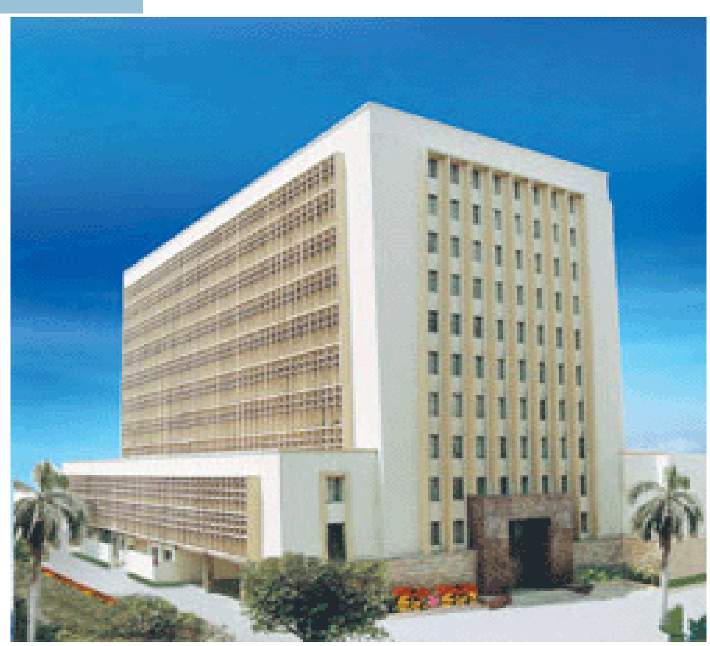
DEVELOPMENT FINANCE QUARTERLY REVIEW

December, 2008



SME FINANCE DEPARTMENT
STATE BANK OF PAKISTAN

Team Leader

Mansoor H. Siddiqui

Members

Allauddin Achakzai

Farzand Ali

Karim Alam

Contributions of the following team-members from various departments are also acknowledged.

Muhammad Ishfaq-SME Finance Department

Syed Muhammad Hafeez Shah-SME Finance Department

Razia Sameem Huma-SME Finance Department

Iqbal Hussian Bangash -SME Finance Department

Syed Numan Ali - Microfinance Department

Qazi Shoaib Ahmed - Microfinance Department

Imtiaz Hussain - Microfinance Department

Kamran Akram Bakhshi- Agriculture Credit Department

Sardar Muhammad Ejaz- Agriculture Credit Department

Syed Ali Raza - Agriculture Credit Department

Rizwan Pesnani- Infrastructure & Housing Finance Department

Sabbah Rahooja- Infrastructure & Housing Finance Department

Usman Shaukat- Infrastructure & Housing Finance Department

Shamaila Warraich- Infrastructure & Housing Finance Department

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The quarter ending December 2008 depicts that a total of Rs. 884.2 Billion have been appropriated in the Development Finance category as compared to Rs. 814.83 billion by the end of September, 2008. Out of the total Development Finance portfolio SMEs receive the major chunk with 43.3% followed by Infrastructure & Housing Finance with 38.4% by the end of December 2008. The rise of 8.51% in Development Finance Portfolio shows encouraging position given the impact of ongoing crisis which is still not fully over. The following table shows the Development Finance Group portfolio composition of last two quarters.

Outstanding	Break up of Outstanding Advances (domestic) in Billions			
	As of September, 2008		As of December, 2008	
	Amount	% age Share	Amount	% age Share
SMEs	361.6	44.4	383	43.3
Agriculture	157.7	19.4	155.5	17.6
Microfinance (MFBs)	6.7	0.8	6.4	0.7
Infrastructure & Housing	288.83	35.4	339.3	38.4
Total	814.83	100	884.2	100

The period under review shows that the SME sector's outstanding credit stood at Rs. 383 billion in absolute terms, constituting about 12% of total credit of the banking industry. Though SME financing had witnessed negative quarterly growth of 8% by the end of third Quarter of current year; however, a positive growth of 5.92% has been registered by end of Dec-2008.

An overview of the facility wise financing to SME sector reveals that the major portion of the outstanding amount is utilized for Working Capital (WC) finance followed by Trade finance (TF) and Fixed Investment (TF) respectively. The absolute outstanding amount for working capital finance stands at Rs. 288.8 billion at the end of the reporting period, recording a positive quarterly growth of 7%. Trade finance received an outstanding amount of Rs. 42.3 billion registering a negative quarterly growth of 10.5% followed by Fixed Investment of Rs. 43.9 billion having also recorded a negative quarterly growth of 1.4% at the end of December 2008. At the end of December 2008, SME borrowers stood at 215,302 constituting about 4.7% of the total number of borrowers in the banking industry. Analysis of advances by duration indicates that the number of borrowers availing ***long term loans***(exceeding 3 years) were about 47.5%, followed by ***short term loans borrowers (***upto one year) with 45%, and ***medium term loans borrowers (***1 to 3 years) constituted about 7.4% of the total SME borrowers at the end of December, 2008. The share of private banks stands at about 80% of total outstanding SME finance portfolio followed by Public Sector banks with 14.3% of the total SME finance portfolio at the end of the period under review.

In view of the global financial crisis, economic slowdown in the country and liquidity squeeze faced by banks, SBP provided a number of relaxations and incentives to exporters. SBP reverted to providing 100% refinance under the Export Finance Scheme (EFS) during the 4th quarter of 2008. To further facilitate the export sector, SBP has allowed a one year deferment of principal amounts repayments under its Long Term Financing Facility (LTFF), enhanced the scope of LTFF to include plant and machinery required in sectors such as ethanol, pharmaceuticals, furniture, value added sectors of spinning and second hand machinery subject to fulfillment of certain conditions. Under the EFS, SBP has introduced performance based mark up rates to encourage high performers and allowed a longer repayment period (270 days) under Part I to exporters who export goods in excess of their loan amount.

The banks were allocated 62% higher limits (Rs 202 billion) for the 4th quarter of 2008 compared to the previous quarter under the Export Finance Scheme. At the end of the December 2008, Rs. 156 billion was outstanding under the schemes as compared to Rs.139 billion for same period last year. The commodity wise and borrower wise analysis under EFS financing continues to show skewed distribution. Out of total credit extended under EFS, 62% was outstanding against the textile sector. The top 8 % beneficiaries/borrowers are availing upto 75% of the total financing under the scheme. As on December 31, 2008 Rs.2.8 billion was outstanding against the financing provided under the Long Term Financing Facility for Plant & Machinery (LTFF). Under the defunct LTF-EOP scheme, Rs. 33 billion was outstanding, of which Rs. 15 billion pertains to the debt swap option offered to the textile sector under the scheme.

The last quarter of year 2008 has shown mixed signs of growth in MFBs. In overall, the growth in outreach (branches, deposits etc.) remained positive. The number of branches of Micro Finance Banks has increased from 252 in September, 08 to 271 as of December, 08. Similarly, the number of depositors has also increased to 254,381 as of Dec '08 from 226,043 as of Sep '08. Likewise, the total assets of the sector grew to Rs. 14.623 billion at the end of December,2008 from Rs. 12.598 as of Dec' 07. The number of active borrowers (MFBs only) has seen a marginal decline from 564,892 to 542,641 during the quarter under review. Agriculture financing constitutes the major portion of financing by MFBs. Its share remained at 40% - 42% during the year. Microenterprise and livestock are second and third largest sectors availing 29% and 15% respectively of total microfinance portfolio by MFBs for the period under review in. In overall, the level of NPLs in Microfinance remained around 2.24% - 2.32% during the year, whereas these were 4.77% as of Sep 07.

In Agriculture Finance during the quarter October-December, 2008 banks disbursed Rs 52.8 billion compared to disbursement of Rs 46.6 billion in July- September, 2008 (preceding quarter) and Rs 54 billion in the same quarter last year. Accumulated disbursements during July-December, 2008 indicate that banks have disbursed Rs 99.4 billion, showing an increase of 10.2% over disbursements of Rs 90.3 billion made in the same period last year. The province-wise disbursements reveal that during the quarter October-December, 2008 banks disbursed Rs 46.1 billion in Punjab, Rs 4.6 billion in Sindh, Rs 1.8 billion in N.W.F.P, Rs 0.1 billion in Baluchistan and Rs 0.2 billion in AJK& Northern Areas. The land holding-wise disbursement pattern shows that out of Rs 69.3 billion disbursements to farm sector Rs 43.6 billion were absorbed by farmers having land up to subsistence level, Rs 15.7 billion by farmers having economic landholding and Rs.9.9 billion by farmers having above economic holding. The disbursement to non-farm sector reveals that an amount of Rs 24 billion was extended to large farms, mainly to livestock and poultry sector and Rs 6.2 billion were disbursed to small farmers during July-December, 2008. Security-wise disbursement of agricultural credit reveals that out of Rs 99.4 billion disbursed during July- December, 2008, Rs 61.5 billion (61.9%) were disbursed against passbook, Rs 16.1 billion against mortgage of property, Rs 12.9 billion against pledge/ hypothecation of stocks and Rs 8.5 billion was disbursed against other securities. Non-performing loans in agri. financing stood at Rs 30.2 billion, 16.8% of the outstanding loans as on 31st December, 2008 compared to Rs. 31.7 billion or 19.6% of the outstanding loans as 31st December, 2007. Agri. loan borrowers have reached to 2 million as of December, 2008 compared to 1.7 million at end of December, 2007

Housing finance has witnessed a growth of 16% over the last twelve months in the gross outstanding portfolio as of December, 2008. The total outstanding reported by banks and DFIs as of December, 2008 was Rs. 88.2 billion compared to Rs. 76 billion as of December, 2007. Although the housing finance sector recorded growth compared to last year's position, the quarter ending December 2008 witnessed its first stagnation during FY 08-09; a 0.61% fall in outstanding loans. The total number of outstanding borrowers has decreased from 125,490 in September, 2008 to 123,107 in December 2008; a 1.9% fall. Non-performing loans have increased from Rs.10.53 billion (September 2008) to Rs.12.31 billion (December

2008); a 16.91% increase over the reporting quarter. Over 1,800 new borrowers were served during this quarter accounting for Rs. 3.43 billion of additional disbursements in housing loans. HBFC accounted for 64.8% of these new borrowers and contributed over 18% of the Rs.3.43 billion additional disbursement made. The overall market share of commercial banks (excluding DFIs) remained almost the same as at the end of last year as it is decreased marginally from 81% to 80.63%. Within commercial banks, the share of private banks in total outstanding decreased from 53.69% to 46.19%. Islamic banks have shown good growth; albeit higher growth in NPLs too, with its share increasing from 8% (December 2007) to 15.36% (December 2008). Average loan size for disbursements made during the quarter ended December 2008 is Rs. 2.35 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 0.86 Million for the period under review. Islamic banks have disbursed loans with an average loan size of Rs. 2.52 millions.

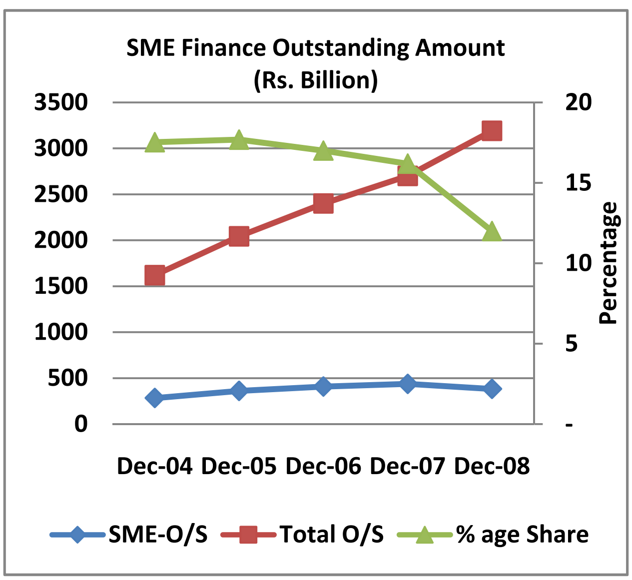
Despite the global economic and financial recession local infrastructure financing posted a positive trend in couple of sectors during last quarter of 2008. Power Generation and Telecommunication sectors attracted large quantum of funds as compared to other sectors which remained quiescent and failed to make their mark in the face of global financial crunch. Total outstanding infrastructure financing at close of December 2008 was Rs. 251.1 billion as against Rs. 170 billion at the end of December 2007. This 47.7% increase in outstanding stock of infrastructure financing during last twelve months signifies that financing landscape in infrastructure sectors is still thriving in the face of growing economic slowdown. A total of Rs. 38.8 billion has been disbursed during October-December 2008 under infrastructure financing. Power Generation sector received over Rs. 25 billion (65%) which is significantly higher than other sectors. Telecommunication sector occupied second place with approximately Rs. 10.4 billion (27%). The stock share of private sector banks in infrastructure finance rose from 80% to 85.8% from December 2007 to December 2008. Public Sector banks saw a decline in their share from 18.7% in December 2007 to 12.7% in December 2008. DFIs have a very marginal share and did not present a major shift during the year.

SME FINANCE

1 SME FINANCING-OVERVIEW

The banking industry's exposure towards SME sector is the second largest after corporate finance. At the end of fourth quarter of 2008, the SME sector's outstanding credit stood at Rs. 383 Billion. About 48% of this amount has been availed by the Manufacturing SMEs, followed by 36.4% amount by the Trading SMEs and the rest by the Services SMEs. The share of ***short term loans*** (upto one year) constitutes about 70.9% and ***long term loans*** (exceeding 3 years) were about 19 % and the rest was the share of ***Medium term Loans*** (1-3 years).

The SME Finance exposure of the banking industry constitutes about 12% of total credit of banking industry at the end of December 2008. A positive quarterly growth of 5.92% has been recorded in outstanding advances to SME Sector. However a 12.44% decrease in growth of SME finance was witnessed when compared with the corresponding period of 2007. Nevertheless, there has been an increase of about 35% in SME finance

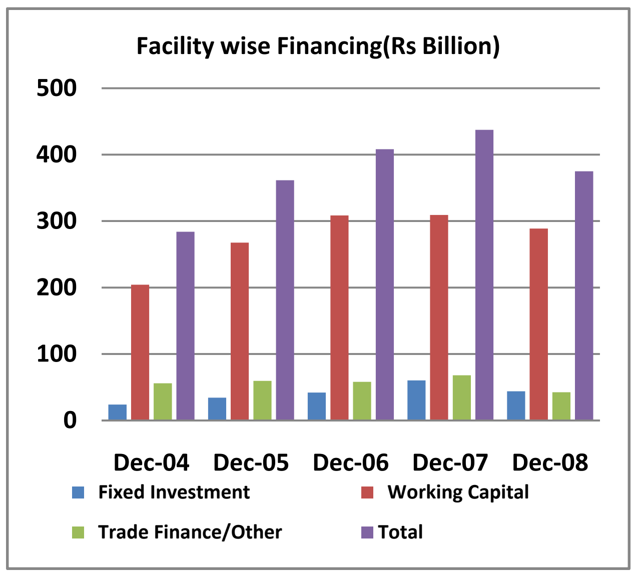


when compared with the position of outstanding amount as of December, 2004 with the current reporting period.

1.1.1 FACILITY WISE FINANCING

Facility wise financing to SME sector reveals that major chunk of the outstanding amount is being utilized for working capital (WC) accounting for 77%,followed by trade finance (TF) with 11.3% and fixed investment (TF) 11.7%of total the SME portfolio at the end of December, 2008. Predominant portion of working capital finance reflects the need of SMEs to get finance for inventory and day to day operations.

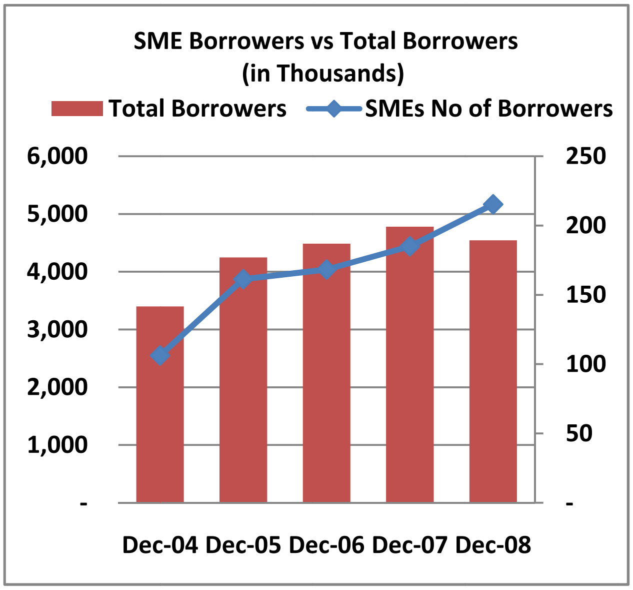
The absolute outstanding amount for working capital finance stands at Rs. 288.8 billion at the end of the reporting period, recording a positive quarterly growth of 7%. Trade finance received an outstanding amount of Rs. 42.3 billion registering a negative quarterly growth of 10.5% followed by Fixed Investment of Rs. 43.9 billion having also recorded a negative quarterly growth of 1.4% at the end of December 2008. The decline in Trade



finance portfolio may safely be attributed to higher inflation, law & order, power outages, economic recession and complementary factors.

1.1.2 NUMBER OF BORROWERS

The outreach of banking industry has increased considerably in the SME sector over the past five years. At the end of December 2008, SME borrowers stood at 215,302 constituting about 4.7% of the total number of borrowers in the banking industry. About 73.2% of the



SME borrowers avail working capital finance, 25% Fixed Investment and the rest resort to Trade Finance. There has been a tremendous growth of 101.8% during the period December 2004 to December, 2008 in the SME number of borrowers. Also a significant growth of 15.8% in the number of SME borrowers was recorded during the period December, 2007 to December 2008.

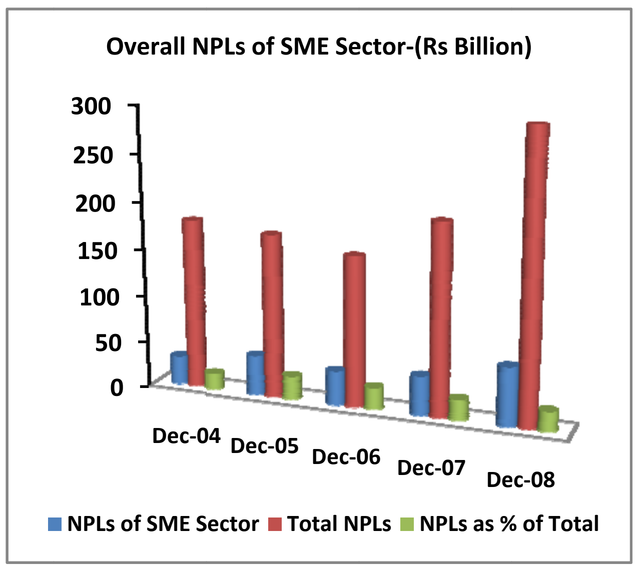
The percentage share of the borrowers categorized as ***Trading SMEs*** was about 41.2% of the total SME borrowers, followed by ***Services SMEs*** with 35%, and ***Manufacturing SMEs*** about 23.8% at the end of the period under consideration.

Analysis of advances by duration indicate that the number of borrowers availing ***long term loans***(exceeding 3 years) were about 47.5% , followed ***short term loans borrowers (***upto one year) with 45%, and ***medium term loans borrowers (***1 to 3 years) constituted about 7.4% of the total SME borrowers at the end of December, 2008.

SME Borrowers *categorized on* ***loan size*** manifest that about 66% availed loans of ***upto Rs. 0.5 Million***, while the borrowers against the bracket size of over ***Rs. 0.5 to 1 M, Rs. 1 to 2 M, over Rs. 2 to 3*** were having a share of ***8.2%, 5.4%, 3.1%,*** respectively at the end of the 4rth Quarter 2008. An analysis of borrower wise total outstanding amount of SME finance reveal that borrowers availing loans upto ***Rs.0.5 Million*** have a share of ***8.11%***, followed by borrowers in the bracket of ***Rs. 0.5 to 1 M, Rs. 1 to 2 M, over Rs. 2 to 3 M*** were having a share of **3.77%, 4.83%, 7.42%,** respectively at the end of the 4rth Quarter 2008.

1.1.3 NON PERFORMING LOANS

SME sector's NPLs have slightly swelled to Rs. 61.5 billion constituting about 20.6% of the total NPLs of Banking industry at the end of December, 2008. Of this amount about 68.5% is attributed to working capital finance,



20.6% to fixed investment, and the remaining 10.9% pertained to trade finance. A closer look at the SME sector NPLs behavior reveals that it has been roaming in between the range of Rs. 20 billion to Rs. 40 billion during December, 2004 to December, 2007. The increase in NPLs can safely be attributed to higher inflation, economic recession, power outages, law & order situation and other major demand side obstacles. An increase of 0.6% had been recorded in SME NPLs during the last quarter of 2007; however, a sharp rise of about

14.6% has been recorded in the corresponding quarter of 2008. However NPLs of the banking Industry has registered a rise of 17.2% during the last quarter of 2008.

1.1.4 PUBLIC SETOR BANKS

The share of public sector banks i.e. NBP, FWBL, BOP and BOK constitute about 14.3% of the total SME finance portfolio at the end of the period under review.

In absolute terms, the outstanding amount of public sector banks stood at Rs.54.8 billion at the end of 4th quarter, 2008. Among the public sector banks, NBP has the lion's share of about 68%, followed by BOP with 20% of total public sector banks' SME finance outstanding. A positive quarterly growth of 19.8% has been registered by the public sector banks for 4th quarter, 2008; however, the share of public sector banks recorded a decrease of 4.6% in SME finance, from Dec-07 to Dec-08. While only NBP and FWBL witnessed a positive growth of 4.9% and 9.7% respectively during the same period.

1.1.5 PRIVATE BANKS

Private Banks have been doing well in SME finance arena for the last two years, recording consistent growth. The share of private banks stands at about 80% of total outstanding SME finance portfolio by the end of the reporting period. The absolute outstanding amount of the private sector banks was Rs. 309.7 billion of the total SME finance. Private sector banks have recorded a positive quarterly growth of 4.2% by the end of Dec-2008. Among private banks HBL has the highest share of 13.7% followed by NIB bank with 8.6%, Bank Alfalah 8%, UBL with 7%, and ABL 6.6% respectively in the total SME financing.

A comparison of Private Banks SME finance viz-a-viz the type of SMEs shows that ***Trading SMEs*** accounts for 32.54%, ***Manufacturing SMEs*** 51.65% and ***Services SMEs*** is 15.81% respectively, in Private Banks' SME financing. Private Banks category witnessed a decline of 14.6% in SME portfolio during the period December 2007 - December 2008. However, stability has started to be seen in banking industry as an encouraging quarterly growth of 4.2% in SME finance has been recorded at the end of the period under review.

1.1.6 ISLAMIC BANKS:

Islamic bank's share has enhanced considerably from an outstanding amount of Rs. 1.4 Billion to Rs. 6.8 Billion during the period December 2005 to December 2008 constituting around 1.8% of the total SME outstanding amount. Islamic banks SME portfolio has witnessed an impressive growth of 33% for the period December 2007-Deceomber 2008. In this category, Meezan bank leads with a share of 67.5%, Bank Islamic 12%and Dubai Islami Bank with 8% at the end of the period under consideration.

1.1.7 SPECIALIZED BANKS:

This category of Banks consists of SME Bank, ZTBL, PPCBL and IDBP. The absolute amount outstanding of the specialized banks towards SME sector mounts to Rs. 10 billion constitutes about 2.6% of the SME total portfolio of the banking industry at the end of the reporting period. By having a close look at SME finance performance of the specialized banks it is evident that their portfolio has been hovering around Rs. 10 billion for the last few quarters. SME Bank has the largest portfolio of Rs.7.5 billion constituting about 2% of total SME finance. Specialized banks outstanding amount has witnessed a slight increase of 1.1% during the period Dec-07 to Dec-08.

1.1.8 FOREIGN BANKS:

This category of banks comprises of Albaraka Islamic Bank, Deutsche Bank, Bank of Oman, HSBC, Bank of Tokyo Mitsubishi, and City Bank. At the end of the period under review the foreign banks' share about Rs.1.8 billion forming 0.5% of the total SME finance.

1.2 REFINANCE -OVERVIEW

In view of the global financial crisis, economic slowdown in the country and liquidity squeeze faced by banks, SBP provided a number of relaxations and incentives to exporters. SBP reverted to providing 100% refinance under the Export Finance Scheme (EFS) at the end of 2008. To further facilitate the export sector, SBP has allowed a one year deferment of principal amounts repayments under its Long Term Financing Facility (LTFF), enhanced the scope of LTFF to include plant and machinery required in sectors such as ethanol, pharmaceuticals, furniture, value added sectors of spinning and second hand machinery subject to fulfillment of certain conditions. SBP has also allowed a onetime facility to refinance commercial long term loans disbursed during 01-01-2005 to 31-03-2009 against eligible sectors/machinery. Under the EFS, SBP has introduced performance based mark up rates to encourage high performers and allowed a longer repayment period (270 days) under EFS Part I to exporters who export goods in excess of their loan amount.

The banks were allocated 62% higher limits (Rs 202 billion) for the last quarter of 2008 compared to the previous quarter under the Export Finance Scheme. At the end of the 4^{th} quarter, Rs. 156 billion was outstanding under the scheme as compared to Rs.139 billion for same period last year. The commodity wise and borrower wise analysis under EFS financing continues to show skewed distribution. Out of total credit extended under EFS, 62% was outstanding against the textile sector. The top 8% beneficiaries/borrowers are availing upto 75% of the total financing under the scheme.

As on December 31, 2008, Rs.2.8 billion was outstanding against the financing provided under the Long Term Financing Facility for Plant & Machinery (LTFF). Under the defunct LTF-EOP scheme, Rs. 33 billion was outstanding, of which Rs. 15 billion pertains to the debt swap option offered to the textile sector under the scheme.

1.2.1 EXPORT FINANCE SCHEME (EFS)

The Export Finance Scheme has remained one of the major sources of financing the exports through banking system. During the year of 2008, Rs.392.37 billion has been disbursed as compared to Rs.334.58 billion disbursed in year of 2007. One of the contributory factors is the reversion to 100% refinance facility from SBP compared to the earlier system of providing 70% financing through SBP and 30% funding by the commercial banks from own sources. The additional financing is reflective of this change as also a higher demand for concessionary EFS loans in view of the higher mark up on commercial loans.

A- LIMITS UNDER EFS

SBP increased the EFS limits by 62% from its Sept'09 positions to Rs 202 billion (including Rs 10 billion under IERS) to ensure adequate supply of funds to the export sector in a period of liquidity squeeze in the banking system and slowdown in the economic activity. This increased limit also reflects the SBP's decision to take over the 30% finance earlier provided by the commercial banks.

B- OUTSTANDING FINANCING UNDER EFS

At the end of the year 2008, Rs. 156 billion was outstanding under the EFS, 12% higher compared to December 31, 2007 (Rs. 139 billion) and 18% higher compared to December 31, 2006 (Rs.131 billion). The portfolio of foreign banks EFS loans has reduced by 45% when compared to the last quarter of 2007 and 29% when compared with December, 2006. One reason for this is a change in status of some banks[1] and also result introduction of system of 30% share of banks in EFS financing. This is also partially supported by the increase in private sector banks' outstanding position resulting in a net increase of 21% over Dec'06 position.

C- COMMODITY-WISE POSITION

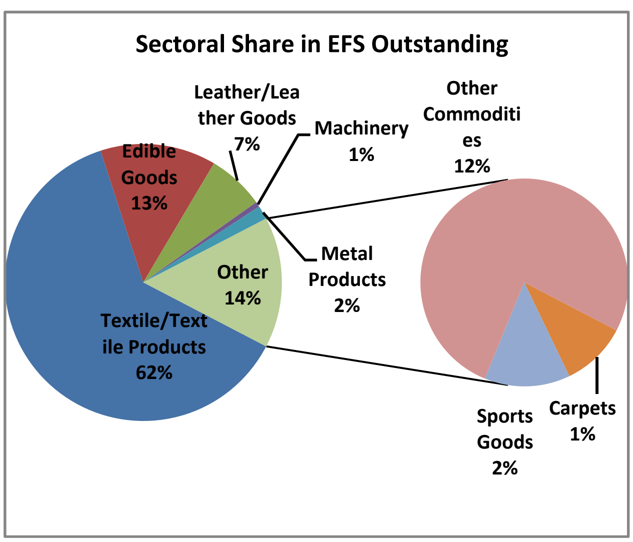
Distribution of the EFS funds in different sectors shows that Textile Sector continues to dominate share of financing, which is 62%.

Other sectors such as edibles (dominated by rice), leather and leather goods also received a significant share. The details of sector-wise utilization of EFS financing are given in the Table.

D- BORROWER WISE DISTRIBUTION OF EFS

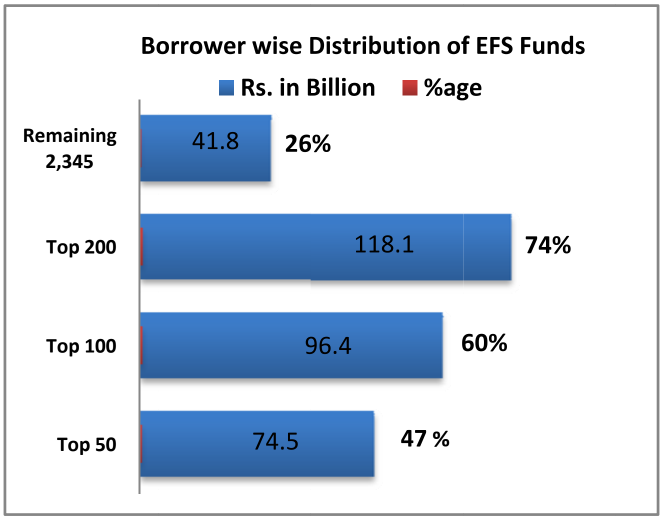
Commodity-Wise EFS outstanding as on December 31, 2008						
Sector	EFS Outstanding as on Quarter Ended					
	Dec' 08		Dec' 07		Dec' 06	
	Billion PKR	%	Billion PKR	%	Billion PKR	%
Textile/Textile Products	97.37	62%	94.21	67%	87.78	67%
Edibles	21.02	13%	19.79	14%	16.04	12%
Leather	10.36	7%	9.06	6%	9.31	7%
Metal Products	2.50	2%	2.85	2%	2.67	2%
Carpets	2.43	2%	2.51	2%	2.82	2%
Sports Goods	3.17	2%	3.99	3%	4.34	3%
Machinery	0.91	1%	0.72	1%	.081	1%
Other Commodities	18.16	11%	6.50	5%	7.65	6%
Total	155.63	100%	139.63	100%	131.42	100%

*Data reflects SBP's Share of EFS (@70%)



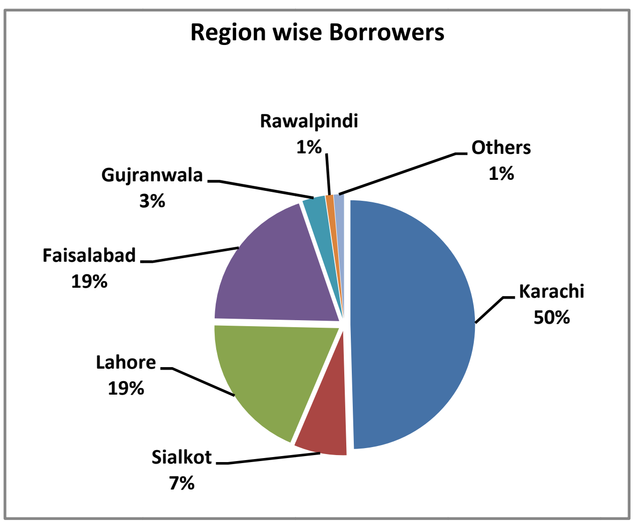
a) The distribution of EFS funds has been concentrated in the top big borrowers. Top 100 beneficiaries have availed about 60% of total financing under EFS, while the Top 200 availed 74 % of the total financing under EFS which reflects that only a small segment (i.e. 8%) of total borrowers have availed up to 75% of total EFS funds.

b) The total number of beneficiaries under EFS reported by all banks stood at 2,545 as on 31 December,2008; higher by 6% from the 2,410 reported on September 30, 2008. One important reason for this increase may be increase in overall limits of banks and revised procedure for refinance under EFS.



E- REGIONAL ALLOCATION OF BORROWERS

a) Identical to previous quarter, region wise borrowers of EFS are unevenly allocated. According to the banks' data for the quarter ended December 31, 2008, up to 95% borrowers are from four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad. Similarly, almost 95% EFS funds are accumulated in these four cities and 50% funds have been availed by only Karachi based exporters.



b) The average amount of loan outstanding under EFS is Rs. 61.3 million; however the average amount of loan is different for different cities (Rs Rs. 121.37M at Rawalpindi, and at Sialkot the same is Rs. 14.41 M) while there were just 13 borrowers at Rawalpindi at the end of December 2008 as compared to 824 borrowers at Karachi for the same period. Likewise, the number of borrowers and the borrowing capacity of borrower/exporter are different at different regions.

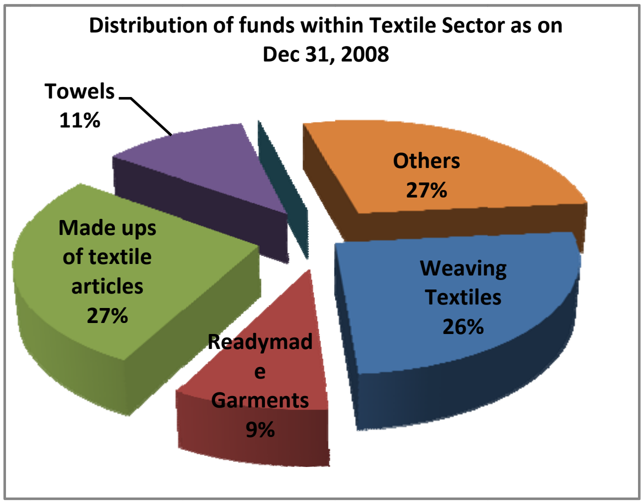
1.2.2 ISLAMIC EXPORT REFINANCE SCHEME (IERS)

The Islamic Export Refinance Scheme, designed as a Musharaka between SBP and a participating Islamic Bank or Islamic Banking Operations of a conventional Bank, has 8 participating banks under the scheme (5 Islamic Banks and 3 conventional banks' Islamic Banking Operations).The limits assigned under IERS for the quarter ended Dec'08 were Rs. 10 billion; of this, Islamic banks were assigned a limit of Rs 7.7 billion while the Islamic Banking Branches of conventional banks were assigned Rs2.3 billion.

During the quarter under review Rs. 4.6 billion were disbursed compared to Rs.2.1 billion during the comparative quarter of in 2007 registering an increase of Rs. 2.5 billion (118%) and 59% higher when compared to last quarter of 2006. The amount outstanding at the end of the quarter under IERS was Rs.7.2 billion, 60% higher than the comparative quarter of 2007.

1.2.3 LONG TERM FINANCING FACILITY FOR PLANT & MACHINERY (LTFF)

Under the Long Term Financing Facility for Plant & Machinery, a limit of Rs. 9.5 billion had been allocated for the fiscal year to the financial institutions, with privatized banks (MCB, ABL, UBL & HBL) being assigned the biggest share of Rs. 4.4 billion, followed by private banks at Rs 4 billion. Further, in view of the fact that the scope of the scheme has been enhanced to include some of the sectors which were previously ineligible; an additional amount of Rs 10 billion has been earmarked under the scheme.



The disbursements under the scheme for the year 2008 totaled Rs. 3.17 billion, while the amount outstanding at the end of the year 2008 was Rs. 2.8 billion. A look at the sector wise distribution of funds under LTFF reveals that the textile sector, with 63% share, is the main beneficiary under the scheme, with engineering goods receiving 31% and other sectors receiving 6% of total funds. The graph below shows the distribution of funds within the textile sector.

1.2.4 LONG TERM FINANCE FOR EXPORT ORIENTED PROJECTS (LTF-EOP)

In May 2004, SBP introduced a long term financing scheme specifically for the value added export oriented projects in order to facilitate import of machinery for up gradation of existing technology and enhancement in the quality of industrial production. In September 2006, SBP allowed the textile Sector to swap its commercial debt for SBP refinance to provide relief against the rising rates. The LTF-EOP Scheme stands abolished as on 31st December, 2007.

As on December 31, 2008, 56% of the finances provided under the debt swap have been repaid. Of the total disbursements made under the LTF-EOP scheme Rs.33 billion was outstanding at the end of 4th quarter of 2008, of which Rs. 15 billion is against the debt swap option and Rs. 18 billion against regular financing.

1.2.5 POLICY CHANGES

A- GRACE PERIOD IN PAYMENT

It was decided (vide SMEFD Circular No. 1 of 2009 dated January 22, 2009) to allow banks / DFIs to provide grace period of one year for repayment of principal amount outstanding (from 1st January to 31st December 2009) to their deserving borrowers having availed financing under Long Term Financing for Export Oriented Projects (LTF-EOP) including Debt Swap Facility under LTF-EOP Scheme and Long Term Financing Facility (LTFF) Scheme.

B- EXTENSION IN PERIOD UNDER EFS

Keeping in view the international and domestic recession and to facilitate the exporters of Pakistan, it was decided (through SMEFD Circular 04 of 2009 dated February 14, 2009) that the facilities under part I of the scheme shall be eligible for a maximum of 270 days to exporters (however, banks will have to adjust the finance within a maximum period of 180 days, and allow rollover for an additional period of 90 days), provided shipment has been made by the exporters within a period of 180 days after withdrawal of the finance. Keeping in view the objective of the scheme, this benefit shall be allowed to exporters who have availed finance upto 85% of the value of the contract/LC or export order or those who ship equivalent to 117% of the refinance availed.

C- PERFORMANCE BASED MARK UP RATES OF EFS

The Export Finance Scheme provides funds to exporters at rates which are 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 as per table below.

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.

D- REFINANCE OF LONG TERM LOANS

In order to facilitate the export oriented industries to overcome the prevailing crises and to remain competitive in the world market a one time opportunity to the exporters (excluding Textile & Garments) to refinance their outstanding long term loans availed from banks/DFIs for import/purchase of plant & machinery with loans under SBP's LTFF Scheme has been allowed, through SMEFD Circular 09 of 2009 dated April 21, 2009.. Long term loans disbursed by the banks / DFIs during the period from 01-01-2005 to 31-03-2009 to the exporters of eligible Sectors/Sub-Sectors will be eligible for refinance under the LTFF Scheme as per procedure defined in the above mentioned circular.

E- EXPANSION IN ELIGIBLE SECTORS OF LTFF

The eligible sectors have been reviewed and the plant, machinery & equipment used in Ethanol, Furniture and Pharmaceuticals industries for producing exportable goods shall also be eligible under the subject Scheme. Further, the value added sub-sectors of spinning (twisting, doubling, slubbing, combing, lycra and yarn dying) have also been allowed facility under the scheme.

Further, second hand imported machinery has also been allowed to be financed under the scheme subject to certain terms and conditions described in SMEFD Circular Letter No. 3 of 2009 dated March 11, 2009.

F- MODIFICATION IN REFUND PROCEDURE UNDER EFS

The SME Finance Department modified the procedure for filing cases relating to the refund of fines charged under the Export Finance Scheme through SMEFD Circular 05 dated December 26, 2008. The circular clearly defines the responsibilities of the various stakeholders. Further, keeping in view the spirit of the scheme as well as the refund of fine policy, force majeure event shall be the fundamental factor for non-performance in deciding refund cases.

G- AMENDMENT IN NEGATIVE LIST OF EFS

It has been decided, vide Circular Letter No 04 of 2009 dated April 02, 2009 that refinance facility will also be available for export of bleached/unbleached cloth with export value of US$ 2.50 or above per square meter.

MICROFINANCE

2 MICROFINANCE- OVERVIEW

The last quarter of year 2008 has shown mixed signs of growth in MFBs. In overall, the growth in outreach (branches, deposits etc.) remained positive. The number of borrowers, however, saw a marginal decline. The trend can be termed negative as this is the first departure in the *MFBs'* growth (loans) curve since many quarters. The concern assumes more importance in view of the fact that the largest Rural Support Program (RSP) (a non-regulated player) has also shown negative growth even at a larger scale.

The portfolio reduction in the largest RSP was significant, and was meant to facilitate the redemption of its commercial term-loan. This shift shows the increasing importance of funding risk (especially commercial loans) for the sector growth. In contrast to the RSP's trend, the current decline in portfolio of MFBs is marginal, and is caused by the factors other than funding squeeze. After experiencing a high growth period of almost 2 years (in line with national MF strategy), the top MFBs now appear to shift their focus to portfolio quality and profitability. This change may also be linked with the portfolio delinquency cases that largely occurred in an MFI in Punjab during the same quarter. Moreover, these MFBs seem to consolidate their operations by curtailing their growing expenses and also enhancing the portfolio yields.

So far, the growth in MFBs' portfolio has been supported by non-core sources of funding such as paid-up capital, credit line to largest MFB, and short term/revolving institutional deposits etc. However, the growth in the year 2009 and onward cannot rely on these sources. In

Licensed MFBs in Pakistan

No.	*MFB*	*Year*	*Status*	*Key Sponsors*
1.	**Khushhali Bank Ltd.**	**2000**	**Country-wide**	**Commercial Banks**
2.	**The First MFB**	**2001**	**Country-wide**	**AKAM, & IFC**
3.	**Rozgar MFB**	**2004**	**District–wide**	**Arif Habib Group**
4.	**Network MFB**	**2004**	**District–wide**	**JS & KASB Group**
5.	**Tameer MFB**	**2005**	**Country-wide**	**EMCL & IFC**
6.	**Pak Oman MFB**	**2006**	**Country-wide**	**Pak Oman Investment**
7.	**Kashf MFB**	**2008**	**Country-wide**	**Kashf Holding**

***NRSP Microfinance Bank has also been licensed in February 18, 2009 as 8th MFB.**

short-medium term, MFBs are likely to mobilize commercial loans whereas building core deposits still seems to be a long-term priority of MFBs. Barring a couple of MFBs, the others have not even been able to develop a feasible structure and plan for deposit mobilization. The growth in deposit base of MFBs has been moderate, and contributed largely by two MFBs. The deposit base largely focused on institutional deposits. The mobilization of core savings has emerged as a key challenge for the future growth of MFBs. To overcome this challenge, MFBs besides developing internal strategies for saving mobilization, can also find areas for joint cooperation such as market assessments, products development, delivery channels, and MIS. Under Financial Inclusion Program (FIP), SBP would also encourage MFBs' proposal for developing sector-wide innovative solutions.

In respect of deposit mobilization, an optimistic development is recent microfinance banking license to two existing MF players; one to the leading Microfinance Institution (Kashf Foundation), and the other to the National Rural Support Program (NRSP)*. This development has also indicated potential of a significant positive shift in the market share of Microfinance Banks. At present, MFBs' share of outreach (borrowers) in the overall sector stands at 32%. Over the last many quarters, the performance of three MFBs – two district-based MFBs and one nationwide MFB – has been constantly weakening. While these MFBs took some reforms, such as changes in management and capital injection, the following results, however, did not show a meaningful reversal in their performance. The contribution of these MFBs in the sector's growth is considerably low and declining. The fragile financial and operational performances of these MFBs have been reflecting adversely on the overall financial soundness of the MF banking sector. As of December 31, 2008, seven MFBs are operating in the country; five of them operate as nation-wide, while the remaining two MFBs are district-based (Karachi district).

SECTOR'S OUTREACH as of December 30, 2008

Active Borrowers	MFBs	MFIs	Total
3rd Quarter 08	564,892	1,248,548	1,813,440
4th Quarter 08	542,641	1,190,238	1,732,879

2.1 PERFORMANCE AT A GLANCE

The overall outreach indicators continue to remain positive in spite of a downturn in number of borrowers during the quarter under review.

The number of branches has increased from 252 in 3rd quarter of 2008 to 271 as of 31 December, 08.

MF BANKING SECTOR AT A GLANCE (Rs. in `000)

PARTICULARS	4Q08	3Q08	2Q08
MFBs	7	7	6
Branches	271	252	245
Borrowers	542,641	564,892	511,615
Advances (Rs.000)	6,461,462	6,712,961	5,878,183
Deposit(Rs.000)	4,115,667	3,481,158	3,408,920
Depositors	254,381	226,043	197,439
Assets	14,623,553	12,598,234	12,522,013
Institutional Borrowings	5,069,820	5,391,837	5,359,984
Equity	5,034,783	3,349,052	3,420,930

Similarly, the number of depositors has also increased to 254,381 as of Dec '08 from 226,043 as of Sep '08. The number of active borrowers has seen a marginal decline from 564,892 to 542,641 in this quarter. The decline is largely attributable to the consolidation phase of two top MFBs, namely, Khushali Bank and First Microfinance Banks. Keeping in view the emerging funding constraints in local banking market, and ongoing economic pressures particularly inflation and its adverse impact on lower income group, MFBs are appeared to adopt a cautious approach for growth, particularly in loan portfolio. In addition, the consistent low performance of few MFBs has also significantly limited their potential of contributing in the overall growth of the sector.

The total assets of the sector grew to Rs. 14.623 billion as of December 2008 from Rs. 12.598 by the end of Dec. 07. The institutional/external borrowings registered a decline from Rs. 5.359 billion as of June 08 to Rs. 5.069 billion as of Dec. 08. On the other hand, the equity base of the sector experienced a positive growth with sharp rise from Rs. 3.349 billion as of Sept. 08 to 5.034 billion as of Dec. 08. The equity growth is attributed to the licensing of Kashf MFB, and Telenor's participation in the equity of Tameer MFB.

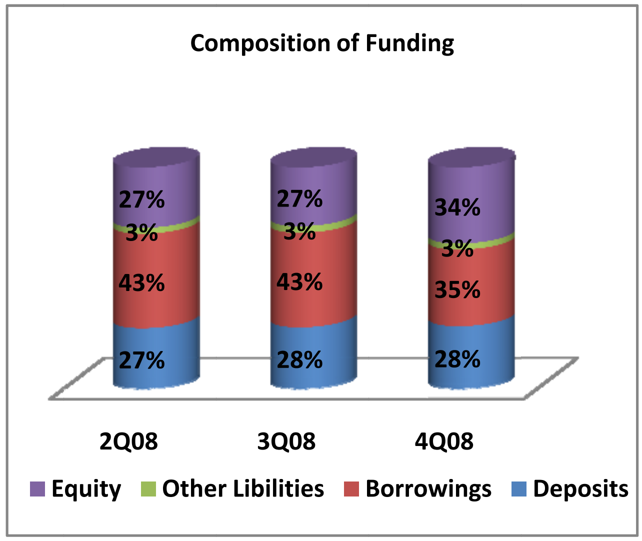
2.2 ASSETS

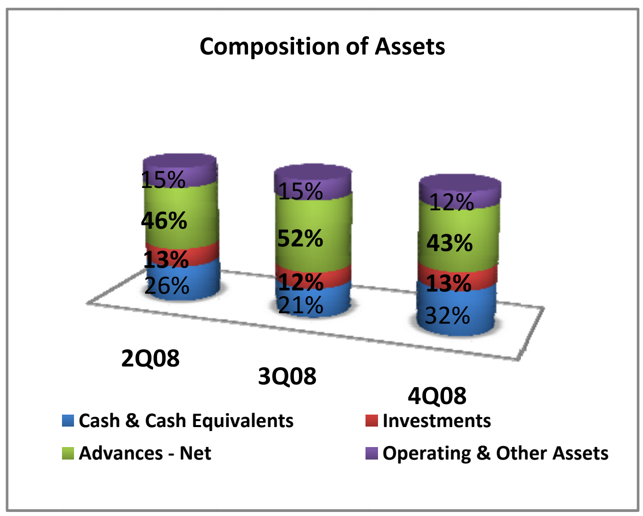
The Asset composition has seen a shift in form of declining share of advances in total assets. The reciprocating change was witnessed in cash and bank balances. These trends were resulted due to injection of fresh equity in Kashf and Tameer which have temporarily inflated bank's cash and banks' balances.

The loan portfolio, a core earning asset, stands at 43% of total assets while its share was 52% and 46% as of 3Q08 and 2Q08 respectively. The share of "Cash and Cash Equivalents" decreased from 26% in 2Q08 to 21% as of 3Q08 and finally registered 32% of total assets as of 4Q08. The operating and other assets remained stagnant at 15% as of 2Q08 and 3Q08 and subsequently reduced to 12% as of 4Q08. The investment share remained steady at 13%of total assets during the year.

2.3 FUNDING

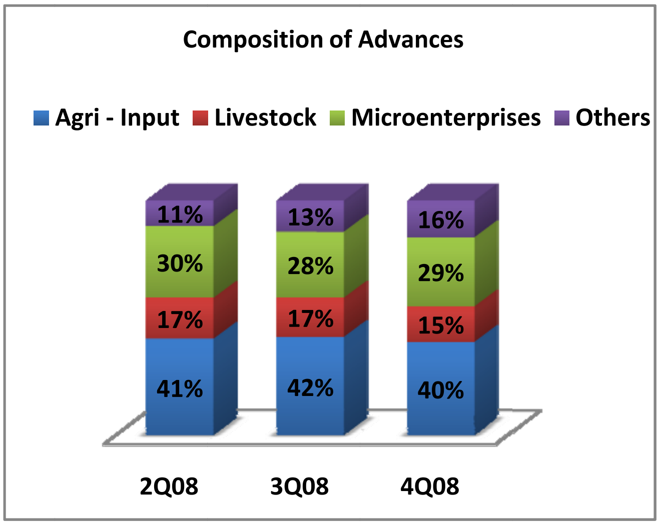
The financing structure of the MFBs shows a healthy sign in terms of growth in equity that was steady at 27% in last two quarters and finally gained share of 34% of total funding by 4Q08. The share of borrowing declined to 35% of total funding, from 43% in last two quarters. On the positive side, MFBs have managed to maintain share of their deposits at 28% throughout the year. Considering that present liquidity conditions are tough and MFBs are looking for cost effective funding, the deposit mobilization must remain top priority of MFBs.





2.4 ADVANCES

The concentration of loan portfolio of MFBs shows almost a steady pattern during the year under review. Agriculture financing constitutes the major portion of financing by MFBs. Its share remained at 40% to 42% during the year. The microenterprise and livestock are second and third largest sector being financed by MFBs. The share of microenterprise and livestock stood at 29% and 15% respectively by the end of 4Q08. The dominant share of agriculture and livestock in advances indicates that the growth in MF banking industry has so far remained focused in rural markets.

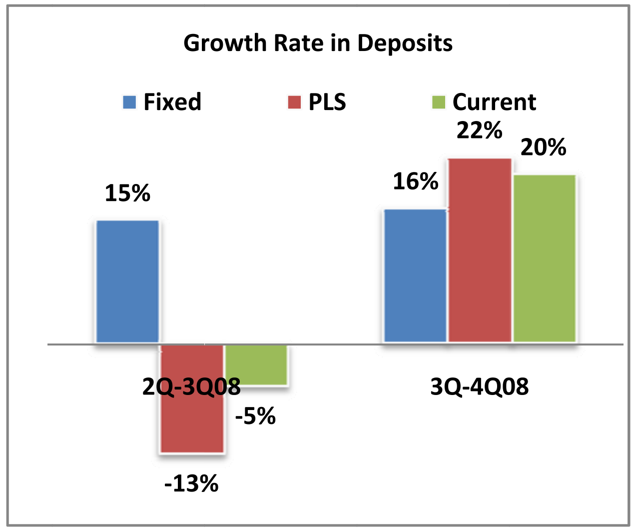


2.5 NON PERFORMING LOANS

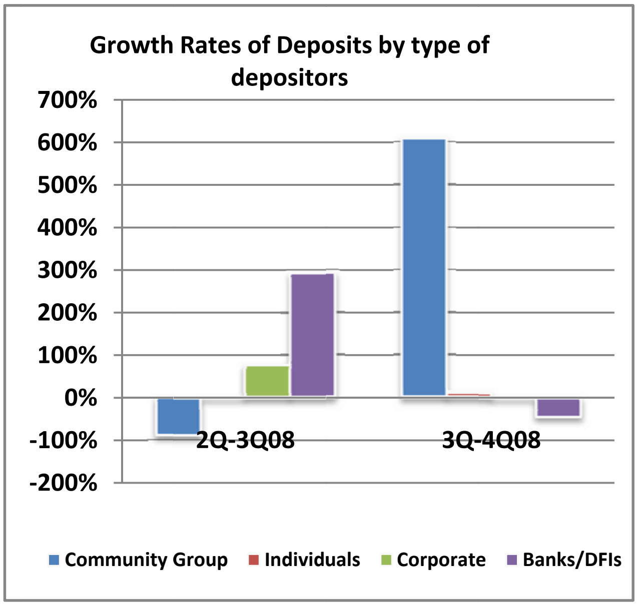
Subsequent to NPLs' rise at the end of 2007, the improvement in the NPLs ratio continued during the year 2008. In overall, the level of NPLs remained around 2.24% to 2.32% during the year 2008.

2.6 GROWTH IN DEPOSITS

The overall deposits grew by 18% during current quarter; this growth was attributed to increased emphasis by all MFB's on sustainable funding sources in the face of global economic turmoil. Considering the existing low deposit base, the sector has huge potential of significantly enhancing its deposit base. All of the deposit categories have observed positive changes during the quarter.



Different categories of deposits have shown mixed trends with some of them appearing positive, while others are negative. However, overall deposits grew by 18% on quarterly basis. Deposits by community and individual have observed significant positive growth, maintaining the overall pace of growth at a reasonable level, whereas the deposits of Corporate and Financial Institutions registered significant decline.

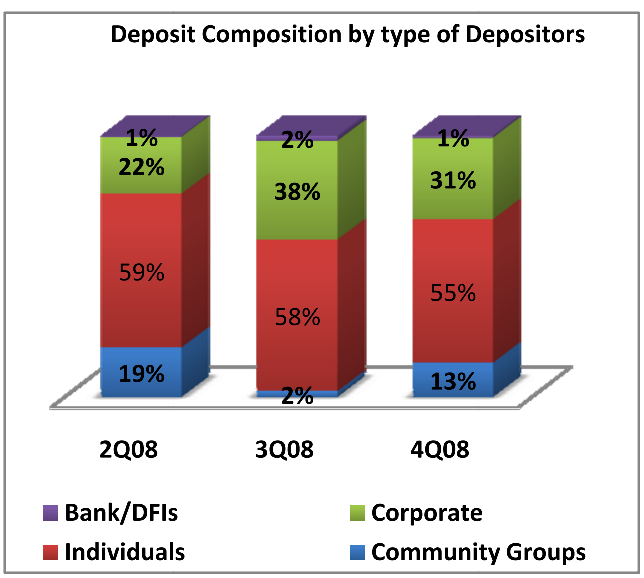


In terms of number of depositors, the community depositors led the growth followed by the growth in individual depositors. The significantly high growth numbers for community depositors are also due to low base factor and enhanced attention on deposit mobilization at gross root level.

The overall number of depositors had witnessed a growth of 14% during the 3rd quarter of 2008; while 13% growth has been registered in the 4th quarter of 2008.

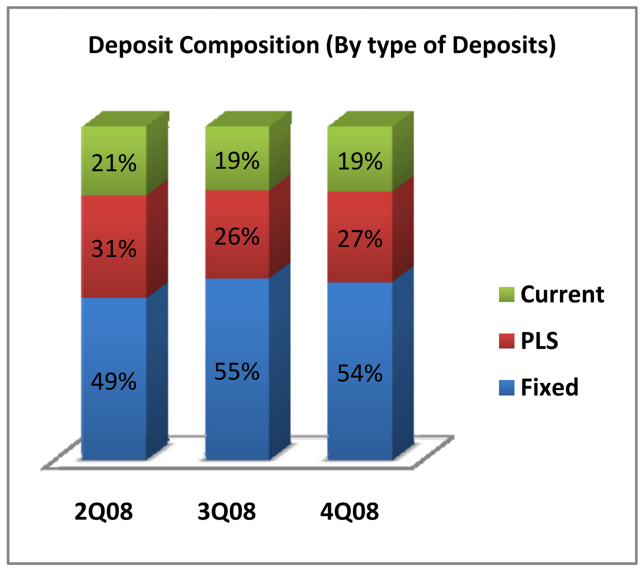
2.7 COMPOSITION OF DEPOSITORS AND DEPOSITS

As visible from the graph, the share of community/group



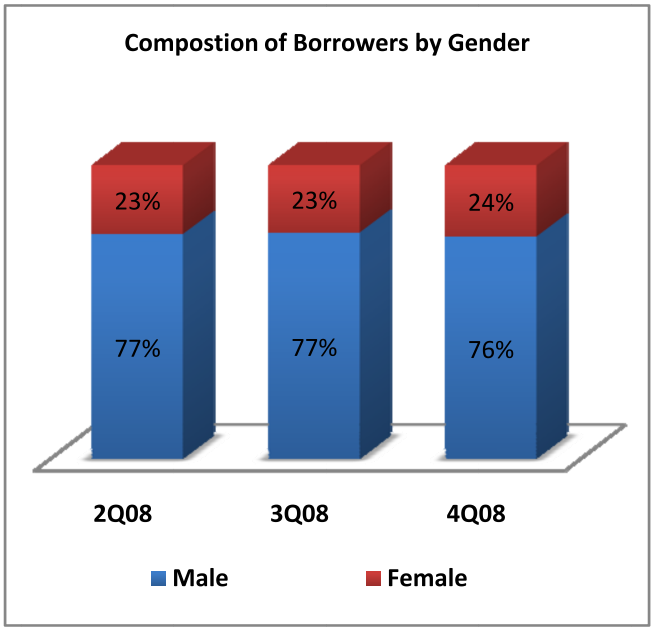
depositors has significantly increased from 2% to 13% from 3rdQ08 to 4thQ08. The share of individuals is still the highest at 55% of total deposits as of 4Q08 as compared to 58% of total deposits by 3Q08. The share of corporate depositors has declined to 31% of total depositors. Moreover, the community depositors, after declining to 2% as of 3Q08, have increased again and stand at 13% of total depositors.

In terms of type of deposits (current, PLS, Fixed), fixed deposits continue to dominate the deposit base. The fixed deposits were 49% of total by 2Q08, increased to 55% during 3Q08 and now stand at 54% by the end of 4Q08. The PLS is 27% and maintains the second biggest share as of 4Q08. On contrary the current account deposits constitute the smaller part and stood at 19% as of 4Q08.



2.8 GENDER

The male borrowers have dominant share in MFB's loan portfolio. The share of female borrowers increased slightly to 24% from 23% in the last quarter. It is expected that this trend will continue to grow since microfinance experience in South Asian region has largely been women-focused.



2.9 NEWS & UPDATES

News and updates during the quarter under consideration.

A- PMN LAUNCHES CODE OF CONDUCT FOR CONSUMER PROTECTION

The Pakistan Microfinance Network (PMN) has launched the Code of Conduct for Consumer Protection under its mandate to promote best practices and transparency in the microfinance sector. There is little legislation on consumer rights for the financial services sector in Pakistan, especially for non-bank service providers. The launch of the event was held with the support of Citi Foundation under its Network Strengthening Program (NSP) Department for International Development UK (DFID) and Swiss Agency for Development Cooperation (SDC).

B- IFAD INVITES PROPOSALS FOR REMITTANCE FINANCING FACILITY

The International Fund for Agricultural Development (IFAD) in partnership with the European Commission, Inter-American Development Bank, CGAP, Government of Luxembourg, Ministry of Foreign Affairs and Cooperation, Spain, and United Nations Capital Development Fund (UNCDF) is inviting proposals for the US$15 million Financing Facility for Remittances (FFR) 2009. The facility aims to increase economic opportunities for the rural poor through support and development of innovative, cost-effective and easily accessible international or domestic remittance services, with or within countries in Africa, Asia, Europe, Latin America and the Caribbean, and the Near East.

Through a four-phase competitive process, the FFR will award grant financing of up to US$250,000 per project to eligible institutions, to be implemented within a two-year period. Applicants must provide a minimum counterpart contribution of 20% of the amount requested (or 30% for projects in the Latin America and the Caribbean region), of which at least half should be in cash.

C- MIX ANNOUNCES RELEASE OF SOCIAL PERFORMANCE INDICATORS

The Microfinance Information Exchange (MIX) has sent a questionnaire designed to evaluate social performance to over 1,300 MFIs. The questionnaire, available in English, Spanish, and French, consists of 22 core indicators covering topics such as client poverty level, progress out of poverty, product design, and institutional policies and procedures.

The indicators result from collaboration between MIX and the Social Performance Task Force (SPTF). Last spring, MIX piloted an initial set of SPTF-designed social performance indicators to a test group of more than 100 MFIs. Based on their feedback, the SPTF revised the material into the 22 core indicators now receiving general distribution via MIX.

The SPTF will review all responses at its next meeting, scheduled for June 2009 in Madrid, and will continue refinements and revisions. Starting in Autumn 2009, MIX will add the indicators to the MIX market data, and will weigh social performance reporting when determining the number of diamonds an MFI receives for transparency.

D- MICROFINANCE CREDIT BUREAU LAUNCHED IN INDIA

Financial Information Network & Operations (FINO), has launched Sayana Ravi, a credit bureau specifically for the rural and urban poor in India. The bureau has been based on the lines of the Credit Information Bureau (CIBIL). "Information about borrowers has been stored on the smart cards for our 4 million customers," said Manish Khera, chief executive officer of FINO, describing Sayana Ravi.

The amount that has been deposited, withdrawn, and repaid on past loans by microfinance customers are factors used to give a credit scoring. "So far banks have been following the group model," Khera said. "What we are telling banks is that they can take individual calls." However, as the microfinance industry is in a nascent stage, the information available on borrowers is limited. As a result repayment of loans may not be the only thing looked at.

E- OVER 100 MILLION OF WORLD'S POOREST BENEFIT FROM MICROCREDIT

Over 106 million of the world's poorest families received a microloan in 2007, surpassing a goal set in 1997 by the Microcredit Summit Campaign, according to its 2009 State of the Campaign Report. Organizers say that when the goal was originally set in 1997, less than 8 million very poor clients had a microloan. The number has grown by more than 1,300% between 1997 and 2007. In 2007, microloans went to 88 million very poor women. The Campaign counts the world's poorest as those who live in the bottom half of those living below their nation's poverty line, or any of the nearly 1 billion people living on less than US$1.25 a day.

Muhammad Yunus said, "This is a tremendous achievement that many people thought was far too difficult to reach. What makes it even more remarkable is that loans to more than 100 million very poor families now touch the lives of more than half a billion family members around the world. That is half of the world's poorest people."

Alex Counts, President and CEO of Grameen Foundation said, "During the past decade the Campaign has organized 12 conferences attended by more than 14,000 delegates in order to examine trends, debate scholarly papers, and expose practitioners to training and innovations that are relevant to accelerating progress towards expanding outreach to the very poor. The Campaign spent less than US$12 million during the period 1997-2007, while the amount of microloans in the hands of the poor has expanded from an estimated US$1 billion to US$15 billion, demonstrating the significant leverage possible when an international campaign is able to mobilize millions of people and institutions on a global scale."

AGRICULTURE FINANCE

3 AGRICULTURE FINANCE

Agriculture is a prime sector of national economy of Pakistan. It accounts for nearly one fourth of country's GDP and is a source of livelihood for majority of rural population. Agriculture also supplies raw material to Pakistan's industries, notably textile industry, the largest exporter and industrial sub sector of the economy. In view of importance of agriculture for economic growth and poverty alleviation, the Government is attaching high priority to this sector.

Agricultural growth is mainly linked with the availability of credit to farmers to meet their financing needs for production and development. Taking cognizance of the importance of agri. financing, SBP has taken numerous steps in collaboration with stakeholders during last 7-8 years. It has adopted a multipronged strategy to increase the flow of agri. credit on fast track basis. The initiatives have been taken for creating enabling regulatory environment for banks to adopt agri. financing as a viable business line. Major initiatives taken are: issued guidelines for product development for livestock, fisheries, poultry and horticulture financing, inducted 14 domestic private banks (DPBs) in agri. financing scheme, issued guidelines for Islamic agricultural financing, developed three years Revolving Credit Scheme for production loans, conducted capacity and awareness building programs for banks and farming community, improved liaison with stakeholders, strengthened ACAC, etc. Resultantly, credit to the farmers has increased from Rs 45 billion in 2000-01 to Rs 212 billion in FY2007-08. The outreach has increased from 1.1 million borrowers to 2 million borrowers as on 31st December, 2008.

Table 1 Indicative Agri. Credit Targets and Disbursement (Rs. Billion)

Banks	Target 2008-09	Disbursement 2008-09			Target 2007-08	Disbursement 2007-08		
		Jul-Sep 2008	Oct-Dec 2008	Jul-Dec 2008		Jul-Sep 2007	Oct-Dec 2007	Jul-Dec 2007
5 Big Comm. Banks	119.5	25.6	23.0	48.6	96.5	19.5	25.4	44.9
ZTBL	72.0	8.7	19.0	27.7	60.0	7.2	16.7	23.9
DPBs	52.5	11.4	9.5	20.9	35.5	8.3	10.8	19.1
PPCBL	6.0	0.8	1.4	2.2	8.0	1.3	1.1	2.4
Total	**250.0**	**46.6**	**52.8**	**99.4**	**200.0**	**36.3**	**54.0**	**90.3**

An indicative target of Rs 250 billion has been set for 2008-09. Out of which, Rs 119.5 billion has been allocated to five major banks followed by Rs 72 billion to Zarai Taraqiati Bank Ltd. (ZTBL), Rs 52.5 billion to domestic private banks and Rs 6 billion to Punjab Provincial Cooperative Bank Ltd. (PPCBL). As against the target, banks have disbursed Rs 99.4 billion during July-December, 2008 which is higher by Rs 9.1 billion or 10% as compared to Rs 90.3 billion disbursed during the corresponding period last year.

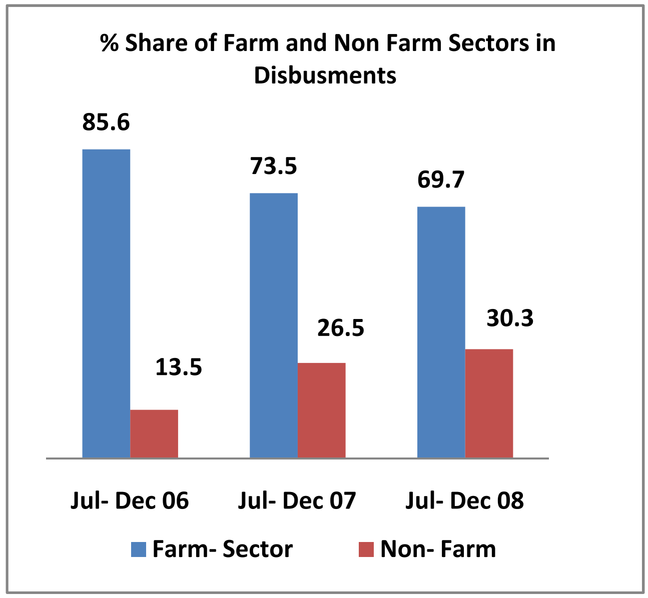
3.1 AGRI. CREDIT DISBURSEMENTS

During the quarter October-December, 2008, banks disbursed Rs 52.8 billion compared to disbursement of Rs 46.6 billion in July- September, 2008 (preceding quarter) and Rs 54 billion in the same quarter last year. Detail of indicative agricultural credit targets of Rs 250 billion to be disbursed by banks during FY2008-09 and actual disbursements by banks up to December, 2008 and in the corresponding period last year are given in Table 1. Accumulated disbursements during July-December, 2008 indicate that banks have disbursed Rs 99.4 billion, showing an increase of 10.2 % over the disbursements of Rs 90.3 billion made in the same period last year. During 1st half of FY 2008-09 banks achieved 39.8 % of the whole year targets of Rs 250 billion compared with 45.2 % of targets achieved in the same period last year. Despite a number of initiatives taken by SBP to facilitate banks in their capacity building, enhancement of per acre credit limit for provision of adequate credit to the farming community, banks' disbursement position is not encouraging due to liquidity crunch faced by banks during the period under review. The province-wise disbursements reveal that during the quarter October-December, 2008 banks disbursed Rs 46.1 billion in Punjab, Rs 4.6 billion in Sindh, Rs 1.8 billion in N.W.F.P, Rs 0.1 billion in Baluchistan and Rs 0.2 billion in AJK& Northern Areas. Province-wise detail of disbursements is given in Table 2. Accumulated disbursements during July-December, 2008 show that Punjab maintained its highest share (86.7 %) in disbursements by receiving Rs 86.2 billion compared with whole year target of Rs 195.0 billion and its actual disbursements of Rs 75.7 billion in the same period during last year. The disbursements in Sindh and N.W.F.P decreased in absolute terms. Disbursements in Sindh stood at Rs 9.0 billion during the period under review compared with Rs 10.2 billion during July-December, 2007; its share in total disbursements was 9.1 %. An amount of Rs.3.6 billion was disbursed in N.W.F.P compared with Rs 3.9 billion disbursed during the same period last year. Rs 0.2 billion were disbursed in Baluchistan and Rs 0.4 billion were disbursed in AJK/ NAs compared with Rs. 0.2 billion and Rs 0.3 billion

Table 2 Province-wise Indicative Agri. Credit Targets and Disbursement (Rs. Billion)

Province	Target 2008-09	Disbursement 2008-09			Target 2007-08	Disbursement 2007-08		
		Jul-Sep 2008	Oct-Dec 2008	Jul-Dec 2008		Jul-Sep 2007	Oct-Dec 2007	Jul-Dec 2007
Punjab	195	40.1	46.1	86.2	156	30.2	45.4	75.6
Sindh	35	4.4	4.6	9.0	28	3.6	6.6	10.2
N.W.F.P	15	1.7	1.8	3.6	12	2.2	1.7	3.9
Baluchistan	4	0.1	0.1	0.2	3	0.1	0.1	0.2
AJK & NAs	1	0.2	0.2	0.4	1	0.2	0.2	0.3
Total	**250**	**46.6**	**52.8**	**99.4**	**200**	**36.3**	**54.0**	**90.3**

disbursed during July-December, 2007 respectively. Sector-wise classification reveals that during July-December, 2008 out of total disbursements of Rs 99.4 billion, an amount of Rs 69.3 billion (69.7 %) was disbursed to farm- sector and Rs.30.2 billion (30.3 %) to non-farm sector. Last year during this period an amount of Rs 66.3 billion (73.5 %) was extended to farm sector and Rs 24 billion (26.5 %) was disbursed to non-farm sector. To facilitate and encourage banks to focus on non-farm sector, SBP has taken a number of initiatives which include issuance of guidelines for livestock, fisheries & horticulture financing and designing of financing scheme for small farmers based on group based lending methodology. Resultantly, share of non-farm sector in total agri. credit disbursement has improved.



The land holding-wise disbursement pattern shows that out of Rs 69.3 billion disbursements to farm sector Rs 43.6 billion were absorbed by farmers having land up to subsistence level, Rs 15.7 billion by farmers having economic holding and Rs.9.9 billion by farmers having above economic holding. The disbursement to non-farm sector reveals that an amount of Rs 24 billion was extended to large farms, mainly to livestock and poultry sector and Rs 6.2 billion were disbursed to small farmers.

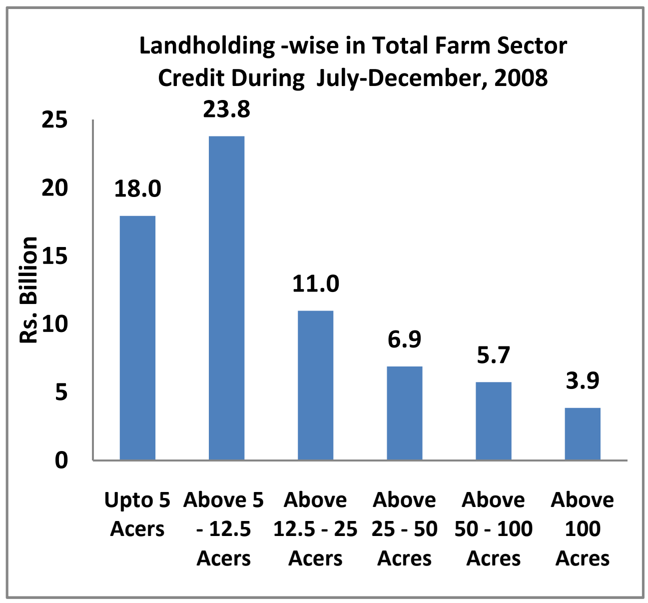
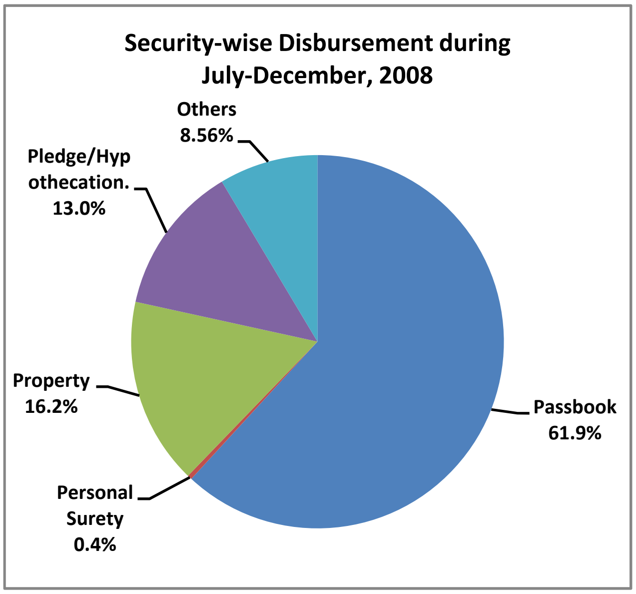


	Table: 1.3 Credit Disbursement to Farm & Non-Farm Sectors (Billion Rupees)						
	Sector	2008-09			2007-08		
		Jul-Sep 2008	Oct- Dec 2008	Jul-Dec 2008	Jul-Sep 2007	Oct- Dec 2007	Jul-Dec 2007
A	**Farm Credit**	**29.8**	**39.4**	**69.2**	**27.1**	**39.2**	**66.3**
1	**Subsistence Holding**	**18.3**	**25.3**	**43.6**	**16.9**	**22.5**	**39.4**
i	*Production*	16.5	23.5	40.0	15.5	20.9	36.4
ii	*Development*	1.8	1.8	3.6	1.4	1.6	3.0
2	**Economic Holding**	**6.3**	**9.4**	**15.7**	**5.6**	**9.2**	**14.8**
i	*Production*	5.8	9.1	14.9	5.2	8.8	14.0
ii	*Development*	0.5	0.3	0.8	0.4	0.4	0.8
3	**Above Economic**	**5.2**	**4.7**	**9.9**	**4.6**	**7.5**	**12.1**
i	*Production*	5.0	4.4	9.4	4.4	7.1	11.5
ii	*Development*	0.2	0.3	0.5	0.2	0.4	0.6
B	**Non-farm Credit**	**16.8**	**13.4**	**30.2**	**9.1**	**15.0**	**24.1**
1	Small Farms	2.9	3.3	6.2	1.7	2.6	4.3
2	Large Farms	13.9	10.1	24.0	7.4	12.4	19.8
	Total (A+B)	**46.6**	**52.8**	**99.4**	**36.2**	**54.2**	**90.4**

Security-wise disbursement of agricultural credit reveals that out of Rs 99.4 billion disbursed during July-December, 2008, Rs 61.5 billion (61.9 %) were disbursed against passbook, Rs 16.1 billion against mortgage of property, Rs 12.9 billion against pledge/ hypothecation of stocks and Rs 8.5 billion was disbursed against other securities. A small amount of Rs 0.4 billion was also disbursed against personal surety. In farm-sector, out of total disbursements of Rs 69.2 billion, Rs 52.1 billion (75.2 %) were disbursed against passbook, Rs 6.5 billion against pledge/ hypothecation, Rs 7.0 billion against other securities, Rs 3.3 billion against property (other than agri. land covered in pass book) and Rs 0.3 billion against personal surety. In non-farm sector out of total disbursements of Rs 30.2 billion, property remained the most acceptable collateral, i.e. Rs 12.8 billion (42.4 %) were extended against property, Rs 9.4 billion (31 %) disbursed against passbook, Rs 6.4 billion (21.2 %) against pledge/ hypothecation and Rs 1.5 billion against other securities whereas, only Rs 0.1 billion were disbursed against personal surety.



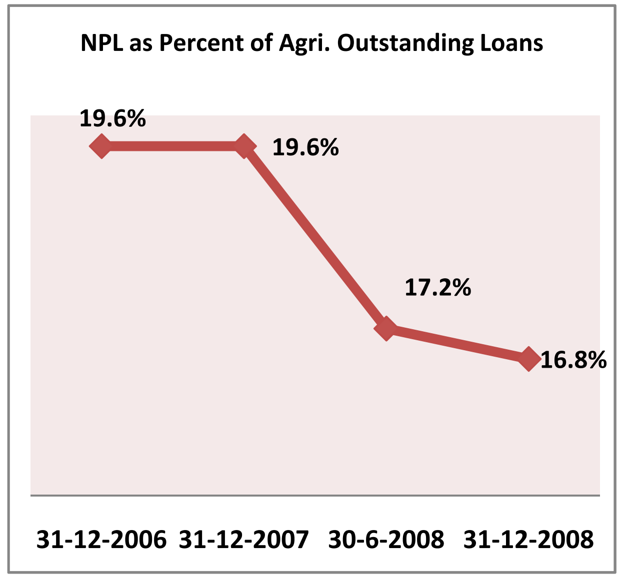
3.2 AGRICULTURAL CREDIT RECOVERY

During July-December, 2008, banks recovered Rs 90.9 billion or 76.4 % of recoverable amount of Rs 119.0 billion agri. loans compared with Rs 83.9 billion or 71.0 % of the recoverable amount of Rs 118.2 billion during the same period last year. The five major banks recovered Rs 43.5 billion or 86.6 % of the recoverable amount, ZTBL recovered Rs 25.1 billion or 65.2 % of the recoverable amount, DPBs recovered 19.5 billion against Rs 22.8 billion recoverable. PPCBL recovered only Rs 2.8 billion or 37.1 % out of recoverable amount of Rs 7.4 billion.

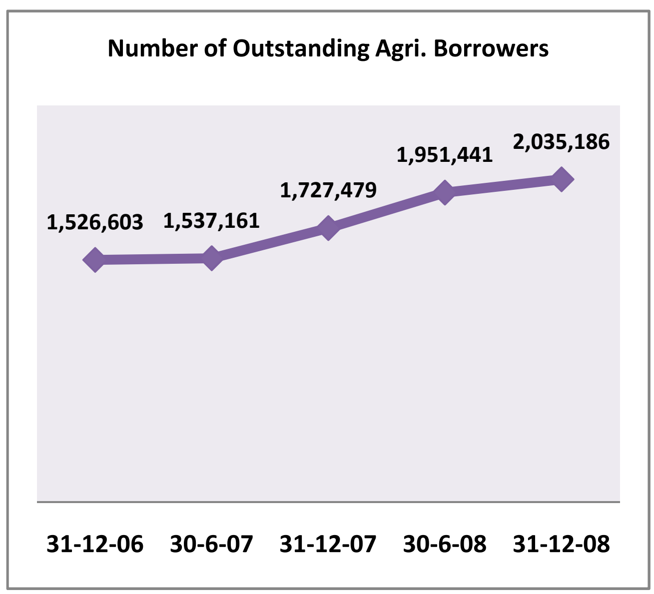
3.3 AGRI. NON-PERFORMING LOANS

Non-performing loans in agri. financing stood at Rs 30.2 billion, 16.8 % of the outstanding loans as on 31st December, 2008 compared with Rs. 31.7 billion or 19.6 % of the outstanding loans as 31st December, 2007. Bank-wise break-up of NPLs as on 31st December, 2008 reveals that five major banks' NPLs were 9.8 % of their outstanding loans, while for DPBs' it was 10.5 %. The ratio of NPLs in specialized banks was much higher than DPBs and five major banks (ZTBL 19.1 % and PPCBL 60.4 %).

3.4 NUMBER OF AGRI. LOAN BORROWERS

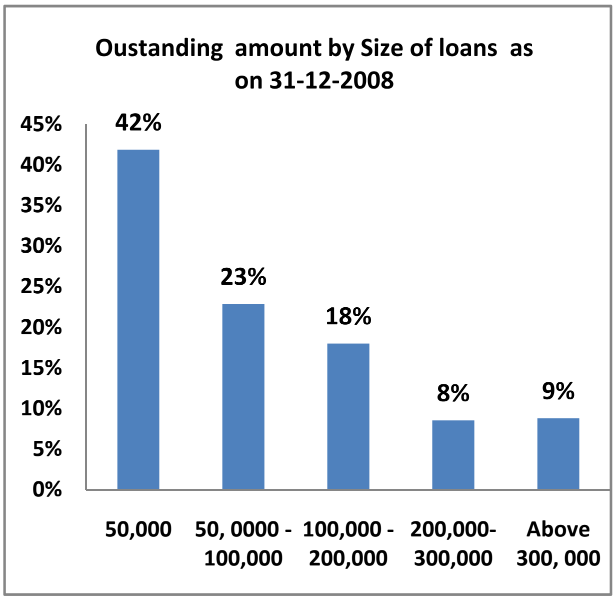


Agri. loan borrowers have reached to 2 million as on 31st December, 2008 as compared to 1.7 million at end December, 2007. Out of them 1.5 million borrowers (74.2 %) were from Punjab, 0.32 million (16.0 %) from Sindh, 0.13 million (6.6 %) from N.W.F.P, 0.02 million (1%) from Baluchistan and 0.04 million (2.2 %) from AJK/NAs. Bank-wise position of outstanding number of borrowers reveals that ZTBL served 58.9 % of the total borrowers, five major banks 33.5 %, PPCBL 4.5 % and DPBs 3.1 %.



The number of borrowers by size of outstanding loans position reveals at the end of the period under review, 42 % borrowers' availed loans up to the size of Rs 50,000 followed by 23 % having loans size of from Rs 50,000 to Rs 100,000. 18 % availed loans Rs.100, 000 to 200,000 and 8 % availed loans from 200,000 to 300,000 and 9 % availed above Rs 300,000. Details of borrowers and outstanding agri. loans there against as on 31st December, 2008 can be seen from the charts and further break-up regarding farm sector and non-farm sector is also depicted in the graph.

3.5 SBP'S INITIATIVES



Owing to increased activities in the agriculture sector and expanding demand for credit in the sector, SBP has taken various key steps for the promotion of Agri/rural finance during October-December, 2008, which are as under

A- REVISION OF REPORT ON ESTIMATION

Since the last revision of the report, various changes have taken place on economic front of agri. credit and prices of inputs have also increased enormously, thereby resulting in high production cost to the farmers. Therefore, deeming it necessary, SBP revised the Report on Estimation of Agri. Credit Requirements in December, 2008 in collaboration with banks, Agriculture Universities, Provincial Planning & Agriculture Departments, Pakistan Institute of Development Economics (PIDE), Pakistan Agriculture Research Council (PARC) and provincial chambers of agriculture. The report has been revised in terms of per acre indicative credit limits; seed, fertilizer & pesticides' requirements; enlarged list of crops, orchards & forestry; list of eligible items; etc. Besides, year wise per acre indicative credit limits for growing of orchards viz. mango, citrus, apple, banana, coconut, dates, etc. and agro forestry viz. acacia, Shesham, bamboo, etc. have also been provided. On the recommendation of stakeholders, tables on average use of various fertilizers like Di-Ammonium Phosphate (DAP), urea, potash, zinc, etc. for crops and orchards have also been included in the report. The report is aimed at facilitating banks in assessing the credit requirement of the farmers and farming community in getting loans for growing of crops, orchards, agro forestry, etc.

B- HANDBOOK ON BEST PRACTICES

For the awareness building of banks, farming community, researchers and other stakeholders regarding international best practices vis-à-vis Pakistan's experience in agri/rural finance, the "Handbook on Best Practices in Agri/ rural Finance" has been compiled by SBP. The Handbook provides an overview of the policies and strategies of the successful Agri/ rural financial institutions in improving access to finance to the rural/ farming community and highlights their key achievements in terms of outreach, rate of recovery, lending methodology, sustainability, profitability and the level of confidence of their clients in those institutions which is depicted in their vertical & horizontal expansion. The Handbook will help banks to revise and devise their lending strategies to grasp the vast untapped agri/ rural market.

C- APRACA FINPOWER PROGRAM

State Bank of Pakistan arranged a two-day knowledge sharing program on rural finance with Central Bank of Sri Lanka in December, 2008 at Karachi, under IFAD funded Asia Pacific Rural & Agricultural Credit Association's (PRACA) FinPower Program of twinning sharing of policy & regulatory environment in rural finance. APRACA has representation of all renowned Agri/ rural financial institutions of the Asia Pacific region. APRACA FinPower is a five-year technical and financial assistance grant by the International Fund for Agricultural Development (IFAD) to support APRACA Regional Program for accelerating the financial empowerment of poor rural communities in Asia and Pacific through policy dialogue, innovative pilot programs, and knowledge-sharing among actors in the rural finance sector. The activities undertaken by the program will consolidate rural finance knowledge and replicate successful approaches among beneficiaries in the Asia-Pacific region.

Around 200 policy makers and practitioners from commercial banks, Microfinance institutions, NGO-MFIs, Pakistan Microfinance Network (PMN), Pakistan Poverty Alleviation Fund (PPAF) and SBP were invited in the program. The Sri Lankan side was represented by Mrs. Rose Cooray, Assistant Governor, Central Bank of Sri Lanka, who apprised the participants of her country's experiences in Agri/ rural finance and also held meetings with Microfinance Banks, NGO-MFIs, Banks, and Departments of SBP to learn from their experiences.

D- CRASH TRAINING PROGRAM

To facilitate banks in capacity building of their agri. field officers, SBP has launched one-week Crash Training Program in collaboration with banks and Development Finance Support Department, SBP-BSC. The program covers major dimensions of agri. financing including 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 & sales system, etc. During October-December, 2008 four programs were arranged at Lahore, Rawalpindi, Multan and Sialkot, wherein around 140 Agri. Field Officers (AFOs) of banks and officers of SBP-BSC were imparted training. So far, 435 AFOs have been trained in 14 such programs throughout the country.

E- CROP LOAN INSURANCE SCHEME

Non availability of crop loan insurance was a major reason in non repayments by the farmers/borrowers in case of losses due to natural calamities. Therefore, in order to mitigate the risk of banks and farming community against losses caused by the natural calamities, SBP developed a market based Crop Loan Insurance Scheme (CLIS) in consultation with stakeholders. The scheme was made mandatory by the government for five major crops viz. wheat, rice, sugarcane, cotton and maize from Rabi Crop 2008-09 and the government is bearing the cost of premium on account of subsistence farmers up to a maximum of 2% per crop. Accordingly, banks have implemented the CLIS from Rabi Crop 2008-09 except ZTBL & NBP which have implemented the same from Kharif Crop 2009. Under the scheme, insurance companies will provide cover against all crop production loan losses caused by the natural calamities to agri. borrowers. It will help the farming community in the settlement of their outstanding loans and they will also be eligible to draw fresh loans for future crops. This scheme will not only safeguard the interests of banks and farmers, but it will also save huge amount of funds spent by the Government of Pakistan in the shape of frequent write-offs / waivers of agri. loans of ZTBL's borrowers.

INFRASTRUCTURE & HOUSING FINANCE

4 HOUSING FINANCE- OVERVIEW

The quarter ended December 2008 witnessed a growth of 16% over the last twelve months in the gross outstanding portfolio of the housing finance. The total outstanding reported by banks and DFIs as on December 31, 2008 was Rs. 88.2 billion compared to Rs. 76 billion as on December 31, 2007. Although the housing finance sector recorded growth compared to last year's position, the quarter ended December 2008 witnessed its first stagnation during FY 08-09; a 0.61% fall in outstanding. The total number of outstanding borrowers has decreased from 125,490 to 123,107 since December 2007; a 1.9% fall.

Non-performing loans have increased from Rs.10.53 billion (September 2008) to Rs.12.31 billion (December 2008); a 16.91% increase over the reporting quarter. 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 quarter.

Over 1,800 new borrowers were served this quarter accounting for Rs. 3.43 billion of additional disbursements in housing loans. HBFC accounted for 64.8% of these new borrowers and contributed over 18% of the Rs.3.43 billion additional disbursement made. The total number of borrowers at the end of December 2008 just exceeds 123,000.

Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising over 56.69% share in outstanding. However, renovation witnessed the greatest growth; a 49.5% increase in financing over the last 12 months.

4.1.1 GROSS OUTSTANDING PORTFOLIO

The total outstanding finance as on December 31, 2008, of all banks and DFIs stood at Rs.88.20 billion. Compared to quarter ended December 2007 (Figure 1), outstanding of all commercial banks and DFIs increased by 16%.

Figure 1. Outstanding as on December 31,2008

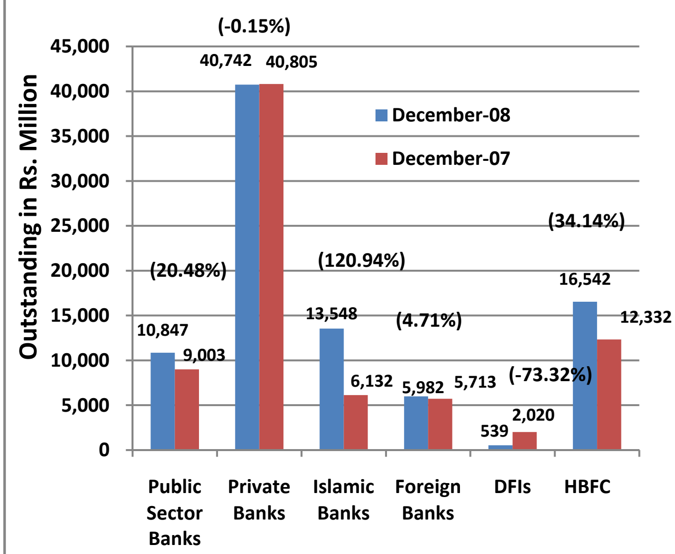


Figure 1 shows banking sector wise total outstanding with growth/fall (in parenthesis) since December 2007. Of the total outstanding of Rs.88.20 billion, commercial banks accounted for Rs.71.66 billion with private banks posting an outstanding of Rs.40.74 billion; a 0.15% decline since December 2007. Islamic banks reported an outstanding of Rs.13.55 billion, followed by public sector with Rs. 10.85 billion and foreign banks with Rs.5.98 billion. The highest growth of 120.94%, was reported among Islamic banks. This is due to new entrants and also because of increased inclination of consumers towards Islamic banking. Excluding DFIs, all commercial banks (public sector banks, private banks, Islamic banks and foreign banks) together posted a 15.36% increase when compared to quarter ended December 2007.

The outstanding loans of HBFC were Rs.16.54 billion; a 34.14% increase over the last year. Other DFIs, have a meager share of Rs. Rs. 0.54 billion in outstanding loans.

4.1.2 NON-PERFORMING LOANS

This section analyzes the position of NPLs by first observing increase/decrease in its levels followed by NPLs share in total outstanding over the reporting quarter.

Figure 2. Non Performing Loans as on December 31,2008

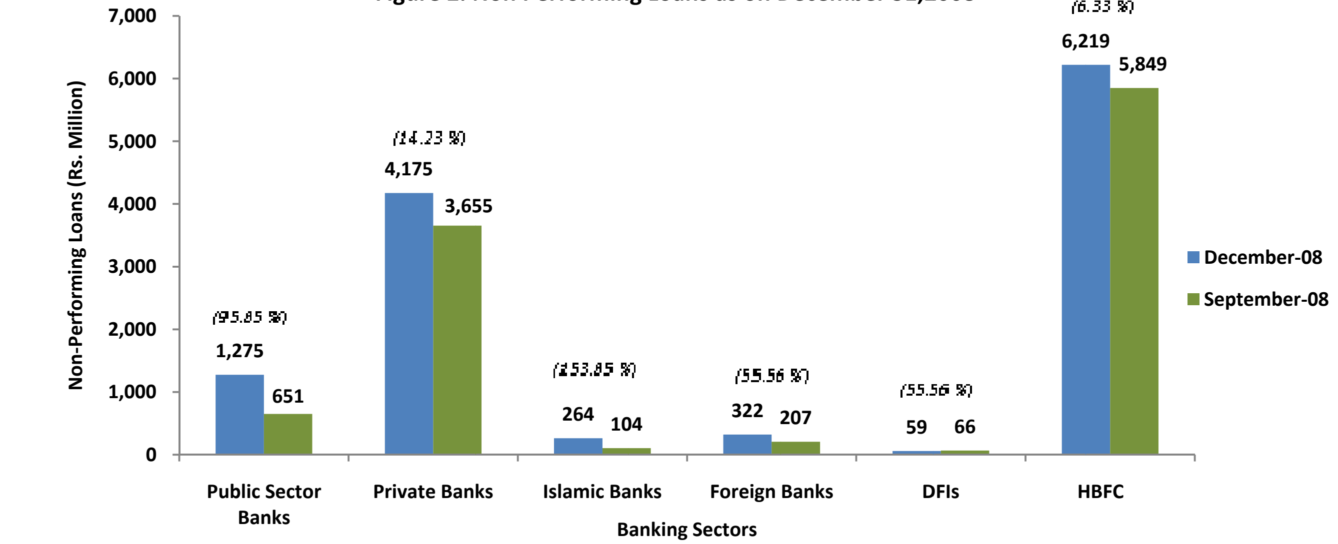
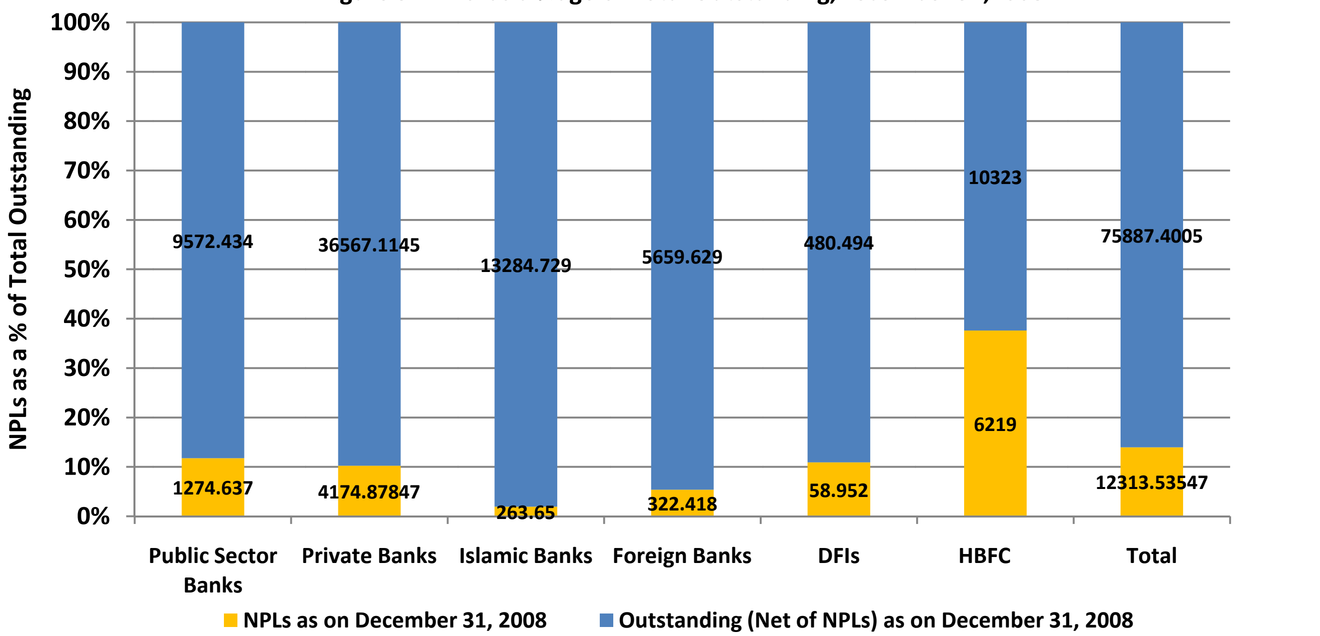


Figure 3. NPLs as a %age of Total Outstanding,December 31,2008



For this purpose Figure 2 compares the position of NPLs for the quarters ended September 2008 and December 2008[1] and shows growth/fall (in parenthesis) during the quarter. Figure 3 shows NPLs as a percentage of total outstanding as on December 31, 2008. Overall, NPLs have increased from Rs.10.53 billion (September 2008) to Rs.12.31 billion (December 2008); a 16.91% increase over the reporting quarter. For the purpose of the analysis, NPLs position of HBFC merits exclusivity. HBFC's NPLs have increased from Rs.5.85 billion to Rs.6.22 billion during the reporting quarter; a 6.33% increase. Although growth of NPLs remains relatively low in absolute terms when compared to other banking sectors, its % share in total outstanding, however, is the greatest; a 37.6% of its total outstanding constitutes of NPLs.

[1] Due to changes in reporting requirements, figures for NPLs are only available from March 2008 onwards.

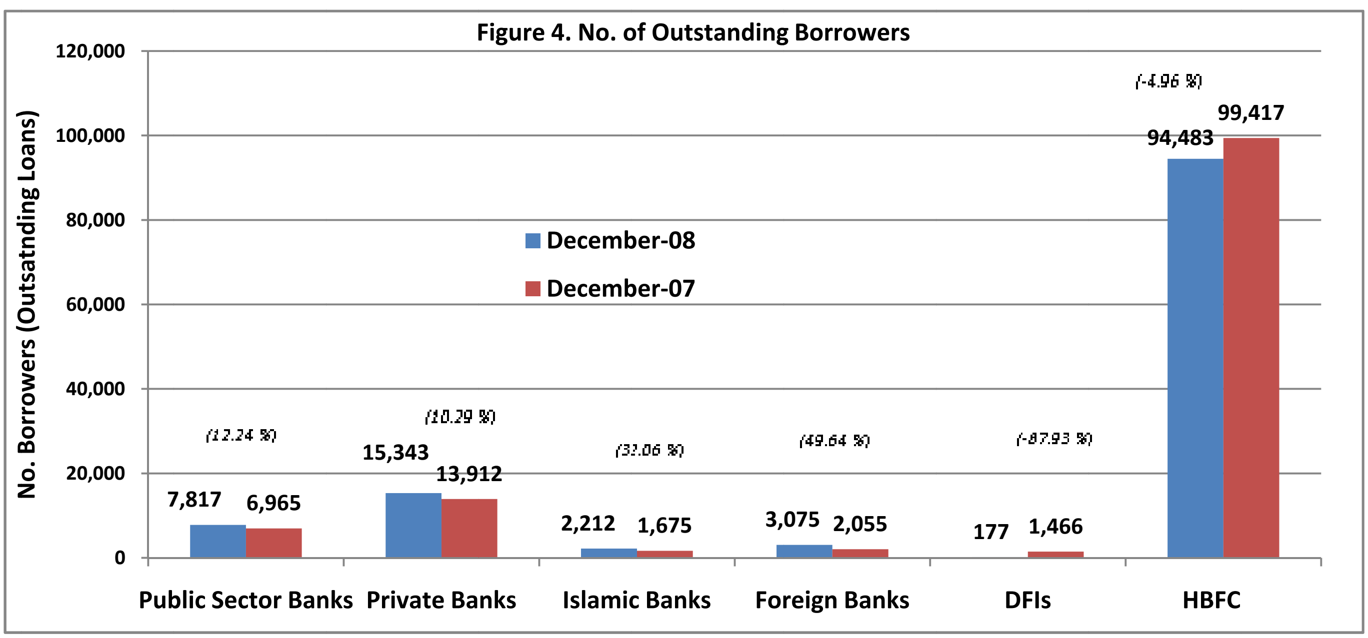
Excluding HBFC, NPLs for all banks and other DFIs have increased by 30% over the quarter from Rs. 4.68 billion to Rs.6.10 billion. Although this increase is 5 times greater than that of HBFC, the % share of NPLs that all banks and other DFIs(excluding HBFC) constitute is 8.5% of its respective total outstanding.

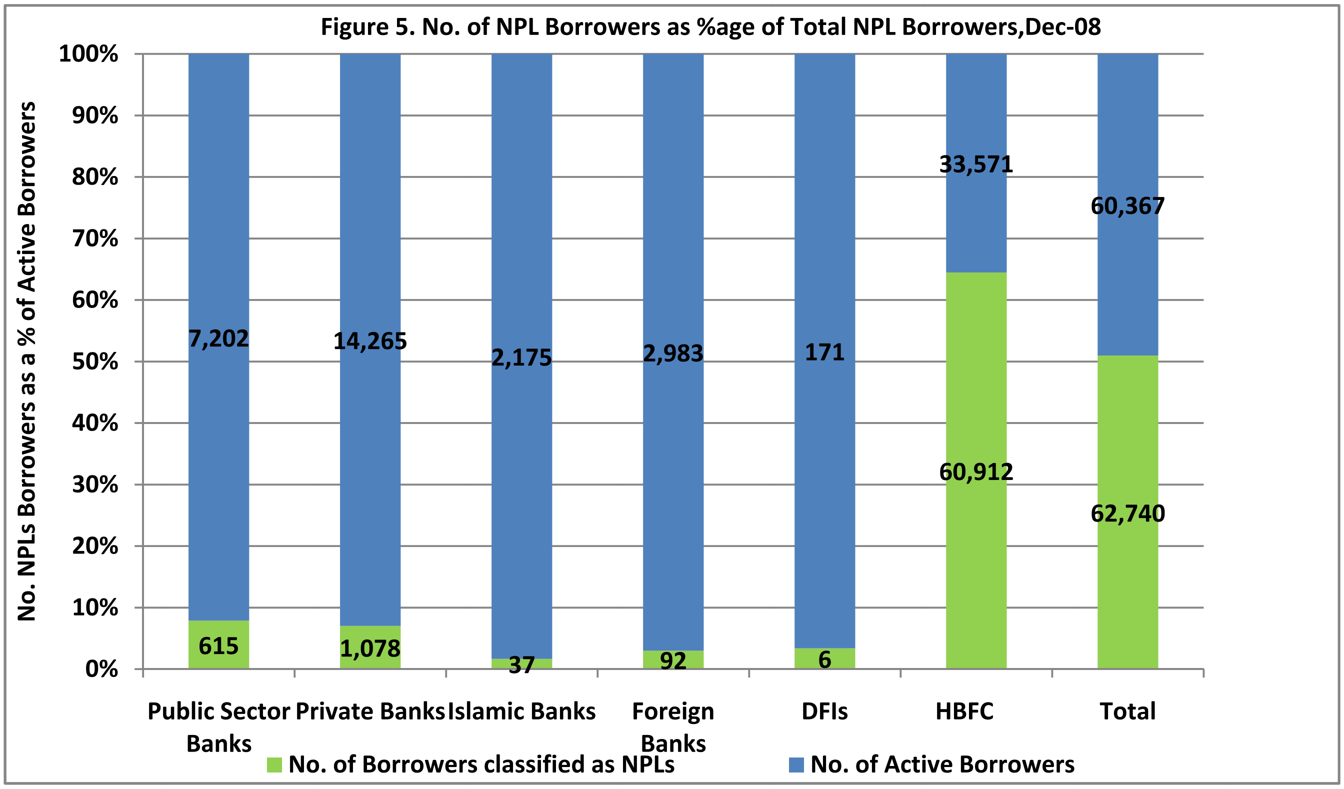
Among banks, Islamic banks have witnessed the sharpest increase in NPLs during the quarter ending December 2008; an increase of 153.85%, from Rs.104 million to Rs.264 million. However, its NPLs constitute only 1.95% share in its total outstanding; the smallest share among banks and other DFIs. NPLs of the public sector banks have increased from Rs.0.65 billion to Rs.1.28 billion; a 95.85% increase, and over 11% of its total outstanding is classified as NPLs. NPLs for foreign banks have increased from Rs.207 million to Rs.322 million; a 55.56% increase with 5.4 % NPLs as a % of its total outstanding. Private banks have reported an increase of 14.23% in NPLs from Rs. 3.66 billion to Rs. 4.18 billion which is 10% of its total outstanding. DFIs (excluding HBFC) have reported a decline in NPLs from Rs. 66 million to Rs.59 million; a 10.61% decline and 10.9% of its total outstanding is reported as NPLs. This overall rise in NPLs is due to rising inflation and interest rates and this may further escalate problem in coming quarters. The high interest rate policy is constraining the supply of housing credit through constrained access to credit which in turn has caused the growth of mortgage sector to slow down.

4.1.3 NUMBER OF BORROWERS

The total number of outstanding borrowers has decreased from 125,490 to 123,107 since December 2007; a 1.9% decrease (Figure 4). Foreign banks have shown a sharp increase (of 49.64%) with numbers increasing from 2,055 to 3,075 over the year since December 2007, followed by Islamic banks (32.06%), public sector banks (12.24%) and private banks (10.29%). HBFC and other DFIs report a decline of 4.96% and 87.93%, respectively. Other DFIs, however, have very small base.

Figure 5 shows number of borrowers that have been classified as NPLs as a percentage of total borrowers. It can be seen that the approximately 51% of total borrowers of housing loans have been classified as non-performing. However, this is prominently due to HBFC's number of non-active borrowers that have been classified as non-performing; a staggering 64.5% of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important since HBFC caters to over 75% of the total outstanding borrowers in housing finance sector which accounts for only 18.75 % of total





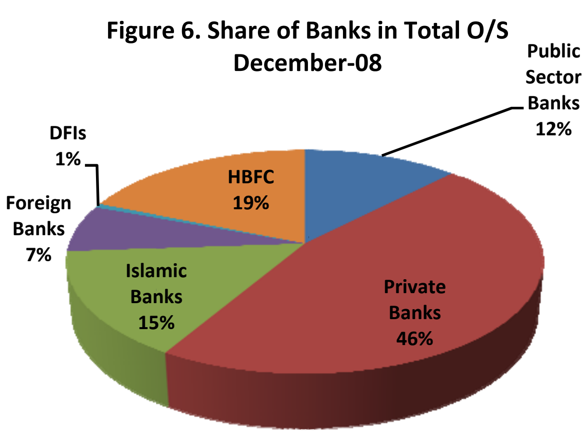
outstanding portfolio. Therefore by excluding HBFC, only 6.4% of total borrowers of housing loans have been classified as non-performing.

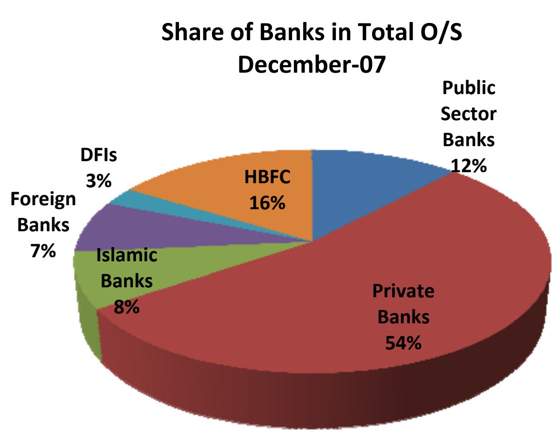
4.1.4 SHARE OF BANKS

The overall market share[2] of commercial banks (excluding DFIs) remained almost the same as at the end of last year as it decreased marginally from 81% to 80.63%. Within commercial banks (Figure 6), the share of private banks in the total outstanding decreased from 53.69% to 46.19%. Islamic banks have shown good growth; albeit higher growth in NPLs too, with its share increasing from 8% (December 2007) to 15.36% (December 2008). Share of public sector banks has also increased from 11.58% to 12.30% and that of foreign banks has decreased from 7.52% to 6.78%, since December 2007. The share of HBFC has risen from 16.23% to 18.75% of the total outstanding.

4.1.5 DISBURSEMENTS

A total of Rs.3.43 billion worth additional disbursements were made during the quarter December 2008 (Table 1). Private Banks extended fresh disbursements of Rs. 1.30 billion followed by Islamic banks with Rs.0.85 billion. HBFC's additional disbursements for the quarter were reported to be Rs. 0.62 billion. Among commercial banks the number of new borrowers totaled 660, with private banks contributing 381 borrowers. HBFC extended loans





to 1,223 new borrowers during the reporting quarter.

Table 1. Disbursements–December, 2008 (Millions)

	Amount	Borrowers
Public Sector	155.32	112
Private Banks	1,296.71	381
Islamic Banks	852.79	112
Foreign Banks	474.55	55
All Banks	2,779.36	660
DFIs	26.28	3
All Banks & DFIs	2,805.64	663
HBFC	622.00	1,223
Total	3,427.64	1,886

4.1.6 SECTORAL SHARE

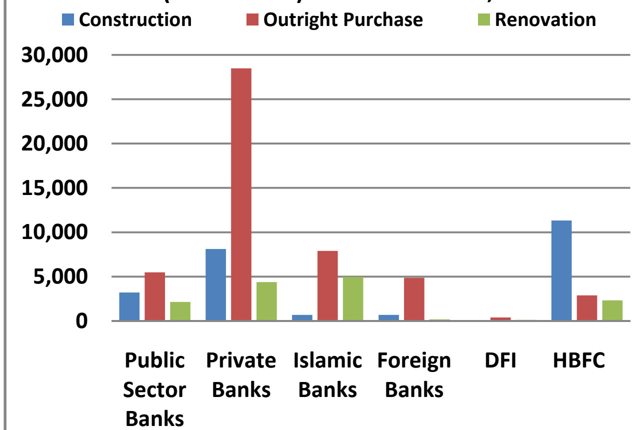
The greatest share of housing finance is currently being attracted towards outright purchase (Figure 7).

The total outstanding for outright purchase stood at Rs.50 billion as on December 31, 2008; a 56.69% share in total outstanding of Rs.88.2 billion. This is followed by the construction category where outstanding reported at quarter end stood at Rs.24 billion and that of renovation stood at Rs.14.12 billion. Financing for construction, outright purchase and renovation increased by 10.67%, 5.92% and 49.50%, respectively, over the last 12 months.

HBFC has taken a lead in financing for construction; a share of 47.11%. Private Banks have taken a lead in the outright purchase sector; a 57% share in the respective sectors. Islamic Banks enjoy the greatest share of 35.12% in the renovation sector.

Currently, the greatest growth witnessed since December 2007 in the construction category is being led by Islamic banks (55% increase) and HBFC (34.53% increase). For the outright purchase category, Islamic banks (46.02% increase) and public sector banks (32.96% increase) have taken a lead while in the renovation category Islamic banks (1,684% increase) and HBFC (60.09% increase) have expanded the fastest.

Figure 7. Mortgage Products: Outstanding (net of NPLs) in Millions - Dec,08



4.1.7 ANALYSIS OF LOAN VARIABLES ADOPTED BY BANKS/DFIS & HBFC

Table 2, 3.A & 3.B summarizes loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity, average loan size, average time for loan processing and number of cases classified as foreclosures.

A- WEIGHTED AVERAGE INTEREST RATE

The overall weighted average interest rate for the quarter ended December 2008 comes to 14.40%; an increase of 2.3 percentage points when compared to December 2007. Highest weighted average interest rate was reported by Islamic banks at 18.23%, foreign banks at 16.89% and DFIs (excluding HBFC) at 16.84%. Public sector banks reported a weighted average interest rate

Table 2	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Dec-08	Sep-08	Jun-08	Mar-08	Dec-07	Dec-08	Sep-08	Jun-08	Mar-08	Dec-07
Public Sector Banks	14.3	13.33	13.13	12.78	10.8	10.8	9.4	11.1	9.2	8.2
Private Banks	13.34	13.61	12.94	12.75	12.2	11.9	11.9	12.1	12.2	9.4
Islamic Banks	18.23	14.86	13.22	13.84	14.2	15.3	15	16.6	14.7	8.6
Foreign Banks	16.89	15.05	14.67	14.4	13.8	11.8	8.1	12.3	11.7	11.5
All Banks	14.57	13.94	13.23	13.1	12.3	12.1	11.6	12.7	12.2	9.4
DFIs	16.84	16.01	14.84	13.68	12.05	14.7	12.4	14.7	14.7	12.9
All Banks & DFIs	14.65	14.02	13.29	13.12	12.2	12.2	11.6	12.8	12.3	11.1
HBFC	11.35	13.71	13.71	13.71	12.1	15.1	15.1	16.7	16.7	14.4
Total Average	14.4	13.97	13.45	13.42	12.1	12.3	11.8	12.9	12.5	12.8

of 14.3% and private banks reported 13.34%.The weighted average interest rate reported by HBFC is 11.35%; a 0.75 percentage point decrease compared to quarter ended December 2007.

B- AVERAGE MATURITY PERIODS

Average maturity periods have remained almost same; from 12.8 years (December 2007) to 12.3 years (December 2008). Table 2 shows that public sector banks have extended housing loans for an average tenure of 10.8 years followed by foreign banks with 11.8 years, private sector banks with 11.9 years, DFIs (excluding HBFC) with 14.7 years and Islamic banks for 15.3 years. HBFC's average maturity period is reported to be 15.1 years; a slight increase from 14.4 years when compared to December 2007 figures. Islamic banks and HBFC are offering loans for longer terms, albeit, less than the maximum tenure limit of 20 years set by SBP.

C- LOAN TO VALUE RATIO

The percentage of financing (Loan to Value ratio) extended by banks has declined during last six months (Table 3.A). The LTV ratios for housing finance fell from 52.7% during quarter September 2008 to 44.7% during quarter ended December 2008. The sharpest decline was witnessed among Islamic Banks where the LTV ratios fell from 56.7% to 39.8% during quarter ended December 2008. The LTVs for HBFC increased from 55% to 67.5% during the quarter.

Decline in LTV ratios and increasing interest rates reflects that housing finance is becoming more unaffordable, especially for the salaried class and lower income groups.

D- AVERAGE TIME FOR LOAN PROCESSING

The reported average time for loan processing is 26.6 days for all banks and DFIs; a marginal increase of half day when compared to September 2008. The processing time can be considerably reduced if land titling issues are resolved; documentation is standardized and institutional inefficiencies removed. Moreover, application processing is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals.

Table 3.A	Loan to Value Ratio (%)				Average Time for Loan Processing (days)			
	Dec-08	Sep-08	Jun-08	Mar-08	Dec-08	Sep-08	Jun-08	Mar-08
Public Sector Banks	63.1	58.3	63.7	57.8	38	38.6	39.2	30
Private Banks	40.3	52.7	57.3	54.1	22	22.8	22.6	21.8
Islamic Banks	39.8	56.7	59.1	53.4	36.9	33.6	21.5	22.6
Foreign Banks	41.9	36.1	59.8	61.2	23.6	18.8	23.8	23.9
All Banks	44	52.8	58.9	55.1	26.3	25.7	24.5	23
DFIs	44.2	49.1	45.4	49.3	30	30	30	30
All Banks & DFIs	44	52.7	58.3	54.8	26.4	25.9	24.7	23.4
HBFC	67.5	55	55	55	30	30	30	30
Total Average	44.7	52.7	58.1	54.8	26.6	26.1	25	23.7

4.1.8 AVERAGE LOAN SIZE

Average loan size for disbursements made during the quarter ended December 2008 is Rs. 2.35 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 860,000 for the reporting quarter. Islamic banks have disbursed loans with an average loan size of Rs. 2.52 millions. There is a decrease of 30.5% in size (in Rs.) compared to September 2008 when average loan size was reported at Rs. 3.63 million. DFIs other than HBFC report an average loan size of Rs. 3.01 million followed by private banks with Rs. 2.40 million, foreign banks with Rs. 2.79 million and public sector banks with Rs. 1.46 million. HBFC's average loan size has remained relatively constant. The housing finance market is still inclined towards lending to high income group.

4.1.9 NO. OF FORECLOSURES

No. of cases initiated for foreclosures have increased by 78 new cases during the quarter December 2008, for banks/DFIs. HBFC report the highest number of cases currently subject to foreclosure proceedings.

4.1.10 CONCLUSIONS

Compared to quarter ended December 2007, housing finance by commercial banks & DFIs has shown a promising growth of 16%. However, statistics for the quarter ending December 2008 depict slowing growth (compared to September 2008 quarter). Also the rise in NPLs witnessed during the reporting quarter needs to be monitored closely.

Islamic banks continue to be growing in the housing finance sector at a faster pace when compared to commercial banks and DFIs. Although in growth terms it has witnessed a sharp increase in NPLs during the quarter (an increase of 153.85%) its NPLs, nonetheless constitute only 1.95% share of its total outstanding; the smallest share among banks and other DFIs(excluding HBFC).

Although the quarter continues to affirm that commercial banks still consider mortgage as a profitable business, it nonetheless gives signs of cautious lending from banks amidst decreased affordability of the borrowers and unfavorable macroeconomic conditions.

Table 3.B	Average Loan Size (Rs. Millions)				No. of Foreclosures[3]	
	Dec -08	Sep-08	Jun-08	Mar-08	Dec-08	Sep-08
Public Sector Banks	1.46	1.8	2.08	1.94	N.A	N.A
Private Banks	2.4	2.38	4.01	2.88	178	173
Islamic Banks	2.52	3.63	2.84	3.05	12	8
Foreign Banks	2.79	1.97	2.48	2.48	69	N.A
All Banks	2.33	2.41	3.41	2.7	259	181
DFIs	3.01	2.47	2.73	2.7	1	1
All Banks & DFIs	2.35	2.41	3.38	2.7	260	182
HBFC	0.86	0.86	0.89	0.89	2,658	2,658
Total Average/Total	2.29	2.35	3.32	2.65	2,918	2,840

*With the exception of weighted average interest rate and average maturity periods, comparisons with December 2007 for other loan variables are not made due to unavailability of data over the entire 12 month period.

Signs of cautious lending include, fall in LTVs (with the exception of HBFC) and a slight decline in average loan size. It is due to the small size of the housing finance portfolio that financial institutions are currently managing housing-related risk. However, the lack of a conducive institutional framework still poses as a constraint towards the establishment of a well structured mortgage market.

Housing finance is at a very nascent stage in Pakistan with commercial banks showing interest in doing business in this sector. On the demand side, the need for adequate housing is becoming a pressing issue but due to lack of both an enabling and sustainable environment the ability of financial institutions to supply credit is suppressed. The establishment of a secondary mortgage market will give the much needed impetus to a budding housing finance market in Pakistan and will help in easing liquidity problems, rationalize interest rates and allow for more innovation in mortgage products.

4.1.11 MAJOR INITIATIVES AND ACHIEVEMENTS

Recognizing the importance of housing sector, in boosting the domestic economy, following key initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

A- HOUSING ADVISORY GROUP

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG). The HAG was established with an intention to conduct a thorough analysis on the existing regulatory and policy framework affecting housing finance. The HAG made 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

[3] The no. of foreclosure cases are cumulative figures i.e., cases initiated for foreclosures since inception and include those actually settled. Data for the quarters December 2008 and September 2008 are reported here since only partial data was available for June & March 2008.

products. SBP had already disseminated the recommendations to the concerned stakeholders and is also in process of initiating measures for establishment of secondary mortgage market.

B- HOUSING SECTOR DEVELOPMENT

SBP and World Bank have agreed to work together for implementing key recommendations of HAG and bring about financing environment conducive to growth of housing sector by focusing on: restructuring of HBFC, establishment of Mortgage Refinance Company, low cost housing finance, establishment of an observatory for real estate market and capacity building of professionals engaged in housing finance through housing experts.

C- CAPACITY BUILDING PROGRAM

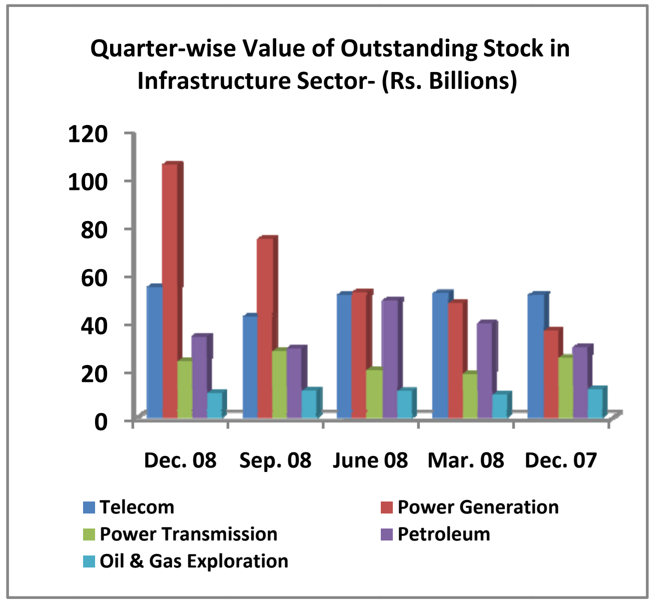
In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of housing finance. A Cooperation Agreement was signed between International Finance Corporation, the private sector arm of the World Bank Group, and SBP to launch a housing finance training program in Pakistan. The training intends to cover all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Representatives of banks and non-bank financial institutions associated with mortgage lending business benefited from this. First session of training was conducted and designed by the Canadian Mortgage Housing Corporation (CMHC) in December 2007 in SBP Karachi. In pursuance of continued capacity building, the second and third sessions were conducted by SBP and a panel of local experts, in May 2008 and in November 2008. Till date, approximately 200 bankers from over 20 banks have been trained in the mortgage business.

D- EXPANDING HOUSING FINANCE SYSTEM

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. A set of policies and strategies suggested in the source reports, were also presented in this combined report.

4.2 INFRASTRUCTURE FINANCE - OVERVIEW

As global economic firmament is further tumbling down, local infrastructure financing posted a positive trend in couple of sectors during October-December 2008 quarter. Power Generation and Telecommunication sectors attracted large quantum of funds as compared to other sectors which remained quiescent and failed to make their mark in the face of global financial crunch. However, Power Generation sector has further consolidated its position as top sector with considerable margin. Telecom comes next to it which, after facing a dip in previous quarter, revitalizes itself in this quarter. Other sectors like Road, Construction, Water & Sanitation, and Ports etc. although can't be ruled out or declared defunct but their performance leaves a lot to be desired and needs some punches. Trends of NPLs in infrastructure sector remained encouraging as no project has been declared non-performing in this quarter and overall ratio of NPLs to outstanding is mere 0.5%. Development of secondary market, as a long term strategy to enhance access to infrastructure financing, is direly needed to underpin the primary infrastructure lending market and to increase the banking sector ingress.



4.2.1 OUTSTANDING PORTFOLIO

Total outstanding Infrastructure financing at close of December 2008 was Rs. 251.1 billion as against Rs. 170 billion at the end of December 2007. This 47.7% increase in outstanding stock of infrastructure financing during last twelve months signifies that financing landscape in infrastructure sectors is still thriving in the face of growing economic gloom. This factor also helps to understand the level of risk-appetite of domestic banking sector which is more true in the case of Power and Telecom sectors. The unrelenting energy demand in the country shoves the power generation sector to enhance the generation capacity and financial sector is funneling huge funds in power sector. The outstanding stock of Power Generation sector escalated significantly from Rs 36.2 billion in December 2007 to Rs 105.6 in December 2008. This staggering 192% increase in outstanding volume of Power Generation is a testament to the virility of banking sector.

Figure shows the position of top five sectors from December 2007 to December 2008. Telecom sector remained the top sector during three quarters of last year but then Power Generation Sector started to pick up the momentum and stood out in September 2008 quarter and its bar had been further expanded during December 2008 quarter.

4.2.2 DISBURSEMENTS

Total Rs. 38.8 billion disbursed during October-December 2008 quarter in all infrastructure sectors. Figures 2 and 3 show the amount disbursed and share of each sector during the quarter under review. Power Generation sector received over Rs. 25 billion (65%) which is significantly higher than other sectors. Telecommunication sector occupied second place with approximately Rs. 10.4 billion (27%). It was predicted that Telecom sector had been matured and might not get new investment but entry of renowned Chinese cellular service company has provided the much needed fillip to keep the ball moving and ensured that the Telecom sector is far from being written-off. Other sectors received much less funds as compared to Power

Generation and Telecommunication sector. Despite large financing in Power Generation and Telecom sectors, other sectors seem being crowded out and concentration of financing in just two sectors is a cause for concern and requires a more diversified approach on the part of policy makers and financial institutions.

Fig. 2: Disbursements by Dec-2008

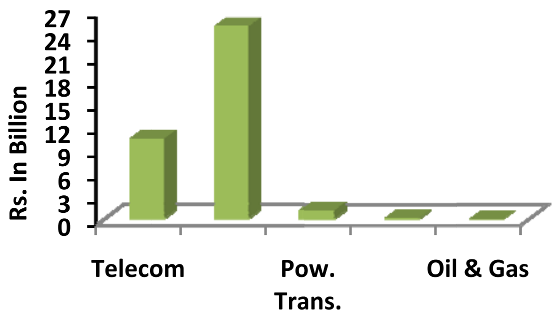
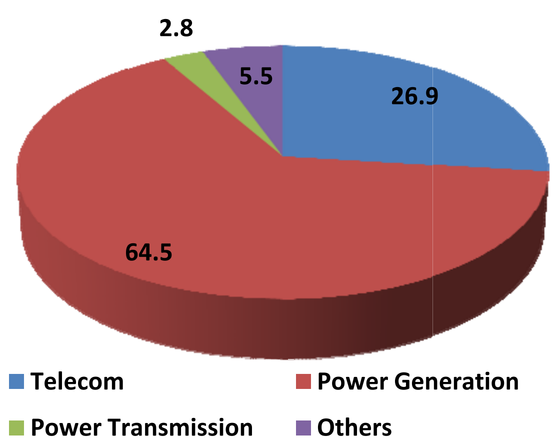


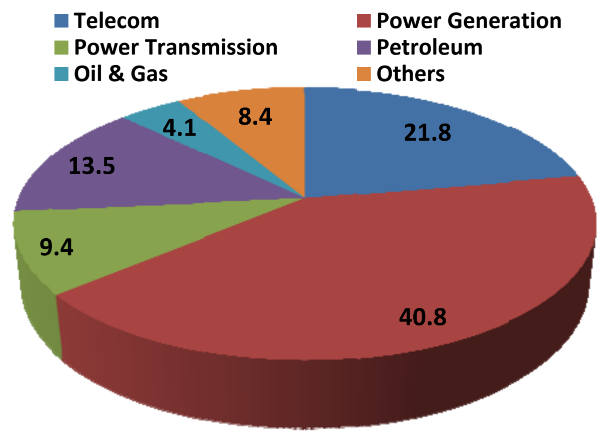
Fig. 3: Share in Disbursement at Dec-2008



4.2.3 SECTORAL SHARE

Figure 4 shows the comparison of top five sectors in outstanding infrastructure financing at the end of December 2007 with the status existing in December 2008. In December 2007 Telecommunication sector was at the top as far as share in total outstanding is concerned with 30.2%, followed by Power Generation sector with 21.3% in the total pie of outstanding. After a year the top slot has been secured by power generation sector which nudged the Telecommunication sector at second place with sizeable 40.8% share. Telecommunication sector's share reduced to 21.8% by the end of December 2008. Petroleum sector though retained its third position, saw a dip in its share of outstanding to 13.5% share. The recent trend shows that Power Generation sector will figure prominently in coming quarters as reports of financial closures of some IPPs are pouring in.

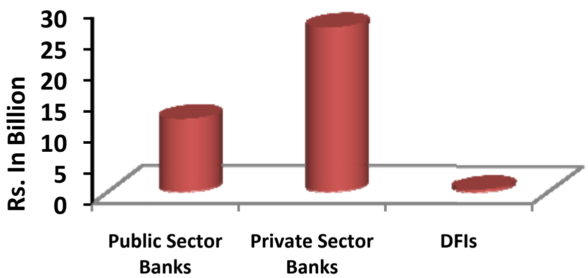
Fig. 4: Share in Outstanding Portfolio at Dec. 2008



4.2.4 BANKING SECTOR-WISE PERFORMANCE

Figure 5 shows significant contribution of the private sector commercial banks in infrastructure project financing. Private sector commercial banks disbursed Rs. 26.7 billion during the quarter out of total Rs. 38.8 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 11.8 billion and DFIs remained almost quiet with Rs. 0.4 billion.

Fig. 5: Banking Sector-wise Disbursement by Dec-2008

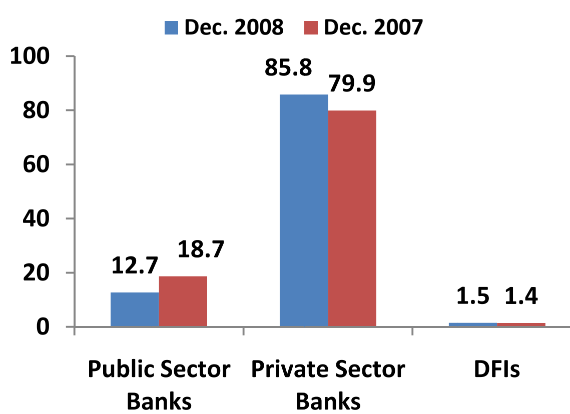


4.2.6 BANKING SECTOR-WISE SHARE IN OUTSTANDING:-

Figure 6 shows the category-wise share of banking sector in outstanding stock of infrastructure sector. The trend further leaned in private sector banks' way after a year. The stock share of private sector banks rose from 80% to 85.8% from December 2007 to December 2008. Public Sector banks saw a decline in their share from 18.7% in December 2007 to 12.7% in December 2008.

DFIs have a very marginal share and did not present a major shift during the year. Analysis shows that it is the enterprising private sector which takes lead in infrastructure financing and sees this sector vibrant while public sector is becoming rather more orthodox in lending options.

Fig. 6: Banking Sector-wise Share in (Rs. Billion)



4.2.7 NEW PROJECTS INITIATED IN THE QUARTER:-

Table 1 shows that during the quarter total 9 projects have been finalized in Telecommunication and Power sectors to the tune of Rs. 151.729 billion. Banking Sector is financing Rs. 105.19 billion which is 69% of the total project cost. Telecommunication sector figures prominently in terms of project cost (Rs. 102.320 billion) and financing by banks (Rs. 67.074 billion). These projects mainly contribute in setting up of new service bases, expansion of coverage areas, network installations and maintenance, etc. and will provide more and more employment opportunities in the telecom sector. Power Generation comes next as far the financing by banking sector is concerned as 77% financing for new projects is directed towards four power projects which are expected to add 825 MW of power to the national grid.

Table 1 New Projects by December-2008 (Rs. In Billion)

Sectors	No. of Projects	Estimated Project Cost	Banks' Financing
Telecommunication	**5**	**102.320**	**67.074**
Power Generation	**4**	**49.409**	**38.116**
Total	**9**	**151.729**	**105.19**

4.2.8 MAJOR INITIATIVES AND ACHIEVEMENTS:-

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

A- INFRASTRUCTURE TASK FORCE:-

An SBP Task Force on Infrastructure Finance was established and delegated with a mandate to identify institutional bottlenecks and recommend an institutional mechanism for risk management of project financing. A set of recommendations aimed at enhancing flow of credit to project financing have been made by the Task Force. These recommendations primarily focus on development of long-term funding mechanism through establishment of dedicated Infrastructure Lending Organization, which is under consideration.

B- 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 titled 'Frontiers in Infrastructure Financing' is planned in partnership with World Bank to be conducted in the first half of 2009.

C- RESEARCH PUBLICATIONS:-

The department has also undertaken research initiatives including 'The Review of Project Financing by Commercial Banks during Last Five Years' and 'Credit Enhancement for Project Financing.' The database on infrastructure financing by commercial banks has also been strengthened in recent months for effective monitoring.