

### Banks: NPL accretion drops significantly in 2Q2010

According to the data released by SBP, NPLs for all banks rose by Rs2.6bn in 2Q2010 to reach Rs460bn—a significant drop in accretions compared to the previous two quarters. NPLs in the All banks category had risen by Rs19.6bn in 1Q2010 and Rs16bn in 4Q2009. Looking at the break up, NPLs in 2Q2010 for private sector banks rose by Rs4.7bn (Rs15bn in 1Q2010) whereas those for specialized banks rose by Rs1.1bn (reversals of Rs852mn in 1Q2010). Interestingly, NPLs for the public sector banks (NBP, BOP, BOK & First Woman Bank Ltd.) reflected reversals of Rs4.3bn, as against accretions of Rs4.8bn in 1Q2010.

The Net NPL ratio for the All banks as of 2Q2010 declined to 3.81% from 4.2% at the end of 1Q2010.

The declining NPLs trend has been confirmed via the banking results announced so far, where NPL build up has slowed and thus most of the provisioning on loans is down to category shifting in NPLs. Resultantly, this has led to improved coverage ratios. We maintain our 'Market-Weight' stance on the sector, with a Buy stance on UBL, MCB and ABL.

#### Non Performing Loans

Banks/DFIs	1Q2010 (Jan-Mar)			2Q2010 (Apr-Jun)		
	NPLs	NET NPLs	NET NPLs to NET LOANS (%)	NPLs	NET NPLs	NET NPLs to NET LOANS (%)
<b>All Banks/DFIs</b>	<b>471,984</b>	<b>138,339</b>	<b>4.31%</b>	<b>473,891</b>	<b>128,369</b>	<b>3.92%</b>
<b>All Banks</b>	<b>457,244</b>	<b>133,277</b>	<b>4.20%</b>	<b>459,840</b>	<b>123,094</b>	<b>3.81%</b>
<b>All Commercial Banks</b>	<b>429,865</b>	<b>124,544</b>	<b>4.05%</b>	<b>431,352</b>	<b>113,563</b>	<b>3.62%</b>
Public sector commercial banks	120,286	38,517	6.41%	115,996	32,104	5.19%
Local Private Banks	302,948	84,577	3.54%	307,630	79,811	3.28%
Foreign Banks	6,631	1,450	1.70%	7,726	1,648	1.96%
Specialized Banks	27,379	8,733	9.26%	28,488	9,531	10.00%
DFIS	14,740	5,062	11.78%	14,051	5,276	11.74%

Source: SBP

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