
III. Review

Overview

Banking sector of Pakistan is playing pivotal role in the growth of Pakistan economy. The progression of banking industry is due to the vigilant supervision of State Bank of Pakistan. Advances, deposits, investment in securities & shares, weighted average rates on advances & deposits are some important indicators of banking industry of Pakistan. Deposits of end December 2008 showed decrease of 0.5 % from June 2008, whereas it increased by 7.3% from the corresponding period last year. Loan comprises of Advances & Bills have shown upward trend from the previous and corresponding period by 8.7% & 49.9% respectively. Similarly, investments in Securities and Shares declined from the previous two period with a volume of Rs.1,021 billions, decreased by 1.5% & 15.2 % as compared with June 2008 & December 2007.

Weighted average interest rates of advances increased by 214 basis points and stood at 14.63% (P.a) in December 2008 when compared with June 2008 when it was 12.49% (P.a). Similarly, weighted average interest rates of deposits have moved to 6.37% as end of December 2008 from the previous period when it was 5.87%.

Summary position of selected banking indicators are highlighted in Table 1.

Table 1: Selected banking sector indicators

(Billion Rs.)					
Indicator	Dec-08	Jun-08	Dec-07	HY Growth	YOY Growth
Deposit	3,791.5	3,812.2	3,534.5	-0.5%	7.3%
Advances and Bills	3,195.1	2,938.1	2,720.6	8.7%	49.9%
Investments in Securities and Shares	1,021.0	1,036.7	1,204.6	-1.5%	-15.2%
Advances to Private Sector (Business)	2,240.8	2,075.0	1,884.9	8.0%	18.9%
Advances - Personals	396.1	421.2	422.8	-6.0%	-6.3%
**WA Deposits Rate – Interest Bearing*	2.88%	2.46%	2.30%	17.1%	25.2%
**WA Deposits Rate – PLS *	6.37%	5.87%	3.74%	8.5%	70.3%
**WA Lending Rate	14.63%	12.49%	11.56%	16.8%	25.9%

* Excluding deposits at zero rate of return

** WA stands for weighted average rates paid / earn per annum

The following sections discuss movements in branch network, liabilities/ assets, deposits, advances, bills and investments, to trends and banking activities concentration in various economic groups / sectors of the economy.

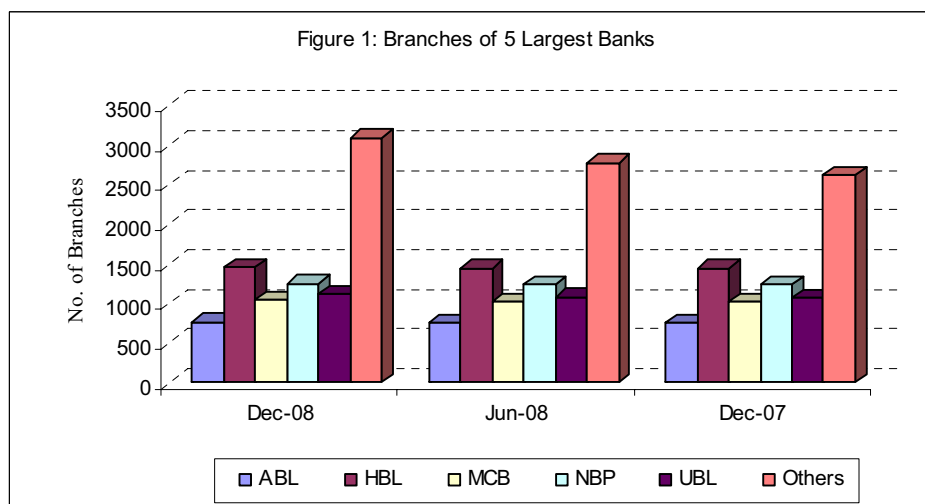
Banking Network

The number of Scheduled Banks in Pakistan is 46 as end of December 2008. Barclays Bank Plc. has started its operation as new foreign commercial bank from July 23rd 2008 whereas, ABN AMRO Bank Pakistan & Crescent commercial bank has changed their names as The Royal bank of Scotland Ltd & Samba Bank Ltd from August 1st 2008 & October 20th 2008 respectively. The branch network position of operational Scheduled Banks (Table 2) operating in Pakistan is as under:

Table 2: Comparative position of number of banks and branches in the country

(Numbers)						
Group or Type of Bank	Dec-08		Jun-08		Dec-07	
	Banks	Branches	Banks	Branches	Banks	Branches
1. Pakistani Banks	33	8,655	33	8,274	34	8,101
i. Public Sector	8	2,140	8	2,131	8	2,131
<i>a. Commercial</i>	4	1,603	4	1,592	4	1,592
<i>b. Specialized</i>	4	537	4	539	4	539
ii. Domestic Private	25	6,515	25	6,143	26	5,970
2. Foreign Banks*	13	89	12	69	12	68
Total	46	8,744	45	8,343	46	8,169

* Foreign banks includes Six Indian Bank's branches



Liabilities and Assets

Total liabilities/assets of all Scheduled Banks (Table 3) stood at Rs. 9,378.0 billion at end December 2008, increased by Rs.516.6 billion or 5.8% over June 2008 and Rs. 104.7 billion or 1.1% over same period last year. The position of Public Sector Banks has shown a decrease by Rs111.6 billions or 6.9% over June 2008. Domestic Private Banks improved by Rs. 691.3 billion or 10.4% over June 2008. The liabilities/assets of foreign banks have decreased by Rs. 63 billion or 11% over previous half yearly.

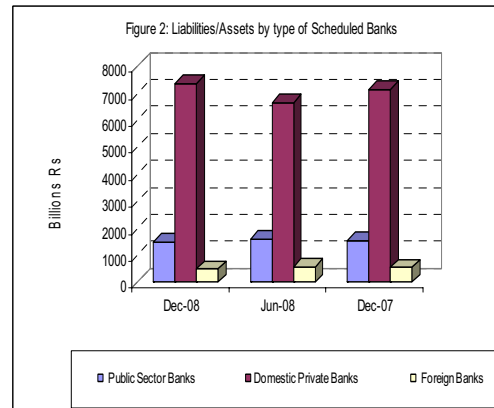


Table 3: Composition of overall liabilities / assets of scheduled banks

(Billion Rs.)					
Group or Type of Banks	Dec-08	Jun-08	Dec-07	HY Growth	YOY Growth
1. Pakistani Banks	8,869.6	8,289.9	8,725.0	7.0%	1.7%
i. Public Sector Banks	1,512.3	1,623.9	1,569.3	-6.9%	-3.6%
ii Domestic Private Banks	7,357.3	6,666.0	7,155.7	10.4%	2.8%
2. Foreign Banks	508.4	571.4	548.3	-11.0%	-7.3%
Overall (1+2)	9,378.0	8,861.4	9,273.3	5.8%	1.1%

* Totals may not match due to rounding

Deposits

Total of demand and time deposits (excluding Inter-Bank) at the end of the period under review (Table 4) amounting to Rs. 3,791.5 billion registered a decrease of Rs. 20.7 billion or 0.5% over the previous half-year and an increase of Rs. 257 billion or 7.3% over the same period of the last year. Of this, demand deposits for the period December 2008 stood at Rs. 1,075.2 billion were increased by Rs. 47.1 billion or 4.6 % from previous period. The same trend prevails when compared with December 2007 where it increased by Rs.109.4 billion or 11.3%. Time deposits for the period December 2008 stood at Rs. 1,308.2 billion increased by Rs. 96.7 billion or 8% and Rs. 225.0 billion or 20.8% as compared to the previous period and the corresponding period of the last year respectively (see table 14).

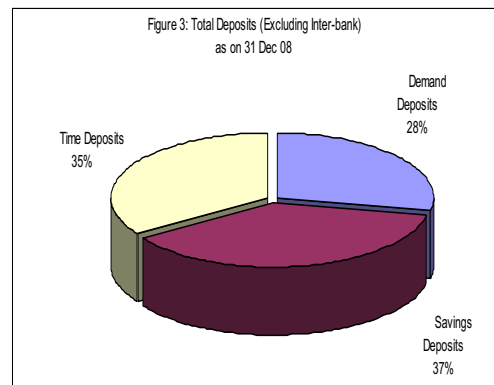
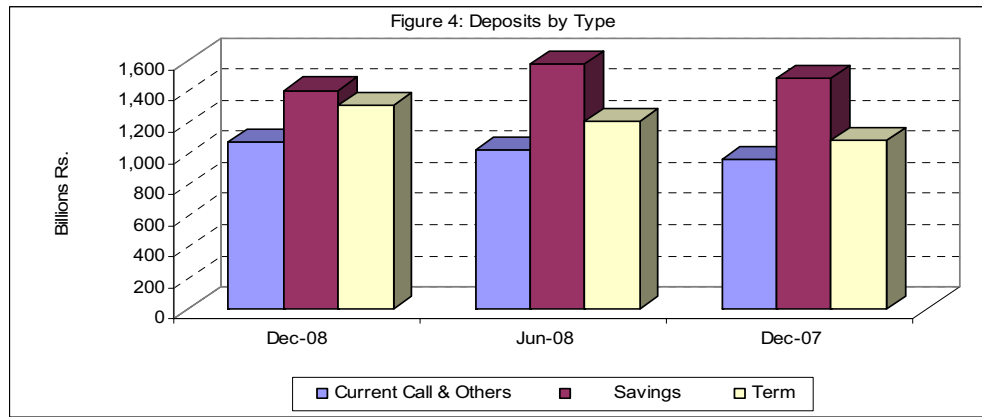


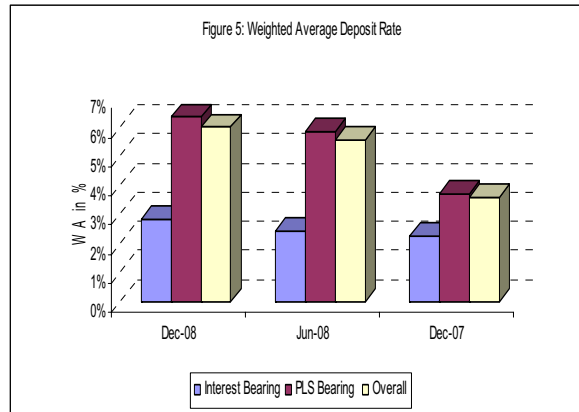
Table 4: Scheduled banks' deposits by type of banks

(Billion Rs.)					
Group or Type of Banks	Dec-08	Jun-08	Dec-07	HY Growth	YOY Growth
1. Pakistani	3,648.3	3,680.4	3,421.5	-0.9 %	6.6 %
i. Public Sector	661.6	706.5	708.5	-6.3 %	-6.6 %
ii Domestic Private	2,986.7	2,973.9	2,713.0	0.5 %	10.1 %
2. Foreign	143.2	131.7	113.0	10.2 %	26.7 %
Overall (1+2)	3,791.5	3,812.2	3,534.5	-0.5 %	7.3 %

* Totals may not match due to rounding



Rate of Return on deposits: - Distribution of deposits by rates of return shows maximum concentration at 5.0% p.a at end December 2008 and June 2008, whereas deposits have maximum concentration at 1.00% p.a at end December 2007. Of total, PLS-based deposits (excluding current and other deposits) of Rs. 2,506.6 billion held with scheduled banks as on 31st December 2008, of which Rs. 1,131.4 billion or 45.1% of deposits were held at the rate of 5.0% p.a, Rs. 92.1 billion or 3.7% at 6% p.a, Rs. 75.0 billion or 3.0% at 6.5% p.a. Weighted average rate of deposits by nature are highlighted in figure 5.



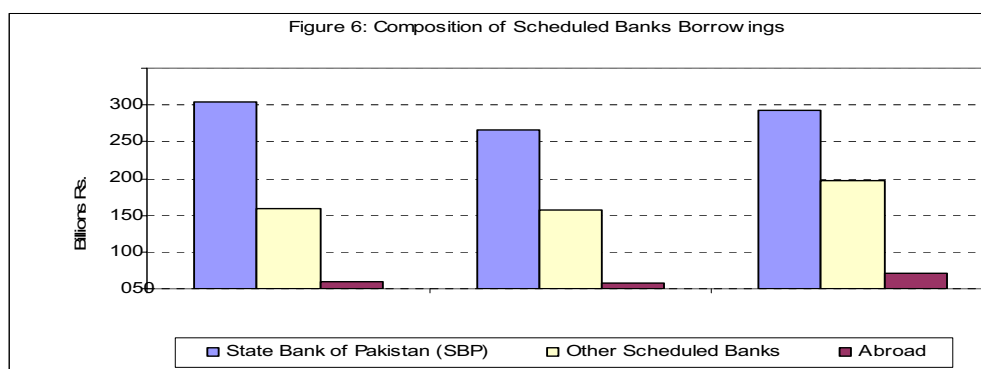
Borrowings

Scheduled banks borrowings during half year ended December 2008 increased by Rs. 44.1 billion or 13.4 % as compared to June 2008 and decreased by Rs. 36.0 billion or 8.8% as compared to December 2007 (Table 5).

Table 5: Composition of scheduled banks' borrowings

(Billion Rs.)					
Source:-	Dec-08	Jun-08	Dec-07	HY Growth	YOY Growth
State Bank of Pakistan	254.9	216.5	241.8	17.7%	5.4%
Abroad	10.5	6.9	20.1	52.2%	-47.8%
Other Scheduled Banks	108.3	106.2	147.8	2.0%	-26.7%
Total	373.7	329.6	409.7	13.4%	-8.8%

* Totals may not match due to rounding



Cash and Balances

Cash and balances of scheduled banks including those held with the State Bank of Pakistan amounted to Rs. 431.2 billion at the end of the period under review as against Rs. 549.3 billion at end of previous half year and Rs. 414.5 billion at the end of the corresponding period of last year. Of these, balances held with State Bank of Pakistan decreased by Rs. 184.2 billion and stood at Rs. 237.6 billion at end December 2008 compared with Rs. 421.8 billion at end June 2008.

Loans

Advances and Bills: - Bank loans (Advances + Bills) of all scheduled banks stood at 3,195.1 and increased by Rs257.0 billion or 8.7% at end December 2008 as compared to the June 2008. Loans increased by Rs. 474.5 billion or 17.4% when compared December

2008 with corresponding period. Increases of Rs. 240.8 billions and Rs.16.2 billions in advances and bills purchased & discounted have contributed to an overall increase of Rs. 257.0 billion in December 2008.

Table 6: Advances and Bills

Type:-	(Billions Rs.)				
	Dec-08	Jun-08	Dec-07	HY Growth	YOY Growth
Advances	3,056.4	2,815.6	2,613.2	8.6%	17.0%
Bills	138.7	122.5	107.4	13.2%	29.1%
Total	3,195.1	2,938.1	2,720.6	8.7%	17.4%

Advances by Securities: - Classification of scheduled banks' advances by securities (Table 7) indicates that an amount of Rs. 883.8 billion or 28.9 % of the total was advanced against "Merchandise" compared to its share of Rs. 806.8 billion or 28.7 % at the end of the previous period and Rs. 750.5 billion or 28.7.0% at the end of the corresponding period last year. The residual group "Others" which includes 'Other secured advances' and 'Advances secured by institutional & individual guarantee(s)' etc. ranked second and accounted for Rs. 849.7 billion or 27.8% of the total as against Rs. 839.3 billion or 29.8% and Rs. 839.4 billion or 32.1% at end June 2008 and December 2007 respectively. "Real Estate" accepted as security by banks against advances accounted for Rs. 711.8 billion or 23.3% at end December 2008 as against Rs. 621.3 billion or 22.1% at end of previous half year and against Rs. 563.8 billion or 21.6% at end December 2007.

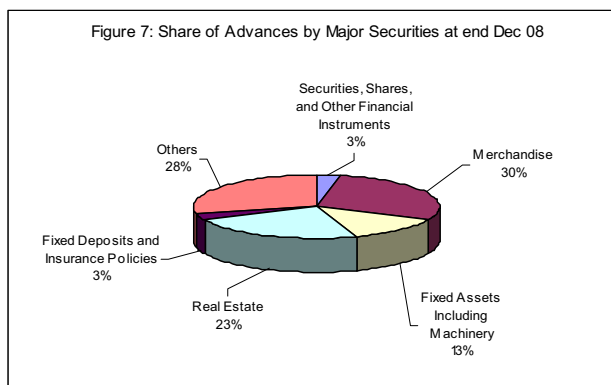


Table 7: Scheduled banks' advances by major securities and their percentage share

Type of Security	(Billion Rs.)	
	Dec-08	% Share
Gold, Bullion, Gold and Silver Ornaments, Precious Metals	18.1	0.6
Securities, Shares, and Other Financial Instruments	95.5	3.1
Merchandise	883.8	28.9
Fixed Assets Including Machinery	392.6	12.9
Real Estate	711.8	23.3
Fixed Deposits and Insurance Policies	104.9	3.4
Others	849.7	27.8
Total	3,056.4	100.0

Advances by Borrowers: - Classification of advances by borrowers can be viewed in Table-8 below showing the position as at end period under review compared with previous period and the corresponding period of the half year December 2007.

Table 8: Scheduled banks' advances by borrowers

(Billion Rs.)					
Borrowers	Dec-08	Jun-08	Dec-07	HY Growth	YOY Growth
Government	150.5	133.1	77.7	13.0%	93.6%
Non-financial Public Sector Enterprises	186.9	107.9	125.4	73.2%	49.0%
Non-bank Financial Institutions	45.7	44.6	52.3	2.5%	-12.6%
Private Sector (Business)	2,240.8	2,075.0	1,884.9	8.0%	18.9%
Trust Funds & Non-profit Organizations	13.6	15.3	17.2	-10.5%	-20.4%
Personal	396.1	421.2	422.8	-6.0%	-6.3%
Others	22.8	18.6	32.9	22.6%	-31.7%
Total	3,056.4	2,815.6	2,613.2	8.6%	17.0%

Weighted Average Rate of Return:- The weighted average rate of return on financing under Islamic modes and interest on interest bearing modes at end December 2008 worked out to be 14.63% compared to 12.49% at end June 2008 and 11.56% at end December 2007.

Investments

Scheduled banks total investments (Table 9) stood at Rs. 1,021.0 billion as on 31st December 2008 forming 10.89% of their total assets. Investment depicts decrease of Rs. 15.7 billions or 1.5% & Rs.183.6 billion or 15.2% as compared with previous & corresponding half years respectively. The investments in Federal and Provincial Governments' securities including Federal Government bonds and treasury bills at Rs. 702.5 billion were 68.8% of the total investments as compared to Rs. 741.7 billion or 71.5% as on 30th June 2008 and Rs. 900.4 billion or 74.8% as on 31st December 2007.

Table 9: Scheduled banks' investments

(Billion Rs.)					
Securities / Shares	Dec-08	Jun-08	Dec-07	HY Growth	YOY Growth
Federal Government Bonds	161.2	182.2	181.9	-11.5%	-11.4%
Treasury Bills	541.3	559.4	718.5	-3.2%	-24.7%
Provincial Government Securities	0.1	0.1	0.1	0.0%	0.0%
Others	318.4	295.1	304.1	7.9%	4.7%
Total	1,021.0	1,036.7	1,204.6	-1.5%	-15.2%

Islamic Banking

State Bank's initiative to promote Islamic banking in Pakistan commenced in 2003 (BPD Circular No. 1, January 2003). With its growing importance it deemed necessary to disseminate some of the key statistics of Islamic banking.

As on 31st December 2008 there were 18 banks involved in Islamic

banking with a network of 433 branches in the country (Table 10). Of these, six are full-fledged Islamic banks with 308 branches and 12 of the existing Scheduled banks have 125 branches working as stand-alone 'Islamic Banking Branches'.

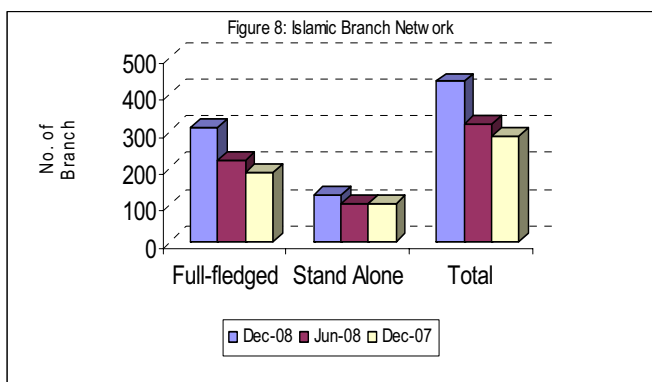


Table 10: Summary of Islamic banking network

(Numbers)			
	Dec-08	Jun-08	Dec-07
A. Full-fledged Islamic Scheduled Banks	308	218	186
1. Al-Baraka Islamic Bank B.C.	29	18	18
2. Bankislami Pakistan Ltd.	70	36	36
3. Dawood Islamic Bank Ltd.	15	11	5
4. Dubai Islamic Bank Ltd.	23	18	17
5. Emirates Global Islamic Bank Ltd.	40	25	10
6. Meezan Bank Ltd	131	110	100
B. Stand-alone Islamic Branches of Existing Scheduled Banks	125	102	101
1. Askari Bank Ltd.	18	15	14
2. Bank Alfalah Ltd.	48	32	32
3. Bank Al Habib Ltd.	4	4	4
4. Habib Bank Ltd.	1	1	1
5. Habib Metropolitan Bank Ltd.	4	4	4
7. MCB Bank Ltd	12	8	8
6. National Bank of Pakistan	3	3	3
8. Soneri Bank Ltd	4	4	4
9. Standard Chartered Bank (Pakistan) Ltd	7	7	7
10. The Bank of Khyber	16	16	16
11. The Royal Bank of Scotland	3	3	3
12. United Bank Ltd.	5	5	5
Total	433	320	287

The activities of Islamic banks branches have shown improvement at end December 2008 compared with end June 2008, both in terms of number of accounts and outstanding amount for deposits and financing (Table 11). Investments at Book-value also increased during the half-year under review compared with previous half-year.

Table 11: Deposits, Financing and Investments of Islamic banks on gross basis

(Billion Rs.)						
Deposits	<u>Pakistani Banks</u>		<u>Foreign Banks</u>		<u>Total</u>	
	Dec -08	Jun-08	Dec -08	Jun-08	Dec -08	Jun-08
No. of Accounts	609,689	521,965	21,116	23,980	630,805	545,945
Amount	167.2	143.6	15.2	14.7	182.4	158.4
Financing*						
No. of Accounts	45,242	42,520	1,679	1,178	46,921	44,776
Amount	127.0	113.9	14.1	14.0	141.1	128.0
Investment (Book-value)	36.4	29.8	1.1	1.2	37.5	31.0

*Includes advances and bills

