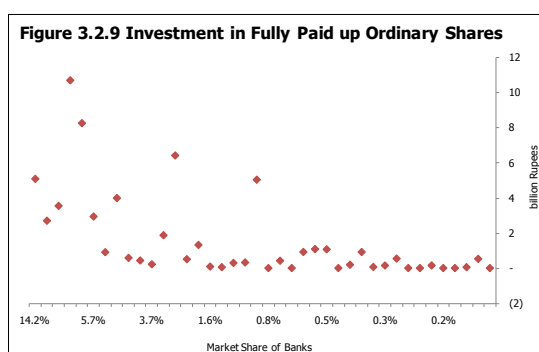
market value of equity in case of adverse movements in interest rates (see Figure 3.2.4).

In case of **Exchange Rate** risk, there has been a gradual depreciation in exchange rate since mid of last year. Though IMF package and improvement in external account have somewhat stabilized the exchange rate, PKR depreciated during the quarter (see Figure 3.2.5). However, banks have effectively responded to this exchange rate scenario by generally maintaining a long NOP position (see Figures 3.2.6 & 3.2.7).

Equity price risk primarily emerges from banks' exposure in equity stocks and market. Capital market maintained the pattern of recovery during the quarter as KSE-100 Index with slightly enhanced but contained volatility surged by 31 percent to 9,350 by the end September, 2009. This recovery also enlivened the investor's confidence. However, the equity investments of banks (including investments in fully paid up shares but excluding equity investments in subsidiaries and associates) increased marginally by 3.2 percent to Rs61.3 billion. Group wise, LPBs continued to maintain the highest equity exposure followed by PSCBs (see Figure 3.2.8).

Disaggregated analysis shows that while banking system carry contained equity exposures, some individual banks are carrying high exposures to equity risk. Thirteen banks with market share of 32 percent hold equity exposure greater than industry average of 9.6 percent of banks' own net-worth. Whereas, 9 banks holding equity exposure higher than 15 percent of their equity have market share of 24 percent of the banking system (see Figure 3.2.9). Analysis further indicates that middle-sized banks on average have relatively higher equity exposures: top ten banks with 73 percent market share have equity investment to capital ratio of 8.6 percent; next ten medium-sized banks have the ratio of 12.8 percent, while the ratio comes to 6.8 percent for the remaining small-sized banks (see Figure 3.2.10).

The analysis of the banking system's market



risk exposures and dynamics of key risk factors indicates a subdued risk profile. In order to assess banks' resilience to unusual shocks in risk factors, they have been subjected to seven different market risk shocks (see Table 3.2.1).

The result of these stress tests also indicates the strong capacity of banks to withstand unusually severe movements in market prices (see Table 3.2.2). This capacity emanates from both strong capital adequacy positions of banks as well as their contained risk positions.

Table 3.2.1: Stress Tests - Market Risk

Interest Rate Shock

IR-1 Increase in interest rates by 200 basis points.

IR-2 Shift coupled with flattening of the yield curve by increasing 500, 300 and 200 basis points in the three maturities respectively.

Exchange Rate Shock

ER-1 Depreciation of currency exchange rate by 25%.

ER-2 Appreciation of currency exchange rate by 25%.

Equity Price Shock

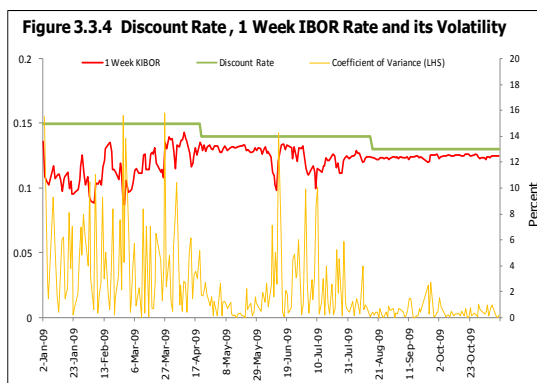
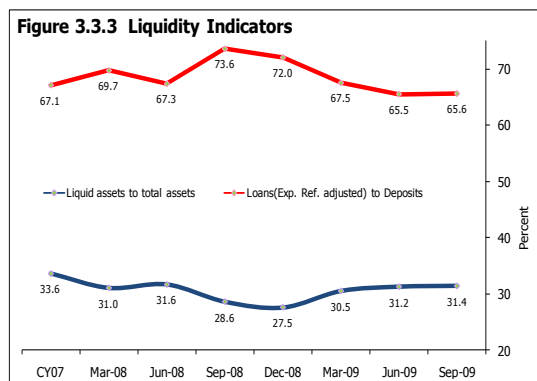
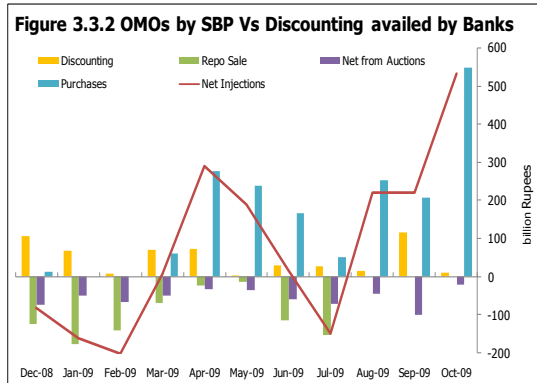
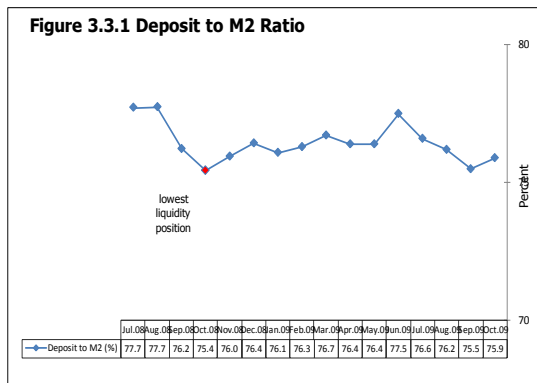
EQ-1 Fall in the equity prices by 50%.

EQ-2 Fall in the equity prices by 70%.

Table 3.2.2: Impact of Shocks

	Number of Banks with CAR			CAR	
	< 0%	0% - 9%	9% <	(Capital Adequacy Ratio)	
Pre-Shock	3	3	34	14.3	
				% point change in CAR after Shock	Adjusted CAR after Shock
Shocks:					
IR-1	3	3	34	-0.90	13.4
IR-2	3	3	34	-1.01	13.3
ER-1	3	4	33	0.84	15.2
ER-2	3	3	34	-0.17	14.1
EQ-1	3	4	33	-1.24	13.1
EQ-2	4	5	31	-1.82	12.5

3.3. Liquidity Risk



During the quarter deposit base of the system as well as its share in broad money (M2) declined, almost corresponding to Oct-08's level when banking system experienced a significant liquidity stress (see Figure 3.3.1). Though the post quarter statistics are indicating some improvements in the level of banks' intermediation, however, due to slow growth in banks' deposits and M2, the overall liquidity settings remain constrained.

Because of multiple factors like Ramdan and post Eid-ul-Fitr deposit withdrawals and stagnancy in the retraction of these funds to the banking system, tax payments by corporations, build up of investments portfolio by banks; the interbank market generally remained short of funds. Therefore, the SBP continuously injected additional funds into the market through OMOs and discounting to keep the market liquid and stable (see Figure 3.3.2). On the other hand, due to concomitant decline in the lending portfolio and shift in asset mix towards liquid, short-term Federal Government papers; the banks in fact witnessed a slight improvement in their fund-based liquidity indicators (see Figure 3.3.3).

Considering the improvements in some key economic indicators i.e. reduction in inflation, fiscal consolidation and government's contained borrowing from SBP, and improvements in external account; the SBP lowered its policy rate further by 100 bps in mid of August 2009 (see Figure 3.3.4). These developments also contributed towards the stabilization in 6 months KIBOR and weighted average yield of Market Treasury Bill (MTBs) (see Figure 3.3.5).

During the quarter under review, the system witnessed a 2 percent decline in deposit base. However, there was also an attendant decline in lending portfolio of banks and they shifted their asset mix towards short-term Federal Government papers. This development led to improvement in balance sheet indicators of liquidity as Advances to Deposit Ratio (ADR)

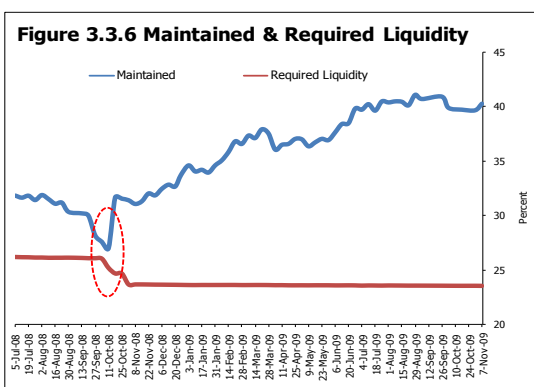
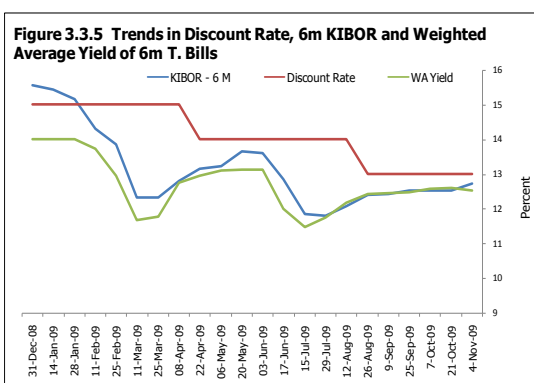


Table 3.3.1 Summary of Stress Test Results

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

inflows by converting 80 percent of liquid assets and one percent of non-liquid assets into cash.

After shock position shows that banks can fairly sustain the deposit withdrawal of consecutive 3 days. However, after consecutive four and five days of deposit withdrawal, 3 and 6 banks respectively would need to go for forced selling of their non-liquid assets to meet the depositors demand. The results of the test though does not indicate major concern for the system, comparison with Jun-09 results show some weakening in the liquidity position as more bank will face liquidity stress after deposit withdrawal for 3 consecutive days (see Table 3.3.1).

4. Financial Soundness of the Banking System

4.1 Profitability

Profitability of the system came under stress due to ongoing macro-economic environment, local security situation; slow down in credit demand and worsening credit quality. The banking system reported a pre-tax profit for the first nine months of CY09, which was lower by 14 percent compared with the corresponding period of last year. Increased provisions, lower non-interest income and high administrative expense are the few straining factors (see Figure Table 4.1.1). As a result, the baseline indicators of profitability i.e. ROA and ROE also declined over the quarter under review (see Table 4.1.2).

The earnings are mainly contributed by the PSCBs and LPBs, while the FBs year-to-date PAT turned negative during the quarter under review. In addition to provision charges, major dent in profitability of FBs came from increase in operating expenses. Though PBT of the SBs increased however, PAT of the group decreased due to substantial increase in tax charges (see Table 4.1.1).

Analysis of the components of the profit and loss shows that net-interest income and non-interest income as a percentage of total assets have increased over time. However, YOY comparison show higher increase in interest expenses resulting in slower growth in the net-interest income for the first three quarters of CY09. On the other hand, non-interest income has declined on YoY basis compared with healthy results of CY05 to CY08. Accordingly, the share of net-interest income in gross income increased (see Figure 4.1.1).

Income from investments and its share in total interest income continues to increase, as Federal Government papers are attracting increased preference of banks in the wake of

Table 4.1.1: Profitability of Banking System

	(billion Rupees)						
	CY05	CY06	CY07	Sep-08	CY08	Jun-09	Sep-09
<i>Profit before tax</i>							
PSCBs	22.8	31.5	33.2	11.7	6.6	5.9	12.3
LPBs	60.5	85.6	69.5	66.3	52.5	39.7	55.5
FBs	11.6	6.3	2.4	3.2	0.0	0.5	0.1
CBs	94.9	123.5	105.2	81.3	59.0	46.0	67.9
SBs	(1.1)	0.1	1.7	1.8	4.2	1.7	2.2
All Banks	93.8	123.6	106.9	83.1	63.2	47.8	70.1
<i>Profit after tax</i>							
PSCBs	15.5	21.2	23.9	9.5	5.6	3.3	8.1
LPBs	41.1	59.1	47.3	43.9	34.7	24.4	34.1
FBs	8.0	4.3	1.1	1.5	0.6	0.1	(0.2)
CBs	64.6	84.6	72.2	54.8	41.0	27.9	41.9
SBs	(1.3)	(0.5)	0.9	1.1	2.3	0.8	0.3
All Banks	63.3	84.1	73.1	55.9	43.3	28.6	42.2

Table 4.1.2: Profitability Indicators

	(in percent)						
	CY05	CY06	CY07	Sep-08	CY08	Jun-09	Sep-09
<i>After Tax ROA</i>							
PSCBs	2.2	2.7	2.5	1.3	0.5	0.6	1.0
LPBs	1.8	2.1	1.4	1.4	0.9	1.1	1.0
FBs	2.5	1.5	0.7	0.9	0.3	0.1	(0.1)
CBs	2.0	2.2	1.6	1.4	0.8	1.0	1.0
SBs	(1.2)	(0.4)	0.7	1.2	1.8	1.9	(0.6)
All Banks	1.9	2.1	1.5	1.4	0.8	1.0	0.9
<i>After Tax ROE</i> (based on Equity plus Surplus on Revaluation)							
PSCBs	20.9	21.7	19.5	9.7	4.4	5.3	8.4
LPBs	27.2	25.3	13.8	14.5	8.5	11.0	10.0
FBs	27.1	15.6	6.0	7.7	2.2	0.5	(0.9)
CBs	25.4	23.7	15.0	13.0	7.3	9.2	9.1
SBs	-	-	-	-	-	-	-
All Banks	25.8	24.2	15.4	13.4	7.8	9.7	9.0

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

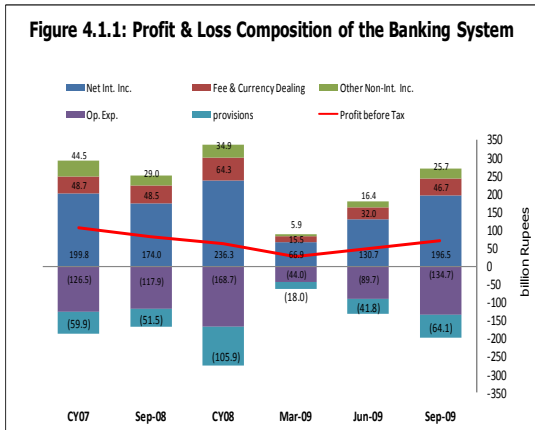
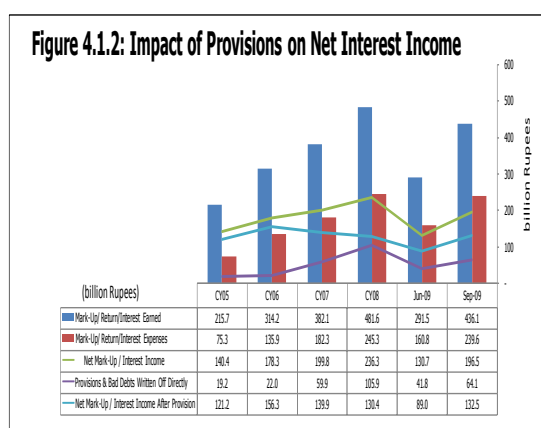


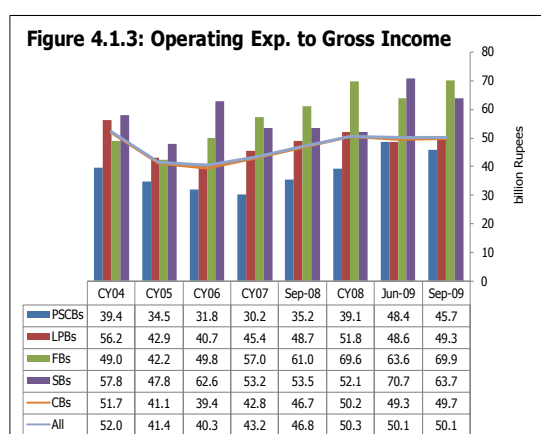
Table 4.1.3: Mark-up / Return / Interest Earned

	(billion Rupees)											
Items	Dec-03	Dec-07	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-03	Dec-07	Sep-08	Dec-08	Sep-09
	Amount	%	Amount	%	Amount	%	Amount	Amount	%	Amount	%	Amount
Loans & advances	67.2	58.9	273.8	71.3	252.1	73.2	359.0	74.2	108.4	73.8	210.7	72.3
Investments	40.9	35.9	80.6	21.0	69.1	20.1	92.7	19.1	30.4	20.7	65.3	22.4
Deposits, repo and others	5.9	5.2	29.8	7.7	23.3	6.8	32.4	6.7	8.1	5.5	15.6	5.3
Total	114.1	100	384.1	100	344.5	100	484.1	100	146.9	100	291.5	100

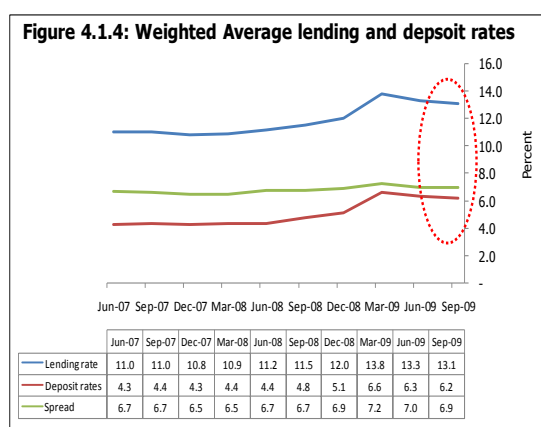


heightened credit risk and weakened business environment (see Table 4.1.3).

The increase in NPL portfolio has significantly increased the loan loss provisioning. Increasing provisions charges, which are now second major expense on the income statement of the system, are affecting both net income and the overall profitability of the system. Against 13 percent YoY increase in net interest income, net interest income adjusted for loan loss provisioning shows only 8.2 percent increase over the same period (see Figure 4.1.2).



Administrative expenses to gross income ratio showed signs of improvements as it decreased to 49.0 percent - YoY increase of 5 percentage points. The administrative expenses have remained high due to increase in operating overheads. Overall cost to income ratio remained unchanged during the quarter under review. However, group-wise analysis reveals improvement for SBs and PSCBs. This improvement however attributes to one large PSCBs and one SB. The system has observed higher increase in operating expenses vis-à-vis slower growth in earnings since corresponding period of last year, as reflected in deterioration in cost to income ratio (see Figure 4.1.3).



Most of the fresh lending in recent quarter took place in public sector commodity operations and PSEs. Accordingly, substantial increase in relatively low-return, risk free advances led to slower increase in interest income and decline in weighted average lending rate⁶ (WALR) by 20 bps to 13.1 percent. Similarly, the weighted average deposit rates (WADR) also decreased by 14 bps to 6.2 percent. The higher fall in WALR thus led to a thin contraction in overall spread by 6 bps to 6.9 percent (see Figure 4.1.4).

Concentration analysis of earning depicts that larger size banks are better positioned in terms of earning capacity. The five big banks that

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

Table 4.1.4: Concentration of Earnings and Profitability

	(in percent)			
	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
ROA (After Tax)	1.9	1.5	1.2	0.9
ROE (After Tax)	18.2	15.0	12.0	9.0
Net Interest Income/ Gross Income	78.0	75.3	73.4	73.1
Income from Trading & Foreign Exchange / Gross Income	15.0	17.0	16.8	17.4
Non-Interest Expense / Gross Income	38.2	42.7	46.4	50.1
Provision Expense to Gross Income	19.9	22.1	22.6	23.8

Table 4.1.5: Percentage Breakdown of Banking System's Total Assets (TA) by ROA

	CY05		CY06		CY07		Sep-08		CY08		Jun-09		Sep-09	
ROA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA	No. of Banks	Share in TA
0 and below	7	3.5	6	2.1	10	8.5	12	11.0	16	14.5	18	13.1	20	13.3
0 to 0.5	4	2.8	3	1.8	2	2.4	6	9.0	3	10.2	3	6.3	3	6.6
0.5 to 1	2	7	6	9.9	4	1.9	3	1.5	5	8.2	3	9.4	4	11.2
1.0 to 1.5	5	4	5	9.6	10	34.9	5	14.1	4	5.7	6	19.1	4	8.8
1.5 and Over	21	82.7	19	76.6	13	52.3	14	64.4	12	61.5	10	52.1	9	60.0

holds around 50 percent market share contribute 95 percent of the system's earnings, while the earnings of other banks are correlated to their respective size (see Table 4.1.4).

Breakdown of banking ROA (before tax) by assets and number of institutions signifies the variances in earning capacity of individual banks over time. Banks with ROA above one percent have decreased to 13 from 16 over the quarter; their market share also dropped to 69 percent. On the other hand, number of banks with ROA below 1 percent increased to 27 from 24, whereas their share in total banking sector assets has increased by 2 percentage point to 31 percent during the quarter under review (see Table 4.1.5). These developments also indicate that earning performance is concentrated towards larger and growing banks.

Table 4.2.1: Capital Adequacy Indicators

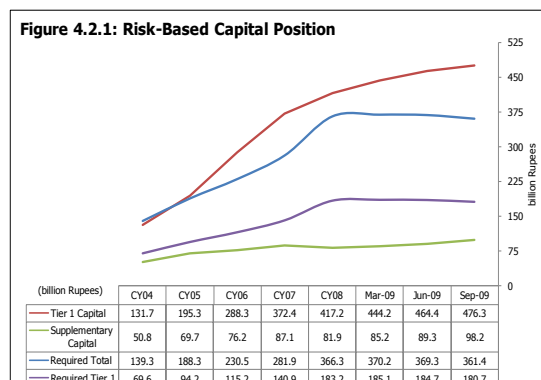
Percent	Basel-I			Basel-II			
	CY04	CY05	CY06	CY07	CY08	Jun-09	Sep-09
CAR							
PSCBs	13.4	14.5	15.2	16.1	13.2	14.5	15.6
LPBs	10.1	10.6	12.7	11.8	12.1	13.3	14.2
FBs	17.4	16.4	15.0	14.6	21.8	23.7	23.8
CBs	11.4	11.9	13.3	12.8	12.7	14.0	14.9
SBs	(9.0)	(7.7)	(8.3)	(6.2)	(4.9)	(3.4)	(5.0)
All banks	10.5	11.3	12.7	12.3	12.3	13.5	14.3
Tier 1 Capital to RWA							
PSCBs	8.6	8.8	11.1	12.2	11.0	12.0	12.8
LPBs	7.5	8.3	10.4	9.9	10.2	11.2	11.8
FBs	17.1	16.1	14.3	14.0	21.3	23.1	23.3
CBs	8.6	9.1	10.8	10.5	10.8	11.8	12.4
SBs	(15.0)	(13.6)	(13.3)	(12.5)	(10.1)	(7.4)	(8.2)
All banks	7.6	8.3	10.0	10.0	10.2	11.3	11.9
Capital to Total Assets							
PSCBs	8.7	12.6	12.2	13.7	10.7	10.9	11.9
LPBs	6.5	7.0	9.2	10.2	10.0	10.2	10.3
FBs	8.9	9.5	10.1	11.2	14.5	14.8	14.8
CBs	7.2	8.4	9.9	10.9	10.3	10.5	10.8
SBs	(9.4)	(8.1)	(8.0)	(5.4)	(3.2)	(2.5)	(3.4)
All banks	6.7	7.9	9.4	10.5	10.0	10.2	10.5

4.2 Solvency⁷

The banking system has posted consistent improvement in risk-based capital adequacy ratio (CAR) since the introduction of Basel-II framework, though the framework also requires additional capital charge for operational risk. The system's CAR has gained 2 percentage points since CY07. During the quarter under review, CAR improved by 0.8 percentage points, and the quality of capital also improved, as the system on aggregate basis posted profits and built up core capital. Accordingly, due to relatively marginal growth in asset base, the capital to total assets ratio also improved over the quarter (see Table 4.2.1).

Total regulatory capital increased by 3.7 percent, and stayed in excess of the required level by around 60 percent (see Figure 4.2.1). Tier 1 capital, being the mainstay of banks' capital, rose by 2.5 percent due to increase in profit and subsequent appropriation to general and statutory reserves, during the quarter. Supplementary capital on the other hand grew because of the increase in revaluation reserves, foreign exchange translation reserves and subordinated debt (see Figure 4.2.1).

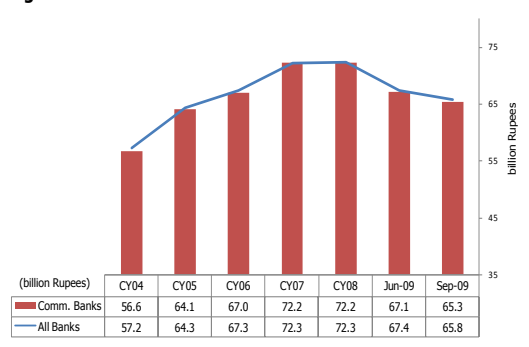
Risk weighted assets saw a decline of 2.1 percent over the quarter (see Table 4.2.2) due to decrease in CRWA by 3.2 percent. Persistent decline in credit off take due to slower demand from private sector coupled with rising NPLs, decreased the CRWA. Banks have on the other hand, shifted their asset mix towards investments particularly in Government securities and PSEs' debt securities which has resulted in substantial increase in Market risk weighted assets (MRWA). However, this increase in relative terms remained quite minute as compared to reduction in CRWA. Accordingly, risk-weighted amount of asset portfolio contracted, and RWA to total assets declined by

Figure 4.2.1: Risk-Based Capital Position**Table 4.2.2: Risk Weighted Assets**

	(amount in billion Rupees, Share in percent)					
	CY08		Jun-09		Sep-09	
	Amount	Share	Amount	Share	Amount	Share
CRWA	3,459	85.0	3,397	82.8	3,286	81.8
MRWA	117	2.9	172	4.2	195	4.8
ORWA	494	12.1	535	13.0	535	13.3
Total RWA	4,070	100.0	4,104	100.0	4,016	100.0

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

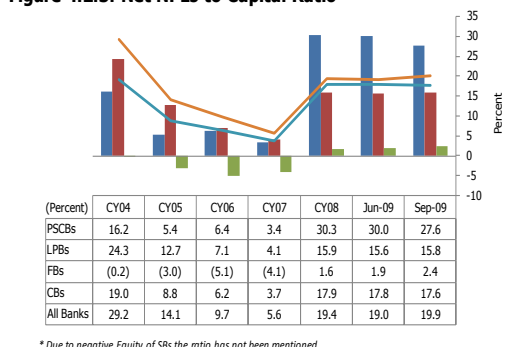
Figure 4.2.2: RWA to Total Assets



1.6 percentage points over the quarter (see Figure 4.2.2).

Heightened credit risk and resultant weakening in asset quality have increased the risk to solvency over the last few quarters. Since the increase in NPLs was only partially covered through loan loss provisioning, Net NPLs to Capital ratio, indicating the fraction of banks' equity that could be impaired by loan losses, deteriorated by 0.9 percentage points during the quarter under review (see Figure 4.2.3).

Figure 4.2.3: Net NPLs to Capital Ratio



The disaggregated analysis indicates no change in solvency position of the banks during Sep-09 as number of banks meeting minimum CAR of 9 percent remained same (see Table 4.2.3).

Analysis of Minimum Capital Requirement (MCR) shows that 28 banks including 5 foreign banks are fully compliant with the MCR. Remaining banks are in process of meeting the MCR either through fresh capital injection or merger and acquisition with other banks (see Figure 4.2.4). As such most of the LPBs are expected to comply with the Capital Adequacy and MCR in coming quarter. Four other banks with major public sector share are under the process of restructuring/privatization.

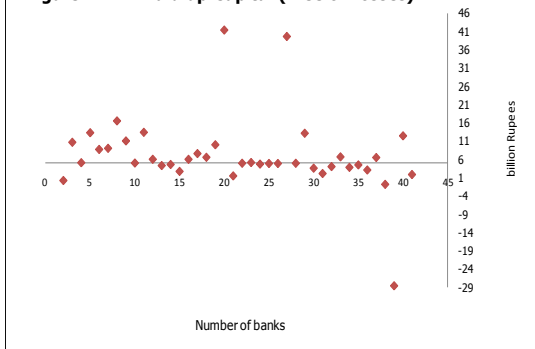
Table 4.2.3: Distribution of Banks by CAR

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

* From December 31, 2008, banks are required to maintain minimum CAR of 9 percent

The concentration analysis for solvency indicators in terms of asset size of the banks also depicts improvement across all banks, with top five banks significantly contributing to strong solvency position of the system (see Table 4.2.4).

Figure 4.2.4: Paid up Capital (Free of Losses)



Resilience of the banking system during the quarter has further improved owing to the combined effect of the increasing solvency position and reduced risk exposures. The increasing capital base added to the cushion available against the losses under stress scenarios. In the face of single factor stress shocks, system will remain solvent though some individual banks may come under stress. However, the combined credit and market risk shocks will significantly erode capital of the banking system (Annex-V).

From the resilience point of view, reduction of exposure in risky areas of business is expected

Table 4.2.4 Concentration Analysis of Solvency Indicators

	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Capital to Risk Weighted Assets				
CY08	12.7	11.8	11.9	12.2
Jun-09	14.4	13.5	13.4	13.5
Sep-09	15.6	14.5	14.3	14.3
Tier 1 Capital to RWA				
CY08	10.3	9.5	9.8	10.2
Jun-09	11.7	11	11.1	11.3
Sep-09	12.5	11.7	11.7	11.9
Net Worth to Total Assets				
CY08	10.3	10.3	10.1	10.4
Jun-09	10.3	9.7	10.1	10.2
Sep-09	11.1	10.3	10.4	10.5

to decrease the level of potential losses that could occur in stressed condition. This strategy of banks will release pressure on solvency, which has so far remained strong, and enable them to take early benefit of economic recovery.

5. Performance of Islamic Banking

Table 5.1: Islamic Banking Growth over quarters

	(in percent)			
	Dec-08	Mar-09	Jun-09	Sep-09
Financing	1.8	(5.9)	3.0	(4.7)
Investment	4.7	16.1	9.3	20.8
Asset	10.1	0.7	12.4	3.3
Equity	10.1	1.8	6.8	3.1
Profitability (after Tax)	0.3	(0.7)	1.0	0.3
Share of Islamic Banking in Assets of Banking Industry	4.9	4.8	5.1	5.3
Deposits	17.7	2.3	15.5	2.8
(in numbers)				
Islamic Banks (IBs)	6	6	6	6
Banks having Islamic Banking Divisions	12	12	12	13
Total Islamic Banking Network	514	521	528	550
of which Islamic Banking Divisions' Branches	130	135	137	144

Table 5.2: Islamic Banking at a Glance

	(billion Rupees)							
	CY07	%	Dec-08	%	Jun-09	%	Sep-09	%
Financing	106.4	51.6	144.7	51.6	140.0	44.8	133.7	41.4
Investments	31.2	15.1	42.2	15.1	53.5	17.1	64.7	20.0
Cash, bank balance, placements	50.8	24.6	64.5	24.6	89.6	28.7	92.5	28.6
Other assets	17.9	8.7	25.0	8.7	29.5	9.4	32.3	10.0
Total Assets	206.3	100.0	276.3	100.0	312.6	100.0	323.2	100.0
Deposits	147.4	83.4	201.7	83.4	238.2	86.9	244.8	86.4
Due to FIs	15.0	8.5	17.4	8.5	12.6	4.6	14.1	5.0
Other liabilities	14.4	8.1	21.4	8.1	23.3	8.5	24.3	8.6
Total Liabilities	176.8	100.0	240.5	100.0	274.1	100.0	283.2	100.0
Capital & other funds	29.5	14.3	35.8	13.0	38.9	12.4	40.1	12.4

Figure 5.1: Composition of Deposits

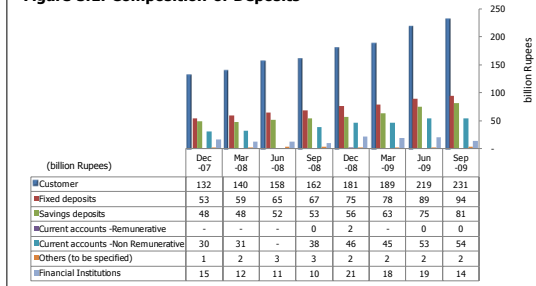


Figure 5.2: Break up - Mode of Financing

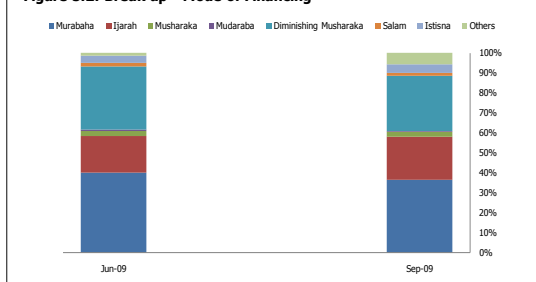


Table 5.3: Segmentwise Breakup of Financing

	Share in Total Loan		Share in Total Loan	
	IBIs	All Banks	IBIs	All Banks
Corporate Sector:	84.0	60.6%	2,081.5	61.0%
SMEs:	11.8	8.5%	330.8	9.7%
Agriculture	0.1	0.0%	154.7	4.5%
Consumer Finance:	31.6	22.8%	308.1	9.0%
Credit Cards	0.1	0.1%	35.0	1.0%
Auto Loans	14.1	10.2%	73.8	2.2%
Consumer Durable	0.0	0.0%	1.2	0.0%
Mortgage Loan	17.2	12.4%	77.4	2.3%
Other personal Loans	0.2	0.1%	120.6	3.5%
Commodity Financing	6.9	5.0%	399.3	11.7%
Staff Loans	2.8	2.0%	72.1	2.1%
Others	1.4	1.0%	65.7	1.9%
Total	138.7	100%	3,412.3	100%

The Islamic Banking Institutions (IBIs) maintained their profitability, though with slight deceleration during the quarter under review. However, growth in assets remained higher than that of the conventional banks, thus increasing share of IBIs in the system (see Table 5.1 and Annex-VI).

The balance sheet composition with slight changes remained more or less stable during the quarter. On the asset side, significant increase was observed in investments and interbank lending, while financing portfolio contracted. Deposits of the Islamic Banking increased, despite a decline in deposit base of the banking system. 'Due to financial institutions' also increased marginally after declining over a couple of quarters (see Table 5.2). Deposit mix of Islamic banks, due to decline in deposits from financial institutions tilted toward the customer deposits (see Figure 5.1).

Analysis of uses of funds shows a consistent increase in investments of IBIs. During the quarter under review, investments registered a healthy growth of 21 percent. Most of the increase in investments resulted from 4th auction of GoP Ijara Sukuk of Rs 14.4 billion in September, 2009. Periodic issues of Ijara Sukuk have contributed towards the resolution of key issue i.e. lack of alternative avenues for Islamic banks. So far GoP Ijara Sukuk of Rs 42.2 billion have been issued, which now represent 65 percent share in investments of the Islamic Banks. In line with general trend, Financing of Islamic banks decline by 4.7 percent in Sep-09 and its share in overall assets decreased to 41 percent (see Table 5.2).

The composition of financing shows a substantial increase in share of Ijarah and a moderate increase in Istasna. Other modes of financing declined over the quarter, with considerable decline in Mudarbah and Salam. (see Figure 5.2). Group-wise analysis shows

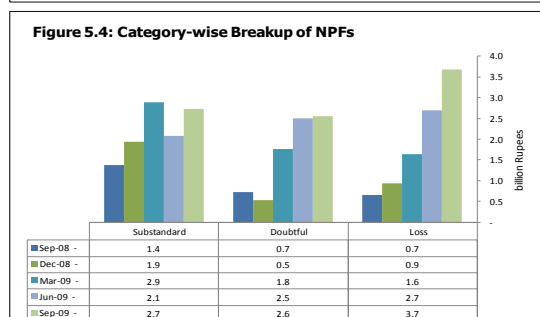
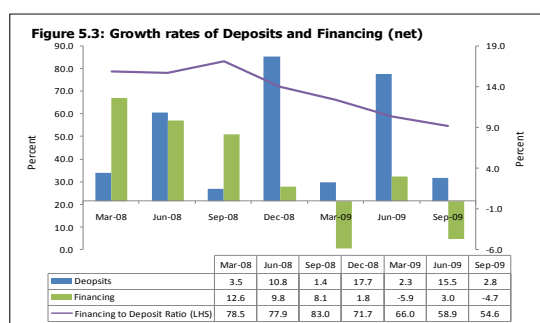


Table 5.4: Asset Quality Indicators

Indicator	Jun-08	Dec-08	Mar-09	Jun-09	Sep-09
	(billion Rupees)				
Non-performing Financings	2.8	3.4	6.3	7.3	8.9
Provisions held	1.7	2.3	3.2	4.0	4.9
Net NPFs	1.0	1.1	3.1	3.3	4.0
	(in percent)				
NPFs to total financing	2.1	2.3	4.5	5.0	6.5
Net NPFs to net financing	0.8	0.8	2.3	2.4	3.0
Provision to NPFs	62.2	67.6	50.6	54.4	55.0
Net NPFs to Capital (ratio)	3.3	3.1	8.5	8.5	10.0

Table 5.5: Comparative Position for Concentration of Funds Sep-09

Items	Islamic Banks				All Banks			
	Financing	Share	NPF to Loan	NPLs	Advances	Share	NPLs	to Loan
Chemical and Pharmaceuticals	10	7.5	0.01	0.1	123	3.59	9	7.2
Agribusiness	1	0.9	0.04	3.3	191	5.59	16	8.3
Textile	27	19.7	0.07	0.2	586	17.18	121	20.6
Cement	3	1.8	0.32	13.0	90	2.64	10	11.1
Sugar	3	2.4	0.01	0.3	57	1.68	11	18.7
Shoes and leather garments	2	1.4	0.75	39.9	21	0.62	3	12.6
Automobile and transportation equipment	3	2.5	0.20	5.8	74	2.16	11	14.5
Financial	1	1.1	-	-	48	1.41	7	15.2
Insurance	0	0.0	-	-	1	0.02	0	0.2
Electronics and Transmission of energy	7	1.0	1.49	21.6	401	2.34	28	7.0
Individuals	31	22.2	3.71	12.1	459	12.31	56	12.2
Others	49	35.5	2.34	4.7	1,363	41.07	151	11.1
Total	138.7	100.0	8.95	6.5	3,412.3	100.00	421.6	12.4

Table 5.6: Income Statement

	CY07	Sep-08	Dec-08	Jun-09	Sep-09
	(billion Rupees)				
Markup Income	12.7	15.0	22.0	15.4	23.1
Markup Expense	6.8	7.6	11.3	8.3	12.6
Net Markup Income	5.9	7.4	10.6	7.2	10.4
Provision Expense	0.8	0.7	1.0	1.7	2.6
Non Markup Income	2.4	1.5	2.1	1.6	2.8
Operating Expense	5.9	6.6	9.7	5.7	8.9
Profit Before Tax	1.7	1.5	2.0	1.4	1.7
Tax	(0.2)	0.1	0.2	0.3	0.2
Profit After Tax	1.6	1.4	1.8	1.1	1.5
Equity	29.5	32.5	35.8	38.9	40.1
	(in percent)				
Net Markup Income to total assets	2.9	3.9	4.5	2.2	3.2
Non Markup Income to total assets	1.2	0.8	0.9	0.5	0.9
Operating Expense to Gross Income	70.0	74.3	76.0	65.1	67.2
ROA (after tax)	0.9	0.8	0.8	0.8	0.7

that decline in financing was more pronounced in IBBs.

The financing portfolio of IBIs is concentrated in corporate and consumer with smaller shares of SMEs and commodity finance, while financing to agriculture is almost negligible (see Table 5.3). There is a strong potential for the IBIs to expand into SME and Agriculture sector. Keeping in view the potential and demand for Agri-finance and to promote Islamic Financing in this area, SBP has issued '*Guidelines on Islamic Finance for Agriculture*'.

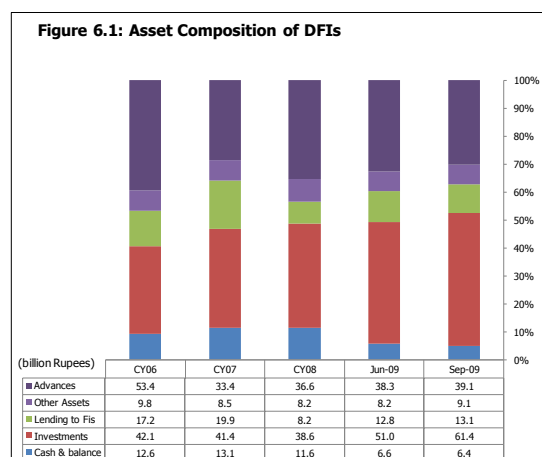
The liquidity position of IBIs improved over the quarter under review, as the decline in Financing and increase in deposit base led to further lowering in Financing to Deposits ratio (FDR) (see Figure 5.3).

Increasing financing risk continues to pose challenge to IBIs. Increase in NPFs coupled with drop in financing led to deterioration in asset quality indicators (see Table 5.4). Since NPLs increased mainly in Loss category, which attract higher provisioning, provision coverage ratio improved over the quarter (see Figure 5.4).

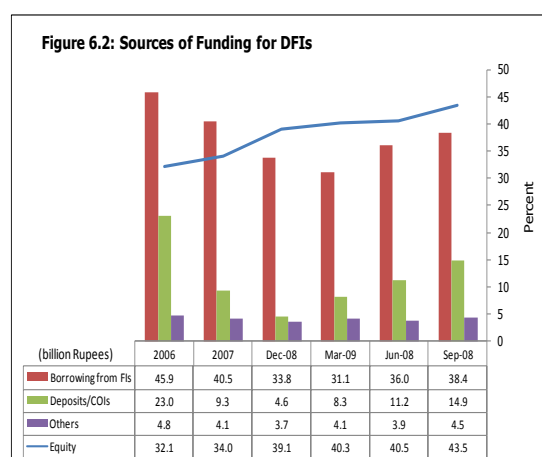
Sector wise analysis shows that textile, chemical and individuals have the major share in financing. However, infection ratio is quite high for cement, electronics and individuals (see Table 5.5). While NPFs of individuals are generally adequately secured through collaterals, low infection ratio for textile sector vis-à-vis conventional banks reflects upon the better risk management of IBIs.

The year to date profits of IBIs remained higher than the results of corresponding period of last year, though there was significant increase in provisioning for NPFs (see Table 5.6). However, Islamic banks saw a marginal decline in ROA due to shift in the mix of earning asset towards low-return assets. Incidentally, major part of IBIs profitability is coming from IBBs of conventional banks and a couple of Islamic banks. Islamic banks, therefore, need to improve on their operational efficiency for keeping their competitiveness in the industry in terms of both market share and profitability.

	(billion Rupees)					
	CY06	%	CY07	%	CY08	%
Balances with Treasury Banks	1.2	0.9	0.6	0.5	0.7	0.7
Lending to FIs and Balances with other Banks	28.6	21.1	32.4	27.8	19.1	18.5
Investments	42.1	31.1	41.4	35.6	38.6	37.3
Advances	53.5	39.5	33.4	28.7	36.6	35.5
Other Assets	9.9	7.3	8.5	7.3	8.2	8.0
Total Assets	135.3	100.0	116.3	100.0	103.3	100.0
Borrowing from FIs	58.6	43.3	51.7	44.4	43.8	42.4
Deposits	29.4	21.7	11.9	10.2	5.9	5.7
Other Liabilities	6.3	4.7	5.2	4.4	4.9	4.7
Total Liabilities	94.3	69.7	68.7	59.0	54.6	52.9
Shareholders Equity						
(including revaluation surplus/(Deficit))	41.0	30.3	47.6	41.0	48.7	47.1
					51.7	44.2
					55.5	43.0



	(billion Rupees)					
	CY06	CY07	CY08	Mar-09	Jun-09	Sep-09
TFCs/PTCs	4.8	6.6	9.4	10.2	11.0	11.9
Quoted Shares	13.1	12.5	14.7	11.8	12.5	13.7
FedGovt Sec	8.5	6.1	15.2	20.4	22.5	28.9
Others	14.6	15.6	9.4	6.8	7.4	8.8



6. Development Finance Institutions (DFIs)

The quarter under review witnessed a growth in the asset base of DFIs. The increase was largely contributed by growth in investments and was largely financed through deposits, interbank borrowings and growth in capital base.

During the quarter, the earning assets portfolio witnessed significant shift towards investments which increased by 20.4 percentage points (55.8 on YoY basis). As a result, the share of investment portfolio increased to 47.6 percent, while advances portfolio registered only a marginal increase of 2.0 percent during the quarter (7.0 percent YoY basis). Moreover, DFIs increased preference for liquidity was also reflected in movements of funds from bank balances to cash and balance with treasury bank (see Table 6.1 and Figure 6.1).

Breakup of investments indicates a substantial increase in investments in Federal Government papers. This increase is consistent with the risk averse approach adopted by the financial sector in wake of loan losses and build up of credit risk pressures. The government papers now account for 45.6 percent of total investments, compared to 42.0 percent in last quarter (25.0 percent in Sep-08). Investments in equity shares also witnessed substantial increase as the capital market showed strong recovery during the quarter under review, thus enlivening the interests of investors (see Table 6.2).

The loan portfolio of DFIs is highly concentrated in corporate and the consumer segments. These two segments account for around 95.4 percent of total loans portfolio. Due to the lack of diversification, the portfolio is left to the vagaries of circumstances (see Table 6.3). However the corporate sector portfolio is quite diversified among different sectors of economy, Textile and Energy sectors account for 27 percent of advances (see Table 6.4).

Table 6.3: Segment wise Loans of DFIs

	Dec-08		Mar-09		Sep-09	
	Loans	Share in Loans	Loans	Share in Loans	Loans	Share in Loans
Corporate Sector	25,647	57.5	25,914	57.7	29,646	61.1
SMEs Sector	486	1.1	462	1.0	455	0.9
Agriculture Sector	-	-	-	-	-	-
Consumer sector	17,448	39.1	17,298	38.5	16,609	34.2
Credit cards	-	-	-	-	-	-
Auto loans	12	0.0	11	0.0	8	0.0
Consumer durable	2	0.0	2	0.0	1	0.0
Mortgage loans	17,267	38.7	17,135	38.2	16,479	34.0
Other personal loans	167	0.4	151	0.3	121	0.2
Commodity financing	-	-	-	-	-	-
Staff Loans	749	1.7	729	1.6	829	1.7
Others	263	0.6	505	1.1	966	2.0
Total	44,593	100.0	44,907	100.0	48,505	100.0

Table 6.4: Corporate Sector- Concentration of Funds

(Rs.billions)	Mar-09	Share%	Jun-09	Share%	Sep-09	Share%
Chemical	2.2	4.9	2.7	5.6	3.2	6.6
Agri	0.1	0.2	0.1	0.2	0.1	0.2
Textile	4.7	10.5	5.2	11.0	4.9	10.1
Cement	1.6	3.5	1.5	3.2	1.7	3.4
Sugar	1.1	2.4	1.2	2.6	1.4	2.9
Leather	0.1	0.3	0.1	0.3	0.1	0.2
Auto	1.0	2.2	1.2	2.5	1.5	3.0
Financial	0.9	1.9	0.7	1.4	0.7	1.5
Insurance	0.0	0.0	0.0	0.0	0.0	0.0
Electronics	0.7	1.6	1.1	2.3	0.9	1.8
Energy	6.5	14.6	7.5	15.8	8.0	16.6
Individuals	17.8	39.7	17.6	37.3	17.2	35.5
Others	8.2	18.2	8.4	17.8	8.8	18.1
Total	44.9	100.0	47.4	100.0	48.5	100.0

Table 6.5: Key Performance Indicators

	(in percent)				
	CY06	CY07	CY08	Jun-09	Sep-09
Total Capital to Total RWA	41.0	43.7	53.4	51.1	49.8
Tier 1 Capital to Total RWA	38.0	44.0	53.3	51.0	49.4
Capital to Total Assets	31.0	41.0	47.1	44.2	43.0
NPLs to Total Loans	21.0	20.8	27.0	27.0	27.4
Net NPLs to Net Loans	13.0	4.6	11.2	9.9	10.0
Provision to NPLs	43.0	81.6	65.9	70.3	70.4
Net NPLs to Capital	17.3	3.2	8.4	7.3	7.1
ROA before Tax	2.0	0.8	1.5	-0.4	1.3
ROA after Tax	2.0	-0.1	0.7	-1.1	0.7
ROE before Tax	7.0	2.2	3.4	-0.8	2.9
ROE after Tax	7.6	-0.3	1.6	-2.3	1.5
Loans to Deposits	182.0	281.4	622.9	267.4	206.2
Net Interest Income to Gross Income	44.2	44.7	34.8	88.0	80.2
Non Interest Income to Gross Income	55.8	55.3	65.2	12.0	19.8
Operating Expense to Gross Income	37.6	39.1	22.7	39.0	41.2

Equity and borrowings from financial institutions constitute the major source of funding for DFIs and account for 80.9 percent of the asset base (see Table 6.1 and Fig 6.2). However, during the quarter under review, deposit/COIs base of DFIs witnessed significant increase and its share in overall funding structure improved slightly. The borrowings which finance 37.9 percent of the asset base, grew relatively at a slower pace; accordingly their shares in total assets slightly receded.

DFIs are maintaining a strong capital base which provides sufficient cushion to withstand unexpected losses from business operations. Because of progressive capital injection over the last few years, entry of new institutions with minimal leverage and increase in investments in risk-free Government papers, the capital adequacy indicators of DFIs have improved since CY06 and stay strong. However, due to faster increase in Risk Weighted Assets (RWA), the capital adequacy ratio (CAR) witnessed a contraction during the quarter under review. Similarly, Tier-I capital to RWAs ratio also declined over the quarter (see Table 6.5). The slower increase in capital base vis-à-vis asset growth, also reflected in marginal reduction in capital to total assets ratio; however, the level of capital remains quite high indicating substantial potential for further expansion in earning assets and operations.

Even in the face of worsening business environment, the asset quality indicators deteriorated only slightly. NPLs of DFIs registered an increase of 3.7 percent to Rs.13.3 billion (Rs12.8 billion in Jun-08). As a result NPLs to Loan ratio increased by 40 bps to 27.4 percent over the quarter. Since increase in NPLs occurred in loss category, which required 100 percent provisions, NPLs coverage and Net NPLs to Loan ratio slightly improved and capital impairment ratio receded.

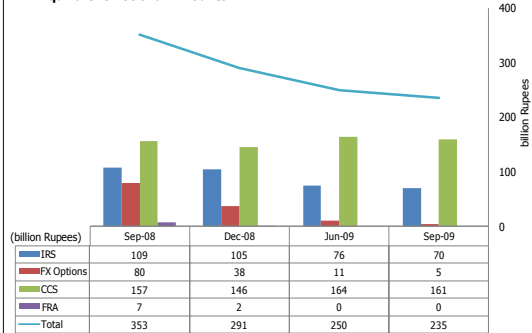
During Sep-09, DFIs returned to profitability as the sector witnessed a significant increase in trading gains and non-interest income. Non mark-up income and trading gains had remained a major source of income for DFIs,

however this source came under stress after capital market crisis of later months of CY08. After the recovery of capital market, the non-mark up income on the back of trading gains has shown improvement during the quarter under review (see Table 6.5).

The advances and the funding structure of DFIs both warrant broad basing. DFIs are mainly relying on trading gains and return on investments. The low level of lending portfolio is also largely concentrated in a few segments, while heavy reliance on high-cost borrowings from financial institutions puts strains on the profitability of the institutions. For achieving their full potentials as reflected in their low leverage and high capital adequacy ratio, DFIs need to diversify and expand their funding sources as well as exert concerted efforts to expand their medium and long-term projects financing operations into the underserved but promising sectors of the economy.

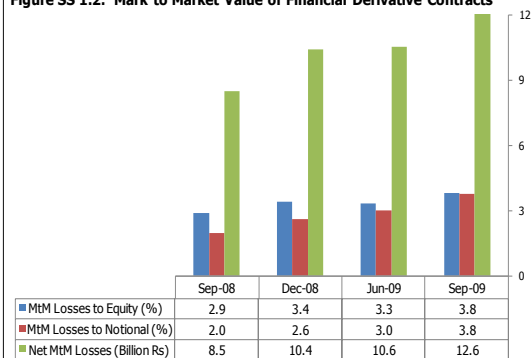
Special Section 1: Analysis of Financial Derivates

Figure SS 1.1: Financial Derivatives Contracts, PKR Equivalent Notional Amounts



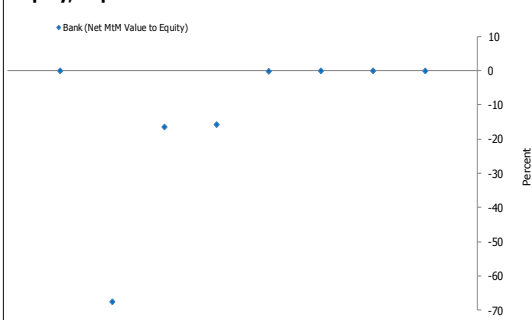
After witnessing momentous growth over a couple of years, banks' financial derivative business has witnessed substantial contraction over the last one year or so. During the quarter under review the outstanding notional amount of all derivatives contracts further declined. The decline was observed in all major types of contracts i.e. Interest Rate Swaps (IRS), Cross Currency Swaps (CCS), and Foreign Exchange Options (FX Options), while Forward Rate Agreement (FRAs) did not observed activity during the quarter under review. Accordingly the composition of overall derivative portfolio of the banks engaged in derivative business observed only a slightly change (see Figure SS 1.1).

Figure SS 1.2: Mark to Market Value of Financial Derivative Contracts



The **mark-to-market** position also shows further deterioration over the quarter. Net mark-to-market losses increased by 19 percent, and the relative indicators accordingly deteriorated (see Figure SS 1.2).

Figure SS 1.3: Bankwise Net Mark-to-Market Value to Equity, Sep-09



Disaggregated analysis of the banks engaged in derivative business shows that four banks are carrying mark-to-market losses on their derivative portfolio. A few of these banks have significantly risky exposures as reflected by net mark-to-market losses on derivative portfolio in terms of their equity base; indicating that these banks could face further stresses in case of any further adverse movements in underlying prices (see Figure SS 1.3).

⁸ The analysis is based on the information of eight banks, including five Authorized Derivative Dealers, which are engaged in derivative business. For details in respect of background of derivative business in Pakistan, regulatory framework, and the features of permissible types of derivatives contracts; please refer to the Quarterly Performance Review of the Banking System for June 2009 quarter.

Special Section 2: Regulatory Developments

Following paragraphs highlight the regulatory developments that have taken place during the quarter and post quarter till November 06, 2009.

I. Consumer Facilitation and Protection:

i. Pakistan Remittance Initiative (PRI):

Pakistan Remittance Initiative has been launched to boost and facilitate flow of remittance sent home by non-residents of Pakistan. Accordingly procedure have been set out for participating banks to facilitate transfer of remittance received in beneficiaries account through electronic channels preferable in real time mode.

All the participating banks have been advised to ensure adequate controls in the process of transfer and payment of remittances in/through beneficiary's account and over-the-counter payments. Furthermore, they are also required to carry out procedures required to ensure strict compliance of all SBP rules & regulations including those related to KYC and AML/CFT measures (PSD Circular No. 2 August 22, 2009).

ii. Banking Services For The Visually Impaired Persons

To facilitate the visually impaired persons, banks have been advised to allow opening of an individual account to such impaired persons after explaining to them terms and conditions set by the banks to govern the operation of these accounts. (BPRD Circular 15 dated October 12, 2009)

iii. Dishonoring of Cheques

Banks have been advised to exercise due care in recording complete and correct reasons for dishonoring cheques. Since, dishonoring of a cheque due to insufficiency of funds, entails action under section 489-F of the Pakistan Penal Code, incorrect, incomplete or misleading

reasons recorded by banks can be used by unscrupulous elements against innocent accountholders, which besides bringing bad name to the banks may expose them to legal action. (BPRD Circular Letter No. 31 of 2009 dated October 12, 2009)

iv. Service Charges on the Collection of Fees of Educational Institutions.

To facilitate the students, Banks have been advised not to charge service fee from the students depositing the amount of fee directly in the fee collecting account of the educational institution.

Further charges for making pay order/DD/any other related instrument for payment of fee/dues in favour of educational institutions, HEC/Board etc may not exceed 0.50% of fee/dues or Rs. 25 per instrument whichever is less (BPRD Circular Letter No. 21 of 2009 dated August 10, 2009).

v. Collection of Utility Bills Under Sou Motu Case No. 04 Of 2006

In the light of the final order of Supreme Court in Sou Motu Case No. 4 of 2006 dated June 11, 2009 the banks have been further directed to make special arrangements for collection of utility bills to ensure that consumers making queue in front of branch are provide drinking water, proper shelter to protect from heat & rain and due respect/treatment to all especially senior citizens.

Banks/DFIs have also been advised to launch an advertisement campaign on electronic/ print media, and improve their complaint resolution system for prompt resolution of their complaint.

Banks shall also display information at their branches and field offices informing their customers that they may complain directly to SBP and about existing complaint system of SBP for its effective use. (BPRD Circular Letter No. 25 of 2009 dated August 26, 2009).

II. Prudential Regulations:

ii. Provisioning for Loans and Advances

Prudential Regulations (PRs) has been amended to enhance the benefit of FSV from 30 percent

to 40 percent of pledged stock and mortgaged residential, commercial & industrial properties (land and building only) held as collateral against NPLs for three years from the date of classification for calculating provisioning requirement w.e.f. 30-09-2009.

Accordingly, relevant paras of R-8 of PRs for Corporate and Commercial Banking, R-11 of the PRs for SME Financing; and R-22 of the PRs for Consumer Financing have been amended.

iii. Instruction on Rescheduling/Restructuring of Classified Loans and Advances:

SBP introduced interim instructions on classification/provisioning requirements in respect of rescheduling/restructuring of such classified loans and advances that are overdue by less than one year at the time of rescheduling/ restructuring. These instructions will also be applicable on such of their existing classified loans and advances, which were rescheduled/restructured on or after 01-01-2009 and were overdue by less than one year at the time of rescheduling/restructuring. These instructions will be effective till 30-10-2009.

Banks/DFIs may avail the benefit of provisioning, arising from above instructions, subject to the condition that it shall not be available for the payment of cash or stock dividend. Further, the details and impact of the benefit in provisioning shall be adequately disclosed in the notes to the financial statements.

ii. Regulation M-1 – PRs for Corporate/Commercial Banking

To provide final opportunity to banks client for regularizing those accounts opened without CNIC, by December 31, 2009, banks/ DFIs have been advised to adopt the following procedure:

- a. Inform their customers, through media, that accounts without CINC will be blocked for all debit transactions/withdrawals, irrespective of mode of payment, after 31-12-2009.
- b. Debit block option should be exercised after serving one month prior notice upon such

customers who have not submitted copies of CNICs.

- c. Remove the debit block from accounts upon submission of copy of CNIC. (BPRD Circular Letter No. 30 of 2009 dated September 30, 2009)

iii. R-13-PRs for Consumer Finance.;

Following additions have been made in the regulations:

Where the bank/DFI holds 100% provision if deemed appropriate, they may not obtain insurance cover for the vehicle for remaining tenure of the loan.”(BPRD Circular Letter No. 32 dated October 12, 2009)

iv. PRs for Microfinance Banks.

PRs for Microfinance banks have been amended as follows:

a. Regulation R-10.

Maximum size of housing loan up to Rs. 500,000/- to a single borrower allowed subject to household annual income up to Rs. 600,000. However, at least 60% of housing loan portfolio of an MFB should be within the loan limit of Rs. 250,000/-.

Maximum size of general Loan (other than housing) up to Rs. 150,000/- allowed to a single borrower subject to household annual income (net of business expenses) up to Rs. 300,000/-

b. Maximum Exposure of a borrower from MFBs / MFIs / Banks/ Other Financial Institutions: Regulation 11:

The maximum limits of the borrowers’ aggregate exposure will be Rs. 150,000/- for general loans, and Rs. 500,000/- for housing loans.

Further, before allowing any facility exceeding Rs.50,000/-, the MFBs shall obtain a credit report from the CIB of SBP, or from any other CIB of which they are a member and should give it a due weightage while making credit decision.

c. Regulation 12-Loans Classification and Provisioning Requirements:.

Loans overdue by 30 days or more, but less than 60 days are classified as 'Other Assets Especially Mentioned - OAEM', and will require no specific provision.

Loans overdue by 60 days or more, but less than 90 days are classified as 'Sub-standard', and will require a specific provision of 25% of outstanding principal net of cash collaterals.

III. Risk Management & Internal Controls.

i. Revaluation Surplus / (Deficit).

Banks / DFIs, which have provided for the impairment on AFS securities as on December 31, 2008, have been allowed to adjust their impairment losses, resulting from recovery in market prices during the year 2009. However, this adjustment shall be taken to reserves/surplus account only to the extent, which is in excess of already created impairment as on 31-12-2008 subject to authentication by the Statutory Auditors of Banks / DFIs.

Furthermore, in cases where impairment on AFS equity investment, made as on 31-12-2008 is sufficient to cover the impairment required during the year 2009, no additional impairment is to be made.

iv. Guidelines on Internal Controls

In order to facilitate Banks to comply with the guidelines on internal control, Statutory Auditor(s) of Banks/DFIs, have been allowed to submit their opinion on Internal Control over Financial Reporting (ICFR) directly to Banking Surveillance department and copy to Institute of Chartered Accountants of Pakistan (ICAP). This requirement is for the year ending 31-12-2009. However, from the year ending 31-12-2010, Statutory Auditor(s) of Banks/ DFIs shall express their opinion on ICFR in the annual financial statements as required under the guidelines. In this regard, Banks / DFI's and their Statutory Auditor(s) have been advised to make concerted efforts and gear up their activities to comply with the requirement(s) of the guidelines.

Table SS 2.1: Mark-up Rates for Financing

(in percent)			
Tenor	Rate of Refinance	Banks'/ DFIs' Spread	End Users' Rate
Up-to 3 years	6.00	2.00	8.00
Over 3 years and up-to 5 years	6.50	2.50	9.00
Over 5 years and up-to 7 years	7.00	3.00	10.00

Table SS 2.2: Mark-up Rates for Financing

(in percent)			
Period of financing	Rate of Refinance	PFI's Spread	End User's Rate
Up-to 3 years	7.70	1.50	9.20
Over 3 years and upto 5 years	7.20	2.50	9.70
Over 5 years and upto 10 years	7.25	3.00	10.25

IV. S M Es:*i. Refinancing Facility for Modernization of SMEs- Rice Husking Mills:*

To encourage the modernization of Rice Husking Mills/Automatic Sella Plants to produce quality rice scheme for *Refinancing Facility for Modernization of Small and Medium Enterprises (SMEs)* has been introduced.

Under the scheme, financing shall be available for import/purchase of new Rice Husking Machines, Paddy Driers and Parboiling Plants by the sponsors of Rice Husking Mills / Automatic Sella Plants at mark-up rates given in table SS 2.1 (SMEFD Circular No. 17 of 2009 dated November 02, 2009).

This Scheme shall remain valid only up to June 30, 2011.

ii. Long Term Financing Facility (LTFF)

Effective 1st November 2009 the rates of service charges for Participating Financial Institutions (PFIs) and rates for end users under the above Scheme has been revised as provided in table SS 2.2 (SMEFD Circular No. 16 of 2009 dated October 31, 2009).

iii. Amendments in LTFF for Plant & Machinery

To further facilitate the export oriented industries, financing of upto 50 percent have been allowed under the LTFF Scheme for LCs established before the announcement of the Scheme and retired after June 30, 2007. Remaining 50 percent will be financed by the banks/DFIs from their own sources as per the terms and conditions of financing banks/DFIs agreed with the borrowers. However, LCs which have been retired through own sources of the sponsors of the export oriented industries, shall not be eligible under the Scheme.

Financing for plant, machinery and equipment to be used by the export oriented projects for regeneration of textile waste into usable fiber for producing value added exportable products shall also be eligible under the subject Scheme. (SMEFD Circular No. 11 of 2009 dated June 26, 2009)

V. Agriculture.

i. Amendments in Revolving Credit Scheme (RCS) for Agriculture

To facilitate farming community in repayment of crop production loans under RCS based on their cropping cycle, it has been decided that banks may segregate the repayments in two stages instead of existing condition of one time annual clean up for renewal of the facility. Total repayments in the loan account during the year equals to the maximum amount availed/ outstanding during the year shall also be treated as clean up of the account. The payment of mark up and other charges, however, shall be required to be made as per agreed terms & conditions (ACD CL No. 01 dated September 01, 2009).

ii. Agri. Loans Refinancing & Guarantee Scheme for War Affected Areas of NWFP and FATA

SBP has launched a new Agricultural Loans Refinance & Guarantee Scheme to support the development of affected districts of NWFP and FATA in terms of which banks are allowed to obtain refinance facility from SBP against their agri. production/working capital loans to the farmers of affected areas for the purpose of agricultural activities.

Refinance facility will be provided at 6 Percent per annum to banks, who can charge a maximum spread of 2 percent per annum from the borrowers.

Further, SBP will also share the bona-fide losses of banks up to maximum of 50% against their loans disbursed. However, banks will be required to put in place an effective monitoring and recovery system for ensuring timely recovery of agri. loans. Claims of bona-fide losses in respect of agri. loans shall be submitted to ACD of SBP after classification as loss, on annual basis (SMEFD Circular No. 18 of 2009 dated November 06, 2009).

Above Scheme shall remain valid till December 31, 2012 (SMEFD Circular No. 18 dated November 06, 2009).

Annex-I

Group wise Balance Sheets and Income Statements of Banks **as of September 30, 2009**

(million Rupees)

Financial Position	PSCB	LPB	FB	CB	SB	All Banks
ASSETS						
Cash & Balances With Treasury Banks	85,817	340,217	35,301	461,336	2,220	463,555
Balances With Other Banks	30,499	119,824	21,605	171,927	10,853	182,780
Lending To Financial Institutions	10,930	141,363	27,799	180,092	-	180,092
Investments - Net	317,219	1,206,925	54,358	1,578,501	14,982	1,593,483
Advances - Net	584,613	2,363,464	81,768	3,029,845	88,694	3,118,538
Operating Fixed Assets	29,321	193,081	3,919	226,321	4,945	231,266
Deferred Tax Assets	16,206	33,297	5,574	55,077	4	55,081
Other Assets	77,638	184,756	7,153	269,548	10,705	280,253
TOTAL ASSETS	1,152,243	4,582,927	237,476	5,972,646	132,402	6,105,048
LIABILITIES						
Bills Payable	10,274	59,079	3,014	72,366	1,484	73,850
Borrowings From Financial Institution	74,277	400,400	10,119	484,796	87,109	571,905
Deposits And Other Accounts	872,276	3,435,230	162,967	4,470,473	12,981	4,483,454
Sub-ordinated Loans	-	42,948	-	42,948	3,405	46,353
Liabilities Against Assets Subject To Finance Lease	48	74	-	122	13	135
Deferred Tax Liabilities	4,334	2,945	242	7,521	115	7,635
Other Liabilities	54,013	168,526	25,896	248,435	31,822	280,257
TOTAL LIABILITIES	1,015,221	4,109,202	202,238	5,326,661	136,929	5,463,590
NET ASSETS	137,022	473,725	35,239	645,985	(4,527)	641,458
NET ASSETS REPRESENTED BY:						
Share Capital	21,339	244,573	33,883	299,796	15,507	315,303
Reserves	32,601	128,291	76	160,968	2,447	163,415
Unappropriated Profit	52,570	62,733	1,493	116,795	(26,137)	90,659
Share Holders' Equity	106,510	435,597	35,452	577,560	(8,183)	569,376
Surplus/Deficit On Revaluation Of Assets	30,511	38,128	(213)	68,426	3,656	72,082
TOTAL	137,022	473,725	35,239	645,985	(4,527)	641,458
OPERATING POSITION						
Mark-Up/ Return/Interest Earned	71,506	340,533	16,709	428,748	7,338	436,086
Mark-Up/ Return/Interest Expenses	42,864	183,851	9,199	235,913	3,658	239,571
Net Mark-Up / Interest Income	28,643	156,682	7,510	192,835	3,681	196,515
Provisions & Bad Debts Written Off Directly/(Reversals)	10,537	49,310	3,632	63,478	576	64,054
Net Mark-Up / Interest Income After Provision	18,106	107,373	3,878	129,356	3,104	132,461
Fees, Commission & Brokerage Income	6,859	23,574	1,492	31,926	75	32,001
Dividend Income	2,641	3,987	7	6,635	57	6,692
Income From Dealing In Foreign Currencies	2,762	8,930	3,031	14,722	(1)	14,721
Other Income	1,112	13,690	343	15,145	3,817	18,962
Total Non - Markup / Interest Income	13,374	50,181	4,873	68,428	3,948	72,376
Administrative Expenses	18,391	99,878	8,608	126,877	4,844	131,721
Other Expenses	800	2,141	50	2,990	15	3,006
Total Non-Markup/Interest Expenses	19,191	102,019	8,657	129,867	4,859	134,727
Profit before Tax and Extra ordinary Items	12,289	55,535	94	67,917	2,192	70,110
Extra ordinary/unusual Items - Gain/(Loss)	-	-	-	-	0.16	0.16
PROFIT/ (LOSS) BEFORE TAXATION	12,289	55,535	94	67,917	2,192	70,109
Taxation	4,237	21,479	317	26,033	1,895	27,928
PROFIT/ (LOSS) AFTER TAX	8,052	34,055	(223)	41,884	297	42,182

Financial Soundness Indicators

(In percent)

Indicators	2005	2006	2007	Sep 08	2008	Jun-09	Sep-09
CAPITAL ADEQUACY							
Risk Weighted CAR							
Public Sector Commercial Banks	14.5	15.2	16.1	15.1	13.2	14.5	15.6
Local Private Banks	10.6	12.7	11.8	11.2	12.1	13.3	14.2
Foreign Banks	16.4	15.0	14.6	18.5	21.8	23.7	23.8
Commercial Banks	11.9	13.3	12.8	12.2	12.7	14.0	14.9
Specialized Banks	(7.7)	(8.3)	(6.2)	(4.1)	(4.9)	(3.4)	(5.0)
All Banks	11.3	12.7	12.3	11.8	12.3	13.5	14.3
Tier 1 Capital to RWA							
Public Sector Commercial Banks	8.8	11.1	12.2	11.9	11.0	12.0	12.8
Local Private Banks	8.3	10.4	9.9	9.3	10.2	11.2	11.8
Foreign Banks	16.1	14.3	14.0	18.0	21.3	23.1	23.3
Commercial Banks	9.1	10.8	10.5	10.1	10.8	11.8	12.4
Specialized Banks	(13.6)	(13.3)	(12.5)	(9.1)	(10.1)	(7.4)	(8.2)
All Banks	8.3	10.0	10.0	9.7	10.2	11.3	11.9
Capital to Total Assets							
Public Sector Commercial Banks	12.6	12.2	13.7	12.9	10.7	10.9	11.9
Local Private Banks	7.0	9.2	10.2	9.8	10.0	10.2	10.3
Foreign Banks	9.5	10.1	11.2	13.3	14.5	14.8	14.8
Commercial Banks	8.4	9.9	10.9	10.5	10.3	10.5	10.8
Specialized Banks	(8.1)	(8.0)	(5.4)	(4.1)	(3.2)	(2.5)	(3.4)
All Banks	7.9	9.4	10.5	10.2	10.0	10.2	10.5
ASSET QUALITY							
NPLs to Total Loans							
Public Sector Commercial Banks	10.0	9.0	8.4	11.8	16.3	16.8	17.4
Local Private Banks	6.4	5.2	6.5	6.9	8.6	9.8	10.5
Foreign Banks	1.2	1.0	1.6	1.7	2.9	4.5	5.3
Commercial Banks	6.7	5.7	6.7	7.6	9.9	11.1	11.7
Specialized Banks	46.0	39.1	34.3	33.4	28.8	25.8	31.4
All Banks	8.3	6.9	7.6	8.4	10.5	11.5	12.4
Provision to NPLs							
Public Sector Commercial Banks	86.8	84.5	89.0	81.1	66.9	65.9	67.2
Local Private Banks	76.4	78.7	88.5	80.7	70.2	71.6	72.1
Foreign Banks	145.9	191.7	157.0	126.0	81.9	83.4	81.3
Commercial Banks	80.4	81.5	89.1	81.1	69.3	70.0	70.8
Specialized Banks	64.8	64.1	68.6	63.2	72.4	72.8	57.1
All Banks	76.7	77.8	86.1	79.0	69.6	70.2	69.7
Net NPLs to Net Loans							
Public Sector Commercial Banks	1.5	1.5	1.0	2.5	6.1	6.4	6.5
Local Private Banks	1.6	1.1	0.8	1.4	2.7	3.0	3.2
Foreign Banks	(0.6)	(1.0)	(0.9)	(0.5)	0.5	0.8	1.0
Commercial Banks	1.4	1.1	0.8	1.5	3.3	3.6	3.7
Specialized Banks	23.1	18.7	14.0	15.6	10.0	8.6	16.4
All Banks	2.1	1.6	1.1	1.9	3.4	3.7	4.1
Net NPLs to Capital							
Public Sector Commercial Banks	5.5	6.4	3.4	10.5	30.3	30.0	27.6
Local Private Banks	13.0	7.1	4.1	8.1	15.9	15.6	15.8
Foreign Banks	(3.0)	(5.1)	(4.1)	(1.4)	1.6	1.9	2.4
Commercial Banks	9.0	6.2	3.7	8.2	17.9	17.8	17.6
Specialized Banks	-	-	-	-	-	-	-
All Banks	14.3	9.7	5.6	10.4	19.4	19.0	19.9
EARNINGS							
Return on Assets (Before Tax)							
Public Sector Commercial Banks	3.3	4.0	3.5	1.5	0.6	1.1	1.5
Local Private Banks	2.7	3.1	2.0	2.2	1.3	1.8	1.7
Foreign Banks	3.6	3.2	1.5	1.1	0.0	0.4	0.1
Commercial Banks	2.9	3.2	2.3	2.0	1.1	1.6	1.6
Specialized Banks	(1.0)	(1.3)	1.4	1.8	3.2	3.3	1.3
All Banks	2.8	3.1	2.2	2.0	1.2	1.7	1.6

Financial Soundness Indicators

(In percent)

Indicators	2005	2006	2007	Sep 08	2008	Jun-09	Sep-09
Return on Assets (After Tax)							
Public Sector Commercial Banks	2.2	2.7	2.5	1.2	0.5	0.6	1.0
Local Private Banks	1.8	2.1	1.4	1.5	0.9	1.1	1.0
Foreign Banks	2.5	2.1	0.7	0.3	0.3	0.1	(0.1)
Commercial Banks	1.99	2.19	1.6	1.4	0.8	1.0	1.0
Specialized Banks	(1.2)	(1.8)	0.71	1.1	1.8	1.9	(0.6)
All Banks	1.89	2.08	1.5	1.4	0.8	1.0	0.9
ROE (Avg. Equity & Surplus) (Before Tax)							
Public Sector Commercial Banks	30.7	32.4	27.2	11.8	5.2	9.5	12.8
Local Private Banks	40.1	36.2	20.4	22.2	12.9	17.8	16.4
Foreign Banks	38.9	30.0	13.1	9.9	0.0	2.8	0.4
Commercial Banks	37.2	34.7	21.8	19.3	10.6	15.2	14.7
Specialized Banks	-	-	-	-	-	-	-
All Banks	38.2	35.2	22.6	19.8	11.4	16.0	15.1
ROE (Avg. Equity & Surplus) (After Tax)							
Public Sector Commercial Banks	20.9	21.7	19.5	8.9	4.4	5.3	8.4
Local Private Banks	27.2	25.0	13.8	14.8	8.5	11.0	10.0
Foreign Banks	27.1	20.4	6.0	2.5	2.2	0.5	(0.9)
Commercial Banks	25.4	23.7	15.0	12.9	7.3	9.2	9.1
Specialized Banks	-	-	-	-	-	-	-
All Banks	25.8	23.8	15.4	13.3	7.8	9.7	9.0
NII/Gross Income							
Public Sector Commercial Banks	71.3	69.5	65.9	64.5	65.4	70.0	68.2
Local Private Banks	73.0	73.5	70.7	72.0	73.3	75.9	75.7
Foreign Banks	61.5	65.8	59.1	56.6	61.3	57.2	60.6
Commercial Banks	71.3	72.1	69.2	69.8	71.3	74.1	73.8
Specialized Banks	87.7	40.1	42.8	48.7	46.6	41.3	48.2
All Banks	72.0	70.9	68.2	69.2	70.4	73.0	73.1
Cost / Income Ratio							
Public Sector Commercial Banks	34.3	31.8	30.2	35.2	39.1	48.4	45.7
Local Private Banks	43.1	40.7	45.4	48.7	51.8	48.6	49.3
Foreign Banks	42.2	49.8	57.0	61.0	69.6	63.6	69.9
Commercial Banks	41.2	39.4	42.8	46.7	50.2	49.3	49.7
Specialized Banks	47.8	62.6	53.2	53.5	52.1	70.6	63.7
All Banks	41.5	40.3	43.2	46.8	50.3	50.1	50.1
LIQUIDITY							
Liquid Assets/Total Assets							
Public Sector Commercial Banks	35.6	33.9	37.0	27.6	30.5	30.2	29.3
Local Private Banks	32.4	31.1	32.5	28.2	27.4	30.5	30.9
Foreign Banks	41.8	41.0	41.6	43.6	45.3	54.7	57.2
Commercial Banks	33.9	32.2	33.8	28.7	28.7	31.5	31.6
Specialized Banks	25.8	23.0	27.9	21.2	24.5	22.2	19.0
All Banks	33.7	31.9	33.6	28.6	28.6	31.2	31.4
Liquid Assets/Total Deposits							
Public Sector Commercial Banks	44.7	42.6	47.1	36.0	38.8	38.6	38.7
Local Private Banks	40.3	40.6	42.9	37.2	35.7	39.9	41.2
Foreign Banks	57.9	61.1	61.1	71.4	71.9	84.2	83.3
Commercial Banks	42.7	42.0	44.3	38.2	37.6	41.2	42.3
Specialized Banks	183.2	205.4	247.7	217.1	229.4	206.9	193.5
All Banks	43.5	42.7	45.1	38.7	38.2	41.7	42.7
Advances/Deposits							
Public Sector Commercial Banks	59.8	64.6	60.0	71.6	68.4	65.0	67.0
Local Private Banks	70.8	74.5	70.1	75.2	75.4	69.2	68.8
Foreign Banks	68.7	80.1	75.2	69.8	69.1	57.5	50.2
Commercial Banks	68.4	72.7	73.8	74.3	73.8	67.9	67.8
Specialized Banks	400.7	528.4	507.3	638.4	577.0	597.2	683.3
All Banks	70.2	74.6	69.7	76.0	75.5	69.6	69.6

Selected Indicators for Different Categories of Banks
in terms of Size September 30, 2009

Indicators	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	50.5	72.9	92.4	100
Share of Total Deposits	53.0	75.6	93.0	100
Share of Gross Income	59.2	76.5	94.7	100
Share of Risk Weighted Assets	51.8	72.0	92.4	100
Capital Adequacy				
Capital/RWA	15.6	14.5	14.3	14.3
Tier 1 Capital / RWA	12.5	11.7	11.7	11.9
Net Worth / Total Assets	11.1	10.3	10.4	10.5
Asset Composition				
Sectoral Distribution of Loans (Domestic)				
- Corporate Sector	52.5	75.9	93.4	100
- SMEs	40.1	61.6	88.8	100
- Agriculture	27.3	37.4	95.0	100
- Consumer Finance	50.9	75.6	93.1	100
- Commodity Financing	78.2	94.2	98.8	100
- Staff Loans	57.6	74.2	91.3	100
- Others	90.5	94.7	95.3	100
- Total	53.8	75.2	93.6	100
NPLs / Gross Loans	10.8	11.4	11.9	12.4
Net NPLs / Capital	13.9	17.6	19.4	19.9
Earning & Profitability				
ROA (After Tax)	1.92	1.48	1.22	0.96
ROE (After Tax)	18.2	15.0	12.0	9.01
Net Interest Income / Gross Income	78.0	75.3	73.4	73.1
Income from Trading & Foreign Exchange / Gross Income	15.0	17.0	16.8	17.4
Non-Interest Expense / Gross Income	38.2	42.7	46.4	50.1
Provision Expense to Gross Income	19.9	22.1	22.6	23.8
Liquidity				
Liquid Assets / Total Assets	29.0	29.9	30.7	31.4
Liquid Assets held in Govt. Securities / Total Liquid Assets	57.4	59.9	62.3	59.9
Liquid Assets / Total Deposits	37.5	39.3	41.5	42.7

Annex-IV

Bank-wise Major Statistics September 30, 2009

(million Rupees)

S. No.	Name of the Banks	Assets	Advances	Deposits	Equity
Public Sector Commercial Banks					
1	National Bank of Pakistan	869,471	435,505	653,518	115,659
2	First Women Bank Limited	10,645	2,539	7,847	1,164
3	The Bank of Punjab	237,438	136,086	188,578	13,936
4	The Bank of Khyber	34,689	10,484	22,333	6,263
Local Private Banks					
5	Allied Bank Limited	379,240	210,474	301,588	27,686
6	Bank Alfalah Limited	346,689	179,289	294,815	22,928
7	Askari Bank Limited	240,793	124,959	191,449	14,872
8	Bank Al Habib Limited	223,986	95,499	175,860	13,194
9	Mybank Limited	39,728	18,910	23,043	6,024
10	SAMBA Bank Limited	17,580	6,113	10,166	4,732
11	Atlas Bank Limited	32,829	19,424	28,153	2,601
12	Faysal Bank Limited	158,703	92,032	109,332	12,704
13	Habib Bank Limited	771,234	450,475	608,044	75,991
14	KASB Bank Limited	58,958	30,680	41,991	8,397
15	Arif Habib Bank Limited	35,605	17,611	26,720	5,133
16	JS Bank Limited	27,937	10,575	19,055	5,030
17	MCB Bank Limited	468,839	238,292	362,116	67,596
18	United Bank Limited	593,077	351,965	452,379	55,118
19	The Royal Bank of Scotland Limited	96,107	50,643	72,836	8,666
20	Habib Metropolitan Bank Limited	234,316	99,142	134,508	18,862
21	BankIslami Pakistan Limited	29,094	7,248	22,861	4,823
22	Emirates Global Islamic Bank	20,185	9,739	14,820	3,659
23	Soneri Bank Limited	89,519	47,210	68,402	7,712
24	SILKBANK Limited	66,509	33,229	47,442	3,317
25	NIB Bank Limited	189,034	79,974	105,852	41,593
26	Meezan Bank Limited	108,079	37,238	87,681	8,867
27	Dubai Islamic Bank Pakistan Limited	32,607	20,019	25,451	5,262
28	Standard Chartered Bank	308,501	128,060	203,295	43,907
29	Dawood Islamic Bank Limited	13,777	4,664	7,370	5,051
Foreign Banks					
30	Albaraka Islamic Bank B.S.C. (E.C.), Pakistan Operations	25,604	14,192	19,574	2,194
31	Citibank N.A. (Pakistan Operations)	94,154	27,227	63,583	8,714
32	Deutsche Bank AG (Pakistan Operations)	15,144	3,084	6,205	5,373
33	HSBC Bank Middle East Limited - (Pakistan Operations)	51,508	20,721	42,984	5,437
34	Oman International Bank S.A.O.G (Pakistan Operations)	3,684	360	463	2,815
35	The Bank of Tokyo-Mitsubishi UFJ Limited (Pakistan Operations)	7,723	2,494	1,936	4,101
36	Barclays Bank PLC (Pakistan Operations)	39,659	13,689	28,223	6,605
Specialized Banks					
37	The Punjab Provincial Cooperative Bank Ltd	13,572	6,453	1,838	3,239
38	Industrial Development Bank of Pakistan	4,454	144	3,671	(28,075)
39	Zarai Taraqiati Bank Limited	108,568	79,652	5,446	18,353
40	SME Bank Limited	5,807	2,445	2,026	1,955
Total		6,105,048	3,118,538	4,483,454	641,458

Position Based on September 30, 2009

		Number of Banks with CAR		
		< 0%	0% - 9%	9%<
Pre-Shock		3	3	34
Post-Shock				
Credit Shocks				
C-1	15% of performing loans moving to substandard, 15% of substandard to doubtful, 25% of doubtful to loss	3	6	31
C-2	Tightening of loan classification i.e. all NPLs under OAEM require 25% provisioning, all NPLs under substandard require 50% and all NPLs in doubtful category require 100% provisioning.	3	3	34
C-3	Deterioration of loans to the textile sector (25%) directly downgraded to doubtful category	3	4	33
C-4	25% of consumer loans (auto loans, personal loans & consumer durables only) classified into doubtful category.	3	3	34
C-5	Critical Infection Ratio (The ratio of NPLs to Loans where capital wipes out) estimated as 29.2% as against actual of Sep09: 12.4%)	3	37	0
Market Shocks				
Interest Rate Shocks				
IR-1	An increase in interest rates by 200 basis points.	3	3	34
IR-2	Shift coupled with flattening of the yield curve by increasing 500,300 and 200 basis points in the three maturities respectively.	3	3	34
Exchange Rate Shocks				
ER-1	Depreciation of exchange rate by 25%	3	4	33
ER-2	Appreciation of exchange rate by 5%	3	3	34
Equity				
Eq-1	Fall in the equity prices by 50%.	3	4	33
Eq-2	Fall in the equity prices by 70%.	4	5	31
Combined Credit & Market Shocks				
COMB-1	Interest rates increase (2%), deterioration of loans to the textile sector (25%) directly downgraded to doubtful category, and fall in equity prices by 50%.	4	11	25
COMB-2	Interest rates increase (2%), migration of loan portfolio (performing to substandard: 15%, substandard to doubtful: 15%, doubtful to loss: 20%), stock market price depreciation (50%).	4	12	24
Liquidity Shock		Number of Banks		
		Becoming Illiquid after Shock		
		3 days	4 days	5 days
L-1	Withdrawal of customer deposits by 2%, 5%, 10%, 10% and 10% for five consecutive days respectively.	0	3	6

Annex-VI

Group wise Balance Sheets and Income Statements of Islamic Banks/Branches - September 30, 2009

(million Rupees)

Financial Position	Islamic Banks	Islamic Banking Branches	Total Islamic Banking
ASSETS			
Cash & Balances With Treasury Banks	17,611	8,131	25,742
Balances With Other Banks	22,200	7,140	29,340
Due from Financial Institutions	36,943	300	37,243
Investments - Net	39,149	25,248	64,397
Financing - Net	93,099	40,647	133,745
Operating Fixed Assets	8,562	2,914	11,477
Deferred Tax Assets	1,210	0	1,210
Other Assets	10,573	9,072	19,645
TOTAL ASSETS	229,346	93,451	322,797
LIABILITIES	0	0	-
Bills Payable	3,358	914	4,272
Due to Financial Institution	8,882	5,223	14,105
Deposits And Other Accounts	177,756	67,035	244,792
Sub-ordinated Loans	0	0	-
Liabilities Against Assets Subject To Finance Lease	50	0	50
Deferred Tax Liabilities	0	1	1
Other Liabilities	9,444	10,525	19,970
TOTAL LIABILITIES	199,490	83,698	283,189
NET ASSETS	29,856	9,753	39,609
NET ASSETS REPRESENTED BY: -	0	0	-
Share Capital	29,963	6,463	36,426
Reserves	1,032	7	1,040
Unappropriated Profit	(1,356)	2,625	1,269
Share Holders' Equity	29,639	9,095	38,734
Surplus/Deficit On Revaluation Of Assets	217	658	874
TOTAL	29,856	9,753	39,609
PROFIT AND LOSS STATEMENT			
Mark-Up Income	15,792	7,264	23,056
Mark-Up Expenses	8,743	3,869	12,612
Net Mark-Up	7,049	3,395	10,444
Provisions & Bad Debts Written Off Directly/(Reversals)	2,369	233	2,601
Net Mark-Up After Provision	4,680	3,162	7,842
Fees, Commission & Brokerage Income	867	253	1,120
Dividend Income	157	56	212
Income From Dealing In Foreign Currencies	1,065	34	1,099
Other Income	161	180	341
Total Non - Markup	2,249	522	2,772
	6,930	3,685	10,614
Administrative Expenses	6,955	1,838	8,793
Other Expenses	70	20	90
Total Non-Markup	7,025	1,858	8,883
Profit before Tax and Extra ordinary Items	(96)	1,826	1,731
Extra ordinary/unusual Items -- Gain/(Loss)	0	0	0
PROFIT/ (LOSS) BEFORE TAXATION	(96)	1,826	1,731
Taxation	198	0	198
PROFIT/ (LOSS) AFTER TAX	(294)	1,826	1,532

Balance Sheets and Income Statements of DFIs
September 30, 2009

(million Rupees)

Financial Position	All DFIs
ASSETS	
Cash & Balances With Treasury Banks	2,958.4
Balances With Other Banks	3,454.2
Lending To Financial Institutions	13,098.8
Investments - Net	61,411.6
Advances - Net	39,149.8
Operating Fixed Assets	3,009.8
Deferred Tax Assets	1,132.4
Other Assets	4,927.3
TOTAL ASSETS	129,142.4
LIABILITIES	
Bills Payable	-
Borrowings From Financial Institution	48,977.5
Deposits And Other Accounts	18,982.2
Sub-ordinated Loans	-
Liabilities Against Assets Subject To Finance Lease	31.5
Deferred Tax Liabilities	-
Other Liabilities	5,648.4
TOTAL LIABILITIES	73,639.6
NET ASSETS	55,502.8
NET ASSETS REPRESENTED BY: -	
Share Capital	45,277.8
Reserves	8,348.9
Unappropriated Profit	(1,099.9)
Share Holders' Equity	52,526.7
Surplus/Deficit On Revaluation Of Assets	2,976.0
TOTAL	55,502.8
OPERATING POSITION	
Mark-Up/ Return/Interest Earned	9,065.2
Mark-Up/ Return/Interest Expenses	4,824.8
Net Mark-Up / Interest Income	4,240.4
Provisions & Bad Debts Written Off Directly/(Reversals)	1,805.2
Net Mark-Up / Interest Income After Provision	2,435.2
Fees, Commission & Brokerage Income	133.3
Dividend Income	272.0
Income From Dealing In Foreign Currencies	65.8
Other Income	573.2
Total Non - Markup / Interest Income	1,044.3
	3,479.5
Administrative Expenses	1,939.9
Other Expenses	235.6
Total Non-Markup/Interest Expenses	2,175.5
Profit before Tax and Extra ordinary Items	1,304.0
Extra ordinary/unusual Items -- Gain/(Loss)	188.5
PROFIT/ (LOSS) BEFORE TAXATION	1,115.5
Taxation	509.6
PROFIT/ (LOSS) AFTER TAX	605.9

Annex-VIII

Capital Structure and Capital Adequacy Ratio of All Banks and DFIs as of September 30, 2009

		All Banks and DFIs	PSPB	LPB	FB	SB	DFIs	All Banks
Equity		(million Rupees)						
1.1	Fully Paid-up Capital/Capital Deposited with SBP	368,277	31,563	244,573	33,883	15,507	42,750	325,527
1.2	Balance in Share Premium Account	32,998	38	30,433	-	-	2,528	30,470
1.3	Reserve for issue of Bonus shares	-	-	-	-	-	-	-
1.4	General Reserves as disclosed on the Balance Sheet (including statutory reserve)	109,611	15,625	83,100	(272)	2,447	8,711	100,900
1.5	Un-appropriated/Unremitted profits (net of accumulated losses, if any)	89,443	52,570	62,752	1,840	(26,137)	(1,582)	91,026
1.6	Minority interest	-	-	-	-	-	-	-
1.7	Sub-Total (1.1 to 1.5)	600,329	99,796	420,859	35,452	(8,183)	52,406	547,923
Deductions								
1.8	Goodwill	58,487	6	58,199	237	37	9	58,478
1.9	Shortfall in Provisions required against Classified assets	2,724	464	1,750	-	510	-	2,724
1.10	Deficit on account of revaluation of AFS investment	2,613	87	1,354	357	459	356	2,256
1.11	Any increase in equity capital resulting from a securitization transaction	-	-	-	-	-	-	-
1.12	Investments in TFCs of other banks	406	-	75	-	-	331	75
1.13	Other Deductions	9,504	1,692	6,360	-	158	1,294	8,210
1.14	Sub-Total (1.7 to 1.10)	73,734	2,248	67,738	593	1,164	1,990	71,743
1.15	Total Eligible Tier 1 capital	526,595	97,547	353,121	34,859	(9,347)	50,416	476,179
Supplementary Capital		(million Rupees)						
2.1	Freely available General Provisions or reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	13,141	1,520	9,371	771	1,261	219	12,922
2.2	Revaluation reserves eligible up to 45%	38,464	14,712	20,248	-	2,026	1,478	36,986
2.3	Foreign Exchange Translation Reserves	21,558	6,715	14,843	-	-	-	21,558
2.4	Undisclosed reserves	-	-	-	-	-	-	-
2.5	Subordinated debt-up to maximum of 50% of total equity	38,293	-	35,089	-	3,204	-	38,293
2.6	Total Tier 2 Supplementary Capital(2.1 - 2.5)	111,456	22,947	79,551	771	6,491	1,697	109,759
Deductions								
	Other deductions	9,504	1,692	6,360	-	158	1,294	8,210
	Total Deductions	9,504	1,692	6,360	-	158	1,294	8,210
	Total eligible tier 2 capital	101,952	21,255	73,191	771	6,333	403	101,549
2.7	Eligible tier 3 (as worked out in 3.9 below)							
2.8	Total Supplementary Capital eligible for MCR(maximum up to 100% of Total Equity)	98,601	21,255	72,519	771	3,653	403	98,198
2.9	TOTAL CAPITAL (1.12+2.8)	625,196	118,802	425,640	35,629	(5,694)	50,819	574,377
Risk Weighted Amounts								
3.3	Total Credit Risk Weighted Assets	3,348,823	611,100	2,462,009	117,039	96,255	62,419	3,348,823
3.4	Total Market Risk Weighted Assets	222,789	49,790	137,339	7,545	51	28,063	194,726
	Total Operational Risk Assets	546,276	101,078	391,129	25,280	17,240	11,549	534,727
3.5	Total Risk Weighted Amount	4,117,887	761,969	2,990,477	149,864	113,546	102,031	4,015,856
Capital Adequacy Ratios (CAR)		(in percent)						
	Tier 1 capital to Total Risk Weighted Amount	12.79	12.80	11.81	23.26	-8.23	49.41	11.86
	Total Capital Adequacy Ratio	15.18	15.59	14.23	23.77	-5.01	49.81	14.30
	Tier 2 capital to Total Risk Weighted Amount	2.39	2.79	2.45	0.51	5.58	0.40	2.53
OTHER DEDUCTIONS FROM TIER 1 AND TIER 2 CAPITAL		(thousand Rupees)						
1.1	Investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	12,878	1,514	10,967	-	315	81	25,674
1.2	Significant minority investments in banking, securities and other financial entities	5,258	1,870	1,542	-	-	1,847	8,670
1.3	(para 1.1 scope of Application)	-	-	-	-	-	-	-
1.4	Equity holdings (majority or significant minority) in an insurance subsidiary	512	-	212	-	-	300	724
1.5	(para 1.1 scope of Application)	-	-	-	-	-	-	-
1.6	Significant minority and majority investments in commercial entities exceeding 15% of bank's capital	-	-	-	-	-	-	-
1.7	Securitization exposure subject to deduction (para 4.3.1 of instructions)	-	-	-	-	-	-	-
1.8	Others	360	-	-	-	-	360	360
1.9	Total Deductible Items to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital	19,008	3,384	12,721	-	315	2,588	35,428

Group-wise Composition of Banks September 30, 2009

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

* Formerly Saudi Pak Commercial Bank.

List of Abbreviations

ADD	Authorized Derivatives Dealer
ADR	Advances to Deposits Ratio
BIA	Basic Indicator Approach
bps	Basis Points
CAR	Capital Adequacy Ratio
CB	Commercial Bank
CCF	Credit Conversion Factor
CCS	Cross Country Swaps
CDR	Credit to Deposit Ratio
CPI	Consumer Price Index
CPV	Credit Portfolio View
CRM	Credit Risk Mitigants
CRR	Cash Reserve Requirements
CRWA	Credit Risk Weighted Amounts
CY	Calendar Year
DFIs	Development Finance Institutions
ERF	Export Refinance
EURIBOR	Euro Interbank Offered Rate
EXR	Exchange Rate
FB	Foreign Bank
FDBR	Financial Derivatives Business Regulations
FDR	Financing to Deposits Ratio
FR	Forward Rate Agreements
FSV	Forced Sale Value
GDP	Gross Domestic Product
Govt.	Government
HTM	Held-to-Maturity
IBIs	Islamic Banking Institutions
IRS	Interest Rate Swaps
KIBOR	Karachi Interbank Offered Rate
KSE	Karachi Stock Exchange
LIBOR	London Interbank Offered Rate
LoLR	Lender of Last Resort
LPB	Local Private Bank
LR	Interest Rate
MCR	Minimum Capital Requirement
MRWA	Market Risk Weighted Amounts
MTB	Market Treasury Bill
NII	Net Interest Income
NMI	Non-Market Maker Financial Institution
NOP	Net Open Position
NPF	Non Performing Finance

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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