
III. Review

Overview

Banking sector indicators showed improvements at end June 2008 in line with the trend that began from the half-year ended June 2003 when the interest rates sharply declined. But since December 2005 the interest rates showed increase against outstanding advances. Similarly, weighted averages deposits shows increasing trend since December 2004. Selected banking sector indicators such as advances, deposits, and investments have shown upward trend (Table 1) at end June 2008 compared to end December 2007. Weighted average PLS deposit rate has increased by 2.13% points, shows the impact of decision by the Governor State Bank to raise the interest rates on PLS deposits to at least 5% per annum. Lending rates also show an increase of 0.94 % points as compared to the half year ended 31st December 2007.

There has been an increase in deposit by Rs.277.7 billion or 7.9% and in loans by Rs.217.5 billion or 8.0% of scheduled banks during the half-year ended June 2008 compared with previous half year. Advances to private sector (Business) showed a net increase of Rs.190.1 billion or 10.1% at end June 2008. Weighted average lending rate has increased by 12.49% from 11.56% during half-year ended June 2008 compared with previous half-year.

Table 1: Selected banking sector indicators

Indicator	(Amount in Billion Rs.)		
	June 2008	December 2007	June 2007
Deposit	3,812.2	3,534.5	3,372.6
Advances and Bills	2,938.1	2,720.6	2,501.5
Investments in Securities and Shares	1,036.7	1,204.6	1,107.8
Advances to Private Sector (Business)	2,075.0	1,884.9	1,669.7
Advances to Personals	421.2	422.8	400.8
**WA Deposits Rate – Interest Bearing*	2.46%	2.30%	2.22%
**WA Deposits Rate – PLS *	5.87%	3.74%	3.79%
**WA Lending Rate	12.49%	11.56%	11.55%

* Excluding deposits at zero rate of return

** WA stands for weighted average rates

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

Banking Network

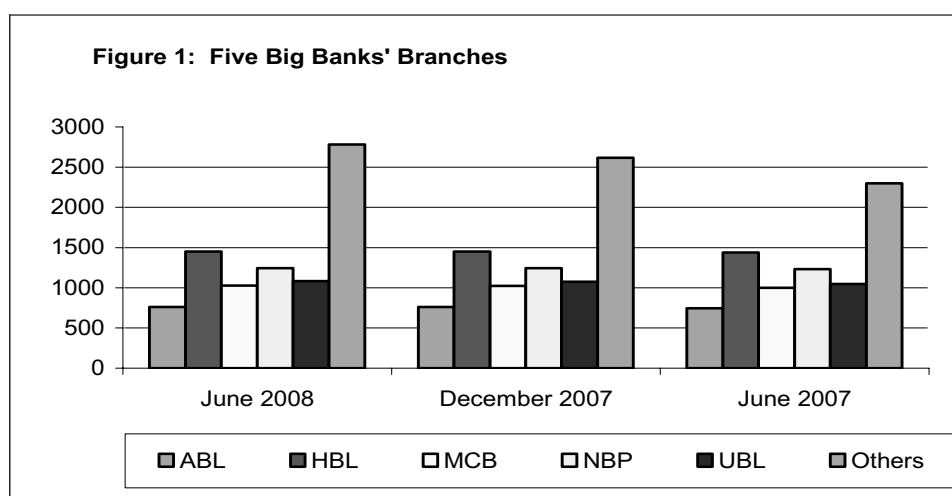
The number of Scheduled banks in Pakistan is 45 (Six Indian Banks' branches are included) at end June 2008. Branch network of Pakistani banks expanded by 173 branches, all related to private sector banks. One new branch of foreign banks has opened during half year ended June 2008. The positions of five big banks are as highlighted in figure 1.

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

(Numbers)

Group or Type of Bank	June 2008		December 2007		June 2007	
	Banks	Branches	Banks	Branches	Banks	Branches
1. Pakistani Banks	33	8,274	34	8,101	34	7,691
i. Public Sector	8	2,131	8	2,131	8	2,113
a. Commercial	4	1,592	4	1,592	4	1,574
b. Specialized	4	539	4	539	4	539
ii. Domestic Private	25	6,143	26	5,970	26	5,578
2. Foreign Banks*	12	69	12	68	13	64
Total	45	8,343	46	8,169	47	7,755

*Foreign Banks includes Six Indian Banks' Branches



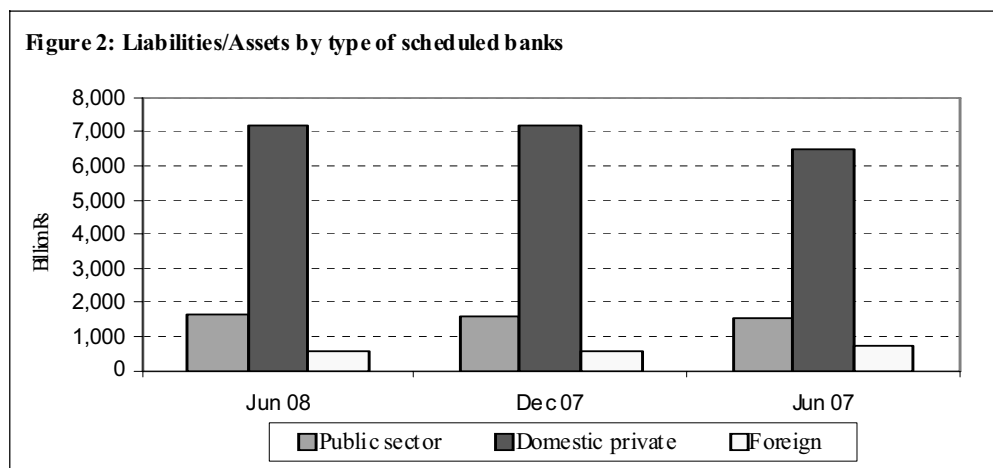
Liabilities and assets

Total liabilities/assets of all scheduled banks (Table 3) stood at Rs. 8,861.4 billion at end June 2008, decrease by Rs. 411.9 billion or 4.4% over December 2007 and increase by Rs. 117.5 billion or 1.3% over same period last year. The position of Public Sector Banks has improved by Rs. 54.6 billion or 3.5%. Domestic Private Banks have shown a decrease by Rs. 489.7 billion or 6.8% over December 2007. The liabilities/assets of foreign banks have increased by Rs. 23.1 billion or 4.2% over previous half yearly.

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

Group or Type of Banks	June 2008	December 2007	June 2007
1. Pakistani Banks	8,289.9	8,725.0	8,041.4
i. Public Sector Banks	1,623.9	1,569.3	1,558.8
ii Domestic Private Banks	6,666.0	7,155.7	6,482.6
2. Foreign Banks	571.4	548.3	702.5
Overall (1+2)	8,861.4	9,273.3	8,743.9

Totals may not match due to rounding



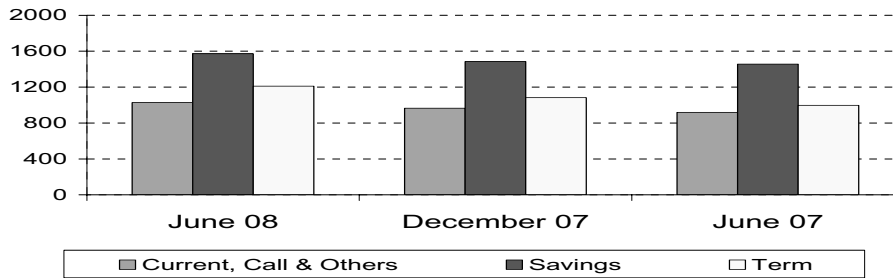
Deposits

Total of demand and time deposits (excluding Inter-Bank) at the end of the period under review (Table 4) amounting to Rs. 3,812.2 billion registered increases of Rs. 277.7 billion or 7.9% over the previous half-year and of Rs. 439.6 billion or 13.0% as compared to the corresponding period of the last year. Of this, demand deposits at Rs. 1,649.7 billion were increased by Rs. 42.3 billion or 2.6%. The same trend is observed when compared with June 2007 where it increased by Rs.170.4 billion or 11.5%. Time deposits stood at Rs. 2,162.4 billion increased by Rs. 235.4 billion or 12.2% and Rs. 269.2 billion or 14.2% as compared to the previous period and over the corresponding period of the last year respectively.

Table 4: Scheduled banks' deposits by type of banks

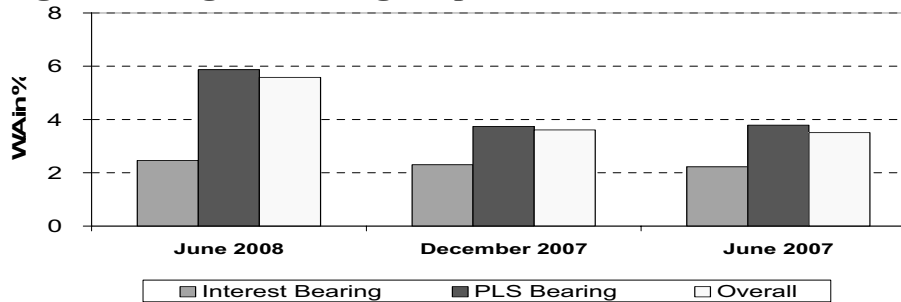
(Billion Rs.)			
Group or Type of Banks	June 2008	December 2007	June 2007
1. Pakistani	3,680.4	3,421.5	3,208.9
i. Public Sector	706.5	708.5	647.5
ii Domestic Private	2,973.9	2,713.0	2,561.4
2. Foreign	131.7	113.0	163.7
Overall (1+2)	3,812.2	3,534.5	3,372.6

Figure 3: Deposits by type



Rate of return on deposits: - Distribution of deposits by rates of return shows maximum concentration at 5.00% at end June 2008 whereas; deposits have maximum concentration at 1.00% at end December 2007 and June 2007. Of total, PLS-based deposits (excluding current and other deposits) of Rs. 2,586.7 billion held with scheduled banks as on 30th June 2008, of which Rs. 1,275.6 billion or 49.3% of deposits were held at the rate of 5.00%, Rs. 110.5 billion or 4.3% at 6%, Rs. 70.6 billion or 2.7% at 5.5%. Weighted average rate of deposit by nature are highlighted in figure 4.

Figure 4: Weighted Average Deposit Rates



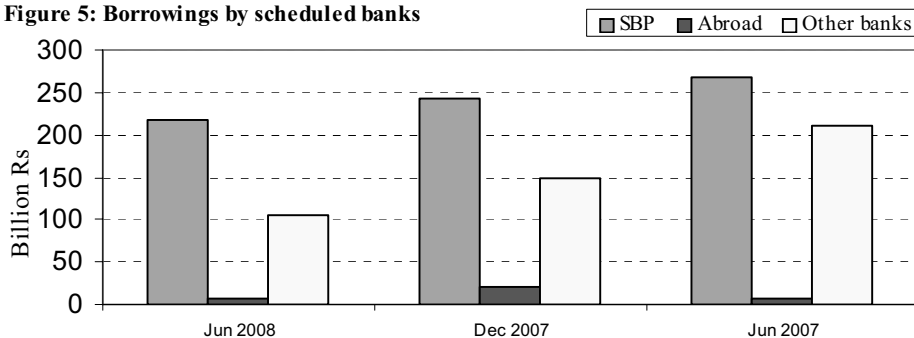
Borrowings

Scheduled banks borrowings during half year ended June 2008 decreased by Rs. 80.2 billion or 19.6% and stood at Rs. 329.6 billion as compared to Rs. 409.7 billion at end December 2007 (Table 5).

Table 5: Composition of scheduled banks' borrowings

Source:-	(Billion Rs.)		
	June 2008	December 2007	June 2007
State Bank of Pakistan	216.5	241.8	268.9
Abroad	6.9	20.1	7.1
Other Scheduled Banks	106.2	147.8	211.5
Total	329.5	409.7	487.5

Figure 5: Borrowings by scheduled banks



Cash and balances

Cash and balances of scheduled banks including those held with the State Bank of Pakistan amounted to Rs. 549.3 billion at the end of the period under review as against Rs. 414.5 billion at end of previous half year and Rs. 521.4 billion at the end of the corresponding period of last year. Of these, balances held with State Bank of Pakistan increased by Rs. 145.1 billion and stood at Rs. 421.8 billion at end June 2008 compared with Rs. 276.7 billion at end December 2007.

Loans

Advances and bills:- Bank loans (Advances + Bills) of all scheduled banks increased by Rs.217.5 billion to Rs. 2,938.1 billion at end June 2008. The level of bank loan was Rs. 2,720.6 billion at the end of previous half-year and Rs. 2,501.5 billion on 30th June 2007. The increase of Rs. 217.5 billion was the due significant increase in advances by Rs. 202.4 billions and by Rs.15.1 in bills. Of total outstanding loan of scheduled banks at end June

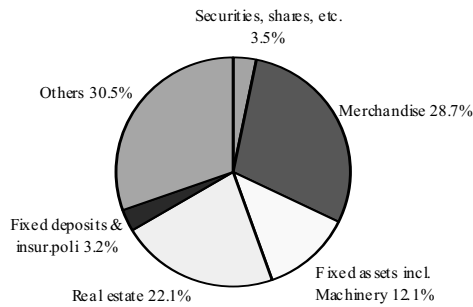
2008 advances accounted for Rs. 2,815.6 billion as compared to Rs. 2,613.2 billion at end December 2007 and Rs. 2,376.2 billion at end June 2007.

Advances by securities:- Classification of scheduled banks' advances by securities (Table 6) indicates that an amount of Rs. 806.8 billion or 28.7 % of the total was advanced against 'Merchandise' compared to its share of Rs. 750.5 billion or 28.7 % at the end of the previous period and Rs. 688.7 billion or 29.0% at the end of the corresponding period last year. The residual group 'Others' which includes 'Other secured advances' and 'Advances secured by institutional and individual guarantee(s)' etc. ranked at top and accounted for Rs. 839.4 billion or 29.8% of the total as against Rs. 839.4 billion or 32.1% and Rs. 808.4 billion or 34.0% at end December 2007 and June 2007 respectively. 'Real Estate' accepted as security by banks against advances accounted for Rs. 621.3 billion or 22.1% at end June 2008 as against Rs. 563.8 billion or 21.6% at end of previous half year and against Rs. 460.6 billion or 19.4% at end June 2007.

Table 6: Scheduled banks' advances by major securities and their percentage share
(Amount in Billion Rs.)

Type of Security	June 2008	% Share
Gold, Bullion, Gold and Silver Ornaments, Precious Metals	19.5	0.7
Securities, Shares, and Other Financial Instruments	98.9	3.5
Merchandise	806.8	28.7
Fixed Assets Including Machinery	340.0	12.1
Real Estate	621.3	22.1
Fixed Deposits and Insurance Policies	89.9	3.2
Others	839.3	29.8
Total	2,815.6	100.0

Figure 6: Share of advances by major securities at end June 2008



Advances by borrowers:- Classification of advances by borrowers can be viewed in the Table 7 below showing the position as at end period under review compared with previous period and the corresponding period of the half year June 2007.

Table 7: Scheduled banks' advances by borrowers

(Billion Rs.)			
Borrowers	June 2008	December 2007	June 2007
Government	133.1	77.7	100.3
Non-financial Public Sector Enterprises	107.9	125.4	115.3
Non-bank Financial Institutions	44.6	52.3	48.0
Private Sector (Business)	2,075.0	1,884.9	1,669.7
Trust Funds & Non- profit Organizations	15.3	17.2	14.6
Personal	421.2	422.8	400.8
Others	18.6	32.9	27.5
Total	2,815.6	2,613.2	2,376.2

Weighted average rate of return:- The weighted average rate of return on financing under Islamic modes and interest on interest bearing modes at end June 2008 worked out to be 12.49% compared to 11.56% at end December 2007 and 11.55% at end June 2007.

Investments

Scheduled banks total investments (Table 8) stood at Rs. 1,036.7 billion as on 30th June 2008 forming 11.7% of their total assets. Investment depicts decrease of Rs.167.9 billions & Rs. 71.1 billion as compared with previous & corresponding half yearly respectively. The investments in Federal and Provincial Governments' securities including Federal Government bonds and treasury bills at Rs. 741.7 billion were 71.5% of the total investments as compared to Rs. 900.4 billion or 74.8% as on 31st December 2007 and Rs. 826.6 billion or 74.6% as on 30th June 2007.

Table 8: Scheduled banks' investments

(Billion Rs.)			
Securities / Shares	June 2008	December 2007	June 2007
Federal Government Securities	-	-	-
Federal Government Bonds	182.2	181.9	169.3
Treasury Bills	559.4	718.5	657.2
Provincial Government Securities	0.1	0.1	0.1
Others	295.1	304.1	281.3
Total	1,036.7	1,204.6	1,107.8

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.

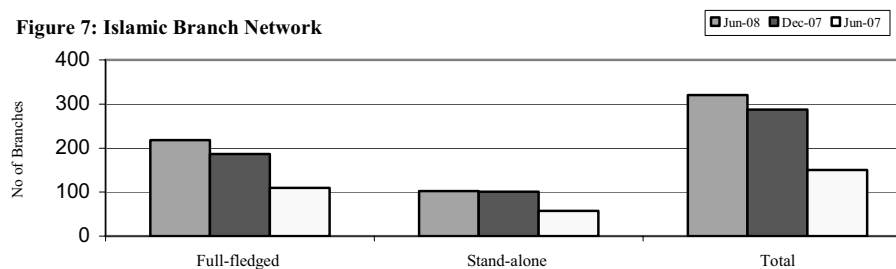
As on 30th June 2008 there were 18 banks involved in Islamic banking with a network of 320 branches in the country (Table 9). Of these, six are full-fledged Islamic banks with 218 branches and 12 of the existing Scheduled banks have 102 branches working as stand-alone 'Islamic Banking Branches'.

Table 9: Summary of Islamic banking network (Numbers)

	June 2008	December 2007	June 2007
A. Full-fledged Islamic Scheduled Banks	218	186	109
1. Al-Baraka Islamic Bank B.C.	18	18	11
2. Bankislami Pakistan Ltd.	36	36	14
3. Dubai Islamic Bank Ltd.	18	17	12
4. Emirates Global Islamic Bank Ltd.	25	10	6
5. Dawood Islamic Bank Ltd.	11	5	1
6. Meezan Bank Ltd	110	100	65
B. Stand-alone Islamic Branches of Existing Scheduled Banks	102	101	58
1. ABN AMRO Bank Ltd.	3	3	1
2. Askari Bank Ltd.	15	14	6
3. Bank Alfalah Ltd.	32	32	23
4. Bank Al Habib Ltd.	4	4	3
5. Habib Bank Ltd.	1	1	1
6. Habib Metropolitan Bank Ltd.	4	4	4
7. The Bank of Khyber	16	16	5
8. MCB Bank Ltd	8	8	6
9. Prime Commercial Bank Ltd.	Nil	Nil	2
10. Soneri Bank Ltd	4	4	2
11. Standard Chartered Bank (Pakistan) Ltd	7	7	3
12. National Bank of Pakistan	3	3	1
13. United Bank Ltd.	5	5	1
Total	320	287	167

Note: Nil means these banks do not exist at that period

Figure 7: Islamic Branch Network



The activities of Islamic banks' branches have shown improvement at end June 2008 compared with end December 2007, both in terms of number of accounts and outstanding amount for deposits and financing (Table 10). Investments at Book-value also increased during the half-year under review compared with previous half-year.

Table 10: Deposits, Financing and Investments of Islamic banks on gross basis

(Amount in Million Rs.)

	<u>Pakistani Banks</u>		<u>Foreign Banks</u>		<u>Total</u>	
	June 2008	December 2007	June 2008	December 2007	June 2008	December 2007
Deposits						
No. of Accounts	521,965	410,568	23,980	36,678	545,945	447,246
Amount	143,644.9	123,295.5	14,732.2	13,212.3	158,377.1	136,507.8
Financing*						
No. of Accounts	42,520	39,010	1,178	1,625	44,776	40,635
Amount	113,976.1	89,659.4	13,993.5	12,344.2	127,969.6	102,003.6
Investment (Book-value)	29,823.4	26,502.4	1,169.3	1,152.9	30,992.7	27,655.3

*Includes advances and bills

Figure 8: Activities of Islamic Banking on 30th June 2008 and 31st December 2007

