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SME Finance Department
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The Team

Mansoor H Siddiqui

Allauddin Achakzai

Karim Alam

Farzand Ali

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Kamran Akram Bakhshi (Team Leader), Sardar Muhammad Ejaz and Syed Ali Raza of ACD

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TABLE OF CONTENTS

Executive Summary

1.0. SME Finance	1
1.1. Facility wise Distribution.....	1
1.2. Borrowers wise Analysis	1
1.3. Non Performing Loans	2
1.4. Banking Sector wise Analysis	2
1.5. Region wise SME Banking.....	3
1.6. Key Initiatives/Achievements	4
1.7. SBP Refinance Schemes.....	4
1.8. Export Finance Scheme.....	4
1.9. Islamic Export Refinance Scheme	5
1.10. Long Term Financing	5
1.11. New Policy Initiatives	5

2.0. Microfinance	7
2.1. Assets	8
2.2. Funding.....	8
2.3. Deposits.....	9
2.4. Advances	10
2.5. Non Performing Loans	10
2.6. Gender	10
2.7. News and Updates.....	10

3.0. Agri. Financing	12
3.1. Disbursements to Agriculture Sector.....	12
3.2. Bank wise Breakup of Agri. Credit	12
3.3. Sector wise Distribution of Agri. Credit.....	13
3.4. Agri. Non Performing Loans.....	13
3.5. Number of Agri. Loan Borrowers.....	13
3.5. Major Initiatives During the Year	13

4.0. Housing Finance	14
4.1. Outstanding.....	14
4.2. Number of Borrowers.....	14
4.3. Non Performing Loans	14
4.4. Disbursements	15
4.5. Sectoral Share	16

4.6. Share of Banks

4.7. Analysis of Loan Variables

4.8. Major Initiatives and Achievements

5.0. Infrastructure Finance	19
5.1. Outstanding Portfolio	19
5.2. Disbursements.....	19
5.3. Year wise Analysis	20
5.4. Banking Sector wise Performance.....	20
5.5. Banking Sector wise Disbursements	20
5.5. Key Initiatives in the Quarter.....	21

Acronyms
Glossary

EXECUTIVE SUMMARY

At the end of March 2010, the Development Finance (DF) outstanding portfolio witnessed a slight increase of 0.83% compared to the 2.7% increase at the end of corresponding period of 2009. However, the DF portfolio stayed relatively stable for the period under review. This partly reflects the cautious lending approach of the banking industry towards the priority sectors of the economy as compared to others. Moreover, DF could also not flourish mainly on account of factors like rising interest rates, power outages, domestic law and order situation and overall shyness of the industry towards the mentioned sectors.

Following the usual trend, SME Finance outstanding decreased by 6.33% QoQ basis while the same had decreased by 6.90% at the end of the corresponding period of 2009. The trend of decline at the end of the first quarter of each year can be attributed to seasonal nature of financing activities. Further, SME borrowers have also recorded a slight slash of 1.77% along with the industry trend as the total industry borrowers have seen a meager decline of 0.25% in the period under review. SME NPLs have increased by 4.39% as of March, 2010.

Total advances of Microfinance Banks (MFBs) recorded an impressive growth of 10% over the quarter under review reaching to Rs. 9.38% billion. Similarly Microfinance borrowers have also increased by 3.2% in first quarter of the current year. Microfinance NPLs have gone down by 5% during the period of March'09-March'10.

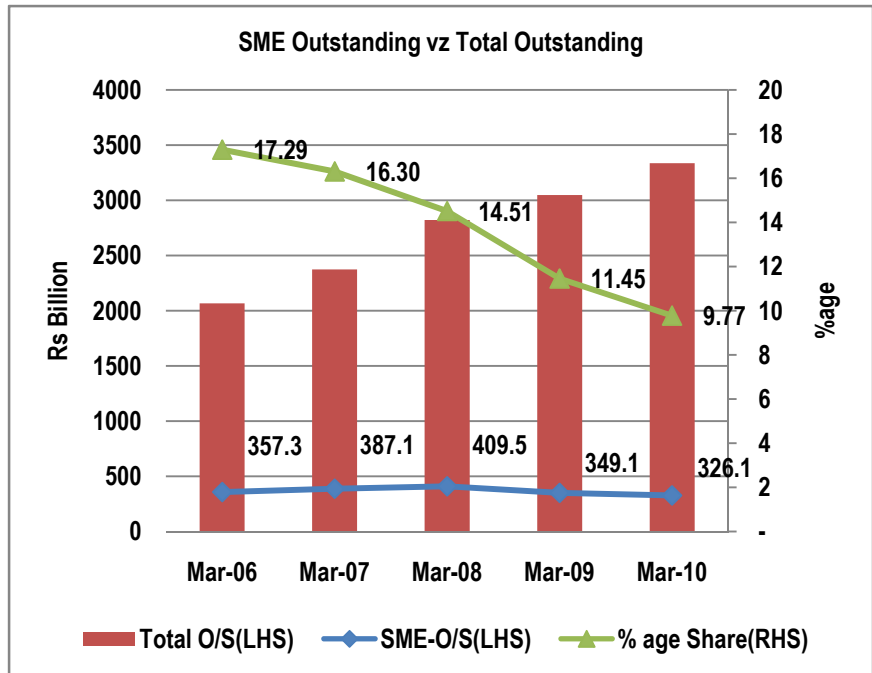
Agriculture credit disbursement stood at Rs. 62.2 billion during first quarter of 2010 compared to Rs. 52.4 billion in corresponding period of 2009. Whereas, NPLs of the Agriculture Credit stood at 18.8% of the outstanding portfolio as of the March, 2010 quarter compared to 19.9% during corresponding period of 2009. Moreover, Agricultural finance outstanding has recorded a growth of 6.13% QoQ basis.

Total outstanding of housing finance stood at Rs. 79.9% recording a quarterly decline of 3.48%. Likewise, housing number of borrowers also condensed by 8.9% YoY basis. Housing NPLs have recorded a growth of 28.58% during the period March 09-March10. Whereas Infrastructure financing has recorded a rise of 8.16% during first quarter of 2010; however, a decline of 8.9% has been registered on YoY basis. Further, a total of Rs. 9.6 billion was disbursed during Jan-March 2010 compared to Rs.38 billion during corresponding period of 2009.

State Bank of Pakistan is working to develop market supporting mechanisms for the development of priority sectors of the economy. In this regard, Credit Guarantee Scheme for Small & Rural enterprises has been launched to provide access to finance to small borrowers which normally lack collateral. Further, to enhance the flow towards SME sector, a Refinance Scheme for Revitalization of SMEs of Khyber-Pakhtoonkhwa, FATA & Gilgit-Baltistan, has also been introduced. Additionally, introduction of Branchless Banking, Infrastructure Development & Financing Institution, and Mortgage Refinance Company in the near future, as well as number of other such strategic measures are expected to bring about a positive impact on the performance of the Development Finance Sector.

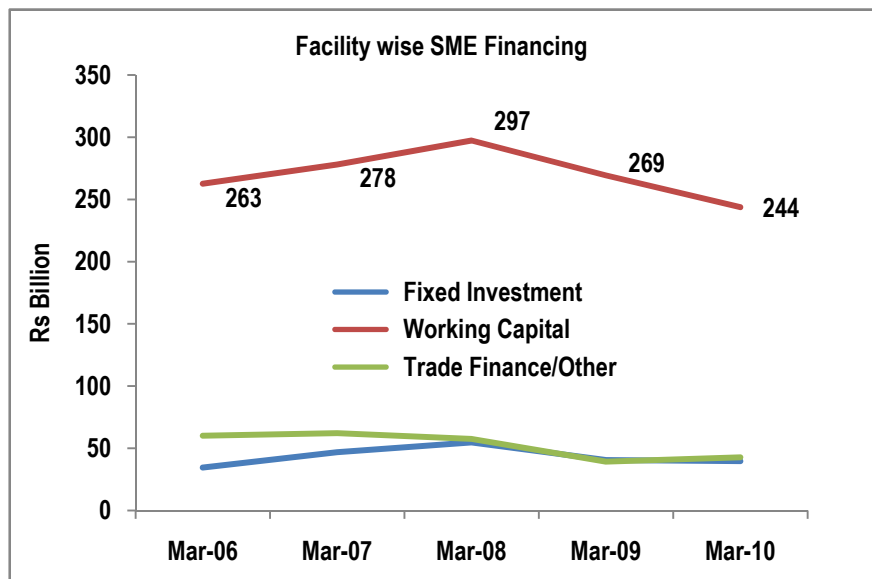
1.0. SME FINANCE

By the end of March 2010, total outstanding exposure to SME sector stood Rs. 326.1 billion compared with Rs. 349 billion for the corresponding period of 2009. During first quarter, SME credit portfolio exhibited a decline of 6.34% whereas in the year 2009, it had declined by 6.90%. An analytical look at declining trend in SME exposures of first quarters of last few years reveals that SME financing trends follow the total industry financing trends as well as seasonal nature of financing. Moreover, banks' perceived concern regarding rising NPLs by SME sector also remained a reason for decreased SME credit exposure. Hence, the share of SMEs in total industry's credit has shrunk by 43.5% during the period March'06 to March '10.



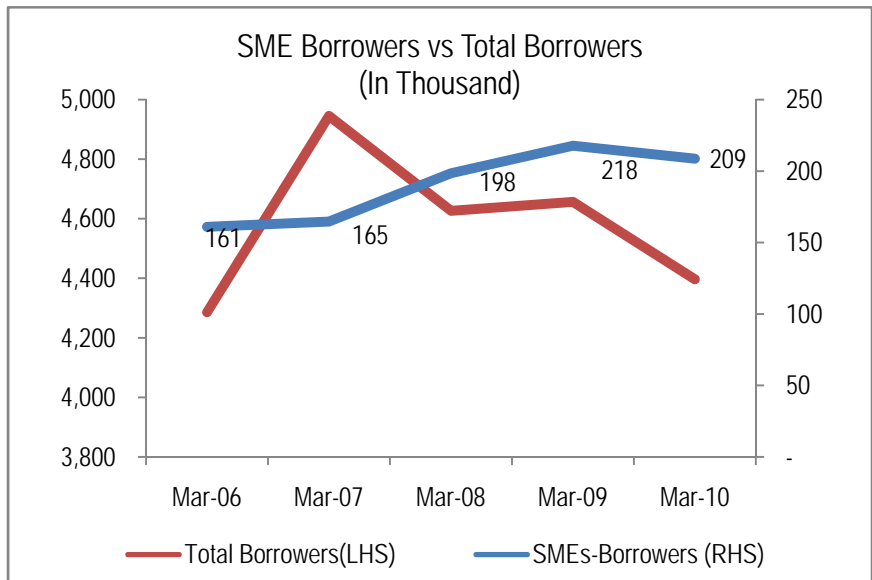
1.1. DISTRIBUTION BY FACILITY

Analysis of SME portfolio as of March 2010 shows that 74.4% of the total portfolio went to working capital followed by trade finance and fixed investment standing at 13.1% and 12.2% respectively. Working capital finance has witnessed a decrease of 7.41% during first quarter of current year compared to decline of 6.76% in corresponding period of 2009; this pattern seconds the fact that short term financing to SME sector goes down in first quarter of year due seasonal nature of working capital financing in SME sector.



1.2. BORROWER WISE ANALYSIS

Total number of SME borrowers stood at 208,629 at the end of March 2010 compared to 217,662 at the end of March 2009. During the first quarter of 2010 SME borrowers declined by a nominal 1.77%. Total borrowers of the industry have also decreased by 0.25% during the period under analysis. While an enterprise wise analysis showed that the Trading SMEs constituted about 48% of the total SME borrowers followed by Manufacturing and Services SMEs with 20.5% and 31.4% respectively by the end of March 2010. All three sectors namely trading, manufacturing and services have recorded a decline of 3.4%, 0.3% and 0.2% respectively at the end of period under review. Whereas the Short, medium and long term classification of SME borrowers displayed that 48% availed loans of upto one year followed by 45% obtaining loans exceeding 3 years and only 5% in the range of 1 to 3 years duration.



1.3. NON-PERFORMING LOANS

Total NPLs of SME sector stood at Rs 82.7 billion registering an increase of 4.39% during the period under analysis compared to 41.18% increase in the corresponding period of 2009. Total NPLs of the industry have also recorded an increase of 5.88% in first quarter of 2010 as compared to 21.68% increase in the same quarter of 2009. Analysis shows that NPLs of SME sector have increase by 17.76% against the rise of total industry NPLs of 24% during the period of March 2009 to March 2010. Further, SME NPLs constituted about 18.4% of total industry NPLs at the end of March 2010.

1.4. BANKING SECTOR WISE ANALYSIS

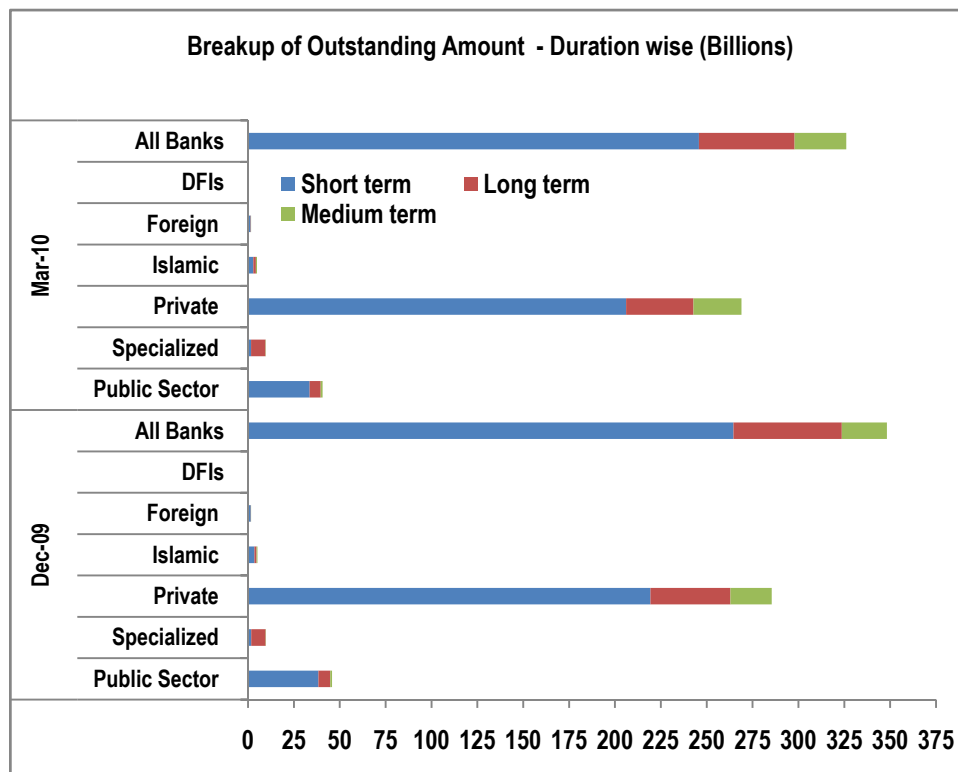
In absolute terms HBL takes Rs. 48.2 billion, followed by NIB and NBP with Rs. 32.8 billion and Rs. 26 billion at the end of first quarter of the current year. Out of total SME borrowers NBP has 58,179 followed by NIB and SME Bank with 40,364 and 38,425 respectively at end of March 2010.

Public sector banks' SME finance portfolio has recorded a decline of 11.27% during the first quarter of 2010 compared to an increase of 12.67% during first quarter of 2009. Public sector banks' SME borrowers have recorded a nominal decrease of 1.72% while SME NPLs of the public sector banks have increased by 8.03% during the period under review. Public sector banks' SME NPLs share is about 15% of their total NPLs.

Total SME outstanding of **Private sector banks** have recorded a decline of 5.79% as absolute amount stands at Rs. 268 billion by end of March 2010 compared to 6.54% decrease in first quarter of 2009. SME borrowers in private sector banks have recorded a 2.47% decrease while the same had been increased by 5.15% during corresponding period of 2009. A Quarterly rise of 4.15% in NPLs of private sector banks has been recorded while there was an increase of 14.73% during corresponding period of 2009.

Specialized banks have an SME outstanding amount of Rs. 9.7% constituting about 8.6% of total SME outstanding portfolio. SME borrowers of specialized banks form about 4.5% of total SME borrowers as of end of March 2010. SME NPLs of the specialized banks stand at Rs. 7.9 billion recording a nominal growth of 0.73% during first quarter of the current year.

Islamic Banks' share in total SME portfolio amounts to 1.5% registering a decrease of 4.83% at the end of March 2010. SME NPLs of the Islamic banks have witnessed a quarterly decline of 18% compared to an increase of 35% in the corresponding period of 2009.



1.5. REGION WISE SME BANKING

A major portion of SME Financing of the banks is concentrated in Punjab Province while Sind is the second highest SME borrower. These two provinces account for more than 90% of total SME Financing of banks. The SME financing of banks in NWFP is almost equal to the SME Financing of banks in Islamabad. Only one bank (namely Habib Bank) reported to have disbursed loans of Rs. 23 million to SME borrowers in FATA region.

A review of the province wise financing position of the banks gives another perspective in the business strategy of the banks. Composition of share of banks in SME financing shows a major shift from the nationwide composition in smaller provinces of NWFP, Baluchistan and GB. Habib Bank has highest share of SME Financing in AJK contributing around 24% of total SME Financing in AJK. National Bank is the top contributor in Baluchistan and GB where its share is 52% and 37% respectively. In NWFP, the major share is taken by the Bank of Khyber (32%) whose 86% of SME Financing is in NWFP. In a similar fashion, it is also observed that whereas Bank of Punjab has a share of 2.5% in nationwide SME Financing, its share in SME Financing in Punjab is 3.8% reflecting on the business focus of the bank. About 98% of SME Financing of BOP is in Punjab. Smaller banks like Arif Habib and deutsche have around 60% of their SME Financing in Sind. Smaller Islamic banks like Bank Islami and Emirates Global which are in process of expanding their branch network have their presence primarily in Sind and Punjab with more focus on the former due to Karachi

1.6. KEY INITIATIVES/ACHIEVEMENTS

Following are the major initiatives taken during first quarter of 2010 for promotion of SME finance.

LAUNCH OF GUARANTEE SCHEME (CGS) FOR SMALL AND RURAL ENTERPRISES

State Bank has launched the Credit Guarantee Scheme (CGS) for Small and Rural Enterprises on March 19, 2010 with support from UK's Department for International Development (DFID). The objective of the scheme is to ensure repayment of loans of Small and Rural Enterprises which normally do not fall under the coveted customer list of banks and thus the Scheme attempts to resolve the issue of severe credit rationing to them. The Scheme is split in two components viz Component-1 for Khyber-Pakhtoonkhwa, Gilgit-Baltistan & FATA and Component-2 for targeted priority clusters in other parts of country. Soon after the launch, response of banks was very encouraging as requests of banks for allocation of CGLs were in excess of available leverage/ cushion under the Scheme. In view of enthusiastic response of banks, limit requests of banks were rationalized and accordingly 14 selected PFIs have been allocated separate CGLs under Component-1 & Component-2 respectively.

2ND PHASE OF GRASS ROOT CLUSTER TRAINING PROGRAM

Under the second phase, SME training programs have been held in Rawalpindi, Gujranwala and Lahore. More than 120 credit officer from different commercial banks have benefited from the second phase of the program.

1.7. SBP REFINANCE SCHEMES

State Bank of Pakistan is continuously in the process of improving its Refinance Schemes to facilitate the exports oriented sectors and to boost long term investment in industrial sectors. The schemes are aligned to the market needs, primarily focused on bridging the gaps of working capital requirements of exporters (in short term) through its Export Finance Scheme and building capacity of industries through Long term Financing Schemes (in medium and Long term). As a result of SBP's decision to provide 100% financing under these schemes in November 2008, a steady and continuous flow of funds was ensured to the exporters of the country. The credit limits assigned to commercial banks under these schemes have increased by approximately 84% since then.

During the quarter under review outstanding finance under EFS has grown but at a lesser rate as compared to same quarter last year, which posted a strong increase owing to the SBP decision to provide 100% financing. Under the scheme the outstanding amount stood at Rs 193 billion as on March 31st, 2010. The EFS limits were increased by 3% to Rs 228 billion from Rs 222 billion as compared to previous quarter (Dec-2009).

Banking Group Wise Outstanding Position of EFS (Rs in Billion)				
Banking Group	Dec-09	Mar-10	Mar-09	Δ YoY
Public Sector Banks	12	11	12	-10.80%
Private Banks	172	168	145	16.02%
Islamic Banks	5	5	4	37.27%
Foreign Banks	8	9	6	43.84%
Total	197	193	167	15.51%

1.8. EXPORT FINANCE SCHEME

The outstanding amount of EFS decreased marginally by 3% (to Rs 193 billion from 198 billion) when compared to the preceding quarter of Dec'09. This decline is primarily due to the discontinuation of facility by some exporters while failing to

meet the rollover requirement of 70% shipment against loans availed under Part-II of the scheme. However, on a year on year basis, the amount increased substantially by 16% (or Rs 26 billion when compared to Mar'09). The Private Sector Banks are a major banking group participating in the Export Finance Scheme with highest share in the outstanding EFS at Rs 168 billion (87%), followed by Public-sector Banks with Rs 11 billion (6%). Foreign Banks showed an increase in outstanding amounts (of 7%) while all other sectors' outstanding amounts showed a decline, when compared to the position of Dec'09, this can be on account of settlement of facilities under Part I.

COMMODITY WISE DISTRIBUTION OF EFS

The Textile sector continues to avail the maximum amount under the Export Finance Scheme (Rs 116 billion or 60% of total), although the sector's outstanding amount shows a decline of 6% compared to quarter ended Dec'09. This decline is reflective of the overall decline in the amount outstanding under EFS and is due to adjustments of finance made under Part II of the EFS. The disbursements and the outstanding to the sector are expected to increase as disbursements against the rolled over facility increase. Leather goods also posted a significant increase of 9% over the previous quarter. The highest increase is contributed by the Sports Goods, of 27%, when compared to Dec'09 position.

1.9. ISLAMIC EXPORT REFINANCE SCHEME (IERS)

During the quarter under review the total number of participating banks increased from 8 to 11 i.e. 4 Islamic Banks, 6 Conventional Banks' Islamic Banking Operations and 1 Foreign Islamic Bank have been included. The limits assigned under the scheme were increased by 21% (to Rs. 18 billion from Rs 15 billion in Dec'09). The total IERS financing outstanding at the end of the quarter stood at Rs 11 billion, 13% higher than Dec'09 quarter.

1.10. LONG TERM FINANCING FACILITIES

Under the Long term financing facility for (Plant and Machinery), limits were increased marginally from Rs. 19.1 billion to Rs 19.5 billion. During the quarter Rs. 4 billion were disbursed; the outstanding amount increased by 37% from Rs 10.73 billion in Dec'09 to Rs 14.66 billion as on 31st March 2010.

Under LTFF major portion of financing was contributed towards Textile Sector with Rs. 8 Billion (57%), followed by engineering goods, with Rs. 3 billion (21%). Within the Textile sector major financing was done in weaving textiles (sub-sector) which availed Rs. 2 billion.

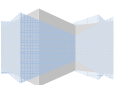
1.11. NEW POLICY INITIATIVES

Key initiatives taken by SBP regarding Refinance Schemes during the year are as under

REFINANCE SCHEME FOR REVITALIZATION OF SMES IN NWFP, GILGIT-BALTISTAN (GB) AND FATA

To revitalize SMEs in NWFP, Gilgit-Baltistan (GB) and FATA SBP issued the captioned Scheme through SMEFD Circular No. 2 dated march 19, 2010. Under the Scheme, the banks may provide short term/working capital facilities or medium to long term financing. However, Financing already extended and outstanding shall be ineligible for availing refinance.

MARK UP RATE SUPPORT FOR TEXTILE SECTOR AGAINST LONG TERM LOANS



Effective September 1, 2009 the Government of Pakistan announced a Markup Rate Support for Textile Sector on their outstanding running balances of principal amount of floating rate loans availed by the industry from commercial banks/DFIs for financing import / purchase of textile machinery. SBP circulated detailed procedure / criteria to avail the Support/Subsidy vide SMEFD Circular No. 04 dated March 22, 2010.

EXPORT FINANCE MARK-UP RATE FACILITY - PAYMENT FOR THE PERIOD 01-09-2009 TO 28-02-2010

Effective September 1, 2009 the Government of Pakistan has announced 'Export Finance Mark-Up Rate Facility' of 2.5% to the exporters of Textile Industry on outstanding loans availed by the industry from commercial banks for export of eligible commodities under SBP's Export Finance Scheme (EFS). The SBP has circulated detailed procedure to claim said Facility / Subsidy vide SMEFD Circular No. 03 dated March 22, 2010.

RE-FIXATION OF RATES OF SERVICE CHARGES – LTFF

The refinance rates charged under the LTFF Scheme were revised are as under:

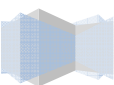
Period of financing	Rate Refinance	of PFIs' Spread	End User's Rate
Up-to 3 years	8.80%	1.50%	10.30%
Over 3 years and upto 5 years	7.90%	2.50%	10.40%
Over 5 years and upto 10 years	7.50%	3.00%	10.50%

REVISION OF FINANCING RATES UNDER THE EXPORT FINANCE SCHEME (EFS)

The refinance rates under the Export Finance Scheme were increased by 0.5% through SMEFD Circular No. 5 dated March 31, 2010. Effective April 1, 2010 the end user rate increased to 9% from 8.5% and simultaneously the benefits allowed under SMEFD Circular No. 6 of 2009 were also adjusted in view of the revision.

ENHANCEMENT IN TOKEN FINE ON LATE/NON SUBMISSION OF EPRC UNDER THE EFS

Under Part-I of the Export Finance Scheme, a token fine of Rs.5000/- was being imposed on banks, on failure to submit EPRC within the prescribed time period. Subsequently on submission of EPRC the fine already recovered was refunded to respective banks. In order to make the monitoring of the Scheme more effective, and to ensure compliance of its procedure, the fine charged on account of non submission of EPRC has been enhanced from Rs.5,000/- to Rs.20,000/-. Further, 25% of this fine i.e. Rs.5, 000/-, would be non refundable even on late submission of EPRC.



2.0. MICROFINANCE

The microfinance sector remained in consolidation phase during the quarter ending March 2010, evident from its slow growth. In order to mature into an industry capable of reaching millions in Pakistan through various channels and financial services, strengthening industry fundamentals would be the step in right direction. The remarkable highlight of the quarter was the expression of interest and submission of business proposals by strong private sector players with large distribution network to venture into microfinance services.

In order to stimulate sustainable growth of the sector, State Bank of Pakistan in consultation with stakeholders is presently developing a medium term microfinance strategic framework for the year 2010 to 2015. The framework will include a specific action plan to facilitate industry strengthening and development. Broadly, the framework will focus on development of sound institutions through improvement in capacity and governance, improvement in access and quality of financial services especially deposits, and promotion of enterprise lending initiatives. These objectives will be achieved through providing a regulatory structure that encourages diverse and strong players to enter the market, smart subsidies that lead to sustainable initiatives, and a supportive environment to encourage public-private partnerships.

Furthermore, SBP underscores the value of deposits as a critical source of funding for microfinance banks. In line with this outlook, SBP is committed to make the regulatory framework more conducive towards deposit mobilization. Hence, various measures have been taken to further improve the enabling environment for mobilization of local resources. Some of these steps include allowing schedule bank status to Tameer MFB, licensing new MFBs, encouraging partnerships, use of alternate delivery channels and branchless banking solutions to cater to the untapped market. Moreover, microfinance players need to learn from global best practices and success stories to make deposit mobilization a success story for Pakistan.

Overall, the number of borrowers increased by 13% over the year and 3.2% over the quarter. Correspondingly, advances grew up 28% over the year 2009 to 2010 and branches by 4%. Advances grew by 10% over the quarter ending March 31 of 2010. The biggest contributors to borrowers' growth were the First Microfinance Bank Limited (FMFBL) and Tameer Microfinance Bank Limited (TMBL) with a net increase of 19,726 and 10,121 borrowers respectively on quarterly basis. However, a slowdown in growth is due to consolidation of some of the largest microfinance players.

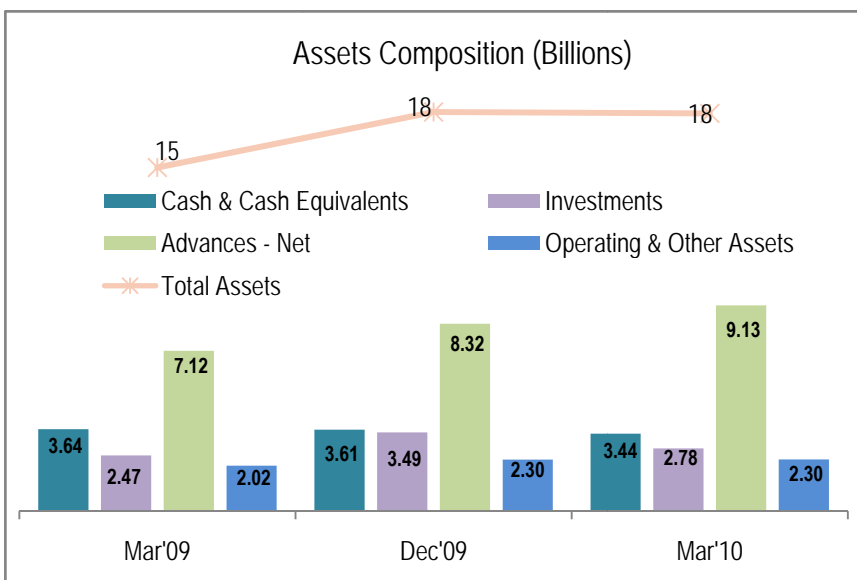
The volume of MFBs' deposits has increased by 50% on a yearly basis with a slight quarterly decline of 2% owing to cyclical fluctuations. FMFB and TMBL are the lead players in deposit mobilization and constitute 92% of the total volume of deposits.

Snapshot of Microfinance Banks				
	Mar'09	Dec'09	Mar'10	Growth (YoY)
MFBs	8	8	8	0
Branches	272	284	284	4
Borrowers	570,081	626,219	646,982	13
Advances (Rs.'000)	7,313,770	8,501,810	9,388,299	28
Deposits	4,615,376	7,099,206	6,931,375	50
Depositors	297,009	495,024	582,193	96
Assets (Rs.'000)	15,248,397	17,715,994	17,653,259	16
Borrowings (Rs.'000)	4,660,998	4,768,600	4,811,416	3
Equity (Rs.'000)	5,060,439	5,380,410	5,210,237	3
NPLs (Rs.'000)	224,452	137,686	214,323	-5

More notably, Kashf despite being a new entrant in the market is also making serious inroads in deposit mobilization. Average loan size over the year has grown from Rs. 12,800 to Rs.14, 500. Total assets of MFBs grew by 16% for the year from Rs. 15.25 billion to Rs.17.68 billion as did equity by 3% to Rs. 5.21 billion as of March end 2010. Fourth, non-performing loans of MFBs continued to exhibit downward trend and decreased by 5% on an annual basis.

2.1. ASSETS

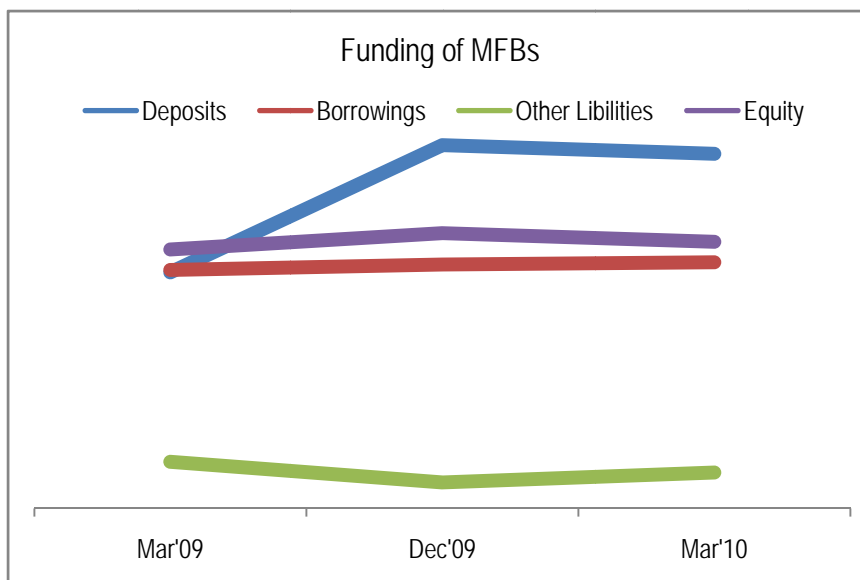
The asset base of MFBs has shown slight change during the quarter as its value slightly declined to Rs.17.68 billion from Rs.17.71 as of March end 2010. However, assets increased by 16% on yearly basis compared with same quarter in 2009. Moreover MFBs are gradually making more efficient use of their assets as advances are becoming a larger component of their asset base over the period of time. This proportion stands at 52% in March of 2010 whereas in March and December of 2009, it stood at 47%. Compared to regional peers, it is still relatively lower as the average Gross



Loan Portfolio to Total Assets for the year 2008 for Asian microfinance players was 72%¹. Ceteris paribus, the ratio for Pakistan is expected to further improve in forthcoming quarters of 2010, with increased lending by MFBs to the underserved, especially by new MFBs in their bid to expand in low income urban and peri-urban markets.

2.2. FUNDING

The funding structure of MFBs illustrates slight changes during the period under review as shown in the graph. As mentioned before, the deposit base is expanding as there is a shift towards mobilizing local resources for sustainable funding support and steady growth of the sector. MFBs have managed to raise the level of deposits up to 39% of their funding as of quarter ended March 2010. In the corresponding quarter last year, deposits comprised of 30% of the funding structure. The drive to collect deposits is mainly led



¹ 2008 MFI Benchmarks collected by Mix Market. <http://www.themix.org/publications/2008-mfi-benchmarks>

by FMFBL. FMFBL and TMBL constitute 92% of microfinance deposit mobilized by MFBs thus far. Khushhali Bank, the oldest MFB, has so far managed to capture only 2% of the total volume of deposits. Kashf microfinance bank although a new entrant is also making considerable progress in deposit mobilization from urban and peri-urban low income households.

Deposits as a percentage of total funding of MFBs have been continuously increasing while; borrowings as a proportion of total funding have shown a gradual declining trend from 31% as of corresponding quarter last year to 27% as of March 2010. Equity of MFBs has also reduced as a proportion of total funding.

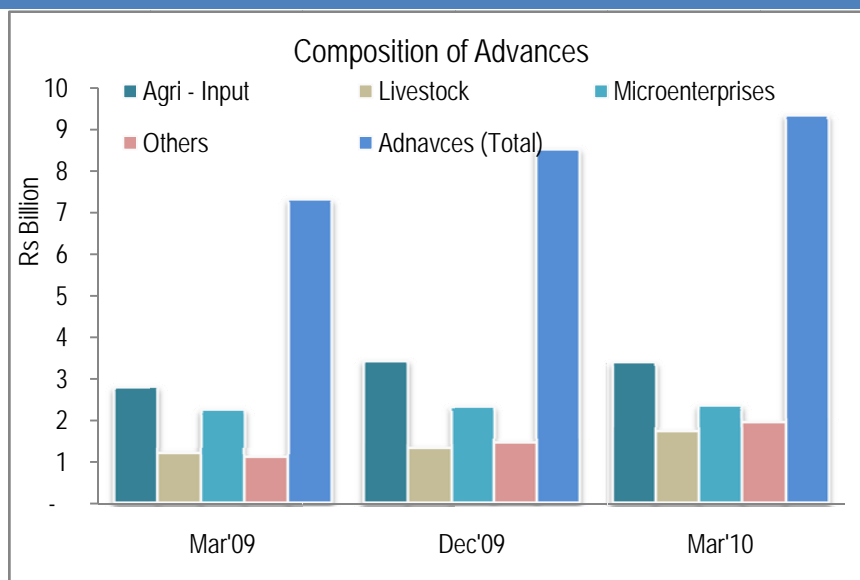
The deposit base is expanding as there is a shift towards mobilizing local resources for sustainable growth of the sector. MFBs have managed to raise the level of deposits up to 40% of their funding at the year-end of 2009 with average deposit of approximately Rs.15, 500. In the beginning of the year of 2009, deposits comprised only 28% of the funding structure. While deposits as a percentage of total funding have increased for MFBs, borrowings have reduced steadily over the year from 35% of total funding to 27%. Equity of MFBs has also reduced as a proportion of total funding as some players have experienced challenges, thereby reducing equity of the sector.

2.3. DEPOSITS

Deposits escalated by 50% on yearly basis. A low deposit base can be attributed to the sharp surge; however it is also evident that a shift has taken place in the approach taken by MFBs and emphasis is on deposit mobilization. . Deposits also witnessed a slight decline from Rs. 7.10 to Rs. 6.93 billion during the quarter ended March 2010 mainly because of the seasonal variation in deposit behavior as December is supposed to be the peak season. Looking at the composition of deposits, fixed deposits holds the major chunk of deposits at 65% while, Profit and Loss Sharing (PLS) deposits and current deposits stood at 19% and 16% of overall deposits respectively as of quarter ended March 2010. Moreover, the average deposit size is also declining from Rs.15,500 in March 2009 to Rs.11,900 in March 2010. A decline in average deposit size may be good for industry liquidity as small deposits tend to be less volatile than large deposits that have a greater impact on a bank's balance sheet.

2.4. ADVANCES

Advances are gradually increasing and have registered a value of Rs. 9.32 billion by the March end 2010, with slight variations in concentration of loan portfolio of MFBs. The composition of advances has not changed drastically except a slight shift in favor of microenterprises. Agriculture financing dominates with 36% of share in total advances by MFBs. Microenterprise is the second largest sector financed by MFBs and stood at 25% as of the March 2010 quarter. However, counting livestock as a subsector of agriculture, the category makes up 54% of total advances, which demonstrates the rural focus of MFBs. However, in the future, as some of the growth oriented MFBs are focused on urban and

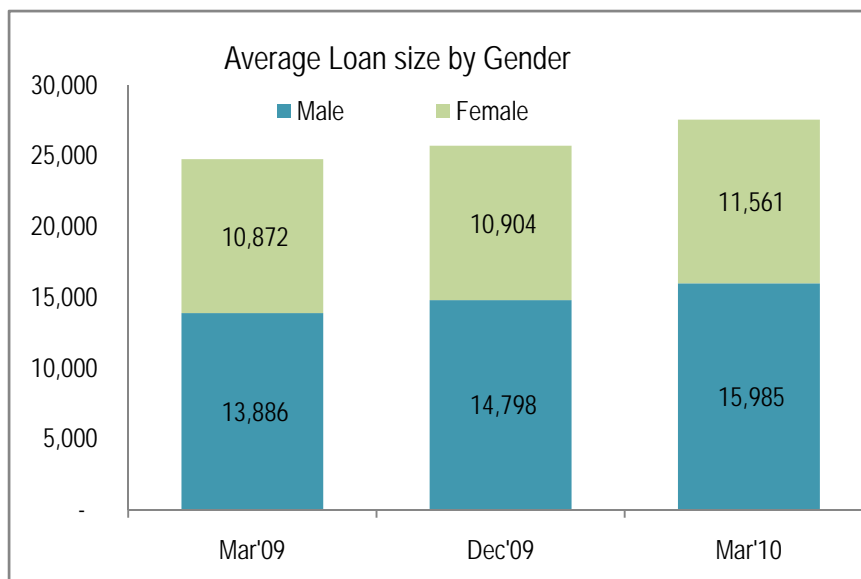


peri-urban markets, there may be a significant sectoral shift in the composition of advances. Financing for agricultural inputs has particularly increased over the year from Rs. 2.78 billion as of corresponding quarter last year to Rs.3.37 billion as of March 2010, but also declined by roughly 2.0% compared with the previous quarter due seasonal variations.

2.5. NON PERFORMING LOANS

Given the situation in March of 2009, Non-Performing Loans (NPLs) have improved significantly over the year as they have gone down by 5% from Rs. 224 Rs. 214 million. However, during the current quarter NPLs somewhat increased from 1.62% to 2.30% of total advances. Importantly, SBP revised Loans

Provisioning regulation for MFBs in August 2009 in which MFBs were allowed to start provisioning at PAR60+ instead of PAR30+. Subsequent quarters will establish if the NPLs' rise in the recent quarter is due to the provisioning benefit. Despite a quarterly increase in PAR, it improved on a yearly basis.



2.6. GENDER

MFBs lending continues to be dominated by the male clients. However, there is a gradual shift in favor of female borrowers as the fraction of female borrowers is increasing. The male to female ratio was 74 to 26 in corresponding quarter last year whereas; currently it is 70 to 30 by the end of March 2010. The trend is obvious as microfinance banks are increasingly encouraging female clients.

2.7. NEWS AND UPDATES

INCREASING USE OF BRANCHLESS BANKING WILL HELP PROMOTE FINANCIAL INCLUSION

The Governor, State Bank of Pakistan, Syed Salim Raza has highlighted the benefit of branchless banking in the financial inclusion agenda at the Pakistan Branchless Banking Conference hosted by SBP on April 17, 2010. He said the central bank will continue to actively engage with both financial and non-financial players to stimulate the adoption of innovative delivery channels as part of its multi-pronged strategy to expand the frontiers of financial access in Pakistan. He added that the State Bank has provided the necessary regulatory environment which promotes experimentation and uptake of branchless banking. However, the providers should set realistic expectations of their time horizons and potential returns, and those institutions which build their competence to manage potential risks early, will have more robust results. He also emphasized that the private sector should have to take the lead to leverage their retail networks and mobile phone technology to extend the distribution of financial services throughout Pakistan.

MOU BETWEEN FMFBL AND AKPBS FOR SELF-BUILT HOUSING UNITS

The First Microfinance Bank Ltd. (FMFBL) and the Aga Khan Planning and Building Service (AKPBS) Pakistan signed an MoU to improve the poor's living standards by providing financial services coupled with a technical advisory. This initiative is for support of self-building of houses by low income and poor communities in the country. FMFB shall provide need-based, short to long term housing finance for both structural and nonstructural improvements at a relatively lower interest rate, through group lending. The AKPBS shall provide technical consultancy to the client for developing a sketch of the proposed construction or improvement and monitoring construction of the houses to ensure construction safety to mitigate natural risks. Loans will amount from PKR 10,000 to 500,000.

TAMEER AND TELENOR LAUNCH 'MOBILE ACCOUNTS' SERVICE

Tameer Microfinance bank and Telenor Pakistan announced the launch of Mobile Accounts, the third in a suite of products under 'Easypaisa'. This is a first of its kind product in Pakistan that offers customers the convenience of carrying out transactions through their mobile phones. These provide utility bill payments, bill payments and cash withdrawal services through 5,500+ retail outlets across Pakistan. The partners previously launched products in the 'easypaisa' portfolio were Money Transfer and Bill Payment facilities.

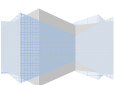
GUIDANCE FOR EFFECTIVE BANKING SUPERVISION TO MICROFINANCE ACTIVITIES

The Basel Committee on Banking Supervision has issued a report that contains the guidance for the application of the Basel Core Principles for Effective Banking Supervision (BCP) to microfinance activities, and the range of practices on regulating and supervising microfinance activities, according to an official press release. The guidance is based on a careful analysis of key regulatory and supervisory issues relevant to microfinance activities as identified through a questionnaire conducted by the Basel Committee, as well as secondary research to provide a more comprehensive snapshot of current practices and experience in countries from different geographical regions and income levels, the report said.

COMMERCIAL BANKS TO ESTABLISH MICROFINANCE UNITS IN FIJI

The Reserve Bank of Fiji (RBF) has stated that commercial banks should have fully operational microfinance units by the end of 2010. RBF issued guidelines to all commercial banks in Fiji in January 2010, directing commercial banks to set up microfinance units.

"The feedback we are receiving now is very positive. Either they have set up or have plans to set up soon. Apart from that, there is a task force and three sub-committees," said Naiyaga. He said the microfinance units should be running smoothly by the end of the year. All commercial banks are required to establish internal microfinance divisions and units in existing branches.



3.0. AGRICULTURE FINANCING

The Agricultural Credit Advisory Committee (ACAC) in its annual meeting held on 18th August, 2009 had set an agricultural credit target of Rs 260 billion for 2009-10. The target was 11.6% higher than the disbursement of Rs 233 billion in 2008-09. Out of Rs 260 billion, Rs 174 billion were allocated to commercial banks, Rs 80 billion to ZTBL and Rs 6 billion to Punjab Provincial Cooperative Bank Limited (PPCBL).

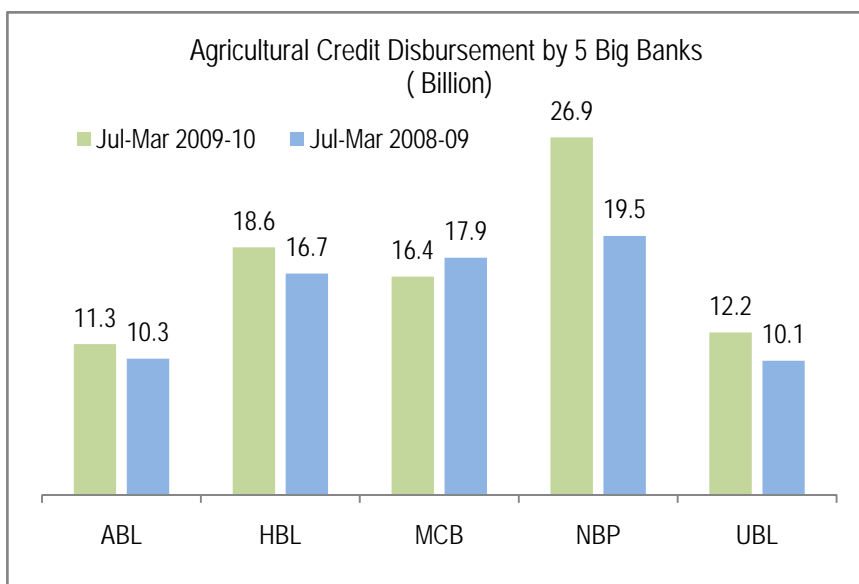
3.1 DISBURSEMENTS TO AGRICULTURE SECTOR

During the quarter January-March, 2010 banks disbursed Rs 60.1 billion compared to disbursement of Rs 62.2 billion in October-December, 2009 (preceding quarter) and Rs 52.4 billion in the same quarter last year.

Province-wise disbursement reveals that during first quarter an amount of Rs 142.4 billion disbursed in Punjab and Rs 18.3 billion disbursed in Sindh out of total Rs 166.3 billion credits. Due to law & order situation, disbursement in Khyber-Pakhtoonkhwa remained low and only Rs 4.6 billion were disbursed during July- March 2009-10 as against Rs 5.8 billion disbursed in the corresponding period last year. An amount of Rs 0.4 billion and Rs 0.6 billion were also disbursed in Balochistan and AJK & Gilgit Baltistan respectively.

3.2 BANK-WISE BREAK UP OF AGRI CREDIT

Bank-wise break up of agri credit disbursements reveals that during July-March 2009-10 five major banks disbursed Rs 85.2 billion or 68.7% of the whole year targets, ZTBL disbursed Rs 49 billion or 61.2% of the targets, Domestic Private Banks (DPBs) disbursed Rs 28.6 billion or 57.3% of the targets and PPCBL disbursed Rs 3.5 billion or 58.8% of the targets. Performance of 5 major commercial banks and ZTBL showed some improvement compared with last year disbursement, whereas, DPBs and PPCBL's disbursement remained almost in line with last year disbursement trends.



3.3 SECTOR-WISE DISTRIBUTION OF AGRI CREDIT

Sector-wise classification indicates that out of Rs 166.3 billion disbursement during July-March 2009-10, an amount of Rs 114.8 billion was disbursed to farm- sector and Rs 51.5 billion were extended to non-farm sector. In the same period last year, an amount of Rs 106.3 billion was extended to farm sector and Rs 45.6 billion was disbursed to non-farm sector. The share of non-farm sector shows continuous increasing trends over the last few years mainly due to SBP's initiatives, that is issuance of guidelines for non- farm sector in the areas of livestock, fisheries and poultry financing.

3.4 AGRI. NON-PERFORMING LOANS

Non-performing loans in agri. financing stood at Rs 33.9 billion or 18.8 percent of the outstanding loans as on 31st March, 2010 compared with Rs 34.9 billion or 19.9 percent of the outstanding loans as on 31st March, 2009.

3.5 NUMBER OF AGRI. LOAN BORROWERS

Agri. Loan borrowers were 1.85 million as on 31st March, 2010 as against 1.95 million as on 31st March, 2009 during the corresponding period last year. Bank-wise position of outstanding number of borrowers reveals that decrease in number of borrowers was witnessed in all categories of banks. High mark up, increasing NPLs and defaults in repayment resulted in decline in outstanding number of borrowers over the period.

3.6 MAJOR INITIATIVES DURING THE YEAR

To increase the flow of credit to the farming community and facilitate banks in adopting agriculture financing as viable business line, SBP, in collaboration with stakeholders has taken following initiatives during January to March, 2010.

COMPLETION OF PILOT PROJECT PHASE II

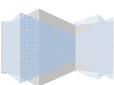
After successful implementation of the Sindh Pilot Project, the Pilot Project Phase II (PP-II) was launched in 28 agriculture intensive districts of the country from Rabi Season 2009-10 that is from September 2009 to February 2010 for deepening of credit outreach on fast track basis and creating linkages among stakeholders. It included 14 districts of Punjab, 9 of Sindh, 3 of Khyber-Pakhtoonkhwa and 2 of Baluchistan. At completion of the project, banks have disbursed Rs 42.7 billion as against a target of Rs 44.1 billion or 97% of the target. Number of borrowers served is around 336,000 against target of 286,000 borrowers. Fresh disbursed borrowers were 183,000 against target of 102,000 including around 82,000 borrowers served through credit lines to National Rural Support Program. Furthermore, to address issues of delays in issuance of passbook and timely completion of revenue formalities, 'One Window Operation' facility was successfully implemented in the pilot districts for all banks

INTRODUCTION OF PILOT PROJECT PHASE III

Encouraged by the successful completion of PP-II and on the basis of the feedback received from banks for the extension of Pilot Project Phase III (PP-III) from Kharif season 2010, SBP has planned to launch PP-III from Kharif 2010. Besides 28 districts of PP-II, 23 new districts (13 in Punjab, 4 in Sindh, 3 each in Khyber-Pakhtoonkhwa and Baluchistan) have been selected for inclusion in PP-III based on the number of farm households and agricultural activities. With the inclusion of these 23 districts, the coverage of the PP-II will be extended to 51 districts and 75% of total farm households in the country.

TRAINING WORKSHOP FOR CAD/RISK MANAGEMENT DEPARTMENTS

In order to develop the understanding of CAD & RMD officials about the dynamics of agri. lending, SBP developed two days training workshop on important topics such as overview of agri. sector, SBP regulations regarding agri. finance, agri. credit risk management tools and techniques, loan appraisal and documentation, agri. passbook and other documents of revenue department and so forth in consultation with banks. In this connection, two training workshops have so far been arranged at Karachi and Lahore during the first quarter of 2010, which were attended by around 80 senior officials of agri. lending banks, SBP and DFSD, SBP-BSC.

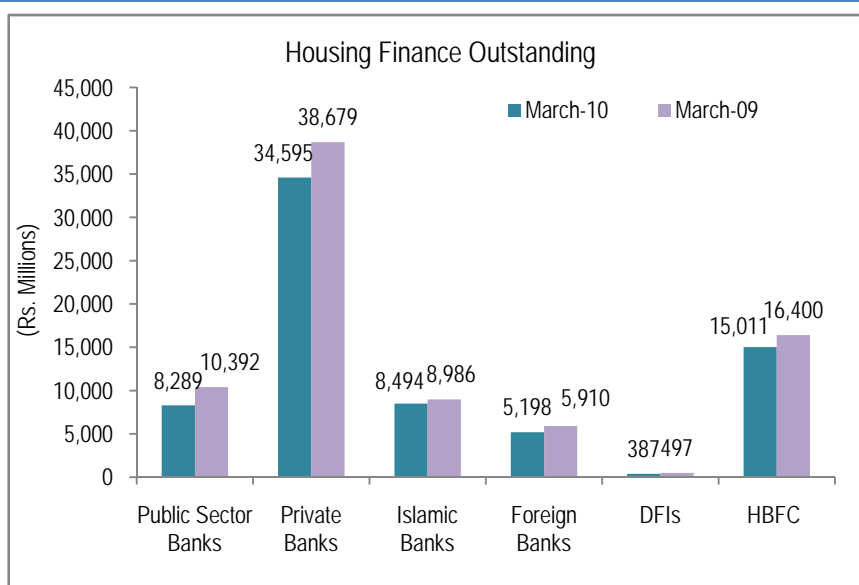


4.0. HOUSING FINANCE

The total outstanding reported by banks and DFIs as on March 31, 2010 was Rs. 71.97 billion compared to Rs. 80.86 billion as on March 31, 2009. The total number of outstanding borrowers has decreased from 121,368 to 110,512 since March 2009; recording a decline of 8.9%. Non-performing loans have increased from Rs. 13.09 billion (March 2009) to Rs. 16.83 billion (March 2010); a 28.58% increase over the year. Approximately 478 new borrowers were extended house loans during the quarter, accounting for Rs. 1.43 billion of new disbursements. HBFC accounted for 3.5% of these new borrowers and contributed 2.58% of the new disbursements equivalent to Rs. 37 million. Financing for outright purchase continued to dominate other sectors (construction and renovation) by comprising almost 58% share in gross outstanding portfolio. Outstanding portfolio for construction and renovation was 31% and 11% respectively of total housing portfolio.

4.1. OUTSTANDING

The total outstanding finance as on March 31, 2010 of all banks and DFIs stood at Rs. 71.97 billion and witnessed a decrease of 11% YoY basis. Of the total outstanding, commercial banks accounted for Rs. 56.57 billion with private banks' share of Rs. 34.59 billion; a 10.56% decline over the year. Islamic banks reported an outstanding of Rs. 8.49 billion followed by Public sector banks with Rs. 8.28 billion and foreign banks with Rs. 5.19 billion. Excluding DFIs, all commercial banks collectively posted an 11.56% decline when compared to quarter ending March 31, 2009. The outstanding loans of HBFC were Rs. 15.01 billion; down by 8.47% over the last year. Other DFIs have a meager share of Rs. 0.387 billion in outstanding loans.



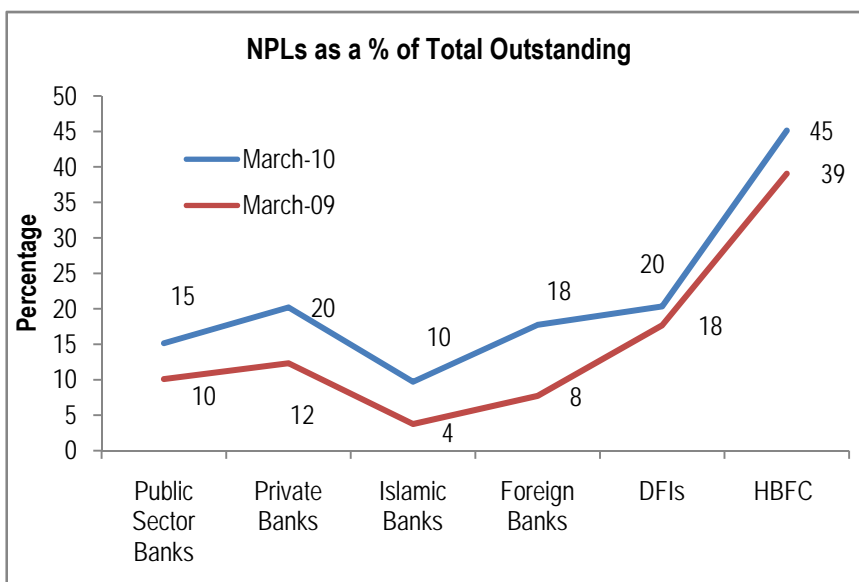
4.2. NUMBER OF BORROWERS

Total number of outstanding borrowers has decreased from 121,368 to 110,512 since March 2009; a decline of 8.94%. Approximately 54.62% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number (57,356) of non-active borrowers that have been classified as non-performing, which comes to 67.63% of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important as it caters to 77% of the total borrowers in housing finance sector which accounts for only 20.85% of total outstanding portfolio. Thus, by excluding HBFC, 11.71% of total borrowers of housing loans have been classified as non-performing.

4.3. NON-PERFORMING LOANS

NPLs have increased from Rs. 13.09 billion (March 2009) to Rs. 16.83 billion (March 2010); a 28.57% increase during the year. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is primarily due to rising inflation and high interest rates.

HBFC's NPLs have increased from Rs. 6.40 billion to Rs. 6.77 billion during the year; a 5.78% increase. Although growth of its NPLs remains relatively low in absolute terms when compared to other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 45% of its total outstanding constitutes NPLs. Excluding HBFC, NPLs for all banks and other DFIs have increased by 50.60% over the year from Rs. 6.68 billion to Rs. 10.06 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 17.66% of their total outstanding portfolio during the first quarter, compared to 10.36% of total outstanding as on March 31, 2009.



Islamic banks have witnessed a significant increase in NPLs during the year in terms of percentage; an increase of almost 145%, from Rs. 336 million to Rs. 824 million. However, their NPLs constitute only 9.70% of total outstanding, which was 3.74% on March 31, 2009. NPLs of the public sector banks have increased from Rs. 1.04 billion to Rs.1.25 billion an increase of 19.66%. NPLs of foreign banks have increased from Rs. 455 million to Rs. 921 million; a 102% increase with 17.73% of its total outstanding classified as NPLs, which was 7.70% on March 31, 2009. Private Banks have reported an increase of 46.74% in NPLs from Rs. 4.76 billion to Rs. 6.98 billion which is 20.19% of their total outstanding as against 12.31 % in March 31, 2009. Though NPLs of DFIs (excluding HBFC) have reduced from Rs. 88 million to Rs. 78.61 million, they have increased in percentage terms from 17.66% to 20.32% during the period under review.

Disbursements during the first quarter of 2010

BANKS	Amount (Million)	No. of Borrowers
Public Sector Banks	104	43
Private Banks	757	312
Islamic Banks	409	87
Foreign Banks	124	19
All Banks	1394	461
DFIs	0	0
HBFC	37	17
Total	1432	478

4.4. DISBURSEMENTS

A total of Rs. 1.43 billion worth fresh disbursements were made during the quarter ending March 31, 2010. Private Banks extended new disbursements of Rs. 757 million followed by Islamic banks with Rs. 409 million and foreign banks with Rs. 124 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 37 million. Among commercial banks, the number

of new borrowers totaled 461, with private banks serving 312 borrowers. HBFC extended loans to only 17 new borrowers during the reporting quarter.

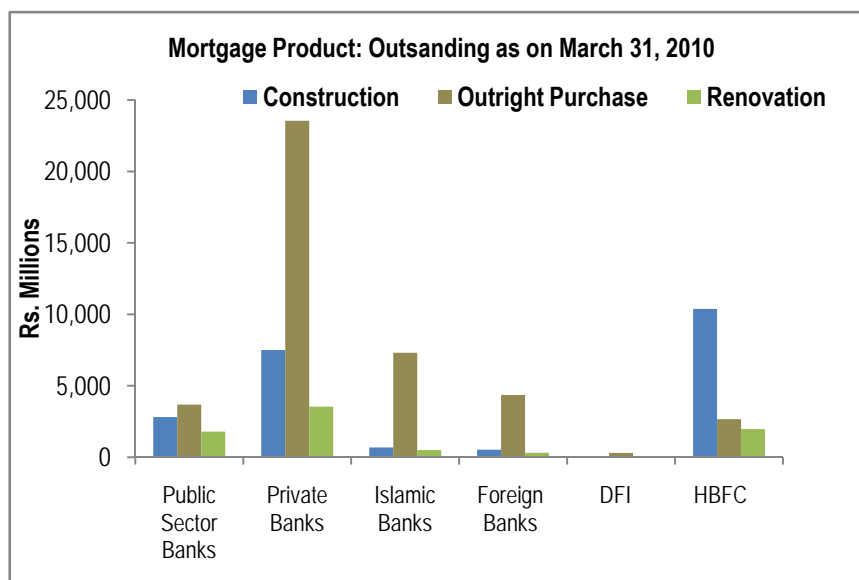
4.5. SECTORAL SHARE

The biggest share of housing finance continued to be attracted towards outright purchase standing at Rs. 41.85 billion as on March 31, 2010 comprising of a 58.14% share in total outstanding of Rs. 71.97 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 21.91 billion and that of renovation stood at Rs. 8.19 billion.

Actively portfolio shows that private banks have taken a lead in financing for all three sectors; construction 34%, outright purchase 56% and renovation 43%.

4.6. SHARE OF BANKS

The overall market share² of commercial banks (excluding DFIs) remained almost the same since the end of last year, as it decreased marginally from 79% to 78%. Within commercial banks the share of private banks in the total outstanding remained stagnant at 48%. Share of public sector banks has declined slightly from 13% to 11%. Share of Islamic Banks has increased from 11% to 12% and share of foreign banks has remained almost stagnant at 7%. The share of HBFC has increased from 20% to 21% of the total outstanding.



4.7. ANALYSIS OF LOAN VARIABLES

WEIGHTED AVERAGE INTEREST RATE

The overall weighted average interest rate comes to 15.2% at the end of the current quarter; a decrease of 0.2 percentage points when compared to quarter ending March 31, 2009. Highest weighted average profit rate was reported by Islamic banks as well as foreign banks at 16.7%, followed by DFIs (excluding HBFC) at 16.5%. Private Banks reported 14.5% while public sector banks and HBFC reported a weighted average interest rate of 16.1% and 13.5% respectively.

AVERAGE MATURITY PERIODS

Average maturity period for the quarter ending March 31, 2010 comes to 12.5 years, the same as compared to quarter ending March 31, 2009. HBFC's average maturity period is reported to be 15.9 years, while that of Islamic banks is 14.5 years.

² Based on gross outstanding

Among commercial banks, private sector banks have extended housing loans for an average tenure 12.2 years followed by foreign banks with 11.4 years and public sector banks with 11.3 years.

LOAN TO VALUE RATIO

The percentage of financing (Loan to Value ratio) extended by banks has increased during last year. The LTV ratio for housing finance rose from 52.8% during quarter ending March 2009 to 55.2% during quarter ending March 2010. The sharpest increase was witnessed among foreign banks where the LTV ratio rose from 36.1% to 48.4%. The LTVs for HBFC have increased from 55.8% to 65% during the last year.

AVERAGE TIME FOR LOAN PROCESSING

The reported average time for loan processing is 24 days for all banks and DFIs; a trend that has remained almost similar over the year. Currently, the application processing of most of the banks is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals. Moreover, the processing time can be considerably reduced if land titling issues are resolved and institutional inefficiencies removed.

AVERAGE LOAN SIZE

Average loan size for disbursements made during the quarter ending March 2010 is Rs. 2.4 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 0.7 million for the reporting quarter. Islamic banks have financed with an average financing size of Rs. 2.9 million. Private Banks reported an average loan size of Rs. 2.3 million, foreign banks Rs. 2.7 million and public sector banks reported Rs. 1.9 million. The housing finance market is still inclined towards lending to high income

CONCLUSION

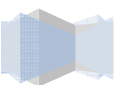
The quarter ending March 31, 2010 depicted a decrease in overall portfolio. NPLs of the housing finance portfolio display a rising trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers. LTVs have increased marginally and maturity periods remained almost constant. Average loan size has decreased because of the small size of the housing finance portfolio that financial institutions are currently managing housing-related risks. However, the lack of a conducive institutional framework and secondary mortgage market still pose as a major constraint towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

4.8. MAJOR INITIATIVES AND ACHIEVEMENTS

Recognizing the importance of housing sector, in boosting the domestic economy, following key initiatives have been taken.

IMPLEMENTATION OF HOUSING ADVISORY GROUP'S RECOMMENDATIONS

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG) with an intention to conduct a thorough analysis on the existing regulatory and policy framework affecting housing finance. The HAG made a number of recommendations stressing on the need to enhance access of financial services for the development of housing sector. These include reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/ low income housing finance products. SBP had already disseminated the



recommendations to the concerned stakeholders and is currently coordinating with the Ministry of Housing & Works, Pakistan Banks' Association (PBA), Association of Mortgage Bankers (AMB) and Association of Builders and Developers (ABAD) for implementation of some of the key recommendations.

MORTGAGE REFINANCE COMPANY

SBP and World Bank Group have agreed to work together for implementing key recommendation of HAG for creating financing environment conducive to growth of housing sector by focusing on: establishment of Mortgage Refinance Company, availability of low cost housing finance and establishment of an observatory for real estate market. Work on the establishment of Mortgage Refinance Company is now being pursued aggressively. IFC developed a detailed business plan and feasibility for the Mortgage Refinance Company. Principal buy-in of the Ministry of Finance has been elicited and equity commitments from the GoP, few banks and HBFC have been received, while remaining banks are being pursued.

CAPACITY BUILDING PROGRAM

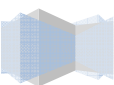
In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of housing finance. In accordance with the Cooperation Agreement signed between International Finance Corporation (private sector arm of the World Bank Group) and SBP, a comprehensive housing finance training program was launched. The training covered all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Till date, approximately 250 bankers from over 20 banks have been trained in the mortgage business. More capacity building programs would be conducted in future.

CREATION OF WEB PORTAL

In a drive to provide different stake-holders with reliable and needed information on various factors of housing/mortgage finance industry, as also recommended by HAG, SBP is working in coordination with the Association of Mortgage Bankers (AMB) for developing a web portal. As an initial step, AMB's website has been created which contains information on basic housing parameters.

DEVELOPMENT OF HOUSING FINANCE GUIDELINES

Infrastructure & Housing Finance Department of SBP is in process of developing guidelines of housing finance to increase the efficiency of mortgage bankers by adopting best international practices.



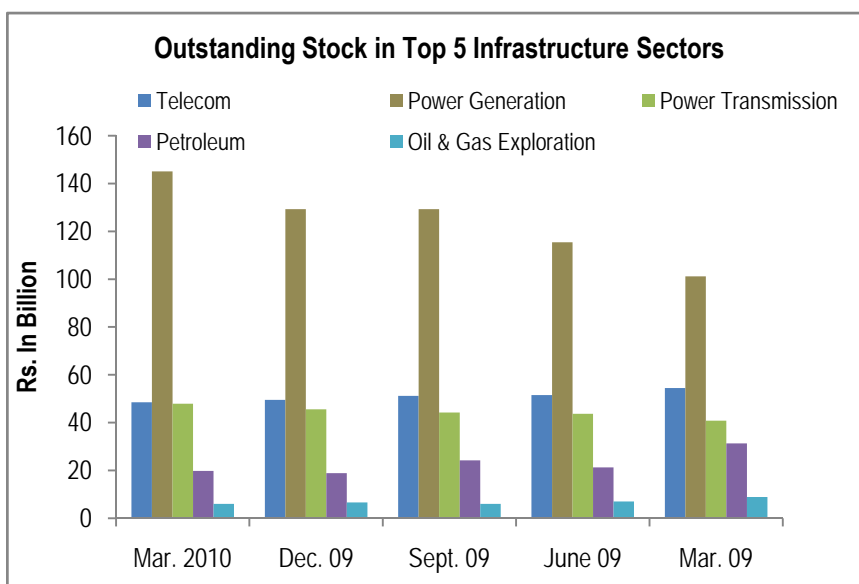
5.0. INFRASTRUCTURE FINANCE

The infrastructure project finance portfolio posted 8.9% growth on YoY basis from March 2009 to March 2010. The quantum of overall disbursement was Rs. 9.6 billion in this quarter which was Rs. 27.4 billion during the previous quarter while the same was Rs. 38 billion during Jan-Mar, 2009. There is 74.7% downfall in volume of disbursement on YoY basis. Power generation sector was significant contributor with disbursement of about Rs. 7 billion during the quarter under review as compared to Rs. 17.5 billion during previous quarter while the quantum of disbursement for this sector was stable at Rs. 17.8 billion during Jan-Mar 2009 quarter. Telecom sector, which received Rs. 4.1 billion during previous quarter, was inert in this quarter with mere Rs. 238 million while the same sector received Rs. 6.5 billion in first quarter of 2009.

During previous quarters the level of participation by private sector banks in project financing was visible in couple of sectors like telecom and power generation. This has now been concentrated in power generation sector only. The risk associated with different infrastructure areas is the main obstacle for financial institutions to venture in uncharted terrains. Financial institutions feel more secured in those sectors where sovereign guarantees are involved – power generation is a case in point. The SBP is working on an initiative of establishing Infrastructure Development & Financing Institution (IDFI) under Public Private Partnership in line with successful international models which will act as a catalyst for private sector's participation and boost the confidence of investors. The GoP and key multilaterals are on board in establishment of this institution. A dedicated institution like IDFI is of vital importance to ensure the required growth in key infrastructure sectors necessary for sustainable growth in overall economy.

5.1. OUTSTANDING PORTFOLIO

Total financing outstanding at close of March, 2010 was Rs. 283.7 billion as against Rs. 260.5 billion at the end of March 2009 achieving a growth of 8.9%. The analysis shows that stock of other sectors changed at a slow pace but the rise in stock of power generation is a constant feature which, though stable during last couple of quarters, gained momentum in this quarter. A number of factors like power policy, expertise of financial sector in this sector and demand of energy have contributed to the increase of volume in outstanding portfolio of energy sector, not to mention the sovereign guarantees available for investors.



Telecom sector remained stable over the year while petroleum sector is gradually posting a low score as its stock decreased from Rs. 31.3 billion in March 2009 to Rs. 19.8 billion in March 2010. Power transmission, though, has shown an increase over the year but still much below the desired level, considering the huge unmet needs in this sector.

5.2. DISBURSEMENTS

Total Rs. 9.6 billion were disbursed during Jan-Mar 2010 quarter in all infrastructure sectors against Rs. 27.4 billion in previous quarter. The disbursement during Jan-Mar 2009 quarter was Rs. 38 billion. Power generation sector received Rs. 6.7 billion (69.7%), which is significantly higher than other sectors. Share of power generation sector in disbursement was also significantly higher in previous quarter at 63.7% (Rs. 17.5 billion) whereas it was 46.7% (Rs. 17.8 billion) during Jan-Mar 2009. Telecommunication sector received only Rs. 238 million in this quarter against Rs. 4.1 billion in last quarter. The absence of oil & gas sector has been a real concern considering its important role in the economic activity of the country.

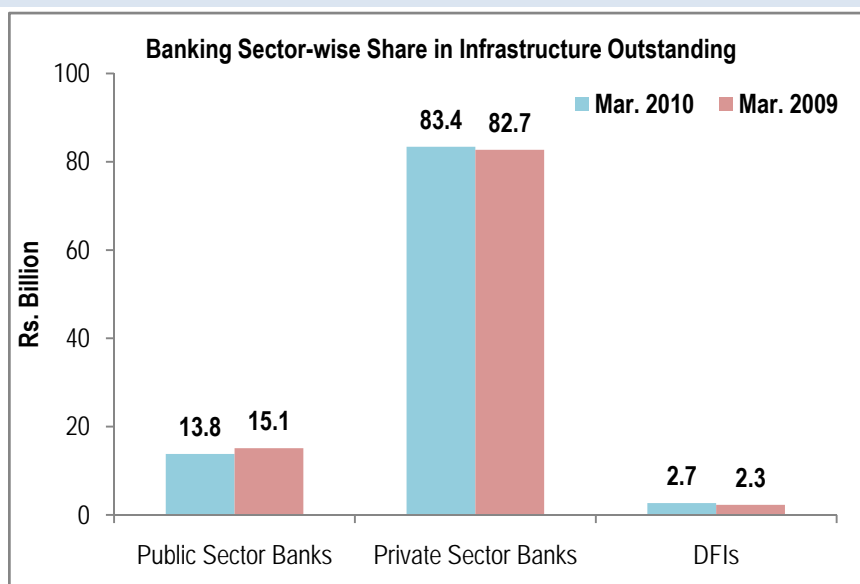
5.3. YEAR-WISE ANALYSIS

The comparison of top four sectors in outstanding infrastructure financing at the end of March 2009 with the status existing on March 31, 2010 shows that in March 2009, power generation sector had 38.8% of the total stock followed by telecommunication sector with 20.9%. After a year, the top slot continues to be held by power generation sector with a substantial 51.1% share in the pie. The telecommunication sector remained at second place with 17.1% share followed closely by power transmission sector at 16.9%. With rise in power transmission sector also, more than 65% of the infrastructure portfolio pie is taken by the power sector as a whole. Petroleum sector, despite having huge potential, had been on the downside from 12.1% to 7% in a year.

5.4. BANKING SECTOR-WISE PERFORMANCE

BANKING SECTOR-WISE SHARE IN OUTSTANDING

Category-wise share of banking sector in outstanding stock of infrastructure financing displays that the trend is predominantly in private sector banks' way. The stock share of private sector banks is hovering around 83% during the year. Public sector banks slowed down a bit from 15.1% to 13.8% while DFI's remained stagnant and did not present a major shift during the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.



5.5. BANKING SECTOR-WISE DISBURSEMENTS

Private sector commercial banks have disbursed Rs. 8.4 billion (87.8%) out of total Rs. 9.6 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 839 million (8.7%) while DFIs have miniscule Rs. 335 million (3.5%) despite having a mandate of development finance. In Jan to Mar 2009 quarter, private sector banks disbursed Rs. 36.7 billion (96.6%) while public sector banks disbursed less than one billion.

5.6. NEW INITIATIVES/ACHIEVEMENTS IN THE QUARTER

Two new initiatives reported in this quarter. First initiative was taken in petroleum (refinery) sector while the second one is a waste heat recovery project. The refinery project has the capacity of supplying 115,000 barrels per day and the estimated cost is almost Rs. 31.8 billion of which Rs. 10 billion is debt financed by a DFI. The waste heat recovery project is estimated to have cost of Rs. 750 million. This project will be installed in a cement factory to produce 6MW electricity through heat recovery system. The financing mode of this project is Islamic Diminishing Musharaka

INFRASTRUCTURE DEVELOPMENT AND FINANCING INSTITUTION (IDFI)

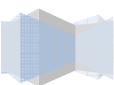
State Bank is presently working on an initiative to establish an institution under Public-Private Partnership model for growth of infrastructure sectors in the country. Principal buy-in of MoF has been elicited. Multi-lateral agencies have also expressed their interest in supporting this initiative. The IDFI has entered the business plan development stage and TOR is being finalized for consultant hiring, to be funded by the World Bank.

REVISED GUIDELINES FOR INFRASTRUCTURE PROJECT FINANCING

The existing guidelines for the Infrastructure Project Finance have been reviewed and number of areas have been identified which, if bring in tune with international standards, can facilitate project financing. The draft of revised guidelines, blending international standards and peculiar domestic experiences in infrastructure financing, has been forwarded for approval.

CAPACITY BUILDING PROGRAM

In addition to initiatives taken to institutionalize project financing, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of project financing. In this regard a training program for the financial sector titled 'Frontiers in Infrastructure Financing' has been planned for June this year in co-ordination with the World Bank Group. International experts will be invited to conduct this high profile program.



Acronyms

ACD	Agricultural Credit Department
BSP	Banko Sentral ng Pilipinas
BRI	Bank Rakyat Indonesia
DFG	Development Finance Group
CAMELS	Capital, Assets management, Earnings, Liquidity and sensitivity to Market Risk
CB	Commercial Bank
CY	Calendar Year
DFIs	Development Finance Institutions
FY	Fiscal Year
FI	Fixed Investment
GDP	Gross Domestic Product
IHFD	Infrastructure & Housing Finance Department
MFD	Micro finance Department
NPLs	Non Performing Loans
PSCB	Public Sector Commercial Bank
PTA	Pakistan Telecommunication Authority
QoQ	Quarter on Quarter
RoA	Return on Asset
RoE	Return on Equity
SB	Specialized Bank
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SME	Small and Medium Enterprise
SMEFD	SME Finance Department
TF	Trade Finance
TPSP	Third Party Solution Provider
WC	Working Capital
YoY	Year on Year

Glossary

Consumer Financing means any financing allowed to individuals for meeting their personal, family or household needs. Consumer Financing facilities include credit cards, auto loans, housing finance, consumer durables and personal loans.

Corporate means and includes public limited companies and such entities, which do not come under the definition of SME.

Non-Performing Loans (NPLs) are loans and advances whose mark-up/interest or principal is overdue by 90 days or more from the due date.

SME means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing/ service concern) and 50 persons (if it is trading concern) and also fulfils the following criteria of either 'a' and 'c' or 'b' and 'c' as relevant:

(a) A trading / service concern with total assets at cost excluding land and building upto Rs50 million.

(b) A manufacturing concern with total assets at cost excluding land and building upto Rs100 million.

(c) Any concern (trading, service or manufacturing) with net sales not exceeding Rs300 million as per latest financial statements.

Working Capital The day to day finances used by a firm for its operations or the flow of money for its working.

Trade Finance The institutions or transactions involved in the Financing of trade.

Agricultural Financing means financing to Farm and Non Farm Sector.

Deposits means the deposit of money, repayable on demand or otherwise

Micro Finance Bank shall mean a company incorporated in Pakistan and licensed by the State Bank of Pakistan as a Microfinance Bank.