Development Finance Quarterly Review

Inside:

SME ,

Micro,

Agriculture,

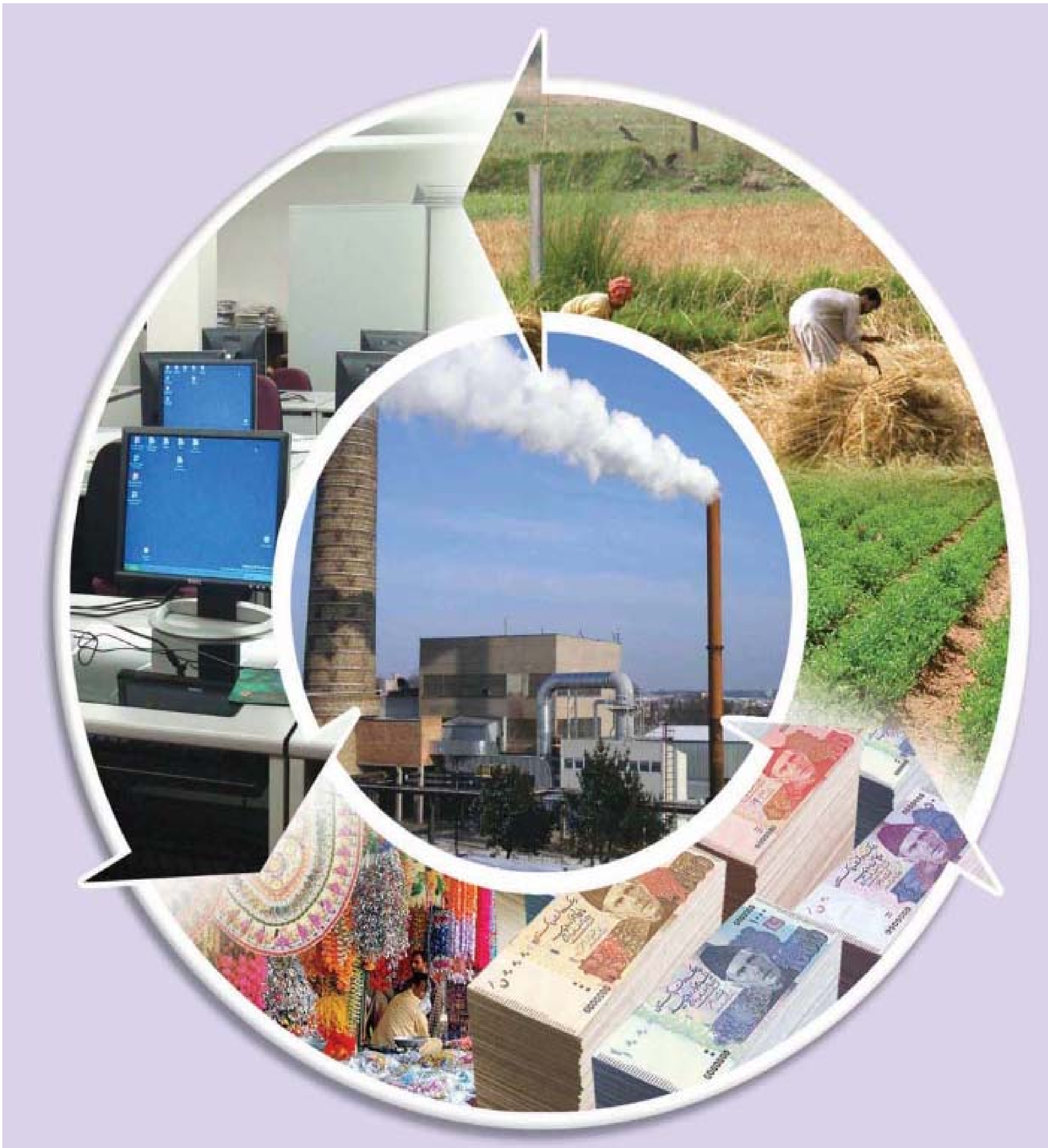
Infrastructure,

Housing Finance

&

Refinance

Schemes



June, 2009

SME FINANCE DEPARTMENT

STATE BANK OF PAKISTAN, KARACHI

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We are also thankful to the following officials who contributed to the document.

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EXECUTIVE SUMMARY

The current wave of economic and financial meltdown coupled with rising NPLs forced Pakistani banks to transfer their strategic focus from credit expansion to cautious lending approaches. Resultantly, the credit expansion to private sector squeezed during the last one year with the exception of Microfinance and Agriculture finance, while the other sectors like SME, Housing and Infrastructure financing experienced negative growth during the past one year. However, SBP was successful in arresting fast decline in share of Development Finance through introduction of necessary regulatory changes to facilitate financing to Agriculture, Microfinance Infrastructure, Housing and SME sectors. Besides, supportive regulatory framework, SBP also encouraged banks to develop capacity in these niche areas to fully tap the potential business opportunities in these vital sectors of the economy.

During the past one year the Development Finance experienced decline in terms of outstanding amount as well as overall share in total bank credit. However, the Microfinance and agriculture sectors were exception to this decline and both recorded a positive quarterly increase of 12.9% and 0.1% respectively. The following table shows trends of last two quarters for Development Finance and their share in total outstanding advances.

Outstanding	*Break up of Outstanding Advances by Banks in (Billion Rupees)*			
	March, 2009		**June, 2009**	
	Amount	*% age Share*	*Amount*	*% age Share*
SMEs	349.1	41.2	345.1	41.0
Agriculture	150.7	17.8	150.8	17.9
Microfinance (MFBs Only)	7.3	0.9	8.3	1.0
Housing Finance	80.4	9.5	79.5	9.4
Infrastructure Finance	260.5	30.7	259.0	30.7
Total	**848.0**	**100.0**	**842.6**	**100.0**

The formal financial sector's exposure towards SME Sector was second largest after Corporate Finance. SME Finance share has declined over the past one year mainly due to power outages, liquidity squeeze in the wake of economic meltdown, adverse law and order situation and rising level of NPLs resulting into cautious lending strategy/approach by Banks. At the end of June, 2009 the outstanding credit against SMEs stood at Rs. 345.1 billion. While, it possessed the largest share in Development Finance constituting about 41% of total DF outstanding ***(see Table).*** By having a look at the utilization of SME outstanding advances by different types of SMEs, it transpires that *Manufacturing SMEs* received the largest share of 44.63% followed by *Trading SMEs* with 38.63% and *Services SMEs* 16.74% respectively. The NPLs of the SME sector have swelled considerably and witnessed a quarterly growth of 9.3%, mainly attributed to the reasons mentioned above. However, in terms of outreach, the SME financing witnessed a quarterly increase of 0.6% primarily due to an increase of 1.1% in small borrowers availing loans of upto Rs 0.5Million.

To boost Pakistani exports, SBP continued to provide relief under its ***refinance schemes***. The refinance limits assigned to banks under EFS for the quarter increased by 5% from Rs 204 billion to Rs 215 billion as of June 2009 on account of increased demand from both the banks and exporters. At the end of the quarter, Rs. 177 billion was outstanding under the scheme as compared to Rs.142 billion for same period last year. This increase in refinance amount was partly due to higher utilization as well as SBP's policy decision of November 2008 to revert to 100% refinancing instead of previous practice 70% refinancing. The Long Term Financing Facility outstanding amount also recorded an increase of 33% during the quarter showing SBP's resolve in timely meeting the export oriented industries credit needs from banking sector

The share of outstanding ***Microcredit*** is about 1.0% of total Development Finance portfolio. The overall outreach by microfinance sector (MFIs + MFBs) has remained positive in terms of different outreach parameters. The number of borrowers increased to 1.78 million from 1.75. Similarly, number of depositors and policy holders also showed a healthy growth with satisfactory increase in value of deposits and sum insured. The overall MF deposits show positive growth of 20% with outstanding deposits of Rs. 5.55 billion at the end of June 2009. This positive trend in growth of MF deposits ushers well for the growth of Microfinance as deposits are considered the most sustainable source of funding for long run growth of the sector. The 2nd quarter ending June 2009 witnessed an increase of Rs 32 Million in NPLs and increased to Rs 256 Million from Rs. 224 Million mainly due to losses recorded by M/s Rozgar Microfinance Bank and Kashf Microfinance bank. Further, the MFBS continued to be dominated by male clients in terms of borrowers as well as advances. The share of male and female borrowers has been stagnant at 74% and 26% respectively.

Agriculture is an important sector of our economy, a dominant driving force for growth and the main source of livelihood for 66% of the country's population. Its share is about 17.9% in the total Development Finance portfolio and 4.4% in total outstanding credit by the Banks. Banks disbursed Rs. 233 billion against an annul indicative target of Rs 250 billion for FY 2008-09 depicting a decline of 6.8% vis a viz indicative targets for the year 2008-09. The decline in agri credit was mainly due to slowdown in economic activity and rising NPLs. Moreover, Agri. Loan borrowers have partially declined by 2% and reduced from 1.95 million at the end of June 2008 to 1.91 million at end June, 2009 due to attrition within banking industry, reduction in loans extended to the micro finance institutions for onwards lending to small farmers, high mark up, etc

Housing Finance possessed a share of 9.4% in total DF Portfolio. It recorded a quarterly decline of 1.1% at the end of the period under review. The total number of outstanding borrowers has decreased from 125,149 to 117,535 since June 2008; a 6% fall. Moreover, Non-performing loans have increased to Rs.13.87 billion (June 2009); a 41.5% increase over the year. However, this rise in NPLs is not unique to housing finance and is consistent with the overall increase in NPLs of all sectors witnessed in the banking industry during the past year.

The share of the ***Infrastructure Sector*** occupies second place behind SME Finance with 30.7% share in total DF portfolio. The infrastructure finance recorded a quarterly decline of 0.6% over June09/March 09 periods. However, on YoY basis, it registered a rise of 25.7%. The year on year rise in total outstanding infrastructure financing was mainly due to a significant rise in financing to power sector from Rs. 52.4 billion in June 2008 to Rs. 115.4 billion at the end of June 2009.

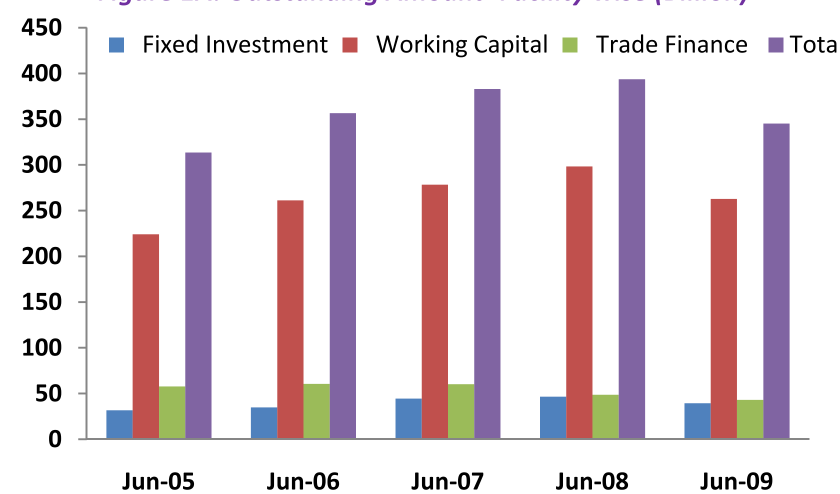
1.1. *SME FINANCING-OVERVIEW*

SME sector has been experiencing difficulties for the last one year mainly due to prevailing economic and financial crises in the country. Banks in Pakistan moved in a very cautious manner in extending credit to SME sector which also hold true for other sectors of the economy as well. These factors coupled with tight monetary policy, and slow economic growth resulted in decreased financing to SME sector. The end of June, 2009 shows that SME sector's outstanding credit stood at Rs. 345.1 Billion constituting about 10% of total outstanding portfolio of the banks, recording a quarterly decline of 1.1%. An analysis of the breakup of SME portfolio towards various sectors reveal that *Manufacturing SMEs* took the lions share forming 44.6%, followed by *Trading SMEs* with a share of 38.6%, and Services SMEs with a share of 16.7% at the end of the quarter under review. Furthermore, there has been a consistent increase in the NPLs of Banking Industry for the last two years recording a quarterly growth of 8.6% and SME Sector was not an exception as it too witnessed a quarterly increase of about 9.3%. Despite the declining trend in outstanding amount, the number of borrowers however witnessed an increase of about 0.64% at the end of the quarter under review.

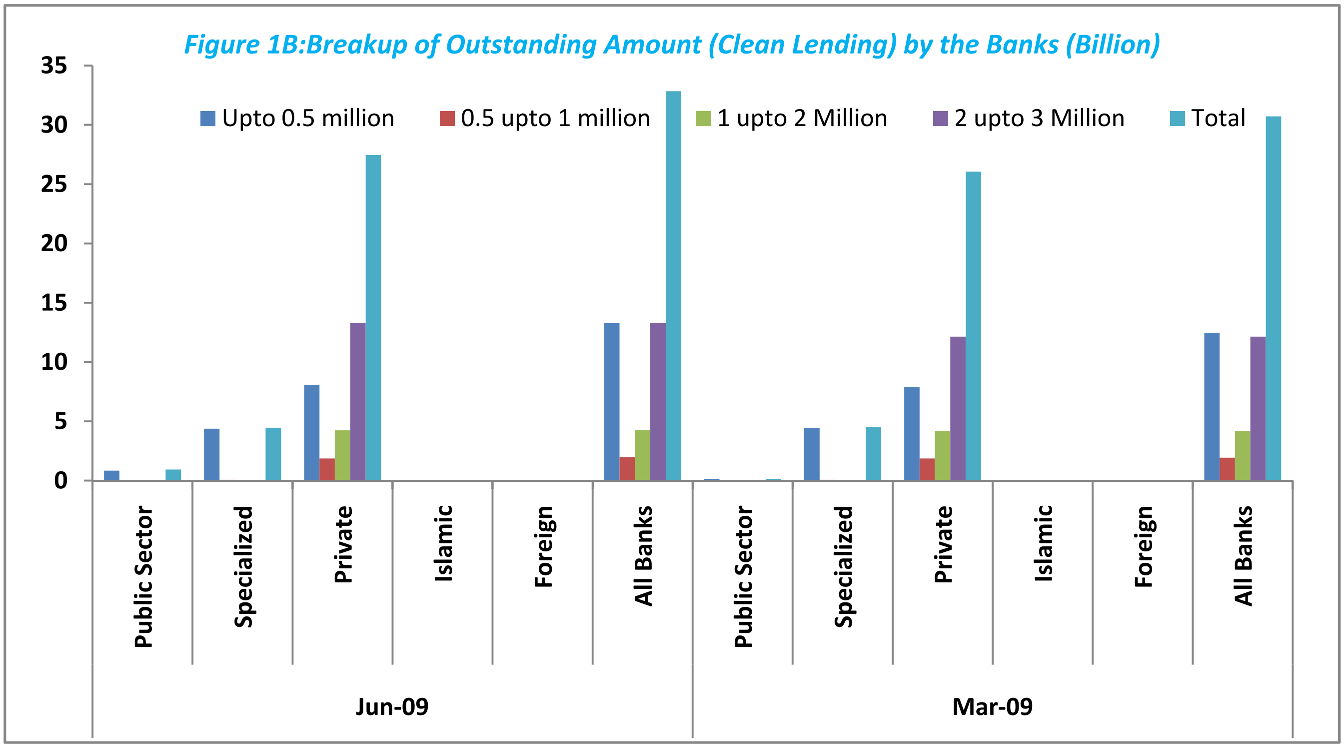
1.2. *FACILITY WISE FINANCING*

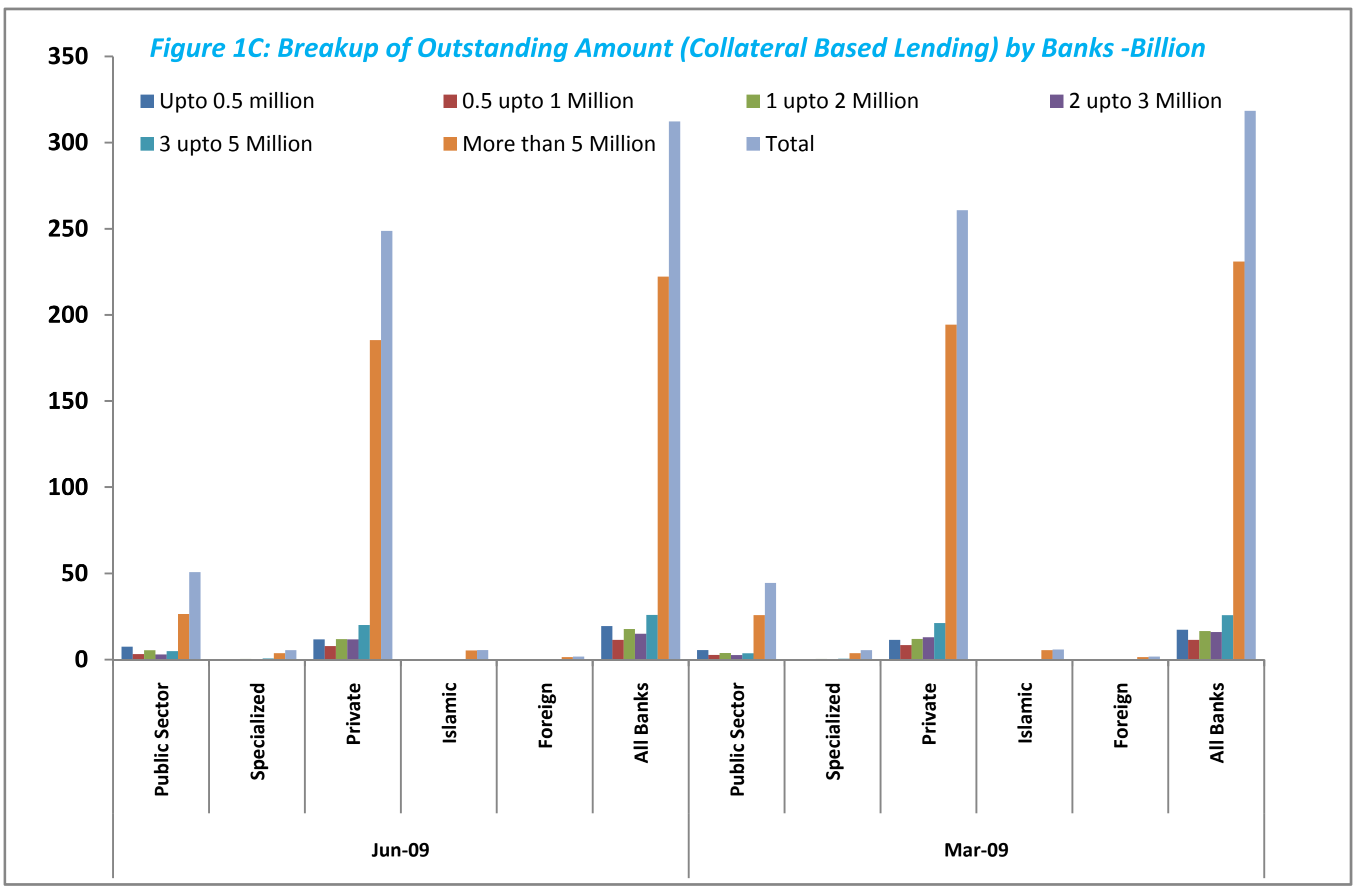
Facility wise Financing ***(See Figure 1A)*** to SME sector reveals that major chunk of the outstanding amount is being utilized under Working Capital accounting for 76.1%, followed by Trade Finance with 12.5% and Fixed Investment Finance 11.4% of total SME portfolio. Predominant portion of working capital finance since June 2005 to June, 2009 reflects the need of SMEs to get finance for inventory and day to day operations. This may also reflect on the fact that long term investment and development by the SMEs is not considered an important business development initiative. Further, the meagre share of fixed investment finance in total SME loan portfolio is a clear reflection as it has been hovering in the viccinity of 10% to 15% for the last few years. While the absolute outstanding amount for working capital finance stood at Rs. 262.7 billion, recording a negative quarterly growth of 2.4%, Trade Finance received an outstanding amount of Rs. 43 billion registering a quarterly growth of 9.5% while Fixed Investment Finance received an amount of Rs. 39.5 billion recording a negative quarterly growth of 2.8% at the end of June, 2009.

Figure 1A: Outstanding Amount- Facility wise (Billion)



1.3. *CLEAN VS COLLATERAL BASED FINANCING*

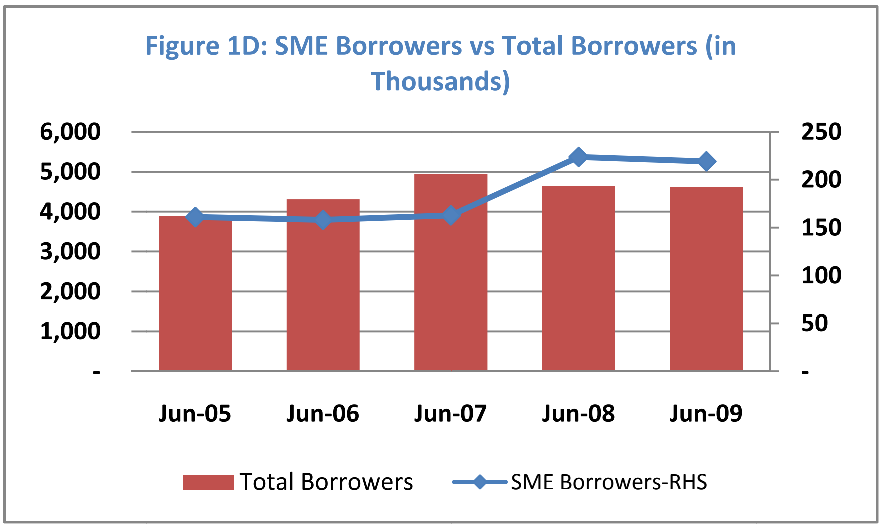




The lending pattern of various categories of the Banks under Clean and Collateral based breakup at the end of the period under review can be seen in ***Figure 1B and 1C***. The share of clean lending in total outstanding finance to SME Sector was 9.5% recording a quarterly growth of 6.9%. While the share (clean loans) of various categories of the banks in different bracket sizes of outstanding amounts are shown in ***Figure 1B.*** Further, the share of outstanding amount (Collateral based) was 90.5%, recording a slight decline of 1.9% at the end of June, 2009. Moreover, the share of the Banking industry in different categories and bracket sizes can be seen in ***Figure 1C***. The lion's share of lending against collateral depicts the mindset of the Banking Sector towards SMEs which is tantamount to lending to collateral instead of lending to businesses. In order to tap the potential market and diversifying their portfolio, banking sector needs to adopt alternative financing mechanisms and lend to Businesses instead of lending to collateral.

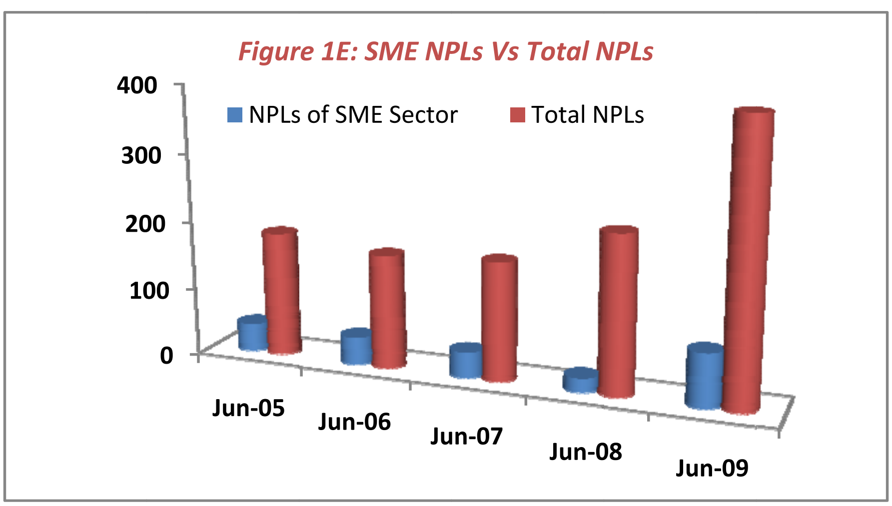
1.4. *BREAKUP OF BORROWERS*

At the end of June, 2009, SME borrowers stood at 219,062 constituting about 4.7% of the total number of borrowers in the banking industry ***(See Figure 1D)***. There has been a remarkable growth of 36.1% during the period June-05 to June-09 in the SME number of borrowers. While the quarterly growth recorded was 0.64% at the end of period under review. The rise can be attributed to the fact that banks outreach towards small borrowers has enhanced considerably their measure of diversifying their portfolio. While A duration wise analysis of the borrowers reveal that the share of borrowers availing ***long term loans*** (exceeding 3 years) was 42.6% , ***Short Term loans*** (upto one year) was 51.6%, and ***Medium Term loans***(1 to 3 years) constituted about 5.8% of the total SME borrowers. While, their respective quarterly change recorded was 0.8%, 2.1% and -11.8% respectfully. Moreover, Borrowers share in loans of upto ***Rs. 0.5 Million*** was 67.8% of total SME Borrowers and recorded a quarterly growth of 1.1%***.***



1.5. *NON PERFORMING LOANS*

SME sector's Non Performing Loans (NPLs) have swelled to Rs. 77.4 billion, constituting about 19.5% of total NPLs of the Banking industry at the end of June, 2009 ***(See Figure 1E)***. Of this amount about 72.9% was attributed to Working Capital finance, 16.8% to Fixed Investment Finance, and the remaining 10.3% pertained to Trade Finance. Moreover, the share of NPLs in total outstanding amount advanced towards SME Sector remained at 22.4%. Whereas



the quarterly increase recorded was 9.3% as compared to a decline of 44.8% was recorded during the corresponding quarter of 2008. A closer look at the behavior of SME sector's NPLs reveals that there has been a sharp rise in NPLs since June, 2008 mainly attributed to the current wave of economic slump. Swelling in SME NPLs is also consistent with the rise of the total NPLs of banking industry which recorded a quarterly growth of 8.6% at the end of the period under review.

1.6. *PUBLIC SECTOR BANKS*

The share of public sector banks constituted about 15.0% of the total SME Finance portfolio. A quarterly rise of 15.4% in their share has been recorded at the end of the period under review. Further, the share of this category of banks towards ***Trading SMEs***, ***Manufacturing SMEs*** and ***Services SMEs*** was recorded as 8.4%, 3.8% and 2.8% respectively in total SME Finance. See ***figures 1B, 1C, 1F & 1G*** for their share under facility wise, type wise and duration wise financing to SME Sector.

1.7. *PRIVATE BANKS*

Private Banks have been doing well in SME Finance arena for the last few years, recording consistent growth compared to other categories of Banks. The share of ***Private Banks*** stands at 80.0% of the total outstanding SME finance portfolio, recording a quarterly decline of 3.4%. Among ***Private Banks*** HBL has the highest share of 13.3% followed by NIB bank with 10.5%, Bank Alfalah with 7.9%, and MCB with 6.2% respectively in the total SME financing. See ***figures 1B, 1C, 1F & 1G*** for their share under facility wise, type wise and duration wise financing to the sector.

1.8. *ISLAMIC BANKS*

Islamic bank's share has enhanced considerably from an outstanding amount of Rs. 2.5 Billion to Rs. 5.6 Billion during the period June, 2007 to June, 2009 constituting about 1.7% of the total SME outstanding amount. However this category of banks witnessed a quarterly decline of 4.2% at the end of June, 2009. See ***figures 1B, 1C, 1F & 1G*** for their share under facility wise, type wise and duration wise financing.

1.9. *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 was Rs. 9.96 billion constituting about 2.9% of total SME financing by the banking industry at the end of the reporting period. By having a closer 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 years. See ***figures 1B, 1C, 1F & 1G*** for their share under facility wise, type wise and duration wise financing.

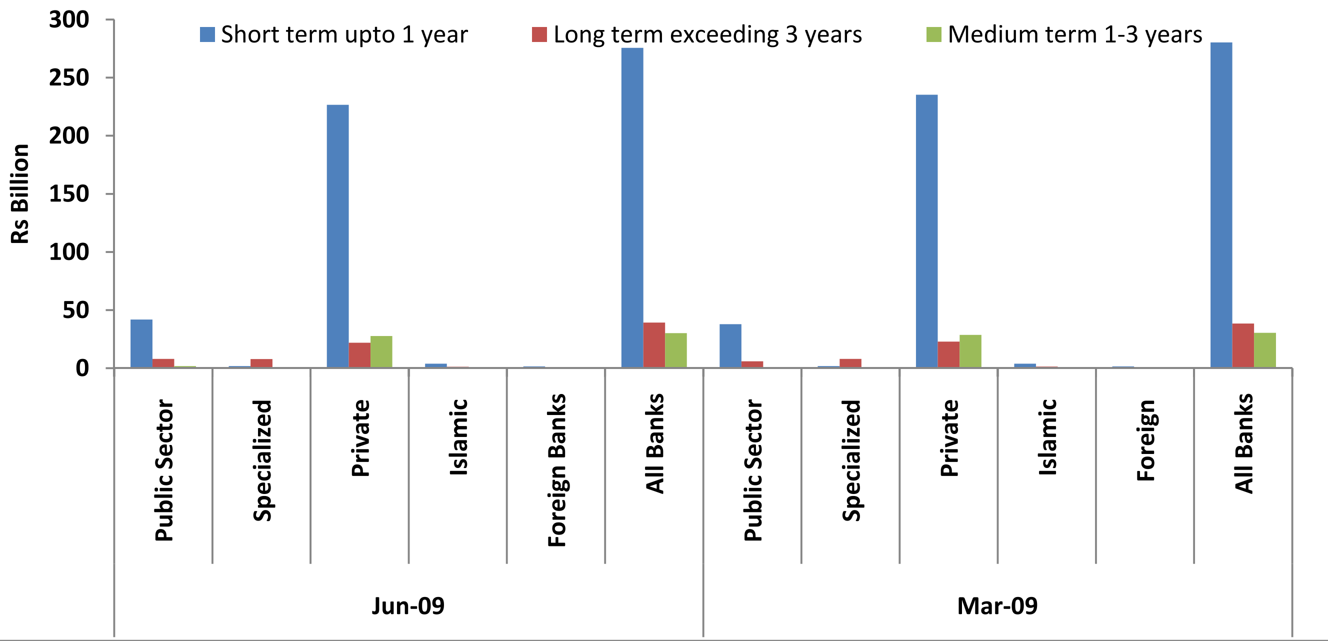
1.10. *FOREIGN BANKS*

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 their share was about Rs.1.73 billion forming 0.5% of the total SME finance recording a decline of about 1.4%. See ***figures 1B, 1C, 1F & 1G*** for their share under facility wise, type wise and duration wise financing.

1.11. *DEVELOPMENT FINANCE INSTITUTIONS (DFIS)*

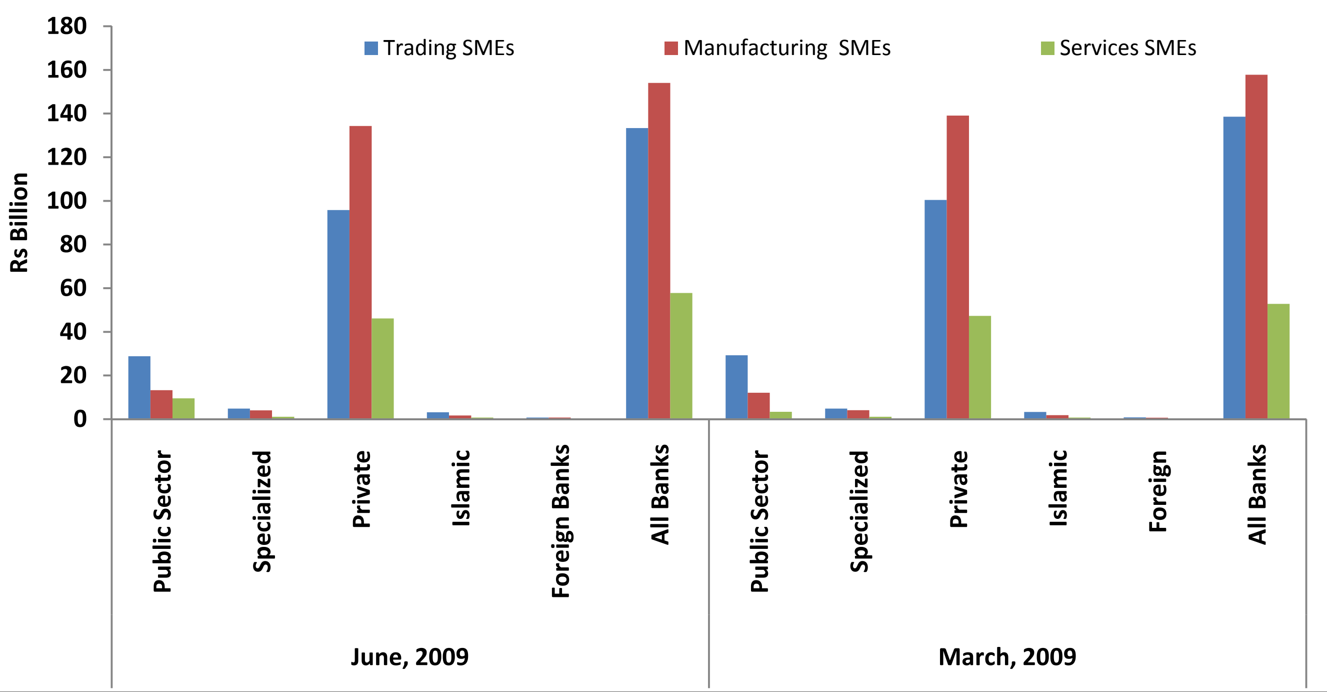
The total outstanding amount of DFIs was about Rs. 0.4 Billion contributed only by the two DFIs namely ***Pak Oman***

Figure 1F: Breakup of Outstanding Amount (Duration wise) by Banks



Investment Company and ***Saudi Pak Industrial & Agricultural Investment Company with*** their respective share was 57.3%

Figure 1G: Breakup of Outstanding Amount(Type Wise) by Banks

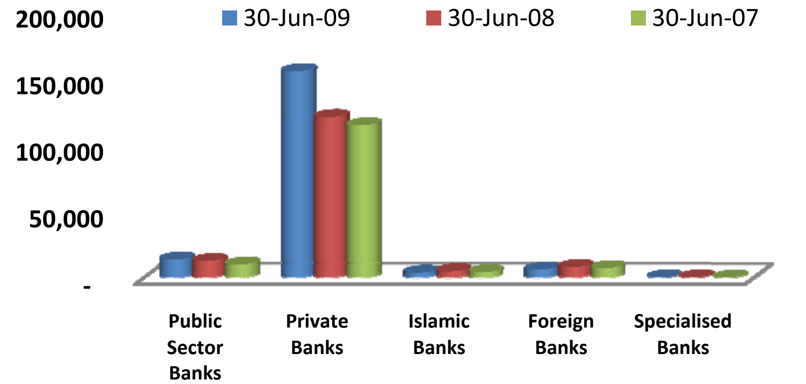


and 42.7% in their total portfolio. Moreover, the total number of borrowers served by them was 33.

1.12. EXPORT REFINANCE -OVERVIEW

Due to global recession and the resulting weakening in the demand for Pakistan's exports, SBP continued to provide relief under its various refinance schemes. The refinance limits assigned to banks under the Export Finance Scheme for the quarter ended June 30, 2009 were increased by 5% from Rs 204 billion to Rs 215 billion on the back of increased demand from both the banks for more liquidity and from exporters for availability of funds under the scheme. Rs. 177 billion was outstanding under the scheme as compared to Rs.145 billion for same period last year. This increase in refinance amount was partly due to higher utilization as well as SBP's policy decision of November 2008 to revert to 100% refinancing instead of previous practice of 70% refinancing. The commodity wise and borrower wise analysis under EFS financing continues to show skewed distribution; out of total credit extended under EFS, the textile sector availed the major portion of financing even though its share in exports has been decreasing over the years.

Figure 1H: Banking Group's Outstanding Position under EFS



The Long Term Financing Facility for Plant & Machinery (LTFF) also recorded an increase of 33% in outstanding during the quarter ended Jun'09 compared to Mar'09. Under the defunct LTF-EOP scheme, Rs. 32 billion were outstanding, of which Rs 14.5 billion is outstanding under the debt swap option provided under the scheme while Rs 17.8 billion is outstanding under regular disbursements of the scheme.

Table 1a : Flows of EFS (In Millions)

Banking Group/Change	April -June 2009	April -June 2008	April -June 2007	2008-2009
Public Sector	1,029	1,952	808	1,156
Private Banks	9,538	3,377	(1,431)	34,367
Islamic Banks	(202)	1,031	-104	(1,175)
Foreign Banks	(387)	152	(386)	(1,989)
Specialized Banks	4	9	13	4
Total	**9,982**	**6,520**	**(1,101)**	**32,363**

1.13. EXPORT FINANCE SCHEME (EFS)

The Export Finance Scheme has remained one of the major sources of financing exports through banking system. As of quarter under review, Rs. 177 billion was outstanding under the EFS, 22% higher as compared to Rs. 145 billion on June 30, 2008. A prime reason for this increase is the reversion of SBP to provide 100% refinance and exchange rate depreciation. However, during the quarter, Rs.79.7 billion was disbursed under the scheme, which is 12% lower than the comparative quarter of Jun'08 (See ***Figure 1H***). The growth of financing during the quarter under review shows incremental financing of Rs. 10 billion under the scheme with the maximum increase in Private Banks (See ***Table 1a***); financing under EFS increased by Rs 33 billion during FY09. The increased flows seen during the quarter are reflective of the SBP's resolve to ensure adequate liquidity to the exporters, especially as the banks are not keen on taking the risks associated to the recessionary global economy and the domestic energy crisis.

Table 1b: Sector wise utilization of EFS Financing (Billions)

Sector	June,2009		June,2008	
	Amount	Share	Amount	share
Textile/Textile Products	112.57	63.47%	91.30	63.93%
Edible Goods	21.16	11.93%	19.10	13.37%
Leather/Leather Goods	10.23	5.77%	10.07	7.05%
Machinery	0.98	0.55%	2.29	1.60%
Metal Products	2.59	1.46%	2.59	1.81%
Carpets	3.12	1.76%	3.00	2.10%
Sports Goods	3.47	1.96%	3.69	2.58%
Other Commodities	23.24	13.10%	10.78	7.55%
Total	**177.37**	**100**	**142.82**	**100.0**

1.13.1. COMMODITY-WISE FINANCING

A distribution of the EFS funds is shown in ***Table 1b***. The textile sector continues to receive the major portion of financing even though its share in exports has been decreasing over the years. Within the textile sector, ready-made garments and towels sector relies more heavily on financing from EFS, due to the international recession leading to delays in export receipts or due to sector inefficiency.

1.13.2. BORROWER WISE DISTRIBUTION

The total number of borrowers under EFS stood at 1,880 with an average loan size of Rs. 91 million. A decrease of 4% was recorded in total number of borrowers compared to previous quarter. However, the number of borrowers decreased by almost 38% when compared to corresponding period last year. This decrease may be due to change in reporting format as the borrowers having availed loans for export purpose from banks own sources were also being included in the list of borrowers during last year. Secondly, the global recession and a weak demand in the international markets also contributed to decline in number of exporter.

1.13.3. REGIONAL ALLOCATION OF BORROWERS:

The trend for regional distribution of borrowers remains consistent even for the quarter ended June 30, 2009; up to 90% borrowers are from the business hubs of Karachi, Sialkot, Lahore and Faisalabad. Similarly, almost 95% EFS funds are accumulated in these four cities. In Rawalpindi the average loan size is Rs. 254 Million, reflecting concentration of funds (with only 7 borrowers), while at Sialkot it is Rs. 18 Million (582 borrowers) showing diversification of borrowers. However, Karachi has a relatively high average loan size of Rs 143 million with approximately 583 borrowers.

1.14. ISLAMIC EXPORT REFINANCE SCHEME (IERS)

At present there are 8 participating banks under the scheme (4 Islamic Banks and 4 conventional banks' Islamic Banking Operations). The limits assigned under IERS for the quarter ended June '09 were Rs. 13 billion, approximately 28% higher compared to June '08. The outstanding amount at the end of the quarter under IERS was Rs.6.5 billion, 26% higher than the comparative quarter of FY08.

1.15. *LONG TERM FINANCING FACILITY-LTFF*

Under LTFF, a limit of Rs. 10.8 billion was allocated. The disbursements under the scheme for the quarter ended June '09 were Rs. 1.4 billion, bringing the total disbursements to Rs. 6 billion (since Jan'08) , while the amount outstanding at the end of the quarter was Rs 5.6 billion. A look at the sector wise outstanding funds under LTFF reveals that the textile sector, with 71% share, is the main beneficiary under the scheme, with engineering goods receiving most of the remaining funds.

1.16. *MAJOR INITIATIVE/POLICY CHANGES*

SME Finance Department undertook the following major initiatives.

LTFF for Plant & Machinery- Eligibility of Generators / Captive Power Plants

To facilitate the export oriented industries to overcome problems arising out of the prevailing electricity crises, financing facilities under LTFF Scheme has been made available to export oriented units/projects which were not eligible under LTFF Scheme.

Modifications in Long Term Financing Facility (LTFF)

Banks/DFIs now can also avail refinance under LTFF Scheme, to the extent of 50% of the value of LCs. Further, sponsors will also be entitled to finance remaining 50% of such LCs through their own sources or through normal loans of banks/DFIs

Credit Guarantee Scheme (CGS) for Small and Rural Enterprises

To share risks with the lending institutions and meet funding needs of small & rural enterprises SBP initiated the project of launching CGS in Pakistan. The proposed structure of the CG Facility for ***Small & Rural Borrowers*** has been forwarded to the DFID and it will be launched once the response is received.

Separate Prudential Regulations for Small Enterprises

To promote and develop small Enterprises, SBP is working to bifurcate the definition of SMEs into SEs and MEs and has prepared separate sets of draft regulations for each. A committee has been formed to review and finalize these regulations.

SME Finance Grass Root Cluster Training Program

To develop the capacity of commercial banks, a three days program has been completed covering 6 cities, including Lahore, Gujranwala, Rawalpindi, Peshawar, Quetta and Sialkot.

Conducting a cluster Development Survey:

The department is in the process of coordination with DFSD regarding conduction of a survey in six selected cities in the jurisdictions of SBP-BSC Offices of Karachi, Lahore, Sialkot, Faisalabad, Gujranwala and Multan.

2.1. MICROFINANCE - OVERVIEW

In last few quarters, microfinance sector has seen substantial progress in the regulated deposit-taking institutions (Microfinance Banks-MFBs). Despite the stagnancy in the overall growth of the sector in last four quarters, the MFBs continued to see a positive trend albeit mild in respect of growth in borrowers and depositors. The quarterly growth in MFBs' outreach to borrowers during the 2nd quarter of 2009 remained at 8 % on QoQ basis. The healthy trend was also witnessed in the deposits value which grew by 20% on QoQ basis. The deposit growth however continues to be led by the FMFB which contributed to 20% to the quarterly growth in the deposits. The mild growth of the MFBs portfolios do not appear to offset the continuing slow down in the un-regulated sector.

An important impediment in the sector's growth has been the dependence on subsidized funds. Most of MFBs have not been able to build adequate institutional capabilities/infrastructure to mobilize public deposits at large scale. To bridge this funding gap, MFB/Is have been looking for commercial funds. While it has taken a few months to process the loan deals between banks and borrowing MFBs, a couple of transactions have now been approved in principal. These transactions will be facilitated under Microfinance Credit Guarantee Facility (MFCG) of SBP's Financial Inclusion Program. However, MFCG-sponsored transactions are at most likely to ease out the funding pressures only in short to medium term. Another concern that continues to plague the industry is the continued unsustainability of the sector. The MFBs are lagging behind in their operational productivity and efficiency. To maintain high growth trajectory, MFBs need to put in place appropriate human resource management structures that recruit and nurture their staff on regular basis. The State Bank of Pakistan is committed to provide conducive environment to MFBs. The recent amendments in prudential regulations and granting of scheduled MFB status presently to one MFB are likely to facilitate MFBs in broadening the scope of their business and in attaining the sustainability. The onus now rests on MFBs to demonstrate their capacity to mobilize sustainable sources of funds such as deposits and utilize them profitably and efficiently.

Table 2a: State of Microfinance

S.No.	Indicator	MFBs	MFIs	Total
1	No. of active borrowers	683,503	1,098,736	1,782,239
2	Volume of lending (PKR)	8,621,816,203	11,697,037,808	20,318,854,011
3	No. of depositors	341,433	1,812,105	2,153,538
4	Volume of savings (PKR)	5,568,776,259	1,323,826,416	6,892,602,675
5	No. of policy holders	649,142	1,436,253	2,085,395
6	Sum insured (PKR)	7,984,890,231	21,429,568,181	29,414,458,412

2.2. STATE OF MICROFINANCE

The overall outreach by microfinance sector (MFIs + MFBs) has remained positive in terms of different outreach parameters. The number of borrowers has registered a figure of 1.78 million from 1.75 in the last quarter. Similarly number of depositors and policy holders are showing a healthy sign with satisfactory increase in value of deposits and sum insured as of 2nd quarter 2009 (See ***Table 2a &2b).***

The growth in number of borrowers has witnessed a positive trend at 8%. The biggest contributors to the growth were the First Microfinance Bank limited (FMFBL) and Khushhali Bank Limited with a net increase of 21,873 and 18,826 borrowers respectively. This net increase is largely related to seasonal financing in agriculture. While the Gross Loan Portfolio (GLP) has recorded 13% growth with FMFBL as the main contributor. The Khushhali and Tameer ranked second and third in the growth.

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, are also looking for possibilities of joint ventures and developing partnerships for innovation in products and better delivery of financial services. Financial Inclusion Program (FIP) by State Bank of Pakistan tends to encourage MFBs' proposals for developing sector-wide innovative solutions.

Table 2b: MF BANKING SECTOR AT A GLANCE

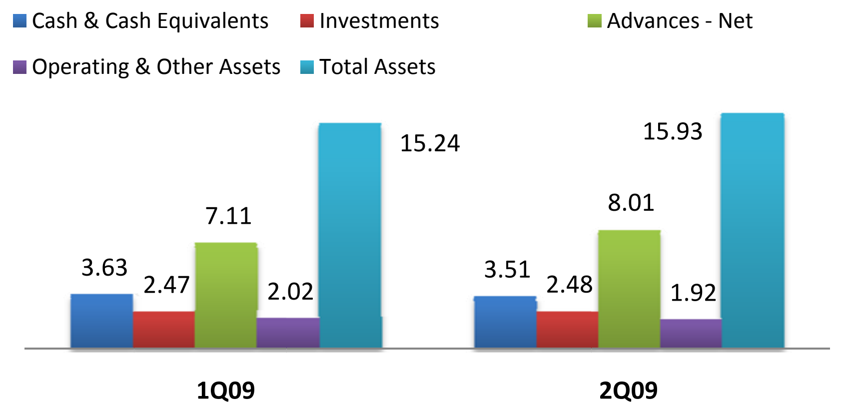
PARTICULARS	1st Q09	2nd Q09	Growth
MFBs	8	8	0%
Branches	272	271	-0.37%
Borrowers	570,081	615,189	8.0%
Advances (Rs. `000)	7,313,770	8,254,421	13%
Deposits (Rs. `000)	4,615,376	5,553,800	20%
Depositors	297,009	343,065	16%
Assets (Rs. `000)	15,248,397	19,932,411	4.0%
Borrowings (Rs. `000)	4,660,998	4,781,837	3%
Equity (Rs. `000)	5,060,439	5,098,219	0.75%
NPLs (Rs. `000)	224,452	256,978	14%

The borrowings by MFBs have been slightly grown by 8% registering a value of Rs. 4.8 billion as of 1st Q09. The Equity has marginally increased by 0.75% listing a value of RS. 5.1 billion. The NPLs have considerably increased from Rs. 224 million to Rs. 256 million with a growth rate o f 14% over the quarter. The number of branches has decreased to 271 from 272 with closing of two branches of Khushhali bank and addition of a kashf bank branch

2.3. ASSETS

The assets of microfinance banks have registered a value of Rs.15.93 billion during 2nd Q09. The advances continued to be the major component of total assets listing a value of Rs. 8.01 billion, while cash and cash equivalents, investments and operating assets have witnessed slight modifications in their values as of 2nd Q09 and are the other sources of assets of microfinance banks respectively (See ***Figure 2A).***

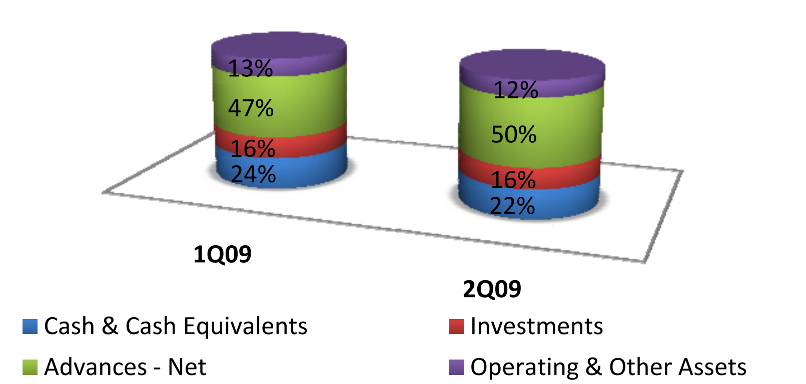
Figure 2A: Assets (in Billions)



2.4. ASSETS COMPOSITION

The Assets have shown slight change in their composition, the share of cash and cash equivalents has been squeezed to 22% as of 2nd quarter 09 from 24% in the 1st quarter 09. The share of investments has been constant at 16%. Advances as the core earning asset have recorded a share of 50% of total assets during the current quarter as compared to 47% as of previous quarter. The operating and other assets have been slightly decreased to 12 of total assets from 13% as of 2nd quarter 09 (see ***Figure 2B***).

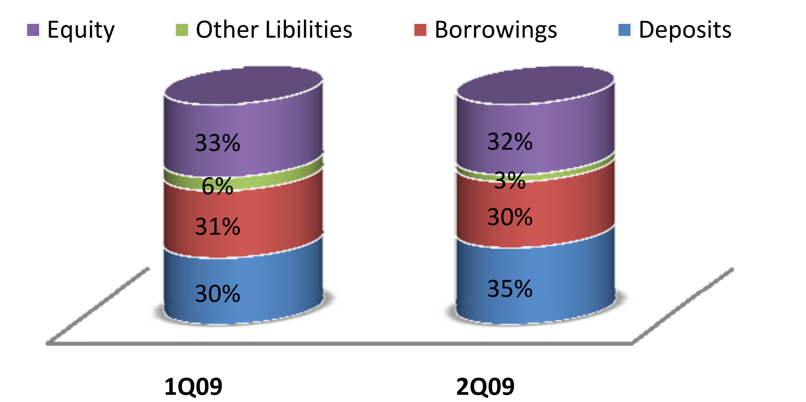
Figure 2B: Composition of Assets



2.5. FUNDING

The funding structure of MFBs has shown slight modifications during the quarter under review. MFBs have managed to raise the level of deposits up to 35% of their funding during 2nd Q09 as compared to 30% in last quarter. The share of borrowing has slightly declined to 30% from 31% during the quarter; the decline was partly due to squeezing of funding lines by Asian Development Bank to largest MFB and shift towards other sources of funding; mainly deposit mobilization. The efforts are underway to mobilize deposits as the most sustainable source of funding. The proportion of equity declined slightly by a percentage point, registering 32% of total funding (see ***Figure 2C***).

Figure 2C:Composition of Funding

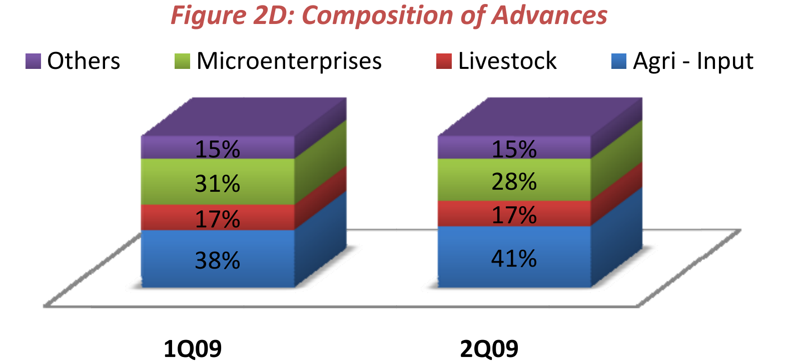


2.6. ADVANCES

The concentration of loan portfolio of MFBs has shown slight changes during 2nd quarter of 2009. Agriculture financing continues to receive the major fraction of financing by MFBs obtaining 41% of total advances by MFBs (see ***Figure 2D***).

The microenterprise and livestock are second and third largest sector being financed by MFBs in terms of their

Figure 2D: Composition of Advances

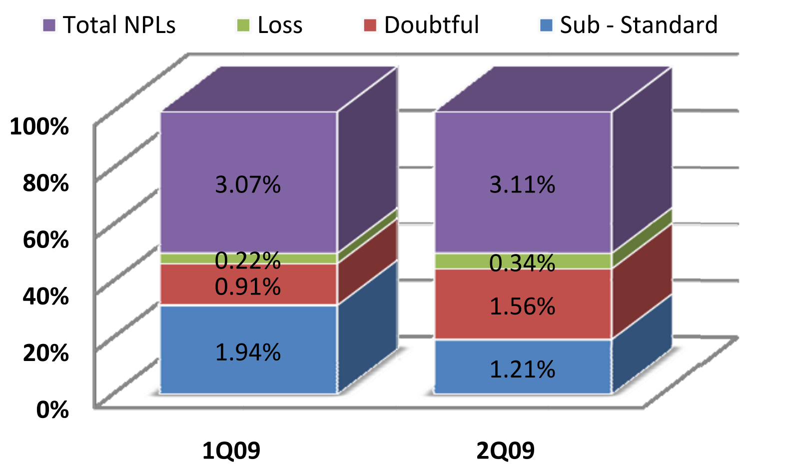


relative share of microcredit. The share of microenterprise and livestock in total microcredit, stood at 28% and 17% respectively during the quarter. The 58% of total advances to Agriculture sector (Agri-Input + Livestock); clearly indicates the rural focus of microfinance banks.

2.7. NON PERFORMING LOANS

The 2nd Q09 witnessed a considerable increase in Non-Performing loans (NPLs) due losses observed by Rozgar and Kashf microfinance banks. There has been a slight change in different sub categories of NPLs by microfinance banks. The value of total NPLs (PAR>30) has increased to 256 million from 224 million as of current quarter. The overall NPLs stood at 3.11% of total loan portfolio while these were 2.29% as of 4th Q08 (See ***Figure 2E***). The increase in overall NPLs was mainly contributed by increase in the proportion of doubtful loans from 0.91% to 1.56% and increase in loss category from 0.22% to 0.34% during the quarter. On the other hand the share of substandard category has been improved with slight decrease in their fractions.

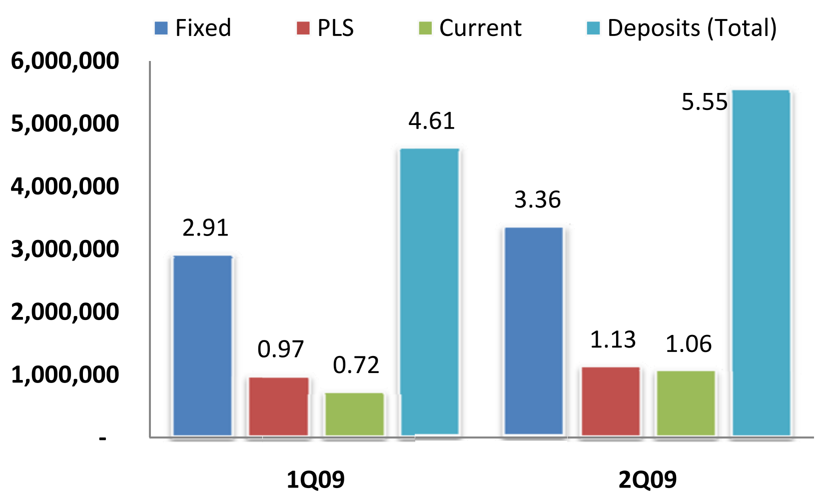
Figure 2E:Non Performing Loans



2.8. DEPOSITS

The overall deposits have grown positively by 20% registering a value of 5.55 billion during the quarter due to recognition of the fact that deposits are a the most sustainable source of funding for long run growth of the sector. All the three categories i.e. Fixed, PLS and Current have positively contributed towards this growth. The fixed deposits constitute the lion's share of overall deposits i.e. 61% of total deposits. The share of PLS and current are 20% and 19% respectively during the 2nd Quarter. (See ***Figure 2F***)

Figure 2F:Deposits Value (Rs. billions)

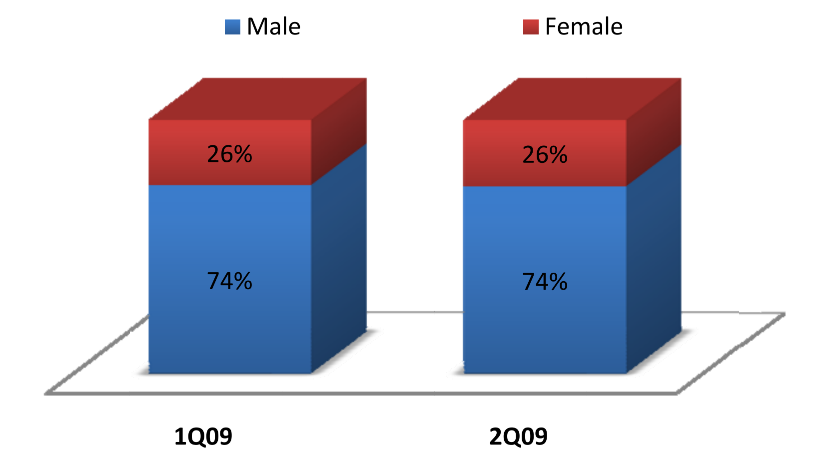


The deposits by individuals constitute one of the major fractions of overall deposits and stood at 66% of total deposits by MFBs during 2nd Q09. The deposits by corporate constitute the second largest share at 32% as of 2nd Q09. The remaining proportion is deposits by communities. The deposit base of MFBs has been gradually increasing and there is a considerable potential to support future growth.

2.9. GENDER

The MFBS continued to be dominated be male clients in terms of borrowers as well as advances. The share of male and female borrowers has been stagnant at 74% and 26% respectively although there is a lot of potential for increasing the share of women clients in the country as microfinance industry in South Asia is largely women focused (see ***Figure 2G***). The similar trend is also witnessed by MFBs in terms of advances, where male and female share has been constant at 80% and 20% respectively during first two quarters of calendar year 2009. The average loan size has been rising gradually for both male and female clients, registering an amount of Rs. 14.5 thousand for male and Rs. 11.2 thousand for female clients, as of 2nd Q09.

Figure 2G: Borrowers by Gender



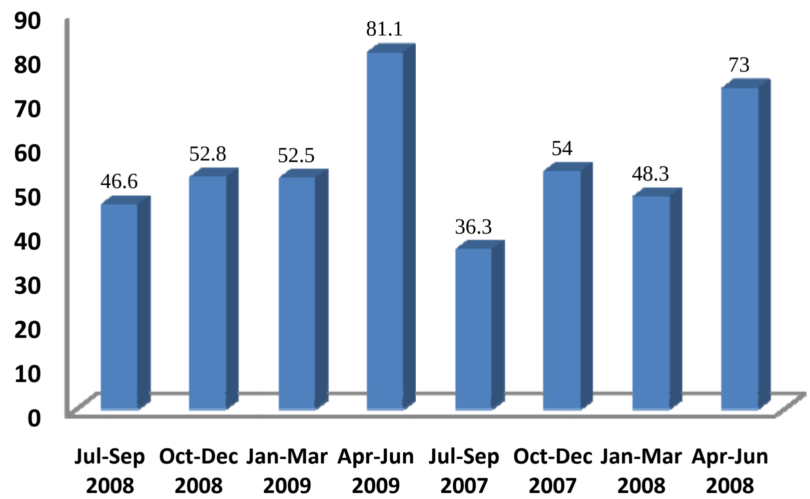
2.10. MICROFINANCE INITIATIVES/NEWS

- In May 2009, SBP modified the MCGF guidelines and allowed Banks/DFIs to extend loan to microfinance banks with existing 40% partial (Pari-Passu) guarantee or 25% First Loss Default Guarantee (FLDG) under MCGF.
- In May 2009, Microfinance Department arranged a workshop on “Microfinance Facilities” for the Stakeholders.
- A workshop on “Product Innovation in Challenging Times” was held at NIBAF Islamabad, in June, 2009 and attended by a large number of microfinance institutions and banks.

3.1. AGRICULTURE FINANCE- OVERVIEW

Banks disbursed Rs 233.0 billion or 93.2 percet of the annul indicative agri. credit target of Rs 250 billion for FY 2008-09 despite lower growth in private sector credit during the period mainly due to slowdown in economic activity coupled with the global recession, rising NPLs, etc. Out of total disbursement of Rs 233 billion, the share of five major commercial banks was Rs 110.7 billion, Domestic Private Banks Rs 41.6 billion, ZTBL Rs 75.1 billion and PPCBL Rs 5.6 billion against their targets of Rs 119.5 billion, 52.5 billion, 72.0 billion and 6.0 billion respectively.

Figure 3A: Quarter-wise Agri Credit Disbursements (Billions)



3.2. AGRICULTURAL CREDIT DISBURSEMENTS

Table 3a: Indicative Agri. Credit Targets and Disbursement (Billion Rupees)

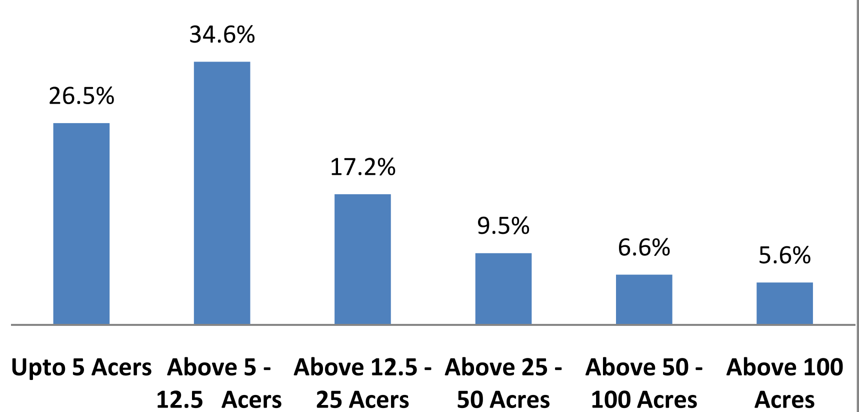
Banks	Target 2008-09	Disbursement 2008-09			Target 2007-08	Disbursement 2007-08		
		Jan-Mar	Apr-Jun	Jul-Jun		Jan- Mar	Apr-Jun	Jul-Jun
5 Big Comm. Banks	119.5	25.7	36.3	110.7	96.5	20.2	29.6	94.7
ZTBL	72.0	17.7	29.7	75.1	60.0	15.7	27.4	66.9
DPBs	52.5	7.7	13.0	41.6	35.5	10.9	14.0	43.9
PPCBL	6.0	1.4	2.1	5.6	8.0	1.5	2.0	5.9
Total	**250.0**	**52.5**	**81.1**	**233.0**	**200.0**	**48.3**	**73.0**	**211.6**

During April-June, 2009 banks disbursed Rs 81.1 billion, higher by Rs 28.7 billion and Rs 8.1 billion as compared with disbursement of Rs 52.4 billion in preceding quarter and Rs 73.0 billion in the corresponding quarter last year. The disbursement in April-June, 2009 is in line with the seasonal trends of high credit demand by the farmers due to cultivation of major Kharif crops. Quarter-wise and group-wise agricultural credit targets and disbursements are given in ***Table 3a.***

Table 3b: Province-wise Indicative Agri. Credit Targets and Disbursement (Billion Rupees)								
Province	**Target 2008-09**	**Disbursement 2008-09**			**Target 2007-08**	**Disbursement 2007-08**		
		Jan-Mar	**Apr-Jun**	**Jul-Jun**		**Jan-Mar**	**Apr-Jun**	**Jul-Jun**
Punjab	195	40.8	69.1	196.1	156	41.0	59.7	176.4
Sindh	35	9.1	9.4	27.6	28	4.8	9.7	24.7
N.W.F.P	15	2.2	2.1	7.9	12	2.3	3.0	9.1
Baluchistan	4	0.1	0.3	0.6	3	0.1	0.3	0.7
AJK & NAs	1	0.2	0.2	0.8	1	0.1	0.3	0.7
Total	**250**	**52.4**	**81.1**	**233.0**	**200**	**48.3**	**73.0**	**211.6**

Province-wise position showed that major portion of agricultural credit of Rs 196.1 billion was disbursed in Punjab during FY 2008-09 followed by Rs 27.6 billion in Sindh, Rs 7.9 billion in N.W.F.P, Rs 0.6 billion in Baluchistan and Rs 0.8 billion in AJK & N.As. Percentage share in disbursement to the farmers of Punjab and Sindh has shown improvement, whereas the share of N.W.F.P and Baluchistan has declined mainly due to law & order situation and low absorption capacity in these provinces. Province-wise detail of disbursements and targets is given in ***Table 3b.***

Figure 3B: Land holding-wise share in Total Farm Sector Credit during FY 2008-09



Sector-wise classification reveals that the share of non-farm sector continued increasing trend and increased to 27.1 percent in FY 2008-09 compared with 17.4 percent in corresponding period as a result of SBP's initiatives for encouraging banks to diversify agri. credit portfolio and issuance of guidelines for livestock, fisheries, poultry, etc. Out of total disbursements of Rs 233 billion during FY 2008-09, an amount of Rs 169.8 billion or 72.9 percent was disbursed to farm-sector and Rs 63.2 billion or 27.1 percent to non-farm sector. Last year an amount of Rs 159.7 billion or 75.5 percent was extended to farm sector and Rs 51.9 billion or 24.5 percent to non-farm sector activities. Quarterly review of sector-wise classification of agri. credit disbursement reveals that during April-June, 2009 Rs 63.5 billion or 78 percent was disbursed to farm- sector and Rs17.6 billion or 22 percent to non-farm sector out of total disbursements of Rs 81.1 billion.

Land holding-wise disbursements pattern shows that major chunk of Rs 169.8 billion or 63.3 percent of farm sector credit was extended to small farmers during FY 2008-09 followed by Rs 41 billion or 24.2 percent and Rs 21.2 billion or 12.5 percent to economic and above economic holding farmers respectively. Details of landholding-wise farm sector credit disbursements are given in ***Figure 3B.***

Table 3c: Credit Disbursements to Farm & Non-Farm Sectors **(Billion Rupees)**

	Sector	2008-09			2007-08		
		Jan-Mar	Apr-Jun	Jul-Jun 2008-	Jan-Mar	Apr-Jun	Jul-Jun 2007-
A	**Farm Credit**	**37.0**	**63.5**	**169.8**	**32.4**	**58.0**	**159.7**
1	**Subsistence Holding**	**23.5**	**40.5**	**107.6**	**17.1**	**34.2**	**94.9**
i	*Production*	21.6	37.4	99.0	15.9	32.0	87.9
ii	*Development*	1.9	3.1	8.6	1.2	2.2	6.9
2	**Economic Holding**	**9.3**	**16.0**	**41.0**	**7.5**	**14.7**	**37.9**
i	*Production*	8.9	15.1	38.9	7.0	14.1	36.1
ii	*Development*	0.4	0.9	2.1	0.5	0.6	1.9
3	**Above Economic Holding**	**4.2**	**7.0**	**21.2**	**7.8**	**9.1**	**26.9**
i	*Production*	4.1	6.6	20.1	7.3	8.7	25.4
ii	*Development*	0.1	0.4	1.1	0.5	0.4	1.5
B	**Non-farm Credit**	**15.5**	**17.6**	**63.2**	**6.8**	**15.0**	**51.9**
1	Small Farms	2.7	4.1	12.9	0.4	5.7	12.2
2	Large Farms	12.8	13.5	50.3	6.4	9.3	39.7
	Total (A+B)	***52.5***	***81.1***	***233.0***	***39.2***	***73.0***	***211.6***

3.3. AGRICULTURAL CREDIT RECOVERY

Agricultural credit recovery during FY 2008-09 has slowed down due to the issues of marketing/ procurement of rice, delayed payments to farmers by the processors/ traders of cotton, overall slowdown in economic activities, etc. During the year, banks recovered Rs 217.1 billion or 89.6 percent of recoverable amount of agri. loans compared with Rs 191.8 billion or 92 percent recovered last year. Five major banks recovered Rs 99.5 billion or 88 percent of the recoverable amount compared with Rs 88.4 billion or 102.3 percent of amount recoverable last year. ZTBL's recovery improved substantially with recovery of Rs 70.0 billion or 86 percent of recoverable amount compared with Rs 60.6 billion or 71.9 percent of amount recoverable last year. DPBs maintained their recovery performance and recovered 42.2 billion or 110 percent of recoverable amount whereas PPCBL recovered only Rs 5.4 billion or 56 percent of recoverable amount.

3.4. AGRI. NON-PERFORMING LOANS

Non-performing loans in agri. financing stood at Rs 30.4 billion or 17.5 percent of the outstanding loans as on 30th June, 2009 compared with Rs. 28.9 billion or 17.2 percent as on 30th June, 2008. Non-performing loans as percent of agricultural outstanding loans during FY 2008-09 are given in ***Figure 3C***. Bank-wise break-up reveals that NPL of five major banks has increased to 12.9 percent from 10.5 percent and that of DPBs' to 17.4 percent from 7.4 percent of their outstanding as on 30th June 2009 compared with corresponding period. NPL of ZTBL has declined to 15.6 percent compared with last year level of 17.4 percent while NPL of PPCBL remained much higher than other banks i.e. 62.6 percent as on 30th June 2009 compared with 57.4 percent as on 30th June 2008. Details of NPL as percent of outstanding agri. loans are given in ***Figure 3D.***

Figure 3C: NPL as Perecent of Agri. Outstaning Loans

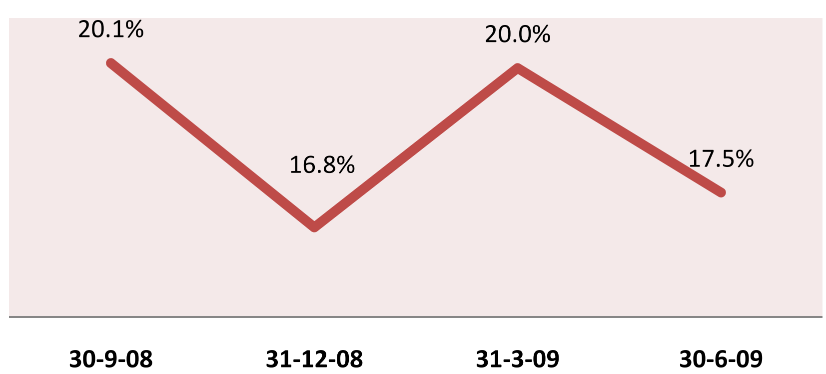
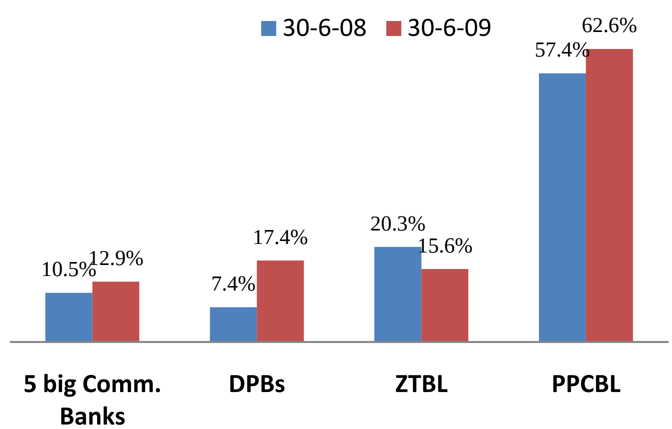


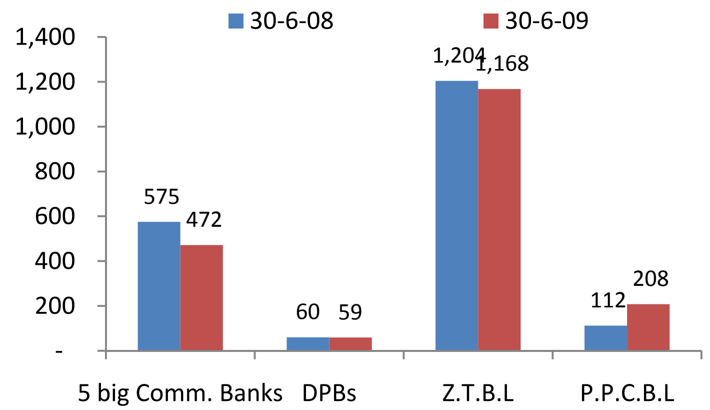
Figure 3D: NPL as Percent of Agri Loans



3.5. AGRI. LOAN BORROWERS

Agri. Loan borrowers have been partially reduced to 1.91 million as on 30th June, 2009 from 1.95 million as at end June, 2008 due to attrition within banking industry, reduction in loans extended to the micro finance institutions for onwards lending to small farmers, high mark up, etc. Bank-wise position reveals that the number of borrowers have declined in all categories of banks, except PPCBL as per ***Figure 3E***.

Figure 3E: Number of Agri. Loan Borrowers (in 000)



3.6. SBP'S INITIATIVES

SBP has taken various key steps for the promotion of agri/ rural finance during April-June, 2009, which include:

1. Crash Training Program

The crash training program designed to educate and train agri. field officers of banks, 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 April-June, 2009 two programs were arranged at Karachi and Multan, wherein around 73 Agri. Field Officers (AFOs) of banks and officers of SBP-BSC were imparted training. In the first phase, ended on 30th June 2009, around 600 AFOs have been trained in 20 such programs throughout the country.

2. Sindh Pilot Project

Pilot Project was launched in 7 agri. intensive districts viz. Hyderabad, Tando Allahyar, Nawabshsh, Sanghar, Khairpur, Mirpur Khas and Larkana from Kharif Crop 2009. The banks disbursed agri. loans of Rs 3.9 billion as against the target of Rs 5.2 billion achieving 75% of the disbursements targets during Kharif crop 2009 under the Pilot Project. In addition to disbursements to existing borrowers, more than 13,000 new agri. borrows were tapped by banks under Sindh Pilot Project. The overall objectives of the project to stimulate and synergize banks' agri. financing activities for improving farmers' access to finance on fast track basis have largely been achieved. The project has provided learning opportunities to stakeholders to align their lending policies/practices according to the local requirements, repayment behavior of borrowers, crops/farming patterns, etc. The project is being replicated to other underserved districts of the country form Rabi season 2009-10 under Pilot Project Phase II.

4.1. HOUSING FINANCE - OVERVIEW

The housing finance sector reported a slight decline of 2.8% in gross outstanding portfolio over the last year. The total outstanding reported by banks and DFIs as on June 30, 2009 was Rs. 80 billion compared to Rs. 82.33 billion as on June 30, 2008. The total number of outstanding borrowers has decreased from 125,149 to 117,535 since June 2008; a 6% fall.

Non-performing loans have increased from Rs.9.8 billion (June 2008) to Rs.13.87 billion (June 2009); a 41.5% increase over the year. However, this rise in NPLs is not unique to housing finance and is only depicting the overall increase in NPLs of all sectors witnessed in the banking industry during the past year.

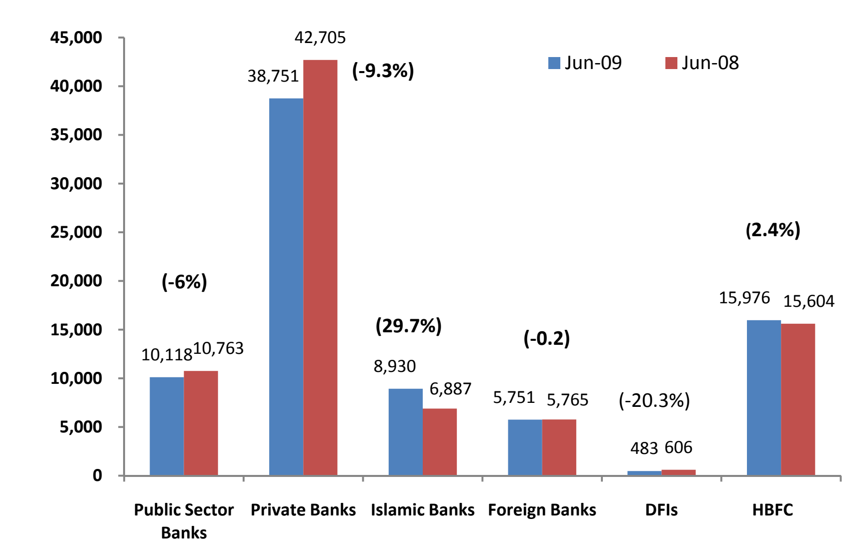
Approximately 846 new borrowers were extended house loans during the quarter accounting for Rs. 2.64 billion of additional disbursements. HBFC accounted for 39% of these new borrowers and contributed 9.6% of Rs.2.64 billion new disbursements made. Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising over 59% share in outstanding portfolio.

4.2. GROSS OUTSTANDING

The total outstanding finance of all banks and DFIs stood at Rs.80 billion. Compared to quarter ended June 2008, outstanding of all commercial banks and DFIs collectively decreased by 2.8%.

Banking sector wise total outstanding with growth/fall (in parenthesis) since quarter ended June 2008 is shown in ***Figure 4A***. Of the total outstanding of Rs. 80 billion, commercial banks accounted for Rs.63.55 billion with private banks posting an outstanding of Rs.38.75 billion; a 9.3% decline since quarter ended June 2008. The highest growth of 29.7% was reported by Islamic banks. The outstanding loans of HBFC were Rs.15.98 billion; a 2.4% increase over the last year. Other DFIs have a meager share of Rs. 0.48 billion in outstanding loans.

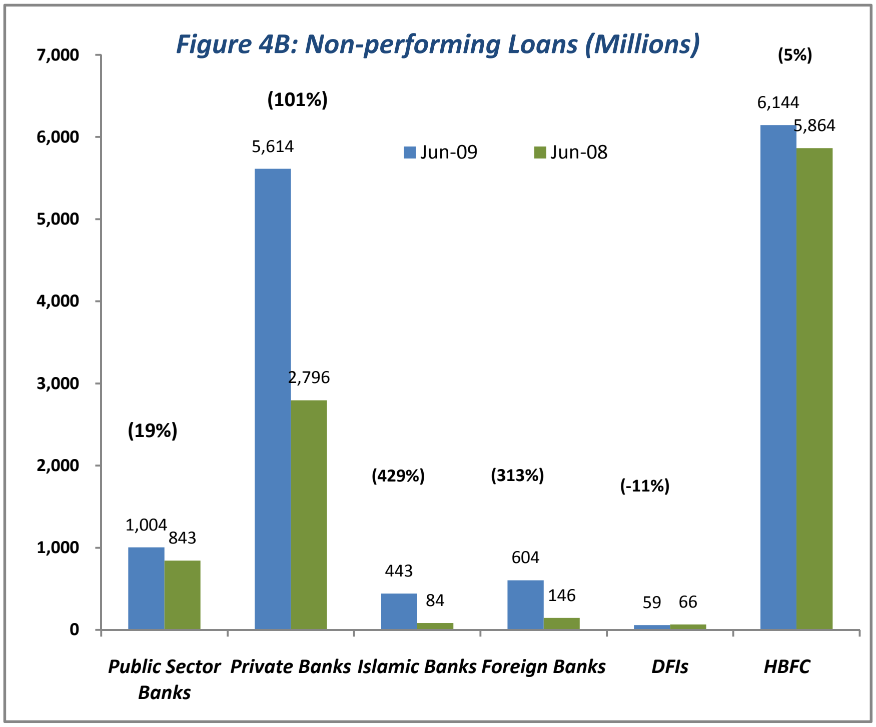
Figure 4A: Outstanding as on June 30th (In Millions)



4.3. NON-PERFORMING LOANS

Figure 4B shows that NPLs have increased from Rs.9.8 billion (June 2008) to Rs.13.87 billion (June 2009); a staggering 41.5% increase during the year. NPLs as a proportion of total outstanding has witnessed an increasing trend over the last twelve months, especially for private banks, Islamic banks and foreign banks. This overall rise in NPLs is due to rising inflation and interest rates.

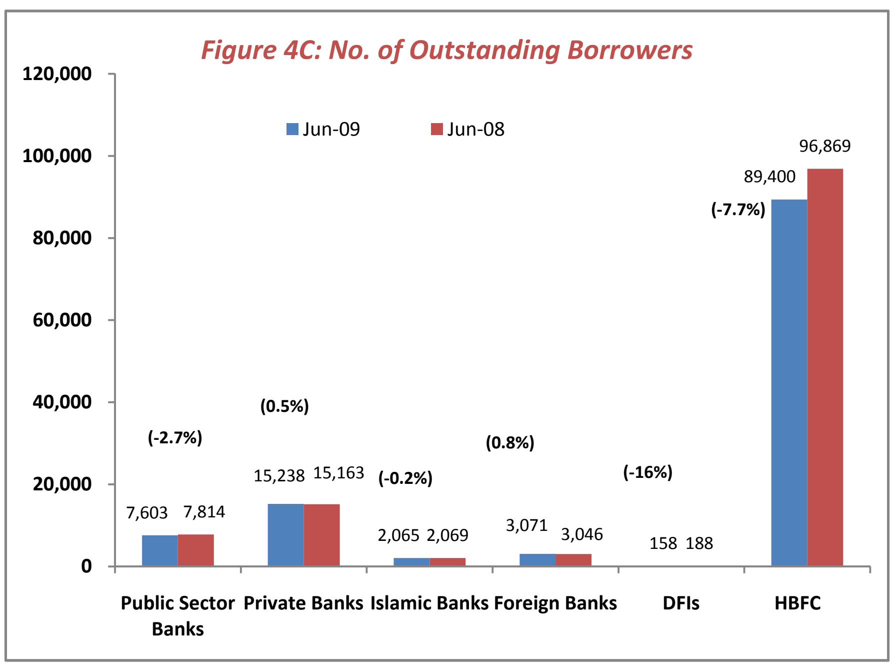
HBFC's NPLs have increased from Rs.5.86 billion to Rs.6.14 billion during the year; an almost 5% increase. Although growth of NPLs remains relatively low in absolute terms when compared to other banking sectors, its % share in total outstanding, however, is the greatest and has further increased over the twelve months; a 38% of its total outstanding constitutes of NPLs.



Among banks, Islamic banks have witnessed the sharpest increase in NPLs during the year; from Rs.84 million to Rs.443 million. Although, its NPLs constitute only 4.96% share in its total outstanding. While NPLs of the public sector banks have increased from Rs. 0.84 billion to Rs.1 billion; a 19% increase; NPLs of foreign banks have increased from Rs.146 million to Rs.604 million; And Private Banks have reported an increase of 100% in NPLs from Rs. 2.79 billion to Rs. 5.6 billion which is 14.5% of its total outstanding. DFIs (excluding HBFC) have though reported a decline in NPLs from Rs. 66 million to Rs.59 million; it is more due to reduction in their outstanding portfolio, as NPLs as a % of outstanding has increased from 10.9% to 12.2%

4.4. NUMBER OF BORROWERS

The total number of outstanding borrowers has decreased from 125,149 to 117,535 since June 2008; a 6% decrease (***Figure 4C***).More than 98% of the reduction in the number of borrowers relate to HBFC.

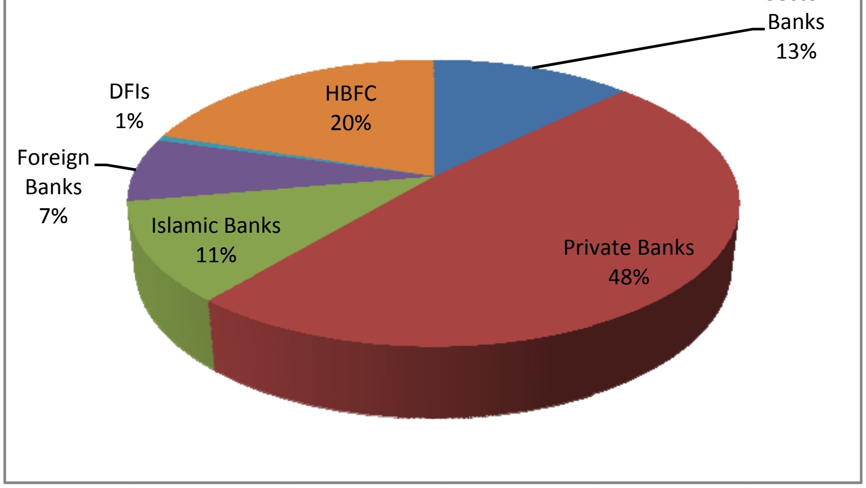


An analysis of borrowers that have been classified as NPLs as a percentage of total borrowers shows that approximately 51% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number of non-active borrowers that have been classified as non-performing; 65% of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important as it caters to 76% of the total borrowers in housing finance sector which accounts for only 20% of total outstanding portfolio. Thus, by excluding HBFC, only 7.8% of total borrowers of housing loans have been classified as non-performing.

4.5. SHARE OF BANKS

The overall market share[1] of commercial banks (excluding DFIs) remained almost the same since the end of last year, as it decreased marginally from 80% to 79%. Within commercial banks (***Figure 4D***), the share of private banks in the total outstanding decreased from 52% to 48%. Islamic banks have shown good growth; albeit higher growth in NPLs too, with its share increasing from an 8% (June 2008) to 11% (June 2009). Share of public sector banks and foreign banks have remained almost stagnant at 13% and 7%, respectively. The share of HBFC has risen slightly from 19% to 20% of the total outstanding.

Figure 4D:Share in Outstanding (As of June-09)



4.6. DISBURSEMENTS

A total of Rs.2.64 billion worth additional disbursements were made during the quarter June 2009 ***(Table 4a)***. Private Banks extended new disbursements of Rs. 1.48 billion followed by Islamic banks with Rs.599 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 255 million. Among commercial banks the number of new borrowers totaled 515, with private banks contributing 312 borrowers. HBFC extended loans to 331 new borrowers during the reporting quarter.

4.7. SECTORAL SHARE

The greatest share of housing finance is currently being attracted towards outright purchase (***Figure 4E***). The total outstanding for outright purchase stood at Rs.47.45 billion as on June 30, 2009; a 59% share in total outstanding of Rs.80 billion. This is followed by the construction category where outstanding reported at quarter end stood at Rs.23.32 billion and that of renovation stood at Rs.9.23 billion.

Active portfolio shows that Private Banks have taken a lead in financing for all three sectors; construction 42% share, outright purchase 56% and renovation 41%.

[1] Based on gross outstanding

4.8. ANALYSIS OF LOAN VARIABLES

Tables 4b, 4c & 4d summarize 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.

Table 4a: Disbursements During the Quarter		
Category	**Amount- Millions**	**No. of Borrowers**
Public Sector Banks	91	64
Private Banks	1,477	312
Islamic Banks	599	111
Foreign Banks	222	28
All Banks	2,389	515
DFIs	0	0
HBFC	255	331
Total	2,644	846

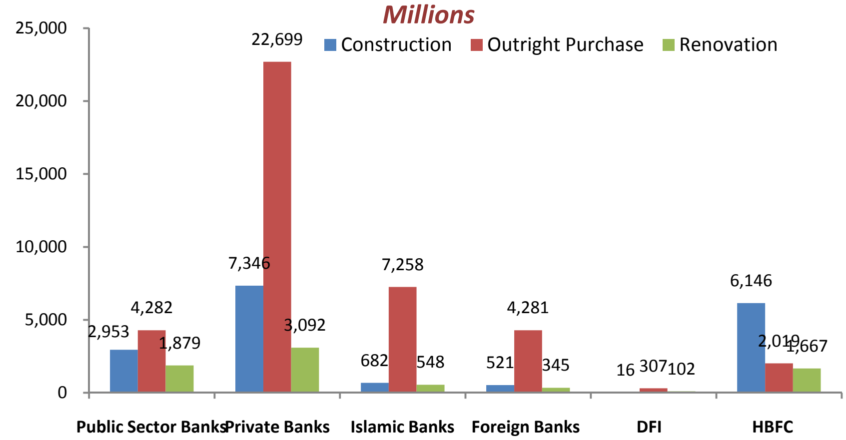
4.8.1. Weighted average interest rate

The overall weighted average interest rate for the quarter ended June 2009 comes to 15.61%; an increase of 2.16 percentage points when compared to quarter ended June 2008. Highest weighted average interest rate was reported by DFIs (excluding HBFC) at 17.8%, Islamic banks at 17.66% and foreign banks at 17.49%. Public sector banks reported a weighted average interest rate of 15.12% and private banks reported 15.01%.The weighted average interest rate reported by HBFC is 12.5%; a 1.21 percentage point decrease compared to quarter ended June 2008.

4.8.2. Average maturity periods

Average maturity periods have declined; from 12.9 years (June 2008) to 11.9 years (June 2009). ***Table 4c*** shows that among commercial banks, public sector banks have extended housing loans for an average tenure of 10.6 years followed by foreign banks with 11 years and private sector banks with 11.3 years. Islamic banks seem to be more aggressive with 14.5 years. HBFC's average maturity period is reported to be 15.2 years; a decrease from 16.7 years when compared to June 2008 figures, whereas DFIs (excluding HBFC) report 13.8 years.

Figure 4E: Mortgage Products-Outstanding (net of NPLs) Millions



4.8.3. Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks has marginally declined during last year (***Table 4c***). The LTV ratios for housing finance fell from 58% during quarter ended June 2008 to 57% during quarter ended June 2009. The sharpest decline was witnessed among foreign banks where the LTV ratios fell from 59.8% to 51.6%. The LTVs for HBFC remained the same at 54%. Decline in LTV ratios and increasing interest rates reflects that housing finance is becoming less affordable, especially for the salaried class and lower middle income groups.

4.8.4. Average time for loan processing

Table 4b:	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08
Public Sector	61.6	60.5	63.1	58.3	63.7	34.6	31.7	38	38.6	39.2
Private Banks	58.5	55.3	40.3	52.7	57.9	21.8	22.8	22	22.8	22.6
Islamic Banks	56.9	55.3	39.8	56.7	59.1	34.6	30.4	36.9	33.6	21.5
Foreign Banks	51.6	36.1	41.9	36.5	59.8	20.7	22.5	23.6	18.8	23.8
All Banks	57.9	53.0	44	52.4	58.9	25.5	25.3	26.3	25.7	24.5
DFIs	43.3	43.1	44.2	49.1	45.4	30.0	30.0	30	30	30
All Banks & DFIs	57.3	52.6	44	52.3	58.3	25.8	25.5	26.4	25.9	24.7
HBFC	54.2	55.8	67.5	55	55	30.0	30.0	30	30	30
Total Average	57.1	52.8	44.7	52.3	58.1	26.0	25.7	26.6	26.1	25

Table 4c	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08
Public Sector Banks	15.12	14.96	14.3	13.33	13.13	10.6	10.6	10.8	9.4	11.1
Private Banks	15.01	14.55	13.34	13.61	12.94	11.3	11.9	11.9	11.9	12.1
Islamic Banks	17.66	17.81	18.23	14.86	13.22	14.5	14.9	15.3	15	16.6
Foreign Banks	17.49	17.53	16.89	15.05	14.67	11.1	12.0	11.8	9.1	12.5
All Banks	15.67	15.52	14.57	13.94	13.23	11.6	12.3	12.1	11.6	12.7
DFIs	17.80	17.6	16.84	16.01	14.84	13.8	14.5	14.7	12.4	14.7
All Banks & DFIs	15.77	15.60	14.65	14.02	13.29	11.7	12.4	12.2	11.6	12.8
HBFC	12.50	11.88	11.35	13.71	13.71	15.2	15.2	15.1	15.1	16.7
Total Average	***15.61***	***15.42***	***14.4***	***13.97***	***13.45***	***11.9***	***12.5***	***12.4***	***11.8***	***12.9***

The reported average time for loan processing is 26 days for all banks and DFIs; a trend that has remained similar over the year. The processing time can be considerably reduced if land titling issues are resolved; documentation is standardized and institutional inefficiencies removed.

4.8.5. Average loan size

Average loan size for disbursements made during the quarter ended June 2009 is Rs. 2.64 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs.1.08 million for the reporting quarter. Private Banks report an average loan size of Rs. 2.48 million, foreign banks of Rs. 2.89 million and public sector banks report Rs. 1.92 million. The housing finance market is still inclined towards lending to high income group.

4.8.6. No. of foreclosures

No. of cases initiated for foreclosures have increased by 291 new cases during the quarter ended June 2009, for banks/DFIs.

Table 4d	Average Loan Size					No. of Foreclosures[2]		
	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Jun-09	Mar-09	Dec-08
Public Sector Banks	1.92	1.75	1.46	1.8	2.08	N.A	N.A	N.A
Private Banks	2.48	2.29	2.4	2.38	4.12	316	228	178
Islamic Banks	3.87	3.70	2.52	3.63	2.84	33	14	12
Foreign Banks	2.89	2.68	2.79	1.97	2.48	121	88	69
All Banks	2.62	2.50	2.33	2.41	3.41	470	330	259
DFIs	3.12	3.09	3.01	2.47	2.73	1	1	1
All Banks & DFIs	2.64	2.52	2.35	2.41	3.38	471	331	260
HBFC	1.08	1.08	0.86	0.86	0.89	2,825	2,674	2,658
Total Average/Total	2.56	2.46	2.29	2.35	3.32	3,296	3,005	2,918

4.8.7. Conclusions

Like previous quarter, the quarter ending June 2009 continues to show signs of slowing growth. With a rising trend in NPLs, banks continue to show signs of cautious lending amidst decreased affordability of the borrowers and unfavorable macroeconomic conditions. Signs of cautious lending include fall in LTVs and a slight decline in average maturity periods.

[2] The no. of foreclosure cases are cumulative figures, i.e, cases initiated for foreclosures since inception and include those actually settled.

Average loan size has increased slightly implying that financing is extended mostly to the high income group. 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 and secondary mortgage market still poses as a constraint towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

4.9. MAJOR INITIATIVES/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.

1. Implementation of Housing Advisory Group's Recommendations

SBP had established a Housing Advisory Group (HAG) with an intention to conduct a thorough analysis on the existing regulatory and policy framework affecting housing finance. We have already disseminated the recommendations made by HAG to the concerned stakeholders and is currently coordinating with PBA and the Association of Mortgage Bankers (AMB) for implementation of some of the key recommendations.

2. Mortgage Refinance Company

SBP and World Bank have agreed to work together for implementing key recommendations of HAG; in particular, Work on the establishment of Mortgage Refinance Company particularly is now being pursued aggressively. IFC has been engaged for development of detailed business plan for the Mortgage Refinance Company.

3. Capacity building Program

In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of housing finance. In accordance with the Cooperation Agreement signed between IFC, the private sector arm of the World Bank Group, and SBP, a comprehensive housing finance training program was launched.

4. Report on 'Expanding Housing Finance System in Pakistan'

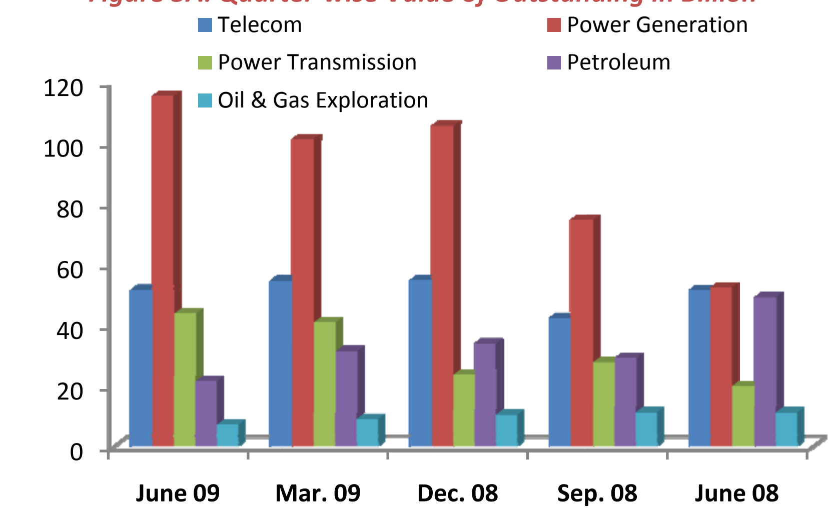
A report titled ***Expanding Housing Finance System in Pakistan*** has been published, combining SBP-World Bank study on 'Housing Finance Reforms in Pakistan' and HAG's report. This publication presented an overview of housing finance market in Pakistan and key constraints that impede development of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

5.1. INFRASTRUCTURE FINANCING -OVERVIEW

Though the infrastructure financing portfolio has increased by 25.7% on YoY basis from June 2008 to June 2009, the growth rate has been declined as same was 40% from March 2008 to March 2009. The quantum of overall disbursements also declined to Rs. 22 billion which was around Rs. 38 billion during last three quarters. Power generation sector remains the supreme beneficiary with disbursement of Rs. 11.7 billion during the quarter under review. The disbursement in power generation sector was Rs. 17.8 billion during previous quarter. This declining trend can be attributed to certain factors including the issue of circular debt and increased risk of sector exposure. Telecom sector, which was seen as fast reaching a saturation point, has given an impetus by arrival of a Chinese mobile company which threatened the other cellular companies and forced them to go into an expansion mode, however a cannibalization campaign is also under way. NPL events are again unregistered in this quarter as well as in the couple of previous quarters. This trend on the one hand marks the cautious approach by the financial institutions due to nature of infrastructure financing which is a long-term phenomenon and the flip side is perhaps lack of government policies and guarantees to make up for the risk associated with the long-term funding. The absence of public sector initiatives in array of sectors viz. Mass Transit, Railway, Oil & Gas Exploration, Water Supply and Sanitation needs a clear and conducive government policy to facilitate private sector investment.

5.2. OUTSTANDING PORTFOLIO

Figure 5A: Quarter-wise Value of Outstanding in Billion



Total outstanding financing at close of June 2009 was Rs. 259 billion. On a YoY basis there is 25.7% increase in outstanding stock which was 40% in the previous quarter on YoY basis. The analysis shows persistent trend of sector congestion as the infrastructure financing is becoming less and less diversified. The sector congestion can be ascertained from the fact that outstanding stock of power sector escalated enormously from Rs. 52.4 billion in June 2008 to Rs. 115.4 billion in June 2009 while financing in other sectors paints a dismal picture. ***Figure 5A*** shows the position of top five sectors from June 2008 to June 2009. Power transmission, though, has shown increase over the year but still much below the desired level, considering the huge unmet needs in this sector.

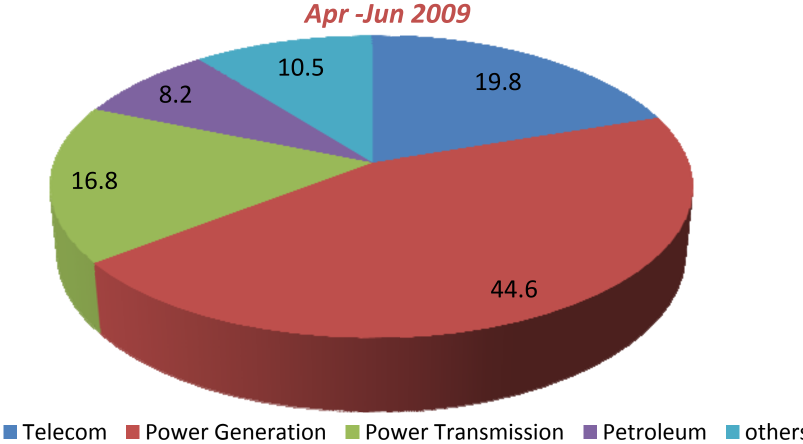
5.3. DISBURSEMENTS

Total Rs. 21.9 billion disbursed during April-June 2009 quarter in all sectors against Rs. 38 billion in previous quarter. Power generation sector received Rs. 11.7 billion (53.3%) which is significantly higher than other sectors. The share of power generation in disbursement was 46.7% in the last quarter. Telecommunication sector received Rs. 3.7 billion (16.9%) while the same sector received Rs. 6.7 billion in previous quarter. Oil & gas sector also received Rs. 3.6 billion during the quarter. Other sectors received much less funds as compared to abovementioned sectors. This is a cause for concern and government should devise policies to broaden the scope of investment in other sectors by devising a medium-to-long term policy for Public-Private Partnership.

5.4. YEAR-WISE ANALYSIS OF SECTORAL SHARE

Figure 5B shows the comparison of top four sectors in outstanding infrastructure financing at the end of June 2008 with the status existing in June 2009. In June 2008 Telecommunication sector was surpassed first time by power generation sector as far as share in total outstanding is concerned with 25.6%, followed by telecommunication sector with 24.9%. After a year the top slot has been secured by power generation sector with a substantial 44.6% share in this quarter. The telecommunication sector remained at second place with 19.8% share. With rise in Power Transmission Sector also, more than 60% of the infrastructure portfolio pie is taken by the power sector as a whole. Petroleum sector, despite having huge potential, had also been on the downside from 23.8% to 8.2% in a year.

Figure 5B: Share in Outstanding Apr -Jun 2009



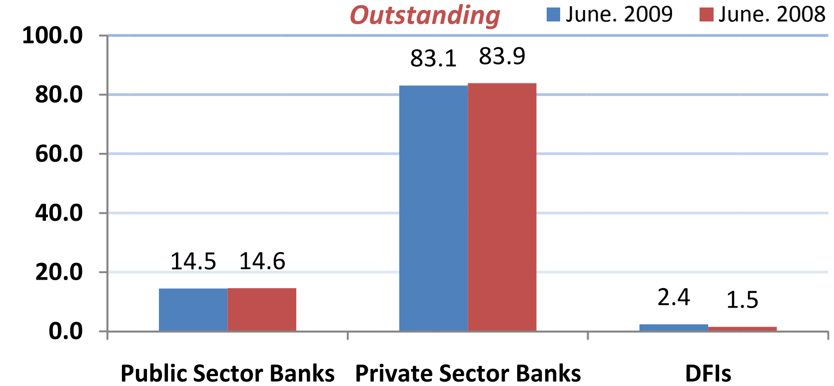
5.5. BANKING SECTOR-WISE DISBURSEMENTS

The significant contribution to infrastructure project financing was made by Private sector commercial banks disbursing Rs. 20.5 billion during the quarter out of total Rs. 21.9 billion financing in infrastructure sectors during the quarter. While both Public sector banks and DFIs disbursed less than one billion.

5.6. BANKING SECTOR-WISE SHARE IN OUTSTANDING

Figure 5C shows the category-wise share of banking sector in outstanding stock of infrastructure sector. The trend is predominantly in private sector banks' way. The stock share of private sector banks is hovering around 83% during the year. Public sector banks and 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

Figure 5C: Sector-wise Share in Infrastructure Outstanding



while public sector is becoming rather more orthodox in lending options.

5.7. NEW INITIATIVES IN THE QUARTER

Table 5a shows that during the quarter total 13 projects have been finalized in Power sector, Telecom, Petroleum and Oil & Gas exploration sectors to the tune of Rs. 157 billion. Banking Sector financing is Rs. 118 billion which is 75% of the total project cost. Power sector figures prominently both in terms of project cost (Rs. 95.4 billion) and financing by banks (Rs. 70.8 billion). About 60% of the total financing for new projects is directed towards eight power projects which are expected to add 1174 MW of power to the national grid. Telecom sector comes next which has secured 35% the total financing by banks during the quarter amounting to Rs. 41.8 billion. The telecom projects will mainly contribute in expansion of cellular networks; funds are being utilized on an ongoing basis for site build out, procurement of cell sites, network equipment, infrastructure, land acquisition etc. Two new projects in petroleum sector worth Rs. 4.9 billion and one in Oil & Gas exploration of Rs. 1.3 billion have also secured banks' financing during the quarter to the tune of Rs. 4.7 billion and 1.0 billion respectively.

Table 5a: New Projects (Rs. In Billion)

Sectors	**No. of Projects**	**Estimated Project Cost**	**Banks' Financing**
Power Generation	8	95.4	70.8
Telecom	2	55.7	41.8
Petroleum	2	4.9	4.7
Oil & Gas Exploration	1	1.3	1.0
Total	**13**	**157**	**118**

5.8. MAJOR DEPARTMENTAL INITIATIVES AND ACHIEVEMENTS

Following key initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

1. *Capacity building Program*

SBP realizes that the development of human capital plays 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.

2. *Revised Guidelines for Infrastructure Project Finance*

The department is in the process of drafting the revised guidelines blending international standards and peculiar domestic experiences in infrastructure financing.

3. *Infrastructure Development Bank*

Establishment of Infrastructure Development Bank (IDB) is under consideration to develop and improve key infrastructure areas. The primary focus of IDB will be on power sector, specialized economic zones and agricultural infrastructure and once capacity of IDB develops the focus will span other needy sectors like road, railway and port etc.

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