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Banking system continues to show resilience against major risk factors: SBP Report

Pakistan's banking industry continued to show the resilience against major risk factors through improved solvency position, according to State Bank of Pakistan's Quarterly Performance Review of the Banking System for the quarter ended June, 2009.

"The banking system continued to show the resilience against major risk factors, though the heightened credit risk remained a major source of concern for banks," says the Review Report released today. It said the growth in non-performing loans (NPLs) pacified and deposit after showing some stagnancy witnessed strong growth of 8.2 percent during the quarter. Banks posted pre-tax profit of Rs 28.6 billion during the first six months of the year 2009 while risk-based capital adequacy ratio (CAR) for banks improved to 13.5 percent in April-June, 2009(12.9 percent in Jan-Mar, 2009).

"This improvement in CAR was caused by growth in equity as well as reduction in Risk Weighted Assets as the banks shifted their asset mix from private sector credit to less riskier lending to public sector and government papers," the Report pointed out.

It pointed out that the asset base of the banking system grew by 6.0 percent over the quarter to reach Rs 6,087 billion. The asset mix, however, witnessed significant change as banks continued to focus on government papers and lending to public sector. A 5.0 percent growth in advances was mainly contributed by lending to public sector for commodity operations and Public Sector Enterprises (PSEs). However, due to heightened credit risk as well as private sector's low demand for credit, banks' lending to private sector declined by 1.8 percent, the Report said.

According to the Report, NPLs grew by 4.9 percent over the quarter and infection ratio stayed at 11.5 percent. However, due to increased loan loss provisions, net infection ratio decreased to 3.7 percent in June, 2009 (3.9 percent in Mar09) and provisions covered 70 percent of the NPLs. The higher loan loss provisioning during the quarter nonetheless affected the earnings. Pre-tax Return on Assets of 1.7 percent though lower than the levels of corresponding periods of last couple of years, was higher than the entire year results of CY08, the Report added.

The detailed Report is available at SBP's website:

http://www.sbp.org.pk/publications/q_reviews/qpr.htm
