



State Bank of Pakistan
Banking Surveillance Department

Quarterly Performance Review
of the Banking System

March 2007

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List of Abbreviations

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity risk is the risk that the bank will be unable to accommodate

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk weighted Assets: Total risk weighted assets of a bank would comprise two broad categories: credit risk-weighted assets and market risk-weighted assets. Credit

risk weighted assets are calculated from the adjusted value of funded risk assets i.e. on balance sheet assets and non-funded risk exposures i.e. off-balance sheet item. On the other hand for market risk-weighted assets, first the capital charge for market risk is calculated and then on the basis of this charge amount the value of Market Risk Weighted Assets is derived.

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

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

- (a) A trading / service concern with total assets at cost excluding land and building upto Rs50 million.
- (b) A manufacturing concern with total assets at cost excluding land and building upto Rs100 million.
- (c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs300 million as per latest financial statements.

Tier I capital: The risk based capital system divides capital into two tiers-core capital (Tier I) and supplementary capital (Tier II and Tier III). Tier 1 capital includes fully paid up capital, balance in share premium account, reserve for issue of bonus shares, general reserves as

disclosed on the balance-sheet and un-appropriated /un-remitted profit (net of accumulated losses, if any).

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

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

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

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

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Quarterly Performance Review of the Banking System March 2007 ¹

Overview

The banking system continued to maintain healthy profits and strengthening capital position during March 2007 quarter. The key financial soundness indicators generally witnessed an improved trend albeit some slowdown in assets quality indicators. The increasing level of risk weighted assets during the past few years experienced some easing on account of compositional shift among the assets in favour of investments. However, the aggressive loan growth during last few years has some reflection in loan portfolio infection. Market and liquidity risk profile of the banking system remain contained albeit.

Of the major highlights of March 07 quarter, after tax profits of the banking system further fortified to the level of Rs21.6 billion which is 45 percent higher from the March 06 quarter. Major contribution came from core income, the share of which has increased to 74.0 percent from 70.8 percent in CY06. Though the level of earnings is still strong, a relatively higher increase in the assets of the banking system has pushed the return on asset (ROA) slightly down to 2.0 percent from 2.1 percent in CY06. Significant increase in the equity base of the banks has also dropped the return on equity (ROE) of the banking system to the level of 20.7 percent from 24.2 percent in CY06.

During the quarter under review, capital of the banking system further strengthened in response to meeting the enhanced minimum capital requirement. Healthy profits of the March 07 quarter lent further hand to this strengthening capital base. As a result, equity of the banking system

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

experienced an increase of Rs31.2 billion to Rs433.1 billion. The qualifying risk based capital of the banking system increased by Rs31.1 billion to Rs395.6 billion during the March quarter. About 90 percent of this increase in capital was contributed by the core capital, which increased by Rs28.0 billion to 316.3 billion. Risk weighted assets (RWA) of the banking system witnessed marginal decline due to some compositional shift in the asset mix away from the loans. Resultantly, capital adequacy ratio (CAR) of the banking system increased to 13.4 percent from 12.7 percent in CY06.

The strong growth in lending activities, which had been the hallmark of the banking system since year 2003, has started witnessing some slow down in recent quarters. The additional inflows to the banking system diverted towards investment especially in government securities, as a result, the share of investments in March 07 quarter increased to 22.0 percent from 19.2 percent in CY06. The share of loans witnessed a decline to 53.2 percent from 55.8 percent in CY06. In absolute terms loans declined by around Rs24.0 billion to Rs2,501.6 billion. Segment-wise analysis revealed that major flow of funds remained towards corporate sector, which took additional Rs26.4 billion to mark its level at Rs1,306 billion whereas SMEs registered almost an equal decline of 21.2 billion to Rs387 during the quarter. Commodity finance after experiencing a seasonal slackness reduced by Rs40.3 billion to Rs132 billion. Though the consumer finance registered a slower growth (and increased by Rs8.7 billion to Rs334 billion), still its share in total loans increased to 14.1 percent from 13.5 percent in CY06.

In contrast to the trend visible in recent years whereby non-performing loans of the banking system were gradually declining over the past few years, March -07 quarter witnessed an increase in NPLs. In absolute terms, during the quarter, NPLs of the banking system increased by Rs8.7 billion to Rs184 billion. Commercial banks' (CBs) NPLs increased by Rs4.5 to Rs143 billion whereas those of specialized banks (SBs) increased by Rs4.1 billion to Rs41 billion. Cross sectional analysis showed that more than 90 percent of additional NPLs were booked under initial categories (OAEM and Sub-standard). This rise in NPLs with a fall in total outstanding loans has increased the NPLs to loans ratio of the banking system to 7.4 percent as compared to 6.9 percent in CY06. Since, the increase in NPLs was in the initial categories, the provisioning requirements against additional NPLs were lower. Therefore, net NPLs to net loans ratio of the banking system

also experienced an increase of 1.6 percent to 2.0 percent. Segment wise, NPLs of corporate and consumer sectors increased by Rs3.8 billion and Rs3.7 billion to Rs87.1 billion and Rs10.7 billion respectively.

Though the banking system was highly skewed towards top few banks, this concentration has been gradually on decline. During the quarter, the share of top 5 banks decreased to 50.8 percent from 52.3 percent in CY06. While the share of next five banks increased marginally to 23.2 percent from 22.8 percent in CY06.

Market risk and liquidity risk profiles of the banking system remained subdued. Volatility in the inter-bank rates and the key benchmark rates remained moderate. Yield curve based on PKRV rates experienced slight flattening since yield spread between the short term and longer term rates squeezed during the quarter. Re-pricing GAPs were well within the acceptable limits. Rupee dollar exchange rate hovered around Rs60.70 during the quarter. Both the net open position and swap points remained positive. Direct equity exposure of the banking system experienced a decline to Rs33.9 billion from Rs39.9 billion in CY06. As a result, equity investments in terms of capital also declined to 7.9 percent from 9.9 percent in CY06. Liquidity of the banking system eased during the quarter. A decline in the loans has also softened the loans to deposit ratio (net of export refinance) to 66.0 percent from 70.3 percent in CY06. Since major portion of the additional inflows shifted towards investments, liquid assets in terms of liquid liabilities also increased to 34.0 percent from 31.9 percent. Moreover, the investments' classification strategy of the banks away from the Held to Maturity category, also adds to the market based liquidity of the banking system.

Another important development during March 07 quarter was a change in deposit mix, which shows that the share of fixed deposits increased to 31.5 percent from 30.0 percent during the quarter since it attracted around 41 percent of the additional inflows of deposits or Rs66.4 billion. A shift away from non-remunerative deposits has also been witnessed, thus reducing its share to 22.1 percent from 23.4 percent in CY06. Weighted average rates of return on fresh deposits are gradually on rise and hovered around 5.35 to 5.58 percent. Rate spread of fresh deposits and loans i.e. spread between the weighted average rate of return on incremental loans and fresh deposits has actually declined few basis points from 5.58 percent in December 2006

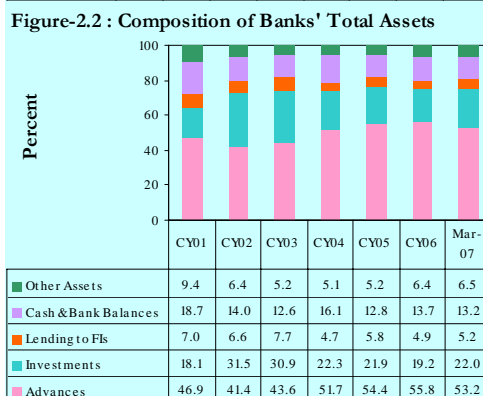
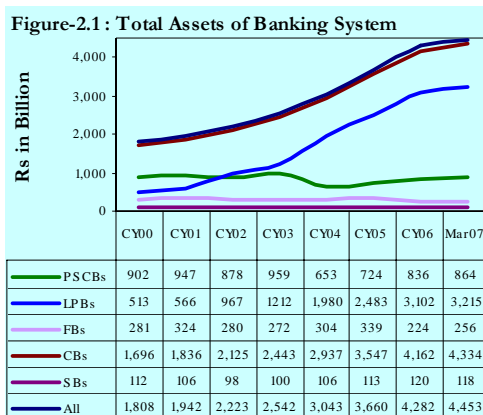
to 5.47 percent in March 07 and then further squeezed to 5.18 percent in May-07. Overall spread on outstanding loans and deposits also experienced a slight decline to 7.3 percent in March 07 from 7.4 percent in December 2006.

On the back of growing branch network and licensing new Islamic banks, the Islamic banking experienced further growth. Total balance sheet size of Islamic banks grew by around 14 percent to Rs135.6 billion over the quarter. With an increase in capital by 18 percent, capital to total assets ratio improved to 15.4 percent from 13.7 percent in CY06.

Summing up, overall operating performance of the banking system remained on track. Capital and profits experienced further strengthening. Increase in NPLs, however deserve due attention of the risk managers of the banks as any increase in NPLs will affect the level of profitability for the CY07. June quarter would be of significance in shaping the trend in loans portfolio of the banking system. Further injections of capital and the ongoing process of consolidation would continue to add to the solvency profile of the banking system.

2. Assets and Funding Structure

The size of the banking system continued to grow with a steady pace during the March 07 quarter. Though moderately, the expanding balance sheet footing of the banking system grew by 4.0 percent (annualized: 16 percent) as against the yearly growth of 17.0 percent in CY06. The persistent increase in the deposit base accounted for around 94 percent of the increase in asset base. Strengthening equity base on account of maintaining the enhanced minimum capital requirement and the healthy profits of the quarter also lent a hand in this increase. In absolute terms total assets of the banking system increased by Rs170.4 billion to Rs4,453 billion in CY06 (see **Figure:-2.1**).



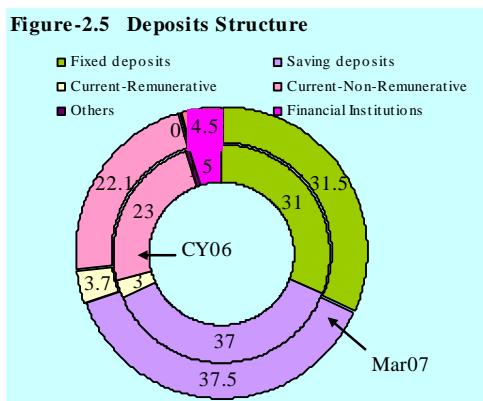
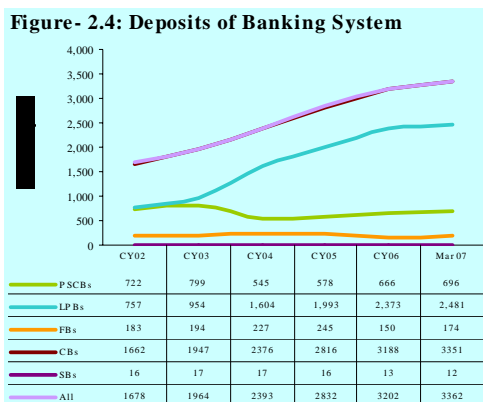
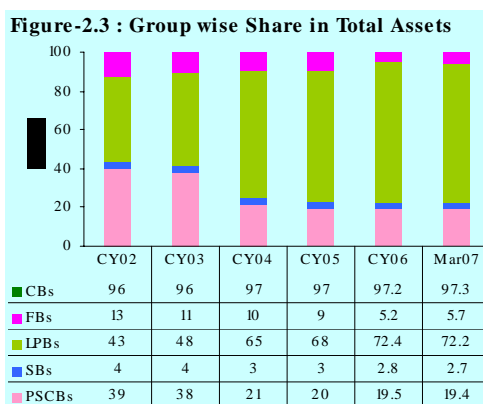
In sharp contrast to the past few years when the loans attracted much of the inflows, investments became the mainstay of funds during this quarter. Consequently the share of investments in total assets grew to 22.0 percent from 19.2 percent in CY06 (see **Figure:-2.2**). Whereas, the loans after shedding a few points maintained the highest share of 53.2 percent (CY06: 55.8 percent).

LPBs, holding the largest pie among all the banking groups, witnessed a slight decline in its share to 72.2 percent from 72.4 percent in CY06 (see **Figure:-2.3**). Both PSCBs and SBs also experienced marginal decline in

their share. FBs, however, were the gainers, since they managed to increase their share to 5.7 percent from 5.2 percent.

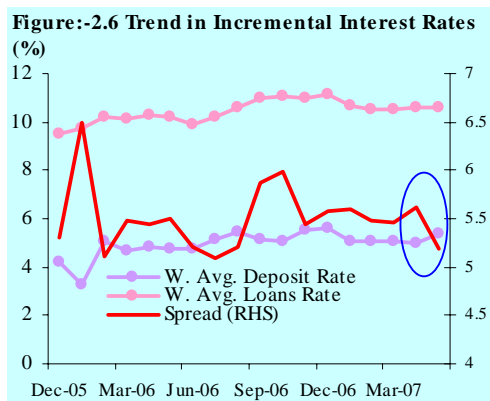
The disaggregated analysis shows that though the banking system remained highly skewed towards top few banks, this concentration is gradually on a declining path. During the quarter, the share of top 5 banks reduced to 50.8 percent from 52.3 percent in CY06. While the share of next five banks increased marginally to 23.2 percent from 22.8 percent in CY06, the share of smallest 20 banks remained low at 7.2 percent.

As has been for the last few years, the persistent inflow of **deposits** remained the main driving force of the expanded business operations of the banking system. During March 07 quarter, total deposits of the banking system increased by Rs160 billion (see **Figure:-2.4**), while in percentage terms it grew by 5 percent. This increase accounts for 43 percent of the full year increase in CY06. The steady foreign inflows in the form of workers remittances and FDIs largely supported this increase in the deposits base.



Group wise, except for SBs, all banks contributed to this increase in deposits. LPBs being the largest banking group witnessed a growth in deposits by 4.5 percent and contributed the impressive level i.e. Rs108 billion in this increase. PSCBs, after experiencing a quarterly growth of 4.6 percent, were the second contributor added Rs30 billion in this increase. FBs, with a lower deposit base exhibited a growth of 15.6 percent and contributed Rs23.5 billion in deposits of the banking system.

Deposit mix of the banking system reflects an increase in the share of both the fixed and saving deposits (see **Figure:-2.5**). Fixed deposits attracted the major share i.e. 41 percent of the increase in deposits or Rs66.4 billion during the quarter. This has also increased the share of fixed deposits to 31.5 percent from the 30 percent in CY06. Saving deposits, which continue to hold the largest pie, shared Rs64.2 billion, which has also increased its share in total deposits to 37.5 percent from 37 percent in CY06. A shift away from non-remunerative deposits has also been witnessed, thus reducing its share to 22.1 percent from 23.4 percent in CY06. Dis-aggregated analysis shows that both medium sized and small banks were also active in attracting their share of deposits. Top 6 banks, holding 56.7 percent share in terms of assets, contributed around 33.5 percent of the total increase in deposits, while the next 16 banks, carrying a pie of 36.1 percent in the banking system, managed to share 55.6 percent of this increase. Smallest 20 banks with a 7.2 percent weight in terms of total assets were able to share a 10.9 percent increase of total deposits.



This shuffle in the deposit structure appears to respond to the gradual increase in the rate of return on deposits (see **Figure:-2.6**). The weighted average rate on fresh deposits hovered around 5.38 to 5.58 percent while on incremental loans it ranges around 10.56 and 11.16 percent since December 2006. Spread on these incremental deposits and loans experienced a decline to 5.18 percent in March 07 from 5.58 percent in December 2006.

Capital being the second major source of financing, witnessed a healthy growth of 7.9 percent during the quarter and in absolute terms, increased by Rs32.1 billion to Rs433.1 billion. Of this increase around 17.0 billion was shared by the Paid up capital which increased to Rs182.9 billion in March 07 quarter on account of meeting the minimum capital requirement (MCR). Healthy profits during the quarter lent further hand in the strengthening capital base.

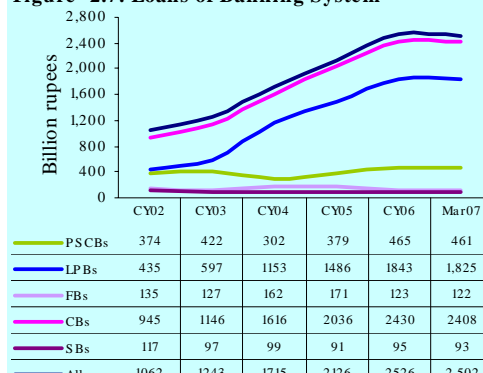
Borrowings of the banking system, however, experienced significant decline of Rs25.5 billion during the quarter. This coupled with the increased balance sheet footing has pushed its share in total financing to 9.3 percent from 10.2 percent in CY06. Decline in the borrowings under repurchase agreement accounted for around 89 percent of this fall in the borrowing.

In contrast to the rising trend in the **loans** during the past few years, the loans of the banking system experienced a decline during the March 07 quarter. In absolute terms, loans of the banking system declined by Rs24 billion to Rs2,502 billion (see **Figure:-2.7**) as against an increase of Rs399 billion in CY06. In percentage terms it experienced a 1.0 percent decline over CY06. This decline in the

loans was broadly shared by almost all of the banks. LPBs, being the largest group experienced a decline in loans by Rs17.8 billion and its share stayed at 73.0 percent. PSCBs registered a fall of Rs4.2 billion in its loans.

Segment-wise analysis shows that corporate sector, being the major borrower, was able to attract greater share by witnessing an increase of Rs26.4 billion during the quarter. In relative terms its share increased to 55.0 percent from 53.3 percent in CY06 (see **Table:-2.1** & **Figure:-2.8**). The major reduction in the loans was observed in the commodity financing, which experienced a decline of Rs40.3 billion during the quarter. Resultantly its share in total loans further squeezed to 5.5 percent from 7.2

Figure- 2.7: Loans of Banking System



percent in CY06. SMEs were the second witnessing a reduction of Rs21.2 billion in its loans during March 07 quarter.

Consumer finance, which has been showing highest growth rates among all the sectors in recent years, experienced significant deceleration in March 07 quarter. Loans to this sector registered an increase of Rs8.7 billion over the quarter. The 2.7 percent growth of this segment was quite lower than average quarterly growth of 7.2 percent in CY06. The product-wise analysis of consumer finance (see **Figure:-2.9**) depicted that other personal loans continued to carry the highest share of 39.4 percent. This was followed by Auto Loans, which holds 31.4 percent share.

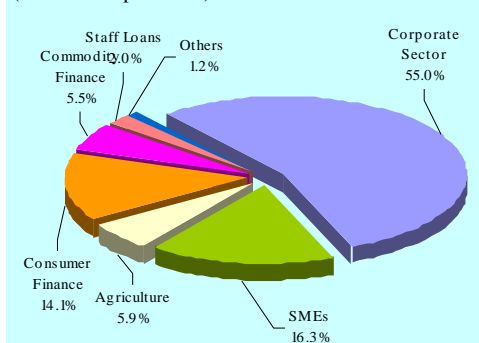
The end-use distribution of the credit shows that business activity including fixed investment, working capital and trade activities gained slightly higher share of 71.3 percent as compared to 70.3 percent in CY06 (see **Figure:-2.10**). Share of consumer finance also increased to 14.1 percent from 13.5 percent in CY06. The fall in the commodity finance has eroded the share of agriculture activities to 11.5 percent from 13.1 percent.

Investment portfolio of the banking system witnessed a strong growth over the quarter. This growth in investments portfolio was the highest average

	Mar-07		Dec-06	
	Amount	Share in (%)	Amount	Share in (%)
Corporate Sector:	1,306	55.0	1,279	53.3
Fixed Investment	482	20.3	462	19.2
Working Capital	512	21.6	539	22.5
Trade Finance	311	13.1	278	11.6
SMEs:	387	16.3	408	17.0
Fixed Investment	47	2.0	42	1.7
Working Capital	278	11.7	308	12.8
Trade Finance	62	2.6	58	2.4
Agriculture	140	5.9	142	5.9
Consumer Finance:	334	14.1	325	13.5
Credit Cards	41	1.7	39	1.6
Auto Loans	105	4.4	104	4.3
Consumer Durable	4	0.2	1	0.1
Mortgage Loan	52	2.2	49	2.1
Other personal Loans	131	5.5	131	5.5
Commodity Financing	132	5.5	172	7.2
Staff Loans	48	2.0	48	2.0
Housing Finance	34	1.4	33	1.4
Others than housing finance	14	0.6	15	0.6
Others	28	1.2	26	1.1
Total	2,374	100.0	2,401	100.0

* Loans to both public and private sectors. Also Includes Export Refinance.

Figure-2.8 : Loans by Type of Borrowers-Mar-07
(Domestic Operations)



quarterly growth since year 2002. During the aforesaid period, the focus of inflows had largely been towards loans. In sharp contrast to this, almost all of the increase in deposits has funded the investments of the banking system during March 07 quarter. Specifically, investments increased by Rs154.7 billion and deposits grew by Rs160.3 billion. In percentage terms, the growth in investment was around 18.8 percent during the quarter as against the 2.9 percent and 17.8 percent yearly growth of CY06 and CY05 respectively.

The decline in loans coupled with the gradually increasing returns on government securities has increased the investment in government securities significantly. After experiencing a quarterly growth of 24.6 percent, it increased by Rs149.6 billion to Rs755.6 billion. Resultantly, the share of government securities increased substantially to 77.7 percent from 73.6 percent in CY06 (see **Figure:-2.11**). However, both the equity investment and investment in TFCs, debentures and other bonds experienced a decline over the quarter, hence their share in total investments reduced to

Figure:- 2.9 End-Use Distribution of Consumer Loans-Mar-07 (Domestic Operations)

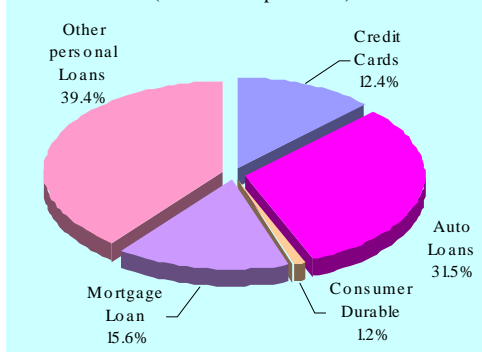


Figure-2.10 End-Use Distribution of Loans

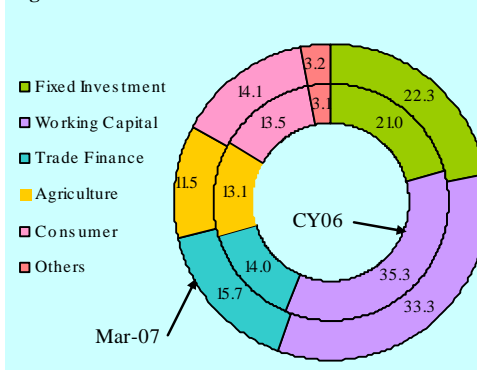
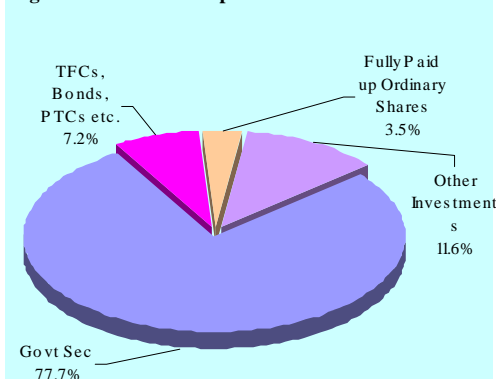


Figure:- 2.11 Break up of Investments-Mar-07



3.5 and 7.1 percent from 5.3 and 10.2 percent respectively in CY06. Group wise, LPBs after experiencing a growth of 25.4 percent registered an increase of Rs116.3 billion to Rs574 (see **Figure:-2.12**). PSCBs witnessed an increase of Rs25.6 followed by FBs. SBs, however, witnessed a decline in investment over the quarter.

The break up of government securities shows that MTBs after experiencing an impressive increase of Rs143.7 billion or 35.5 percent remained the mainstay of additional funds during the quarter. Resultantly its share in federal government securities and total investments increased to 78.9 percent (see **Figure:-2.13**) and 66.3 percent from 73.4 percent and 55.2 percent respectively in CY06.

Figure:- 2.12 Investment in FG Securities

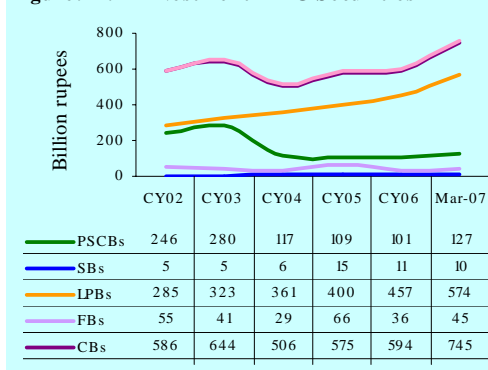
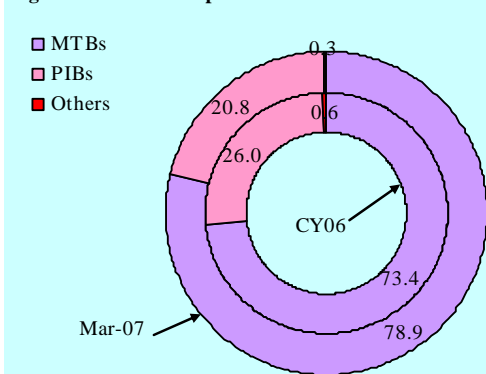


Figure-2.13 Break up of Federal Govt. Securities



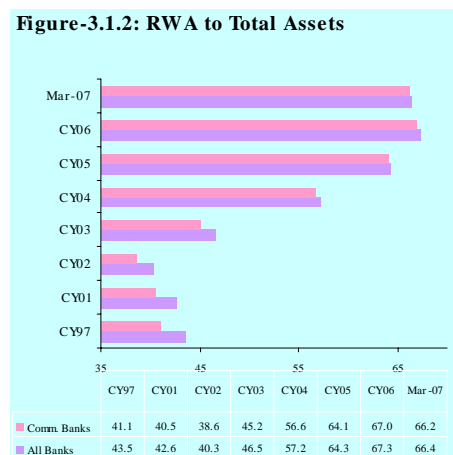
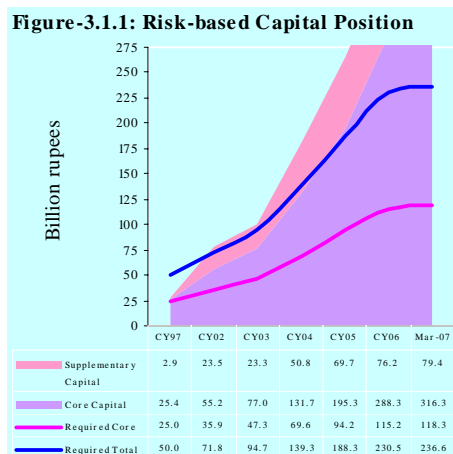
3. Financial Soundness of the Banking System

3.1 Solvency

On the back of consistently high profits and fresh capital injections, solvency profile of the banking system further strengthened during the March 07 quarter. The qualifying risk based capital of the banking system increased by Rs31.1 billion to Rs395.6 billion during the quarter under review. About 90 percent of this increase in capital has been witnessed by the core capital, which increased by Rs28.0 billion to 316.3 billion (see **Figure:-3.1.1**). While the supplementary capital increased to Rs79.4 billion from Rs76.2 billion in CY06. Resultantly, core capital of the banking system, being the mainstay of banks' capital, gained further share and increased to 79.9 percent of the total capital as against 79.1 percent in CY06.

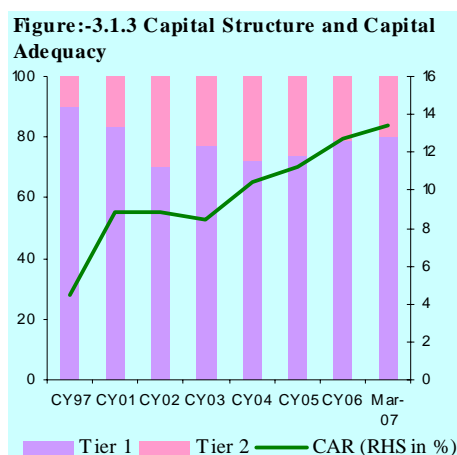
Risk weighted assets (RWA) of the banking system witnessed marginal decline due to some compositional shift in the asset mix away from the loans. Resultantly, RWA to total asset ratio also experienced slight decline to 66.4 percent from 67.3 percent in CY06 (see **Figure:-3.1.2**).

All this has resulted into further fortification of the capital adequacy ratio (CAR) of the banking system, which increased to 13.4 percent from 12.7 percent in CY06 (see **Figure:-3.1.3**). Core capital to RWAs ratio also strengthened to 10.7 percent from 10.0 percent in CY06 (see **Table:-3.1.1**).



Both the ratios well exceeds the generally acceptable benchmarks for well capitalized banks.

Group wise, LPBs were the highest gainer and their CAR increased to 13.4 percent from 12.7 percent in CY06. Whereas, PSCBs with already highest CAR among all the banking groups gained further to 16.6 percent. Core capital to RWAs ratio of FBs remained the highest at 14.8



percent.

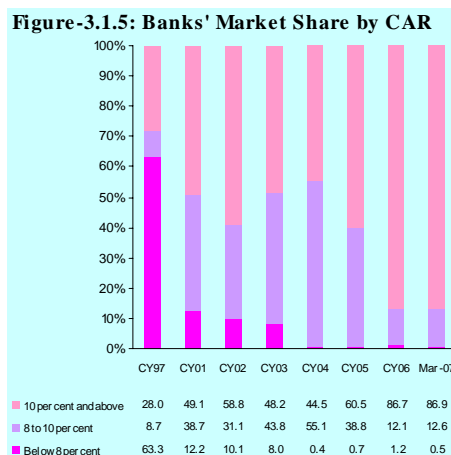
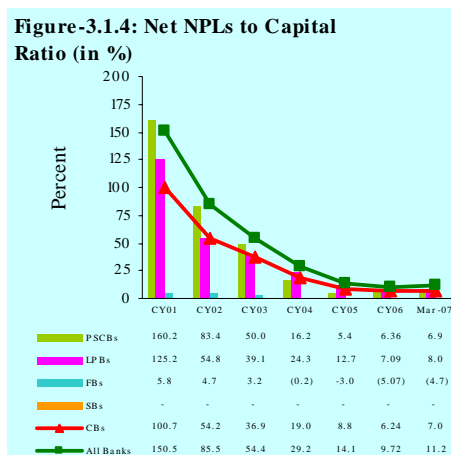
The disaggregated analysis shows that almost all of the banks have improved their CAR (see **Table:-3.1.2**). Number of well capitalized banks has increased to 34 from 32 in CY06. Such banks hold 86.7 percent share of the total banking system assets (see **Figure:-3.1.4**). Number of undercapitalized banks has also reduced to 2 from 3 in CY06. As regards the compliance of minimum capital requirement of Rs3 billion 34 out of 40 banks are compliant with this enhanced MCR. Of the remaining banks 2 are under the process of restructuring/ privatization while the rest are expected to meet MCR shortly.

Percent	CY97	CY01	CY02	CY03	CY04	CY05	CY06	Mar-07
CAR								
PSCBs	(1.3)	9.6	12.3	11.0	13.4	14.5	15.2	16.6
LPBs	11.9	9.5	9.7	9.0	10.1	10.6	12.7	13.4
FBs	14.6	18.6	23.2	23.0	17.4	16.4	15.0	15.5
CBs	6.0	11.3	12.6	11.1	11.4	11.9	13.3	14.1
SBs	(6.2)	(13.9)	(31.7)	(28.2)	(9.0)	(7.7)	(8.3)	(9.8)
All banks	4.5	8.8	8.8	8.5	10.5	11.3	12.7	13.4
Tier 1 Capital to RWA								
PSCBs	(2.0)	7.1	8.6	8.2	8.6	8.8	11.1	12.3
LPBs	11.4	8.4	6.6	7.0	7.5	8.3	10.4	11.1
FBs	14.4	18.6	23.0	23.0	17.1	16.1	14.3	14.8
CBs	5.5	9.7	9.7	9.1	8.6	9.1	107.3	11.5
SBs	(6.3)	(13.9)	(31.7)	(28.7)	(15.0)	(13.6)	(13.3)	(14.9)
All banks	4.1	7.3	6.2	6.5	7.6	8.3	10.0	10.7
Capital to Total Assets								
PSCBs	0.3	3.7	5.6	6.1	8.7	12.6	12.2	12.5
LPBs	4.9	3.8	5.2	5.3	6.5	7.0	9.2	9.6
FBs	7.9	8.5	10.6	9.9	8.9	9.5	10.1	10.4
CBs	3.1	4.6	6.1	6.1	7.2	8.4	9.9	10.2
SBs	8.8	(10.3)	(23.0)	(10.0)	(9.4)	(8.1)	(8.0)	(7.7)
All banks	3.5	3.8	4.8	5.5	6.7	7.9	9.4	9.7
Capital (free of net NPLs) to Total Assets								

	Total	Below 8%	8 to 10 %	10 to 15 %	Over 15 %
CY00	46	7	5	12	22
CY01	43	5	5	11	22
CY02	40	4	4	9	23
CY03	40	4	10	5	21
CY04	38	1	13	9	15
CY05	39	2	7	13	17
CY06	39	3	4	15	17
Mar-07	40	2	4	16	18

Net NPLs to capital, yet another indicator of solvency, however, has increased to 11.2 percent from 9.72 percent in CY06 (see **Figure-3.1.5**) owing to relatively faster increase in NPLs during the quarter. Group wise position shows that LPBs experienced grater increase in their ratio which stands at 8.0 percent as compared to 7.1 percent in CY06. Since FBs have made excess provisioning, the net NPLs to loan ratio of this group remained negative.

Summing up, capital of the banking system has strengthened over the quarter on the back of healthy profits and the capital injections. The trend is expected to continue in future as well. This bodes well for the solvency profile of the banking system. However, banks need to be vigilant enough about the quality of their loans in order to ensure the sustainability of their improved solvency profile.



3.2 Profitability

In terms of size, the profitability of the banking system for the first quarter of CY07 remained on the faster pace, as March 07 after tax profits reached to Rs21.6 billion compared to Rs14.9 billion in corresponding quarter of CY06. On the back of consistent growing economic activity and expanding financial services, quantum of profitability of the banking system is expected to maintain the last year trends.

The profits before and after tax, have grown at a very fast pace of 37.9 percent and 38.5 percent respectively compared to the corresponding quarter of CY06 (see **Table 3.2.1**). The after tax profits of LPBs have witnessed highest growth of 46.4 percent thereby raising the amount to Rs16.4 billion in March 07. However, FBs' share in profitability of the banking system has dropped significantly owing to recent mergers/acquisitions and transformation of large foreign banks into locally incorporated banks.

Table-3.2.1: Profitability of Banking System								
(Billion Rs)	CY00	CY01	CY02	CY03	CY04	CY05	CY06	Mar-07
<i>Profit before tax</i>								
PSCBs	3.9	0.2	10.9	16.1	14.2	22.8	31.5	7.8
LPBs	(0.6)	5.0	11.9	23.8	31.0	60.5	85.6	24.4
FBs	3.7	5.0	6.6	7.1	7.2	11.6	6.3	2.1
CBs	7.0	10.3	29.4	47.0	52.4	94.9	123.5	34.3
SBs	(2.5)	(9.2)	(10.4)	(3.3)	(0.4)	(1.1)	0.1	(1.3)
All Banks	4.5	1.1	19.0	43.7	52.0	93.8	123.6	33.1
<i>Profit after tax</i>								
PSCBs	1.8	(4.6)	4.8	9.4	8.0	15.5	21.2	5.2
LPBs	(3.5)	2.0	6.4	14.8	21.8	41.1	59.1	16.4
FBs	1.4	2.4	4.2	4.2	5.8	8.0	4.3	1.3
CBs	(0.2)	(0.2)	15.3	28.4	35.6	64.6	84.6	22.9
SBs	(2.6)	(9.5)	(12.4)	(3.7)	(0.9)	(1.3)	(0.5)	(1.3)
All Banks	(2.8)	(9.8)	2.9	24.7	34.7	63.3	84.1	21.6
Table-3.2.2: Profitability Indicators								
(Percent)	CY00	CY01	CY02	CY03	CY04	CY05	CY06	Mar-07
<i>After Tax ROA</i>								
PSCBs	0.2	(0.5)	0.6	1.0	1.3	2.2	2.7	2.4
LPBs	(0.7)	0.4	0.8	1.4	1.2	1.8	2.1	2.1
FBs	0.6	0.8	1.5	1.5	2.0	2.5	1.5	2.1
CBs	(0.0)	(0.0)	0.8	1.2	1.3	2.0	2.2	2.2
SBs	(2.3)	(8.8)	(12.1)	(3.7)	(0.8)	(1.2)	(0.4)	(4.2)
All Banks	(0.2)	(0.5)	0.1	1.0	1.2	1.9	2.1	2.0
<i>After Tax ROE (based on Equity plus Surplus on Revaluation)</i>								
PSCBs	4.9	(12.2)	11.5	17.3	17.2	20.9	21.7	19.8
LPBs	(17.4)	10.3	17.3	25.8	20.2	27.2	25.3	22.1
FBs	6.1	9.1	15.2	14.8	21.5	27.1	15.6	22.0
CBs	(0.3)	(0.3)	14.3	20.3	19.6	25.4	23.7	21.5
SBs	-	-	-	-	-	-	-	-
All Banks	(3.5)	(12.6)	3.2	20.0	20.3	25.8	24.2	20.7

Despite healthy growth in profits, the key performance indicators have slightly trimmed down over the quarter. The after tax return on assets (ROA) of all banks dropped to 2.0 percent compare to 2.1 percent in the last quarter. Accordance to group-wise performance, ROA of the PSCBs

has witnessed a considerable decline from 2.7 percent to 2.4 percent in March 07 whereas ROA of LPBs remained intact (see **Table 3.2.2**). Similarly, after tax ROE of all the groups has significantly dropped to 20.7 percent from 24.2 percent as of December 06 mainly due to relatively faster growth in equity base of the banking system. However, the ratio of FBs has improved to 22 percent from 15.6 percent, which can be attributable to their higher profitability as compared to the corresponding increase in their equity base.

During the quarter under review, composition of profit & loss structure of the CBs witnessed a slight change. The share of net interest income in the gross income has geared up to 74.5 percent in March 07 compared to 72.1 percent in CY06 (see **Figure 3.2.1**). The fee-based and currency dealing income was around 16.8 percent. However, the non-interest income share has squeezed to 8.8 percent from 11.2 percent in CY06. On the expense side, percentage share of operating expenses in terms of gross income has also surged to 42.4 percent in March 07 compared to 39.4 percent in CY06. On overall basis, all expenses as a percentage of gross income had slightly reduced from 47.6 percent to 46.7 percent in the current quarter mainly due to higher growth in total income.

The CBs' mark up/ interest income has significantly increased to Rs88.6 billion in March 07 as compared to Rs69.1 billion in the corresponding period of March 06. The increasing business volume along with the higher interest margins has added to

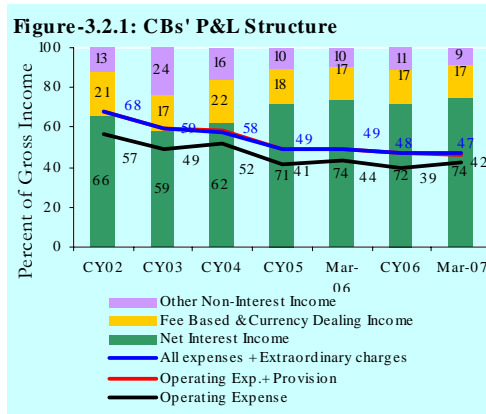
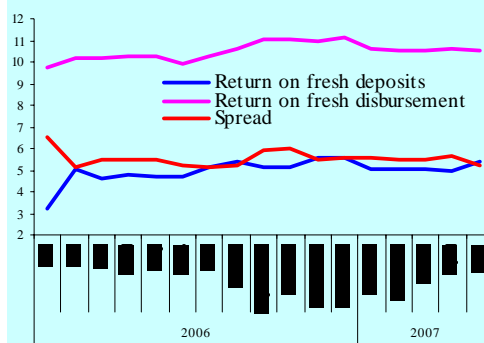


Figure-3.2.2: Weighted Average Rates for Fresh Disbursements and Fresh Deposits (in %)



this income stream. However, the recent upward movement in interest rates has resulted in the marginal increase in returns on fresh deposits as well, which hovered around 5.38 percent. This has reduced the spread between the weighted average rates of return on incremental loans and fresh deposits to 5.47 percent in March 07 from 5.58 percent in December 2006. Post quarter development shows that this spread further declined to 5.18 percent in May 07 (see **Figure:-3.2.2**).

During the quarter, the trading gains of commercial banks has dropped in absolute amount, however, its percentage share in gross income has increased from 1.7 percent in December 06 to 2.0 percent in March 07 (see **Figure 3.2.3**). Of these trading gains, the gain on sale of shares remained the major contributory factor.

The percentage breakdown of banking system's total assets by ROA shows that 18 banks, having ROA 1.5 percent and above, are holding 77.8 percent assets of the banking system

(see **Table 3.2.3**). However, the number of banks with ROA of 0-0.5 percent has also increased from 3 to 6. This may be due to the increase in total assets by 4.1 percent in March 07.

Although the operating performance of the banking system remained healthy during the first quarter of CY06, the movements in NPLs would largely shape the future profitability.

Figure-3.2.3: Periodic Growth in Trading Gains of CBs

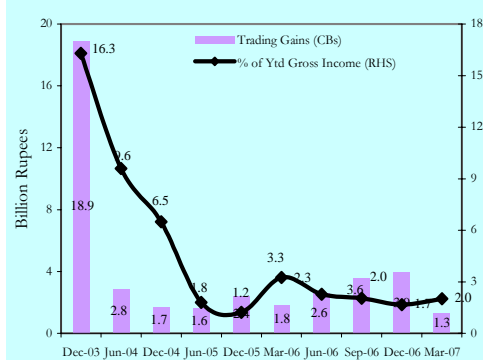


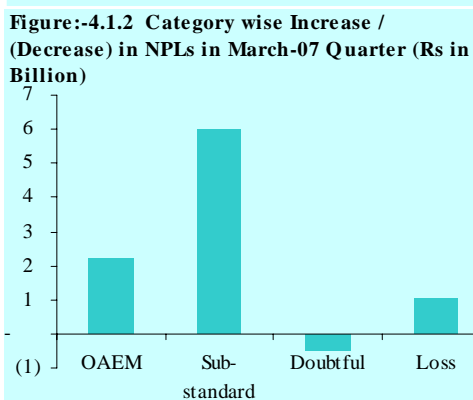
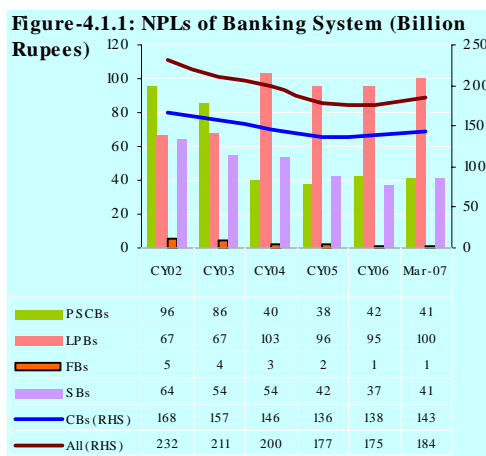
Table:3.2.3: %age Breakdown of Banking System's Total Assets (TA) by ROA

ROA	CY04		CY05		CY06		Mar-07	
	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	6	3.9	7	3.5	6	2.1	7	4.6
0 to 0.5	2	5.2	4	2.8	3	1.8	6	3.4
0.5 to 1	11	21.3	2	7	6	9.9	4	7.5
1.0 to 1.5	12	45.3	5	4	5	9.6	5	6.7
1.5 and Over	7	24.3	21	82.7	19	76.6	18	77.8

4. Risk Assessment of the Banking System

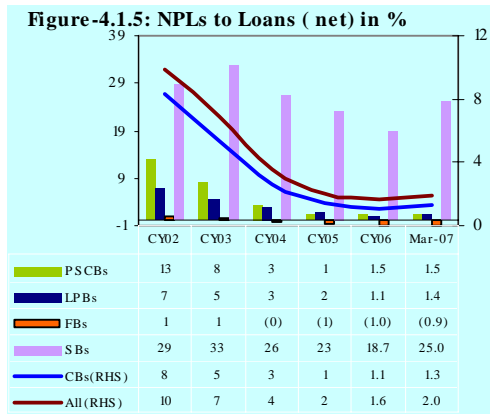
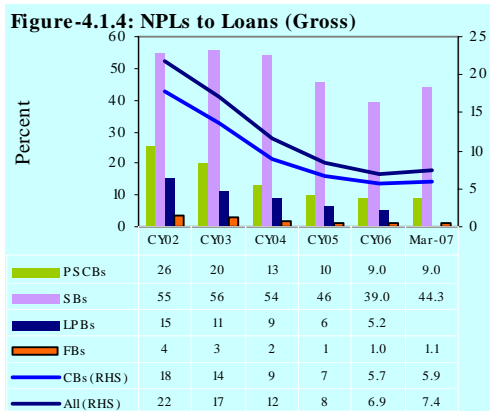
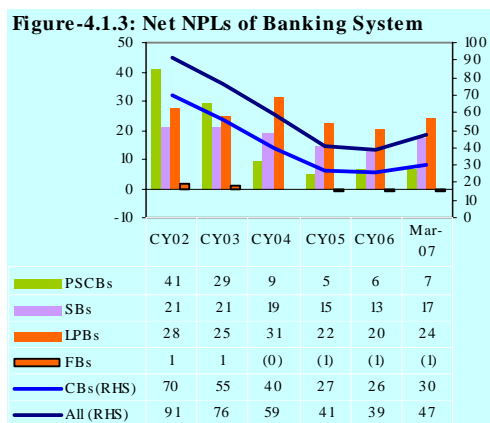
4.1 Credit Risk

The key asset quality indicators of the banking system, which have been continually strengthening over last many years, have depicted marginal deviations from the trend in March 07 quarter. NPLs of banking system increased by Rs8.7 billion to Rs184 billion (see **Figure:-4.1.1**) during the quarter. This increase in NPLs was almost equally shared by the CBs and SBs. The NPLs of CBs surged by Rs4.5 billion to Rs143 billion, while in case of SBs it increased by Rs4.1 billion to Rs41 billion. Of all the banking groups, only the PSCBs experienced a slight net decline in their NPLs. Segment wise analysis revealed that agriculture and consumer sectors were the major contributors in this rise in NPLs whereas, on the other hand, SMEs registered declining trend. Cross sectional analysis showed that more than 90 percent of additional NPLs were at initial stages of default i.e. OAEM and Sub-standard categories (see **Figure:-4.1.2**). Since the increase in NPLs was mainly in the initial categories, which require lesser specific provisioning, therefore, the net NPLs of the banking system also increased by Rs8.0 billion to Rs47 billion (see **Figure:-4.1.3**). Like gross NPLs, increase in net NPLs was also shared almost equally by both the CBs and SBs, as a result, net NPLs of each of these two groups increased to Rs29.3 billion and Rs14.4 billion respectively.

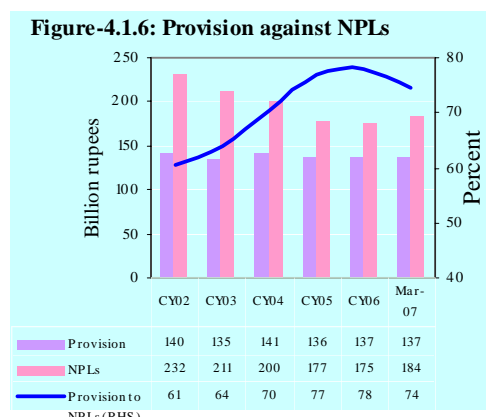


Besides increase in volume of NPLs, decline in overall credit of the banking system in March 07 Quarter also contributed in worsening of some of the asset quality ratios in the quarter under review. NPLs to loan ratio of all banks, after witnessing some corrosion, increased to 7.4 percent as compared to 6.9 percent in CY06 (see **Figure:-4.1.4**). Group wise, this deterioration is more pronounced in case of SBs, the ratio of which surged to 44.3 percent from 39.0 percent in CY06. As for the CBs, this ratio increased to 5.9 percent from 5.7 percent during the previous quarter. Similarly, net NPLs to net loan ratio also experienced some waning and its level increased to 2.0 percent from 1.6 percent in CY06 (see **Figure:-4.1.5**). Group wise, after SBs, it were the LPBs which experienced an increase in this ratio to 1.4 percent from 1.1 percent in CY06.

Since the level of provisioning against NPLs did not follow the pace of increase in NPLs, the ratio of provisions to NPLs experienced some decline. In absolute terms, provision against NPLs of all banks



increased by mere Rs0.6 billion as against the increase of Rs8.0 billion in NPLs (see **Figure:-4.1.6**). Resultantly, the ratio of provision to NPLs declined to 74.5 percent from 77.8 percent in CY06. This may be attributed to the fact that almost 90 percent of the increase in NPLs was in substandard category or below, which require lower provisioning charge.



Segment wise, NPLs of almost all of the segments increased over the quarter. NPLs to loan ratio of corporate sector, which is the major recipient of the financing of the banking system, marginally increased to 6.7 percent from 6.5 percent in CY05 (see **Table:-4.1.1**). Agriculture

Table: 4.1.1 Segmentwise Infection of Loans Portfolio (Domestic Operations)						
Sector	CBs		SBs		All	
	Mar-07	Dec-06	Mar-07	Dec-06	Mar-07	Dec-06
Corporate	6.4	6.2	100.0	102.0	6.7	6.5
SMEs	7.1	6.7	86.8	88.7	9.2	8.8
Agriculture	8.1	7.3	37.2	32.3	23.7	20.8
Consumers	3.2	2.1	21.2	24.3	3.2	2.2
<i>Credit Cards</i>	3.7	1.4	-	-	3.7	1.4
<i>Auto Loans</i>	2.6	1.8	16.7	35.3	2.6	1.9
<i>Consumer Durables</i>	2.7	8.6	25.7	27.3	3.2	9.8
<i>Mortgage Loans</i>	2.3	1.8	-	-	2.3	1.8
<i>Others</i>	4.0	2.7	-	-	4.0	2.7
Commodity Finance	1.0	0.6	-	-	1.0	0.6
Staff Loans	0.8	1.0	0.1	0.1	0.5	0.9
Others	4.8	6.1	12.0	12.0	4.9	6.2
Total	5.6	5.2	44.3	40.5	7.1	6.6

sector experienced the highest increase in NPLs in absolute terms as well as in terms of infection ratio. The infection ratio of this segment, which was already highest among all the segments, further increased to 23.7 percent from 20.8 percent in CY06. Group wise analysis showed that, with the level of 37.2 percent infection ratio, SBs were the major contributor in this considerable surge in banking systems' infection ratio of agriculture sector. Contrarily, infection ratio of CBs for this critical sector was 8.1 percent. SMEs sector though witnessed a decline in its NPLs; its loan portfolio experienced a larger decrease due to which its infection ratio has increased to 9.2 percent from 8.8 percent in CY06.

The consumer finance portfolio, which has been the fastest growing sector, has contributed around one third in the total addition in NPLs. As a result, infection ratio of consumer sector has increased to 3.2 percent from 2.2

percent in CY06. It is concerning to note that such deterioration was more visible in unsecured consumer products i.e. other personal loans and credit cards. However, the level of infection of the consumer portfolio is still lower than the level of mandatory general provisioning required under the Prudential Regulations for this segment.

Summing up, NPLs of the banking system witnessed a noticeable increase during the March 07 quarter. However, since the increase in NPLs has been observed in the initial categories, the banks should make all out efforts to recover these loans before going the same into more severe categories. Nevertheless, banks will have to further tighten their credit appraisal and monitoring standards to stem increase in their NPLs portfolio and reassess their exposures in relatively high risk areas.

4.2 Market Risk

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

During the quarter under review, interest rates along the yield curve witnessed a mixed trend. The short term rates experienced some pressures and in May-07 these moved up when compared with the ones in CY06 (see **Figure:-4.2.1**). However, the longer term interest rates witnessed some decline, thus leading to flattening of the yield curve over the quarter. This is also obvious in the squeezing yield spread between the 3 months and 10 year interest rates (see **Figure:4.2.2**). Since the movements along the yield curve were not significant, interest rate risk remained subdued.

Repricing gaps, i.e. the GAPS between the rate sensitive assets and rate sensitive liabilities of the banking system were also within the acceptable ranges. For all the three time-buckets, i.e. up to three months, three months to one year and over 1 year buckets, the re-pricing GAP was well below the +/- 10 percent of the total assets (see

Figure-4.2.1: Flattening of Yield Curve During March-07 Quarter

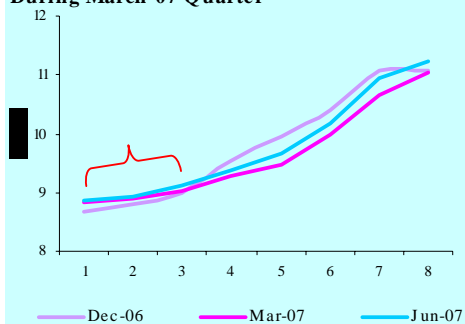


Figure-4.2.2: Yield Spread b/w 10y & 3m PKRV rates

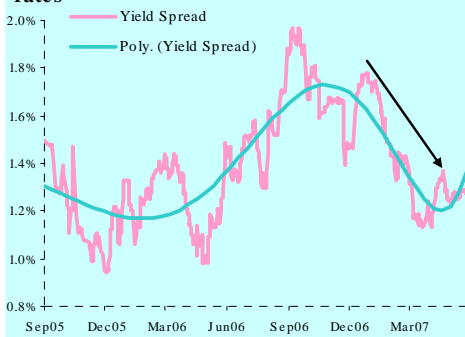


Figure:-4.2.3 GAP Between Rate Sensitive Assets and Liabilities to Total Assets (in %)

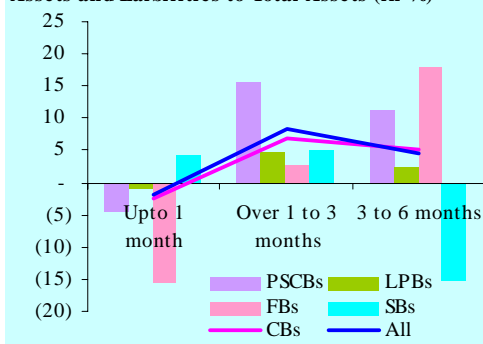


Figure:-4.2.3). Group wise, almost all of the groups maintained negative GAP in the three months bucket and is highest among the FBs. This may warrant repricing risk since the banks are carrying short positions in the short term buckets and the yield curve movement suggests increase in the interest rates for the same maturity bucket.

During the quarter, a slight fall in the longer term yields added to the revaluation gains against the fixed term investments of the banking system. However, the major chunk of long term securities is still categorized under Held-to Maturity category, which is not subject to mark to market.

Exchange rate risk, takes into account the impact of changes in the exchange rate on the net value of foreign currency assets and liabilities. Rupee dollar exchange rate experienced some appreciation since December 2006 and hovered around 60.7 rupees as compared to 60.9 rupees in CY06 (see **Figure:-4.2.4**).

Kerb premiums also squeezed during this period. Swap points, however, experienced slight increase owing to the expectations of depreciation in exchange rate in the coming months. Net open position of the banks remained within the limits and largely stayed positive (see **Figure:-4.2.5**). Though the foreign currency denominated assets significantly exceed those of liabilities, a momentous appreciation of rupee may raise an exchange rate risk.

Equity exposure of the banking system declined to Rs33.9 billion from Rs39.9 billion in CY06 (see **Figure:-4.2.6**).

Figure:-4.2.4 Rupee Dollar Exchange Rate and Swap Points

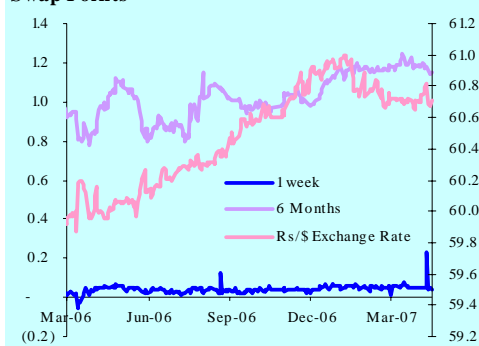
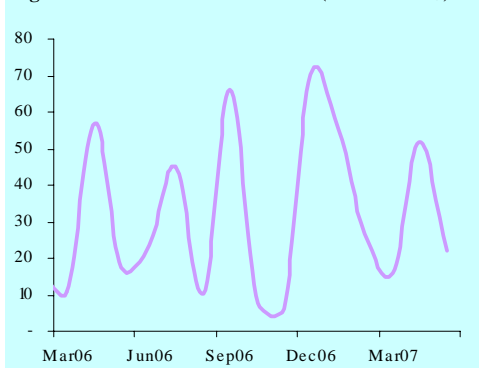


Figure:-4.2.5 NOP of All Banks (in Million \$)



Disaggregated analysis shows that top 5 banks, which hold about 50 percent of the total assets of the banking system, share almost equal percentage in the total equity investment in the total equity investment (see **Figure:-4.2.7**). Since capital also experienced an increase over the quarter, such investments in terms of capital actually declined to around 7.9 percent as compared to 9.9 percent in CY06 (see **Figure:-4.2.8**).

Group wise, LPBs have the largest exposure of Rs28.2 billion, which forms 72 percent of the total exposure of the banking system. PSCBs have total exposure of Rs4.7 billion representing 19 percent of the total exposure of the banking system. In terms of capital this exposure remained less than 10 percent for each of the banking groups. Of the total 40 banks, around 33 banks, holding 38 percent share in terms of total assets, have their equity exposures less than 5 percent of their capital.

In short, marginal movements in the interest rates, contained exchange rate and equity exposures have kept the market risk well managed.

Figure-4.2.6: Exposure of Banks in Equities - Mar-07

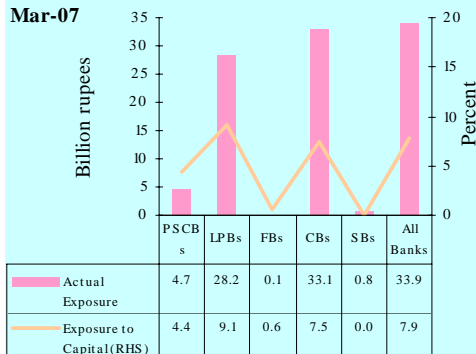


Figure:-4.2.7 Investment in Fully Paid up Ordinary Shares-Mar-07

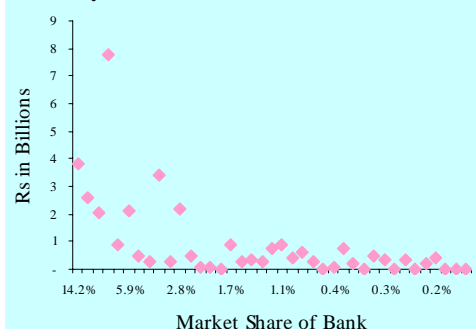
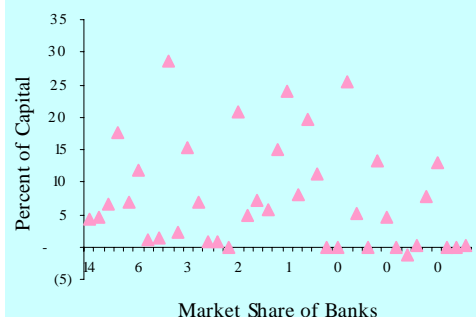


Figure:- 4.2.8 Investment in Share as Percentage of Capital-Mar-07



4.3 Liquidity Risk

Liquidity position of the banking system experienced some easing during the quarter under review. Loan to deposit ratio, a key liquidity indicators, by shedding a few points stayed at 66.0 percent as compared to 70.3 percent in CY06 (see **Figure:-4.3.1**). Both the increase in deposits and decline in loans contributed to a decrease in this ratio. Since almost all of the increase in deposits has flown into the government securities, the liquid assets of the banking system witnessed considerable increase. Resultantly, liquid assets to total assets ratio increased to 34.0 percent from 31.9 percent in CY06. Similarly, excess statutory liquidity reserves maintained by the banks also increased over the quarter (see **Figure:-4.3.2**). Post quarter development shows further increase in such reserves.

The categorization of securities into Held for Trading (HFT), Available for Sale (AFS) and Held to Maturity (HTM) categories also reflects the liquidity available with the banking system. Around 95 percent of MTBs have been placed in both the HFT and AFS categories (see **Figure:-4.3.3**), the market based liquidity has increased especially when compared with the situation a year back.

However, SBP pursuing its tight monetary policy, continued to drain much of the excess liquidity available with the banks. The frequent open market operations (OMOs) during this period has mopped up about Rs60 billion

Figure 4.3.1 Liquidity Indicators

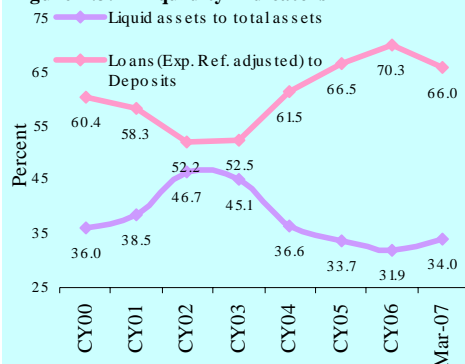
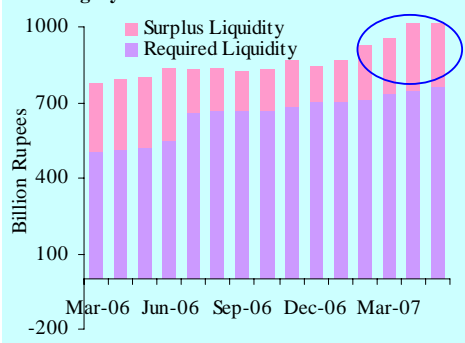


Figure:-4.3.2 Excess Reserves Held by the Banking System



from the banking system (see **Figure:-4.3.4**). In addition, banks themselves have locked around Rs167 additional funds in govt. securities, thus adding to the net liquidity outflows from the system. Contrary to this, discounting availed during this period was also significant.

Maturity GAPs, a measure of funding liquidity risk, however, remained a concern. Overall gap, between the maturities of asset and liabilities of the banking system as percentage of total assets, stayed at below 10 percent. However, individual groups show significant positions (see **Figure:-4.3.5**). In three months maturity bucket, LPBs followed by FBs experienced significant negative Gap, which in terms of total assets stayed at 21 percent and 16.6 percent respectively. The significant negative gap in short term bucket may raise liquidity concern for the banks.

In view of the above, the liquidity of the banking system witnessed some ease in March 07 quarter as indicated in the key liquidity indicators.

Figure:-4.3.3 MTBs of the Banking System March-07

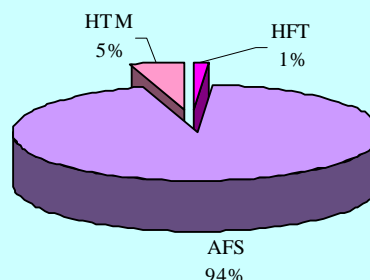


Figure:-4.3.4 OMOs by SBP Vs Discounting Availed by the Banks

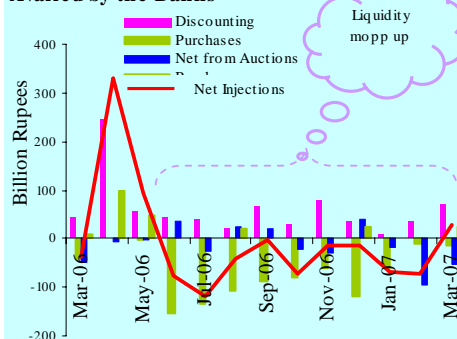
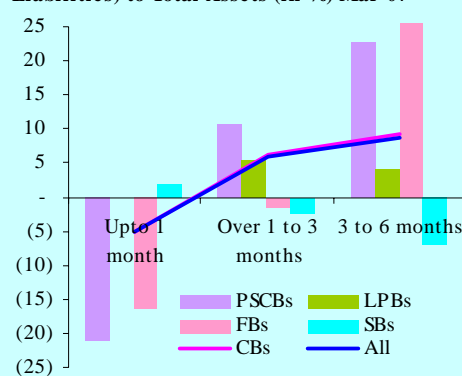


Figure:-4.3.5 Maturity GAP (Assets - Liabilities) to Total Assets (in %) Mar-07



5. Performance of Islamic Banking

During the March 2007 quarter, Islamic Banking witnessed further growth on the back of expanding operations, strengthening capital and improved asset quality.

With the entry of one new Islamic Bank (IB) during the quarter, the number of Islamic Banks increased from 4 to 5 whereas the number of branches operated by them increased from 93 to 99 during the quarter (see **Table-5.1**). Compared with the corresponding period of March 06, the number of Islamic Banks has increased from 3 to 5 whereas the number of conventional banks operating Islamic Banking Branches (IBBs) has also increased from 10 to 12 and combined branch network of the Islamic Banking

	CY02	CY03	CY04	CY05	CY06	Mar06	Mar07
No. of Islamic Banks (IBs)	1	1	2	2	4	3	5
No. of Branches	6	10	23	37	93	39	99
No. of conventional banks operating Islamic Banking Branches	-	3	7	9	12	10	12
No. of Islamic Banking Branches (IBBs)	-	7	21	33	57	34	57

	CY03	CY04	CY05	CY06	Mar06	Mar07
SOURCES:						
Deposits	8.4	30.2	49.9	83.7	53.7	93.1
Borrowings	1.9	6.6	9.0	10.8	8.9	12.2
Capital & other funds	2.0	5.1	7.8	16.3	10.3	20.9
Other liabilities	0.6	2.3	4.7	8.4	6.4	9.4
	12.9	44.1	71.5	119.3	79.3	135.6
USES:						
Financing	8.7	27.5	45.8	65.6	48.7	70.0
Investments	1.2	2.0	1.9	7.3	6.0	8.4
Cash, bank balance, placements	2.0	11.9	19.3	31.4	19.7	46.1
Other assets	1.0	2.7	4.5	15.0	4.8	11.2
	12.9	44.1	71.5	119.3	79.3	135.6

System has increased from 73 in March 06 to 156 in March 07. The size of the balance sheet of the Islamic Banking System grew by 13.7 percent during the quarter from Rs119 billion to Rs135.6 billion as against 4 percent of the banking system. Despite this growth, the Islamic Banking System forms only 3 percent of the total assets of the banking system (see **Table:-5.2**)

A review of the balance sheet of the Islamic Banking System revealed that deposits continued to remain predominant source of funds which contributed 68.6 percent in total assets growth. This was followed by capital which also increased its share from 13.7% in CY06 to 15.4% in March 07. On the assets side, financing grew by only 6.7 percent against growth in deposits of 11 percent during the quarter. This indicates a compositional shift from financing to cash, bank balances and placements. Financing though still remains the largest component has lost its share in total assets from 55 percent in CY06 to 51.6 percent in March 07. As a

result, the assets in the form of cash, bank balance and placements increased from 26.2 percent in CY06 to 33.8 percent in March 07 while investments remained around the level of 6 percent of the total assets.

As a result, financing to deposits ratio declined from 78.4 percent in CY06 to 75.2 percent in March 07. The financing to deposits ratio was 90.7 percent in the corresponding period of March 06. The declining financing to deposit ratio augurs well for the asset quality of the Islamic Banking system. This is also corroborated by the declining non-performing financing (NPFs) to total financing ratio of 1.1 percent in March 06 from 1.4 percent in CY06. The quantum of non-performing financing declined from Rs846 in CY06 million to Rs808 million in March 07 while provisioning increased by 11.4 percent leading to reduction of net NPF to net financing ratio to 0.2 percent in March 07 from 0.4 percent in CY06 (see **Table-5.3**).

Percent						
Indicator	CY03	CY04	CY05	CY06	Mar06	Mar07
NPFs to total financing	0.7	0.9	1.0	1.3	0.9	1.1
Net NPFs to net financing	-	0.2	0.2	0.4	0.1	0.2
Provision to NPFs	100.0	82.3	80.6	72.0	86.3	83.9
Net Markup Income to total assets	1.7	1.4	2.3	2.4	3.2	3.5
Non Markup Income to total assets	2.2	1.4	1.7	0.9	1.4	1.1
Operating Expense to Gross Income	54.6	65.3	49.9	72.8	46.5	73.5
ROA (average assets)	2.2	1.2	1.7	0.9	2.0	0.9
Growth in Assets	84.5	241.8	62.0	669.0	10.9	13.7
Growth in Deposits	64.6	259.5	65.4	67.7	7.5	11.1
Growth in Financing	147.0	218.2	66.3	43.3	6.4	6.6

Against the full year growth of 104 percent in CY06, the capital of the IBIs increased by 28 percent during the quarter under review, which has enhanced the capacity of the IBIs to expand their operations as well as diversify their operations. Also, the capital adequacy position of the IBIs has improved from 18.3 percent in CY06 to 21.5 percent in March 07.

The break-up of deposits reflects compositional shift in Fixed Deposits from 36 percent in CY06 to 38.4 percent in March 07 whereas deposits from financial institutions and non-remunerative current account declined from 15 percent in CY06 to 13.9 percent in March 07 and 22 percent in CY06 to 20.1 percent in March 07 respectively (see **Figure-5.1**).

The composition of financing reflects that though Murabaha and Ijarah continued to maintain their predominance, their collective share in total financing has reduced significantly from 78 percent in CY06 to 71 percent in March 07. On the other hand, the share of Diminishing Musharika has

increased from 14.7 percent in CY06 to 17.4 percent in March 07 (see **Figure-5.2**).

On the back of expansion in IBIS business activities, their profitability has increased during the quarter under review (see **Table-5.4**). Net mark-up income as percentage of total assets increased from 2.4 percent in CY06 to 3.5 percent (annualized) in March 07. Besides, non mark-up income also increased from 0.9 percent in CY06 to 1.1 percent in March 07. The operating expenses as percentage of gross income increased marginally to 73.5 during the quarter however, the same ratio when compared with the corresponding period March 06 was 46.5 percent appeared much higher. This may be attributed to the expanding operations of IBIs. ROA, which is a bottom line indicator of profitability, remained at the CY06 level of 0.9 percent during the March 07 quarter.

Conclusively, the IBIs during the quarter under review remained on expansionary path. With increased profitability and enhanced capital position coupled with improved asset quality, the sector is poised to expand its business operations while seeking diversification in financing activities

Figure-5.1: Composition of Deposits

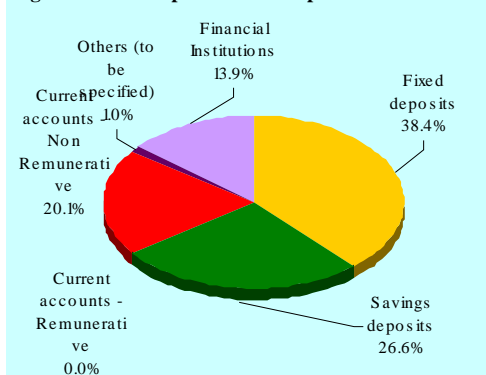


Figure-5.2: Modes of Financing

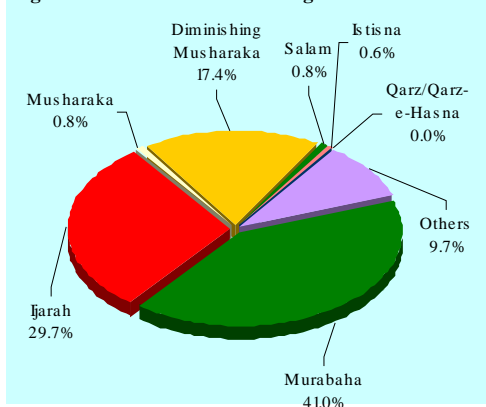


Table-5.4: Income Statement

	(Rs. in million)					
	CY03	CY04	CY05	CY06	Mar06	Mar07
Markup Income	4064	1,081.0	3,164.3	6,383.1	1,388.9	2,517.6
Markup Expense	188.5	483.7	1,542.3	3,513.3	728.5	1,394.8
Net Markup Income	217.9	597.2	1,622.0	2,869.7	660.4	1,122.8
Provision Expense	(15.8)	36.0	175.6	238.7	27.8	71.8
Non Markup Income	287.4	596.0	1,206.6	1,067.4	276.2	344.6
Operating Expense	276.0	779.0	1,410.5	2,864.5	421.4	1,078.0
Profit Before Tax	245.0	378.2	1,242.6	832.2	457.3	317.7
Tax	27.0	36.2	265.2	(344)	88.8	(294)
Profit After Tax	218.0	342.0	977.4	866.6	368.6	288.3

6 Resilience of the Banking System towards Stress Tests

Stress tests have been used around the globe to assess the resilience of the financial system. Using the top-down approach to stress testing, this exercise assesses the impact of various stress scenarios on the banking system using simple sensitivity analysis. The impact has been gauged on both individual banks as well as all the three commercial banking groups viz. Public Sector Commercial Banks (PSCBs), Local Private Banks (LPBs) and Foreign Banks (FBs). The three risk factors i.e. credit, market and liquidity risks have been given shocks based on both the historical and hypothetical moves in these risk factors (see **Box 6.1**).

BOX - 6.1

Reference Scenarios for Stress Tests For the Year ended on March 31, 2007

Credit Shocks

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

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

Scenario C-3 assumes a cumulative impact of the two shocks under Scenarios 1 and 2.

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

Market Risk: Interest Rate Shocks

Scenario IR-1 assumes an increase in interest rates by 200 basis points.

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

Scenario IR-3 assumes a shift coupled with flattening of the yield curve by increasing 150,120 and 100 basis points in the three maturities respectively (almost same as was increased from Aug-03 to Dec-03).

Market Risk: Exchange Rate Shocks

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

Scenario ER-2 is based on the hypothetical assumption of appreciation of rupee by 10 percent.

Market Risk: Equity Price Risk Shocks

Scenario E-1 assumes the impact of a 20 percent decline in the Stock Market Index.

Scenario E-2 assumes the impact of a 40 percent decline in the Stock Market Index.

Liquidity Shocks

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

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

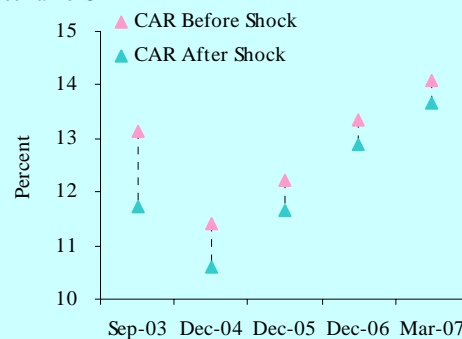
BOX - 6.2					
“Stress Tests” on Commercial Banks					
Shocks		March 31, 2007		December 31, 2006	
		%age Point Change in CAR	Revised CAR- After Shock	%age Point Change in CAR	Revised CAR- After Shock
Credit Shocks					
Scenario C-1	Deterioration in the quality of loan	-0.4	13.7	-0.4	12.9
Scenario C-2	Shift in categories of classified loans	-0.33	13.8	-0.30	13.0
Scenario C-3	Cumulative impact of all shocks in 1 and 2	-0.8	13.3	-0.7	12.6
Scenario C-4	Deterioration in NPLs ratio of consumer finance	-1.0	13.1	-1.0	12.3
Market Shocks; Interest Rate Shocks					
Scenario IR-1	Shift in the yield curve	-0.4	13.7	-0.7	12.7
Scenario IR-2	Shift and steepening of the yield curve	-0.3	13.8	-0.5	12.9
Scenario IR-3	Shift & flattening of the yield curve	-0.2	13.9	-0.3	13.0
Market Shocks; Exchange Rate Shocks					
Scenario ER-1	Depreciation of Rs/US\$ exchange rate (the historical high)	1.3	15.4	1.1	14.4
Scenario ER-2	Appreciation of Rs/US\$ exchange rate (hypothetical)	-1.0	13.1	-0.9	12.5
Market Shocks; Equity Price Shocks					
Scenario E-1	Fall in the KSE index (historical high)	-0.1	14.0	-0.2	13.2
Scenario E-2	Fall in the KSE index (hypothetical scenario)	-0.3	13.8	-0.5	12.9
Liquidity Shocks					
Liquidity Coverage Ratio		Actual	Stressed	Actual	Stressed
Scenario L-1	5 Percent Fall in the Liquid Liabilities	38.0	34.7	35.5	32.1
Scenario L-2	10 Percent Fall in the Liquid Liabilities	38.0	31.1	35.5	28.3

Note: The results have not been adjusted for deferred tax benefits accruing on these losses.

The impact of the shock scenarios of both credit and market risks has been calibrated on earnings as well as on capital. After calibration of shocks, revised capital adequacy ratio has also been calculated. However, for the liquidity risk, the impact of the shocks has been gauged in terms of level of liquidity coverage ratio². The summarized results of the impact of these shocks have been presented in **Box 6.2**; a brief description has been discussed below.

The increasing level of capital-base provided greater cushion, which strengthened the resilience of the system towards shocks. Under **Credit Scenario C-1** a shock of 10 percent increase in NPLs almost all of the banks show resilience since their capital can sustain this level of shock without becoming non-compliant with CAR or MCR. Commercial banks as a group would lose around half a percentage point in its CAR,

Figure:-6.1 Impact of 10% Rise in NPLs on CAR- Scenario C1



² Ratio of liquid assets to liquid liabilities

which would come down to 13.7 percent in March 07 quarter from 14.1 percent in CY06 (see **Figure: 6.1**).

Since more than 70 percent of the total NPLs lie in loss category, the adverse movement of NPLs assumed in **Scenario C-2** would affect the banks profits marginally. Generally all the banks can sustain this shock, while CAR of CBs may decrease to the level of 13.8 percent. Combining the above two scenarios under **Scenario C-3** would affect the commercial banks' CAR by 0.8 percentage points to 13.3 percent.

A shock envisaged under **Credit Scenario C-4** assumes a shock to the credit quality of consumer sector. A shock of 10 percent increase in NPLs ratio of consumer sector would affect the CAR of CBs by around 1.0 percentage points and after shock CAR may reduce to 13.1 percent (see **Figure:-6.2**). Individually it may push the CAR of three commercial banks, holding a share of around 14 percent, to the level of below 8 percent.

Of the market shocks, the interest rate shock of a 200 bps rise in interest rates across all the maturities along the yield curve, under the **Scenario IR-1**, the CAR of CBs may reduce to 13.6 percent (see **Figure:-6.3**). **Scenario IR-2**, which assumes an upward shift of 50 bps as well as steepening of the yield curve, poses a lower impact and CAR of CBs with this shock may lower to 13.8 percent. Whereas under **Scenario IR-3**, a shift and flattening of the yield curve, the impact further reduced and

Figure:-6.2 Impact of Credit Shocks on CAR, Mar-07

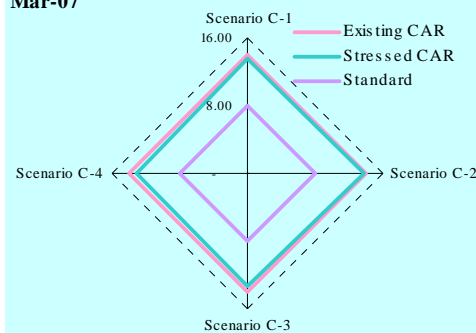
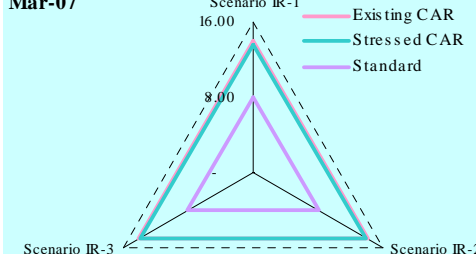


Figure:-6.3 Impact of Interest Rate Shocks on CAR, Mar-07



after shock CAR remained at 13.9 percent.

As for the exchange rate shocks, **Scenario ER-1** assumes a historical level of depreciation in the rupee by 13 percent. Since banks have foreign currency assets in excess of foreign currency liabilities, they can, in fact gain under this scenario (see **Figure:-6.4**). However, a hypothetical shock of appreciation in rupee **Scenario ER-2**, may lower the CAR of CBs to 13.0 percent.

The impact of a 20 percent fall in the value of direct equity investment, under **Scenario E-1**, is quite moderate since the banks' direct equity exposure is not that large and also they have sufficient cushion available in the form of surplus on revaluation against these investments. Under this shock CAR of CBs may experience a fall of a few basis points (see **Figure:-6.5**). Under **Scenario E-2**, a 40 percent fall in the value of these investments may lower the CAR of CBs to 13.8 percent.

Liquidity measured in terms of liquidity coverage ratio analysis shows that under **Scenario L-1**, the liquidity coverage ratio

Figure:-6.4 Impact of Exchange Rate Shocks on CAR, Mar-07

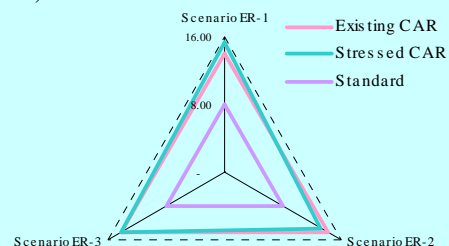


Figure:-6.5 Impact of Equity Price Shocks on CAR, Mar-07

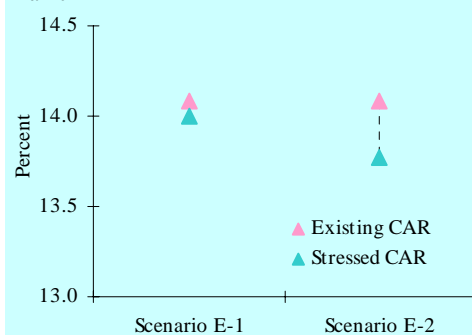
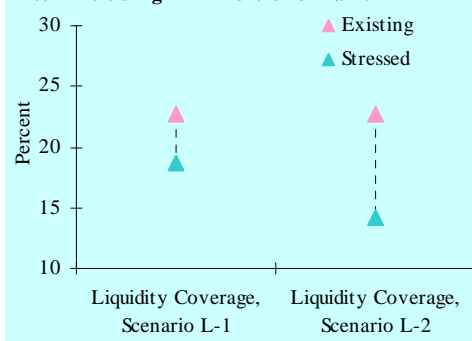


Figure:-6.6 Liquidity Coverage Ratio Calculated After Excluding HTM Portfolio-Mar-07



(calculated after excluding HTM securities from liquid assets) of CBs declined from 38.0 percent to 34.7 percent after experiencing a 5 percent decline in liquid liabilities (see **Figure:-6.6**). Whereas, under **Scenario L-2**, a 10 percent fall in the liquid liabilities may lower this ratio to 31.1 percent. Summing up, the increased capital base has further added to the resilience of the banking system.

Financial Soundness Indicators

Annex-I

Indicators	2002	2003	2004	2005	2006	Mar-07
CAPITAL ADEQUACY						
Risk Weighted CAR						
Public Sector Commercial Banks	12.3	11.0	13.4	14.5	15.2	16.3
Local Private Banks	9.7	9.0	10.1	10.6	12.7	13.5
Foreign Banks	23.2	23.0	17.4	16.4	15.0	14.0
Commercial Banks	12.6	11.1	11.4	11.9	13.3	14.1
Specialized Banks	(31.7)	(28.2)	(9.0)	(7.7)	(8.3)	(9.6)
All Banks	8.8	8.5	10.5	11.3	12.7	13.4
Tier 1 Capital to RWA						
Public Sector Commercial Banks	8.6	8.2	8.6	8.8	11.1	12.1
Local Private Banks	6.6	7.0	7.5	8.3	10.4	11.2
Foreign Banks	23.0	23.0	17.1	16.1	14.3	13.3
Commercial Banks	9.7	9.1	8.6	9.1	10.8	11.5
Specialized Banks	(31.7)	(28.7)	(15.0)	(13.6)	(13.3)	(14.8)
All Banks	6.2	6.5	7.6	8.3	10.0	10.7
Capital to Total Assets						
Public Sector Commercial Banks	5.6	6.1	8.7	12.6	12.2	12.5
Local Private Banks	5.2	5.3	6.5	7.0	9.2	9.6
Foreign Banks	10.6	9.9	8.9	9.5	10.1	9.4
Commercial Banks	6.1	6.1	7.2	8.4	9.9	10.2
Specialized Banks	(23.0)	(10.0)	(9.4)	(8.1)	(8.0)	(7.7)
All Banks	4.8	5.5	6.7	7.9	9.4	9.7
ASSET QUALITY						
NPLs to Total Loans						
Public Sector Commercial Banks	25.5	20.4	13.3	10.0	9.0	9.0
Local Private Banks	15.4	11.3	9.0	6.4	5.2	5.5
Foreign Banks	3.8	3.1	1.6	1.2	1.0	1.1
Commercial Banks	17.7	13.7	9.0	6.7	5.7	5.9
Specialized Banks	54.7	55.6	54.1	46.0	39.1	44.3
All Banks	21.8	17.0	11.6	8.3	6.9	7.4
Provision to NPLs						
Public Sector Commercial Banks	57.1	65.8	77.0	86.8	84.5	84.3
Local Private Banks	58.6	62.7	69.9	76.4	78.7	76.2
Foreign Banks	73.3	78.7	101.9	145.9	191.7	184.1
Commercial Banks	58.2	64.8	72.4	80.4	81.5	79.6
Specialized Banks	66.9	61.5	64.9	64.8	64.1	58.0
All Banks	60.6	63.9	70.4	76.7	77.8	74.7
Net NPLs to Net Loans						
Public Sector Commercial Banks	12.8	8.1	3.4	1.5	1.5	1.5
Local Private Banks	7.0	4.5	2.9	1.6	1.1	1.4
Foreign Banks	1.1	0.7	(0.0)	(0.6)	(1.0)	(0.9)
Commercial Banks	8.3	5.3	2.7	1.4	1.1	1.3
Specialized Banks	28.5	32.5	29.3	23.1	18.7	25.0
All Banks	9.9	6.9	3.8	2.1	1.6	2.0
Net NPLs to Capital						
Public Sector Commercial Banks	83.4	50.0	16.2	5.5	6.4	6.0
Local Private Banks	54.8	39.1	24.3	13.0	7.1	7.7
Foreign Banks	4.7	3.2	(0.2)	(3.0)	(5.1)	(4.7)
Commercial Banks	54.2	36.9	19.0	9.0	6.2	6.6
Specialized Banks	-	-	-	-	1.0	(191.8)
All Banks	85.5	54.4	29.2	14.3	9.7	10.7
EARNINGS						
Return on Assets (Before Tax)						
Public Sector Commercial Banks	1.3	1.8	2.4	3.3	4.0	3.7
Local Private Banks	1.4	2.2	1.7	2.7	3.1	3.1
Foreign Banks	2.3	2.6	2.5	3.6	3.2	3.5
Commercial Banks	1.5	2.1	2.0	2.9	3.2	3.2
Specialized Banks	(10.2)	(3.3)	(0.4)	(1.0)	(1.3)	(4.6)
All Banks	0.9	1.8	1.9	2.8	3.1	3.0
Return on Assets (After Tax)						
Public Sector Commercial Banks	0.6	1.0	1.3	2.2	2.7	2.4
Local Private Banks	0.8	1.4	1.2	1.8	2.1	2.1
Foreign Banks	1.5	1.5	2.0	2.5	2.1	2.1
Commercial Banks	0.8	1.2	1.3	2.0	2.2	2.2
Specialized Banks	(12.1)	(3.7)	(0.8)	(1.2)	(1.8)	(4.7)
All Banks	0.1	1.0	1.2	1.9	2.1	2.0

Financial Soundness Indicators

Annex-I

Indicators	2002	2003	2004	2005	2006	Mar-07
ROE (Avg. Equity & Surplus) (Before Tax)						
Public Sector Commercial Banks	26.3	29.9	30.8	30.7	32.4	29.9
Local Private Banks	32.3	41.5	28.8	40.1	36.2	32.8
Foreign Banks	24.2	25.0	26.7	38.9	30.0	35.9
Commercial Banks	27.5	33.7	29.0	37.2	34.7	32.2
Specialized Banks	-	-	-	-	-	-
All Banks	21.1	35.4	30.5	38.2	35.2	31.6
ROE (Avg. Equity & Surplus) (After Tax)						
Public Sector Commercial Banks	11.5	17.3	17.2	20.9	21.7	19.8
Local Private Banks	17.3	25.8	20.2	27.2	25.0	22.1
Foreign Banks	15.2	14.8	21.5	27.1	20.4	22.0
Commercial Banks	14.3	20.3	19.6	25.4	23.7	21.5
Specialized Banks	-	-	-	-	-	-
All Banks	3.2	20.0	20.3	25.8	23.8	20.6
NII/Gross Income						
Public Sector Commercial Banks	69.5	64.1	63.7	71.3	69.5	80.7
Local Private Banks	65.5	55.9	62.0	73.0	73.5	74.7
Foreign Banks	57.5	55.3	57.7	61.5	65.8	57.5
Commercial Banks	66.1	58.9	61.9	71.3	72.1	74.5
Specialized Banks	78.0	62.2	81.9	87.7	40.1	64.1
All Banks	67.1	59.2	62.8	72.0	70.9	74.0
Cost / Income Ratio						
Public Sector Commercial Banks	56.9	43.9	39.5	34.3	31.8	35.5
Local Private Banks	60.0	53.2	56.2	43.1	40.7	44.0
Foreign Banks	45.4	48.2	49.0	42.2	49.8	43.3
Commercial Banks	56.7	49.0	51.7	41.2	39.4	42.4
Specialized Banks	84.7	67.5	57.8	47.8	62.6	48.0
All Banks	59.1	50.5	52.0	41.5	40.3	42.7
LIQUIDITY						
Liquid Assets/Total Assets						
Public Sector Commercial Banks	49.0	49.1	43.9	35.6	33.9	35.4
Local Private Banks	47.1	42.9	34.3	32.4	31.1	33.3
Foreign Banks	48.5	49.2	39.8	41.8	41.0	43.6
Commercial Banks	48.1	46.1	37.0	33.9	32.2	34.3
Specialized Banks	16.4	22.9	25.3	25.8	23.0	22.5
All Banks	46.7	45.1	36.6	33.7	31.9	34.0
Liquid Assets/Total Deposits						
Public Sector Commercial Banks	59.6	59.0	52.6	44.7	42.6	43.9
Local Private Banks	60.2	54.5	42.3	40.3	40.6	43.1
Foreign Banks	74.2	68.9	53.4	57.9	61.1	64.3
Commercial Banks	61.5	57.8	45.7	42.7	42.0	44.4
Specialized Banks	98.5	135.0	154.1	183.2	205.4	227.7
All Banks	61.8	58.5	46.5	43.5	42.7	45.0
Advances/Deposits						
Public Sector Commercial Banks	44.3	45.7	49.7	59.8	64.6	61.2
Local Private Banks	52.3	58.2	67.3	70.8	74.5	70.7
Foreign Banks	72.0	63.8	70.1	68.7	80.1	69.1
Commercial Banks	51.0	53.6	63.6	68.4	72.7	68.6
Specialized Banks	453.8	379.1	370.5	400.7	528.4	594.5
All Banks	54.9	56.4	65.8	70.2	74.6	70.4

Note: The indicators for March, June and September 2006 are based on Un-audited returns

Selected Indicators for Different Categories of Banks, March-07 Annex-II

Indicators	Top 5 Banks	Top 10 Banks	Top 20 Banks	Industry
Share of Total Assets	50.8%	74.0%	92.8%	100%
Share of Total Deposits	54.0%	77.5%	94.1%	100%
Share of Gross Income	55.7%	77.0%	94.5%	100%
Share of Risk Weighted Assets	51.3%	71.6%	92.2%	100%
Capital Adequacy				
Capital/RWA	14.8%	13.8%	13.6%	13.5%
Tier 1 Capital / RWA	11.6%	10.8%	10.7%	10.7%
Net Worth / Total Assets	10.2%	10.1%	9.7%	9.7%
Asset Composition				
Sectoral Distribution of Loans (Domestic)				
- Corporate Sector	45.6%	74.6%	94.9%	100%
- SMEs	51.7%	70.1%	85.4%	100%
- Agriculture	36.4%	44.0%	93.4%	100%
- Consumer Finance	57.0%	77.2%	97.3%	100%
- Commodity Financing	69.6%	93.9%	98.4%	100%
- Staff Loans	63.4%	82.3%	93.9%	100%
- Others	43.8%	54.7%	83.9%	100%
- Total	49.3%	73.4%	93.6%	100%
NPLs / Gross Loans	7.1%	6.3%	6.7%	7.4%
Net NPLs / Capital	7.4%	6.8%	11.0%	12.1%
Earning & Profitability				
ROA	2.7%	2.5%	2.1%	2.0%
ROE	27.0%	24.9%	21.6%	20.6%
Net Interest Income / Gross Income	78.3%	76.8%	75.2%	74.0%
Non-Interest Expense / Gross Income	38.2%	43.3%	37.9%	42.7%
Liquidity				
Liquid Assets / Total Assets	34.9%	33.6%	33.5%	34.0%
Liquid Assets held in Govt. Securities / Total Liquid Assets	50.8%	51.8%	51.6%	49.9%
Liquid Assets / Total Deposits	43.4%	42.5%	43.8%	45.0%

Bank-wise Major Statistics- March-2007

Annex-III

(Rs in Millions)

S.No.	Name of Bank	Assets	Deposits	Equity
1	The Bank of Khyber	30,528	21,958	3,246
2	The Bank of Punjab	191,293	163,539	17,067
3	First Women Bank Limited	7,966	6,397	981
4	National Bank of Pakistan	634,047	504,459	86,994
5	Industrial Development Bank of Pakistan	8,700	5,896	(27,710)
6	Zarai Taraqiati Bank Limited	86,994	2,152	12,957
7	The Punjab Provincial Cooperative Bank Limited	15,485	1,936	3,379
8	SME Bank Ltd.	7,063	1,694	2,327
9	Allied Bank Limited	263,329	216,880	17,958
10	Bank Alfalah Limited	264,685	227,617	13,367
11	Bank Al-Habib Limited	123,256	98,629	6,585
12	Askari Bank Limited	163,803	126,781	11,873
13	Crescent Commercial Bank Limited	14,550	6,427	7,224
14	Atlas Bank Limited	17,736	9,906	3,009
15	Habib Bank Ltd	564,545	451,297	55,485
16	Faysal Bank Limited	125,992	81,479	14,049
17	KASB Bank Ltd	27,713	22,126	2,400
18	Dubai Islamic Bank Pakistan Limited	11,556	7,602	3,511
19	JS Bank Limited	14,941	10,093	3,391
20	Bank Islami Pakistan Limited	6,268	2,717	3,187
21	Arif Habib Rupali Bank Limited	6,929	3,655	3,095
22	Emirates Global Islamic Bank Limited	3,513	479	2,895
23	MCB Bank Limited	361,394	280,730	43,995
24	Meezan Bank Limited	49,822	37,452	4,956
25	Habib Metropolitan Bank Limited	160,438	113,135	11,603
26	Mybank Limited	33,205	25,383	5,234
27	NIB Bank Limited	52,016	32,815	4,358
28	PICIC Commercial Bank Limited	77,271	66,209	4,314
29	Prime Commercial Bank Limited	47,545	37,348	3,746
30	Saudi Pak Commercial Bank Limited	63,851	46,728	5,005
31	Soneri Bank Limited	70,655	53,074	5,861
32	United Bank Limited	435,645	352,432	31,034
33	Standard Chartered Bank (Pakistan) Limited	254,174	169,707	41,740
34	ABN Amro Bank N.V.	83,703	70,146	5,372
35	Oman International Bank	2,756	631	2,004
36	The Hong Kong and Shanghai Banking Corp. Ltd.	24,836	15,819	2,473
37	Deutsche Bank AG	15,169	4,487	3,039
38	The Bank of Tokyo-Mitsubishi-UFI, Limited	5,915	1,114	2,392
39	Citibank N.A.	104,410	67,560	6,465
40	Albarka Islamic Bank	18,880	13,793	2,252

Group-wise Composition of Banks

Annex-IV

1997-1998	2005	2006	March 2007
<p>A. Public Sector Com. Banks (6)</p> <ul style="list-style-type: none"> ● Habib Bank Ltd. ● National Bank of Pakistan ● United Bank Ltd. ● First Women Bank Ltd. ● The Bank of Khyber ● The Bank of Punjab <p>B. Local Private Banks (16)</p> <ul style="list-style-type: none"> ● Askari Commercial Bank Ltd. ● Bank Alfalah Ltd. ● Bank AL Habib Ltd. ● Bolan Bank Ltd. ● Faysal Bank Ltd. ● Metropolitan Bank Ltd. ● Platinum Commercial Bank Ltd. ● Prime Commercial Bank Ltd. ● Prudential Commercial Bank Ltd ● Gulf Commercial Bank Ltd. ● Soneri Bank Ltd. ● Union Bank Ltd. ● Muslim Commercial Bank Ltd. ● Allied Bank of Pakistan ● Trust Bank Ltd. ● Indus Bank Ltd. <p>C. Foreign Banks (20)</p> <ul style="list-style-type: none"> ● ABN AMRO Bank N.V. ● Albaraka Islamic Bank B.S.C. ● American Express Bank Ltd. ● ANZ Grindlays Bank ● Bank of America ● Bank of Ceylon ● The Bank of Tokyo - Mitsubishi ● Citibank N.A. ● Credit Agricole Indosuez ● Deutsche Bank AG ● Doha Bank ● Emirates Bank International ● Habib Bank AG Zurich ● The Hongkong & Shanghai Banking Corporation Ltd. ● IFIC Bank Ltd. ● Mashreq Bank PJSC ● Oman International Bank S.A.O.G. ● Rupali Bank Ltd. ● Societe Generale ● Standard Chartered Bank <p>D. Specialized Banks (4)</p> <ul style="list-style-type: none"> ● Agriculture Development Bank of Pakistan ● Industrial Development Bank of Pakistan ● Federal Bank for Co-operatives ● Punjab Provincial Co-operative Bank Ltd. <p>All Commercial Banks (42) Include A + B + C</p> <p>All Banks (46) Include A + B + C + D</p>	<p>A. Public Sector Com. Banks (4)</p> <ul style="list-style-type: none"> ● National Bank of Pakistan ● First Women Bank Ltd. ● The Bank of Khyber ● The Bank of Punjab <p>B. Local Private Banks (20)</p> <ul style="list-style-type: none"> ● Askari Commercial Bank Ltd. ● Bank Al-Falah Ltd. ● Bank Al Habib Ltd. ● My Bank Ltd. ● Faysal Bank Ltd. ● Metropolitan Bank Ltd. ● KASB Bank Ltd. ● Prime Commercial Bank Ltd. ● Saudi Pak Commercial Bank Ltd ● PICIC Commercial Bank Ltd. ● Soneri Bank Ltd. ● Union Bank Ltd. ● MCB Bank Ltd. ● Allied Bank Limited. ● United Bank Ltd. ● Meezan Bank Limited ● NIB Bank Ltd. ● Crescent Commercial Bank Ltd. ● Habib Bank Ltd ● Dawood Bank Ltd. <p>C. Foreign Banks (11)</p> <ul style="list-style-type: none"> ● ABN AMRO Bank N.V. ● Albaraka Islamic Bank B.S.C. ● American Express Bank Ltd¹. ● The Bank of Tokyo - Mitsubishi. ● Citibank N.A. ● Deutsche Bank AG ● Habib Bank AG Zurich ● The Hongkong & Shanghai Banking Corporation Ltd. ● Oman International Bank S.A.O.G. ● Rupali Bank Ltd. ● Standard Chartered Bank <p>D. Specialized Banks (4)</p> <ul style="list-style-type: none"> ● Zarai Taraqati Bank Ltd. ● Industrial Development Bank of Pakistan ● Punjab Provincial Co-operative Bank Ltd. ● SME Bank Ltd <p>Commercial Banks (35) Include A + B + C</p> <p>All Banks (39) Include A + B + C + D</p>	<p>A. Public Sector Com. Banks (4)</p> <ul style="list-style-type: none"> ● National Bank of Pakistan ● First Women Bank Ltd. ● The Bank of Khyber ● The Bank of Punjab <p>B. Local Private Banks (24)</p> <ul style="list-style-type: none"> ● Askari Commercial Bank Ltd. ● Bank Alfalah Ltd. ● Bank AL Habib Ltd. ● Mybank Limited ● 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 Limited ● United Bank Ltd. ● Meezan Bank Limited ● NIB Bank Limited ● Crescent Commercial Bank Ltd. ● Habib Bank Limited ● Atlas Bank Limited. ● Arif Habib Rupali Bank Ltd. ● Dubai Islamic Bank Pakistan Ltd. ● Bank Islami Pakistan Ltd. ● JS Bank Limited <p>C. Foreign Banks (7)</p> <ul style="list-style-type: none"> ● ABN AMRO Bank N.V. ● Albaraka Islamic Bank B.S.C. ● Bank of Tokyo - Mitsubishi UFJ, Limited ● Citibank N.A. ● Deutsche Bank AG ● The Hongkong & Shanghai Banking Corporation Limited ● Oman International Bank S.A.O.G. <p>D. Specialized Banks (4)</p> <ul style="list-style-type: none"> ● Zarai Taraqati Bank Ltd. ● Industrial Development Bank of Pakistan ● Punjab Provincial Co-operative Bank Ltd. ● SME Bank Limited <p>All Commercial Banks (35) Include A + B + C</p> <p>All Banks (39) Include A + B + C + D</p>	<p>A. Public Sector Com. Banks (4)</p> <ul style="list-style-type: none"> ● National Bank of Pakistan ● First Women Bank Ltd. ● The Bank of Khyber ● The Bank of Punjab <p>B. Local Private Banks (25)</p> <ul style="list-style-type: none"> ● Askari Commercial Bank Ltd. ● Bank Alfalah Ltd. ● Bank AL Habib Ltd. ● Mybank Limited ● 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 Limited ● United Bank Ltd. ● Meezan Bank Limited ● NIB Bank Limited ● Crescent Commercial Bank Ltd. ● Habib Bank Limited ● Atlas Bank Limited. ● Arif Habib Rupali Bank Ltd. ● Dubai Islamic Bank Pakistan Ltd. ● Bank Islami Pakistan Ltd. ● JS Bank Limited ● Emirates Global Islamic Bank Ltd.¹ <p>C. Foreign Banks (7)</p> <ul style="list-style-type: none"> ● ABN AMRO Bank N.V. ● Albaraka Islamic Bank B.S.C. ● Bank of Tokyo - Mitsubishi UFJ, Limited ● Citibank N.A. ● Deutsche Bank AG ● The Hongkong & Shanghai Banking Corporation Limited ● Oman International Bank S.A.O.G. <p>D. Specialized Banks (4)</p> <ul style="list-style-type: none"> ● Zarai Taraqati Bank Ltd. ● Industrial Development Bank of Pakistan ● Punjab Provincial Co-operative Bank Ltd. ● SME Bank Limited <p>All Commercial Banks (36) Include A + B + C</p> <p>All Banks (40) Include A + B + C + D</p>

1. Emirates Global Islamic Bank Ltd. started its operations during February, 2007.