

## Banks: Listed sector profits up 17% in 1Q2010

The 1Q2010 banking sector results did not have any major surprises in store, with the sector posting profit growth of 17%YoY. Key observations include:

- Relatively flat Net Interest Income (NII) amid lower earnings yield and higher deposits.
- Decent growth in Non interest income driven by rising fee income and strong capital gains on equities.
- Sharp decline in provisions for NPLs on the back of slower accretion in new NPLs.
- The growing divide between top tier and second tier banks with the top 5 banks contributing 81% to the total profits (excludes loss making entities).

Our sample includes 23 of the 27 banks listed on the exchange, and accounts for 98% of the market capitalization of the Index. As of December 2009, these banks account for more than 95% of the total listed sector advances and deposits. Excluding a one time gain recorded by Faysal bank on redemption of NITUnits, sector profitability rose 6%YoY.

### NII growth subdued at 3%YoY

Net Interest Income growth of the banks remained relatively muted, growing by only 3%YoY to Rs65bn. This we opine was due to lower yields on earning assets as KIBOR was lower by 243bps on a YoY basis. Even the top tier banks, the overall performance of which was impressive, recorded an insignificant growth in NII. Among HBL, UBL and MCB - the first two posted relatively flat NII while MCB registered a 4% decline; while ABL and NBP recorded strong growth of 24% and 6% respectively. As far as smaller banks are concerned, they continued to be infected by higher cost of deposits. Going forward, we anticipate readjustment in the deposit mix and a gradual pick up in credit offtake to drive growth in NII.

### Non Interest Income up a healthy 17%YoY

Contrary to NII, Non Interest Income was more upbeat in the period as it rose 17%YoY to Rs22.1bn. Higher fee income, up 13% to Rs10.2bn, and increased capital gain on securities helped this growth. However, included in this figure is a one time gain recorded by Faysal bank on redemption of NIT LOC units, ignoring which, the growth would be limited to 8%YoY. Going forward, we expect the momentum to be slightly lost on a QoQ basis, as opportunities to gain off foreign currency dealing and capital gains will be lower.

### Provisions for NPLs down 24%YoY, +ve surprise

The Quantum of provisions was the main driver behind earnings growth in the period, as slower NPL accretion rates and a combination of slow offtake & already high coverage, led provisions to fall 24%YoY to Rs11.7bn in 1Q2010. Relative decline was visible across the board, with 16 of the 23 sample banks registering a decrease, with HBL, MCB and SCB among the forerunners. NBP and UBL formed part of those banks whose provisions rose 23% and 8% respectively. From hereon, the slow down in NPL accretion is likely to be confirmed via lower provisions in the half yearly results as well.

**Outlook:**

The top 5 banks continue to enjoy the largest share of profits of the sector; accounting for 81% of the total profits (excluding the loss making banks). The 1Q results did not offer much surprise, apart from the quantum of provisioning for NPLs – which we flag as the trend to watch out for in the coming quarters. A Similar trend in the future may warrant us to re-consider our stance on the sector. We currently have a “Market Weight” on the sector, with UBL, NBP and ABL as preferred picks.

**Performance Of Listed Banks At A Glance**

Commercial Banks	1Q2010 PAT (Rs mn)	1Q2010 EPS	1Q2009 PAT (Rs mn)	%Δ
1 Allied Bank	1,777	2.27	1,448	23%
2 Arif Habib Bank	(215)	(0.43)	(139)	54%
3 Askari Bank	328	0.51	317	3%
4 Atlas Bank	(369)	(0.74)	(452)	-18%
5 Bank Alfalah	586	0.43	448	31%
6 Bank Al-Habib	881	1.20	678	30%
7 Bank of Khyber	107	0.21	(152)	NM
8 Bank Islami	5	0.01	(85)	NM
9 Faysal Bank	1,686	2.77	255	560%
10 Habib Bank Ltd	3,603	3.60	3,481	3%
11 Habib Metropolitan	698	0.80	928	-25%
12 JS Bank	(189)	(0.31)	(347)	NM
13 KASB Bank	(360)	(0.38)	(179)	NM
14 MCB Bank	4,141	5.45	4,135	0%
15 Meezan bank	364	0.52	283	29%
16 Mybank	(19)	(0.04)	(790)	-98%
17 National Bank	4,216	3.13	4,214	0%
18 NIB Bank	23	0.01	400	-94%
19 Royal Bank of Scotland	(1,144)	(0.67)	(257)	345%
20 Samba Bank	(64)	(0.04)	(165)	-61%
21 Soneri Bank	40	0.07	266	-85%
22 Standard Chartered	811	0.21	35	2243%
23 United Bank Ltd	2,784	2.27	2,536	10%
<b>Total</b>	<b>19,689</b>		<b>16,859</b>	<b>17%</b>

Source: Company announcements

Source: JS Research

NM = Not Meaningful

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