

August 31, 2009

**Pakistan Market****Banks: 1H2009 earnings down 31%****MORNING BRIEFING**

KSE100 Index: Closing 8541.22 ↑ (+226.06)

Major listed commercial banks have announced their 1H2009 results, according to which, commercial banks' earnings fell by a substantial 31%, to Rs26.7bn. The key reasons behind fall in earnings were higher provisions for Non Performing loans (NPLs) and higher impairment provisioning. In today's note, we briefly discuss the listed banks 1H2009 earnings and our stance on the sector.

**Sample selection for our analysis**

Amongst 25 listed banks at the Karachi Stock Exchange, we have taken 24 banks for our analysis. BOP has been excluded as the bank is yet to announce its 1H2009 results. As of Mar 2009, our sample banks represent more than 95% of the total listed sector's deposits and assets.

**Earnings down 31% due to jump in provisions**

After a depressing 1Q2009, earnings of listed commercial banks continued to remain depressed in 2Q2009 as well. As a result, profits in 1H2009 declined by 31%YoY to Rs26.7bn (US\$333mn) as against earnings of Rs38.8bn (US\$600mn) in 1H2008.

This decline in earnings was primarily driven by heavy provisioning for NPLs and higher impairment provisioning. Total provisions for NPLs surged to Rs35.0bn (US\$435mn) as against Rs20.2bn (US\$313mn) in 1H2008, an astounding growth of 74% largely due to slowdown in economic growth. Moreover, stock market crash in the second half of 2008 resulted in impairment loss of Rs4.2bn as against only Rs357mn recognized in 1H2008.

**NII up 19%, non interest income sluggish**

While profits remained subdued due to high provisions, Net interest income (NII) continued to post decent growth rising by 19% to Rs122.8bn, amid higher spreads (7.6% in 1H2009). In contrast, relatively weak equity market conditions kept non interest income largely in check as it was recorded at Rs40.7bn similar to 1H2008. Fee income the largest

component in non interest income recorded a growth of 9% and stood at Rs20.4bn.

**Table: Performance Of Listed Banks At A Glance**

Commercial Banks	1H09 PAT (Rs mn)	1H09 EPS (Rs)	1H08 EPS (Rs)	%Δ
Allied Bank	3,061	4.3	3.5	22%
Arif Habib Bank	(694)	(1.4)	0.6	NM
Askari Bank	585	1.2	0.8	43%
Atlas Bank	(1,111)	(2.2)	(0.4)	NM
Bank Alfalah	1,109	0.8	1.3	-39%
Bank Al-Habib	1,385	2.3	2.0	11%
Bank Islami	(263)	(0.5)	0.0	NM
Bank of Khyber	(466)	(0.93)	0.21	NM
Samba Bank	(431)	(0.49)	(0.15)	NM
Faysal Bank	467	0.77	1.22	-37%
Habib Bank Ltd	6,554	7.20	6.98	3%
Habib Metropolitan	1,746	2.32	2.08	12%
JS Bank	(793)	(1.29)	0.26	NM
KASB bank	(898)	(2.24)	0.19	NM
MCB Bank	7,756	11.22	11.11	1%
Meezan bank	509	0.77	0.67	15%
Mybank	(1,228)	(2.32)	0.81	NM
National Bank	6,281	5.84	7.32	-20%
NIB Bank	580	0.14	0.16	-12%
Royal Bank of Scotland	(841)	(0.49)	0.05	NM
Silk Bank	(1,108)	(1.23)	(0.86)	NM
Soneri Bank	39	0.08	0.93	-92%
Standard Chartered	205	0.05	0.35	-85%
United Bank Ltd	4,288	3.85	5.03	-23%
<b>Total</b>	<b>26,734</b>			<b>-31%</b>

Source: Company announcements

**Recommendation: 'Market-weight' maintained**

The banking sector earnings continue to be marred by higher provisions for NPLs and lacklustre non interest income. Moreover, amid sharp decline in KIBOR, 2Q2009 has seen pressure on spread and resultantly NII. On a positive note however, there seems to relative easing on the quantum of

NPL acceleration as reflected by 45%QoQ decline in incremental NPLs in 2Q2009. Despite improved NPL trend, we still expect 2009 to be a difficult year for the sector with earnings likely to decline by 8%. We therefore maintain a 'Market-weight' stance on the sector with deposits and advances growth forecast of 7% and 5% respectively. 'NBP' and 'MCB' bank remain our top picks for the sector at current levels.

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**Also in focus****NBP: EPS of Rs5.84 in 1H2009 down 20%**

National Bank of Pakistan (NBP) announced its 1H2009 results today posting an EPS of Rs5.84 (Rs6.3bn) as against Rs7.32 in the corresponding period last year down 20%YoY. Though the quantum of NPLs remained similar to 1H2008, decline in earnings was led largely by lower non-mark up income and a surge in admin expenses. Non-mark up income stood at Rs7.0bn down 8% as compared to Rs7.6bn in 1H2008, where as admin expenses surged by 24% to stand at Rs9.9bn. The company did not announce any payout with the result.

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