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Development Finance Review

SME Finance Department

State Bank of Pakistan

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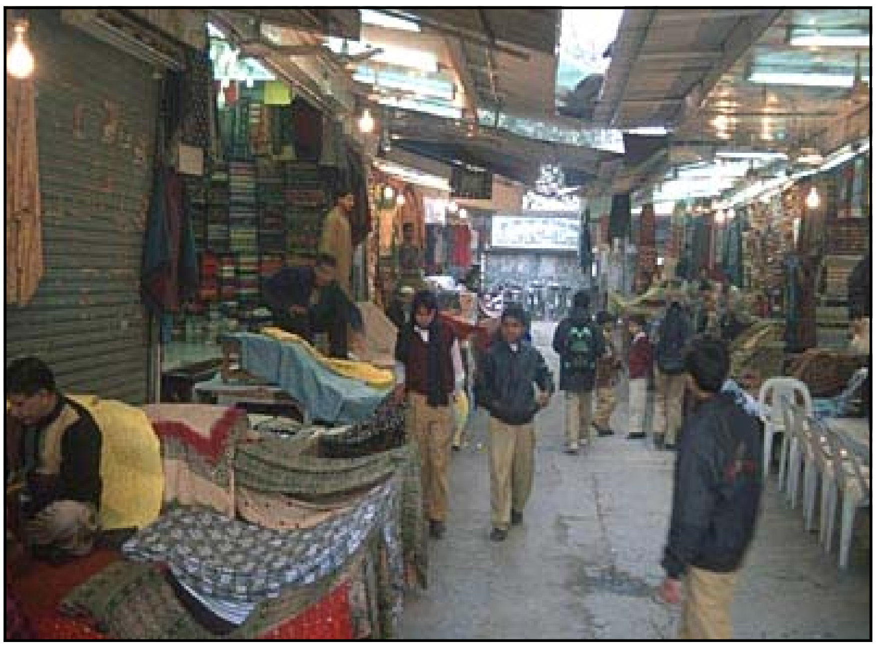
EXECUTIVE SUMMARY

Development Finance, which started to receive focus from the banking industry in the last few years, witnessed some decline, as the total outstanding portfolio reduced from Rs. 871.7 billion to Rs 850.1 billion, YoY basis, reflecting a decrease of 2.5%. This was primarily on account of various factors like rising interest rates, power outages, squeezed liquidity, domestic law & order situation and the global financial meltdown. However, as a consequence of strategic corrective measures and incentives adopted by State Bank and the GOP with the support of International Financial Institutions, encouraging signs coupled with stability have been witnessed in the Development Finance portfolio during the fourth quarter of 2009. Similarly, NPLs as a percentage of the total loans have also reduced from 16.3% to 15.1% on a quarterly basis. Though significant improvements could not be seen in last quarter of 2009, however, further deterioration in Development finance portfolio has halted.

- The total outstanding finance to SME sector contracted by 7.15%, YoY basis, though, it witnessed an increase of 5.3% QoQ basis. SME sector NPLs have increased by 4.35% QoQ basis. Similarly SME borrowers also decreased slightly by 1.9% during the last quarter of FY 2009.
- Outreach of Microfinance industry has reached to 1.7 million borrowers despite of local economic slowdown. Total Advances of Microfinance Banks (MFBs) have recorded 32% growth during the FY 2009 coupled with a 5% increase in branch expansion. The deposit base of MFBs increased by 72% on YoY basis. During the fourth quarter of 2009, NPLs of MFBs declined by 40%.
- Agriculture Credit Advisory Committee had set a target of Rs 260 billion for FY 2009-10 higher by 11.6% compared to previous year's target. Agricultural credit has recorded a nominal increase of 0.77% in outstanding portfolio on YoY basis. During the second half of FY 2009, banks disbursed Rs 106.3 billion as against Rs 99.4 billion during the corresponding period of previous year. Agri sectors NPLs recorded a growth of 5.83% during the year 2009.
- Housing Finance was also hit by financial crisis reflecting a decrease of 11.22% during the year FY 2009 and the number of housing borrowers declined by 8.4% on YoY basis. Further, NPLs of this sector also increased by 28% on YoY basis. Infrastructure financing has slightly improved over the last one year i.e. 4.5% on YoY basis. Two sectors namely Power Generation and Telecom received 49.2% and 18.8% share of infrastructure finance (Rs. 262.3 billion).

Going forward, the introduction of market supporting mechanisms like Credit Guarantee Scheme for Small & Rural Enterprises, Guarantee Scheme for MFBs, Refinance Scheme for SMEs from NWFP, FATA & Gilgit-Baltistan, development of secondary mortgage market for housing finance, and a number of other such strategic measures, would be expected to bring about a positive impact on performance of Development Finance Sector.

SME Finance

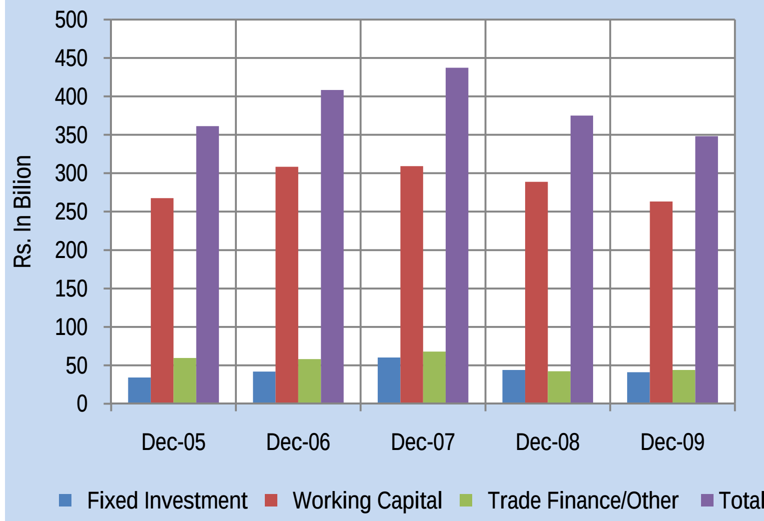


1.0. SME FINANCE

Share of SME finance in total loan portfolio has declined to 10% of total outstanding credit of banking industry at the end of the period under review. Exogenous economic and financial factors coupled with banking industry's cautious approach towards SME sector has led to decrease in SME Credit in the last two years.

Total Outstanding amount to SME sector stands at Rs. 348 billion at the end of December, 2009 recording a growth of 5.3% compared to the quarter ending Sep, 2009; however, YOY basis, SME Portfolio has declined by 7.15%. However, during the period 2004-2009, SME Credit recorded an average growth of 5.2% a year.

Figure 1A: Facility Wise SME Financing

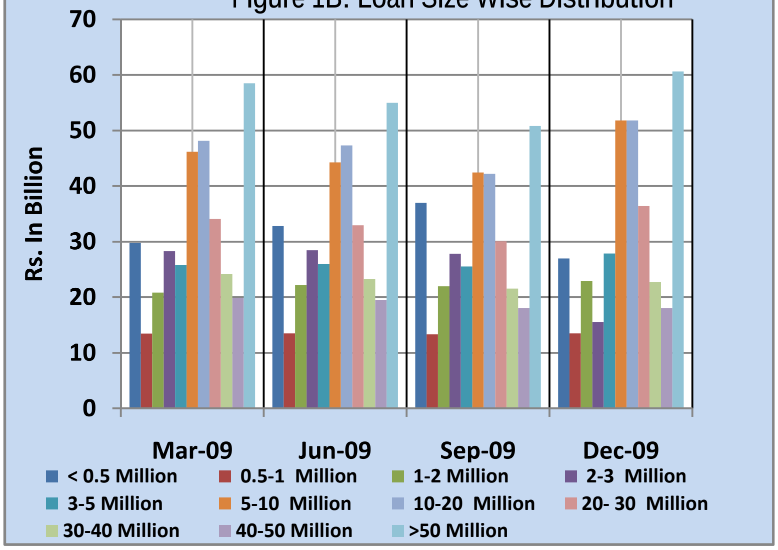


Out of total SME finance, Rs. 264.6 billion go to short term loans followed by Long term and Medium term with Rs. 59.1 billion and Rs.24.6 billion respectively at the end fourth quarter 2009.

1.1. LOAN SIZE WISE DISTRIBUTION

Size-wise distribution shows that loan in the range of Rs.5-20 Million constitute almost 30% of total SME finance as of December, 2009. Almost 17.5% of the total portfolio is appropriated in the loan sizes of over Rs. 50 million while loans in the range of Rs.3-5 million constitute a meager 3.9% of total SME finance during the period under review. *(See Figure 1B)*

Figure 1B: Loan Size Wise Distribution



1.2. BORROWER WISE ANALYSIS

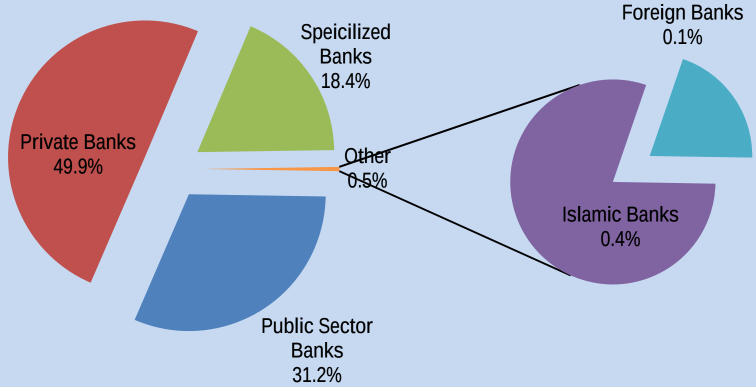
SME borrowers are about 4% of total banking industry's borrowers. Total number of SME borrowers stood at 212, 387 at the end of December 2009 compared to 216,556 at the end of September 2009.Trading SMEs constitute about 48.8% of total SME borrowers followed by Manufacturing and Services with 20.2% and 30.9% respectively at the end of December 2009. Except for trading SMEs which have recorded a positive growth of 9.4%, both manufacturing and services SMEs have recorded a negative growth of 18.2% and 5.1% respectively during the last quarter of 2009. A negative growth of 1.9% and 1.35% has been recorded in SME borrowers for the last quarter of 2009 and for period of Dec-08 to Dec-09 respectively. However, SME borrowers have increased considerably registering a growth of 103% from Dec-04 to Dec-09. Almost 18% of total SME borrowers have availed clean financing by the end of

December 2009. In the category of collateral based SME lending 52.3% borrowers have loans of upto Rs. 0.5 million during the fourth quarter of 2009. *(See Figure 1C)*

1.3. NON-PERFORMING LOANS

NPLs of SME sector have recorded a growth of 28.8% standing at Rs. 79.2 billion at the end December 2009 compared to Rs. 61.5 billion by the end of December 2008. Following the industry trend NPLs of SMEs have also increased, however, growth in SME NPLs has been on the lower side when compared to total NPLs of the industry. Banking Industry's total NPLs have recorded a growth of 42.4%, YoY basis. While SME NPLs synopsis reveal that during the last quarter of 2009 situation has improved considerably recording only 1% increase compared to 3.4% increase in banking industry's total NPLs during the same period. *(See Figure 1D)*

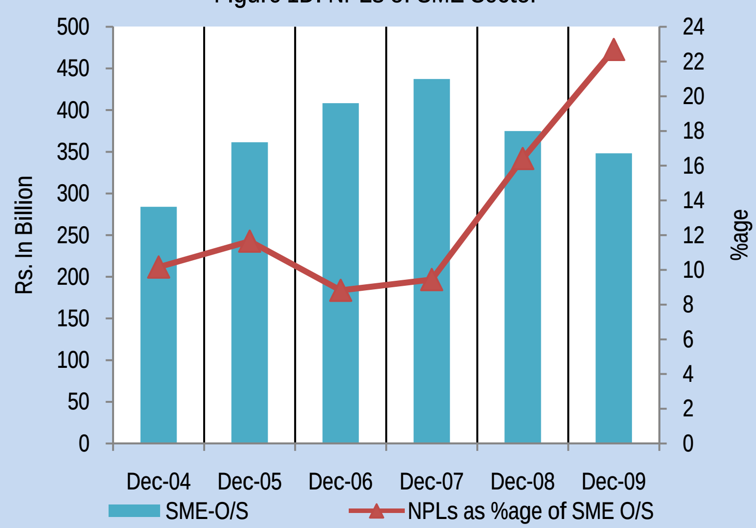
Figure 1C: Share in Total SME Borrowers



1.4. BANKING SECTOR WISE ANALYSIS

An appropriation of SME Finance portfolio among top five banks displays that HBL takes lion's share of 14.4% followed by NIB, ABL, NBP and Bank Alfalah with 9.9%, 8.7%, 8.7% and 7.8% respectively at the end of December 2009. While, 27.8% of total SME borrowers rest with NBP, 19.5% and 18.1% with NIB and SME Bank respectively.

Figure 1D: NPLs of SME Sector



Public sector banks constitute about 13.2% of total SME finance portfolio compared to 14.9% at the end of third quarter of 2009 recording a decline of 7.2%, QoQ basis. An absolute amount of Rs 30.45 billion has been advanced by NBP being the lead bank in this category followed by BOP and BOK with Rs 8.66 billion and Rs 4.85 billion respectively during the period under review. Public sector banks serve 31.8% of SME borrowers, registering quarterly decline of 3.4%. Further, share of Public Sector Banks is 20.51% in total SME NPLs, as of December 2009.

Private Sector banks' total advances to SME sector amounts to Rs.285.45 billion constituting 82% of total SME finance portfolio by end of fourth quarter of 2009 registering a growth of 7.8%, QoQ basis. Major contributors in this category of banks are HBL, NIB, ABL, Bank Alfalah, MCB, UBL and Silk Bank with portfolios of Rs.50.02 billion, Rs.34.44 billion, Rs.30.35 billion, Rs. 27.17 billion ,Rs. 17.89 billion, Rs.17.29 billion, and Rs. 16.44 billion respectively. Private sector banks appropriated 49.4% of total SME borrowers having 68.09% of total SME NPLs by the end of December 2009. Among privates sector banks NPLs of HBL and NIB remained 14.27% and 10.02% followed by MCB and Standard Chartered Bank with 6.24% and 6.05% of total SME NPLs at the end of year 2009.

In Specialized Bank's category, SME Bank leads with Rs. 7.38 billion and IDBP with Rs. 2.40 billion SME portfolio during the period under review. Specialized banks share in total SME NPLs is 9.92%. Islamic Banks have total outstanding amount of Rs. 5.15 billion followed by Foreign Banks with Rs.1.62 billion. Only 2% of total SME borrowers rest with Islamic and foreign banks while they together form about 1.37% of total SME NPLs. A negligible quarterly growth of 0.4% has been recorded by Islamic banks during the fourth quarter of 2009.

1.5. KEY INITIATIVES/ACHIEVEMENTS

Appreciating the critical role of SMEs for sustainable economic growth, the following key initiatives have been taken/being planned by SBP to further develop market based mechanisms.

Establishment of Credit Guarantee Fund (CG)

To share risks with the lending institutions and meet funding needs of small & rural enterprises SBP has developed the project of launching CG in Pakistan. The CG Scheme will soon be launched.

Introduction of a Secured Transaction Framework (STR)

There is need to carry out legal reform that supports establishment of Secured Transaction Registry Office with the core objective of registering charge over moveable assets of the small borrowers and enable them to get loans against their moveable assets. This reform process will enhance the scope of assets that can be used as security against bank loans and the accompanying legal reforms will provide effective enforcement of security upon default boosting the confidence of banks that they will be repaid. In this regard, SBP has already completed phase 1 of the STR Project with ADB Technical assistance and currently working on its final Phase.

Capacity Building of Banks/DFIs

SBP realizes that apart from various initiative a simultaneous development of human capital plays a critical role in ensuring sustainability of SME Finance in the country. In this regard, the First phase of the *SME Grass Root Cluster Training Program* has been completed by covering 7 cities across Pakistan. About 180 credit officers of commercial banks have been trained in SME finance area. Moreover, the second phase of the program has also been started and the first program was held in SBP BSC Multan office from November 18-21, 2009.

Conducting a cluster Development Survey

In order to get first-hand knowledge about clusters and their issues and accordingly produce a purposeful report on the subject, SMEFD plans to conduct a survey of major clusters in the country by a reputed institute under the supervision of a Steering Committee (SC).

Venture Capital

Venture capital is a type of private equity capital typically provided for early-stage, high-potential, and growth oriented Small and Medium concerns. SBP, in collaboration with concerned stakeholders, will set-up a Venture Capital Fund for SMEs to fill the gap of equity/project financing.

1.6. BANK IN FOCUS - ICICI BANK

SME Business Strategy:

ICICI Bank has a proactive and comprehensive strategy to cater banking needs of SME sector through a separate business group viz Small Enterprises Group (SEG). The Bank adapted a new strategy in 2003 and consequently its SME loan portfolio and overall SME revenues **tripled** with a customer base of above 1 million SMEs. The Axis of the strategy is Understanding Human Needs by listening to the customers and be understood. Important considerations of ICICI are:

Customers' Segmentation

To strategically serve the market, they have divided SME customers into three groups:

a)Corporate Linked Businesses b) Cluster Banking Group and c) Business Banking Group. This sort of segmentation enabled ICICI to address challenges like risk management and knowledge development in a systematic manner.

Beyond-lending Approach

ICICI employed beyond lending approach and spanned opportunities to all around business activities of SMEs by deploying technology enabled low-cost alternative channels for meeting SMEs' day-to-day business and transactional needs more efficiently and with low turnaround times along-with their products of cash management & advisory services.

360-degree Credit Risk Evaluation Approach

Combining standardized credit metrics and relationship-based techniques ICICI Bank offers products and services to SMEs that would normally fall through the cracks of traditional methods

Equity Investing in SMEs

Bank has been dealing in SME equity investment. Initially, it facilitated deals between its SME clients and external PE funds, later the institution began providing equity and quasi-equity funding to growth-oriented midsized firms.

SME supportive Products & Services

While transforming its strategy into veracity, bank offers Products and Services covering almost all business activities of SMEs which have been divided into the following three categories.

Transaction Banking & Cash Management Services Whether, it is local or national, starting up or scaling up, ICICI accomplishes all transactional needs of SMEs like Club Elite Program, Roaming, Current Account (RCA), Prepaid Current Account, Made2Order Account (M2O), Collection, Payments, Exchange, Earners' Foreign Currency Accounts and others.

Business Loans

Industry Specific Loans and Industry-specific solutions through dedicated teams for each industry group and products & services tailored to meet the industry's unique needs like Construction, Pharmaceuticals, Educational Institutions, and Information Technology are available.

Trade Services Standard and customized products & services are there to support SMEs on international trade like LC, Bank Guarantee, Export Bill Negotiation, Bullion Consignment, Import Finance, Escrow Account, Export Finance, and Forex Services etc.

SBP Refinance Schemes

1.7. SBP REFINANCE SCHEMES

Under the Refinance Schemes SBP has been consistently providing incentives and relaxations to the exports oriented sectors in order to ease the pressures and challenges posed by the international and domestic economy and to promote growth of the industrial sector which witnessed significant slowdown. In Nov'08 SBP reverted to providing 100% refinance under its short term Export Finance Scheme (EFS) and Long Term Financing Facility for Import of Plant & Machinery (LTFF), which increased the flow of financing to the exporters. Thus, financing limits under the EFS which stood at Rs.125 billion before this decision were increased 62% to Rs.202 billion by end Jan'09. The limit under EFS at the end of the year stands at Rs. 222 billion, reflecting an overall increase of 77% since Sept'08 and 32% compared to Dec'08 position. The outstanding amount under the scheme as on Dec. 31, 2009 is Rs. 198 billion, 97% higher compared to Sept'08 and 27% higher compared to Dec'08.

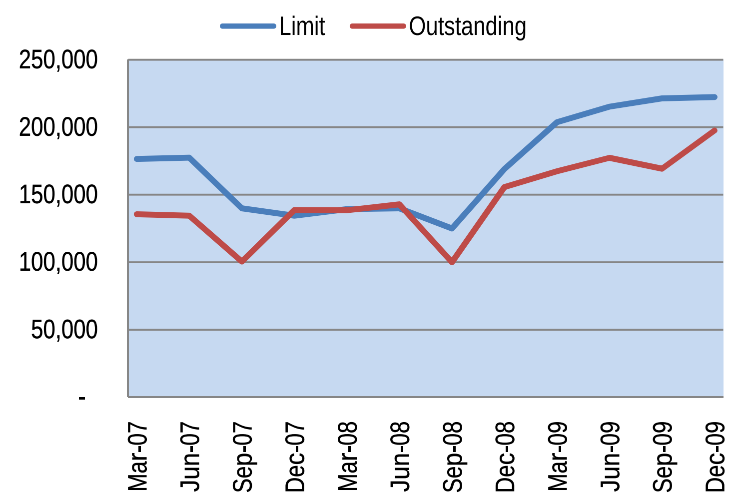
By Jan'09 it was evident that the global recession was affecting the exporters and their ability to repay the long term loans. SBP decided to allow a year's grace period under its scheme for Long Term Financing for Export Oriented Projects, as well as refinance of the outstanding commercial loans availed by the non textile sector from 1-1-2005 to 31-3-2009. SBP introduced schemes for up gradation of ginning and rice husking mills in order to provide a long term quality improvement to the value added chains. To counter the power and electricity crisis, a scheme for refinancing small power plants of renewable energy (of less than 10MW capacity) was also introduced to serve the dual purpose of increasing the electricity supply as well as reducing dependence on imported fuel for power generation.

Under the Export Finance Scheme, performance based lower mark-up rates were introduced under Part II, to encourage higher exports. SBP allowed a longer repayment period (270 days) under Part I to exporters who export goods in excess of their loan amount. Further, relaxations were also provided to exporters of rice and carpets.

1.8. EXPORT FINANCE SCHEME

Export Finance Scheme has remained a primary source of funding for the export sector. *Figure 1E,* shows a trend of EFS limits and outstanding position for the past three years. SBP resorted to 70% refinance facility under its EFS and LTFF scheme in Aug'07 and later in Nov'08 reverted to 100% financing. The limits and outstanding under the scheme show a sharp decline in Sept'07 and a sharp increase in Dec'09.

Figure 1E: Export Finance Scheme



The limit under EFS was enhanced by 35% in Nov'08 when SBP reverted to providing 100% refinance against the scheme, to accommodate the 30% finance then being provided by the commercial banks. The limit under the schemes stands at Rs 222 billion reflecting an increase of 32% while outstanding amount against the scheme has increased by 27% to Rs. 198 billion along with disbursements of Rs 446 billion during December 2008-December 2009.

The growth of financing during the year Dec'09 shows incremental financing of Rs. 41 billion compared to 2008 with maximum increase of Rs 36.5 billion in Private Banks (See Table below). The increased flows are reflective of the SBP's resolve to ensure adequate liquidity to the exporters in face of difficult economic conditions.

A comparative position of the amounts outstanding under EFS (including IERS) for the quarters ended Dec'09, Dec'08 and Dec'07 is presented in Graph below. Private sector banks retain 87% of the financing owing to their size, branch outreach and diversified customer base. While the cumulative share of the public sector banks, Islamic Banks (under IERS) and foreign banks is 13% of the total.

Table 1a: Flows of EFS (Rs Million)

Banking Group	YoY change 2009	YoY change 2008
Public Sector Banks	(317)	2,093
Private Banks	36,524	15,415
Islamic Banks	1,287	313
Foreign Banks	3,374	306
specialized Banks	24	9
Total	40,892	18,136

The details of sector-wise utilization of EFS are given in the *Annexure 1B*

1.9. ISLAMIC EXPORT REFINANCE SCHEME (IERS)

Under the Islamic Export Refinance Scheme there are 8 participating banks i.e. 4 Islamic Banks and 4 conventional banks' Islamic Banking Operations. The scheme was initiated in 2002 with Meezan Bank being assigned a limit of Rs 500 million. Limits under the scheme have since grown to Rs 14.65 billion as on December 2009, 46% higher compared to December 2008 position.

The amount outstanding under IERS stood at Rs 9.5 billion showing an increase of 32% compared with Dec'08 position. The total disbursements during Jan-Dec 2009 stood at Rs 19.86billion, 41% higher compared to the corresponding period of 2008.

1.10. LONG TERM FINANCING FACILITIES

Under the Long Term Financing Facility for Plant & Machinery (LTFF), a limit of Rs. 19 billion has been allocated to the financial institutions, on the back of higher demand for project finance by Participating Financial Institutions. The disbursements under the scheme at the end of the year totaled Rs.11 billion while the outstanding amount was Rs.10.73 billion.

1.11. NEW POLICY INITIATIVES

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

Scheme for Financing Power Plants Using Renewable Energy

With a view to meet the growing electricity demand and to promote renewable energy projects in the country SBP introduced financing scheme for establishment of new Power Projects Using Renewable Energy with a capacity of up-to 10 MW vide SMEFD Circular No. 19 dated December 1, 2009. Preference shall be given to projects being established in the lesser developed areas of the country. The maximum tenor of the loans granted under the facility shall be 10 years with a maximum grace period of 2 years.

Agri. Loans Refinancing & Guarantee Scheme for War Affected Areas of NWFP and FATA

To facilitate the farmers of the war affected areas of NWFP and FATA, SBP allowed banks to obtain refinance against their agricultural loans, vide SMEFD Circular No. 18 dated November 6, 2009. The scheme offered concessionary rates to the farmers which shall not exceed 8%. The tenor of the loans shall be based on the cropping cycle and working capital facilities will be provided for a maximum period of one year.

Refinancing Facility for Modernization of SMEs- Rice Husking Mills

SBP, vide SMEFD Circular No. 17 dated November 02, 2009 introduced a scheme for providing refinance facility for modernization of SMEs wherein financing shall be available at subsidized rates for import/purchase of new Rice Husking Machines, Paddy Driers and Parboiling Plants.

Scheme for Modernization of Cotton Ginning Factories

SBP will provide financing facilities to cotton ginners to modernize their factories to produce quality ginned cotton for the textile value chain as well as to meet the shortage of electricity, for a period of 7 years with a maximum grace period of 6 months carrying mark up rates from 8% -10%. The facility shall be available for BMR of cotton ginning factories, for purchase of new locally manufactured machinery and purchase of new generators upto capacity of 500KVA.

Re-fixation of Rates of Service Charges

The refinance rates charged under the LTFF Scheme were revised w.e.f 1st November 2009. The rates of service charges for Participating Financial Institutions (PFIs) and rates for end users under the captioned Scheme are given in *Annexure 1C*

Performance Based Mark-up Rates under Export Finance Scheme (EFS)

The Export Finance Scheme provides funds to exporters much below the market rates. However, to provide a further relief and to encourage high performers, SBP announced (in SMEFD Circular 06 of 2009 dated March 09, 2009) performance based reduction in EFS rates (see *Annexure 1C)*

Revision of Financing Rates under the Export Finance Scheme (EFS)

The refinance rates under the Export Finance Scheme were revised twice during the quarter under review, with a simultaneous revision of rates of benefit allowed under SMEFD Circular No. 6 dated March 9, 2009 to exporters based on their export performance against borrowing from SBP under Part-II of EFS.

The rates were increased by 0.5% w.e.f November 1, 2009 vide SMEFD Circular No. 15 dated October 31, 2009. The end user rate increased to 8% from 7.5% and simultaneously the benefit allowed under SMEFD Circular No. 6 of 2009 were also adjusted. The rates were again increased by 0.5% w.e.f January 1, 2010 vide SMEFD Circular No. 20 dated December 30, 2009. The end user rate increased to 8.5% from 8% and simultaneously the benefit allowed under SMEFD Circular No. 6 of 2009 were also adjusted in view of the revision (*Annexure 1C)*

Micro Finance

2.0. MICROFINANCE

Microfinance in Pakistan has come a long way from a nascent stage to an industry, which is now well-poised to grow. With current outreach of approximately 1.7 million borrowers, the sector saw phenomenal growth of almost 43% in years 2007 and 2008. However, in the year 2009 the industry experienced a slowdown and growth remained relatively constant. During the year 2009 microfinance borrowers increased by only 15% and in fact, during the quarter they declined by almost 5%. Many reasons account for this. First, the industry in the year 2009 consolidated upon its earlier growth and two leading microfinance players transformed into regulated banks; at present, Microfinance Banks (MFBs) have a greater market share. Second, some leading microfinance players including unlicensed players experienced portfolio challenges, which stunted growth. Third MFBs faced liquidity issues as it was difficult to raise loans from commercial banks with the onset of the liquidity crunch that the banking sector faced. Given a challenging macro-economic environment and internal industry challenges, it is important to closely analyze the industry and aid its growth in a sustainable manner. The sector's resilience to current difficult environment depends on its ability to strengthen its fundamentals such as developing efficient cost structures, maintaining minimum portfolio-at-risk and building self-funding mechanisms.

Nonetheless, the sector in particular MFBs have made progress on a number of fronts during the quarter and during the year *(See Table 2A)* Branches increased by 5% for the year and by 6% during the quarter. A mix of vibrant and mature MFBs contributed the most to growth. The biggest contributors to borrowers' growth were the First Microfinance Bank Limited (FMFBL) and Tameer Microfinance Bank Limited (TMBL) with a net increase of 31,601 and 26,841 borrowers respectively.

Table 2A: Snapshot of Microfinance Banks

	Dec-08	Sep-09	Dec-09	Growth
MFBs	8	8	8	0
Branches	271	269	284	5
Borrowers	542,641	656,107	626,219	15
Advances	6,461,462	8,918,507	8,501,810	32
Deposits	4,115,667	5,812,493	7,099,206	72
Depositors	254,381	402,644	495,024	80
Assets	14,623,553	16,492,680	17,715,994	21
Borrowings	5,069,820	4,790,093	4,768,600	-6
Equity	5,034,783	5,096,803	5,380,410	7
NPLs (Rs.'000)	148,195	228,131	137,686	-7

Gross Loan Portfolio (GLP) recorded a significant 32% growth during the year of 2009, with FMFBL, Tameer, as the leading contributors. Khushhali, Kashf and Network have also positively contributed while, the portfolio of remaining MFBs marginally declined. Given the tight liquidity situation in the market, it is now imperative for MFBs to develop a strong deposit base. The borrowings by MFBs have declined by 6% YoY basis, registering a value of Rs. 4.76 billion during 2009. The decline was mainly because of the influence of the global waves of economic downturn and resulting cautious approach of commercial banks for whole sale lending to microfinance banks. This realization has permeated within the sector with MFB deposits surging by 72% over the year of 2009. The increased savings base of the microfinance sector is primarily fuelled by FMFB and TMBL. Kashf Bank is also making serious inroads in the area despite being a new entrant in the market. Given an increase in MFBs in 2009, total assets of MFBs grew by 21% for the year from Rs. 14.62 billion to Rs. 17.72 billion as did equity by 7% to Rs. 5.38 billion during 2009.

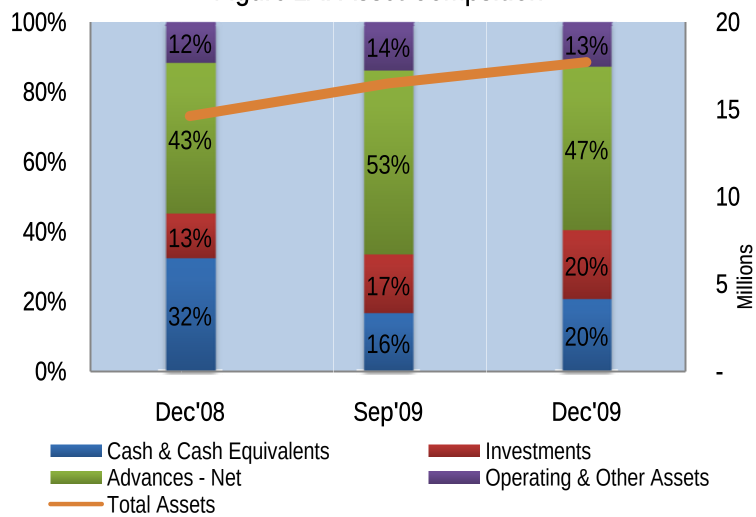
Most notably non-performing loans of MFBs have stayed under control and exhibit a downward trend. In the beginning of 2009 non-performing loans stood at 2.3%, which rose slightly to 2.6% in September of 2009 and then declined back to 1.6% in

December of 2009 as a proportion of advances. This is remarkable improvement given the tight liquidity conditions and slowdown in overall economic activity during the year2009.

2.1. ASSETS

The asset base of microfinance banks registered a value of Rs.17.72 billion at the end of 2009 increasing from Rs.14.62 billion at the beginning of the year by 21% and increased by 7% over the quarter ending December of 2009 from Rs.16.49 billion. Moreover, as figure one indicates, MFBs have demonstrated a more efficient use of its assets as advances have become a greater component of its asset base over the year, while declining relatively over the quarter and portfolio to total assets stood at 47% at the end of the year in 2009 and 43% at the end of 2008. Compared to regional peers, this is still relatively inefficient 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 improve in 2010, with increased lending by MFBs to the underserved, especially by new MFBs in their bid to expand. Given the presence of new MFBs, investments have increased from 13% of the asset base over the year to 20%. Cash and its equivalents increased over the quarter from 16% to 20% of total assets, but declined over the year from 32%. This trend is reflective of increasing lending and investment activities.

Figure 2A: Asset Compsition



2.2. FUNDING

The funding structure of MFBs illustrates slight changes during the year under review as shown in the *Table 2a*. 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. The drive to collect deposits was led by FMFB and TMBL during the year 2009, whose deposit market share was 91%. Khushali Bank, the oldest MFB, has so far managed to capture only 2% of the total volume of deposits.

Table 2a: Composition of Funding Structure

	Dec'08	Sep'09	Dec'09
Deposits	28%	36%	40%
Borrowings	35%	30%	27%
Other Liabilities	3%	3%	3%
Equity	34%	32%	30%

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

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% of total funding over the year. 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

Overall year-on-year deposits have escalated by 72%. Deposit growth has been particularly rapid over the quarter as well, with MFBs experiencing 22% growth in the area. Fixed deposits, the most stable form of deposits, have mainly contributed towards this growth, which is a particularly notable development. Fixed deposits comprised 62% of overall deposits, while

BANK IN FOCUS - BRI'S IMPRESSIVE DEPOSIT MOBILIZATION

BRI is one of the most successful examples around the world in mobilizing micro deposits. According to the Mix Market, BRI has collected deposits worth USD 46.8 million with 311,553 depositors in 2008. The average deposit of the bank is USD 150. Beyond impressive numbers, BRI has taken a number of steps to build a sustainable deposit base, which includes:

- The board played an effective role in deposit mobilization by making it a key element of corporate identity and an integral part of financial services. Moreover, the board also got involved in the business planning process to ensure that appropriate systems and controls were in place.
- BRI operates a wide network of branches with a lean and low-cost structure and with only essential staff. This helped the microfinance institution become closer to the public and address their savings needs.
- BRI designed appropriate savings products and offered perks to clients such as lotteries to help attract clients. Moreover, BRI also designed simple savings products to help lower administrative costs and manage deposit growth.
- BRI has also developed appropriate internal risk and liquidity management systems. For prudential liquidity management, each of the MFIs has established an internal liquidity pool or is linked to the liquidity pool of a partner organization (another bank). The internal liquidity transfer price is set high enough to encourage savings mobilization. Empirical evidence from BRI shows that an internal liquidity price close to the interbank lending rate is conducive for savings mobilization.

However, BRI's success in deposit intermediation was also based on the right mix of circumstances. First, a policy of liberalization was adopted by the government of Indonesia, which increased competition among MFIs to offer a diverse range of financial services including savings products. Second, elimination of cheap financing served as an added incentive for BRI to intermediate deposits. Third, the currency crisis created incentives for people to deposit money with government owned banks including BRI, which offered deposit insurance. Hence, BRI was effectively able to compete with private sector players.

BRI's success in deposit intermediation holds valuable lessons for policymakers and practitioners alike in Pakistan. Policymakers including at SBP must help in creating an appropriate incentive structure where deposits are a relatively alternative for funds compared to other sources. Moreover, MFBs must develop ownership for implementation of deposit mobilization strategies, which must stretch across all levels right from the board to the front line staff and clients. A critical mix of such circumstances will help create appropriate conditions for deposit mobilization and allow MFBs to go down market.

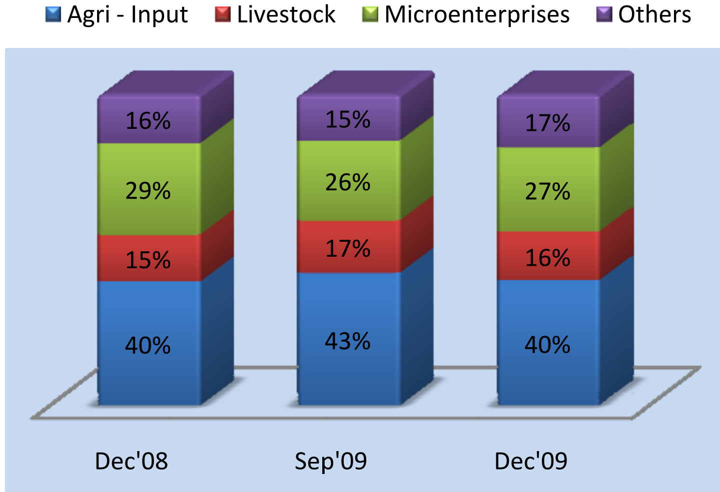
Profit and Loss Sharing (PLS) deposits and current deposits stood at 17% and 20% of overall deposits respectively in December of 2009.

Deposits are critical for sector growth and the State Bank of Pakistan (SBP) in its new strategic framework for sustainable microfinance in Pakistan has identified key challenges for the fledgling sector and deposit mobilization has been on the top of agenda. SBP has taken various initiatives to provide enabling environment for mobilization of local resources such as use of alternate delivery channels and allowing schedule bank status to MFBs. Moreover, microfinance players can learn from various microfinance institutions around the globe such as BRI, who has had particular success in deposit mobilization.

2.4. ADVANCES

Advances are gradually increasing and have registered a value of Rs. 8.25 billion by the end of 2009, with slight variations in concentration of loan portfolio of MFBs. Agriculture financing dominates the advances by MFBs, with 40% of share in total advances by MFBs. Microenterprise and livestock are second and third largest sectors financed by MFBs in terms of their relative share of microcredit, standing at 27% and 16% respectively during the year. 56% of total advances to agriculture sector including inputs and livestock clearly indicate the rural focus of microfinance banks. Financing for agricultural inputs has particularly increased over the year 2009 from Rs.2.58 billion to Rs.3.42 billion, but declined over the quarter by roughly 10%. This may be due to seasonal fluctuations, with harvesting of crops.

Figure 2B: Composition of Advances



2.5. NON PERFORMING LOANS

The year 2009 witnessed an overall positive trend in NPLs with improvement in the portfolio quality of MFBs. All categories of NPLs have demonstrated improvement, except the write-off or loss category, which has shown marginal increase. The value of total NPLs (PAR>30) has significantly decreased to Rs. 137 million from Rs. 148 million during the year. Overall NPLs of MFBs stood at 1.62% of total loan portfolio as of December 2009. The overall improvement in NPLs is very promising for the future growth and is an indication of the robustness of the microfinance banking sector.

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 with decrease in proportion of male borrowers. The male to female ratio was 76 to 24 in December 2008 whereas in December 2009 it stood at 72 to 28. Furthermore, average loan size has been rising gradually for both male and female clients, with an amount of Rs. 14,800 for male and Rs.10,900 for female clients, as of yearend 2009.

2.7. NEWS AND UPDATES

Industry News

MONEY TRANSFER SERVICE

In November of 2009 Tameer Microfinance Bank and Telenor Pakistan announced the launch of Money Transfer, which will help increase financial services to the unbanked without the costs associated with the "brick and motar" approach. Money

Transfer is a secure, easy and convenient way of sending and receiving domestic remittances through designated retail outlets. Users will have the convenience to access the service from more than 4,000 merchants, a figure expected to reach 20,000 by the end of year 2010. SBP is also facilitating the MFB under its Institutional Strengthening Fund.

SBP AND PTA ENHANCE MOBILE BANKING

In the interest of expanding the reach of mobile banking within an appropriate risk and regulatory framework the State Bank of Pakistan (SBP) and the Pakistan Telecommunication Authority (PTA) have agreed to introduce a unified regulatory framework for enhancing mobile banking in the country. "It has been decided to set up a Joint Regulatory Committee," said a joint statement released after a meeting held at SBP, Karachi recently between Syed Salim Raza, Governor, State Bank of Pakistan and Dr Mohammed Yaseen, Chairman PTA. The purpose of the committee will be to develop a regulatory framework for the Third Party Solution Provider (TPSP) system. It will propose modification in existing regulatory or legal framework, if needed. Further, an M-banking Stakeholders Group including mobile network operators, financial institutions, Ministry of Information Technology, PTA and SBP is also proposed to be set up, which would address technical standards, product and services, licensing regime and relevant operational issues.

News from the Globe

PHILIPPINES CENTRAL BANK ISSUES GUIDELINES ON HOUSING MICROFINANCE

Poor families that want to build their own homes will have an easier time doing so after the Bangko Sentral ng Pilipinas (BSP) approves rules on the extension of housing microfinance loans by banks. In issuing the circular dated January 6, 2010, the Central Bank said the housing microfinance provision is "seen as a way to improve the living conditions of the enterprising poor and the low-income households, which will contribute to better health, productivity and quality of life."
The Circular requires that banks that plan to offer a housing microfinance product must comply with the following requirements:

- Have a track record of at least two years of implementing a sustainable microfinance program;
- Have a housing microfinance manual and trained loan officers who can properly explain the product to clients;
- Have at least a CAMELS rating of 3, a capital adequacy ratio not lower than 12%, have not been subjected to a prompt corrective action by the BSP and have no arrearages in microfinance borrowing;
- A certificate from the bank on its commitment to implement its housing microfinance product based on its submitted manual.

The BSP also said that since the risk profile of the new product may be different from regular microfinance loans, banks must carefully study the ability of clients to repay the loan, especially the new customers.

MICROFINANCE ROUTE TO REACH RURAL CONSUMERS

Nokia India has announced plans to roll out a unique Microfinancing offer in 12 states to make mobility more accessible to rural markets and notably, to the female population in rural India.
The company has recently concluded a successful pilot in partnership with a leading microfinance institution in the rural areas of Andhra Pradesh and Karnataka, said a press release. Under this pilot, an easy payment scheme was offered on handsets to women consumers at a weekly installment of Rs100 over 25 weeks. Conducted across over 2,500 villages, the pilot received a heartwarming response and received over 27,500 applications, the release added.

RISING COSTS AT ONSET OF ECONOMIC SLOWDOWN

2008 MFI Benchmarks is first global data set to reflect the impact of economic crisis on microfinance providers in developing countries. According to the Microfinance Information Exchange (MIX), rising operating costs and slower growth plague many MFIs. Rising costs can be accounted by increasing portfolio arrears in a number of markets, which has reduced staff productivity and slower growth that has left many MFIs with an excess in personnel. To MFI managers, this poses an extra challenge of maintaining their business in difficult times while positioning themselves for growth and recovery as the economy improves. These costs need to be monitored for the year 2009 and 2010 to snure the return to low cost delivery of microfinance services.

The MIX is a business information and data services provider for the global microfinance industry, announced the release of its latest data set, the 2008 MFI Benchmarks. The benchmarks cover financial and performance data from 1084 microfinance institutions throughout Asia, Africa, the Middle East, Eastern Europe and Latin America for calendar year 2008.

2.8. MAJOR INITIATIVES DURING THE YEAR 2009

In order to promote the sector, SBP has recently introduced several initiatives in order to enable MFBs to diversify their product line, consolidate their revenues and attain stability. In the year 2009 following initiatives have been taken;

- Tameer MFB has been granted direct membership of clearing house. Tameer has also launched its branchless banking model 'easypaisa' to facilitate the bills payment and domestic remittances.
- Prudential Regulations for MFBs were revised to i) allow housing finance up to Rs.500,000/- ii) increase the eligible level of house hold income up to Rs. 300,000/- from Rs. 150,000 for general loan; the borrowers' income level for housing loan is Rs. 600,000/- iii) rationalize the loans provisioning criteria iv) mandatory CIB requirement for borrowers exceeding loans Rs. 50,000/-.
- The First Microfinance Bank (FMFB) is continuing successful partnership with Pakistan Post (PP) to deliver the financial services through the PP outlets. Currently, FMFB is operating through 68 post offices with total disbursement of 523 million, and more than 40,000 active borrowers as of December 2010.
- Under Institutional Strengthening Fund, SBP signed MOUs with Pakistan Microfinance Network, NRSP and Tameer Microfinance bank to strengthen the capacity of microfinance banks and institutions to increase their outreach to under-served areas on sustainable basis.
- Under Microfinance Credit Guarantee Facility (MCGF), the four MFBs have been able to successfully negotiate loan deals with commercial banks. On completion of legal documentation, the funds under these transactions are likely to be released in the first quarter 2010.
- SBP issued guidelines allowing FCY borrowing by microfinance banks and institutions.
- SBP facilitated the establishment of MF-specific CIB to provide robust credit information infrastructure to the industry.
- NRSP has been granted microfinance banking license on 18 February, 2009
- SBP facilitated international alliances for development of domestic microfinance market. In this regard, BRAC and ASA were facilitated to expand their operations in Pakistan.

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Agricultural Finance

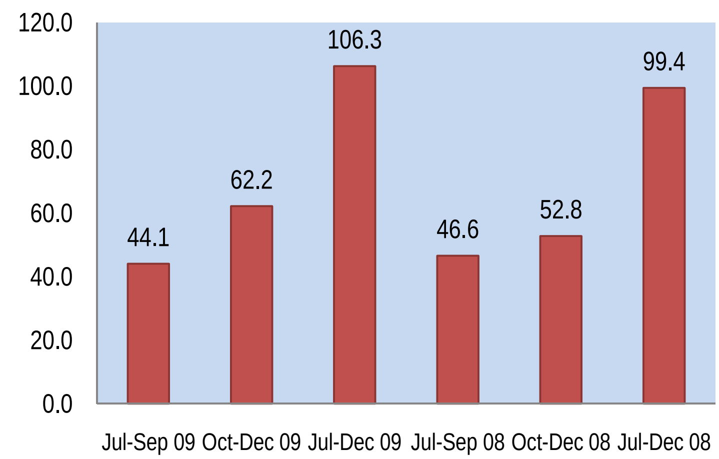
3.0. AGRI FINANCING

The Agricultural Credit Advisory Committee (ACAC) in its annual meeting held on 18th August, 2009 had set agricultural credit target of Rs 260 billion for 2009-10. The target was 11.6 percent 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

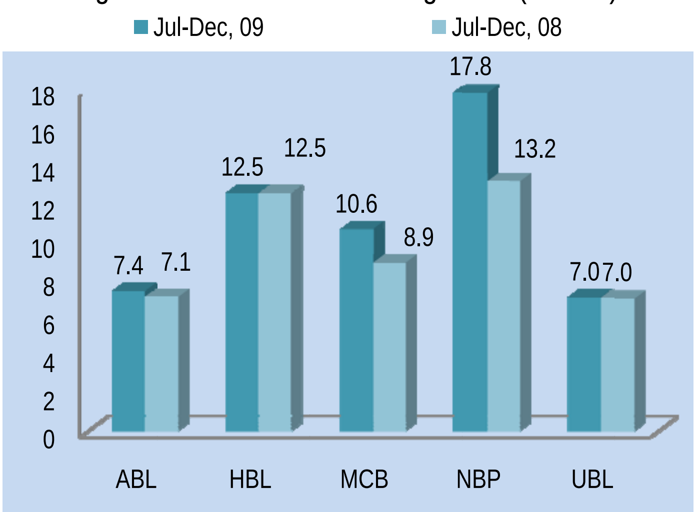
During H1 of FY10, banks disbursed Rs 106.3 billion to agriculture sector as against Rs 99.4 billion disbursed in the corresponding period last year. The disbursement was 6.9 percent more when compared with the corresponding period of last year. Quarter-wise disbursement reveals that banks disbursed Rs.44.1 billion in July – September quarter and Rs 62 in October-December quarter, 2009. Lower disbursement in 1st quarter was mainly due to the harvesting period of major crops viz. cotton, rice and increased cash flows of farmers, decline in cultivated area under major Kharif crops and rising NPLs of smaller commercial banks. However, disbursement improved significantly in the 2nd quarter and banks disbursed Rs 62.2 billion as against Rs 52.8 billion disbursed in the same quarter last year. (*See Figure 3A*)

Figure 3A: Agri. Credit Disbursements (Billions)

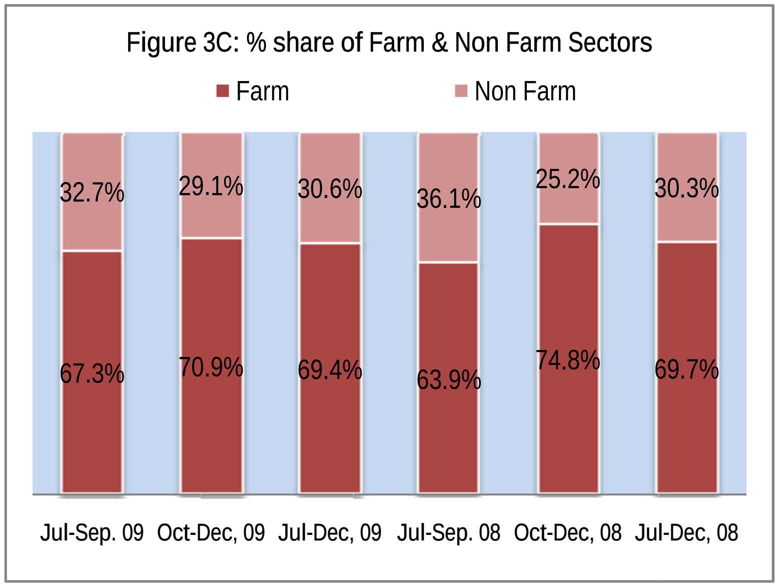


Bank-wise break up of agri credit disbursements reveals that during H1 of FY10, five major banks as a group disbursed Rs 55.4 billion or 44.7% of the total annual targets, ZTBL disbursed Rs 30.4 billion or 38% of the target, Domestic Private Banks (DPBs) disbursed Rs 18.2 billion or 36.4% and PPCBL disbursed Rs 2.3 billion or 38.3% of the target. The performance of 5 major commercial banks, ZTBL and PPCBL in H1 of FY10 remained almost in line with last year's disbursement trends; however, disbursement of DPBs as a group was below from their performance in the corresponding period last year.

Figure 3B: Disbursements - 5 Big Banks (Billions)



Quarter-wise disbursement by five major banks is shown in the *Figure 3B.* Province-wise disbursement reveals that during July-December, 2009, 85.6% of total credit (Rs 106.3 billion) was disbursed in Punjab, 1.1% Sindh and in N.W.F.P banks disbursed Rs 2.8 billion during July-December, 2009 as against Rs 3.6 billion in the corresponding period last year due to the prevailing law & order situation in the region. Further, an amount of Rs 0.3 billion and Rs 0.4 billion were also disbursed in Baluchistan and AJK/Gilgit-Baltistan respectively. Further, details of Province-wise disbursements can be seen in *Annexure 1D (Table 3b).* Moreover, Sector-wise classification indicates that out of Rs 106.3 billion an amount of Rs 73.8 billion was disbursed to farm sector and Rs 32.5 billion to non farm sector during H1–FY10, while the disbursement of Rs 69.3 billion was made to farm and Rs 30.1 billion to non-farm sector during the corresponding period last year. The share of non farm sector shows increasing trends over last few years mainly due to SBP's initiatives of encouraging banks through issuance of product development guidelines for non-farm sector activities like livestock, fisheries, poultry, etc. Sector-wise agricultural credit disbursement is given in *Annexure 1D & 1E* while its percentage share to farm and non farm sector is illustrated in *Figure 3C*

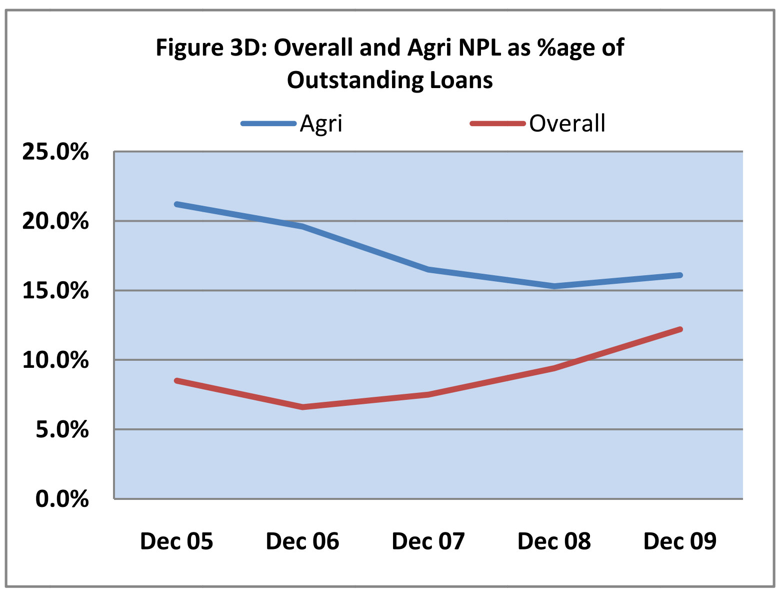


3.2. AGRICULTURAL CREDIT RECOVERY

During July-December, 2009 banks recovered Rs 103.2 billion or 85.3 percent of recoverable amount of agri. loans compared with Rs 90.9 billion or 76.4 percent recovered out of the recoverable amount of Rs 119.0 billion during the corresponding period. Five major banks recovered Rs 56.7 billion or 91.5 percent of the recoverable amount compared with Rs 43.5 billion or 86.6 percent of recoverable amount last year. ZTBL recovered Rs 24.7 billion or 72.7 percent of the recoverable amount compared with Rs 25.1 billion or 65.2 percent of recoverable amount last year. DPBs concentrated on recovery drive and recovered Rs 18.8 billion or 106.0 percent of recoverable amount and PPCBL could recover only Rs 2.9 billion or 41.0 percent of its recoverable amount.

3.3. AGRI. NON-PERFORMING LOANS

Non-performing loans in agri. financing stood at Rs 27.2 billion or 16. 1 percent of the agri. outstanding loans as on 31st December, 2009 compared with Rs 25.7 billion or 15.3 percent of the outstanding loans as on 31st December, 2008. Agri. NPLs are declining compared to the rising NPLs of the whole Banking Industry during the period Dec-04 to Dec-09, partly attributable to cautious lending approach of banks in a period of economic slowdown. *Figure 3D* shows total NPLs as well as Agri. NPLs as a Percentage of respective outstanding loan amounts.



3.4. NUMBER OF AGRI. LOAN BORROWERS

Agri. Loan borrowers were 1.89 million on 30th September, 2009 and witnessed a slight reduction to 1.88 million as on end December, 2009 mainly due to non utilization of wholesale credit lines by the rural support programs for onward lending to small farmers.

3.5. MAJOR INITIATIVES DURING THE YEAR

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

Relief Package for Small Farmers of Malakand Division & FATA

To facilitate farmers of war affected areas of NWFP and FATA in settlement of their outstanding agri. loan liabilities and enable them to obtain fresh loans from banks to resume their agricultural activities in these areas, SBP vide ACD Circular No. 02 dated 2nd December, 2009 advised banks to implement the Prime Minister's relief package and stop recovery & accrual of mark-up of all agricultural loans of small/ subsistence farmers of the districts of Malakand Division viz. Swat, Buner, Shangla, Lower Dir, Upper Dir, Malakand & Chitral and FATA (Bajaur Agency, Kurram Agency and Khyber Agency). The relief package was announced by the Prime Minister of Pakistan during the Kissan Convention 2009, for remission/ write-off of small farmers' agri. loans (farm & non-farm) of war affected areas of Malakand Division and FATA. The cost thereof shall be borne by the federal government, which has earmarked an amount of Rs 2.56 billion for this purpose.

Pilot Project Phase II & Introduction of One Window Operation

The Pilot Project Phase II has been launched in 28 agri. intensive districts of the country (Punjab 14, Sindh 9, NWFP 3 and Baluchistan 2) from Rabi Season 2009-10. The project is aimed to create linkages among stakeholders, strengthen banks' agri. finance infrastructure and create awareness among farmers about agri. loan schemes of banks. The project will increase the flow of institutional credit on fast track basis in the underserved districts of the country. Under the Project, banks have disbursed Rs. 24.7 billion or 56 percent of the target of Rs 43.9 billion up to 31st December 2009. The number of borrowers served was 144,214 including around 36,000 fresh borrowers.

Further, to ensure timely disbursement of agri. loans and address issues of delays in issuance of passbook and timely completion of revenue formalities in pilot districts, 'One Window Operation' facility has also been introduced in the pilot districts by the provincial revenue authorities in collaboration with participating banks and offices of SBP-BSC. The operation has facilitated banks and farming community in timely completion of revenue formalities and access to finance on fast track basis.

Internship Program for Agricultural Graduates

To provide hands on theoretical & practical training to agri. graduates, SBP has introduced a 6-weeks specialized Internship Program on bi-annual basis. The program will include 2-weeks training at SBP Karachi wherein the participants will be briefed about SBP, its departments, functions, policy & regulatory framework for Development Finance and agriculture financing. Thereafter, the internees will be posted to commercial banks' agri. designated branches near their place of residence to learn agri. lending processes & systems of banks in terms of identification of borrowers, cash flow analysis, credit requirements, etc. at grass root level. They will complete a report on the topic agreed in consultation with respective Chief Manager of SBP-BSC office and the commercial bank. Around 50 agri. graduates/post-graduates will benefit from the program annually.

Formation of Task Force on National Agricultural Insurance Scheme

After successful implementation of mandatory Crop Loan Insurance Scheme from Rabi 2008 for five major crops viz. wheat, rice, cotton, maize and sugarcane, a Task Force on National Agricultural Insurance Scheme (NAIS) has been formed by SBP for developing an optional agriculture insurance scheme for small farmers. The scheme will mitigate the risk of losses of small non borrower farmers in case of natural hazards and calamities. The Task Force comprises of representatives of Ministry of Food & Agriculture (MINFA), Pakistan Agri. Research Council (PARC), Securities & Exchange Commission of Pakistan, National Insurance Corporation, major private insurance companies, selected banks and officials of SBP & SBP- BSC.

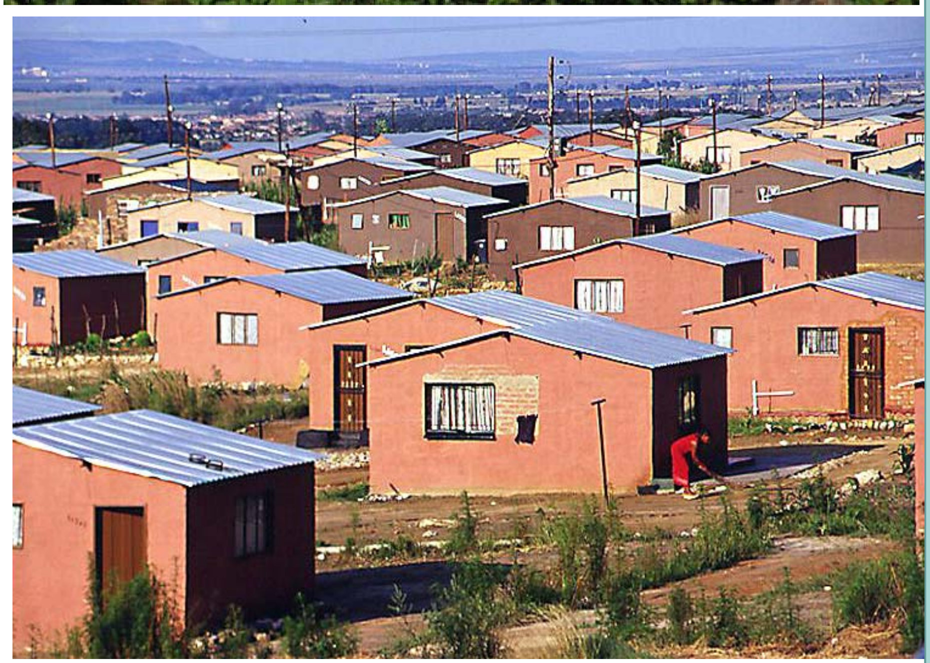
Simplification of Agri. Loan Documents & Turnaround time

To remove the bottlenecks in smooth and timely disbursement of agri. credit, a committee comprising of Agri. Heads, heads of Credit Administration Department, risk management of banks was constituted to review the current practices and make recommendations for simplifying the agri. loan documentation and loan disbursement procedure. The committee has accomplished its task of eliminating unnecessary documents & lengthy activities and has prepared list of documents and turnaround time of activities which is being finalized in the light of the feedback from concerned stakeholders.

In addition to these, following key initiatives were also undertaken during the year.

- Developed the Benazir Zarai Card Scheme (BZCS) in collaboration with Pakistan Banks Association, vendors' network, input suppliers, etc. to improve farmers' access to institutional credit.
- One week Crash Training Programs were launched to educate and train agri. field officers of banks about major dimensions of agri. financing, SBP's policies & schemes, agri. financing tools and techniques, security & loan documentations, loan monitoring & recovery mechanism, agri. credit risk management, group based lending to farmers, agri. loan marketing. During the first phase, around 600 Agri. Field Officers (AFOs) of banks and officers of SBP-BSC were imparted training in 20 such programs throughout the country.
- A Focus Group was constituted by SBP comprising of bankers, officials of MINFA, provincial agriculture departments, progressive farmers and experts in agri. finance, to focus on agri. lending issues and development of schemes/policies in consultation with researchers, experts and practitioners of agriculture and agri. financing banks. The group will meet quarterly to analyze issues involved in agri. financing and will make recommendations for review and implementation by ACAC.
- Microfinance Banks were inducted in the Agriculture Finance Network for increasing the outreach of agriculture finance and meeting the requirements of farming community. A proper database on agri. microfinance was developed for this purpose. Moreover, the Mandatory Crop Loan Insurance Scheme was also extended to MFBs to cover their risks.
- To facilitate farming community in repayment of crop production loans under SBP Revolving Credit Scheme based on their cropping cycle and cash flows, ACD vide its circular No. 1, dated September 01, 2009 has allowed banks to segregate the repayments by borrowers in two stages i.e. at least 50% of the utilized credit during the year after harvest of each Rabi and Kharif crop instead of existing condition of one time annual clean up for renewal of the facility. Total repayments in the loan account during the year equals to the maximum amount availed/ outstanding during the year shall also be treated as clean up of the account.
- Prepared refinance and credit guarantee schemes in collaboration with SMEFD for banks providing agri. production loans to the farmers of affected areas of NWFP and FATA.
- Keeping in view the potential and demand for Islamic banking products in the area of agriculture, SBP, in consultation with stakeholders, developed guidelines on Islamic financing for agriculture to facilitate banks in developing specific Shariah compliant products to meet financing needs of the farming community.

Housing Finance



4.0. HOUSING FINANCE

After demonstrating a promising growth trend during previous five years, the housing finance sector reported a decline of 11.22% in outstanding portfolio over the last year. The total outstanding reported by banks and DFIs as on Dec 31, 2009 was Rs. 74.38 billion compared to Rs. 83.78 billion as on Dec 31, 2008. The total number of outstanding borrowers has decreased from 123,107 to 112,785 since December 2008; showing a 8.4% fall.

Non-performing loans have increased from Rs. 12.31 billion (Dec 2008) to Rs. 15.80 billion (Dec 2009); a 28% increase over the year. However, this rise in NPLs is not unique to housing finance and is only depicting the overall increase in NPLs of all sectors witnessed in the banking industry during the past year.

Approximately 472 new borrowers were extended house loans during the quarter, accounting for Rs. 1.61 billion of new disbursements. While financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising almost 59% share in gross outstanding portfolio.

4.1. OUTSTANDING

The total outstanding finance at the end of reporting period of all banks and DFIs stood at Rs. 74.38 billion depicting a decrease of about 11.22% YoY basis.

Of the total outstanding, commercial banks accounted for Rs. 58.69 billion with private banks posting Rs. 35.90 billion; a decline of 18.95% YoY basis. Public sector banks reported an outstanding of Rs. 8.58 billion, followed by Islamic banks with Rs. 8.75 billion and foreign banks with Rs. 5.45 billion. Excluding DFIs, all commercial banks collectively posted a 12.01% decline YoY basis. Moreover the outstanding loans of HBFC were Rs. 15.27 billion; a decline of 7.68% YoY basis and other DFIs have a meager share of Rs. 0.42 billion in outstanding loans.

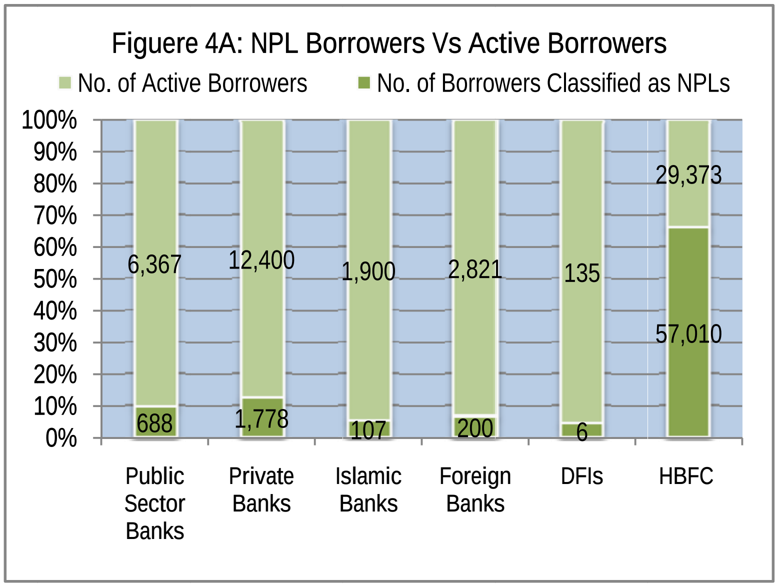
4.2. NON-PERFORMING LOANS

NPLs have increased from Rs. 12.31 billion (Dec 2008) to Rs. 15.80 billion (Dec 2009); a 28% increase YoY basis. Further, 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 the rising inflation and interest rates.

Moreover, HBFC's NPLs have increased from Rs. 6.21 billion to Rs. 6.52 billion YoY basis; an almost 5% increase. Although growth of its NPLs remained relatively low in absolute terms when compared to other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 43% of its total outstanding comprises of NPLs. Excluding HBFC, NPLs for all banks and other DFIs have increased by 52% over the year from Rs. 6.09 billion to Rs. 9.28 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 15.57% of their total outstanding portfolio, compared to a 9.06% as on Dec 31, 2008.

4.3. NUMBER OF BORROWERS

Total number of outstanding borrowers has decreased from 123,107 to 112,785 YoY basis; an 8.3% fall. *Figure 4A* shows number of borrowers that has been classified as NPLs as a percentage of total borrowers. Approximately 53% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number (57,010) of non-active borrowers who have been classified as non-performing, which comes to 66% of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important as it caters to 76% of the total borrowers in housing finance sector which accounts for only 20% of total outstanding portfolio. Thus, by excluding HBFC, only 10.52% of total borrowers of housing loans have been classified as non-performing.



4.4. SHARE OF BANKS

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) remained almost the same since the end of last year, as it decreased marginally from 80.6% to 79%. Within commercial banks (Figure 6), the share of private banks in the total outstanding decreased from 53% to 48%. Share of public sector banks has declined slightly from 13% to 12%. Share of Islamic and foreign banks have increased from 11% to 12% and 3% to 7% respectively. The share of HBFC has remained almost stagnant at 20% of the total outstanding.

4.5. DISBURSEMENTS

A total of Rs. 1.6 billion worth fresh disbursements were made during the quarter ending Dec 31, 2009 *(See Table 4a)*. Private Banks extended new disbursements of Rs. 878 million followed by Islamic banks with Rs. 493 million and foreign banks with Rs. 92 Million

Table 4a: Disbursements during the Quarter

Category	Amount (Million)	No. of Borrowers
Public Sector	68	32
Private Banks	878	291
Islamic Banks	493	105
Foreign Banks	92	10
All Banks	1532	438
DFIs	0	0
HBFC	77	34
Total	1,609	472

4.6. SECTORAL SHARE

The biggest share of housing finance continued to be attracted towards outright purchase The outstanding, net of NPLs, for outright purchase stood at Rs. 35.91 billion as on Dec 31, 2009; a 59% share in total outstanding of Rs. 74.38 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 16.21 billion and that of renovation stood at Rs. 6.45 billion. While active portfolio shows that private banks have taken a lead in financing for all three sectors; construction 44%, outright purchase 55% and renovation 41%.

4.7. ANALYSIS OF LOAN VARIABLES

Annexure 1F &1G (Table 1, 2 &3) summarize loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity, average loan size and average time for loan processing.

WEIGHTED AVERAGE INTEREST RATE

The overall weighted average interest rate for the quarter ending Dec 31, 2009 comes to 15.64%; an increase of 1.24 percentage points when compared to quarter ending Dec 31, 2008. Highest weighted average profit rate was reported by foreign banks at 17.73%, a 0.84 percentage point increase compared to quarter ending Dec 31, 2008 followed by Islamic banks at 17.12% and DFIs (excluding HBFC) at 16.5%. Private Banks reported 14.98%, public sector banks reported a weighted average interest rate of 14.89% and HBFC reported 13.5%.

AVERAGE MATURITY PERIODS

Average maturity periods have shown increase signs i.e.; from 12.4 years to 12.56 years YoY basis. HBFC's average maturity period is reported to be 15.98 years, while that of Islamic banks is 15.25 years. *Annexure 1F (Table 1)* shows that among commercial banks, public sector banks have extended housing loans for an average tenure of 9.5 years followed by private sector banks with 12.3 years and foreign banks with 12.43 years.

LOAN TO VALUE RATIO

The percentage of financing (Loan to Value ratio) extended by banks has increased during last year *Annexure 1F (Table 2)*. The LTV ratio for housing finance rose from 44.7% during quarter ending Dec 2008 to 58.58% during quarter ending Dec 2009. The sharpest increase was witnessed among private banks where the LTV ratio rose from 40.3% to 60.25%. The LTVs for HBFC has, on the other hand, decreased from 67.5% to 60% 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 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; documentation is standardized and institutional inefficiencies removed.

AVERAGE LOAN SIZE

Average loan size for disbursements made during the quarter ending Dec 2009 is Rs. 2.50 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 0.74 million for the reporting quarter. Islamic banks have financed with an average financing size of Rs. 2.81 million. Private Banks reported an average loan size of Rs. 2.44 million, foreign banks of Rs. 2.74 million and public sector banks report Rs. 2 million. The housing finance market is still inclined towards lending to high income groups. *See Annexure 1G (Table 3)*

CONCLUSION

The quarter ending Dec 31, 2009 depicted a decrease in overall portfolio. NPLs in 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 considerably and maturity periods have increased only slightly. Average loan size has increased but only marginally. It is due to 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 like reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/ low income housing finance products. SBP 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 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 are being pursued with banks, GoP and IFC.

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. 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 200 bankers from over 20 banks have been trained in the mortgage business.

Report on 'Expanding Housing Finance System in Pakistan'

A report titled 'Expanding Housing Finance System in Pakistan' has been published, combining SBP-World Bank study on 'Housing Finance Reforms in Pakistan' and SBP Housing Advisory Group (HAG)'s report. This publication presented an overview of housing finance market in Pakistan and key constraints that impede development of housing sector in the country.

Creation of Web Portal

In a drive to provide different stake-holders with reliable needed information on various factors of housing/mortgage industry, as also recommended by HAG, SBP is working, in coordination with the Association of Mortgage Bankers, for developing a web portal.

Development of Housing Finance Guidelines

It is important and necessary to have a separate set of PRs and Guidelines for housing/mortgage finance due to its peculiar nature. These would be developed and shared with concerned stake-holders for consultation and improvement.

Development of Mechanism/Model for Large-Scale Developer Finance (LSDF)

Growth of Large Scale Developers is essential for development of housing sector to its potential. Banks have generally stayed away from LSDF because of the associated risks and unstructured Large Scale Developers sector. An effort will be made to develop a suitable model acceptable to banks and developers, and make the projects bankable.

Infrastructure Finance

5.0. INFRASTRUCTURE FINANCE

The infrastructure project finance portfolio has posted a 4.5% growth on YoY basis from Dec-2008 to Dec-2009. The quantum of overall disbursement was Rs. 27.4 billion during the quarter while it was Rs. 18.9 billion during the preceding quarter. There was a 41.6% downfall in volume of disbursements on YoY basis. Power generation sector remains the supreme beneficiary with disbursement of Rs. 17.5 billion during the quarter under review as compared to Rs. 13.2 billion during previous quarter while the quantum of disbursement for power generation was staggering Rs. 25 billion during Sep-Dec 2008 quarter. Telecom sector, which remained dormant in last quarter, received Rs. 4.1 billion during this quarter while the situation was more promising for telecom sector a year ago when it received Rs. 10.4 billion in September- December 2008.

The level of participation by private sector in project financing is visible only in a couple of sectors while hardly any activity has been seen in other important infrastructure sectors. The lack of infrastructure financing is primarily due to the absence of institutional arrangement with a mandate to focus on development and long-term financing for infrastructure projects. The SBP is working on an initiative of establishing Infrastructure Development & Finance Institution (IDFI) under Public Private Partnership in line with successful international models. The GoP and key multilaterals are on board regarding establishment of this institution. A dedicated institution 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 Dec 2009 was Rs. 262.3 billion as against Rs. 251.1 billion at the end of Dec 2008 achieving a growth of 4.5%. The analysis shows *(See figure 5A)* that stock of other sectors changed at a slow pace but the rise in stock of power generation is a constant feature which also hit a plateau in last two quarters. A number of factors like a power policy, expertise of financial sector and demand of energy have contributed to the increase of volume in outstanding portfolio of energy sector.

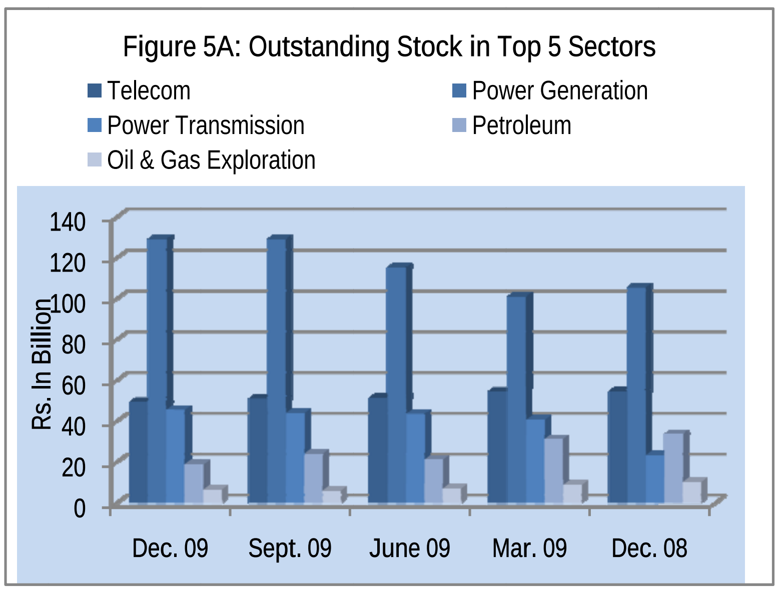
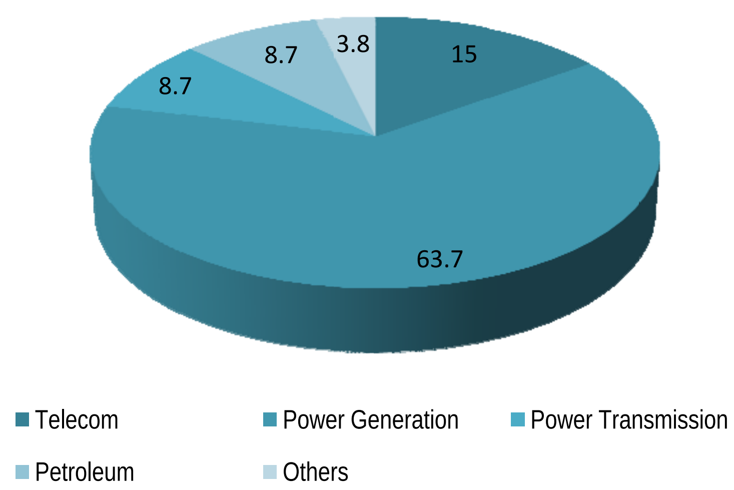


Figure 5A shows the position of top five sectors from Dec 2008 to Dec 2009. Telecom sector remained stable over the year while petroleum sector is gradually posting a low score as its stock decreased from Rs. 33.8 billion in Dec 2008 to Rs. 18.9 billion in Dec 2009. Power transmission, though, has shown an increase over the year but still much below the desired level, considering the huge unmet needs in this sector.

5.2. DISBURSEMENTS

A total of Rs. 27.4 billion disbursed during the quarter under consideration in all infrastructure sectors against Rs. 18.9 billion in preceding quarter. Meanwhile, the disbursement during Sep-Dec 2008 quarter was Rs. 38.8 billion. Power generation sector received Rs. 17.5 billion (63.7%), which is significantly higher than other sectors. Share of power generation sector in disbursement was also significantly higher in previous quarter at 69.8% (Rs. 13.2 billion) whereas it was 65% (Rs. 25 billion) during Sep-Dec 2008. Telecommunication sector received only Rs. 107 million in last quarter but increased up to Rs. 4.1 billion in this quarter. The absence of oil & gas sector is conspicuous, considering the significance and potential of this sector. (See *Figure 5B)*

Figure 5B: Disbursements during the Quarter



5.3. YEAR-WISE ANALYSIS

In Dec 2008, power generation sector had 42.1% of the total stock followed by telecommunication sector with 21.8%. After a year, the top slot continues to be held by power generation sector with a substantial 49.2% share in the pie. The telecommunication sector remained at second place with 18.8% share followed closely by power transmission sector at 17.3%. With rise in power transmission sector also, more than 60% of the infrastructure portfolio pie is taken by the power sector as a whole. Petroleum sector, despite having huge potential, had also been on the downside from 13.5% to 7.2% in a year.

5.4. BANKING SECTOR-WISE PERFORMANCE

BANKING SECTOR-WISE DISBURSEMENTS

The contribution of the private sector commercial banks in infrastructure project financing was Rs. 19.7 billion (71.9%) out of total Rs. 27.4 billion financing in infrastructure sectors during the quarter. while Public sector banks disbursed Rs. 6.9 billion (25.2%) and DFIs had a miniscule share of Rs. 800 million (2.9%) despite having a mandate of development finance. Further, during Sep-Dec 2008 quarter, private sector banks disbursed Rs. 26.7 billion (68.8%) while public sector banks Rs. 11.8 billion (30.4%) and DFIs Rs. 400 million (1%).

BANKING SECTOR-WISE SHARE IN OUTSTANDING

The category-wise share of banking sector in outstanding stock of infrastructure financing depicts a trend predominantly in private sector banks' way. The stock share of private sector banks hovered around 85% during the year. Public sector banks and DFIs have a marginal share and do 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. NEW INITIATIVES IN THE QUARTER

Table 5a shows that 8 projects have been finalized to the tune of Rs. 123 billion during the quarter. The Banking sector financing remained at Rs. 69 billion which is 56% of the total combined cost of these projects. Power sector figures prominently both in terms of project cost (Rs. 53.2 billion) and financing by banks and DFIs (Rs. 38.1 billion). This is directed towards three power projects which are expected to add 1511 MW to the national grid. One project in marine terminal category has been reported which is being built at Port Qasim to provide storage facilities for grain and fertilizer. This project will give storage capacity of 100,000 tons. The terminal will have the capability to handle vessels up to 75,000 DWT.

Table 5a	New Projects in Sep-Dec, 2009 Quarter (Rs. in Billion)		
Sectors	No. of Projects	Estimated Project Cost	Banks' Financing
Power Generation	3	53.2	38.1
Telecom	2	52	18.4
Marine Terminal	1	9.2	6.5
Oil & Gas Exploration	1	4.9	3.5
Power Transmission	1	3.7	2.5
Total	8	123	69

5.6. KEY INITIATIVES AND ACHIEVEMENTS

Appreciating the critical role of infrastructure sector in propelling the domestic economy, following key initiatives have been taken/planned by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

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' is being planned for the current year.

Revised Guidelines for Infrastructure Project Financing

The existing guidelines for 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, have been developed and shared with the key stakeholders to seek their input. Revised guidelines are expected to be issued shortly.

Infrastructure Development Finance Institution

State Bank is presently working on an initiative to establish an institution under Public-Private Partnership mode 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.

ANNEXURES

Annexure 1A

Break up of SME Outstanding (in Billions)	Mar-09	Jun-09	Sep-09	Dec-09
	Amount	Amount	Amount	Amount
Enterprise wise Break-up				
Advances to trading SMEs	138.59	133.32	130.16	152.23
Advances to manufacturing SMEs	157.75	154.04	144.21	142.84
Advances to services SMEs	52.78	57.78	56.38	53.13
Total Advances	349.12	345.15	330.75	348.20

Duration wise Breakup				
Short term advances to SMEs - upto one year	280.30	275.65	265.08	264.58
Long term advances to SMEs - exceeding 3 years	38.37	39.29	39.21	59.06
Medium term advances to SMEs over 1 to 3 years	30.45	30.20	26.46	24.56
Total Advances	349.12	345.15	330.75	348.20

Loan Size wise Breakup				
Total Advances to SMEs upto 0.5 Million	29.80	32.79	37.00	26.96
Total Advances to SMEs over 0.5 to 1 Million	13.46	13.48	13.31	13.49
Total Advances to SMEs over 1 to 2 Million	20.84	22.16	21.95	22.91
Total Advances to SMEs over 2 to 3 Million	28.26	28.44	27.85	15.56
Total Advances to SMEs over 3 to 5 Million	25.77	25.97	25.53	27.87
Total Advances to SMEs over to 10 Million	46.18	44.26	42.44	51.81
Total Advances to SMEs over 10 Million	184.80	178.88	168.62	185.93
Total Advances	349.12	345.15	330.75	348.20

Annexure 1B

Sector Wise Outstanding Financing under EFS with SBP as on 31.12.2009						
Sector	Dec 31,2009		Dec 31,2008		Dec 31,2007	
	Billion PKR	% share	Billion PKR	% share	Billion PKR*	% share
Textile/Textile Products	123.24	62.36%	97.07	62.37%	65.95	66.30%
Edible Goods	28.42	14.38%	21.02	13.51%	13.86	13.93%
Leather/Leather Goods	9.99	5.05%	10.36	6.66%	6.34	6.38%
Machinery	1.15	0.58%	0.91	0.59%	0.51	0.51%
Metal Products	3.02	1.53%	2.50	1.61%	2.00	2.01%
Carpets	2.72	1.38%	2.43	1.56%	1.76	1.77%
Sports Goods	2.20	1.11%	3.17	2.04%	2.79	2.81%
Other Commodities	26.88	13.60%	18.16	11.67%	6.27	6.30%
Total	197.61		155.63		99.48	
* 70% refinance provided by SBP						

Annexure 1C

Period of financing	Rate of Refinance	PFIs Spread	End User's Rate
Up-to 3 years	7.70%	1.50%	9.20%
Over 3 years and upto 5 years	7.20%	2.50%	9.70%
Over 5 years and upto 10 years	7.25%	3.00%	10.25%

Performance Requirement	Mark-up Rate for Borrower
2.00 to 3.00 times	7.5% p.a. (Standard EFS Rate)
3.01 to 4.00 times	7.0% p.a.
4.01 to 5.00 times	6.5% p.a.
Above 5.0 times	6.0% p.a.

Performance Requirement	Mark-up Rate for Borrower	Reimbursement Benefit to Borrower
2.00 to 3.00 times	8.5% p.a. (Standard EFS Rate)	Nil
3.01 to 4.00 times	8% p.a.	0.5%
4.01 to 5.00 times	7.5% p.a.	1%
Above 5.0 times	7% p.a.	1.5%

Annexure 1D

Table 3a: Agricultural Credit Targets and Disbursement (Rs Billion)

Banks	Target 09-10	Disbursement			Target 08-09	Disbursement		
		Jul-Sep	Oct-Dec,	Jul-Dec		Jul-Sep	Oct-Dec	Jul-Dec
5 Big Comm.	124.0	25.8	29.6	55.4	119.5	25.6	23.0	48.6
ZTBL	80.0	9.9	20.5	30.4	72.0	8.7	18.9	27.6
DPBs	50.0	7.8	10.4	18.2	52.5	11.4	9.5	20.9
PPCBL	6.0	0.6	1.7	2.3	6.0	0.8	1.4	2.2
Total	260.0	44.1	62.2	106.3	250.0	46.6	52.8	99.4

Source: Agricultural Credit Department, State Bank of Pakistan

Table 3b: Province-wise Agri. Credit Targets and Disbursement (Rs Billions)

Province	Target 2009-10	Disbursement			Target 2008-09	Disbursement		
		Jul-Sep 2009	Oct-Dec 2009	Jul-Dec 2009		Jul-Sep 2008	Oct-Dec 2008	Jul-Dec 2008
Punjab	202.8	36.6	54.4	91.0	195.0	40.1	46.1	86.2
Sindh	36.4	5.8	6.0	11.8	35.0	4.4	4.6	9.0
N.W.F.P	15.6	1.3	1.5	2.8	15.0	1.7	1.8	3.5
Baluchistan	3.9	0.1	0.1	0.2	3.8	0.1	0.1	0.2
AJK & Gilgit-Baltistan	1.3	0.2	0.2	0.4	1.3	0.2	0.2	0.4
Total	260.0	44.1	62.2	106.3	250.0	46.6	52.8	99.4

Annexure 1E

Table 3c: Credit Disbursement to Farm & Non-Farm Sectors (Rs Billion)							
Sector		2009-10			2008-09		
		Jul-Sep. 09	Oct-Dec, 09	Jul-Dec, 09	Jul-Sep. 08	Oct-Dec, 08	Jul-Dec, 08
A	Farm Credit	29.7	44.1	73.8	29.8	39.5	69.3
1	Subsistence Holding	18.5	26.4	44.9	18.3	25.3	43.6
i	*Production*	16.0	23.5	39.5	16.5	23.5	40.0
ii	*Development*	2.5	2.9	5.4	1.8	1.8	3.6
2	Economic Holding	6.9	11.1	18.0	6.3	9.4	15.7
i	*Production*	6.8	9.8	16.6	5.8	9.1	14.9
ii	*Development*	0.1	1.3	1.4	0.5	0.3	0.8
3	Above Economic Holding	4.3	6.6	10.9	5.2	4.8	10.0
i	*Production*	4.1	6.1	10.2	5.0	4.4	9.4
ii	*Development*	0.2	0.5	0.7	0.2	0.4	0.6
B	Non-Farm Credit	14.4	18.1	32.5	16.8	13.3	30.1
1	Small Farms	2.5	4.6	7.1	2.9	3.2	6.1
2	Large Farms	11.9	13.5	25.4	13.9	10.1	24.0
	Total (A+B)	44.1	62.2	106.3	46.6	52.8	99.4

Annexure 1F

Table 1	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08
Public Sector	14.89	15.34	15.12	14.96	14.3	9.50	11.29	10.6	10.6	10.8
Private Banks	14.98	14.86	15.01	14.55	13.34	12.33	12.20	11.3	11.9	11.9
Islamic Banks	17.12	19.92	17.66	17.81	18.23	15.25	14.32	14.5	14.9	15.3
Foreign Banks	17.73	17.87	17.49	17.53	16.89	12.43	12.01	11.1	12.0	11.8
All Banks	15.71	16.11	15.67	15.52	14.57	12.38	12.41	11.6	12.3	12.1
DFIs	16.5	17.41	17.80	17.6	16.84	14.36	14.34	13.8	14.5	14.7
All Banks & DFIs	15.74	16.16	15.77	15.60	14.65	12.46	12.48	11.7	12.4	12.2
HBFC	13.5	14.65	12.50	11.88	11.35	15.98	15.50	15.2	15.2	15.1
Total Average	15.64	16.05	15.61	15.42	14.4	12.56	12.57	11.9	12.5	12.4

Table 2	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Dec-	Sep-09	Jun-09	Mar-09	Dec-08
Public Sector	65.97	61.4	61.6	60.5	63.1	27.9	30	34.6	31.7	38
Private Banks	60.25	60.4	58.5	55.3	40.3	23.2	23	21.8	22.8	22
Islamic Banks	58.47	55.9	56.9	55.3	39.8	23.1	31	34.6	30.4	36.9
Foreign Banks	50.24	49.8	51.6	36.1	41.9	23.1	23	20.7	22.5	23.6
All Banks	59.23	58.1	57.9	53.0	44	23.8	25	25.5	25.3	26.3
DFIs	41.82	42.5	43.3	43.1	44.2	30.0	30	30.0	30.0	30
All Banks & DFIs	58.51	57.5	57.3	52.6	44	24.1	26	25.8	25.5	26.4
HBFC	60.00	55.8	54.2	55.8	67.5	30.0	30	30.0	30.0	30
Total Average	58.58	57.4	57.1	52.8	44.7	24.3	26	26.0	25.7	26.6

Annexure 1G

Table 3	Average Loan Size				
	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08
Public Sector Banks	2.00	1.84	1.92	1.75	1.46
Private Banks	2.44	2.29	2.48	2.29	2.4
Islamic Banks	2.81	3.34	3.87	3.70	2.52
Foreign Banks	2.74	2.77	2.89	2.68	2.79
All Banks	2.48	2.47	2.62	2.50	2.33
DFIs	2.99	3.01	3.12	3.09	3.01
All Banks & DFIs	2.50	2.49	2.64	2.52	2.35
HBFC	0.74	0.74	1.08	1.08	0.86
Total Average/Total	2.45	2.44	2.56	2.46	2.29

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
H1	First Half
IHFD	Infrastructure & Housing Finance Department
LSDF	Large Scale Developer Finance
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.